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RED MEAT OUTLOOK: CATTLE & BEEF

In the month that has passed since our last *Red Meat Outlook*, packers have done an excellent job of getting their plants back up and running. Apparently the measures that they took such as daily COVID testing and installing barriers between workspaces have paid big dividends. There is also the possibility that most of their workforce has now been infected and thus developed an immunity to the virus. Whatever the reason, the reopening of packing plants is welcomed by both meat buyers and cattle sellers. As plants started to come back online, the additional production turned the beef cutouts lower from their record-high levels and prices have been sinking fast ever since. On the cattle side of the ledger, things have not been so great. We estimate that between 800,000 and one million head of fed cattle went un-slaughtered during April and May and that has created a huge backlog of cattle in the nation's feedyards. That backlog means that cattle feeders have virtually no leverage in their weekly negotiations with packers in the cash cattle market and they essentially have to take whatever price the packer offers. When the cutouts were at record levels, packers responded in a "generous" way by paying as much as $120/cwt for fed cattle even though they really didn't have to pay that much. Now that the cutouts are coming back down to Earth, packers are becoming less generous and cash cattle prices are in retreat. Last week, cash cattle averaged just over $112/cwt and will almost certainly trade lower this week (**Figure 1**).

> An estimated **800K - 1MM** head of fed cattle going **unslaughtered** in April / May

SUPPLY PICTURE

With more than 800,000 head of fed cattle backlogged and waiting to be slaughtered, there are no concerns about animal shortages anytime soon. Production will be dictated by how many cattlepackers can put through their plants and the margins that they make on those animals. Currently margins are huge at about $500/head, but that is declining rapidly as the cutouts fall. Since packers are in full control, it is doubtful they will allow their margins to fall much below $300/head this summer. It is quite possible that the ramped-up production will push the cutouts very low, particularly since demand from the foodservice sector is likely to remain well below normal. If the cutouts fall below $200, then packers will have no choice but to pressure cash cattle prices down into the $90s or perhaps even $80s in order to protect their margins. Cattle feeders will be powerless to resist until the backlog of cattle is cleared. Currently, fed cattle slaughter is averaging about 520,000 head per week which is about 95% of what we had expected them to kill in June before the pandemic erupted. That means that a few cattle each week are being added to the backlog and it could stay that way all summer long. In the fall, the picture looks brighter for cattle feeders since they slashed placements dramatically in March, April and May and that creates a hole in supply for the fall. Any remaining backlogged cattle at that time will be used by packers to help fill in the hole created by light spring placements.

Carcass weights are extremely heavy now due to the slowdown in slaughter. Steer weights are now 52 pounds heavier than they were at this time last year (**Figure 2**). And, the seasonal trend is for carcass weights to rise between now and late fall. Obviously, cattle feeders are sending their heaviest animals to slaughter first, but it is likely that carcass weights will remain very heavy

Carcass weights are extremely heavy, **now 52 pounds** over last year

for the next several months and perhaps through the end of the year. Those animals are carrying a lot of fat and that will add to the production of 50% lean trim as we move deeper into summer. Heavy animals reduce the cattle feeder's leverage even further. The bigger the animal, the more they eat and thus it's more costly to feed them. Further, the bigger they get, the less desirable they become to packers and thus large price discounts are often applied.

When COVID shuttered nearly half of the nation's packing capacity, cattle feeders did the only thing they could in the situation—they greatly reduced the number of animals they were placing into feedyards. March and April placements were down about 22% and it looks like May placements could be down 10% from last year. In essence, feedyards have tried to "place" their way out of the COVID problem since it was impossible to slaughter their way out of it. The strategy will eventually work, but probably not until fall when those lighter placements create space for the last of the backlogged cattle to be killed. Until then, cattle feeders will be at the mercy of packers when it comes to pricing in the cash market.

DEMAND SITUATION

Domestic demand has been very difficult to measure in the last few months as the COVID pandemic took hold. First there was a consumer stockpiling surge, then rapidly declining demand as stay-at-home orders were issued. Next came COVID-related plant closures and panic buying by retailers scrambling to secure supply. Now, supply is large again and prices are falling fast. As prices gyrated wildly over the past couple of months, our traditional tools for measuring domestic demand became less reliable. The market is now coming to the phase where it must address the macroeconomic fallout from the crisis. Unemployment has surged to around 13% and will likely be even higher when the numbers for May are announced. Government stimulus money has probably already been spent by the consumers who received it. Even though most restaurants have re-opened to dine-in customers, there are spacing requirements that will depress sales and there is a general reluctance on the part of consumers to return to restaurants while the virus is still spreading. All of this points to a soft domestic demand picture for beef in the coming months. We have tried to capture this macro effect in our price forecasts, but fear that we might still be too optimistic and price levels could fall lower than we anticipate this summer and fall.

