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# THE MONTHLY RED MEAT OUTLOOK: CATTLE & BEEF

APRIL 2020

The COVID-19 pandemic continues to roil the cattle and beef markets in North America. As “stay-at-home” orders began to be issued in mid-March, consumers rushed to grocery stores and stockpiled all of the things they considered essential. Beef was high on their list. Most retail meat cases in the US were completely sold out for several days and often as soon as replenishments arrived, consumers quickly cleaned the meat case out again. That stockpiling panic caused retailers to bid up the price of beef from packers and we saw the Choice cutout rise by over \$50/cwt in less than two weeks (see Figure 1). Packer margins swelled to nearly \$600 per head, an all-time record.

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Packers needed cattle badly and thus, cash prices bounced nearly \$10 higher to almost \$120 near the end of March. The consumer stockpiling phase of this crisis is now subsiding and meat cases are beginning to return to normal. Now, there is concern that demand for beef and other animal proteins will be soft because consumers have large stockpiles at home. That is further compounded by the fact that most foodservice outlets have been shuttered and so demand from that sector is at very low levels. It may take years for foodservice to return to its pre-coronavirus levels. And that is bad news for beef, which traditionally has a large exposure to the foodservice sector. The cutout is falling rapidly now and packers are pushing cash cattle prices lower as a result. Pessimism has permeated the live cattle futures, with most contracts now trading well below \$90/cwt. Traders have no experience with a situation like this and so their natural reaction has been to sell the futures hard, while some traders have opted to exit the market all together.

## SUPPLY PICTURE

As packer margins swelled in March, their desire to kill cattle increased. Fed cattle slaughter in the US has averaged about 520,000 head per week during March. That is about 40,000 head per week more than was expected for this time of year and probably caused some cattle to be “pulled forward” and marketed ahead of their expected finish dates. However, packers are already showing signs of cutting back on the kill in early April as they try to better match supply with reduced demand following the huge consumer stockpiling event. That raises risks for the cattle market, which traded at \$112 last week. The April futures are currently pointing to cash cattle somewhere in the vicinity of \$85/cwt at the end of this month.

One would have expected recent large kills to have rapidly decreased carcass weights, but so far the data hasn’t reflected much of that. Steer weights were last reported at 898 lbs. which is 32 pounds greater than last year at this time. Weights should be trending lower from now into April, but they have been reluctant to do so. That is a bit concerning, especially now that packers are eager to scale back kills. With weights remaining so heavy, cattle feeders may feel a strong need to move cattle at whatever price they can obtain from packers and we could very well see cash cattle prices remain on the defensive until carcass weights come down. Packer margins are in little danger as a result, because the heavy cattle in feedyards limit the seller’s bargaining power and thus packers should be able to keep margins abnormally large until either carcass weights come down substantially or the number of animals in feedyards gets relatively tight. It might be June or later before those conditions are met.

Cattle feeders are reacting to the uncertainty created by the COVID-19 pandemic by greatly reducing the number of cattle they place on feed. USDA’s most recent Cattle on Feed report indicated an 8% YOY decline in placements during February

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and it is our sense that placements during March were down somewhere between 10-15% (see **Figure 2**). That will eventually cause a tightening of the cattle supply, but not until fall. By then the COVID-19 crisis could very well be resolved and consumer demand on the rebound. That sets the stage for stronger-than-normal pricing in the cattle and beef markets from September through the end of 2020.

## DEMAND SITUATION

Domestic demand in North America is undergoing a seismic shift as foodservice establishments close down and demand shifts to retail supermarkets. This is a grand-scale headache for packers who are

### Domestic beef demand in North America undergoing a seismic shift

seeing foodservice orders cancelled and retail orders increased. This big shift in demand will likely keep the market unsettled for many more weeks. The real question on everyone's minds is whether or not the increase in demand from the retail segment will be enough to compensate for the huge loss of foodservice business. We think that it will, because people still need to eat, but first the market has to get through several weeks of soft demand as consumers work through all of the beef that they stockpiled in March. On top of that, there is the issue of the macroeconomy. The US is clearly in a recession now and unemployment has skyrocketed to unprecedented levels as industries that require human congregation (restaurants, concerts, airline travel, etc.) are laying off employees in droves. The US government has authorized a two-trillion dollar rescue package that is designed to provide cash and loans to small business affected by the crisis and bolster unemployment benefits for the newly unemployed. Our guess is that money will fall far short of making everyone whole and thus we will see a recession-induced decline in beef demand for at least the next several quarters. That will hurt the high-priced middle meats the most, but all segments of the carcass will likely see demand soften as the US economy works to regain its footing once the COVID-19 crisis has passed.

