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THE MONTHLY

RED MEAT OUTLOOK: CATTLE & BEEF

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US beef markets are on the rise once again after bottoming in mid-July. The cattle market however, remains stuck in a sideways pattern that has held prices in the low $120s for many weeks. The turnaround in the beef market occurred sooner than I expected, with the daily low for the Choice cutout happening around $265. In most years, beef demand softens considerably after Independence Day, and market participants often refer to the latter days of summer as “dog days.” However, this year the normal seasonal demand patterns do not seem to have much sway and market participants would be wise to take note of that. Interestingly, the reversal in the beef market seemed to coincide with increasing COVID-19 infections in the US as the delta variant has spread rapidly in recent weeks. We already know from experience that the stay-at-home behaviors associated with rising infections are positive for red meat demand, so perhaps the COVID-19 resurgence is partly responsible for beef demand changing direction in mid-July. Beef buyers who had moved into a hand-to-mouth mode while beef prices were declining were caught off-guard by the change in price direction and are now helping to push the cutouts higher. The improvement in cutout values has helped packer margins considerably in recent weeks, and they are now estimated to be near $640/head. The supply of market ready cattle continues to be just a little larger than what packers can comfortably kill given the labor challenges they are facing and that has limited producer’s ability to advance cash cattle prices as the cutout rises. The strength in beef pricing has removed any need for packers to pressure cash cattle prices lower, but there is also not a compelling reason for packers to pay more for cattle. As a result, cash cattle prices remain stuck in the low $120s and probably will remain there for many weeks to come.

> The Choice cutout **bottomed at $265** and is **on the rise once again**

SUPPLY PICTURE

Fed cattle slaughter during July has averaged about 515,000 head per week in the non-holiday weeks, but that is about 15,000 head per week below what past placement patterns suggest they should be slaughtering. That may have caused some minor backup in the cattle supply and further hindered cattle feeders’ efforts to advance prices. However, as we move into August, the number of cattle placed against this time slot declines, so if packers can maintain kills in the 515-520,000 head per week range then then it is unlikely any further backup will occur. Non-fed kills, which are cows and bulls, have been running about 5% over last year since June and are up a similar amount year-to-date. That represents a very high culling rate and USDA’s recent mid-year cattle inventory report showed breeding female inventories down about 1% from a year ago. That points to fairly robust herd liquidation by cattle producers and is part of the reason why the 2022 futures curve has been so elevated lately. Serious drought in the western half of the US is contributing to high non-fed kills also.

There are other signs that point to an improving supply situation in the nation’s feedyards. Placements have seen about a 7% YOY decline in the past two months and there is a very good chance that will hold in July as well. While these cattle won’t exit feedyards until the fall, the restraint shown by cattle feeders in limiting placements will undoubtedly begin to help their currentness position soon. The de-trended and de-seasonalized carcass weights moved into negative territory during July and are likely to remain there during August. That tells me that cattle currently in feedyards are not carrying excessive weight. We have also seen cattle grading deteriorate and the price of beef 50s soar to over $140/cwt in recent days (see **Figure 1**). All of these things

The market for fat trim is on fire with 50s **trading over $140/cwt**

seem to be pointing to feedyard inventories that are not overly burdensome, yet cattle feeders have not yet been able to force a significant increase in the cash cattle market. By my calculation, cattle feeders are still losing about $125/head on the cattle that they have marketed recently. It would take cash prices in the low $130s to bring profitability back to feedyards.

In addition to the light feedyard placements that have characterized this summer, the recent cattle inventory data suggests that the number of cattle outside of feedyards has decreased significantly and that will eventually lead to smaller placements and smaller beef production. The futures market seems to want to price in that supply tightness starting late this year and early 2022, but that seems too soon to me. Instead, I am more comfortable looking for supply tightness that will materially move prices higher only after the summer of 2022. Of course, we could always see a demand-driven price increase before that, but I'm assuming that significant supply tightening is at least a year away.

DEMAND SITUATION

Domestic beef demand had been fading up until mid-July when buyers began exhibiting renewed interest in nearly all parts of the carcass. The ribs have seen the biggest gains, but even the end meats are garnering considerable buying interest. What caused this sudden reversal? For one, it may be that the decline in beef demand that we saw during late June and early July was somewhat artificial in that it was driven by buyers going from well-bought to a close-bought status. In other words, they were able to rely on their inventories and thus stay out of the spot beef market to a degree. However, at some point inventories run low and buyers get forced back into the spot market, which is what we are seeing now. Once prices turn higher, that creates a sense of urgency on the part of buyers to get product bought before prices strengthen and that tends to fuel the first stages of the price rally. Another factor that is likely supporting domestic demand is that American's hourly earnings are rising faster than they have in a long time (see **Figure 2**). Employers in traditionally low-wage industries are having to raise wages at a strong pace in order to attract workers back into those jobs and that is putting more money into the pockets of lower-income individuals and one of the first things they look to do in that situation is to improve their diet. Red meat fits well with that and thus we see strong beef demand persist. It looks to me like this strong demand environment could be with us for another six months or so. Buyers should assume that price levels for the rest of 2021 will likely be well above what they were accustomed to pre-pandemic.

