VOLUME 2, ISSUE 8
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THE MONTHLY AUGUST 2019

RED MEAT OUTLOOK: CATTLE & BEEF

The beef market worked lower during July, with the blended cutout dropping about $7. The cash cattle market, on the other hand, moved a little higher, adding $2-3. Cash cattle last traded in the vicinity of $113-114 (see **Figure 1**). The downward movement in beef prices was not unexpected as it is fairly normal for beef demand to be sluggish during July and early August. Still, the blended cutout is about $4 stronger than it was last year at this time and beef production is a little bit larger. As beef prices fell and cattle prices rose, packers experienced margin compression. But margins were so large at the start of July ($230/hd.) that the month-long tightening of margins still left packers in a pretty good margin situation. We estimate that margins this week will average about $140/hd.

> Steer **carcass** weights running ↓ **6lbs** YOY; **heifer** weights ↓ **10lbs** YOY

The choice-select spread remains very wide (near $23) but is slowly working lower. In general, the cattle and beef complex has been in good balance this summer, with price levels and production coming in close to forecast. This is in contrast to the hog and pork markets, which remain very volatile and difficult to predict.

SUPPLY PICTURE

Steer and heifer slaughter during July averaged about 535,000 head. That was about 20,000 head per week below
projected and is likely the result of cattle falling behind schedule due to the cold, wet winter and spring. It's important to recognize that these cattle didn't disappear – they will just take a little longer in the production pipeline before they will be market ready. As a result, we have dialed back our slaughter forecasts for August to about 525,000 head per week and dialed up the September forecast modestly to around 540,000 head per week. Therefore, we see September as the next opportunity for supply to exert pressure on cattle and beef prices.

Carcass weights remain lighter than normal for this time of year. Steer weights are six pounds below last year (see **Figure 2**), while heifer weights are ten pounds less than last year. Clearly, the industry has struggled to overcome the effects of the harsh winter, but there has also been a strong pull on the cattle supply by packers eager to capitalize on huge margins. Those two effects combined have left feedyards in a very current situation. The de-trended and de-seasonalized weights continue to point in that direction and it may be late September or early October before the carcass weight situation normalizes again.

Of course, what matters for prices is total beef production and there the bigger kills are outweighing the light carcass weights to generate beef production that is in the range of 2-3% above last year. If our forecasts are correct, beef production from steers and heifers will expand in August to about 4% over last year. Cow beef production has been running 1-2% larger than last year, further adding to the beef supply.

USDA's most recent *Cattle on Feed* report showed June placements down 2.1%, the second month in a row of smaller year-over-year placements. We believe that situation is temporary and that August placements could be about 2% above last year and it's quite possible that we will see YOY increases in placements during the remaining months of 2019. USDA also issued its mid-year inventory report, which showed little change in the overall size of the cattle herd and thus it is very likely that the herd will make a cyclical top in 2020 and begin to trend lower in the years that follow. If the cattle herd tops in 2020, then beef production will not likely top until 2022 as beef production will continue to be bolstered by producers liquidating breeding stock in the two years following the cyclical peak.

DEMAND SITUATION

Domestic beef demand continues to chug along, neither great nor terrible, as the industry works through the dog days of summer. Our analysis suggests that domestic demand is slightly better this year than it was last year at this time. The thing to watch for in August is improvement in demand for end meats and grinds as institutional buyers step into the market in preparation for the upcoming school year. Middle meats have held together quite well also, and we are seeing retailers feature steak items more frequently than they have in past years. With low unemployment and strong consumer spending, retailers ar -
riods of the year like this when they are not usually in high demand. But we need to recognize that middle meat demand is highly dependent upon the macroeconomy remaining solid. The Federal Reserve lowered interest rates by a quarter point recently in an effort to keep the current economic expansion intact. There will probably be further rate cuts in 2019 since there is a very real possibility that the US economy will follow the rest of the world into a recession. For now, things look ok with domestic beef demand but buyers should watch
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sign that the domestic economy is slipping and that would not bode well for beef demand.

