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WEEK ENDING JUNE 3, 2022

THE BEEF WRAP

The cash cattle market continued lower again this week, averaging $137.84, which was down about $1.25 from last week's average. The holiday on Monday reduced beef production for the week and helped to support the cutouts. The Choice cutout added $3.17/cwt on a weekly average basis and the Select was up $4.39/cwt. Futures traders were excited to see the cutout continue on its upward trajectory, and they added about $1.50 to the Jun and Aug contracts. The gains were even bigger in the deferreds, which was a bit of a reversal from earlier weeks where traders seemed to want to extract some of the premium that had been built up in the late 2022 and early 2023 contracts. Traders were also very enthusiastic to buy feeder cattle futures, with the Aug and Sep contracts up over $7 on the week. I'm not really sure all of that enthusiasm is warranted, but after dismal showing of the beef market leading up to Memorial Day, it isn't surprising to see a bit of over reaction to a little good news.

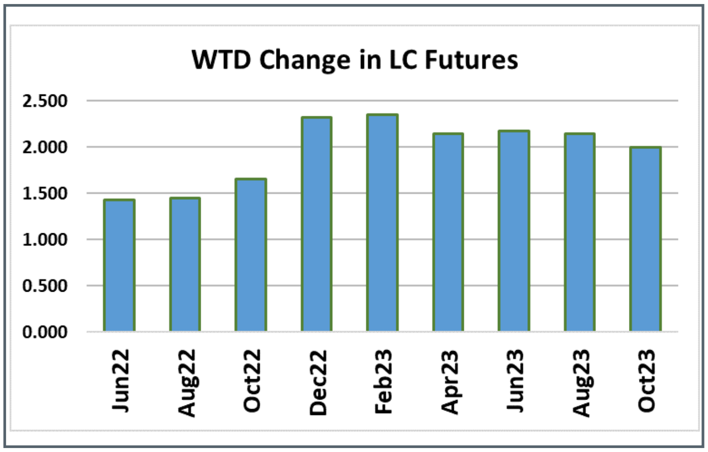
Keeping that good vibe going will be the challenge for next week, when packers will have a lot more production to move through the system. Packers are planning on a huge kill tomorrow at 96,000 head, with probably more than 75,000 of that being steers and heifers. Further, the daily kills this week were very strong and we saw one day where the estimated fed kill was 101,000 head. I think they are likely to keep the daily kills close to that level again next week, but next Saturday will likely be closer to 50k. I'm forecasting next week's fed kill at 528,000 head, which would be 50,000 more than what they did in the current holiday-shortened week. If that forecast comes true, it would be the largest steer and heifer slaughter week so far in 2022. Will demand be strong enough to handle that without any price concession? I don't think so.

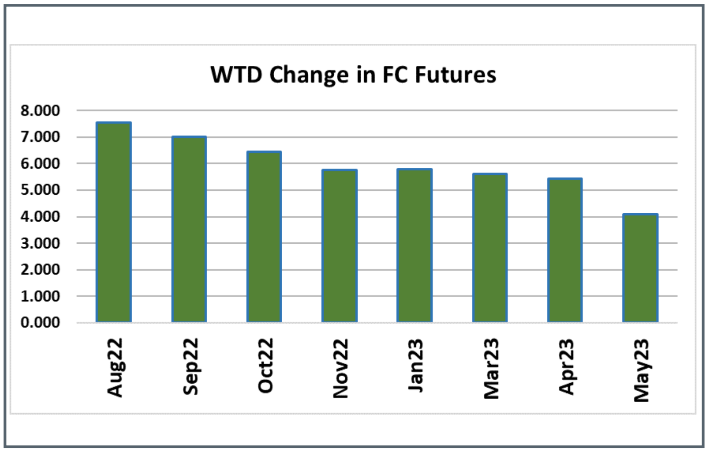
Demand has probably improved a little bit in recent weeks, but at least part of the recent price gain must be attributed to the reduced kill. The combined margin is climbing higher, which indicates that beef demand is on the rise, but we need to keep in mind that the last 2 upcycles in the combined margin were relatively short. My guess is that this one will be also. There may be some last-minute Father's Day buying to get done early next week and if there is, it will likely be focused on the middle meats. This week's buying was all about replenishing following the long Memorial Day weekend. Now summer is on in full force and that means that consumers will be hitting the road and taking vacations. That type of activity tends to boost demand at QSRs and thus ground beef should do well. With what consumers are having to pay for gas, they will be more likely to skip the full-service restaurant and go to the QSR instead.

