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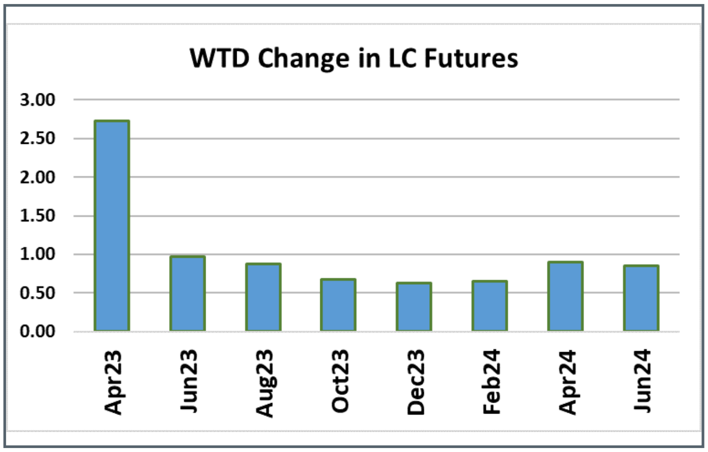
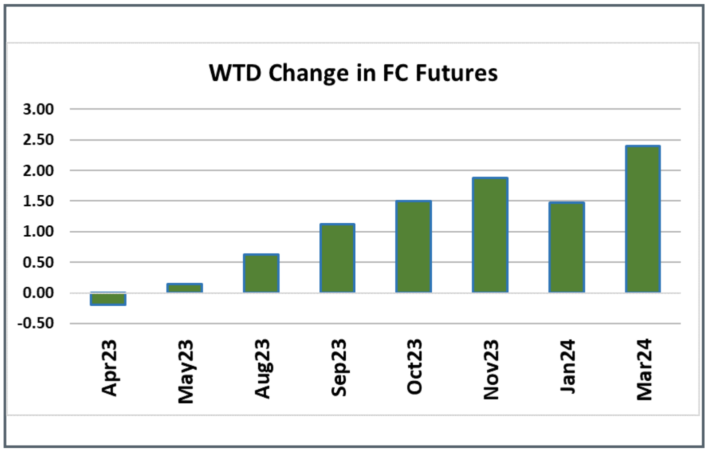
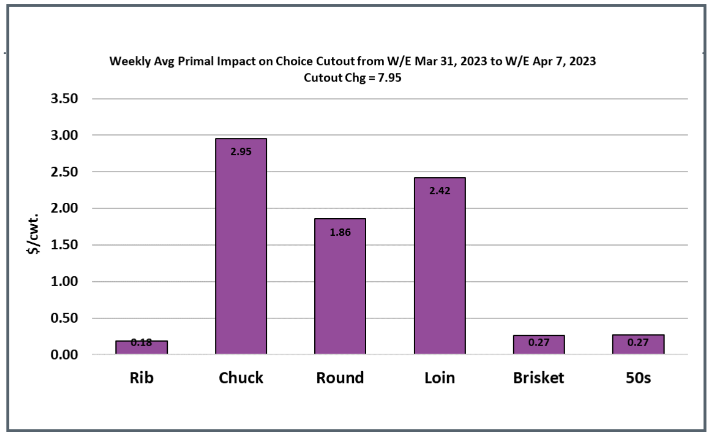
WEEK ENDING APRIL 7, 2023

