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WEEK ENDING APRIL 8, 2022

THE BEEF WRAP

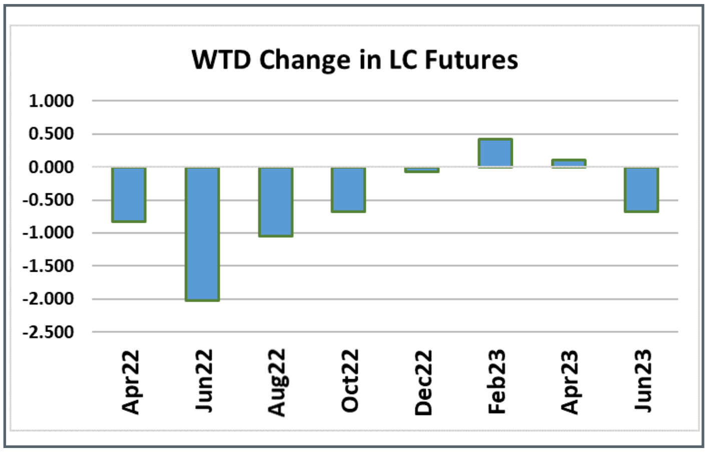
The cash cattle market moved a little lower this week, but for all practical purposes it remains stuck in the $138-139 range it has been in since early March. The cutouts continued higher, but at a little slower pace than expected. The Choice cutout added $4.41 on a weekly average basis and the Select cutout was up $2.74. Packer margins are slowly working higher and I calculate this week's margin at $326/head, up $30 from last week. This appears to be a pattern that is going to be with us for the next few weeks at least–cutouts moving higher, cash cattle holding steady and packer margins growing. With feedyards full of heavy cattle, cattle feeders have little leverage to push cash cattle prices higher. In fact, this week, the cattle trade started on a Monday and that is a sign that cattle feeders felt fortunate to get steady money. As long as their margins are moving upward, I don't expect packers to pressure the cash cattle market. Now, what happens if the cutouts should turn lower and start to compress packer margins?

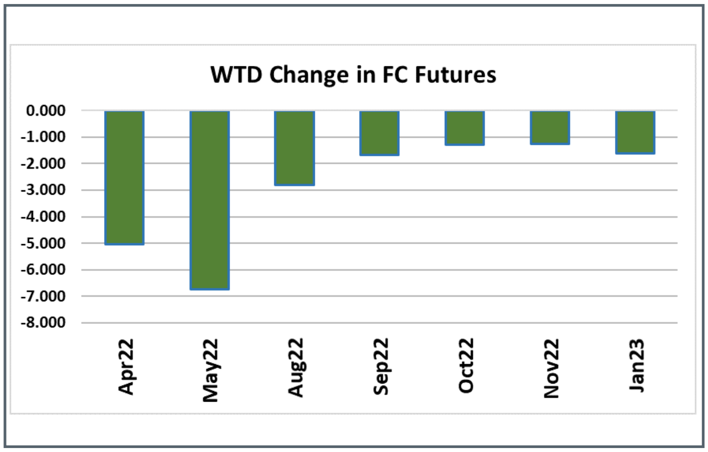
Most observers would think that is an unlikely scenario and I'm among them, but it is not outside the realm of possibility. I suspect that if the cutouts and margins turn lower that packers would be pretty quick to pressure the cash cattle market. They feel entitled to very good margins during the spring season and will seek to make that happen however they can. I have to admit that the gains in the cutout recently haven't been all that impressive. I'm finding that more often than not, I have to lower forecasts each week because the market is just not living up to expectations. Now, that could change, of course, and the big hump on the horizon that the market needs to clear is the Easter holiday next weekend. It could be that retailers are just full up with hams and turkeys for Easter promotions that they just don't have room for a lot of extra beef at the moment. It is possible that once we get past Easter, the beef orders will pick up substantially. On the other hand, the softer-than-expected interest in beef could have more to do with extremely high retail beef prices and a consumer that is seeing his budget stretched by price inflation on almost everything he buys.

