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WEEK ENDING NOVEMBER 25, 2022

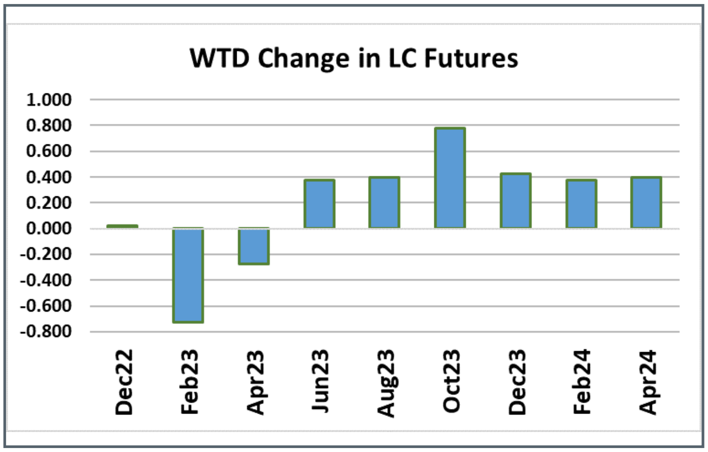
THE BEEF WRAP

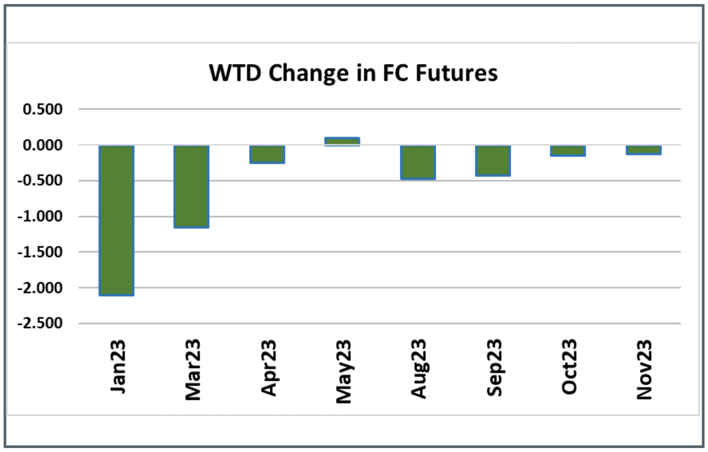
This week was full of bad news for packers. First, the cutouts continued on a downward trajectory at a time of year when they should be rallying. Then, cash cattle prices exploded higher. On Wednesday, cattle feeders dug in their heels and forced packers to pay a little more than $3 up for the cattle they will kill next week. It looks like the average this week will be a little over $156/cwt. Meanwhile, the Choice cutout lost $2.93/cwt. on a weekly average basis and the Select was up $1.60/cwt. Unless there is a substantial rally in beef prices next week, packer margins could be negative by close to $40/head when those more expensive cattle show up for slaughter. We have to go all the way back to Jan, 2020 to find the last time that beef packer margins were negative and even that was a very brief incident. Yet, there are still no signs that packers are willing to scale back the kill. This week's holiday-reduced steer and heifer slaughter registered 456k, down 65k from the week before. However, packers are expected to be right back to normal next week with a fed kill near 525k. That is too much beef for the market to comfortably handle and thus lower prices are required to clear it. The end meats in particular are not holding up very well. This week chuck meat was discounted heavily and that was more than enough to outweigh the modest gains in Choice rib prices. Right now the ribs are the only item providing support for the cutout and they are living on borrowed time.

