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WEEK ENDING FEBRUARY 11, 2022

THE BEEF WRAP

The cash cattle trade averaged $140.52 this week, up about $0.60 from last week's average. Packers bought rather large numbers this week and so may be able to pull back from the spot market a bit next week. This week's market had to be a disappointment for cattle feeders after last week's $3 increase, but there seems to be a strong feeling in the producer community that cash prices will continue to trend higher. The Apr futures are priced close to $6 over this week's cash and that provides an incentive for cattle feeders to delay marketings if they don't like the price that packers offer. The problem with that is that carcass weights are already very heavy and any marketing delay is just going to add more weight and increase the chance that cattle feeders will have to conduct a fire sale at some point in the future.

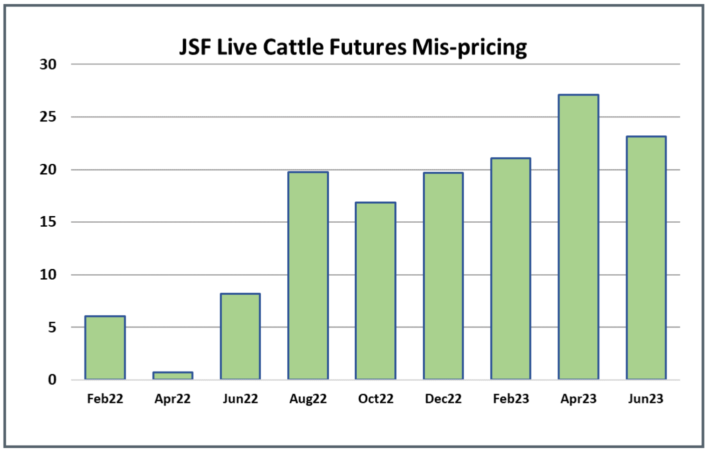
Steer weights should be trending lower seasonally at this time of year, but instead, they jumped 3 pounds higher in this week's data. That pushed this week's DTDS weights up to +20, which is a serious red flag for feedyard currentness. The weather across cattle feeding country was relatively mild this week and that will help the cattle to put back on any weight that they might have lost in the previous week's cold blast. Some snow is forecast in the Plains late next week, but it doesn't look like it will be a major weather event. This week's fed slaughter came in at 507k, which was almost 20k more than the week before. That will help to clear some of the cattle that were backlogged during the omicron wave, but it will also produce a lot of beef that needs to be moved next week. Cow and bull slaughter was 152k this week, which was over 10% stronger than last year. 90s prices are very strong and rising and that is putting upward pressure on cull cow prices which, in turn, encourages producers to send more marginal cows to slaughter. That high cow slaughter rate is partly responsible for why futures traders are so bullish on the deferred contracts. Breeding herd liquidation seems to be moving along at a high rate and that causes traders to believe that cattle and beef supplies are going to get very tight.

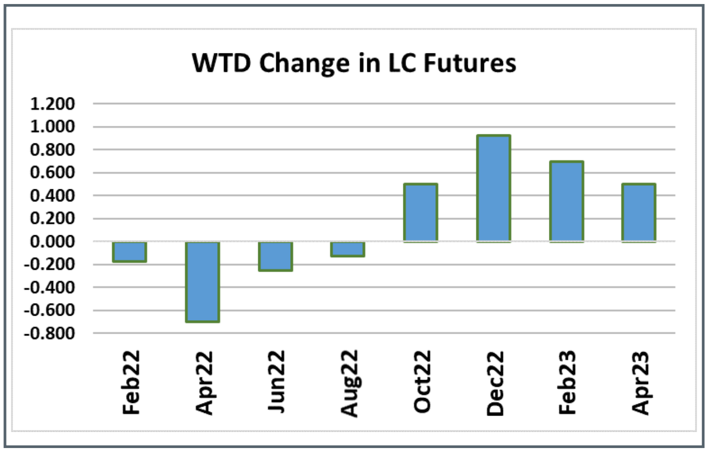
They are right about that, but I think that they are off on their timing. It should take at least another year, and probably 2 years, before the herd gets so small that it causes a supply crunch and sharply higher prices. However, as long as lean beef prices hold at very high levels, it will continue to encourage herd liquidation. This week the Choice cutout fell $7.72 and the Select was down $7.57 on a weekly average basis. All of the primals were lower, but the loin was definitely the weakest link. Buyers backed away from top butts this week, with prices for the Choice product down 8.6% Friday-to-Friday. Those top butts had been bid up to very high levels in early January and they are now coming back down quickly. End meat prices also moved lower, which is a little unusual for this time of year. USDA released its retail beef prices for January this week and those were down a little less than 1% from the prior month. Retail prices are now slowly retreating, but still very high in a historical context.

