

WEBINAR

# Q1 BIG PICTURE OUTLOOK

Preparing for an Uncertain Future

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HOSTED BY: J.S. Ferraro

DATE: January 20, 2021



J.S. FERRARO



# ABOUT J.S. FERRARO



J.S. FERRARO

Providing **market intelligence, risk management and meat procurement solutions** for the meat and livestock industry.



An integrated sustainable food brand committed to creating the ***best-tasting fresh protein*** experience.

# SPECIAL GUEST PANELIST | KEVIN BOST



## KEVIN BOST

Analyst

Procurement Strategies Inc

[www.procurementstrategiesinc.com](http://www.procurementstrategiesinc.com)



Kevin Bost is a meat and livestock expert with more than four decades of experience. With a Bachelor's Degree in Agricultural Economics from the University of Arkansas and a Master's Degree in Agricultural Economics from the University of Illinois he has dedicated his life to understanding meat operations within wholesale, retail and restaurant segments.

He entered the business as a commodities broker in 1981, and moved on to serve as Agricultural Economist for USDA's Economic Research Service; as Director of Procurement Strategy for a nationwide cooperative of supermarket chains and distributors; and as Director of Supply Chain Management for one of the largest restaurant companies in the U.S.

# PANELIST | DR. ROB MURPHY



## **DR. ROB MURPHY, BS, MS, PhD Agri Economics**

Executive Vice President, Research and Analysis

J.S. Ferraro

[www.jsferraro.com](http://www.jsferraro.com)



An agricultural economist and business leader with over 27 years in the industry, Dr. Rob Murphy has a wealth of experience in the North American meat and livestock industries studying, analyzing and predicting market movements. His expertise spans commodity analysis, econometric modelling, forecasting, futures markets, hedging, and risk management.

Rob holds a Ph.D. in Agricultural and Applied Economics from Virginia Tech and has developed his market expertise over the past three decades by serving as an economist with the Chicago Mercantile Exchange, Sparks Companies and Informa Economics.

At Informa, Rob held two senior leadership roles (Senior VP of Livestock, Meat, Dairy and Poultry group and Vice President) over 13 years. He focused on the development of risk management programs and directed the division's work in commodity analysis in the protein sector. He has spoken internationally on many topics, including agri supply chain-development and international protein demand.

Currently, Rob is the Executive Vice President, Research and Analysis at J.S. Ferraro & Co. leading the team in commodity analysis, financial modelling, and the development of trading and risk management strategies.

# PANELIST | KEVIN GRIER



## KEVIN GRIER

Market Analyst

Kevin Grier Market Analysis & Consulting

[www.kevingrier.com](http://www.kevingrier.com)



Kevin Grier is a noted Canadian Agriculture & Food Market Analyst providing economic and market outlook for livestock, meat and grocery industries over the last 20+ years. His critical market insight and analysis helps his clients - from government and producer groups to small to large businesses - drive profitable bottom line decisions.

Kevin is a regular contributor and respected expert across media platforms throughout North America - Global News, CTV, National Post, Globe & Mail, National Hog Farmer and Grocery Business. Kevin speaks with clarity on a range of topics including market analysis, economic impacts, consumer trends and commodity analysis. He provides regular commentaries on the market and is a national and international keynote speaker known for his approachable yet pragmatic style.

His breadth of knowledge was developed over 18 years at the George Morris Centre, a leader in economic research in the agriculture and food industry. Prior to that Kevin was a manager with the Ontario Farm Products Marketing Commission, the supervisory body of the provincially regulated marketing boards. Currently, Kevin is Principal of Kevin Grier Market Analysis and Consulting, a company specializing in livestock, meat, poultry and grocery industry market insight and analysis working across a breadth of organizations internationally.

# DISCUSSION OUTLINE

## 1. MARKET OUTLOOK | CATTLE & BEEF

- US Beef Market – Kevin Bost
  - Canadian Market
- 

## 2. MARKET OUTLOOK | HOGS & PORK

- US Market
  - Canadian Market
- 

## 3. LIVE Q&A

# HOUSEKEEPING



Use the **side-by-side view** to easily see the speakers and presentation



Participants video and **microphones will be muted** for the presentation



Questions can be submitted within the **Q&A box at the bottom** of your screen



Technical questions can be submitted using the **CHAT box** at the bottom of the screen. Contact **HELP & SUPPORT** participant

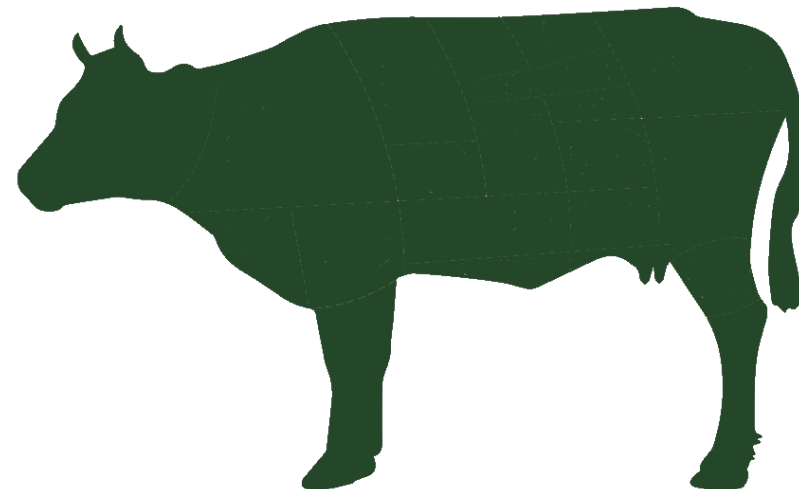
# Q1 BIG PICTURE MARKET OUTLOOK

## BEEF | US

- BEEF DEMAND & BEEF PRICES

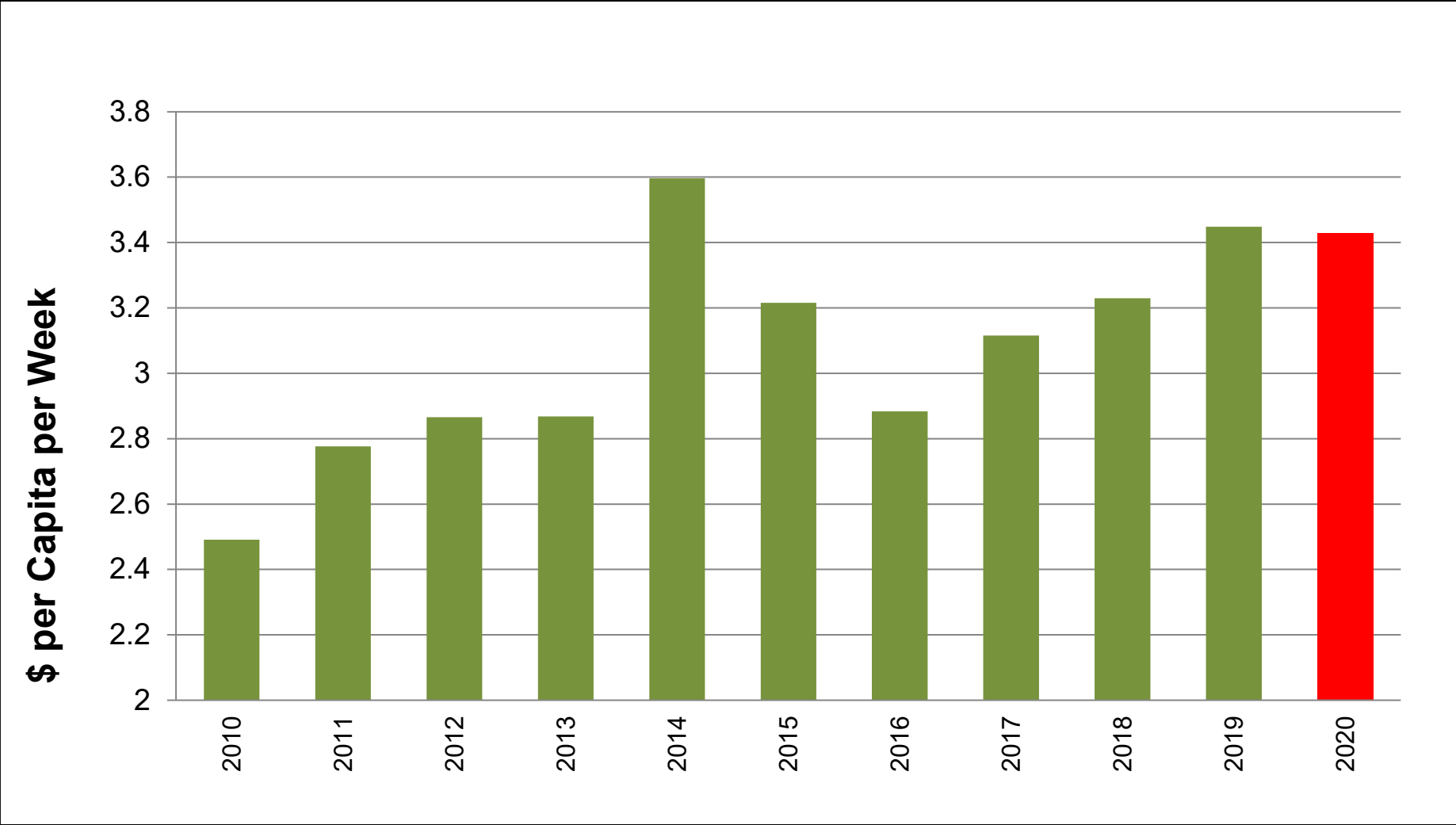


**KEVIN BOST**  
ANALYST  
Procurement Strategies Inc.





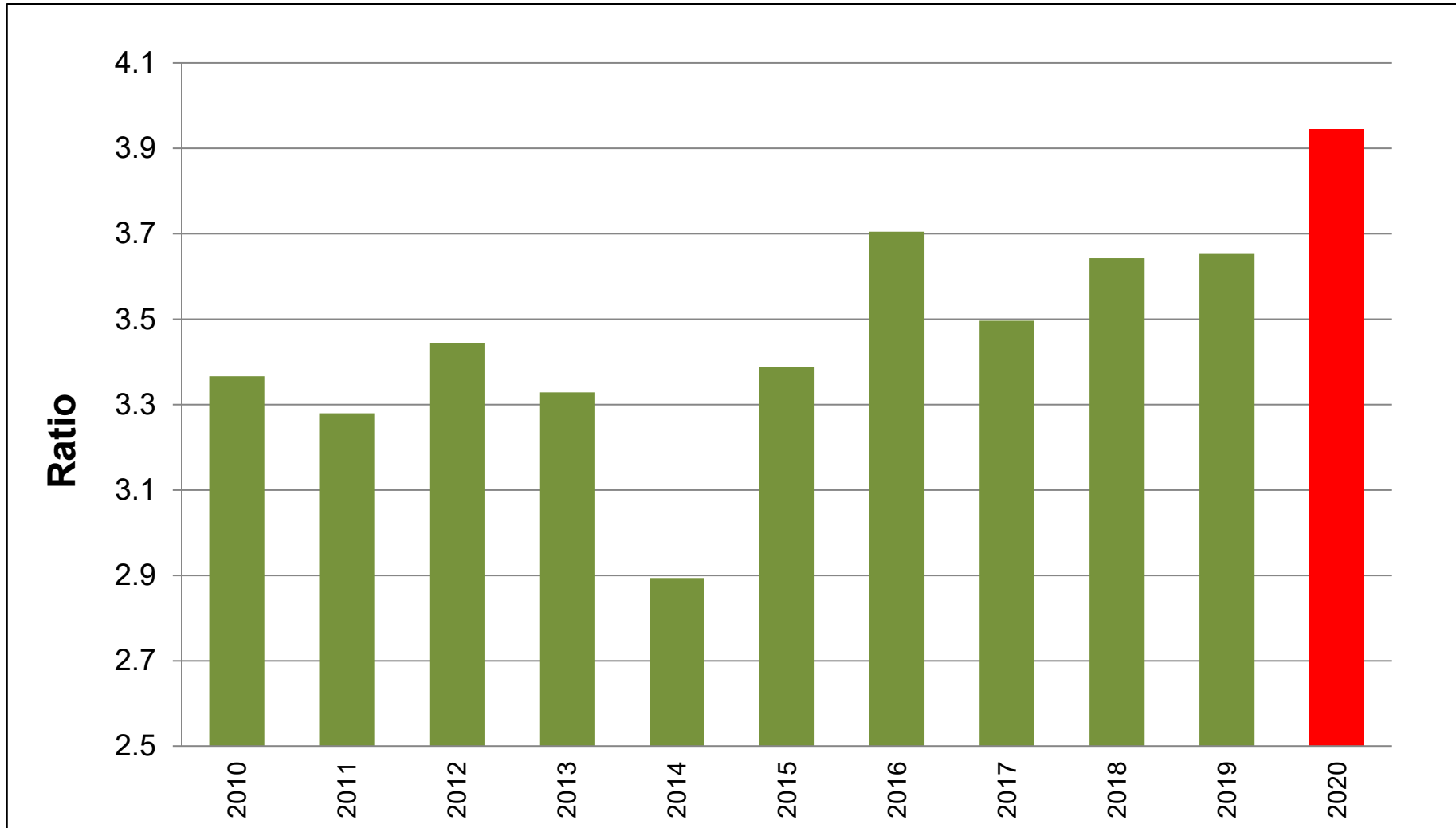
# Wholesale Beef Expenditures July - December



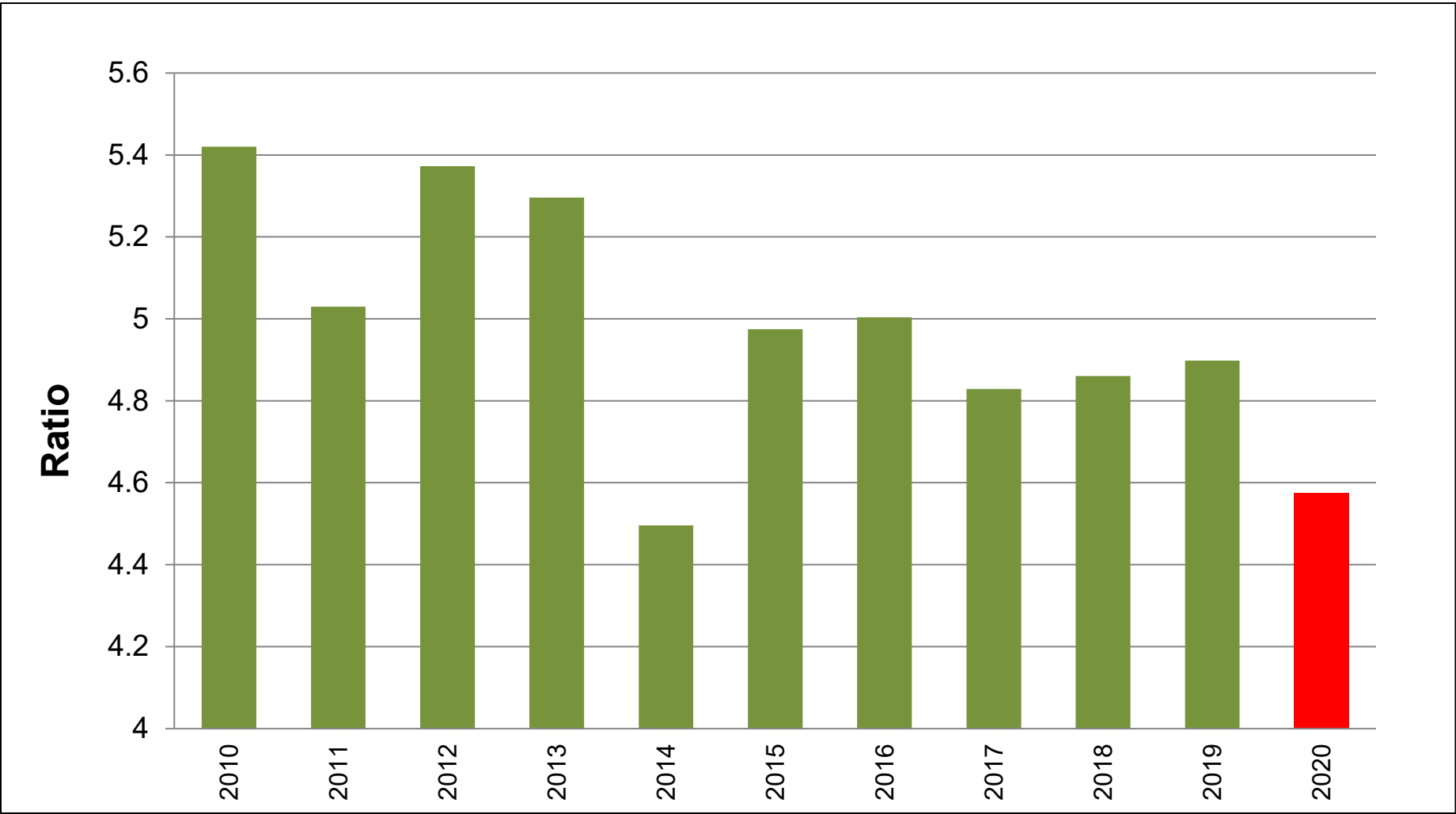
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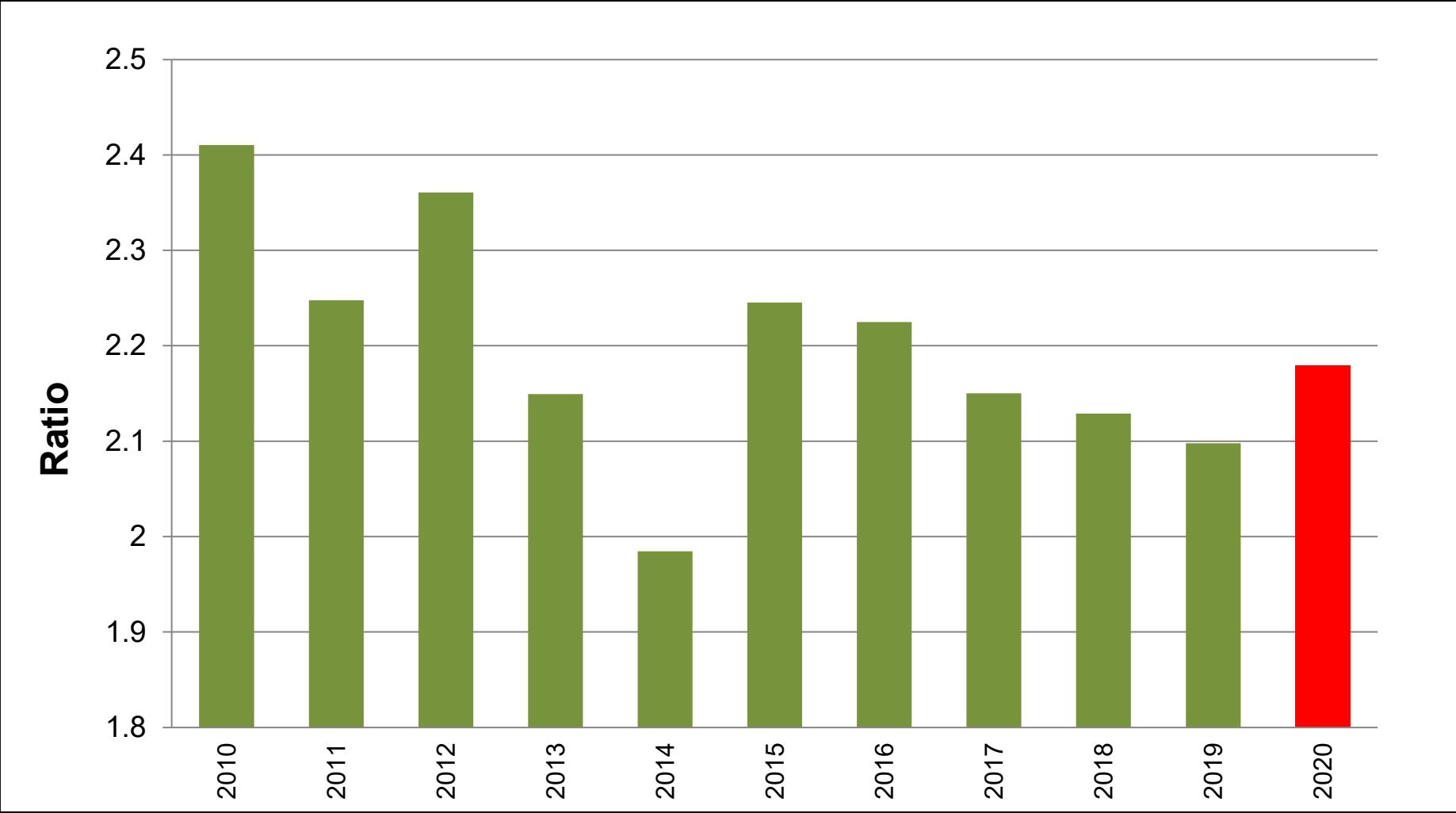
# Choice Ribeyes ÷ Choice Cutout Value July - December



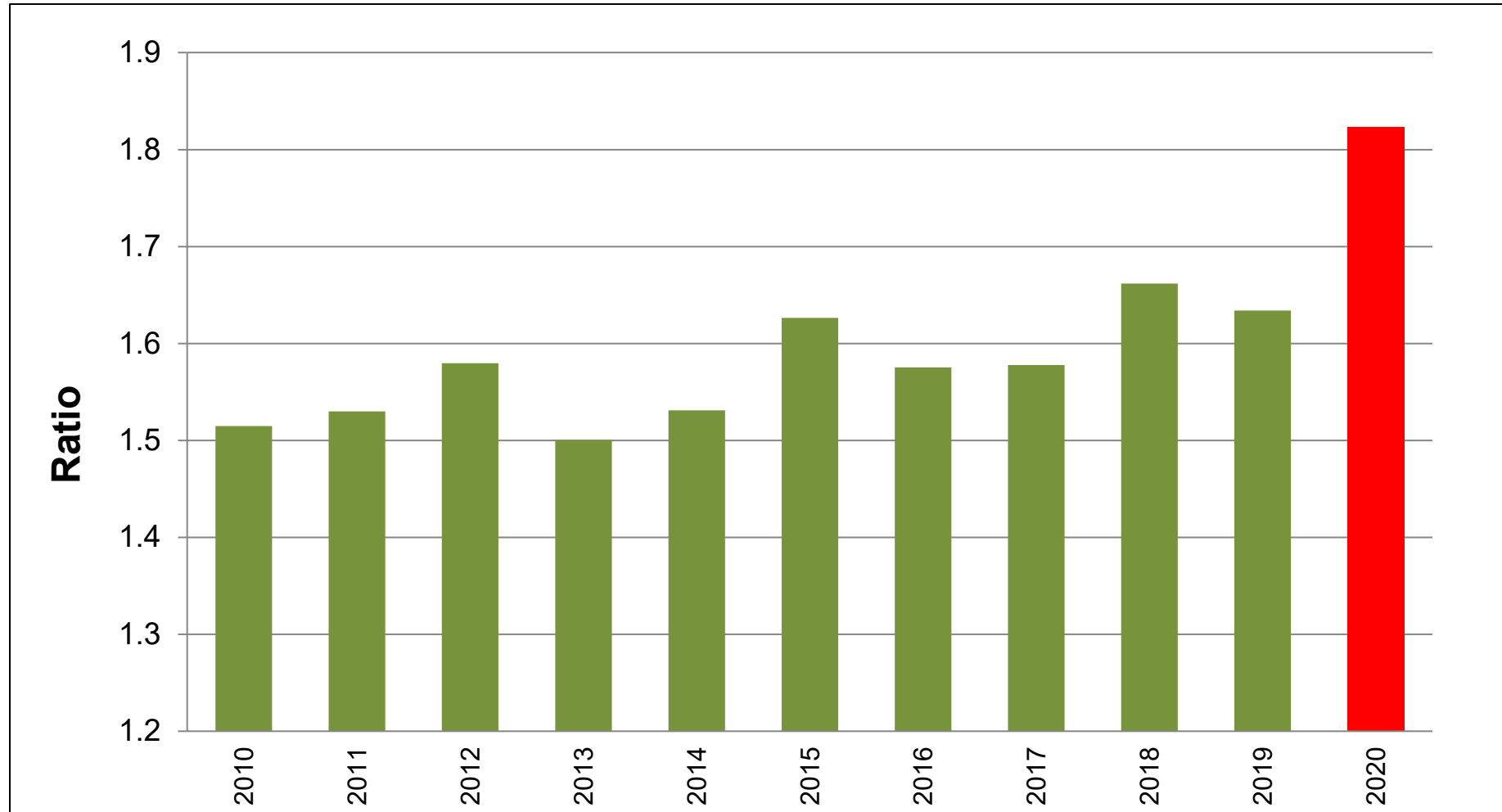
# Choice Tenderloins ÷ Choice Cutout Value July - December



