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WEEK ENDING JULY 15, 2022

# THE BEEF WRAP

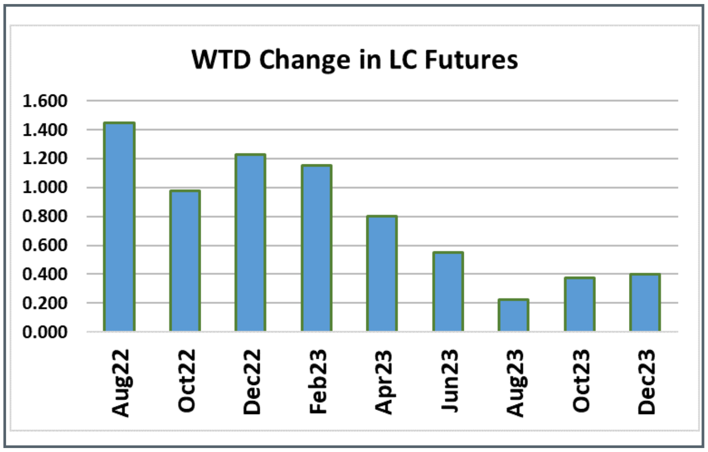
Packers continued to push the cash cattle market lower this week, with the weekly average through Thursday at $141.94, down about $2.50 from last week's average. At the same time, they were successful in holding the cutouts mostly steady as production ramped back up following the holiday. Through Thursday, the Choice cutout was up $0.69 and the Select was $0.28 higher. Good thing that packers have the cash cattle market on a downward trajectory now, because it doesn't feel like the cutouts are going to be able to hold at current levels now that we are back in a high production environment. I'm actually a little surprised that the cutouts held up so well this week, but certainly expect them to give up more ground next week. This week the loins did most of the work in holding the cutout up, but that is unlikely to persist. The normal seasonal pattern is for the loin primal to trend steadily lower from now through October.

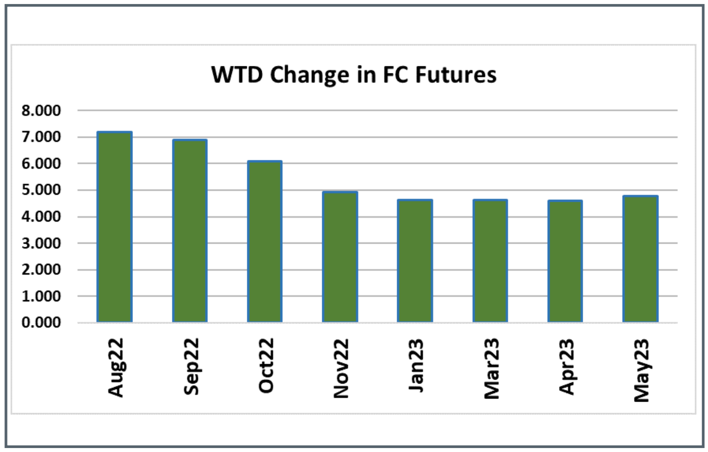
In the next couple of weeks, the middle of the country will experience some brutally hot weather and that seems likely to curb demand, but it also could cause animals to eat less and gain less, so while the demand impact of the heat event is probably negative to price, the supply effect could be positive to price, but with more of a lag. Hopefully, this next heat wave won't cause thousands of cattle to die in feedyards like the one earlier this summer did. Packers have been aggressive with the kills going back to last Saturday and we even saw 100,000-head steer and heifer kill on Tuesday. I'm projecting the weekly total to come in around 535,000 head, which would be about 10,000 head more than what they were killing just prior to the holiday. Next week could be even larger. The nation's feedyards are full and packers are eager to keep their newly replenished workforce engaged. Retailers should be fully replenished now after the holiday and I suspect that if the fed kill next week is bigger than this week, there will be ample availability and wholesale price levels will need to adjust lower in order to clear all of the product.

