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RED MEAT OUTLOOK: CATTLE & BEEF

The US cattle market worked lower during July while the beef market held relatively steady. This allowed for some recovery in packer margins, which are now just a bit over $200/head. That is stronger than margins were at the end of June, but well below the nearly $600/head margins that packers enjoyed in July of 2021. The large difference in cash cattle pricing between the Northern feeding areas and those in the Southern Plains has narrowed to where the premium in the North is now only about $6/cwt. Look for that price spread to continue to narrow as we move deeper into the summer. Perhaps the most confusing feature of the US cattle and beef complex is the firmness of domestic demand after Independence Day. Normal seasonal price patterns suggest that demand softens in the second half of summer and thus price levels decline. So far that hasn't happened. Retail beef prices have been mostly sideways since December of last year, which means that consumers aren't experiencing much new price inflation when it comes to their beef purchases. Retail prices aren't the only thing that has been relatively stable. The beef cutouts have been stuck in a very narrow range since the middle of May. The blended (Choice+Select) cutout averaged $263/cwt last week, up only a few dollars from the $260 level that it was averaging right before Memorial Day (see **Figure 1**). With retail beef prices, wholesale beef prices and cash cattle prices all relatively steady over the past couple of months, it seems that a lot of the normal price volatility has left the market.

SUPPLY PICTURE

Past placement patterns made it pretty clear that cattle supplies would be large this summer and slaughter levels have confirmed that projection. Steer and heifer slaughter in the non-holiday weeks of July averaged 525,000 head per week, which was very close to what our flow model predicted. However, packers seemed to throttle back on the kill slightly near the end of July. Perhaps they sense that bigger production would have an adverse impact on the cutouts (and thus their margins). Whatever the

> Our **flow model** suggests there should be enough market-ready cattle available **to support weekly fed kills near 530,000 head** in August

reason, it creates a risk for backing cattle up if the slaughter pace isn't maintained. Of course, it takes more than just a couple weeks of lighter kills to backup the pipeline, but it is something that could become a problem if it continues through August. The flow model suggests that fed cattle supplies will be sufficient to maintain weekly steer and heifer slaughter near 530,000 head per week in August.

Carcass weights finally made their seasonal bottom and are now heading higher. That, in addition to the big kills, should add to beef availability over the next few weeks. The Choice-Select spread is very wide for this time of year (near $25/cwt), which suggests that demand for better grading cattle remains relatively strong. The grade should improve as carcass weights rise over the next several months and that should help narrow the spread somewhat. Corn prices also play a role in how well cattle grade, and although there were big declines in corn futures over the past couple of months, the price of corn in cash markets near major

> At over $25/cwt, the **spread between the Choice and Select cutouts is as wide as it has ever been** in early August

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cattle feeding regions continues to be very high. Last week cash corn in SW Kansas averaged $7.67/bushel. That was a far cry from the $6.00/bushel that the September futures contract averaged (see **Figure 2**). The market seems to be banking on a big corn crop this year to push prices lower in the fall, but there is a lot of hot and dry weather predicted for the Corn Belt over the next couple of weeks that could hamper yields and thus cause corn prices to firm up further.

US cattle producers continue to put large numbers of cattle into the nation's feedyards. For the past three months, feedyard placements have registered well above what analysts were expecting prior to the report. For the first half of 2022, placements have been 0.2% above the first half of 2021. That fact is at odds with the data that shows the size of the US beef cattle herd is shrinking, but drought in the western portion of the country has limited the amount of grass available and thus calves that would normally have been diverted to grass for several months are now moving straight into feedyards. The high placement rate during the first half of the year may very well necessitate smaller placements during the second half of 2022, but it also guarantees that beef production over the balance of this year will not differ considerably from the same period last year.

DEMAND SITUATION

Last month we noted that it appeared beef demand was poised to move lower again, but after the July 4th holiday, beef demand seemed to get stronger even though the normal seasonal trend would be for demand to soften in the second half of summer. It isn't as though beef demand surged incredibly — it just failed to show much weakness. Most of the demand indicators that we watch worsened over the past month, and reports from large retailers such as Wal-mart have indicated that inflation is causing consumers to change their spending habits. However, beef demand has held relatively firm and perhaps even increased a little. It is pretty clear that beef demand is way down from the red-hot levels that we saw last summer, but it is holding up better than expected as the calendar turns to August. For a lot of US consumers, the vacation season has now ended and they are back home and dealing with the credit card bills that such vacations often necessitate. However, gasoline prices have been on the decline over the past few weeks, so they are seeing some relief in their energy spending. Inflation is still a big problem, with the latest data showing it running at a 9.1% annual pace. Consumers are likely having to draw heavily upon their pandemic savings to maintain their lifestyle and perhaps that has allowed spending on things like beef to continue better for longer than we anticipated. However, eventually the savings will dwindle and then hard choices will have to be made. Thus, we continue to believe that the overall level of beef demand will fade as we move through the second half of 2022. There will still be small cycles of improving and declining beef demand, but in general, the longer-term trend should be toward softer domestic demand.

