



WEEK ENDING OCTOBER 7, 2022

# THE BEEF WRAP

It was a pretty quiet week in the beef market with the Choice cutout only gaining \$0.16/cwt. on a weekly average basis and the Select cutout losing \$1.62/cwt. As a result, the blended cutout was just a few cents lower on the week. The cash cattle market was stronger, averaging close to \$146, which was about \$1.20/cwt over last week. Packer margins came in at about \$78/head—not much change from last week. So far we haven't seen the surging middle meat demand that normally starts early in Q4. The rib primal posted a small week-on-week gain, but the loin primal posted a small loss for the week. Perhaps the most notable change in the beef complex this week was the 50s moving below \$80/cwt, down about \$8 from the week before. Given that fed kills are now smaller than they were back around early September when the 50s were averaging in the low \$100s, I'd say that this drop in the 50s is more related to demand than supply.

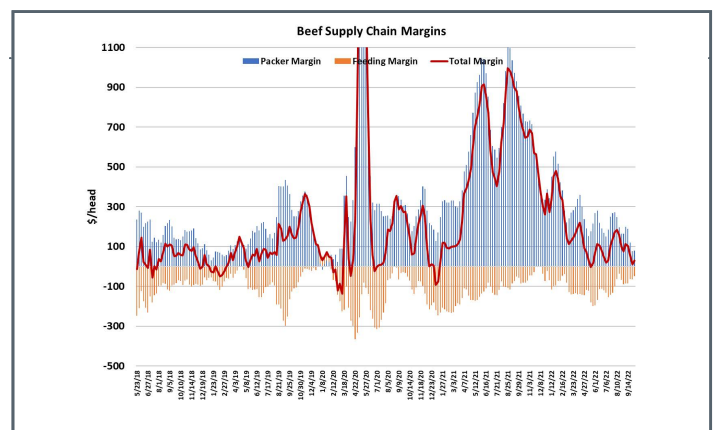
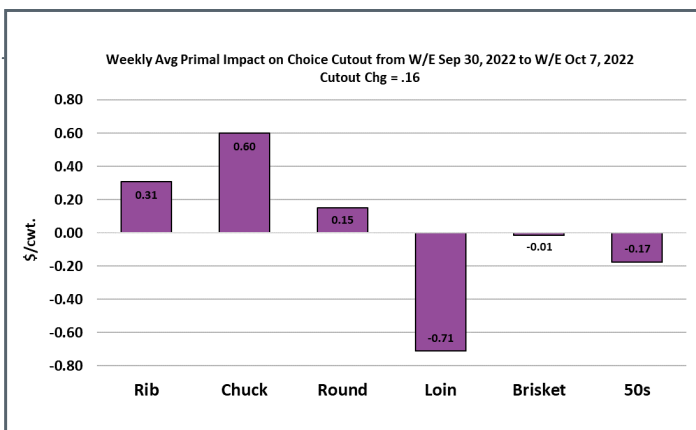
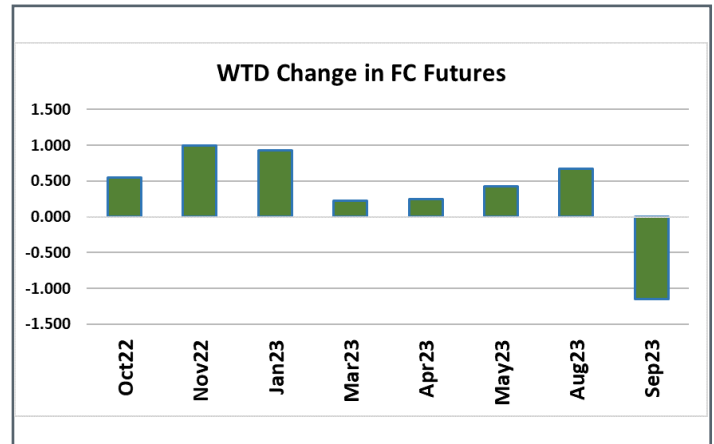
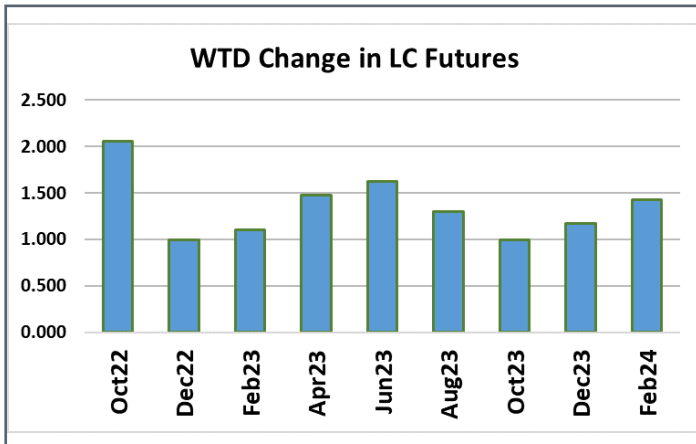
I take it as an ominous sign when one of the cheapest items in the beef complex is having demand problems. Chicken prices have been coming down rapidly as production is increasing and that is likely steal some demand from the grinding complex in the weeks and months ahead. The macro environment didn't get any better this week as equity markets posted strong gains early and then gave all of it back at the end of the week. That is the type of price action that makes people feel crummy about the prospects for the future and is likely to dim their confidence in the economy. LC futures managed to rebound some this week, but that was just a bounce up from seriously over-sold conditions in the prior week. Futures traders must be encouraged that cash was able to advance a little further this week, but packers really haven't put up much of a fight yet.

