

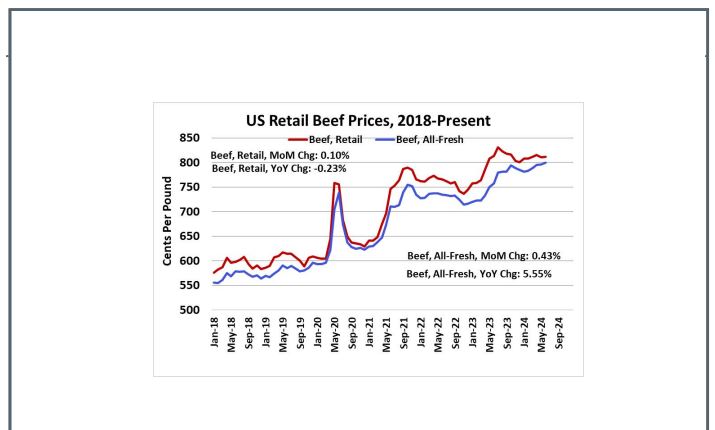
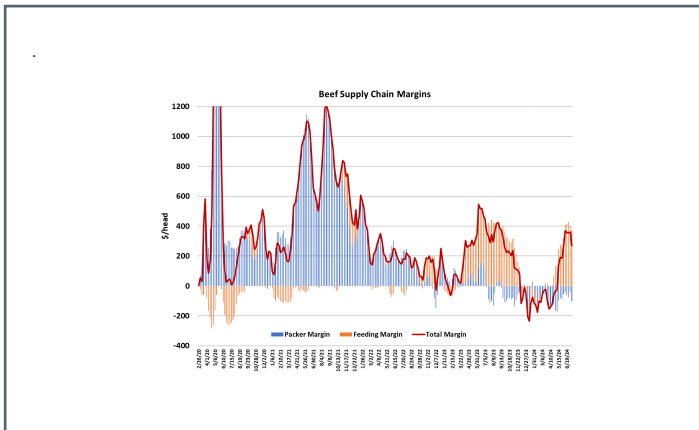
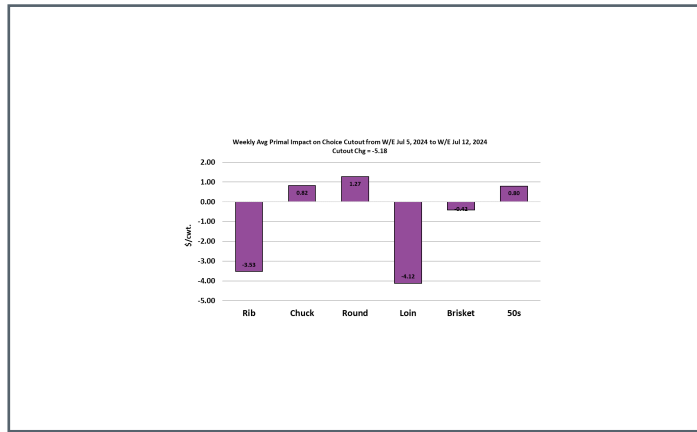
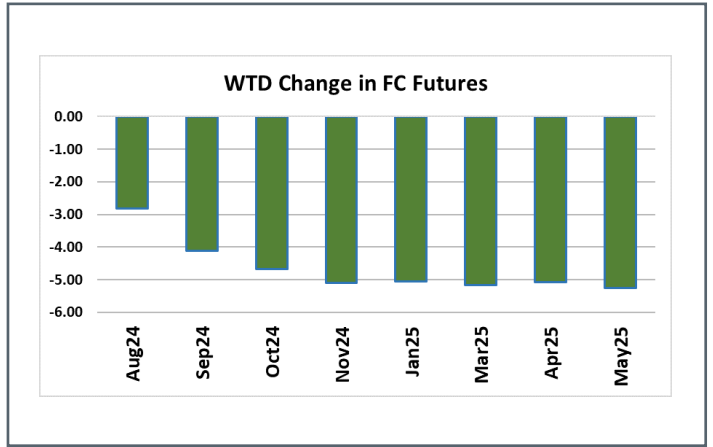
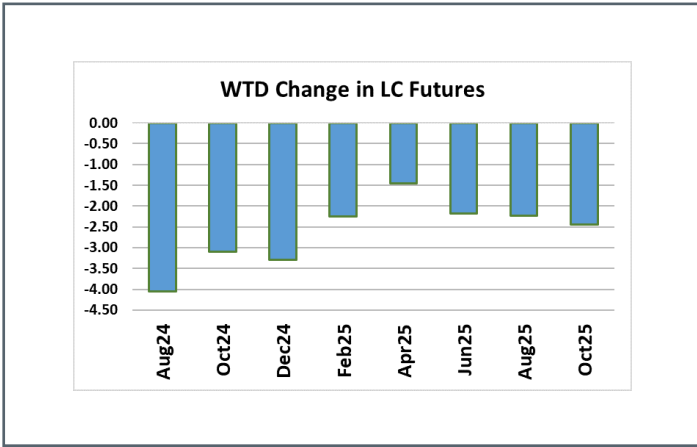


