



# THE MONTHLY RED MEAT OUTLOOK: CATTLE & BEEF

JANUARY 2020

The month of December saw beef packing profitability come crashing back down to Earth. Packer margins at the end of the year were estimated to be about \$70/hd, after running \$200-400/hd earlier in the fall. The restart of Tyson's Finney County plant played a role in the decline, but margins were already falling before the plant reopened. **Figure 1** provides a look at packer margins in 2019 compared with 2018, along with the dates related to the plant shutdown and reopening. When margins were exceptionally wide in October and November, it provided great incentive for packers to keep slaughter levels high. Now that margins have receded, that incentive will be reduced and we could see kill levels pull

**Demand** for end cuts and grinds is expected to **rebound** sharply in Q1

back some in early January. December was also characterized by a falling beef market. The Choice cutout went from \$233 at the beginning of the month to \$209 at the end of the month. The drop lasted longer and was a little deeper than we had expected, but it does appear that the cutouts have now regained their footing and should be able to advance as we go through January. Conversely, the cattle market has been mostly straight up in recent weeks, typically only a dollar or two per week, but the march higher has been steady and consistent. It is our sense that the cattle market is not done yet and has potential to reach \$130 later this month or in early February.

## SUPPLY PICTURE

In the non-holiday weeks of December, fed cattle kills averaged 528,000 per week. That was a little larger than expected, but

packers had holiday orders to fill and the big kills helped them to accomplish that. Kills have been disrupted the last couple of weeks by holidays, but packers are likely to post solid numbers in the first week of January. However, as we move deeper into the month and into February, the available supply of fat cattle should shrink, based on past placement patterns. With all of the beef plants now back up and running, that will mean increased competition for market-ready cattle and thus cattle prices should see good support. Cash trade last week was at mostly \$124, which was up from \$118 around the beginning of December.

Carcass weights have now topped seasonally and are slowly heading lower. That feature should continue through at least mid-April. USDA last reported steer weights at 904 lbs, which is 13 lbs over the same week last year. However, we need to keep in mind that wet, cold weather last winter hampered cattle performance and kept weights unusually low. This year, without the weather problems, weights look relatively normal. **Figure 2** provides a long run look at steer carcass weights along with our forecasts for the next couple of years. The chart shows that weights have been below trend for the last three years, with 2019 being the farthest below trend. Our forecast has average carcass weights increasing about 13 lbs from 2019 to 2020 and, while that seems like a lot, it really is just a return to normal following 2019's weak showing on weights.

USDA reported November feedyard placements up 5% in their most recent *Cattle on Feed* report, marking the third month in a row that placements have exceeded last year. Improved profitability in the cattle feeding sector and strong pricing on the deferred futures likely incentivized cattle feeders to keep placements strong. We expect that the industry will post another increase when the December numbers are released and

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our estimate is in the range of 4-5% higher. This several-month period of large placements will have ramifications for cattle and beef pricing in late spring and early summer. Supplies will be snug through March, but then availability should be much improved as the calendar starts to approach summer.

## DEMAND SITUATION

Once all of the holiday buying was done, domestic beef demand slipped lower in the second half of December. That is relatively normal and doesn't signal any type of developing demand problem. Middle meat items tumbled hard after mid-month, but now look like they have bottomed and are representing good value. Of course, with the holidays now behind us, the end meats and grinds will come into focus. Retailers favor the ends for January/February features due to their lower price points. Consumers generally tighten their spending early in Q1 on the heels of credit card bills from the Christmas season. Grinds are also a popular feature item in January, but this year they may see less emphasis because the wholesale price of lean trim is well above historical norms for this time of year. The spread between imported and domestic 90s has narrowed in recent weeks, but still remains unusually wide, the imported trading at a premium to domestic. That is being driven by strong demand for Australian grinding material by China and we don't expect that to change anytime soon. In fact, buyers needing lean trim in 2020 should probably go ahead and adjust their purchasing budgets upward because we don't hold much hope for lean trim prices to retreat, at least in the first half of 2020.

International demand for US beef is mediocre at best. USDA reported movement during October to be down 8.7% from the year before. Much of the rest of the world is struggling with slow economic growth and that makes expensive US beef tough to sell. Tariffs on US beef into Japan will be reduced in January and there could be some pent up demand there from buyers

who wanted to wait until the tariff reduction kicked in. As China imports more and more beef in 2020 to help fill the protein void created by its African Swine Fever outbreak, we will likely see some growth in US beef exports. Those exports might not go directly to China, but they will backfill to other nations that get shorted when their primary suppliers shift product to China. We are currently forecasting about a 5% increase in US beef exports for 2020.

