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WEEK ENDING SEPTEMBER 23, 2022

THE BEEF WRAP

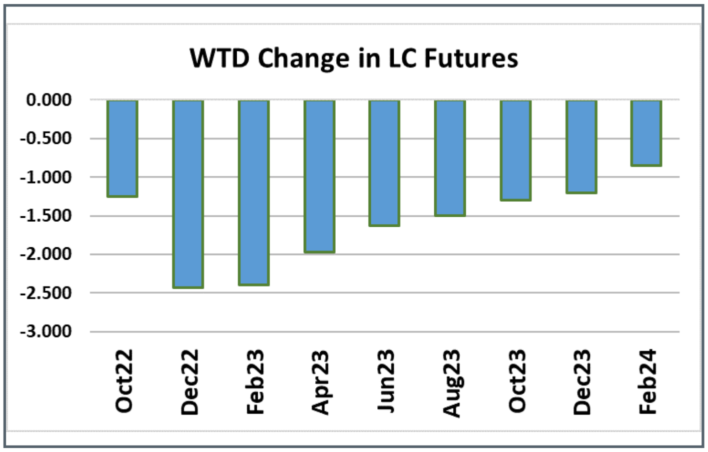
It was another bad week for packers, with the cutouts tracking lower and the cash cattle market moving higher. On a weekly average basis, the Choice cutout lost $4.78/cwt. and the Select cutout was down $7.07/cwt. Cash cattle averaged about $1.30/cwt. over last week and packers bought a lot more animals than they did the week before. Perhaps they are trying to get some inventory around them so that they won't have to pay up again next week. Obviously, their margin took a hit this week, dropping almost $60/head from the week before to average $129/head. Unless the cutouts can stage a substantial rally next week, margins are likely to fall below $100/head when this week's more expensive cattle show up at the slaughterhouse.

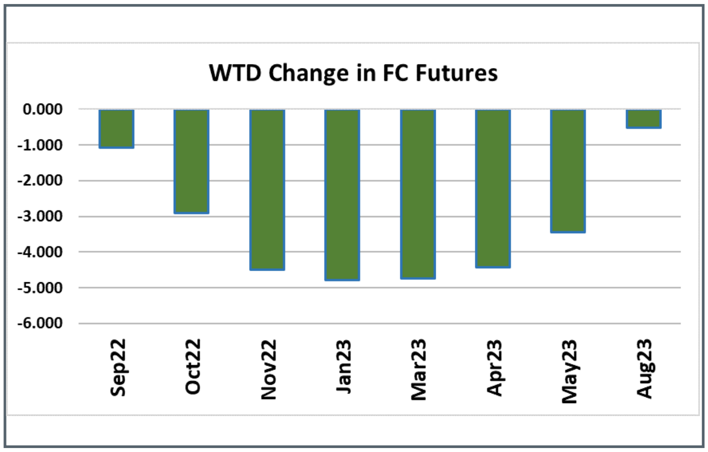
The futures market paid no attention to the fact that packers were paying more for cash cattle and the most active Dec contract lost almost $2.50/cwt. on the week. Cattle traders seemed to be more focused on the possibility that the US will slip into a recession as a result of the ongoing interest rate increases by the Federal Reserve, who upped rates another 75 basis points this week. The stock market had an awful week also and that can have a psychological impact on consumers even before an official recession begins. Traders see the beef cutouts falling day after day and the stock market blaring warnings of and impending recession and that sends them into selling mode. I think they are correct to sell the more deferred issues, which have been supported at very high levels for months now by the bull story of tightening cattle supplies in the future. However, as this week showed, prices are not only determined by supply. Demand has a lot to say about price levels also and the bad news on the demand side is finally starting to get more focus in the cattle market. This week, all of the primals were lower, but the end meats led the way.

