

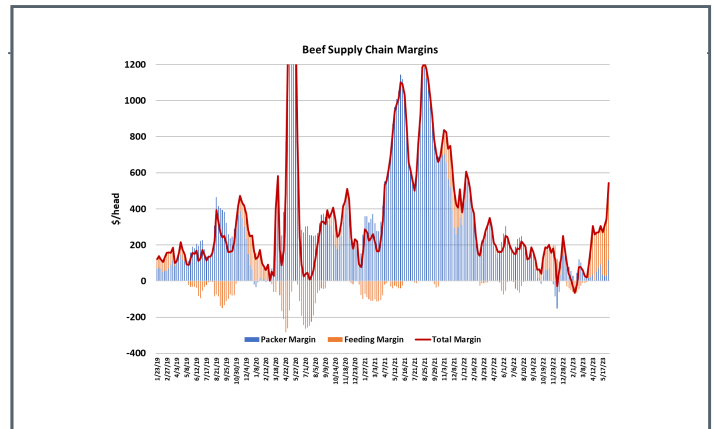
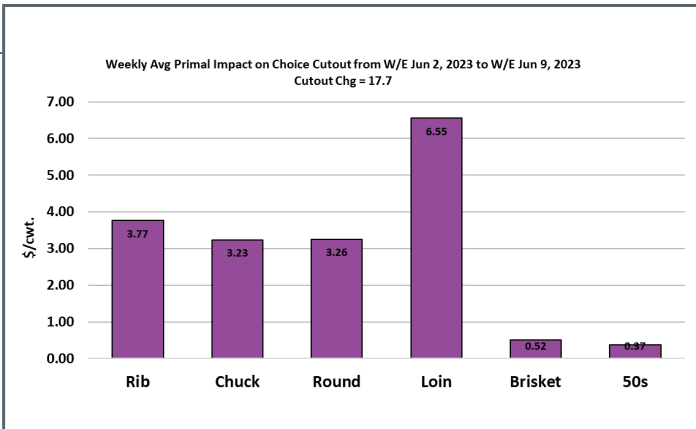
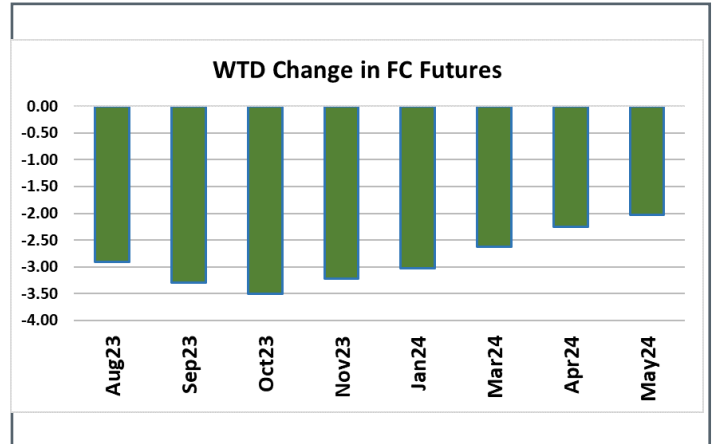
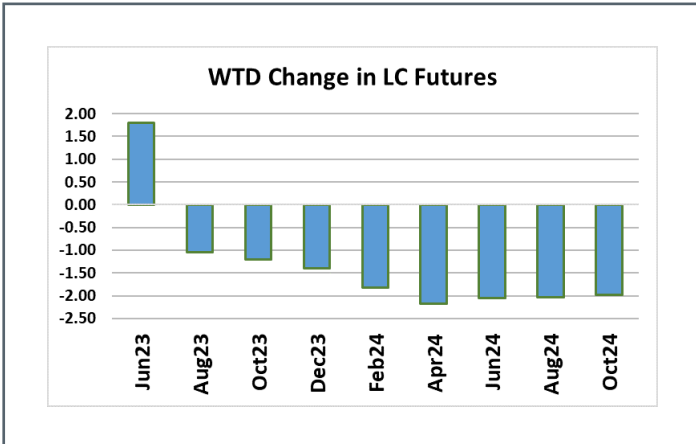


