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RED MEAT OUTLOOK: CATTLE & BEEF

Beef markets were on fire in January, with the Choice cutout adding over $25/cwt and the Select cutout gaining close to $30/cwt. This was clearly a demand-driven rally since production levels were large throughout the month. The price strength appears to have been driven by both domestic and international demand, but now that the calendar has turned to February, there is risk that demand strength will subside and lead to modestly lower beef pricing. The cattle market followed the beef market higher in January, with cash cattle trading last week at mostly $114, up about $3 from the end of December. The industry is in the midst of a bulge in cattle supplies that was created back in July/Aug/Sep when feedyard placements surged (see **Figure 1**). Fortunately for cattle feeders, demand has been strong enough to allow the industry to chew through those large cattle supplies without any price concession. Cattle seem to be finishing about 30 days ahead of schedule due to good weather in the Plains States for most of the winter. COVID-19 infection rates are falling across the US, although they are not down to the level that would allow large gatherings once again. Vaccinations are taking place and, with luck, the number of new infections will decline into spring. Warmer weather is the next big thing that the cattle and beef markets have to look forward to. Our analysis tells us that cattle and beef supplies this spring will be tighter than normal and if demand holds up like it has here early in 2021, the resulting price levels could be a shocker for many beef buyers.

> January saw surging cutouts, with the **Choice up** more than **$25/cwt**

SUPPLY PICTURE

The fed cattle supply is currently ample because the industry is working through the exceptionally large placements that were registered back in late summer. During January, fed kills ran a little better than 3% over last year, which amounted to a weekly average near 510,000 head. That was considerably below what our flow model projected for January, but it is possible that feedyards had gotten ahead on their marketings because cattle were finishing early due to mild weather in Q4. It is also possible that some cattle were backlogged during January, but it will take some additional time to discern if that was the case. February kills are projected to be in the 490-500,000 head per week range, although they may run a little stronger than that if feedyards backed animals up in January. Packers will be conducting plant maintenance during February and early March that will temper kills somewhat. Packer margins have been very good, averaging about $260/head in January and that should have provided plenty of incentive for packers to kill all of the cattle that were ready. Cattle feeders were fortunate that demand was exceptionally strong during January, helping to work through big kills without tanking prices.

The next big supply-side event will come in Apr/May/Jun, when cattle supplies will be constrained by small placements during the Oct/Nov/Dec period. Comparisons with Q2 of 2020 are difficult because of the plant shutdowns that occurred last spring, but our calculations suggest that per capita beef availability could be at, or even slightly below, the amount of beef that was available in Q2 of last year. Yikes! That should strike fear in the hearts of beef buyers given that the Choice cutout averaged $308/cwt last year in Q2. If availability is going to be no better than last year, what does that say about cutout values this spring? **Figure 2** illustrates how we come to this conclusion. First, the industry is likely to slaughter about 544,000 head more in Q2 than it did last year. This number would be a lot bigger if it wasn't for the unusually small Oct/Nov/Dec placements. Second, carcass weights should follow the normal seasonal pattern and decline through much of Q2. Last year, carcass weights were very elevated due to cattle backing up when plants closed. Our forecast has Q2 commercial carcass weights 20 lbs less than last year. Combining slaughter and carcass weights gets us to a total production number that is 4.6% above last year. However, the biggest factor is that exports will likely be a lot larger than last year (recall that exports dropped sharply when plants began shutting down) and imports will be a lot smaller (recall that imports surged when plants began shutting down). Thus, it is not hard to see how beef availability in Q2 won't be all that different from last year. Now, we don't mean to imply that the Choice cutout will average over $300/cwt like it did last year because a lot of that price increase was caused by panic buying as users were caught out of position when plants began shutting down. But the cutout could still easily average north of $250/cwt for the three-month period. The futures market is already pointing to this possibility, with April and June future trading over $120/cwt. Buyers should be working now to extend coverage through June in order to avoid what could be a very price-explosive spring market.

Speaking of carcass weights, it is worth noting that weights remain very heavy and have been slow to decline after making a top back in late October. Steer weights peaked at 931 pounds in the last week of October yet the most recent data from USDA showed them at 926 pounds, only a five-pound decline over a 13-week period. That very slow decline can likely be attributed to the backlog of cattle that persisted through the end of 2020 and a very mild winter which allowed cattle to perform well. The weather has recently taken a bit of a turn for the worse however, and the next few weeks could see a lot more bitter cold and snow in cattle feeding areas. That should help to bring carcass weights down in a more normal fashion.

