



J.S. FERRARO



# THE MONTHLY RED MEAT OUTLOOK: CATTLE & BEEF

MAY 2021

I felt pretty confident that the beef markets could be explosive this spring and they have not disappointed. Last week the Choice cutout closed just over \$296 and the Select printed over \$283.

Beef prices are **rocketing higher**, with the Choice cutout approaching **\$300/cwt**

I've had to routinely re-visit my price forecasts and raise them because the market has continued to outperform. The scary thing about that for beef buyers is that all of this price appreciation has happened before May even started and May normally sees the strongest beef demand of the year. So, the ride could just be getting started. Buckle up, beef buyers, you are about to find out what pork buyers have been feeling for the last couple of months. With beef prices soaring, one would think that the price of cash cattle would also be on the rise, but that has not been the case recently. Cash peaked around \$122 in early April and has struggled ever since. As you might imagine, that means that packer margins have swelled, and my calculation has them at over \$700/head last week. Clearly, cattle feeders don't have enough leverage

Cattle pricing has lagged far behind beef, contributing to **packer margins over \$700/head**

to push cash cattle prices higher at the moment and the simple explanation is because there are more cattle market-ready than the packing capacity can handle. That is somewhat of a surprise to me because I've been expecting the light Q4 placements to

constrict cattle availability this spring and thus help boost cattle feeder leverage. There are two explanations that I can think of that may have torpedoed that assumption: 1) cattle are finishing ahead of schedule and thus the tightness in cattle supplies actually hit in March and early April when the cash was moving higher or, 2) social distancing in the plants has lowered throughput way more than I thought and thus the cattle supply is larger than the packing industry's ability to slaughter them. No matter the cause, I still believe that beef prices will remain on an upward trajectory for at least a few more weeks and maybe longer. I'm less sure of the direction in cattle prices, but suspect that if the beef gets high enough, packers will show their generosity by raising cattle prices at least a little above today's value.

## SUPPLY PICTURE

Steer and heifer slaughter held right around 500,000 head per week in April, but packers will likely want to expand that in May in order to take advantage of high beef prices and very strong margins. Our flow model suggest that the available supply might only support fed kills around 510,000 head per week in May. However, that assumes that cattle are finishing on-schedule and not ahead of schedule. If packers have already killed through the tightness in supply, then that would be followed by relatively large Q1 placements becoming market ready. Unfortunately, there is no way to really know until we can look back on kills after the fact. The flow model projects fed kills at or slightly above 525,000 head per week in June, so if those cattle that were originally targeted for June become ready in May instead, then it is possible that the May kills could exceed the 510,000 head average that I have dialed in.

Carcass weights are another important part of the supply picture and there we are starting to see some concerning developments. The February "deep freeze" event in the US took 20 pounds off of carcass weights in just two weeks, but since then weights have remained stubbornly high and seem to want to resist following

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the normal seasonal pattern lower. **Figure 1** shows the blended steer and heifer carcass weights back to 2019 and in 2019 weights followed a normal seasonal pattern that had them bottoming in late June. The 2020 pattern was totally disrupted by COVID-19 related plant closures that kept carcass weights elevated all spring. Now here in 2021, the pattern is starting to look more like the disrupted 2020 one rather than the more-normal 2019 pattern. This too, could be a symptom of more cattle than the capacity to kill them and we need to keep an eye on it.

Cattle feeders are now placing cattle on feed that will make up the bulk of slaughter this fall. In its most recent *Cattle on Feed* report, USDA reported March placements up 28.3% YOY, but keep in mind that last year placements were severely limited as COVID-19 roiled to meat industry. As of April 1<sup>st</sup>, the number of cattle in US feedlots was up 5.3% from last year. That sounds like a lot, but actually it is a little smaller than in April, 2019. If cattle feeders want to regain their leverage and raise cattle prices then they need to scale back placements. If COVID-19 distancing in plants has reduced slaughter capacity, then the feeding industry needs to restrict feedyard placements so that the number of market ready cattle more closely matches slaughter capacity.

Finally, there is the question of high corn prices. May corn futures have recently traded over \$7.50 per bushel and that means big cost increases for cattle feeders (see **Figure 2**). Will that cause them to place fewer cattle in the months ahead? Maybe, but more likely they will just bid less for feeder cattle, so that it is the cow-calf producer who will bear the economic impact of high corn prices. If that goes on long enough, then cow-calf producers will liquidate animals more rapidly in an effort to stem the losses. However, it takes a very long time for reductions in the cow herd to result in less fed beef availability. A good first step might be for cattle feeders to feed to lighter carcass weights, but so far they have shown no inclination to do that.

## DEMAND SITUATION

Despite all of the interesting developments on the supply side of the beef market, I firmly believe that the headline story is, and will remain, very strong domestic beef demand. Something is going on in domestic demand for animal proteins that is not part of the normal demand cycles that we typically observe. Beef, pork and chicken are all seeing very strong demand at the same time. For weeks, analysts have attributed this demand strength to “foodservice coming back online,” but I don’t buy that explanation. Sure, there may have been some inventory rebuilding that was needed in the foodservice sector, but that only takes a couple of weeks. This demand strength has been going on for months now. I suspect that this demand shift is being caused by one, or

both, of the following: 1) a shift in consumer preferences toward high-protein diets as they attempt to lose weight after a year of restricted activity and/or, 2) strong savings supplemented by government stimulus money that is simply allowing Americans to upgrade their diets and thus consume more animal protein. I think pork provided a blueprint for the beef market. The pork cutout today is near \$112 and has been extremely strong for months. Whatever boosted the demand side of the pork market is now in the process of boosting the beef market. If I’m right on this, then it paints a pretty grim picture for beef buyers as it means that beef prices this summer are likely to stay way stronger than normal for a lot longer than normal.

