J.S. FERRARO

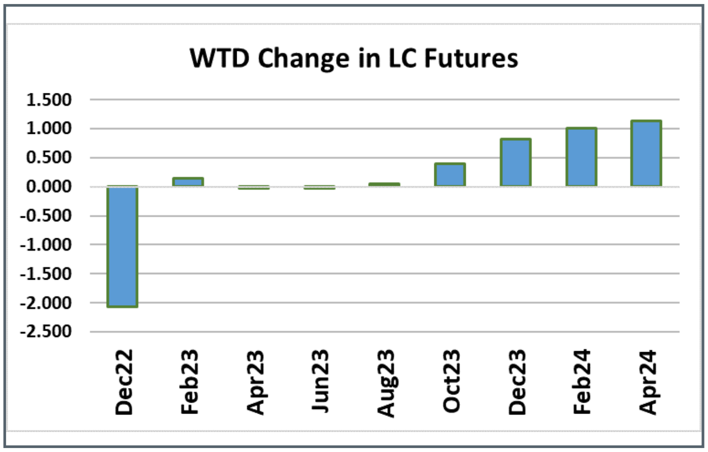
jsferraro.com | 416.306.8788
130 Adelaide Street West, Suite 3302 Toronto, Ontario M5H 3P5

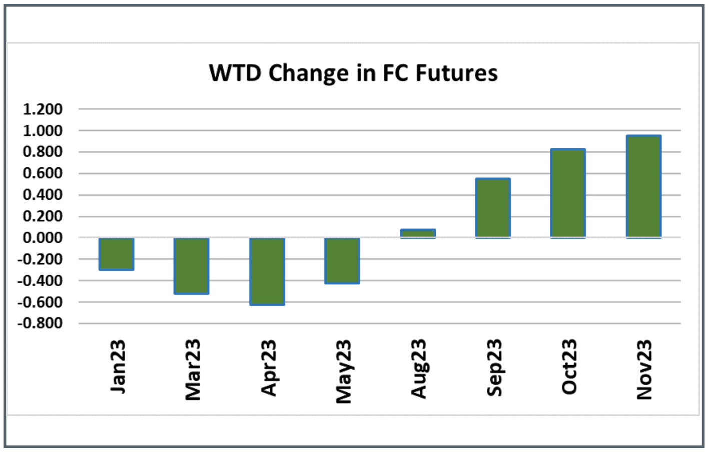
WEEK ENDING DECEMBER 30 2022

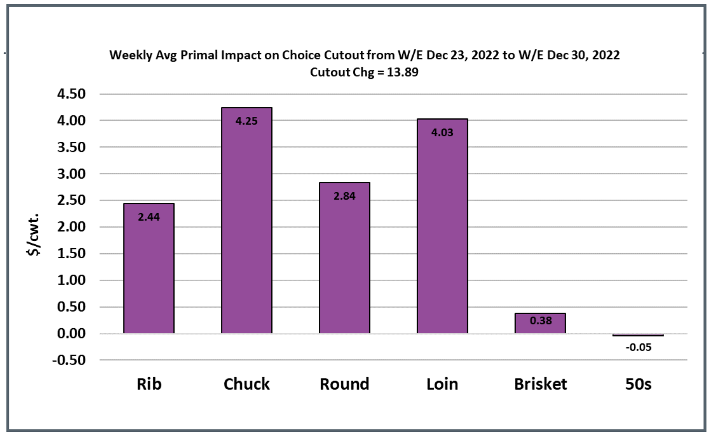
THE BEEF WRAP

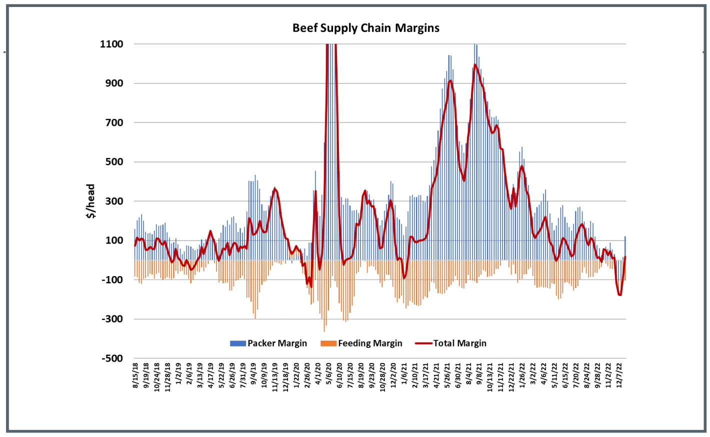
Beef buyers appear to have been caught flat-footed by the weather- and holiday-related kill cuts over the past week and a half. Those that needed product immediately helped bid up cuts from nearly every part of the carcass. As a result, the Choice cutout gained almost $14/cwt. on a weekly average basis to just over $280/cwt. The Select cutout added nearly $10/cwt. Cattle feeders saw the cutouts soaring and decided that packers could easily afford to pay more for cattle and they ended up doing just that. The cash cattle market was about $1.50/cwt. higher on the week to average around $157.70. There was a good bit of trade at $158 in the north and carcass-based prices exceeded $250/cwt. Of course, all of this is registering as a sharp improvement in demand after a very weak demand performance in the first half of December. Perhaps beef buyers grew complacent after seeing the cutouts track solidly lower in November and figured that by waiting they would be able to procure product at lower prices. Whatever the cause, there sure seemed to be a lot of interest buying beef right when the holiday and Mother Nature conspired to restrict production. I calculate this week's packer margin at just over $120/head, up over $100 from last week. Of course, to sustain that margin next week when the more expensive cattle show up for slaughter, packers will need to push the cutouts even higher. That is a possibility because next week's production will still be constrained by the New Year's holiday on Monday when most plants are expected to be dark. Packers seem to have stumbled upon the answer to their margin problems–cut the kill. Now that they know how well it works, perhaps their enthusiasm for putting blood on the kill floor will be tempered in the next few weeks. Of course, there will aways be the temptation for individual packers to increase production in order to take advantage of the strong margins and that could render the strategy ineffective. All packers need to show restraint in order to stop red ink. This week's steer and heifer slaughter came in at 423k, almost identical to the week before. Perhaps one clue to their future slaughter plans is that they didn't really get aggressive with this Saturday's kill even though they really need the beef. That makes me think that next week's fed kill might not be much larger than this week. The following week, when the holidays are all out of the way, I'm looking for the fed kill to bounce back to slightly over 500k. If it comes in much below that, then I think that can be taken as evidence that margin management is a bigger concern than it was this fall. When packers pull back on the kill, the beef market usually reacts much faster than the cattle market does, particularly if it catches beef buyers off guard. However, if packers can show restraint in the kill for a couple more weeks then they stand a good chance of turning the cash cattle market lower as cattle feeders start to feel greater urgency to move cattle.

