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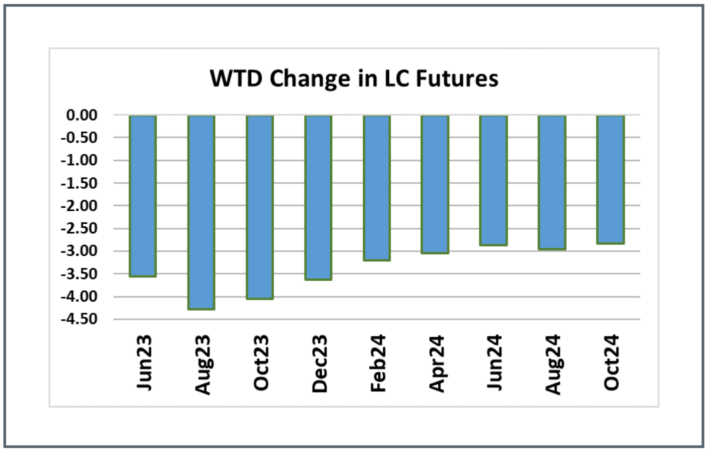
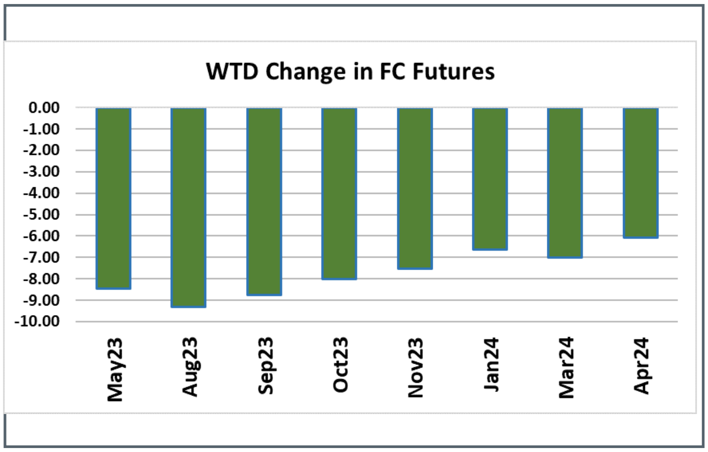
WEEK ENDING MAY 5, 2023

THE BEEF WRAP

The beef market stalled this week with the Choice cutout adding a mere $0.11/cwt. and the Select cutout up $0.15/cwt. Beef buyers aren't happy about a Choice cutout over $309 and a Select cutout over $288, but their ability to resist strong beef prices is limited by continued small fed kills and low weekly production. The cash cattle market continued to retreat from the record high that it set three weeks ago, averaging about $174.15, down a little over $3 from the week before. The demand side of the beef market continues to look pretty strong and will probably remain that way through Memorial Day. The 50s market is still hovering close to $200/cwt., and 50s, along with loins, were the only items to provide support to the Choice cutout this week. Everything else was a little softer. I think that we are pretty close to the spring top in the cutouts now, but I don't expect them to move rapidly lower either. The forecast has the Choice cutout working back to about $300/cwt. area by the end of May and by the end of June it could be back down around $285/cwt. Retailers will be busy raising retail prices during May and by the time we get to June, that should start to curtail consumption somewhat. This week the Jun LC futures lost over $3.50/cwt., and so far the cash has been coming down alongside the futures. However, the Jun contract is about $10/cwt. discount to this week's trade in the Southern Plains, which was close to $172/cwt., and that may limit the downside potential for June in the near term. Packers have done quite well at navigating this period of tight supplies without trashing their margins. I calculate this week's packer margin at about $73/head and expect that to expand a little in the next couple of weeks. Of course, the declining cash cattle market is tempering cattle feeding margins which are now just a hair below $200/head. But, at least we have both segments of the supply chain making money at the same time and that usually only happens when demand is pretty good. Another piece of good news came from the FAS weekly export data on Thursday, which showed beef exports looking better than they have in recent weeks. We also got the official ERS trade data for March this week and it pegged beef exports at 285.7 million pounds, down 5.9% from last year. Those YOY gaps are likely to grow during the summer months, simply because exports were really strong last summer. It is encouraging to see exports perking up in a time period when beef is priced pretty high. This week's fed kill registered 484k, right in line with what the flow model predicted for this time of year.

