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WEEK ENDING JULY 29, 2022

THE BEEF WRAP

The cash cattle market averaged almost $2 lower this week at close to $139, with trades in the South as low as $135 and prices in the North falling mostly in the $141-142 range. The cutouts were also slightly lower, with the Choice dropping $1.26/cwt on the week and the Select down $0.42/cwt. The beef trade was a choppy mix, with price strength evident at the beginning and end of the week, but softer during the middle of the week. This week the ribs provided most of the cutout's support, while the other primals all sank a little lower. One thing that I have noticed over the past few months is that the volatility in the beef cutout has been very low. The attached chart gives the 10-week rolling standard deviation for the Choice cutout value since the beginning of last year. Since about mid-March of 2022, this measure of volatility has been in steady decline and now is at its lowest level in years.

The cutout just doesn't seem to move much anymore. If we go back to the middle of March, the Choice cutout averaged $266/cwt and this week it averaged a little over $268/cwt. The highest weekly average recorded during that stretch was $272 and the lowest was $257. That amounts to 18 weeks where the cutout has traded in a very narrow range. Are packers doing something differently that has stabilized the cutout? Possibly, but I'm not sure what that would be. If the cutout doesn't move much, then that suggests that cash cattle prices don't really need to move much, which could be one reason why open interest in live cattle futures has dropped so much over the past couple of months. Speculators thrive on volatility and when they can't find it in one market, they will switch to another. Further, the other market participants, hedgers, don't feel an urgency to take on hedge positions whenever prices aren't moving much.

It is also worth noting that retail beef prices haven't moved much since March either. I'm not really sure what to make of this, but it does make me wonder if I'm going to get burned by forecasting the Choice cutout down to $245 this fall. Maybe it will just stay in its $255-270 range. In order to get down to a $245 Choice cutout by October, it will be necessary to see some demand softening. The combined margin continued upward this week, but at a little slower pace than in previous weeks. Perhaps it is ready to make a top and turn lower. That would likely push cutout values down unless packers cut the kill to compensate for softer demand. It is likely that we will see some middle meat interest during the middle of August as retailers prep for Labor Day. We may also see interest in end meats and grinds from institutional buyers as US schools start to re-open during August.

I have to balance those normal seasonal factors against the rather bleak macro picture where inflation is still raging and the economy appears to be cooling. It's not surprising that US consumers kept spending during the summer of 2022 since they were very eager to travel and do things that the pandemic hindered. But now we are moving into the waning weeks of summer and demand continues to be strong. On the supply side of the market, this week's steer and heifer slaughter came in at 521k, which was a little below the 530k that the flow model projected. This marks the third week in a row where packers under-killed our model and that may be playing a role in their ability to keep stepping cattle prices lower each week.

Past placement patterns suggest that there should be sufficient cattle available in August for 530k weekly fed kills, but whether or not packers will keep slaughter that high is an open question. There is more brutally hot weather in the forecast for cattle country in the next couple of weeks and that has the potential to slow weight gains some and perhaps slow down the loss of leverage by cattle feeders. Steer carcass weights were reported down one pound this week and are now almost dead-on with last year's level. The seasonal uptrend in weights is expected to continue unabated by the hot weather that is coming. Corn prices are on the rebound now and that might help to temper weight gains, but won't be enough to disrupt the seasonal pattern. For the first half of 2022, placements were almost equal to the first six months of 2021 (actually 0.2% higher).

That seems somewhat odd for a herd that has been getting smaller every year since 2019. It also suggests that placements in the second half of 2022 will need to be below last year in aggregate. Mother Nature will have a lot to say about that though. If the drought persists in grazing areas, we will likely continue to see a lot of feeder cattle pushed into feedyards because there is insufficient forage for them. The beef export data continues to look good, keeping pace with last year and still registering strong Chinese interest in US beef. Next week, look for some softening in middle meat prices to take a few more dollars off of the cutouts. Cash cattle prices should also continue to soften due to fed kills failing to meet expectations over the past few weeks. It looks like the price action in the cattle and beef complex has the potential to be rather boring for the next few weeks.