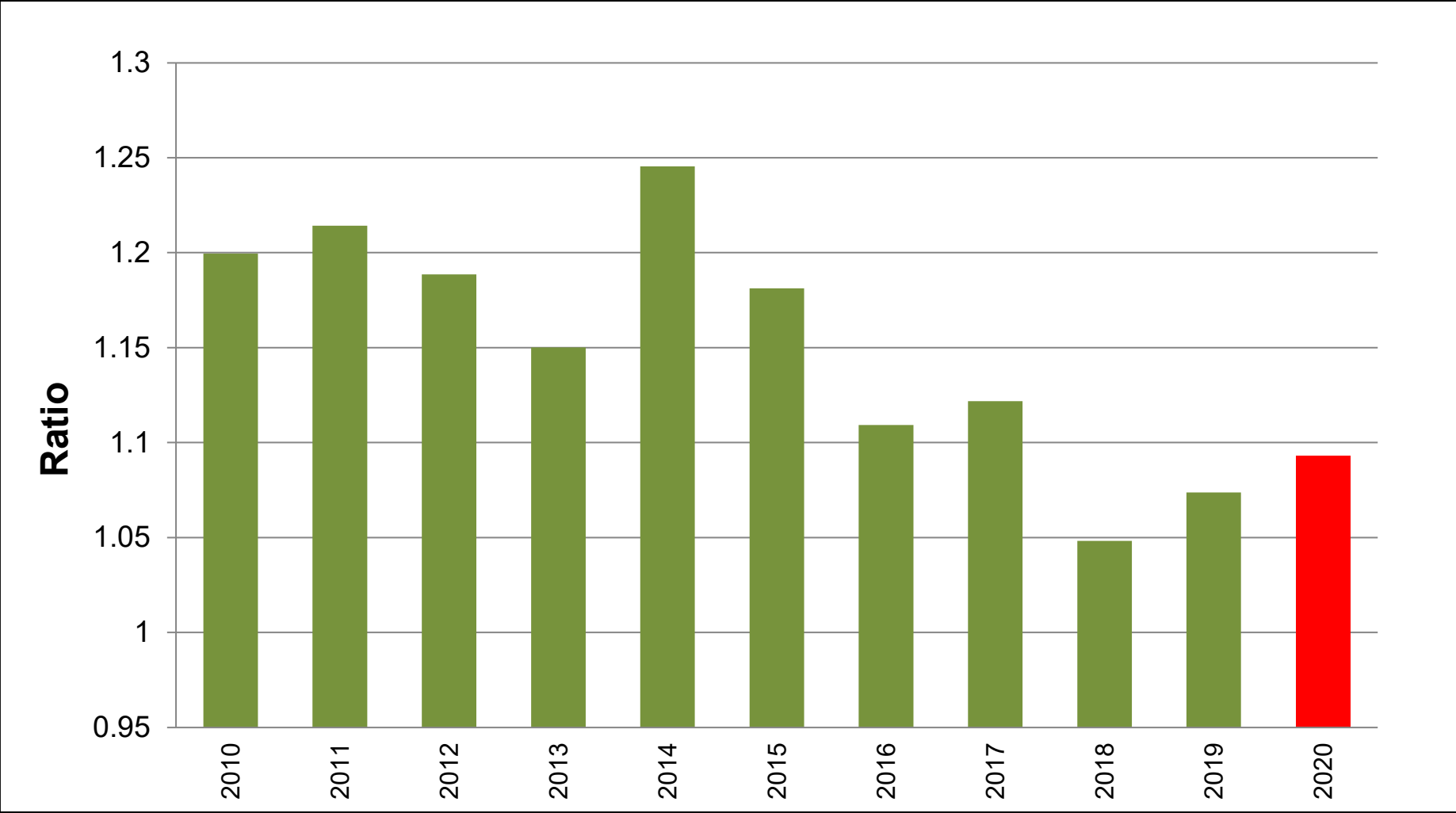
# Choice Loin Steaks ÷ Choice Cutout Value July-December



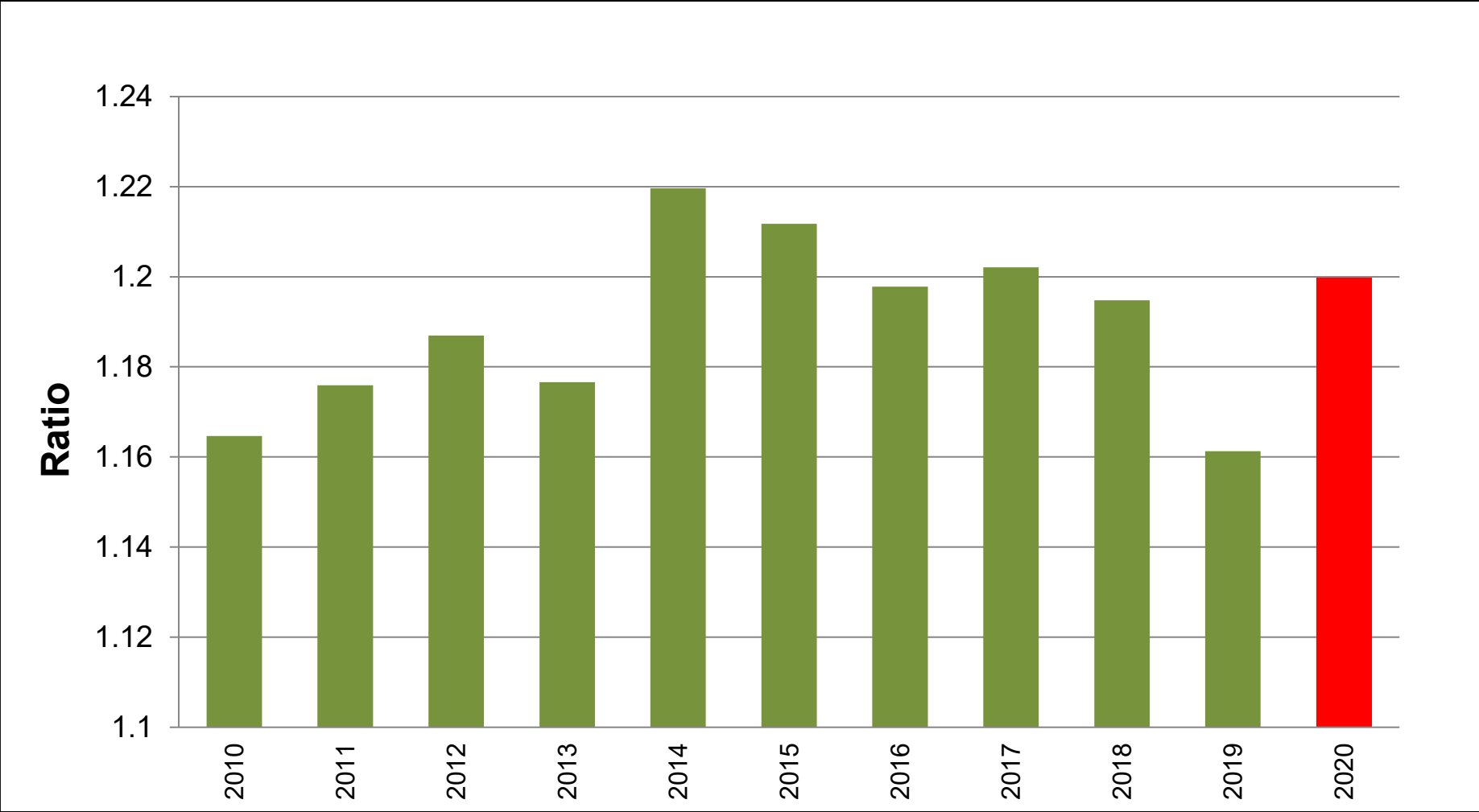
# Choice Bottom Sirloin Cuts ÷ Choice Cutout Value July-December



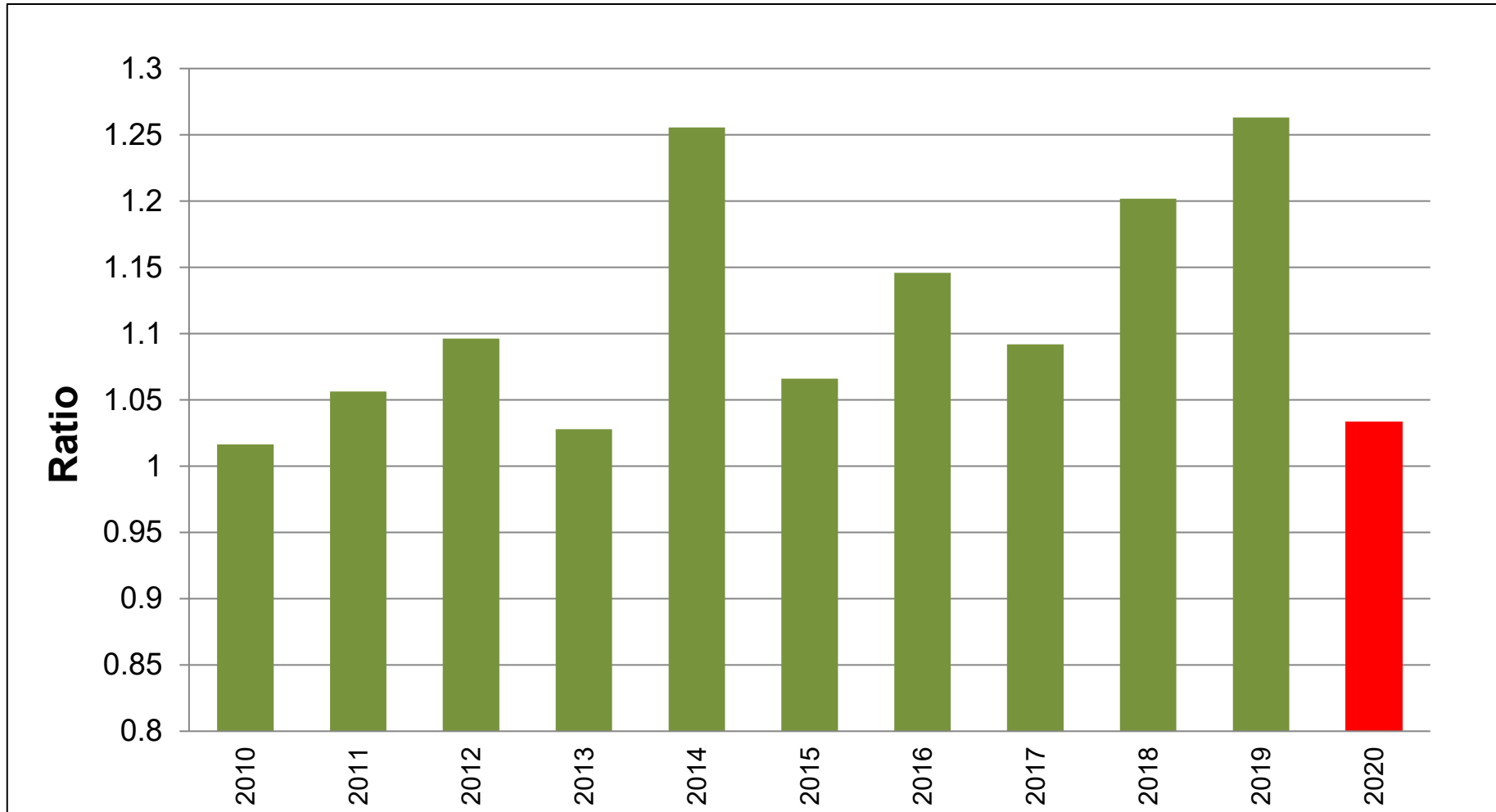
# Choice Round Cuts ÷ Choice Cutout Value July-December



# Choice Chuck Cuts ÷ Choice Cutout Value July-December

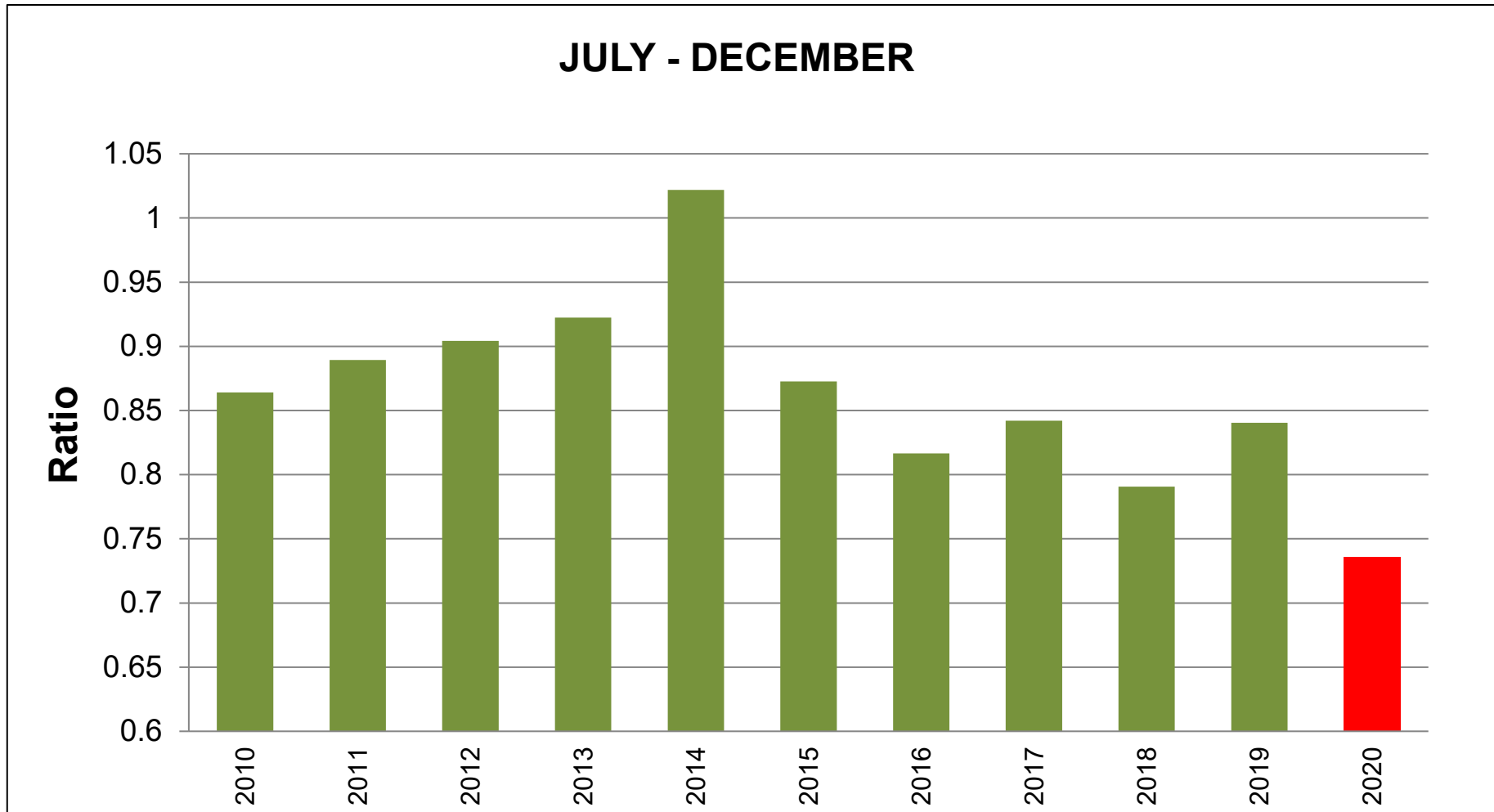


# Choice Briskets ÷ Choice Cutout Value July-December

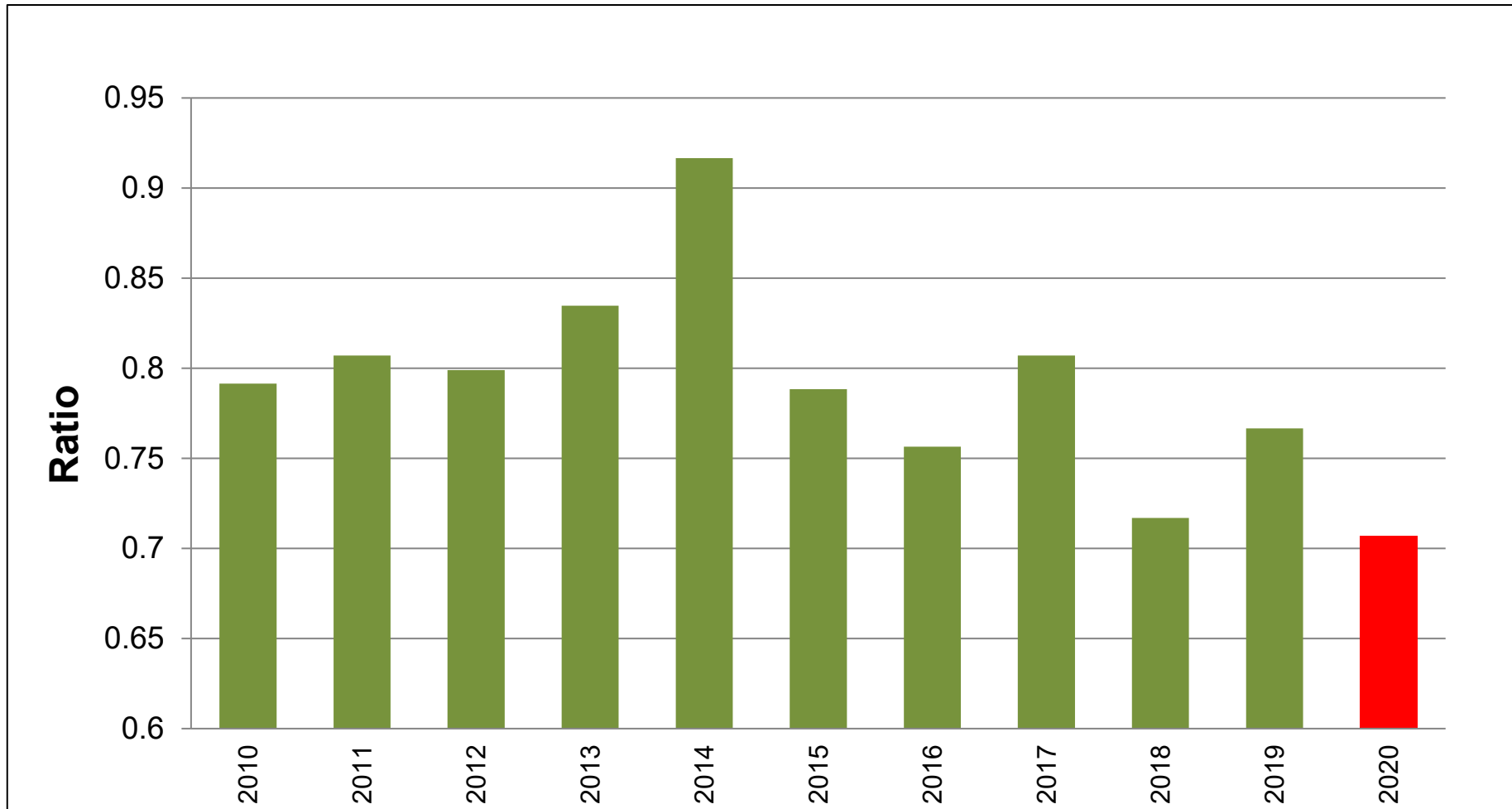




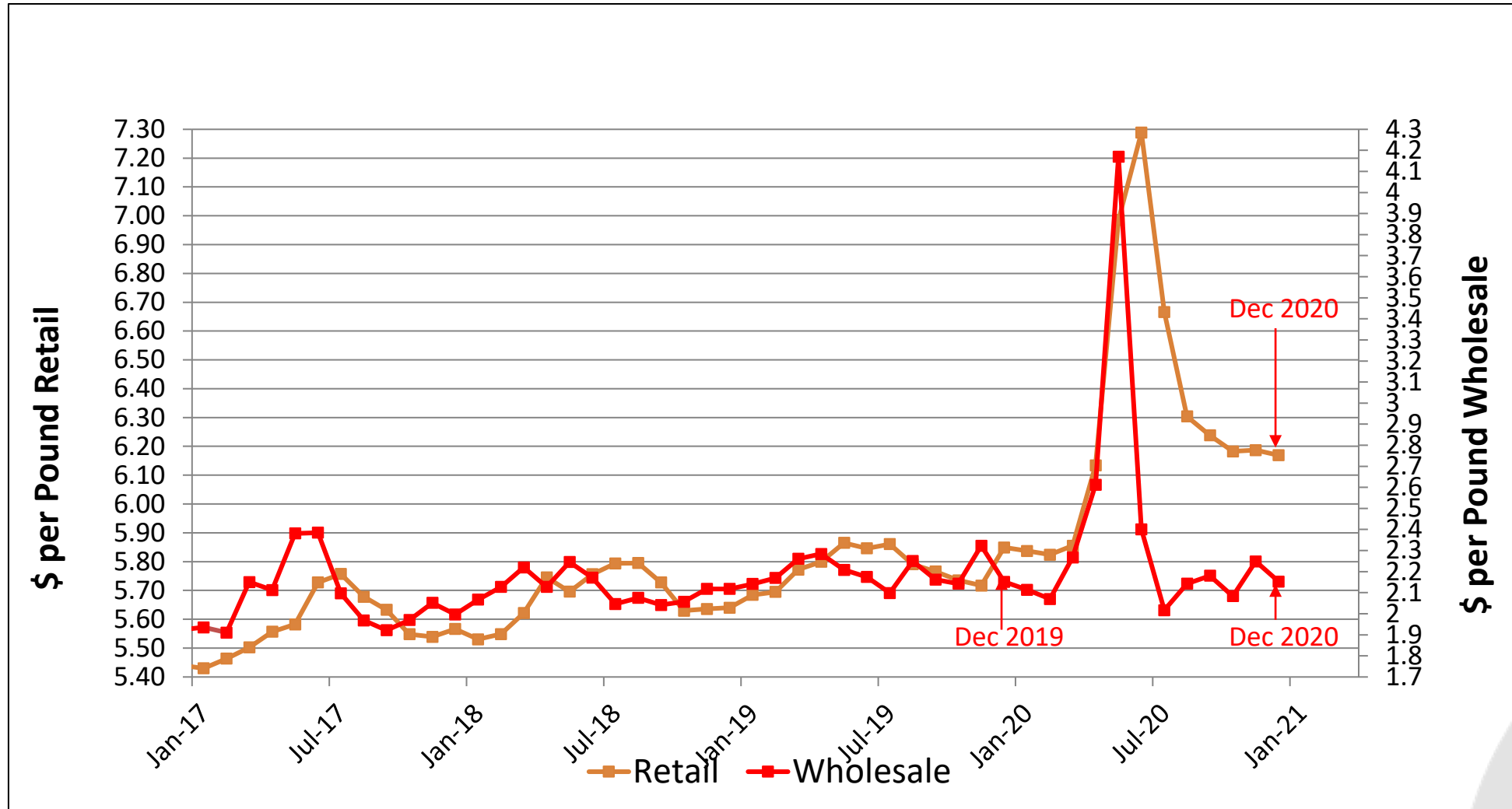
# S&H Ground Beef ÷ Choice Cutout Value July-December



