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### WEEK ENDING APRIL 1, 2022

# THE BEEF WRAP

The beef markets continued higher this week, with the Choice cutout gaining $5.06 on a weekly average basis and the Select adding $6.22. As you might expect for this time of year, it was the middle meat primals that led the cutout higher, but both cutouts were also helped by soaring 50s prices. In the past two weeks, the 50s market has gained $21/cwt and now sits at $131. It seems to me that this is a demand-driven rally in the 50s, not a shortage of supply. Cattle weights are quite heavy and so the carcasses should be generating a lot of fat trim. Demand-wise, as consumers trade down from very pricey middle meats, one of their targets is ground beef and that means strong demand for both lean and fat trim. About 9 to 10% of a cut-up carcass is 50% lean trimmings, so when they rally hard it really helps boost the cutouts. I expect that fat trim prices will stay high at least through Memorial Day and quite possibly for most of the summer. There is almost certainly no relief coming next week given that this week's fed kill fell to only 490k.

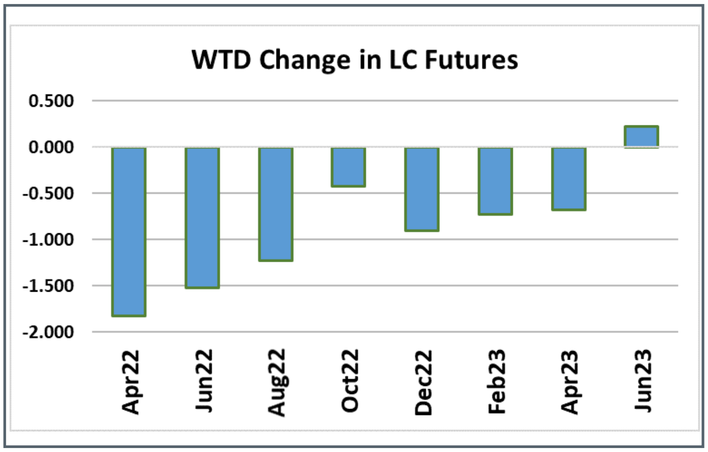
That was down 15k from last week and more in line with kill levels in two weeks prior to last week. To be fair, the flow model has pointed to a dip in supplies during April and with cattle probably finishing ahead of schedule, we shouldn't be all that surprised if the light kills came a little earlier than expected. It is probably a good thing that fed kills are not all that big at present because my sense is that if kills were much bigger, the cutout probably wouldn't advance very quickly. Demand is definitely in an uptrend and we can see that in the combined margin chart and the daily demand scatters, but we are still in the early stages of this demand cycle and it hasn't gotten to full steam yet. Retailers are asking consumers to pay some pretty high prices for beef and that is likely going to be the stumbling block that keeps this year's spring rally well below what we saw last year. My guess is that consumers will be a lot more interested in ground beef than ribeyes this spring as they deal with price inflation in other areas of the economy.

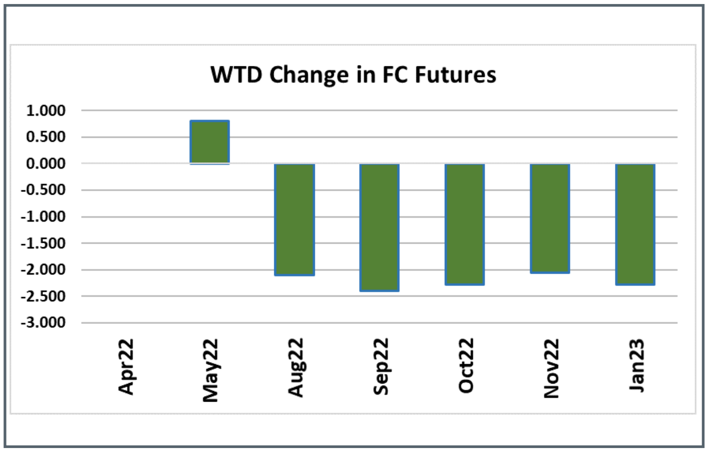
Further, the red flags are starting to go up about a potential recession on the horizon and that is never good for beef demand. Honestly, I think a recession is needed to cool down the inflation problem and the red-hot labor market. But consumers are in no mood to think about recessions right now. It is party time now that COVID infection rates have fallen to almost zero. That is fine, but the party is going to be expensive. Cash cattle averaged $139.36 this week, up about $0.50 from the week before. That makes it four weeks in a row that the cash market has averaged below $140. Packers are focused on regaining their margins and have little interest in paying up for cattle right now. I calculate this week's packer margin at $325/head, up $40 from last week. Cattle feeders don't really seem to have enough leverage to force cattle prices higher anyway.

