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WEEK ENDING JANUARY 14, 2022

THE BEEF WRAP

Cash cattle traded $2 lower this week, averaging close to $136.50. The cutouts roared higher, with the Choice gaining $12.24 on a weekly average basis and the Select up $10.67. That provided a huge boost to packer margins, which averaged $473/head, up $130/head this week alone. It seems like restricted throughput in the packing segment is once again limiting feedyard's leverage in the cash cattle market. Packers didn't buy a whole lot of cattle this week, so perhaps they will need to be more aggressive next week and that might allow for some increase in cash prices. However, the weather in cattle feeding country remains relatively good for this time of year and that means cattle performance has been above average. This clearly is not a weather market year. Steer carcass weights were 3 pounds higher in this week's FI data release, which was for the final week of 2021.

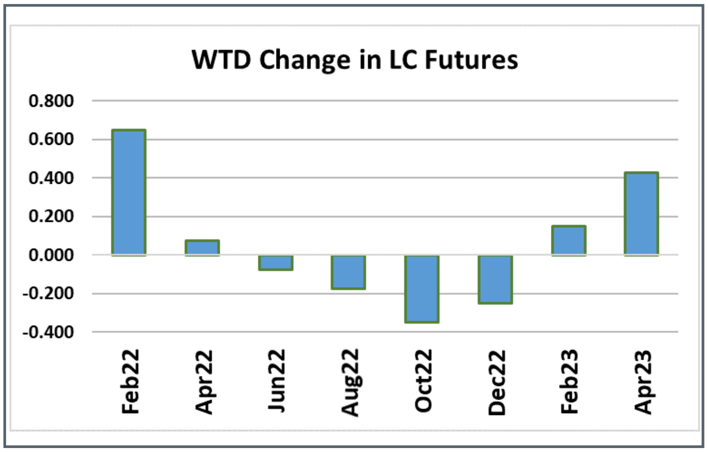
The DTDS weights increased again as well. It is not the type of supply environment that is conducive to higher cash cattle prices. Of course, packers might be reluctant to push downward too hard on cash cattle prices when their margins are heading back toward $5-600/head, but if the cutouts should stall and turn lower then cattle prices will be at risk. Right now it seems that beef prices are going to keep going up forever, but once the COVID-related absenteeism dies down in the packing sector, production should expand and that might mean the end of the strong rally that we've seen here in early 2022. All of the primals except the brisket were supportive to the cutout this week, but the loin primal was a strong driver. That is really unusual since loin items typically don't see strong demand at this time of year. The table below indicates that the top butts have been on fire since Christmas, with price levels up 27% over the three-week period. Strips and shortloins have also posted gains, but the top butts really stand out.

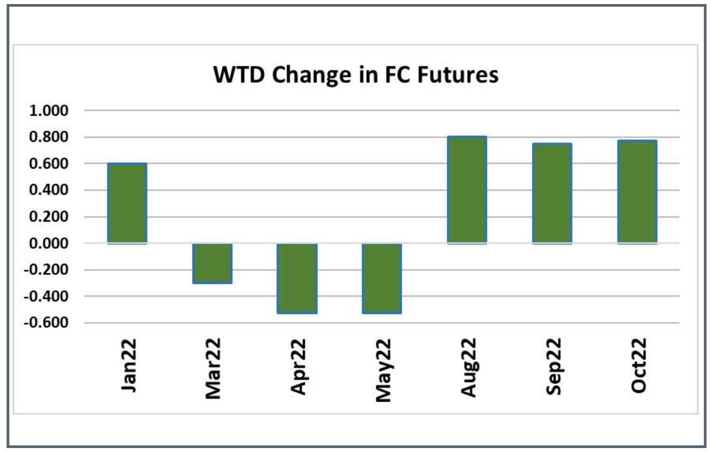
I have to believe that this is retail business, with grocers looking to feature a lower-priced steak item in the Jan/Feb time frame. The end meats have also posted strong gains, but that is pretty normal for this time of year. Fat trimmings have jumped higher, quoted this afternoon over $122 after finishing last Friday at $103. Labor issues in the packing plants mean that they are doing less trimming and thus fewer 50s are being produced. This comes right at the time of year when retailers want to feature ground beef. So the rally in 50s might still have a ways to go. I really think that the lion's share of this January rally in beef prices is coming from the supply side and not demand growth. Of course, when supply is constrained unexpectedly, it always generates a temporary demand surge from buyers who get caught out of position. The combined margin made a tick upward this week, but has not really shown a strong trend in the last few weeks.

