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RED MEAT OUTLOOK: CATTLE & BEEF

The cash cattle market took a pause in December, with prices pulling back to $135 after rallying to a top of $142 in late November. Now the market is moving higher once again as packers look to flesh out their kill schedules following the holidays. Beef markets were also declining in December, and they too appear to be ready to make a turn higher now that 2022 has arrived. While the supply side of the market has behaved as expected, it appears that domestic beef demand is turning a corner and entering a new upcycle. However, the rapid spread of the omicron variant of COVID-19 is creating a lot of uncertainty relative to January beef demand. It seems as though the population largely ignored the new virus surge during the holidays and proceeded with the travel and large gatherings that were typical of holiday periods prior to the pandemic. Now it appears that there will likely be a price to pay for that activity. Infections are soaring and the existing vaccines provide a lot less protection against this variant and so we may see consumers move back into more of a "stay-at-home" mode during January. That would be positive for beef demand through the retail channel and negative for foodservice demand. On balance however, past experience has clearly demonstrated that when consumers shift toward retail consumption, overall beef demand improves. Packer profit margins were slashed as the cash cattle market rose in November and they were pressured in December by falling beef prices. We estimate that margins are now close to $340/head, which is still high by historical standards, but far below the $700-800/head margins that were common last fall (see **Figure 1**). Stronger cattle pricing has helped cattle feeding margins, pushing them briefly into positive territory during early December. However, cash corn prices in cattle feeding regions are now in excess of $6.20/bushel and that threatens to keep feeding margins in the red even if the fed cattle market should strengthen over the next few weeks.

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SUPPLY PICTURE

The tightness in fed cattle supplies that was created by light placements back in May/June/July is rapidly moving into the rearview mirror. In absolute terms, fed cattle supplies will be smaller in Q1 than they were in Q4, but that is a normal seasonal pattern. We expect fed cattle supplies this year to be about 1.5% below last year's Q1 total, based on what we've seen in past placements. However, the weather across cattle feeding country in late 2021 was very favorable and as a result we may begin to see cattle finishing ahead of schedule. That hasn't been apparent in recent weeks due to holiday disruptions, but could become more obvious in January as the industry moves back to full work weeks. Our flow model suggests that there are enough cattle available to support weekly steer and heifer slaughter around 500,000 head per week in January, with the bigger kills coming early in the month and then tapering down as February approaches.

The unseasonably warm weather in the Plains States during November and December and lack of significant snow events has helped cattle to gain weight rapidly. Steer weights, which normally peak in late October or early November, continued to rise and didn't peak until the middle of December this year. Over the past four weeks, steer weights have averaged five pounds higher than last year's pandemic-elevated weights. This rapid weight gain raises a red flag that the industry seems to be ignoring so far. The de-trended and de-seasonalized carcass weights have been marching steadily higher and are now in positive territory (see **Figure 2**). This is normally a sign that feedyards are falling behind in their marketings, but this year it seems to be more an indicator that cattle are finishing ahead of schedule. As a result, cattle feeders may soon find that bargaining power is shifting back into the hands of the packer and any cash price rally during January may be short-lived.

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Improved profitability in the cattle feeding sector has renewed interest in putting cattle on feed. November feedyard placements were 3.6% higher than last year and that followed a 2.4% YOY gain in October. It now looks like placements in December were at least 3% over last year and perhaps even more. Those expanded feedyard placements during Q4 will become market ready in Q2 of 2022 and sets the stage for a more ample supply scenario this spring. Cattle feeders seem to be convinced that they have turned the corner now and overall cattle numbers are now low enough to support higher prices going forward. We tend to disagree with that view. While the supply side numbers are tightening up slowly as the US herd progresses in the liquidation phase of the cattle cycle, domestic beef demand is likely to be well off the record highs seen in 2021 and thus cash cattle prices are likely to be softer on average in 2022 than they were in 2021.

DEMAND SITUATION

Domestic beef demand cooled further in December as vaccinated consumers returned to a more normal life and thus did less food preparation at home. The Choice cutout bottomed near $260 — a far cry from the $345/cwt cutouts that were seen back in August. As we move into January, retailers will focus more on value items for features — roasts and grinds — since consumers will be dealing with holiday bills and retail beef prices are already at record highs. If the omicron surge causes consumers to hunker down at home in January then we will likely see moderate improvements in beef demand and somewhat higher cutouts. However, this surge in infections is unlikely to bring on any additional stimulus money and thus it will probably not super-charge beef demand the way that it did back in early 2021. Consumers seem to have stockpiled a nice chuck of the earlier stimulus funds, but have been working through that in the past few months and will continue to do so in early 2022. As the savings stock starts to run low for people in the lower income brackets, beef demand begin to struggle once again. The deeper we move into 2022, the more consumer savings will be tapped and the more likely that beef demand fades back toward pre-pandemic levels. This will probably be a slow process over many months, but by the time the second half of 2022 arrives, we expect consumer's purchasing power to be well below last year's level and that portends considerably softer beef demand. Thus, we see 2022 cattle and beef pricing softer than in 2021, with more of that YOY weakness coming in the second half of the year.

Export demand for US beef has been very good in recent months. USDA reported October movement up 9% YOY and it is likely that November and December will be reported up similar amounts. Many countries outside the US also provided pandemic relief funds to their populations and that had the same effect that it did in the US — it boosted meat demand. That resulted in strong US exports during 2021, but further gains in exports are not expected in 2022 for the same reason that US domestic demand is expected to sag — government financial support is finished and savings are being spent. It does seem that Asian countries are exhibiting a shift in preferences away from pork and toward beef in the last year or so. Witness the strong rise in US beef exports to China and other Asian destinations. It is difficult to know if that was simply a temporary result of Asian consumers having more money in their pockets or if it is a more fundamental shift that will endure for decades. Export patterns in 2022 will help to answer that question.

