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WEEK ENDING OCTOBER 20, 2023

THE BEEF WRAP

Packers did manage to achieve modest increases in the cutout this week with the Choice gaining $3.28/cwt. on a weekly average basis and the Select adding $2.18/cwt. Unfortunately for packers, that probably won't help their bottom line much because they ended up pay more for cash cattle once again. In the Southern Plains, cash trade was mostly in the $184-185 range, up $1-2 from last week. In the North, cattle changed hands at $186-187, also $1-2 higher. When all of the data is in on Monday, I'd expect the average for the week to be just a little north of $185. Packer margins clocked in at -$82/head, very similar to the week before. When this week's more expensive cattle show up for slaughter next week, we could see margins move to -$100/head unless packers are able to get some meaningful increases in beef prices. Surprisingly, the biggest contributor to this week's gains in the cutout was the chuck primal. Ribs had almost no impact on the cutout, but the loin primal did. Even so, it seems as though the cutouts have struggled just to add a few dollars. I've been scaling back the price forecasts for the rib and loin primal since it appears that they are not going to live up to expectations this fall. The forecast still has the Choice cutout holding in the low $300s through November and then moving lower as the holiday business dries up. One of the reasons that the cutouts haven't moved much higher this fall is because packers can't seem to keep the kill contained at low enough levels to tighten up beef supplies and thus create supply concerns among beef buyers. This week's fed kill registered 498k, up 8k from the week before and 24k higher than it was in the last week of September. Packers remember how hard it was to find qualified workers during the pandemic and with the unemployment rate still very low at 3.8%, they might be reluctant to run fewer hours and risk losing employees. Many of the union contracts contain a clause for how many 32-hour weeks a packer can run per year and they may be out of ammunition on that one too as the year draws to a close. Thus kills remain larger than they "should" and packer margins remain in the red. The ultimate solution to this margin problem is for one or more packers to close a large harvest facility, but we are still probably a long way off from that. In the interim, packers likely will continue to lose money as they all secretly hope that the other guy will close a plant first. Steer carcass weights were reported 2 pounds higher this week and seem to be following the normal seasonal pattern that would have weights topping sometime in late November or early December. Fed beef production was down 18.3% from last year, but that is mostly due to smaller kills, not any problem with carcass weights.

Export volumes continue to look soft in the weekly data. USDA provided the results of their Cattle on Feed survey this afternoon and it showed September placements up 6.1% YOY. The average trade guess was for a 1.2% increase, so it is pretty clear that this new data will be bearish for prices as it points to bigger-than-expected supplies of fed cattle in Q1. Marketings were reported down 10.6% YOY due to one less marketing day and kill cutbacks by packers during September. All of that combines to give us a 0.6% YOY increase in the number of cattle that were standing in feedyards as of Oct 1. Futures traders will likely interpret that as very bearish when the market opens on Monday. This fresh bearish news comes on top of what was already a bearish week for the futures. Traders punished all of the 2024 contracts with losses greater than $3/cwt. That was a little surprising given that cash cattle prices actually advanced this week, but it reflects nervousness about the future of the macroeconomy in general and what that could mean for cattle and beef prices down the road. Feeder cattle futures got slammed even harder this week with the Nov-May contracts all losing more than $9/cwt. Feeder futures had gotten somewhat frothy, so a big correction there wasn't too much of a surprise. This week and next are likely to mark an important reset in the fed cattle and feeder cattle futures, that will allow the market to resume its uptrend at some point in the future. I'm looking for the market to remain in a sideways to lower pattern until February and then we could see some prices accelerate higher next spring and summer. It is important to remember that all of the margin contained in the beef supply chain ultimately flows down from consumer demand. Right now that demand seems to be holding up well, so there isn't reason to panic. Let the futures do what they will in the short run, but eventually the futures will conform to the underlying market fundamentals. Next week, expect more selling pressure early in the futures and a beef market that trades sideways to modestly higher unless the ribs catch fire. Cash cattle should trade no worse than steady unless the carnage in the futures gets so bad that it forces a lower cash trade early in the week.