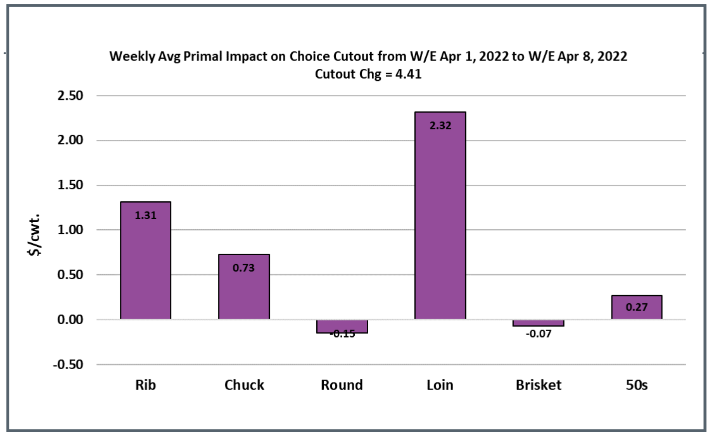
If we don't see stronger beef pricing immediately following the Easter holiday, I'm going to lean toward the second explanation and that would be a real negative for prices over the next few months. There are a lot of cattle that will need to be processed between late April and early August and if consumer demand for beef is struggling, then lower prices will be required to help clear all of the beef that will need to move through the domestic market. I have been saying for some time now that consumer demand for beef is very likely to revert to more-normal levels this year after a host of factors, including massive government payments direct to consumers, gave us the best beef demand ever recorded. The quarterly demand index chart below provides an idea of how I see this playing out in 2022. First, notice how strong the demand indexes were in 2021 (blue bars), relative to the five-year average (yellow bars). Last year's demand surge really got going good in Q2 and demand peaked in Q3 (remember August?). Then demand moved a tiny bit lower in Q4 and lower yet again in Q1 of this year (green bars). The shaded green bars report the demand index that is impounded in my beef price forecasts for the rest of the year. I have it continuing to work lower in Q2 and Q3, with a slight uptick in Q4. If we realize those demand levels, they would still be way stronger than normal, but significantly below the 2021 super event. My working theory is that the 2021 demand bubble was caused by external events (pandemic, stimulus) and the further away we move from those things, the more demand is going to revert back toward the longer-run average. Time will tell. On the supply side, packers put together a very large fed kill this week at 525k. That was 39,000 head more than the week before and probably reflects packers' desire to build some inventory ahead of a lighter kill next week due to the Good Friday/ Easter events. Even so, it creates a big supply of beef that will be looking for a home next week when retailers' attention will still be focused on hams and turkey.

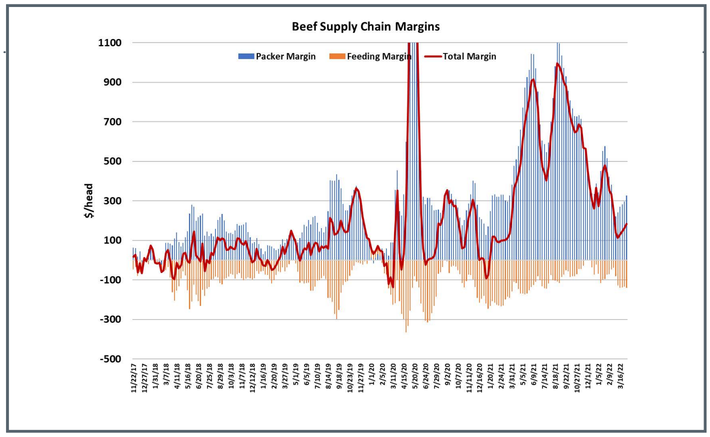
It will be interesting to see how wholesale pricing holds up. Steer carcass weights were reported down six pounds this week and that big decline was much needed. However, it didn't really affect the DTDS weights very much and there are indications that next week's weight data will show a much smaller decline. So, heavy carcass weights are still a problem in my mind. It does look like cattle country might get a heavy dose of precipitation next week and that could muddy up the feedyards and result in some faster weight loss. USDA reported the official export tally for February this week and it showed a 1.6% YOY increase. That was a good bit less than what I was looking for, but still the second strongest February on record. More importantly, beef imports were reported up 41% YOY and thus imports exceeded exports by 25 million pounds during February. Both Brazil and Mexico are finding very advantageous to sell beef into the US market. However, Brazil has now reached its tariff rate quota and that means that we will probably see a lot less beef shipped from that source as we get deeper into the year.

