J.S. FERRARO

jsferraro.com | 416.306.8788
130 Adelaide Street West, Suite 3302 Toronto, Ontario M5H 3P5

WEEK ENDING SEPTEMBER 2, 2022

THE BEEF WRAP

The cash cattle market slipped lower again this week, averaging $142.82, down almost $2 from the week before. That decline was accompanied by further softness in the cutouts, with the Choice dropping $3.56 to average $259.73 for the week, while the Select was up $0.85 to average $239.07. However, the cutouts were strengthening late in the week and stand a good chance of gaining more early next week as packers will have less product to offer due to the long holiday weekend. Packer margins posted a small gain this week, up $10 to $175/head, but cattle feeding margins declined more than packer margins gained, thus the combined margin continued lower this week. It doesn't look to me like the combined margin is near a bottom yet and September can sometimes be a weak month for beef demand, so it seems likely that the current downcycle in the combined margin will continue for a few more weeks.

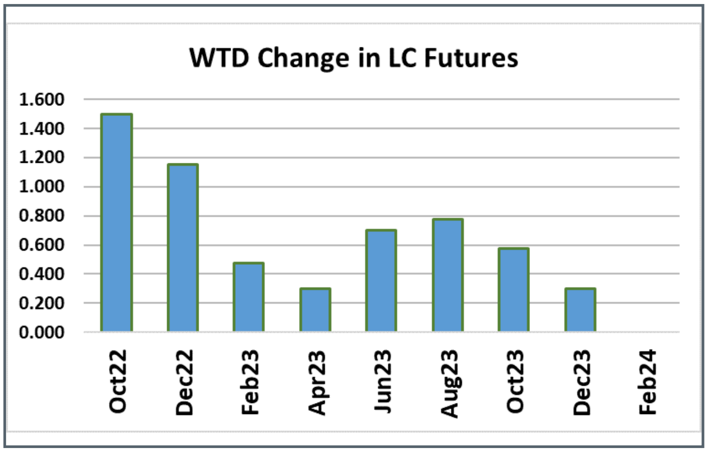
It was a quiet week as far as beef market news goes and most everything seemed to play out as anticipated. The futures lost ground early in the week but made that back plus some with a late-week rally. Now that the Aug futures have expired, Oct will take over as lead month and traders will not be constrained by the threat of delivery in the near-term, so they can express their view on price without worry. We have seen cash cattle prices oscillate in a narrow band between the high $130s and the mid $140s for most of the year. The attached chart shows this pattern clearly and if it is to continue, then there is likely more downside risk in cash cattle prices in the near term. At today's close of $144.50, the Oct futures are only about $1.50/cwt over the current cash market, so producers won't have much incentive to delay marketings and that could be what keeps cash cattle prices on their downward trajectory.

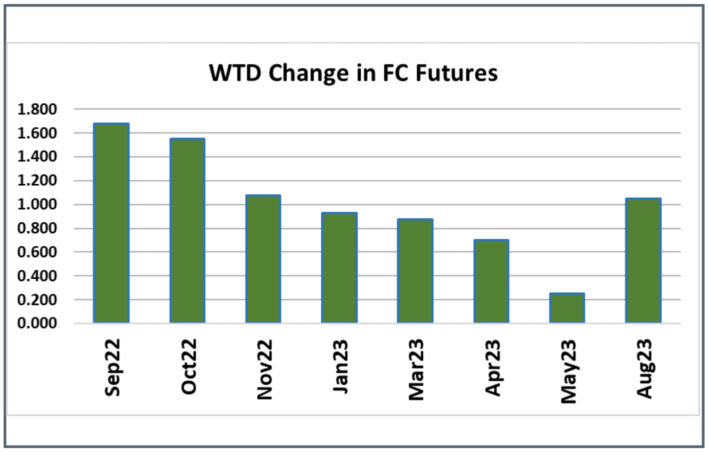
In addition, the short kills around Labor Day should reduce some of the leverage that cattle feeders have had over packers in recent weeks. This week's fed slaughter registered 499k, and I'm dialing in a 465k total for next week. After that, kills could easily bounce back up to 530k per week, but I think that packers will want to be a little more cautious and perhaps not press that hard immediately following the holiday. Steer weights were reported three pounds higher at 904 this week, so the seasonal pattern remains in place. This week's weight data didn't do much to move the DTDS weights and that is still a concern. Right now, the DTDS weights are the single most bullish factor in the cattle fundamental picture.