At some point in the next few weeks, I'd expect packers to dig in and refuse to pay up for cattle and that will probably be met by producers refusing to sell any cattle. We haven't had a week of no cattle trade for quite some time. Right now, I'd say that producers have the upper hand because the front-end supply of cattle still seems very current. The ultimate solution is for packers to pull back on the kill, which is something they haven't shown much interest in. The other out would be for boxed beef prices to rally sharply and restore packer margins without the need to pressure the cash cattle market. The market is due for a rally, so maybe that is how it will play out. The combined margin ticked a little higher after nearly touching the zero line last week.

It could be that demand is just about to enter another upcycle. If we do get some seasonal improvement in demand, I expect that it will be much more muted than what we've seen in previous years due to the challenging macro environment. On the supply side, the fed kill came in at 516k, down just 3k from the week before. The flow model has been pointing to tighter fed cattle availability during October, but it seems that packers want to continue killing as though it were August. Packer margins have been so large for so long, that it is difficult to gauge at what margin level they will start cutting the kill. Will they wait until margins are negative or will a \$20/head margin do the trick? They may be able to avoid that tough decision altogether if they can get a decent rally in the boxes, but with each passing week the prospect of a sharp Q4 price rally seems less likely.

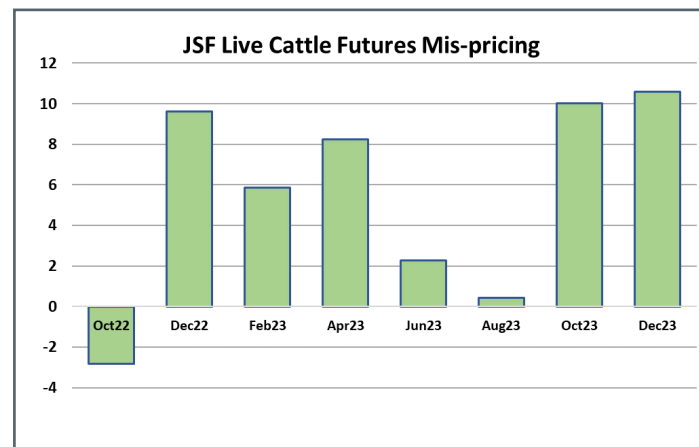
