



WEEK ENDING AUGUST 19, 2022

THE BEEF WRAP

Cash cattle prices advanced again this week, gaining \$2.37 to average \$146.76. As usual, prices in the North were reported several dollars over the South, which traded in the \$141-142 range. While packers' cattle cost was rising, the price they got for their beef was not. The Choice cutout gained a paltry \$0.45/cwt and the Select cutout was up only \$0.30/cwt. That means packer margins compressed further, now estimated near \$197/head. When this week's more expensive cattle show up at the packing plant, margins are likely to fall below \$150/head. There have been some rumblings about packers cutting the kill in order to protect their margins, but so far we haven't seen a concerted effort to do that.

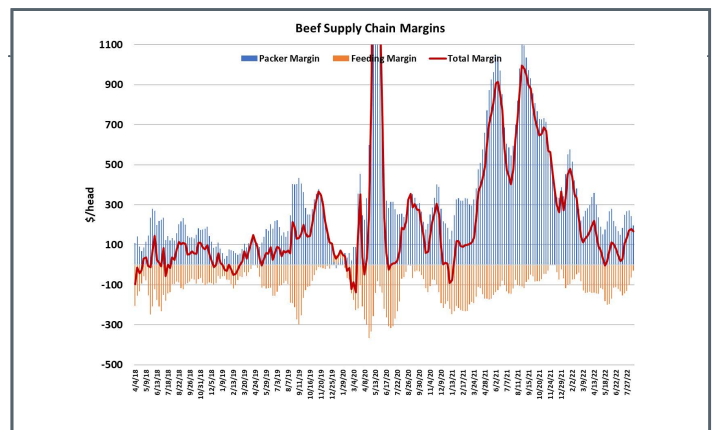
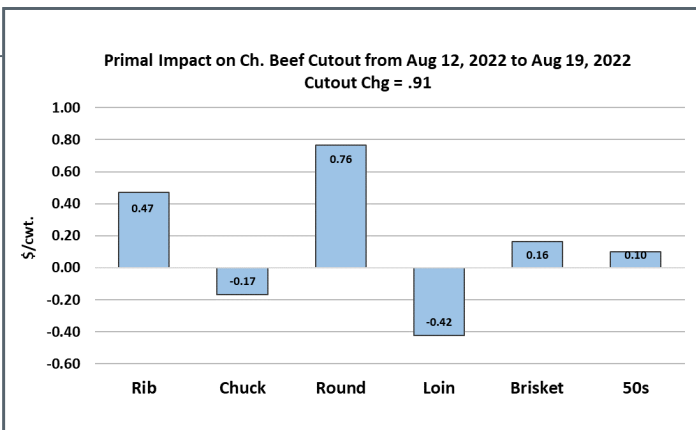
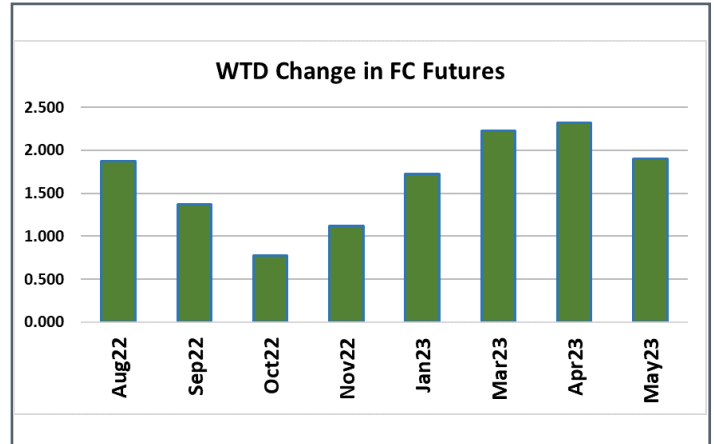
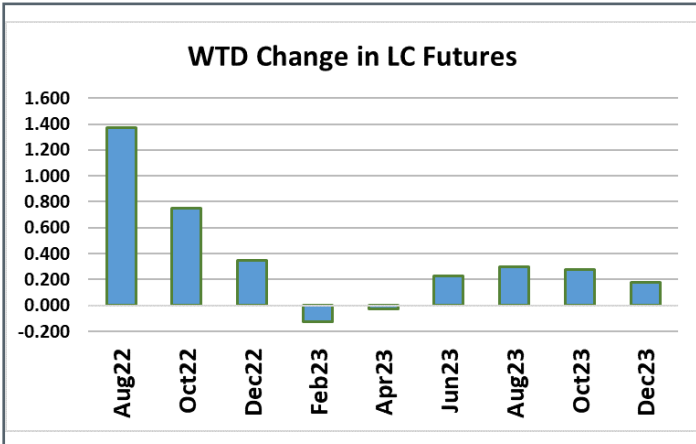
This week's fed steer and heifer slaughter registered 517k, up 12k from last week, but still below the 525-530k that the flow model suggests. The biggest surprise in this week's production data was carcass weights, where steer weights came in 2 pounds lower than the week before. The normal seasonal pattern in carcass weights would have them increasing about 3 pounds per week at this time of year, yet we saw weights actually decline. The DTDS weights, which were already at very low levels, moved even lower. This information makes a strong case that feedyards are very current and thus in no hurry to market cattle. Packers will be busy delivering on Labor Day orders over the next couple of weeks and thus I think that cutting the kill is not something they would do in a big way until after those orders have been satisfied.