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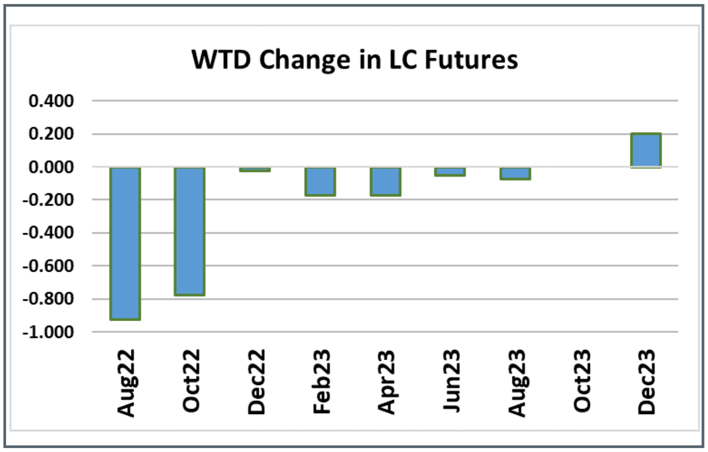

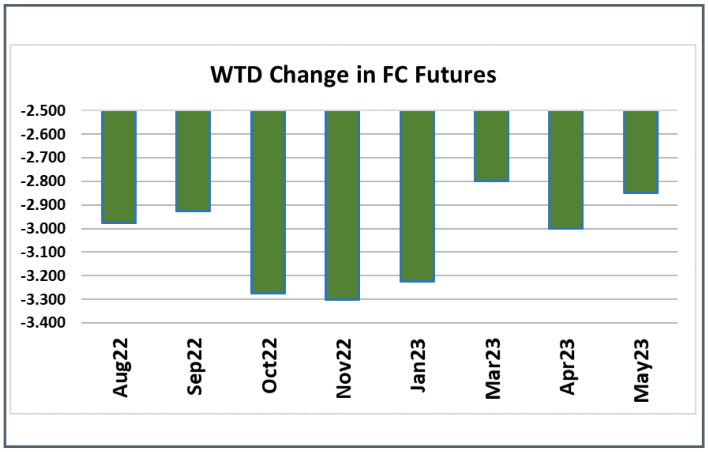

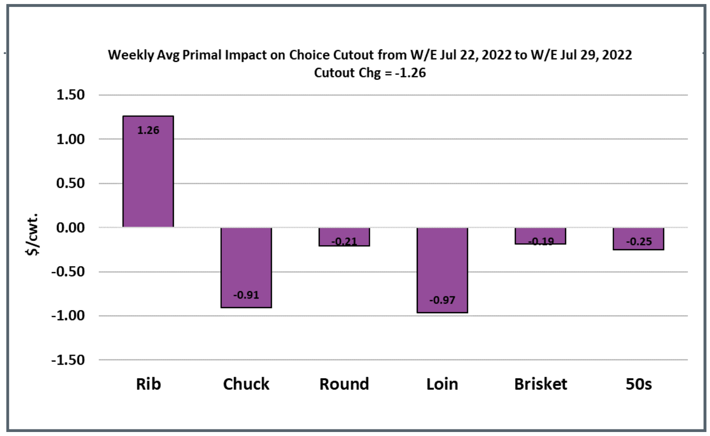

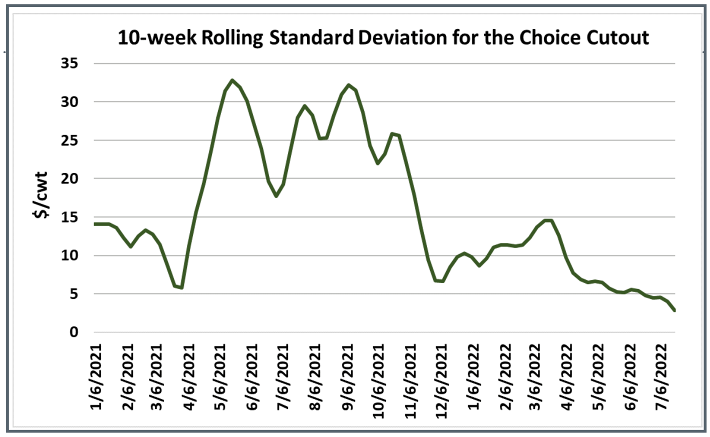

