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WEEK ENDING FEBRUARY 25, 2022

THE BEEF WRAP

Cash cattle markets averaged about $1 higher this week, but there was a wide range of prices reported. Early in the week, some packers stepped up and paid as much as $145 for cash cattle, with more sold at $144. Then following the news of Russia's invasion of Ukraine, the futures market fell hard and that prompted some cattle feeders to accept $142 for their cattle. In the end, the average was $143.40 and packers bought fewer animals than the week before. However, on Tuesday packers will get access to their March formula cattle, so perhaps it wasn't a priority for them to buy a lot this week. Meanwhile, the beef market just kept sliding lower. The Choice cutout lost over $9 on a weekly average basis and the Select was down over $7. Many observers had pegged the $260 level on the Choice cutout as forecasted bottom for this demand cycle. However, this afternoon the Choice cutout printed $258.

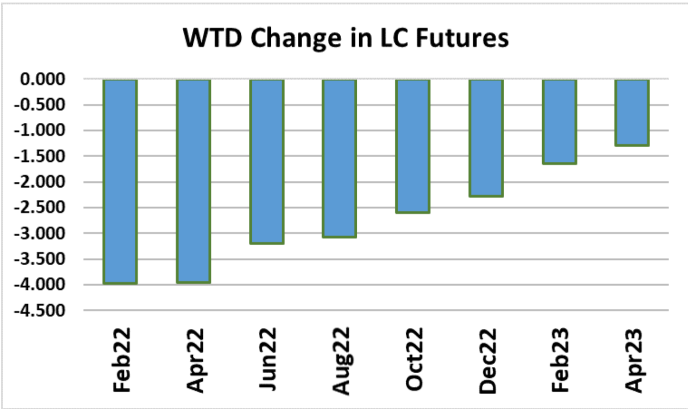
That is causing some analysts to revise their forecasts lower, myself included, but I've always thought that the risk was to the downside in this situation. February is an awful month for beef demand and if I'm right about consumers trading down from the super-high beef prices that they are seeing in grocery stores, then there could still be some price erosion before the bottom is in. Next week marks the beginning of Lent and that won't help beef demand either. Last week, I wrote a lot about watching the brisket primal as a proxy for consumers moving back to a post-pandemic lifestyle that likely means softer beef demand that what we've experienced for the past year. Well, the Choice brisket primal lost $21 over the course of this week. I don't think that bodes well for beef demand going forward. The combined margin is now below all of the bottoms that it made since the "great demand bubble of 2021" started early last year. And yet, the combined margin is still very high in a historical context so there is plenty of room for it to move lower.

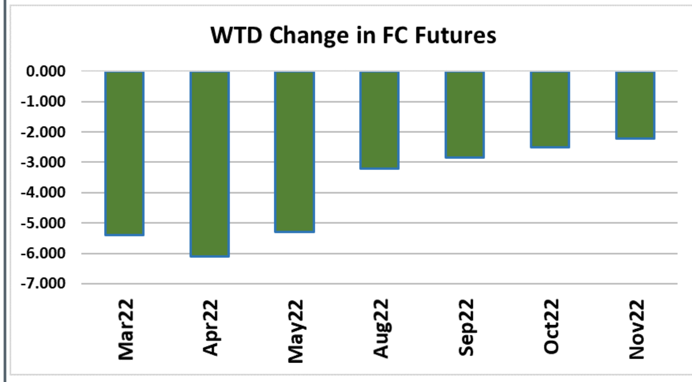
The packer part of that combined margin fell to $270/head this week, a level that it hasn't visited in over a year. Further, if my forecasts for next week's cutout are close, the next packer margin will fall below $200/head. At some point here soon, packers are going to vehemently resist paying more for cash cattle in the face of falling cutouts. The futures market seemed to sense that this week and we saw a big sell-off in the front end of the futures curve. The uncertainty created by the situation in Ukraine also created a risk-off environment that led to selling pressure. The Apr contract finished the week just below $142 and that is important because now Apr is below the current cash market. For a long time prior to this week, Apr was above cash and helping to lead it higher. Now the basis has shifted and the market is telling cattle feeders that the longer they hold cattle the less they will be worth.