I think that as Memorial Day draws nearer, packers will try to cheat-up the kill into the 490-500k per week range and that is probably when the declines in the cash cattle market will slow or perhaps stop all together. After June arrives, our model suggests that cattle supplies should be sufficient to fuel kills a little over 500k per week. That's not a very big increase from where we are today, but it should provide some pricing relief for beef buyers. Demand also usually drops off after Memorial Day, except for last minute Father's Day buying. That should also help lower wholesale beef prices. I think retailers will be more open to featuring pork after Memorial Day also. Apparently, JBS's plant in Fort Morgan, Colorado is still hampered by mechanical issues it suffered a couple of weeks ago and is not processing at its normal rate. If that continues, it won't help the cash cattle market any. Cattle carcass weights are starting to look a little heavy, and the FI data seem to be suggesting that perhaps weights will bottom earlier this year than in the past couple of years. Cattle in the northern feeding areas are now starting to get caught up after the rough winter and that has caused the gap between in carcass weights between this year and last to narrow. The DTDS weights are also well above zero now, so that is something to keep an eye on. The corn market has been rather jittery of late, but that is normal at this time of year, when farmers are working to get the crop in the ground. All indications are that this summer's weather will be a vast improvement over the last two years and that should help grain stocks to build and corn futures prices to retreat. Cash corn basis in the Southern Plains remains stubbornly high however, and that could continue even after the new crop is harvested, so cattle feeders might not see as much of a decline in their corn costs as the futures board is implying. Feeder cattle prices have come tumbling down, following the live cattle futures as they corrected from their highs. The front of the feeder cattle curve lost $8-9/cwt. this week, but declining corn prices will eventually provide support to the feeder cattle market. That should turn feeder cattle prices higher again once the near-term correction in live cattle has run its course. All in all, the cattle and beef complex seems to be coming back into better balance after a wild ride in April when prices spiked. Next week, watch the weight data for signs that that season bottom in weights may be near and watch the weekly export numbers for potential further improvement.


WTD Change in LC Futures
0.00
-0.50
-1.00
-1.50
-2.00
-2.50
-3.00
-3.50
-4.00
-4.50
Jun23
Aug23
Oct23
Dec23
Feb24
Apr24
Jun24
Aug24
Oct24


WTD Change in FC Futures
0.00
-1.00
-2.00
-3.00
-4.00
-5.00
-6.00
-7.00
-8.00
-9.00
-10.00
May23
Aug23
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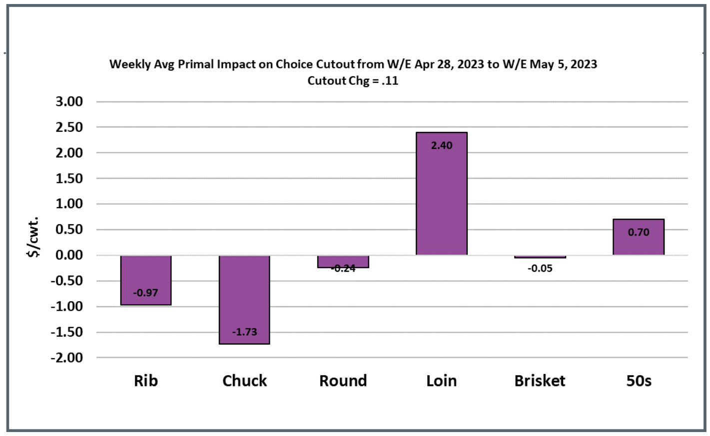
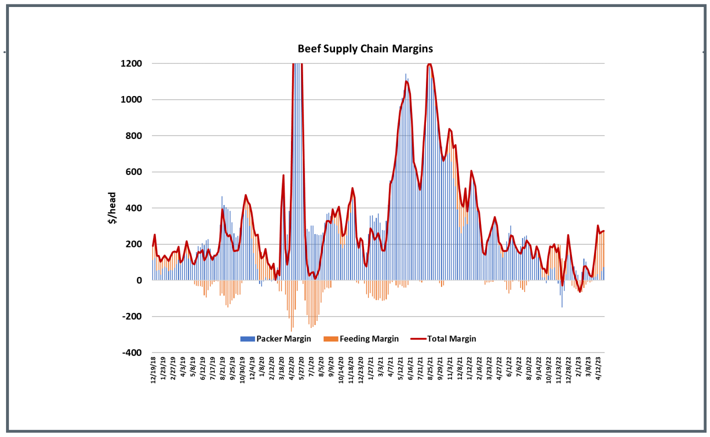

