CattleFax | THE DECIDING FACTOR
UPDATE
May 27, 2022 | Issue 21 | Vol. LIV

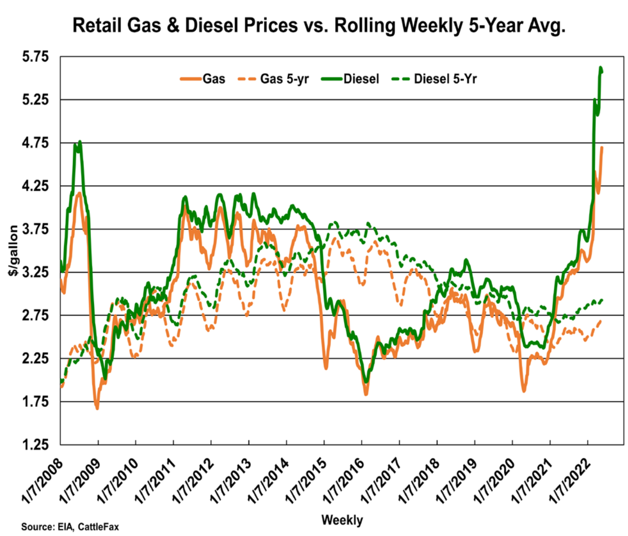



# Retail Fuel Fundamentals

*Marcus Brix*

For three consecutive weeks, U.S. average retail gasoline prices have established new record high prices in the EIA dataset. At $4.69/gallon, nominal prices are 13 percent above the previous record high in 2008. Average retail diesel established a high at $5.62/gallon several weeks ago and has remained within a few cents of this level. Compared to their respective 5-year averages, gasoline prices were up 73 percent last week and diesel was 91 percent above the average for the same week.

Even though crude oil prices are also higher by 90+ percent against their 5-year average, refiners have a comfortable profit margin, incentivizing pass-thru. The 12-month 3-2-1 "crack" (every 3 barrels of crude = 2 barrels of gasoline, 1 barrel of distillate) margin suggests refiners are making nearly $50/barrel by processing crude oil into refined products like gasoline and distillate (diesel, heating oil). As petroleum prices have scaled higher on the uptrend, refiner margins have increased 114 percent over their 5-year average. Production schedules suggest refined fuel supply is expanding as quickly as possible. Refinery utilization was 93 percent last week, higher than the pre-pandemic average (91 percent) for the first time.




Record high prices today reflect normalized demand and tight supply. Summer is the highest activity period for U.S. road and air travel. TSA traveler counts are trending higher but have not yet recovered to pre-COVID rates, roughly 9 percent below 2019 in the last 30 days. Gas prices are not keeping drivers off the road either, with miles driven up 15 percent year-over-year, up 3 percent vs. pre-pandemic. Gasoline usage is 6 percent above the pre-pandemic average today while distillate usage is 1 percent above. Freight costs have scaled up with rising fuel and labor, leading to greater input costs along the entire production chain. Compounding this issue are low inventories of petroleum products, both crude and refined fuel. Gasoline stocks are around 6 percent below average and facing higher usage. Distillate stocks are an astounding 25 percent below norm. The rise in usage, despite the steep price levels, suggest commercial demand remains strong heading into the summer months.

**Bottom Line:** Seasonally, gas prices often peak in May/June (38 percent of years since 1993). In 17 percent of years the peak gas price doesn't come until July/August, with 2008 being the most notable example. However, even if we don't set new highs past June, the market is likely to stay elevated through early fall with prices supported in the mid-$4.00/gallon range. Diesel prices will not see much price relief without correcting the inventory imbalance. Usually diesel peaks around Oct/Nov (43 percent of years) once summer travel ends and manufacturing faces order slowdowns and maintenance downtime. Seasonally, retail diesel has support at $5.25 through the summer with risk near $5.75 in the fall.

## MARKET HIGHLIGHTS

**Fed Cattle** – There was moderate to active fed cattle cash trade in the North in a full range of $137 to $144, with most sales at $141 live and $224 dressed. That is mostly $2 lower compared to last week. Light to moderate volumes traded in the South at mostly $136 to $137 live – mostly $1 to $2 softer than the previous week.

