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WEEK ENDING APRIL 15, 2022

THE BEEF WRAP

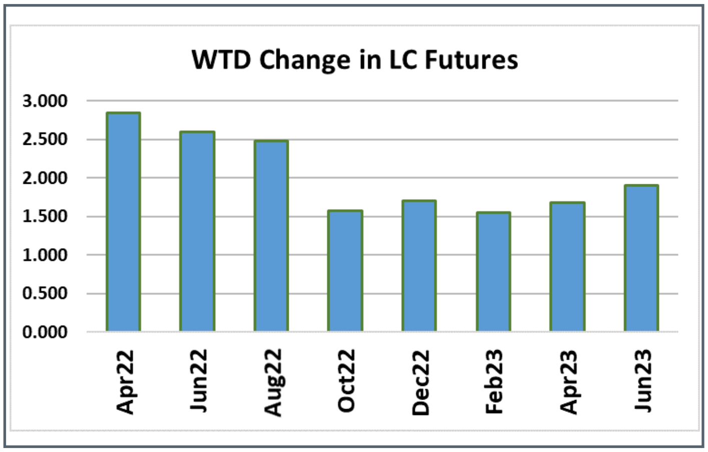
The cash cattle market took a step up this week, with prices averaging just over $141, up $2 from the week before. The cutouts were mixed, with the Choice gaining $1.99/cwt while the Select lost $1.64/cwt. That had to be a disappointment for packers, after recent weeks where the cutouts have been gaining $5 or more. So, if the cutouts were so sluggish, why did they pay up for cattle? That probably has a lot to do with the fact that they are going to be delivering on big forward sales for the next two weeks. I've included a chart of estimated deliveries on forward sales that I derive from the comprehensive beef reports that USDA releases weekly. You can see that that the next two weeks have a big delivery commitment and that often will tie packer's hands with respect to the cash cattle market. Packers are much less likely to risk a showdown with cattle feeders when they have large orders to deliver on in the near future. Obviously, retailers are planning for big beef features in the two weeks after Easter.

The big slug of booked orders to be delivered next week might also explain why buyers were not very aggressive in the spot beef market this week. Those buyers that were active in the spot market this week were more interested in middle meats than end meats. The rib and loin primals were responsible for nearly all of the gains in the Choice cutout this week. Even the 50s market cooled a bit this week, with prices down about $6/cwt on a weekly average basis. This week's slow market is jeopardizing my forecast of $295 for the spring top in the Choice cutout. I still think that the market can get there, but the odds of it falling short are increasing. Packer margins were up $16/head this week to $350, but there is a real risk that margins will be down a little next week when the more expensive cattle show up at the packing house.

With all of that product the booked product that needs to be delivered, packers had better get busy putting blood on the kill floor. This week's fed kill was light because of Easter, coming in at 494k. That was down 20k from the week before. Look for packers to step it up next week and we will probably see the fed kill grow week after week until Memorial Day. The kills in June could be even bigger than those in May. USDA reported steer carcass weights down only one pound this week, which takes some of the edge off of the prior week's six-pound decline. As a result, carcass weights still look overly elevated and that is likely to limit how much the cash cattle market can advance over the next couple of months. Jun futures are trading about $5 discount to this week's cash, so clearly futures traders are not optimistic that cattle feeders will be able to move cash prices higher as market-ready supplies increase strongly in the next two months. Domestic beef demand is still in a seasonal uptrend and the combined margin reflects that. However, the rate of increase in the combined margin currently is not as impressive as some recent upcycles. That fits with my thought that beef demand is going cool as we move deeper into 2022 and consumers deal with high energy prices and rampant inflation in other parts of the economy. The attached chart shows the results from a recent Harris poll on what areas consumers foresee cutting back on due to inflationary pressures. Eating out less was the number one activity consumers plan to curtail. I guess they honed their cooking skills during the pandemic and so they are more comfortable eating meals at home even though COVID infections are very low. This could actually be a positive for domestic beef demand because we know that demand soared when infections were high and people were forced to spend a larger proportion of their food budgets on at-home meals.

This time around it will be inflation that keeps them out of restaurants, not COVID. However, people often say one thing on a survey and do another. I want to see data showing restaurant sales declining before I believe that consumers are cutting back significantly on dining out. Overseas demand for US beef still looks rather healthy based on the weekly FAS data. Corn prices continue to increase, with cash corn in the cattle feeding areas of Kansas now running a little over $8/bushel. That is going to keep feedyard breakevens elevated and I calculate that cattle leaving the yard today need to bring almost $152 to breakeven. Of course, they won't get anything near that this summer, so the long stretch of negative feedyard margins is likely to continue. At some point, cattle feeders will cut placements in response to poor margins and that is probably what traders are thinking when they price next spring's futures at $155+.

