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WEEK ENDING MARCH 25, 2022

THE BEEF WRAP

The beef cutouts continued to work higher this week, although probably at a slower pace than most were expecting. The Choice cutout added $3.69 while the Select was up $2.40. Cash cattle traded mostly steady, averaging $138.96, about $0.50 above last week's average. Packers reloaded their cattle inventory this week, buying the largest number of negotiated cattle in almost six weeks. They will get access to their April formula cattle next week, so that, combined with the big trade this week, should keep them from needing to be too aggressive next week. They will also get some help from today's Cattle on Feed report, which showed February placements up 9.3% YOY when the trade was looking for something closer to a 6% increase. That should pressure the futures lower on Monday and should set a bearish tone that will allow packers to avoid paying up for cattle once again. In addition to the large placement number, today's report showed overall feedyard inventories up 1.4% from last year and very close to all-time highs.

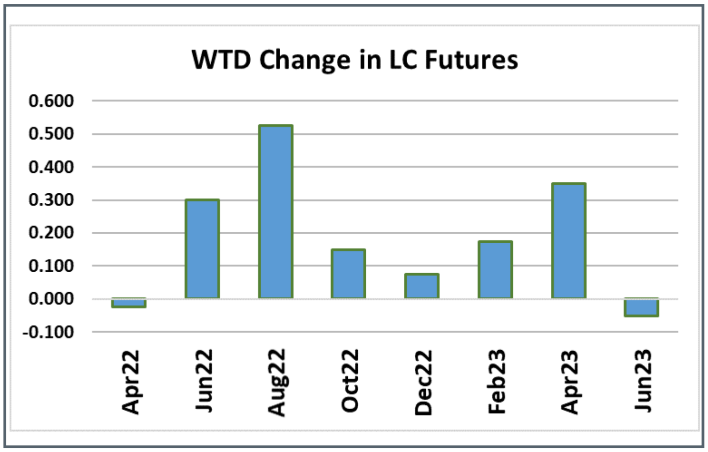
Feedyards are brimming with cattle and those cattle are excessively heavy. USDA reported steer weights a little lower this week, but they are still 14 pounds heavier than last year and declining very slowly now. Cattle feeders need to keep the animals moving out of the feedyard and that will limit their ability to advance cash prices. This week's fed kill was stronger than in previous weeks, clocking in at 511k, with packers scheduling a bigger Saturday kill than expected. That additional production may test the cutouts' ability to remain on an upward trajectory. So far, the upcycle in beef demand has been a bit subdued and that might imply that consumer demand is not really as strong as it appears. We are seeing warmer weather across the Southern states and that should bring out some grilling demand, but price levels at retail are very high and consumers are dealing with high prices in a number of other sectors of the economy.

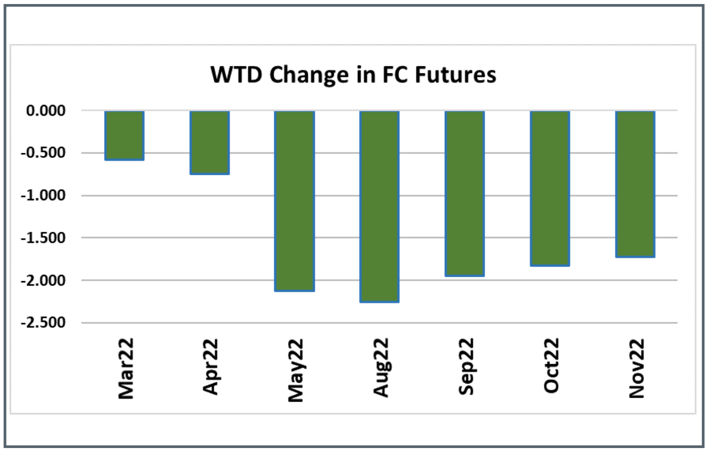
Packer margins are slowly on the mend after a soft February and I calculate this week's margin at $296/head, up $30 from last week. Going forward, the margin should continue to grow since I see beef prices appreciating faster than the cattle market over the next couple of months. It is not unusual for packers to see some of their best margins of the year in May and that may very well be the case again this year. At some point, if margins grow at a good clip, then packers may toss cattle feeders a small increase in cash cattle prices, but that isn't a given. Cattle feeders had been counting on a tight supply picture this spring to improve prices, but the window of opportunity for that is growing rather small.