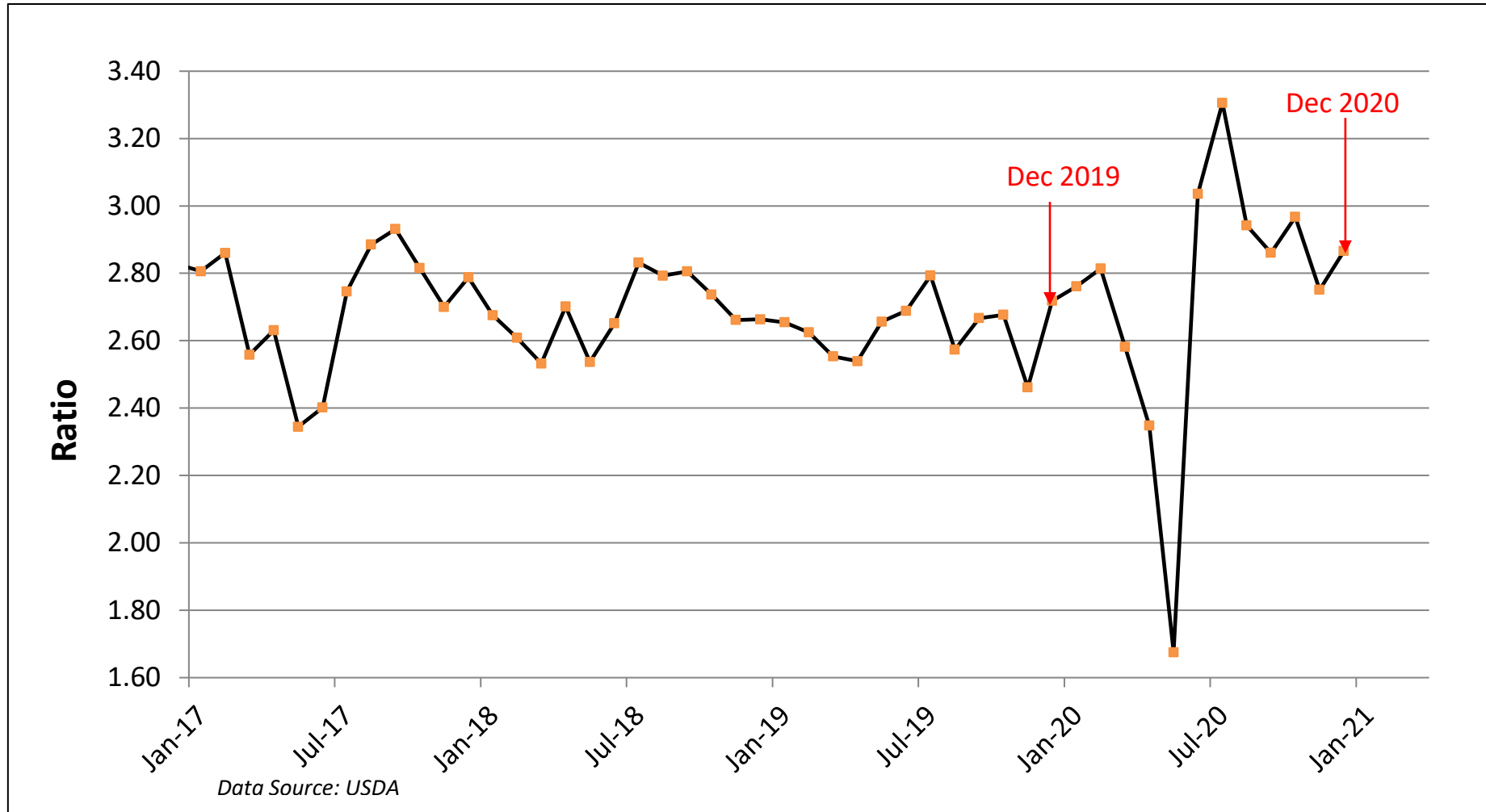
# 90/50 Blended Ground Beef ÷ Choice Cutout Value July - December



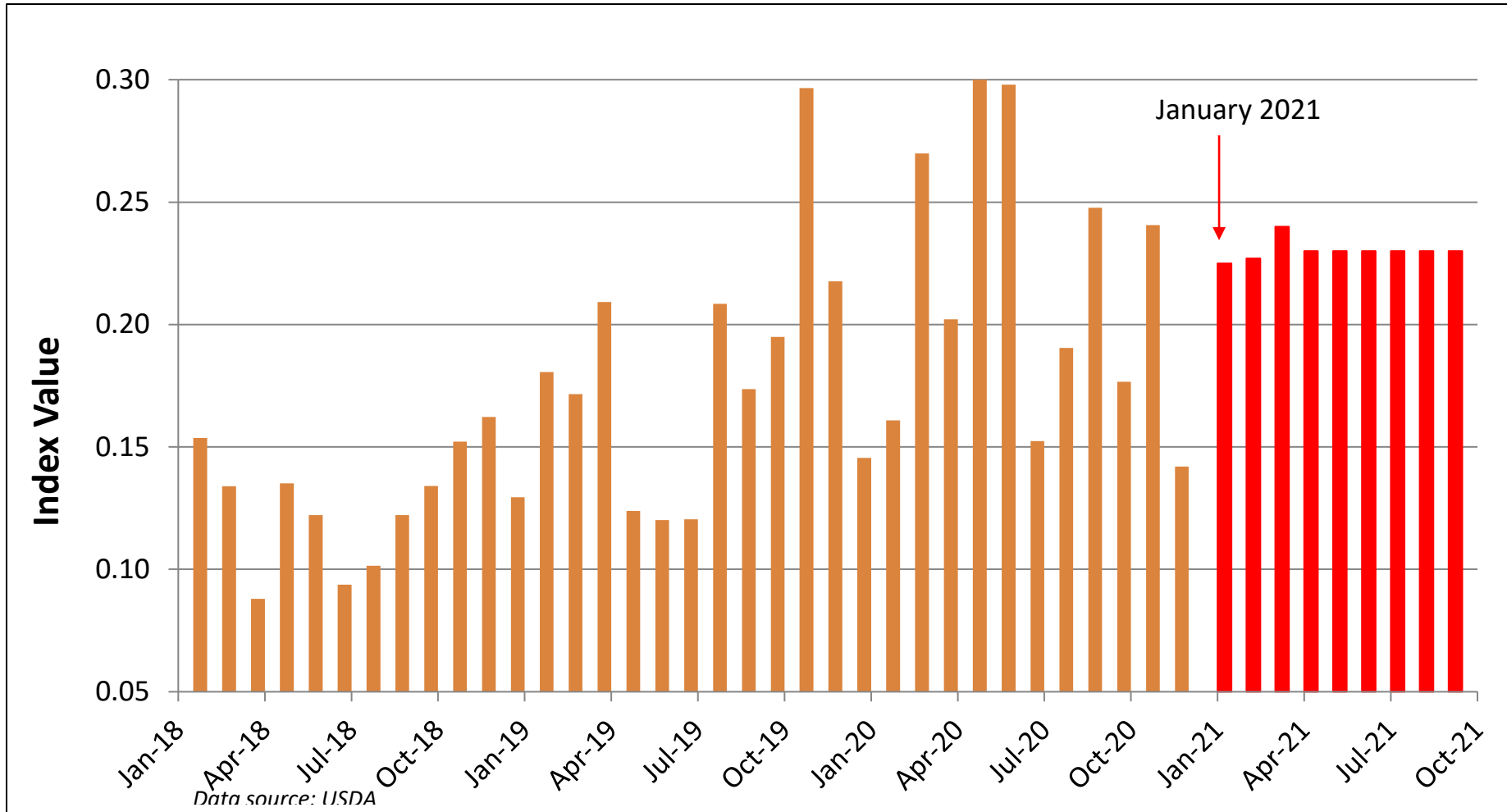
# Retail & Wholesale Beef Prices



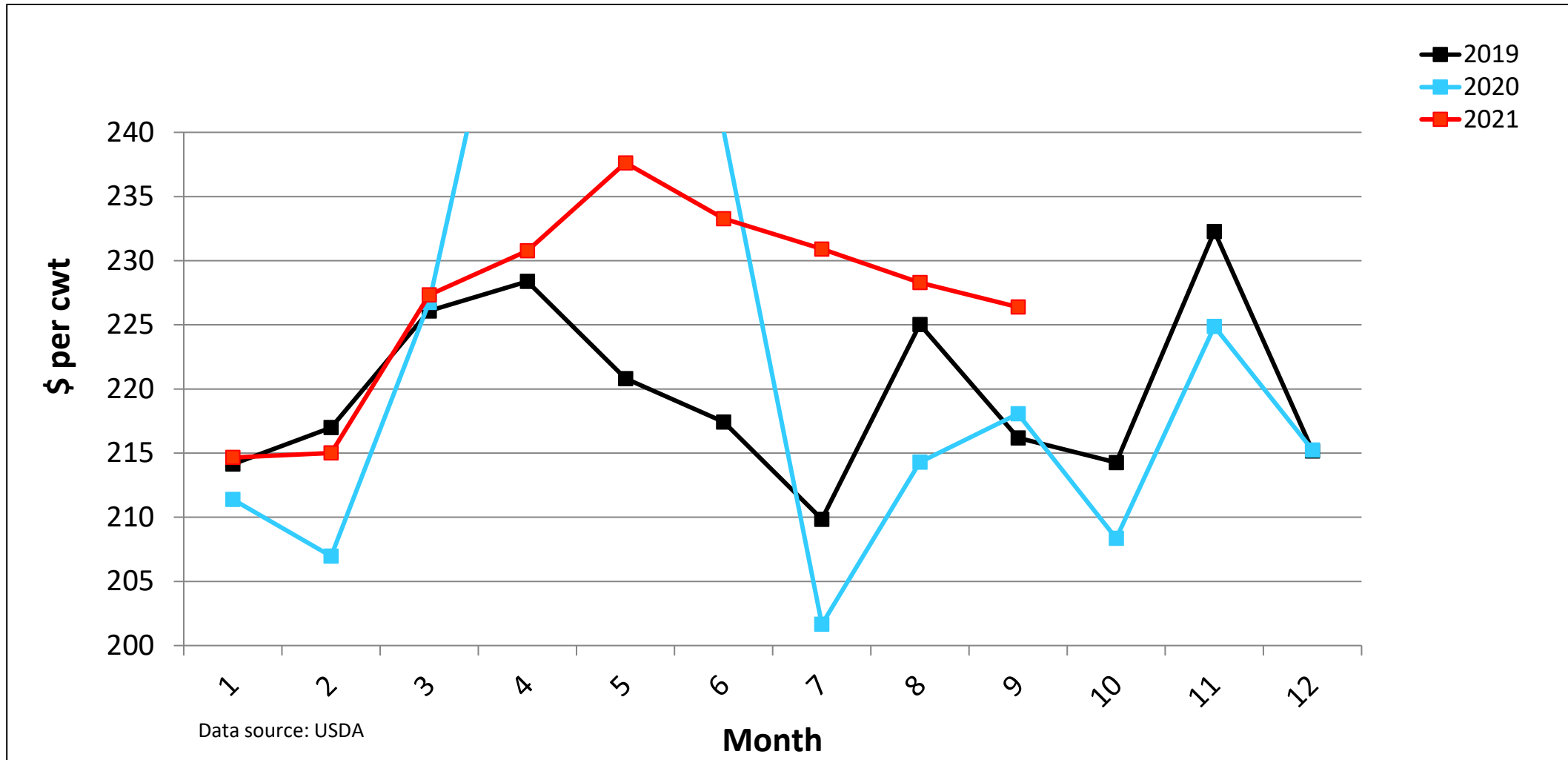
# Retail Beef Prices ÷ Wholesale Beef Prices



# Wholesale Beef Demand Index (Seasonally Adjusted, Domestic Only)



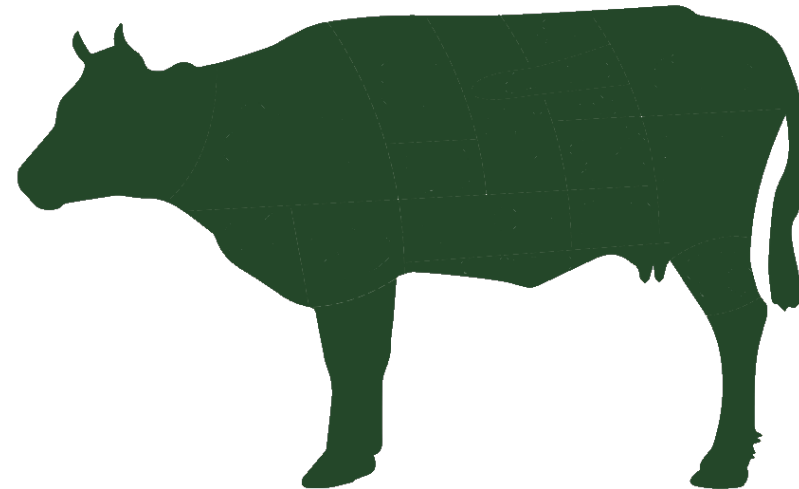
# Combined Choice/Select Cutout Value



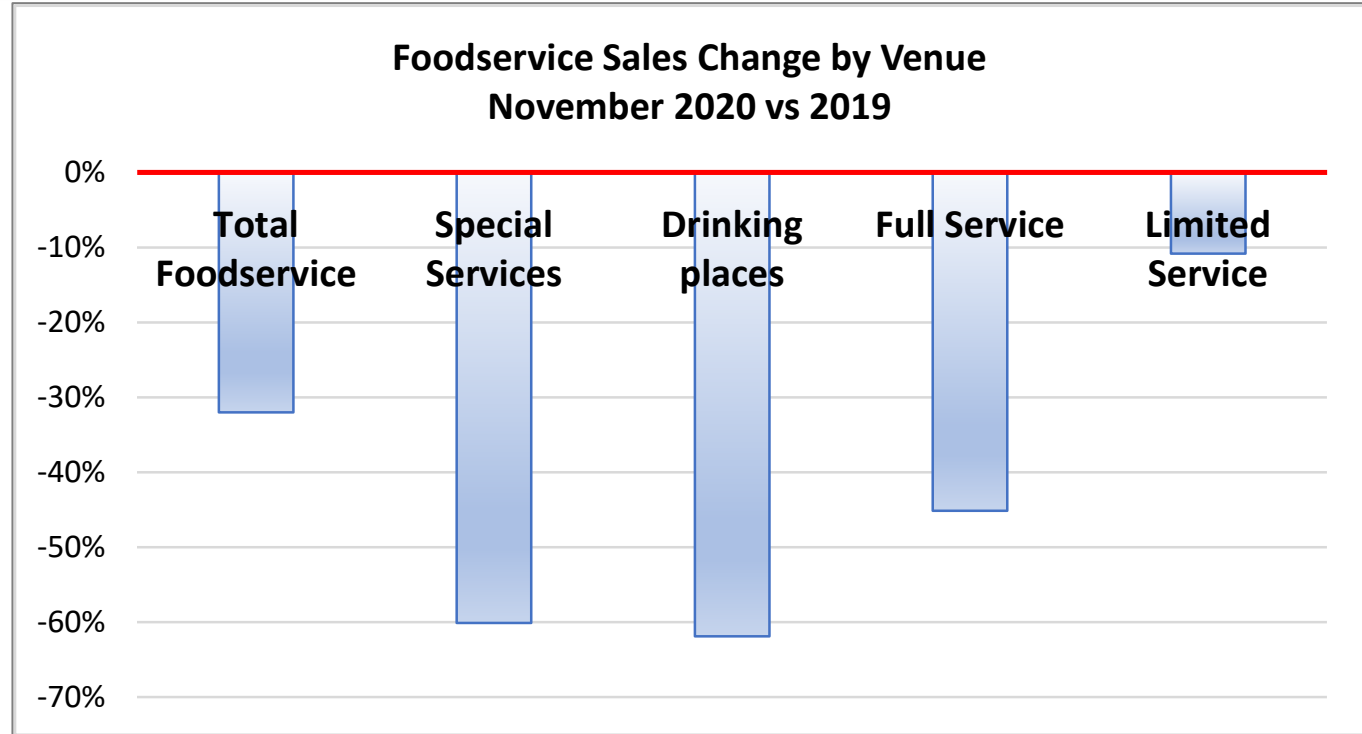
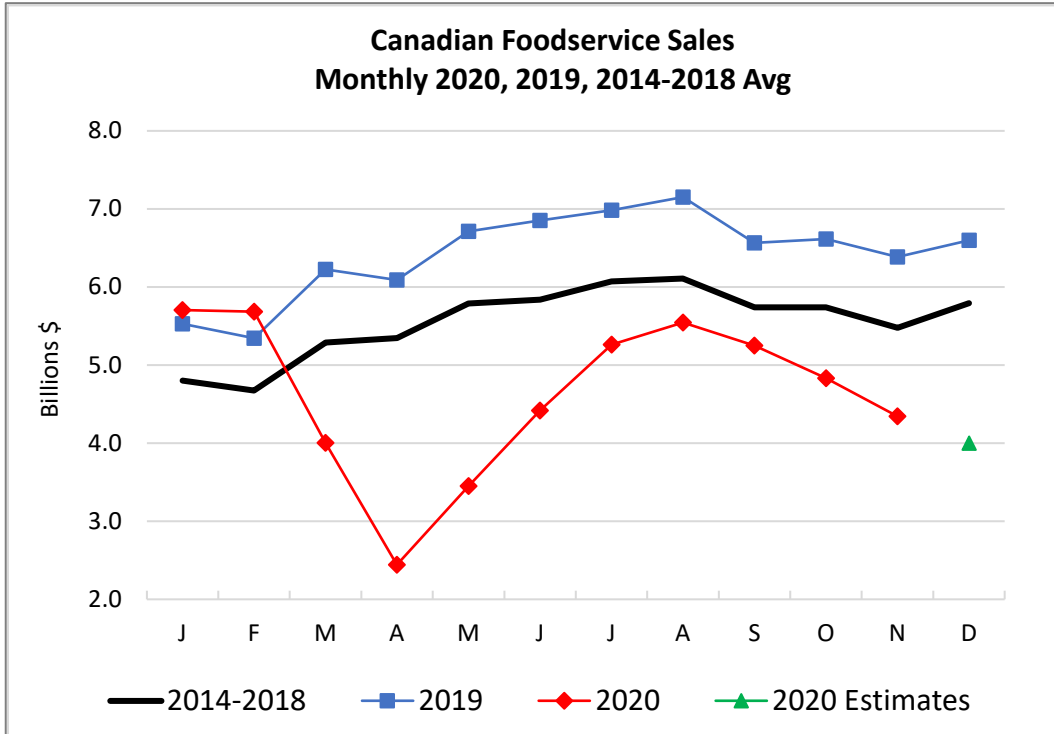
# Q1 BIG PICTURE MARKET OUTLOOK

## CATTLE & BEEF | CAD

- CHANNEL UPDATES
- SUPPLY, DEMAND & PRICING
- INSIGHTS



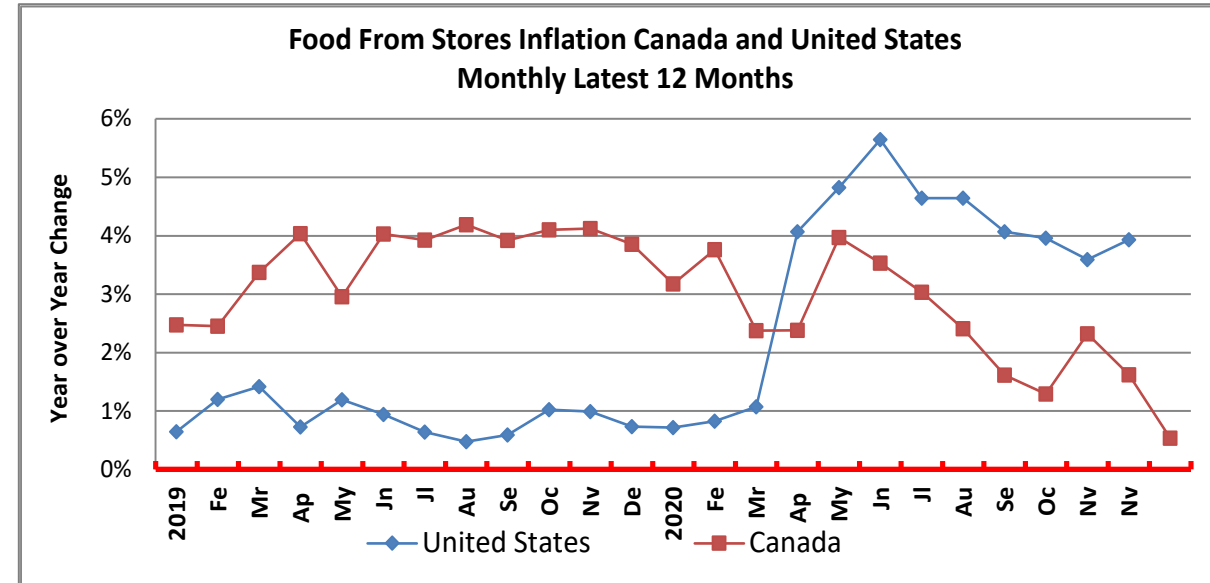
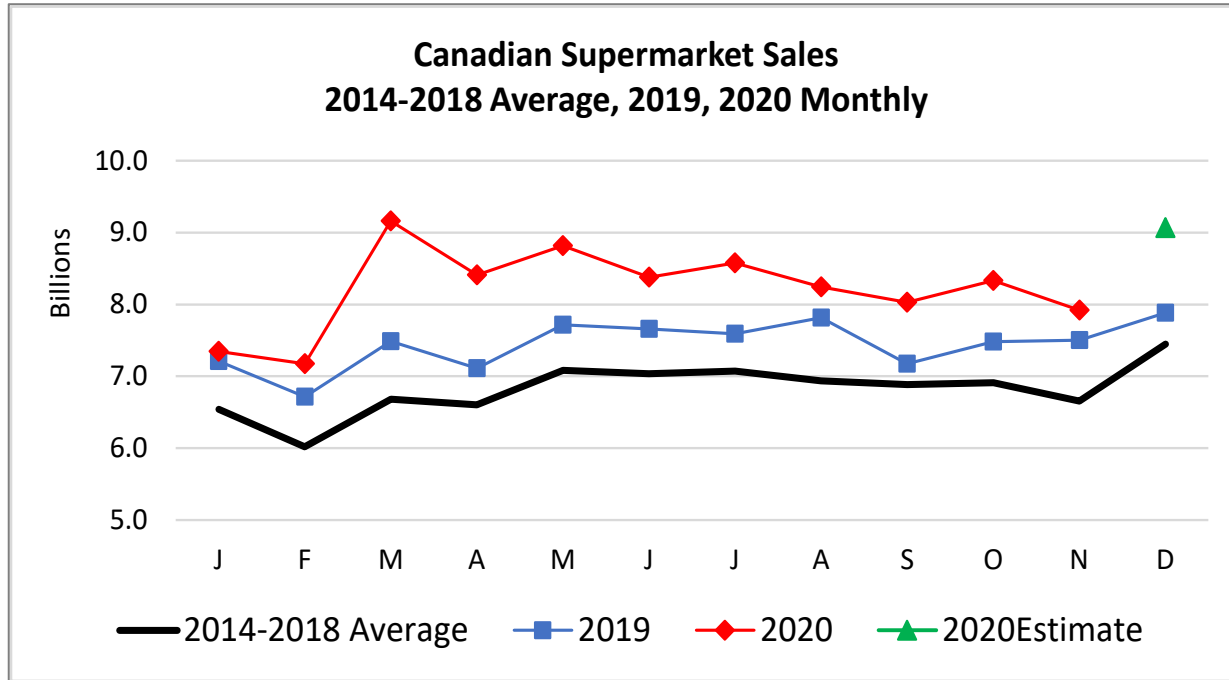
# Foodservice Update



- Foodservice tanking hard again
- New lockdowns sales back to April 2020 levels?

