



WEEK ENDING NOVEMBER 4, 2022

# THE BEEF WRAP

The cash cattle market took some time to catch its breath this week, with prices almost steady with last week and near \$152/cwt. At the same time, the Choice cutout was up \$2.54/cwt. and the Select gained \$3.47/cwt. Prior to this week, cash cattle were up a total of \$5/cwt. in the previous two weeks, so it isn't surprising that the market took a little pause. As always though, the big question is, "Where does it go from here?" Cattle feeders still seem to be pretty bulled up and they are of the mindset that they got trampled on by the packers over the past three years and so now it is their turn to take a bigger share of the margin pie. So, they will continue to press prices higher and I'm not sure that packers have much power to resist in the short run. They have a large book for forward-sold beef to deliver on in the next 2-3 weeks and a lot of that beef will be of the higher-quality variety, so cutting the kill to keep cattle prices in check isn't really an option right now.

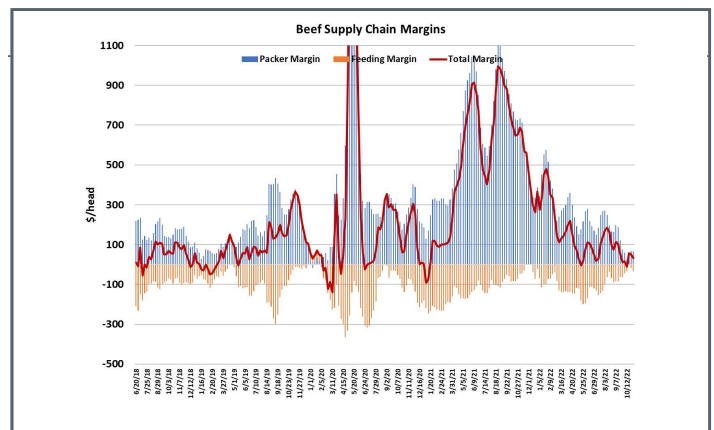
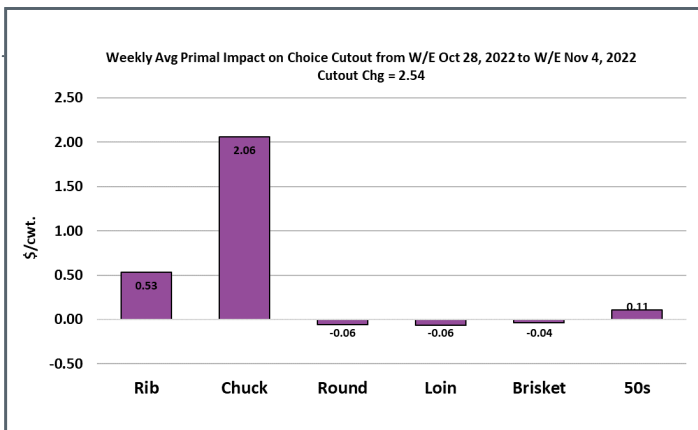
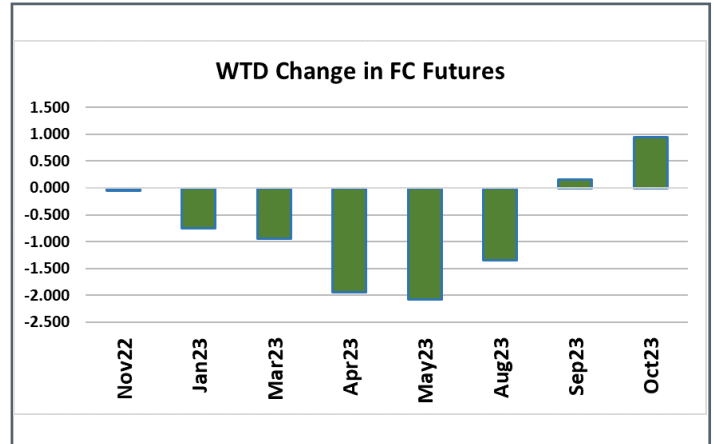
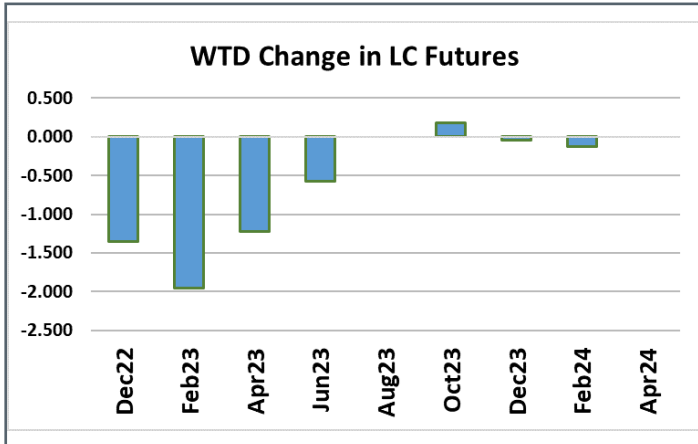
However, the spot beef market isn't really performing as strong as it should be at this time of year, so continuing to pay up for cattle puts them at risk of running their margins into the ground. I think that packers hands are tied in the short run, so some further cattle price increases are likely in the next couple of weeks and perhaps they will be able to exploit the last minute spot beef buyers and keep the cutouts moving higher to help cover those increased cattle costs. So maybe we can get cash cattle up to \$153-155 before Thanksgiving, but I think that after Thanksgiving packers will have more leeway to reduce the kill if cattle feeders want to continue to press cash higher. As a result, I'd look for cattle prices to slowly work lower from Thanksgiving until the end of the year. It seems to me that there is a good chance the cutouts will be edging lower during that period anyway. The forecast has cash cattle averaging about \$147/cwt. in the final week of the year when the Dec LC futures expire.

