



J.S. FERRARO



THE MONTHLY RED MEAT OUTLOOK: CATTLE & BEEF

OCTOBER 2020

Cash cattle markets are rising once again after setting back in early September. Cash prices last week registered \$105, up \$4 from the low of \$101 set in the second week of September. The cutouts also appear to be making a bottom after peaking in late-August and then trending lower for most of September. As the cutouts start to work higher in October, that will provide greater incentive for packers to pay higher prices for cash cattle and we expect the cattle market to remain on an upward trajectory well into November. For all the talk of backlogged cattle this summer, the market is now entering a period where supplies of market-ready cattle will tighten up. This is due to very light feedyard placements this spring, during the height of the COVID-19 outbreak. Any cattle that remain backlogged will help to supplement this supply, but it probably won't be enough to hinder the advance in the cash market. While the beef market has mostly normalized following the plant shutdown fiasco this spring, the cattle market is still in recovery mode. Beef packer margins remain huge (currently estimated to be near \$315/hd) and that is one area of the cattle and beef complex that still has a way to go in the normalization process. We expect packer

Beef packer margins remain huge, nearing \$315/hd

margins to slowly compress as we move through Q4 and by early December they could be less than \$200/hd. Since beef prices are likely to be rising in that period, the margin compression will necessarily need to come from rising cash cattle prices.

SUPPLY PICTURE

The supply of fed cattle should experience a moderate degree of tightening during October because cattle feeders slashed placements back in March and April. March placements were reported to be down 23% YOY and April placements were down 22%. Since the normal feeding period is about six months, that implies that this "hole" in the cattle supply should start to manifest as smaller numbers of market-ready cattle in September and October. Fed cattle slaughter during September was larger than the placement numbers would imply, but that is likely because feedyards were actively marketing cattle that had been backlogged due to the plant shutdowns last spring. We think the industry has nearly worked through that backlog now and thus the tightness in supply will become more apparent in October and will probably stretch into November as well. Last week's fed kill registered 522,000 head, but we expect those numbers to work lower in the weeks ahead. There is a very real risk that we could see some weeks in October where the fed kill falls below 500,000 head per week.

Cattle weights did not follow their normal seasonal pattern this year because the plant shutdowns last spring left many cattle un-harvested well beyond their target marketing date. At its worst point back in May, blended (steer+heifer) carcass weights were close to 6% heavier than the year before. As slaughter picked back up this summer, the gap between this year and last has been closing and now blended carcass weights are only 2-3% heavier than last year. That is still a significant increase that is adding tonnage to the beef market, but it suggests that the ill effects of the cattle backlog are beginning to fade. We look for the YOY gap in carcass weights to narrow further as more

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of the backlog gets cleaned up in the next few weeks. By late November, we may very well have carcass weights only 1% greater than last year (see **Figure 1**).

As you might imagine, the sharp reduction in placements last spring left a lot of cattle outside of feedyards and looking for a home. Feedyards have been placing fairly aggressively in recent months and that has helped them restock, although a large percentage of those feedyard cattle are still in the growing phase and too light for slaughter at present. USDA reported placements in August up 9.2% from a year earlier and that comes on the heels of an 11% increase during July. If cash cattle prices continue to rise as expected this fall, that will create added incentive for cattle feeders to continue placing cattle into feedyards at a strong clip and raises the prospects for large cattle supplies and lower pricing in the cattle and beef markets next spring. Beef production in the third quarter (JAS), was up about 4.2% YOY, but could be up less than 1% in Q4 due to the tighter supply of market-ready cattle.

DEMAND SITUATION

Domestic beef demand declined in September from a strong level in August and price levels suffered. The Choice cutout traded down to \$215 after trading as high as \$231 during late August. However, it appears that demand is now back on the upswing and the cutouts are clawing higher once again. So far, most of the demand strength has been concentrated in the ribs, due to buying in advance of the year-end holidays, and chucks, due to cooler weather driving more indoor cooking. Those trends are expected to remain in place through October and November, pushing the Choice cutout back towards \$230 by late October or early November. So far, we have detected very little impact from the US recession on domestic beef demand although there is a risk that the recession will have a bigger demand-suppressing effect in Q4. Beef demand in October also stands to gain from the rapid rise in the pork cutout over the past few weeks. Retailers could begin to shift advertising space away from pricey pork towards beef and chicken. For those buyers in the middle meat market this fall, we expect that wholesale prices on ribs will be about 5-6% below last year's levels but admit that there is risk that they outperform that forecast.

International demand for US beef seems to be improving as well.

The most important development in this area is a slow recovery in the amount of product shipped to Mexico, the third largest destination for US beef exports in 2019. Beef exports to Mexico dropped sharply as the pandemic broke back in March and, from March thru July, beef exports were down an average of 54% to Mexico. However, the weekly data since July has indicated that beef exports to Mexico may now only be about 25% below last year (see **Figure 2**). Most of the other big importers of US beef are holding near year-ago levels, so it is primarily Mexico that has been dragging total beef exports lower this year. China is also emerging as an important market for US beef since that country removed restrictions on US product earlier this year. The chart in **Figure 3** shows how outstanding sales of beef to China have risen dramatically in 2020. China is now taking almost as much beef out of the US as Canada does. That is a very positive development.

