



# THE MONTHLY RED MEAT OUTLOOK: CATTLE & BEEF

JUNE 2022

Prices for cash cattle in the US have started to back down, losing about \$5 since early May and are now trading close to \$138/cwt in the Southern Plains. The hopes of cattle feeders for a strong spring market have been deflated by the absence of the normal grilling season surge in demand and corresponding rise in the cutouts. Now the numbers of market-ready steers and heifers are growing day by day and packers have regained spot market leverage. The Choice cutout will finish May not all that far from where it started and that is a most unusual occurrence. Normally, the beef market sees some of its strongest price appreciation during May as warmer weather lures consumers outside to grill. This year, spring demand has been muted by a number of factors, but the most important seems to be consumer's desire to do other things now that the COVID-19 pandemic has faded and cooking at home is no longer a big focal point. Macroeconomic conditions in the US have been deteriorating as well. Price inflation is still very strong across a broad variety of things that consumers purchase and so competition for the consumer's dollar is much more intense and is drawing away a chunk of demand from the beef market. There was a lot of speculation this spring about dwindling cattle numbers in the US causing sharp reductions in supply and thus driving prices rapidly higher. Those ideas are now proving to be premature and, as a result, some of the big premiums that had been built into the prices of the deferred live cattle futures have been eroding. There will come a point in the current cattle cycle when cattle supplies reach such a low level that it brings about exceptionally high cattle and beef prices, but that event is likely to be at least a couple of years down the road.

## SUPPLY PICTURE

Coming into the spring, beef buyers were concerned that price levels this year would be super-strong like they were in the spring of 2021. That led them to book forward considerable beef tonnage for delivery in May. As a result, packers kept the fed kill rather high in order to generate enough of the right kind of cuts to fill those orders. Weekly average steer and heifer slaughter during May

**Fed cattle slaughter during June and July should be very large, perhaps averaging 530,000 head per week**

was just slightly below 515,000 head per week. That was about 5,000 head per week above what our flow model projected, but good weather likely had some cattle finishing ahead of schedule and thus the pull created on the cattle supply was not excessive. Now as we head into June, cattle availability should continue to expand as a result of large placements back at the end of 2021 and early 2022. Given that demand has probably now peaked seasonally and should drift lower, this points to lower cattle and beef pricing during the month of June.

Carcass weights are nearing their annual low point and will soon begin an uptrend that should continue through October. Last year, weights didn't reach a bottom until the middle of June and that could very well be the case again this year. The de-trended and de-seasonalized weights that we watch as an indicator of feedyard currentness have started to decline recently. They are still high in a historical context, but are headed in the right direction. Interestingly, high corn prices have yet to make much of a dent in cattle weights. For producers, it is probably more important to their net revenue to feed toward a particular grading goal. Consumers are demanding more high quality beef than in the past and they are willing to pay a premium for it. If cattle feeders were to throttle back on corn intake, they would risk having cattle that didn't qualify for the Choice or better quality grades that are so sought-after in today's market.

For the past couple of months, analysts have been expecting cattle feeders to slow feedyard placements in response to high input costs but that has yet to materialize. In fact, the last

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two *Cattle on Feed* reports showed placements way above the consensus expectation. As of May 1, USDA reported feedyard inventories to be 2% over last year and at an all-time high for this time of year (going back to 1996). That doesn't sound like scarcity. In fact, it looks like the beef market will be well supplied all summer long as the industry works through those large cattle inventories. Over the past six months or so, speculators have bid up the deferred live cattle futures on thoughts that the cattle supply would be getting very tight, but all that really did was encourage cattle feeders to place animals aggressively, which makes it very unlikely that the price targets originally envisioned by speculators will come true. **Figure 1** provides the YOY changes in feedyard placements over the past 12 months.

**Feedyard inventories are up 2% YOY and the largest on record for May**

## DEMAND SITUATION

The normal spring surge in beef demand was very muted this year. The Choice cutout trended lower from mid-April to mid-May and then some last-minute holiday demand raised the cutout by a few dollars before it began to sink again near the end of the month. We continue to believe that domestic beef demand is in a longer-term downtrend that is taking it back toward pre-pandemic levels. There is no doubt that the pandemic was very good for beef demand, but now that infections have fallen to very low levels, consumers are focused to having the experiences that they were denied during the pandemic such as travel and large gatherings. As a result, beef demand through retail channels is slowly subsiding. That decline is likely to get helped along by 8% YOY price inflation in the macroeconomy, which is forcing consumers to make difficult choices when it comes to spending their disposable income. A more recent development over the past month has been a sharp decline in the stock market. Over the last decade, and in particular throughout the pandemic years, the ownership of equities by Americans has increased. That adds to the feeling of confidence when the market is rising, but when the market starts to fall, it means a larger percentage of the population comes under financial stress. The Federal Reserve is actively raising interest rates in an attempt to tame inflation and that too is likely to slow economic activity and hamper beef demand. So, there are a host of conditions that seem to be

pointing toward softer beef demand in the next 6-12 months. There will still be demand cycles within that longer-run trend where beef demand improves for several weeks and then retreats, but it is a pretty safe bet that beef demand in the remainder of 2022 will fall way short of last year's record-breaking demand. **Figure 2** illustrates the drop in beef demand from Q1 to Q2 and our forecast for the remaining two quarters of the year.

