VOLUME 3, ISSUE 12
EN | FR | ES

J.S. FERRARO

THE MONTHLY RED MEAT OUTLOOK: CATTLE & BEEF

DECEMBER 2020

There was a lot of concern among market participants back in October that the normal end-of-year seasonal rally in beef prices would not happen this year. Prices were languishing well below year-ago levels, prompting fears that the COVID-19 pandemic had constrained seasonal demand for middle meats this year. Those fears turned out to be unfounded as a strong price rally began to kick in around early November. That rally is continuing at present and the Choice cutout has nearly reached last year's strong levels. Apparently, retailers remained close bought longer than normal this fall due to the uncertainty associated with the pandemic. Then, as COVID-19 cases began to surge across the US in early November, retailers began to worry that plant closures would soon follow and that brought them back into the market in a big way.

> **Beef markets were on fire** in November with the Choice cutout reaching **$245/cwt**

So far, there has been no indication that plants are once again having COVID-19 infection problems and production has been maintained at high levels. The fear of possible plant closures also impacted the live cattle futures, which sold off in mid-November, only to recover quickly when it became apparent that daily kills would remain strong and plants would stay open. Packer margins have expanded rapidly in the last few weeks as the cutouts surged higher and are presently approaching $450/hd (see **Figure 1**). Cattle feeders have had to fight hard to claim some of that margin in the form of higher cash cattle prices and their efforts have been rewarded as cash prices rose from lows around $106/cwt in mid-October to $111/cwt last week. The surge in beef prices is now slowing, but there is still the potential for modest price gains in the next two weeks. Cash cattle will almost certainly work higher in the near-term as some of the packer's windfall is transferred into producer's hands.

SUPPLY PICTURE

We have commented often on the "hole" in cattle supplies that was created last March-April, when placements fell nearly 25% below year-ago levels. The market is now in the midst of that gap in supplies and cattle feeders are taking advantage of that hole by filling it in with cattle that remained backlogged from this summer. That has allowed cattle prices to rise rather than be burdened by the remaining backlog. The backlog should be nearly gone now and will have much less influence on the market in the weeks ahead. Fed kills dipped down to around 508,000 head per week in October, but rebounded to about 516,000 head per week in November. With huge margins, packers will be incentivized to keep growing the fed kill during December, although we doubt the supply of market-ready cattle is large enough to take the fed kill beyond about 525,000 head per week in December's non-holiday weeks. As the calendar turns to 2021, the hole in cattle supplies as well as the backlog will be things of the past. In January and February, the market will have to deal with growing numbers of market-ready cattle created by strong placements last summer. Given that beef supplies will be ample and Q1 typically sees depressed demand, price levels are likely to soften considerably in the Jan/Feb period.

Another artifact of the plant shutdowns last spring was extremely high carcass weights. However, as the backlog nears its end, so does the problem caused by excessive weights. Steer carcass weights were reported up only 18 pounds over last year in the second week of November, after being as much as 52 pounds over last year back in May. Carcass weights appear to have made their

jsferraro.com | 130 Adelaide Street West, Suite 810 Toronto, Ontario M5H 3P5 | 416.306.8788

Steer carcass weights are **now only 18 pounds** over last year, **after posting a 52 pound** increase last spring

seasonal top in the third week in October and should continue on a downward trajectory until late April or early May. This reduction in the YOY carcass weight gap occurred even though the weather in cattle country has been mild and conducive to strong weight gains so far this fall. It is still too early to rule out a harsh winter however, and should such a weather pattern develop in Dec/Jan, it would rapidly lower weights and likely bolster cash cattle and beef prices. This is the time of year where it is critical that buyers keep a close eye on the weather in the Plains States in order to not get caught short-bought should a weather market start to develop.

USDA, in their most recent issue of *Cattle on Feed*, reported October placements down 11% from last year. Further, there is evidence that placements during November were lower as well, perhaps down 5-10%. These are cattle that will begin to come to market in the spring and thus we are setting up for tight supplies early in Q2 after working through the bulge in supplies that will come in Q1. It is quite possible that Q2 could be the exact opposite of Q1 in terms of price levels. As spring grilling demand combines with tight cattle supplies caused by this fall's drop in placements, price levels could soar. Buyers would be wise to use the price weakness that develops in February to book spring needs at attractive prices.

DEMAND SITUATION

Needless to say, domestic beef demand is quite strong at the moment as buyers work to fill their remaining needs in the few weeks prior to Christmas. The price-quantity scatter diagram for November tells an interesting story (see **Figure 2**). Per capita consumption this November and for the past three Novembers has been essentially the same at 6.94 pounds per person. The blended cutout during 2018 was stronger than 2017 and 2019 was way stronger than 2018. Now, 2020 falls just below the level of demand that we saw last year, making it the second highest November demand in the past four years. If we also consider that all of the past four years have seen strong demand relative to the years that preceded them, the demand reading for November 2020, looks very impressive amid a pandemic that has a large chunk of the foodservice sector sidelined. As we look ahead, it is important to recognize that domestic beef demand runs in cycles and we are very likely to see the current demand cycle turn lower sometime in late December and that trend could continue through January and February. Combine that with ample supplies during Jan/Feb that was created by large placements last spring, and the stage is set for some rather weak cattle and beef pricing in Q1.

