



WEEK ENDING MAY 27, 2022

THE BEEF WRAP

The cash cattle market continued its decline this week, losing about \$1.50 on its way to averaging \$138.93. The Choice cutout gained just over \$3.00 on the week, but the Select cutout was down \$0.88 cents. That makes two weeks in a row now that the Choice cutout has printed higher for the week. Users were likely buying to replenish in advance of the long holiday weekend and there could have been some late purchases for Father's Day, which is the next big beef holiday on the calendar. We saw the combined margin tick a little higher this week, turning almost dead on the zero line. Next week, the short kill could continue to support the cutouts, but I'm not expecting a big move higher. Packers will likely schedule a very big kill for next Saturday to partially make up for zero production on Monday and most likely lighter-than-normal production on Tuesday. The weather forecast across the US looks pretty favorable for the Memorial Day weekend, thus we might expect the retail pull to be pretty good.

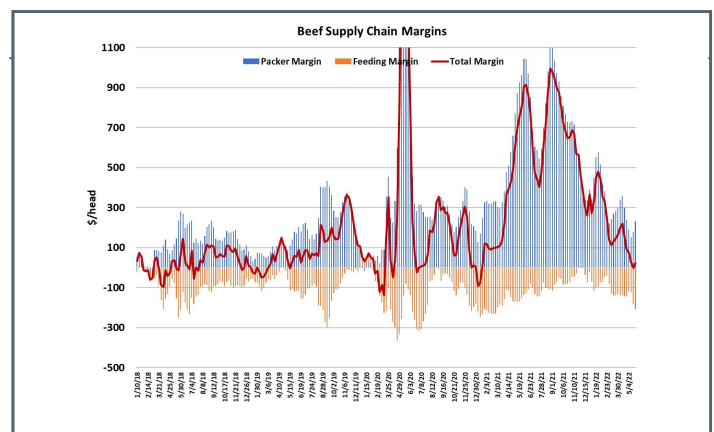
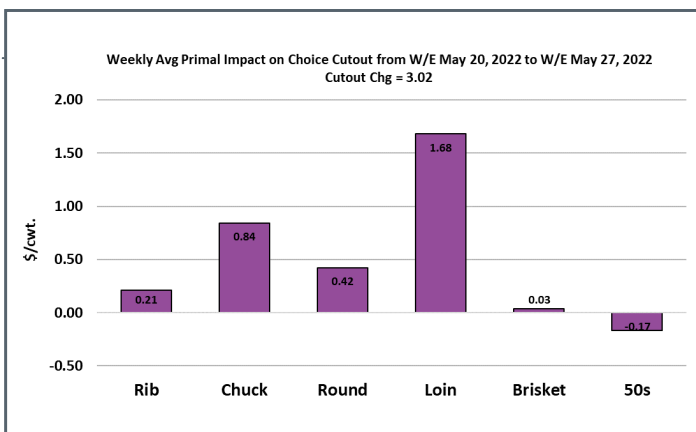
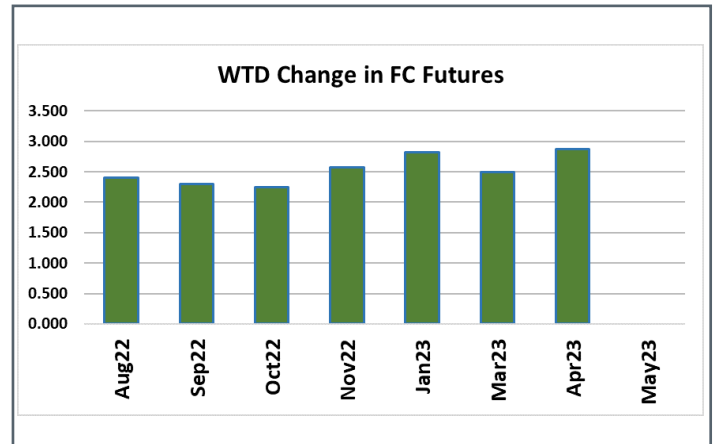
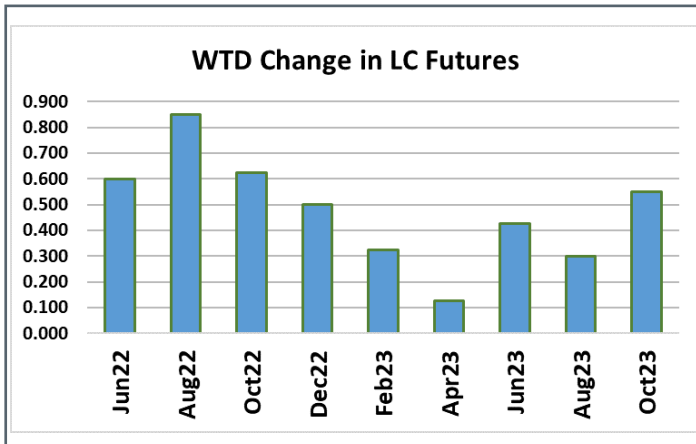
This week, it was the loins and chucks that lead the cutout higher. Ribs seem to be dead in the water here and my concern is that after next week, the ribs could resume their downtrend. Packers have a relatively light kill scheduled for tomorrow as many will allow their workers to take a long weekend. The steer and heifer kill came in at 500k, down from 534k the previous week. That makes me think that last week's big kill was an effort to offset some of what they were going to lose at the tail end of this week. The cow kill was almost unchanged from the week before at 145k. I'm projecting next week's fed kill at 436k and then expect packers to do about 530k in the week following the holiday week. From there, we should see a steady diet of kills in the 520-530k range in June and the top end of that range could grow to 540k in July.