**Boxed Beef** – The Choice cutout increased $2.27 this week, while Select increased $1.63 as warm weather across most of the country really increases grilling demands.

**Feeder Cattle** – Traded mixed at mostly $3 lower to $2 higher.

**Calves** – Traded mostly steady to $4 softer.

**Market Cows** – Traded mostly steady to $2 higher.

**Corn** – July futures ended the week steady with last week.

## 2022 EDUCATIONAL SEMINARS

**Risk Management**
June 15-16, 2022
Registration is now open!
https://www.cattlefax.com/#!/about/cattlefax-risk-management-seminar

For more information email
leigh@cattlefax.com
or call 1-800-825-7525

## Upcoming Seminar Dates

**Corporate College**
July 20-21, 2022

**Risk Management**
September 21-22, 2022

**2023 Outlook & Strategies Meeting**
November 29, 2022

**Visit our website for more information**
www.cattlefax.com

## FED-CATTLE OUTLOOK

# Taking on Water

*Tanner Aherin*

With three consecutive weeks of lower prices in the north, and two in the south, the seasonal downtrend into the summer is in place. Beef demand, and therefore the cutout price, will have a big say in how much the fed market tips over.

While slaughter is expected to increase in June to what should be the highest harvest rate of the year, cattle feeders will continue to be easy sellers, primarily due to elevated costs of gain and growing supplies. Prices will be limited. High inflation and economic uncertainty are creating some concern around beef demand, with retail prices near all-time highs.

**Next Week:** Offerings will be even to larger. The beef complex will firm. Fed cattle are expected to trade at $136 to $137 in the south, with price premiums continuing in the north.

**June:** Fed cattle supplies will seasonally increase through the month. The beef complex can continue its push early on before correcting late. These factors suggest the fed market drifts lower to the mid-to-upper $130s, with the price premium in the north dissipating.

**July – August:** The placed against supplies will be seasonally and historically large due to the big fourth quarter 2021 and year-to-date placements. Beef demand will slow through the dog days of summer causing the cutout to soften, especially with some of the headwind's consumers are facing every day. The market has risk into the low-to-mid $130s.

**September – November:** Smaller second quarter placements are expected, resulting in tighter placed-against supplies through the fall, which should improve leverage for cattle feeders. In addition, the beef complex will make a push as product is booked for late-year holidays. Fed cattle prices are expected to trend higher.

## FED CATTLE CURRENTNESS INDEX


### FED CATTLE PRICES 27-MAY-2022

| | Live Steers | Dressed Prices | Live Heifers | Dressed Prices | Trade Volume | Contract Formula |
|---|---|---|---|---|---|---|
| PANH | 137 | N.T | 137 | N.T | 84,000 | 83% |
| KS | 137 | N.T | 137 | N.T | 90,500 | 62% |
| NE | 138-144 | 222-228 | 138-144 | 222-224 | 83,000 | 61% |
| CO* | 138-139 | N.T | 138-139 | N.T | 22,000 | 93% |
| CB | 138-144.50 | 222-227 | 138-144 | 222-226 | 21,000 | 0% |

## BOXED BEEF OUTLOOK

# The Thrill of the Grill

*Duane Lenz*

Prices for the Choice cutout closed the week $2.27 higher, while over the same period Select advanced by $1.63. Although last minute holiday purchasing was evident, a bigger factor may have been the warm weather through the country that encouraged the start to grilling season for consumers that had been anxious to spend more time outside.

**Next Week:** The forecast looks good for holiday grilling, so fill-in business through mid-week will support the market and likely move prices higher.

**Remainder of June:** Father's Day purchasing along with grilling demand should move prices, led by Choice items, higher into mid-month. Demand will slow late in the month while supplies remain ample, putting prices at risk.

**July – August:** Lower prices into mid-August are forecast as demand slows in the heat of the summer, while fed cattle supplies remain large. Inflation effects will need to be monitored as well.

