VOLUME 3, ISSUE 5
EN | FR | ES

J.S. FERRARO

THE MONTHLY

RED MEAT OUTLOOK: CATTLE & BEEF

MAY 2020

As feared, COVID-19 has infiltrated beef processing facilities, forcing the closure of some slaughter plants and slowing the production pace at a number of others. For cattle producers, this development is devastating since it means that many market-ready animals cannot be scheduled for slaughter and thus remain in feedyards, adding extra weight each day. For beef buyers, the development is equally distressing because it caused beef production to plunge and price levels to skyrocket. As plants started to slow and close, the Choice beef cutout accelerated higher and is now trading over $400—by far the highest cutout value ever seen (**Figure 1**). In the last couple of *Red Meat Outlooks*, we warned buyers about the risk of plant closures due to COVID-19, but did not envision becoming such a severe problem. Last week, President Trump issued an order requiring meat plants to stay open in the name of national security. So far that order has done little to expand beef production because workers are afraid to enter plants and they have their unions and local health officials on their side. We believe the main purpose of the executive order was to remove the legal risk to beef packers from keeping plants open when COVID-19 is present. Realistically, beef production won't return to normal levels until COVID infections in processing facilities decline substantially and workers can once again feel safe in returning to work.

SUPPLY PICTURE

Fed cattle slaughter plunged during April, dropping to an average of 387,000 head per week, down from 521,000 head per week in March (**Figure 2**). That is a 26% reduction month-to-month. By our estimate, the industry under-killed available supplies by about 590,000 head during April. That has created a backlog of cattle in feedyards, where they continue to gain weight.

We expect that the COVID-19 problem that processing plants have been experiencing will slowly get better, but do not expect the slaughter segment of the industry to return to normal capacity utilization for at least another month, maybe longer.

COVID-related slowdowns in packing plants slashed April slaughter by 600,000 head

Steer and heifer carcass weights were already very heavy before plants started closing, but now the problem is growing more serious. Blended steer and heifer carcass weights are now running 29 pounds over last year, up 3.5% YOY. To compound the problem, carcass weights are nearing their annual low and should be turning higher in normal seasonal fashion within the next few weeks. We have heard of cattle feeders changing feedyard rations in an attempt to slow the weight gain, but that won't likely be enough to solve the weight problem as long as packing facilities are running well below capacity. May and June normally see some of the largest kills of the year as the industry works to meet strong grilling season demand. This year, kills will be well below normal, cattle will continue to be backlogged and carcass weights will remain exceptionally heavy. This reduces the cattle feeder's bargaining position with packers and is likely to keep cash cattle prices very weak.

Cattle feeders have responded to this growing crisis by slashing feedyard placements. In their most recent Cattle on Feed report, USDA pegged March placements down almost 23% from a year earlier. There is a very good chance that April placements will be down by that amount or more, and May and June placements could be way down as well. That sets up a very tight supply situation for this fall. Currently, the futures market is not fully pricing in the effect that this sharp curtailment of placements will have on price levels in the latter part of the year. Buyers would be wise to take advantage of the current low level of futures to book and price product for delivery in the latter half of Q3 and Q4.

DEMAND SITUATION

J.S. Ferraro recently released a *special report on the impact of recession on beef and pork prices*. That is still very much a concern, but right now the focus has been on the supply issues caused by plant shutdowns and slowdowns. Price levels are soaring because of short-term supply issues and the fact that unemployment has soared to never-before-seen levels has been pushed to the back burner.

Beef cutouts have soared to all-time record levels

Even though the recession is likely to have a negative impact on beef demand later this year, price levels might not be as soft as expected due to reduced supply caused by the sharp reduction in feedyard placements this spring. The recent shortfall in beef production has highlighted the fact that demand curves for beef become much steeper at low volumes. Some businesses, such as grocery stores, need to have product in stock no matter what the cost and when availability tightens dramatically, it leads to the astounding price increases like the market is currently experiencing. Further, some areas are beginning to allow restaurants to reopen and that will add a source of demand that has been largely absent from the market in recent weeks. News stories about threats to the meat supply will likely generate a second wave of beef stockpiling by consumers and that will only compound the problem. Retailers are likely to scale way back on beef features in the coming weeks given sharply higher wholesale prices. There is no way that retailers can offer a feature price point anywhere near what consumers are used to and still turn a profit. Besides, the fact that customers are lining up to get inside stores largely negates the need for features.

International demand for US beef has been tapering down after a strong start earlier in the year. The slowdown in the global economy and logistics snarls are likely to blame. The situation may get worse before it gets better given that the sharp rise in US beef prices is likely to cause some importers to pause their purchases. While Q1 beef exports will be up about 7%, we look for Q2 exports to be down 8% or more. If the COVID-19 pandemic starts to recede this summer, there is a reasonable chance that beef exports will move back to year-ago levels or above, but US beef prices are going to need to come down a lot before that will happen.

