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WEEK ENDING JUNE 17, 2022

# THE BEEF WRAP

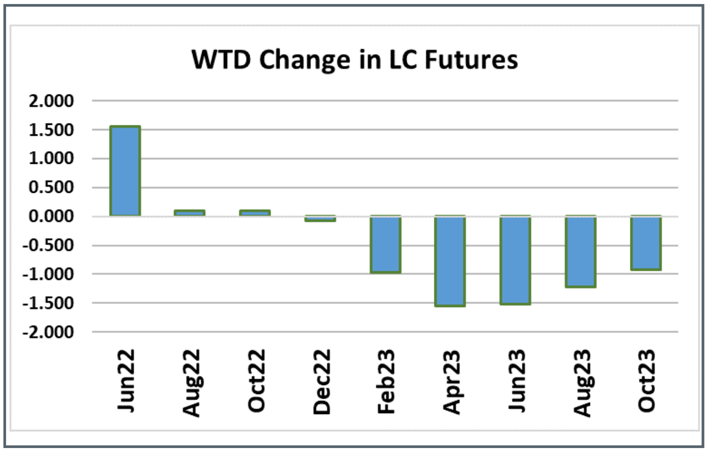
The cash cattle market surprised observers again this week by trading almost $4 higher to average just north of $144. Once again, trade in the North occurred at a significant premium to prices paid in the South. For months now, we have been watching feedyard inventories grow and the consensus of many was that after the Memorial Day beef was delivered, the cash cattle market would retreat. What did we miss? There has been a lot of talk lately about heat in cattle feeding country and even reports of cattle dying in Southern feedyards due to the combination of heat, humidity and very little wind to cool the cattle. It's hard to know for sure, but the number cattle that have died is probably pretty small–perhaps a few thousand. More important to the supply side of the market is what that hot spell did to the cattle that didn't die–it caused them to lose weight rapidly. Perhaps we should have paid more attention to rapidly falling carcass weights over the past few weeks and the huge plunge in the DTDS weights.

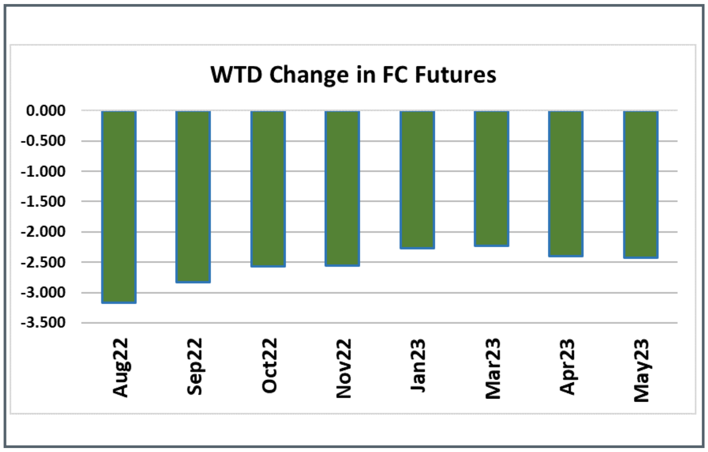
When weights go down, packers need to procure more cattle to produce the same amount of beef. There was more beef booked for delivery in June than last year and that has probably kept packers in the hunt, looking for cattle that could grade well enough to deliver on those forward sales. It is a lot harder to find quality cattle when they have all endured heat stress. Cattle feeders certainly recognized that the leverage meter was more in their favor than the outsiders realized and they used that to their advantage to squeeze more money out of packers this week. How long will this situation last? Well, it looks like a heat dome is setting up over the middle of the country and that stay in place for at least a couple of weeks, so the heat stress on cattle is not finished yet and may only be getting started. All of this has upended packer's margin plans for this summer. Beef demand is slowly eroding as expected and we saw both cutouts decline this week. The Choice lost $2.19/cwt and the Select was down $3.38/cwt through Thursday. So, no surprises from the beef market.

