



WEEK ENDING SEPTEMBER 16, 2022

THE BEEF WRAP

The cash cattle market was essentially steady this week, averaging \$142.79, up \$0.31 from last week. Prices in the North were steady to slightly lower and prices in the South were steady to slightly higher. The price gap between the North and South has narrowed to the point where it isn't much of an issue anymore. The bad news for packers was that while they were out there paying steady money for cattle, the value of their beef was moving lower. The Choice cutout dropped \$4.51/cwt to average \$254.76 on the week and the Select dropped \$5.69 to \$231.71. Packer margins dropped about \$25/head to \$170 and if I'm correct about the beef slipping further next week, then we could see packer margins drop into the low \$100s. It was a little bit disturbing to see the beef market struggle so much coming off a short kill the week before and that probably says something about the near-term prospects for beef demand.

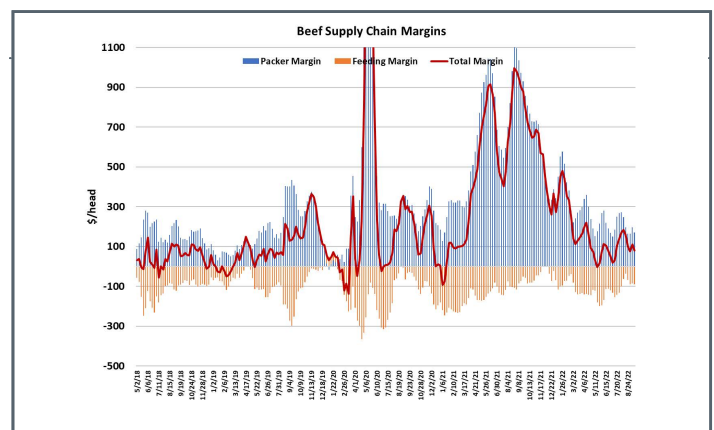
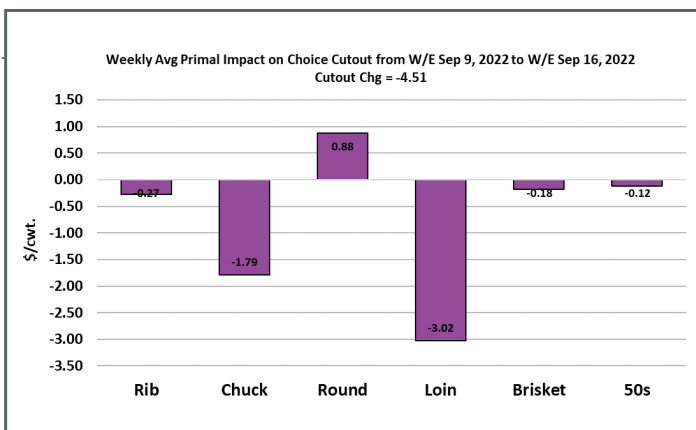
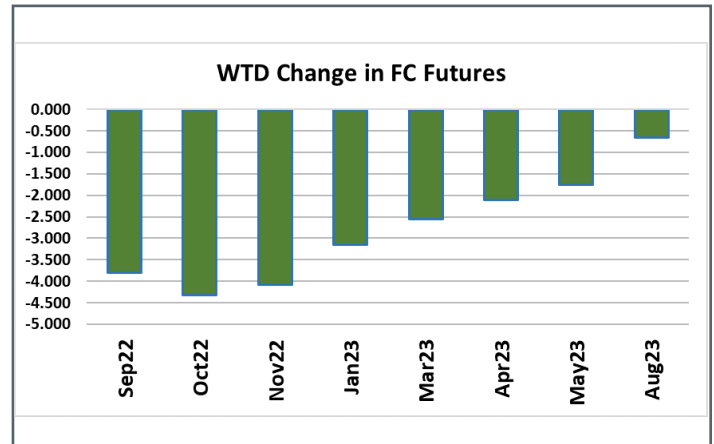
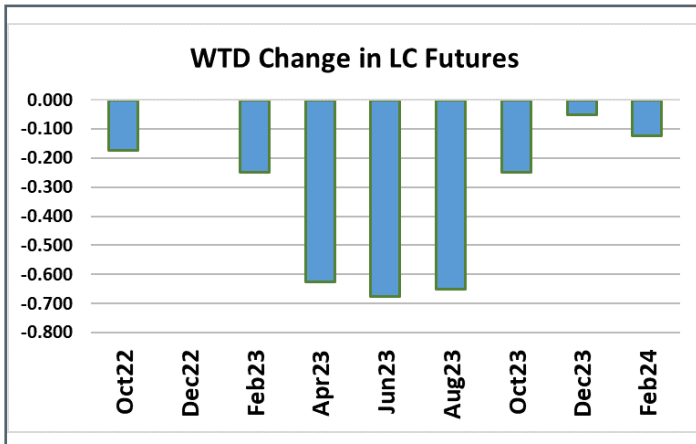
This week's fed kill was close to 520k, down from the 533k that packers were killing just before the holiday weeks. Maybe they sensed that they need to dial it back a bit to relieve some of the supply pressure on the beef market. Soon they will be forced to dial it back even more because market-ready numbers of steers and heifers in October are expected to be in the 500-510k range. Users should be actively covering their needs right now while price levels are sagging in anticipation of a rebound in beef prices during October. The cattle market could also see some additional strength in October too. Cattle carcass weights continue to tell a story of very current feedyards and the grading also points in that direction. A couple more weeks of strong kills and by October the cattle feeders should have enough leverage to advance the cattle market. Packers will be hoping that the gains in the beef are strong enough to pay for those more expensive cattle without crushing their margin.