WEEK ENDING JULY 12, 2024

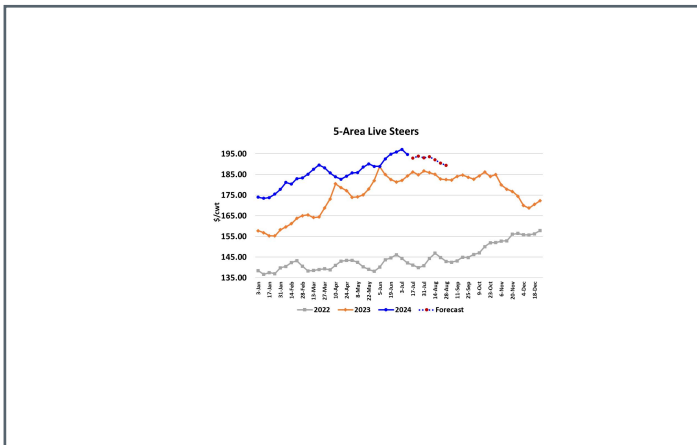
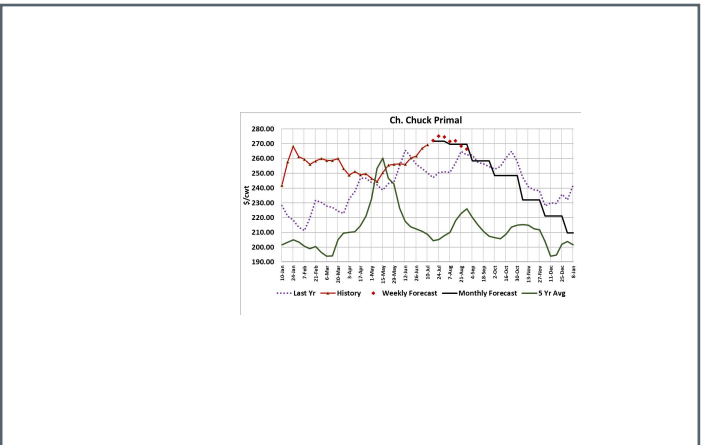
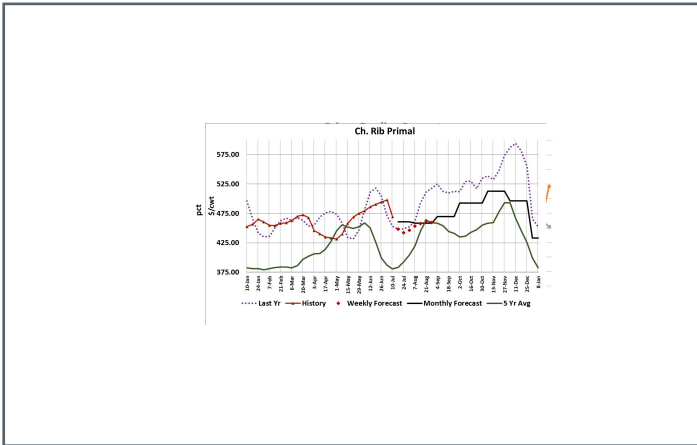
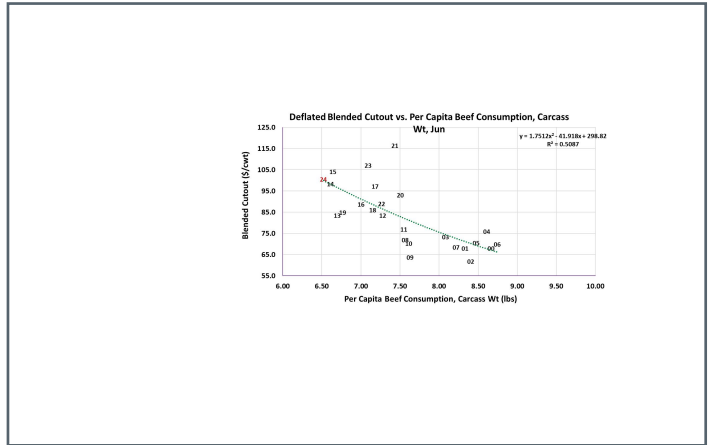
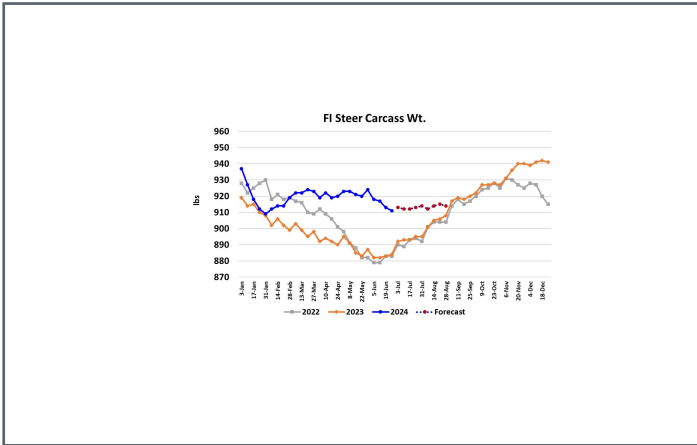
THE BEEF WRAP

