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RED MEAT OUTLOOK: CATTLE & BEEF

Now that the backlog of cattle has been cleared, the cattle market is returning to a sense of normalcy. Cash cattle traded last week at $112, which was up $5 from the mid-December lows around $107 (see **Figure 1**). Beef markets began to break in normal seasonal fashion in early December, but now seem to have stabilized and are poised to move higher. High COVID-19 infection rates continue, forcing more restrictive measures against foodservice, which will likely keep retail grocery demand strong for at least a couple more months. The shift from consumption in foodservice channels to retail grocery channels has been positive for beef demand since the pandemic began and there is little reason to believe that demand won't stay strong as long as that shift remains a prominent feature of the market. The industry should see improved cattle availability in January — the result of big feedyard placements last summer. That could keep a cap on the cattle market, but it won't be nearly as price-depressing as the cattle backlog was this summer and fall. So far, packers have managed to prevent a repeat of plant shutdowns as COVID-19 infections surged in the general population during December. I take that as a sign that they have a handle on preventing spread in their plants and thus it is unlikely that we will see shutdowns of the magnitude that we saw last spring. Beef buyers should look for prices to increase moderately during January, but it is not likely that prices are going to soar given large available cattle supplies in Q1.

> Large placements last summer **should keep cattle and beef supplies** ample during Q1

SUPPLY PICTURE

Fed cattle slaughter during the non-holiday weeks of December averaged about 520,000 head per week, down about 1.5% from the same period last year. However, with Christmas falling on a Friday this year, the holiday week kills were exceptionally small. That provided some support for the cutouts near the end of the month, but as kills ramp back up in early January the pipeline will re-fill quickly. Strong feedyard placements last summer should allow weekly fed kills in January to approach 530,000 head per week and that, combined with carcass weights that are heavier than last year, should increase beef production in the range of 5-7% over last January. Packer margins are down from the crazy-high levels seen in November and early December, but they are still wide enough to encourage packers to kill aggressively during January. The increase in fed beef production will be partially offset by smaller non-fed slaughter during January. Our forecast currently looks for a 5-6% YOY decline in cow and bull slaughter during January. The industry is now entering the third year of the liquidation phase of the cattle cycle and that means that both fed and non-fed slaughter are likely to start posting a long string of YOY declines. By the end of 2021, it is reasonable to expect price levels to begin to elevate in response to shrinking cattle supplies.

Steer carcass weights flattened out during December, holding at around 921 pounds, and failing to show the typical drop in December weights. Steer weights were last reported to be 17 pounds over last year (see **Figure 2**). The cattle feeding states have seen excellent weather this fall and that likely kept cattle gaining better than they would have under more-normal circumstances. In recent weeks there have been more adverse weather events in the mid-section of the country and if that continues in January, we can expect to see carcass weights

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come down at a seasonal pace from this point forward. Corn is beginning to get pretty pricey, with the March corn futures now approaching the $5/bushel level. Two factors are at work there. The first is huge purchases of US corn by China and the second is the spread of drought across the US and S. America that may adversely affect the corn crops. Higher corn prices typically discourage long feeding periods and thus it is reasonable to expect the strength in corn, should it persist, to begin to result in lighter carcass weights a few months down the road.

USDA reported feedyard placements during November down 9% from a year earlier and that follows an 11% reduction in October placements. We think that trend continued in December and look for USDA to report December placements down between 4-7% when the next *Cattle on Feed* report is released. Reduced placements is also a common reaction to high corn prices. This three-month spell of light placements will show up in April through June in the form of tighter-than-normal cattle supplies and beef production. It is difficult to compare this year's production to last year for Q2 because of the impact of the plant shutdowns in 2020Q2, but if we look back to the spring of 2019, beef production in April-June of 2021 could be around 8% below 2019 levels. Given that Apr-June normally sees the best beef demand of the year, this spring could be setting up for some really strong beef pricing.

DEMAND SITUATION

Domestic beef demand during December was fantastic. The JSF beef demand index for Dec will be close to 1.14, which is the highest demand index ever registered for the month of December. This demand strength has been persistent since the beginning of the pandemic and there is no reason to think it won't continue into Q1. In fact, it now appears that beef demand for 2020 as a whole will be the strongest on record. How can it be that in the midst of a pandemic that generated high unemployment, beef demand performed so well? We think it has to do with the shift toward way more at-home dining in 2020, where the cost per unit of beef is well below what it would be in a restaurant. The negative demand impact of high unemployment was mitigated by government stimulus programs, another of which was just approved by Congress. So this pandemic-induced recession was way different than typical recessions in the past, which almost always tempered beef demand. This raises the prospect of softer beef demand at some point in the future when the pandemic subsides and foodservice business begins to return to normal.

