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RED MEAT OUTLOOK: CATTLE & BEEF

The cash market for live cattle has been in somewhat of a slump lately, with price levels declining from $108 in early October to $105 in the third week of October. That slide was halted last week when cattle feeders managed to extract $106 from packers for their showlists. While cash cattle were declining, the beef cutouts were also slipping lower, with the Choice cutout dropping almost $10 during the month of October. The usually dependable October rally in the cutouts has failed to materialize this year and that has cast a pall over the entire complex. It is hard to explain why the beef has performed so poorly this fall, but perhaps it is related to buyers anticipating less demand this holiday season compared to years past. With COVID-19 infections surging across the nation, there will be very few holiday banquets and Christmas parties, which are normally a source of strong demand for beef middles. Without those festive gatherings, buyers have been more reluctant to build inventories ahead of the holidays. However, overall beef demand remains quite good, it is just that the holiday buying in the past few years has set a high bar that the market is unlikely to attain this year. Cattle are grading exceptionally well because many animals have been on feed longer than normal due to the backlog that was created this spring when COVID-19 infections forced the closure of many packing plants. This has resulted in an ample supply of the Choice and Prime grade beef that is often the target of holiday celebrations. That may also be keeping the pressure on the cutout. We do look for some modest appreciation in beef prices through the balance of the year, but it will likely fall well short of what occurred in recent years.

SUPPLY PICTURE

There has been a lot of discussion lately about the size of the cattle backlog. To measure the backlog, we make use of a flow model that projects how many cattle should be slaughtered each month based on past feedyard placements and the weights at which those cattle entered the feedyard. By comparing actual slaughter with the model-projected slaughter, we can get a sense of just how many cattle remain un-slaughtered following the plant shutdowns this spring. **Figure 1** provides a look at our calculated backlog. Packers were actually a little ahead of the game in March, but when the plant shutdowns happened in April and May, the number of un-slaughtered cattle reached nearly 800,000 head. Since then, packers have over-killed the model in each month and that continued in October. Now it appears that there are slightly less than 200,000 head backlogged. It is quite possible that packers will clean those animals up in November and December so that by the end of the year the backlog will be extinguished. As the backlog clears, cattle feeders will gain more leverage in their price negotiations with packers and that should help cattle prices to work higher during the balance of 2020.

> The cattle backlog is estimated at **200,000 head** and should be **near zero by the end of the year**

As cattle backed up in the system, carcass weights got heavier. **Figure 2** indicates that at the worst part of the crisis, carcass weights were running about 5.5% over last year. As packers worked down the backlog, the YOY gap in carcass weights has narrowed. It is important to note that carcass weights were already 3% over last year in March before the crisis started. They are now back down to that same level and our forecast has them closing the YOY gap even more as the end of the year approaches. The wild card in the carcass weight picture is winter weather.

We've already had snow storms pass through the cattle feeding regions this year and if we continue to get more cold snowy weather, then weights could come down faster than projected. At present however, heavy carcass weights remain a problem that is adding tonnage to a market that is facing uncertain demand going forward.

USDA reported feedyard placements up almost 6% YOY during September. It looks like the pace of placements slowed during October as cattle feeders struggled with low cattle prices and cattle futures weren't offering a very optimistic view of 2021. Even so, the industry placed an average of 7% more cattle during the months of June through September and these cattle will begin to show up for slaughter near the end of the year and into the first quarter of next year. That likely assures that beef supplies will be ample during Q1 and price levels will reflect that. Fortunately for cattle feeders, the backlog should be largely gone when these larger cattle supplies start to show up in the market during Q1.

DEMAND SITUATION

I'm sure that to a lot of readers beef demand feels pretty weak at the moment. However, it is important to keep in mind that domestic demand was very strong during September and in fact, our beef demand index showed the strongest level it has ever posted for the month of September. Demand definitely softened a bit during October, but it is not in the gutter. The beef demand index calculated for October was second only to October, 2014 in terms of strength. So while beef demand feels soft, it probably only feels that way because it is coming down from a very high level. The scatter diagram in **Figure 3** illustrates domestic beef demand for October. The 2020 data point is well above the regression line (which connotates average demand) and actually just a little above the data point for October, 2019. Our fundamental forecast has domestic demand for November solidly below 2019, but still well above the regression line and on par with the level of demand in November of 2018 and 2017. There is a reasonable chance that demand will surprise to the upside in November since pork prices were extremely high in September and October when retailers were deciding what to feature in their November and December ads. We suspect that many retailers shifted their feature plans away from pork and towards beef as a result.

Beef exports are holding together fairly well considering the recession that is gripping the world as a result of COVID-19.

