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WEEK ENDING MAY 13, 2022

THE BEEF WRAP

The cash cattle market started to work lower this week, with live trade averaging $142.39/cwt, about $1 below last week and the dressed market averaging $229/cwt, about $1.50 below last week. The cutouts were lower again this week, but the declines slowed somewhat as the Choice lost $1.34/cwt and the Select lost $3.64/cwt. Packer margins continued to compress and are now only $175/head. Last year at this time packer margins were close to $900/head. That dramatic difference in packer margins reflects a much different demand environment this May compared to last year. We can see further evidence of that in the attached combined margin chart. It is clear that demand is still in a downcycle and is now lower that it was back in the beginning of 2021 when the great demand bubble began to emerge. It has been my contention that demand is heading back to more normal levels. If you want to know what “more normal” demand looks like, check out the combined margin chart between early 2018 and the middle of 2019.

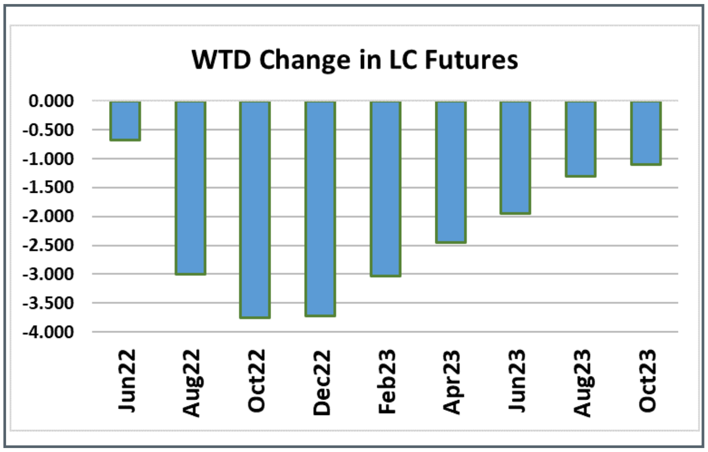
There was a mini-demand bubble at the end of 2019 caused by the Finney County plant fire that suddenly shorted the beef market and sent buyers scrambling to find other sources of beef. While the trigger was an abrupt loss of supply (a big plant went down), the ensuing buyer panic shows up as stronger-than-normal demand and indeed it is. If you look at the 2018 to mid-2019 period, you will notice that for the most part the combined margin traded between +$100 and -$100/head. Unless another black swan event rears its head, that range is likely what we are headed back toward. That means way softer demand going forward than what we came through in 2021. This week it was the round and loin cuts that put the most pressure on the cutout. Ribs managed to contribute a small positive to the cutout, but the gain was pretty paltry for this time of year. In the next few days, buyers should be wrapping up any last minute needs they have for Memorial Day features. It wouldn’t surprise me to see the cutouts actually post a modest gain next week as that business gets done.

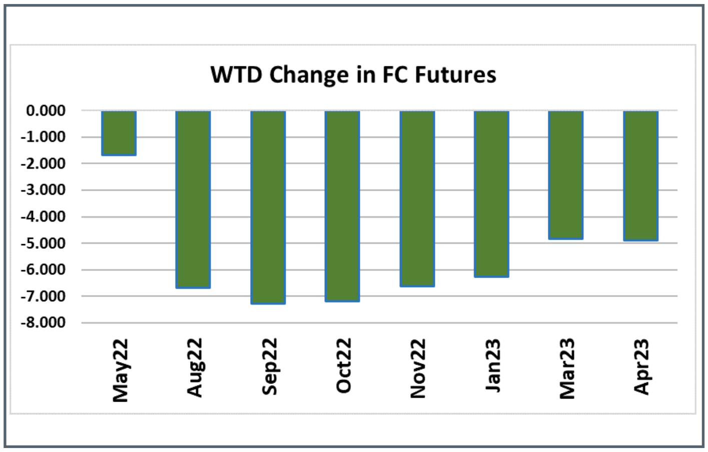
After that however, the cutouts are likely to go back on the defensive again. There will likely be some Father’s Day buying to complete in late May/early June, but given the current trajectory of demand, I’d be surprised if it can turn the cutout measurably higher. After next week, the forecast has the cutouts working steadily lower and we could see the Choice cutout in the $235-240 range before the end of June. If I’m right about the trajectory of the cutouts over the next couple of months, packers will need to put some serious pressure on cash cattle prices in order to keep their margins intact. Fortunately for them, conditions should swing the leverage meter in their favor and thus help in that regard. Past placement patterns tell us that the number of market ready cattle is going to grow from now through at least July, and maybe beyond.

