VOLUME 5, ISSUE 5
EN | FR | ES

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THE MONTHLY

MAY 2022

RED MEAT OUTLOOK: CATTLE & BEEF

Cash cattle markets in the US crept a little higher in April but seem to be back on the defensive now. A big part of the problem is that beef markets have not performed as well as most were expecting following the Easter holiday. We have been of the opinion that domestic beef demand would erode as the pandemic subsided, and that seems to have been the case. Traders that were expecting this year's spring market to be like last year, will be sorely disappointed. Our initial target for the spring top in the Choice cutout was around $295/cwt, but it looks like demand will not be strong enough to reach that level and thus the forecasts have been revised lower. The supply side of the cattle market looks ominous at present. USDA estimates that the number of cattle in feedyards as of April 1 was the largest on record (back to 1996) and 1.7% greater than last year. What's more, those cattle are very heavy. This is likely to severely constrain the upside price potential for cash cattle over the next couple of months. Packers did sell a lot of beef forward on contract for delivery in the post-Easter time period and they are actively delivering on those orders right now. We think that the need to make good on those orders is what kept packers bidding aggressively in early April and helped move the cattle market to $143/cwt. However, the retailers that booked that beef are finding that demand isn't as strong as they anticipated and they are probably taking delivery at price levels well above the current spot market. The middle meats have been the biggest under-performers so far this spring, but the end meats are also now coming under pressure. This is simply the process that the market must go through as it slowly reverts back to normal after experiencing super-strong demand in 2021 due to government stimulus and a host of other factors.

> So far, the **spring grilling market** has been very **disappointing**, with the Choice **cutout down almost $10/cwt** since Easter

SUPPLY PICTURE

Packers killed a little more aggressively in April than expected, with fed kills averaging around 510,000 head per week. They were also searching hard for higher quality cattle that could produce the beef needed to fill booked orders for delivery after Easter. Since cattle in the Northern Plains typically grade better than those in the South, packers focused their attention on that region but soon found that cattle supplies were far tighter than expected in the North. That resulted in a two-tier market price-wise, where cattle in the North were regularly selling for $3-4/cwt over what they would bring in the South. It will take a while for relative supplies to level out and so we expect the Northern price premium to persist for another month or two.

Feeding conditions across cattle country were exceptionally good this winter and spring and that has helped cattle to finish ahead of schedule and at heavier weights than they might would have otherwise. We have been sounding the alarm over very high carcass weights since February and it now looks like they have reached a level where cattle feeders have no option but to sell them each week for whatever the packer offers. It is a bad time to have a carcass weight problem when demand is falling well below expectations. Further, the number of fed cattle scheduled to become market ready over the next couple of months is going to grow considerably. We see fed slaughter during May averaging around 515,000 head per week and that could jump to 525,000 head per week in June (see **Figure 1**). With the demand pull not particularly strong and cattle already excessively heavy, this sets up a situation where cattle prices are almost certain to move lower and beef prices also stand a good chance of underperforming.

> Carcass weights remain very heavy, with steer **carcasses now 11 pounds over last year**

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The reason that feedyard supplies are so large right now is because of strong placements back in Q4 of 2021. Further, cattle feeders have yet to really restrict new feedyard placements. Drought in many of the cattle feeding regions is limiting the opportunity to run stocker cattle on grass this year and so the only home available to them is the feedyard. USDA's most recent *Cattle on Feed* report provided a bearish surprise to traders who were expecting March placements to be down around 8% yet the survey found placements almost as large as last year. With corn in cattle feeding regions now selling for well over $8/bushel, cattle feeding margins are bleeding red ink at a time of year when they are often most profitable. One might think that would cause cattle feeders to slow down on the placements, but drought is a powerful force of nature that can over-ride sensible economic decisions. The best option that feedyards have is to pay less for feeder cattle and thus push some of their margin problems back onto the cow-calf producer. That will likely be a feature of the market this summer and early fall. There has been a contingent of traders, mostly speculators, that thought cattle supplies were going to tighten significantly this year and thus send price levels soaring. Those hopes are now being dashed. There will come a time when herd liquidation reaches a point that will cause sharp price increases, but we don't see that happening until mid-2023 or later.

DEMAND SITUATION

It shouldn't be a surprise to anyone that domestic beef demand is in retreat. We have been saying for some time that the pandemic altered consumer behavior in a way that greatly boosted beef demand, but as the pandemic fades we expect beef demand to ease back toward more traditional levels. That corrective process appears to be in motion now. Last year at this time, right after Congress gifted taxpayers with generous stimulus checks, the Choice cutout was roaring higher. Between mid-April and Memorial Day last year the Choice cutout was adding close to $10/cwt every week in that six week stretch. This year, we are now at the beginning of May, and the Choice cutout is unchanged from mid-April and really in danger of moving lower over the next few weeks (see **Figure 2**). Covid infections have retreated to very low levels and the population has resumed all of the activities they were denied during the pandemic. Preparing meals at home is no longer a big focus and retail beef prices are about 20% higher than they were last spring. Inflation in the general economy is running near 8% and that means that consumers are having to make hard choices about how they spend their disposable income. Many of those consumers are trading down to pork and chicken. We are still early in this process of resetting beef demand back to a more typical level. It is likely to continue throughout the balance of 2022. The next couple of weeks should generate some of the strongest demand of the year as consumers look to grill out more in response to warmer weather. We are still forecasting the cutouts to make some modest advances over the next few weeks but recognize that it is entirely possible there may be no spring price rally this year. The more concerning issue is that the macroeconomic situation appears to be deteriorating and a recession could take hold later this year. That would speed the decline in beef demand. Buyers are urged remain close bought over the next couple of months as the demand reset plays out.

