Beef Margin Watch: June

Both fat and especially feeder cattle futures reversed May's decline and moved higher over the first half of June, supported by news that New World Screwworm (NWS) had finally reached the U.S. with reports of infestations initially in Texas and subsequently in New Mexico. The first U.S. case in 50 years was reported in a three-week-old calf in Zavala County and as of this past weekend, USDA reported the number of confirmed cases has increased to 12 with 11 listed as "active" with ongoing mitigation efforts. The cases involve not only cattle but sheep and goats as well. Texas has the largest sheep and goat inventory in the U.S., as well as the largest calf crop in the country with 4.25 million head representing 13% of all calves produced nationally. While most cases are regionalized thus far, cases have been found more than 250 miles apart and there is growing concern over the potential for restrictions on cattle movement that could impact backgrounding operations, pastures, feedlots and ultimately, slaughter facilities. Should the infestation spread and become self-sustaining it could create regional movement restrictions that cause disruptions to cattle flows across the supply chain and widen regional price spreads as well as negatively affect states that depend on Texas calves and feeder cattle for their operations. The choice beef cutout remains supported by high ground beef prices as 90% trimmings continue to make new highs for the year on limited cow slaughter, while a contra-seasonal rally in the rib primal to a new high for the year at $574.61/cwt. is reportedly being supported by strong demand from World Cup visitors to the U.S. who are paying exorbitant ticket prices and are seen as price insensitive as they are likely dining out at expensive steakhouses in host cities. Our clients have been strengthening corn hedges recently following a sharp drop in price due to record commodity fund liquidation.

USDA Choice Rib Primal: