



WEEK ENDING JULY 22, 2022

THE BEEF WRAP

The cash cattle market continued lower this week, averaging \$140.65, which was about \$1.50 below last week's average. The large premium that Northern cattle have been carrying over those in the South is starting to narrow. The cutouts were slightly higher with the Choice gaining \$1.63/cwt and the Select up \$0.30/cwt on a weekly average basis. Although the cutouts averaged a little higher on the week, they started to exhibit some softening near the end of the week that may carry over into next week. Middle meats were the primary gainers this week, but those gains were rather small and could easily reverse in the near term. Packers aren't displaying a lot of confidence in the cutouts since they seemed to pull back on the kill near the end of the week. Steer and heifer slaughter only totaled 522k, which was about 15k below what the flow model projected. If they continue to under-kill for a couple more weeks, it would likely put them in a much better margin situation and help keep the cash cattle market trending lower.

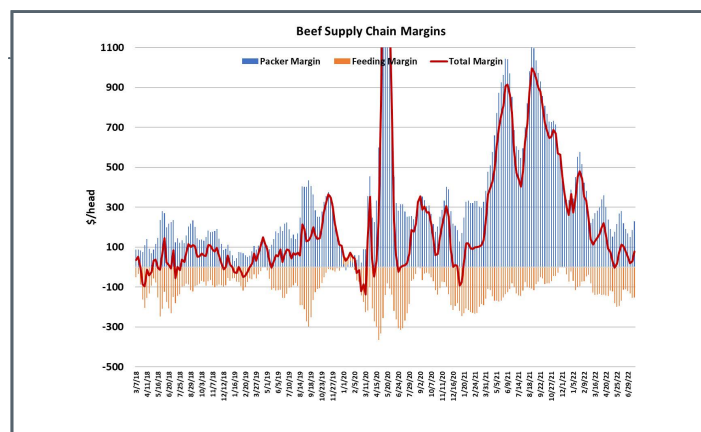
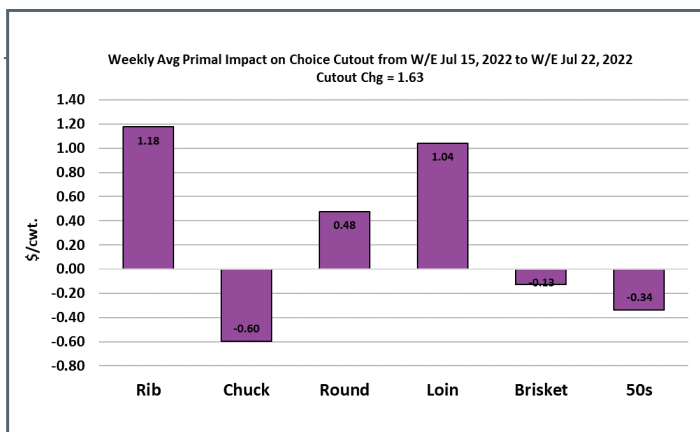
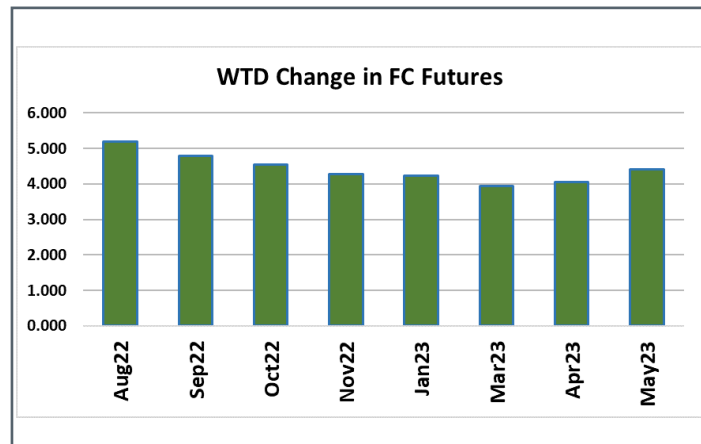
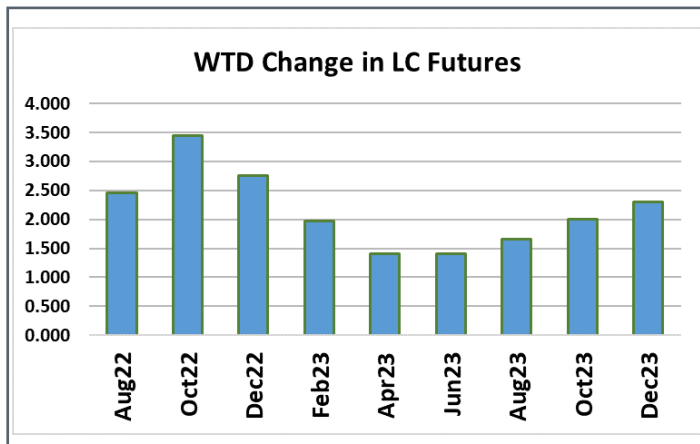
I calculate packer margins this week at \$230/head, which is largely the result of packers getting cattle bought cheaper last week. The blended cutout has held in the \$260-265 range now for over two months and has been remarkably stable all year long. I suspect that it will move lower through August and into September as macro factors and high retail beef prices work to curtail consumption. There is a lot of beef in the production pipeline and if off-take slows just a little, it could cause a back-up. Retailers don't seem to have much interest in lowering the retail prices that consumers see and who could blame them since wholesale prices (i.e., the cutouts) have been remarkably stable. The combined margin chart has shown a little uptick recently, but I'm not convinced that it is the start of a new demand upcycle. I think it is going to turn out to be a head-fake and soon the combined margin will be moving lower once again.

