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THE MONTHLY

JULY 2019

RED MEAT OUTLOOK: CATTLE & BEEF

Both the cattle and beef markets continued to drift lower during June, but the pace of the decline was much slower than what we saw in May. The cash cattle market last traded in the area of $113 and the Choice cutout is now close to $214. The cattle market is very close to the level it traded at last year at this time, but the cutout is significantly higher. That means packer margins are much better, and by our calculation are a little over $200/head presently. One interesting feature of the recent market has been an expansion in the Choice-Select spread, which is now hovering near $24/cwt **(Figure 1)**. The spread is unusually wide for this time of year. Normally, it peaks around Memorial Day (May 27) and then trends lower, but this year it looks like the peak will occur in July. The cool, wet spring may have pushed some grilling demand back that would normally have occurred in May. But this year's peak is more a function of Select prices declining rather than Choice prices increasing. This probably reflects the after-effects of muddy feedyards this spring, which hurt both cattle performance and the grade. That effect will likely dissipate in the next couple of months and by fall, we look for the Choice-Select spread to be back near traditional levels.

> The Choice-Select spread is **near record wide** over **$20/cwt**

SUPPLY PICTURE

Steer and heifer slaughter was large during June, albeit a little below our forecasts. For the non-holiday weeks, the fed kill averaged 534,000 head. Our models suggest that it could be even larger in July, perhaps up around 555,000 head per week. With the August futures now trading about $5 below the cash cattle market, cattle feeders have some financial incentive to market animals aggressively in an attempt to get their animals sold before price levels move even lower.

The one factor that might argue against that however, is the fact that feedyards look very current in their marketings as we move into July. The primary tool that we use for gauging feedyard *currentness* is the de-trended and de-seasonalized (DTDS) carcass weights. In this calculation we remove the long-term upward trend in carcass weights and correct for the strong seasonality that carcass weights display. If carcass weights were right on trend and right on season, then the DTDS weight would equal zero. However, those weights are now down around -40 pounds (**Figure 1**). That tells us that animals going to slaughter are significantly lighter than they should be for this time of year and would need additional time on feed to increase those weights. **Figure 2** indicates that the DTDS carcass weights are at the lowest point in over five years. This should give cattle feeders some leverage in their weekly negotiations with packers over cattle prices, as the cattle feeder always has the option to keep the cattle on feed a week longer and put on more weight if the packer won't pay what the feeder thinks is fair. However, despite this strong evidence that feedyards are very current, packers were able to coax cattle feeders into accepting lower prices week after week during May and June. We may now be at the point where that ability is coming to an end. We know that packers have a strong desire to kill large numbers as evidenced by the very large margins they are enjoying, so it is the perfect environment for cattle feeders to dig in and demand higher cash cattle prices (or at least demand that they not go any lower).

Fed beef production has been running about 1% over last year as the bigger kills have been offset to some degree by lighter carcass weights. But carcass weights are now increasing seasonally and we look for kills to grow larger in July as well. That means that we could see beef production during July up almost 5% from last year. The most recent *Cattle on Feed* report showed May placements down almost 3% and a June 1 feedyard inventory that was about 2% over last year. So, there are plenty of cattle in the nation's feedyards, but for pricing purposes it really becomes a question of how many of those animals are close to the ideal slaughter weight. We estimate that the next Cattle on Feed report will show placements during June up only 1.6% and July 1 on-feed inven-tories up 2.5%. There are several good reasons not to expect really large placements this summer. First, the wet spring generated excellent pasture conditions and that should result in many feeder animals moving into stocker operations this summer and thus they won't be available for placement until fall. Second, corn prices have soared and are now over $4/bushel. That raises the cost of feeding and should cause cattle feeders to slow down their placement plans. Finally, the deferred live cattle futures are so low that cattle feeders are unable to hedge any cattle they place this month at a profit. Low deferred futures prices are the market's way of telling cattle feeders that we will need fewer animals this fall and winter and thus they should slow down placements.