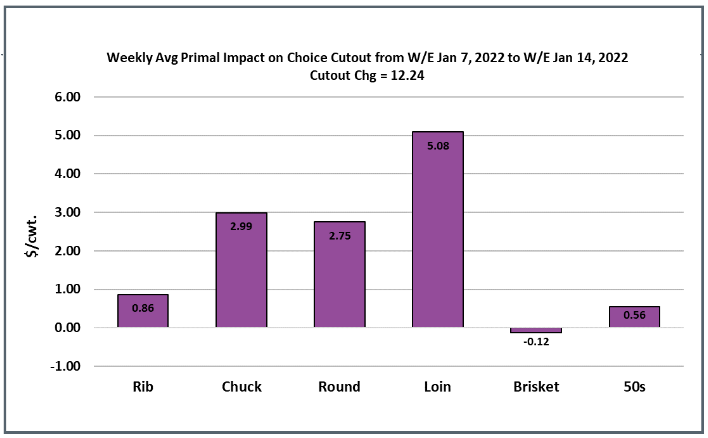
This week, packers only managed to slaughter 475,000 steers and heifers, which was 9k below last week and a good 35k less that what they were processing in early December. Interestingly, the cow killers managed to kill 146,000 this week, up 10k from the week before. Maybe they are having fewer COVID problems. I expect that next week, absenteeism will decline a bit and packers will be able to put together a little larger fed kill–maybe close to 490k. However, February is right around the corner and kills normally dip in February to better align production with the softest demand period of the year from a seasonal perspective. I've been projecting February fed kills around 475k, without any COVID considerations. There should be enough capacity to kill more in February if demand warrants it. My fundamental forecast has the Choice cutout peaking in the mid $290s during the first week of February and then retreating as the COVID surge fades.

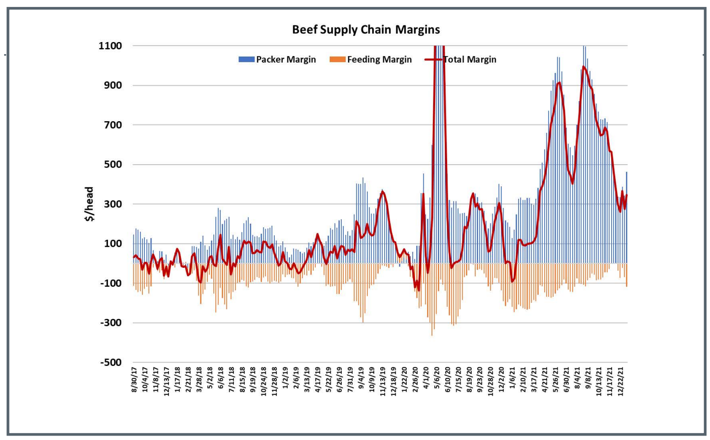
I could see maybe a $2-3/cwt increase in cash cattle prices during that time if packers are feeling generous, but I wouldn't count on it. Packer margins are likely to go to $600/head. Normally, packers see their worst margins of the year in February, but it looks like this February is going to be far better than December for packers. International demand for US beef has been a little difficult to ascertain due to spotty reporting over the holiday, but Q4 looks like it was pretty strong for beef exports and I don't see any reason why that wouldn't carry into 2022. However, beef imports have also been pretty strong in the past couple of months, with a lot of product coming in from Mexico. That is canceling part of the benefit of strong exports, but it looks like for 2021 as a whole the US will export slightly more beef than it imported. Next week, USDA will give us another COF survey and I'm expecting it to show December placements up 2.8%, but I don't feel particularly confident in that number.

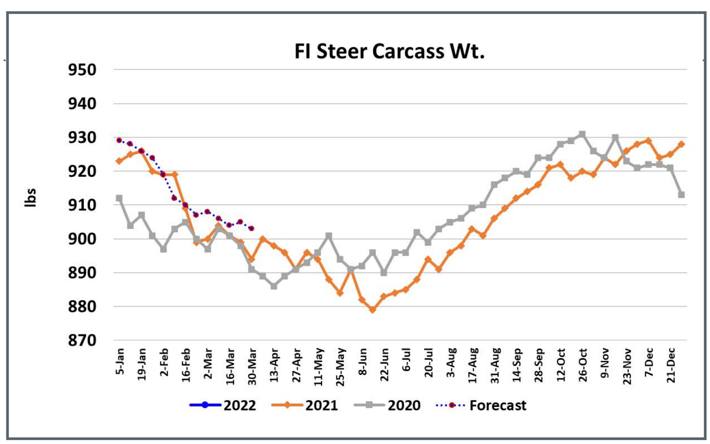
December placements are notoriously hard to project and many of the indicators I look at for the forecast were pointing to smaller placements that what I finally decided to go with, so I wouldn't be particularly surprised if placements come in a little below last year's level. The number of cattle on feed as of Jan 1 should be nearly dead-even with last year. I calculate cattle feeding margins to be about $115/head in the red right now–the result of paying nearly $160 for feeder cattle back in August and corn that has hovered around $6/bushel. Break-evens on cattle leaving the yards today are around $145/cwt, so there is little chance of cattle feeders turning a profit in the near term. Next week, the focus will be on the daily kills for signs that absenteeism is improving and packers are able to put more cattle through the plants. Beef prices should continue to rise, but not as fast as they did this week.