There has been a lot of hot weather in the Southern Plains lately and there is probably more to come, so that remains a risk to the forecast. Cattle don't eat as well when it is hot like this and thus they don't gain well either. Steer carcass weights were seven pounds higher in the data that was released this week, but that data was for the week of July 4, so that probably skewed weights toward the heavy side. Still, carcass weights are now solidly in a seasonal up trend that should last through October. Corn futures have fallen dramatically in the last few weeks, with the Dec22 futures dropping from a peak near \$7.50/bushel back in early May to nearly \$5.60/bushel today.

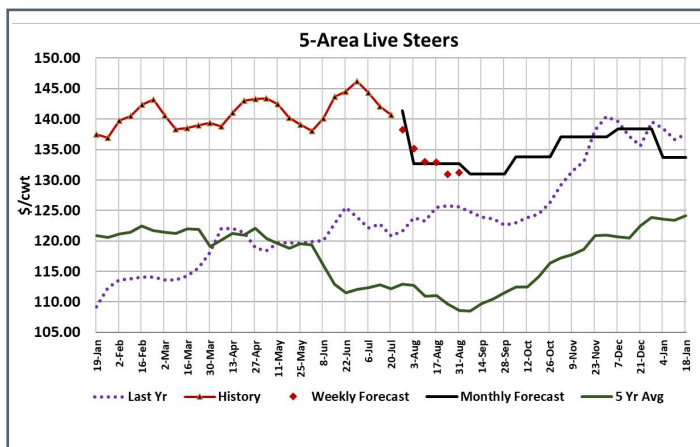
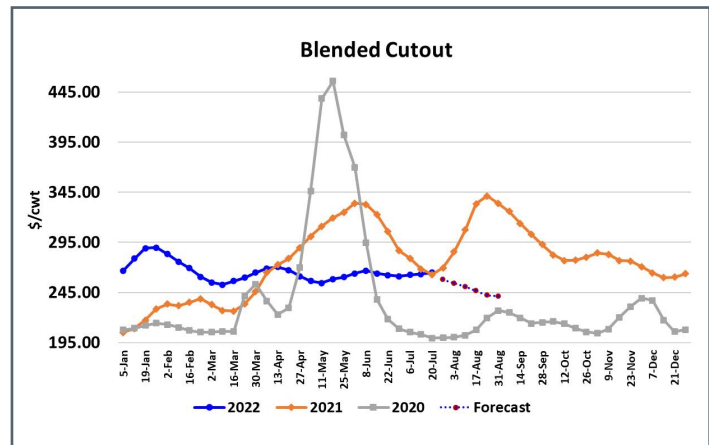
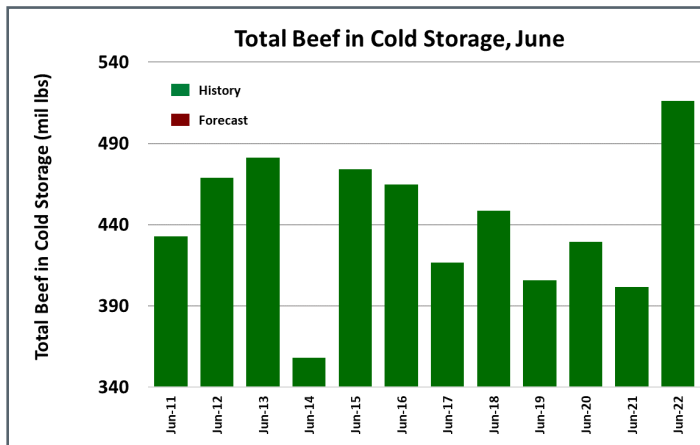
That almost \$2 drop could be huge for cattle feeding margins, but most feeders are not seeing nearly that much benefit. Cash corn remains very firm in the cattle feeding areas, with cash now running \$1.62/bushel over the futures in SW Kansas. Of course now that the July corn futures have expired, corn is pricing off of the new crop Sep futures. If the futures are correct about the harvest being good, that would help to bring cash corn prices down substantially once the new crop is harvested. The weather has turned much more favorable for pollination in the Corn Belt and that is what the big decline in the corn futures has been about. USDA released its Cattle on Feed report today and it showed placements during June down only 2.4% YOY. The trade had been expecting a 5.3% decline. So, we have yet another month where placements were stronger than expected.

The mid-year cattle inventory report was also released today and it showed the beef cow herd down 2.4% YOY, which was less than the 2.8% decline that analysts were expecting. More importantly, USDA estimated the 2022 calf crop to be down only 1.4%, not the 2% that the trade was looking for. So, both of today's reports were bearish from a supply perspective. Maybe that will help quell some of the bullish enthusiasm that the futures have been displaying lately. Oct futures gained almost \$3.50/cwt this week without much supportive fundamental news. My guess is that traders will start working to remove some of that next week. The focus will now shift to the cutouts and their direction.

We are still in the dog days of summer and demand risk exists over the next 5-6 weeks. USDA also released its Cold Storage report today and that showed total beef in cold storage up 29% YOY, but down about 2% from last month. Cold storage stocks are not a very big price-influencing factor for beef. Next week, it will be important to watch the kill for further signs that packers are throttling back because they sense that demand is softening. That would be bad news for the futures since any kill slowdown could further accelerate the decline in cash cattle prices. It would be a real feat if beef demand can hold steady or increase between now and Labor Day, but I expect that soon the beef will start to trend lower.



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