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WEEK ENDING MARCH 4, 2022

THE BEEF WRAP

The slide in beef prices continued this week, with the Choice cutout dropping $5.11 on a weekly average basis and the Select cutout down $8.39. Cash cattle finally turned lower, dropping almost $3 from the week before to average $140.76. Packer margins finally narrowed enough that packers felt the need to put some pressure on the cash cattle market and they were helped along by the escalation of hostilities in Ukraine, which made the market very jittery. There has been a lot of talk about how the war in Ukraine will hurt beef demand and while there is some truth to that, we need to recognize that beef demand was on the decline well before this war started. In my opinion, the end of the pandemic posed a bigger threat to beef demand than the war. However, the war will certainly exacerbate inflationary pressures across the economy and that will stretch consumer's budgets to the point where they will likely decide they can forego that expensive steak and make do with pork chops or chicken.

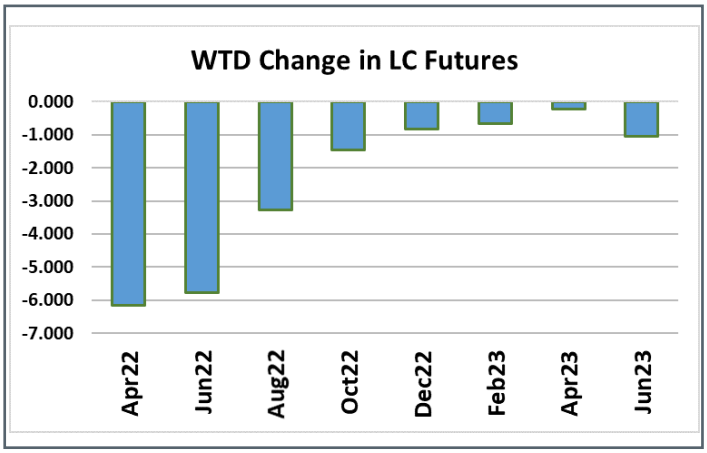
Beef is the most vulnerable protein as the demand side resets in 2022 following an epic demand year in 2021. That said, we are beginning to see spring-like weather in the Southern US and that should bring out some seasonal demand improvement for grilling items over the next few weeks. My guess is that the cutouts will put in a bottom next week and then start grinding higher as middle meat prices begin to improve. This week it was the chucks that were the biggest drag on the cutout. Brisket prices were lower early in the week, but began to improve near week's end. That may be tied to last minute buying ahead of St. Patrick's Day. The combined margin is still heading lower and it is clear that this next bottom will be well below any bottom that was made during the "great demand bubble" last year. This looks like a sign that demand is working its way back to more-normal levels. It will be interesting to see how quick the next upcycle develops. I expect that it will be slow to get started, but will probably show stronger gains once we get beyond March.

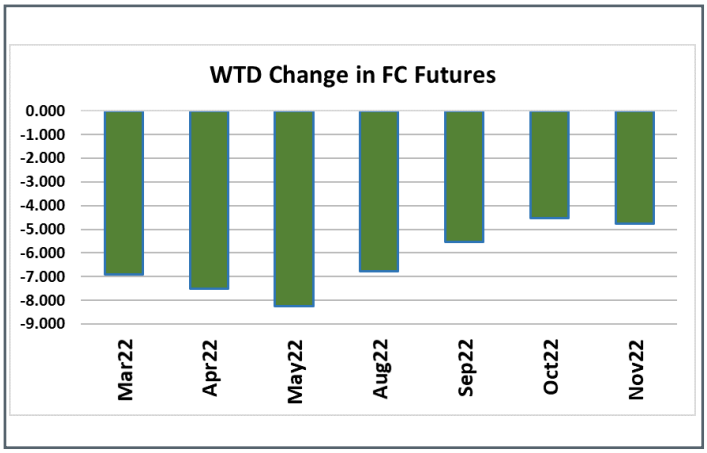
I don't expect packers to immediately begin to pay higher money for cattle just because the cutouts bottomed and turned seasonally higher. They will probably keep some pressure on the cash cattle market for a couple of weeks and then let it go sideways for a while as their margins get back on good footing. I calculate this week's margin at $218/head–the smallest packer margin in over a year. I expect it will slowly grow from here, but don't look for it expand back out to $600-700 head like it did last spring. Cattle feeders are probably not in the best negotiating position right now. Steer carcass weights were 3 pounds higher this week as they rebounded from last week's sharp drop and the DTDS is at very high levels. Steer weights are now 12 pounds over last year.