DEMAND SITUATION

We are now entering that part of the calendar known as the "*dog days of summer*", when beef demand typically declines. This is tied to the lack of holidays in July and August and the idea that as summer

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the lack of holidays in July and August and the idea that as summer temperatures increase, consumers have less desire to stand outside next to a hot grill. It is pretty clear that there has been some erosion in domestic beef demand since late May. But rest assured, it has not been too serious. Our forecasts have domestic demand staying a bit stronger this year than in the dog days of past years, partly because we believe some demand has been pushed back due to the cool, wet spring. So far this summer retailers have been pushing ground beef heavily in their ads and consumers have responded favorably. The middle meats will be a tougher sell as the summer wears on, but the end meats normally see improving demand beginning in mid-to-late July as institutional buying from school systems and colleges ramps up ahead of the new school year. So, on balance, it looks like domestic beef demand will hold up reasonably well for the next couple of months. US beef exports were down only slightly in May and it looks like that trend may have carried into June. Some of that has to do with the fact that beef prices are higher than they were last year at this time; but there is also probably some impact from a slowdown in the global economy. The macroeconomic numbers out of Asia are looking softer with each passing week and as consumers in those countries pull back, it is reasonable to expect them to demand less imported beef. The slowing global economy ranks as our number one bearish factor on the demand side of the beef market. It looks like it may get worse as we move deeper into the second half of the year. There is a very real risk that it will spread to the United States and thus cause further erosion in domestic beef demand. Buyers are encouraged to keep a close eye on the global macroeconomy, since this could quickly change the complexion of beef demand, and thus beef prices, should the current slowdown become worse.

> **Beef packer margins** recently soared to **over $200/head**

Figure 1: Choice-Select Spread

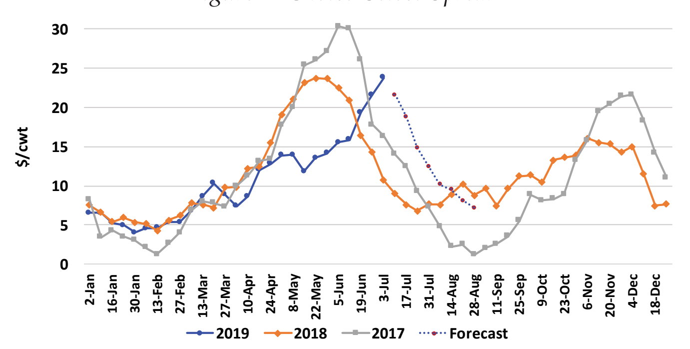


Figure 2: Detrended & Deseasonlized Steer Carcass Weights

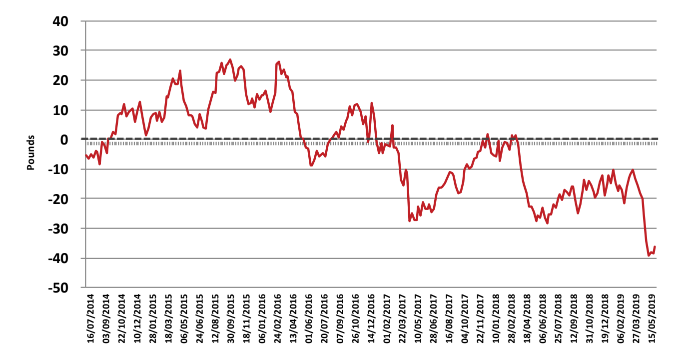
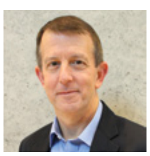


Table 1: JSF Cattle and Beef Price Forecasts

	17-Jul	24-Jul	31-Jul	7-Aug	14-Aug	21-Aug
Choice Cutout	212.4	210.4	208.2	205.9	204.3	202.0
Select Cutout	193.6	195.5	195.7	195.7	194.8	193.9
Choice Rib Primal	345.9	339.8	331.4	327.0	330.0	326.0
Choice Chuck Primal	175.0	173.1	172.5	171.5	170.3	168.7
Choice Round Primal	170.1	171.4	169.8	167.8	165.4	162.2
Choice Loin Primal	285.7	281.6	278.8	275.5	272.2	269.9
Choice Brisket Primal	178.8	180.3	181.0	182.0	183.3	184.1
Cash Cattle	112.7	114.0	113.6	114.4	114.6	114.0

SUMMARY

Cattle prices eased lower during June, and may be near a bottom. Beef prices will likely continue to work modestly lower during July and early August which will compress beef packer margins somewhat. Beef production during July should be at least as large as in June, and likely larger. Carcass weight data tells us that feedyards are very current in their marketings and that may be what limits the downside risk in the cattle market over the next few weeks. Beef demand is normally sluggish during July and August, but our forecasts don't look for an abnormally large deterioration in demand this year. International demand for US beef is currently close to last year and there is risk that the weakness in the global economy could stifle beef exports in the coming months. **Table** 1 provides our price forecasts for cattle and beef over the next few weeks.



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