I don't doubt that fed cattle supplies will be tighter next year, but I also a believer that demand will be a lot weaker next year than it has been this year, particularly if a recession develops while the Fed is trying to tame inflation. Next week, look for packers to dial the kill up and that could result in another modest increase in the cash market. It will be important to watch how the cutouts react to growing kills over the next few weeks. They need to move higher at a better clip than they did this week or traders are going to turn pessimistic once again.


WTD Change in LC Futures
3.000
2.500
2.000
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Apr22
Jun22
Aug22
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Dec22
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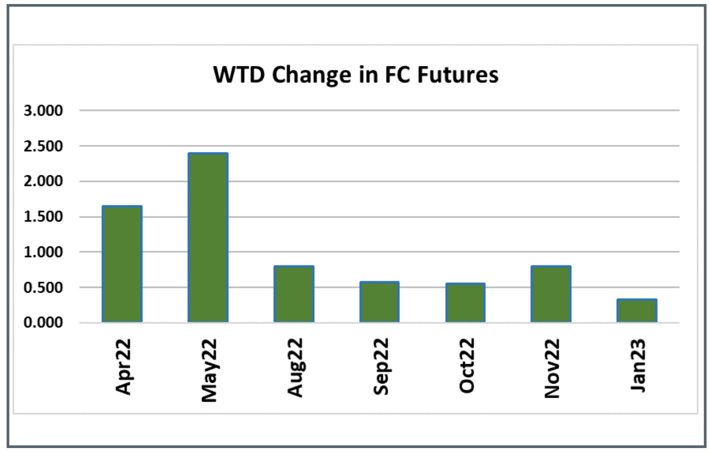
WTD Change in FC Futures
3.000
2.500
2.000
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Apr22
May22
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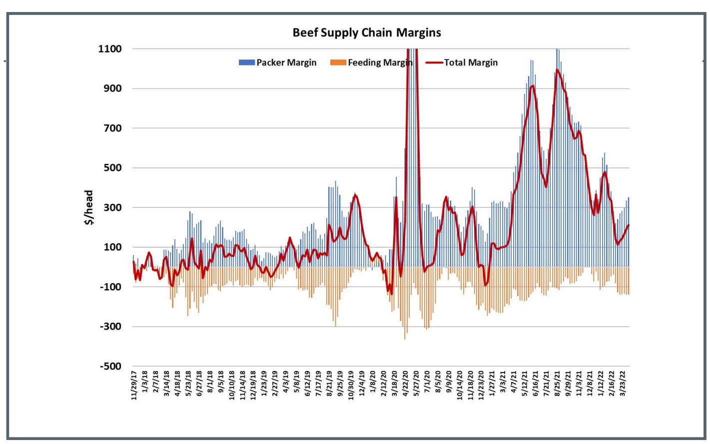
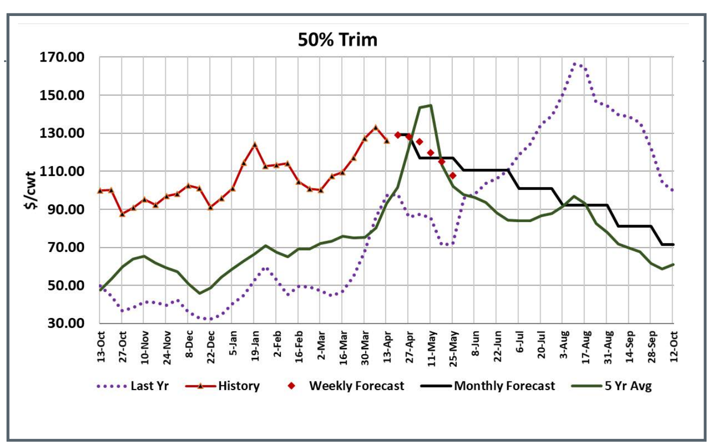
Jan23