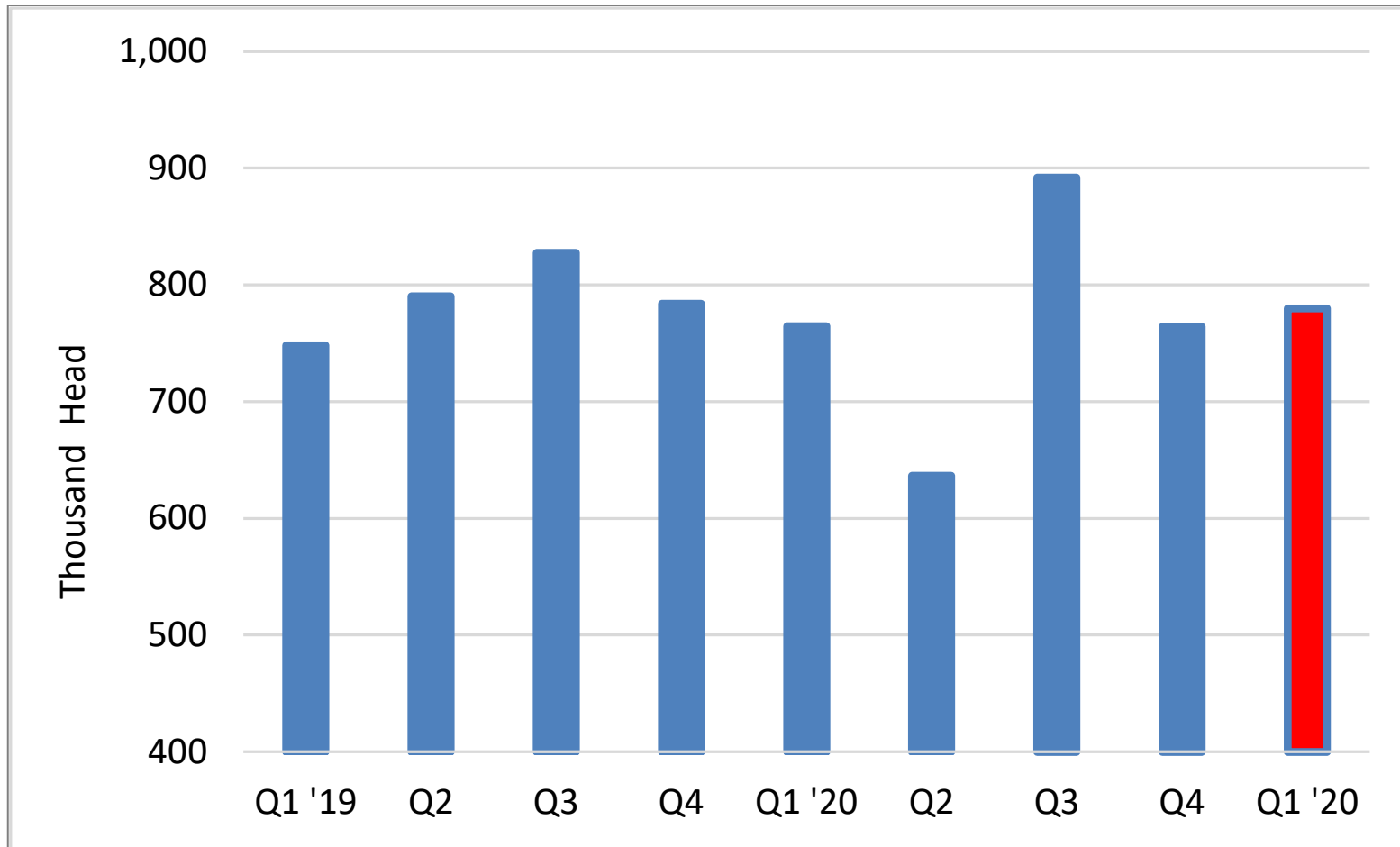


# Supermarket Update



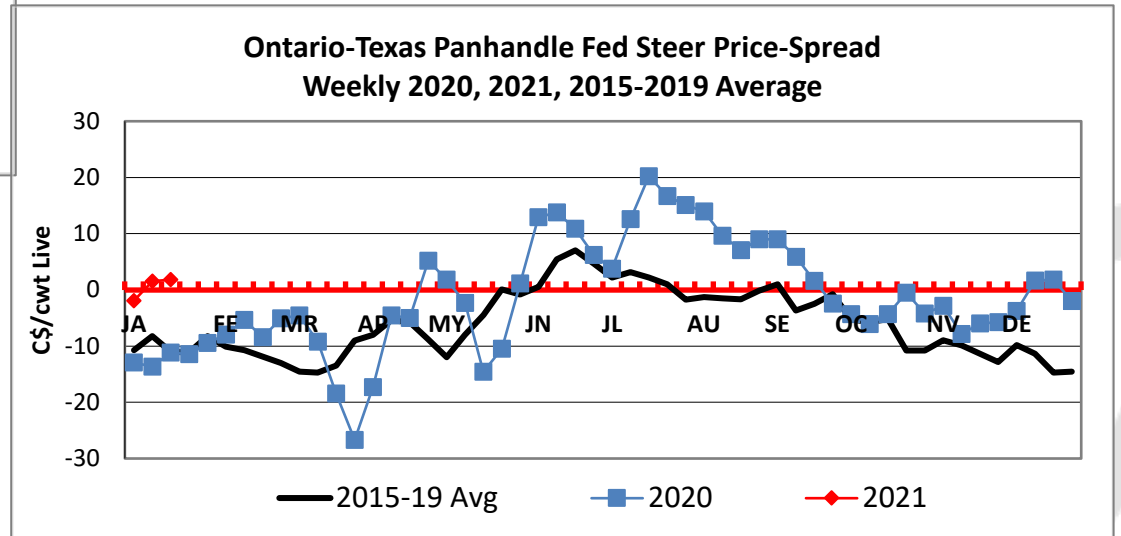
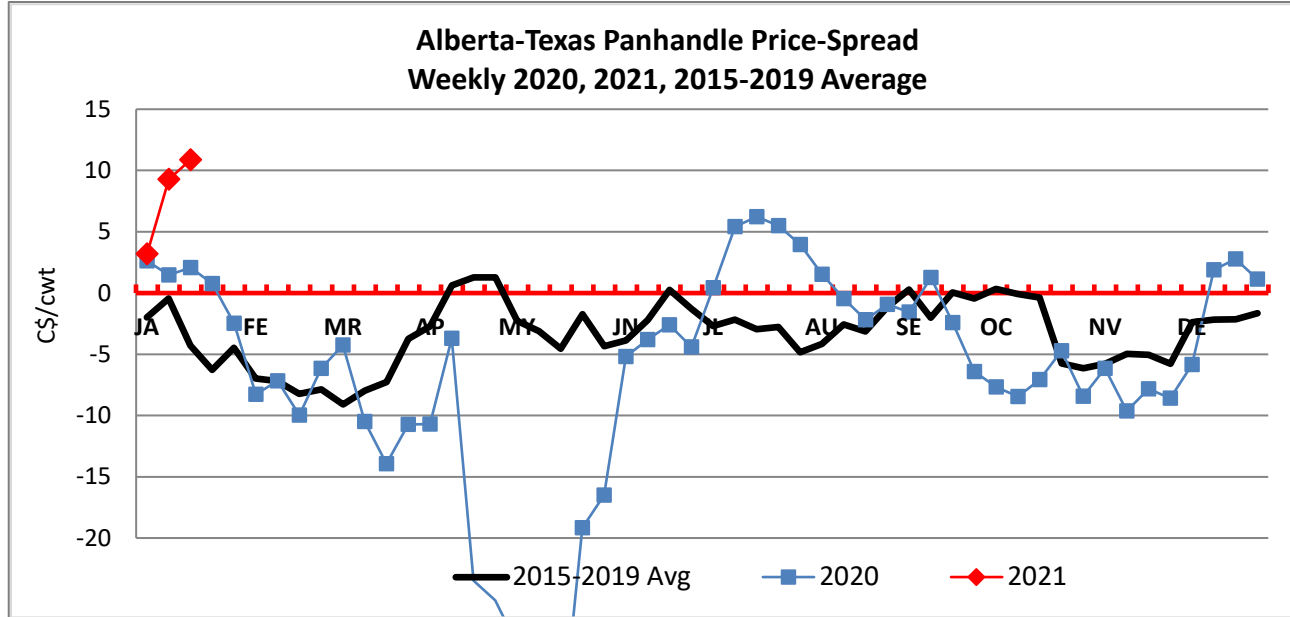
- 10-15% boost in retail sales
- Food price inflation Canada vs. U.S. major difference

# Cdn Quarterly Cattle Slaughter 2018-2020

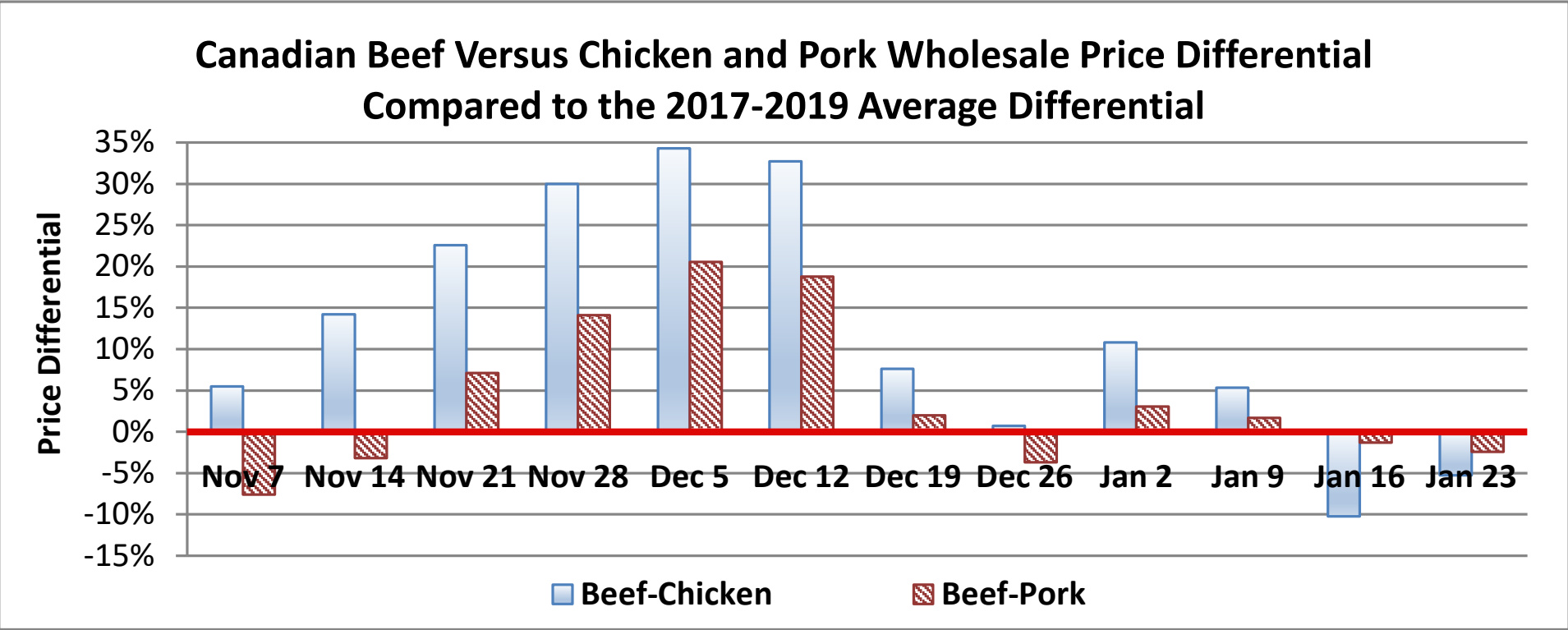


- Q4 down 2.5%
- 2020 down 3%
- Q1 ample supplies of cattle; slaughter up 2%

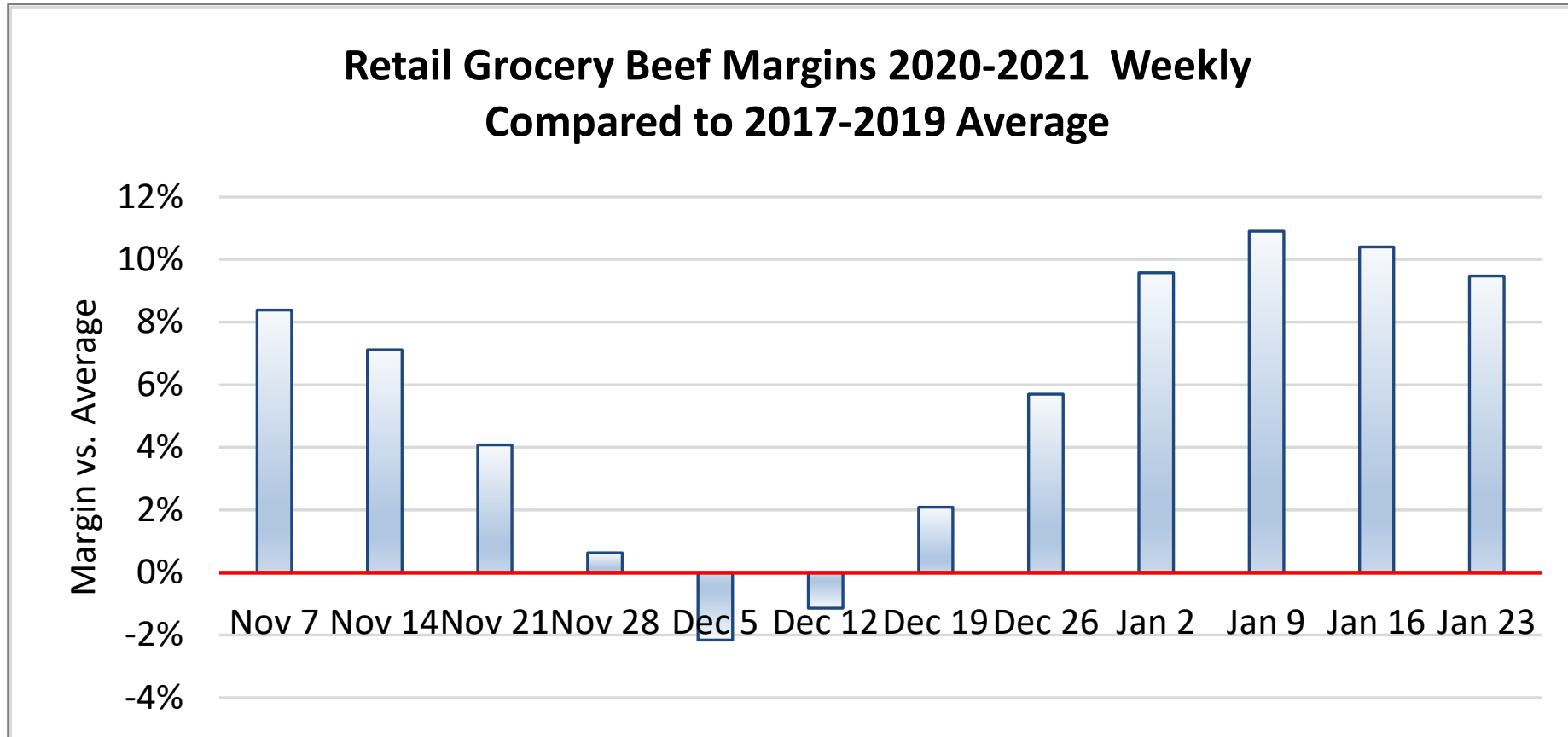
# Alberta and Ontario Steer Price Spread 2020, 2019 and 2014-2018 Avg



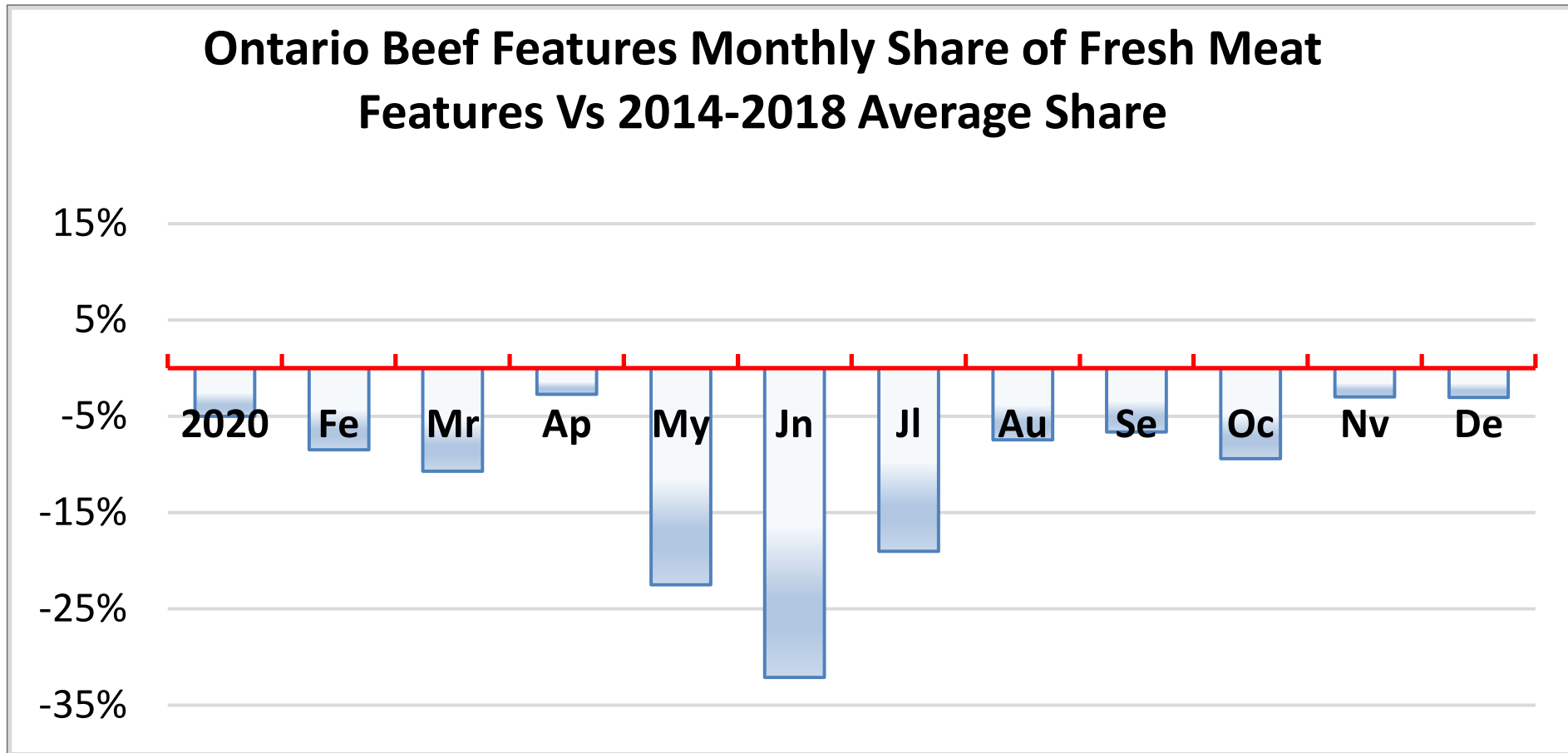
# Weekly Beef Wholesale Price Differential vs 2017-2019 Average



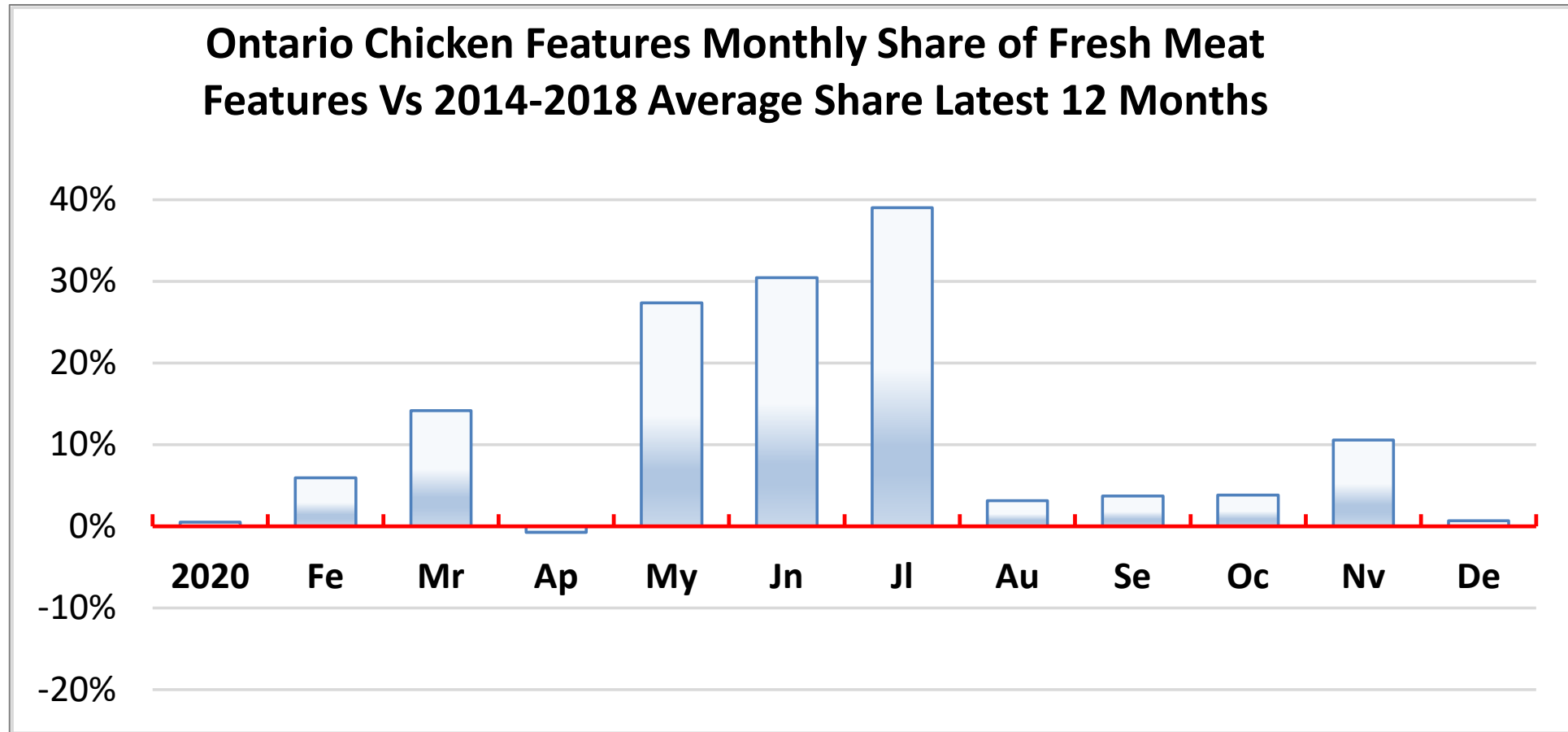
# Retail Beef Margins vs 2017-19 Average Latest 12 weeks