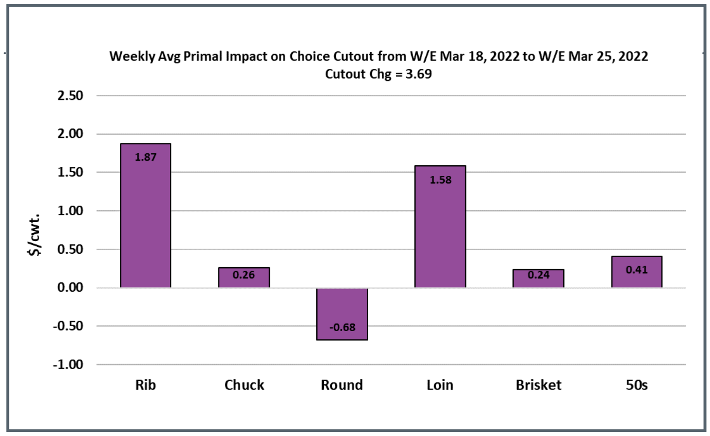
By my calculation, cattle feeding margins are in the red by about $140/head and given what they paid for feeder cattle a few months back and the high price of corn, they would need to sell the finished cattle for almost $150 just to break even. That doesn't appear to be in the cards. In fact, breakevens are projected to rise further and could be close to $155 by Memorial Day. It looks like cattle feeders are once again facing a long stretch of poor profitability. Grain markets aren't showing any signs of backing down as long as the war in Europe is causing serious concerns about how much planting will get done this spring in Ukraine and Russia. Sooner or later, cattle feeders are going to face reality and start pressuring cash feeder cattle prices lower. Deferred feeder cattle futures prices look way too optimistic if corn pricing is going to remain near $7.50 per bushel and fat cattle prices are going to struggle to add even a little to current levels.

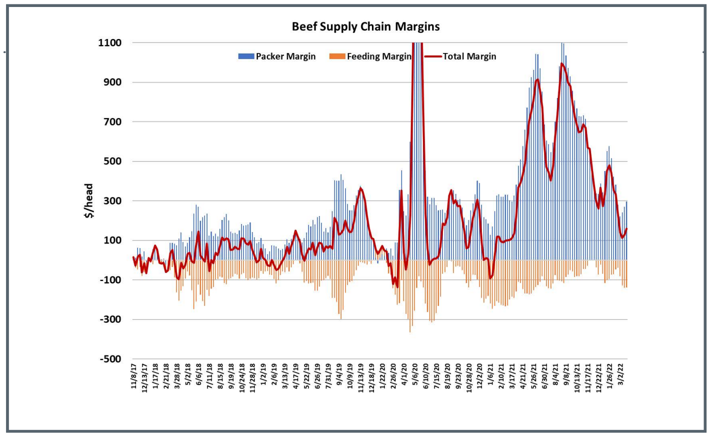
The weekly export report provided by USDA this week was a mess because one or more entities failed to report exports over a period of time and so USDA just dumped that entire volume into this week's report. I guess the one thing that we can surmise from that is that exports have actually been better than the prior data suggested through much of 2021. USDA will give us the official export numbers for February on April 6. I'm expecting a little more than a 20% YOY increase. USDA also released Cold Storage totals for February this week and it showed a modest, counter-seasonal increase with most of the increase attributable to whole muscle cuts, not boneless beef. That may signal that foodservice has been socking away more product than usual in anticipation of higher prices this spring and summer.

