J.S. FERRARO

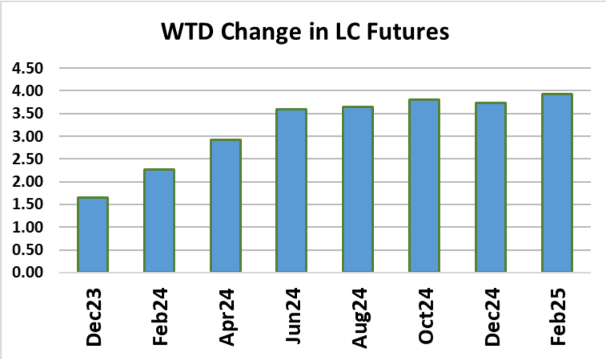
jsferraro.com | 416.306.8788
130 Adelaide Street West, Suite 3302 Toronto, Ontario M5H 3P5

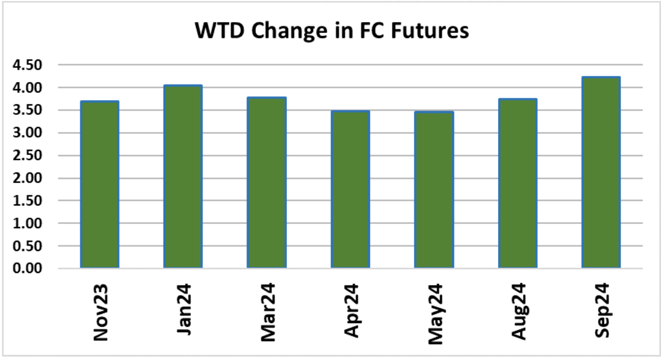
WEEK ENDING NOVEMBER 03, 2023

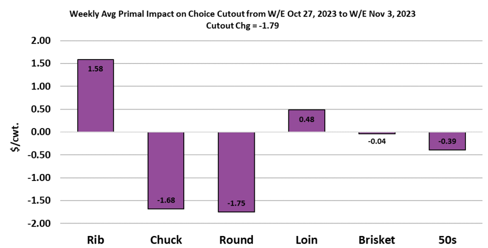
THE BEEF WRAP

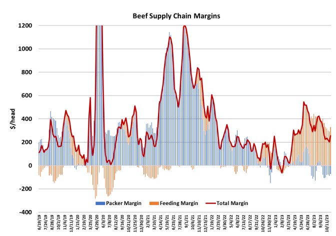
Cash cattle trade was slow to develop this week and as of press time, packers and feeders in the Southern Plains remained in a standoff. Some light trade did occur in the North, with reported prices at mostly $185, which was steady with the week before. It was widely expected that cash trade in the South would be higher than last week's $185, but packers, who were dealing with a stagnant boxed beef market, have so far refused to cooperate. Late Friday, packers were bidding a steady $185 in the South, but cattle feeders wanted more. It seems as though packers need the cattle more than cattle feeders need to sell them, so a higher cash trade may yet develop over the weekend or early next week. In the beef market, the Choice cutout was down $1.79/cwt. on a weekly average basis to $304.70 and the Select cutout dropped $4.24/cwt. to average $277.06/cwt. It was the chucks and rounds that pulled the cutout lower this week, while the middle primals were a little higher. Fat trim also softened and was quoted near $63/cwt. on Friday. Packer margins improved slightly this week, averaging close to -$73/head, but that marked the eighth week in a row of negative margins for packers and there seems to be no end in sight to their margin problems. Packers are likely to continue to bleed red ink until the supply of market-ready cattle expands and better aligns with packing capacity. That might not happen until January, and by then packers could be dealing with seasonally soft demand that tempers margins from the revenue side of the equation. So, the outlook doesn't look good for packers. They haven't been able to scale back the kill enough to make a difference in market-ready cattle supplies. This week's fed kill came in close to 485k, down 6k from the week before. The problem for packers is that soon they will need to begin delivering on holiday orders and that will force them to kill more than they might want to. One sign that the margin bleeding has packers concerned is their reluctance to buy any cattle this week in the South because they were priced higher than last week. In previous weeks, the packers just paid up, but this week they dug in and refused to do business. The strategy of refusing to purchase cattle is unlikely to work for them because they will need additional cattle within a few days, but it would take at least a couple of weeks before cattle feeders would likely feel a need to get cattle sold quickly. My guess is that trade will eventually occur in the South at $186 or better.