Export markets also strengthened during Q4. USDA reported October exports (the most recent data available) up nearly 4% and that was the first YOY increase in beef exports since March. It is a good bet that November and December exports will also show YOY gains. As beef production grows in January packers will be looking to export markets to take some of that excess production and moderating price levels should help in that regard. We are currently forecasting a 12% increase in total beef exports for 2021. That is a big increase, but we must keep in mind that it is comparing with 2020, where exports were likely down about 4% for the year as a whole. So, we are optimistic about export prospects for 2021 and a good part of that optimism comes from China's new-found love for US beef. In 2020, China is expected to post a 230% increase in the amount of beef it purchased from the US. If that Chinese buying interest persists in 2021 and the more traditional destinations stay strong, then it is not unreasonable to expect double-digit gains in beef exports for 2021.

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SUMMARY

The cattle and beef complex has returned to a sense of normalcy and the backlog of cattle has largely been cleaned up. The pandemic has been good for domestic beef demand due to the shift toward more at-home dining, while export markets improved considerably in Q4. That demand strength is expected to persist as long as COVID-19 infections remain high, forcing consumers to favor the retail channel over the foodservice channel for their beef consumption. Cattle and beef availability should be strong during January and February as a result of big feedyard placements last summer, but light placements this fall will begin to restrict beef availability by the time spring arrives. As a result, price levels in April though June could be really strong and buyers are advised to use any price weakness that develops in Q1 to cover their needs for Q2. We are in the liquidation phase of the cattle cycle and that means that for the next several years declining beef production and higher price levels will be the norm. Buyers will need to hone their forward pricing skills in order to successfully navigate the beef market over the next few years. Our near-term price forecasts for cattle and beef are provided in **Table 1**.

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Figure 1: Cash Cattle Prices, 2019-2020

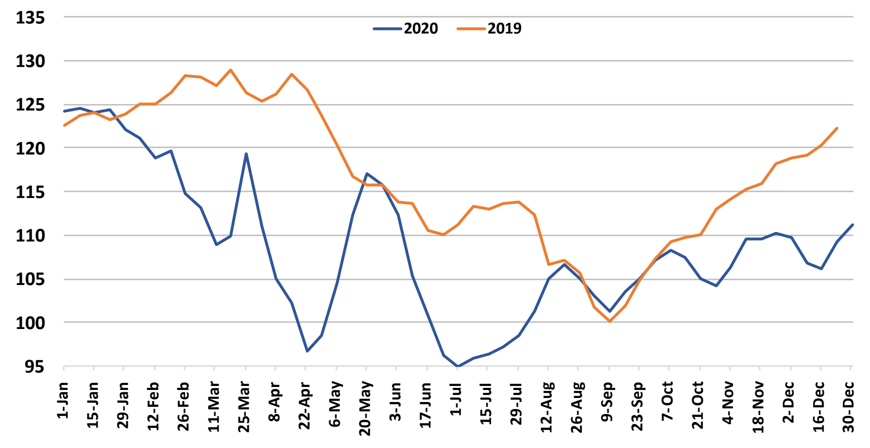

Figure 2: FI Steer Carcass Wt.

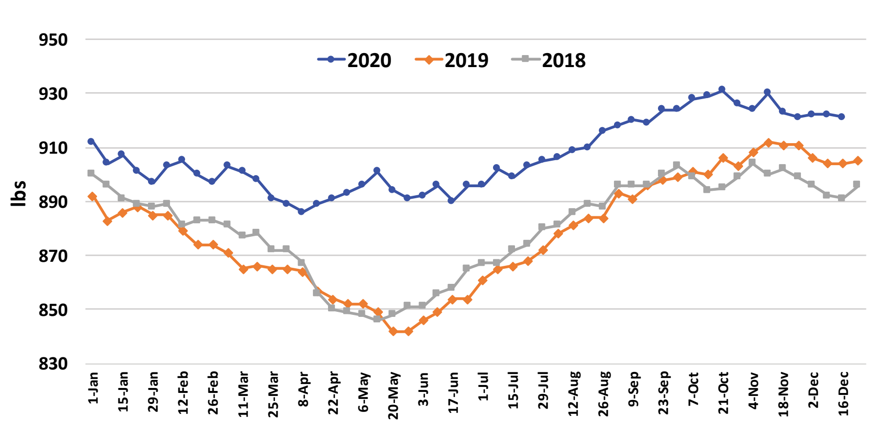

Table 1: JSF Cattle and Beef Price Forecasts

	13-Jan	20-Jan	27-Jan	3-Feb	10-Feb	17-Feb
Choice Cutout	210.6	209.6	209.4	209.6	210.3	212.3
Select Cutout	201.1	200.6	201.3	203.8	205.4	208.1
Choice Rib Primal	348.2	342.5	344.5	341.3	342.6	345.0
Choice Chuck Primal	181.3	178.4	176.6	175.7	174.8	176.2
Choice Round Primal	188.1	187.2	186.3	185.9	184.7	184.9
Choice Loin Primal	262.1	263.7	264.3	267.8	271.2	275.4
Choice Brisket Primal	151.2	154.3	157.2	160.1	163.8	167.2
Cash Cattle	112.2	113.3	112.3	114.3	115.5	117.6

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