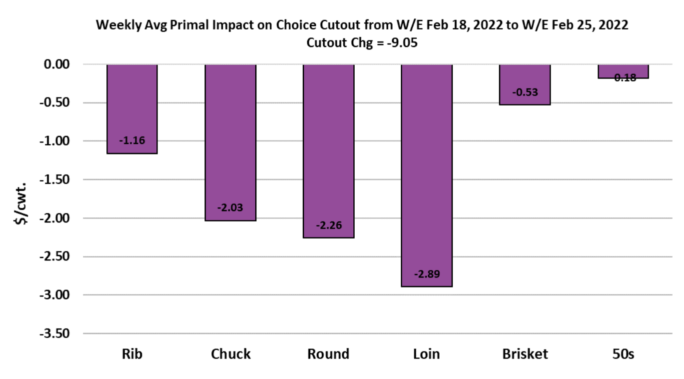
There is already a feeling that cattle in the feedyards are not very current, so this shift in the futures could make cattle feeders more willing sellers as we move forward. Speaking of currentness, this week's weight data showed a whopping 12 pound decline in steer carcass weights. That was a huge surprise, but it really just brings weights back down to where they are almost even with last year and last year's weights were quite heavy. The DTDS weights are still very elevated. There was a pretty severe cold front that moved across cattle country this week and that may help keep weights on the defensive, but I still think that weights will remain above last year for at least a couple of months. The forecast for next week is warm and mild across the midsection of the country. This week's fed slaughter registered 500k, down 12k from the week before. I have a similar size kill forecasted for next week. With demand somewhat precarious, I doubt that packers will get very aggressive with the kill.

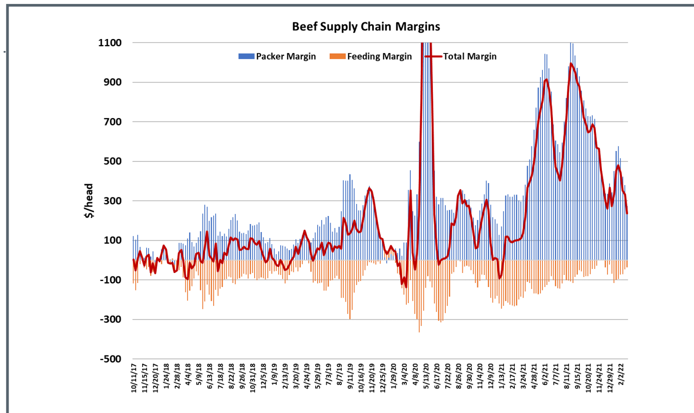
As we move into March, the fed kill could expand a bit, perhaps into the 510-515k per week range. Non-fed slaughter was unchanged from the week before at 148k. So, the supply side of the market is fairly well behaved and I wouldn't expect any big surprises in the next few weeks. USDA did give us a Cold Storage report this week which showed beef stocks as of the end of January up 1.4% from last year. That was the largest January cold storage inventory since 2017, so end users have more of a buffer in place if spot beef prices should start to rise. Most of the increase was in cuts, not boneless product, and that might indicate that users like steak cutters were socking away product during January in anticipation of the spring market. As we move into next week, the situation in Ukraine will be top of mind for both cash and futures market participants.

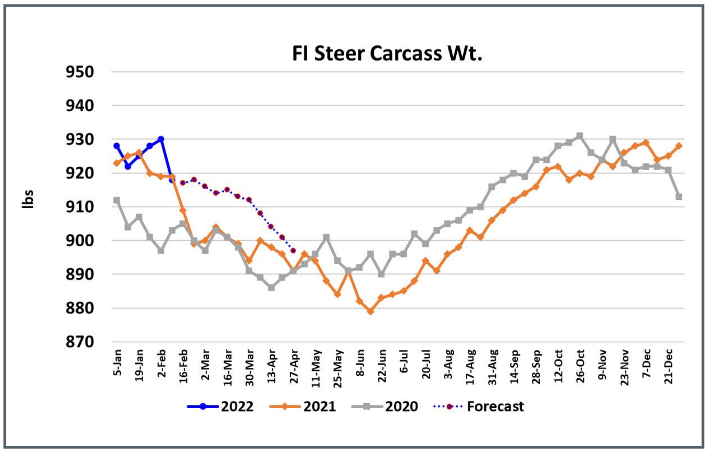
Prices for a number of commodities including crude oil shot higher on the news of the invasion and cattle/beef traders will be working to determine how these changes will affect consumer behavior. It looks almost certain that gasoline prices will rise as a result of this event, and they were already very high. That will just put more stress on consumer budgets and leave less room for consumers pay the extremely high beef prices that grocery stores are asking. It also stokes fears of overall inflation in the economy, which won't be good for beef demand either. We can expect the stock market to be on edge also and any big declines there won't do any favors for beef demand. There is not much about this new war that is going to be positive for beef prices. Next week, watch everything–equities, crude oil, news updates from Ukraine, brisket prices, cutouts and the weight data. It is all going to have a bearing on the direction of cattle and beef markets over the next few weeks.