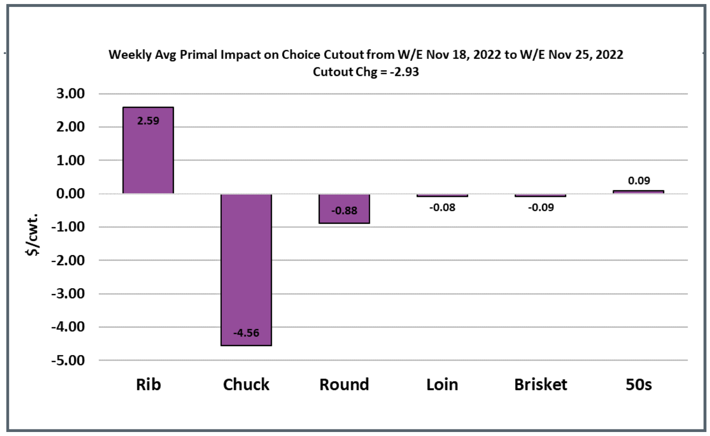
Sometime in the next couple of weeks all of the Christmas rib business will be done and it is common to see rib prices drop like a rock during the second half of December. It is hard to see what will keep the cutout from moving substantially lower once the ribs give up the ghost. My current forecast has the Choice cutout back down to $240 by the end of December and I'm concerned that might be too high. If cash cattle prices don't decline and hold in the mid $150s, the losses for packers could approach $100/head. Will that actually happen? It could, but I suspect that packers will start to talk louder about kill cuts and they will have the benefit of back-to-back short kill weeks at the end of December to help that along. Further, the signs are growing that feedyard currentness is slipping. The percentage of cattle grading Choice or better shot higher in this week's data and carcass weights did too. The DTDS weights are now almost back to the zero line and that suggests that it might not take much of a kill slowdown to change cattle feeder's attitudes. Packers may opt to continue the big kills until Christmas and the hope that the short kills alone will be enough to break the cattle market. That would be a pretty big gamble that might not pay off. A better bet would be to seriously curtail kills for the next couple of weeks to send a message to both beef buyers and cattle feeders. So far, packers haven't shown a willingness to do that.

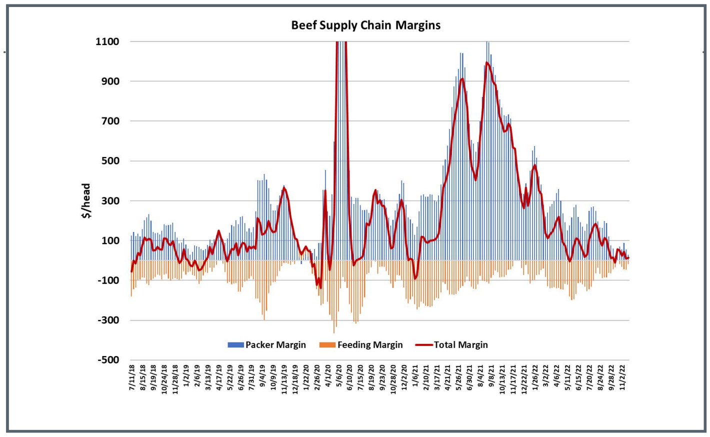
I thought that the top in carcass weights had already been made, but steer carcasses surprised everyone and jumped six pounds this week. It looks like they could move higher again next week too. There was some snow in the Texas panhandle region this week, but it probably wasn't enough to put a serious dent in cattle performance. Some modest snow is in the forecast next week for the Northern Plains, but it doesn't look particularly onerous at this point If you think cattle feeders are bulled up now, just let 2 or 3 big snowstorms roll across the Plains. It is very important to watch the weather at this time of year.

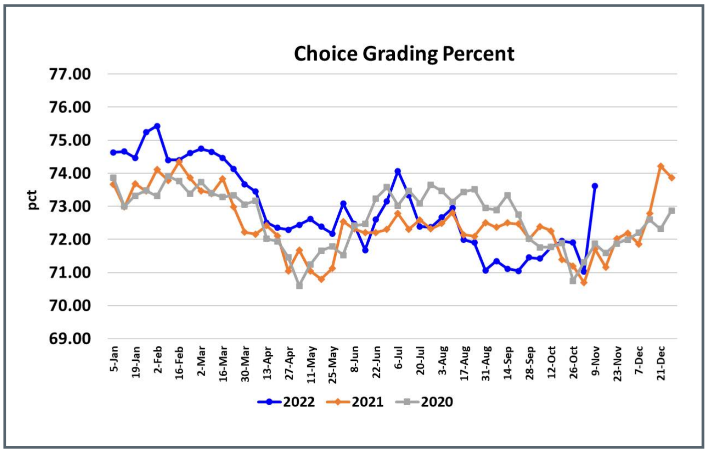
The demand side of the market feels really weak right now. The combined margin is hovering near zero, but should be due to start a fresh upcycle soon. Exports seem ok, but not great, based on the weekly data out of FAS. I think some of the imbalance is the fault of retailers, who have kept retail beef prices elevated even though wholesale prices are sagging. That has the effect of slowing movement through the retail channel and that isn't a good thing when packers are determined to keep kill levels high. Of course, retailers keep hearing stories about how the cattle herd is rapidly shrinking and that probably makes them more reluctant than normal to consider lowering prices. Besides, none of the other prices on items they sell are going down, so why should they lower beef prices? Beef demand normally gets a bit of a lift during December anyway, when consumers are in a festive mood and tend to splurge. That is particularly true in the foodservice channel. The macroeconomic picture hasn't really improved much lately, outside of some gains in the equity markets. It still looks like rising interest rates may tip the economy into a recession next year. So, while we might indeed see demand cycle higher in December, I'm not very confident that it will be a strong push higher, nor that it will last very long. The holiday hangover in Jan/Feb has a way of resetting consumer enthusiasm. Next week, watch the daily kills for any signs that packers are ready to slow down. Also keep an eye on those end meat prices because they may be the ones that end up determining the direction of the cutout next week.