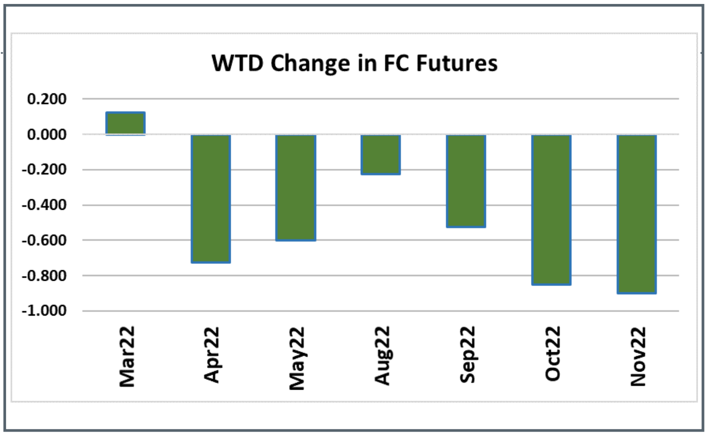
As consumers struggle with high gas prices and significant price inflation in the other things that they buy, there will be less room in the budget to pay up for beef. My sense is that consumers are now "climbing back down" the protein ladder as stimulus windfalls are depleted and inflation erodes any benefit they might have received from higher wages. When the great demand bubble of 2021 started, you will recall that pork demand started moving strongly higher in February of 2021, but beef demand didn't really show any significant gain until about 6-8 weeks later. Back then, consumers were climbing up the protein ladder, first demanding more pork and then eventually displaying increased demand for beef. Now they are going in the other direction and it is manifesting as weaker beef demand first while pork demand is improving. Eventually pork demand will ease too as more consumers trade down to lower priced chicken. The combined margin chart is clearly signaling a demand downcycle and the only real question is how long it will last.

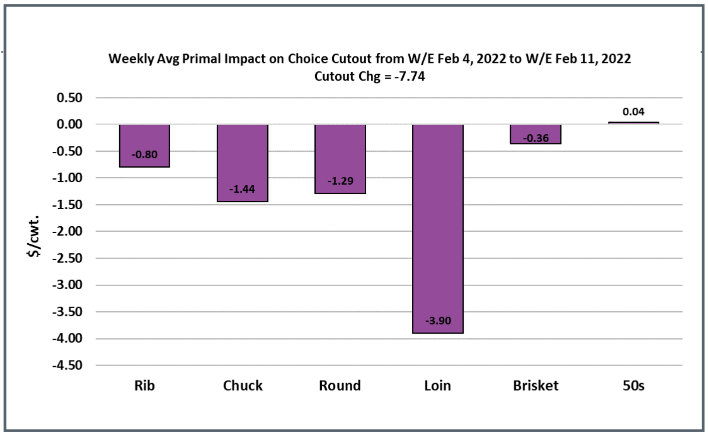
Fortunately for beef producers, spring is just around the corner and when the calendar turns to March we should see some of the normal grilling demand come back into the complex. However, I wouldn't look for this year's spring demand to be as strong as it was last spring. COVID infections are falling rapidly and there is a general sense in the population that the pandemic is nearing an end. That means consumers will be spending time this spring and summer catching up on all of the travel and other things they couldn't do during the pandemic. As a result, they will probably spend less time hanging out around their grill in the back yard. I see the cutouts working lower through February and then turning higher in March as demand improves. Right now, the forecast has the Choice cutout getting down to about $265 before it makes the turn higher, but it could easily slide below that level. International demand for US beef seems to be ok, but not really growing like it was in the second half of 2022.