# Ontario Beef Feature Share Monthly vs 2014-2018 Average



# Ontario Chicken Feature Share Monthly vs 2014-2018 Average



# INSIGHTS: Beef Summary Points



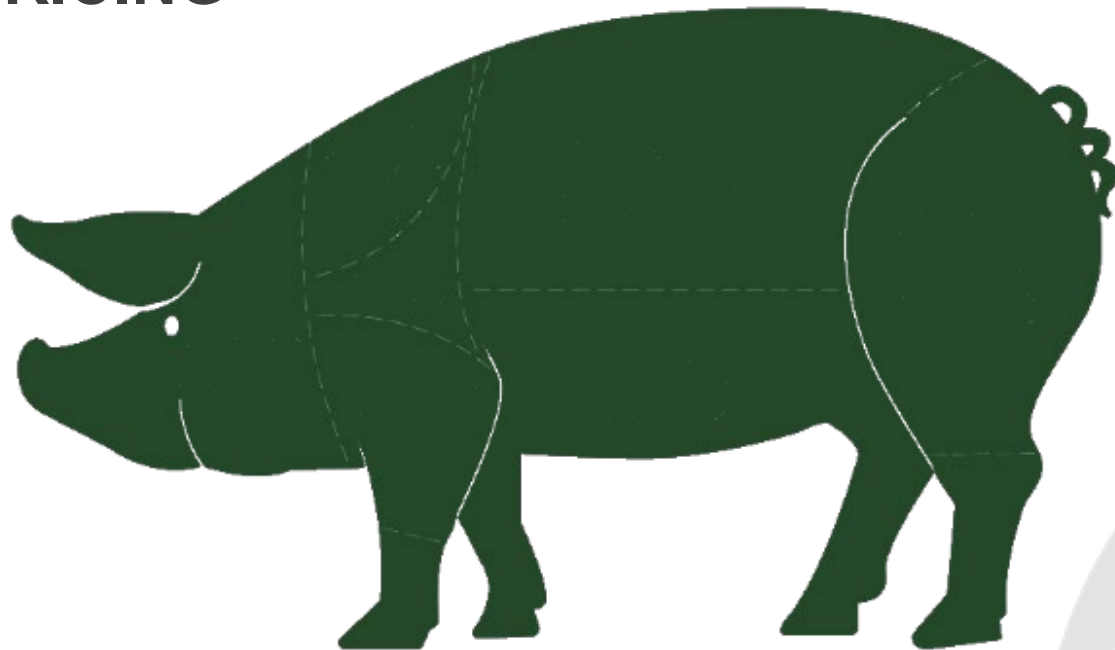
- Cdn beef supplies should stay abundant in Q1
- Beef will be competitive on costs and margins



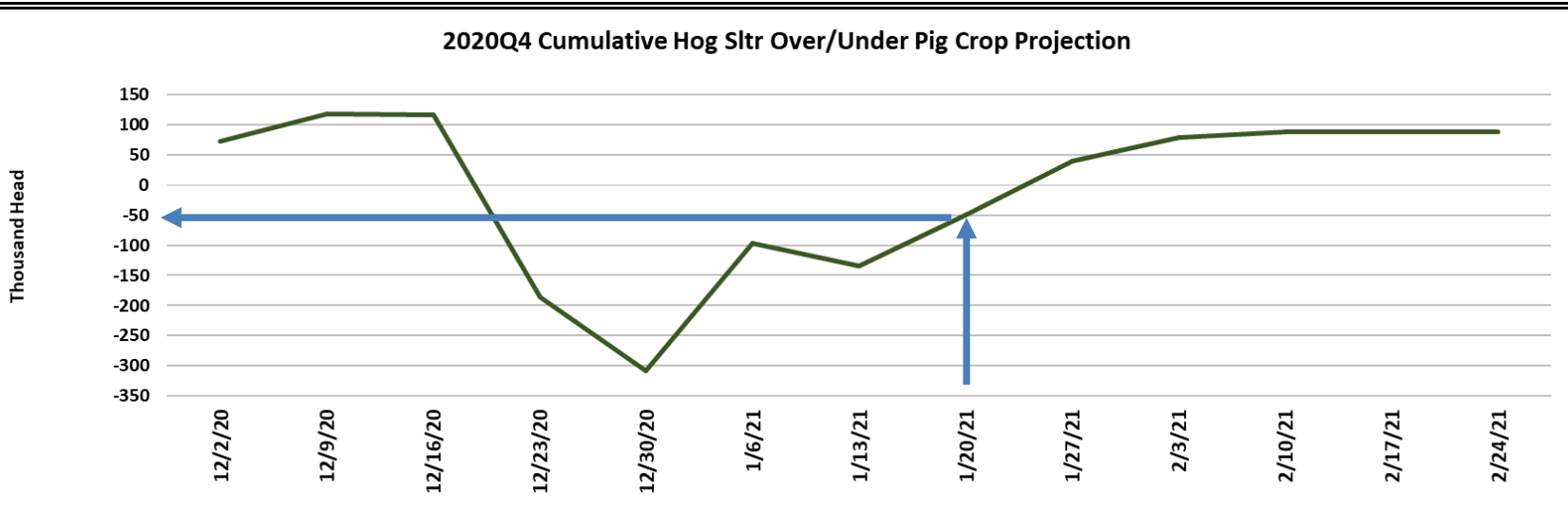
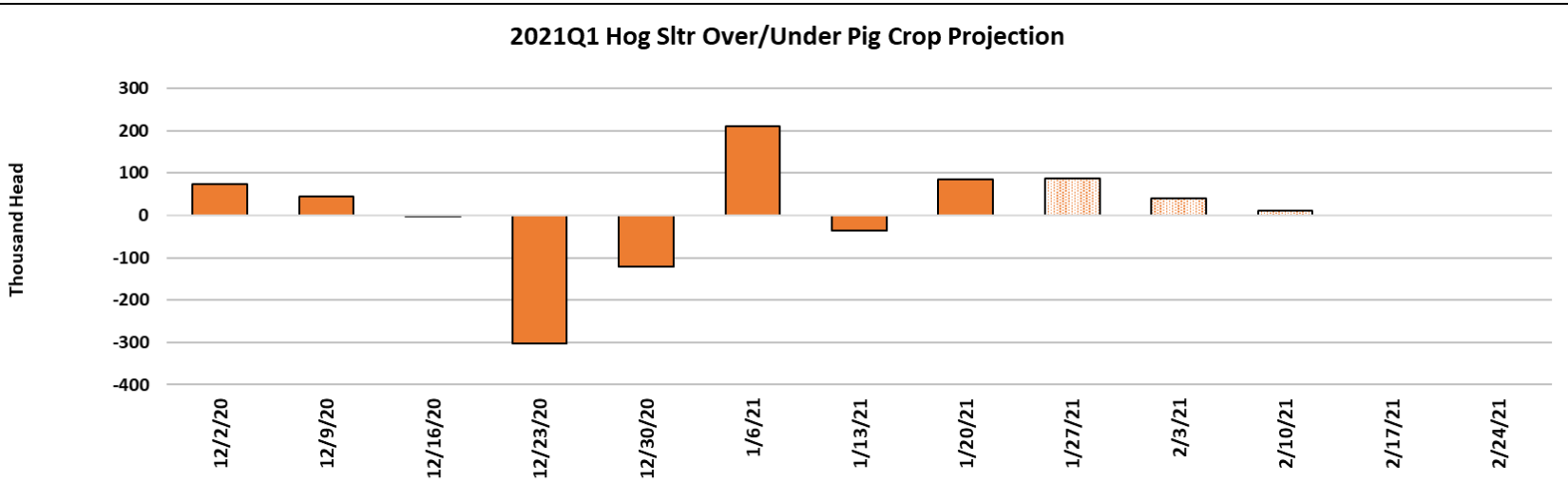
# Q1 BIG PICTURE MARKET OUTLOOK

## HOGS & PORK | US

- SUPPLY, DEMAND & PRICING
- CHINA INSIGHTS
- INSIGHTS



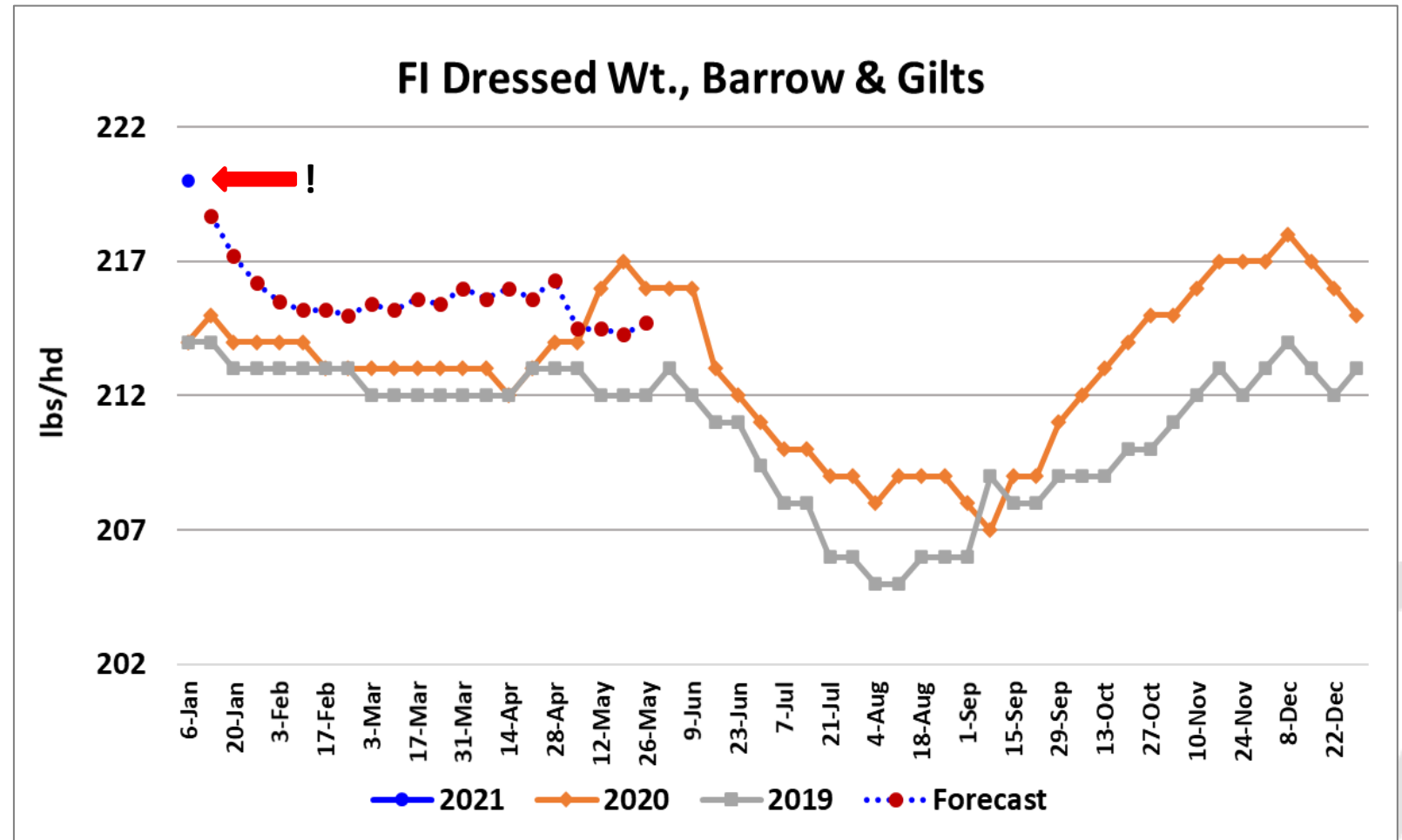
# Bigger-Than-Expected Hog Supply in Q1



- Currently the industry is killing the Jun/Aug pig crop which USDA revised upward by almost a million head in the recent H&P report.
- The original estimate was -3.5% YOY, but the revision brought that up to only -0.9% YOY. Big change.
- The new estimate appears to be supported by the weekly kill data
- With five weeks left to go in the quarter, the pig crop implies weekly average slaughter at 2.61 million head

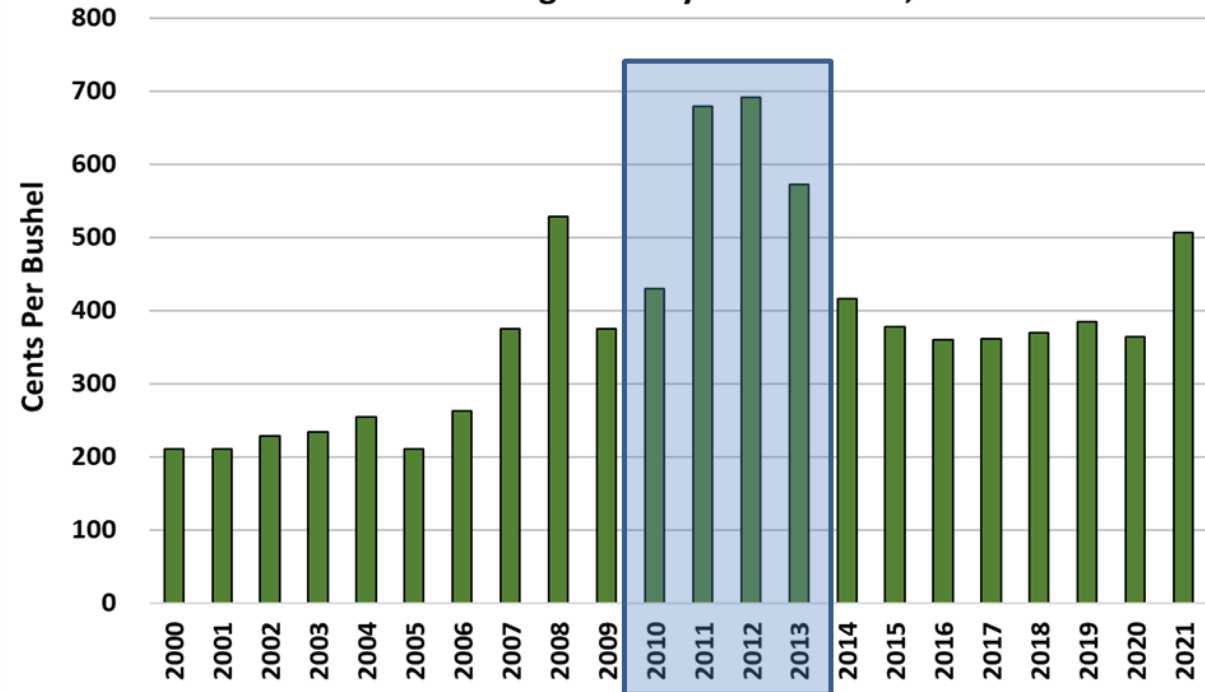
# Hog Carcass Weights are Record High

- Last week, USDA reported barrow & gilt carcass weights at 220 lbs. That is the heaviest weight ever recorded.
- Packer sold hogs are heavier than producer sold hogs. This matters mostly for the cutout since all product must clear the market
- Negotiated hogs are much lighter (about 15 lbs) than formula-priced hogs. This matters for the LHI calculation since the negotiated hogs drive that
- Hopefully, big kills in January will help to reduce weights substantially

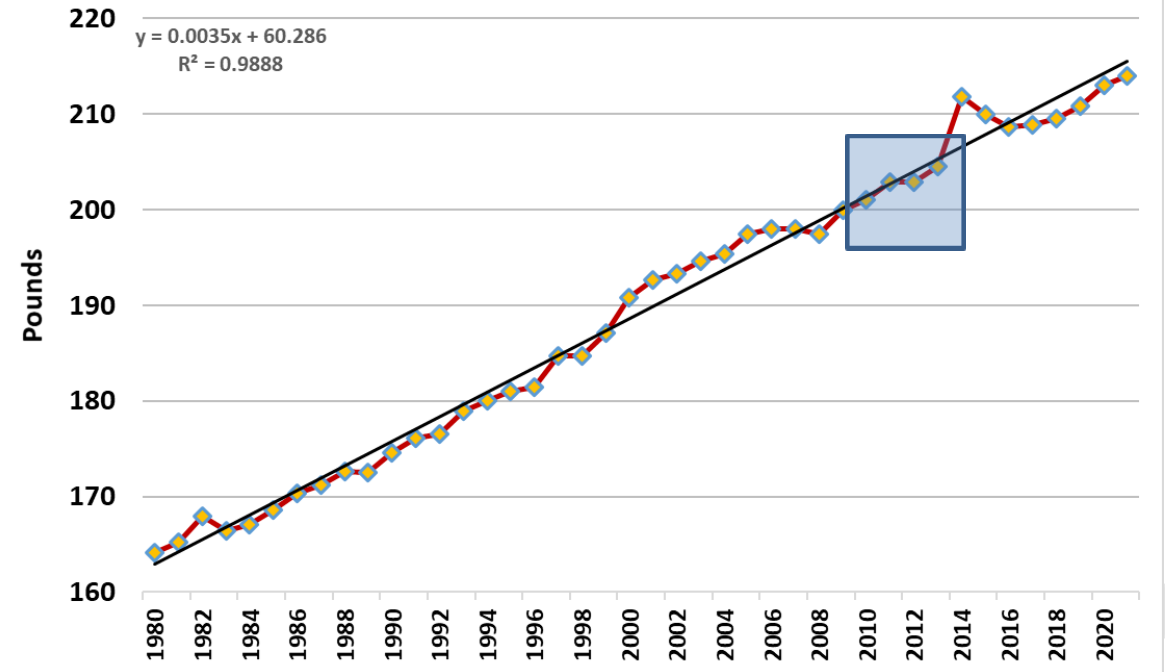


# High Corn Prices May Not Influence Pork Production

Annual Average Nearby Corn Futures, 2000-2021



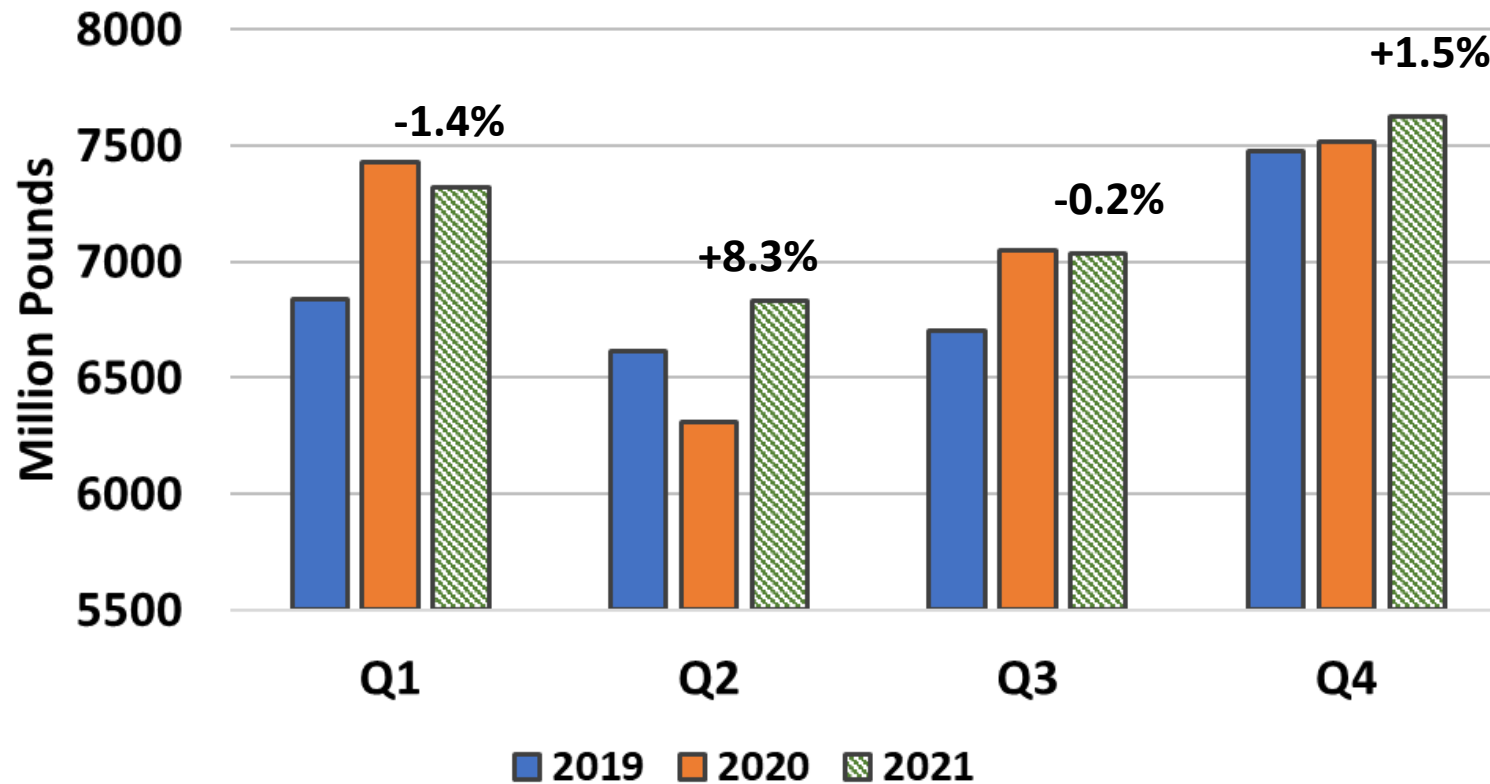
Annual Hog Carcass Weight



- High corn prices in the 2011-13 period, had little or no effect on hog carcass weights. They remained near the long-run trend throughout that period
- During these same years, producers did expand the breeding herd, but at a slower rate than what was seen outside of this period

# Q1 Pork Production Down Slightly YOY

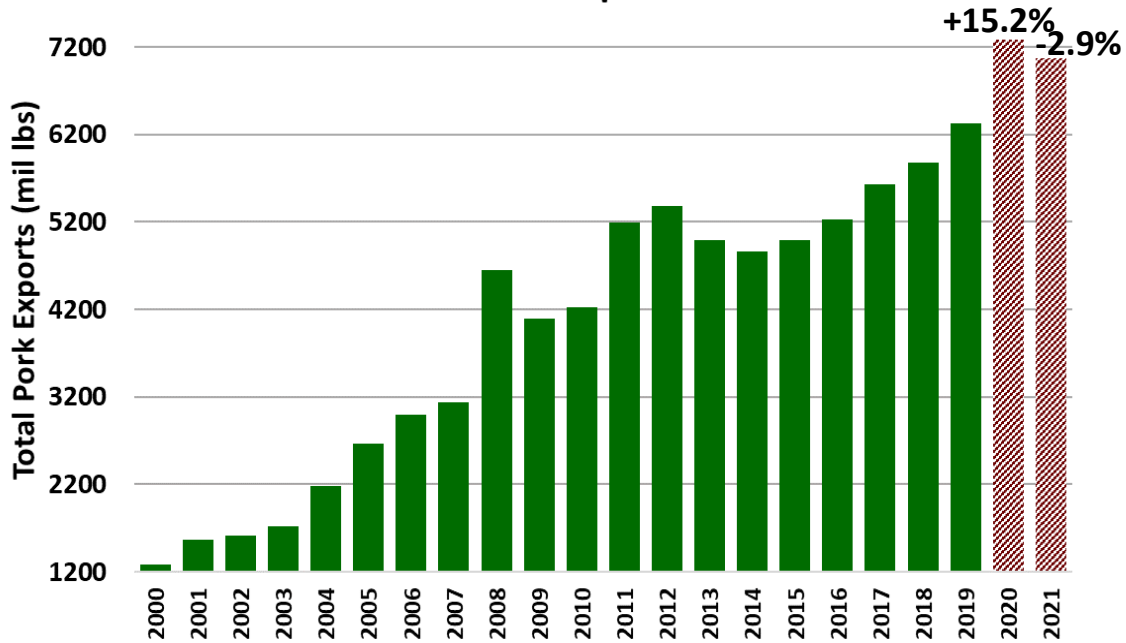
## Commercial Pork Production, 2019-2021



- On a calendar quarter basis, pork production is expected to be down 1.4% in Q1
- Q2 shows strong YOY growth, but that is because last year Q2 pork production was constrained by Covid plant closures
- The second half of 2021, could see pork production very near 2020 levels
- The pigs that will make up production through Q2 are already on the ground while Q3 & Q4 pigs haven't been born yet

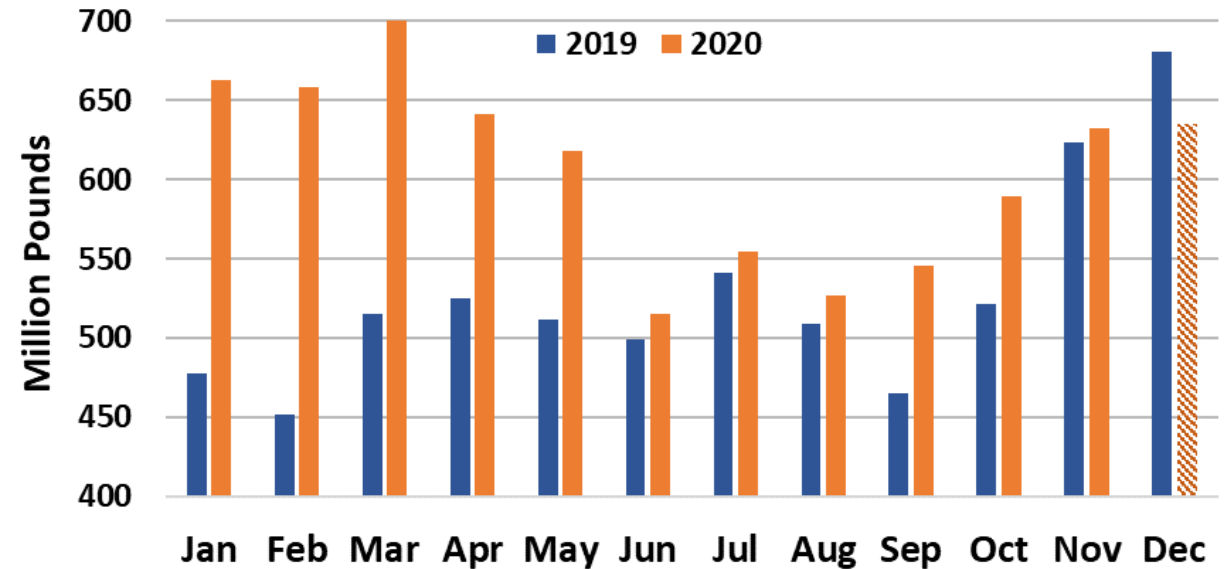
# After a Strong Year, Exports Expected to Soften Modestly

### Total Pork Exports



- Total pork exports for 2020 are likely up over 15%
- That would be the largest increase in exports since 2011 when they increased 23%

### Total Pork Exports, 2020 vs 2019



- Exports ran very strong in Q1, fell back during the plant closures in the summer
- From mid-year onward, exports tracked last year much closer

# What About China?

- China has been frantically building commercial hog facilities in an effort to rebuild their herd in the wake of ASF
- The Chinese Ministry of Agriculture claims that the herd as of the end of 2020 was back to near 90% of pre-ASF levels
- However, hog prices in China suggest otherwise as they are still very elevated.
- But China has been importing huge volumes of corn and soybeans, suggesting that there are a lot more animals to feed.
- We look for China to take less pork from the US in 2021 than they did last year.