I'd expect to see the Choice cutout back below \$250/cwt. at the end of the year also. This week's fed kill came in the same as last week at 515k. It still looks like packers are overkilling the available supply by 5-10k per week, so while it seems they must be borrowing some cattle from future time periods, the DTDS weights are indicating that feedyards are slowly losing currentness. Perhaps cattle are performing exceptionally well in the temperate fall weather and thus are finishing ahead of schedule. That is one way to justify the persistent over-killing. However, the fact remains that once an animal is slaughtered, it won't be available in a later period. So if cattle are finishing ahead of schedule, it runs the risk of creating a mini supply gap at some point in the future. And, if the winter weather in cattle feeding country should turn nasty, it could be really bullish for cash cattle prices because there isn't a lot of slack in the system heading into winter.

So far, the forecast for winter is relatively benign, but November is a critical month when weather markets often get their start, so we should be on alert for any changes to the forecast. Steer weights were reported one pound higher this week at 925 pounds and that is only 0.8% over last year and it is actually 4 pounds under 2020. So, while the DTDS is creeping higher, it is coming up from some very low levels and thus weights don't seem to be a problem at present. When we go into winter with weights a little lighter than they should be, that makes every foul weather development just a little more risky. Domestic beef demand seems to be a little tepid at present. Yes, we are getting some lift in middle meat prices as we should at this time of year, but the gains aren't overly large and are more concentrated in the better quality grades.