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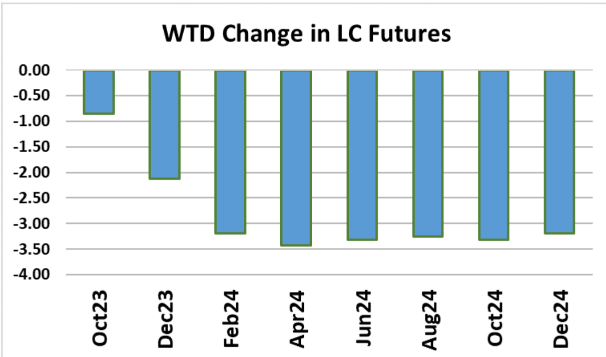

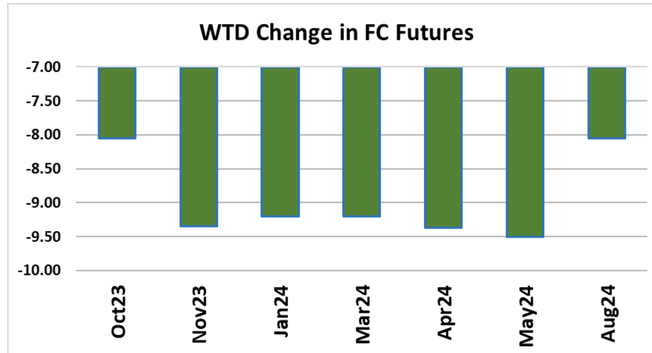

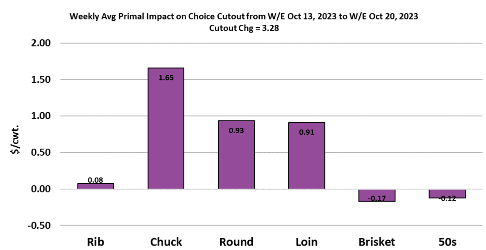

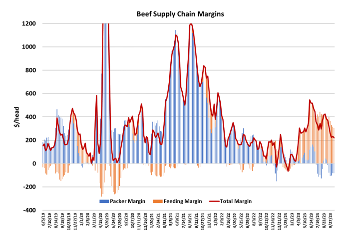

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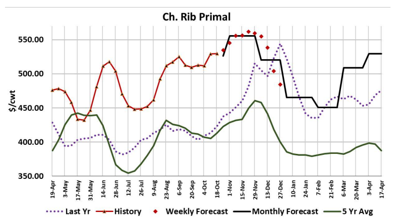

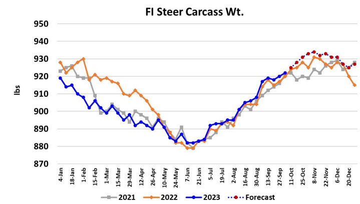

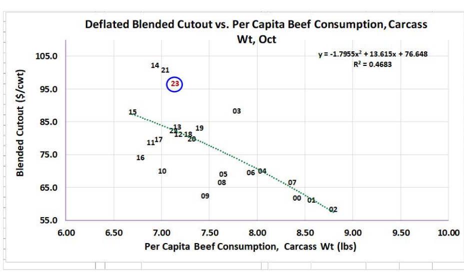

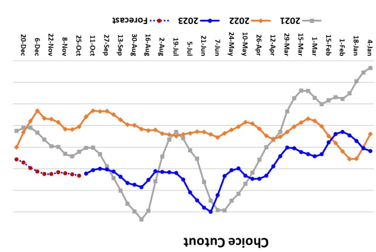

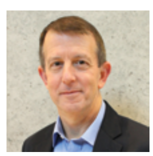

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