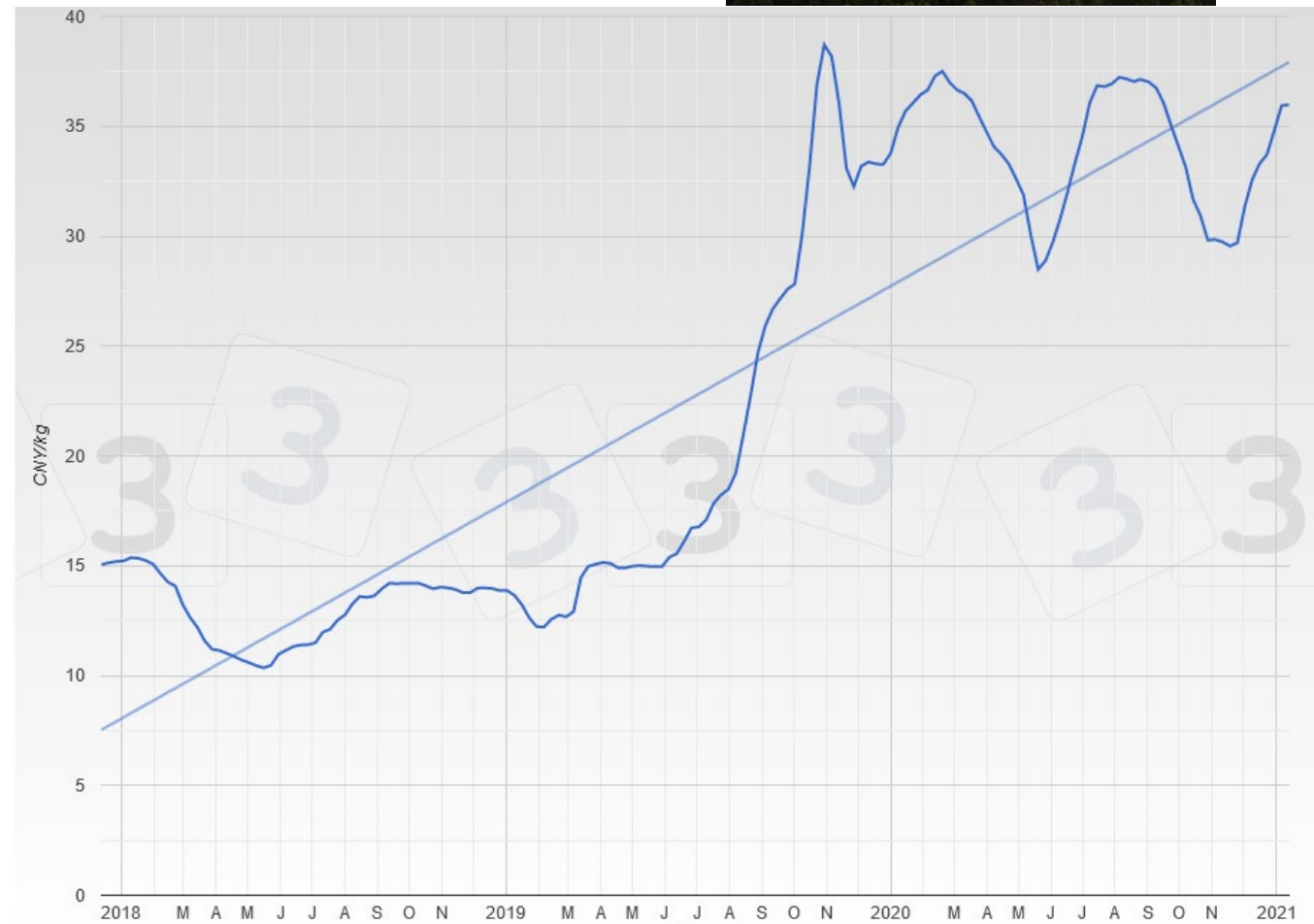
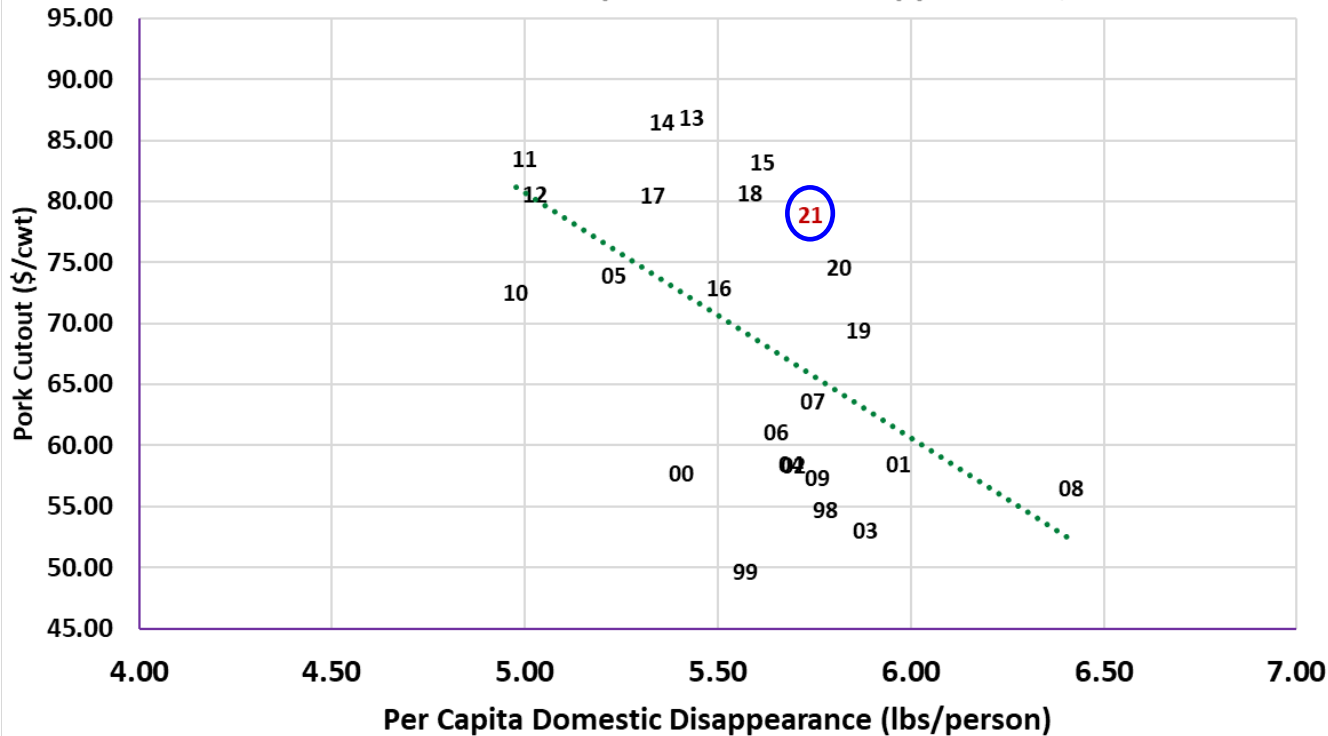


Chart Source: Pig333.com

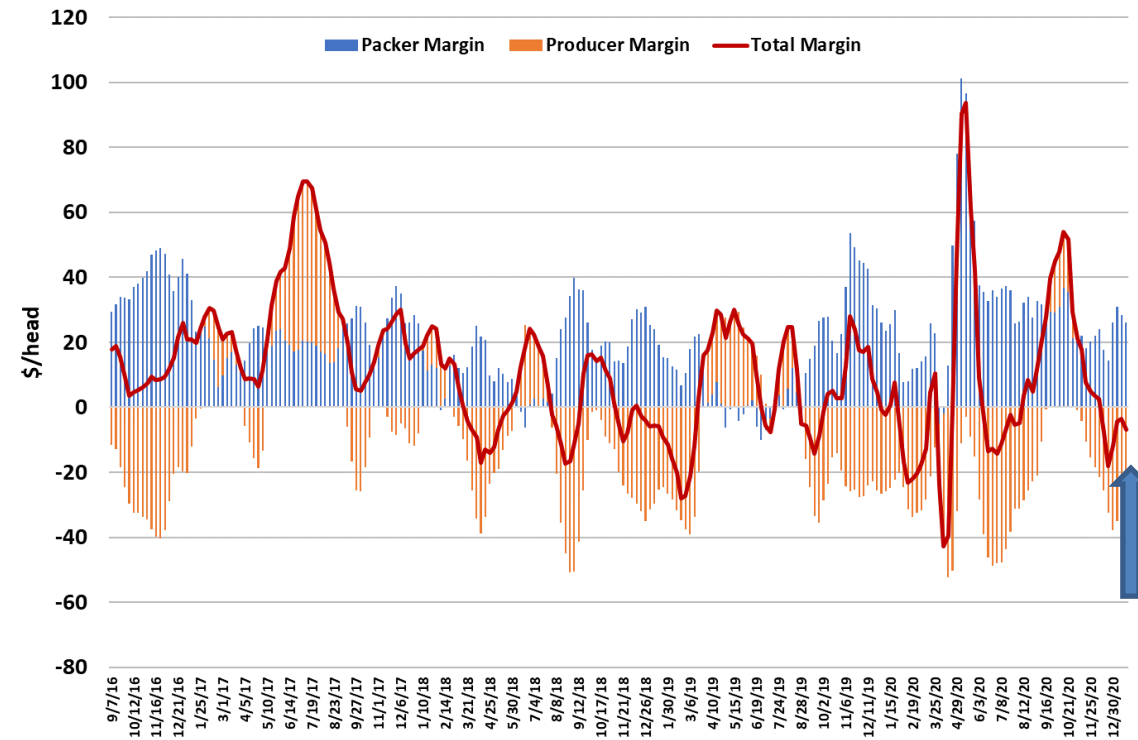
# Demand Currently Strong, but Fragile

Pork Cutout vs. Per Capita Domestic Disappearance, Jan



- The demand scatter for January shows the 2021 data point riding higher than either 2020 or 2019.

Pork Supply Chain Margins

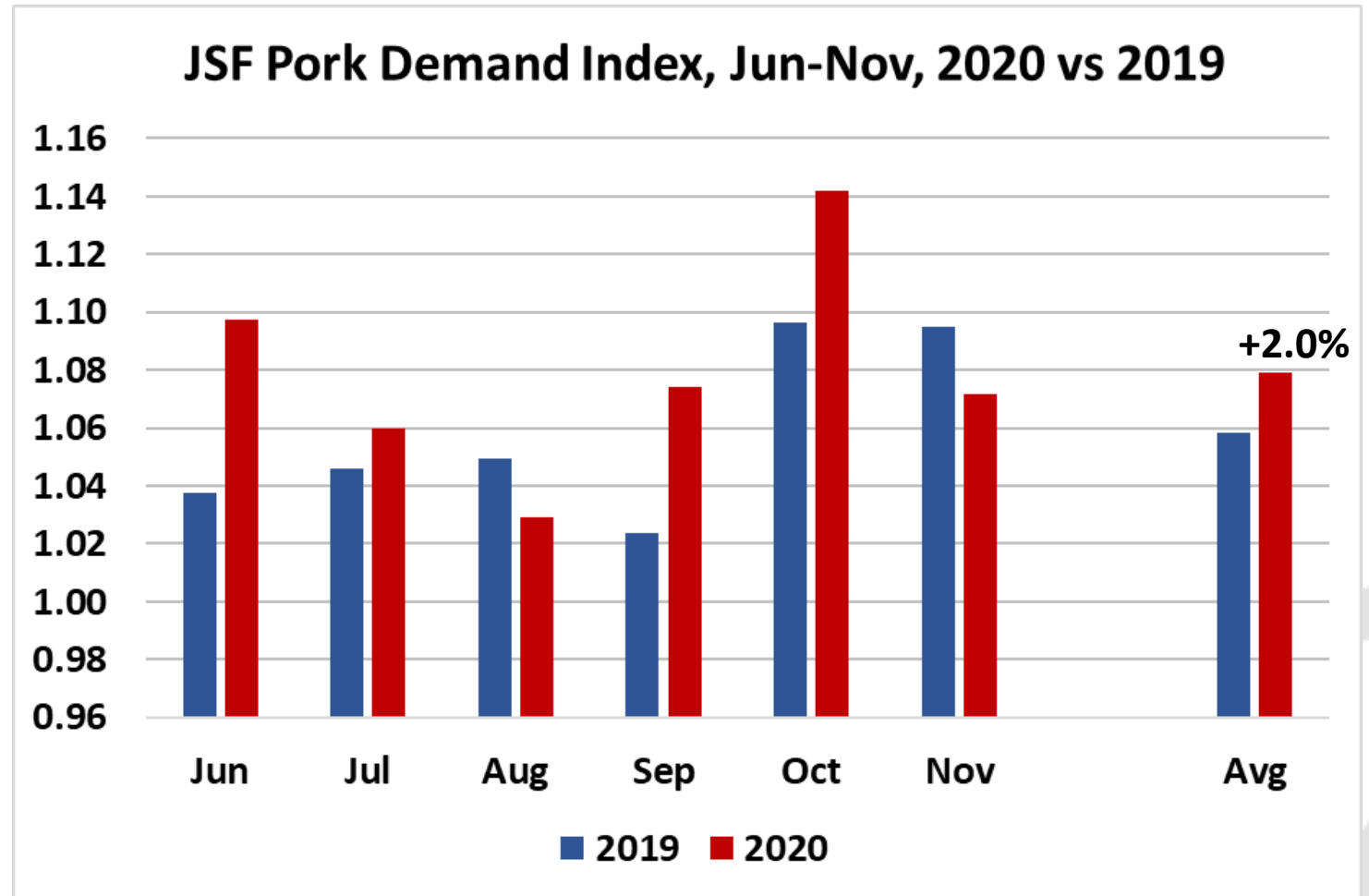


- The combined packer + producer margin appears to be turning lower. That is an ominous sign.



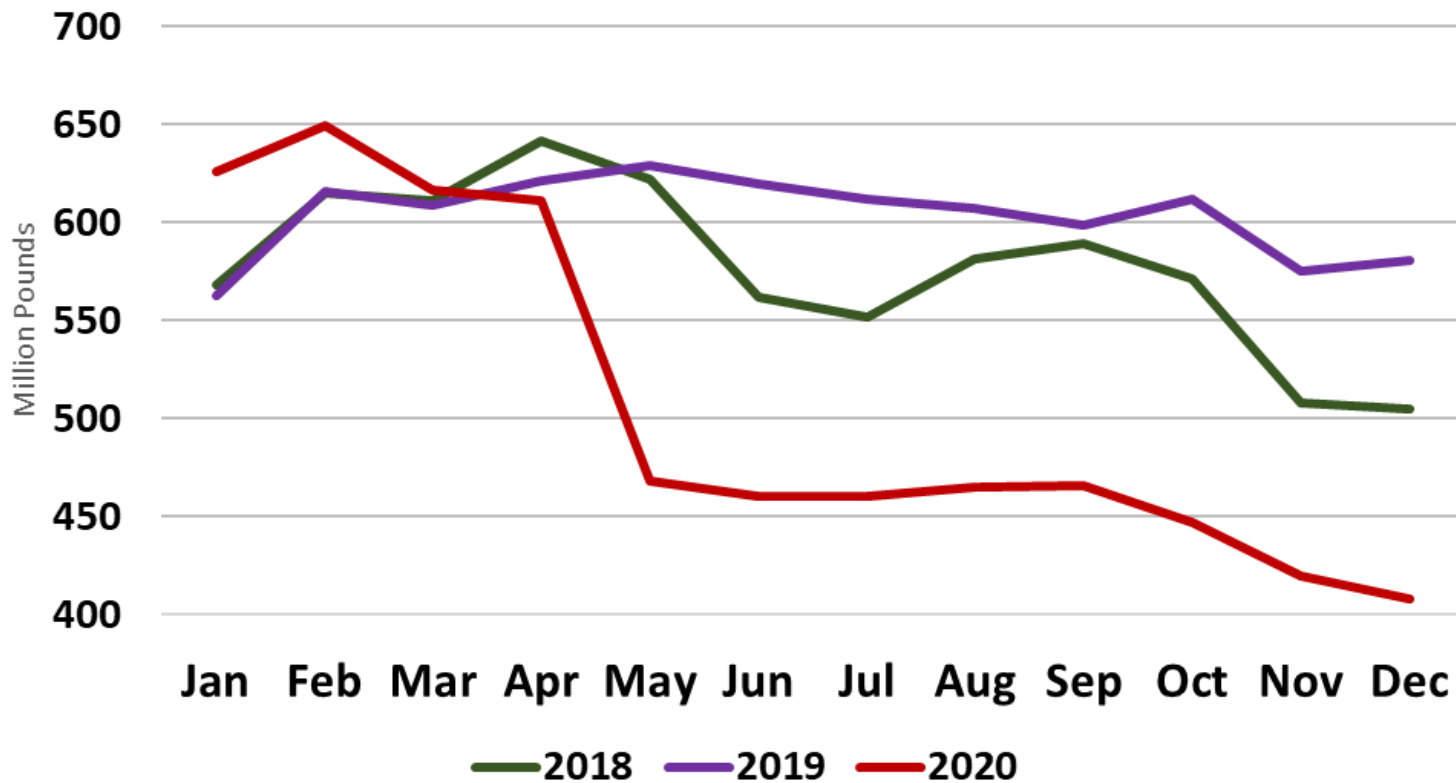
# Pork Also Sees Demand Boost from the Pandemic

- The JSF pork cutout demand index has been stronger than last year in many months since the pandemic began
- Over the full six-month period, the demand index averaged 2% stronger than in the pre-Covid year
- As with beef, this suggests that shift in consumer demand from the foodservice channel to the retail channel has been positive for pork demand
- This means that when foodservice returns fully, that pork demand should decline



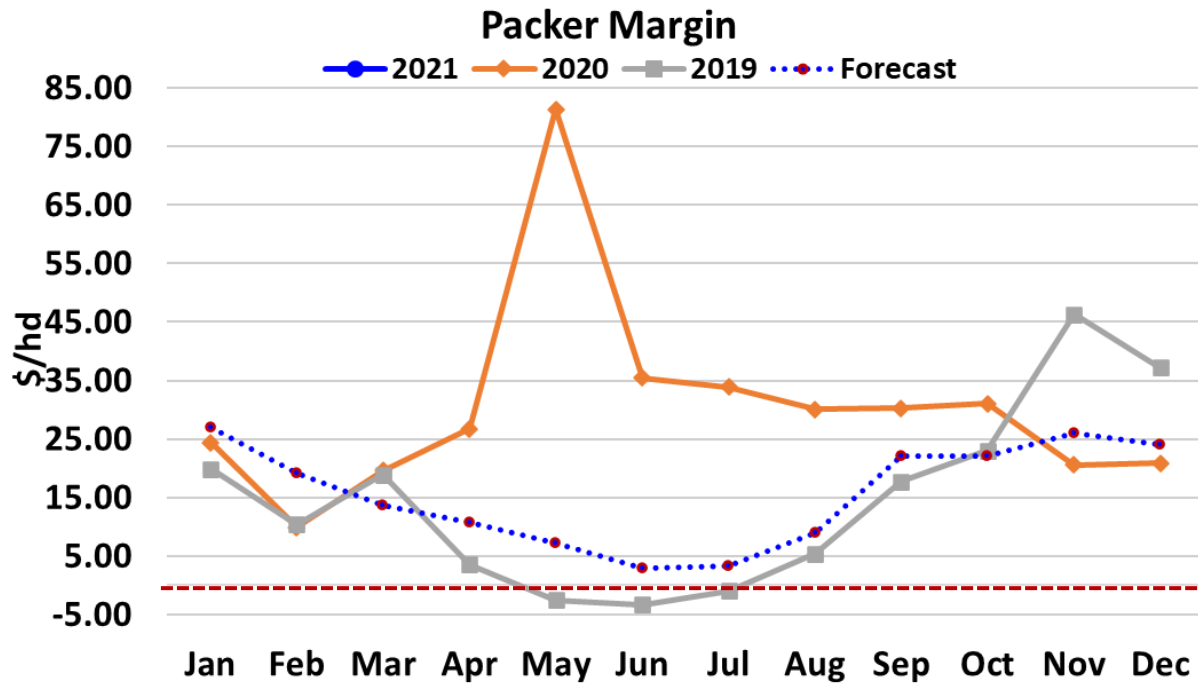
# Cold Storage Stocks Remain Extremely Tight