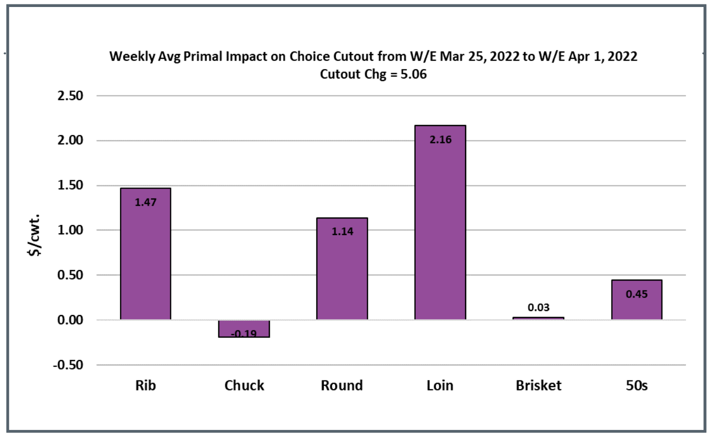
Steer weights were down only 1 pound this week and they are still 15 pounds heavier than last year. I have to believe that they need to keep the cattle moving out of feedyards and thus can't bargain from a position of strength with packers right now. That situation of poor producer leverage is likely to get worse before it gets better. The flow model is pointing to considerably larger numbers of market-ready cattle during May and June than in April. My guess is that cash cattle prices struggle to do much better than about $142 from now until Memorial Day. Over the same period, I'm forecasting the Choice cutout to push towards the high $280s or low $290s, so I suspect that packer margins will move back close to $500/head before June 1. The risk is that cattle prices tumble between now and then and thus packer margins exceed my forecast. Feedyards are full of cattle and they are heavy. USDA estimated feedyard inventories as of March 1 were 1.6% higher than last year's record-large number. There is a bulge in fed cattle supplies coming in the May/June/July period–the result of strong placements late last year and there is no stopping that train now.

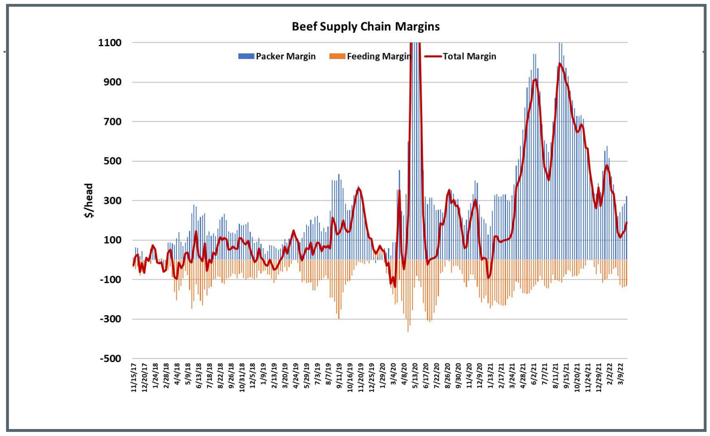
Cattle feeders seem to recognize that there is a problem on the horizon because it looks like they really slowed down placements during March. That is fine, but it won't provide much supply tightening until Sep/Oct. In the meantime, high feed costs are expected to keep cattle feeding margins solidly in the red all summer. USDA released its Prospective Plantings report this week and it showed that US farmers are planning to plant a lot less corn than expected. That is unfortunate because the war in Ukraine is likely to greatly reduce production in that area of the world and the hope was that US producers could make up a chunk of that lost production. Farmers are seeing huge price increases in nearly all of the inputs needed to grow a corn crop, with fuel and fertilizer leading the way.

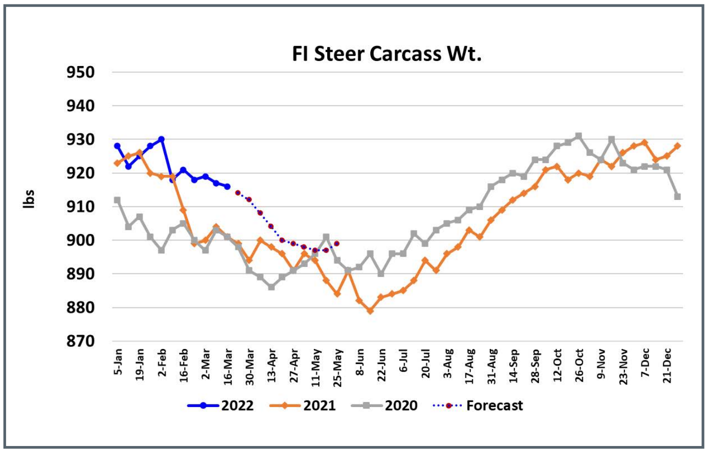
The tight corn balance sheet is likely to keep corn futures well supported into summer and they will be very vulnerable to any issues that might arise in getting the crop planted. Normally, when corn prices go up cattle feeders work hard to pay less for feeder cattle in order to compensate. So far this year however, it looks like they haven't done a very good job with that and are over-paying for feeder cattle given current corn prices. That is how they ended up facing the prospect of negative margins from now until fall. Next week, watch the fed kill to see if packers can get it back over 500k. The following week is Easter and that will see lighter-than-normal production on Good Friday and the Saturday following, so they may try to boost next week's kill to compensate. However, if the fed kill remains down around 490k or less, the prospects for a stronger cattle market this spring start to get more remote.