Prices in the cattle and beef complex finally took a step back this week. It started on Tuesday when the AM Choice cutout printed down almost \$5 and that prompted the futures to move sharply lower. It was almost like a game of musical chairs that had run too long and everyone was expecting the music to stop. When it did, the scramble was on to get out of long positions. The next step in the cascade of events came when cattle feeders in the south started accepting \$188, down \$2 from the week before. In trader's minds, that sealed the deal, indicating that the market had finally topped and would now be headed lower. However, the damage to the cutouts wasn't as severe as many feared with the Choice cutout losing \$5.18/cwt. on a weekly average basis and the Select dropping \$1.85/cwt. The attached chart indicates that it was almost solely the middle meats (loins, ribs) that pushed the cutout lower. End cuts were higher on the week and so were the 50s. Trader's reactions made it seem like they expect the cutouts to come crashing down in big chunks, but by the end of the week, some were re-thinking that. I'm not on board with the "crashing down" prediction, primarily because lean trim prices are so high that it will be difficult to move the end cuts significantly lower. Sure, the middle meats are expected to soften seasonally after Independence Day, but with 90s near \$375/cwt. this week, it seems like the end primals will remain firm and its hard to crash the cutouts without some help from the ends. Another supportive feature was the 50s averaging close to \$116/cwt. this week, up \$16 from the week before. With everyone concerned about how heavy carcass weights are, why would 50s prices be rising so rapidly? My answer would be that there is something going on with the demand side of that market, probably improved pull at retail for ground beef and 50s are a necessary component in that product. We should keep a close eye on 50s pricing in the next few weeks because it may have a lot to tell us about the direction of the cutouts for the remainder of the summer. Of course, the drop in cutout values this week weighed on packer margins, which I calculate near -\$100/head, about \$60/head lower than the week before. Of course, packers will get a little relief on the cost side of their margin equation when this week's cheaper fed cattle show up for slaughter next week.

It is clear packers are not happy with their margin situation and this week they trimmed the fed kill back to 487k. That will probably have more of a supportive influence on the beef market than a negative influence on the cash cattle market. That is another reason why I don't think prices are going to continue moving rapidly lower. Some further erosion in middle meat prices is likely and that could be enough to push the Choice cutout back below into the \$315-320 range, but after that I have a hard time seeing where the additional pressure would come from. Steer carcass weights were reported two pounds lower this week at 911 and we've now taken 13 pounds off of steer weights since Memorial Day. The forecast has weights holding in a mostly sideways pattern through July and early August and then advancing seasonally toward a top in November. With the lighter kill and lower carcass weights, beef production this week is estimated to be almost flat with last year instead of the 2-4% higher that had been common in May and June. As a result, beef buyers should find availability a bit snigger next week. With respect to the cash cattle market, \$188 was common in the South (down \$2), but there was a good bit of trade in the North at a steady \$198. My guess is that the 5-area average will print close to \$195 when USDA tabulates all of the data on Monday. We are now at the point in the calendar when market-ready cattle supplies in the North generally expand, so we could see some softening in that region over the next couple of weeks. If we don't, that will be supportive to prices in the South, which are already \$10 below those in the North. At that kind of discount, packers can buy cattle in the South and truck them North if needed. USDA gave us a fresh set of retail prices this week and that data showed only a very slight increase from the month before. On a YOY basis, the traditional retail price series is now slightly below last year at this time. Beef demand continues to look very strong, even considering that middle meat demand is undergoing some seasonal softening. Next week, look for the middles to continue to drag the cutouts lower, but don't expect big price concessions from the end cuts. Cash cattle could ease another dollar or two.



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

E: Rob.Murphy@jsferraro.com [in](#) [tw](#)

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.

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