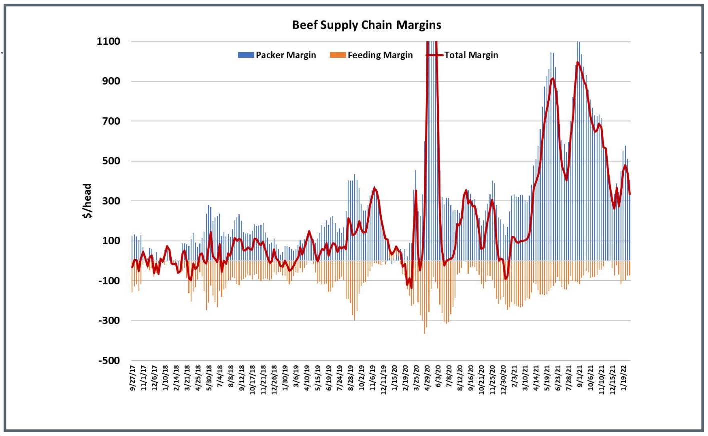
According to USDA, beef exports in December were up about 1% from the previous year and for 2021 as a whole, beef exports posted an impressive 16.6% gain. The last time annual exports grew by a greater percentage was in 2011. The forecast has 2022 exports down 2.6% from 2021, but that still be very strong export year from a historical perspective. After big gains in the prior week, the futures market was much more subdued this week, perhaps due to the near-flat cash trade. There seems to be a lot of speculative money flowing into the long side of cattle futures under the idea that price inflation will take cattle and beef prices substantially higher this year. I think that is a mistake and they are late coming to the party. The price inflation has already happened and now beef prices and soon cattle prices, will be on the defensive. Next week, watch carcass weights. They should come down at least a couple of pounds, but if they don't that will strengthen the case that feedyards are still behind on their marketings.

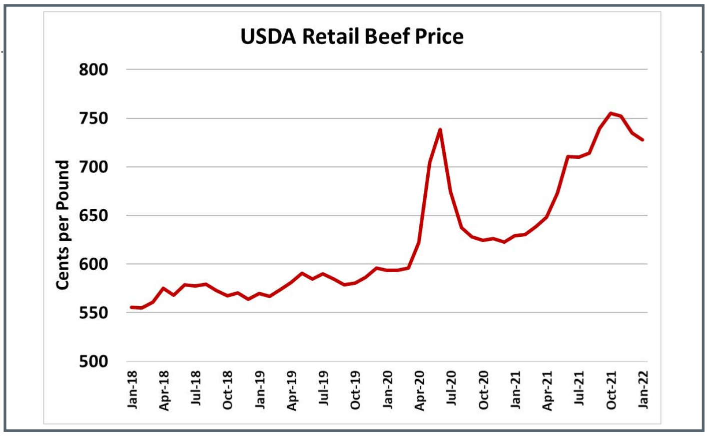

JSF Live Cattle Futures Mis-pricing
30
25
20
15
10
5
0
Feb22
Apr22
Jun22
Aug22
Oct22
Dec22
Feb23
Apr23
Jun23


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


WTD Change in FC Futures
0.200
0.000
-0.200
-0.400
-0.600
-0.800
-1.000
Mar22
Apr22
May22
Aug22
Sep22
Oct22
Nov22