International demand for US beef remains relatively good. The weekly export data provided by USDA suggests that beef exports are tracking very close to last year, but it is important to note that beef prices are lower than they were last year at this time, so it is reasonable to conclude that some erosion has also occurred in export demand. Interest remains high for US beef shipping to China, but interest from Mexico has been rather weak lately. Beef imports from Brazil had been running exceptionally strong earlier this year, but that country has now filled its tariff rate quota so we look for beef imports to moderate in the coming months. Per capita availability of beef, which takes into account exports and imports, is expected to be down only about 1% during the May-July period. So, while exports are holding up fairly well, they are not removing an inordinate amount of beef from the domestic market at present.

SUMMARY

The US market appears to be well supplied with beef at present. The number of cattle in feedyards was record high as of April 1 and 1.7% larger than last year. A large proportion of those cattle will become market-ready during May and June and kills are expected to escalate. Buyers should have no problem finding product. Demand, which should be gaining strength from now until Memorial Day, appears to be struggling. Consumers are faced with high retail beef prices and inflation in other parts of the economy has limited what they are willing to spend on beef. As a result, movement this spring has been much more sluggish than many anticipated and that might cause a price problem when kills start to grow in May and June. Further, equity markets have been moving lower and the Federal Reserve is raising interest rates in an effort to combat inflation. That may cause the macroeconomy to slip into a recession later this year and that would almost certainly do further damage to domestic beef demand. Export demand remains relatively good but is not going to remove enough product from the domestic market to prevent price declines. We still hold hope that the spring market will produce another $10-15 increase in the cutouts over the next few weeks, but the way things have gone lately, there is real risk that the cutouts could stay in more of a sideways pattern or even move lower. This is all part of the process the beef market is undergoing as it returns back toward a more-normal level of demand following the huge demand boost that came during the pandemic. With consumers looking to trade down, we can expect any improvement in demand is likely to be concentrated in the lower value items like ground beef while the more expensive middle meat items are likely to see much softer demand. Our near-term price forecasts for cattle and beef are provided in **Table 1**.

Figure 1: Weekly Average Steer & Heifer Slaughter
(shaded is forecast)

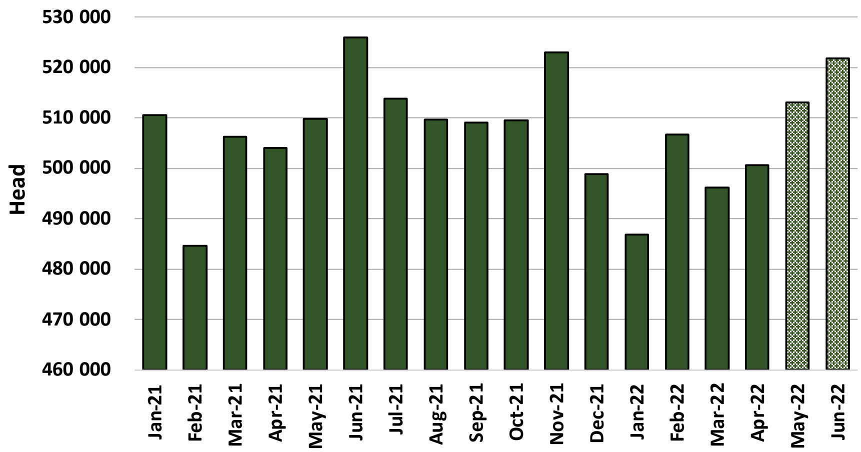

Figure 2: Choice Cutout

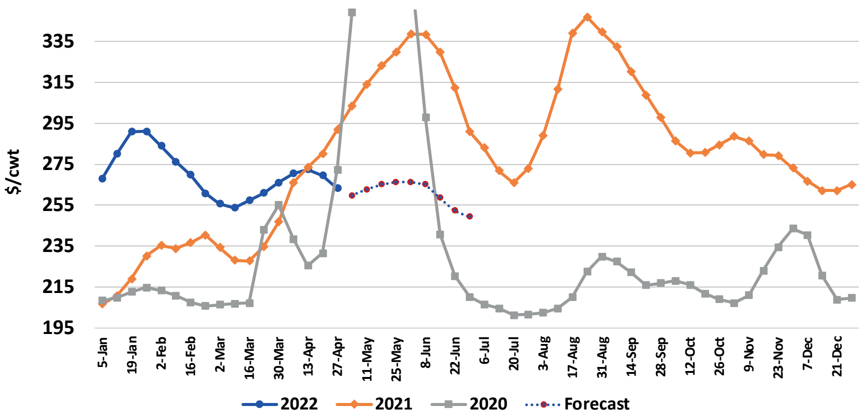

Table 1: JSF Cattle and Beef Price Forecasts

	11-May	18-May	25-May	1-Jun	8-Jun	15-Jun
Choice Cutout	262.6	265.1	266.2	266.3	265.1	258.5
Select Cutout	250.6	252.1	254.5	252.0	247.0	239.3
Choice Rib Primal	421.5	432.0	438.4	441.1	436.3	427.1
Choice Chuck Primal	195.4	193.3	195.0	197.2	194.2	189.4
Choice Round Primal	208.0	208.6	205.0	204.6	206.0	200.3
Choice Loin Primal	383.4	391.6	395.5	392.0	391.4	379.9
Choice Brisket Primal	223.3	227.6	232.5	235.0	236.6	232.4
Cash Cattle	141.5	140.2	139.4	136.8	134.6	133.3

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