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THE MONTHLY

RED MEAT OUTLOOK: CATTLE & BEEF

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The beef cutouts drifted a little lower during August but have remained remarkably steady for months now. The Choice cutout seems to be stuck in the low-to-mid-$260s and the Select cutout has held about $25/cwt below the Choice. **Figure 1** provides the rolling 10-week standard deviation in the Choice cutout, which is a good way to measure longer-term changes in price volatility. Clearly, price volatility in the wholesale beef market is way down from historical levels. Exactly what is causing prices to be so stable is unclear but may have to do with the fact that retail prices for beef haven't changed much over the past year or so. Price changes help to correct imbalances in the market — for example when demand surges but supply is constrained in the short-run, prices have to increase. Maybe this long stretch of relatively stable pricing is an indicator of better coordination throughout the supply chain, which leads to fewer imbalances that would move prices. The cash cattle market in the US worked higher during August, going from $140/cwt near the beginning of the month to $145/cwt last week (see **Figure 2**). Even though prices have been a bit higher lately, we are also seeing the same loss of volatility in cattle prices. That has decreased interest in live cattle futures on the part of speculative traders, who need volatility in order to realize trading profits. All of this seems a little surreal and raises the question as to whether or not this low-price volatility environment is going to be the new normal from now on. We suspect that it will not stay this way forever, but for now fewer price surprises are a welcome relief for market participants after enduring a very tumultuous period during the pandemic.

Price volatility in the cattle and beef markets **has been very low,** keeping the **Choice cutout stuck in the low $260s**

SUPPLY PICTURE

Steer and heifer slaughter was weaker than expected during August, averaging about 514,000 head per week. That was about 15,000 head per week less than what our flow models suggested should be market-ready during August and normally that might point to some backing-up in the production pipeline, but so far the carcass weight data isn't confirming that. In fact, the nation's feedyards seem to be relatively current on their marketings and that has provided cattle producers with the ability to slowly step cash cattle prices higher. There should be enough market-ready cattle in September to fuel fed kills in the 525-530,000 head range, but given the weak showing in August, expectations are for slaughter levels to fall short of that mark. It may be that premiums in the deferred cattle futures are causing feedyard owners to delay marketing some animals in hopes of garnering higher prices later on. That kind of strategy often backfires in disaster as cattle back up in the system and eventually prices have to move much lower to clear the backlog.

Steer carcass weights were last reported at 901 pounds, which was three pounds over last year and five pounds below the same week in 2020. The de-trended and de-seasonalized (DTDS) carcass weights have also tracked lower and are now near -20 pounds, which is an extremely low level that we don't see often. That low DTDS level is the strongest indicator that cattle have not yet started backing up in the supply chain and it will be important to monitor movements in the DTDS weights over the next couple of months for signs that feedyards are losing currentness. So far, that doesn't seem to be a problem.

Cattle feeders keep pumping animals into their feedyards at a strong clip. USDA reported feedyard placements during July were up 1.8% over last year and that rendered the number of animals on feed as of Aug 1 up 1.4% from last year's big number. So, there is no shortage of cattle in the nation's feedyards. In fact, they seem to be brimming with cattle, but it appears that supply is not burdensome on the front end and thus not pressuring prices.

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There is a widespread belief cattle supplies are going to get very tight in the next couple of years due to drought-forced liquidation of the breeding herd over the past few years. The April 2023 live cattle futures are trading just shy of $160/cwt, which is not far from the peak cash cattle price observed back in 2015, the last time that cattle supplies became cyclically very tight. We agree that a cyclical tightening of cattle supplies is in the works but expect it will play out over a longer time frame than what the futures market currently implies.

DEMAND SITUATION

The demand side of the beef market held up much better than expected during the second half of summer. Rapidly falling gasoline prices in the US likely provided some breathing room for consumers that were feeling financially stretched in other areas. Inflation is still running at an 8% YOY pace, but recent data suggests that it may be in the process of peaking and that has raised hopes that the post-pandemic period of rapid price increases will soon be coming to an end. However, that doesn't mean that the prices consumers face will go back down to pre-pandemic levels, only that the price gains have slowed. Unemployment remains very low, but as the Federal Reserve raises interest rates over the coming months, there is a risk that the economy will tip into a mild recession and unemployment will rise. Consumers' balance sheets improved considerably during the pandemic as spending was curtailed and the government showered them with stimulus money. Now consumers are drawing on that strong balance sheet to help maintain their lifestyle in the face of higher prices for nearly everything they buy. That may keep beef demand supported for a few more months, but we still feel like a significant downward correction in demand is coming. It should be fairly easy to detect since wholesale beef prices haven't moved much this year and cattle supplies look relatively plentiful through the balance of 2022. If wholesale prices start to break lower in the coming weeks or months, it is a good bet that the weakness will be due to demand correcting lower.