Beef exports have held together quite well in recent weeks, but it is probably only a matter of time before high US beef prices start to dampen importers’ enthusiasm. China remains a very strong buyer of US beef and that very well could continue until China is able to rebuild its animal protein production capabilities following the ASF problem that has plagued its pork industry. We estimate the Q1 beef exports were up about 3.4% from last year and that Q2 exports will be up close to 45% from last year, but remember that exports were slashed last spring as COVID-19 infections caused about half of packing plant capacity to close. As we move deeper into 2021, it is likely that China will take more of a leadership role in US beef exports while some of the more traditional destinations like Mexico will recede. Overall, we still think there is a good chance the 2021 exports will be up 12% YOY, or more, and that implies record-large beef exports this year.

## SUMMARY

US beef pricing grew very strong during April and now that May has arrived, we can only expect that price levels will keep pushing higher. This incredible price strength is being driven by super-strong demand and relatively light slaughter levels. Cattle prices have not kept pace with the increase in beef prices and thus packer margins have swelled out over \$700/head. Slaughter levels should expand a bit in May, but not as much typically occurs at this time of year. Carcass weights are heavier than expected and seem to be unfazed by very high corn pricing. But the main story is extremely strong domestic demand for all animal proteins. Beef demand is following the path blazed by pork demand a couple of months ago. We attribute this demand strength to a resurgence in high protein diets and stimulus money keeping consumers flush with cash. Buyers can expect the beef cutouts, similar to the pork cutout, will move to unusually high levels and likely remain there longer than normal. Given that the cash cattle market is not correlating much at all with the beef market these days, forward hedging beef needs with cattle futures may be very difficult for the next few months. 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.

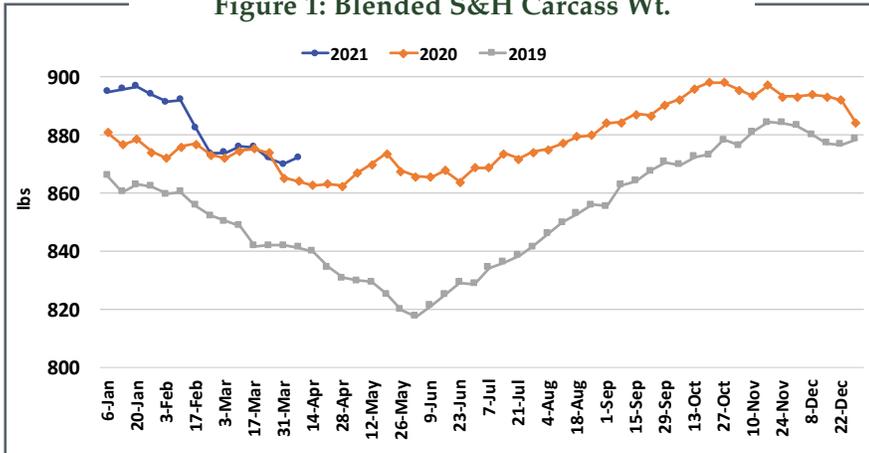


Figure 2: May 21 Corn Futures

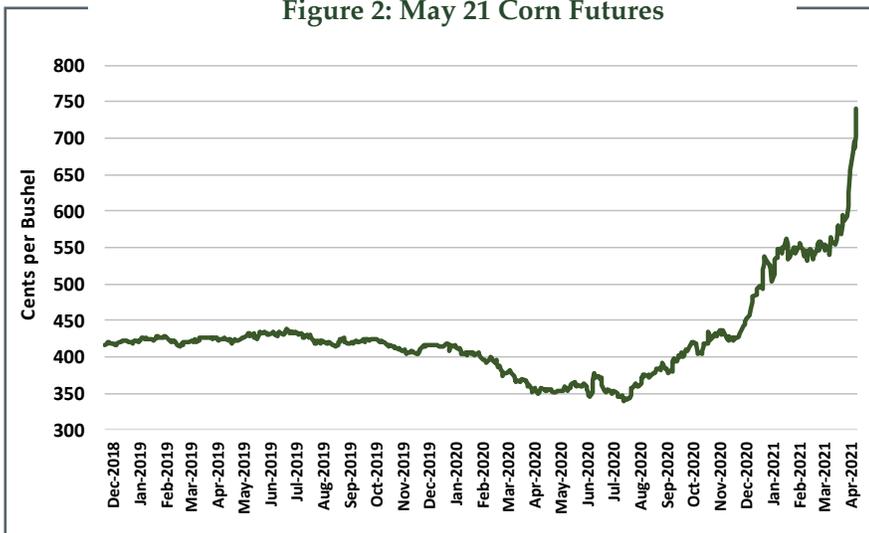


Table 1: JSF Cattle and Beef Price Forecasts

	12-May	19-May	26-May	2-Jun	9-Jun	16-Jun
Choice Cutout	298.5	297.1	289.1	277.9	271.2	266.3
Select Cutout	283.9	282.3	275.5	263.7	255.9	252.2
Choice Rib Primal	519.0	514.0	497.0	482.0	463.0	441.0
Choice Chuck Primal	221.3	218.7	212.3	205.4	198.4	195.3
Choice Round Primal	207.8	206.3	205.1	206.0	203.1	199.2
Choice Loin Primal	457.3	458.2	442.0	411.0	404.0	402.0
Choice Brisket Primal	286.1	284.7	276.0	267.9	255.0	248.0
Cash Cattle	119.9	121.9	121.5	121.9	122.8	123.0



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