### Expect a recession-induced decline in beef demand for at least the next several quarters

International demand for US beef has held up better than expected in these uncertain times. Weekly export volumes remain strong, with last week's data indicating a 13% YOY increase in beef exports. Monthly data for February indicated a 21% YOY increase in exports. However, it is probably just a matter of time before export demand starts to erode substantially due to a global recession. One bright spot for potential beef exports is China, however. China recently removed all restrictions on US beef entering the country and it's pretty clear that China is very short on animal protein as a result of the African Swine Fever outbreak. It is quite possible that in the months to come China will emerge as a big importer of US beef after many years of shunning it altogether. Whether or not that will be enough to offset declining demand from other countries remains to be seen, but it does provide a tiny sliver of hope for a beef industry that is coming under serious pressure due to the COVID-19 pandemic.

## SUMMARY

These truly are unprecedented times for the cattle and beef markets. In all my years of analyzing the cattle market I have never encountered an event that was as disrupting as this pandemic. Right now, suppliers and consumers are rightly most concerned with health protection, but when the crisis subsides in a few months, a new normal will prevail. Gone will be the super strong beef demand that the industry has enjoyed for the last 2-3 years. Many foodservice establishments will also be gone. Low cattle and beef prices could drive a considerable number of cattle feedyards out of business. It could be many years before the cattle and beef markets start to once again resemble the way they were prior to the spread of COVID-19. The uncertainty of the current environment makes price forecasting extremely difficult, but we will still give it a shot. Our near-term price forecasts for cattle and beef are provided in **Table 1**.

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Figure 1: Choice Cutout, Weekly Avg Price

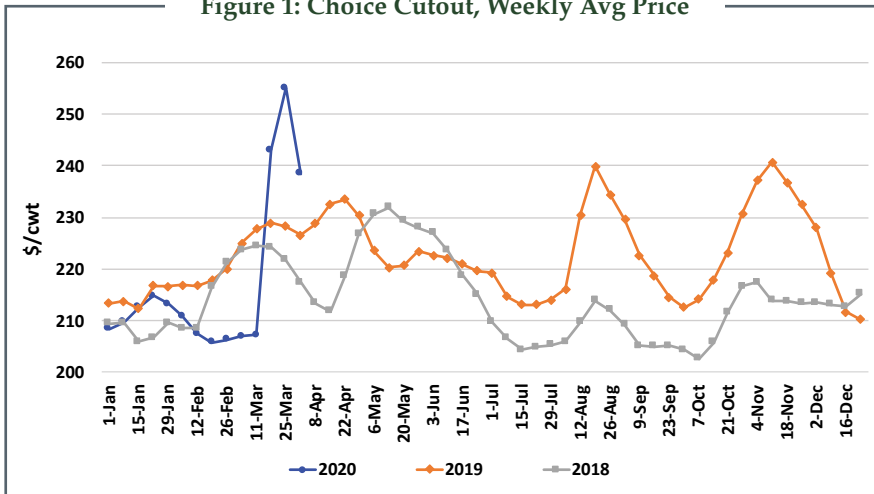


Figure 2: US Feedyard Placements, YOY Change

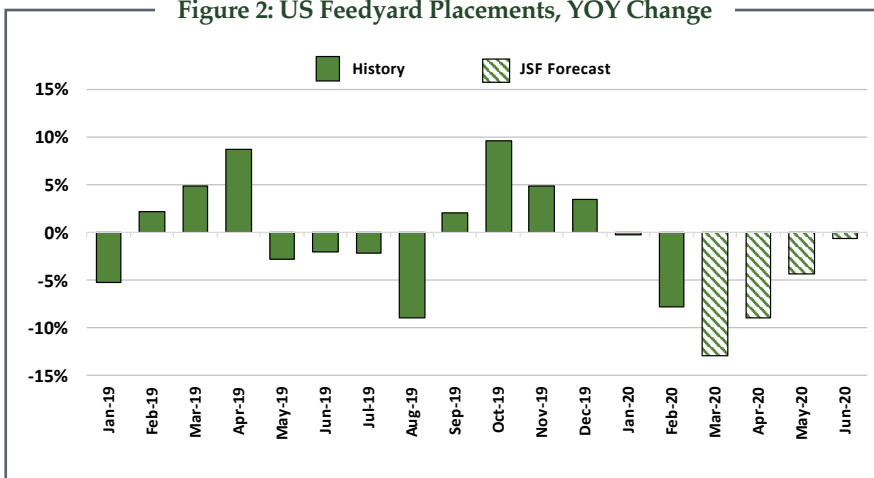


Table 1: JSF Cattle and Beef Price Forecasts

	15-Apr	22-Apr	29-Apr	6-May	13-May	20-May
Choice Cutout	225.0	219.3	217.9	216.2	215.9	215.3
Select Cutout	215.5	208.7	207.7	205.7	203.5	202.3
Choice Rib Primal	312.6	324.0	330.0	336.0	341.1	334.0
Choice Chuck Primal	201.3	187.8	182.2	180.3	181.3	183.0
Choice Round Primal	221.0	203.0	194.0	183.0	174.0	176.0
Choice Loin Primal	280.0	286.0	292.0	295.0	299.0	296.0
Choice Brisket Primal	159.0	162.0	169.0	173.0	175.0	172.0
Cash Cattle	111.5	108.8	108.8	110.0	110.3	110.4



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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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