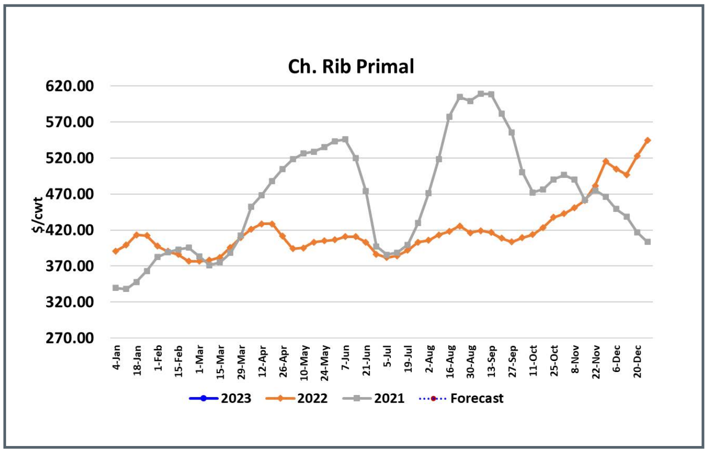
The cash cattle market has been trending higher since Labor Day. The most surprising thing about this week's beef market was the failure of the rib primal to show any significant weakness. Based on the previous five-year averages, the rib primal tends to drop about $90 between the first week of December and the last week of December. This year, the rib primal gained about $40 over that same time period. That is a huge counter-seasonal move. However, the attached chart indicates that it wasn't just the rib that posted strength this week, it was all of the major primals. That is the type of price action that is often driven by smaller-than-expected slaughter. Retailers were putting in orders this week to refill their meat cases following the holidays. Maybe they were surprised by how strong movement has been and that left them with needing more fill-in product than they expected. The combined margin shot higher again this week and has clearly traced out a sharp V-bottom now. Recent history suggests that the combined margin should top somewhere in the +$100 area and if beef demand holds up, that could happen sometime in the next couple of weeks, making this a very short cycle. Although it sounds like a happy holiday scenario because cattle feeders got higher prices and packers got much improved margins, it was the retailer that got a lump of coal in his stocking this year. The sharp rise in the cutouts over the past couple of weeks has squeezed retail margins and if they had any plans to lower retail prices, that probably has been put on hold. In fact, the unfortunate reality is that this surge in beef prices might incentivize retailers to raise retail prices in the next couple of months. That could be quite problematic in the bigger sense because Jan/Feb is typically not a strong demand period and the industry needs actions that will encourage consumption during that period, not discourage it. So, it is quite possible that the supply chain will remain unbalanced. During this holiday period it has been difficult to get a good read on how beef exports are doing, but the weekly data makes it look like export demand could be softening a bit. Foreign buyers are no doubt experiencing the same sticker shock that has befallen domestic beef buyers over the past couple of weeks. Hopefully, the export picture will clear up once the holidays are behind us. Next week, watch the daily and Saturday fed kills for signs that packers are now in margin protection mode. Middle meat prices should start to retreat, but end meat prices have a lot less downside risk.

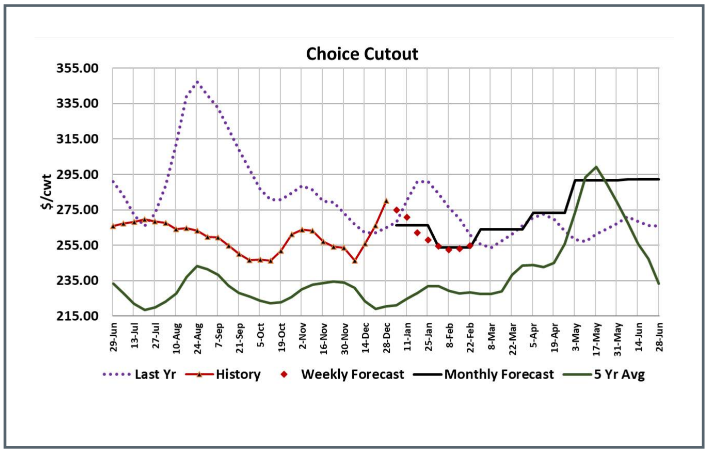

WTD Change in LC Futures
1.500
1.000
0.500
0.000
-0.500
-1.000
-1.500
-2.000
-2.500
Dec22
Feb23
Apr23
Jun23
Aug23
Oct23
Dec23
Feb24
Apr24


WTD Change in FC Futures
1.200
1.000
0.800
0.600
0.400
0.200
0.000
-0.200
-0.400
-0.600
-0.800
Jan23
Mar23
Apr23
May23
Aug23
Sep23
Oct23
Nov23


Weekly Avg Primal Impact on Choice Cutout from W/E Dec 23, 2022 to W/E Dec 30, 2022
Cutout Chg = 13.89
$/cwt.
4.50
4.00
3.50
3.00
2.50
2.00
1.50
1.00
0.50
0.00
-0.50
2.44
4.25
2.84
4.03
0.38
-0.05
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,
Executive Vice President, Research & Analysis,
J.S. Ferraro

E: Rob.Murphy@jsferraro.com

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.