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# RED MEAT OUTLOOK: CATTLE & BEEF

January saw cash cattle prices holding steady at $124 and then dipping to $122 in the last week of the month. Over the same period, the Choice cutout added about $4. The market has been unsettled lately by the rapid spread of novel coronavirus (nCoV) in China and the disruptions that event has caused in global protein markets. The outbreak is still very much a developing situation and while China has taken many measures to try and contain the virus, the number of new cases is still on the rise. Economic activity in China is taking a big hit as the Chinese New Year was extended and many businesses shut down to protect their workers from contracting the virus.

**Steer carcass weights 13 lbs. heavier than last year**

The US doesn't currently export a lot of beef to China and so the direct impact to export demand is rather low. However, the US market could be affected indirectly as China's demand for beef from other countries declines (particularly Australia) and thus results lower global beef prices. The coronavirus outbreak in China (and possibly other countries) will be an important feature affecting the beef market for months to come. The beef cutouts failed to match our expectations in January, and that contributed to the cash cattle market also underperforming. February is a soft month for beef demand domestically, but cattle supplies will also be tightening as we move deeper into the month. That leaves room for some modest appreciation in cutout values over the next few weeks, but the bigger moves higher are more likely to occur in March when consumers start to get a hint of spring and look to fire up their grills.

## SUPPLY PICTURE

Steer and heifer slaughter levels declined as expected in January, averaging just under 500,000 head per week. Non-fed slaughter (cows and bulls), remained strong, about on par with December. Our models suggest that the availability of market-ready cattle will decline in February and March, based on past placement patterns. We are currently projecting fed kills in February to average around 485,000 head per week and non-fed kills to average about 10,000 head per week less than what we saw in January. As available supplies decline, we expect packers to compete more vigorously for cattle in order to keep their capacity utilization from falling too much and thus contain costs. That could lead to some modest gains in cattle prices and some tightening of packer margins. Those margins are currently running around $70/head, which is much larger than typical for this time of year. Quite often, packers see negative margins during February.

Steer carcass weights were last reported to be 13 pounds heavier than last year (see **Figure 1**). Of course, last year at this time weights were abnormally low due to severe winter that cattle feeding states experienced. This year, the situation is the exact opposite. The winter has been mild and relatively light on precipitation (particularly in the southern tier states), and that has led to cattle performing much better than normal. We are hearing reports of cattle finishing more than a month ahead of schedule because their gains were so good. The de-trended and de-seasonalized weights that we watch as an indicator of feedyard currentness are flashing caution at this point (see **Figure 2**). However, if packer margins remain good that should incentivize them to keep kills up to a level that helps keep feedyard currentness from becoming a problem.

Placements into feedyards during December were reported up 3.5%, marking the fourth month in a row of year-over-year increases. This means that the industry will likely see strong beef production this summer. Buyers should be aware of this impending increase in beef supplies and not extend coverage much beyond the spring. USDA also recently released the results of its annual cattle inventory survey and that showed the total number of cattle down about 0.4% from the previous year (see **Figure 3**). Now that the cattle inventory has made its top, the industry is entering the liquidation phase of the cattle cycle and we can expect several years of smaller cattle inventories. Beef production could rise for another couple of years as the liquidated animals head to slaughter, but sometime in mid-to-late 2021 we expect beef production to begin to fall and price levels to strengthen accordingly. Liquidation phases sometimes last as long as 7-8 years.

## DEMAND SITUATION

It's no secret that February is not a great demand period for beef. Consumers are still dealing with holiday bills and the weather is generally not conducive to outdoor grilling or dining out. Normally, the end meats see a lot of feature activity at this time of year and our calculated demand indexes confirm that domestic demand for chucks and rounds has been stronger than last winter. That has allowed prices on the ends to be a little stronger than last year, but not much. During February, most beef merchandisers are just marking time waiting for the advent of the spring grilling season to put some life back into the market. Given that we have seen record warm temperatures in the US so far this year, it is not much of a stretch to assume that spring-like weather will come earlier than normal this year and along with it, improving beef demand. Pricing on middle meats this spring is expected to be relatively close to last year's levels, as stronger demand helps offset bigger supply.

International demand for US beef has gone from being mediocre in December to much better in January. It remains to be seen just how much the coronavirus situation in Asia will impact overseas demand for US beef, but it is quite possible that it will slow somewhat in coming months. That said, it looks like rains are returning to Australia and that should incentivize their producers to hold back animals in an effort to rebuild their herds after several years of drought. As supplies from Australia shrink, it will provide an opportunity for demand for US beef to improve. We are anticipating a much-improved export environment this year as the new US-Japan trade agreement will lower tariffs on US beef and there could be considerable quantities of US beef shipped to China courtesy of the US-China "phase one" trade deal once the coronavirus problem subsides. Our current forecast has US beef exports up 9% in 2020 compared to 2019.

US beef **exports up 9%** for 2020 as a whole

## SUMMARY

The beef market is in the midst of the winter doldrums and that means relatively soft demand for the next few weeks. However, supplies of market-ready cattle should also be tightening and we think that might be enough to generate some modest price increases in both the cattle and beef markets in the near-term. However, cattle carcass weights are currently heavier than expected due to the mild winter and that raises the risk that beef production will be larger than expected and thus limit price appreciation. The coronavirus situation in China is a big wild card at this point. It is pretty clear that it will slow economic growth in China for at least a couple of quarters, possibly tipping the global economy into a recession, which would not be good for beef demand. Domestic beef pricing this spring is expected to be near last year's levels unless global growth falters significantly. We are advising buyers not to extend coverage much beyond the spring since heavy placements in recent months will result in relatively large beef production this summer. Our near-term price forecasts for cattle and beef are provided in **Table 1**.



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