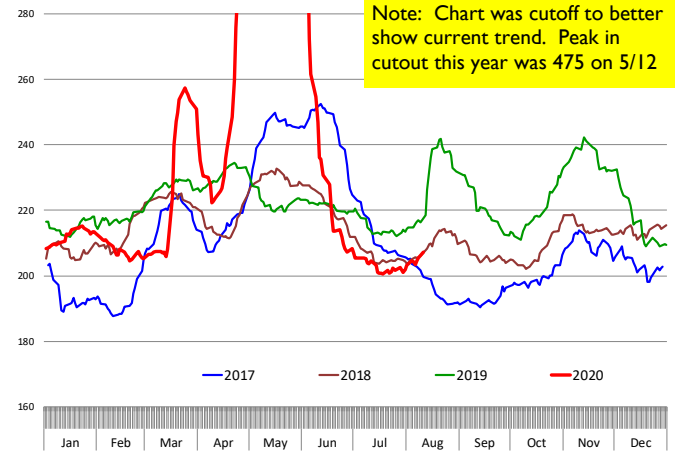


**Fed cattle prices have been trending higher in recent weeks even as, by all accounts, feedlot supplies are no different than a year ago overall and the supply of cattle with a lot of days on feed is as much as 40% higher than a year ago.** The nearby August fed cattle contract closed last night at \$103.75/cwt, 8% higher than where the contract was trading at the end of June. As we noted in our report last week, fed cattle values in July were at the lowest price level since 2010 and there were fears that prices could be pressured lower if wholesale beef prices continued to collapse. Such fears were not unfounded. After all, in 2017 a spike in wholesale beef prices in early spring significantly impacted retail and foodservice features going into the fall. The cutout that year did not find a bottom until mid September in the low 190s. From mid May to mid July, the choice beef cutout followed the same downward trend as in 2017. However, **by mid July the beef cutout stabilized and it has been trending higher since then, evidence of better demand from both domestic and export channels.** Last night the choice beef cutout was quoted at \$207.20/cwt, \$6 or 3% higher than what it was in late July. In most years the choice beef cutout has a seasonal tendency to gain ground in mid August as retailers prepare for the big Labor Day weekend - the last hurrah for the summer grilling season. Pent up demand due to COVID restrictions and lack of dining out options in a number of areas will likely induce consumers to do more home grilling and socializing. Some of the data that we track supports this view. **We noted a big increase in forward beef sales for delivery 22-60 days out during the month of July.** In the four weeks between July 4 and July 31, beef sales for delivery 22-60 days out averaged 1280 loads per week, 25% higher than the same period a year ago. For the week ending July 24, forward sales for this time window were an astounding 1,654 loads, by far the highest weekly volume since USDA started to report this statistic a few years ago. **Clearly retailers (and possibly some foodservice operators) sought to take advantage of the strong demand they were seeing in their stores for beef as well as the inexpensive prices that were available at the time.** The price of 81CL coarse ground beef in July averaged \$166/cwt compared to \$477 in May and \$190 in June. July wholesale ground beef prices were also 9% lower than the previous year. Excellent retail margins argue in favor of flooding the retail case with ground beef at this time. Other beef cuts were also very attractively priced. Choice short loin prices, for instance, averaged \$488/cwt in July vs. \$1088 in May and \$757 in June. Choice short loin values were as much as 7% lower than a year ago, as well.

**At a time that packers were selling beef very aggressively for delivery during August and the holiday weekend in September, they had far fewer cattle contract for delivery in the month.** The latest data reported from USDA shows that packers have 108,289 head contracted for delivery this month compared to 226,132 head they had contracted as of this time last year and 156,083 they had contracted in 2018 (see chart on page 2 for full details). In addition, packer margins remain in good shape thanks to robust wholesale beef prices, an improvement in export sales and slaughter levels that are fairly close to a year ago. The calculated gross margin (we make no assumptions on packer operating costs) are currently at \$483 per head, about \$280/head over the 10 year average. The point here is to show that packers were quite successful in putting some strong sales on the books in July and they seemed to be in the market for cattle. Raising their bids by a few dollars to get needs covered has very little impact on margins. But what could be detrimental to cattle prices going forward is demand and the ability of packers to maintain the current sales pace. Forward sales for the week ending August 7 slowed down considerably and remains to be seen if this is just a fluke or the start of a trend.

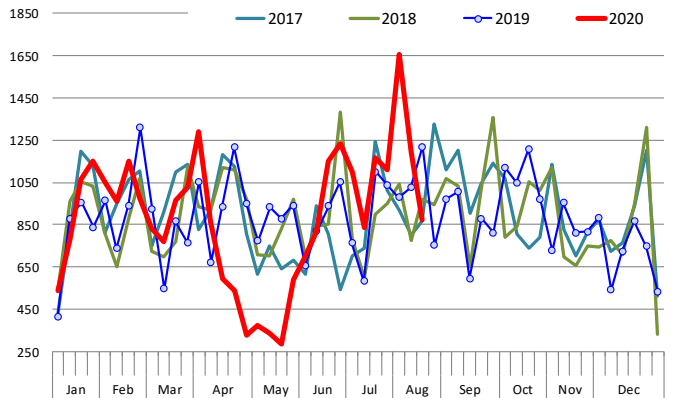
## CHOICE BEEF CUTOUT VALUE

Daily Prices, \$/cwt. Source: USDA-AMS Mandatory Price Reporting Service



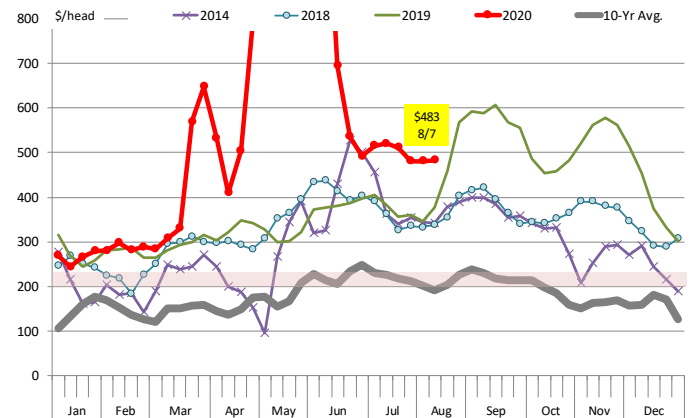
## Beef Loads Sold For Delivery 22 - 60 Days

Data Source: USDA-AMS. Analysis by Steiner Consulting



## BEEF PACKER CALCULATED GROSS MARGIN, \$/head

Calculated using the Comprehensive Cutout, Drop Credit and Negotiated Fed Cattle Prices



## Cattle Forward Contracted for Delivery in a Given Month

Supply Cumulative as of August 10, 2020 and Comparable Period in Previous Years. Source: USDA MPR System

