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Foods Inc.

# THE MONTHLY RED MEAT OUTLOOK: CATTLE & BEEF

DECEMBER 2019

Tyson's Finney County plant began accepting small numbers of cattle in early December and should be fully operational by the end of this month. That is important news for the US cattle industry and points to a return to normalcy after four months of operating without that large slaughter facility. Cash cattle markets continued higher in November and are now pushing close to \$120/cwt. The beef market made its seasonal top in mid-November and has been working lower since. That has reduced packer margins somewhat, but they still remain very wide and are encouraging packers to keep slaughter levels high. The other important development during November was a sharp increase in the price of lean beef trimmings.

## Cash cattle markets are now approaching the \$120/cwt mark

That occurred in response to very strong imported lean beef prices, driven by strong demand for Australian manufacturing beef from buyers in China. Domestic lean buyers were caught off-guard by this event and have been scrambling to reduce their exposure to what looks like it will be a very strong 90s market in 2020. Some have even taken to grinding primal chucks and rounds and that has kept the end meats stronger than they would have been otherwise. This is shaping up to be a major story in 2020 as China sources lean beef from Australia and New Zealand that would have normally been destined for the US. Given the magnitude of the protein shortage in China caused by African Swine Fever (ASF), we look for this dynamic to continue for many months and thus we have adjusted our lean beef price forecasts upwards for a large part of 2020.

### SUPPLY PICTURE

By our calculation, beef packer margins averaged about \$350/hd in November, which was more than double what they averaged in November last year (see **Figure 1**). As you would expect, this

kept packers eager to put blood on the kill floor and fed steer and heifer slaughter averaged about 510,000 head per week. As we go into December, fed cattle availability should tighten up a bit and that means that if packers want to maintain these big kills, they will likely have to keep paying up for cattle. Availability will be even tighter in January and February, so the prospects for a higher cattle market extends well into Q1 of next year. Currently, we project cash cattle prices to be approaching \$130/cwt by early February. Weather hasn't been much of an issue so far this winter, but the potential for the weather to turn nasty and create mud in feedyards still exists and represents an upside risk to our price forecast.

Cattle carcass weights appear to have topped seasonally now, but they got heavier than we expected and that has added to beef production in recent weeks. Weights should now trend lower until late April and the speed of that decline will be largely dependent upon the weather. The de-trended and de-seasonalized weights that we watch as an indicator of feedyard currentness have been moving higher and are now at their highest level since March 2018. That is a bit of a caution signal that perhaps feedyards are falling behind in their marketings somewhat. However, the December futures contract is now trading close to par with the cash market, so there is little incentive for cattle feeders to delay marketings for the balance of this month. We think the strong incentive of big packer margins will outweigh any loss of currentness in feedyards and keep cattle prices firm.

Cattle feeders got busy refilling their pens in October, with USDA estimating that new feedyard placements were up 10%. That was probably due to some catch-up as placements plummeted following the Tyson plant fire in August. November placements appear to have moderated some and we look for USDA to report about a 5% YOY increase when the next Cattle on Feed report is released on December 20. If our estimate is correct, that will leave Dec 1 feedyard inventories about 2.9% greater than last year. We look for cattle feeders to continue to place more cattle than last year through Q1, since their profitability situation will be much improved if cash

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cattle prices continue higher. By early in Q2 we could have feedyard inventories 5-6% over the previous year and that would possibly set the stage for large cattle supplies to weigh on prices next summer.

## DEMAND SITUATION

Beef exports have been a bit lethargic lately, with movement during October down 8.7% YOY. But we need to remember that beef prices in October were about \$20/cwt higher than they were last October, so some reduction in volume was not unexpected. The spike in imported lean beef prices didn't really materialize until the end of October, so we will be watching to see if beef imports are down substantially in November. Buyers need time to adjust to the higher prices, so it is likely that a significant slowdown in beef imports won't be registered until the December data becomes available.

We have adjusted our 2020 beef import forecasts lower to reflect our belief that imported lean prices will remain high for the foreseeable future due to China's need to bid that product away from North American buyers. The US-Japan trade agreement will go into effect on Jan 1, 2020 lowering tariffs on US beef and thus putting the US on equal footing with other countries looking to sell into Japan. That could cause exports to Japan to soften in December as Japanese buyers wait for the tariff break in January.

In contrast to the international demand situation, domestic beef demand has been very good as we approach the end of the year. The scatter diagram in **Figure 2** illustrates this for the month of November, where the 2019 data point is positioned well above the regression line that represents average beef demand. November 2019 demand looks better than it did in the same month of 2018 or 2017, both of which were considered strong demand periods. Going

forward, the high price of 90s should continue to provide support to the end meats and that should help keep the cutouts above last year during Q1 and probably Q2 also. Recession remains a big risk to beef demand, but so far, the US has managed to buck the global trend of slowing growth and so, while we still think there is a high probability of a US recession in the future, that might not actually materialize until the second half of 2020.