WEEK ENDING JUNE 9, 2023

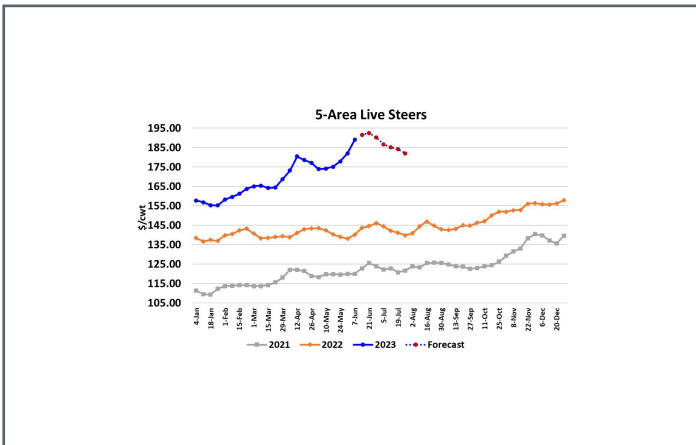
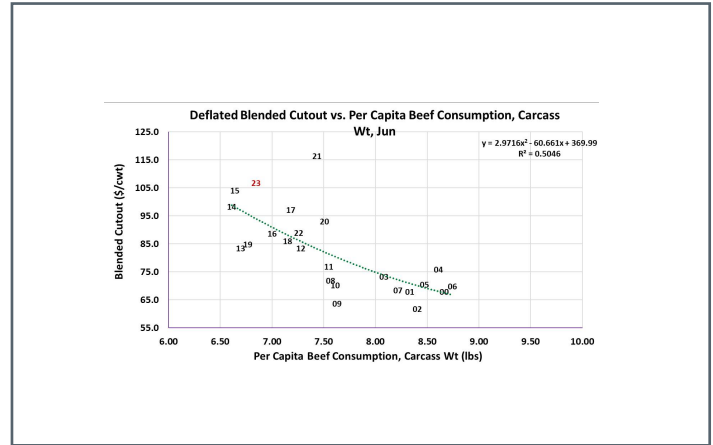
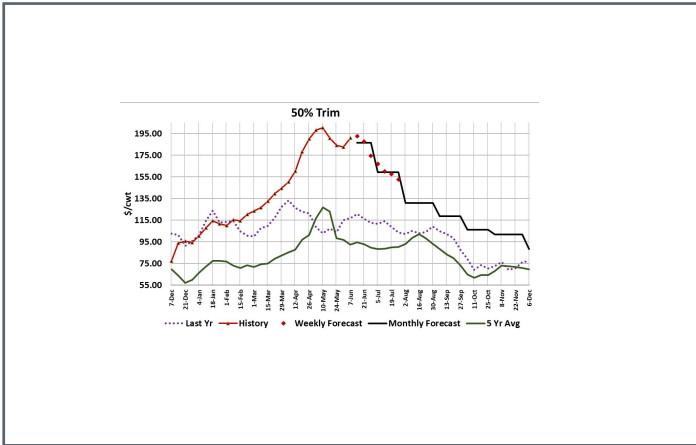
# THE BEEF WRAP

