



WEEK ENDING SEPTEMBER 9, 2022

THE BEEF WRAP

Once again, it was “steady as she goes” in the cattle and beef complex. The Choice cutout lost only \$0.46/cwt. this week and the Select was down \$2.17/cwt. The cash cattle market averaged about \$0.50/cwt. below last week’s average. The futures market moved about \$1 higher on the week, with all of that coming on Friday once market participants recognized that packers were paying just a little more for those late clean-up cattle purchases. Most of the softness in the Choice cutout was driven by the loin primal, while the round gave the most support. It was a little surprising that the recent small kills didn’t help the cutout this week and that could be an ominous sign for next week when much bigger production needs to clear the system. This week’s fed slaughter is estimated at only 478k, down about 20k from the week before and well below the 520-530k range that was prevalent before the holiday.

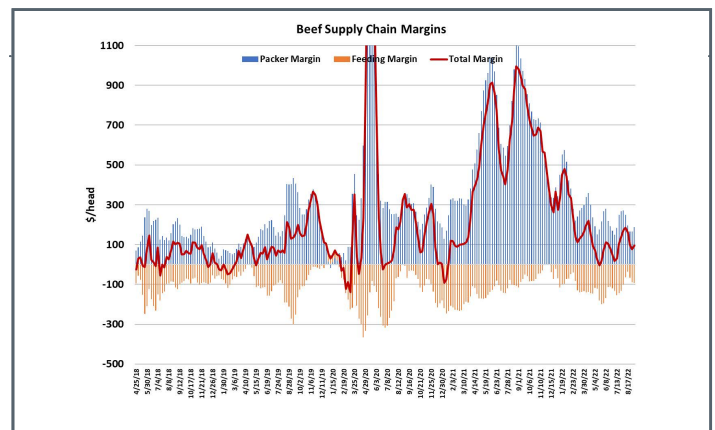
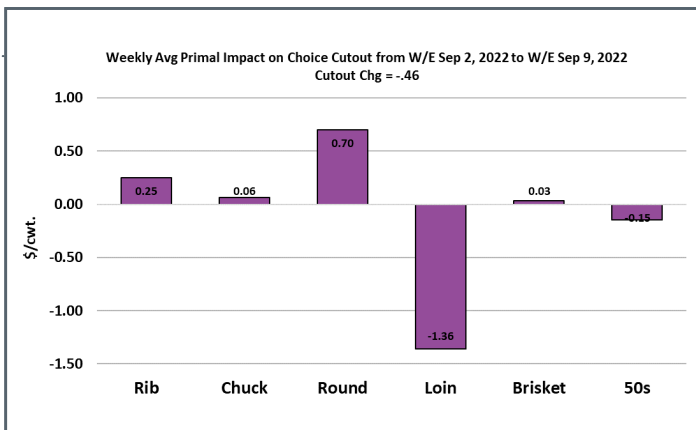
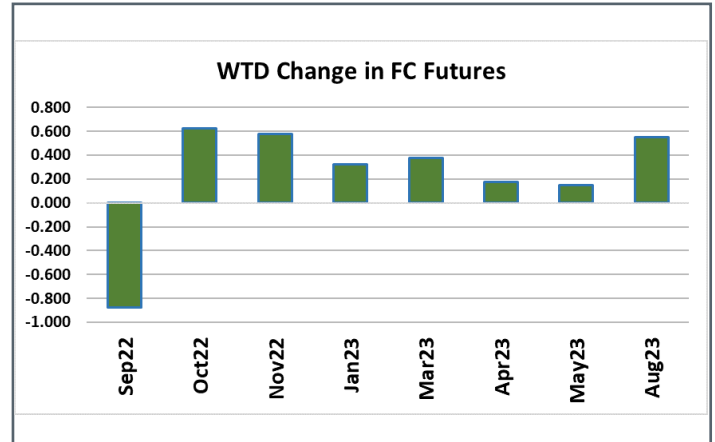
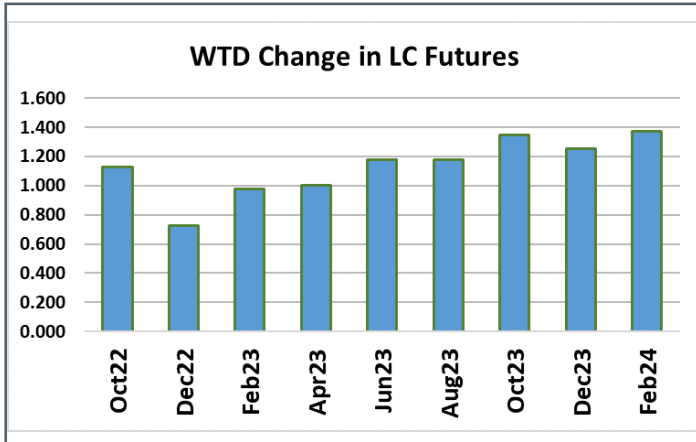
I expect that packers will throttle back up to 530k next week. The Saturday kill was quite large at 92k, of which about 80k was steers and heifers. We should have a couple more weeks of really big steer and heifer slaughter before kills start to taper down near the beginning of October. Based on past placement patterns, I’d look for weekly fed kills during October to average around 500k per week, which is a pretty big drop from today’s level and thus beef availability is likely to tighten up moving into Q4. That may or may not mean higher cutouts, since there is a chance that beef demand will be softer than what we saw in late summer. Packer margins improved about \$20/head this week to average \$189, as last week’s cheaper cattle purchases helped the bottom line.