The international picture is a bit bleaker. Economic slowdowns have been noted in Asia and Europe. Asia is the biggest concern for the beef market since Japan and S. Korea are big buyers of US beef. USDA just released the official export totals for June and they were close to even with June, 2018. However, beef prices were declining in July and that may have spurred enough international interest to lift July exports slightly above last year. Beyond that however, it is our sense that beef exports will not be able to live up too the lofty numbers posted in the second half of 2018, and we will once again see exports trailing last year. Our current forecast has 2019 beef exports down 3% and the risk is that it could be lower than that if the global economic slowdown worsens.

2019 beef exports are **forecast** to be **down 3%** or more

Figure 1: 5-Area Live Steers

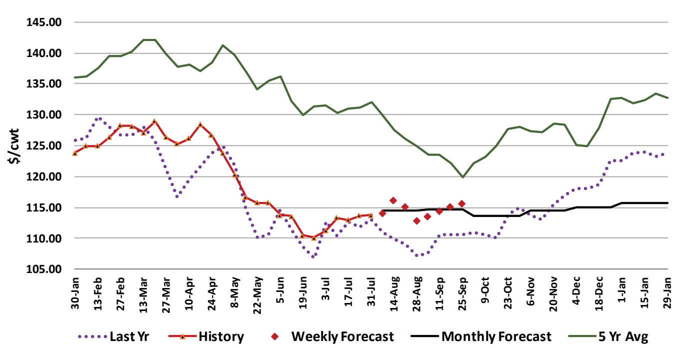


Figure 2: FI Steer Carcass Wt.

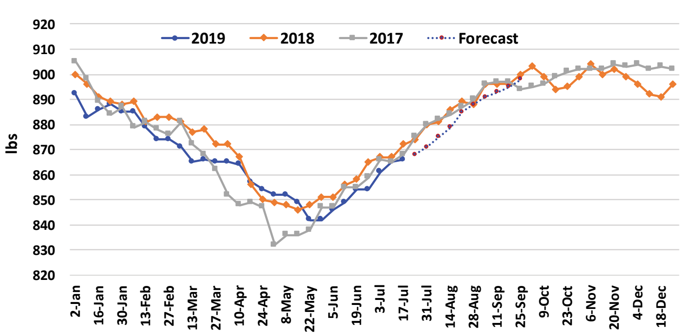


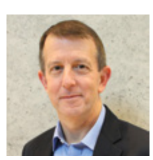
Table 1: JSF Cattle and Beef Price Forecasts

	14-Aug	21-Aug	28-Aug	4-Sep	11-Sep	18-Sep
Choice Cutout	212.2	210.0	208.2	207.7	207.7	207.3
Select Cutout	189.6	188.0	186.9	188.3	189.1	188.5
Choice Rib Primal	362.2	358.5	354.1	349.4	346.6	345.5
Choice Chuck Primal	170.3	169.0	170.0	172.2	173.8	174.1
Choice Round Primal	167.7	166.4	164.6	166.0	168.2	170.1
Choice Loin Primal	287.6	283.3	279.1	275.5	272.2	269.0
Choice Brisket Primal	190.0	188.7	186.9	184.7	185.0	182.2
Cash Cattle	116.1	115.1	112.9	113.6	114.4	115.1

Beef demand continues to benefit from a volatile hog and pork market that has retailers fearful of planning for too many pork features this fall. We expect pork prices this fall to be near what the futures market is currently implying and normally that would be a negative for beef demand. However, cheap pork might not matter as much this fall because the specter of ASF in China causing massive US pork exports is likely to keep retailers averse to pork features for at least a few more months.

SUMMARY

At present, the supply side of the cattle market does not appear burdensome at all, mostly due to light carcass weights as a result of the tough winter and the persistent pull on the cattle supply by packers eager to capture large pr gins. That has left feedyards quite current and they should be able to prevent cash cattle prices from slipping in August and may allow for some modest price advances. Domestic beef demand looks good at the moment, particularly for the middle meats, but softness in the US economy over the next few months remains a risk. International demand is holding together, but there is even more risk there because we are already seeing evidence of a macroeconomic slowdown in Asia and Europe. Beef buyers are advised to remain close bought in August and into September given our expectation that beef prices will continue to slowly work lower during that period (see **Table 1**).



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