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WEEK ENDING JUNE 10, 2022

THE BEEF WRAP

The beef cutouts continued higher this week, with the Choice gaining $3.81/cwt and the Select up $0.41. The cutouts started to struggle some near the end of the week and that makes me think that the early week gains were at least partly a function of the short kill the week before. The gains were spread pretty much across the carcass which also supports the idea that the short kill had a hand in this week's gains. Cash cattle posted a surprising turn around, averaging $140.50, which was up about $1.50 from the week before. It is not clear to me why cattle feeders were suddenly able to extract higher money from packers after prices moved lower in each of the past 4 weeks. Some of it might be attributable to the way cattle have been grading lately. The attached chart shows the percentage of beef grading Choice or higher has fallen well below the levels seen in the last couple of years.

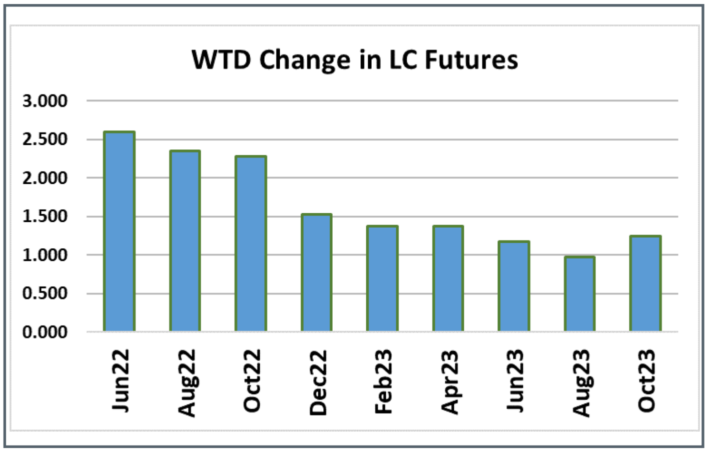
At the same time, consumer demand for Choice product has been increasing, so perhaps packers are having to reach more to find the quantity of Choice-grading cattle they need and in some weeks that may require higher cash prices. The Choice-Select spread averaged over $20 this week. There has been a lot of chatter from the cowboys about how current feedyards are these days and perhaps that is also a factor. Cattle carcass weights continue to decline well beyond where I thought the bottom would be and the DTDS weights have dropped like a rock over the past 4-5 weeks. Super-high corn pricing is probably causing cattle feeders to try and get cattle marketed as quickly as possible so that they can save some on the feed bill. Packers have played into that hand by keeping kills relatively strong over the past month or two. Still, the number of cattle on feed is record large right now, so at some point I would expect cash cattle to continue trending lower. Packers will feel a margin squeeze next week when those more expensive cattle show up at the packing plant and cutout values are likely to be declining.

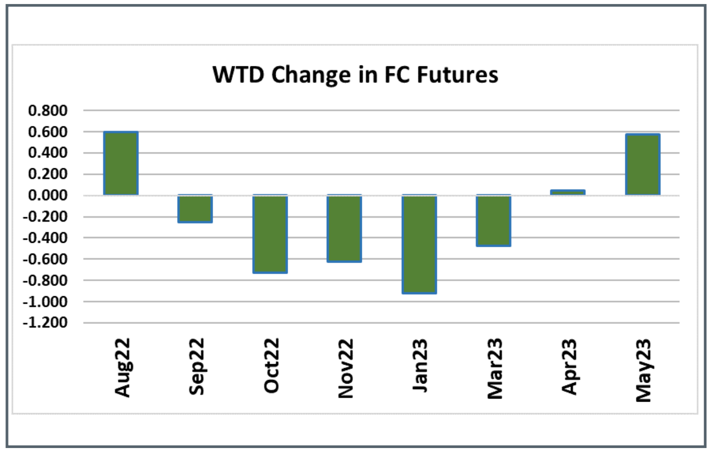
I calculate this week's packer margin at around $310/head, but it is likely to fall back below $250/head next week. It appears that the days of super lucrative packer margins are now behind us. By the time that we get into the second half of July, packer margins could be solidly below $200/head. I don't think there is much risk of them going negative this summer, but the $800+ margins that we saw in the summers of 2020 and 2021 are clearly off the table. This week's fed kill came in close to expectations at 529k, up 50k from the previous week's holiday shortened kill. I think we can expect a steady stream of fed kills in the 520-530k range for the next couple of months. That isn't a big problem right now when lingering holiday demand from Memorial Day, Father's Day and Independence Day is boosting consumption, but the seasonal suggests that demand will suffer beyond the first of July.

