

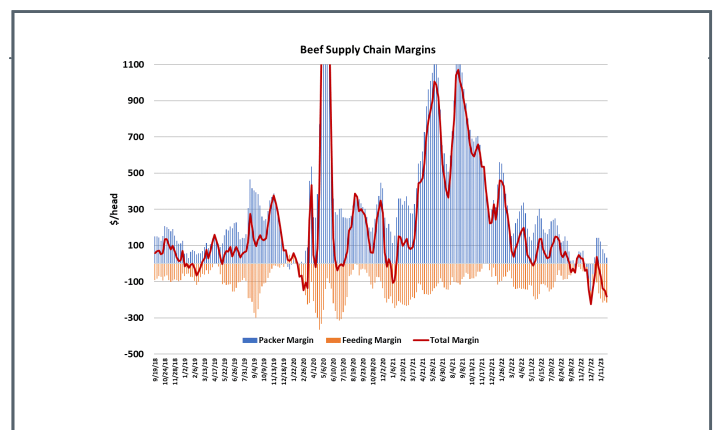
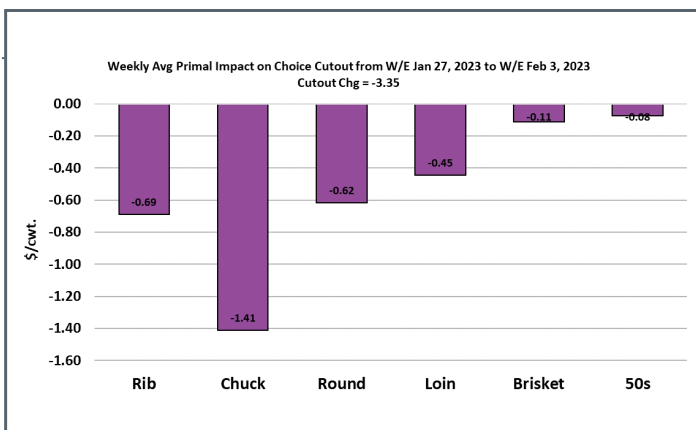
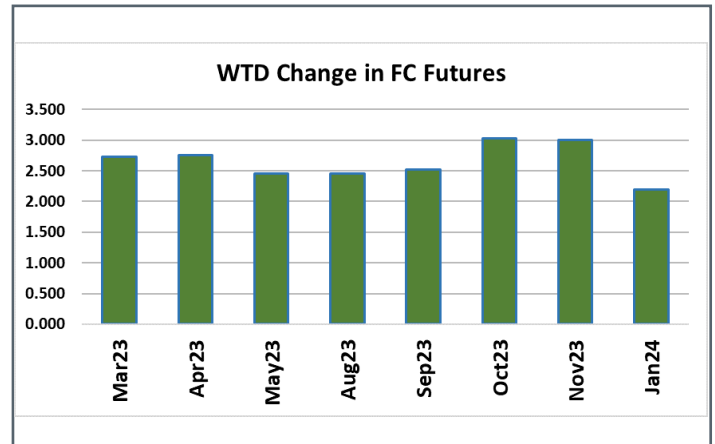
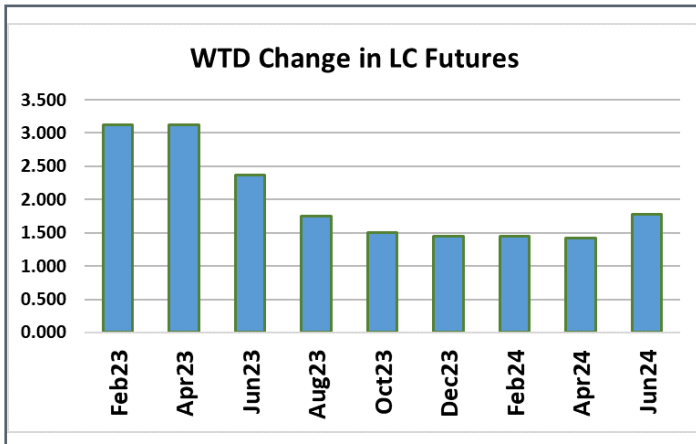


