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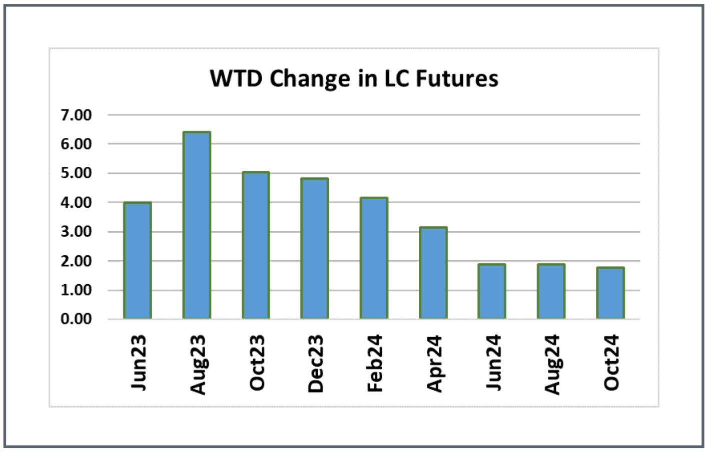
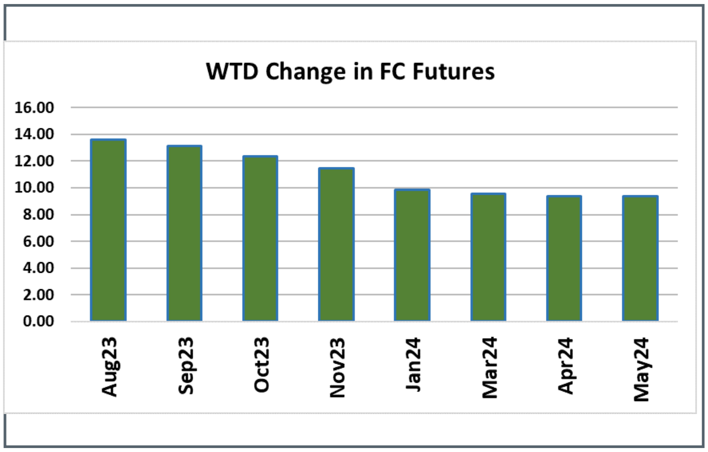
WEEK ENDING JUNE 30, 2023

