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THE MONTHLY RED MEAT OUTLOOK: CATTLE & BEEF

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Cash cattle markets in the US were stuck at $114/cwt for seven weeks in February and most of March, but the logjam was broken toward the end of March when a rising cutout gave packers the incentive to increase their bids for cash cattle. Last week's cash cattle trade was in the $117-118 range and it appears that the cash market rally is only just getting started. While it was good to see the cattle market finally advance, the real story has been the rapid acceleration of beef prices over the past two weeks. We have been warning readers for some time that the spring beef market was likely to be explosive and that now that forecast is becoming reality. Domestic beef demand is very good at the same time that the industry is moving into tightening cattle supplies caused by last fall's sharp drop in feedyard placements. That perfect storm of strong demand meeting tight supply is likely to send beef prices to their highest level since the plant shutdowns that occurred last April. JSF had been forecasting Choice beef cutout values to top around $260/cwt this spring, but the rapid rise in the cutout even before the supply tightness kicked in has forced us to re-think that and push the forecast higher, with tops now forecast to exceed $275/cwt (see **Figure 1**). If realized, those price levels would be

> JSF sees the **Choice cutout exceeding $275** at times this spring

higher than what was seen back in the spring of 2015, when very tight cattle supplies pushed the cattle and beef markets to highs that have only been surpassed by the ones generated by the plant shutdowns last year. Beef will be helped along this spring by exceptionally high pork and chicken prices as well. Buckle up, beef buyers, the rocket is about to take flight.

SUPPLY PICTURE

Steer and heifer slaughter during March averaged about 505,000 head per week. That was 2.8% below last year's large average at 521,000 head, but considerably larger than the 475,000 head per week that prevailed during 2017-2019. Last year packers were pulling cattle forward aggressively in March to help replenish retail meat cases following severe consumer stockpiling as the COVID-19 crisis spread. Looking ahead into April, the 2017-19 average weekly steer and heifer slaughter was 492,000 head, our flow model projects fed kills this April to be in the 465-470,000 head range. So, the supply tightness to come is clear. It gets even worse in May, where we anticipate that packers will be hard pressed to push fed kills much over 500,000 head per week when the 2017-19 average was about 520,000 head per week. So, it looks like for the strong demand months of Apr/May, the industry will kill about 20,000 head per week less than the 2017-19 average. Further, the April and June futures are trading well above the current cash market and that will encourage cattle feeders to hold back supply in hopes of achieving higher prices later.

> Fed cattle slaughter could **run 20,000 head per week below normal** in April and May

Carcass weights are another important part of the beef supply picture and after months of running very heavy, the cold snap back in February quickly took 20 pounds off of carcass weights and brought them in much better alignment with last year. In fact, last week's steer carcasses weight data was exactly equal to the same week in 2020 at 901 pounds. Readers will remember however, that last year in April when packing plants began to shut down, carcass weights remained elevated. We expect a more normal seasonal pattern this year, with weights continuing lower until mid-to-late May. That means carcass weights are likely to fall well below last year in the next couple of months, especially if soaring beef prices cause packers to pull hard on the available cattle supply.

This impeding period of supply tightness will begin to fade in June, and by July we should see steer and heifer slaughter back near the 2017-19 average. If cash cattle prices rise rapidly this spring as expected, feedyard margins will improve greatly and we expect that will lead cattle feeders to increase their placement activity. Placements already appear to have been brisk in March (our estimate is that they will be 1% stronger than the 2017-19 average or about 30% higher than last year's COVID-reduced total) and that enthusiasm could easily carry over into April and May. These are cattle that will become market-ready this fall. The Oct and Dec futures contracts seem to be ignoring these building fall supplies and we think that could be a mistake. In fact, the high level of the deferred live cattle futures is one factor that is encouraging large placements this spring. So by fall, we could be in the opposite of the current situation, with large cattle and beef supplies. Add to that the very strong possibility that demand this fall will not be as good as it has been in the first half of the year, and we begin to see the makings of a soft pricing environment after Labor Day. Buyers would do well to keep their forward pricing activity focused on the near term and shy away from extending coverage into fall.

DEMAND SITUATION

Last month we discussed the surprising strength in domestic beef demand and that dynamic remains in place. If anything, the strength in beef demand seems to be accelerating. **Figure 2** shows JSF's Q1 demand indexes for the blended cutout since 2000. Note how much stronger demand has been in the last couple of years. The 2020 Q1 demand index was inflated by the consumer stockpiling event that occurred last March. Interestingly, this year there was no stockpiling and yet the demand index is even higher. That speaks volumes about how strong domestic demand for beef is in the US right now. Our price forecasts for spring were some of the highest in the industry last month, but now we are revising toward even higher values as the weather warms and the cutouts are jumping several dollars a day. This strength in demand isn't limited to beef, we are seeing it in the pork and chicken markets as well. It reminds me of an incident that happened in the early 2000's when the Atkins diet craze took hold. Consumers suddenly found success losing weight by going to a high protein diet and as the fad spread, we saw very strong demand readings across the beef, pork and chicken markets. For months, analysts didn't know what to make of it, but eventually it became clear that this new diet fad was boosting protein demand. It makes me wonder if something similar is going on now. Of course, these days high protein diets go by different names like Paleo, etc., but the concept is the same. Dieters replace carbohydrates with protein and lose weight. Perhaps US consumers put on a few extra pounds throughout the pandemic and are now looking to shed that weight before their post-COVID life begins.

Whatever it is that is driving this incredible spring demand, it appears to be domestic in nature since we are not seeing a dramatic rise in beef exports. The weekly export data released by USDA suggests that recent exports have been a little stronger than last year, but not extreme. Up to this point, international demand for US beef has been healthy, but it is not nearly strong enough to explain the price appreciation that we've seen in Q1. It is reasonable to expect that as beef prices go sky high this spring, international buyers will back away from the US market to some degree. That is normal and might not make much difference to the overall pricing situation in the US. China remains a big buyer of US beef and it will be interesting to see how they react as prices escalate. Normally, China is known as a value buyer that is quick to pull back when prices get steep.

SUMMARY

The US cattle and beef sector is beginning to experience the perfect storm of tightening supplies and extremely good demand. That should send both beef and cattle prices to very high levels this spring. The supply tightness is a result of very light feedyard placements at the end of 2020 and carcass weights coming back down to more-normal levels. The demand strength is domestic in nature and not confined to beef — we are seeing it in the pork and poultry sectors as well. Buyers have been warned that April and May could see some of the highest price levels since the plant shutdowns last spring. Currently, we expect the Choice cutout to peak at over $275/cwt and there is risk that forecast may need to be raised. Futures traders have taken notice and bid up all of the 2020 contracts. High prices on the deferred contracts are likely to spur large feedyard placements this spring and that will create an ample supply situation this fall when those animals are ready for market. As a result, buyers should focus forward pricing activity on the next two months and resist the temptation to extend coverage into fall. Our near-term price forecasts for cattle and beef are provided in **Table 1**.

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Figure 1: Choice Cutout

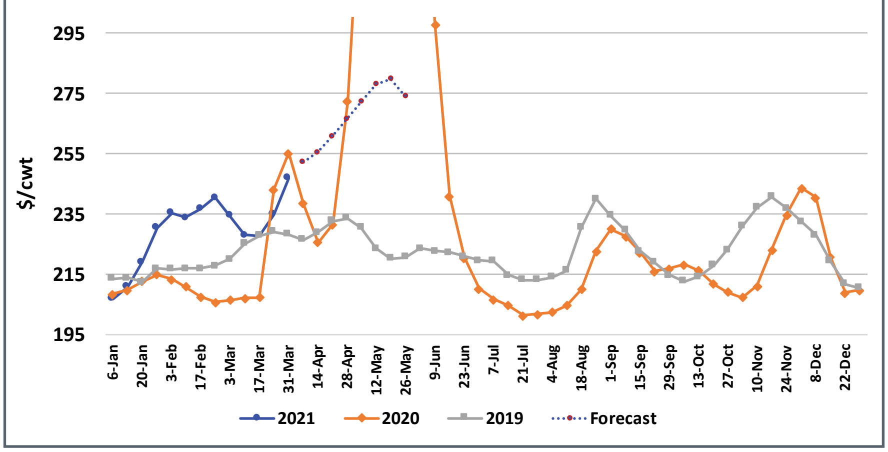

Figure 2: DI Blended Cutout, Q1

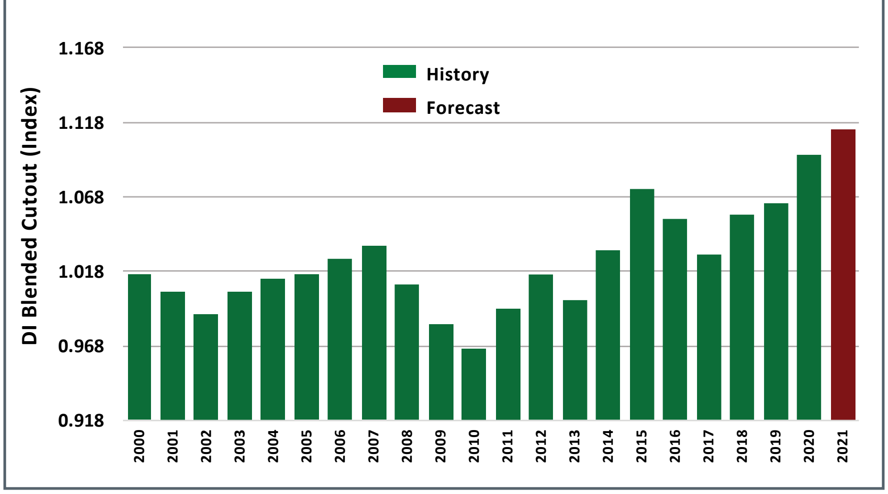

Table 1: JSF Cattle and Beef Price Forecasts

	14-Apr	21-Apr	28-Apr	5-May	12-May	19-May
Choice Cutout	255.6	260.8	266.7	272.2	278.1	279.8
Select Cutout	240.9	244.2	248.5	254.2	261.4	264.6
Choice Rib Primal	430.0	439.0	448.7	455.0	463.3	471.0
Choice Chuck Primal	197.4	202.0	206.4	212.0	218.0	215.0
Choice Round Primal	196.0	199.6	202.4	206.9	212.9	216.4
Choice Loin Primal	369.0	375.5	386.0	393.2	399.9	402.6
Choice Brisket Primal	218.0	224.3	227.7	230.0	232.6	235.8
Cash Cattle	123.8	128.3	132.2	133.4	134.5	135.7

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