Weekly Avg Primal Impact on Choice Cutout from W/E Apr 28, 2023 to W/E May 5, 2023
Cutout Chg = .11
$/cwt.
3.00
2.50
2.00
1.50
1.00
0.50
0.00
-0.50
-1.00
-1.50
-2.00
-0.97
-1.73
-0.24
2.40
-0.05
0.70
Rib
Chuck
Round
Loin
Brisket
50s


Beef Supply Chain Margins
$/head
1200
1000
800
600
400
200
0
-200
-400
Packer Margin
Feeding Margin
Total Margin
12/19/18
1/23/19
2/27/19
4/3/19
5/8/19
6/12/19
7/17/19
8/21/19
9/25/19
10/30/19
12/4/19
1/8/20
2/12/20
3/18/20
4/22/20
5/27/20
7/1/20
8/5/20
9/9/20
10/14/20
11/18/20
12/23/20
1/27/21
3/3/21
4/7/21
5/12/21
6/16/21
7/21/21
8/25/21
9/29/21
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3/23/22
4/27/22
6/1/22
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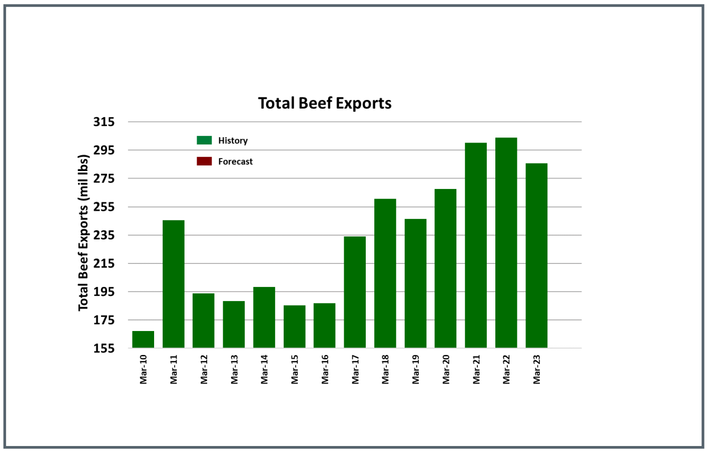
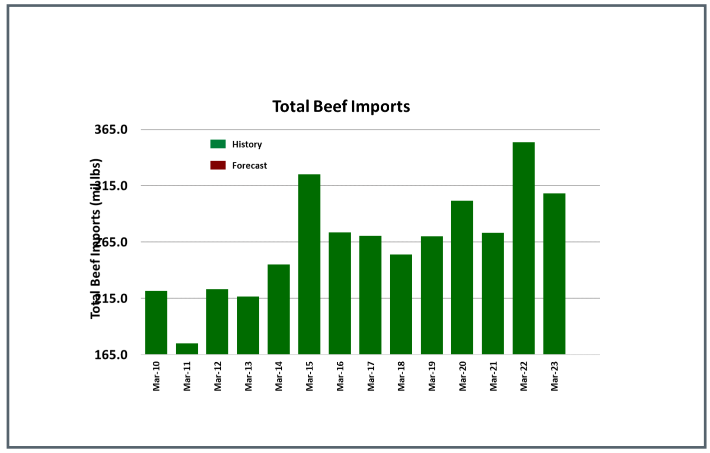
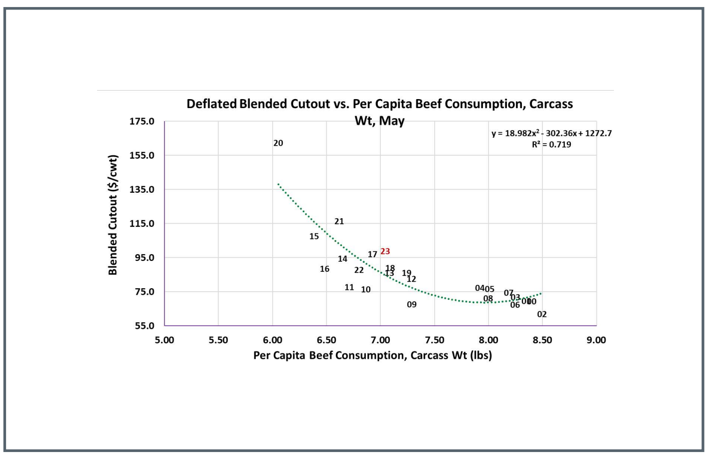
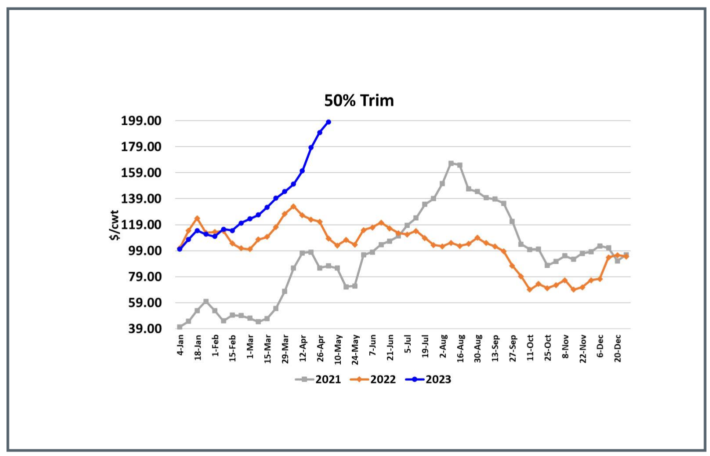
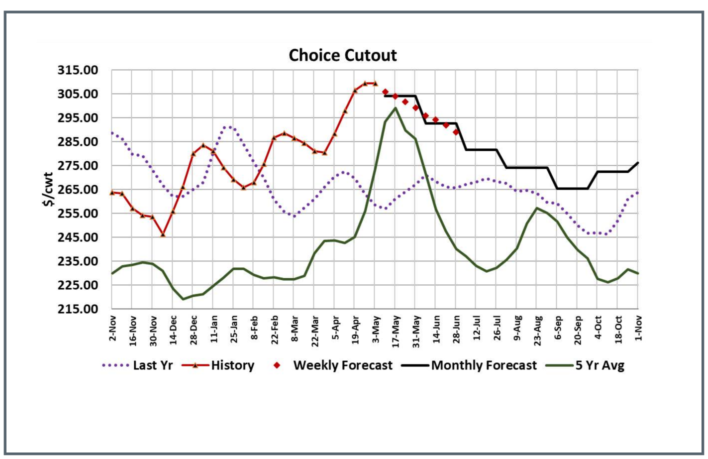
3/8/23
4/12/23

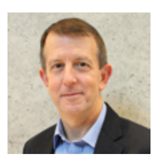












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Dr. Rob Murphy is an agricultural economist and business leader with over 29 years in the industry. He has a wealth of experience in the North American meat and livestock industries studying, analyzing and predicting market movements.