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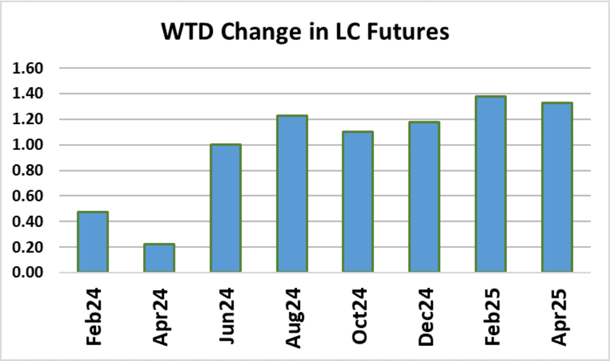
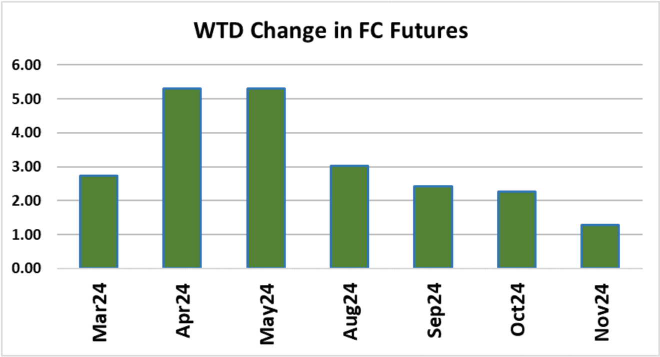
WEEK ENDING FEBRUARY 23, 2024

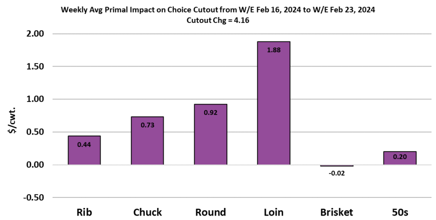
THE BEEF WRAP

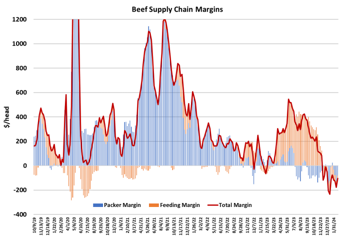
This week when the futures market turned suddenly lower on Thursday, cattle feeders didn't take the bait and continued to hold out until Friday. That netted them a nice $3 increase in the live market to $183 and a $4-5 increase in the dressed markets. If you recall, in the week prior three days of red futures prompted cattle feeders to take lower money on a Wednesday. They didn't repeat that mistake this week. Packers are probably not too happy about this week's outcome in the cattle market, but at least they were able to realize some improvement in beef prices as the Choice cutout gained $4.63/cwt. to average $298.53. The Select was up $0.16 to average $286.36 for the week. Packer margins improved from -$123/head last week to -81/head this week. However, they will need to keep upward pressure on the cutouts in order to prevent losing any margin ground next week when those more-expensive cattle show up for slaughter. Some further gains in beef prices are likely because the weather across the US was stellar this weekend, which should generate strong fill-in business early next week and packers really slashed the kill this week, so product availability will be tighter next week. This week's fed kill was only 460k, down from 472k the week before. At 460k, the weekly kill is almost in line with what we might see in a holiday week. Packers clearly want to resolve their margin issue and this is the best way to approach it. There were rumors this week that one of the majors is dropping down to a 32-hour work week at all of its plants. It remains to be seen if they can actually follow through on that, but if they did it would likely cause cattle to start backing up fairly fast. Often, packers will circulate that type of rumor in order to help them in their negotiations with cattle feeders over price, but clearly that didn't work this week. Cutting hours is a little bit like closing a plant–the one that does it realizes it will lose market share to those that don't. Of course, when the industry is losing close to $100/head on a regular basis, having a large share of that market might not be so appealing anyway. Cattle supplies are naturally tight in February because producers know that it is a poor demand month and thus generally don't place a lot of cattle with a February marketing window in mind. Carcass weights saw a small bump upward this week, as steer weights added 3 pounds. However, that comes on the heels of a 32-pound drop in the prior five-week period, so a modest increase isn't all that surprising. Going forward, weights should still continue to track lower in typical seasonal fashion, but the drop might turn out to be a little slower than normal because weather across the feeding areas has turned exceptionally mild for late winter and cattle that were set back during the January polar vortex will soon start to experience compensatory gains. So, while right now it appears that cattle feeders are in the driver's seat of the cash market, they likely to start feeling pressure to move more cattle out of the yards and that will only happen if they allow price levels to decline, improving packer margins and thus incentivizing bigger kills.

