

Last week (4/13 DLR) we highlighted the surge in wholesale beef prices and how the gains in the cutout had also helped support fed cattle values.

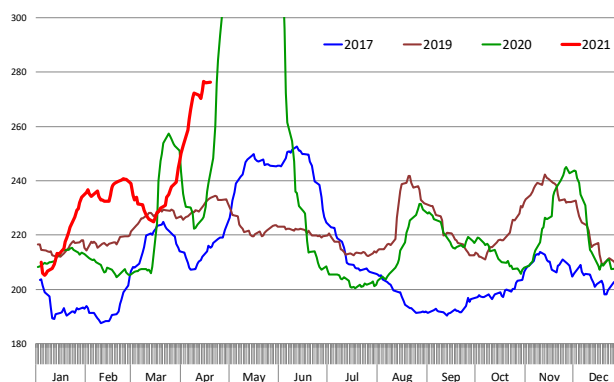
Since then fed cattle market has sputtered even as wholesale beef prices remain at annual highs. April futures have declined by more than 250 points in the past seven days or 2% and June futures are down more than 260 points or 2.2%. **Why the decline in fed cattle prices even as wholesale market remains firm and beef supplies reportedly are tight?** It is something that we have mentioned often in this report but bears repeating: fed cattle and wholesale beef trades operate separately from each other and they are driven, at least short term, by independent supply/demand factors. Different from hogs, where a good portion is currently priced off wholesale prices, cattle market still depends on packers bidding on spot supplies or formulas that are derived off those negotiated trades. Those bids may reflect what packers are making on the beef they sell but they also reflect the feedlot supply situation and whether packers have enough capacity slack to maximize profit opportunities.

Beef packers are currently bumping up against capacity constraints during the regular workweek and they are already close to maximizing Saturday slaughter. In the past, packers would use extra shifts on Saturday as a temporary relief valve to bolster production. Instead, they have been using Saturday slaughter on a regular basis in recent months to offset the capacity they have lost during the week. The chart to the right tries to illustrate this by looking at the average Mon-Fri fed cattle slaughter in the last five years. Since the COVID disruptions last spring, daily fed cattle slaughter has been consistently under 94k head/day and, more recently, it has been under 92k head per day. Last week fed cattle slaughter averaged 87,800 head/day Mon-Fri and the week before it averaged 92,600 head/day. We think this week fed slaughter Mon-Fri will average 91,200 head/day but some of this will be made up on Saturday, expected to be in the high 50ks.

In our opinion, the current **challenge for feedlots is twofold**. First, they still have a fairly significant number of cattle with a lot of days on feed. Tomorrow we will cover the estimates of the upcoming 'Cattle on Feed' report but we think that on April 1 the supply of cattle with 150 days or more on feed was over 2.7 million head, almost 300k head or 12% higher than a year ago and similar to what it was on April 1, 2019. The difference is that in Q2 of 2019 fed cattle slaughter Mon-Fri averaged over 96k head per day and packers were also able to ramp up slaughter on Saturday. It is uncertain whether packers are able to do that again this year. This means that the supply of market ready cattle is longer now than it was two or three years ago, reducing feedlots bargaining power. The second challenge for feedlots, at least in the near term, is that packers have a significant number of cattle that have been forward bought. For the week ending April 19 packers had 32.5% more cattle bought for delivery in May than the same period in 2019 and 24% more than the same period in 2018. As feedlots become incrementally more current in late Q2, this should help narrow the gap between the cutout and fed cattle values. The key will then be to maintain the demand gains of recent months.

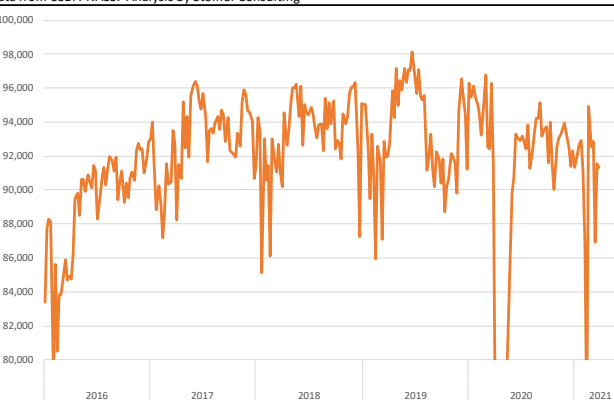
CHOICE BEEF CUTOUT VALUE

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



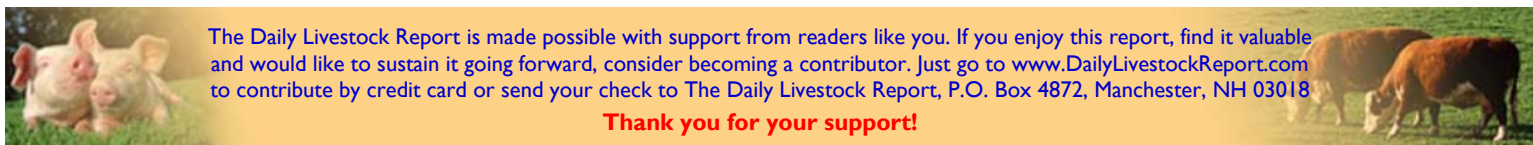
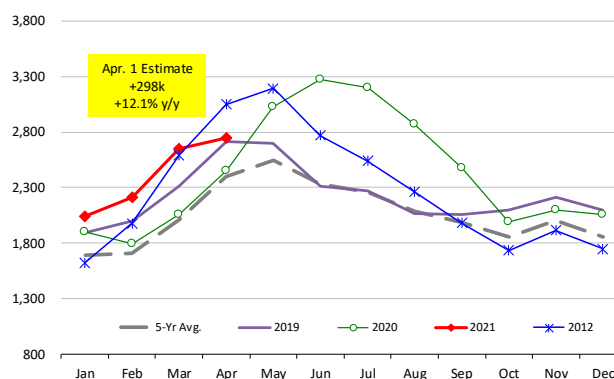
Average Mon-Friday Fed Cattle Slaughter. Non-Holiday Slaughter Only.

Data from USDA-NASS. Analysis by Steiner Consulting



INVENTORY OF CATTLE THAT HAVE BEEN ON FEED FOR 150 DAYS OR MORE

Calculated using the USDA Monthly "Cattle on Feed" Report & Steiner Consulting Estimates



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