Last week, I was concerned that the small uptick in the combined margin was a head fake and sure enough, the combined margin turned back lower this week. If the last two demand cycles are any guide, the combined margin needs to get back near zero before a new upcycle will begin. So, I'm calling the cutouts softer over the next two weeks to accomplish that objective and then I expect them start marching higher. Speaking of demand, it is important to note that this week I completely reformulated the demand index calculation to take into account the impact of inflation. I was concerned that the presence of such high inflation in the economy was clouding my ability to accurately gauge beef demand, so I now calculate the demand indexes using deflated prices (deflated by the Consumer Price Index).

Back when inflation was consistently running 1-2% per year, it wasn't a big deal to calculate the indexes with unadjusted prices and I think analysts tended to avoid using deflated prices where possible because it just introduces another source of error when attempting to forecast, because that would require a forecast of the CPI in order to arrive at a future price level. However, in a 8-9% inflation environment, ignoring inflation can lead to undershooting on price forecasts by a significant margin. In the case of the beef market, this change helped me to more clearly see that most, if not all, of the demand boost from the pandemic has already come out of beef prices. The attached chart shows the updated demand indexes by quarter and it is clear that after experiencing a bubble in 2021, they are now back down near pre-pandemic levels (and have been for the last 2 quarters). This has led me to stop looking for further big downward corrections in demand based on the easing of the pandemic.

That has already happened. However, demand could still suffer due to adverse macroeconomic conditions, so I'm not saying that demand can't get worse from here. Equity markets sold off hard again this week and more indicators are starting to emerge that suggest a global slowdown is not far around the corner. So, we are not out of the demand "woods" yet. I've also attached a chart of quarterly CPI so that you can get a sense of what my CPI forecast looks like. This is impounded in the beef demand indexes now, so if I'm really wrong on the CPI, it has the potential to make the demand forecast really wrong also. One negative factor that cropped up this week was the weekly export data. It looked pretty weak relative to what we had been seeing over the summer.