International demand for US beef has also held up quite well this summer. The most recent export data released by USDA was for the month of May and it showed export volumes about 1% larger than last year. That was an all-time high for exports during May. China continues to drive growth in US beef exports and that seems like a phenomenon that is going to persist for many years to come. On the other hand, demand from Mexico seems to be slipping and volumes are likely to be tempered by a strong dollar and relatively high US beef prices at the moment. Our thought is that the economic slowdown that is starting to take hold in the US, will also affect other countries and thus the near-term potential for further growth in exports is limited. Longer-term, we look for international demand to play an increasing role in the demand picture for US beef, but there are some choppy waters that must be navigated before we get to that point.

SUMMARY

Price volatility in the US cattle and beef complex seems to be dissipating. Retail prices are largely unchanged and wholesale beef prices have also held in a very a narrow range for a long time now. That leaves us wondering when, and from where, the next shoe will drop. Market participants will likely welcome the decreased price movement after the past two years where prices across the complex were very volatile. Cattle supplies are ample and slaughter levels should remain relatively high through the summer. Carcass weights are now trending seasonally higher and that will add to beef supplies. The nation's feedyards currently hold enough cattle so that slaughter during the second half of 2022 probably won't differ too much from the same period last year. The demand side of the market has surprised us somewhat with its resilience over the past few weeks. As we move into August and schools return to operation, institutional buying could help support the end cuts and grinds. Middle meats are likely to slide lower, outside of a small bump in demand ahead of Labor Day. Consumer spending has held up better than expected so far this summer, but inflation is still very high and, with the Fed actively raising interest rates, a recession is possible this fall. These things lead us to believe that beef demand will soften as the year progresses and buyers can be comfortable that softer demand, combined with ample supply, should limit the upside surprises in beef prices for what is left of 2022. Our near-term price forecasts for cattle and beef are provided in **Table 1**.

Figure 1: Blended Cutout

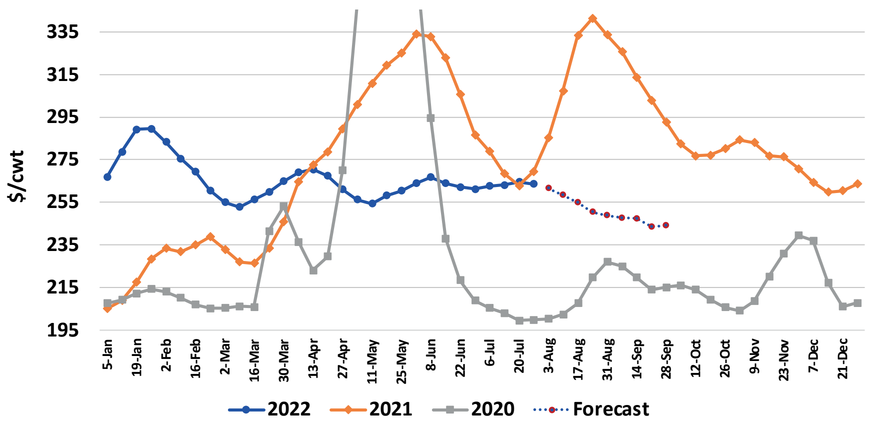

Figure 2: Cash and Futures Prices for Corn, 2022

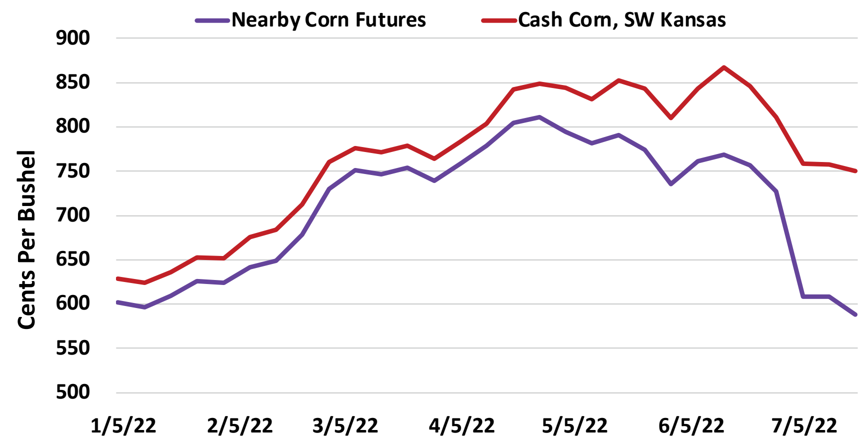

Table 1: JSF Cattle and Beef Price Forecasts

	10-Aug	17-Aug	24-Aug	31-Aug	7-Sep	14-Sep
Choice Cutout	261.0	256.9	252.4	250.9	250.1	250.1
Select Cutout	235.9	234.7	231.0	228.4	225.9	224.1
Choice Rib Primal	395.0	390.2	382.0	378.8	382.0	379.0
Choice Chuck Primal	217.3	215.3	211.5	208.9	210.6	214.3
Choice Round Primal	211.1	208.8	204.9	206.3	204.6	207.0
Choice Loin Primal	363.3	353.5	347.0	344.9	340.6	335.7
Choice Brisket Primal	221.2	220.3	222.4	216.3	215.6	217.3
Cash Cattle	138.3	137.0	134.9	135.0	136.1	134.9

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