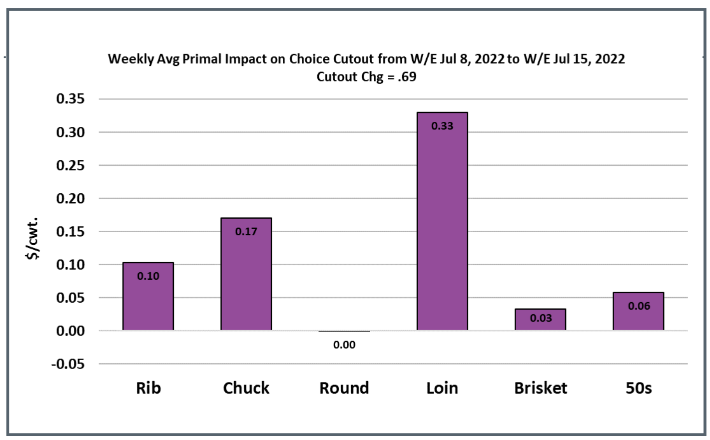
USDA reported retail prices for June this week and we saw the average retail price fall from $767.50 cents/lb in May to 766.00 cents/lb in June. That is a very tiny decline and for all practical purposes we can surmise that retailers are not really lowering beef prices at all. Apparently, they will need to see more downward movement in the cutouts before they feel comfortable lowering their retail prices. What this means is that consumers will be asked to consume larger quantities of beef in July than they did a couple of months ago at prices that are very similar. I suspect that consumers will balk at that and thus retail movement will slow, causing retailers to slow down orders into the wholesale market. That, in turn, should cause the cutouts to move lower and thus provide the green light for retailers to lower consumer-facing prices. The whole process could take a couple of months to play out. One interesting feature of the current market is the very wide spread between Choice and Select. The spread averaged close to $24/cwt this week, where historically something closer to $10/cwt would be more typical for this time of year. We saw a similar thing back in the summer of 2019, where the Ch-Se spread traded in the low $20s from early July through November. A wide spread is normally indicative of strong demand for middle meat and we typically see wide spreads in the spring as grilling season approaches and in November ahead of the year-end holidays. This wide spread however, might be more of a supply issue as high corn prices and rapidly falling carcass weights this spring and summer caused the grade to decline. That attached chart shows that currently the percentage of product grading Choice or better is below the level seen in both 2020 and 2021.

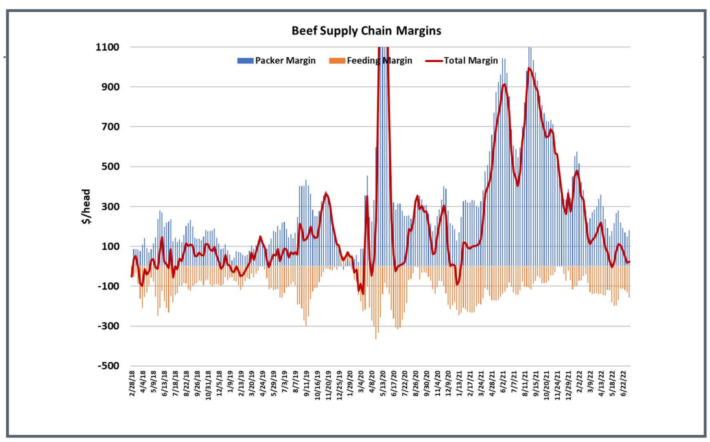
We saw a rapid decline in the de-trended and de-seasonalized carcass weights over the past couple of months and that points to a rapid rise in currentness. Along with that normally comes a drop in the grade. Back in 2019, the amount of product grading Choice or better was about 2% below where it is today and it stayed relatively constant (didn't expand) for most of the rest of the year. Of course, many producers are compensated on a grid-type system that values their cattle on the basis of many quality attributes, and when the Choice-Select spread is wide, those grids typically increase the premium paid for cattle that grade Choice. To get cattle to grade well they need to spend more days on feed and with packers killing at such a strong clip, that might not be an option. Further, the heat wave that is coming will have a negative impact on how cattle grade. So, we may be stuck with a stronger-than-normal Choice-Select spread for at least a couple more months. On the macro front, the equity markets had another terrible week and talk of an impending recession is growing. Neither of those things are helpful to beef demand.