## PLACEMENTS & SHIPMENTS

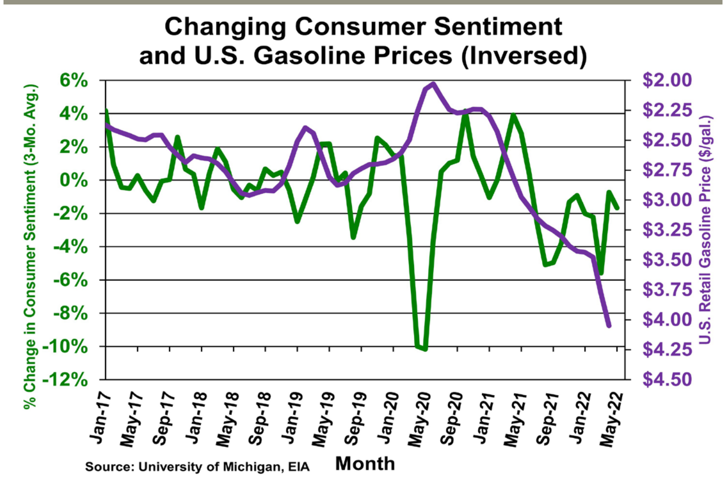
### Weekly Average Placements (000 hd)

| | Jan | Feb | Mar | Apr | May | | Jun | Jul | Aug | Sep | Oct | Nov | Dec |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **2021** | 127 | 114 | 146 | 117 | 139 | **2020** | 133 | 132 | 133 | 141 | 131 | 118 | 120 |
| **2022** | 125 | 125 | 123 | 116 | 128 | **2021** | 120 | 121 | 138 | 157 | 136 | 130 | 138 |
| **22%21** | 99 | 110 | 84 | 99 | 93 | **21%20** | 90 | 92 | 104 | 111 | 104 | 110 | 115 |
| **22%5Yr** | 101 | 100 | 93 | 98 | 78 | **21%5yr.** | 92 | 98 | 105 | 106 | 94 | 97 | 108 |

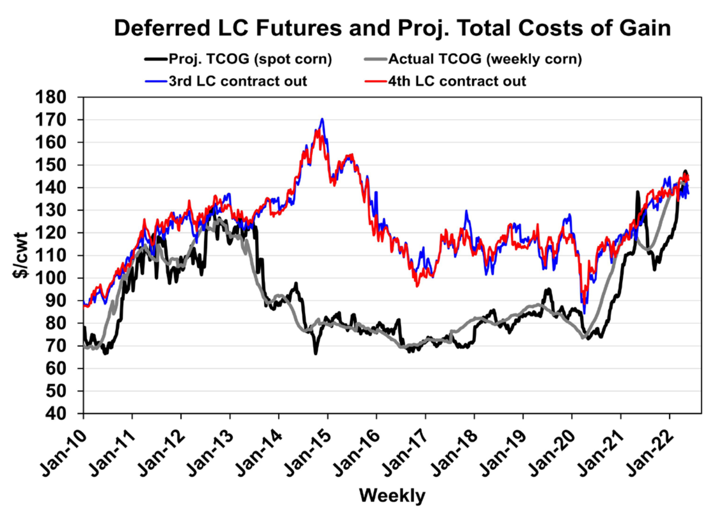
### Weekly Shipments (000 hd)

| | Jan | Feb | Mar | Apr | May | | Jun | Jul | Aug | Sep | Oct | Nov | Dec |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **2021** | 130 | 129 | 137 | 118 | 135 | **2020** | 127 | 139 | 131 | 134 | 122 | 120 | 129 |
| **2022** | 124 | 118 | 125 | 122 | 125 | **2021** | 124 | 139 | 127 | 144 | 127 | 122 | 141 |
| **22%21** | 95 | 91 | 92 | 103 | 93 | **21%20** | 98 | 100 | 97 | 107 | 104 | 102 | 109 |
| **22%5Yr** | 93 | 93 | 97 | 97 | 92 | **21%5yr.** | 91 | 98 | 91 | 102 | 101 | 95 | 110 |

## CHARTS OF THE WEEK




- Rising costs are showing up most clearly at the gas pump and weighing down consumer sentiment as inflationary pressures reduce consumer buying power.
- Fuel prices are likely to remain elevated into summer as demand seasonally increases, and current supplies remain tight.