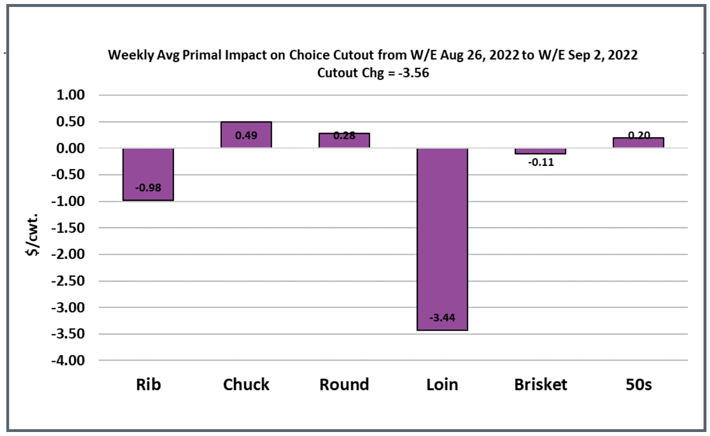
Those weights suggest that feedyards remain very current at present, but if that were the case, why were packers able to take $4 off of cash cattle prices in the last two weeks? I suspect that the low level of the DTDS probably reflects some ration changes that cattle feeders have made in response to high corn prices and thus cattle aren't gaining as fast as they might would otherwise. Of course, that also affects grading, and it is pretty clear that the grade is pretty depressed right now. The Choice-Select spread averaged $20.66/cwt this week, down a little over $4 from the week before, but that was likely because middle meat demand was a bit lower. That trend toward a narrower spread could continue through the first half of September, but once the middle meat buying for the end-of-year holidays starts to ramp up, I would look for the spread to widen back out considerably.

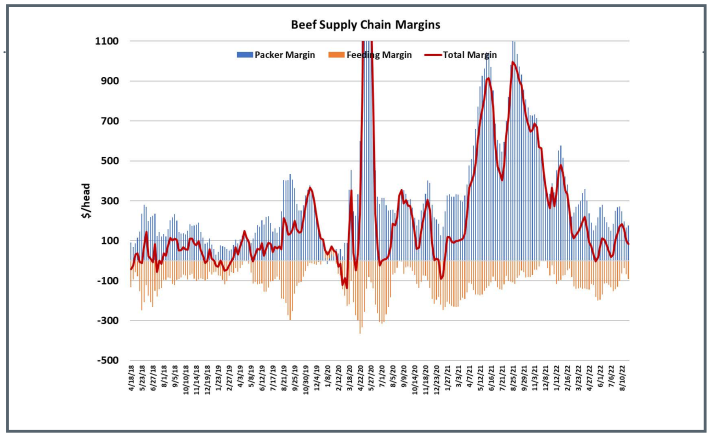
In fact, buyers that need Choice or Prime product in Q4 would be wise to use any price weakness that might arise in September to cover needs for the end of the year. I wouldn't be surprised to see the spread between Choice and Select to exceed $35/cwt at times this fall. There wasn't much improvement in the macro picture this week and the equity markets posted further losses. If that continues, consumer spending is likely to slow and that would be a negative for Q4 beef demand. Oil and gasoline prices are the one bright spot, and consumers in some parts of the US might soon see gas prices below $3/gallon. However, one of the things pressuring oil prices right now is an expansion of COVID-related lockdowns in China and that has the potential to temper China's demand for US beef in the near term.

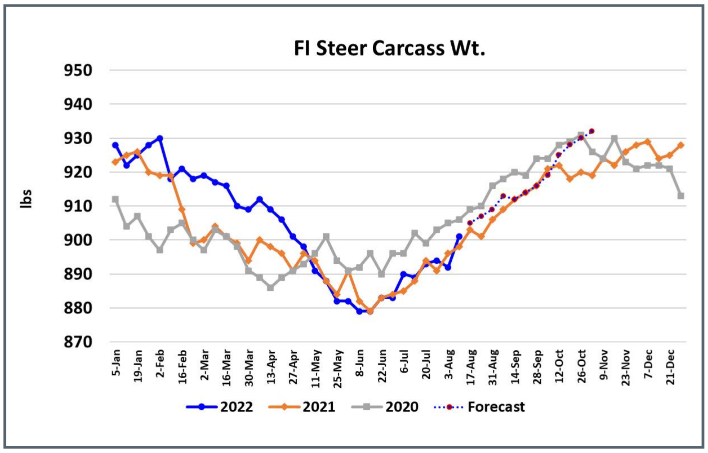
If it does, we probably won't know about it right away because USDA's weekly export reporting system is offline for at least a couple more weeks. Our next read on beef exports will come on Thursday, when ERS releases the official trade data for July. I'm looking for another strong showing in that data, perhaps up 5-10% from last year. Next week, we could see an early bounce in wholesale prices as retailers fill-in after the long weekend, but that might only last a couple of days. Look for cattle prices to continue lower and the futures to take back some of the optimism it displayed on Friday.