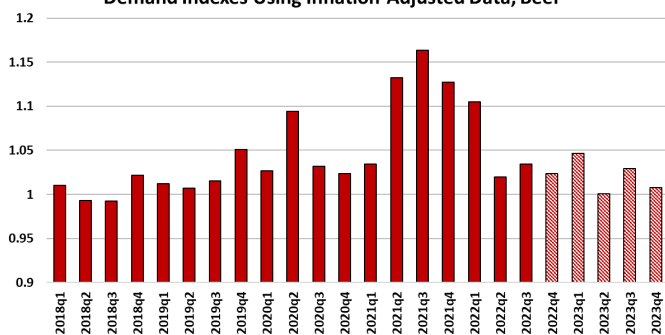
Recall that USDA took a 4-week break in reporting the data while they straightened out their system problems. Now that we aren't in the dark anymore, it looks like international demand for US beef has been softening during the intervening period. However, I get nervous about data integrity whenever USDA's systems are acting up, so I don't want to place too much emphasis on this right now. Let's see how the next few weeks' worth of export data come in. Next week, look for the cutouts to drift a little lower and packers possibly to take a little off of the cash cattle market. The fed kill should be close to even with this week and maybe a little larger. Buyers should be busy working on their holiday needs.



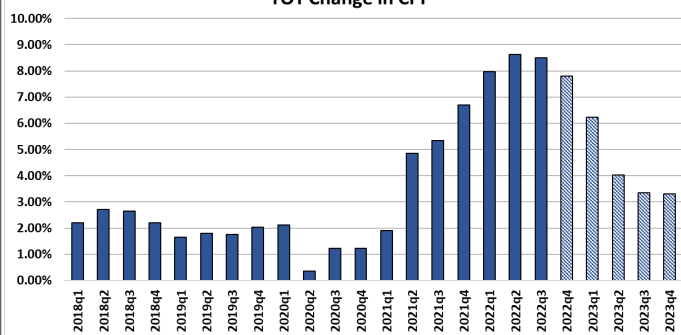
While the information contained in this report has been obtained from sources believed to be reliable, J.S. Ferraro disclaims all warranties as to the accuracy, completeness or adequacy of such information. The information is not a recommendation to trade nor investment research. User assumes sole responsibility for the use it makes of this information to achieve his/her intended results. No part of this material may be copied, photocopied or duplicated in any form by any means or redistributed without the prior written consent of J.S. Ferraro.



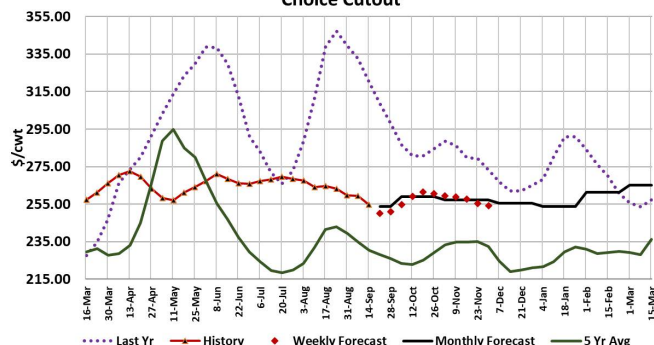
Demand Indexes Using Inflation-Adjusted Data, Beef



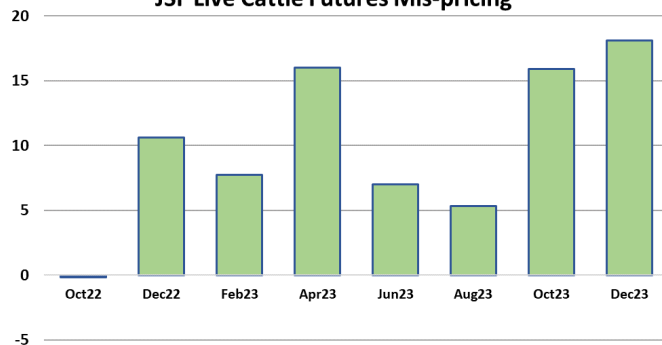
YOY Change in CPI



Choice Cutout



JSF Live Cattle Futures Mis-pricing



DR. ROB MURPHY BS, MS, PhD Agri Economics,
Executive Vice President, Research & Analysis,
J.S. Ferraro

E: Rob.Murphy@jsferraro.com [in](#) [tw](#)

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.

SUBSCRIBE NOW for market intelligence