VOLUME 3, ISSUE 7
EN | FR | ES

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THE MONTHLY

RED MEAT OUTLOOK: CATTLE & BEEF

JULY 2020

The cattle and beef complex has finally returned to some sense of normalcy after the wild swings in price and production that characterized much of the spring. Packing plants seem to be running smoothly once again and production is nearly back to pre-COVID levels. All participants in the supply chain should be grateful for the return to stability, but cattle producers are still suffering financially from the fallout of the Covid-19 crisis. The Choice cutout is now trading in the low $200s after soaring above $475 during the peak of COVID-related plant closures.

> Beef production has **returned to near-normal levels**, pushing the Choice cutout back into the **low $200s**

Packer margins, which in our estimation exceeded $2000/hd at times, are now back down to around $350/hd. That is still a very strong margin for packers but it is easy to argue that those large margins are necessary to incentivize packers to keep kills high and thus work through the backlog of animals created by plant shutdowns in April and May. In our view, packers will maintain a margin of between $250-350/hd all summer long. If the cutouts decline substantially, they will push cash cattle prices lower in order to maintain that margin. Cattle feeders are powerless to resist lower cattle prices because they have so many animals standing in their feedyards that need to be slaughtered. However, by the time fall arrives cattle feeders should be in a much better inventory position due to the sharp reduction in placements that occurred this spring as COVID-19 raged. That will provide more leverage to cattle feeders in their weekly haggling with packers over cattle prices and it will pave the way for higher cattle prices this fall.

SUPPLY PICTURE

Fed cattle slaughter seems to have settled into a range between 515-525K head per week now. By our calculation, that is about 95% of full capacity and may be the most that packers can do given the new protocols that have spaced out workers in plants and added other safety measures that tend to slow down kill rates. We can expect to see packers continue to slaughter at this rate for at least another couple of months and maybe more. That will keep plenty of beef available to satisfy both domestic and international demand. Non-fed slaughter (cows and bulls) is also running high, in part because the price of lean beef has remained strong and that is supporting cow prices. Cow slaughter in June looks like it was up about 4.5% from a year ago and that pace could easily continue through July and August. Lean beef prices are slowly coming down in response to the larger non-fed production.

Carcass weights continue to be a problem for cattle producers. The most recent data out of USDA showed blended steer and heifer carcass weights 35 pounds, or 4.2%, greater than last year. The chart in **Figure 1** illustrates just how abnormal carcass weights have been this year. They normally bottom in late April then work seasonally higher toward a peak in October or November. This year however, they have held steady right through summer and shown almost no tendency to decline seasonally. The abnormal carcass weight pattern is a direct result of packing plant closures this spring and the backlog

> Carcass weights remain a problem, now **35 pounds heavier** than last year

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it created in the nation's feedyards. It will likely take many months before carcass weights return to their normal pattern. That adds tremendously to beef production and works to offset the reduction in beef production arising from fewer animals moving through packing plants in this post-COVID environment. During the height of the COVID-related plant closures, weekly beef production was down almost 40% from last year, but now the heavier carcass weights and increased slaughter levels have pushed beef production back up to last year's level and it could easily be above last year by 2-3% during July and August. Market participants should have no problems sourcing beef in the next couple of months.

Feedyard placement patterns returned to normal in May following a 23% reduction in March and April. May placements were reported down only 1.3% from last year and it is likely that June placements will be at or above last year's level (see **Figure 2**). Cattle feeders are more optimistic now that it seems the packing plant COVID problems have been resolved. Still, for the four-month period that ran from February to May, feedyard placements were down an average of 13.5%. Those are cattle that will become slaughter-ready during the Aug-Nov time period and thus this fall we are likely to see a significant tightening of cattle and beef supplies. The futures market doesn't appear to be giving much thought to the potential for tight fall supplies yet and that should create an opportunity for beef buyers to forward price their fall needs at attractive price levels.

DEMAND SITUATION

We are now entering the dog days of summer where temperatures soar and beef demand is typically soft. With the July 4 holiday now behind us, the market will need to clear a lot of beef without the benefit of another holiday for two months. Grilling enthusiasm is normally highest in April and May as the weather starts to warm but consumers tend to shy away from standing next to a hot grill during the months of July and August. However, with many people still stuck at home as a result of COVID-19 restrictions, this summer could see better-than-normal demand for home grilling. The foodservice sector is contracting again as several states have been forced to scale back their re-openings following a sharp increase in COVID-19 infections. As a result, we expect demand for middle meats to be soft during the second half of summer and that could impact grinds also. Another big source of uncertainty for beef demand lies in the re-opening of schools this fall. Normally school systems start procuring meat for the upcoming fall semester in mid-to-late July, but this year it looks like only a portion of schools will re-open for in-person classes and thus on-campus dining. That could temper demand in July and August. At present, it is hard to see anything that would substantially boost domestic demand in the short run, but there are plenty of things that could stifle it.