- Projected total costs of gain have been trending higher and are currently exceeding December live cattle by about $1.50/cwt.
- While markets don't tend to stay in this position for long, relief in the corn market, strengthening deferred live cattle contracts, or both will be needed. Especially for feeders to gain any traction.

## FEEDER/CALF OUTLOOK

# Cash Remains Rangebound

*Troy Applehans*

Cattle feeders will tell you feeder cattle are still too high with costs of gain where they are. The fact that cattle feeders have been able to hold their money together for an extended period has benefited feeder cattle sellers, even with record high cattle-on-feed numbers.

CattleFax data suggests some red ink is coming to the cattle feeding segment through the summer with average breakevens solidly in the $140 to $150 range. Still, with tighter feeder cattle supplies, seasonally declining cattle-on-feed numbers, and premiums in the deferred futures, buyers will bet on the come to a point. Meaning the feeder cattle market should improve.

The fall calf market will soon be tested on the summer video sales. It's no secret that with higher inputs a $200/cwt 550-pound steer market probably isn't enough for most producers. While this is a possibility the factors above could make it difficult to achieve this level.

**Feeder Cattle:**

**Next Week:** Holiday week with tight supplies. The cash market remains steady.

**June:** Seasonally short supply throughout the period. Southern Plains and Southeast will be the bulk of the trade. Feeder Index support in the low $150s. Upside potential is towards the upper $150s.

**July – August:** A steadily increasing cash market is expected. Demand improvement from declining numbers on-feed. South movement is typical, but likely more cattle from the north due to drought. Low $160s or higher should result.

**Calves:**

**Next Week:** Calf demand is weak. Lack of moisture preventing price strength.

**June:** Moisture will dictate the market. Price increases will be limited to areas receiving rain. Price support in the mid-$180s for 550-pound U.S. average steers.

**July – August:** Limited demand will result in a lackluster market. Some early weaned calves likely during this period. Price support expected in the mid-$180s or better.

## FEED GRAIN OUTLOOK

# Strong Soybean Exports

*Troy Bockelmann*

The corn market has had a decent break over the last two weeks, with December corn futures 30 cents lower and now trading near $7.30/bu. At the same time November soybean futures have made new contract highs at $15.49/bu. Wet weather expected in the northern regions and strong demand have supported the soybean market recently, driven by strong soybean exports.

The current USDA forecast is for soybean exports to reach 2.14 billion bushels for the market year ending August 31. Given the current pace of exports and outstanding sales, exports are on track to exceed that forecast by over 50 million bushels.

Old crop soybean stocks to use are currently estimated at 5.3 percent. If exports continue to keep the current pace, and the USDA increases the export estimate, stocks to use would tighten. A 50-million-bushel change in exports would decrease stocks to use to 3.8 percent, assuming no other balance sheet changes. This would also reduce the new crop estimate to 5.3 percent.

As weather forecasts continue to show precipitation, this could slow the planting pace for both corn and soybeans. Minnesota and the Dakota's are all well behind the five-year average pace for soybean planting. Strong demand and concerns of yield loss due to late planting are supporting the soybean market. This will likely continue for the next 60-90 days as the market will need either more acres or strong yield to meet the robust demand. November soybean futures have support at $15/bu., but the top side would be near the $16/bu. level from 2012.

# FEEDER/CALF PRICES 27-MAY-2022

| West | AZ/NM | CA | CO | MT/WY | NV/UT | OR/WA/ID |
|---|---|---|---|---|---|---|
| Wts | STEER | | | | | |
| 9-10 | 132-141 | 133-139 | 143-149 | 141-152 | 133-141 | 133-142 |
| 8-9 | 139-150 | 140-148 | 151-159 | 149-162 | 141-152 | 142-153 |
| 7-8 | 153-161 | 154-162 | 165-173 | 161-176 | 154-165 | 154-166 |
| 6-7 | 164-175 | 166-176 | 178-188 | 180-191 | 166-179 | 167-180 |
| 5-6 | 177-193 | 179-191 | 193-205 | 193-205 | 178-192 | 178-193 |
| 4-5 | 189-208 | 191-205 | 206-220 | 207-226 | 191-208 | 191-209 |
| | HEIFER | | | | | |
| 8-9 | 129-138 | 130-138 | 138-146 | 134-148 | 129-139 | 130-140 |
| 7-8 | 135-147 | 136-144 | 144-152 | 143-155 | 135-145 | 136-146 |
| 6-7 | 146-159 | 148-158 | 155-165 | 155-168 | 148-160 | 148-161 |
| 5-6 | 155-169 | 159-171 | 164-176 | 165-177 | 157-170 | 156-171 |
| 4-5 | 165-179 | 167-181 | 174-188 | 173-190 | 166-181 | 165-182 |
| | COWS | | | | | |
| Util | 72-94 | 86-96 | 75-85 | 76-88 | 86-96 | 85-97 |
| Cn/Cut | 61-80 | 72-82 | 62-72 | 68-81 | 73-85 | 75-86 |
| | BULLS | | | | | |
| Bulls | 93-114 | 106-116 | 95-105 | 99-110 | 101-114 | 102-113 |

| Central | IA | KS/MO | ND/SD | NE | OK | TX |
|---|---|---|---|---|---|---|
| Wts | STEER | | | | | |
| 9-10 | 144-150 | 139-146 | 145-151 | 148-154 | 138-144 | 134-140 |
| 8-9 | 152-160 | 146-157 | 154-162 | 160-168 | 144-152 | 142-150 |
| 7-8 | 164-172 | 156-167 | 163-171 | 178-186 | 152-160 | 150-158 |
| 6-7 | 178-188 | 168-183 | 178-188 | 184-194 | 167-177 | 157-167 |
| 5-6 | 198-210 | 180-201 | 190-202 | 202-214 | 176-188 | 173-185 |
| 4-5 | 210-224 | 190-214 | 209-223 | 215-229 | 188-202 | 184-198 |
| | HEIFER | | | | | |
| 8-9 | 136-144 | 132-140 | 135-143 | 142-150 | 132-140 | 131-139 |
| 7-8 | 146-154 | 140-152 | 142-150 | 149-157 | 142-150 | 139-147 |
| 6-7 | 157-167 | 146-158 | 154-164 | 157-167 | 148-158 | 145-155 |
| 5-6 | 166-178 | 157-169 | 165-177 | 168-180 | 154-166 | 151-163 |
| 4-5 | 176-190 | 163-177 | 175-189 | 179-193 | 164-178 | 161-175 |
| | COWS | | | | | |
| Util | 77-87 | 68-81 | 81-91 | 76-86 | 74-84 | 71-80 |
| Cn/Cut | 60-70 | 55-73 | 66-76 | 59-69 | 68-78 | 62-72 |
| | BULLS | | | | | |
| Bulls | 99-109 | 90-110 | 100-110 | 98-108 | 96-106 | 94-104 |

| Southeast | AL | AR | FL | GA | KY/TN | LA/MS |
|---|---|---|---|---|---|---|
| Wts | STEER | | | | | |
| 9-10 | 131-137 | 133-139 | 125-131 | 129-135 | 130-136 | 131-137 |
| 8-9 | 134-142 | 140-148 | 131-139 | 134-142 | 139-147 | 135-143 |
| 7-8 | 146-154 | 150-158 | 140-148 | 143-151 | 148-156 | 141-149 |
| 6-7 | 154-164 | 162-172 | 152-162 | 156-166 | 160-170 | 153-163 |
| 5-6 | 169-181 | 175-187 | 164-176 | 167-179 | 173-185 | 171-183 |
| 4-5 | 180-194 | 187-201 | 176-190 | 175-189 | 184-198 | 177-191 |
| | HEIFER | | | | | |
| 8-9 | 123-131 | 127-135 | 118-126 | 121-129 | 126-134 | 125-133 |
| 7-8 | 127-135 | 136-144 | 121-129 | 125-133 | 130-138 | 128-136 |
| 6-7 | 131-141 | 143-153 | 128-138 | 131-141 | 140-150 | 136-146 |
| 5-6 | 144-156 | 150-162 | 139-151 | 147-159 | 148-160 | 149-161 |
| 4-5 | 156-170 | 158-172 | 151-165 | 154-168 | 157-171 | 155-169 |
| | COWS | | | | | |
| Util | 74-83 | 69-78 | 75-84 | 78-87 | 88-97 | 68-77 |
| Cn/Cut | 61-70 | 62-71 | 67-76 | 68-77 | 76-85 | 63-72 |
| | BULLS | | | | | |
| Bulls | 97-105 | 98-106 | 101-109 | 102-110 | 113-121 | 99-107 |