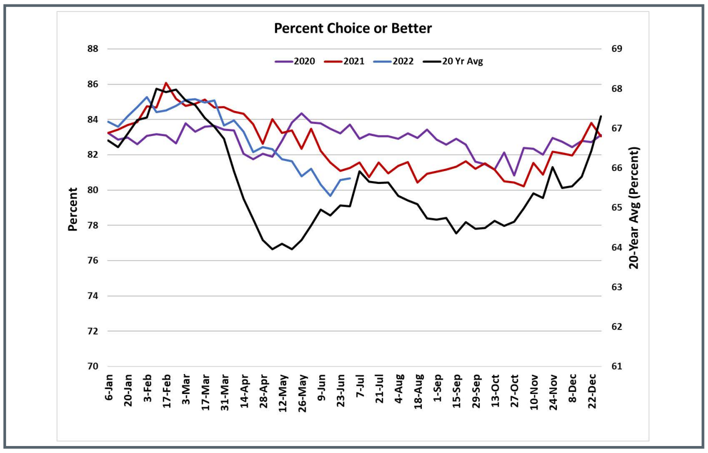
The US dollar has also strengthened considerably and that raises concerns about beef exports in the second half of 2022. So far, we haven't seen much evidence of a slow down in international demand, but that could be a feature in the market when fall arrives. For now, I still look for the cutouts and cash cattle prices to work lower between now and Labor Day. Forecasts have been raised a little recently to account for firmness in the prices during early July, but I still have the Choice cutout pulling back to around $245 just after Labor Day. The risk to that forecast lies to the upside given that the Choice cutout has been holding in the $260-270 range for the past nine weeks. Next week, watch the weather forecasts for indications of hot weather throughout cattle feeding country. If it gets abnormally hot for an extended period of time that might provide cattle feeders with enough leverage to slow down or stall the decline in the cash cattle market.

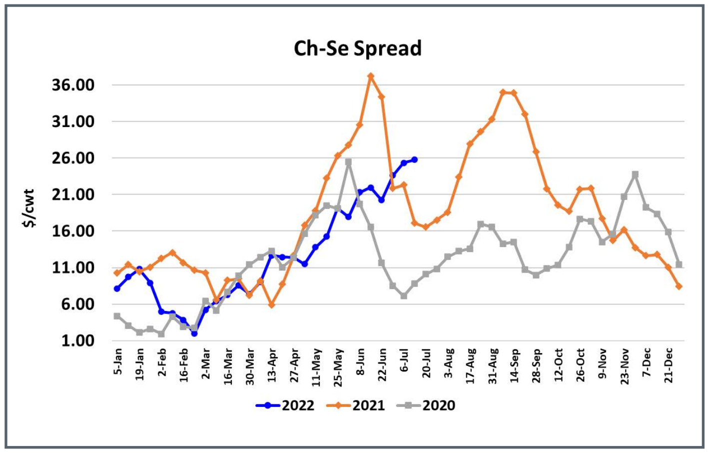

WTD Change in LC Futures
1.600
1.400
1.200
1.000
0.800
0.600
0.400
0.200
0.000
Aug22
Oct22
Dec22
Feb23
Apr23
Jun23
Aug23
Oct23
Dec23

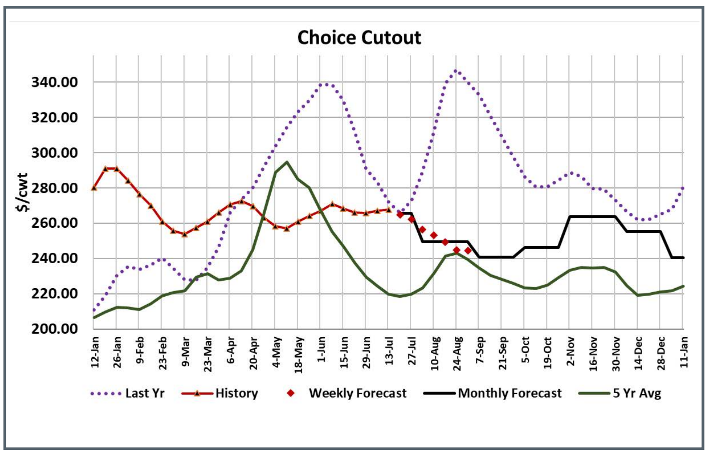

WTD Change in FC Futures
8.000
7.000
6.000
5.000
4.000
3.000
2.000
1.000
0.000
Aug22
Sep22
Oct22
Nov22
Jan23
Mar23
Apr23
May23


Weekly Avg Primal Impact on Choice Cutout from W/E Jul 8, 2022 to W/E Jul 15, 2022
Cutout Chg = .69
$/cwt.
0.35
0.30
0.25
0.20
0.15
0.10
0.05
0.00
-0.05
0.10
0.17
0.00
0.33
0.03
0.06
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.*