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THE MONTHLY

RED MEAT OUTLOOK: CATTLE & BEEF

JUNE 2019

Live cattle futures fell further during May and turned the tide in the cash market as well. Coming into May, the cash cattle market was at $125 and by the time the month was over, the cash cattle market was trading a full ten dollars below that level. The June futures are now trading around $110, which is a far cry from the $122 top that was made earlier this year in mid-April. There has been a lot of speculation surrounding the cause for the sudden reversal in the cattle market, but we think it can be at least partially tied to the poor performance of middle meats in May. The rib and loin primals had seen very strong demand throughout 2019, but something changed in late April that touched off a downward correction. The rib primal peaked at $397 on April 26 and it has been working steadily lower since then. This is contrary to the normal seasonal pattern, which would have middle meats peaking somewhere between Memorial Day and Father's Day. Perhaps price levels had just gotten too high, or perhaps buyers who feared really high prices this summer got ahead of the game and built up inventory levels to the point where additional buying in May wasn't necessary. The weather across the US was chilly and damper than normal in May and so perhaps that led to softer demand at the consumer level as well. Nonetheless, here we are in early June with a market that looks like it has gotten too low, but it is not clear what will be required to spark a rally and pull prices higher.

> **Live cattle futures look poised**
> for a rebound following last month's sell-off

SUPPLY PICTURE

Fed kills grew larger in May and are poised to increase even further in June. Steer and heifer slaughter in the first week of June tallied 529,000 head and there is some risk that we could see weekly fed kills as high as 550,000 head toward the end of the month. July should see fed kills in the 550-560,000 range, so there will be no let-up in beef production for at least a couple more months. Carcass weights made their seasonal bottom in late-May and should now be heading higher. That trend towards heavier carcass weights will likely continue until late October. So, with big kills and increasing carcass weights, it is safe to assume that overall beef production during June and July is going to be very large. By our calculations, steer and heifer beef production during the upcoming two months could run 5-6% above the same period last year.

The industry appears to have put the impact of this year's detrimental winter weather behind it now. Cattle are performing well in feedyards and that has made cattle feeders eager to keep them moving in order to head off any risk of cattle backing up in the system and thus becoming too heavy. By accepting lower prices from packers, cattle feeders have accomplished that goal and may be near the point where they don't need to be as aggressive selling cattle over the next few weeks. The *de-trended* and *de-seasonalized* carcass weight data that we follow are way down and that normally is an indication that feedyards are relatively current on their marketings. That may not be enough to generate a big rally in cash cattle prices, but it could produce a small one, or at least halt the downtrend in prices that has been in occurring since late April.

Packers should have plenty of incentive to kill the available cattle since their profit margins have been running between $100-150/head recently (**Figure 1**). That is well below last year's huge margins that approached $300/hd, but it is still a very good margin and packers will try to capitalize on it by putting as many cattle through their plants as they can. Some industry observers have expressed concern that packers will not have enough capacity to process all of the cattle that are coming to slaughter in June and July. But we think that packers will find a way to kill them all, even if it means running more hours on the weekends. Cattle feeders placed 8.7% more cattle into feedyards during April than they did last year, but last April's placements were unusually small. We are looking for May placements to be close to even with last year. If we are correct on May placements, that should leave the feedyard industry with about 2% more cattle on feed than last year (as of June 1). That is not an unmanageable number, but placements are likely to pick up this summer and so there is a risk that by late fall the industry has 4-5% more cattle on feed.

DEMAND SITUATION

We've already mentioned the struggles that middle meats have had since the end of April and that has been a drag on overall beef demand that still continues. End meat demand, on the other hand, has been better than expected, especially for briskets. Brisket prices averaged almost 20% over last year during May and will likely remain 10-15% higher during June. Strong demand from foodservice outlets specializing in barbeque is likely to blame. When we look at the carcass as a whole however, it is clear that domestic beef demand has softened since the end of April. **Figure 2** gives our calculated demand indexes for the blended cutout – the recent softness is evident. It is not quite clear what is responsible for the demand downturn, but it could be related to the cold, wet spring that much of the US endured this year. It might also be reflecting some softening in the US economy, which is almost always negative for beef demand. If it were simply a weather issue, then it is reasonable to expect a rebound in demand this summer, but if it is more tied to consumer confidence about the economy then the soft spot in demand might last for several quarters.

