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WEEK ENDING JANUARY 28, 2022

THE BEEF WRAP

Cash cattle traded steady to slightly lower this week, averaging $136.93, which was $0.57 below last week's average. Packers couldn't get too excited about buying cattle because the cutouts were on the defensive for most of the week. However, both cutouts posted a rally on Friday that erased losses from earlier in the week. On a weekly average basis, the Choice cutout gained $0.11 while the Select was up $1.99. Cattle slaughter improved some this week, with the fed kill coming in at 495k, up 7k from last week. There is a sense that the COVID-related absenteeism problems are beginning to abate. That should enable packers to begin working through the 60k or so cattle that were backlogged in early January, if they want to. Right now their margins are pretty good, registering $535/head, down only $15 from last week.

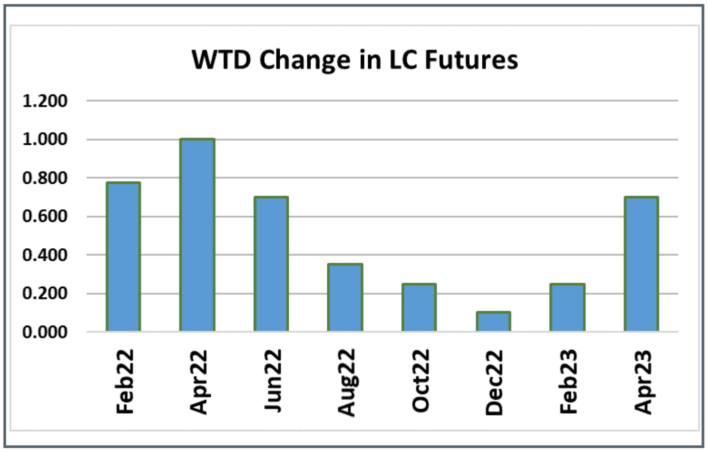
Our flow model is calling for February fed kills to average around 485k, so they could easily add 15k each week and thus clear the backlog by the end of the month. However, with beef prices already really high and the cutouts looking somewhat tenuous, packers may have some reservations about expanding the kill much beyond what we saw this week. No need to force the cutout down any faster than it might already be scheduled for. This week saw FI steer weights drop six pounds, but heifer weights were unchanged. That took blended carcass weights down three pounds, but they still are quite heavy. The DTDS carcass weights are holding near +10, which is the heaviest they have been in almost a year. That makes me think that feedyards are not all that current. Packers are happy to pay steady money for cattle as long as the cutouts are allowing for a fat profit margin. Once the cutouts start to fall significantly then the risk to cash cattle prices increases. This week, the loin cuts were the biggest gainers in the cutout. My sense is that beef demand at retail remains good because consumers are staying home a lot more than they did back in December.

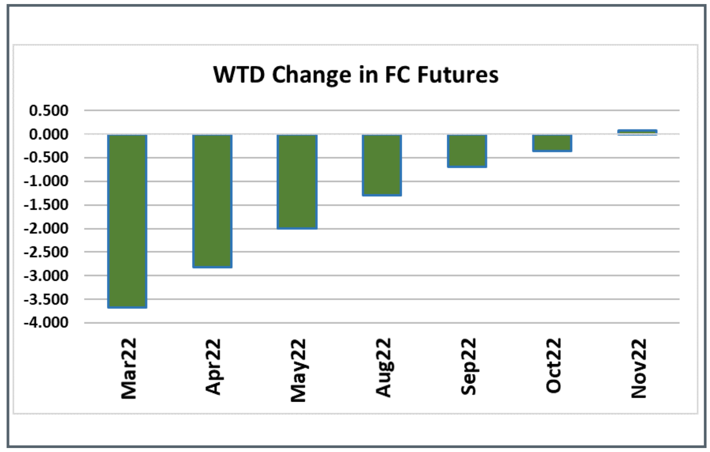
Consumers pulled harder than expected on beef out of the meat case and that has left retailers with some gaps to fill. However, the worm may be about to turn on the demand side and the combined margin seems to be indicating that we are near a local top with respect to demand. COVID cases are now trending lower and that should accelerate in the next few weeks. I expect people to venture out of their bunkers and they will be less concerned about stocking up on beef at the grocery store and more concerned with enjoying social activities once again. As a result, I'm forecasting the cutouts to work lower in February. I have the Choice cutout bottoming in the $275-280 are in early March and then I think we can expect spring demand to start to lift the cutouts once again. Buyers should be looking to fill middle meat needs during February as prices soften in anticipation of price increases this spring.