International demand for US beef is has been very good lately. In fact, USDA's weekly export shipments for the second week in November were the highest so far in 2020. China/Hong Kong is playing a big role in expanding US beef exports and they rated as the third largest destination for US beef in the month of September. The Chinese business could pull back in mid-December due to the completion of buying for the Chinese New Year. After seriously under-performing for most of the summer, beef exports to Mexico are now back at year-ago levels, which has also helped total beef exports to recover. Export markets suffered a big blow when the pandemic began, but it now appears that most of the traditional destinations for US beef have recovered and that portends well for beef exports as we head into the new year.

SUMMARY

Retail beef buyers delayed their holiday buying much longer than normal this year due to uncertainty surrounding the pandemic, but they have now come into the market in a big way, pushing price levels sharply higher. That buying could possibly persist for a couple more weeks before it starts to dry up and push the cutouts lower. January and February are looking a lot less rosy due to large placements last summer generating ample supplies of market-ready cattle in a period of the year when beef demand is normally soft. However, a slump in placements this fall will tighten supplies just as the spring grilling period arrives in April, creating the risk of very strong pricing again this spring. Buyers should remain cognizant of this dynamic and use the price weakness in Q1 to book product for Q2 delivery. Beef demand looks excellent at present, but will likely fade as December turns into January, ushering in a period of soft pricing and ample beef availability. The risk of a weather market developing still remains and buyers should monitor that closely because should such a market develop, beef availability could be tighter than advertised in Jan/Feb. Our near-term price forecasts for cattle and beef are provided in **Table 1**.

RED MEAT OUTLOOK: CATTLE & BEEF

Figure 1: Packer Margin

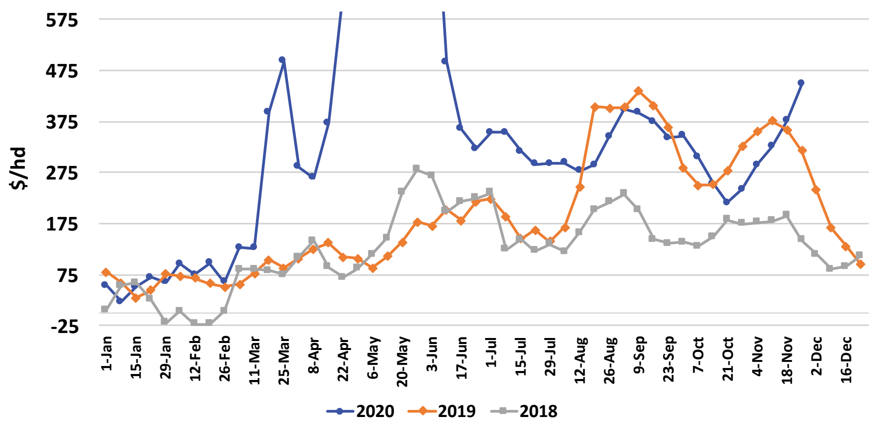

Figure 3: Blended Cutout vs. Per Capita Beef Consumption, Carcass Wt, Nov

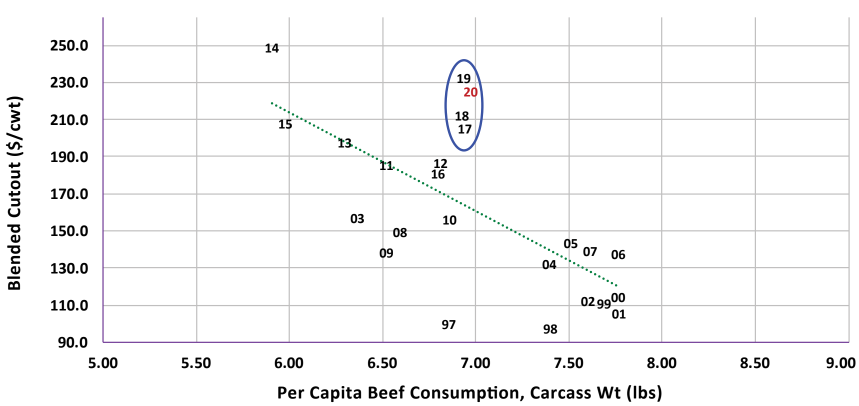

Table 1: JSF Cattle and Beef Price Forecasts

	9-Dec	16-Dec	23-Dec	30-Dec	6-Jan	13-Jan
Choice Cutout	232.0	222.4	214.6	208.8	206.2	205.7
Select Cutout	214.8	206.6	203.2	199.2	197.0	196.2
Choice Rib Primal	424.0	392.0	365.0	338.2	330.3	327.1
Choice Chuck Primal	202.2	191.0	183.0	178.2	176.2	175.1
Choice Round Primal	191.2	187.4	182.9	178.8	178.0	181.0
Choice Loin Primal	284.7	277.0	271.2	268.9	265.0	262.1
Choice Brisket Primal	158.1	160.0	160.7	160.2	160.9	162.2
Cash Cattle	113.3	111.6	110.0	109.3	108.8	110.3

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.