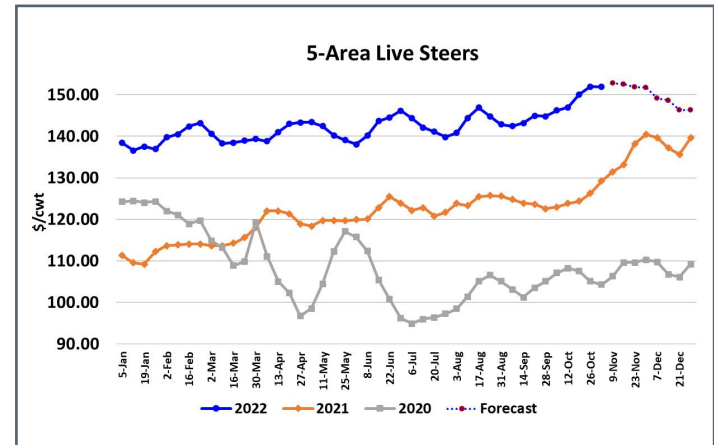
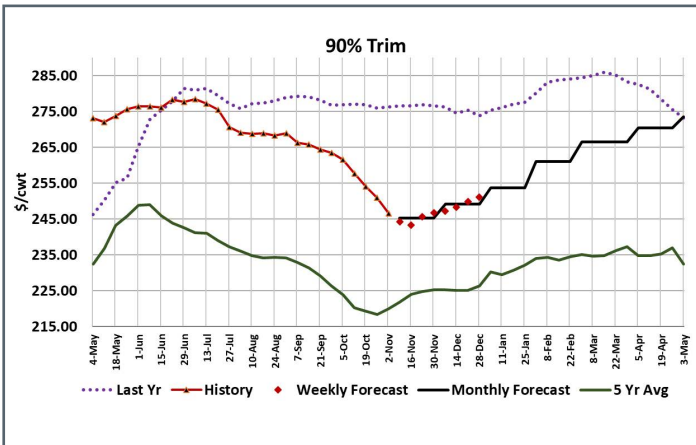
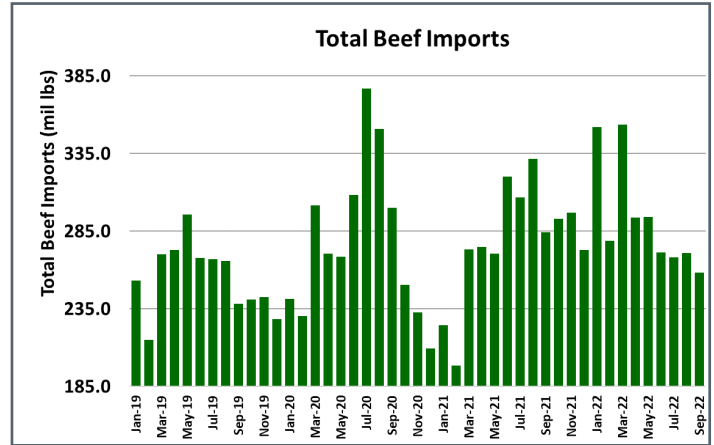
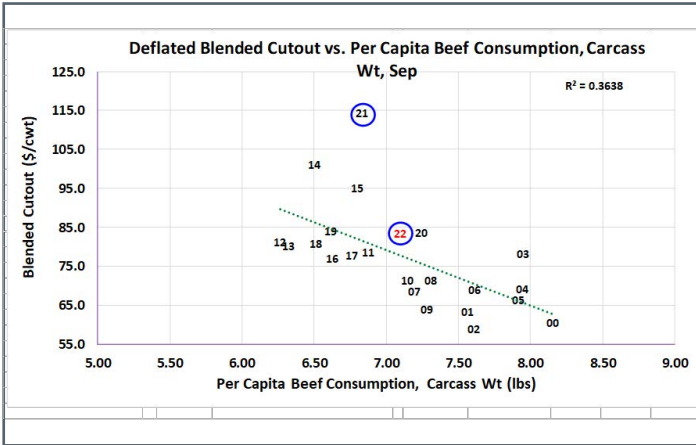
The end meats have seen some counter-seasonal price increases over the past couple of weeks, but that now appears to be petering out. Retailers are turning their focus to hams and turkeys ahead of Thanksgiving and perhaps some beef middles. As a result, I don't think that we can count on the end meats for much more contribution to the cutout from this point forward. Ground beef seems to be struggling also and fat trim averaged a little over \$70/cwt. this week. 90s keep tracking lower as well. So that really just leaves the middle meats as a source of strength in the cutout over the next few weeks. I suspect the middles will continue to move higher, but probably not at the torrid pace we have seen in past Novembers. International demand for US beef seems to be holding together pretty well based on the weekly data that USDA reports. ERS gave us the official export numbers for September today and that showed total beef exports down 4.5% from last year, so maybe the weekly data are painting a more rosy picture than truly exists. Beef imports during September were down about 5% from August and were 9.2% below last year.

So far it doesn't look like strength in the US dollar is benefiting beef imports. Now that all of the trade data are in for September, we can calculate a complete demand index and that came in at 1.046. Last September, the demand index for the blended cutout was at 1.215. Clearly, beef demand is running way, way below last year. The Federal Reserve jacked interest rates up another 3/4ths of a percent this week, adding to the risk that the economy will move into a recession at some point down the road. I don't hold much hope that beef demand, either domestic or international, will strengthen much from here. Sure, there will be seasonal ups and downs, but until the macroeconomic storm clouds clear it is hard to see where the demand improvement will come from. Next week, look for the middle meats to be bigger leaders helping the cutout higher and expect that there is a good chance cattle feeders will squeeze more money out of packers in the cash market.



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