Carcass weights still look pretty heavy. Steer weights were reported five pounds lower this week, but blended carcass weights are still 10 pounds over last year. Further, we are now at the point in the calendar when carcass weights start to increase seasonally, so we could see even greater supply contribution from carcass weights over the next couple of months. Next Friday, we will get a fresh Cattle on Feed report from USDA and I’m expecting it to show April placements down 4.8% from last year. That sounds like some supply reduction, but even that would still be 4.2% greater than 10-year average placements for April. Those cattle won’t be ready for slaughter until well into the fall, so it won’t do anything to relieve the near-term supply bulge that is coming. If I’m close on placements, the May 1 feedyard inventories will be 1.3% greater than last year. Bigger cattle supplies than last year combined with way softer demand than last year is the recipe for much lower beef pricing this summer.

The export market might help to take some of that product off of the domestic market if price levels get low enough, but the USD is likely to remain very strong and that could work to temper some of that export demand. And, as I’ve pointed out before, there has been a big increase in imported beef flowing into the US. That isn’t likely to change dramatically and could easily offset any gains in exports this summer. This week, USDA reported that retail beef prices increased five cents per pound in April and are now almost 15% stronger than last year. At the wholesale level, the blended cutout was 3.4% lower in April than it was a year ago. Clearly, retail margins on beef are very good right now, but I would look for retailers to start cranking down retail prices and offering hotter features once we move beyond Memorial Day. That will be needed in order to improve product flow through the system because cattle slaughter and beef production are both likely to increase from this point forward. Compared to the past couple of grilling seasons, this one has been much more sedate and prices have been better behaved.

Given the troubles in the macroeconomy (inflation, falling equity markets, poor consumer confidence), I don’t think we are at risk to see any substantial demand surges this summer. Demand will still cycle and produce some ups and downs in price levels, but the amplitude of those changes should be much smaller than in the past couple of years. My fundamental analysis suggests that the bias throughout the summer should be toward lower price levels, so buyers should probably be cautious about extending coverage too far forward for the next few months. Next week, watch for some modest increases in the middle meats as the last-minute Memorial Day business gets done and look for further softness in the cash cattle market.


WTD Change in LC Futures
0.000
-0.500
-1.000
-1.500
-2.000
-2.500
-3.000
-3.500
-4.000
Jun22
Aug22
Oct22
Dec22
Feb23
Apr23
Jun23
Aug23
Oct23


