



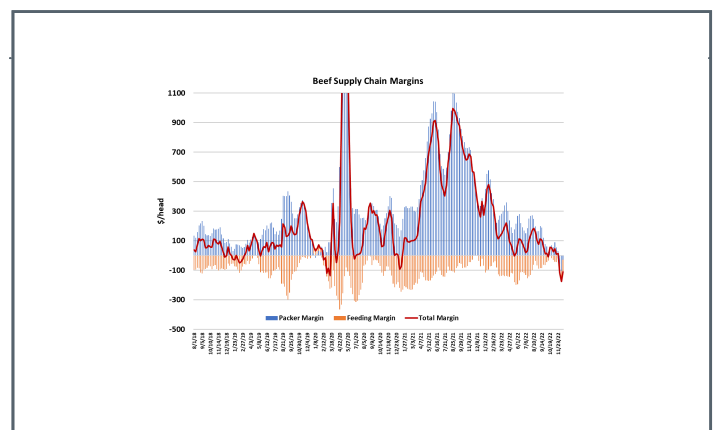
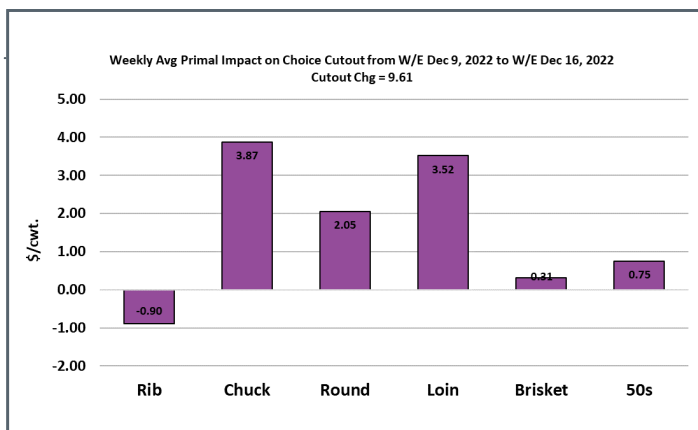
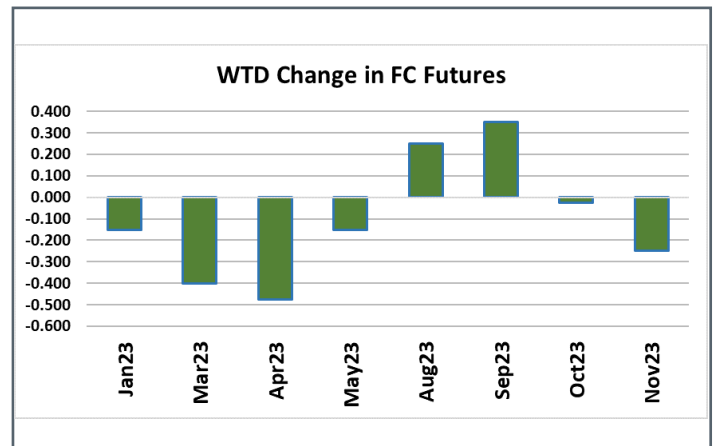
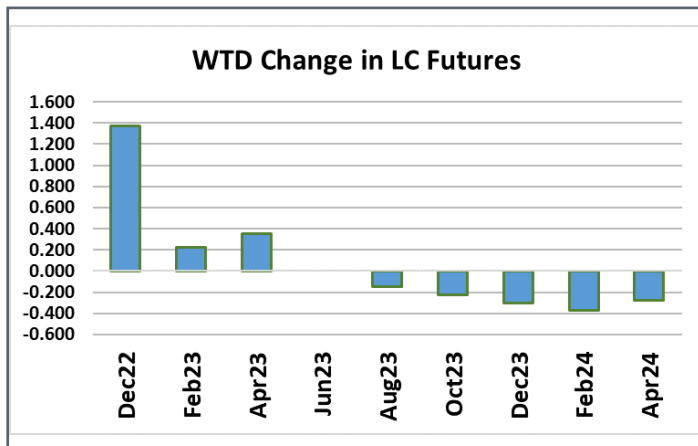
WEEK ENDING DECEMBER 16, 2022

