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THE MONTHLY

RED MEAT OUTLOOK: CATTLE & BEEF

AUGUST 2020

Cattle feeders finally have a reason for optimism as cash cattle prices have been advancing slowly during the month of July. Cash cattle came into July averaging about $95/cwt and by the close of last week the average was close to $98.50, with some trades in the north as high as $102. This small, but psychologically important, gain in cattle prices came largely at the expense of packer margins, which shrank modestly during the month but are still averaging well above normal at $280/hd. Beef prices, on the other hand, continued to slump in July but appear to have bottomed now and are beginning to post some small gains. Buyers need not worry that beef prices are going to rocket higher anytime soon, but modest improvements are expected during the month of August. Packers continue to keep their plants running at close to 95% of capacity, which has created a much more stable pricing environment than what we witnessed last spring when plants were forced to close or reduce hours due to COVID-19 infections. The longer that plants manage to run at high capacity levels, the more confident market participants can be that the problem is largely in the past. We think packers have learned a lot about how to control and contain COVID-19 in their plants and thus, while there may be some isolated incidents, additional large-scale shutdowns like were seen in April and May are unlikely.

> Cash cattle markets are working **slowly higher**, currently **approaching $99/cwt.**

SUPPLY PICTURE

Fed cattle slaughter in the US has been running between 515-525,000 head since the middle of June and that may represent a practical maximum that packers can achieve with their new COVID-19 mitigation procedures in place. Labor remains an issue for packers, particularly on fabrication lines where there have been some shortages of particular cuts that require a lot of labor to produce. Still, these levels of fed slaughter are moderately above what would have been required at this time of year based on past placement patterns, so the cattle backlog that was created this spring is being whittled down slowly. To be sure, the cattle feeding industry is still a long way from being current on marketings as cattle carcass weights are still very heavy and some producers are still having to resort to lower-energy diets in an effort to keep cattle from gaining weight at a normal pace.

Fed cattle carcass weights tell an interesting story. **Figure 1** provides a look at the path that blended steer and heifer carcass weights have taken this year compared to previous years. The most obvious feature in this chart is the failure of carcass weights to adhere to the normal seasonal decline that would have had them bottoming in May and then rising as we move toward October. Instead, weights remained heavy right through the spring and summer months. The comparables with last year are getting better every week, but that is more a function of last year's weights rising in a normal seasonal fashion while weights this year have been in a sideways pattern. The most recent data from USDA indicate that blended steer and heifer carcass weights are still about 4% heavier than last year. That additional tonnage is adding to beef production and weighing on the cutouts currently.

USDA reported June feedyard placements up about 2% from a year ago, which was the first monthly increase since December of last year. The industry saw a massive decline in placements this spring, with the average for March, April and May falling 17.5% from a year earlier. That shortfall amounts to almost one million head less cattle placed in those three months than last year. Those animals would be scheduled to exit the feedyard in September, October and November and thus there is a large "hole" looming in cattle supplies this fall. We estimate that by the end of August the backlog of un-killed cattle will be about 400,000 head. Those animals will help to fill in the hole somewhat, but there will still be a large deficit. As a result, cattle and beef prices are expected to escalate this fall and buyers should be cognizant of the risk that this supply situation poses. JSF's fundamental analysis indicates that fed beef production during the fourth quarter of 2020 could be down more than 5% from last year (see **Figure 2**). Even with that big shortfall, beef prices in Q4 are expected to remain about 3% below last year, largely due to softer demand caused by the deep global recession that has resulted from COVID-19. The message is clear, we are now experiencing the lowest beef prices of 2020 and, while they may not reach last year's levels, they will very likely be higher this fall and winter than they are currently.

DEMAND SITUATION

While the problem of COVID-19 infections in packing plants appears to be largely solved, it is getting worse in the general population. This is going to have a chilling effect on beef demand. The US unemployment rate stands at 11% and the rise in infections is causing restrictions to be put back in place on foodservice establishments and large gatherings. Further, the assistance provided to unemployed individuals by the federal government expired at the end of July and another round of assistance has yet to clear Congress. Many of the newly unemployed did not feel the effects of the recession because of the additional government assistance they received in the spring and early summer, but now they face much bleaker prospects. That is likely to cause a sharp reduction in consumer spending and beef demand will suffer as a result. Look for cash-strapped consumers to trade down from high priced middle meats toward end meats and grinds in the months ahead. They will also begin to shun beef in favor of cheaper pork and poultry. All of our price forecasts impound about a 4% reduction in total beef demand through the balance of 2020 due to this recession impact.

US beef demand seen 4% lower this fall due to recessionary pressures

Talk of a commercially available COVID-19 vaccine by the end of the year has raised hopes that life will be back to normal by the time 2021 arrives. That is likely too optimistic as it will take considerable time to distribute and administer enough doses of the vaccine to allow society to function normally again. It may very well be mid-2021 before the foodservice industry is able to operate again near pre-COVID levels. In the meantime, large numbers of foodservice establishments may be forced into bankruptcy and many individuals may face the same fate.