The export picture for beef looks very promising, in spite of high prices in the US. The official ERS export data for May showed a 69% increase over last year's pandemic-restricted volume. The weekly export numbers that are more timely have also shown strong YOY gains in June and July. It seems as though international consumers of US beef are just as enthralled with the product as domestic consumers are. I think that sets the market up to post strong export volumes for the remainder of 2021 and wouldn't be surprised if, at the end of the year, we find that exports have increased 10-15% over 2020. Beef exports to China remain very strong even though pork exports from the US to China have been declining. The re-opening of the Chinese market to US beef has been far more successful than many envisioned.

SUMMARY

The demand pendulum has swung back in the positive direction and we have recently seen improvements in domestic beef demand that have lifted beef prices off of their summer lows. There are reasons to think that this demand burst will last beyond Labor Day and may extend deeper into fall. In addition to the rebound in domestic demand, international demand for US beef appears very strong. On the supply side of the market, cattle feeders have been limiting feedyard placements this summer, but the available cattle supply still slightly exceeds packer's ability to process them all due to labor constraints. That bottleneck should ease in August as cattle availability declines, but it may not be enough to lift cash cattle prices out of the low $120s where they have been stuck for the better part of the past two months. Cutout values however, should keep pressing higher in the near term and that will likely result in expanding packer margins once again. The mid-year inventory report shows that the cattle herd is still in liquidation mode and that liquidation appears to be speeding up due to severe drought in the western half of the US. That means that eventually supplies will shrink below packing capacity and packers will once again be forced to compete for available cattle supplies. We don't see that happening until the summer of next year, but the futures market seems to think it will occur sooner. For now though, it is likely to be more of what we experienced this spring—rising beef prices and a stagnant cash cattle market. Our near-term price forecasts for cattle and beef are provided in **Table 1**.

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Figure 1: 50% Trim

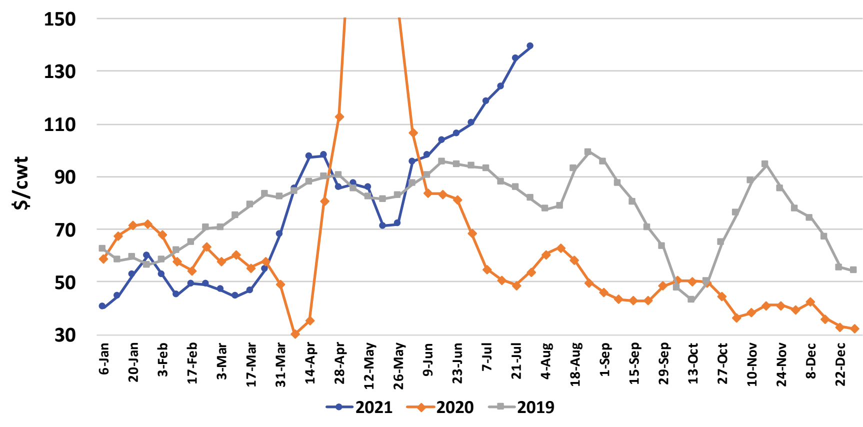

Figure 2: YOY Change in Hourly Earnings, All Employees

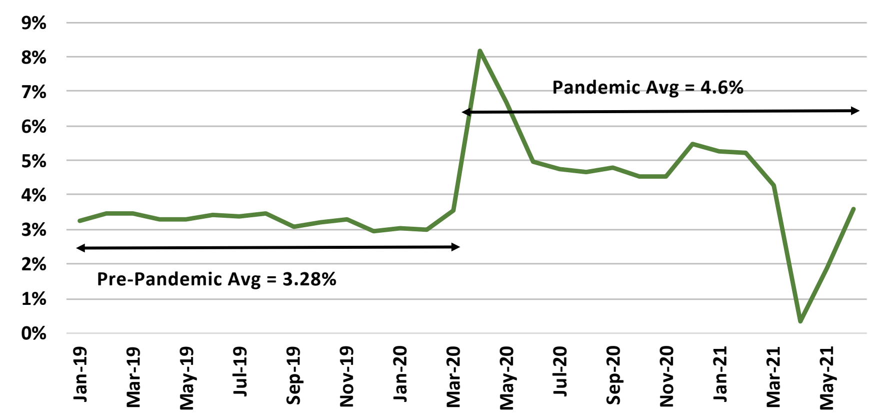

Table 1: JSF Cattle and Beef Price Forecasts

	11-Aug	18-Aug	25-Aug	1-Sep	8-Sep	15-Sep
Choice Cutout	277.6	279.7	278.9	277.1	274.3	271.6
Select Cutout	261.6	264.4	264.8	263.5	260.3	256.7
Choice Rib Primal	449.8	453.8	456.1	453.3	448.0	445.0
Choice Chuck Primal	235.2	236.6	238.1	234.3	230.2	230.5
Choice Round Primal	233.6	236.3	235.2	237.0	236.6	231.4
Choice Loin Primal	352.2	354.7	350.1	348.2	345.1	341.2
Choice Brisket Primal	235.8	241.0	242.0	238.6	237.4	234.0
Cash Cattle	120.9	121.1	121.5	123.3	123.4	122.7

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