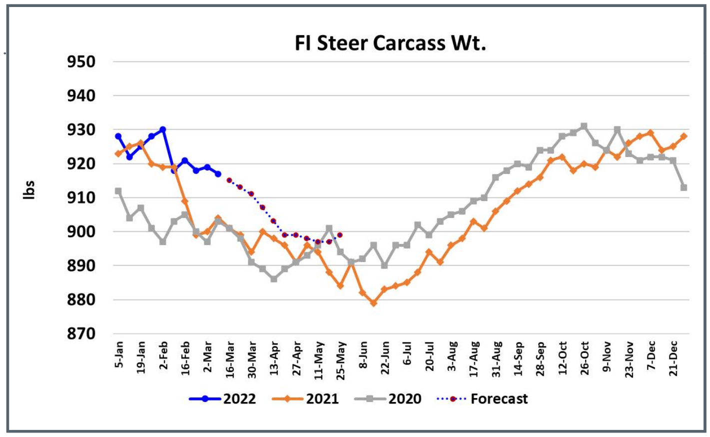
The combined margin seems to confirm that a new demand upcycle is underway. The fundamental forecast has the Choice cutout peaking in the $290-295 range just ahead of Memorial Day and that should be when the next downcycle in demand begins. Next week, expect the market to get off on a sour note as traders react to today's bearish COF report. Keep an eye on the cutouts to see if they struggle under the weight of this week's additional production. If they do, that could be an early sign that this demand cycle is going to underperform what we've seen in the recent past.

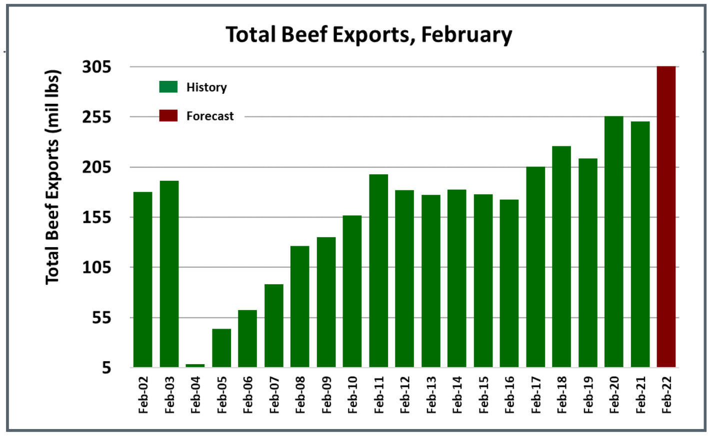

WTD Change in LC Futures
0.600
0.500
0.400
0.300
0.200
0.100
0.000
-0.100
Apr22
Jun22
Aug22
Oct22
Dec22
Feb23
Apr23
Jun23

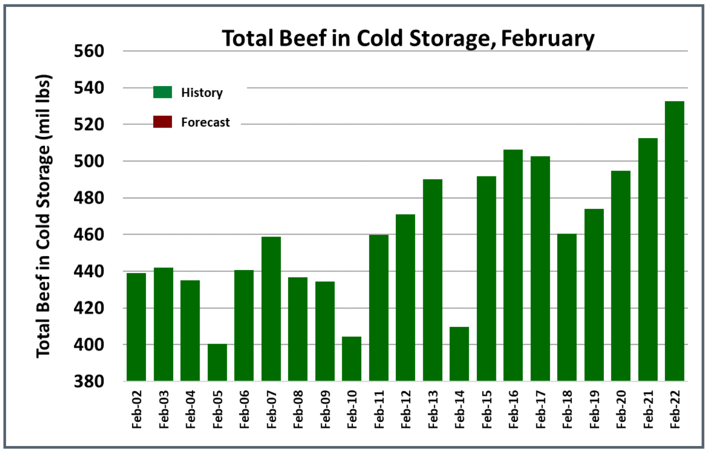

WTD Change in FC Futures
0.000
-0.500
-1.000
-1.500
-2.000
-2.500
Mar22
Apr22
May22
Aug22
Sep22
Oct22
Nov22