International demand for US beef seems to be holding up fairly well. China remains an active buyer of US product, with March shipments up 25% from last year. S. Korea has also emerged as a strong buyer, with volumes in Q1 up a little over 8% from last year. Mexico is one of the destinations that seems to be struggling compared to recent years. In Q1, the US shipped 24% less beef to Mexico than a year earlier. We are not expecting the declines to be as severe in the balance of 2022, but it is probably a good bet that total 2022 volumes to Mexico will be below last year. The US dollar has strengthened a lot in 2022 and will probably only get stronger as interest rates go up. That could be a significant headwind for international demand in the months to come.

## SUMMARY

The return to normalcy that began earlier this year is still on track. Consumption patterns, which were radically altered by the pandemic, are starting to revert back toward pre-pandemic norms. There have been concerns about the cattle supply getting really tight because cow kills have been elevated for the past year or so, but we think those concerns are very premature. The real tightness in cattle and beef supplies will occur when cow-calf operators begin retaining heifers to rebuild their herds. Right now, it looks like that is at least a year away and it could be 2024 before it happens. The nation's feedyards currently hold more cattle than they ever have (since 1996) for this time of year. Packers will need to keep kill levels relatively high for most of the summer to work through those large supplies and that means that beef supplies should be ample. Buyers could very well find themselves in the driver's seat this summer and should not extend coverage very far into the future. Retail beef prices remain very high and that will also be a headwind that slows consumption through the retail channel this summer. There is a considerable risk of the US economy slipping into a recession later this year as the Fed raises interest rates to battle inflation and if that occurs, domestic beef demand can be expected to slip further. For now however, it is a story of ample supplies and slowly softening demand which should lead to lower pricing in the summer months. Our near-term price forecasts for cattle and beef are provided in **Table 1**.

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Figure 1: US Feedyard Placements, YOY Change

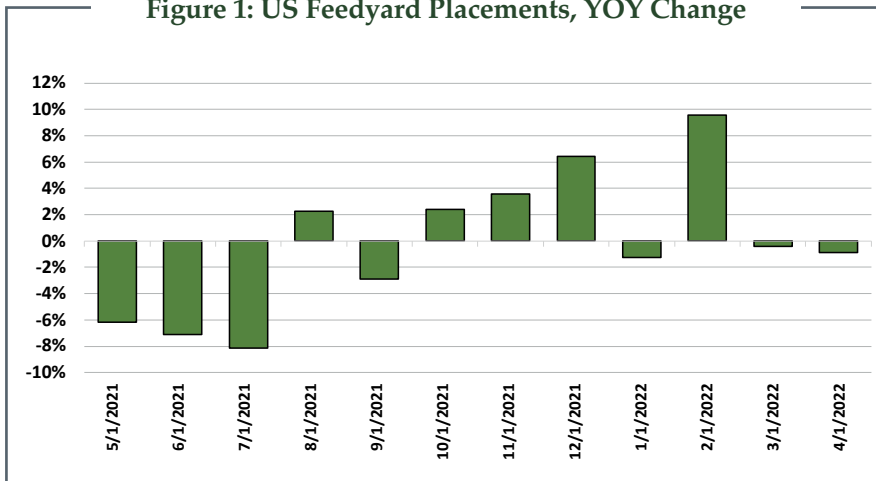


Figure 2: JSF Cutout Demand Indexes (shaded is forecast)

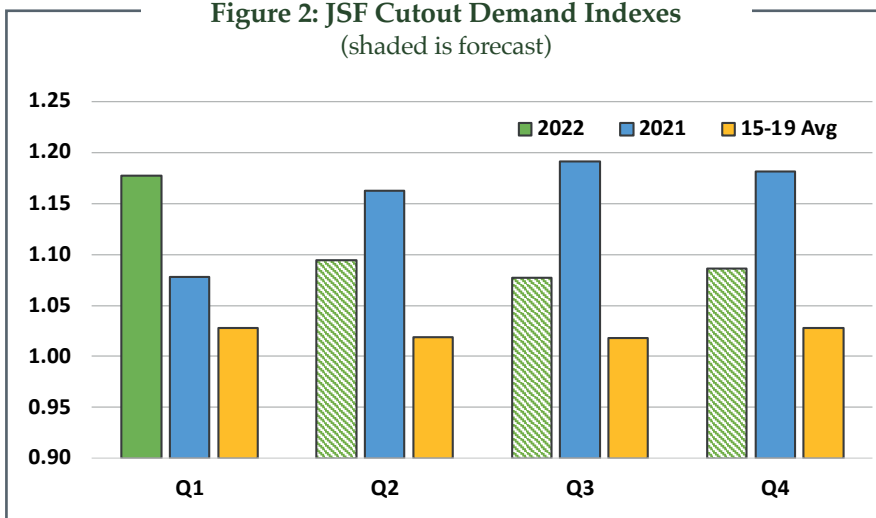


Table 1: JSF Cattle and Beef Price Forecasts

	8-Jun	15-Jun	22-Jun	29-Jun	6-Jul	13-Jul
Choice Cutout	257.9	252.0	245.5	241.4	240.7	240.8
Select Cutout	239.2	232.8	228.9	226.0	225.9	227.7
Choice Rib Primal	401.3	391.1	383.5	382.4	378.4	384.5
Choice Chuck Primal	206.6	201.4	198.5	195.6	197.4	195.8
Choice Round Primal	210.4	206.0	199.3	196.2	195.1	197.0
Choice Loin Primal	362.2	355.0	342.2	332.8	329.5	326.7
Choice Brisket Primal	202.1	192.6	187.9	187.6	191.5	194.7
Cash Cattle	135.3	135.2	132.6	129.8	127.5	126.4



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