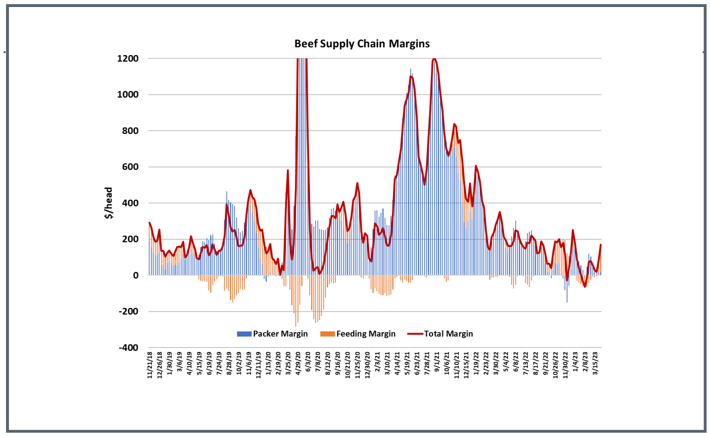
THE BEEF WRAP

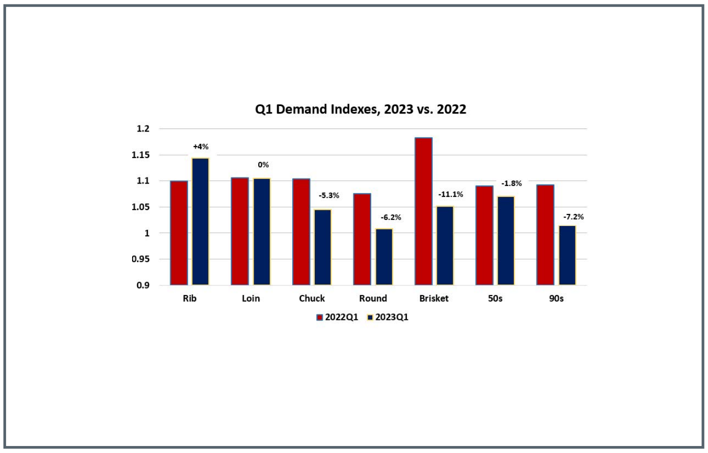
The cash cattle market exploded higher this week as packers paid just over $173/cwt. for live cattle, up $4.34 from the week before. In the northern dressed markets, the gain was even more impressive, up $8.26/cwt. to $278.62. Looking back over the most recent two-week period, live prices have added $8.67/cwt. and dressed prices are up $13.56/cwt. What drove such a rapid increase in prices? Well, packers definitely over-killed the available supply last week when they slaughtered 512k steers and heifers. Our flow model had suggested that April availability should be closer to 480k per week. That, combined with poor performance in the Northern feeding areas due to weather this winter and early spring, probably gave cattle feeders a lot less incentive to move cattle out of the feedyards unless they were well compensated for the effort. The data doesn't suggest that packers have a particularly large forward book on right now, so that probably wasn't a big driver of this week's advance. Also, we shouldn't underestimate the psychology of cattle feeders, who were likely feeling pretty cocky after the previous week's four-dollar advance and decided to see what they could squeeze out of the packers if the kept the gates shut again this week. That strategy may have worked well in the short run, but it can also come with long run consequences. Retailers are probably plenty alarmed by what they saw transpire in the cash cattle markets over the past couple of weeks and that makes it very likely that they are trimming back in beef features and accelerating their plans to raise retail beef prices. This little soft spot in cash cattle availability won't last forever and there is a real risk that when we get to June and cattle availability is much improved, retailers will have choked off consumption with sharply higher retail prices. The end result of that could be a downward spiral in the beef cutouts and eventually cash cattle prices. For now however, cattle feeders are in the drivers seat. They just have to be careful that they don't drive over a cliff. After the previous week's cash cattle price advance, packers came out on Monday asking sharply higher prices for beef and they largely got it. The Choice cutout gained $5.91/cwt. on a weekly average basis and the Select was up $2.72/cwt. However, toward the end of the week the price gains had slowed, making it look like buyer resistance was setting in. Now packers have to go back to the phones on Monday and ask for even higher pricing from beef buyers and that might be a tough sell. More than a few retailers are probably looking at the pork complex and trying to devise a way to substitute pork for beef in upcoming ads. Next week should be a strong week for beef in the ads and that product was bought long ago, but retailers may opt to de-emphasize beef over the next month or so and then bring beef back into the ads just before Memorial Day. One thing that the recent surge in cattle prices has done is fix cattle feeders' margin problem. Margins went from slightly negative two weeks ago to $156/head in the black this week. The money that packers put on the beef market this week helped keep packer margins whole–now at $20/head. Those two results drove the combined margin sharply higher this week, making it look like demand has surged. It is true that demand is stronger, but is it a sustainable type of demand or is it just a very short-run panic-type demand from buyers that were caught short? Next week we will find out the answer to that question. If the packers are successful at putting another $5 or more on the cutouts, then perhaps these price increases will stick around for a while. If the cutouts falter, that would be a very bad sign for packer margins as well as overall beef demand. The interesting thing about this week's gains in the cutouts is that they were more centered on the end meat primals rather than the middle meats. Loins did ok, but the Choice ribs barely moved higher. That makes it look like grilling season demand isn't all that strong at the moment. Packers seemed to get the message that they messed up with such a large kill in the previous week and this week they scaled the fed kill down to 471k. Of course, the Easter weekend provided excellent cover for reducing the slaughter pace. I think we can expect packers to keep the fed kill in the 480-490k range for the next few weeks and thus beef buyers could find availability pretty tight if they need to add to inventories. Another mystery in all of this is that carcass weights haven't really signaled that feedyards are overly current. The DTDS weights are near the zero line and although steer weights are running 15 pounds below last year, they are almost dead on with 2021, making it look like 2022 was the aberration (weights too high), rather than a big problem with weights being too light this year. Further, the export numbers haven't been all that impressive either. This week we got the official trade data for February and it showed beef exports down 1.4% from the previous year. That came on the heels of a 15.7% decline in January and the more-timely weekly export data has looked soft in the past few weeks. As discussed last week, domestic demand for beef seems good, but not nearly as good as last year. The demand index for the blended cutout in Q1 was down 3.4% from Q1 of 2022, but that overall number masks some important differences within the cutout. For the Choice rib primal, the Q1 demand index is actually up 4%, but for the 50s it is down 2% and for the briskets it is down over 11%. I've attached a chart that shows the YOY change in the demand index for each primal. Next week, watch the cutouts closely on Monday and Tuesday to see if packers still have the ability to convince beef buyers they should pay more. If the cutouts bounce higher again, then that will embolden cattle feeders to expect more for cash cattle as well. If the cutouts hit a brick wall then negotiations between cattle owners and packers could be very interesting late in the week and might even result in a no-trade week.