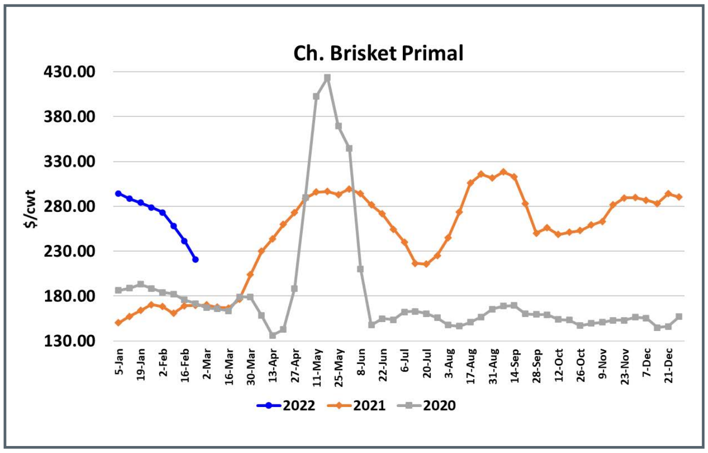

WTD Change in LC Futures
0.000
-0.500
-1.000
-1.500
-2.000
-2.500
-3.000
-3.500
-4.000
-4.500
Feb22
Apr22
Jun22
Aug22
Oct22
Dec22
Feb23
Apr23

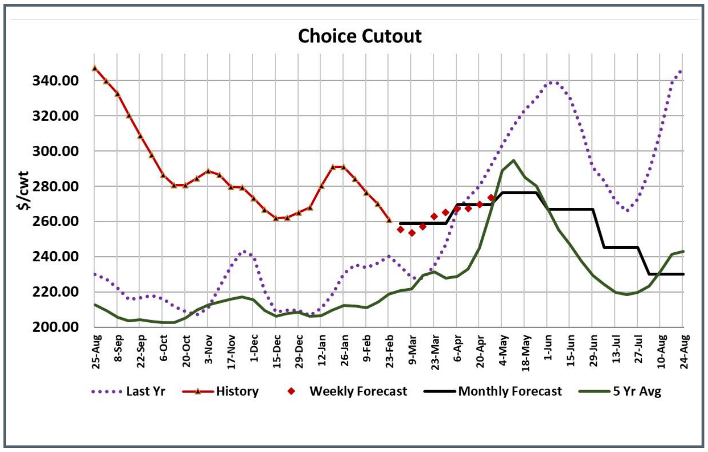

WTD Change in FC Futures
0.000
-1.000
-2.000
-3.000
-4.000
-5.000
-6.000
-7.000
Mar22
Apr22
May22
Aug22
Sep22
Oct22
Nov22

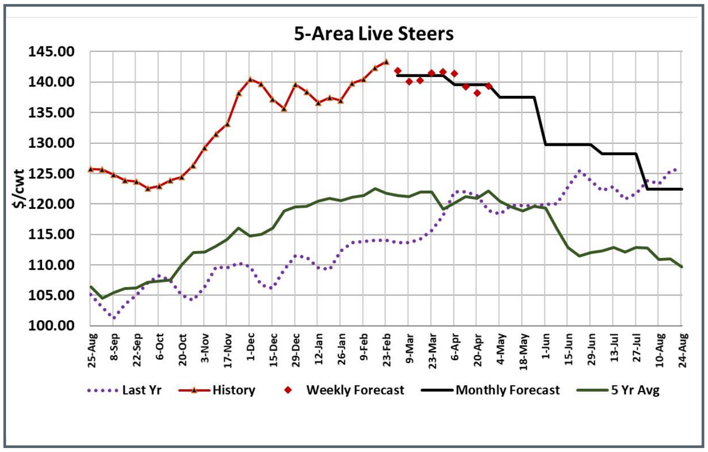

Weekly Avg Primal Impact on Choice Cutout from W/E Feb 18, 2022 to W/E Feb 25, 2022
Cutout Chg = -9.05
$/cwt.
0.00
-0.50
-1.00
-1.50
-2.00
-2.50
-3.00
-3.50
-1.16
-2.03
-2.26
-2.89
-0.53
-0.18
Rib
Chuck
Round
Loin
Brisket
50s


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.

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