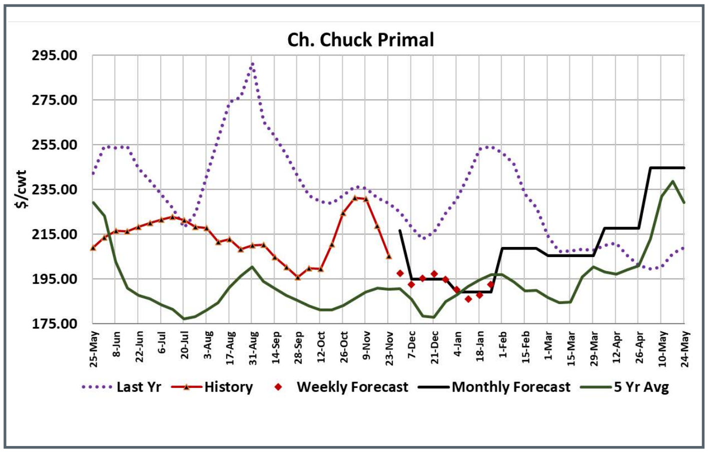

WTD Change in LC Futures
1.000
0.800
0.600
0.400
0.200
0.000
-0.200
-0.400
-0.600
-0.800
Dec22
Feb23
Apr23
Jun23
Aug23
Oct23
Dec23
Feb24
Apr24

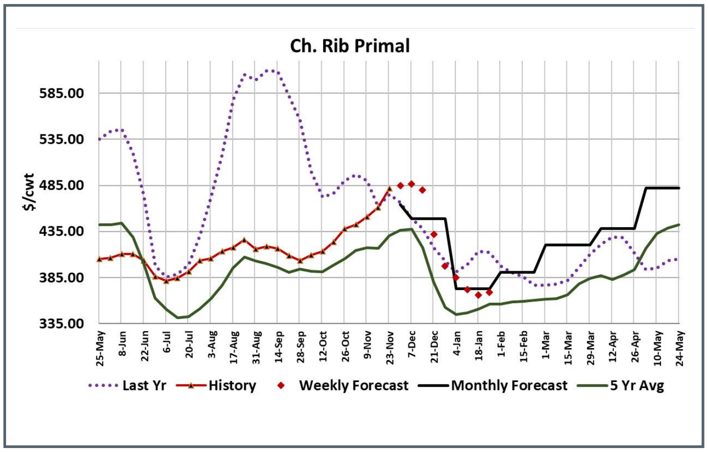

WTD Change in FC Futures
0.500
0.000
-0.500
-1.000
-1.500
-2.000
-2.500
Jan23
Mar23
Apr23
May23
Aug23
Sep23
Oct23
Nov23


Weekly Avg Primal Impact on Choice Cutout from W/E Nov 18, 2022 to W/E Nov 25, 2022
Cutout Chg = -2.93
$/cwt.
3.00
2.00
1.00
0.00
-1.00
-2.00
-3.00
-4.00
-5.00
2.59
-4.56
-0.88
-0.08
-0.09
0.09
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







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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.