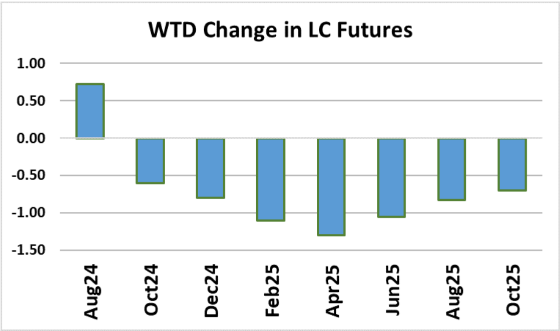
J.S. FERRARO

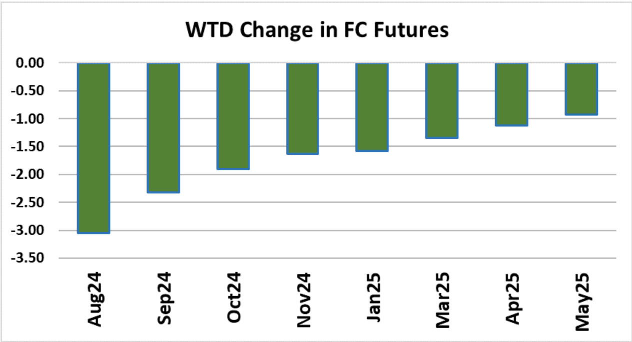
jsferraro.com | 416.306.8788
130 Adelaide Street West, Suite 3302 Toronto, Ontario M5H 3P5

WEEK ENDING JULY 19, 2024

THE BEEF WRAP

The cash cattle market continued to ease this week, with the live trade in the North coming in at $196, down $2 from the previous week. In the South however, prices held steady at $188. My best guess at what USDA will report for the 5-area price on Monday is $193.50, down about $0.75 week-on-week. That isn't too bad considering that the Choice cutout was down $7 on a weekly average basis and the Select cutout was down $3.11. With the cutouts coming down faster than cash cattle prices, packer margins are compressing and I estimate this week's margin at close to -$120/head. Feedyard margins are also coming down, but not as fast as the packer margin and the feeding margin is solidly in the black at +$360/head. The combined margin slipped again this week and the attached chart shows that it is now solidly in a downtrend. Packers responded to their deteriorating margin situation by slashing the kill near the end of the week. Steer and heifer slaughter is pegged at 472k, down 18k from the week before and well below the 500k or so that should have been available for slaughter this week. Packers have the right idea, but it would likely take several weeks of short kills like that in order to put significant pressure on cash cattle. The beef market however, might notice the light kill early next week. We are moving into the phase of the calendar where institutional buying typically picks up as schools and universities start to stock their coolers ahead of the beginning of the school year. Of course, they aren't feeding the kids ribeyes, but that buying typically supports end cuts and ground beef. This week, the middle meats continued to drag the cutout down as both the rib and loin primal moved lower. The chuck was also down, but the round was a small positive contributor. More importantly, both the 50s and 90s advanced. The 50s added almost $10 on a weekly average basis and are now hovering around $126. The 90s should be very close to a seasonal top, but my sense is that ground beef demand is quite strong and may remain that way for several more months, so I'm not expecting huge declines in 90s pricing. It is clear that overall beef demand is easing, but that is the normal seasonal pattern for this time of year and I don't think that it means overall demand is going to fall off a cliff. The forecast has rib values declining for another week or two, but after that, I'd look for prices to stabilize and then move modestly higher as buyers prep for Labor Day. In fact, if buyers are sitting on the sidelines waiting for the falling knife to finish dropping, they may be caught by surprise at this week's light kill and we could see them starting to cover needs as early as next week. With respect to the end cuts, I really don't expect a lot of downside risk there as long as the 90s remain sky high. FI Steer weights bounced five pounds this week to 916 pounds, but the data was for the week of July 4, so an increase in carcass weights was expected. The de-trended and de-seasonalized weights have been coming down rapidly and are now near the zero line, suggesting that the risk of cattle backing up has been diminished. If I'm right about weights staying in a sideways pattern for the remainder of the summer, then that DTDS calculation should move solidly into negative territory over the next few weeks. Another bullish factor on the supply side was delivered by today's Cattle on Feed report which showed June placements down 6.8%, about 3% below what analysts were expecting. Total on-feed inventories as of July 1 are now only half a percent larger than last year and very likely will fall below last year when the next COF report is released. I expect that futures traders will cheer the drop in placements when trading gets going on Monday. Near-term however, front end cattle supplies appear ample enough to support weekly fed kills near 500k, so if packers continue to restrict the kill, then some currentness is likely to be lost. It seems more likely to me that this week's light kill will slow or stop the decline in the cutout, which would help margins and probably ends up enticing packers to increase the kill again. Next week will be interesting because the COF report may result in the futures starting the week in the green and if that happens, the odds of cattle feeders taking lower money declines. Right now, the Aug contract looks almost $5 too low compared to the fundamental forecast and Aug will go into delivery in just about 2 weeks, which is when the cash-futures convergence has to start getting serious. In the Jun delivery period, cash advanced every week. Next week, watch the cutouts for signs that the light kill has caught buyers out of position.