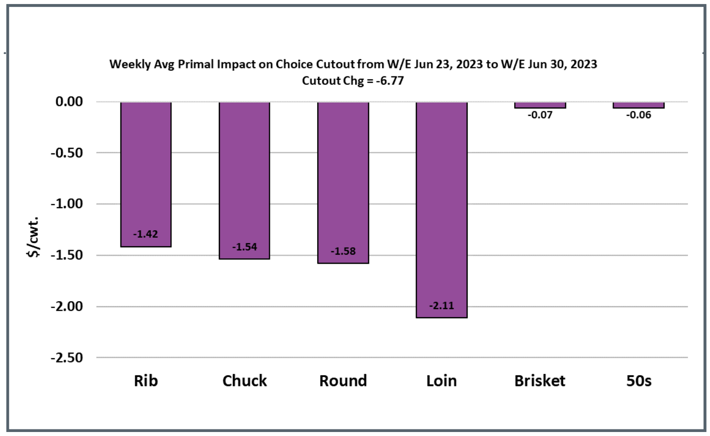
THE BEEF WRAP

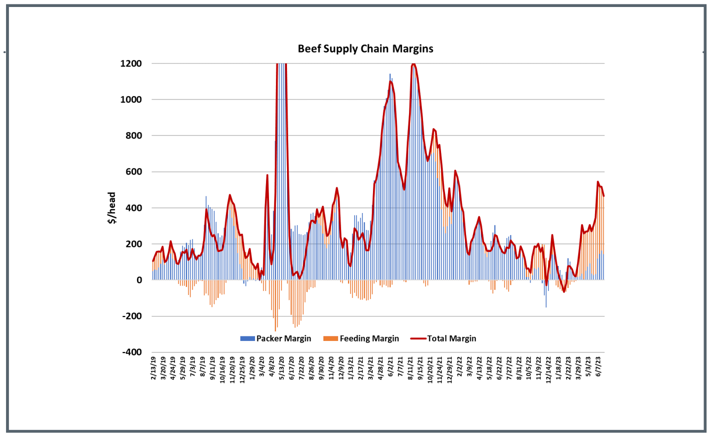
This week started similar to last week, with cattle feeders in the South quick to take lower money ($178/cwt.) on Tuesday. When that happens, packers become fairly confident they are going to get the full showlist bought at lower money, but it didn't play out that way this week. Packers found it difficult to pry Northern cattle away at lower money, so on Friday they were forced to raise the bids in that region, with live trades occurring in the $183-184 range. Once all of the data is known on Monday, I expect the average live price to be about $181.40/cwt. That would be down about $1.20/cwt from last week's average. Prices are certainly coming down a lot slower than they went up. The futures market shot higher on Friday afternoon on the news of packers raising bids in the north, and the Jun contract expired at $181.50/cwt, the highest price ever for an expiring live cattle contract. That record is likely to get broken many times over the next couple of years as cattle supplies dwindle and prices march higher. The beef market continued lower, with the Choice cutout dropping $6.77/cwt on a weekly average basis and the Select cutout losing $8.22/cwt. Here too, prices are coming down a lot slower than they went up. It is important to note that there will be no need for packers to raise asking prices on the beef next week because they did get cattle bought cheaper and they had plenty of margin to work with. This week's packer margin is estimated at $144/head. Margins are likely to decline next week as beef prices are expected to fall more than the small drop in cattle prices this week. Those modestly lower cattle prices didn't attract a lot of sellers and it appears as though the volume of cattle that packers purchased this week was well below normal. They can probably sneak by with that because next week's kill will be shorted by the July 4 holiday, but their inventory levels are going to be low and they may need to buy much larger numbers next week. Of course, cattle feeders will be waiting for them with higher asking prices. Cattle feeding margins remain excellent, at about $325/head, but that doesn't mean that cattle feeders won't press for more. The pandemic years when packers claimed outsized margins is still fresh in their memories. If packers end up paying more for cattle next week, then I think beef buyers can expect them to ask more for the beef the following week. It remains to be seen how much luck they will have with that strategy. My sense is that beef buyers are in no mood for yet another increase in wholesale beef prices. I'm not particularly surprised that it looks like cattle prices may be done going down. While market ready supplies should be increasing as we move into July, the increases are not huge and carcass weights have been telling us for some time that feedyards are very current. This week steer weights were reported unchanged at 882 pounds. Given that cattle are now at their seasonally lightest point and replacement feeder cattle are super-expensive, it would make sense that feedyards might want to hold on to the cattle they currently have and make them bigger rather than sell them quickly and then have to go out and buy an expensive feeder animal to replace them.

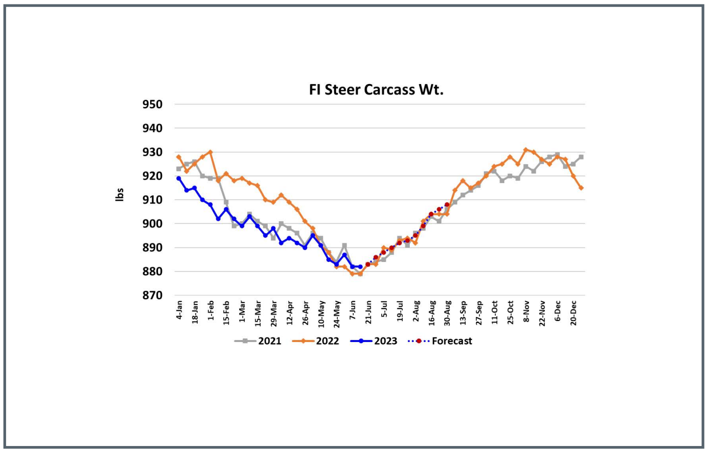
I have been amazed at how fast the de-trended and de-seasonalized carcass weights have declined recently and that suggests a high probability that the leverage meter is going to shift back in favor of cattle feeders soon–maybe next week. Another thing that turned out to be bullish for cattle futures this week was the fact that it finally started to rain in the Corn Belt. That sent corn futures rapidly lower from a pretty high level and thus the feeder cattle futures shot higher. Theoretically, it doesn't make much sense to say that feeder cattle led live cattle higher because normally the causal flow runs in the other direction, but this week's nearly $14 gain in the nearby FC contract probably directed cattle feeder's attention to the fact that their replacement costs are going to skyrocket and that may have made them more resistant than normal to reducing price levels in the fed cattle market. So, in this particular instance it appears as though lower corn futures goosed the feeder cattle futures higher, which then lifted the live cattle futures on Friday. It rarely works that way, but the moves in the corn futures lately have been insane and that can cause goofy things to happen in related markets. This week's fed kill came in at 503k, down 7k from the week before. That was smaller than what I had dialed in earlier in the week so maybe packer's lack of success in acquiring sizeable cattle volume this week forced them to keep throughput lighter than otherwise would have been the case. Next week's fed kill may only be about 450k due to the holiday. When we come back from the holiday week, expect fed kills to climb into the 510-520k range if cattle prices continue to ease. If cattle prices climb, it would make sense to look for kills below that level. All of the beef primals moved lower this week and all by a similar amount. However, I don't get the feeling that beef demand is falling apart, but rather beef buyers have now had time to adjust following the last sharp price increase and that has caused prices to retreat. The forecast has beef prices to continue to work lower through the balance of summer, but I must admit that my confidence in that forecast is declining. I fear that at some point cattle feeders are going to force the live market higher and that will spill over into the beef market. Time will tell. Retailers probably still haven't raised their selling prices enough to compensate for the escalation in wholesale beef prices over the past few months and until that process is complete, consumer demand is likely to continue to look strong. The combined margin did ease a bit this week and is now looking like a new downcycle has started. Exports have been registering fairly soft in the weekly data and I'd expect that to continue as long as the cutouts remain above $300/cwt. Next week, expect the arm wrestling match between packers and feeders to get interesting. If the futures move higher out of the gate on Monday, that could be a strong signal that the cash cattle market is going to hold steady or perhaps even advance.

