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WEEK ENDING OCTOBER 14, 2022

THE BEEF WRAP

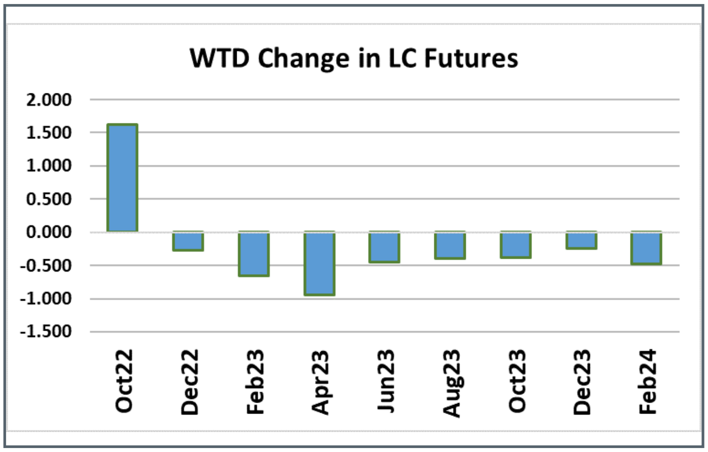
The beef market just seems to be going nowhere. This week, the Choice cutout averaged 246.31/cwt, down $0.58 from last week. This is the third week in a row that the Choice cutout has been stuck at $246+change. The Select cutout was a lot weaker however, down $4.37 on the week. Apparently no one wants Select grade beef. They all want Choice. This caused the Choice-Select spread to move out to $31.56/cwt. Further, the trim markets have been on the defensive. 90s lost $4 this week and the 50s have dropped about $30 over the past four weeks. Select grade beef and trims (i.e., ground beef) have something in common. They are both lower-priced alternatives that normally see strong demand from lower income consumers. Is the market signaling that the lower income consumers are struggling?

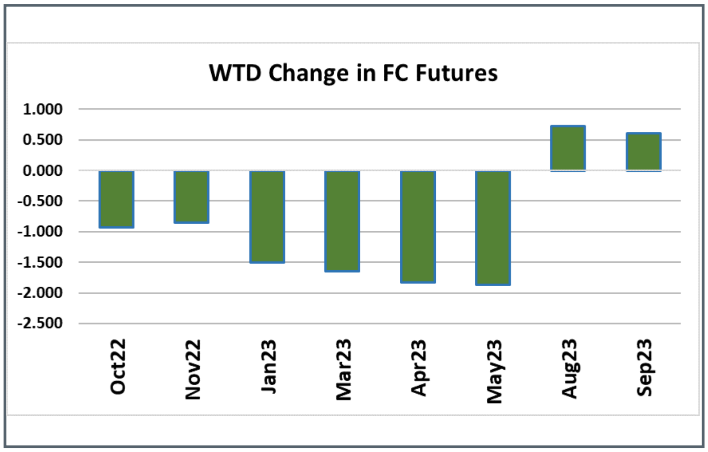
It has occurred to me that perhaps the beef market is becoming more bifurcated in recent months, with the upper income consumers still doing well and still demanding the high quality Choice+ beef while the lower income brackets are struggling and possibly starting to trade out of beef to other proteins. That could be a problem because close to 40% of all beef consumed in the US is in a ground form. That is something to keep an eye on. It is also a little concerning that we have made it to the middle of October with the rib primal showing very little price gain. Maybe the holiday buying is slow to get started this year, but the rib primal only added $4.20/cwt. this week and is only $5 higher than it was a month ago. The Choice loin primal is dripping lower week after week, so its not like rib demand is shifting into loins. In fact, this week the loins and 50s were the biggest drag on the cutout.

I am definitely concerned about beef demand. The combined margin pushed into negative territory this week and isn't yet showing signs of turning higher. Meanwhile, cattle feeders are acting like beef demand is strong and demanding more money for cattle week after week. Cash cattle averaged $146.77 this week, up about $0.50 from the week before. That pushed packer margins down to about $25/head. Oh, how the mighty have fallen. Gone are the days of $500+ packer margins that were common during the pandemic. The interesting thing about that is that packers don't really seem to care that their margin has nearly vanished. They aren't making any significant attempt to restore margins by cutting the kill. This week's steer and heifer slaughter totaled 513k, down only 3k from the week before. The base numbers out of the flow model suggested that the available fed cattle supply in October would only be about 490k per week, but packers are definitely over-killing that target and that is - helping to keep feedyards very current and give cattle feeders the leverage they need to keep cattle prices moving upward. Available supplies during November and December shouldn't be much larger than in October and we may actually be "borrowing" some Nov/Dec cattle right now to fuel big kills. That sets up a situation where, between now and the end of the year, packer margin improvement is going to have to come from raising beef prices more than pushing down on cattle prices. That probably means that margins will stay relatively tight for at least a couple more months. Carcass weights were reported a little higher this week, but they went up a little less than the normal seasonal would imply, so weights continue to suggest feedyards are staying current.