WTD Change in LC Futures
1.00
0.50
0.00
-0.50
-1.00
-1.50
Aug24
Oct24
Dec24
Feb25
Apr25
Jun25
Aug25
Oct25


WTD Change in FC Futures
0.00
-0.50
-1.00
-1.50
-2.00
-2.50
-3.00
-3.50
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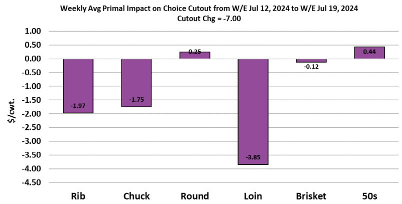
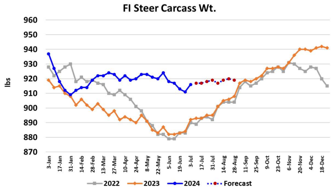
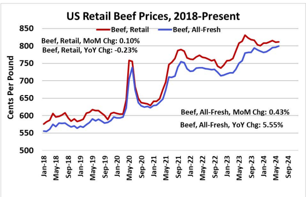
Nov24
Jan25
Mar25
Apr25
May25


Weekly Avg Primal Impact on Choice Cutout from W/E Jul 12, 2024 to W/E Jul 19, 2024
Cutout Chg = -7.00
$/cwt.
1.00
0.50
0.00
-0.50
-1.00
-1.50
-2.00
-2.50
-3.00
-3.50
-4.00
-4.50
-1.97
-1.75
0.25
-3.85
-0.12
0.44
Rib
Chuck
Round
Loin
Brisket
50s


FI Steer Carcass Wt.
960
950
940
930
920
910
900
890
880
870
lbs
2022
2023
2024
Forecast


US Retail Beef Prices, 2018-Present
Beef, Retail
Beef, All-Fresh
Beef, Retail, MoM Chg: 0.10%
Beef, Retail, YoY Chg: -0.23%
Beef, All-Fresh, MoM Chg: 0.43%
Beef, All-Fresh, YoY Chg: 5.55%
Cents Per Pound
850
800
750
700
650
600
550
500
Jan-18
May-18
Sep-18
Jan-19
May-19
Sep-19
Jan-20
May-20
Sep-20
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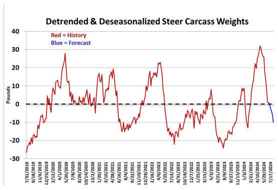
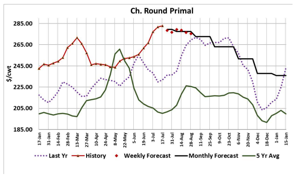
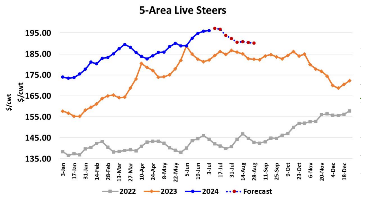
Jan-24
May-24
Sep-24







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.