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WEEK ENDING SEPTEMBER 30, 2022

THE BEEF WRAP

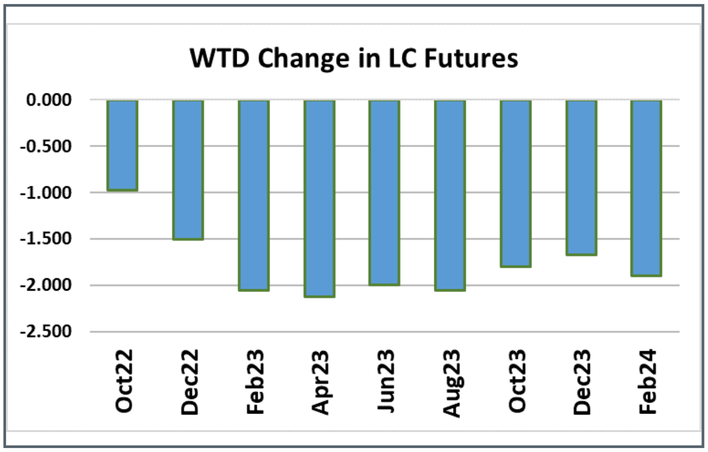
The margin squeeze on beef packers is getting more intense. This week's margin only registered $68/head and next week could be even smaller. That is the result of a mostly steady cash cattle market and falling beef cutouts. The Choice cutout lost $3.25/cwt. and the Select was down $3.40/cwt. The fact that cash cattle were able to trade nearly steady at $144.55/cwt. is a testament to feedyard currentness because in addition to falling cutouts, the futures market continued its move lower as well and the US equity markets were also in a freefall. So there was a lot of negativity in the air that could have dragged cash cattle lower, but didn't. Packers will probably slow the kill down in the next few weeks, not just because their margins are under pressure, but also because the number of market-ready cattle should be tighter in October than it was in September. Perhaps that will help stem the slide in the beef market. Or not. I don't get the sense that this is really a supply-driven pullback in prices.

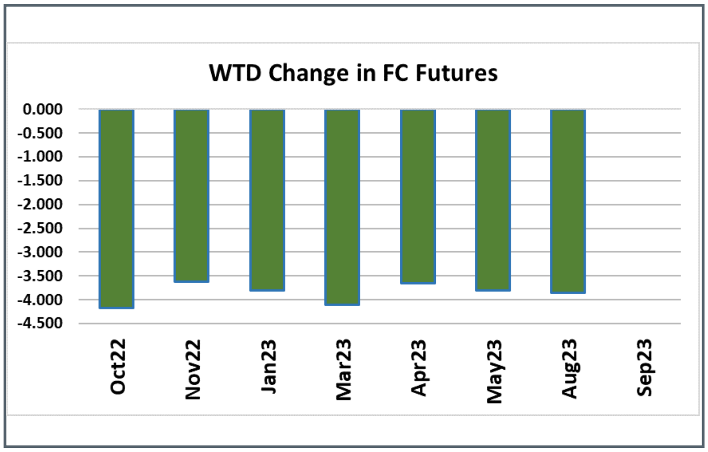
Instead, I think it has more to do with the demand side of the market and what is going on the macroeconomy. The macro picture seems to get darker every day and the stock market is reflecting that sentiment. Consumers are starting to be more cautious as they spend and that is probably having an impact on how fast beef is moving. Retail beef prices remain very high and that is a pretty strong impediment to beef movement in this environment. What really needs to happen is for retailers to begin lowering prices in bigger chunks than the small declines we have seen lately. Of course, retailers are fearful of lowering prices in this inflationary environment where all of their costs, especially labor, have gone way up. So that creates a bit of a stalemate that can probably only be broken by further softness in wholesale prices that will give retailers enough margin cover to start lowering the prices that consumers see.

