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### WEEK ENDING JANUARY 21, 2022

# THE BEEF WRAP

The cash cattle market averaged $137.39 this week, up about $0.78 from last week's average. Packers bought more this week than they did last week, so perhaps that signals growing confidence that they will have enough labor to move kills higher next week. Both cutouts gained about $10/cwt this week, but by Friday they were showing signs of topping. We are now beyond the peak in omicron infections here in the US and next week will likely see pretty sharp declines in the infection count. That should take some of the pressure off of the supply chain and also reduce any stockpiling by consumers. It is likely that retailers stockpiled also as omicron was rising, so they may have less need to be in the spot market next week and that would provide some room for the cutouts to retrace a bit. Beef supplies should be bigger also, as this week's fed kill came in at 491k, up 20k from the week before.

Some cattle likely got backed up over the last few weeks and packers may step up next week's kill a little to help clear that backlog. Of course, cattle feeders aren't likely to have much leverage as long as a cattle backlog exists. Packers will probably pay steady money since their margins are so strong right now, but if they really wanted to, I'd bet they could push cash lower. Today's bearish COF report will probably generate some red ink in the futures early next week and that will just give more ammo to packers in the cash market negotiations. Carcass weights held firm at a high level this week and we saw the DTDS weights shoot higher, now at +10 lbs. That also reduces cattle feeders' leverage. So there are a lot of factors right now that are aligning against cattle producers.

As expected, this omicron wave brought with it some improved beef demand as consumers hunkered down once again. However, now that the wave has crested, people will soon feel more comfortable doing things outside of the home and that generally leads to softer demand. The combined margin made a nice move higher this week, but I really don't think it is going to peak over $900/head the way it did in the last two supercycles. In fact, we could see it turn lower again next week if the cutouts struggle. Corn futures were higher all five days this week and thus grain is very pricey at the moment. That will put more hurt onto cattle feeding margins if it persists. I estimate that cattle feeders were about $100/head in the red this week and it would take cash cattle at $145 for them to breakeven.

That's unlikely to happen anytime soon. Export business has been a little slow to restart following the holidays, but I think it will pick up in the next few weeks. China still has a very strong appetite for US beef. The chart below plots the demand index for the blended cutout and it's clear that beef demand has been softening since its peak in November. Outside of the strong index I'm showing for March (which may be too optimistic), I think the longer-term trend in domestic demand is lower. Cattle and beef prices are somewhat sensitive to movements in the equity markets and this week has been a bloodbath for stocks.

The deferred futures have been very over-priced relative to my fundamental forecast and that is probably because I see demand fading back to more normal levels as the year progresses, but futures traders seem to want to project the current demand strength right through the balance of the year. They may also be expecting cattle supplies to tighten up more than I'm forecasting, but there is a good chance that today's COF report, which showed December placements up 6.5% YOY, will temper that thinking somewhat. Packer margins increased $120/head this week to $574. Next week could easily bring $600/head margins. I don't see them getting much larger than that, but rather slowly shrinking throughout February, which is typically a poor demand month. At the end of January, we will get USDA's annual cattle inventory report.

I think it will show the cow herd down about 500k from last year and the total inventory about 1.1 million below last year. It doesn't appear that producers are holding back heifers in order to rebuild numbers yet–that is something that likely won't occur until 2024 or later. So there is a very good chance that cattle and beef supplies will be down this year, but that doesn't mean prices will be higher, because the demand structure is expected to soften. Next week, watch for some fireworks when the futures open on Monday morning and keep an eye on the cutouts for signs that the top is in.

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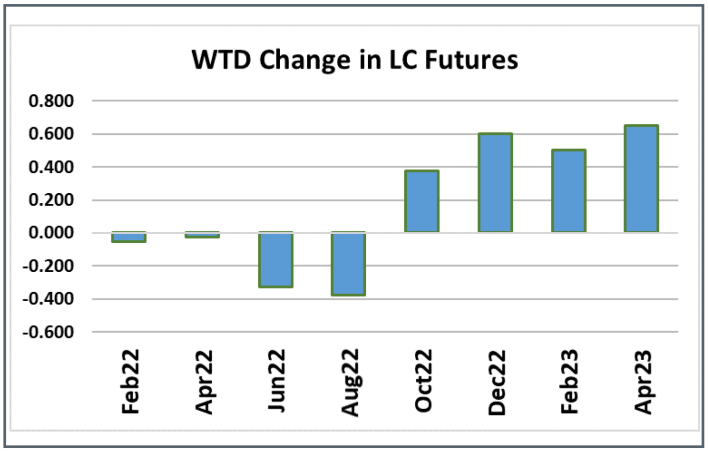