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


50% Trim
$/cwt
170.00
150.00
130.00
110.00
90.00
70.00
50.00
30.00
13-Oct
27-Oct
10-Nov
24-Nov
8-Dec
22-Dec
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
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31-Aug
14-Sep
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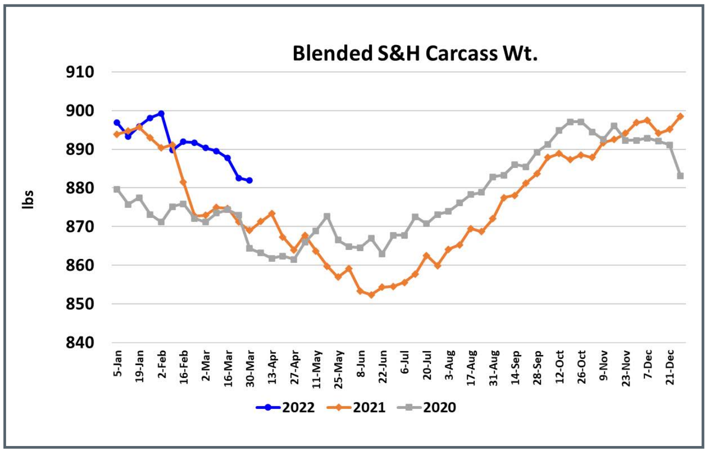
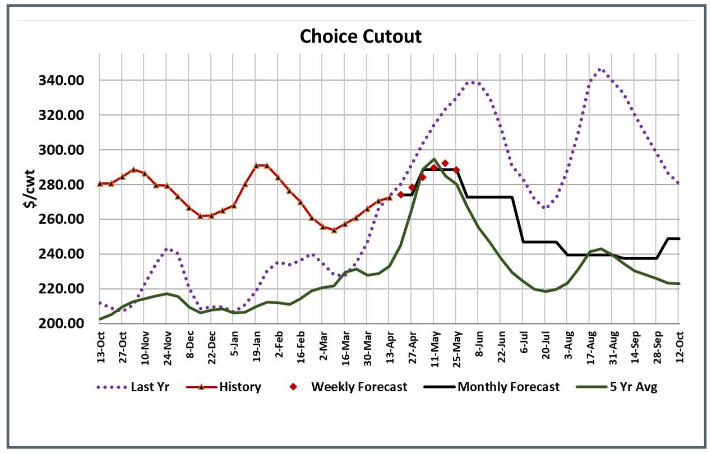
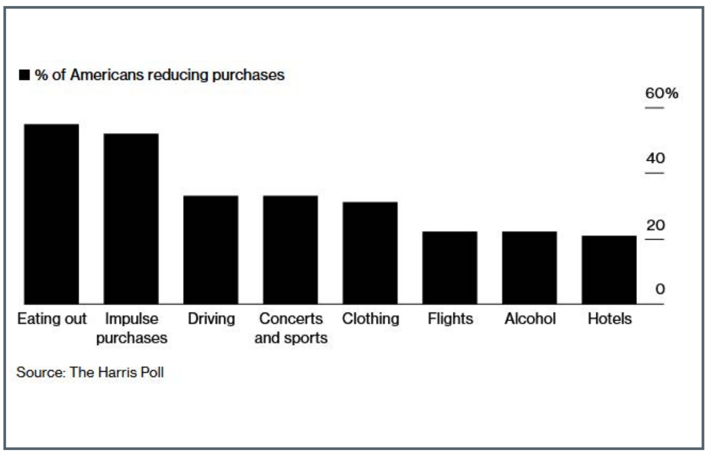
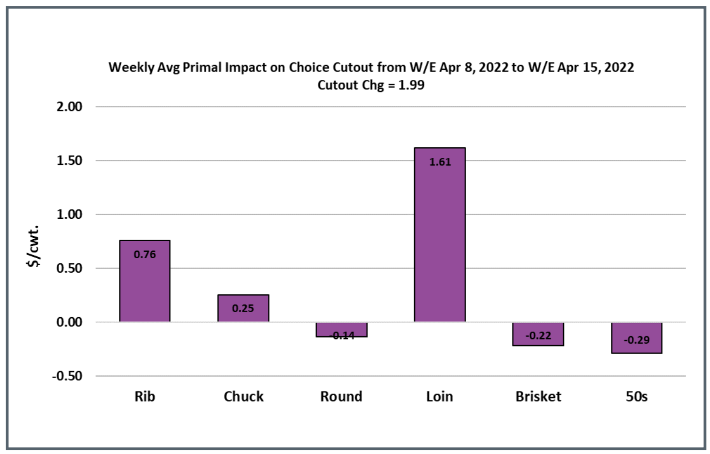
12-Oct
Last Yr
History
Weekly Forecast
Monthly Forecast
5 Yr Avg









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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.