



J.S. FERRARO



# THE MONTHLY RED MEAT OUTLOOK: CATTLE & BEEF

## SEPTEMBER 2020

The US cattle and beef markets are in the process of normalizing following the huge shock created by the COVID-19 pandemic this spring. We see this after every major crisis. It happened following the Tyson plant fire last August when cattle prices initially tanked but then began the slow process of returning to normal over the next several months. The same thing is transpiring now. Cash cattle prices reached \$107 before setting back to \$105 last week.

Cash cattle recently **dipped to \$105**, but we think the **uptrend is still intact**

Beef markets were on fire in August, with the Choice cutout moving from \$204 at the beginning of the month to \$230 near the end of the month. Many observers want to attribute this big increase to retail purchasing for Labor Day, but we think it is more than that because even the end meats showed big gains. More likely, the recent gains were driven by consumers who had finally worked down the stockpile of meat they acquired last spring and needed to replenish. Improvements in the foodservice sector have also helped lift beef prices. Now that purchasing for Labor Day is complete, we expect the beef cutouts to move somewhat lower over the next few weeks, but not back down to early-August levels. There is also upside price risk looming again in late September and October as cattle supplies shrink and beef production declines. The wild card in all of this is how much the high unemployment levels will impact beef demand this fall. So far, government hand-outs have kept consumers spending, but those will end at some point soon and consumer spending could be curtailed.

### SUPPLY PICTURE

The US fed cattle industry has been slaughtering between 515-525,000 head per week since early July. Past placement patterns suggest that will continue into September but start to move lower in the second half of the month and by the time October arrives, the fed kill could be down to about 500,000 head per week. As supplies tighten, cattle feeders should regain some leverage in their weekly negotiations with packers and cash cattle prices should rise. Our fundamental analysis suggests that cash cattle will likely trade over \$110 during the latter half of October. That is pretty close to breakeven for cattle feeders and will bring welcome financial relief to a cattle feeding industry that has suffered huge financial losses for most of 2020. On the non-fed side, cow and bull slaughter should increase as we head toward Q4 and that will likely keep the lean beef markets on a downward trajectory.

Heavy carcasses have been a problem for months. Currently, the blended steer and heifer average carcass weight is about 26 pounds, or 3.1%, over last year. Weights have finally begun to rise in seasonal fashion, but the gap between this year and last is expected to close further in the coming weeks. Still, if our projections are correct, beef production in 2020 will get a 2.6% boost just from heavier carcass weights. That will be offset by a 3.5% decline in fed cattle slaughter, leaving fed beef production down about 1% for 2020 as a whole. It is amazing that, after all this industry has been through in 2020, beef production will still be very close to last year's level. There are still some cattle backlogged, but it is becoming a smaller backlog with each passing week and we suspect that by the time October arrives, there will no longer be cattle backed up in the system.

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As the industry moves closer to normalization, optimism among cattle feeders has improved. They displayed this by placing cattle into feedyards aggressively in July, where placements registered 11% higher than last year. We think that continued in August and the next *Cattle on Feed* report will show August placements up 10% or more. There were plenty of pens left empty following the sharp decline in placements this spring as COVID-19 raged, and cattle feeders are now busy looking to fill that space. The fact that cattle prices have been on the rise during the second half of summer has helped to fuel cattle feeder's optimism. The YOY placement gains should continue right through the end of 2020 and that paints a burdensome supply picture for the first half of 2021. Until then however, look for cattle and beef prices to be supported by tighter supplies in Q4.

**Improving confidence  
in the feeding sector should keep  
feedyard placements high  
in coming months**

#### DEMAND SITUATION

Domestic beef demand appears to be healthy. **Figure 1** is a traditional price-quantity scatter diagram that is often used to measure demand. In August, the data point lies several dollars above the regression line and that signals better-than-average demand. It is not as good as in August of 2019, but remember that last August beef buyers were in a panic over the closure of Tyson's Finney County plant due to fire. That event, and the ensuing buyer panic, registered as very strong demand on the scatter. Demand should decline some now that buying for Labor Day ads is complete, but we don't expect it to fall off a cliff. An important component of domestic demand comes from the foodservice sector and we think that greater optimism among foodservice operators has them willing to purchase and hold larger inventories once again. During the height of the COVID-19 crisis, foodservice operators faced enormous uncertainty about the future and did not restock at traditional levels. Now that

there is more clarity about what governments will do regarding shutdowns and distancing in restaurants, operators in that space now feel more comfortable bringing inventories back up to more traditional levels. However, the recession impact on demand at both foodservice and retail hasn't been fully felt yet and it will almost certainly become a bigger factor in the demand picture later this fall as government support ceases.