October feedyard placements **up 10%**,  
with November **projected at +5%**

## SUMMARY

With the re-opening of the Tyson plant, the beef industry is now moving back toward full capacity and packers have plenty of financial incentive to process as many cattle as they can get their hands on. Beef markets have now made their seasonal top ahead of the Christmas holidays and will likely trend lower into year's end. Thus, we expect to see packer margins narrow further, with cattle prices working higher while beef prices soften. Q1 represents a significant risk for beef buyers as prior feedyard placement patterns suggest cattle supplies will tighten and, if demand remains good, price levels could be significantly above last year. Users needing to procure end cuts for January and February would do well to consider taking on some fixed-forward pricing for that period. Those needing lean grinding beef will likely feel a considerable financial pinch in Q1 as 90s prices are expected to remain elevated. Our near-term price forecasts for cattle and beef are provided in **Table 1**.

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Figure 1: Packer Margin

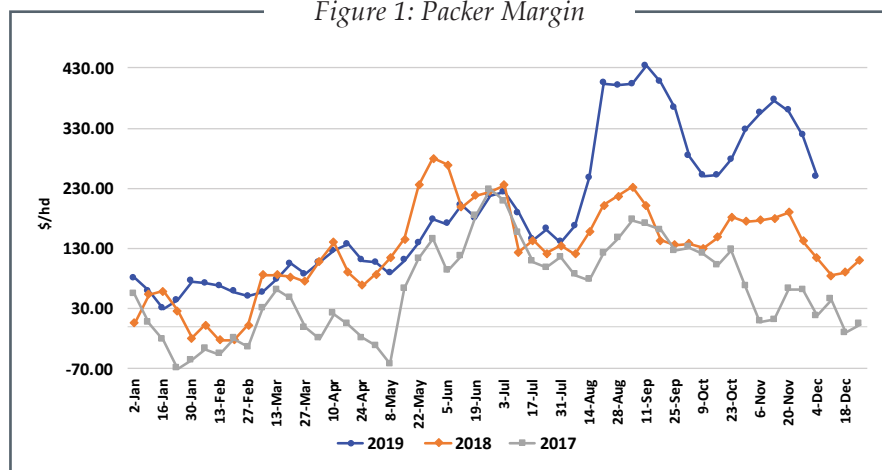


Figure 2: Blended Cutout vs. Per Capita Beef Consumption, Carcass Wt, Nov

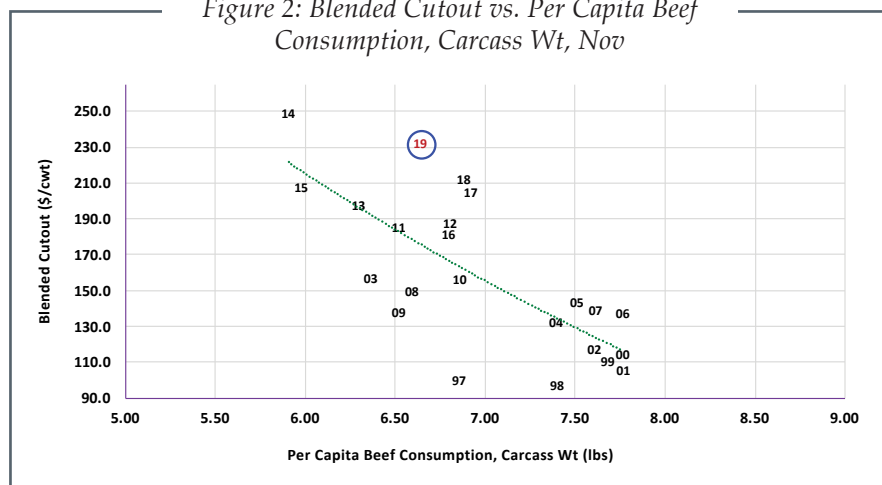


Table 1: JSF Cattle and Beef Price Forecasts

	18-Dec	25-Dec	1-Jan	8-Jan	15-Jan	22-Jan
Choice Cutout	222.5	222.3	223.7	224.9	226.4	227.5
Select Cutout	202.1	202.7	208.5	212.8	216.0	217.4
Choice Rib Primal	390.4	373.1	365.0	358.0	359.0	363.4
Choice Chuck Primal	185.6	186.9	189.0	190.4	189.4	191.3
Choice Round Primal	184.6	187.3	190.2	192.4	194.8	193.3
Choice Loin Primal	279.0	281.1	283.9	287.4	291.1	292.6
Choice Brisket Primal	202.4	203.5	204.4	207.6	209.0	210.1
Cash Cattle	121.5	120.9	123.4	125.9	127.0	128.3



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