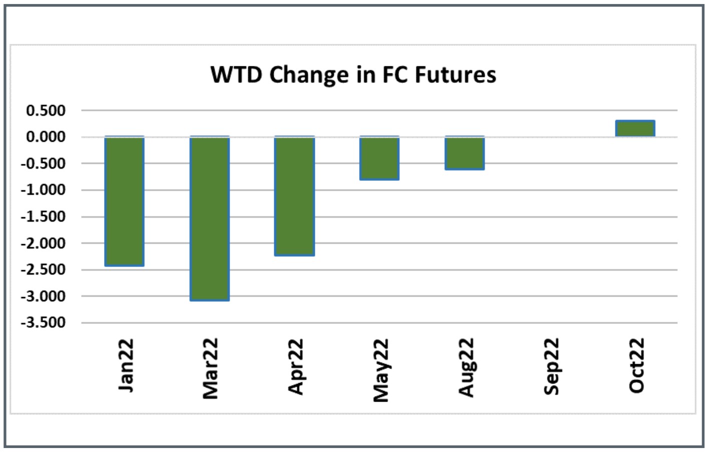


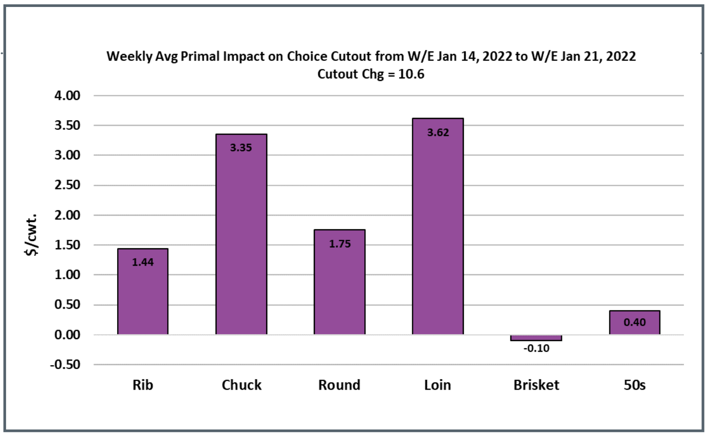


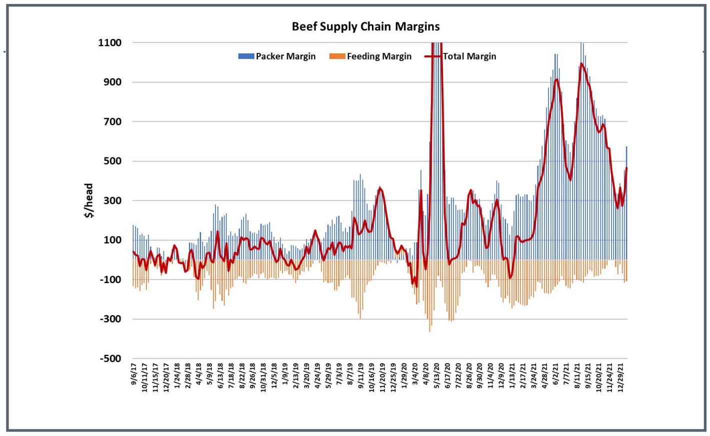


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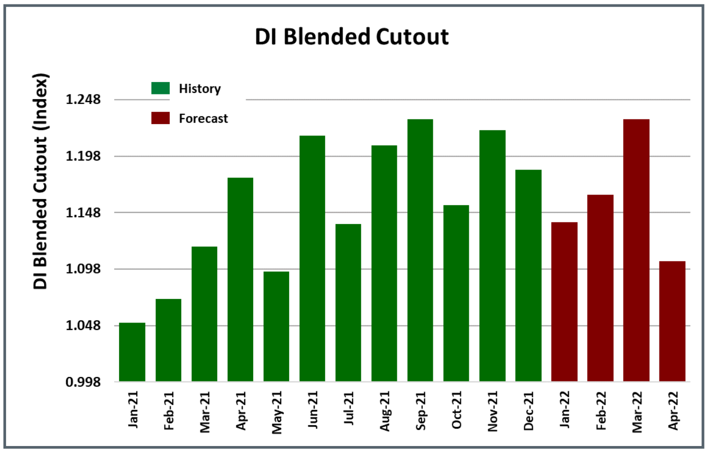


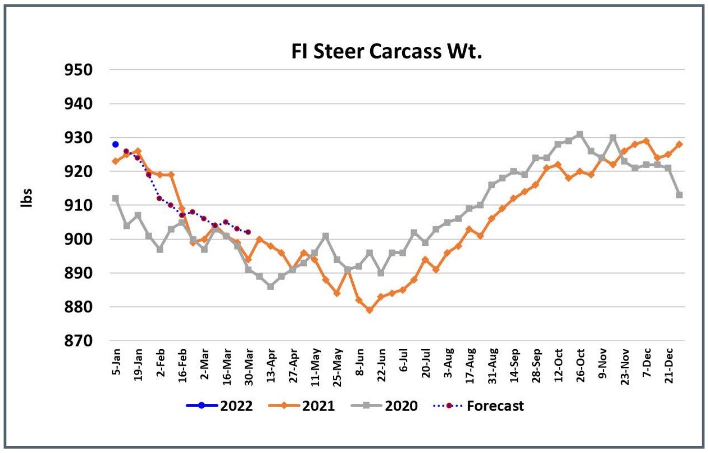


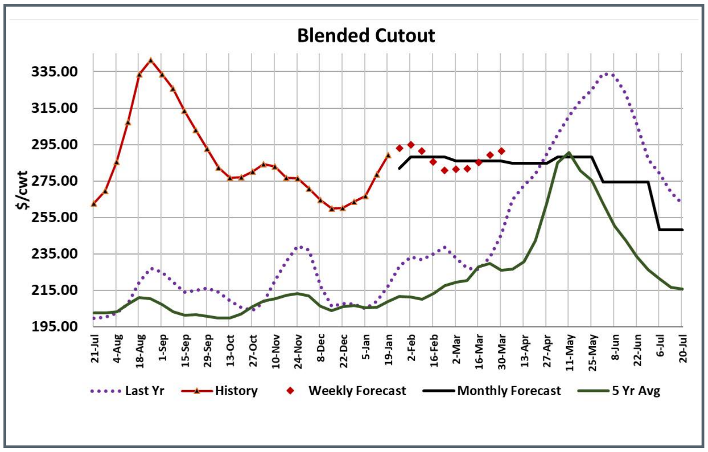


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*Dr. Rob Murphy is an agricultural economist and business leader with over 29 years in the industry. He has a wealth of experience in the North American meat and livestock industries studying, analyzing and predicting market movements.*

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