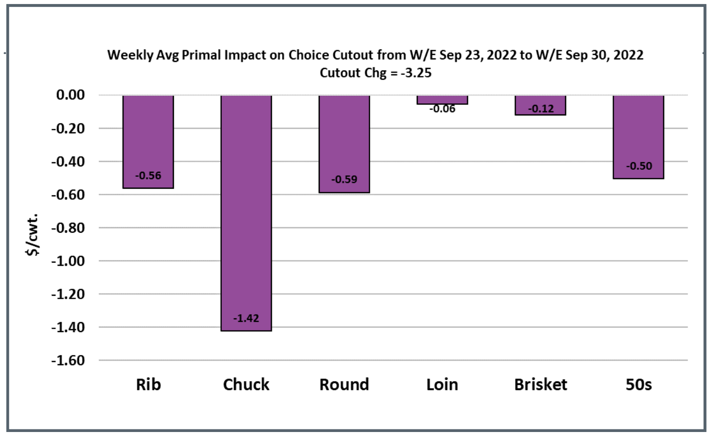
As the calendar turns to October, we normally expect to see interest in the middle meats start to build as beef buyers prepare for the upcoming end-of-year holidays. So far that hasn't happened and I'm sure that packers are anxiously anticipating that shift. The rib and loin primals were both lower on the week. Recall that last year the middle meats didn't exhibit a holiday rally at all. Prices tracked lower from September into January. Of course they started from much higher levels that we are at today, so that likely contributed to the odd seasonal pattern last year. For this past week, the rib primal was priced over $150/cwt. lower than where it was last year at this time. That is a 27% difference. However, this week's rib primal value was the second highest on record (after last year) and about 10% over the 2018-2020 average. We should be able to chalk that up to - inflation, but it does make me wonder if perhaps this relatively high starting point will limit the potential for an Oct/Nov middle meat rally again this year. End meats have also been disappointing lately. The chuck primal averaged under $200 for the first time in about a year and a half. Chucks were the biggest drag on the cutout this week and rounds were in second place. Even the fat trim has nosedived recently and is now priced in the mid-$80s. It certainly feels like we are still in a demand downdraft and both the daily scatters and the combined margin confirm this. It has been a while since we've seen the combined margin move below the zero line, but I suspect that is about to happen over the next week or two. Hopefully, that will mark the end of this demand cycle and a new upcycle can begin. On the supply side of the market, this week's fed kill came in at 516k, down 6k from the week before. It was mostly a smaller Friday kill that made the difference.

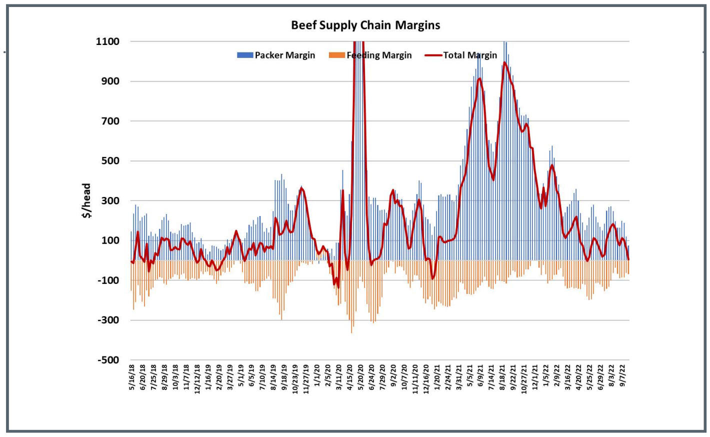
I think we can expect next week's kill to be a little smaller yet as smaller available cattle supplies will limit how far packers can push the kill without having to raise cash cattle bids. In this margin environment, the last thing that packers want is to have to pay up for cattle. Steer carcass weights were reported 4 pounds higher this week and that comes on top of a 10 pound increase the week before. As a result, the DTDS weights are starting to climb, but are still very low historically and that is telling us that feedyards are still pretty current. The cattle aren't grading very well either and that is another sign that feedyards are current. The poor grading comes at an inopportune time for beef buyers, who might find it a little more difficult to find the high quality middles that they desire ahead of the holidays. The Choice-Select spread averaged $26/cwt. this year and there is concern that it could go higher as we move closer to the holidays.

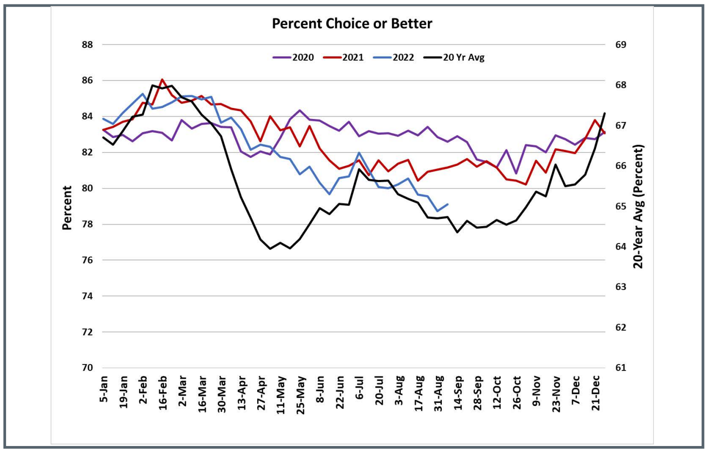
If it doesn't it probably means that holiday demand for middles is weaker than normal. The attached scatter diagram for October shows just how much beef demand has declined from last year. Per-capita consumption was only a tiny bit larger this September compared to last, but the Sep 2022 data point is much, much closer to the regression line than the data point from Sep 2021. The great demand re-set has taken place and brought prices back closer to pre-pandemic norms, but it may not be done yet and that will likely keep market participants attention in the near term. Next week, watch for the middle meats to get some kind of price lift. It is time for that. Also watch cash cattle prices because there is a reasonable chance that cattle feeders are able to move them modestly higher.