Beef exports to China have soared – now close to the level shipped to Canada

SUMMARY

US beef prices retreated during September as demand softened following Labor Day, but the market appears to have turned the corner and should be headed higher in October. The market is now entering the “hole” in cattle supplies that was created back in March and April when feedyards dramatically slashed placements in response to problems caused by the COVID-19 pandemic. That should boost cattle prices and as a result, packers will be looking to get more money from their beef sales. Domestic beef demand appears to be on the mend after a soft September and we have not yet seen much of a recessionary impact on beef demand. That could change in Q4, but for now we look for overall beef pricing this fall to be about 2-3% below last year, with middle meat prices down about 5-6%. The risk is that that prices may outperform these forecasts. International demand for US beef is also improving as China becomes a major player in the market and movement to Mexico strengthens after a dismal summer. 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.

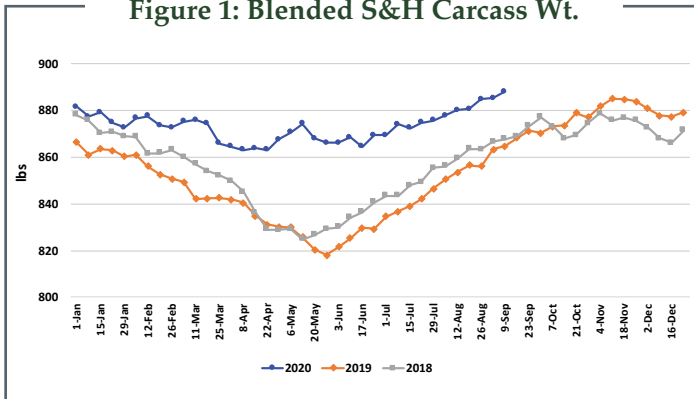


Figure 2: Weekly Beef Exports to Mexico

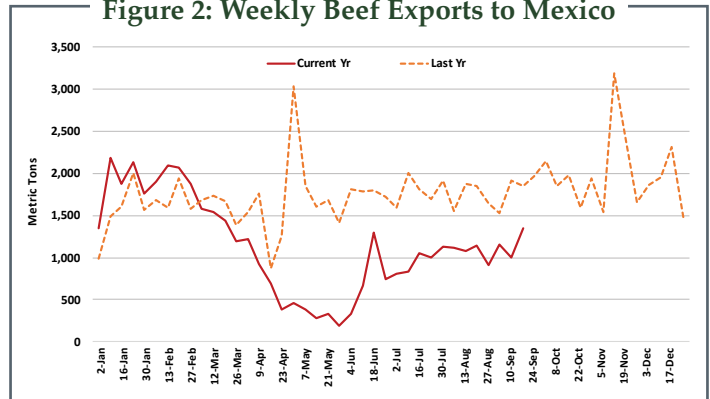


Figure 3: Weekly Beef Exports to China

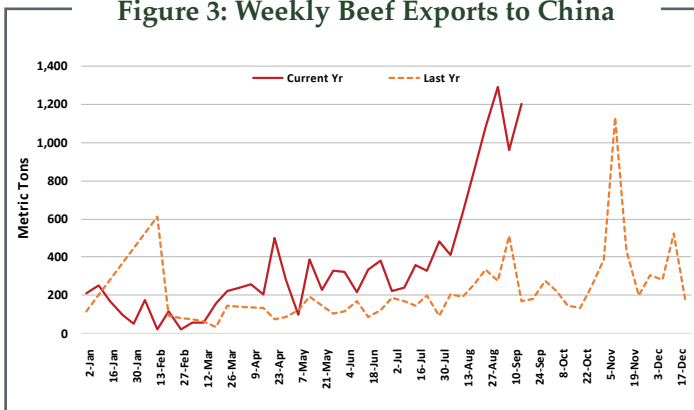


Table 1: JSF Cattle and Beef Price Forecasts

	7-Oct	14-Oct	21-Oct	28-Oct	4-Nov	11-Nov
Choice Cutout	220.9	223.2	224.1	222.7	222.6	221.5
Select Cutout	206.7	206.4	204.2	201.3	202.4	201.5
Choice Rib Primal	373.3	377.7	380.8	385.9	391.6	394.3
Choice Chuck Primal	180.3	180.4	179.3	178.8	180.1	182.2
Choice Round Primal	174.8	178.7	181.8	181.0	182.4	180.0
Choice Loin Primal	304.1	306.0	305.4	298.4	292.4	286.8
Choice Brisket Primal	163.3	167.2	166.4	167.9	167.0	168.3
Cash Cattle	108.4	111.0	113.9	114.8	116.6	116.5



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