WEEK ENDING FEBRUARY 03, 2023

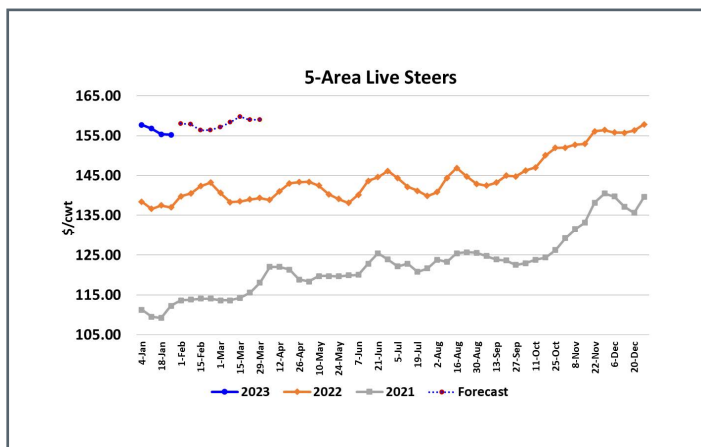
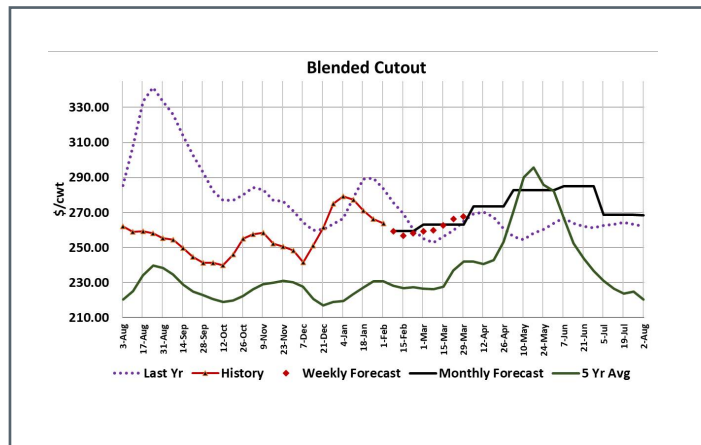
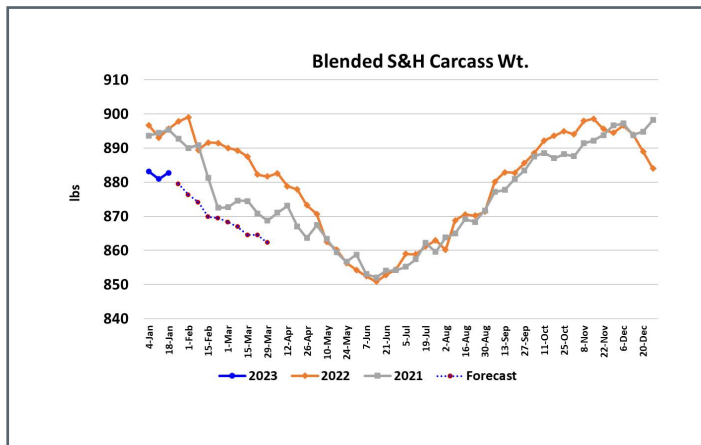
THE BEEF WRAP

The cash cattle trade was slow to get started this week, with most of the action happening on Friday and much of it yet to be reported by USDA. Those few transactions that have been reported show the cash cattle market up a little over \$3/cwt. at \$157.95. That value could come down as more trades are reported on Monday. Paying that much more for cash cattle creates a huge hurdle for packers, who are seeing the cutouts move steadily lower. The Choice cutout dropped \$3.35/cwt. while the Select cutout was up \$0.36/cwt. The Choice-Select spread has collapsed in recent weeks, going from over \$31/cwt at the end of 2022 to about \$13/cwt. this week. That reflects the seasonal shift in beef demand away from the Choice middles and towards end cuts and grinds where grade is much less important. Even so, the middles have held up much better than expected during this time of year. Rib and loin cuts have demand curves that are much more inelastic than demand curves for end cuts and grinds. As a result, when overall beef supplies shrink, the price increase on middles should be larger than what is seen on the end cuts. That is true as long as the demand curve doesn't shift and a negative shift is something that we would expect in the event of a recession or other economic calamity. So far that hasn't happened, but the Federal Reserve did hike interest rates another quarter of a point this week and reiterated that they don't have any plans to cut interest rates later this year. Thus, a potential economic slowdown may yet materialize later this year and that would have the effect of shifting the aggregate beef demand curve leftward. However, inflation seems to be in retreat now and that is a positive for beef spending. Friday's jobs report was red-hot showing the unemployment rate now down to 3.4%. Real hourly wages continue to rise and that gives consumers more buying power. While there has been a lot of talk about a recession later this year, but it is beginning to look more and more like the US may avoid one. This week's softness in the Choice cutout was felt broadly across the carcass, with all primals posting some decline, but the chucks led the way. It is hard to imagine that beef demand will improve much during February, but it could happen. I'm looking for about another \$5/cwt. decline in the cutouts before they find a bottom and start to move higher. The forecast has almost all of the primals moving just a little lower week-to-week for the next three weeks before things start to turn around. The combined margin just keeps slipping lower and it looks like it might challenge the low that was made back in late November.

The supply side of the beef market is expected to tighten up in February and March based on past feedyard placement patterns. Steer and heifer slaughter this week registered 495k and I'm thinking it could fall to 485k or less next week because packers have a big margin problem on their hands. This week, packer margins were right at \$30/head, but if I'm close to correct on the cutout forecast for next week, and those \$3 higher cattle start to show up for slaughter, then margins could plunge to -\$50/head. That should sound the alarm bells and cause packers to slow chain speeds. It doesn't look like packers have a very large forward book of orders to deliver on in February, so slowing the kill might be easier for them to accomplish that it was back in Nov/Dec. Recent poor weather in the Southern Plains has probably slowed cattle performance, meaning that those cattle need to remain in the feedyard just a little longer than normal in order to make grade. Thus, cattle feeders won't have a sense of urgency to move them unless they are enticed by higher cash offers from packers. Carcass weights are running well below the past couple of years and with the way that corn prices have stayed elevated, I wouldn't be surprised if cattle feeders keep weights below last year, at least through spring. After working through the data pertaining to placements for January, my preliminary expectation is that placements could be down about 3% YOY and that would lead to feedyard inventories being down almost 4% as of Feb 1. Last week's Cattle Inventory report confirmed that the US cattle herd continues to shrink and is on a trajectory that will soon take numbers below the cyclical low that was posted back in 2015. The total inventory was reported at 89.3 million head, down 3% from the previous year. I have to go all the way back into the mid-1980s to find instances where the total herd dropped 3% or more. Drought and high feedgrain prices in recent years have combined to accelerate the reduction in the herd. It is easy to envision this liquidation phase lasting several more years and taking cattle numbers way down beyond anything seen in modern times. Of course, both beef and cattle prices will adjust upward to ration an increasingly smaller supply. Next week, we will be watching on Monday for the final USDA reporting on this week's pricing to find out if packers really gave up \$3 more to feeders or not. And as always, keep an eye on the weather in cattle feeding country.



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