

RETAIL READY
Foods Inc.

THE MONTHLY RED MEAT OUTLOOK: CATTLE & BEEF

NOVEMBER 2019

The cattle and beef markets have been on a strong upward trajectory over the past month. Tyson's Finney County plant is still inoperable, but so far, the industry has managed to kill enough cattle to keep a serious backlog from occurring. The beef market is now in a period of strong seasonal demand and that has helped move the cutouts significantly higher. Since Oct 1, the Choice cutout has added over \$20/cwt and the Select cutout has gained a similar amount. Suffice it to say, demand is very good. Those strong gains in the beef market bolstered packer's already large margins and gave them room to pay more for cash cattle along the way.

Cash cattle prices up \$7-8 from early October

Last week cash cattle traded in the \$113-114 range, up \$7-8 from the first week in October. We estimate that packer margins last week were close to \$340/hd. So clearly, paying more for cattle hasn't really hurt packers' fat margins. Those big margins are likely to continue until the Finney County plant reopens, although they may narrow a bit as we work through November and into December. The biggest risk to the market is still a potential downturn in the US macroeconomy, but that has yet to materialize. Growth continues to slow outside of the US, and while the US economy is showing weakness in several important sectors, consumer spending remains strong and that has kept the economy afloat.

SUPPLY PICTURE

Beef packers have done an admirable job of shifting cattle around to other plants since the Tyson plant fire. Fed cattle kills averaged a little over 500k per week in October, which is a little shy of what we thought needed to be killed in order to avoid a backlog. Feedyards have lost some currentness, but it is not enough to have a material influence on cash cattle prices yet. With packer margins so strong,

they will have plenty of incentive to kill as many cattle as they can in November. Currently, our forecast for weekly average fed slaughter in November is around 492k head. By the time this month comes to an end, fed cattle availability should tighten up a bit, based on previous feedyard placement patterns. That will take some of the pressure off of the harvest facilities and will likely result in somewhat higher cash cattle prices.

Carcass weights are nearing their annual highs and steer weights recently moved above last year. That is not as bad as it sounds because last year at this time carcass weights took an unusual dip. The de-trended and de-seasonalized carcass weights that we watch as an indicator of feedyard currentness have continued to work higher — signaling some loss of currentness — but they are still at relatively low levels and that gives us confidence that no serious backlog is building in feedyards. By the time we reach the end of November, carcass weights should have started to trend lower and that trend should continue until mid or late April.

USDA reported September feedyard placements up 2% from the previous year in their most recent *Cattle on Feed* report. That was the first monthly increase in five months (see **Figure 1**). However, because cattle feeders have maintained a fairly good marketing pace, the total inventory of cattle in feedyards as of October 1 was down a little over 1% from the year before. So, it looks like the near-term supply of cattle is quite manageable and we don't see any reason why the cattle market would get pressure from the supply side between now and the end of the year. We know that cattle feeders severely limited placements in August following the plant fire, but now they seem to have regained their confidence and higher cash and futures prices encouraged them to place cattle into feedyards aggressively during October. Our preliminary estimate of October feedyard placements is up 8% YOY and there is a risk that we will need to revise that forecast higher in the coming weeks. Cattle placed in October will be ready for slaughter in the March/April time frame, so the impact of these recent large placements won't be felt until the second quarter of 2020.

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Between now and then, it looks like cattle supplies will not become burdensome and cattle prices are expected to work higher as a result. Now is the time of year when analysts watch the weather closely for signs of deteriorating conditions in feedyards. Last winter was unusually wet and cold and that took weight off of the animals and caused price levels in late winter and early spring to be higher than they would have been otherwise. There have been some snowstorms already this fall in cattle country, but not enough to create performance issues in our opinion. However, we remind readers that there is upside risk to our price forecasts if the winter in the Plains States turns out to be cold and wet once again.

DEMAND SITUATION

Domestic beef demand appeared to be really strong during October (See **Figure 2**). Some of that is seasonal, as the middle meat items always see strong buying interest ahead of the end-of-year holidays, but the end cuts and trims have performed way above expectations as well. It now looks like price levels for holiday middle meats will exceed last year's levels by a significant amount. There is modest risk to beef demand in November from cheaper pork since pork production is projected to be almost 4% greater this November compared to last. However, consumers have shown a strong preference for beef and it is likely that they will continue to purchase beef even if the price differential to pork widens.

Beef exports continue to be mediocre compared to last year's totals, but they are not down to the degree that they are a drag on overall beef demand. Our current forecast has beef exports in Q4 down only 1% from a year prior. It may be difficult for the industry to expand exports in the coming months since price levels are likely to

be higher and the economy in many of the importing nations appears to be struggling. Beef is a very income-sensitive item and thus the biggest risk we see for beef demand is a continued global economic slowdown. That applies to the US economy as well — if signs of an impending recession develop, consumers will likely rein in their spending and that would be decidedly negative for beef demand.