US beef is also struggling with lackluster international demand. USDA just released export totals for May and they were down almost 31% from last year. To be fair, beef prices were astronomical in May, so it is not surprising that some international customers decided to pass on US beef. The weekly export numbers suggest a moderate rebound in June, but it too could see exports down 10-15%. The global economy is clearly in recession now and that works to temper demand for expensive imported items like US beef. Although the global macroeconomic picture is slowly getting better, it will take many months, or perhaps even years, to get the global economy back on track. Thus, it is likely that beef exports will under-perform for a long time to come. Currently our forecast has 2020 beef exports about flat with last year.

SUMMARY

The cattle and beef complex has settled down considerably following the wild price and production gyrations this spring. Cattle are still backed up in the nation's feedyards, but large packer margins should encourage packers to kill aggressively and hopefully clear some of the backlog. Carcass weights are excessively heavy and beef production is likely to exceed year-ago levels in July and August. Buyers will find beef readily available and at a good price. Beef supplies could tighten considerably this fall as very small placements this spring become market ready. Buyers might do well to consider forward booking a portion of their Sep/Oct/Nov needs now while the futures market is still at relatively low levels. 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.

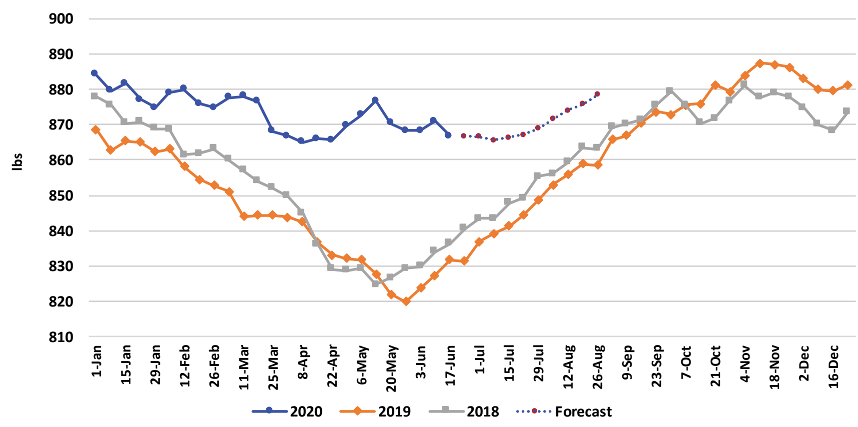

Figure 2: US Feedyard Placements, YOY Change

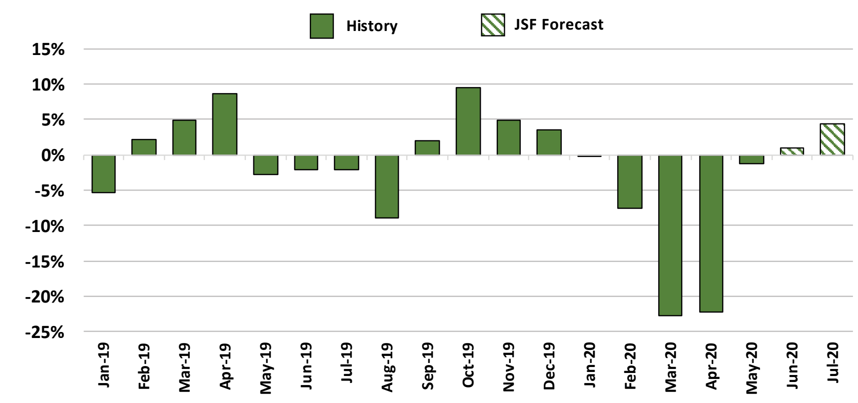

Table 1: JSF Cattle and Beef Price Forecasts

	15-Jul	22-Jul	29-Jul	5-Aug	12-Aug	19-Aug
Choice Cutout	205.3	206.0	209.2	211.4	210.6	209.6
Select Cutout	199.0	200.3	204.1	207.2	206.7	205.9
Choice Rib Primal	327.4	326.2	333.6	336.6	337.0	334.2
Choice Chuck Primal	171.2	170.2	172.5	174.4	172.9	173.8
Choice Round Primal	173.4	175.8	178.0	182.2	183.0	182.6
Choice Loin Primal	277.0	278.0	281.1	280.2	278.2	275.1
Choice Brisket Primal	155.4	155.8	160.5	166.0	169.5	168.4
Cash Cattle	97.8	98.2	101.2	103.3	104.0	104.3

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