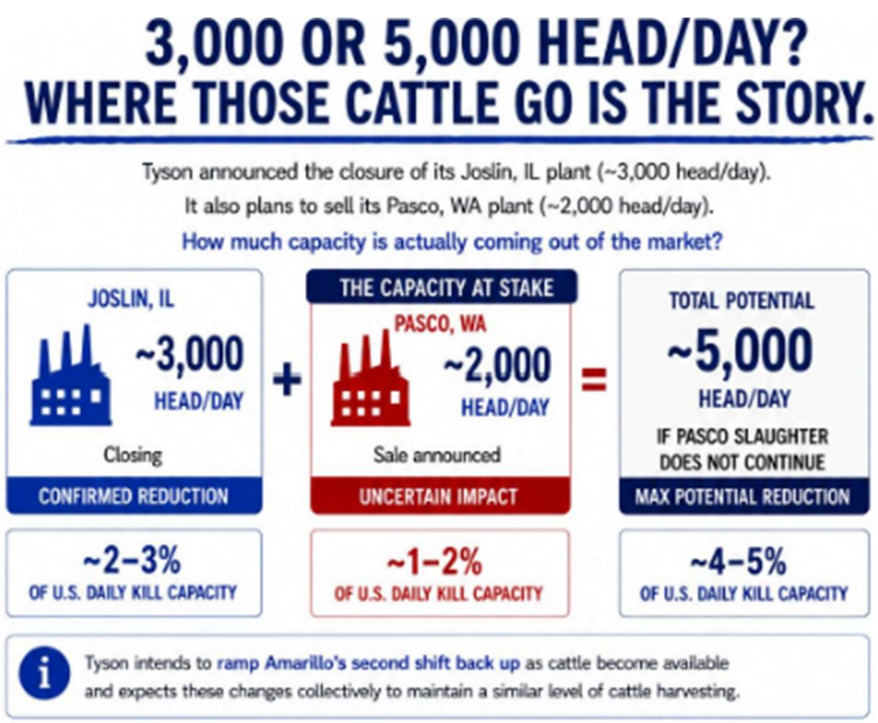
Beef Margin Watch: August

Cattle and feeder cattle margins continued to narrow through the first two weeks of August as weakening cash and boxed beef markets combined with higher feed costs and continued uncertainty surrounding Mexican cattle imports. Boxed beef values have been an important source of pressure. Choice boxed beef had already fallen substantially from its late-June peak, and the cutout remained under pressure through early August as retailers worked through high beef prices and seasonal demand shifted. At the same time, packer economics remain extremely challenging as cattle prices have risen faster than beef values. Tyson announced plans to close its Joslin, Illinois beef plant, sell its Pasco, Washington facility and close a Utah case-ready operation, citing the historic cattle shortage and losses in its beef business. The moves follow earlier processing reductions and highlight the industry's increasingly constrained packing capacity. The reopening of the U.S.-Mexico border for cattle imports remains another significant market influence. USDA plans to reopen the Douglas, Arizona port on August 24, contingent on Mexico's compliance with the screwworm action plan. While the return of Mexican feeder cattle should eventually provide additional supply, the immediate impact is likely to be more psychological than fundamental given the limited initial volume and the time required for those cattle to move through the production system. Feed costs have also become a larger headwind. December corn finished mid-August up sharply during the week following USDA's tighter new-crop balance sheet, increasing projected costs for both feedlots and backgrounders. Despite the recent pressure, the underlying cattle supply story remains exceptionally bullish. U.S. cattle inventories remain near a 75-year low, while strong beef demand and limited supplies continue to support historically high prices. The combination of tight cattle supplies and elevated feeder values makes risk management increasingly important, particularly as feed costs rise and the market approaches a period of greater uncertainty surrounding Mexican imports and packing capacity.



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