International demand for US beef appears to be on good footing. USDA reported that beef exports were up nearly 18% YOY in June and the preliminary data suggests that when the data for July is released, it too will show a sizeable YOY gain. China remains the growth driver for beef exports, but Japan and S. Korea take the largest volumes out of the US market. There are signs of slowing in the global economy and China is among those countries at risk for a slowdown. That raises the possibility that beef exports will soften in the months ahead, but so far we haven't seen any sign of that. At this point in time, our forecast is for 2022 beef exports to exceed 2021's stellar performance by a little over 3%. The growth in beef exports over the past few years has been very impressive and is undoubtedly adding support to cutout values.

2022 beef exports are forecast up 3% from last year's strong showing

SUMMARY

Cash cattle prices have been rising over the past few weeks due to feedyards being more current than expected. Packers are seeing good demand for better grading beef and have been paying up in order to buy the types of cattle that will produce that quality end product. Wholesale beef prices have been remarkably stable all summer long and although we look for some price slippage in September, the magnitude of price declines is not expected to be large. Beef production should remain high during September, but export markets will siphon off a significant chunk, so buyers might not see availability improve much. Tighter cattle and beef supplies are in the cards for Q4, so buyers would be wise to use any price weakness that develops in September to address important end-of-year needs. Carcass weights suggests that feedyards are current at present and that could be the result of cattle feeders delaying marketings on purpose because the deferred futures are telling them that the longer they hold cattle, the more they will be worth. That type of incentive often leads to a build-up in the supply of cattle that can only be cleared with steep price discounts. That isn't a given at the moment, but we raise the possibility that delayed marketings may eventually cause cattle, and then beef, prices to correct lower as fall approaches. Our near-term price forecasts for cattle and beef are provided in **Table 1**.

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Figure 1: Rolling 10-Week Standard Deviation, Choice Cutout

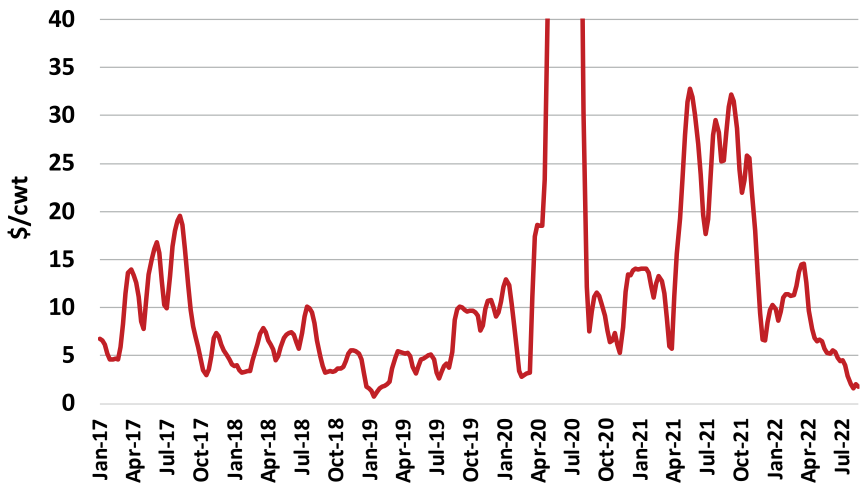

Figure 2: 5-Area Live Steers

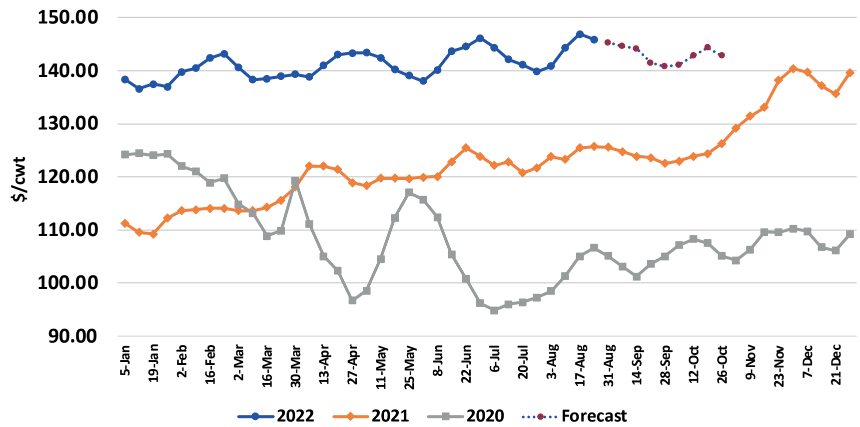

Table 1: JSF Cattle and Beef Price Forecasts

	7-Sep	14-Sep	21-Sep	28-Sep	5-Oct	12-Oct
Choice Cutout	259.4	258.9	255.3	254.6	255.5	256.9
Select Cutout	235.2	232.9	228.7	229.1	230.9	234.1
Choice Rib Primal	424.0	420.3	417.7	422.0	421.6	429.5
Choice Chuck Primal	208.4	211.0	207.5	204.8	206.9	210.3
Choice Round Primal	217.3	215.5	213.5	213.7	216.3	218.6
Choice Loin Primal	347.2	345.0	337.4	336.3	334.2	331.3
Choice Brisket Primal	227.5	229.2	229.9	228.2	229.3	226.4
Cash Cattle	144.6	144.2	141.5	140.8	141.1	142.8

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