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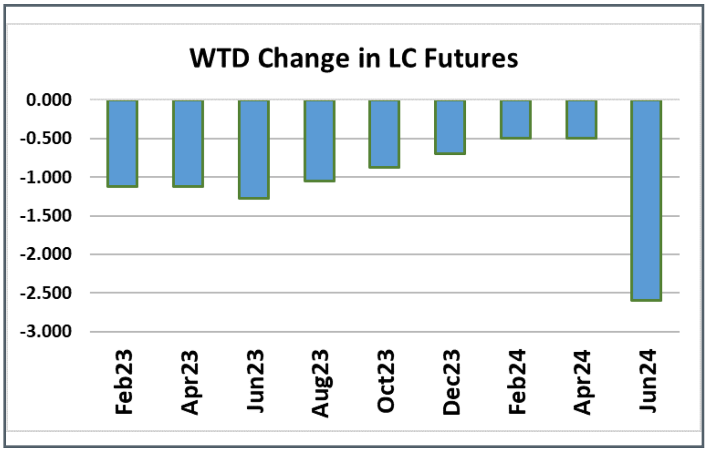
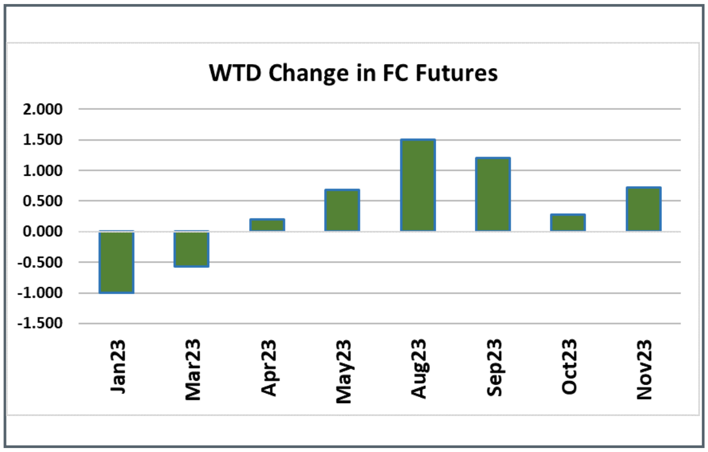
## WEEK ENDING JANUARY 9, 2023

