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J.S. FERRARO

THE MONTHLY
RED MEAT OUTLOOK: CATTLE & BEEF

JULY 2022

Prices in the US cattle and beef complex held together better than expected during June. While initial expectations were for prices to slump following the Memorial Day holiday, we actually saw cattle prices rise and the beef cutouts remain mostly steady during June. This was largely due to an upswing in demand that was likely fueled by retail buying ahead of the Father's Day and Independence Day holidays. Packers had forward-sold a large amount of beef that needed to be delivered in mid to late June and they struggled a bit to find quality cattle to fill those orders. As a result, cattle feeders were able to force the cash cattle market higher. The number of cattle on feed is a good deal tighter in the Northern feeding areas compared to those in the South. That has resulted in a big divergence in cattle prices between the two regions. For example, last week cattle in the Southern Plains traded for an average price of $138, while owners of cattle in the Northern Plains saw prices climb into the $147-148 range.

> **Cash prices in the Northern** regions are running **$10/cwt over those in the Southern** feeding areas

These "two-tiered" markets happen from time to time and years ago when this occurred, packers would simply buy more cattle in the lower-priced region and ship them to the higher price region. That is a less attractive option now due to sharp increases in the costs of transporting animals, so packers are forced to compete aggressively for cattle in the deficit region. Rapidly declining carcass weights during May and June also helped cattle feeders to maintain price leverage in their negotiations with packers. We expect that demand will soon cycle lower and that will put more pressure on both cattle and beef prices during July.

SUPPLY PICTURE

Overall, the supply of market-ready cattle in the US increased during June and packers were eager to keep a strong slaughter pace. Steer and heifer slaughter in June averaged close to 525,000 head per week and that was relatively consistent with what our flow model had predicted. It appears that cattle feeders might have dialed back the energy component in rations a bit this spring in response to very high corn prices and that seems to have kept quality grades lower than packers would have liked. The better quality cattle are typically found in the Northern region and that was the area where market-ready supplies were the tightest, so packers had to compete actively to find enough high quality cattle to fill previously booked orders. The flow model suggests that there will be ample cattle available during July to maintain a 525,000 head per week slaughter pace.

Carcass weights have been another surprising factor in the overall supply picture recently. After running heavy during Q1 and the early part of Q2, carcass weights started to decline much more rapidly than expected during May and we now have carcass weights lower than what was seen in both 2020 and 2021. Unexpectedly hot and dry weather in the cattle feeding regions likely helped to foster the rapid drop in weights, which may also have been helped along by a shift in rations as feedyards tried to contain the impact of very strong grain prices on their margins. The de-trended and de-seasonalized carcass weights fell at a very fast rate during May and that was a strong clue that packers would have difficulty pressuring feedyards to sell cattle at lower price levels (see **Figure 1**). While weights now appear to have made their seasonal bottom and are likely to head higher, the remain much lighter than is typical for this time of year and thus will continue to provide cattle feeders with a source of strength in their weekly price negotiations with packers.

One of the more interesting aspects of the supply picture is the fact that the nation's feedyards currently hold record-large

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jsferraro.com | 130 Adelaide Street West, Suite 3302 Toronto, Ontario M5H 3P5 | 416.306.8788
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numbers of cattle, yet price levels have been rising. USDA recently reported that feedyard placements during May were down 2.1% from last year, but total feedyard inventories as of June 1 were 1.2% greater than last year. It appears that the vast majority of those cattle are not sufficiently finished at present and thus the front-end supply of market ready cattle remains tight while larger supplies, destined to be marketed in July and August, linger in the background. Those big July/Aug supplies will be coming to market just as the demand cycle turns negative and the combination of those two factors suggests that both cattle and beef prices could work lower in the second half of summer.

DEMAND SITUATION

Domestic beef demand cycled higher during June, but it appears that cycle has now reached its peak and demand is now turning lower again. The combined margin (see **Figure 2**) helps to visualize what has been happening with beef demand over the past couple of years. When the combined packer+producer margin is high, we take that as a sign that demand is strong since it provides plenty of margin within the supply chain for both segments to experience good profitability. Readers will note how strong the combined margin was during 2021. This is evidence of the super-strong demand environment that took the cutouts to very high levels. However, since it made a super-peak in September, 2021, the combined margin (and thus demand) has been in retreat. The sub-cycles remain, but they are less and less impressive as time goes by. This most recent upcycle in the combined margin was very anemic by 2021 standards. There are plenty of factors that continue to suggest that beef demand will suffer in the months ahead. Inflation continues to run near 8% and that is causing consumers to be more judicious in how they spend their disposable income. The stock market has been declining precipitously, making consumers feel less wealthy. Now that almost all COVID-19 restrictions have been lifted, consumers are eager to travel and do the things that were not feasible during the pandemic. That leaves them cooking at home less and thus there is less demand for beef through retail channels as a result. We look for domestic demand to continue to ease lower through the balance of 2022, but there will almost certainly be small periods of improving demand within the longer-run trend towards weaker demand.

Beef exports have held up rather well so far this summer, with the weekly export data reported by USDA continuing to show exports this summer very near where they were last year at this time. China remains a big consumer of US beef, but demand from that destination seems to have leveled off. China is now the #3 importer of US beef, behind only Japan and South Korea. It will be important that the US maintains China as a major customer as the industry works through large cattle supplies in the second half of 2022. We think that is likely to be the case. Overall however, it is difficult to see much additional growth in beef exports over the next 3-6 months, since the rest of the world is also hampered by many of the same demand-depressing factors that are a tempering US beef demand. The export picture is more likely to be characterized by stable, but not growing, exports in the near future.