COVID-19 is not just a problem in the United States, it is affecting almost every country on the planet and that means that countries that normally import US beef are struggling with recessions of their own. This will limit their purchasing power and beef exports to those countries will likely struggle. Thus, we don't expect the export sector to be in a position to help improve beef demand during the months ahead. The weekly export data for beef has been so-so, even recently when beef prices have been depressed. As US beef prices rise this fall, importing countries are likely to scale back their purchases and as a result it is difficult for us to see 2020 beef exports much higher that what we saw in 2019.

SUMMARY

Cash cattle prices have been slowly improving and packing margins are slowly declining. Beef prices are probably at or near their annual lows right now and should escalate as we move into fall. A big "hole" was created in Sep/Oct/Nov cattle supplies by the sharp reduction in placements that occurred this spring. There are still over 400,000 cattle backlogged from the spring but those will fall short of filling in the one-million head dip in supplies caused by the light spring placements. Demand is expected to be soft through the balance of 2020 as the recession deepens and consumers begin to feel its impact more acutely. We think that the supply shortfall later this year will outweigh the impact of soft demand, and thus cattle and beef prices are expected to rise. End meats and grinds are the most at risk for large price increases as struggling consumers trade down to those items from higher-priced middle meats. Buyers should consider forward pricing at least a portion of their Sep/Oct/Nov needs now before the markets rise further. Our near-term price forecasts for cattle and beef are provided in **Table 1**.

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Figure 1: Blended S&H Carcass Wt.

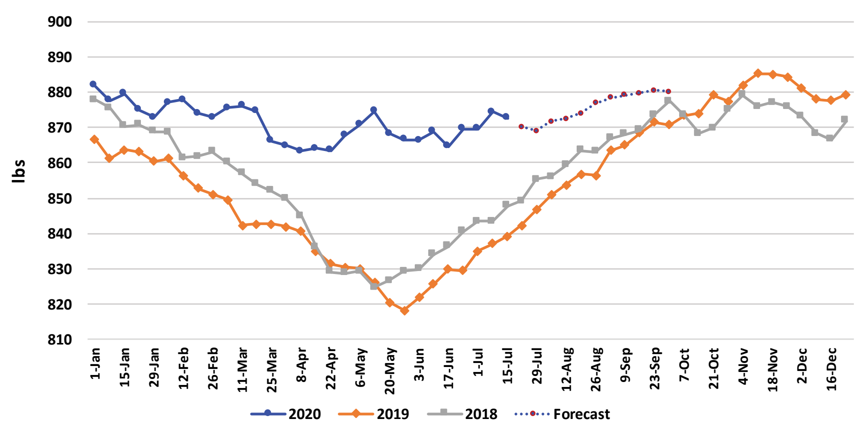

Figure 2: FI Steer & Heifer Beef Production by Quarter

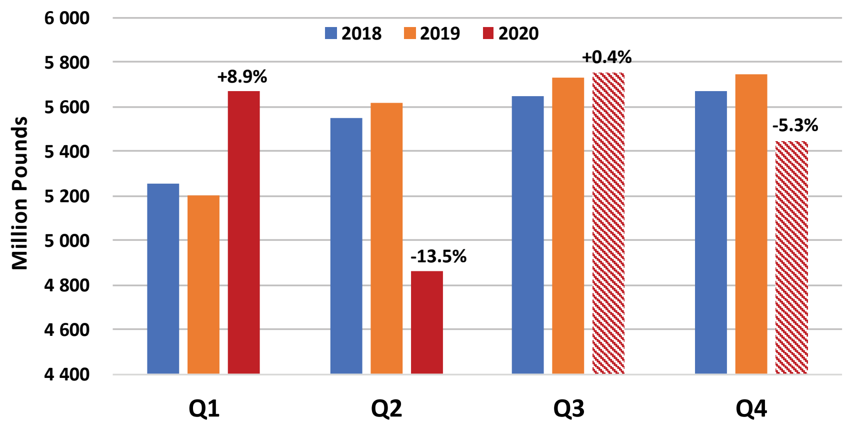

Table 1: JSF Cattle and Beef Price Forecasts

	12-Aug	19-Aug	26-Aug	2-Sep	9-Sep	16-Sep
Choice Cutout	202.0	204.6	205.8	207.6	209.1	211.0
Select Cutout	193.3	196.6	196.7	197.7	198.6	200.6
Choice Rib Primal	337.2	341.8	339.6	337.6	335.7	338.6
Choice Chuck Primal	161.0	164.2	168.0	171.1	175.2	178.0
Choice Round Primal	169.0	173.2	176.0	179.6	181.8	183.0
Choice Loin Primal	273.4	273.7	271.8	272.4	270.7	271.4
Choice Brisket Primal	145.8	148.0	152.2	154.0	159.0	166.3
Cash Cattle	99.6	100.9	101.8	103.0	105.8	108.3

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