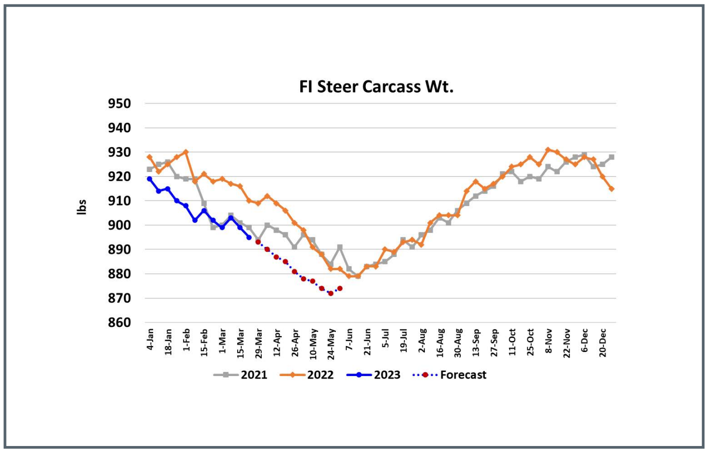

WTD Change in LC Futures
3.00
2.50
2.00
1.50
1.00
0.50
0.00
Apr23
Jun23
Aug23
Oct23
Dec23
Feb24
Apr24
Jun24

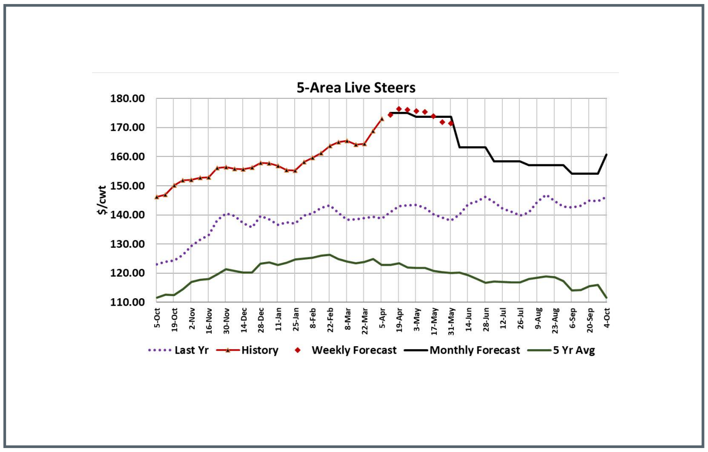

WTD Change in FC Futures
3.00
2.50
2.00
1.50
1.00
0.50
0.00
-0.50
Apr23
May23
Aug23
Sep23
Oct23
Nov23
Jan24
Mar24

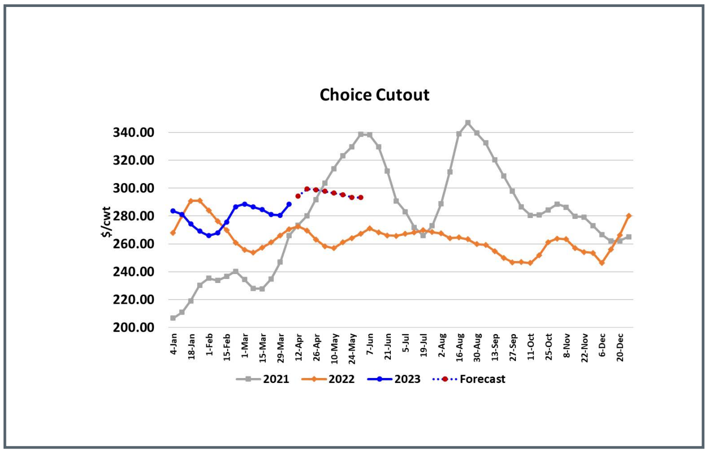

Weekly Avg Primal Impact on Choice Cutout from W/E Mar 31, 2023 to W/E Apr 7, 2023
Cutout Chg = 7.95
$/cwt.
3.50
3.00
2.50
2.00
1.50
1.00
0.50
0.00
0.18
2.95
1.86
2.42
0.27
0.27
Rib
Chuck
Round
Loin
Brisket
50s


Beef Supply Chain Margins
$/head
1200
1000
800
600
400
200
0
-200
-400
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.