China is now the #3 importer of US beef, behind only Japan and South Korea

SUMMARY

The biggest development in the cattle and beef complex has been the surprising price leverage that cattle feeders have had in recent weeks even though the number of cattle on feed remains record large. Something shifted in May that sent carcass weights plummeting and that is probably what provided cattle feeders with the ability to insist on higher cattle prices. Beef prices were mostly sideways during June, but are expected to come under further pressure in July and August as demand slumps seasonally. The financial condition of US consumers is expected to grow increasingly stressed in the months ahead as the central bank raises interest rates in an attempt to rein in high inflation. That should result in softer beef demand in the second half of 2022, but there will still be sub-cycles where beef demand oscillates up and down. Beef buyers are advised not to extend coverage beyond immediate needs during July and the first half of August since prices are expected to be on the defensive. It will take a while for the industry to whittle down the large number of cattle currently in US feedyards and once that has occurred, higher pricing can be expected although we are skeptical that price levels will eventually reach the level implied by the deferred live cattle futures. Our near-term price forecasts for cattle and beef are provided in **Table 1**.

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Figure 1: De-trended & De-seasonalized Steer Carcass Weights

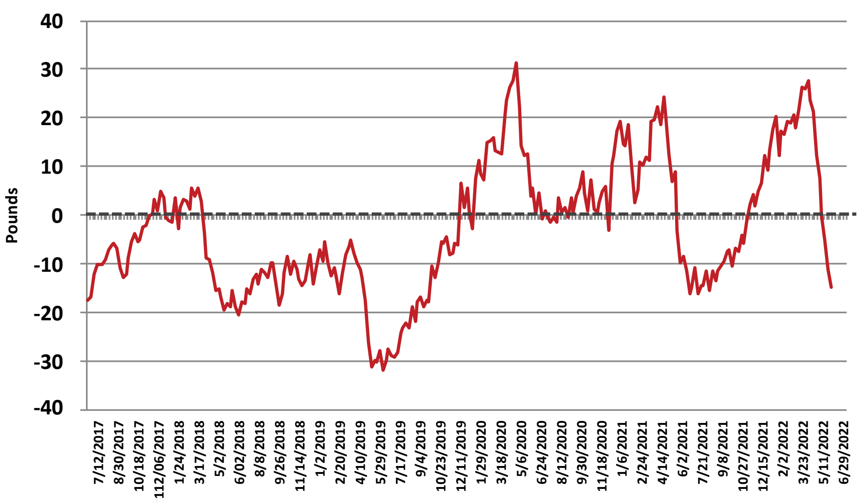

Figure 2: Beef Supply Chain Margins

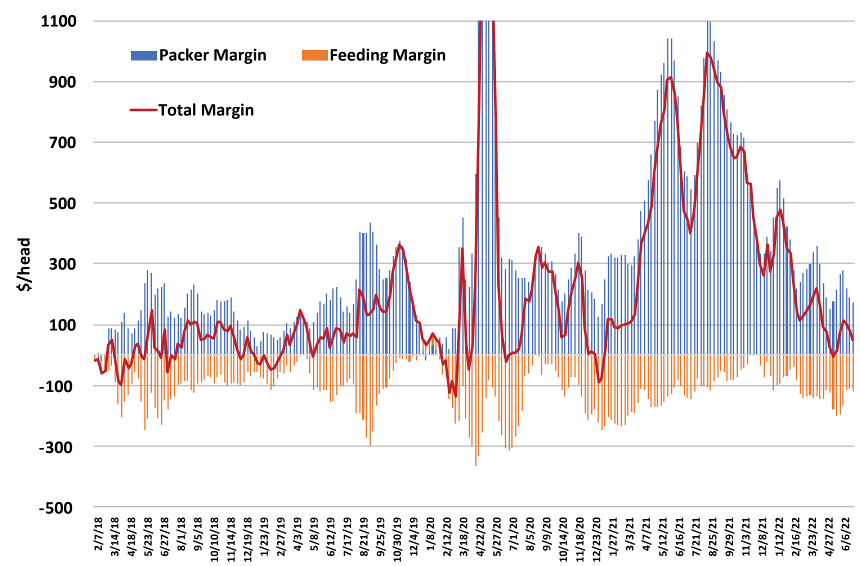

Table 1: JSF Cattle and Beef Price Forecasts

	13-Jul	20-Jul	27-Jul	3-Aug	10-Aug	17-Aug
Choice Cutout	260.0	256.9	254.2	248.7	245.8	242.1
Select Cutout	241.6	241.3	240.3	236.3	232.0	228.2
Choice Rib Primal	373.1	375.3	373.1	371.0	367.4	356.7
Choice Chuck Primal	219.4	217.6	215.2	210.3	208.9	206.0
Choice Round Primal	215.6	211.4	208.9	206.6	206.3	207.2
Choice Loin Primal	360.3	354.5	351.1	339.8	333.3	326.0
Choice Brisket Primal	220.7	214.7	208.0	198.4	192.6	189.8
Cash Cattle	142.0	141.2	138.4	136.9	135.2	133.9

DR. ROB MURPHY BS, MS, PhD Agri Economics,
Executive Vice President, Research & Analysis,
J.S. Ferraro

E: Rob.Murphy@jsferraro.com

Dr. Rob Murphy is an agricultural economist and business leader with over 31 years in the industry. He has a wealth of experience in the North American meat and livestock industries studying, analyzing and predicting market movements.

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