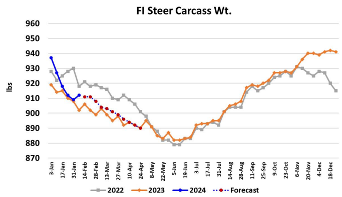
USDA provided another Cattle on Feed report yesterday and it showed feedyard placements in January down 7.4% YOY. That big drop was driven by the extreme cold in connection with the polar vortex event, but it wasn't as large as the 12.3% drop that analysts were expecting. As a result, there is likely to be some selling pressure in the futures early next week and that has the potential to limit further gains in the cash market and may actually cause it to lose a dollar or two. The big unknown in all of this is how much the January weather event set cattle back, thus allowing producers to spread those marketings out over a longer period and thereby mitigating some of the negative impact that building front end supplies could have on price levels. Just looking at the weight data, it appears that recovery in cattle performance is well underway, and that could hasten the day of reckoning when cattle feeders have to cede some leverage back to the packer. On the demand side, things look ok, but not great at the moment. The Choice cutout has struggled to get back over the $300 mark even in the face of light kills, so it is hard to conclude that demand strong. As spring approaches, weather will play a big role in how fast demand comes out of its late-winter slump. This weekend was exceptionally mild across much of the country and the forecast is for more of the same next week, so as strange as it may seem, there could be some grills getting fired up across the southern portion of the US. This week, cuts from the loin primal were the leaders in helping the cutout higher, but it was a positive that all of the major primals showed week-on-week gains. Packers will be raising asking prices on beef early next week, citing their increased cattle costs and warning buyers that they could get shorted because packers are going to cut hours. There could be some strong fill-in demand early in the week due to the beautiful weekend and that would certainly help packers in their quest to lift beef prices. The Choice cutout did trade just over $300 on Friday afternoon and the fundamental forecast has it moving higher from here, but at a relatively slow pace. We are likely to see the Choice cutout bounce around between $300 and $310 for a few weeks before the spring demand kicks in, helping it to break out of the top of that range. Next week, watch for COF-related selling to dominate the futures early in the week creating the possibility that some cattle feeders will agree to lower cash earlier than normal. On the other hand, if their front-end supplies truly aren't burdensome yet, the trade may wait until Friday and surprise us all once again.

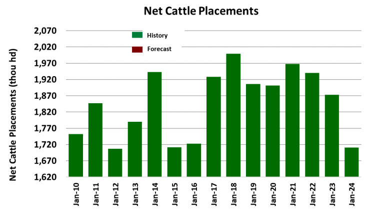

WTD Change in LC Futures
1.60
1.40
1.20
1.00
0.80
0.60
0.40
0.20
0.00
Feb24
Apr24
Jun24
Aug24
Oct24
Dec24
Feb25
Apr25

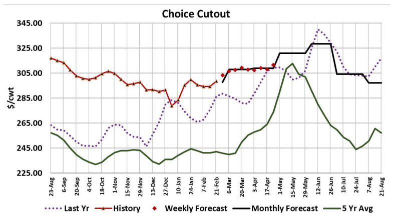

WTD Change in FC Futures
6.00
5.00
4.00
3.00
2.00
1.00
0.00
Mar24
Apr24
May24
Aug24
Sep24
Oct24
Nov24


Weekly Avg Primal Impact on Choice Cutout from W/E Feb 16, 2024 to W/E Feb 23, 2024
Cutout Chg = 4.16
$/cwt.
2.00
1.50
1.00
0.50
0.00
-0.50
0.44
0.73
0.92
1.88
-0.02
0.20
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







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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.