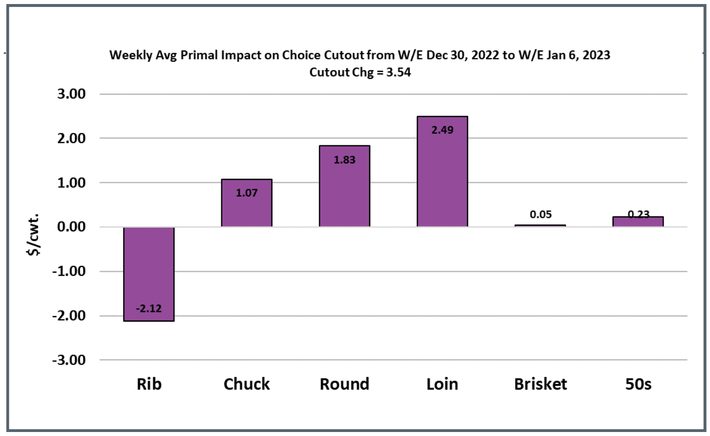
# THE BEEF WRAP

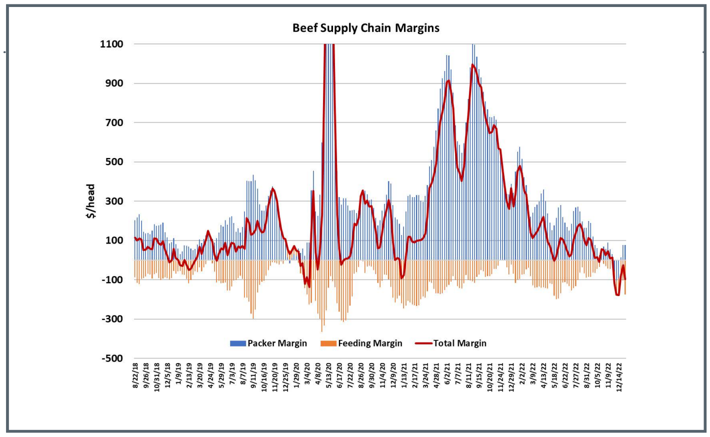
This week's cash cattle trade averaged $157.78/cwt., almost steady with last week. Cattle in the Southern regions traded at about a $1/cwt. discount to those in the North. The cutout held up very well, with the Choice adding $3.54/cwt. and the Select gaining a whopping $8.19/cwt. Packer margins stayed essentially flat with last week at $77/head because even though the cutouts were rising, packers were killing cattle they had paid up for the previous week. The most impressive thing in the entire complex is the continued strength in middle meat pricing. The rib primal only declined a little this week, but the loin primal actually posted a gain. This is normally the time of year when consumers and beef buyers are rapidly backing away from pricey middles, but that hasn't been the case so far. Perhaps clearance on those items was better than expected over the holidays and so that generated a lot of fill-in interest. If that is the case, then it is just a matter of time before the ribs and loins move substantially lower. The next major holiday for the middles is Valentine's Day, but we should see some erosion in demand before that arrives. End meats are somewhat pricey too right now, but that is fairly common for early January. The reduced kills of the last three weeks have probably caused some short-term supply tightness that is supporting prices. Packers will take care of any supply issues next week when the kill returns to normal. For the past three weeks, the fed kill has only averaged 426k. This week, which was missing the Monday kill, came in at 429k and that needed a sizeable Saturday slaughter. I'm looking for packers to push the fed kill into the 505-510k range next week. It is hard to imagine that the cutouts won't be pressured lower under the weight of that production. Another thing that has limited production recently is a sharp drop in carcass weights that started with the polar vortex that hit cattle country during the week before Christmas. USDA released the official weight data for that week on Thursday and it showed steer weights down 7 pound from the prior week. Normally in a holiday-shortened week (that Saturday was Christmas Eve), we see carcass weights increase, so that big drop was definitely an aberration that was likely due to the weather. Early indicators are suggesting that when we get next week's weight data, it too will show a weight decline right in the middle of the holiday period. However, from late December onward, the weather has been much warmer across cattle country, so it is reasonable to expect that weights will not continue lower at that rate of speed. In fact, the weather forecast is projecting temperatures well above average in the Midwest for the next couple of weeks. That should help dry out feedyards and limit weight losses.

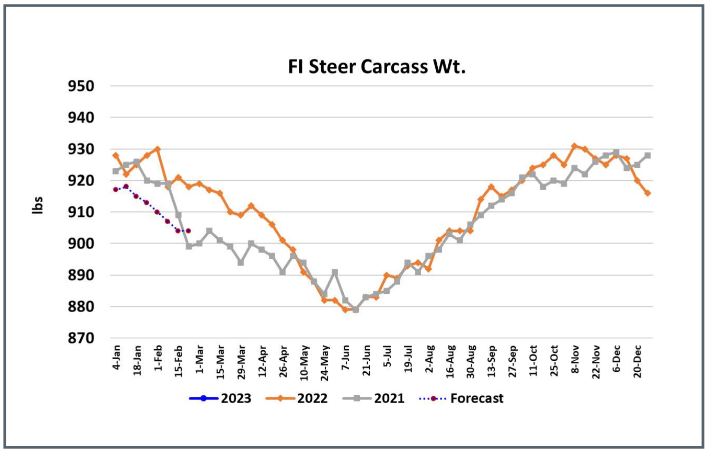
After next week, I'm looking for packers to slowly work the fed kill lower and by the time February arrives it may only be around 490k per week. That is based on past placement patterns that suggest fewer market-ready animals during the Jan/Feb period than what we saw in Q4. Of course, demand is usually weaker in the Jan/Feb period as well, so smaller fed kills do not necessarily imply higher beef prices. In fact, beef prices look pretty high right now with the Choice cutout over $280/cwt. Pork and chicken both offer better values for retailers and they may lean in that direction for their Feb/March feature activity. There is also a pretty good chance that retailers will push their everyday pricing on beef higher in the next few weeks in order to try and regain some of the margin that they lost in December. This week's combined margin chart tells an interesting story. It looked like the margin was headed into an upcycle, but now it has turned sharply lower once again. On the surface that seems somewhat odd since the cutouts are still rising. When I investigated the cause of the margin downturn, I found that it is being driven by cattle feeding margins moving lower. The issue here is that from late July until late August, cash feeder cattle prices escalated from about $170/cwt. to $180/cwt and those are the cattle that are now coming to market and the breakevens on those cattle have risen much faster than spot cattle prices have. My margin model shows that those cattle need to bring almost $170/cwt. to breakeven. Obviously, cattle are trading well below that. Did cattle feeders pay too much for feeder animals back in August? Yes, it appears so. Will that prevent them from over-paying for feeders again? Not likely. They are slow learners. But at least they are getting reminded that, so far, it hasn't worked very well to pay $180+ for feeder animals. And now the futures market is telling us that they will be paying $207 for feeder animals this fall. It will take some very high fat cattle prices to make that work financially, certainly a lot more than the $168 the April 2024 LC are trading at. Heck, $168 fats wouldn't be enough to cover the cost of feeders they paid $180 for, much less $207. The point is that something is seriously out of whack here. It was the same way last spring, with fall FC futures trading way above where they eventually settled. However, these high breakevens will keep cattle feeding margins in the red for a long time and that means they won't take very kindly to packers suggesting lower prices for fed cattle. There is probably a day of reckoning coming in the not-to-distant future when the cutouts tumble and packers want to buy cattle cheaper, but cattle feeders resist mightily. Next week, watch for the cutouts to turn lower as the industry gets back to full production. Packers might not get cattle bought cheaper because they have some margin to give, but it won't take much to put them back in the red as well.