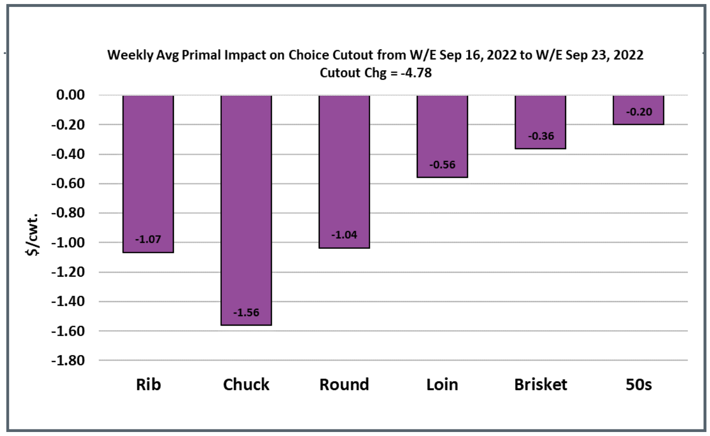
Even ground beef saw prices slip this week. End meats and grinds are the items that should see the least demand slippage in hard times, but instead we are seeing the opposite. Maybe that is an indicator that the hard times haven't really arrived yet. However, as we move into Q4 and the weather cools, end meat demand should improve, if only for a couple of months. The combined margin continued lower this week after a brief head-fake a couple of weeks ago and it looks as though this demand downcycle may have another couple of weeks to go before we get the combined margin back down to the zero line where it has bottomed in the last two cycles. International demand continues to look ok based on the weekly data out of FAS, but the USD is very strong right now and may get even stronger, so that could eventually dampen demand from overseas. On the positive side, we should only be couple of - weeks away from the start of the holiday middle meat strength that normally materializes in October and runs to the middle of December, so that source of demand could be what comes to the rescue and turns the cutouts and combined margin higher in early October. One thing worth considering is just how much demand has already come down from 2021 levels. The attached scatter diagram for Q3, which is nearly complete now, shows per-capita consumption about the same in 2021 and 2022, but the price level in 2022 is way, way below 2021.

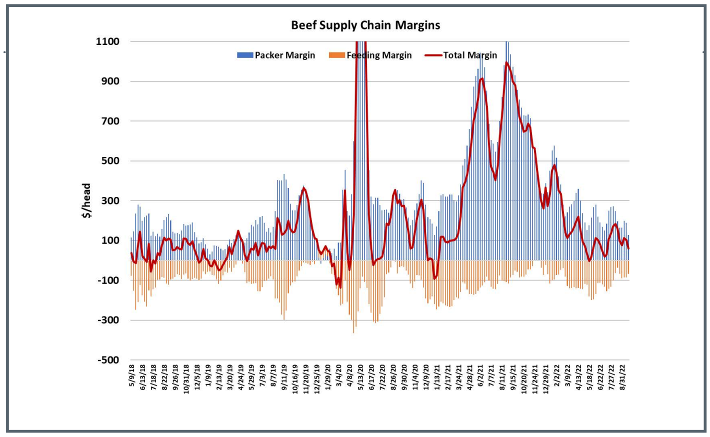
It is almost back on the regression line. I think that Q4 will look similar (2022 close to the regression line) and that is how I get the Choice cutout averaging $255/cwt. in Q4. That isn't very much above today's level. This week's fed kill came in a little below expectations at 516k. However, as we move into October, fed supplies should tighten up based on past placement patterns and we could see fed kills in October drop into the 500-510k range, or perhaps a little lower. So, if the holiday middle meat demand doesn't turn the cutouts higher by early October, there is a good chance that smaller cattle supplies and thus smaller fed kills will provide some price support. Today's Cattle on Feed report showed August feedyard placements up 0.5%, which was stronger than the 2.5% decline that analysts were expecting. This is the sixth time that has happened in the last seven months (chart attached). Total on-feed inventories were reported to be about half-a-percent larger than last year also. So we are not going to run out of cattle any time soon. This week, USDA gave us carcass weight data for the week that included Labor Day and it showed steer weights up a whopping 10 pounds from the week before. Some increase in weights was expected due to the holiday, but a 10-pound gain seems unusually strong.

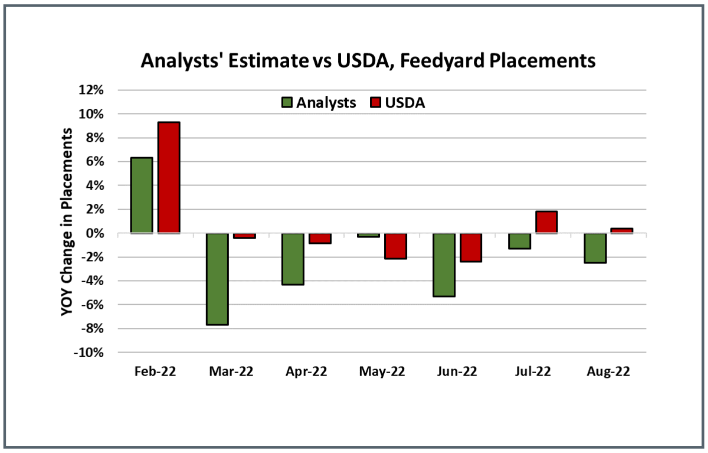
That bumped the DTDS weights upward and while they are still very low, they appear to be in recovery mode now. The percentage of cattle grading Choice or better increased in this week's data also. Those two pieces of information have been the strongest evidence for the supply-side bull case, but they could be losing some of their luster now. I'm not ready to say that the cash cattle market is going to fall apart because cattle feeders still seem to have a good bit of leverage (as evidenced by this week's cash price increase), but maybe their grip on the cattle market is loosening just a bit. Next week, it will be interesting to see how the futures reacts to the COF report after all the selling that took place late this week. Also, watch those outside markets also because today's action made it clear that traders are taking the potential for macro damage to beef demand more seriously.

