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RED MEAT OUTLOOK: CATTLE & BEEF

The beef market in the US rocketed higher during August, with the Choice cutout moving from $278 at the end of July to over $345 in recent days. There are both supply and demand factors driving the recent price surge, but the demand side factors are dominant. The resurgence of COVID-19 infections in the US this summer has caused a change in attitude toward reopening and many consumers are once again adopting a stay-at-home lifestyle, avoiding travel and large gatherings. We know from past experience that the stay-at-home approach is positive for meat demand, but the current demand surge probably encompasses a lot more than just shifting from foodservice meals to those prepared at home. Government programs designed to assist lower-income families who have suffered in the pandemic are putting more dollars into the hands of some of the poorest Americans and they are keen to upgrade their diet. Further, it seems that the public tends to buy and store more meat at home when COVID-19 infections are rising and they let those frozen stocks get drawn down when infections are falling. We think that this activity has greatly boosted demand here in late summer and may be playing a significant role in the up and down nature of the beef market in recent months. Packers are still having problems finding enough workers to fully staff plants and that has kept slaughter levels well below what we might consider normal processing capacity. As a result, demand for cattle has not been nearly as strong as demand for beef and the cash cattle market has been mostly stuck in the low $120s throughout the summer. Meanwhile, packer margins have soared and, by our calculation, are now close to $1000/head again.

> Packer margins are **back near $1000/head** as **tight labor availability** continues to limit slaughter capacity

SUPPLY PICTURE

Steer and heifer slaughter has averaged about 505-510,000 head over the past several weeks. That is pretty close to what our flow model using past feedyard placements suggests should be ready for marketing. However, the general consensus is that the industry under-killed available supplies in June and July and so there are probably still a moderate number of fed cattle that are late in meeting their fate. But it certainly is welcome news that further numbers are not being added to the backlog. The model suggests that September fed slaughter will need to average 515-520,000 head per week to accommodate all of the animals that will become market ready during that period. Whether or not the industry can meet that target is unclear because the labor situation in packing plants still seems to be very tight. If labor wasn't so tight, the enormous margins that packers are currently pocketing would have them slaughtering cattle ahead of schedule. That, in turn, would lead to strong competition by packers for available cattle and thus drive the price of cash cattle higher. As it is now, the labor bottleneck is frustrating those at several levels of the supply chain. End users facing very strong consumer demand are frustrated that packers can't producer more. Packers are frustrated that they can kill more and thus earn more and, cattle feeders are very frustrated when they see cutout values soaring yet cash cattle prices remain stagnant. The labor availability problem at the packing level has resulted in inefficiencies up and down the supply chain.

Last year at this time we were lamenting how heavy feedyard cattle were and the price-depressing effect that was having on the cash cattle market. This year, cattle feeders seem have a much better handle on carcass weights. Last week, steer carcass weights were reported at 898 pounds, eight pounds below last year at this time. Carcass weights are increasing seasonally and should top in late October or early November. The de-trended and de-seasonalized carcass weights that we watch as an indicator of feedyard currentness have moved solidly into negative territory and thus

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suggest that feedyards are much more current than they were back in the spring (see **Figure 1**). We see carcass weights continuing to track below 2020 for the balance of the year.

Last week, USDA released the results of their monthly *Cattle on Feed* survey which estimated July feedyard placements down about 8.1% from a year ago. That comes after a 6.2% decline in May and a 7.1% decline in June. So, cattle feeders are clearly reducing on-feed inventories in response to the bottleneck that exists in the packing sector. Those placement reductions should manifest as smaller fed cattle supplies starting in November. That will greatly improve cattle feeders' leverage in their weekly negotiations with packers and thus should result in stronger fed cattle pricing, as long as beef demand doesn't deteriorate significantly between now and then. Cow-calf producers are also culling cows at a very strong rate, with YTD cow slaughter up over 8%. This is reducing the production potential of the US herd and will eventually lead to smaller fed cattle and beef supplies, perhaps as early as mid-2022. That is a big reason why the futures market is assigning very high values to fed cattle prices in 2022.

> Feedyard placements in July were **down 8.1% YOY, setting the stage** for smaller cattle supplies this fall

DEMAND SITUATION

Just a couple of months ago, I wrote about how domestic beef demand was beginning to fade after a very strong first half of 2021. Well, that didn't last long. Demand did fade some during late June and early July, but it resurged with a vengeance in late July and continues to track higher at an astounding pace. One thing has become very clear: beef prices in 2021 are far more volatile than they have ever been in the past. It used to be that a $1-2 daily change in the cutout was a big move, but now the cutout routinely moves $3-6 per day. This happens in both directions. I think that is primarily caused packing plants not being able to adjust their output much as margins swell due to labor problems. I also think that, as COVID-19 infections surge, consumers are quietly stockpiling meat once again. It isn't the case-clearing type of stockpiling that we saw in the early days of the pandemic, but this new wave of infections has consumers concerned and often leads them toward a purchase and hold strategy. Inflation in the general economy is also picking up and consumers can see that in the prices they pay every day. Once consumers come to believe that inflation will increase well into the future, then they start to buy in advance of need in order to try and limit their exposure to higher prices down the road. Food is a primary need for all humans and for many living in the US, meat is also considered a primary need. It is probably right up there with toilet paper in terms of something that Americans fear running out of. Thus, we are back in another strong wave of beef demand. How long will it last? That is tough to gauge, but I suspect that as long as COVID-19 remains a big concern and inflation looks strong, then beef demand will remain relatively strong, perhaps through 2021 and into early 2022.