**COMPARED TO PRIOR WEEK - GREEN=HIGHER RED=LOWER BLACK=STEADY*

### PERCENT PROBABILITY OF A HIGHER PRICE - 3/WKS

| | 3-Jun | 10-Jun | 17-Jun |
|---|---|---|---|
| 550 lb Steer | 55% | 35% | 35% |
| 850 lb Steer | 80% | 75% | 60% |
| Fed Steer | 50% | 40% | 25% |
| Utility Cow | 40% | 45% | 35% |
| Composite Cutout | 30% | 30% | 15% |

**Compared to prior week - 20 year data*

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# Weights Fall Fast

*Mary Kurzweil*

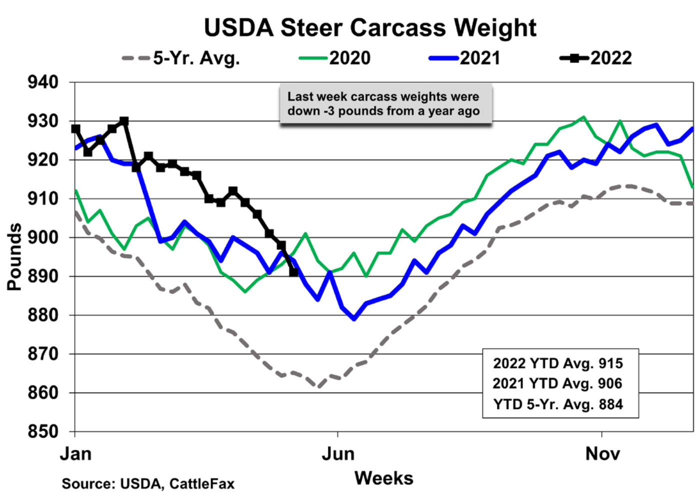
Steer carcass weights seasonally move lower throughout the first half of the year. While the first quarter downtrend was more muted than normal, the decline has been more pronounced lately – falling 21 pounds over the last six weeks and moving below the previous two years in the most recent week of data. Expect lows in the next month or so before adjusting higher into the fall.

CattleFax expects the seasonal trend to continue through year-end 2022, with weights moving higher in the fall. However, the long-term trend of heavier cattle, over time, could breakdown over the next several months.

With costs of gain moving higher – and coming in at, or above, the deferred live cattle futures prices –there is less profit opportunity to add weight and days on feed. Some of the trend in weights will be dictated by the interaction between available supplies and the packers' willingness to slaughter cattle.

There are plenty of cattle to meet slaughter obligations through the summer and fall, but as the fed cattle supply tightens, packers may need to buy lighter-than-normal cattle to maintain slaughter pace. The catch is that lighter cattle – with fewer days on feed – typically grade worse.

With stronger premiums for USDA Prime and Choice beef, packers will be motivated to pay more for higher grading cattle. That could increase the incentive for quality cattle in the marketplace – especially in the fall as middle meat demand increases.




**Bottom Line:** The market incentives to add weight have diminished, but additional value could be passed down from the packers to offset some of the higher corn prices and costs of gain.