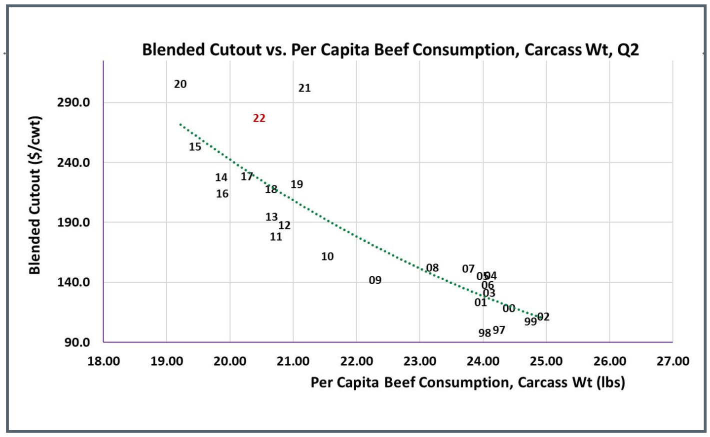
Bottom line, the US market appears to be well supplied at the moment and the supply side only gets more bearish as we move into May and June, when weekly fed kills above 525k could become commonplace. Cattle feeders are frustrated that they can't advance cash cattle prices and appear to have dramatically slashed placements during March in response. It is likely they will limit April placements also. That has the potential to create some tightness in the beef supply, but not until September and beyond. Between now and then, buyers should find beef availability to be quite good. Next week, it is likely to be more of the same–stagnant cattle prices and slowly rising beef prices. Watch the pace of the cutout increase next week for a clue as to how strong the post-Easter business might be.

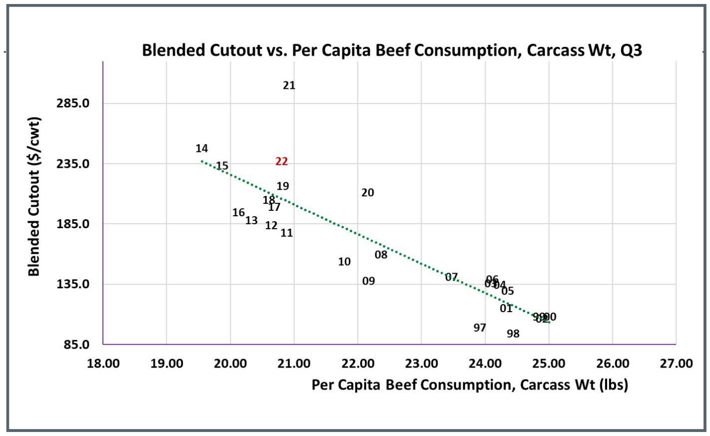

WTD Change in LC Futures
1.000
0.500
0.000
-0.500
-1.000
-1.500
-2.000
-2.500
Apr22
Jun22
Aug22
Oct22
Dec22
Feb23
Apr23
Jun23

