

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 1st, 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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THE MONTHLY RED MEAT OUTLOOK: CATTLE & BEEF

MAY 2021

Figure 1: Blended S&H Carcass Wt.

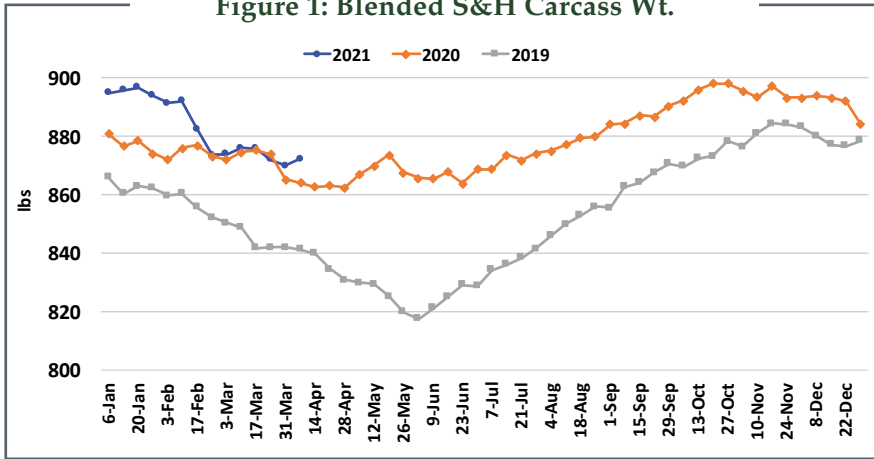


Figure 2: May 21 Corn Futures

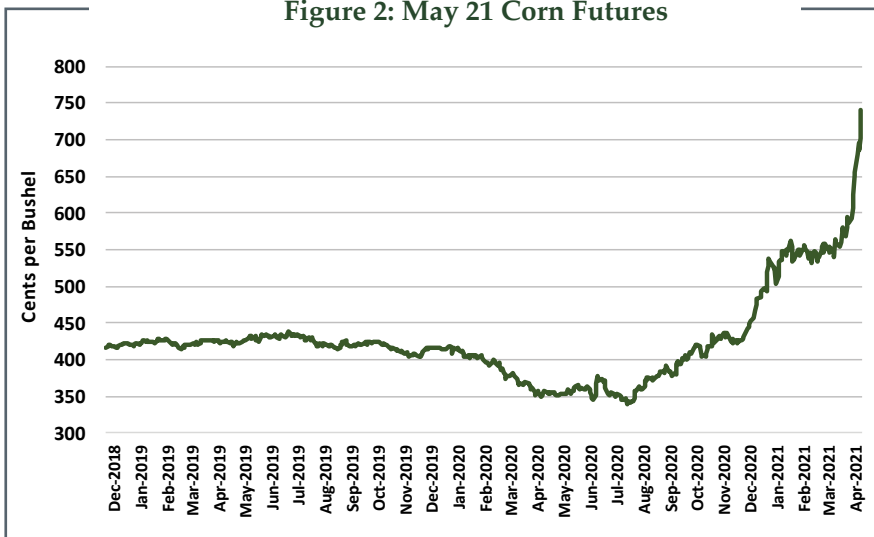


Table 1: JSF Cattle and Beef Price Forecasts

	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



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

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

Dr. Rob Murphy is an agricultural economist and business leader with over 30 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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