Thus, cattle feeders seem to have packers over a barrel right now and are extracting higher cattle prices as a result. Cattle feeding margins have improved a lot lately, going from -154/head in the middle of July to -38/head this week. It seems to me that, with feedyards very current and packers reluctant to cut kills as they are delivering on Labor Day orders, there is a good chance that cattle prices will rise for at least a couple more weeks. After that however, Labor Day week will be upon us and that provides packers with a natural excuse to scale back the kill. The presence of the holiday on a Monday is likely to cause the kill to be suppressed in 2 consecutive weeks since packers will likely give workers the Saturday heading into Labor Day off. My guess is the steer and heifer slaughter for the 2 weeks around Labor Day will average close to 480k each.

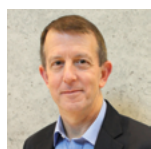
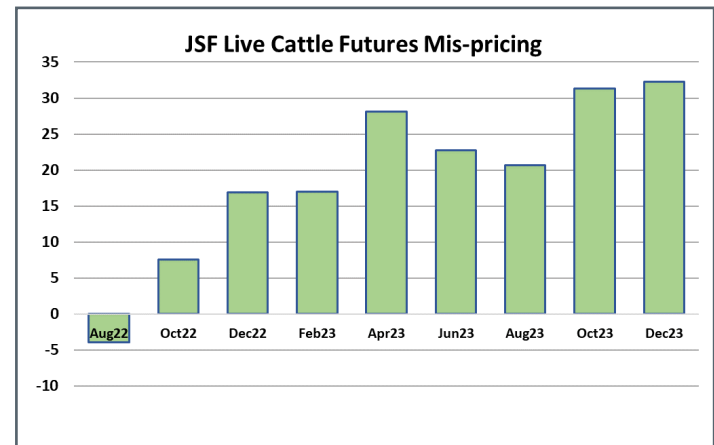
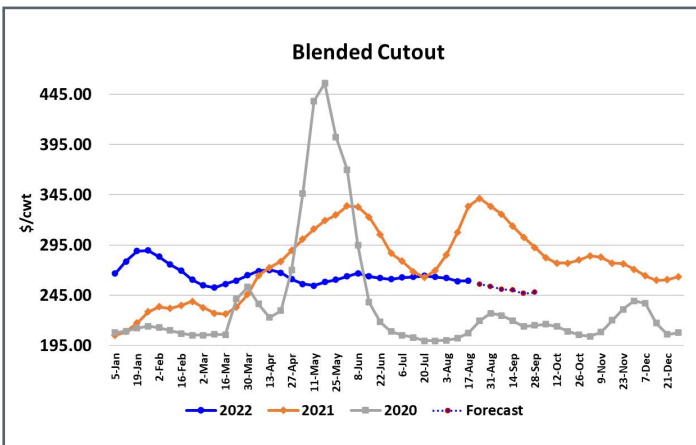
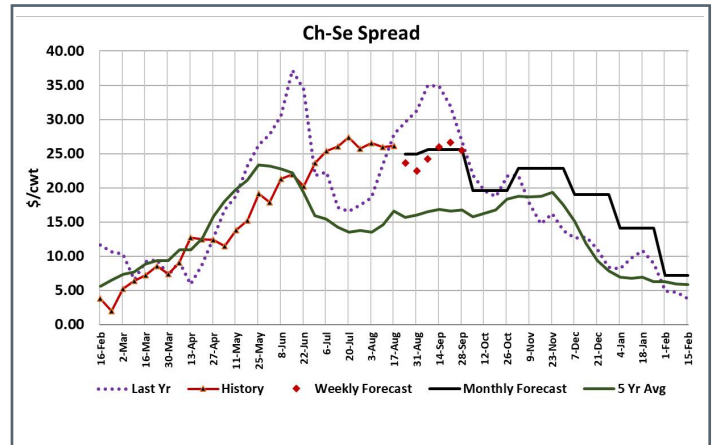
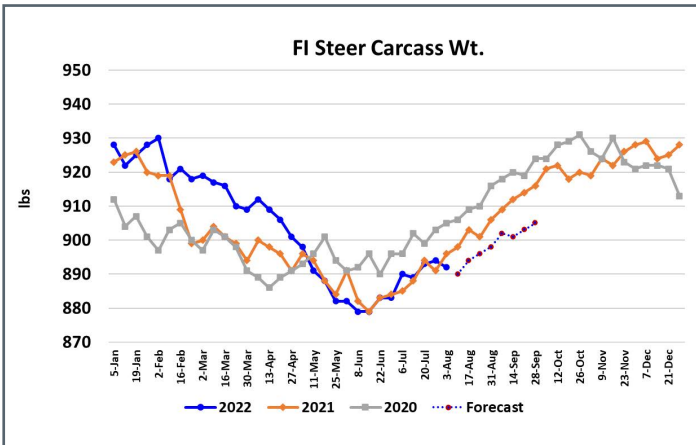
When packers get back to full kills in September, the flow model suggest that they should be able to find enough cattle to kill 530k each week through the balance of September and into October. It is that post-Labor Day timeframe when the best opportunity will exist for packers to pull back hard on the kill and thus increase the odds that they can stop the rising cash cattle market. In the beef market, after Labor Day we should see better interest in end meats as the weather cools down some in the northern tier states and by the end of September buyers should be actively working on packages for the end-of-year holidays that will focus on the middle meats.

They will want Choice of better product to fill that need and that is something that is pretty tight right now. This week the Choice-Select spread averaged over \$26/cwt and packers were paying an average of \$20/cwt over that for cattle that will grade Prime. Clearly, the supply of high quality beef is low relative to demand right now. Look for the Choice-Select spread to remain wider than normal for the next several months until all of the holiday business is wrapped up. The combined margin worked lower again this week, but the decline was small. There just isn't much movement in the cutouts lately and that seems to be keeping prices in other areas of the beef complex from moving very much. About the only place that we are seeing significant price movement is in the cash cattle market. There wasn't much notable in the export data that was released this week.

China continues to be the number 3 destination for US beef, behind Japan and S. Korea. Domestic beef demand appears to be in a very slow moving downcycle while international beef demand appears to be holding steady. Today's Cattle on Feed report pegged placements during July up 1.8% from last year. That was larger than the average trade guess and fourth month in a row now where placements have been larger than expected. We now have a pretty good handle on the feedyard inventories that will fuel beef production through the end of 2022 and it looks like there is a strong chance that 2022 beef production will be almost equal to 2021. Next week, expect the cutouts to trade steady to slightly lower on some slippage in end meat prices. Cash cattle are likely stronger again next week as the upward momentum continues.



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