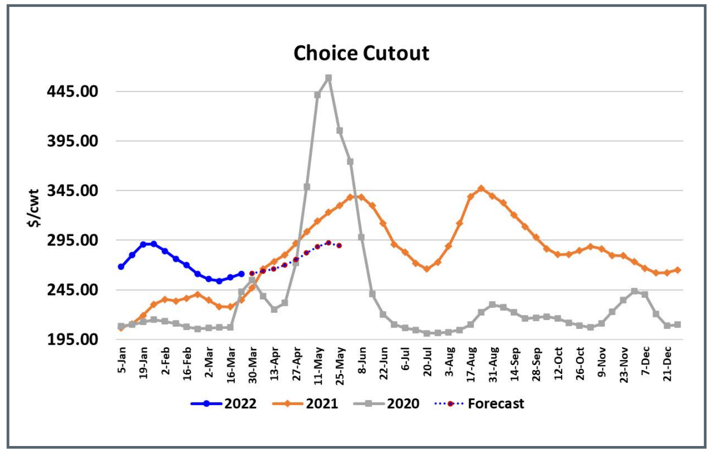

Weekly Avg Primal Impact on Choice Cutout from W/E Mar 18, 2022 to W/E Mar 25, 2022
Cutout Chg = 3.69
$/cwt.
2.50
2.00
1.50
1.00
0.50
0.00
-0.50
-1.00
1.87
0.26
-0.68
1.58
0.24
0.41
Rib
Chuck
Round
Loin
Brisket
50s

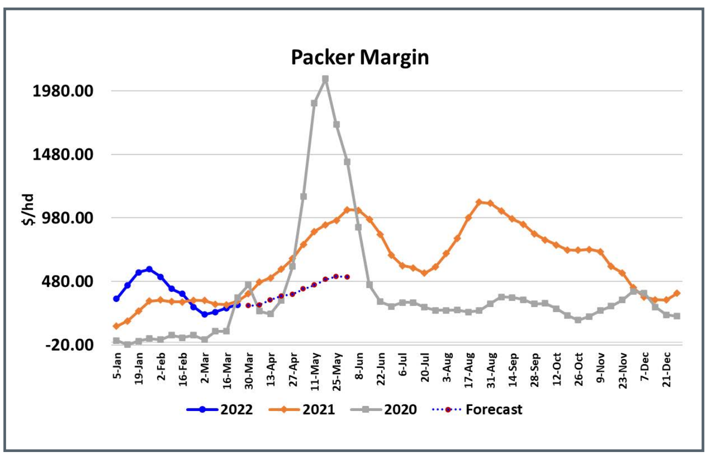

Beef Supply Chain Margins
Packer Margin
Feeding Margin
Total Margin
$/head
1100
900
700
500
300
100
-100
-300
-500


FI Steer Carcass Wt.
lbs
950
940
930
920
910
900
890
880
870
5-Jan
19-Jan
2-Feb
16-Feb
2-Mar
16-Mar
30-Mar
13-Apr
27-Apr
11-May
25-May
8-Jun
22-Jun
6-Jul
20-Jul
3-Aug
17-Aug
31-Aug
14-Sep
28-Sep
12-Oct
26-Oct
9-Nov
23-Nov
7-Dec
21-Dec
2022
2021
2020
Forecast


Total Beef Exports, February
Total Beef Exports (mil lbs)
History
Forecast
305
255
205
155
105
55
5
Feb-02
Feb-03
Feb-04
Feb-05
Feb-06
Feb-07
Feb-08
Feb-09
Feb-10
Feb-11
Feb-12
Feb-13
Feb-14
Feb-15
Feb-16
Feb-17
Feb-18
Feb-19
Feb-20
Feb-21
Feb-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.