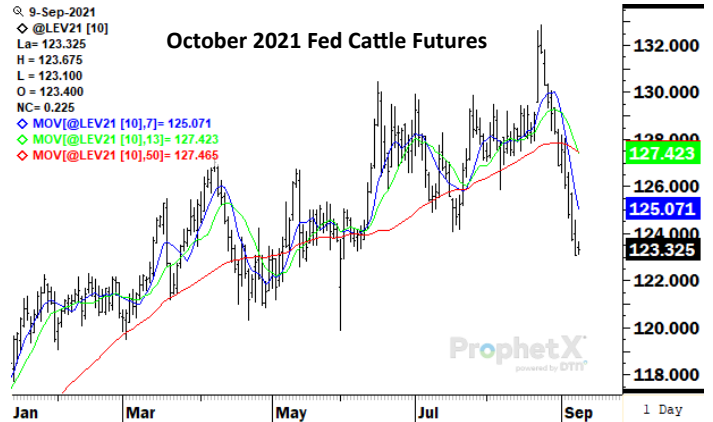


Nearby fed cattle futures have had a rough go of it the last couple of weeks even as wholesale beef prices remain at record levels for this time of year. Wholesale beef prices so far have defied expectations of a post holiday swoon, and **last night the choice beef cutout closed at \$334.86/cwt, down only \$0.3/cwt from the previous day and \$13.17/cwt or 3.8% from the pre-Labor day high.** In 2019, the choice cutout in the week after Labor day was down about 6% from the pre-holiday high. Also evidence of continued strong demand for high quality beef is the choice-select spread, now at \$37/cwt compared to \$25/cwt in 2019 and under \$10/cwt in 2018 and 2017.

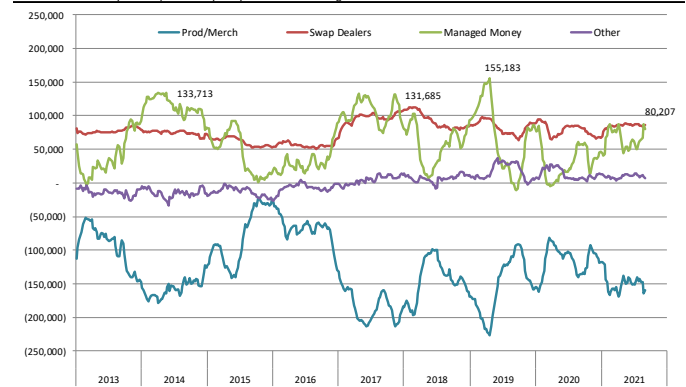
So if demand for beef at wholesale continues to hold up, why have October fed cattle values dropped 800 points or 6% since August 23? It sure has little to do with packer margins or wholesale beef values as the estimated gross margin is currently over \$1300 head. Rather, it may have more to do with market expectations for demand this fall and, more importantly, the ability of packers to process cattle and supply the market. For much of the summer the supply of cattle on feed was more than adequate relative to packer processing capacity. While the industry has the equipment and facilities in place to meet current processing demand, the acute shortage of labor means cattle buyers have little trouble finding enough cattle for what they are able to process. The hope all along has been that vaccinations would cause COVID cases to peter out, allow schools to open up and get people to return to work. Fixing the labor issue has been much more difficult than many expected, and government policies that discourage work have added fuel to an already raging fire. Yesterday a White House blog carried the unwieldy title: "Addressing Concentration in the Meat-Processing Industry to Lower Food Prices for American Families" - probably the result of a brainstorming session of economists and political consultants. Accusing packers of "pandemic profiteering" will score political points, but it does little to fix the problem. Are packers making boatloads of money, while producers struggle? Absolutely. Is this an issue that has to do with transparency? Probably not. A few years ago, Australian producers were up in arms that drought was forcing them to sell cattle at depressed prices, while packers were making boatloads of money. Market transparency was one of the things that got tossed around to fix the problem. But transparency did not change and yet Australian cattle prices are now the highest in the world. **What changed was the imbalance of cattle supplies relative to processing capacity.** It would have been helpful to read in the White House blog what specific policies will the government put in place to address the labor issue. Also, unknown is what specific policies will the government put in place to remove the burden of regulations, which have raised barriers to entry.

Managed money had a significant net long position as of August 31 and we suspect the slowdown in economic activity and rising COVID cases have those longs rethinking their positions, at least in the near term. Restaurant operators already are saying as such, with the majority of fine dining and fast food operators now saying they expect conditions six months from now to be worse than they are today.



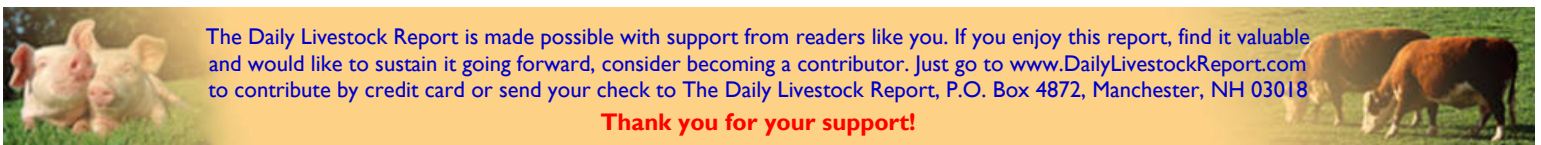
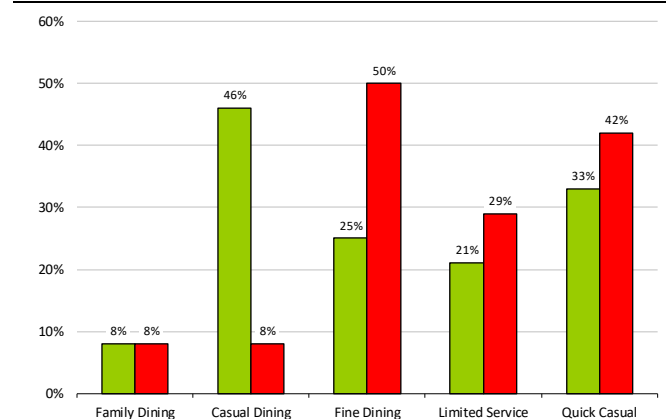
CME Fed Cattle Futures - Disaggregated CFTC Net Positions

Source: CFTC Weekly COT Report. Analysis by: Steiner Consulting



Restaurant Operator Outlook for Business Conditions in Six Months

Source: National Restaurant Association



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