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WEEK ENDING NOVEMBER 11, 2022

THE BEEF WRAP

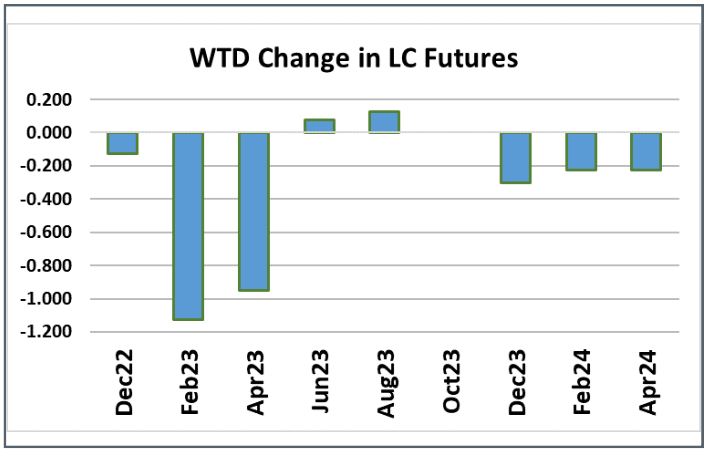
Cattle feeders managed to press a little more money out of the packers this week as average live steer prices were about $0.75 higher to $152.70/cwt. Packers did take on a large volume at that price and should now be well positioned to run a big kill next week. The cutouts were steady to slightly higher, with the Choice losing $0.46 on a weekly average basis, while the Select was up $2.80/cwt. That caused the Choice-Select spread to narrow by almost $3– something that is very unusual for this time of year. Normally in early November the Choice middle meats are racing higher and that causes the Choice-Select spread to widen, not narrow. However, it is more accurate to say that this year middle meat prices are crawling higher, not racing. This has to be creating some concerns for packers since the cattle that they will be killing next week cost about $7/cwt. more than what they were paying a month ago. Packer margins were mostly unchanged this week at $57/head, so they aren't getting the type of margin gains that are typical at this time of year either.

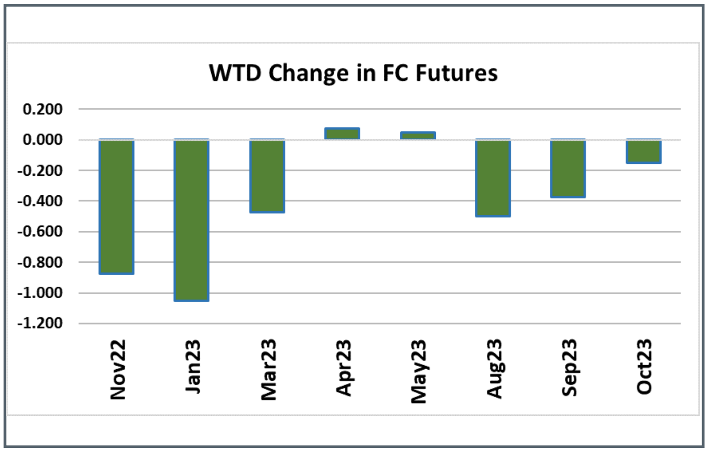
To be sure, there is still time for packer's fortunes to turn around, and there is often a decent rally in middle meat prices during early December as buyers finalize their Christmas purchases. But I'm not very hopeful for that this year. It looks to me like the market may be very close to topping the cutouts in the next couple of weeks. The middles may still gain, but the end meats and grinds are starting to slip lower and that could end up negating any benefits that middles bring. The attached chart indicates that losses in the round, chuck and brisket this week outweighed the gains in the rib and loin primals. I'm afraid that story might repeat again over the next few weeks. Let's imagine for a moment that the cutouts can't add much more value than they have right now. What will happen to cattle prices and thus packer margins? I really don't think that cattle feeders are going to show a lot of generosity to the packers and sell their cattle cheaper just because beef prices are not rising.