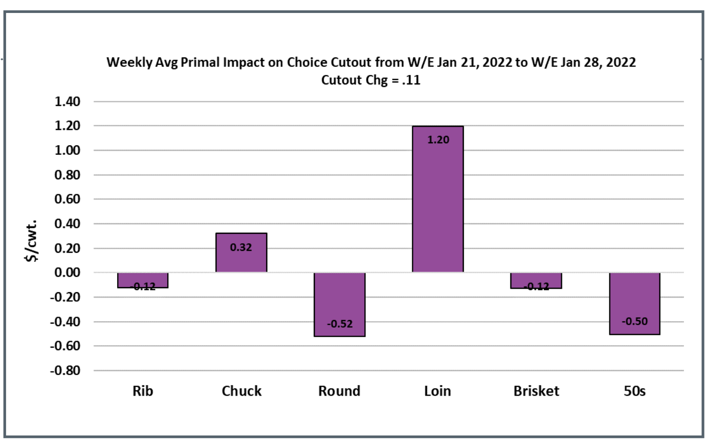
End meats have a lot less upside potential in the spring, but also may not come down much during February. Ground beef is likely to remain a favorite that retailers can use to lure cash-strapped consumers into the store during February. I'm expecting fed beef production in Q1 to be down about 0.7% from last year, with the recent COVID-related slaughter slowdowns factoring into that. Beef exports should remain relatively strong, down only 1.4% in Q1 from last year's strong number, but imports are projected to be 9.5% above last year. That will put imports nearly equal to exports and mitigate any price benefit the strong export market might have afforded. With strong imports, I'm looking for per capita beef availability to be about 0.7% stronger than last year and last year the Choice cutout averaged $229 in Q1.

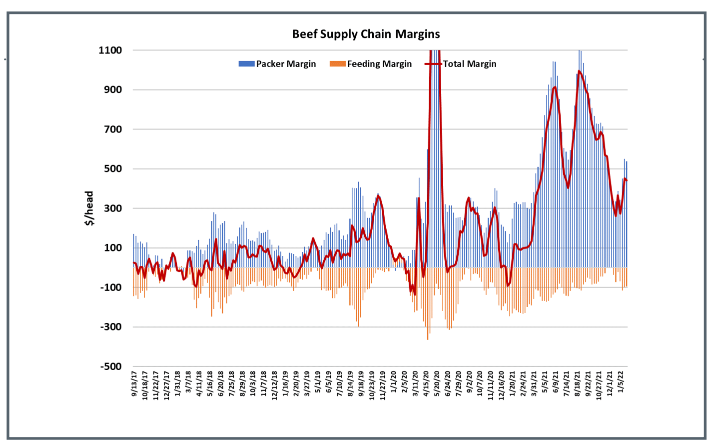
Of course, last year at this time the demand train had not yet left the station. This year in Q1 demand should be much stronger and thus that leads me to a Q1 Choice cutout forecast of $282, even though availability will be slightly larger. Last Friday's COF report showed December placements up 6.5%, which was well above the 2.5% that analysts were projecting. As expected, the futures market sold off hard on Monday and was helped along by a bloodbath in the equity markets. Cattle futures are relatively sensitive to the state of the economy and when the stock market takes a big dive it usually brings out some cattle bears. For most of the week, the stock market was gyrating up and down in big chunks and that led to some pretty strong cattle moves in both directions. In the end, the futures found some solid footing on Friday and all contracts finished the week higher than the week before. The grain markets posted strong gains this week and are back near the highs they hit last summer. Strength in the grains normally supports the deferred cattle futures because traders assume that eventually the high price of corn will get passed along the supply chain in the form of higher cattle prices.

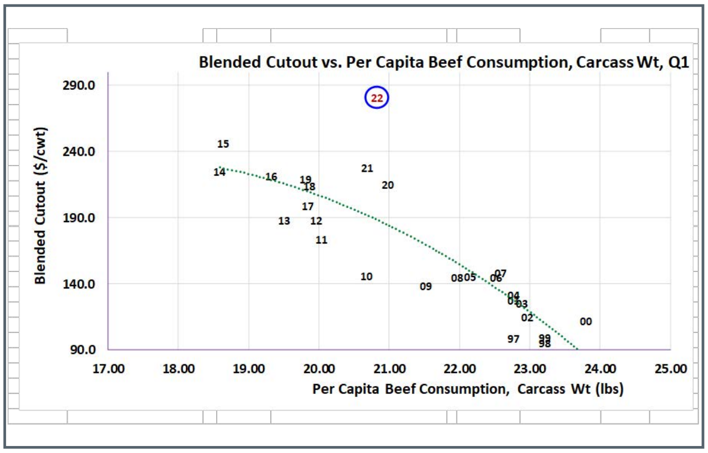
Next week, we will get the annual cattle inventory report which will give us a snapshot of herd size and form the basis for most of the 2022 supply estimates. It is widely expected that inventory numbers will be lower as we are still in the liquidation phase of the cattle cycle. I don't think the report will show any significant signs of heifer retention, which normally signals that liquidation is coming to an end and higher prices are on the horizon because producers will be holding back females. I believe that is still at least a couple of years into the future. Next week, watch the cutouts for further weakness, which would indicate that retail demand is starting to cool after a relatively strong January.