My forecast has the cutouts easing a little more next week as larger production weighs on the market. The combined margin made a little turn higher this week, but I am reluctant to call this a bottom. If it is a bottom, it is happening at a higher level than has characterized other recent bottoms. It could just be a head-fake and next week’s combined margin could continue lower. Now that summer is behind us and the kids are all back in school, the post-COVID party atmosphere is done and it will be interesting to see if beef demand erodes as a result. Some of the macro variables got a little better this week as gas prices continued to fall and the stock market posted a positive week. In the Southern US, gas prices below \$3/gallon are becoming commonplace again. That will please all of the pickup truck and SUV drivers. Will they spend their gas savings on a nice juicy steak to celebrate?

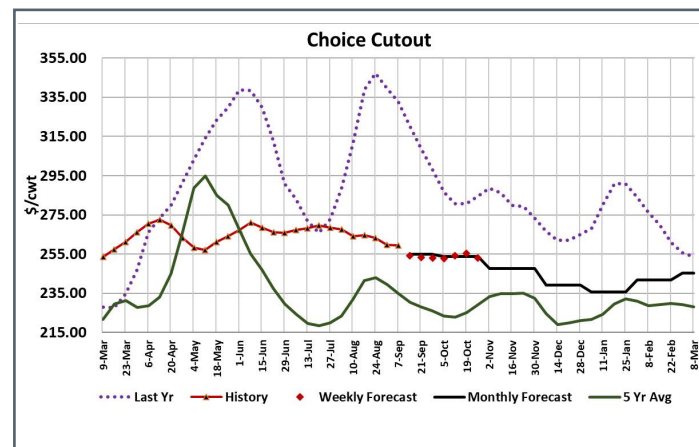
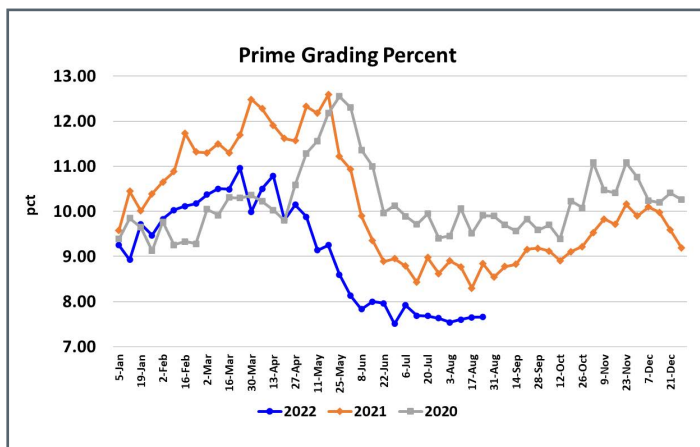
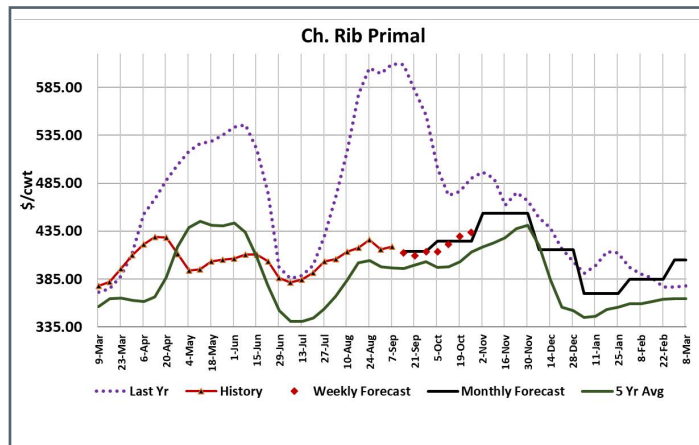
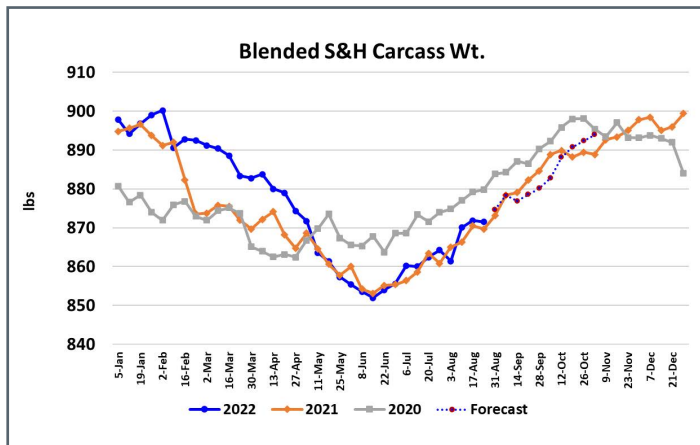
I doubt it, but a little extra change in consumer’s pockets certainly won’t hurt demand. We should look for middle meat demand to improve in October and November, and much of that will be centered on the ribeyes and tenderloins. It’s not a given, however. Recall that last year rib prices moved lower right through the fall and didn’t really exhibit much of a holiday-induced demand bump. We often see better end meat demand heading into October and that should be the case this year, but I expect that the price gains will be moderate at best. Trimmings markets likely work a little lower as demand through QSR channels should be softer as fall begins. Actually, the safest, and easiest, forecast would be just to call everything flat for the next month or two. That is pretty much the way most items traded throughout the summer.