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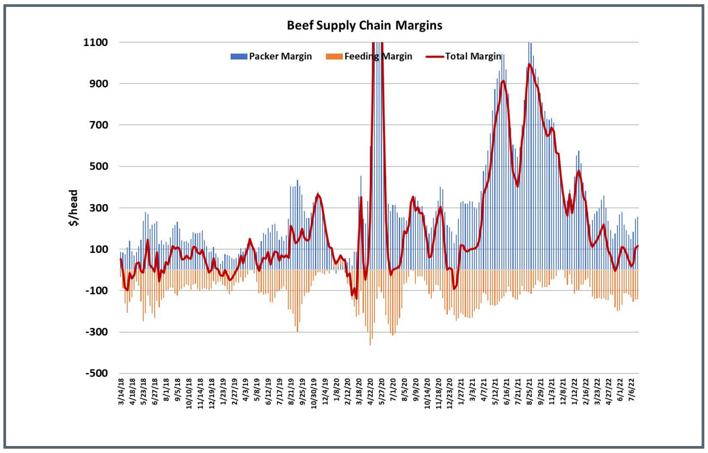

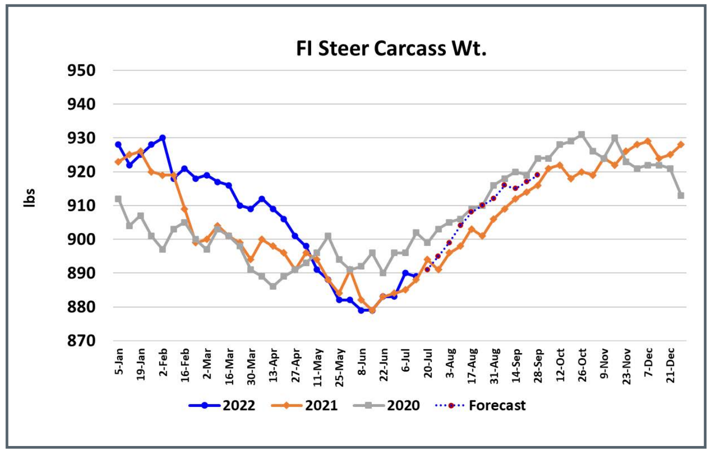

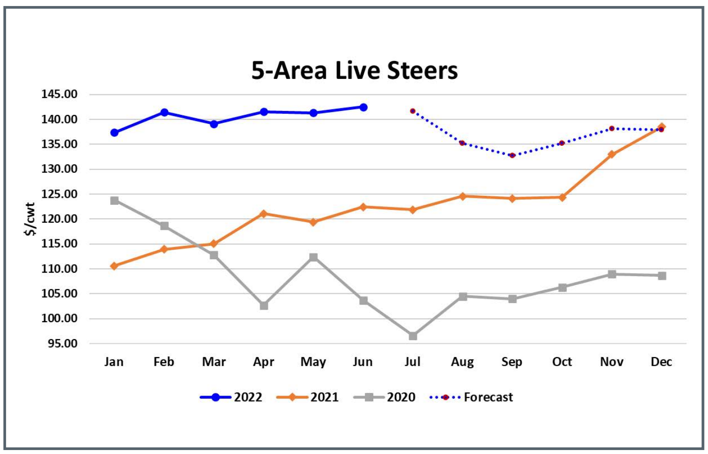

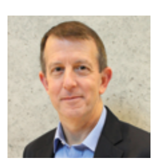

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