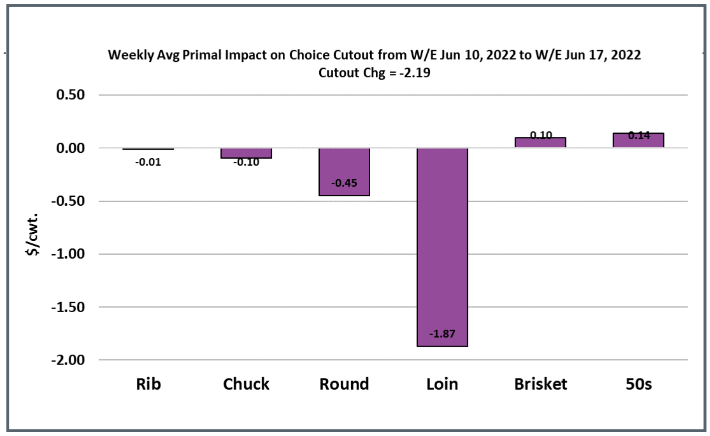
Of course, this has put packers in a bit of a margin pickle with beef prices falling at the same time that cash cattle prices are rising. I calculate this week's margin at $231/head and project that next week's margin will be less than $200/head. What's worse, I can easily make a case for packer margins below $100/head before the end of July. Oh, how the mighty have fallen. For once, an act of God has worked against packers rather than for them. Of course, we don't expect packers to take this margin compression laying down. Packers need to rein in the kill to help cool off the cattle market. Their ability to slow the kill down might be a bit hampered over the next couple of weeks because they will be making delivery against Independence Day orders, but once that is behind them I would expect to see them throttle back on production. USDA reported the official FI carcass weights for the week including Memorial Day today, and it showed steer weights unchanged from the week before. That was a big surprise since weights almost always move higher in short kill weeks when packers don't have to dig as deep into the cattle supply. Further, the comprehensive report suggests that carcass weights are likely to decline again in next week's data release. So, it looks like the bottom in carcass weights is not in and if we see more heat stress in coming weeks, that could keep weights on a downward trajectory and cause them to register a bottom many weeks later than normal. Attached is the chart of the de-trended and de-seasonalized steer carcass weights. The recent peak in these weights came at the end of April, near the all-time high of +30 pounds. In the ensuing six weeks, the DTDS weights have moved rapidly lower, putting them in negative territory and projected to continue lower in the next few weeks. That is the most rapid change in DTDS weights that I can remember, and I should have given it more weight in the price forecast for this summer. I'm still forecasting cash cattle to move lower from here but recognize that the weather could result in that forecast being wrong.

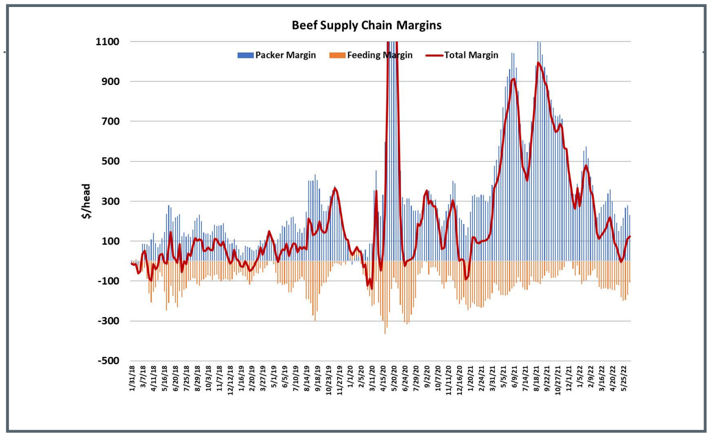
I'm looking for this week's fed kill to come in around 510k, which would be more than 15k below last week, but I'm not sure that will be enough of a slaughter reduction to help packers regain leverage. Normally when packers cut kills in response to poor margins it takes several weeks of smaller kills to obtain the desired result. I do think that they will need to come back with a larger kill next week in order to cover the July 4 orders. So, packers may be just stuck with having to live with poor margins for a few weeks. Next week, USDA will release a Cattle on Feed report and I expect that it will show placements during May down 5.5% and June 1 feedyard inventories up 0.6% from last year. After two months where the survey said placements were a lot larger than what analysts expected, I think there will probably be some analysts that are afraid to project May placements down very much. On the demand side, this week's softness in the cutout was largely due to declines in the loin cuts, with some modest help from the round cuts. 50s continue to price very strong, now near $120/cwt.

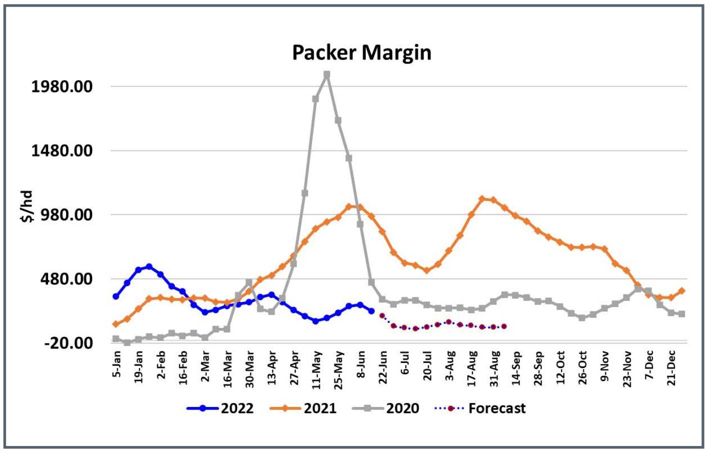
Ground beef demand will likely be the best performer for the balance of 2022 as the macro picture darkens and recession storm clouds begin to form. Middle meats are likely to struggle and price well below last year. The stock market continues to move lower day after day and that is weighing on consumer confidence. Americans had better enjoy their summer because the economic picture looks quite ominous for later in the year. The Fed hiked interest rates 75 basis points this week and there are probably more hikes like that one coming. They seem to have a determination to tackle inflation now that was missing in the past 12 months. Taming inflation is the first step back to normalcy in the economy. Next week, watch those carcass weights as they seem to be key in pricing for the cash cattle market. Expect the beef market to continue lower, led by the middle cuts.