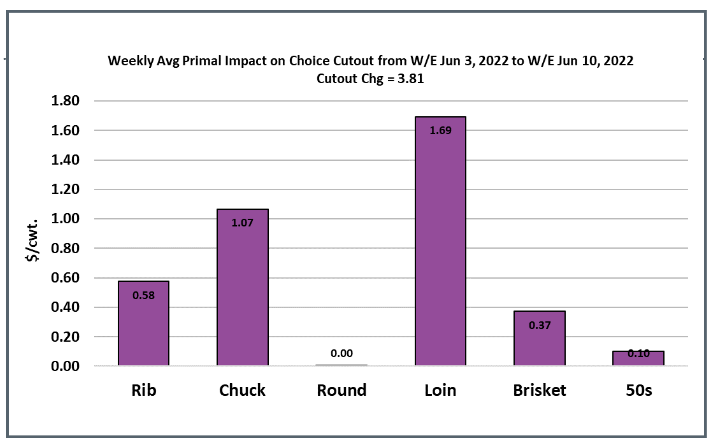
The combined margin moved higher again this week, indicating that we are still in the upcycle phase of demand but I expect that we will see the combined margin turn lower within 2-3 weeks and it could actually happen next week. All of the demand headwinds that I've discussed previously: inflation, lack of stimulus, pandemic fading, declining equity markets, remain in place. In fact, equity markets took another dive toward the end of this week and it is looking like there may be a lot more downside there. When consumers see their stock portfolios losing money week after week, they feel poorer and reflect that in their purchasing habits. The University of Michigan consumer confidence index was released today and it dropped to its lowest level since the series began back in the 1950s.

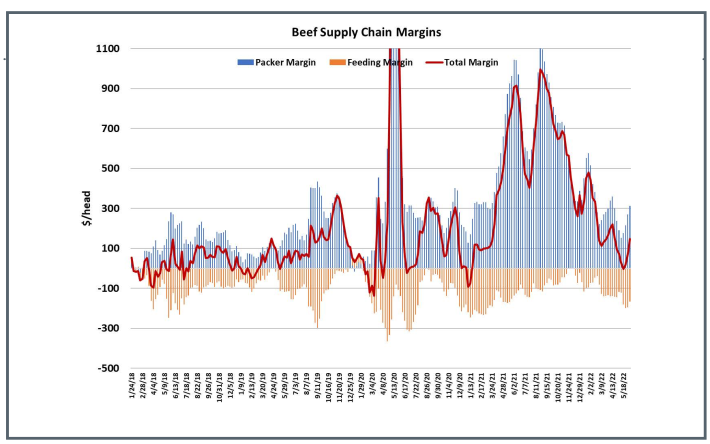
That is not the type of environment that would encourage robust beef demand. So the demand story remains the same: we are in a brief seasonal upcycle right now, but the longer-term trend towards softer demand remains in place and will probably carry through the end of this year, if not beyond. It doesn't look like futures traders want to hear that however, because they added more premium back into the deferred contracts this week. Maybe they aren't thinking too hard about demand and are just focused on an eventual tightening of the cattle supply. That could be a huge mistake because often demand turns out to be a bigger price determinant than supply. And even so, there is nothing bullish about the supply side for the remainder of 2022.

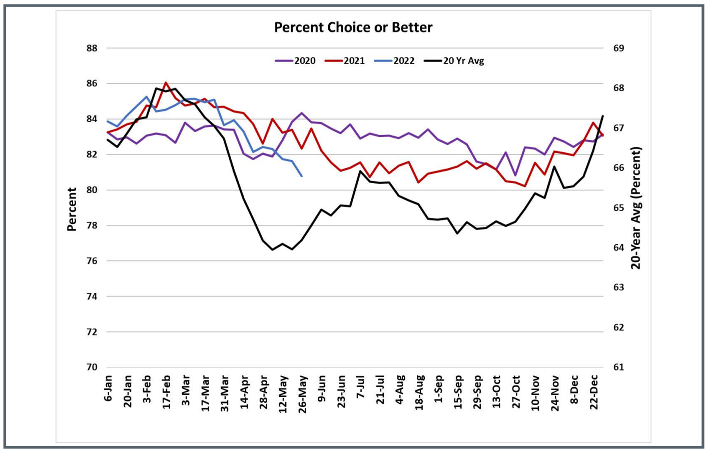
The cattle that will come to slaughter over the remaining six months of the year are already in feedyards and supply looks more than adequate. I don't think that there is much potential for a supply side surprise before we get to the end of the year. The weekly export numbers released this week didn't mean a whole lot because they were for the holiday week, but USDA also released the official export totals for April this week which were about flat with March but 5.9% stronger YOY. I suspect that we will continue to see YOY gains in exports through the summer, particularly if beef prices decline beyond June as expected. Next week, look for the cutouts to struggle and perhaps move a little lower. If they do, expect packers to become tougher negotiators and that may set up a showdown with cattle feeders who are likely to expect higher cattle prices again next week.