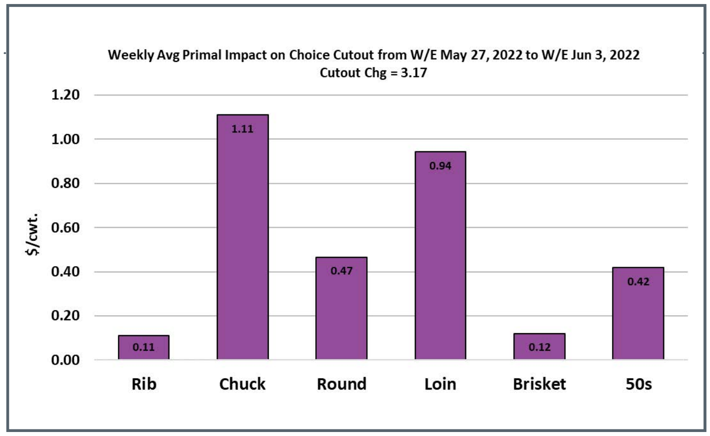
The gains in the cutout were spread across the carcass, which is another sign that at least some of the price lift came from smaller production. There is always a lot of enthusiasm around the beef complex at the beginning of summer. Maintaining that into July and August is often a challenge, however. Another feature of the supply side in the last few weeks has been the rapid decline in carcass weights. The last two weeks have seen 10 pounds come off of steer weights and that is a bit unusual since weights are normally bottoming and turning higher in May/June. It is a very welcome development since the DTDS weights had been very high earlier this spring and that had me thinking that producer leverage was going to be non-existent this summer. The leverage meter is still likely to point in the packer's favor for most of the summer, but it won't point as strongly as it would have had weights not dropped so hard in May.

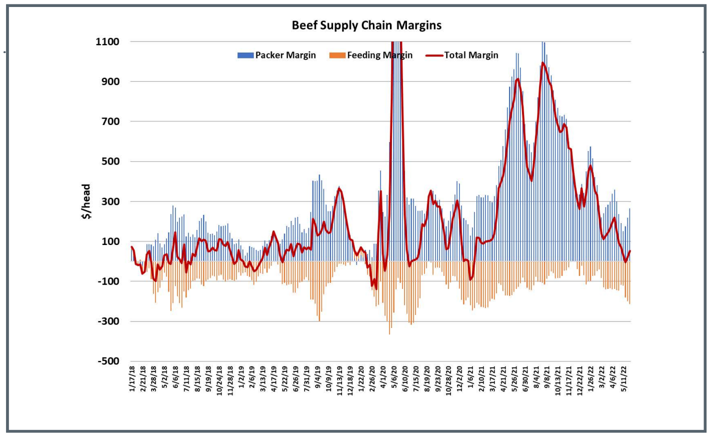
The passing of Memorial Day has done very little to help the macroeconomic picture in the US. The stock market continues to be volatile and on a mostly downward trajectory. Price inflation is still strong and now gas is routinely over $5/gallon in many parts of the country. That alone is enough to make consumers feel miserable, but we have also had to deal with repeated incidents of gun violence against innocents and that is also casting a bit of a pall over the normal celebratory mood that comes with the start of summer. So, I can think of a lot of reasons why beef demand might be tempered. Packer margins this week were $265/head, up about $50 from the week before, thanks to rising beef prices and falling cattle prices. Packers should find it relatively easy to maintain a $200-400/head margin on the cattle they buy this summer given that feedyards are full to the brim. Producer margins, on the other hand, are likely to slip deeper into the red as the summer wears on.

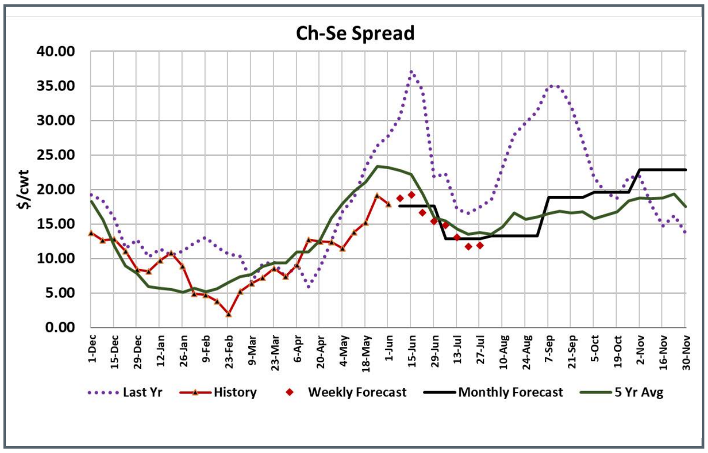
One interesting feature of the spring market this year has been that the Choice-Select spread has held well below historical norms for this time of year. The spread normally peaks around Memorial Day and then works lower into August and that is likely to be the case this year too. In all, it looks like the cattle and beef complex is in pretty good balance right now but the overarching theme of eroding demand in the post-pandemic era remains in place, even though we are seeing a small upcycle in demand currently. By the time we get to August, I'm looking for the cutouts to be around $25/cwt lower than today's levels and cash cattle to be trading into the mid $120s. Next week, watch the cutouts for signs that they are struggling under the production rebound and watch the trims and grinds for signs that demand through QSR channels is picking up.