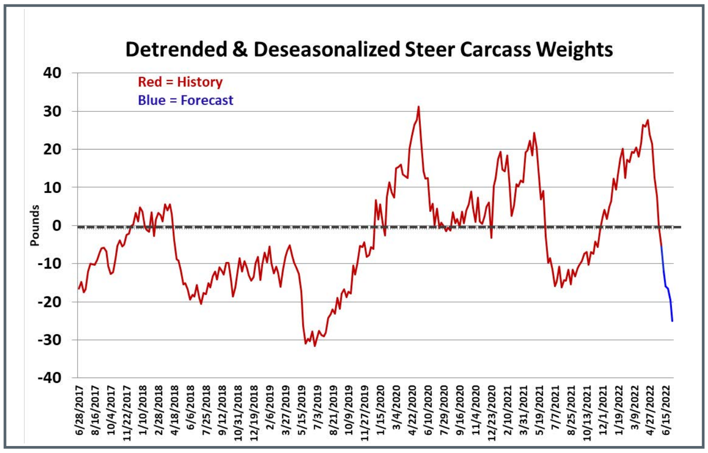

WTD Change in LC Futures
2.000
1.500
1.000
0.500
0.000
-0.500
-1.000
-1.500
-2.000
Jun22
Aug22
Oct22
Dec22
Feb23
Apr23
Jun23
Aug23
Oct23

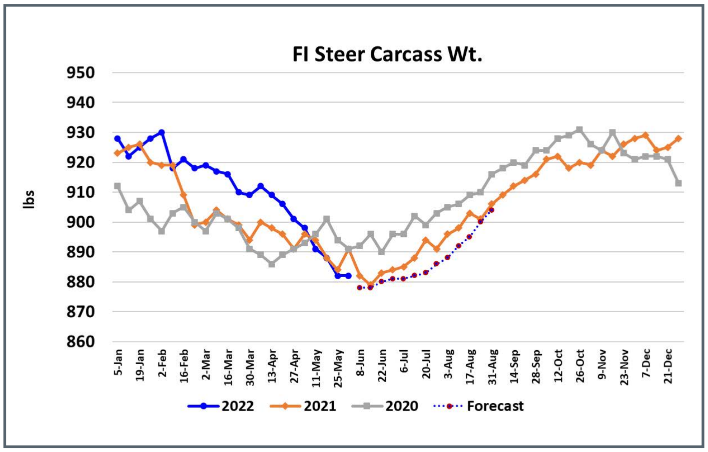

WTD Change in FC Futures
0.000
-0.500
-1.000
-1.500
-2.000
-2.500
-3.000
-3.500
Aug22
Sep22
Oct22
Nov22
Jan23
Mar23
Apr23
May23

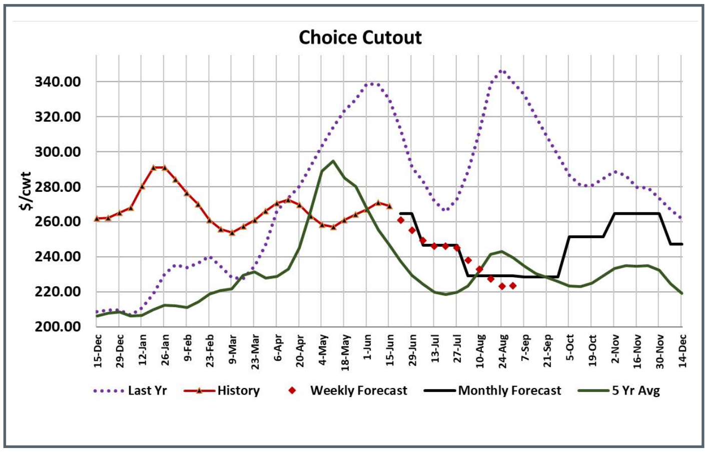

Weekly Avg Primal Impact on Choice Cutout from W/E Jun 10, 2022 to W/E Jun 17, 2022
Cutout Chg = -2.19
$/cwt.
0.50
0.00
-0.50
-1.00
-1.50
-2.00
-0.01
-0.10
-0.45
-1.87
0.10
0.14
Rib
Chuck
Round
Loin
Brisket
50s


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.*