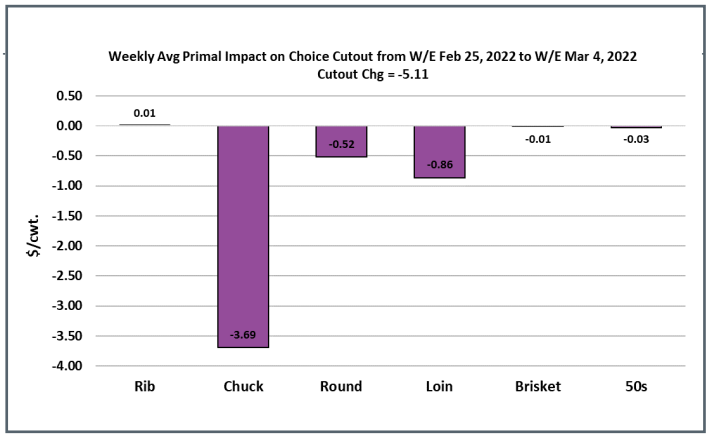
I think feedyards need to move cattle and that is evidenced by the fact that there was some cash trade today at $138, $2 back of the weekly average. The basis to the futures has made a gigantic shift in recent days, as Apr LC fell below $136 today. That is telling cattle feeders that the longer they wait to sell cattle, the less they will get for them. The futures market has done a huge reset over the last couple of weeks. Apr has moved lower for eight trading sessions in a row now. In those eight days, the market has wiped out almost all of the value that Apr gained since last September. That is the way that cattle futures trade: they grind slowly higher in an uptrend, but when the market turns lower, the selling is swift and prices quickly cascade lower. Needless to say, the speculators, who typically play the long side of the market, are not happy with the events of the past two weeks.

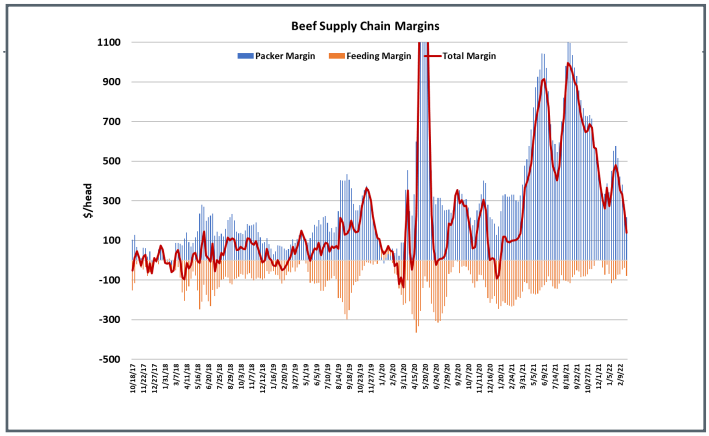
Those cattle feeders that had the presence of mind to hedge back in mid-to-late February when the market was near its highs are probably breathing a sigh of relief. This week's fed kill came in at 509k, which was 6k above last week and pretty much right in line with what the flow model says we should be killing in early March. We will likely see fed kills hold in the 505-515k range for the next several weeks. There are more cattle in feedyards right now that at any point in the past. That alone seems pretty bearish to me. If the beef market can muster a rally in the next couple of months, it will not be due to tight supplies, but rather due to seasonal improvement in beef demand. Lower pricing in the beef complex seems to be attracting the interest of international buyers as the weekly export numbers have looked pretty good recently. That helps, but it won't be enough to substantially boost the market this spring. We will get the official export totals for January on Wednesday.