THE BEEF WRAP

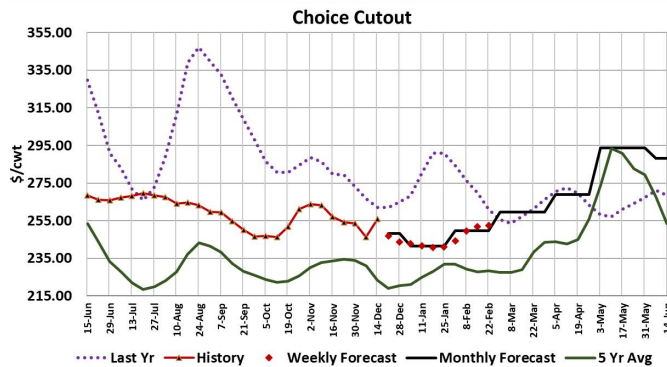
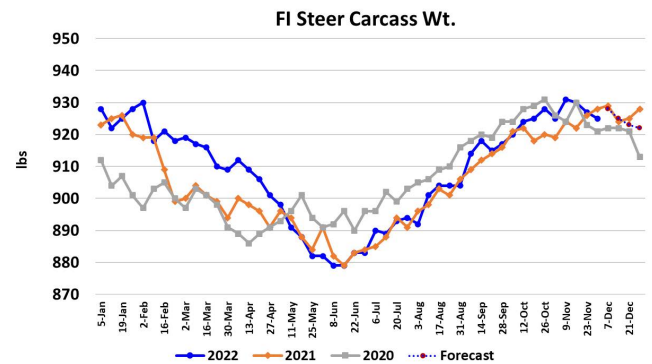
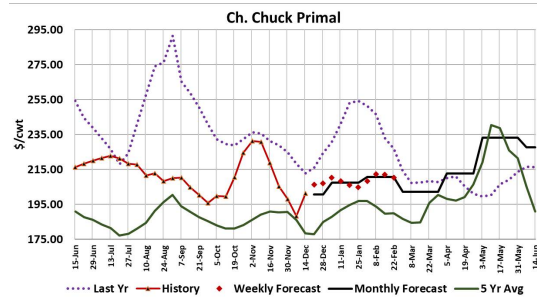
The beef market was volatile this week as buyers wrapped up last minute purchasing ahead of the holidays. The rib primal traded in an almost \$100/cwt. range from \$457 on the low side to \$546 on the high side. That was to be expected as buyers with immediate ship needs moved in and out of the market, but what wasn't expected was a sharp surge in end meat pricing. The chuck primal alone added almost \$13/cwt. on a weekly average basis and the round primal was up a little over \$8/cwt. It is hard to call that last minute holiday buying because the end cuts generally are not "must haves" during the holiday season. It is more likely that it was buyers positioning themselves for early January features that will focus on the end cuts. Because the end meat market has been trending lower since early November, there could have been some buyers that waited as long as they could to do their early January shopping and were caught in a bad spot as packers have reduced production in the last couple of weeks. When it was all said and done, the Choice cutout added \$9.61/cwt. on a weekly average basis and the Select was up \$7.99/cwt. Of course, the next question is "Will it last?" I think that the cutouts are more likely to decline next week than to keep moving higher, simply because the drag of falling middle meat prices should more than outweigh any additional increases in the end cuts. The rib primal only averaged about \$8/cwt. lower this week and that doesn't even come close to the normal seasonal break that is typical for ribs. That is likely to be the main feature in the market next week. I think we can expect about a \$5-7/cwt. drop in the blended cutout next week and then maybe a couple more dollars down the following week. Most of the middle meat damage should be done by the first week in January, so then we might start to see some upward pressure on the cutouts. This week's surge in the cutout did help packer margins considerably and now they are only about \$15/head underwater. Packers managed to get cash cattle bought this week at prices that averaged very close to the week before (\$155.60). The sharp reversal in packer profitability also helped the combined margin which has now turned decidedly higher. It was probably due for an upturn after trending lower through most of the fall, but I suspect that it will do some stutter-stepping over the next few weeks as we move through the holidays and then resume its uptrend in January.

I don't want to take this week as evidence that domestic beef demand has surged higher, because that may not be the case. Let's see how beef prices do next week. International beef demand is suddenly looking softer as this week's FAS data showed beef shipments to China at about half of their normal pace and new sales to China were dismal. It could just be a temporary lull related to holiday schedules, so I want to see more data before I declare that demand for US beef in China is crashing, but it is important to be aware of because China has emerged as the third largest destination for US beef exports this year.

One only has to look at the pork industry to see what happens when the Chinese appetite for US product softens. On the supply side, we saw packers exercise amazing restraint this week, with the fed kill coming in at only 478k. That is a full 25k less than the week before and about 40k less than what packers were killing back in November. The drop in the kill was being telegraphed starting with small negotiated cattle purchases last week. There was some winter weather in the Northern Plains this week that may have hampered the kill, but packers made no effort to make up the lost slaughter on Saturday, so maybe the weather played right into their hands. There is more bitter cold on tap next week for much of the Plains States, but precipitation levels shouldn't be too heavy. Slaughter levels in the next three weeks will be hampered by holidays and that makes it all the more surprising that packers didn't try to get ahead of things by producing a heavy kill in this last full week before the holidays start. Maybe it was fears of several weeks of reduced kills that prompted buyers to jump on the end meats this week. Steer carcass weights were reported 2 pounds lower this week, which was further confirmation that weights have topped and are now in a seasonal downtrend. Live cattle futures gyrated a bit this week, but in the end most contracts finished the week very close to where they began it. Only the Dec contract produced substantive gains and that has been a common theme recently where the spot contract makes some of its best gains once it enters the delivery period. Feb is priced less than \$1 over Dec at this point, so traders aren't seeing a lot of upside potential in cash cattle prices over the next couple of months. I agree with that assessment, particularly if packers manage to claw back some margin over the holiday-reduced kill weeks. Leaving more cattle standing in the feedyards might temper cattle feeders' price expectations in January. The counterbalance to that is the weather. If it stays really cold then weight gains will suffer and that could offset much of the benefit that packers might hope to gain from the upcoming light kills. Next week, watch for the middle meats to come crashing down and the end cuts to post more gains. The fed kill might only be 460k as packers eliminate the Saturday kill entirely on Christmas Eve.



While the information contained in this report has been obtained from sources believed to be reliable, J.S. Ferraro disclaims all warranties as to the accuracy, completeness or adequacy of such information. The information is not a recommendation to trade nor investment research. User assumes sole responsibility for the use it makes of this information to achieve his/her intended results. No part of this material may be copied, photocopied or duplicated in any form by any means or redistributed without the prior written consent of J.S. Ferraro.



DR. ROB MURPHY BS, MS, PhD Agri Economics,
Executive Vice President, Research & Analysis,
J.S. Ferraro

E: Rob.Murphy@jsferraro.com [in](#) [tw](#)

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.

SUBSCRIBE NOW for market intelligence