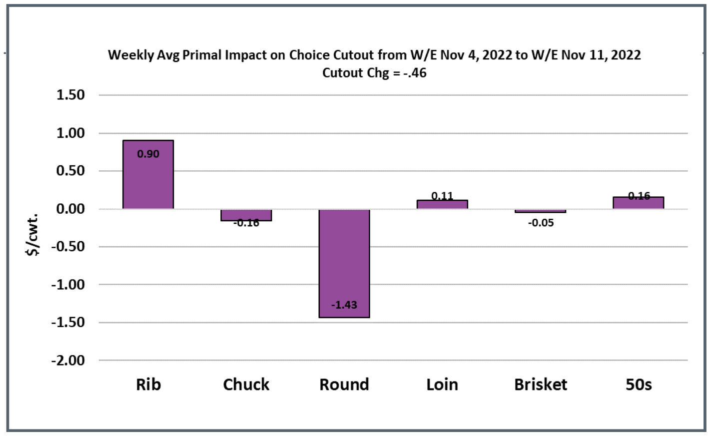
I think packers would need to force the issue by cutting way back on the kill for a few weeks to help improve their position in the psychological chess match that is the cash cattle market. Will they do that? So far they haven't shown much willingness. There is just too much forward contracted beef that needs to be delivered. As a result, I'm not very bullish on packer margins. In fact, as I revised the fundamental forecasts this week, I began plugging in negative packer margins for late December and through January. If I didn't do that, then I'd have to have cash cattle prices in the $130s and no one is going to believe that will happen given that we are sitting very near $153 today. In fact, futures traders seem to believe that there won't be any concession in cash cattle prices between now and the end of February. The demand side of the beef market feels very soft at present. The combined margin has turned lower once again after head-faking higher a couple of weeks ago. Trim markets are falling fast and I've always taken that as a - bearish sign. I'm a little concerned that the combined margin might be on its way to -$100/head, which is something that has only happened a couple of times in the past five years. Inflation is still a huge problem in the macroeconomy and there is no indication that the Fed will stop raising interest rates anytime soon. The October CPI, which was released on Thursday, showed a very slight easing in inflation and that was enough to send the DJIA soaring over 1000 points in a single day. That should be good for consumer confidence if it lasts, but the market could take that back in a heartbeat. The University of Michigan Consumer Confidence Index released today was down a little over five points from the previous month and very near all-time lows. That doesn't seem like the type of environment that will generate robust beef demand. On the supply side, this week's steer and heifer slaughter clocked in at 518k, up 2k from last week and still above the level that our flow model projects.

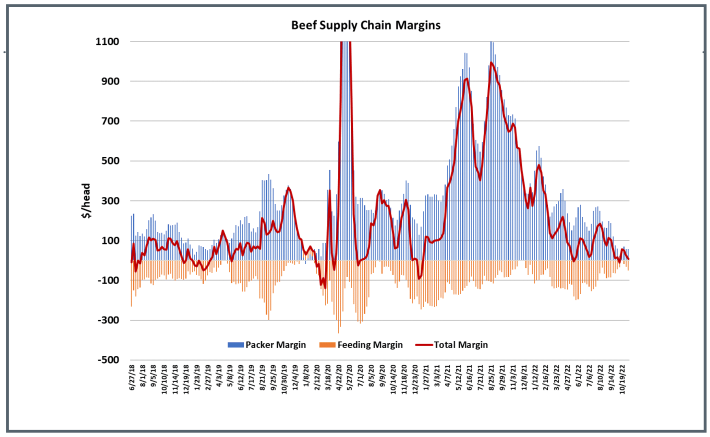
I'm looking for packers to do an even bigger kill next week, perhaps as high as 530k, as they try and get ahead of the short kill that will come in the following week. Next week USDA will provide the results of their Cattle on Feed survey for October and I'm looking for feedyard placements to be down almost 7% from last year. If that prediction comes true, then it will create a situation where feedyard inventories as of Nov 1 are down about 2.3% YOY. A couple more months of YOY placement declines and we could have feedyard inventories down 5-6% by February or March. Packers had better keep their fingers crossed that there is no serious winter weather that hinders cattle performance this year. Numbers are already going to be tighter than what they are accustomed to in Q1, so any adverse weather would just make the situation worse and could cause them to have to pay up for cattle at a time of year when beef demand is likely to be very soft.

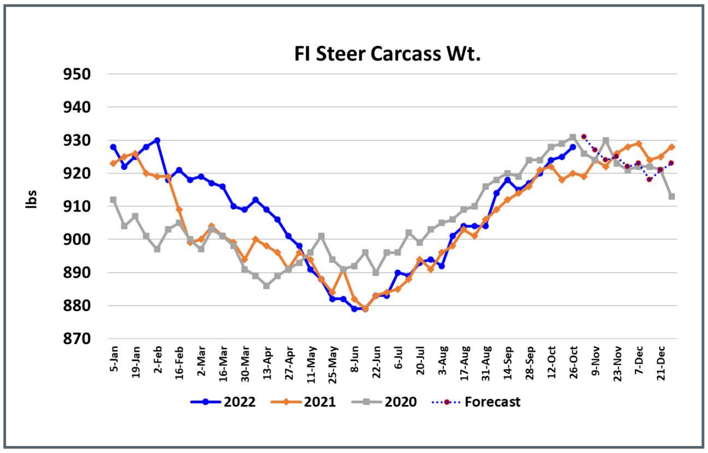
Steer carcass weights rose 3 pounds this week to 928 pounds and are now 8 pounds higher than last year. The DTDS weights are working higher and that normally signals a loss of currentness by feedyards, but the DTDS is still at relatively low levels, so I don't think that weights are going to have much of a detrimental impact on cash cattle prices in the near term. Weights will probably top sometime in the next couple of weeks at just over 930 pounds. For now, the supply side of the market appears well behaved and sufficient for the level of demand. However, market-ready cattle supplies are likely to shrink as we move into Q1, so things could get interesting, especially if Old Man Winter turns angry. Next week, watch for the middle meats to move a bit higher, but that could be offset by further weakness in the end meats. Packers will be purchasing for cattle for a short-kill the following week and they got a lot bought this week, so they might not need to be very active in the cash market. Futures could be vulnerable as the bulls get tired of waiting for the holiday season rally to start.