Weekly Avg Primal Impact on Choice Cutout from W/E Feb 4, 2022 to W/E Feb 11, 2022
Cutout Chg = -7.74
$/cwt.
0.50
0.00
-0.50
-1.00
-1.50
-2.00
-2.50
-3.00
-3.50
-4.00
-4.50
-0.80
-1.44
-1.29
-3.90
-0.36
0.04
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


USDA Retail Beef Price
Cents per Pound
800
750
700
650
600
550
500
Jan-18
Apr-18
Jul-18
Oct-18
Jan-19
Apr-19
Jul-19
Oct-19
Jan-20
Apr-20
Jul-20
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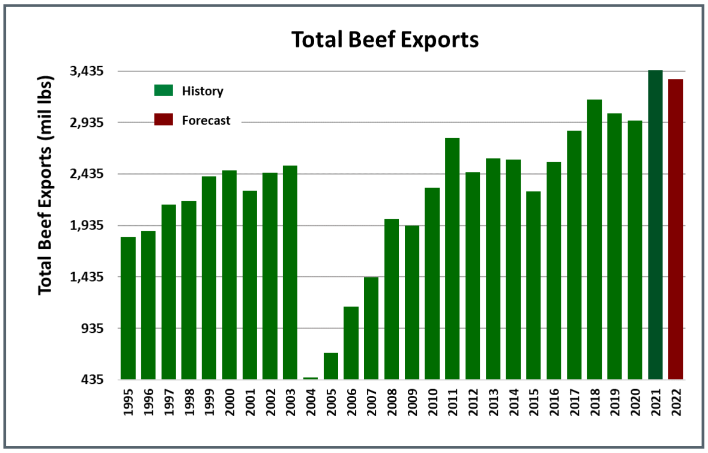
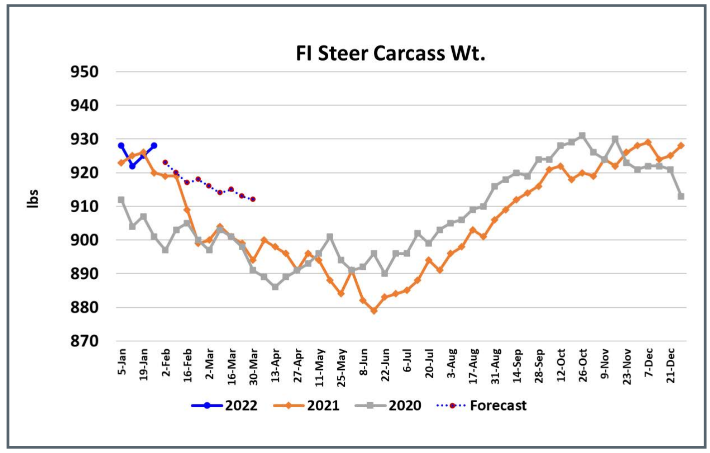
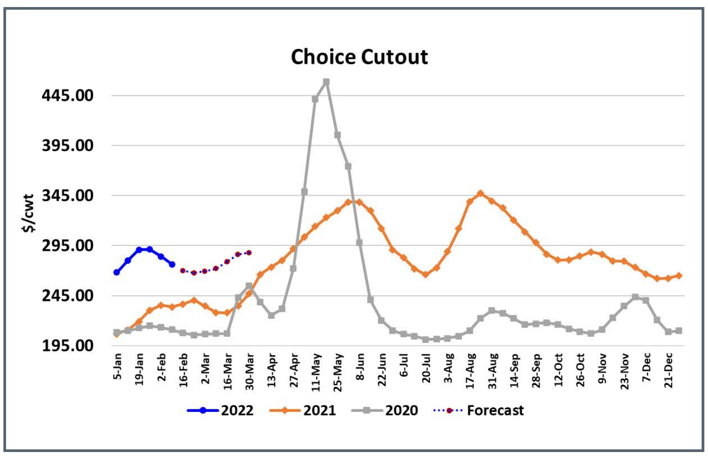
Jan-21
Apr-21
Jul-21
Oct-21
Jan-22







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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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