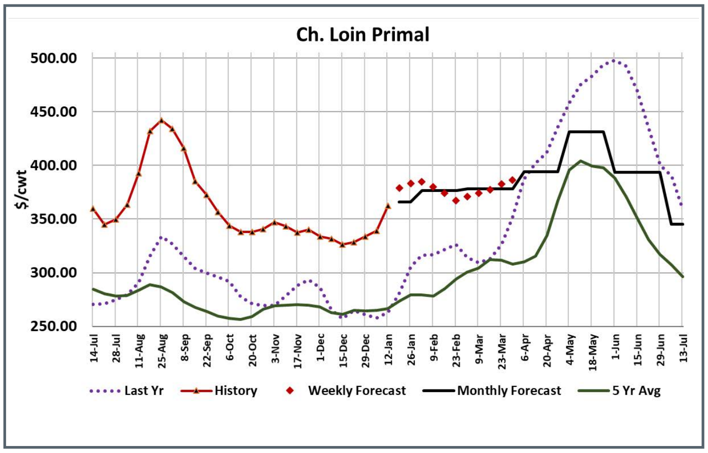


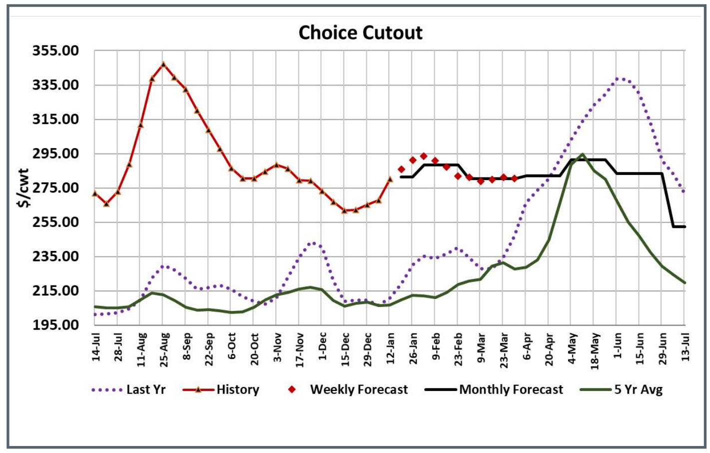


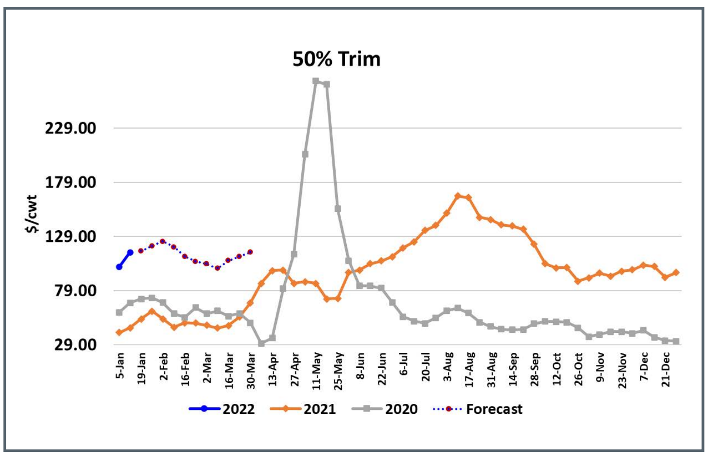


Change in the Price of Major Loin Cuts Since Christmas

	12/23/2021	1/14/2022	$/cwt Chg	% Chg
Ch. Bnls Striploins, 0x1	625	708	83	13.3%
Ch. Bnls Shortloins, 0x1	600	677	77	12.9%
Ch. Bnls Top Butt	331	420	89	26.9%
Ch. Sirloin Flap Meat	637	725	89	13.9%
Ch. Ball Tip, Heavy	329	327	-2	-0.6%
Ch. Tenderloin, Heavy	1266	1368	102	8.1%
Ch. Butt Tender	1208	1098	-110	-9.1%







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