

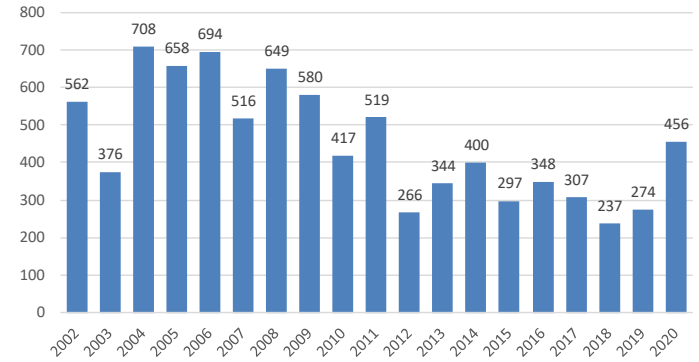
Cash cattle trade has been slow to develop in the last three weeks and prices have been trending lower, in part because packers are facing a slowdown in boxed beef sales. Even with the current slide in the cutout, packer margins remain solidly in the black. But it probably does not help when there are still plenty of heavy cattle on feed, with carcass weights the highest they have been in five years. From a fundamental perspective, the main challenge for participants at this time is assessing demand into the holidays. Those that hold a more bearish view of the market likely will point to the rising COVID cases, the possibility that states and local governments will impose more restrictive policies on restaurants and the lack of additional financial support for those that have lost their jobs. On the other hand, those that hold a more bullish view likely will look at the fact that retailers still rely on beef to drive traffic. High prices and tight supplies of holiday items such as hams and turkeys should also help support demand for rib roasts and such other products. For now the attitude among futures participants has clearly turned more bearish, with CFTC Commitment of Traders report noting that Managed Money added 12,472 contract to their short position while reducing their long position by 8,463 contracts.

The amount of beef available in the spot market is up, possibly indicating a slowdown in the flow of product through retail and foodservice channels. According to weekly USDA data, packers sold 456 loads in the negotiated market last week compared to 274 loads for the same week last year. We have to go back to 2011 to find a larger spot supply (see chart). This is not an isolated number. The previous week there were 470 choice beef loads traded spot and the week before that there were 421. Negotiated beef prices have been drifting lower as packers need to offer deals to spot buyers and traders in order to clean up the market. While it is not unusual for demand to soften after Labor day, prices remain under pressure. We have yet to see the support that normally materializes in October, when retailers shift to cold weather items and start preparations for the holiday business. The choice beef cutout last night was quoted at \$206.7/cwt, near \$24/cwt or 10.3% lower than a year ago. Prices are down across the board, with some products significantly below year ago levels. The value of the loin primal last night was pegged at \$273.5/cwt, down \$27.4/cwt or 9% compared to a year ago. The decline in the value of the loin primal contributed \$5.8 to the decline in the overall cutout. The attached chart shows how much of the total decline was attributable to various primals. As we noted in our report on Monday, the lack of contribution from end cuts at this time of year is particularly concerning. Normally we see some improvement in the price of rounds and chucks at this time of year. That may still happen although time is running short. Last year, the round primal gained about \$21/cwt between mid October and mid November, which translates to a \$4.7 gain for the overall cutout. In 2018 and 2017 the gain during that period was \$16 and \$15 respectively. We are getting to the end of October and so far the round primal is stuck in place. The chuck primal last year jumped from \$168/cwt in mid October to \$198/cwt in mid November, adding almost \$9/cwt to the cutout. In other years the gains have been more modest but the trend has been up. Last night the chuck primal value was pegged at \$164.82/cwt, down \$6 from a week ago.

You will notice that in the second chart to the right we have included 2015 as part of the comparison. The reason we did that is because this was a year when fed cattle weights were similar to this year (record large) and prices were especially high during the spring. While price levels are not exactly the same, there are some parallels in the trend for both years.

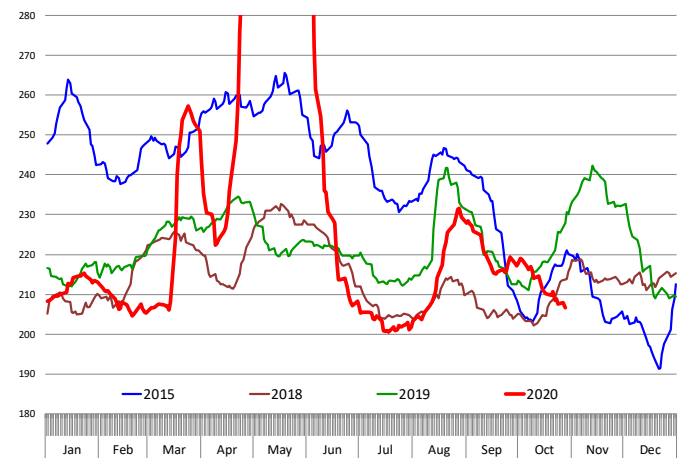
Number of Choice Beef Loads Sold in Spot Market for wk #43

Source: USDA-AMS. Analysis by Steiner Consulting



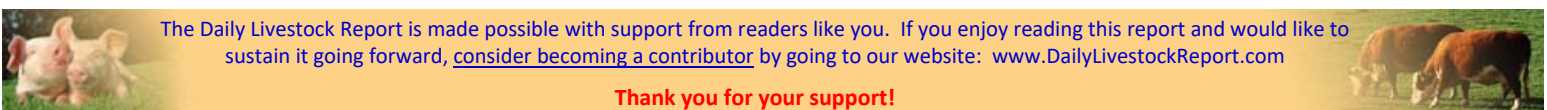
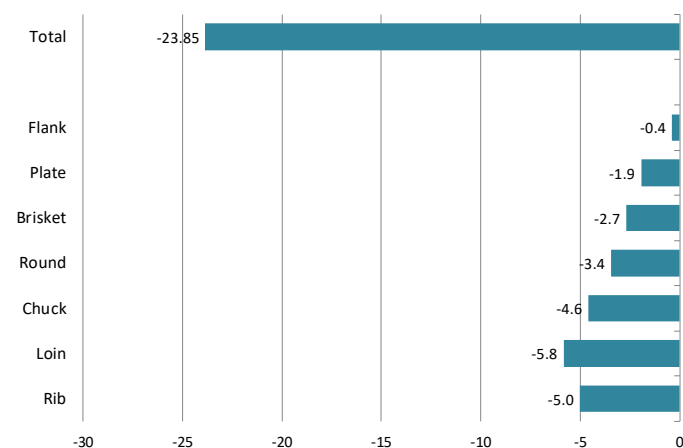
CHOICE BEEF CUTOUT VALUE

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



Contribution of Individual Primals to Y/Y Change in Cutout Value

Based on USDA-MPR Data. Analysis by Steiner Consulting



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