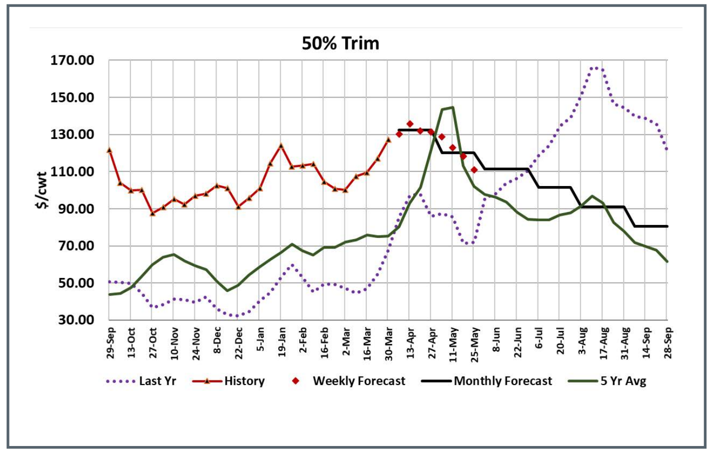

WTD Change in LC Futures
0.500
0.000
-0.500
-1.000
-1.500
-2.000
Apr22
Jun22
Aug22
Oct22
Dec22
Feb23
Apr23
Jun23

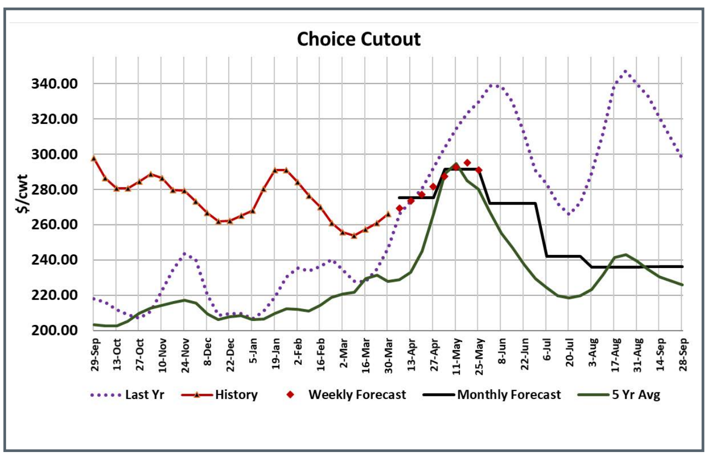

WTD Change in FC Futures
1.000
0.500
0.000
-0.500
-1.000
-1.500
-2.000
-2.500
-3.000
Apr22
May22
Aug22
Sep22
Oct22
Nov22
Jan23

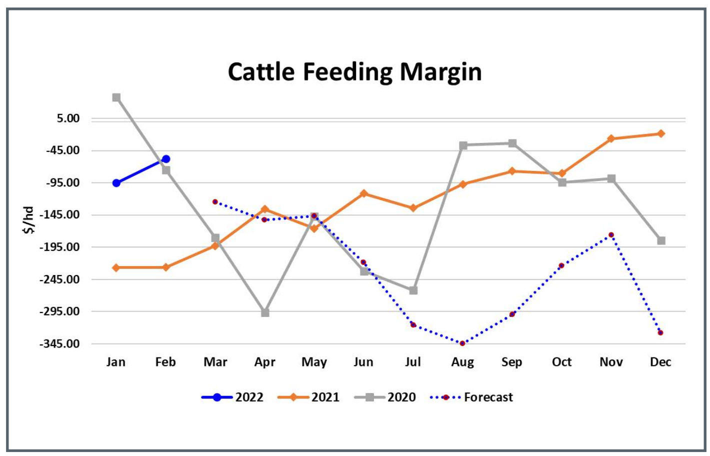

Weekly Avg Primal Impact on Choice Cutout from W/E Mar 25, 2022 to W/E Apr 1, 2022
Cutout Chg = 5.06
$/cwt.
2.50
2.00
1.50
1.00
0.50
0.00
-0.50
1.47
-0.19
1.14
2.16
0.03
0.45
Rib
Chuck
Round
Loin
Brisket
50s


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.*