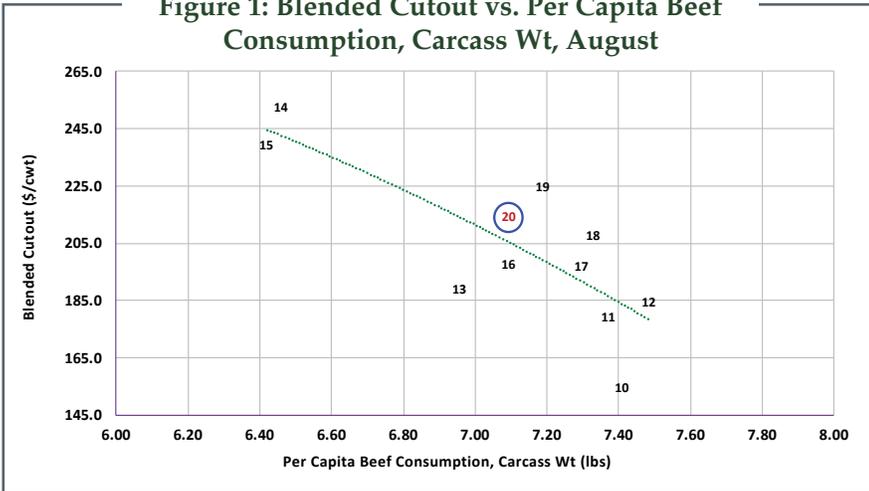
International demand for US beef has been soft recently. USDA reported total beef exports in May down 31% YOY and in June down 33%. We currently project July exports to be down in the vicinity of 15% and August off about 10%, based on what we've seen in USDA's weekly export data (see **Figure 2**). Mexico, in particular, has been a soft spot for US beef with exports to that country down 61% in the June data. The Mexican economy is highly dependent upon tourism and that is one area that as really suffered amid COVID-19. It is likely to take several more months before exports to that important destination return to normal. It is important to note that in a number of Asian countries, imported US beef is often merchandised in high-end restaurants that cater to tourists and business people. Given that tourism and business travel has been greatly curtailed by the pandemic, it should be no surprise that beef exports to Asia are also soft.

#### SUMMARY

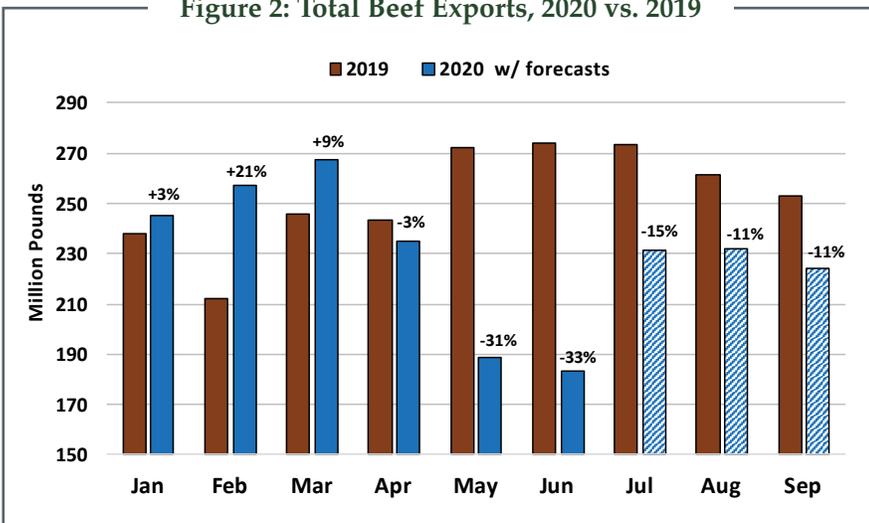
Both cattle and beef prices saw a strong rebound in August and may see a temporary setback into early September, but the uptrend is expected to continue as the month wears on. Available supplies of fed cattle are expected to tighten in the second half of the month and that could press weekly fed slaughter down to around 500,000 head per week. Demand may see a lull in early September, but by the end of the month purchasing for end-of-year holidays should begin and that will provide support to the cutouts. Buyers are advised to use any weakness in early September to extend coverage through the end of the year. Recessionary impacts on domestic and international demand remain a risk, but the futures market appears to be too pessimistic currently and that could lead to some attractive forward pricing opportunities. Our near-term price forecasts for cattle and beef are provided in **Table 1**.

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**Figure 1: Blended Cutout vs. Per Capita Beef Consumption, Carcass Wt, August**



**Figure 2: Total Beef Exports, 2020 vs. 2019**



**Table 1: JSF Cattle and Beef Price Forecasts**

	9-Sep	16-Sep	23-Sep	30-Sep	7-Oct	14-Oct
Choice Cutout	225.9	221.7	221.0	221.3	222.9	224.0
Select Cutout	209.8	206.5	205.5	205.0	205.8	205.0
Choice Rib Primal	368.5	364.0	363.7	366.4	370.0	375.4
Choice Chuck Primal	177.4	174.8	176.8	178.5	180.2	178.1
Choice Round Primal	181.8	178.0	178.7	178.3	179.5	180.7
Choice Loin Primal	327.0	318.0	311.0	307.6	308.0	310.4
Choice Brisket Primal	164.8	166.3	169.9	173.6	173.1	175.4
Cash Cattle	104.7	103.9	105.8	107.2	109.3	111.2



**DR. ROB MURPHY** BS, MS, PhD Agri Economics,  
Executive Vice President, Research & Analysis,  
J.S. Ferraro

E: [Rob.Murphy@jsferraro.com](mailto:Rob.Murphy@jsferraro.com) [in](#) [tw](#)

*Dr. Rob Murphy is an agricultural economist and business leader with over 29 years in the industry. He has a wealth of experience in the North American meat and livestock industries studying, analyzing and predicting market movements.*

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