WTD Change in FC Futures
0.000
-1.000
-2.000
-3.000
-4.000
-5.000
-6.000
-7.000
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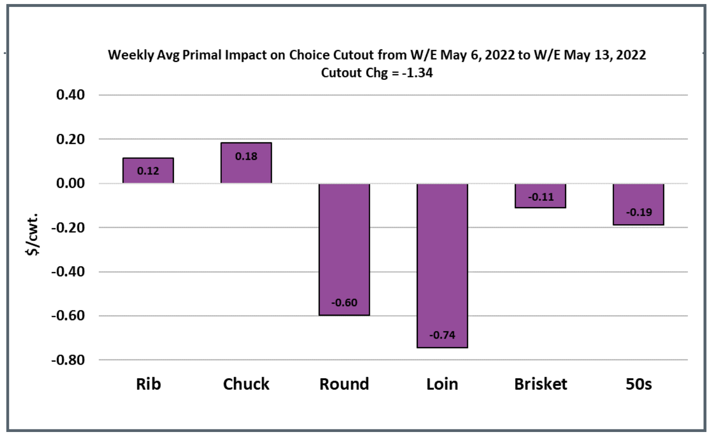
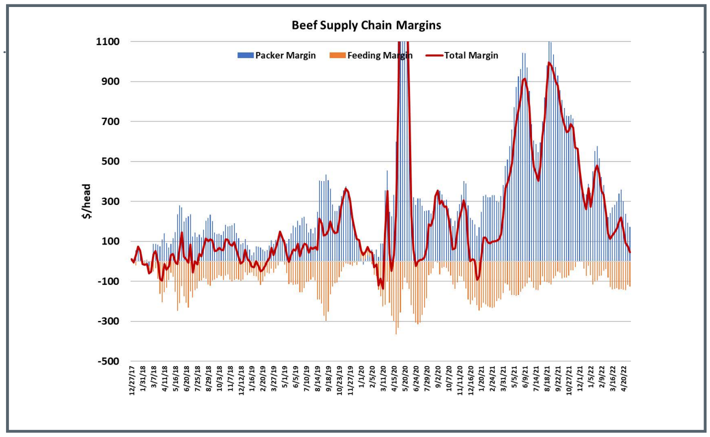
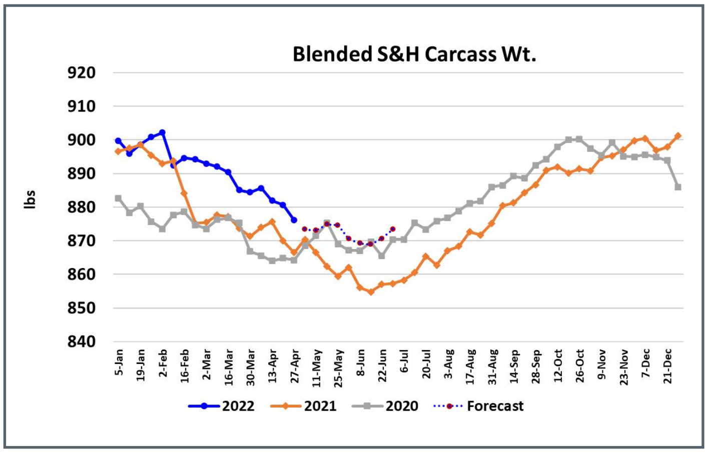
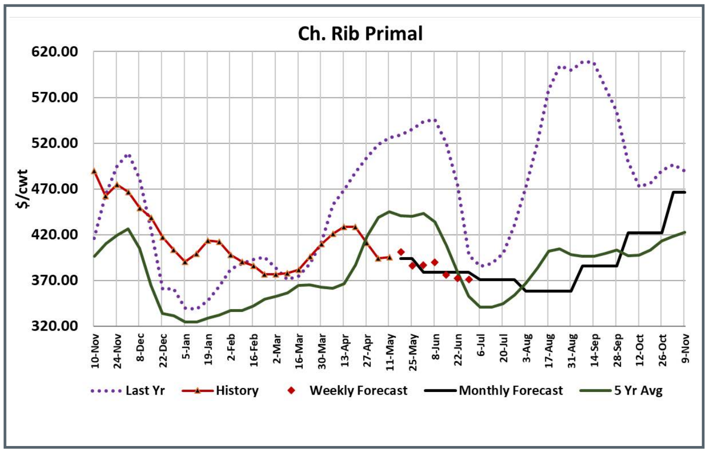
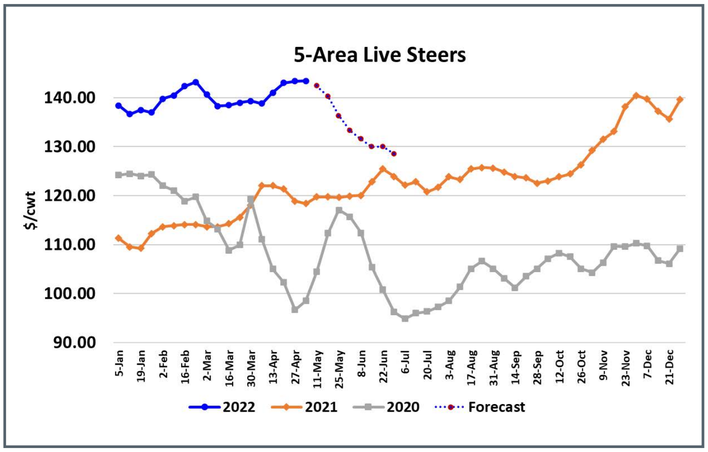
Nov22
Jan23
Mar23
Apr23

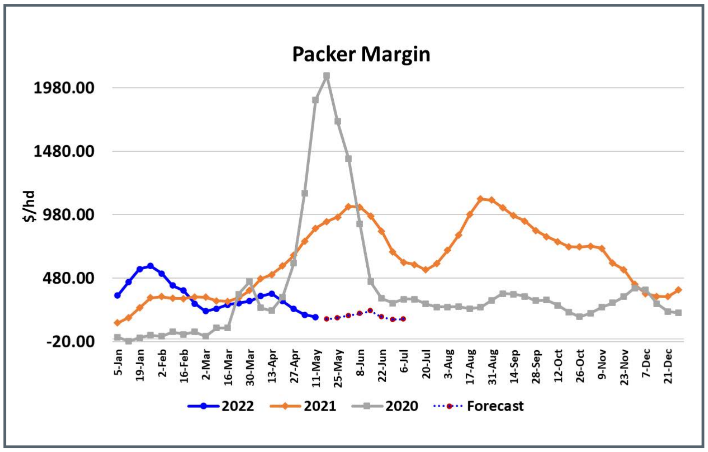

Weekly Avg Primal Impact on Choice Cutout from W/E May 6, 2022 to W/E May 13, 2022
Cutout Chg = -1.34
$/cwt.
0.40
0.20
0.00
-0.20
-0.40
-0.60
-0.80
0.12
0.18
-0.60
-0.74
-0.11
-0.19
Rib
Chuck
Round
Loin
Brisket
50s


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.