Quality grading on carcasses also improved a little bit this week, but remains well below the historical average. USDA released its retail beef price data for September this week and it showed a small decline from August, but still very close to last year's level. If retail beef prices aren't moving much, then perhaps that is why wholesale beef prices have been so stable recently. Regardless, it is clear that the consumer isn't seeing much relief from high beef prices at the meat counter. The weekly export data for beef continues to look relatively good and the forecast has exports remaining strong through the balance of the year. Domestic consumers are a bigger threat to demand than international consumers at this point. The Consumer Price Index for September was released this week and it was up 0.22% from August and 8.2% higher than last year.

So price levels in the macroeconomy are still rising, but at a much slower rate than earlier this year. That has led some to say that inflation is receding, but I don't think a rapid reduction in price levels will happen anytime soon. Given that our beef demand indexes now incorporate the CPI, this means that it is necessary to forecast inflation levels well into the future in order to arrive at the fundamental beef price forecast. That adds to the complexity and definitely increases the potential error. The Fed appears to be dead set on continuing to raise interest rates until the labor market cools down in a meaningful way. That could take a while and require forcing the economy into a recession in order to achieve that goal. Recessions are never good for beef demand. Next week, fingers crossed for a bigger gain in some of the middle meat items, because without that packer margins could easily move into the red. Also watch trim prices because they seem to be indicating that the value-conscious consumer is becoming less interested in beef.