International demand for US beef is also very strong at present. Through June, US beef exports are 12% ahead of 2019 and the weekly export data has looked strong since the end of June. China is playing a big role in the overseas market for US beef. In recent weeks, US beef exports to China have been between 3,000 and 4,000 metric tons per week (see **Figure 2**). Only Japan and S. Korea are taking larger volumes than China and we are also very close to the point where China may take more beef out of the US than pork. That is simply astounding. Another thing that makes the beef export volumes so impressive is that we know that companies are facing a number of problems shipping products globally due to the pandemic and containers being out of place. It does make me wonder how much more beef would ship if the global transportation network were operating smoothly.

SUMMARY

The beef market was back on fire during August, and cutout values exceeded those seen during the impressive spring rally. Strong domestic demand for beef is largely to blame, but there is also a supply component as packing plants cannot operate at full capacity due to labor constraints. Weekly fed kills during August have been close to what our model suggested, so the industry probably did not backlog any additional cattle in recent weeks. Kills should be a little stronger during September, but end users might not notice any change in availability since the export markets have been siphoning off product at a strong pace. Retailers are likely to keep pushing retail prices higher to accommodate for the strength in the wholesale market and that will probably cause consumers to pull back at some point. Right now, consumers seem to be quietly stockpiling beef again as COVID-19 infections surge and price inflation in the general economy is strengthening. So far, the labor bottleneck has kept cattle prices mostly in check, but that could be changing as feedyard placements have declined over the past few months and thus feedyards are more current than they have been in a long time. Buyers are advised to take some forward coverage for holiday middle meat needs, but remain close bought on immediate needs as the beef market may be approaching a near-term top. Our near-term price forecasts for cattle and beef are provided in **Table 1**.

Figure 1: Detrended & Deseasonlized Steer Carcass Weights

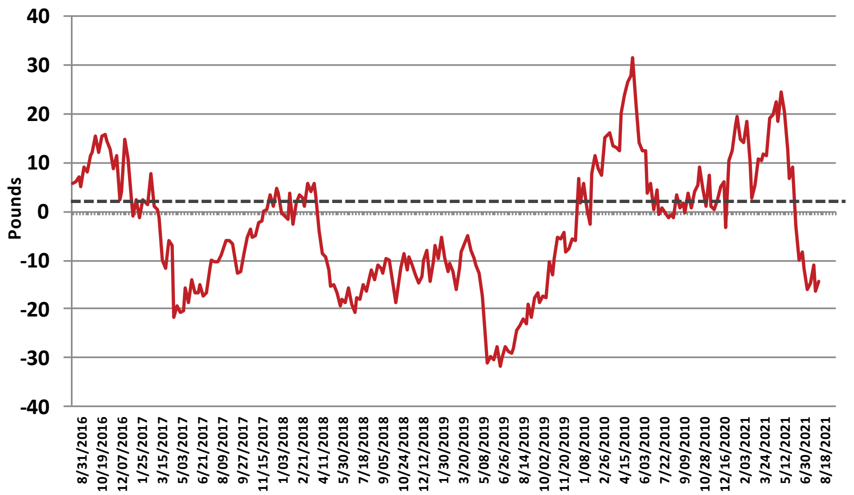

Figure 2: Weekly Beef Exports to China

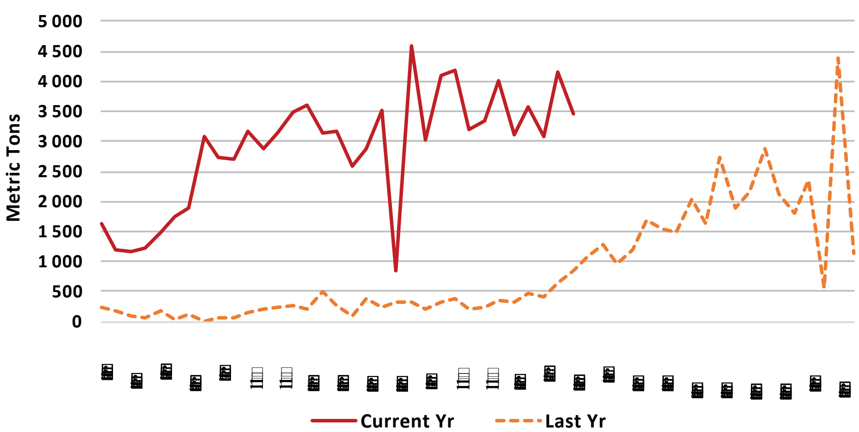

Table 1: JSF Cattle and Beef Price Forecasts

	1-Sep	8-Sep	15-Sep	22-Sep	29-Sep	6-Oct
Choice Cutout	336.2	328.0	314.1	305.9	297.6	293.5
Select Cutout	304.0	297.9	286.9	280.3	273.7	268.6
Choice Rib Primal	585.5	563.5	540.5	530.8	523.7	516.6
Choice Chuck Primal	273.4	266.9	257.1	249.2	240.9	238.6
Choice Round Primal	281.4	276.3	270.6	262.5	252.4	243.5
Choice Loin Primal	428.2	419.1	393.9	386.1	377.8	376.1
Choice Brisket Primal	311.2	305.1	290.0	282.4	269.9	266.9
Cash Cattle	126.3	125.5	123.4	121.2	122.1	123.3

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