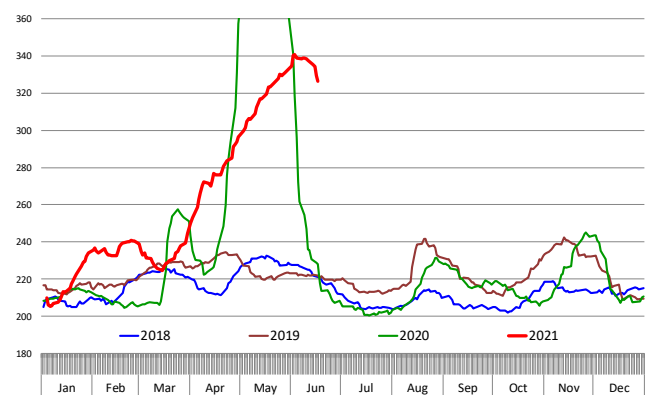


The choice beef cutout has lost \$9/cwt or 2.7% this week and yet fed cattle futures have rallied and **the August fed cattle contract is currently as much as 500 points higher than where it was at the start of the month.** The beef/cattle market relationship has been a puzzle for much of the year so the recent movements are true to type in that respect. The cattle market and wholesale beef prices have been disconnected, at least in the short term. Labor constraints have limited the ability of packers to process cattle at a time when feedlots have struggled with rising feed costs and a front loaded cattle inventory. Even with the recent decline in the value of the choice cutout, it still remains at all time record levels for this time of year. Last night, the cutout was quoted at \$323.25/cwt, 52% higher than a year ago and also near 50% higher than in 2019. Fed cattle prices traded as high as \$124 yesterday (Nebraska), based on the USDA afternoon slaughter cattle review, which is about \$4 higher than priced paid just a couple of weeks ago. Higher as this price is, it still means wholesale choice beef is trading at 2.6x the price of cattle, far higher than the multiple in the last couple of years. The calculated packer gross margin for last week was about \$900/head higher than the calculated margin in 2019.

The point here is that that **there is still a fairly large spread between meat and cattle and the market is watching for signs that feedlot bargaining position is improving.** Lower grain prices clearly are a factor although that really does not mean much in the near term since old crop supply is tight and prices remain firm. The other factor, in our view, is the decline in fed cattle weights, suggesting that feedlots are getting incrementally more current. Normally fed cattle weights find a bottom in late May and then start trending higher. That was not the case last year due to the backlog created by COVID. This year, fed cattle weights in early May were just as heavy as during the COVID impacted supply a year ago and they remained stubbornly high for much of May. The latest detailed USDA weight and slaughter statistics is for the week ending June 5, showing fed steer weights about the same as last year but heifer weights down 1.5%. More current data reported in the USDA 'Comprehensive Cattle Report' is for the week ending June 12. This is not official weight statistics but the correlation to the official numbers is extremely strong. The chart to the right shows the trend in weekly slaughter based on this data set. We think the chart above makes the point that good (not great) slaughter rate and a reduction in the supply of long fed cattle has helped get weights a bit more under control. Next week we will review the upcoming 'Cattle on Feed' report but our analysis shows that the supply of cattle with +150 days on feed on June 1 declined from the previous month, down 21% from a year ago. The supply is still about 10% higher than the five year average but much better than in March when it was running 31% above the 5-yr avg.

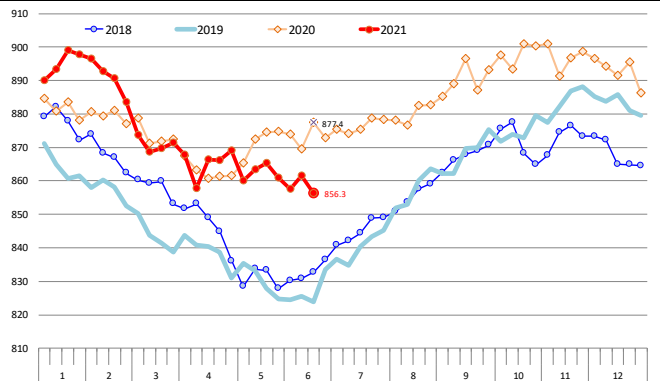
### CHOICE BEEF CUTOOUT VALUE

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



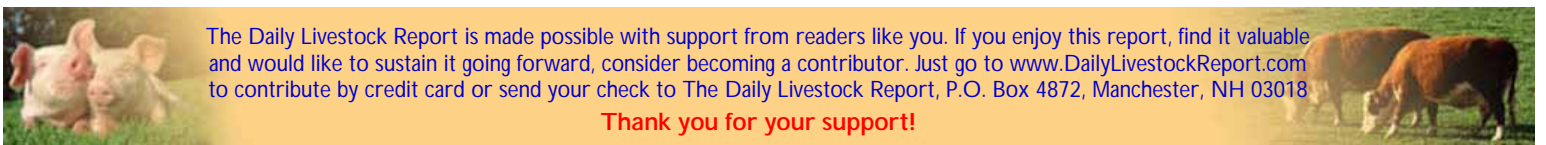
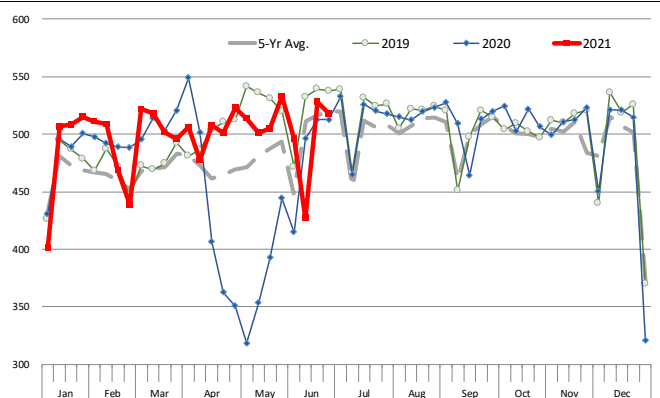
### Fed Cattle (Steer+Heifer) Weights from USDA Weekly Comprehensive Cattle Report

Year/Year Comparison. Data Series Started in August 2017. Source: USDA-AMS



### WEEKLY STEER AND HEIFER SLAUGHTER, '000 HEAD

Source: USDA



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