> Recently, steer carcass weights have **averaged about 5 pounds over last year**. This could be **a sign of a brewing problem**

SUMMARY

It is a normal occurrence for market-ready cattle supplies to decline moving from Q4 into Q1, but that is typically offset by seasonally weaker demand in Q1. This year we see Q1 cattle numbers about 1.5% below last year, but carcass weights a little heavier than last year. The end result is that beef availability should be fairly close to last year over JFM quarter. Thus, any price surprises are likely to come from the demand side, with the wild card being how consumers react to soaring infections driven by the omicron variant. If they move back into stay-at-home mode, we could see another pronounced shift from foodservice toward retail and that would likely be a net positive to beef demand. Regardless of how consumers react, there is not likely to be any additional government assistance forthcoming. Consumers will continue to work through the pandemic savings they built up during the last round of stimulus and thus we look for demand to gradually decline moving through 2022. The weaker demand structure is more likely to be evident in the second half of the year, but some demand erosion in the first half is also likely. It is possible that the labor crunch in packing plants could become more severe in January as omicron results in increased absenteeism. If that should happen in a big way, buyers can expect beef prices to bounce higher. A cattle backlog could develop in such a scenario, and cattle are already quite heavy, so the cattle market could come under pressure. The next few weeks will be a very good stress test of the COVID-19 protocols put in place by packers. Beef buyers will be keeping their fingers crossed that plant slowdowns or shutdowns can be avoided. Our near-term price forecasts for cattle and beef are provided in **Table 1**.

Figure 1: Packer Margin

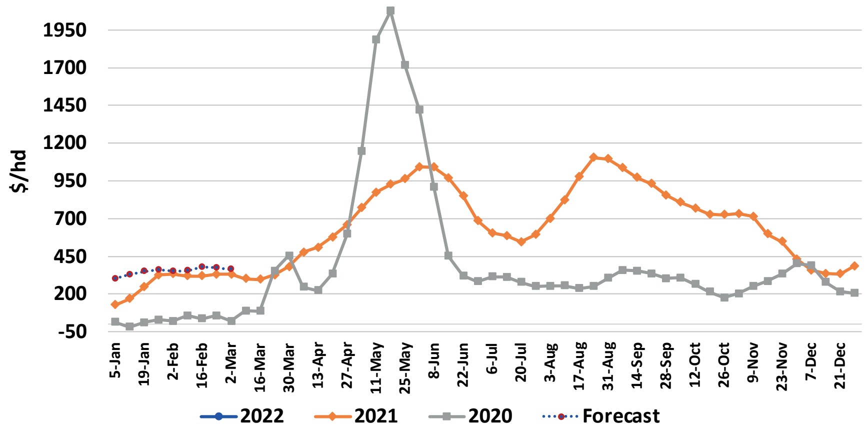

Figure 2: Detrended & Deseasonlized Steer Carcass Weights

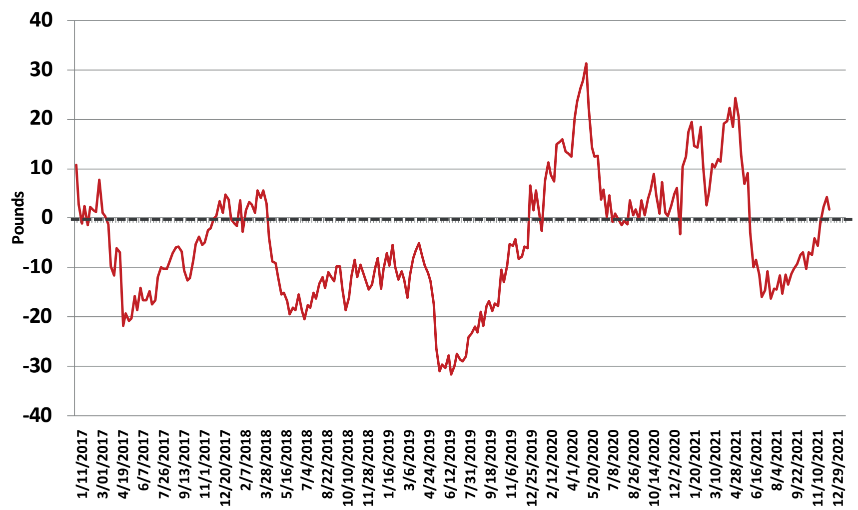

Table 1: JSF Cattle and Beef Price Forecasts

	12-Jan	19-Jan	26-Jan	2-Feb	9-Feb	16-Feb
Choice Cutout	264.5	263.6	262.4	262.9	266.1	266.7
Select Cutout	255.0	253.3	251.8	253.0	256.7	258.1
Choice Rib Primal	390.4	399.7	416.3	425.6	429.8	436.2
Choice Chuck Primal	233.2	228.4	225.1	221.1	220.4	215.7
Choice Round Primal	230.5	232.2	228.4	225.1	227.1	226.7
Choice Loin Primal	330.7	327.6	324.3	329.5	338.5	344.7
Choice Brisket Primal	286.6	288.0	293.8	298.1	296.0	291.4
Cash Cattle	138.3	136.7	136.3	136.0	135.9	136.3

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