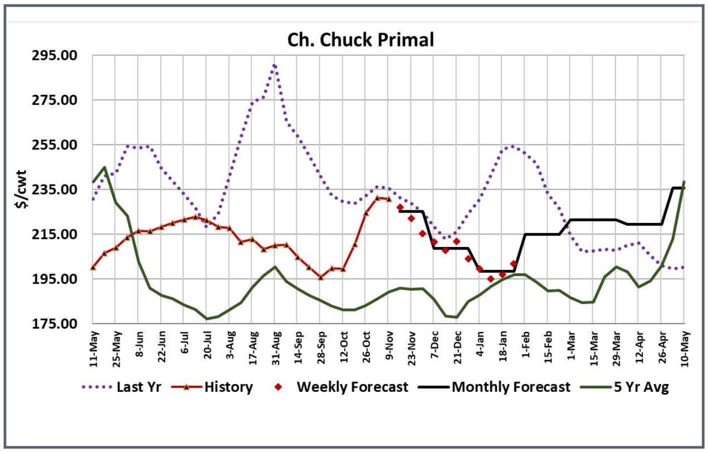

WTD Change in LC Futures
0.200
0.000
-0.200
-0.400
-0.600
-0.800
-1.000
-1.200
Dec22
Feb23
Apr23
Jun23
Aug23
Oct23
Dec23
Feb24
Apr24

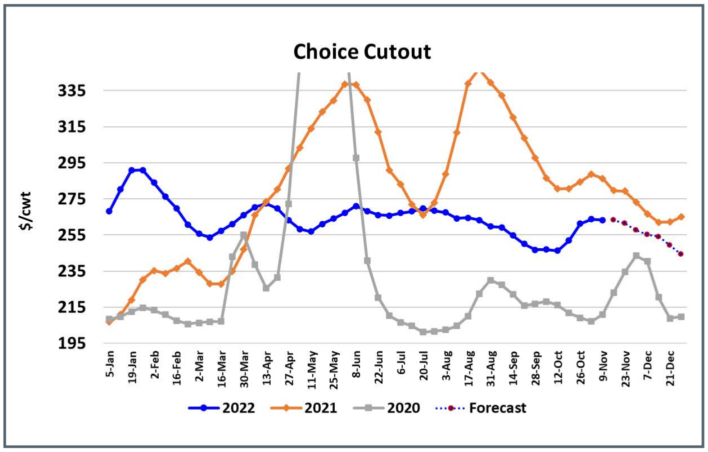

WTD Change in FC Futures
0.200
0.000
-0.200
-0.400
-0.600
-0.800
-1.000
-1.200
Nov22
Jan23
Mar23
Apr23
May23
Aug23
Sep23
Oct23

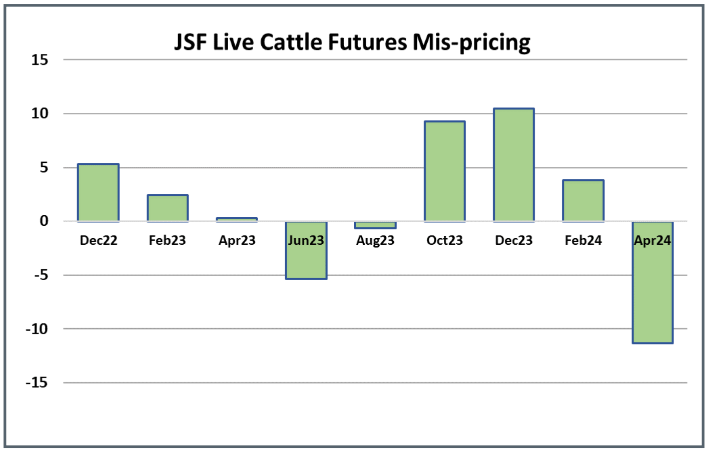

Weekly Avg Primal Impact on Choice Cutout from W/E Nov 4, 2022 to W/E Nov 11, 2022
Cutout Chg = -.46
$/cwt.
1.50
1.00
0.50
0.00
-0.50
-1.00
-1.50
-2.00
0.90
-0.16
-1.43
0.11
-0.05
0.16
Rib
Chuck
Round
Loin
Brisket
50s


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









DR. ROB MURPHY BS, MS, PhD Agri Economics,
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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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