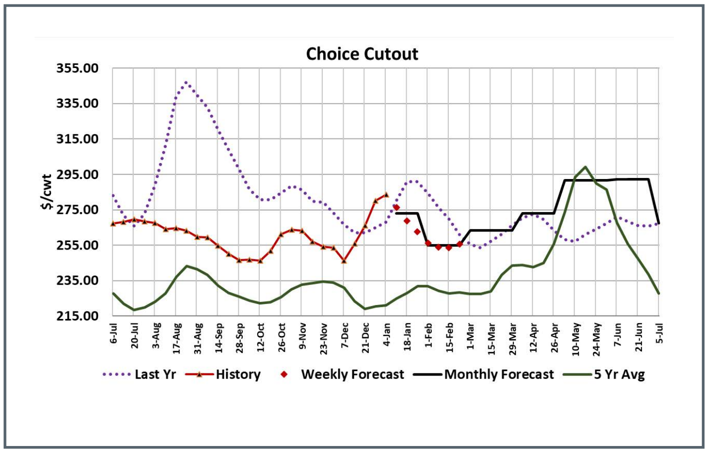

WTD Change in LC Futures
0.000
-0.500
-1.000
-1.500
-2.000
-2.500
-3.000
Feb23
Apr23
Jun23
Aug23
Oct23
Dec23
Feb24
Apr24
Jun24

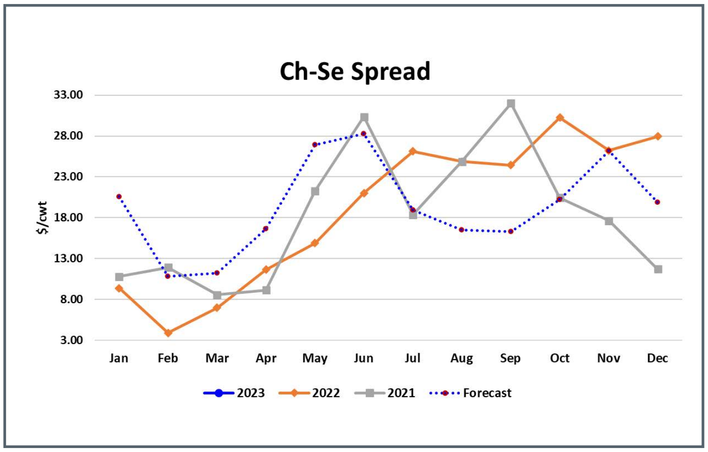

WTD Change in FC Futures
2.000
1.500
1.000
0.500
0.000
-0.500
-1.000
-1.500
Jan23
Mar23
Apr23
May23
Aug23
Sep23
Oct23
Nov23


Weekly Avg Primal Impact on Choice Cutout from W/E Dec 30, 2022 to W/E Jan 6, 2023
Cutout Chg = 3.54
$/cwt.
3.00
2.00
1.00
0.00
-1.00
-2.00
-3.00
-2.12
1.07
1.83
2.49
0.05
0.23
Rib
Chuck
Round
Loin
Brisket
50s


Beef Supply Chain Margins
$/head
1100
900
700
500
300
100
-100
-300
-500
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.*