Cash cattle prices have upside  
risk to \$130

## SUMMARY

Beef packer margins came tumbling down during December and will likely stay under pressure in January too. Cattle feeders have some leverage over packers due to tightening supplies of market ready cattle. That means cattle prices are likely to continue on their upward trajectory in January and we look for a top somewhere around \$130. Light placements this summer and early fall will keep cattle and beef supplies tight in Q1 and price levels will almost certainly rise from today's levels. Buyers looking for end cuts in Q1 would do well to book that product sooner rather than later. Domestic beef demand appears to be regaining its footing and is likely to improve in January while international demand remains sluggish. The best news of all for buyers is that so far, the winter in cattle feeding country has been rather benign and so a repeat of last year's weather-induced price inflation doesn't look like it will repeat. However, there is still time for nasty weather to develop, so watch those weather charts over the next few weeks! Our near-term price forecasts for cattle and beef are provided in **Table 1**.

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Figure 1: Packer Margin

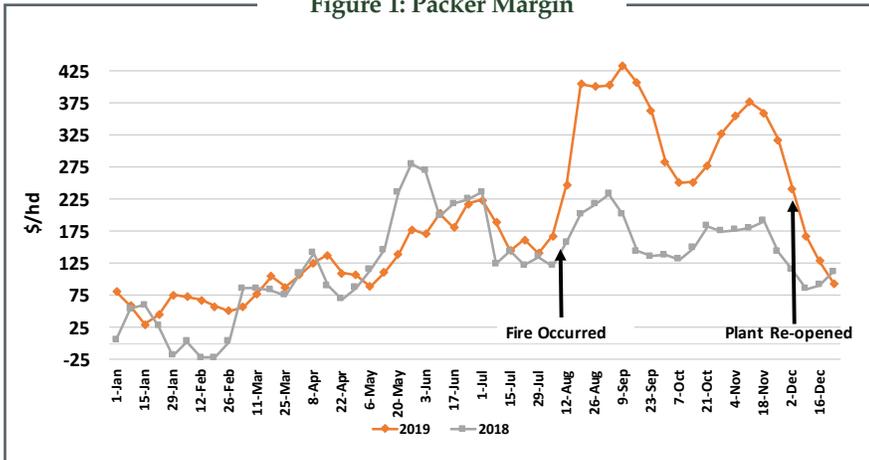


Figure 2: Steer Carcass Weights, Annual

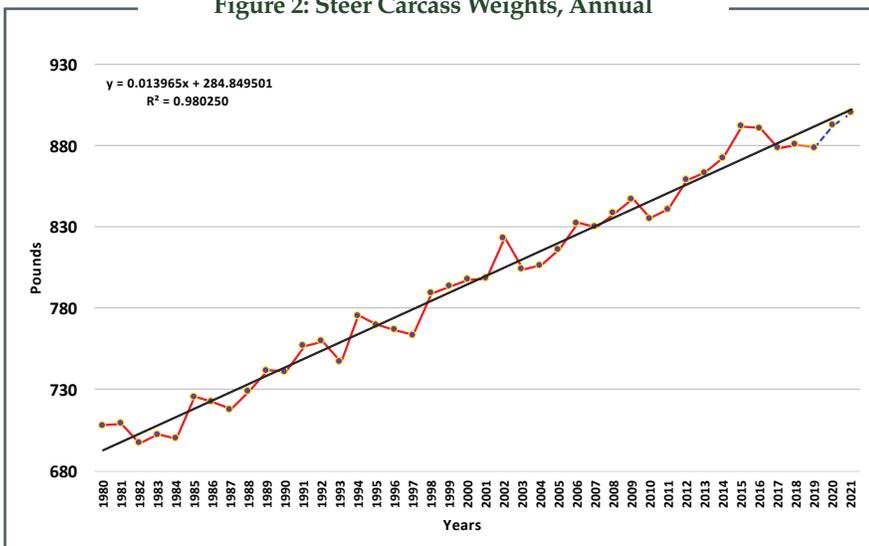


Table 1: JSF Cattle and Beef Price Forecasts

	15-Jan	22-Jan	29-Jan	5-Feb	12-Feb	19-Feb
Choice Cutout	210.8	215.0	218.4	220.5	222.5	224.1
Select Cutout	203.3	206.1	208.5	212.3	215.6	218.1
Choice Rib Primal	339.0	342.3	346.6	352.8	351.0	352.0
Choice Chuck Primal	175.8	180.4	184.6	185.0	187.8	189.2
Choice Round Primal	184.4	187.3	188.9	190.5	190.6	190.0
Choice Loin Primal	269.0	275.1	279.3	282.0	286.0	291.0
Choice Brisket Primal	193.3	196.3	197.4	200.0	204.0	205.0
Cash Cattle	123.1	122.1	124.6	126.7	128.6	129.8



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Dr. Rob Murphy is an agricultural economist and business leader with over 29 years in the industry. He has a wealth of experience in the North American meat and livestock industries studying, analyzing and predicting market movements.

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