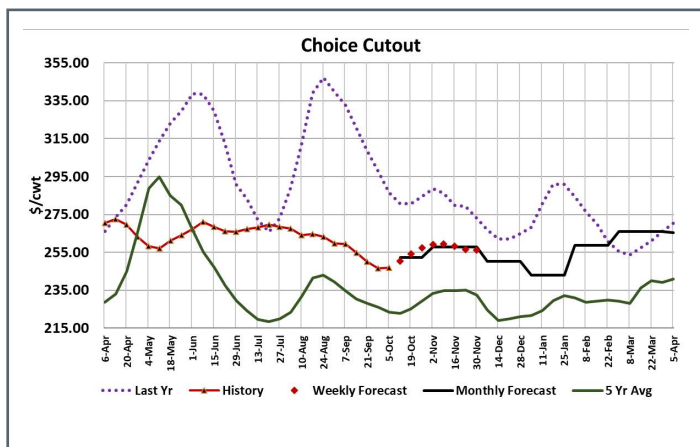
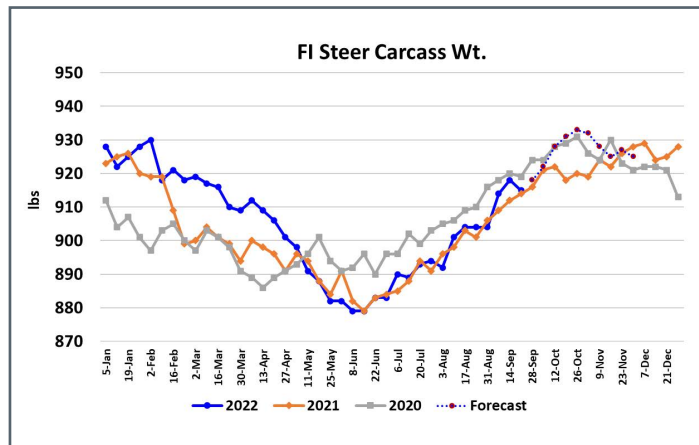
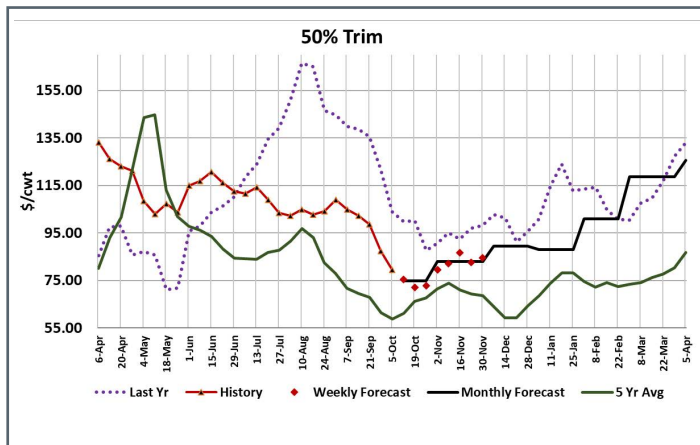
Steer carcass weights dropped three pounds this week, taking back some of the stunning 14-pound gain that happened in the previous two weeks. The DTDS weights remain rather low, so it seems as if feedyards are still pretty current. Packers will not get cattle prices down unless they reduce currentness of the cattle supply. My forecast has steer weights gaining another 18 pounds over the next 5-6 weeks towards a top in mid-November. USDA provided the trade data for August this week and it showed beef exports only 0.3% below last year, but that was the first monthly decline in exports so far in 2022. To be fair though, August was the top month for exports last year. Through August, beef exports are up 5.5% YOY and the forecast has them finishing the year up 6.1%.

So, I'm not projecting any serious softness in the export market for Q4, but I do think that we will see some YOY declines when Q1 rolls around. August beef imports were down 18% YOY, but again, August was the top in beef imports last year. It looks like the US will remain a small net exporter of beef in 2022, so I don't really think that a darkening trade picture will be what hampers pricing in the next few months. It is more likely to be problems with domestic demand, but those might not manifest until after the fall middle meat rally has run its course. Next week, watch the middles, particularly ribs, for signs pre-holiday demand is beginning to creep in. Also, watch the daily kills for signs that the packers are starting to see the need to dial down slaughter rates.



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