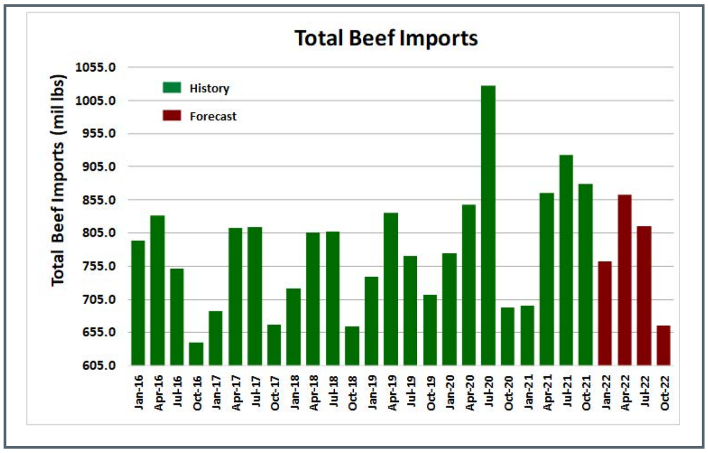

WTD Change in LC Futures
1.200
1.000
0.800
0.600
0.400
0.200
0.000
Feb22
Apr22
Jun22
Aug22
Oct22
Dec22
Feb23
Apr23

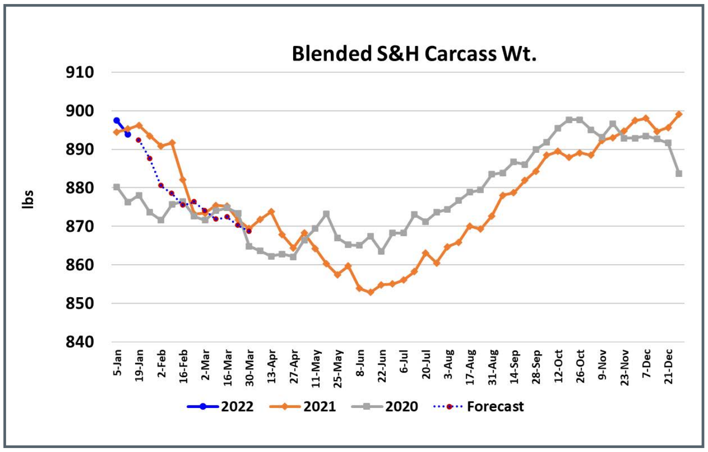

WTD Change in FC Futures
0.500
0.000
-0.500
-1.000
-1.500
-2.000
-2.500
-3.000
-3.500
-4.000
Mar22
Apr22
May22
Aug22
Sep22
Oct22
Nov22

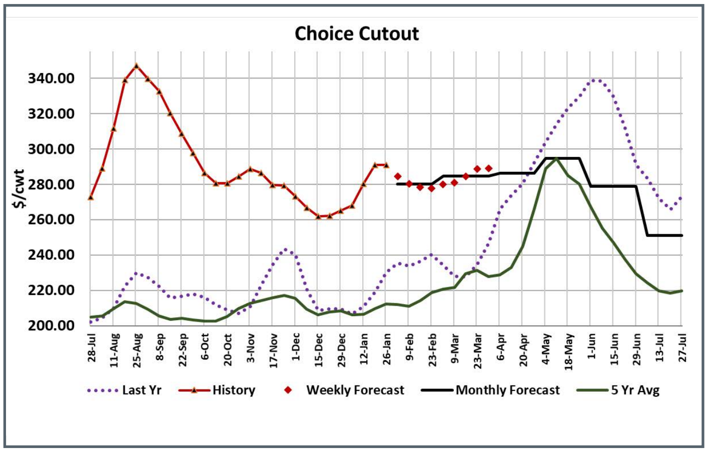

Weekly Avg Primal Impact on Choice Cutout from W/E Jan 21, 2022 to W/E Jan 28, 2022
Cutout Chg = .11
$/cwt.
-0.12
0.32
-0.52
1.20
-0.12
-0.50
Rib
Chuck
Round
Loin
Brisket
50s


Beef Supply Chain Margins
Packer Margin
Feeding Margin
Total Margin
$/head
1100
900
700
500
300
100
-100
-300
-500









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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.