Holiday middle meats expected to trade well above 2018 levels

SUMMARY

Strong domestic beef demand in October was the impetus for big gains in both beef and cattle prices. That is likely to continue in November as buying interest should intensify as the holidays approach. Cattle supplies are adequate, but not burdensome, and cattle feeders have regained confidence following the plant fire in August so they will be looking to push cattle prices higher in November. We think that they will have some success at that because at this time there is little evidence of cattle becoming backlogged in feedyards. Middle meats will be the focus during November and buyers can expect to see prices for holiday-centric items like ribeyes and tenderloins well above last year. Tyson's Finney County plant is expected to become operational again in early January, but if it comes online sooner, then cattle prices would likely get a boost and beef prices might see some modest declines. In all, the cattle and beef complex appears to be back in good balance in spite of losing processing capacity at a large plant back in August. Our weekly price forecasts are provided in **Table 1**.

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Figure 1: YOY Change in Feedyard Placements

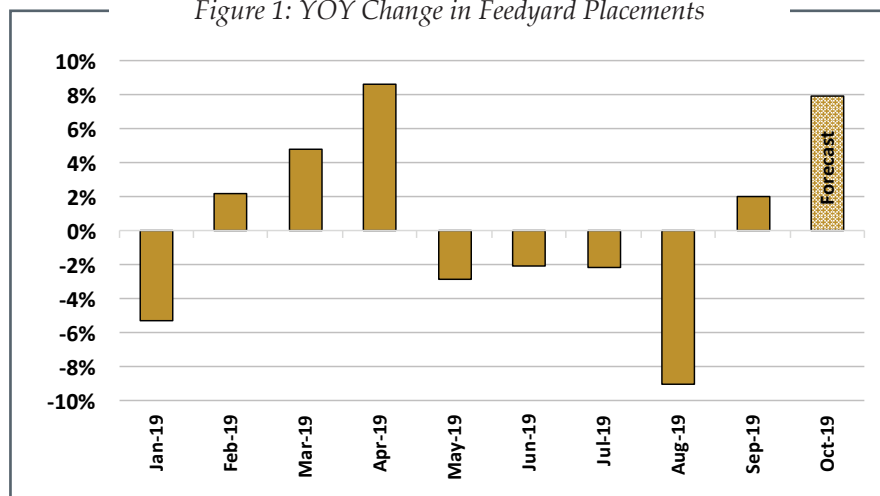


Figure 2: Blended Cutout vs. Per Capita Beef Consumption, Carcass Wt, Oct

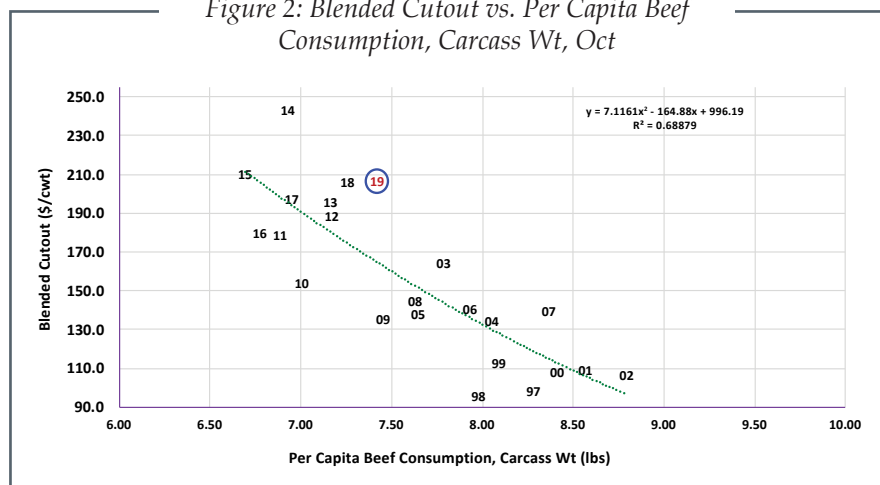


Table 1: JSF Cattle and Beef Price Forecasts

	13-Nov	20-Nov	27-Nov	4-Dec	11-Dec	18-Dec
Choice Cutout	228.2	226.9	225.0	224.6	224.1	223.4
Select Cutout	198.0	195.2	191.9	193.5	196.1	198.2
Choice Rib Primal	425.2	427.8	424.9	416.1	401.1	386.1
Choice Chuck Primal	178.4	175.5	175.2	178.6	181.0	183.3
Choice Round Primal	183.3	181.5	178.6	177.3	177.4	178.9
Choice Loin Primal	297.1	296.2	293.3	292.0	293.3	292.0
Choice Brisket Primal	207.4	209.8	209.5	213.6	216.7	215.3
Cash Cattle	114.1	114.9	115.7	115.9	116.6	117.2



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