DEMAND SITUATION

The strong demand picture that existed back in December, carried into January. In fact, as we noted in our Dec 14 Special Report, beef demand in general has been boosted throughout the pandemic. The shift from consumption in the foodservice channel toward retail channel, has been a net positive for beef demand. December and January saw rapidly rising COVID-19 infection rates in the US which helped to keep consumers rooted in the retail channel and thus produced strong demand. Vaccination efforts are going full bore and infections are coming down now, but February and quite possibly March, are likely to see continued strong retail demand and thus strong overall demand for beef. If the foodservice business starts to pick back up in the spring, we can expect an initial surge in demand as restaurants rebuild their protein inventories ahead of reopening. Beyond that restocking phase however, the return to normalcy in consumer's lives will likely mean some decline in beef demand from the red-hot level that was seen during the COVID-19 pandemic.

Export demand for US beef was good in Q4 and that strength seems to be carrying over into 2021. USDA just yesterday released the final export data for 2020 and it showed Q4 exports up 8.4% from the previous year. For 2020 as a whole, beef exports were down 3.3%, but given the severity of the disruptions caused by COVID-19 last year, that number doesn't seem all that bad. Our current projection for 2021 beef exports is up 12%. Although we see beef exports as healthy right now, they will have a hard time matching the strong export numbers that were posted in Q1 last year. As a result, we could see exports down 5% in Q1, but then see strong YOY gains in all the remaining quarters of 2021.

Export demand appears solid.
2021 beef **exports** projected
up 12% YOY

SUMMARY

Very strong demand has been the primary feature in the cattle and beef complex over the past couple of months. We attribute that to rising COVID-19 infection rates and the shift it causes toward more consumption from the retail channel verses the foodservice channel. Cattle supplies are currently ample as the industry works through last summer's large placements. Carcass weights have been stubbornly heavy, but a brutally cold weather forecast for the next couple of weeks could help bring carcass weights quickly lower. Beef buyers need to be focused on securing their needs for Q2 here in February since very small fall placements last year are likely to lead to Q2 beef availability that is not all that different from last year's limited Q2 beef supply due to the plant closures. Expect spot prices to rise to levels in April and May that haven not been seen in over a year. The futures market is already beginning to anticipate high pricing in Q2, but the April and June contracts could still hold considerable upside risk from today's levels. Our near-term price forecasts for cattle and beef are provided in **Table 1**.

Figure 1: US Feedyard Placements, YOY Change

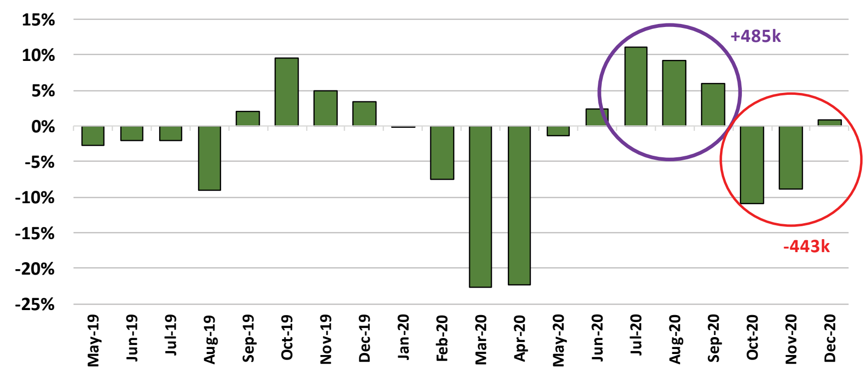

Figure 2: Q2 Availability Compared to Last Year

		Change from Last Yr	
	Commercial Slaughter	+544.000 head	(+7.4%)
	Carcass Weights	-20 lbs	(-2.5%)
	Total Production	+279 million lbs	(+4.6%)
minus	Exports	+221 million lbs	(+36.4%)
plus	Imports	-73 million pounds	(-8.6%)
	Net Impact:	-94 million pounds	(-1.5%)

Table 1: JSF Cattle and Beef Price Forecasts

	17-Feb	24-Feb	3-Mar	10-Mar	17-Mar	24-Mar
Choice Cutout	229.5	226.7	226.0	228.2	231.1	235.9
Select Cutout	221.3	219.3	218.9	220.8	223.1	227.3
Choice Rib Primal	374.1	369.2	367.8	367.3	371.8	376.2
Choice Chuck Primal	197.0	194.3	192.4	192.1	193.2	197.6
Choice Round Primal	187.2	186.3	190.0	195.1	197.3	202.4
Choice Loin Primal	308.2	303.4	298.7	300.8	304.5	309.1
Choice Brisket Primal	163.2	163.5	166.0	172.4	179.8	186.2
Cash Cattle	115.2	115.2	116.3	118.1	118.0	119.1

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