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RED MEAT OUTLOOK: CATTLE & BEEF

The normal holiday rally in the beef complex has turned out to be a bust this year. The cutouts did turn higher in October as the middle cuts offered some strength, but by early November they were back on the defensive again. Now, in early December, the cutouts are continuing lower and it appears that there might not be much in the way of price appreciation between now and the end of the year. That contrasts starkly with the cattle market, which finally gained some traction in November and has gained more in the last five weeks than it did in all of 2021 prior to November (see **Figure 1**). Of course, everyone is now wondering what lit the fire under the cattle market after months of trading sideways. One factor is a tightening of the available cattle supply in Q4 based on light placements back in May/June/July. The industry finally came into the supply "hole" created by that earlier placement pattern and it just so happened to coincide with packers' need to fill holiday orders placed months earlier.   Those orders carried much higher price tags than the current spot market and thus it was imperative that packers search out the high-quality cattle to fill holiday middle meat orders. That lead to a scramble for cattle and a rise in cash prices. There is also a theory that the recent rumblings about anti-trust action may have played some role in packers suddenly deciding to be more generous with cattle feeders. Sharply higher cattle prices combined with a soft beef market have certainly compressed packer margins, which appear poised to fall below $300/head this week. That is still very large historically, but from an anti-trust perspective it looks a whole lot better than the $1000+/head margins that packers were banking back in August. Unfortunately for cattle feeders, they are beginning to partake in the windfall created by record demand just as that record demand is starting to fade.

Packer margins are rapidly compressing, now **near $300/head**

SUPPLY PICTURE

Fed kills have been a little larger recently, averaging 516,000 head per week in November (non-holiday weeks), which was about 10,000 head per week more than what the flow model indicated was available. That is part of the reason why packers had to chase cattle and pay higher prices for them. Now as we move into December, the non-holiday weekly supply estimate is around 515,000 head per week and so it seems that the available supply is expanding a bit and will be better aligned with what packers have wanted to slaughter. Perhaps that will cool down the cash cattle market. Further, with two holiday weeks upcoming, packers will find a natural opportunity to pull a little less on the cattle supply and feedyards could lose some currentness. It is our opinion that feedyards are not as current as what cash cattle prices seem to imply. The de-trended and de-seasonalized weights have not suggested any gain in currentness recently. That makes a stronger case for the idea that at least a part of the recent rally in cash cattle prices was due to increasing packer generosity. The current forecast has cash cattle prices retreating a bit during December as supplies increase, holidays disrupt, and declining beef prices put pressure on packer margins.

Steer carcass weights have been rising toward a seasonal top that was likely posted in mid-November and were most recently reported eight pounds below last year. Keep in mind that weights last fall were heavier than normal due to the backlog of cattle that was created during the onset of COVID-19. So being a few pounds below last year is not a sign of a current cattle supply. It may, however, be a symptom of labor shortages in packing plants. One way around that labor constraint is to process fewer, but heavier cattle. Corn prices remain quite elevated in a historical context and we might expect that to impact weights negatively, but so far it hasn't. We do think that next year, weights will fall below the long run trend after spending the last couple of years above trend. High corn prices and improving labor availability in packing plants should support that.

Feedyard placements in recent months have been tracking pretty close to last year, so the supply picture for early 2022 should mimic what we saw this year. The rise in cattle prices has improved cattle feeder profitability (see **Figure 2**) and that may spur cattle feeders to place a little more aggressively in the next couple of months, particularly since cattle placed in Dec/Jan will become market ready around Memorial Day, when beef demand and beef prices are often the strongest of the year. Breakevens on cattle leaving the feedyard today are around $137/cwt, so cattle feeding margins have finally moved slightly into positive territory. That may be short-lived however, as cash prices could retreat some in December, while breakevens are scheduled to rise toward $145/cwt by early January. Higher fed cattle prices have also lifted cash feeder cattle prices and so breakevens are likely to remain above $140 well into next year.

Cattle feeding breakevens expected to be **close to $145/head** in January

DEMAND SITUATION

Last month we pointed out that retail beef prices had risen to all-time highs near $8 per pound. Apparently, consumers are not particularly eager to continue buying beef aggressively at that level. Much of the government transfer payments to consumers, which super-charged beef demand earlier in the year, have now run their course. So there are reasons to expect beef demand to be declining and the data support that idea. However, there is a new COVID-19 variant emerging and that could upend the demand picture once again. We already have ample evidence that when consumers are forced into stay-at-home mode, beef demand improves. There are signs that this new variant, tagged omicron, could evade the protection afforded by our vaccines and thus if it spreads widely there is the risk that parts of the economy will become restricted once again and beef purchases could swing back in favor of the retail channel. It is still too early to know if that will happen and it seems like consumers are going to ignore the threat at least through the December holidays. That would leave beef demand continuing to soften for the remainder of the year and thus beef prices are expected to continue to retreat in the next few weeks. January may bring some improvement in demand and thus a rebound in price levels, but supplies of market-ready cattle should also be improving and could limit the upside price potential.