## EOM Pork in Cold Storage

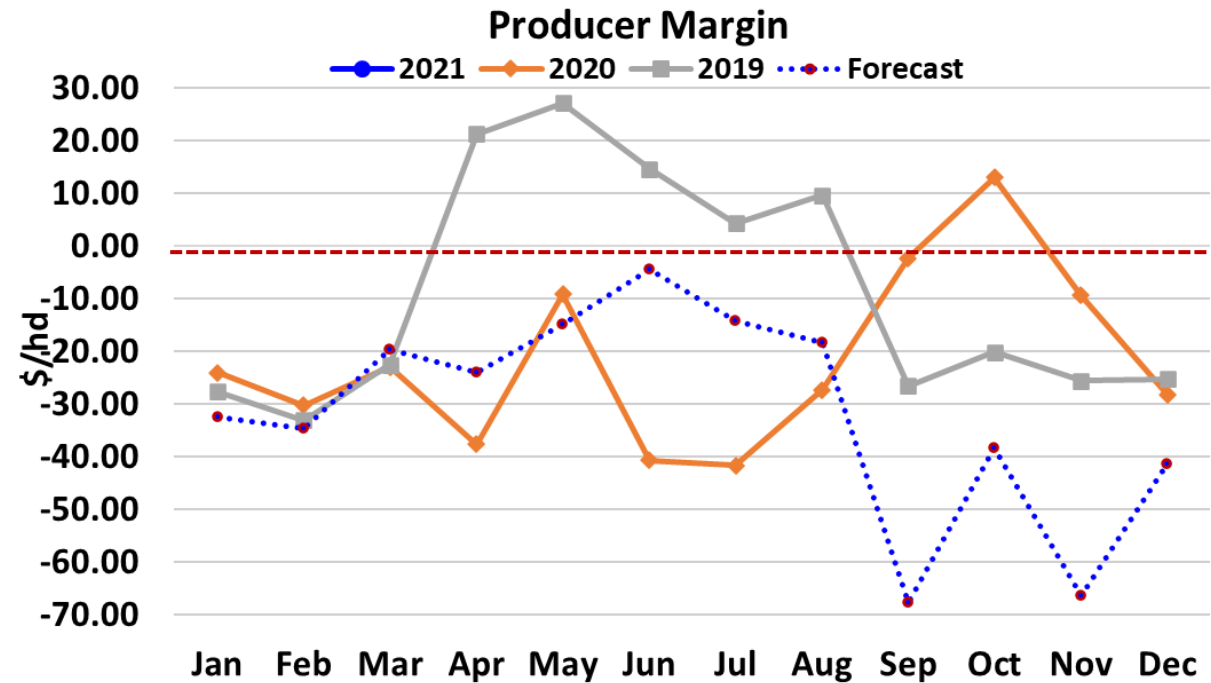


- Users drew heavily on cold storage stocks when plants shutdown back in Apr/May
- Those stocks were not replenished in the summer when production returned to normal
- Normally, users put large volumes into cold storage during the fall when production is large and prices are low
- Cold storage stocks act as a buffer that can keep prices from getting too high, but that buffer is very small right now

# Packers Profitable, Producers Not So Much



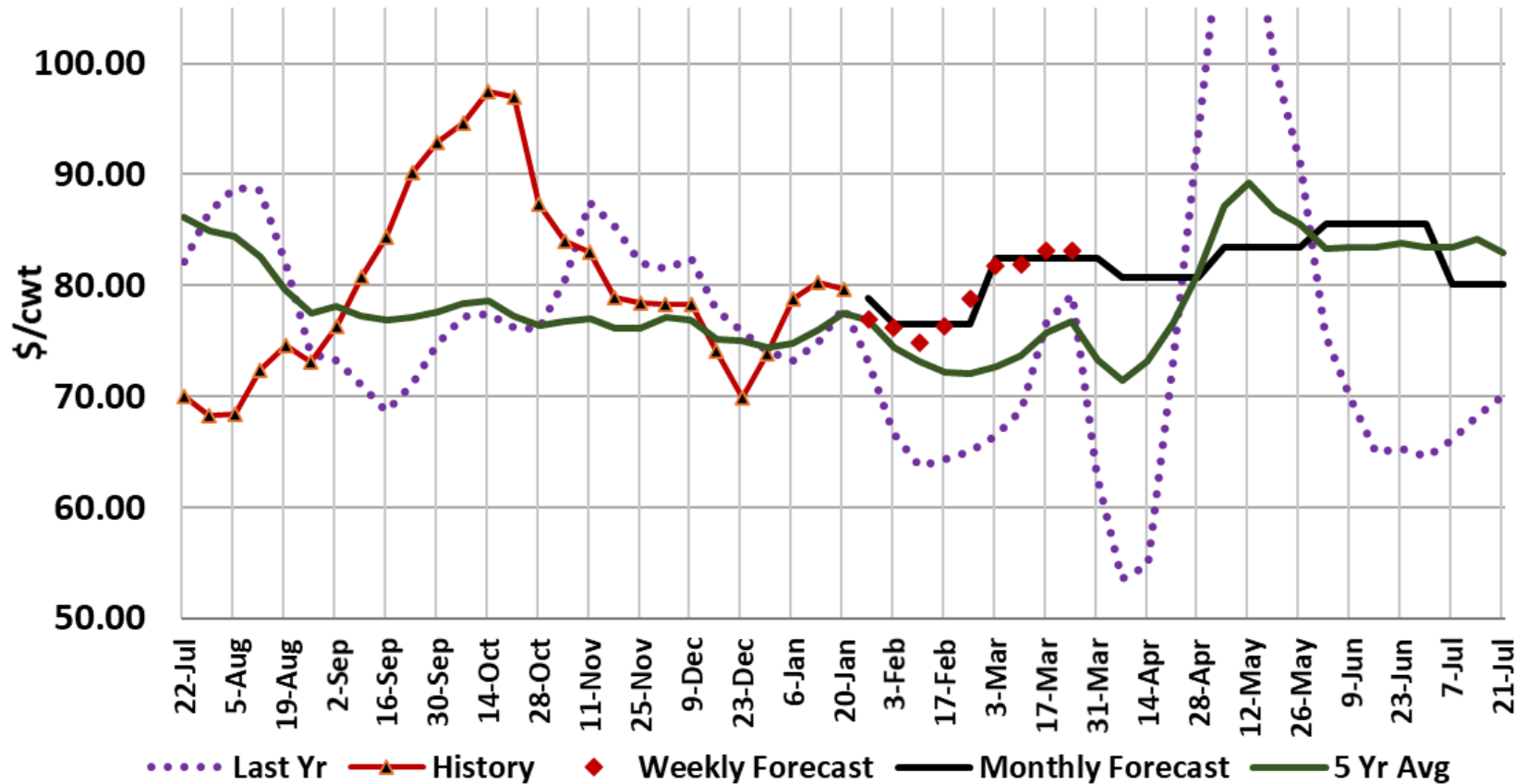
- Packer margins currently running just above last year, but expected to follow a normal seasonal in 2021
- For 2021 as a whole packer margins are projected at about \$15.50/hd, very similar to 2018 and 2019



- Producers only saw one month of positive margins in 2020. The current forecast has 2021 margins entirely in the red due to high corn and averaging -\$31/hd in 2021

# Cutout May Soften Near-term, Then Rally

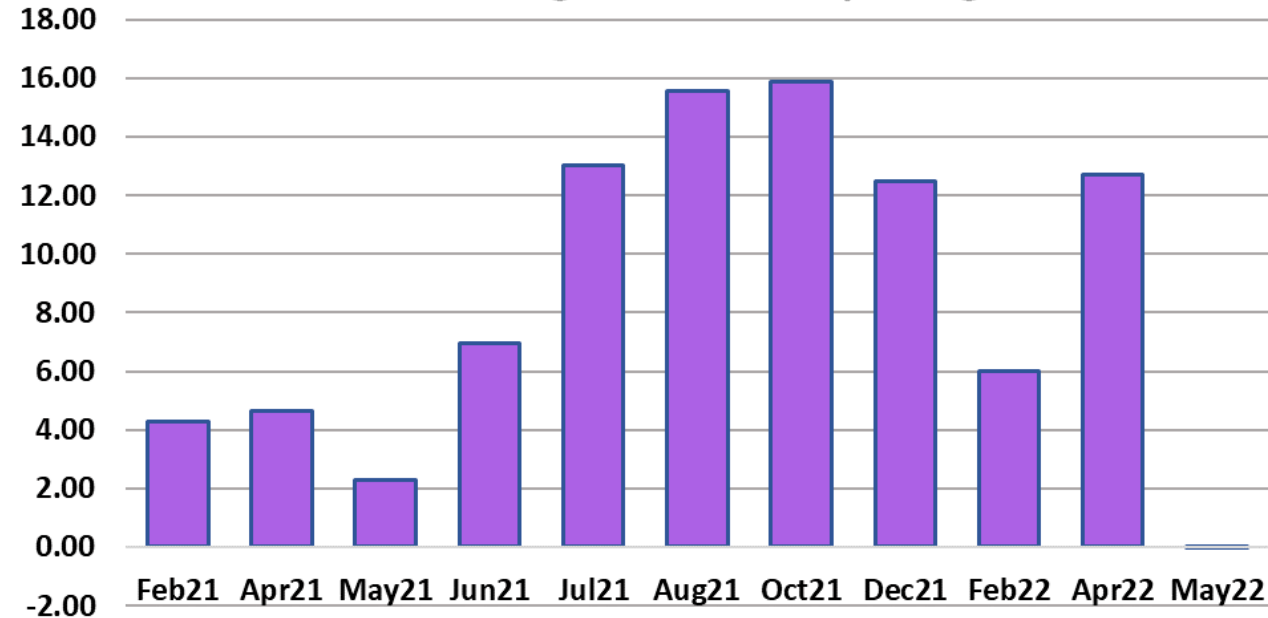
## Pork Cutout



- JSF sees the cutout a little weaker in the short term as big production combines with seasonal softness in demand
- Look for the cutout to be back solidly over \$80 as March approaches and then move into the mid \$80s through the balance of spring
- Summer highs on the cutout could breach \$90 on a daily or weekly average basis, but the longer run price averages should hold in the mid to upper \$80s.

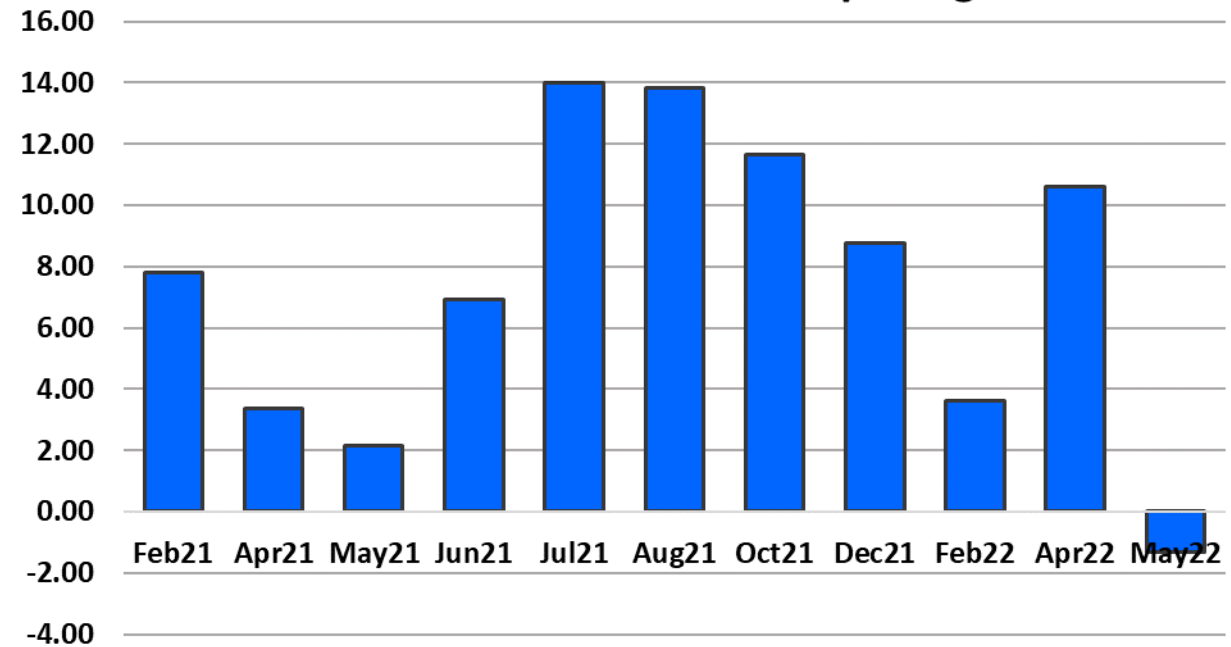
# Futures Look Too Optimistic on Recent Rally

## JSF Lean Hog Futures Mis-pricing



- Bullish sentiment has recently pushed the futures up to levels that are hard to justify fundamentally.
- The late summer and early fall contracts appear to hold a huge amount of downside risk

## JSF Pork Cutout Futures Mis-pricing



- The new pork cutout futures have gained traction rapidly, with open interest now over 1200 contracts and daily volumes running over 100 contracts traded.

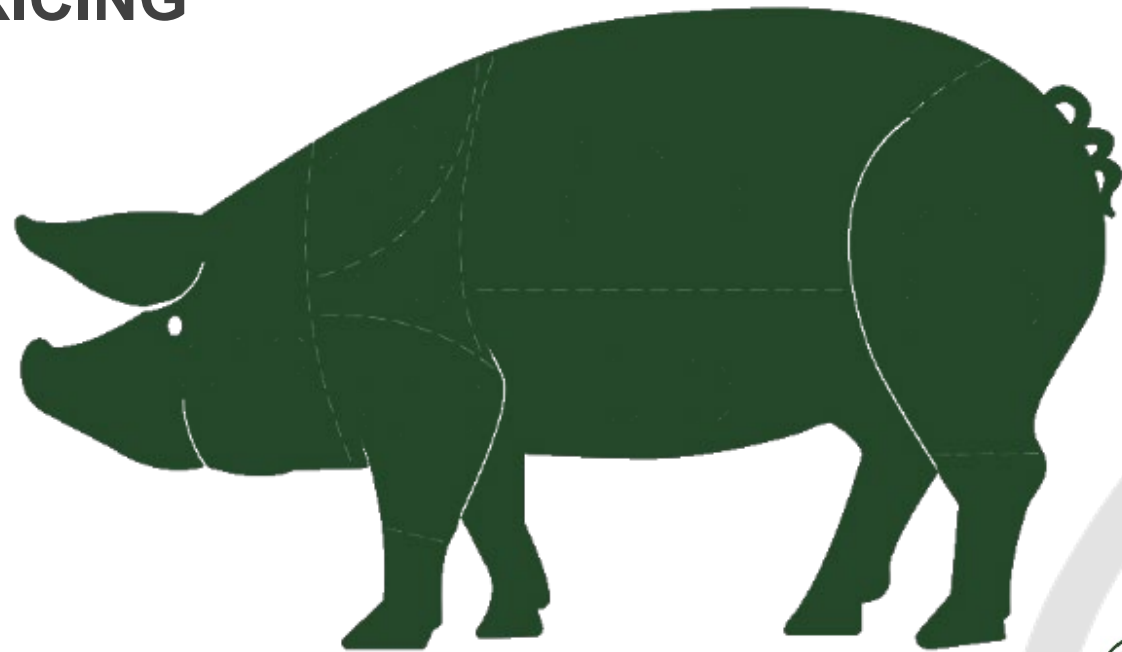
# INSIGHTS: Hogs & Pork Main Take-Aways

- Big upward revisions by the USDA to the Jun/Aug pig crop, now point to ample hog supplies through February. Weekly slaughter levels have reached close to 2.8 million head at times in January, but will likely be pared back toward 2.6 million head per week in February
- Heavy carcasses are also a concern, but hopefully big kills and high corn prices will help to bring weights back down into historical ranges over the next few weeks
- Demand looks good presently, but there are concerns about it turning lower in February. Export demand remains strong, but China is expected to start scaling back their purchases in 2021 as the recovery in their domestic hog herd progresses
- The cutout and Lean Hog Index hold some moderate downside risk over the next few weeks, but then both should turn higher into spring and summer. The futures market however, looks overly optimistic at this point