Right now the market seems to be able to handle fairly large production without price concession, but that is because of seasonal demand improvement around Memorial Day. When we get to the middle of July, it is a pretty good bet that demand will be down considerably and when we pair that with fed kills that could be running 540k per week, you can see why I'm projecting the Choice cutout to move down close to \$240 in July. Demand in August is likely to be even worse than July and thus I wouldn't rule out a Choice cutout at \$230 or below in August. If we assume that packers will maintain the upper hand in bargaining power this summer (a pretty good bet given record numbers of cattle on feed currently), then it is easy to see how cash cattle prices could be forced below \$130 or even \$125 in August. If that happens it will be a pretty dismal summer for cattle feeders.

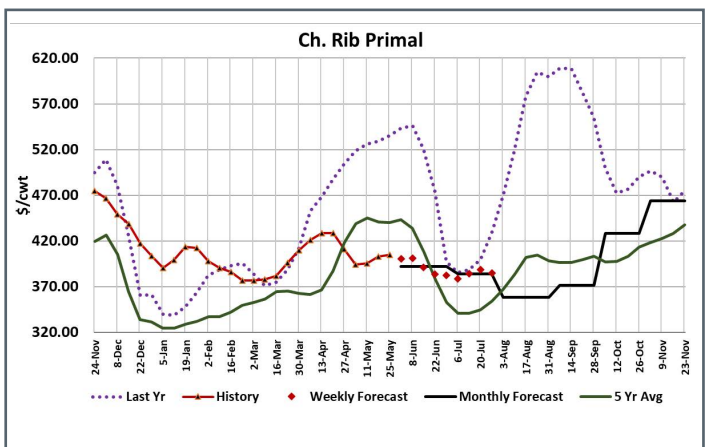
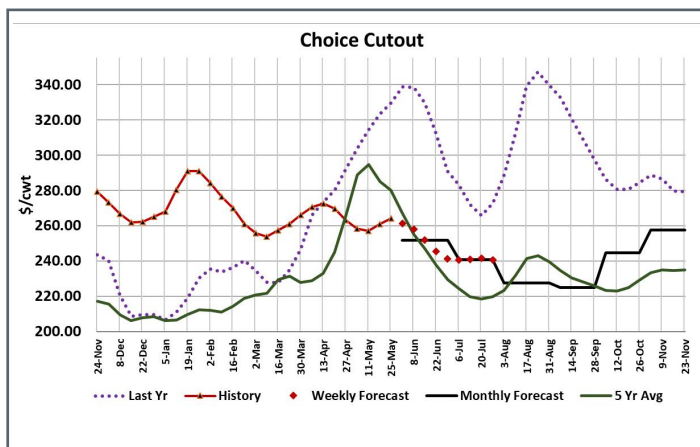
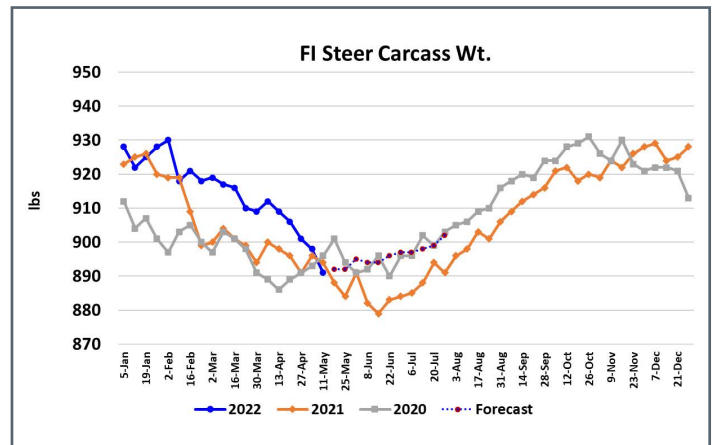
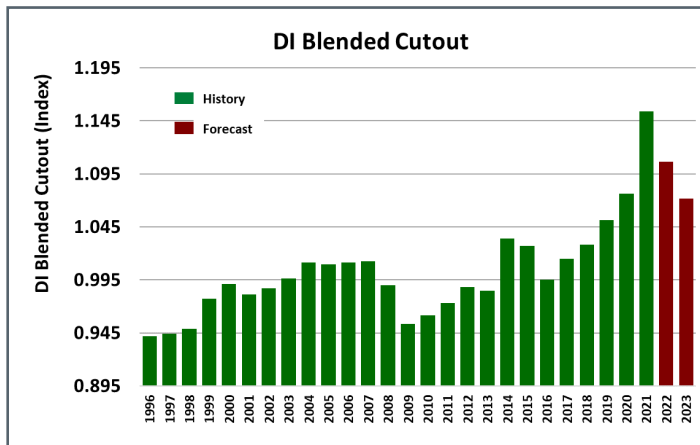
I'm projecting cattle feeding margins in August that could be \$500/head in the red. August and September should be the low point for prices and demand this year, with both improving in Q4. Carcass weights took a huge step down this week, with steer weights reported 7 pounds lower than the previous week and heifer weights down 10 pounds. It is not clear to me what caused the big drop in weights because the fed kill was not particularly large in the week that was being reported. Often when we see a big move in weights, it will erase some of the move the following week. Perhaps that will be the case this time. It may turn out that this week's data represents the bottom in carcass weights. Macroeconomic factors are still pretty negative for beef demand, but at least the stock market managed to have a positive week.

There will need to be several more of those in a row if it is going to generate any meaningful improvement in consumer confidence and thus beef demand. As we approach the halfway point in the year, it is pretty clear that demand in 2022 is going to be well below last year. I've included a bar chart this week that illustrates just how turbo-charged demand was last year. You can see from that chart that I'm forecasting 2022 to be the second strongest demand on record and even 2023 doesn't get demand fully back down to pre-pandemic levels. This week's export data was rather soft and the most concerning feature was that beef exports to China fell below the 3000 MT per week threshold. Just a few years back the amount of US beef shipping into China was nearly zero and now China is a very important trade partner for US beef.

With big production expected to flow from the beef pipeline in the next couple of months, the last thing we need is for exports to stumble. Packer margins improved to \$230/head this week as beef moved higher while cattle prices were lower. Margins might move a bit higher yet, but they aren't likely to get anywhere near last year's crazy-high levels. Next week, we could see some further modest strengthening in the cutouts as retailers restock after the holiday and packers have less product available due to the short kill. Cash cattle are likely to remain on the defensive. The Jun futures at \$132 seems achievable by the end of June, but I wouldn't expect that it can go a whole lot lower. That will be Aug's job.



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