The current forecast has the Choice cutout down in the low \$250s by the end of October. At that point in time I’d expect cash cattle to be in the low \$140s—not far different from today’s pricing. Futures traders are more optimistic than that, with the Oct contract settling near \$146 this week. ERS released the trade data for July this week and it showed total beef exports up 3.2% YOY and down 2.5% from June. Export volumes are running above recent years at a time when US price levels are also stronger than in years’ past, so that provides pretty strong evidence that international demand for US beef is healthy. I think we will see some modest softening of exports in Q4 from current levels, but they could still be at, or slightly above, last year. USDA still hasn’t repaired their weekly export reporting system, so we remain in the dark about current export activity.

Steer carcass weights were unchanged this week at 904, and have been slow to rise coming out of summer. The DTDS weights remain at stubbornly low levels and that keeps me thinking that feedyards are not backlogging any cattle at present. Kills have just been too strong for that to happen. We should see stronger weight increases in the next couple of FI data releases because they will cover the recent holiday-reduced kills. It is hard to imagine cash cattle prices slipping too much given how bullish the weight picture looks. Next week watch the cutouts to see how they perform under the weight of bigger production. If they hold steady or advance, then that would be a positive demand sign. More likely, the cutouts slide lower and put pressure on packers to get cattle bought cheaper next week.



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