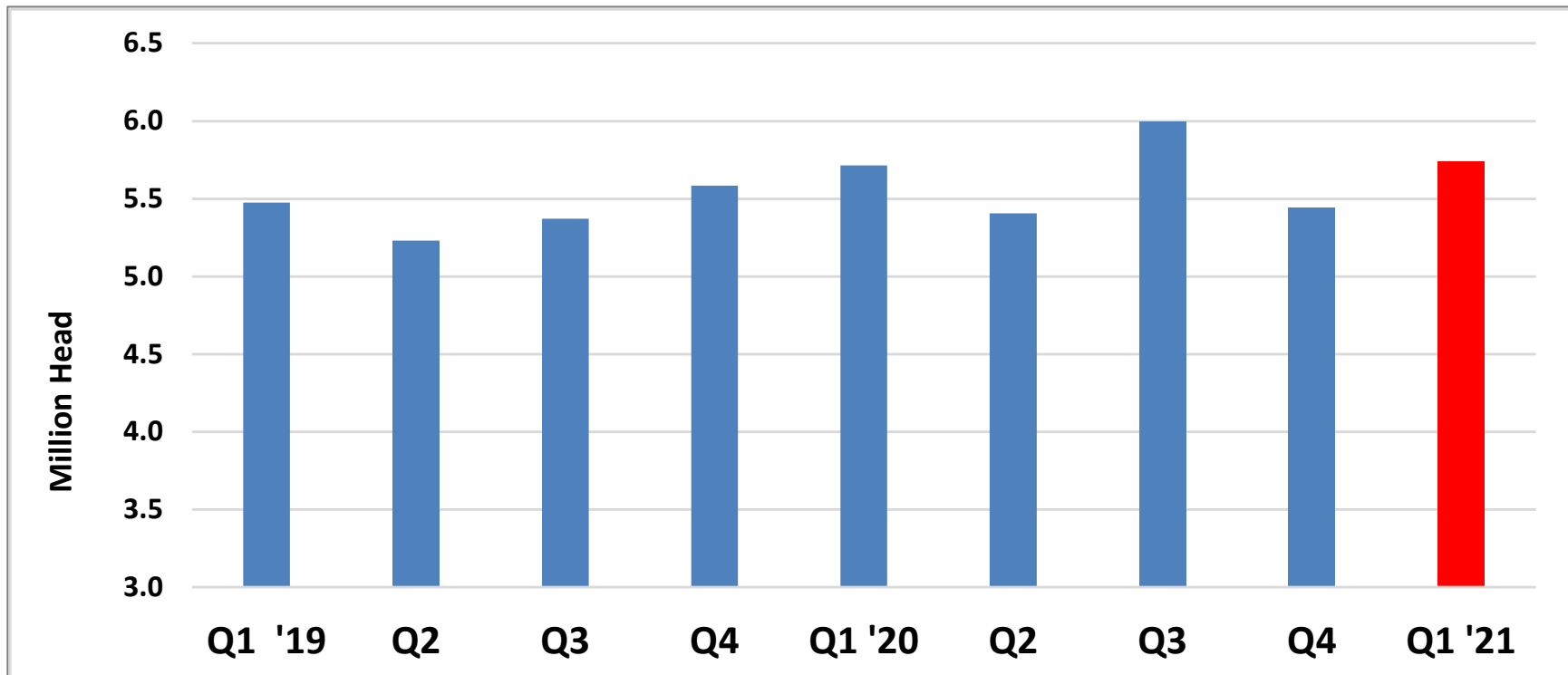
# Q1 BIG PICTURE MARKET OUTLOOK

## HOGS & PORK | CAD

- SUPPLY, DEMAND & PRICING
- INSIGHTS



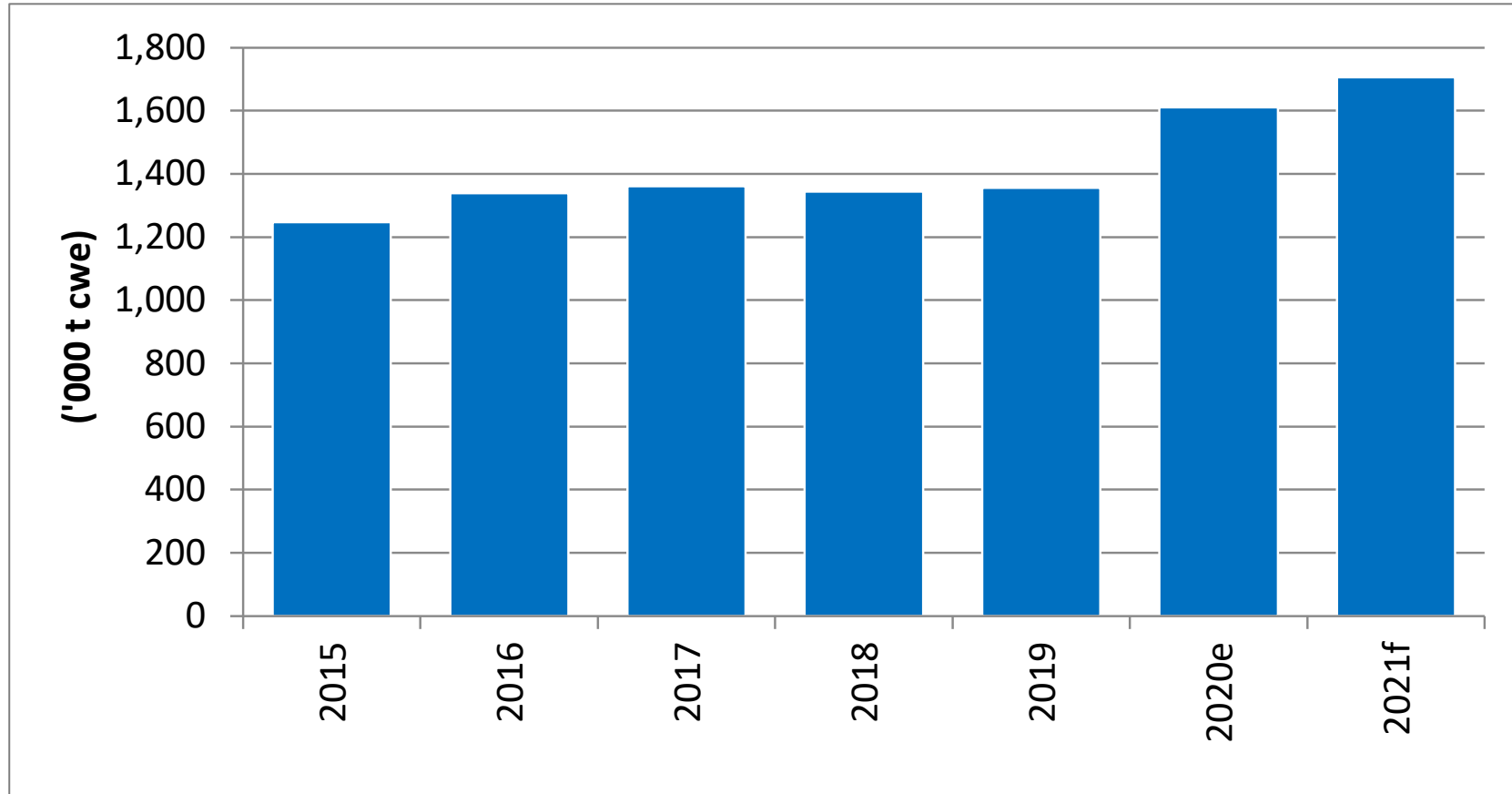
# Cdn Quarterly Hog Slaughter 2018-2020



- Q4 -3%
- 2020 +4%
- Q1 2021 +0-1%

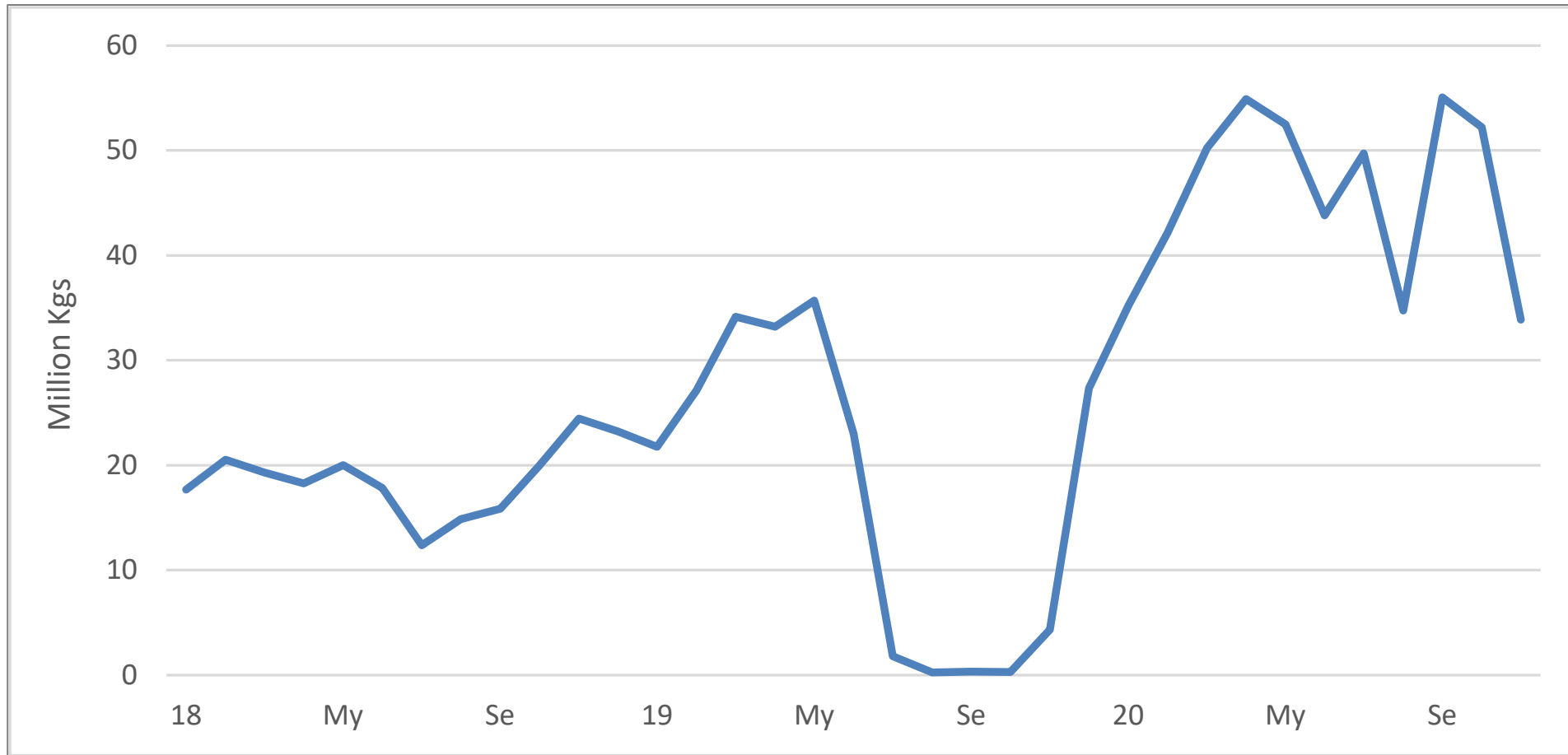


# Canadian Pork Exports Monthly

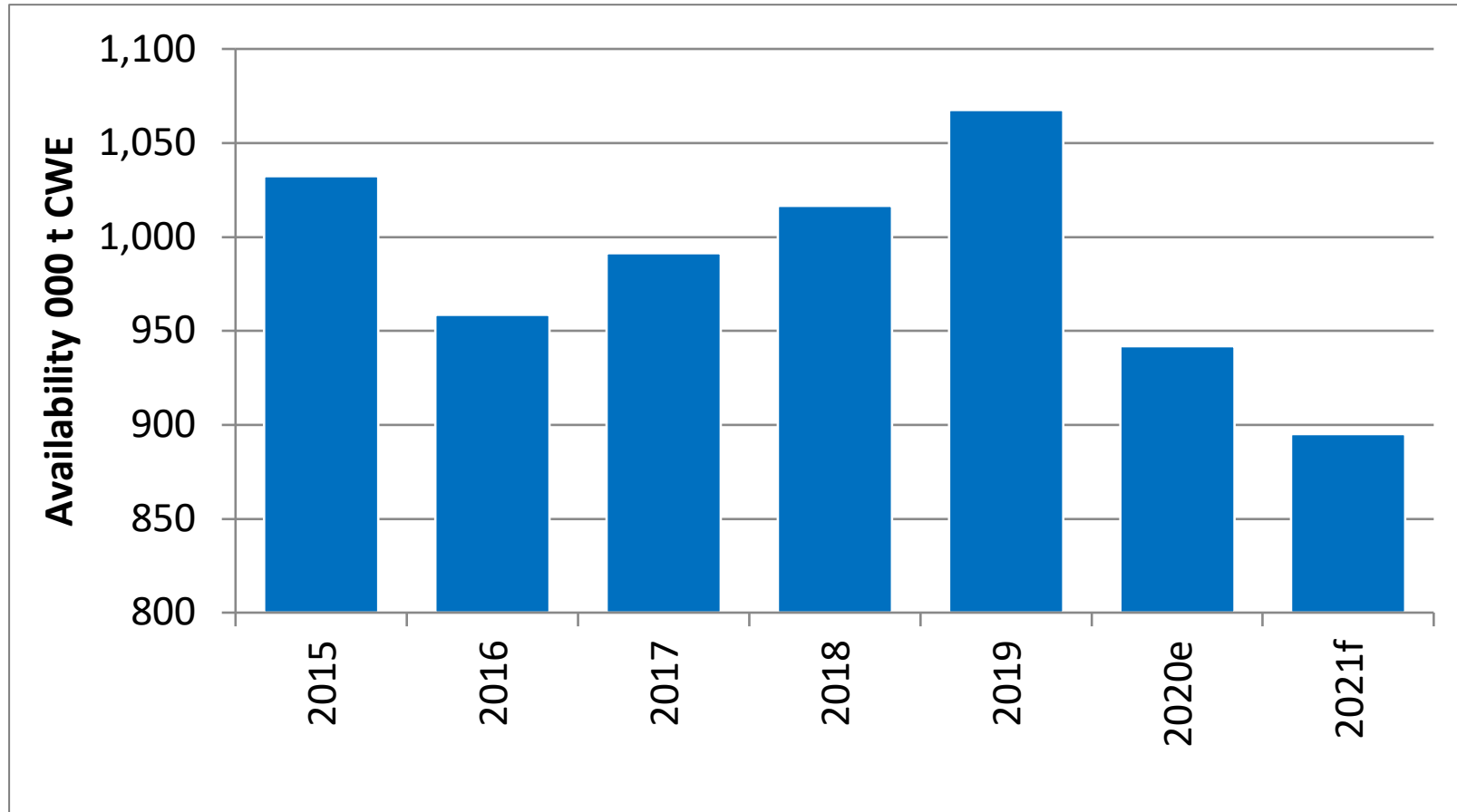


- China up 2X
- Vietnam 3x

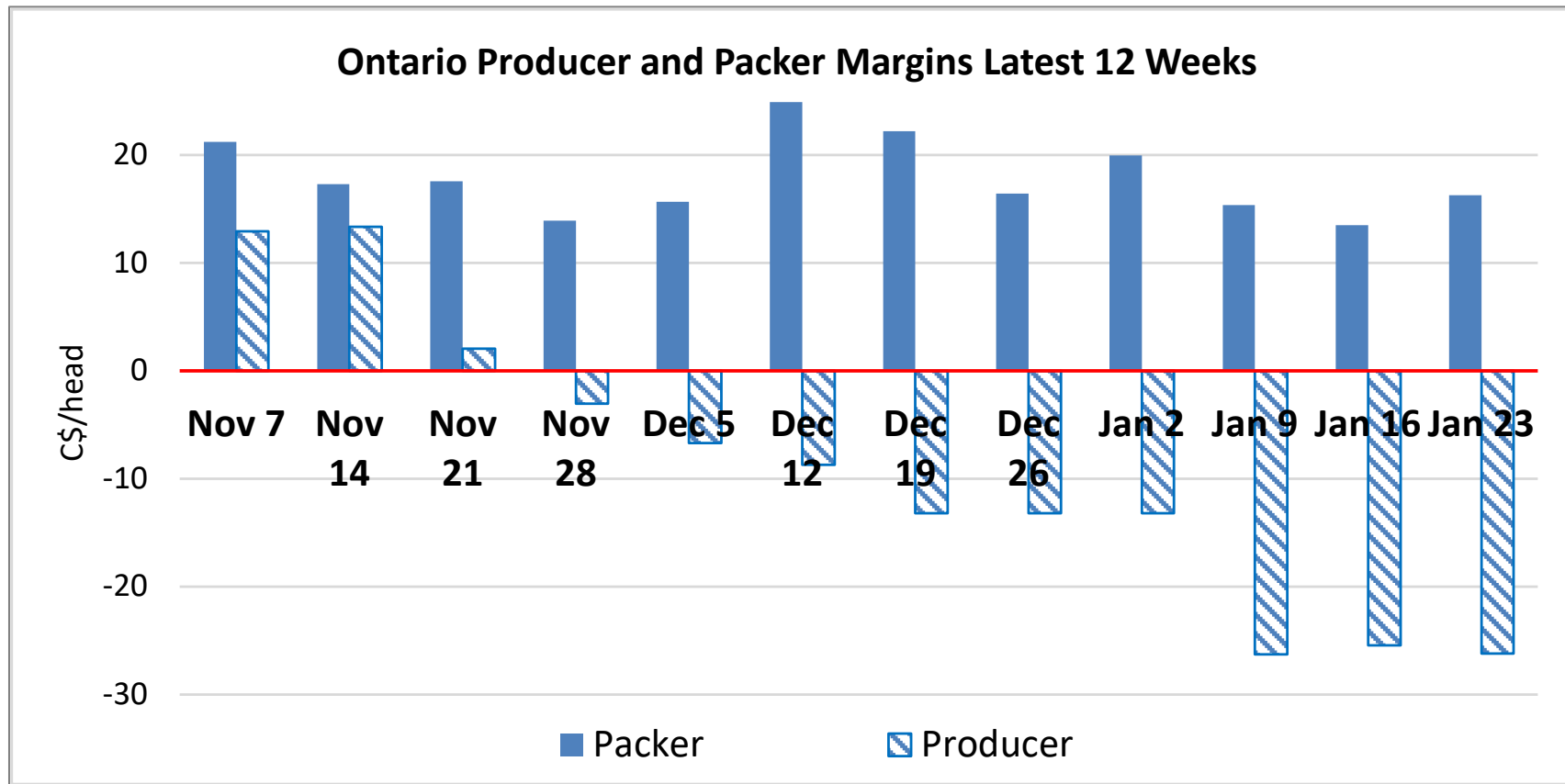
# Chinese Exports Monthly 2018-2020



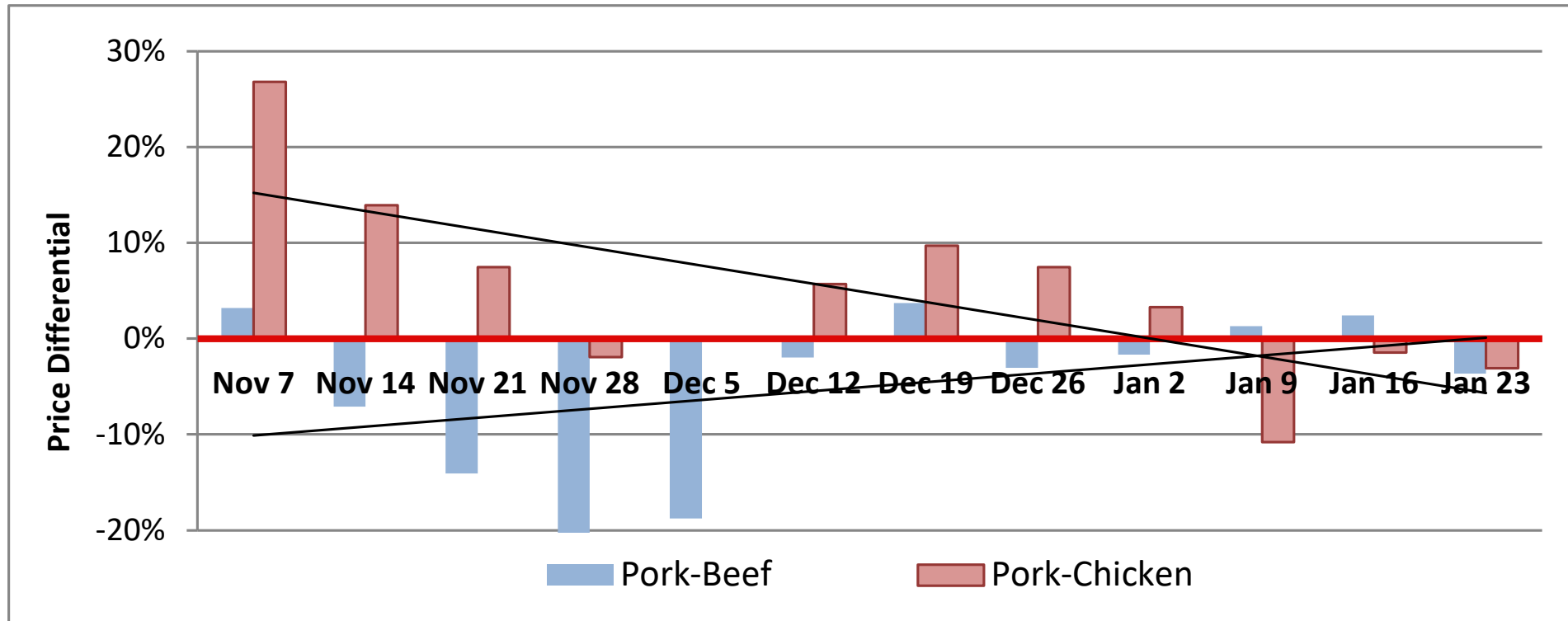
# Domestic Availability 2015-2021F



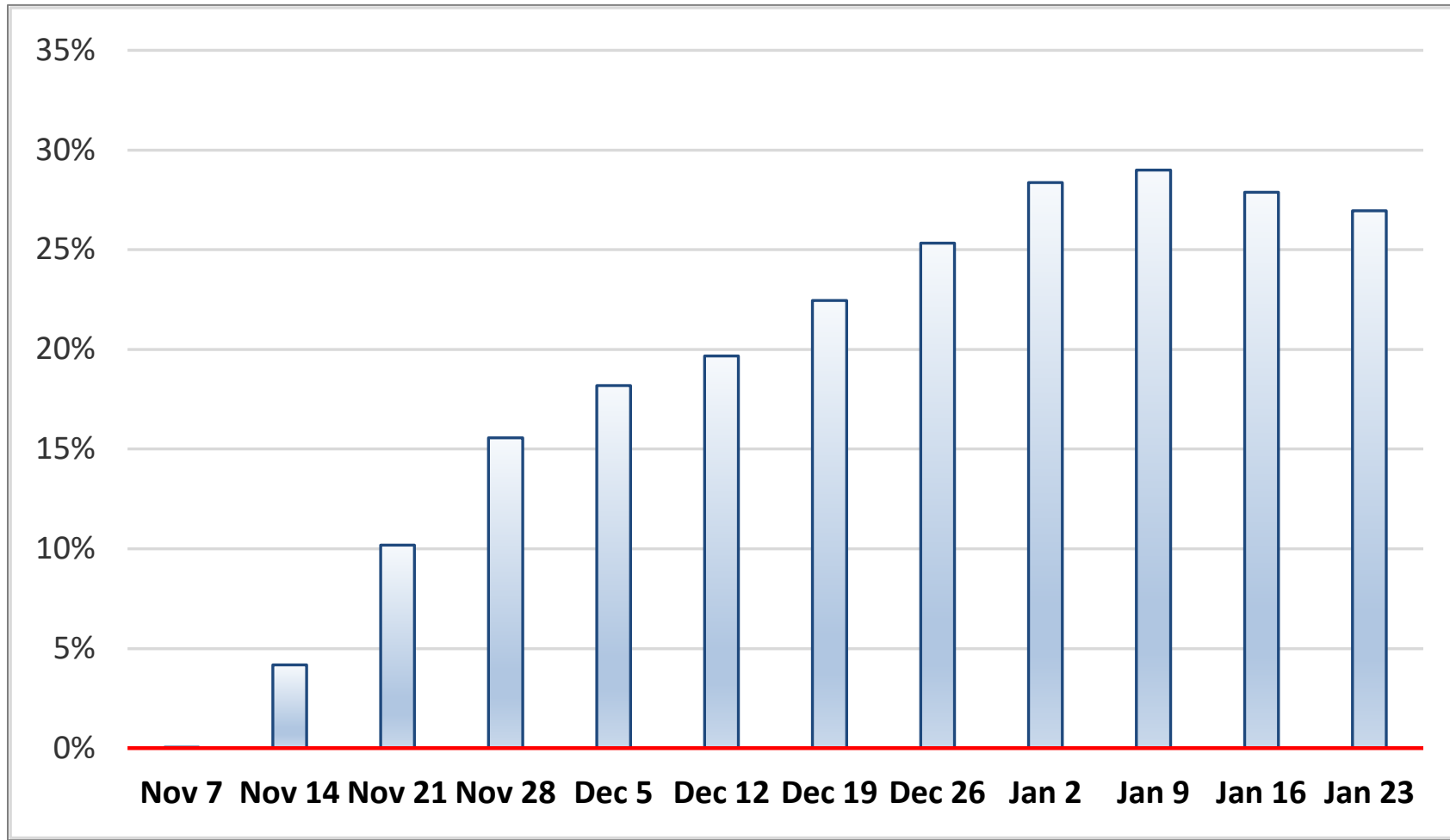
# Canadian Producer and Packer Margins Nov 7 to Jan 23



# Weekly Canadian Pork Wholesale Price Differential vs 2017-2019 Avg



# Retail Fresh Pork Margins vs 2017-2019 Average November 7 to January 23



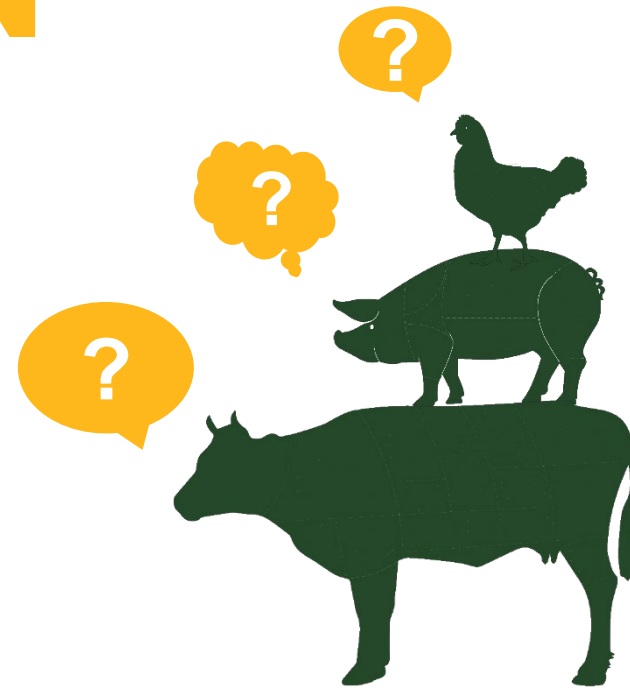
# INSIGHTS: Pork Summary Points



- Robust production
- Export Focus
- Domestic Availability?
- Competitive on margins and costs

# Q1 BIG PICTURE MARKET OUTLOOK

## Q&A SESSION





# AUDIENCE QUESTIONS

For pork - is the market going to be able to run ahead of feed price and leave any margin?

- CANADIAN PRODUCER



# AUDIENCE QUESTIONS

What hard data do we have to confirm that China is successfully rebuilding its hog herd?

- CANADIAN PRODUCER

China claims their pork herd is nearly back to pre ASF levels, although pork pricing in China and meat import volumes suggest otherwise.

Can you discuss your thoughts on the prospect that they are back near pre ASF levels and, if you think they aren't, what is the likely timeframe that they will be?

- ANALYST



# AUDIENCE QUESTIONS

With La Niña present over the last few months, what is the probability of a strong drought in 2021 and its effect in the cattle-beef value chain.

- VALUE ADDED PROCESSOR



# AUDIENCE QUESTIONS

Are European/Asian Hog Markets more affected by Covid or ASF restrictions and what are the implications (i.e. in Germany/China/Vietnam)?

How does this in turn affect our US/Canada exports?

- PACKER



# AUDIENCE QUESTIONS

As we return to some version of normalcy, where do we see foodservice demand with so many operators closing their doors permanently?

Will middle meat primals take up more room in freezer stocks or do you think retail features will be enough to allow the Packers to sell through?

- ANALYST

How will technology support delivery of "experiences" with shift from food service and tourism to at-home cooking environment?

- ASSOCIATION

# AUDIENCE QUESTIONS

ANY ADDITIONAL QUESTIONS?



# THANK YOU

## ADDITIONAL QUESTIONS:



You can email our panelists directly at:

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# AUDIENCE QUESTIONS:

*For pork - is the market going to be able to run ahead of feed price and leave any margin?*



**DR. ROB MURPHY**

***Not likely. Consumer demand is expected to be down somewhat in 2021 from the red-hot level of 2020 and that will limit price gains in pork, and by extension, hogs. Consumers won't care that feed prices are high.***

# AUDIENCE QUESTIONS:

*What hard data do we have to confirm that China is successfully rebuilding its hog herd?*



**DR. ROB MURPHY**

***No direct hard data on this exists outside of what the Chinese Ministry of Agriculture reports. We can, however, observe price levels and make some inference of how much pork is available to Chinese consumers. From that vantage point, it looks like the industry has a ways to go to return to pre-ASF levels because Chinese hog and pork prices remain very high.***

# AUDIENCE QUESTIONS:

*With La Niña present over the last few months, what is the probability of a strong drought in 2021 and its effect in the cattle-beef value chain*



**DR. ROB MURPHY**

***The US is already seeing a strong drought in the Western states and I think the probability of it spreading to the Corn Belt is high—maybe 40% or better. This will affect the beef supply chain by raising costs of gain for feedyards, which will then try to pass those increased costs on to other parts of the supply chain. They don't have much market power to pass those increases on to packers, so the logical place for them to pass those costs along are through paying less for feeder cattle. That means that in the end, it will be the cow-calf producer that bears the brunt of high feed costs caused by a drought.***

# AUDIENCE QUESTIONS:

*Are European/Asian Hog Markets more affected by COVID or ASF restrictions and what are the implications (i.e. in Germany/China/Vietnam)?  
How does this in turn affect our US/Canada exports?*



**DR. ROB MURPHY**

***ASF has been in Europe for decades. The recent outbreaks in Germany may have had a small positive impact on US/Canadian pork exports when it initially happened, but at this point the impact is probably minor.***

# AUDIENCE QUESTIONS:

*As we return to some version of normalcy, where do we see foodservice demand with so many operators closing their doors permanently?*



**DR. ROB MURPHY**

***Demand for beef and pork from the foodservice sector will probably show a brief surge as restaurants replenish inventory ahead of re-openings this spring and summer, but beyond that, I think that re-opening of foodservice will be a net negative for both beef and pork demand. Foodservice establishments that closed their doors during the pandemic can easily be replaced by new operators if consumer demand warrants it. However, because business travel (which is a significant driver of foodservice demand) is likely to be constrained well after the pandemic has subsided, I would expect foodservice demand to be less than pre-pandemic levels for a long time after the pandemic is resolved.***

# AUDIENCE QUESTIONS:

*Will middle meat primals take up more room in freezer stocks or do you think retail features will be enough to allow the Packers to sell through?*



**DR. ROB MURPHY**

***Retailers have demonstrated that they can sell a lot of middles during the pandemic. Consumers will have their middle meats regardless of whether they come from the foodservice or retail channel. So, I don't see much risk that middle meats will back up because of poor movement at retail.***



# AUDIENCE QUESTIONS:

How much of the gain in US pork export is correlated to restrictions placed on Canadian export to China?



**DR. ROB MURPHY**

*A small portion, maybe like 5-10%.*