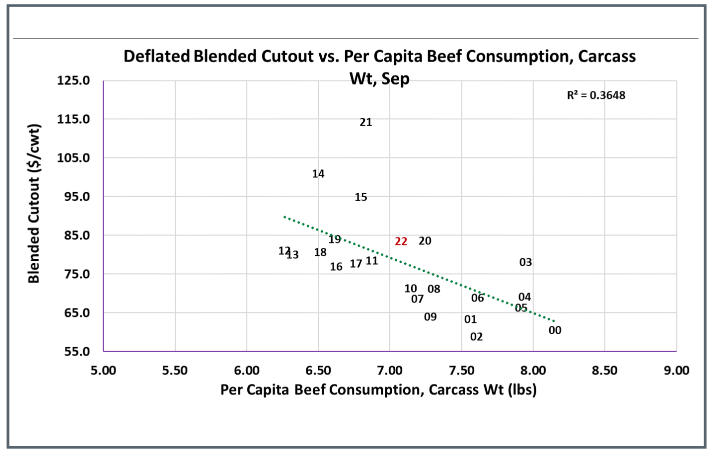

WTD Change in LC Futures
0.000
-0.500
-1.000
-1.500
-2.000
-2.500
Oct22
Dec22
Feb23
Apr23
Jun23
Aug23
Oct23
Dec23
Feb24

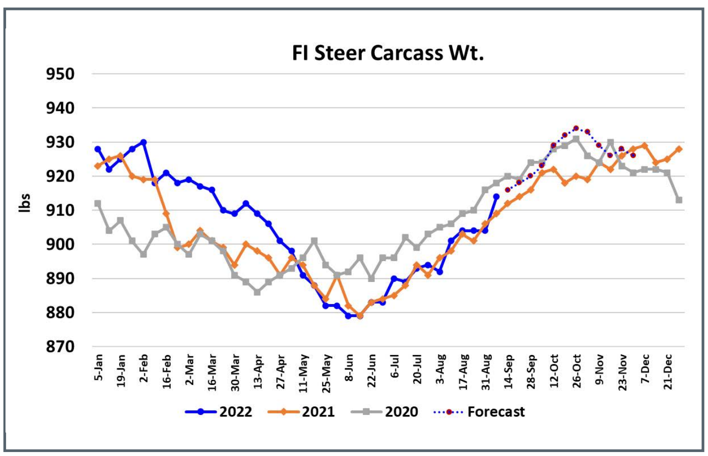

WTD Change in FC Futures
0.000
-0.500
-1.000
-1.500
-2.000
-2.500
-3.000
-3.500
-4.000
-4.500
Oct22
Nov22
Jan23
Mar23
Apr23
May23
Aug23
Sep23

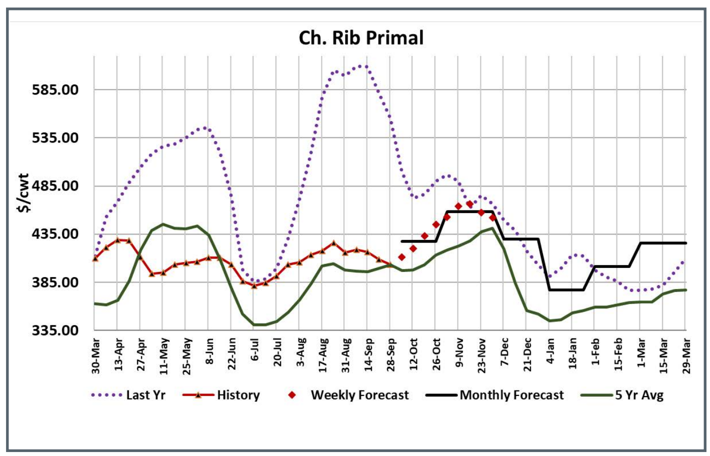

Weekly Avg Primal Impact on Choice Cutout from W/E Sep 23, 2022 to W/E Sep 30, 2022
Cutout Chg = -3.25
$/cwt.
-0.56
-1.42
-0.59
-0.06
-0.12
-0.50
Rib
Chuck
Round
Loin
Brisket
50s


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.