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


WTD Change in FC Futures
1.000
0.500
0.000
-0.500
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Oct22
Nov22
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May23
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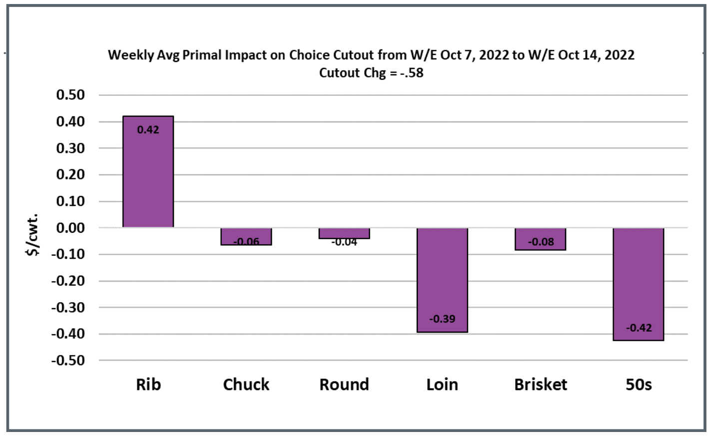
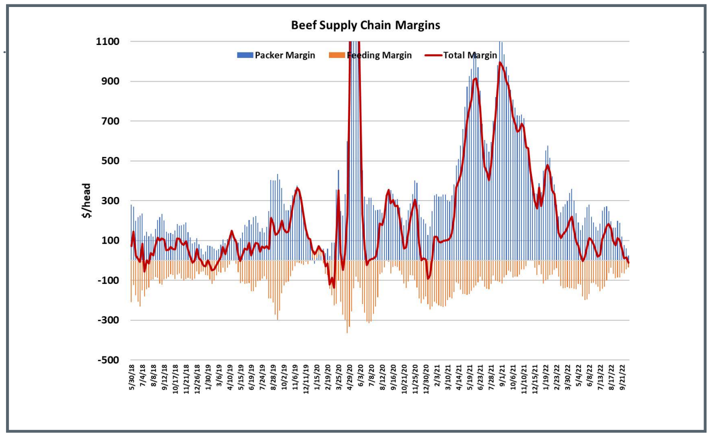
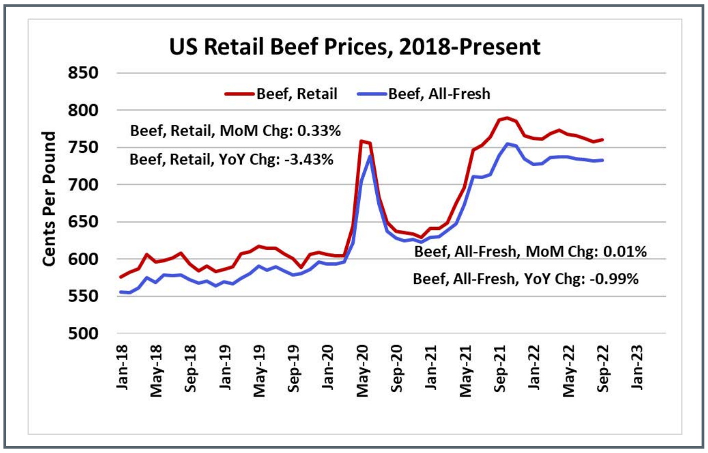
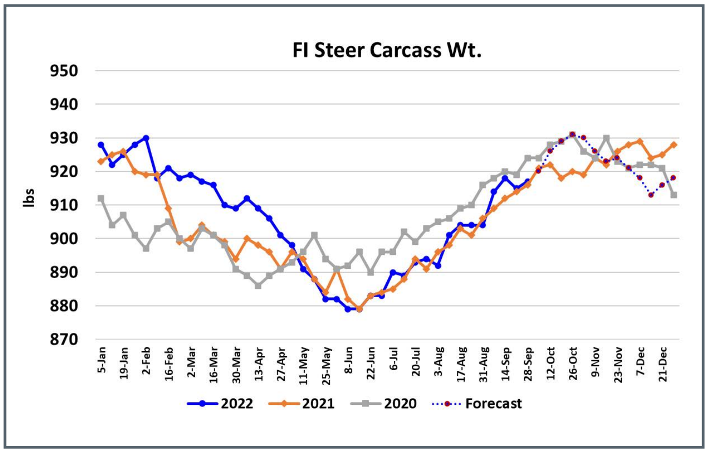
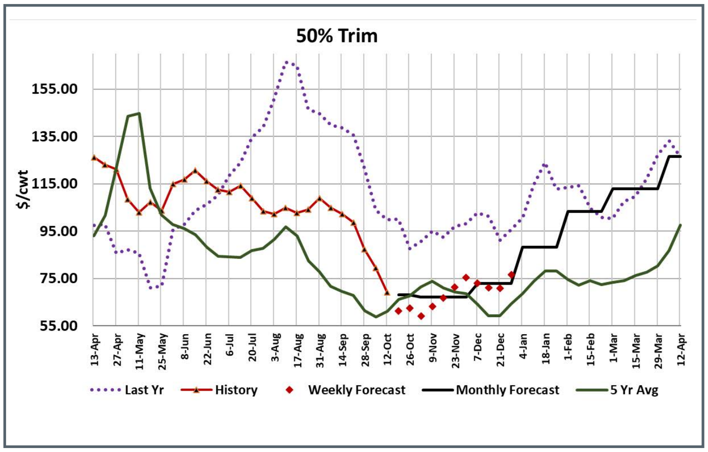
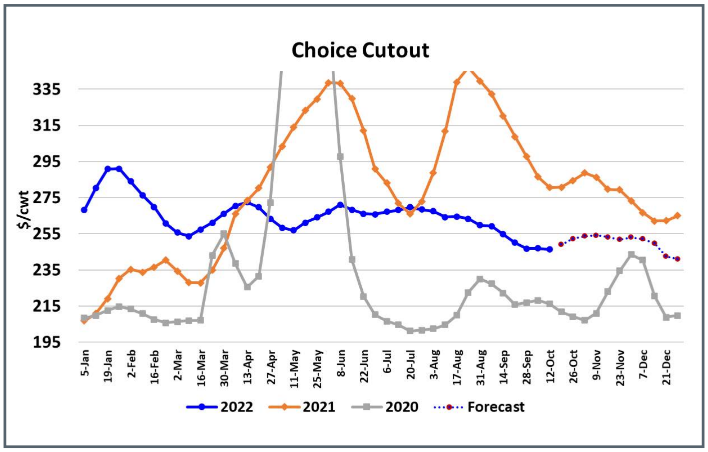

Weekly Avg Primal Impact on Choice Cutout from W/E Oct 7, 2022 to W/E Oct 14, 2022
Cutout Chg = -.58
$/cwt.
0.50
0.40
0.30
0.20
0.10
0.00
-0.10
-0.20
-0.30
-0.40
-0.50
0.42
-0.06
-0.04
-0.39
-0.08
-0.42
Rib
Chuck
Round
Loin
Brisket
50s


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.

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