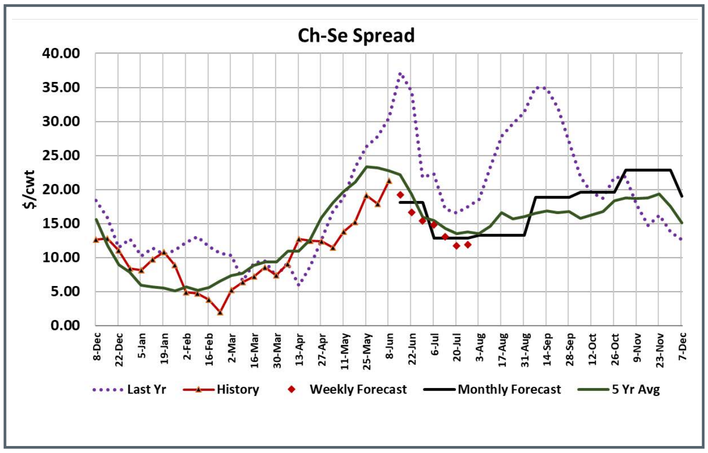

WTD Change in LC Futures
3.000
2.500
2.000
1.500
1.000
0.500
0.000
Jun22
Aug22
Oct22
Dec22
Feb23
Apr23
Jun23
Aug23
Oct23

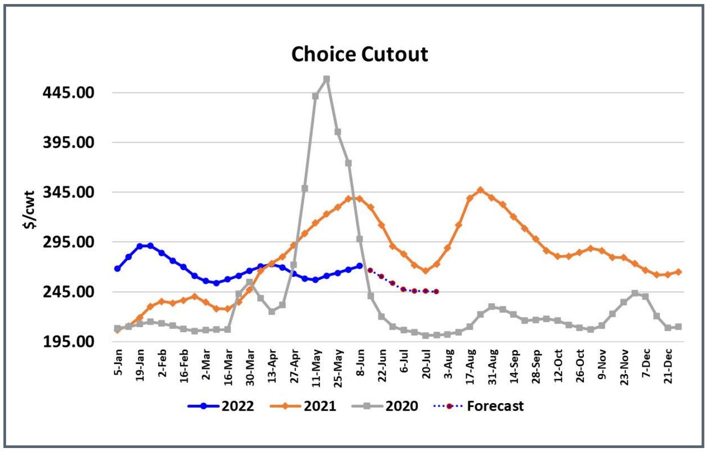

WTD Change in FC Futures
0.800
0.600
0.400
0.200
0.000
-0.200
-0.400
-0.600
-0.800
-1.000
-1.200
Aug22
Sep22
Oct22
Nov22
Jan23
Mar23
Apr23
May23

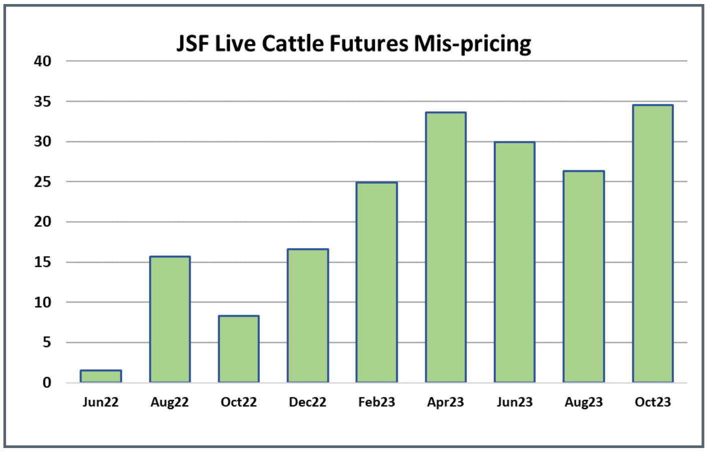

Weekly Avg Primal Impact on Choice Cutout from W/E Jun 3, 2022 to W/E Jun 10, 2022
Cutout Chg = 3.81
$/cwt.
1.80
1.60
1.40
1.20
1.00
0.80
0.60
0.40
0.20
0.00
0.58
1.07
0.00
1.69
0.37
0.10
Rib
Chuck
Round
Loin
Brisket
50s


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.