International demand for US beef has been impressive this year. Our current forecast has exports up almost 18% YOY in 2021. September exports were up 21% and it looks like the October data, which will be released shortly, will be up close to 10%. Given how high US beef prices have been this year, those big volumes going overseas point to very strong international demand. Of course China has played a big role, but in general it seems that consumers across a number of Asian countries are making a dietary shift toward more beef in their diet. This is a very important development that probably has a lot of staying power and will likely keep US beef exports strong for a long time to come. Demand from China is expected to soften a bit beyond mid-month since that is the cutoff for getting product shipped in time to arrive for the Chinese New Year and the Beijing Winter Olympics. However, we fully expect China to import more beef from the US in 2022 than it did this year. Mexico is having a hard time meeting last year's strong Q4 export numbers and thus is showing some pretty large YOY declines at present. That is not a sign of weak demand from Mexico, just weaker than the red-hot levels late last year.

SUMMARY

In general, the worm seems to have turned in both the cattle and beef markets, albeit in different directions. Cattle markets have strengthened after several months of sideways action and beef markets are seeing softer demand and lower prices after many months of very strong demand. That has brought about the long-awaited compression in packer margins, although they still remain high by historical standards. Cattle supplies have been tight during Q4 due to light placements back in late spring and summer, but the supply picture should ease as we move toward January. Beef prices at retail remain very high and that is discouraging consumption through that channel. However, the recent "return to normal" in most consumers' lives is put at risk by the new COVID-19 variant that could dampen public events once again and force consumers back into a "stay-at-home" lifestyle. We don't think that will happen before January, but it is worth watching and would likely be a positive for beef demand. This variant is also likely to sweep across the globe and thus could also impact beef exports next year, most likely in a positive fashion. For now though, consumers are going to pretend that things are normal once again and celebrate the December holidays in a big way. That likely helps foodservice demand in the near-term and tempers retail movement. Our near-term price forecasts for cattle and beef are provided in **Table 1**.

Figure 1: 5-Area Live Steer Avg Price

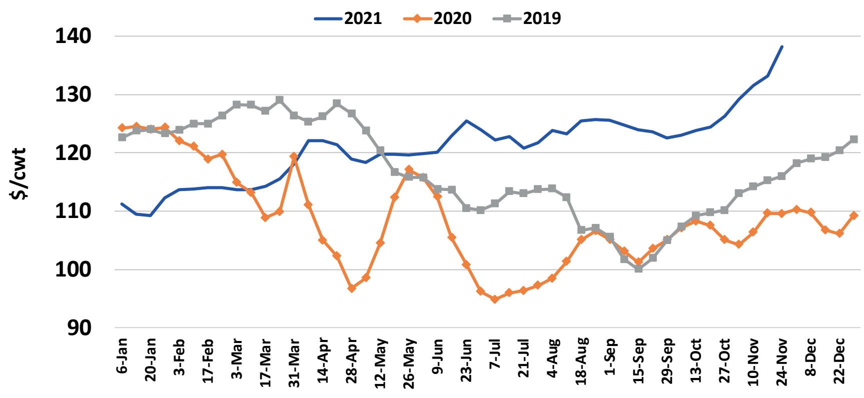

Figure 2: JSF Estimated Cattle Feeding Net Profit Margin

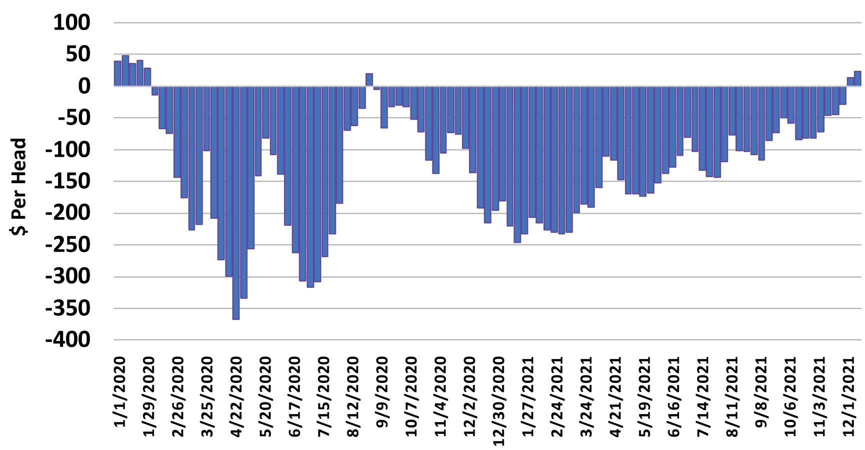

Table 1: JSF Cattle and Beef Price Forecasts

	15-Dec	22-Dec	29-Dec	5-Jan	12-Jan	19-Jan
Choice Cutout	255.9	247.3	245.1	244.7	247.2	247.8
Select Cutout	241.6	235.7	236.0	234.9	235.1	236.5
Choice Rib Primal	422.1	399.3	395.0	389.8	398.8	396.8
Choice Chuck Primal	211.5	207.3	206.5	209.0	212.1	214.7
Choice Round Primal	215.9	209.8	213.0	215.0	212.6	209.8
Choice Loin Primal	324.9	312.6	303.3	299.0	304.1	308.9
Choice Brisket Primal	294.7	291.8	284.7	276.8	268.2	265.5
Cash Cattle	140.1	138.2	136.0	133.5	134.0	135.8

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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.