The cash cattle market surged higher again this week, adding close to \$7/cwt in the live market and \$10/cwt in the dressed market. In the last three weeks, the cattle market has advanced almost \$14/cwt. What is driving these rapid increases? An economist would say that demand for cattle is outpacing the supply of cattle and that is almost certainly true. The number of market ready cattle appear to have been a lot tighter than what most people were anticipating here in early June. Maybe packers over-promised meat deliveries to their customers while banking on seasonally increasing cattle supplies that just haven't happened. Competition among packers is having a big influence also. We are in the liquidation phase of the cattle cycle and animal numbers have shrunk to the level where there just aren't enough cattle to go around for all packing plants to operate efficiently. No packer wants to scale back and so they try to outbid one another in the cash cattle market each week. This little spell of sharply higher pricing will likely settle down soon, but there will be many more such events in the next couple of years as the herd continues to shrink. Normally when prices rise rapidly, buyers back away and purchase the bare minimum to fill their needs. This week, packers bought an abnormally large number of cattle at all-time record high prices. What does that tell you? It doesn't sound like a situation where packers believe that there will be more cattle available next week. They are trying to buy as many as they can right now because they fear that prices will be higher next week. Of all industry players, packers have the best visibility into the available supply of cattle. Their buyers are scurrying around to feedyards looking at showlists all week long and communicating what they see back to headquarters. If you want to know what they really think, just watch their behavior. That is a much better approach than asking them because they have plenty of incentive to deceive outsiders. It looks like packers purchased over 105,000 head in the negotiated market this week. The last time that negotiated purchases reached that level was back in early April and the very next week, the cash cattle market increased \$7/cwt. Another factor in all of this is that packers had had less cattle than normal forward contracted for delivery in the May/June period. That forces them to be more aggressive in the negotiated spot market. In this phase of the cattle cycle, cattle feeders are less likely to want to forward contract since prices are generally rising through time. I can almost guarantee that those cattle feeders who several months ago forward contracted cattle for June delivery are wishing that they hadn't right now. The futures market shot higher on the news of sharply higher cash pricing and then quickly retraced almost as if traders had decided that this was the top in the market and prices would retreat rapidly. It could be the top, but I'm not so sure about the rapid retracement part.

After sharp gains in the cash market during April, futures traders priced the Jun contract at a very steep discount to cash. In mid-April, cash cattle averaged \$180 and the Jun futures traded around \$164, a \$16 discount. Now here we are in June's delivery period and cash is approaching \$190. Oops. Will they repeat the same mistake with Aug? It settled today at \$172, about \$18 under this week's average cash price. One reason that I don't look for cash to decline super quickly from here is that packers have been successful at pushing beef prices high enough to cover their cattle cost. Packer margins this week were close to \$120/head and I calculate that when this week's more expensive cattle show up to slaughter next week, their margin will still be about \$70-80/head. In the short run, it is the beef buyer (retail and foodservice) that are footing the bill for these very expensive cattle. Of course, retailers will get busy raising prices to consumers, so eventually they will bear the cost. This week the Choice cutout averaged \$324.49/cwt, up \$17.70/cwt from last week's average. The Select cutout was up \$13.46 to average \$301.51. The attached chart shows that all primals participated in the gains, but the loin primal was the biggest driver. Those last-minute Father's Day buyers got caught short. Last week, I talked about how the DTDS weights were falling rapidly—a sign of improving currentness in the feedyards. That data is delayed by 2 weeks, so the DTDS is very likely even lower now. How much higher will beef prices go? That depends on how much higher cattle prices go. Packers have found it pretty easy to raise beef prices whenever their cattle costs increase. Maybe it is time for retailers to give pork and/or chicken a serious look. Look at how the combined margin soared this week. At this week's average cash cattle price, I have cattle feeding margins over \$400/head. The last time that happened was in the spring of 2017. The immediate impact of these sharply higher prices registers as much stronger demand and technically it is, but you can bet that beef buyers will be looking for ways to dial back their demand in the coming weeks. Fat trim prices are moving higher again and that is an ominous sign that the cattle supply remains very current. Look for further gains in the cutouts next week, but not as large as what we saw this week. Packers bought a lot of cattle this week so they may be able to pull back a bit and hold cattle prices steady or even take them down a little, but I don't think cattle feeders are going to permit a large drop in cash prices. Watch the daily action in the cash cattle market. If packers come out early in the week and pay higher money, that is a sure sign that the cash market rally is not done yet. If they can hold off until Friday, that increases the odds of a price decline. In either case, watch for lots of shiny new Ford pickups rolling around cattle country in the next few months, thank you beef buyers.



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