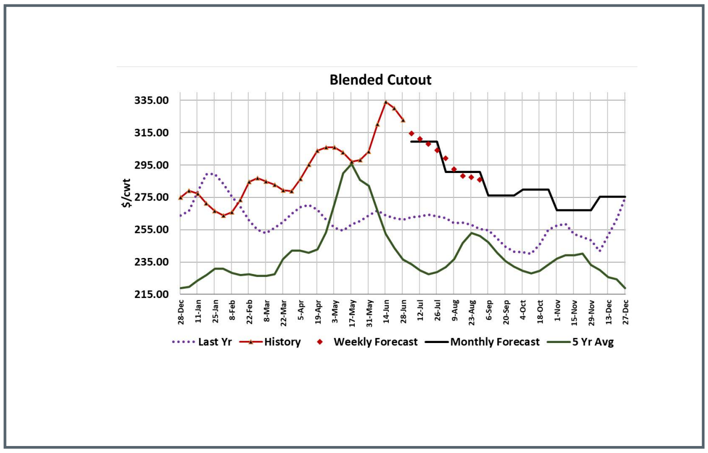

WTD Change in LC Futures
7.00
6.00
5.00
4.00
3.00
2.00
1.00
0.00
Jun23
Aug23
Oct23
Dec23
Feb24
Apr24
Jun24
Aug24
Oct24

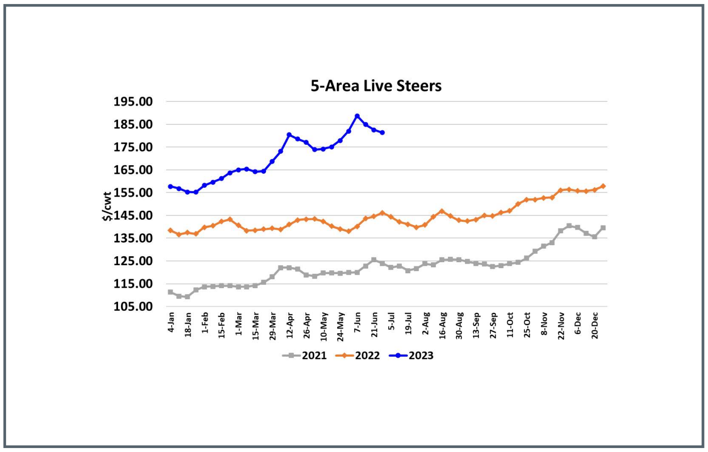

WTD Change in FC Futures
16.00
14.00
12.00
10.00
8.00
6.00
4.00
2.00
0.00
Aug23
Sep23
Oct23
Nov23
Jan24
Mar24
Apr24
May24


Weekly Avg Primal Impact on Choice Cutout from W/E Jun 23, 2023 to W/E Jun 30, 2023
Cutout Chg = -6.77
0.00
-0.50
-1.00
-1.50
-2.00
-2.50
$/cwt.
-1.42
-1.54
-1.58
-2.11
-0.07
-0.06
Rib
Chuck
Round
Loin
Brisket
50s


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

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