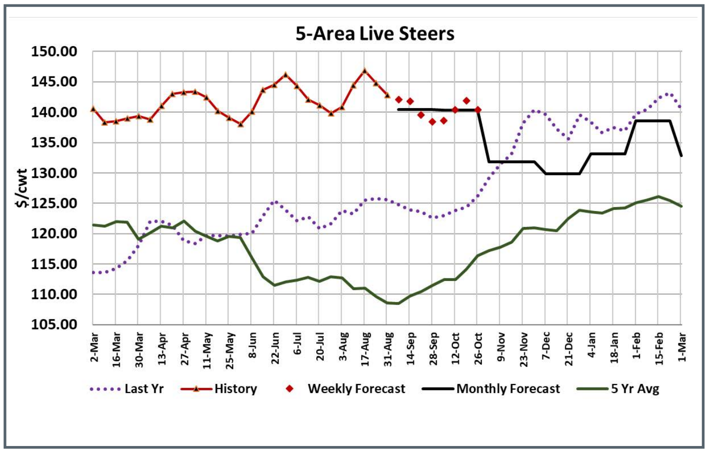

WTD Change in LC Futures
1.600
1.400
1.200
1.000
0.800
0.600
0.400
0.200
0.000
Oct22
Dec22
Feb23
Apr23
Jun23
Aug23
Oct23
Dec23
Feb24

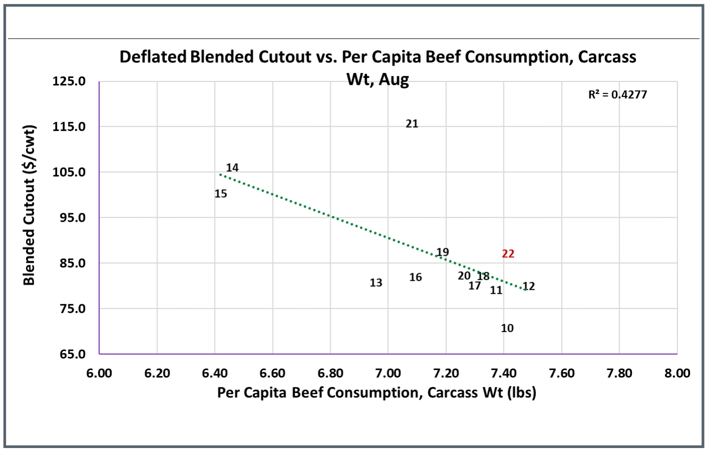

WTD Change in FC Futures
1.800
1.600
1.400
1.200
1.000
0.800
0.600
0.400
0.200
0.000
Sep22
Oct22
Nov22
Jan23
Mar23
Apr23
May23
Aug23

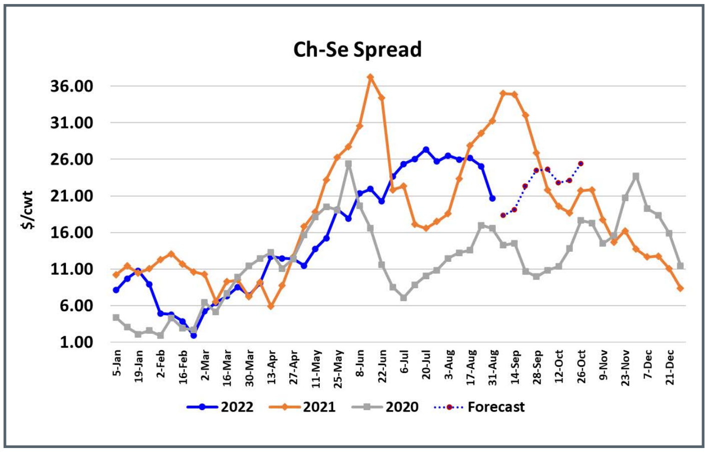

Weekly Avg Primal Impact on Choice Cutout from W/E Aug 26, 2022 to W/E Sep 2, 2022
Cutout Chg = -3.56
$/cwt.
1.00
0.50
0.00
-0.50
-1.00
-1.50
-2.00
-2.50
-3.00
-3.50
-4.00
-0.98
0.49
0.28
-3.44
-0.11
0.20
Rib
Chuck
Round
Loin
Brisket
50s


Beef Supply Chain Margins
Packer Margin
Feeding Margin
Total Margin
$/head
1100
900
700
500
300
100
-100
-300
-500









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

E: Rob.Murphy@jsferraro.com

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.