International demand for US beef is weak also. The most recently weekly trade data from USDA showed beef shipments down 46% from a year earlier (**Figure 3**). Granted, US beef prices were at very high levels and that probably accounts for a good part of the slowdown in exports, but it is our sense that even when prices come back down to more normal levels, international buyers won't be aggressively chasing US beef. The reason is simple: the economies in the importing countries have suffered as much or more than the US economy and thus many consumers in those nations will not be able to afford the luxury of imported US beef. We have revised our beef exports downward and now look for about a 3% decline in beef exports for 2020 as a whole.

SUMMARY

Packers have made tremendous progress getting packing plants re-opened and slaughter is now approaching 95% of normal. That has greatly improved beef availability and price levels are falling rapidly. However, the slaughter slowdown during the COVID-19 crisis backlogged over 800,000 head of fed cattle and it will take many months before feedyards are current again. Carcass weights are very heavy and cattle feeders have almost no leverage in their price negotiations with packers and that leaves packers in a position to dictate cattle prices for the next few months. Domestic beef demand will likely be soft for the remainder of the year as the foodservice sector struggles to attract business and consumers struggle with high unemployment. It is our sense that the market is now returning to "normal" following the coronavirus chaos of the past two months, but there is a real risk that abundant beef supplies and soft demand will drive prices to historically low levels in the months to come. Buyers should remain close bought as prices fall, but remain vigilant for a resurgence in coronavirus infections that could cause packing plants to shut once again. Our near-term price forecasts for cattle and beef are provided in **Table 1**.

Figure 1: 5-Area Live Steer Price

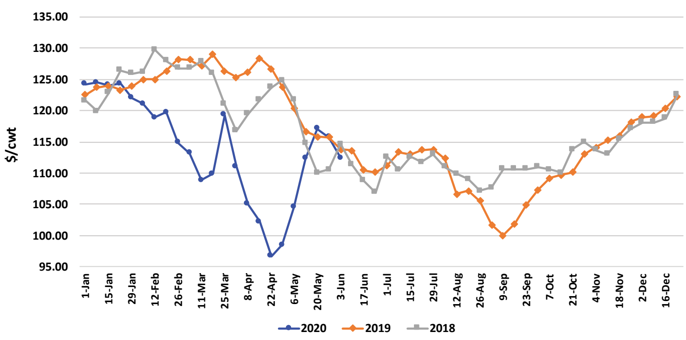

Figure 1: Total Weekly Beef Exports

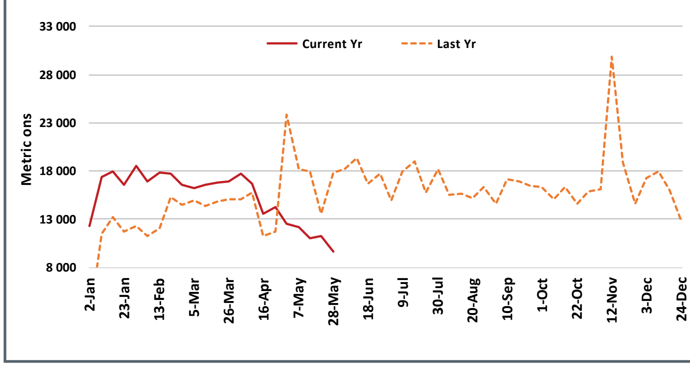

Figure 2: FI Steer Carcass Wt.

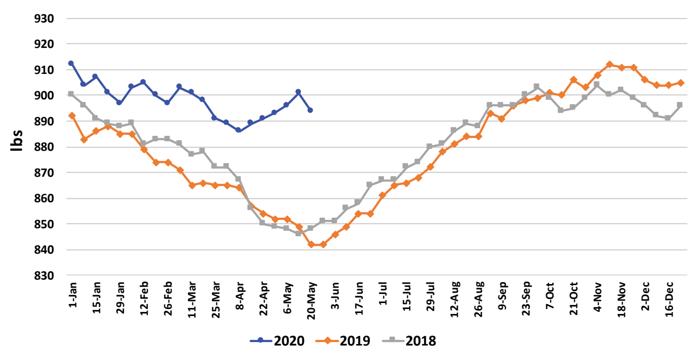

Table 1: JSF Cattle and Beef Price Forecasts

	17-Jun	24-Jun	1-Jul	8-Jul	15-Jul	22-Jul
Choice Cutout	235.8	231.6	228.7	225.1	220.0	219.1
Select Cutout	229.5	220.4	216.8	215.6	211.8	211.2
Choice Rib Primal	420.0	386.2	352.0	339.0	318.0	320.0
Choice Chuck Primal	174.6	169.9	172.3	175.0	174.3	176.0
Choice Round Primal	173.3	168.8	170.3	172.1	174.0	173.0
Choice Loin Primal	371.1	352.0	338.3	324.2	311.0	305.0
Choice Brisket Primal	163.3	165.0	169.7	171.2	166.8	169.0
Cash Cattle	113.7	110.6	108.9	109.1	108.1	108.5

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