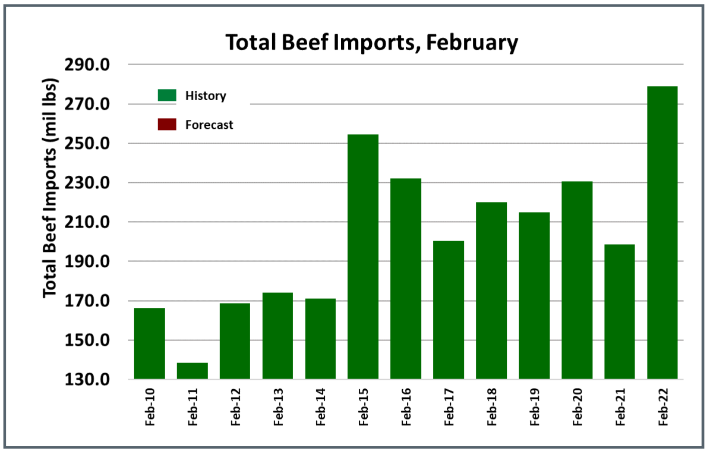

WTD Change in FC Futures
0.000
-1.000
-2.000
-3.000
-4.000
-5.000
-6.000
-7.000
-8.000
Apr22
May22
Aug22
Sep22
Oct22
Nov22
Jan23

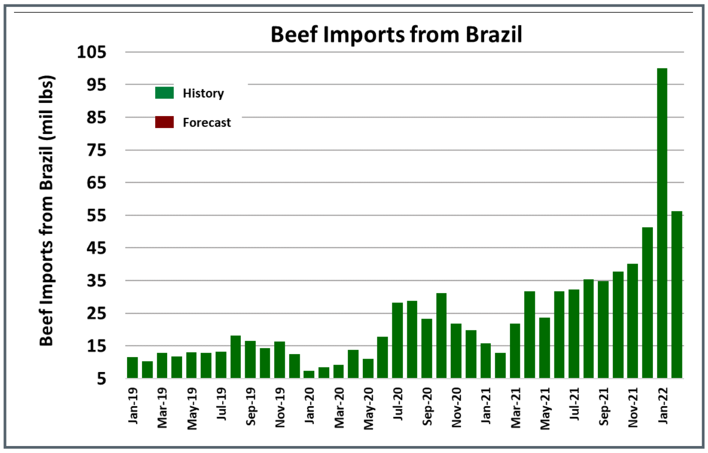

Weekly Avg Primal Impact on Choice Cutout from W/E Apr 1, 2022 to W/E Apr 8, 2022
Cutout Chg = 4.41
$/cwt.
1.31
0.73
-0.15
2.32
-0.07
0.27
Rib
Chuck
Round
Loin
Brisket
50s

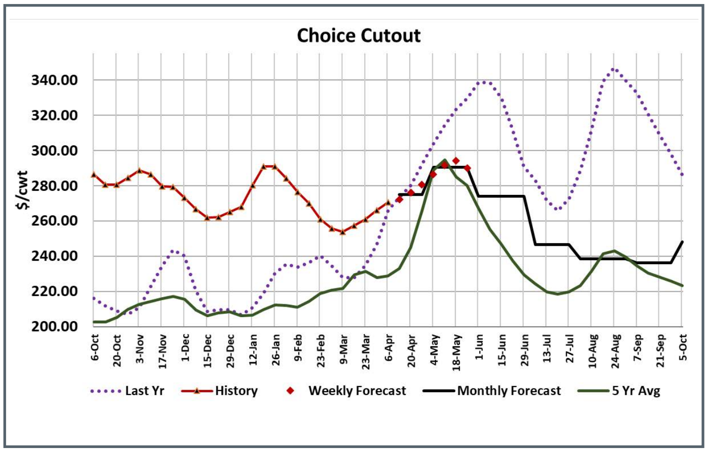

Beef Supply Chain Margins
Packer Margin
Feeding Margin
Total Margin
$/head


Blended Cutout vs. Per Capita Beef Consumption, Carcass Wt, Q2
Blended Cutout ($/cwt)
Per Capita Beef Consumption, Carcass Wt (lbs)


Blended Cutout vs. Per Capita Beef Consumption, Carcass Wt, Q3
Blended Cutout ($/cwt)
Per Capita Beef Consumption, Carcass Wt (lbs)







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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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