## Summary of Activity

| | THIS WEEK 27-May-22 | LAST WEEK 20-May-22 | YEAR AGO 28-May-21 |
|---|---|---|---|
| **Live Prices ($/cwt)** | | | |
| Placements | 125,868 | 136,978 | 130,403 |
| Shipments | 124,937 | 126,030 | 129,545 |
| Avg In-Weights | 740 | 731 | 754 |
| USDA Sltr Wgts | 1,365 | 1,371 | 1,355 |
| USDA Str Carc Wgt* | 891 | 898 | 894 |
| Days on Feed | 180 | 178 | 179 |
| Carryover Pct | 36 | 36 | 48 |
| Weekly Supply | 416,800 | 416,800 | 605,100 |
| Percent Grade Choice & Higher | 81.76 | 82.32 | 83.23 |
| Prime Grade Pct | 9.14 | 9.88 | 12.18 |
| Choice Grade Pct | 72.62 | 72.44 | 71.05 |
| Select Grade Pct | 15.12 | 14.07 | 13.74 |
| **Live Prices ($/cwt)** | | | |
| Slaughter Steers | 139.33 | 140.60 | 119.81 |
| Steer Calf (450#) | 202.18 | 203.62 | 176.88 |
| Steer Calf (550#) | 188.54 | 190.49 | 166.89 |
| Yearling Calf (650#) | 173.71 | 174.40 | 154.18 |
| Yearling Calf (750#) | 160.26 | 159.91 | 140.13 |
| Yearling Calf (850#) | 149.45 | 149.54 | 132.03 |
| Utility and Commercial Cows | 80.94 | 79.60 | 67.99 |
| Canner and Cutter Cows | 70.00 | 69.13 | 59.13 |
| Lean Hogs | 103.34 | 99.97 | 111.85 |
| Omaha Corn ($/bu) | 8.00 | 8.09 | 6.97 |
| 12-City Broiler | 169.45 | 169.53 | 105.39 |
| Dollar Index | 101.75 | 102.94 | 90.36 |
| **Meat Prices ($/cwt)** | | | |
| Certified Angus Beef Cutout (UB) | 275.60 | 271.89 | 332.88 |
| Choice Cutout | 264.14 | 261.70 | 329.98 |
| Select Cutout | 245.35 | 246.06 | 304.10 |
| Choice/Select Price Spread | 18.79 | 15.64 | 25.88 |
| Cow Cutout | 219.40 | 218.96 | 211.78 |
| Hide and Offal | 13.45 | 13.35 | 12.23 |
| Pork Cutout | 108.13 | 103.46 | 126.37 |
| **Slaughter (000 hd) and Meat Production (Mil lbs)** | | | |
| Cattle | 644 | 680 | 630 |
| Hogs | 2,351.00 | 2,414.00 | 2,377.60 |
| Total Red Meat Production | 1,046.10 | 1,092.80 | 1,026.00 |
| Beef Production | 529.4 | 561.8 | 514.2 |
| Pork Production | 513.2 | 527.6 | 508.7 |
| Poultry Production | N/A | 858.4 | 861.7 |

** USDA steer carcass weights are actual from two weeks ago.*

| Daily Cattle Prices ($/cwt) | | CME AVG FDR PRICE | 6 STATE FED STR PRICE** | KS-TX-OK FED STR** |
|---|---|---|---|---|
| Thu | 26-May | N/A | 139.63 | 136.12 |
| Wed | 25-May | 153.80 | 139.15 | 136.91 |
| Tue | 24-May | 153.35 | 139.32 | 137.00 |
| Mon | 23-May | 153.17 | 140.10 | 138.00 |
| Fri | 20-May | 152.72 | 140.09 | 138.00 |

*** 5-Day weighted average fed steer price (CO,IA,KS,NE,TX,OK), (KS,TX,OK)*

**F.I. Slaughter Mix (000 head)**

| | ------ Week Ending ------ | | | | ------ Year To Date ------ | | |
|---|---|---|---|---|---|---|---|
| | 14-May-2022 | | 15-May-2021 | | 2022 | 2021 | Pct Chg |
| Total Sltr | 651 | | 644 | | 12311 | 12173 | UP 1.1 |
| | Pct | No | Pct | No | | | |
| Steers | 47.3 | 308 | 51.1 | 329 | 5748 | 5863 | DN -2 |
| Heifers | 30.7 | 200 | 27.7 | 178 | 3759 | 3669 | UP 2.5 |
| Cows | 20.2 | 131 | 19.5 | 126 | 2605 | 2458 | UP 6 |
| Bulls | 1.9 | 12 | 1.7 | 11 | 199 | 184 | UP 8.2 |