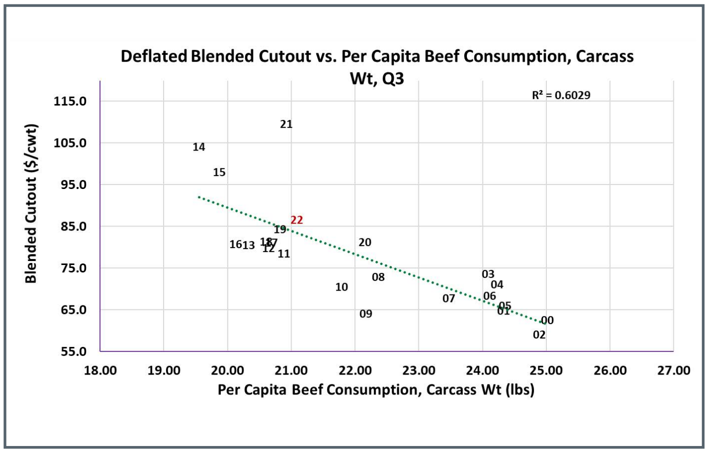

WTD Change in LC Futures
0.000
-0.500
-1.000
-1.500
-2.000
-2.500
-3.000
Oct22
Dec22
Feb23
Apr23
Jun23
Aug23
Oct23
Dec23
Feb24

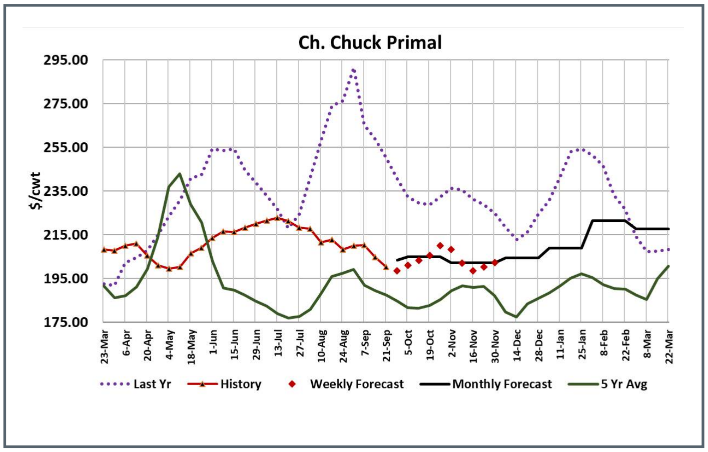

WTD Change in FC Futures
0.000
-1.000
-2.000
-3.000
-4.000
-5.000
-6.000
Sep22
Oct22
Nov22
Jan23
Mar23
Apr23
May23
Aug23

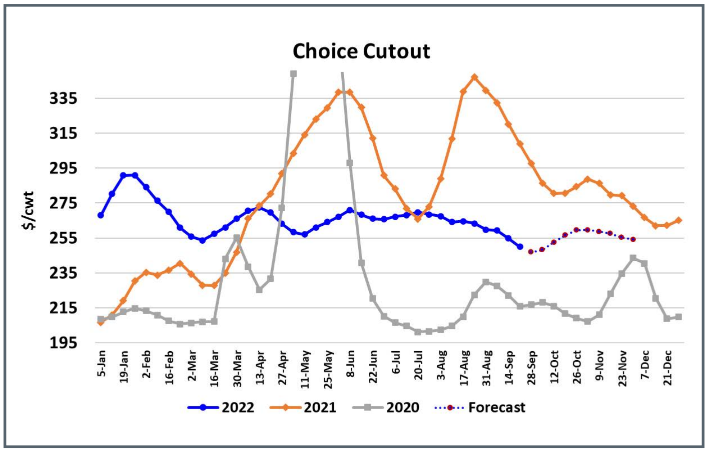

Weekly Avg Primal Impact on Choice Cutout from W/E Sep 16, 2022 to W/E Sep 23, 2022
Cutout Chg = -4.78
$/cwt.
0.00
-0.20
-0.40
-0.60
-0.80
-1.00
-1.20
-1.40
-1.60
-1.80
-1.07
-1.56
-1.04
-0.56
-0.36
-0.20
Rib
Chuck
Round
Loin
Brisket
50s


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









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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.