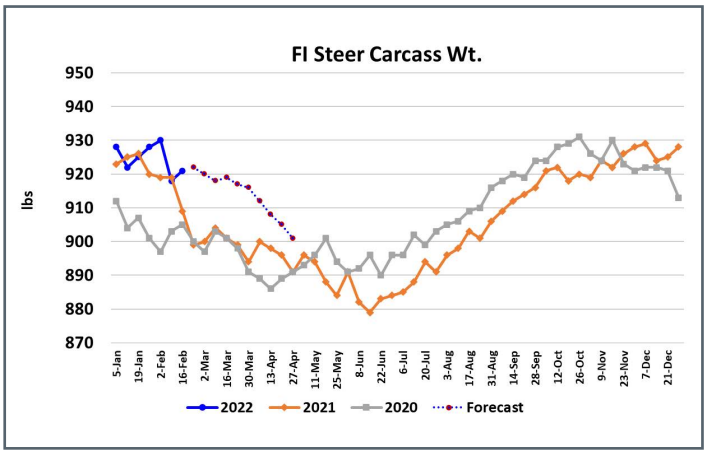
Grain markets have been highly volatile and moving higher since the invasion of Ukraine and it looks like the world will have to do without any grain from that region of the world for at least a few months. That is a big problem because the S. American crop is struggling and there is a lot of dryness in N. America as well. The cost of feed is going to be way higher this year than last and that means cattle feeders will do their best to push feeder cattle prices lower to compensate. Feeder cattle futures did a huge reset lower this week also. That won't encourage cow-calf producers to begin expanding their herds. Herd expansion plans will likely have to wait until 2023 or beyond. Next week, watch for early cash cattle trade at lower money. If that happens, it is usually a sign that cattle feeders feel a sense of urgency to move cattle and could signal a new downtrend in the cash cattle market.

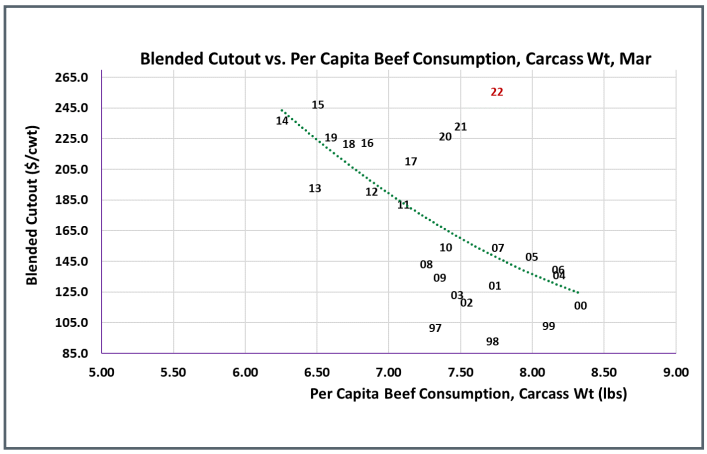


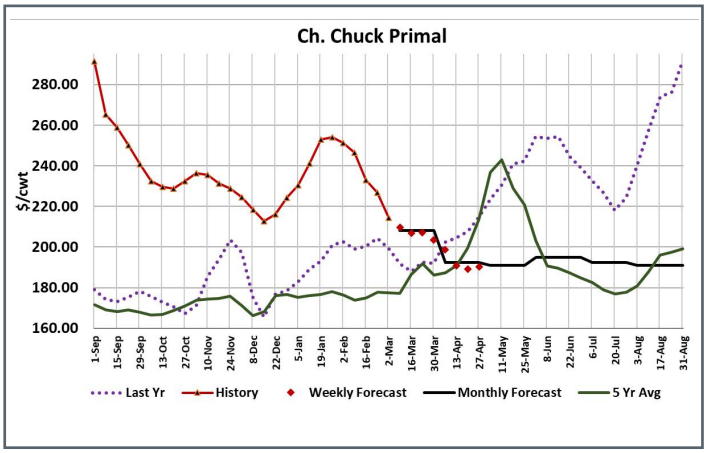


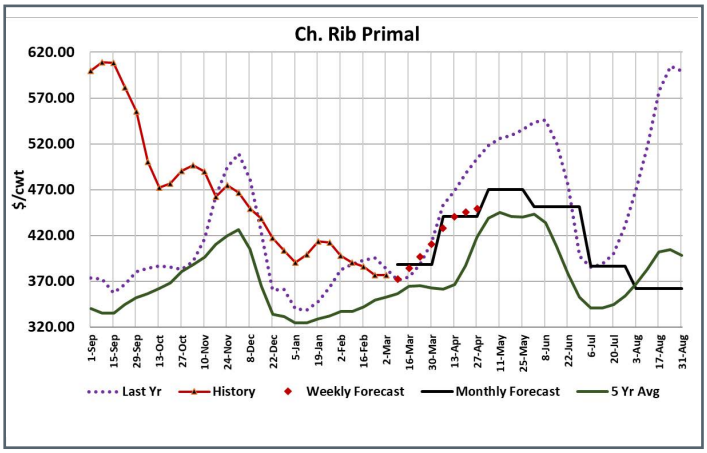












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Dr. Rob Murphy is an agricultural economist and business leader with over 29 years in the industry. He has a wealth of experience in the North American meat and livestock industries studying, analyzing and predicting market movements.