SUMMARY

COVID-19 related plant disruptions have been far larger than we originally imagined and that is the primary driving force in the market currently. Slaughter levels have dropped dramatically and the cutouts have soared higher as users fight for the limited supply. Buyers can expect price levels to remain extremely high as long as virus concerns are keeping plants closed and slowing line speeds in others. Demand, as we traditionally measure it, looks very strong currently, but that is largely because buyers were caught by surprise and are now scrambling to cover their needs from a very limited supply. Some will end up doing without. International buyers will likely curtail purchases as long as US beef prices are in the stratosphere. This rally is different from the one we experienced in mid-March because it is largely driven by supply issues. In mid-March it was the sudden consumer stockpiling that drove prices higher. The only resolution to this current problem is for packers to find a way to keep COVID-19 out of plants so that production can return to normal, and that may take weeks if not months to accomplish. Meanwhile cattle linger in feedyards, gaining weight and losing value by the day. Our near-term price forecasts for cattle and beef are provided in **Table 1**.

Figure 1: Choice Cutout

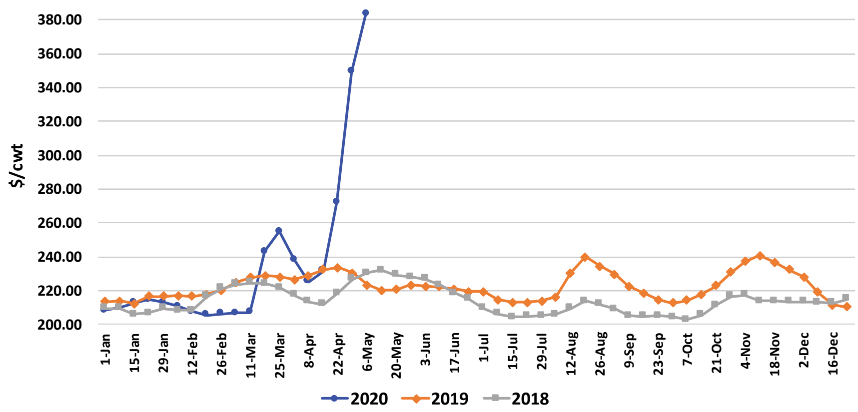

Figure 2: Weekly Average Steer and Heifer Slaughter

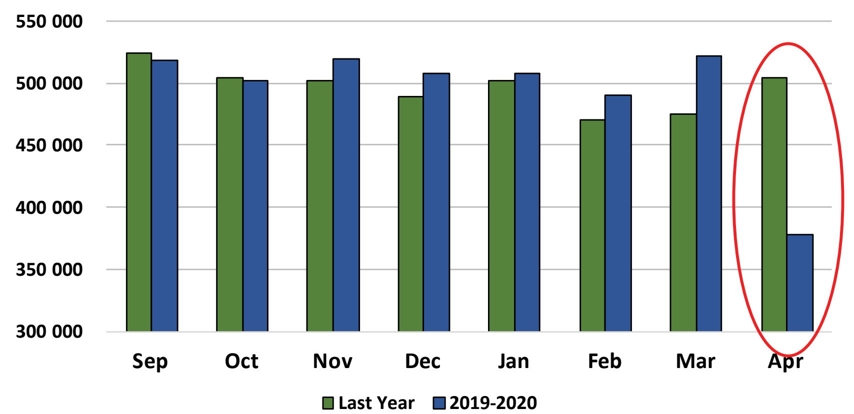

Table 1: JSF Cattle and Beef Price Forecasts

	13-May	20-May	27-May	3-Jun	10-Jun	17-Jun
Choice Cutout	377.1	357.2	328.9	299.1	275.1	256.6
Select Cutout	357.4	336.0	311.1	283.5	258.8	240.9
Choice Rib Primal	448.0	403.0	364.0	338.7	335.2	327.0
Choice Chuck Primal	343.0	322.0	303.0	268.0	239.0	224.0
Choice Round Primal	386.0	366.7	338.0	309.8	287.0	258.0
Choice Loin Primal	441.0	430.0	394.0	363.0	334.0	316.8
Choice Brisket Primal	315.6	301.4	272.0	246.3	223.6	204.0
Cash Cattle	101.1	99.7	96.4	95.4	92.4	94.3

DR. ROB MURPHY BS, MS, PhD Agri Economics,
Executive Vice President, Research & Analysis,
J.S. Ferraro

E: Rob.Murphy@jsferraro.com

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.