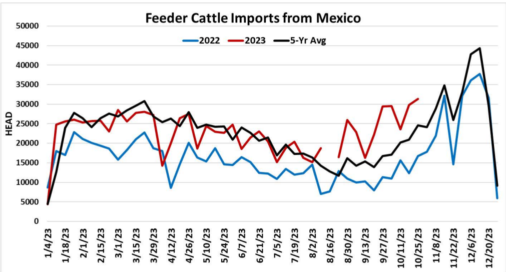
Steer carcass weights were reported unchanged this week and that was somewhat of a surprise. Weights should still have another 2-4 weeks to increase before they make their seasonal top. The DTDS weights are still relatively low and that is a good indicator that packers are not in a bind to sell cattle right away. One piece of good news for the industry is that the combined margin appears to be turning higher after being on the defensive since early September. Perhaps that is giving us advance warning that demand is starting to pick up and the timing would be appropriate given that the holidays are just around the corner. It is easy to believe that middle meat demand will pick up in the next few weeks, but I'm not so sure about demand for the end cuts. On the supply side, it does appear that placements during October ran above last year, maybe by as much as 5%. Given that September placements were up 6% YOY, the Sep/Oct placements have the potential to create a bulge in Q1 fed cattle supplies. Feeder cattle imports from Mexico have been above last year since January, but they have really ramped up since the end of summer (chart attached). That is evidence of cattle feeders in the Southern region seeking out cheaper alternatives to sky-high domestic feeder cattle prices. However, those Mexican cattle are a lot less likely to make grade than domestic-sourced animals and so won't help to address the one area of the market where it appears that demand is resilient–high quality middle meats. This week we saw the Choice-Select spread widen to over $30/cwt., a sign that demand for better-quality beef is holding up well. The bubble in placements this fall could temper cattle prices next spring, but as I've pointed out before, cattle that are placed today can't be placed in the future and so at some point we are likely to see sharp YOY declines in placements reappear. Next week, watch for some early week trade in the South at higher money to keep packers' plants running and then a standoff until Friday when the whole process could repeat. The Choice cutout should continue to hold in the low $300s as holiday-driven gains in the middles are offset by soft pricing in the end meat segment.

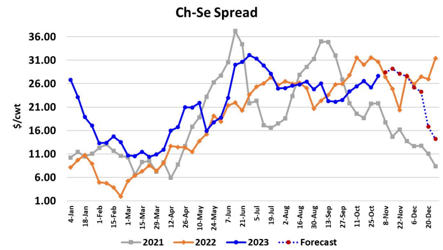

WTD Change in LC Futures
4.50
4.00
3.50
3.00
2.50
2.00
1.50
1.00
0.50
0.00
Dec23
Feb24
Apr24
Jun24
Aug24
Oct24
Dec24
Feb25

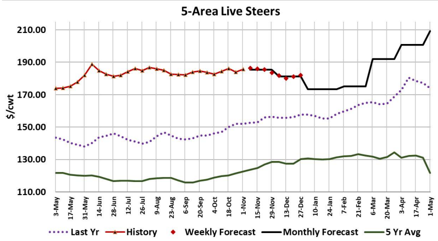

WTD Change in FC Futures
4.50
4.00
3.50
3.00
2.50
2.00
1.50
1.00
0.50
0.00
Nov23
Jan24
Mar24
Apr24
May24
Aug24
Sep24

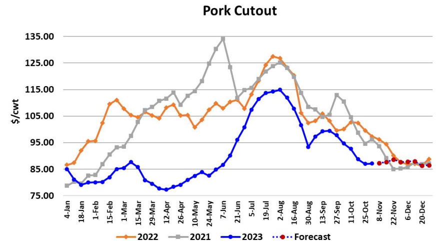

Weekly Avg Primal Impact on Choice Cutout from W/E Oct 27, 2023 to W/E Nov 3, 2023
Cutout Chg = -1.79
$/cwt.
2.00
1.50
1.00
0.50
0.00
-0.50
-1.00
-1.50
-2.00
1.58
-1.68
-1.75
0.48
-0.04
-0.39
Rib
Chuck
Round
Loin
Brisket
50s


Beef Supply Chain Margins
$/head
1200
1000
800
600
400
200
0
-200
-400
Packer Margin
Feeding Margin
Total Margin









DR. ROB MURPHY BS, MS, PhD Agri Economics,
Executive Vice President, Research & Analysis,
J.S. Ferraro

E: Rob.Murphy@jsferraro.com

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.