Judging from the weekly export data that USDA reports, it looks as if international demand for US beef improved considerably during May and is off to a great start here in June. Of course, that uptick in beef movement overseas coincided with falling beef prices, so technically it may not be a shift in demand but rather just an increase in the quantity purchased as a result of lower pricing. In any case, it leaves a little less beef that has to be eaten by US consumers and that should be price supportive. Recently, President Trump threated to impose tariffs up to 25% on all goods entering into the US from Mexico because he believed that Mexico was not doing enough to stem the flow of immigrants into the US. Mexico has agreed to deploy its National Guard to help slow

> Steer and heifer slaughter likely to **rise 550-560k head per week**

the immigrant flow, so for now those tariffs are on hold. However, Trump remains ready to reinstate the tariffs if he is not satisfied with Mexico's compliance and that raises the risk that at some point he might threaten Mexico with tariffs again. The US is a small net importer of beef from Mexico, so the tariffs probably wouldn't weigh on the beef market much. However, the US imports about 4-5% of its feeder cattle supply from Mexico and the tariffs would make those animals more expensive for cattle feeding operations in the Southern US. That could reduce feedyard placements if they were to go into effect. This situation needs to be watched closely as it develops in coming months.

Figure 1: Packer Margin

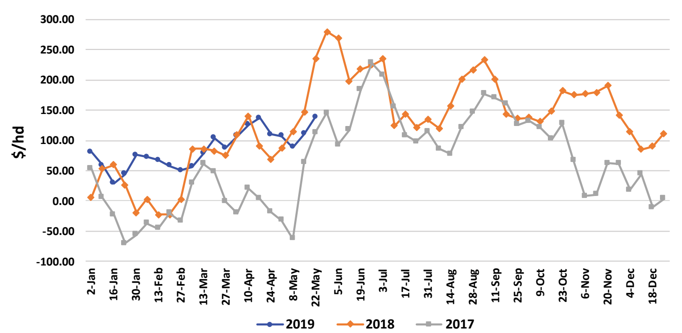

Figure 2: JSF Demand Index, Blended Cutout

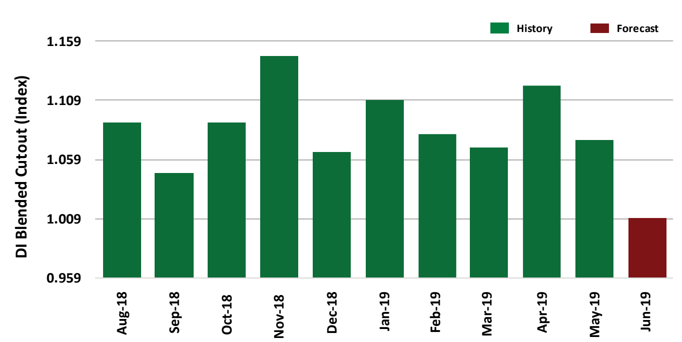

Table 1: JSF Cattle and Beef Price Forecasts

	19-Jun	26-Jun	3-Jul	10-Jul	17-Jul	24-Jul
Choice Cutout	215.4	212.2	210.4	209.1	208.7	207.3
Select Cutout	203.1	202.1	202.2	201.6	201.8	201.5
Choice Rib Primal	348.2	340.0	334.1	328.0	322.4	320.0
Choice Chuck Primal	172.5	170.8	170.7	171.4	172.2	170.3
Choice Round Primal	166.2	165.5	166.8	167.9	170.3	170.2
Choice Loin Primal	300.1	294.3	289.0	284.6	282.4	280.7
Choice Brisket Primal	213.2	206.0	202.9	201.0	197.4	196.4
Cash Cattle	115.3	114.7	114.6	114.1	114.7	114.3

SUMMARY

The downdraft in cattle and beef prices that began in late April has continued into early June. Fed cattle kills have escalated seasonally and carcass weights have turned higher, adding to expected beef production in June and July. Packer margins remain very good and should provide the financial incentive needed to keep packer slaughter levels high over the next couple of months. Domestic beef demand has softened, particularly for middle meats, and that may be related to some softening in the US macroeconomic picture. Export sales have picked up, but concerns about slowing global growth and trade tensions remain. Now that beef prices have retreated from their spring highs, buyers should consider extending ownership but monitor the trade situation closely. **Table 1** provides our price forecasts for the next six weeks.

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