The most encouraging piece of news on the export front is now China is buying large amounts of US beef. The weekly export data indicates that China has surpassed Canada in the amount of beef bought from US suppliers. We know that China has a serious protein deficit as a result of the African Swine Fever outbreak that decimated its hog herd over the past two years. As part of the Phase One trade deal the US signed with China in early 2020, China agreed to drop most, if not all, of the restrictions that had been keeping US beef out of its markets. Now that Chinese buyers are free to purchase beef from the US without restriction, we are seeing that China actually has a pretty strong appetite for US beef. This is a very welcome development that could pay big dividends to the beef industry for years to come. Beef exports for all of 2020 are expected to be down 3-4% from last year, but 2020 exports will be the third largest on record, behind only 2018 and 2019.

China surpasses Canada
in US beef imports

SUMMARY

Cattle and beef prices slumped during October, but look like they are both close to a bottom now and some mild price appreciation is expected during November and December. The backlog of cattle created by the plant shutdowns this spring is being steadily reduced and may be completely gone by the end of the year. Big supplies await in Q1 of 2021 however, as cattle feeders have placed animals into feedyards aggressively from June through September. As a result, buyers can expect ample beef supplies and moderating prices in the first quarter of next year. Winter weather is a risk at this time of year, and if the winter turns out to be particularly harsh, then cattle weights could suffer, causing Q1 beef production to be smaller than expected and prices higher than expected. Domestic beef demand was very strong in September and declined slightly in October. November is shaping up to be a relatively strong demand month also, particularly if retailers decide to shift the majority of their features toward beef as a result of very high pork pricing this fall. Buyers can probably expect the middle meat market to under-perform this holiday season compared to past years because holiday gatherings will be severely curtailed as a result of the surge in COVID-19 infections. Our near-term price forecasts for cattle and beef are provided in **Table 1**.

Figure 1: Calculated Cumulative Backlog of Fed Cattle
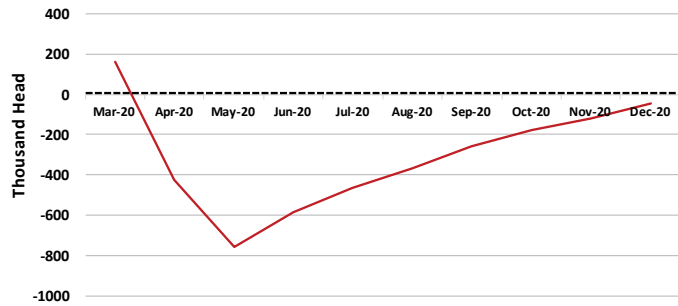### (Actual Minus Model)

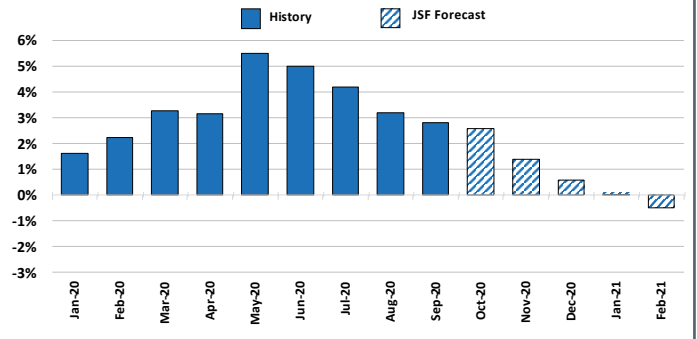## Figure 2: Blended S&H Carcass Weights, YOY Change

Figure 3: Blended Cutout vs. Per Capita Beef Consumption, Carcass Wt, Oct
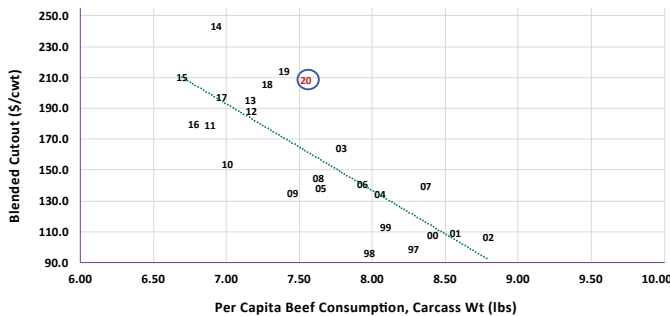

Table 1: JSF Cattle and Beef Price Forecasts

	4-Nov	11-Nov	18-Nov	25-Nov	2-Dec	9-Dec
Choice Cutout	208.7	211.8	213.4	214.6	213.6	209.3
Select Cutout	191.5	194.8	195.1	195.2	196.3	195.1
Choice Rib Primal	392.2	398.0	403.1	402.2	394.8	375.6
Choice Chuck Primal	169.5	172.0	173.9	175.1	173.6	170.4
Choice Round Primal	171.6	174.5	174.0	174.3	173.8	173.0
Choice Loin Primal	267.4	271.3	273.6	276.0	277.6	273.0
Choice Brisket Primal	153.4	156.3	157.2	158.6	158.5	158.1
Cash Cattle	108.5	109.8	110.5	109.9	111.2	110.7

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