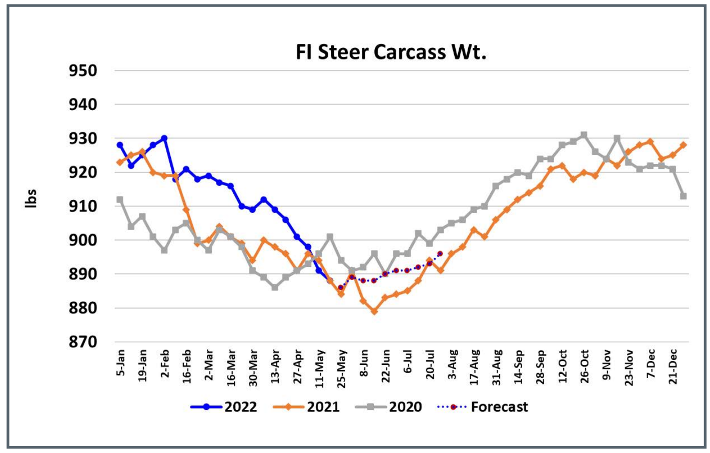

WTD Change in LC Futures
2.500
2.000
1.500
1.000
0.500
0.000
Jun22
Aug22
Oct22
Dec22
Feb23
Apr23
Jun23
Aug23
Oct23

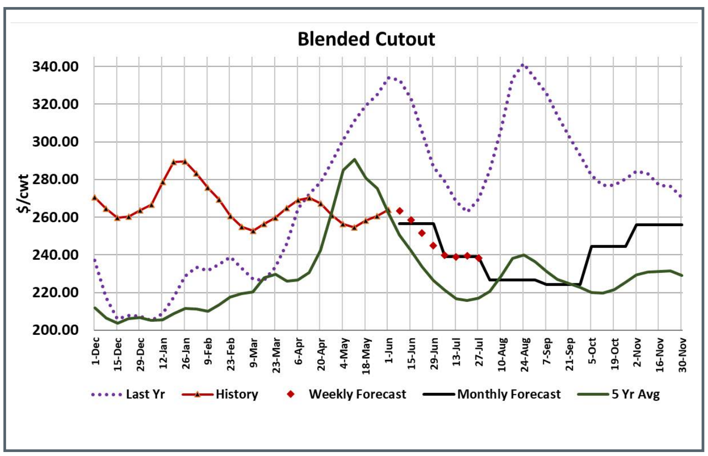

WTD Change in FC Futures
8.000
7.000
6.000
5.000
4.000
3.000
2.000
1.000
0.000
Aug22
Sep22
Oct22
Nov22
Jan23
Mar23
Apr23
May23

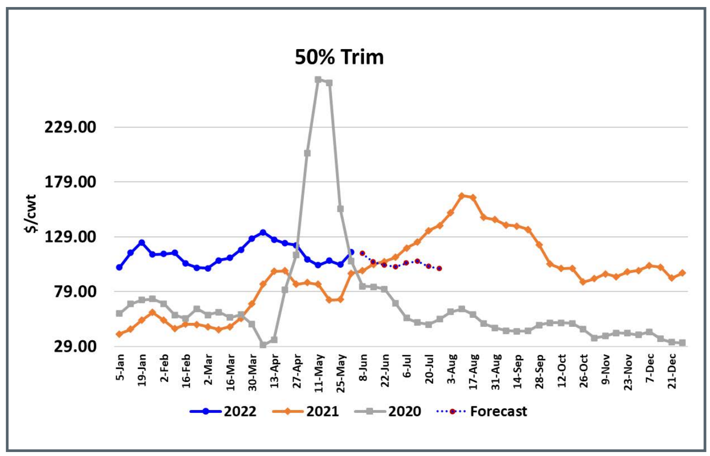

Weekly Avg Primal Impact on Choice Cutout from W/E May 27, 2022 to W/E Jun 3, 2022
Cutout Chg = 3.17
$/cwt.
1.20
1.00
0.80
0.60
0.40
0.20
0.00
0.11
1.11
0.47
0.94
0.12
0.42
Rib
Chuck
Round
Loin
Brisket
50s


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.