VOLUME 5, ISSUE 11
EN | FR | ES

J.S. FERRARO

THE MONTHLY

NOVEMBER 2022

RED MEAT OUTLOOK: CATTLE & BEEF

US beef prices finally gained some traction during October as buyers began to prepare for the upcoming end-of-year holidays. It is fairly typical for the ribs and tenderloins to see increased buying interest at this time of year, and we have seen that develop, but there has also been increasing interest in the end meats. Domestic beef demand appears to be cycling higher and that will likely last through November and into the early part of December. In the last two years where the pandemic dramatically altered the normal beef demand patterns, one unmistakable trend was a movement toward more offerings of high-quality beef — that beef that would qualify for the Prime grade or the upper two-thirds of the Choice grade. That shift was enabled by cattle producers who expanded the production of better-grading cattle and by retail outlets that grew their offerings in that category. Now however, persistently high corn prices have curtailed the production of Choice+ beef after consumers have developed a strong preference for it and that has left packers searching for ways to get more of that product to consumers. The price spread between the Choice cutout and the Select cutout is at an all-time record for this time of year and that provides financial incentive for packers to seek out the better-grading cattle in order to capture that spread. Packers have kept slaughter levels high in order to obtain enough of the better-quality product to meet buyer demand. In doing so, they have put cattle feeders in

> **Choice and better grades continue to command strong premiums** due to constrained supply

a much better bargaining position and that has resulted in steady increases in cash cattle prices, which have gone from around $142/cwt. near the end of summer to about $152/cwt. last week. The shift in consumer preferences toward better-grading beef is one that may persist for a long time and that is likely to clash with

> The strong slaughter pace has recently pushed **cash cattle prices over the $150** mark

increased costs of producing that product due to high corn prices. Eventually, price will move to a level that rations the supply of that product to those most willing to pay for it.

SUPPLY PICTURE

Beef packers kept slaughter levels high during October and likely had to "borrow" some cattle from September and November in order to do that. Weekly fed slaughter averaged around 515,000 head, but our flow model had suggested that the available supply would be closer to 505,000 per week. Feedyards were able to remain current because of the strong draw by packers in order to fuel large kills. Cattle feeders could sense that pricing leverage had shifted in their favor and they used that to slowly march cash cattle prices higher. That put pressure on packer margins and by our calculation they averaged around $53/head during October. That was the smallest margin since February of 2020. Clearly, the days of supranormal packer margins that existed throughout the pandemic are now gone. It is important to recognize that this phenomenon is not unique to beef because packer margins in both the chicken and pork segments have also been way down from pandemic levels.

Steer carcass weights are still increasing seasonally and were last reported at 925 pounds, up seven pounds from last year. Weather in the feeding areas has been conducive to strong weight gains this fall and so far there hasn't been much in the way of adverse winter weather. Carcass weights probably have another 3-5 pounds of upside potential before they register a seasonal top sometime later this month. The de-trended and de-seasonalized carcass weights that we watch as an indicator of feedyard

jsferraro.com | 130 Adelaide Street West, Suite 3302 Toronto, Ontario M5H 3P5 | 416.306.8788

currentness have been inching higher, but still remain below normal and are continuing to signal that feedyards have marketed cattle in a timely manner and there is little risk of cattle becoming backlogged (see **Figure 1**). That should work to the advantage of cattle feeders in their quest to keep cattle prices moving higher in the next month or two.

USDA reported placements into feedyards during September were down 3.8% from the prior year and as of October 1 there were about 1% less cattle in the nation's feedyards than at the same point last year. The US cattle herd is in the latter stages of the contraction phase of the cattle cycle and that means that fewer cattle will be available for finishing over the next few years. We expect that the total cattle inventory will be down a little over 2% on January 1, 2023, when USDA releases the results of it's next inventory survey. This is going to be the new reality for the next two or three years—progressively smaller cattle supplies and smaller domestic beef production. Price levels will need to work higher over the coming years to ration this smaller supply.

DEMAND SITUATION

After many months of dismal performance, the US stock market surged higher during October, posting the largest monthly gain (+14%) since January, 1976. It is unclear whether or not this signals that bear market is finished, but it has given consumers hope for the future and that has kept their spending high. All of that is good news for beef demand, but there are still other macroeconomic factors, such as high inflation, that could work to the detriment of beef demand. In the very short term, US beef demand is in a seasonal upcycle driven by purchasing for the upcoming holidays. Middle meats, particularly ribeyes and tenderloins, will be the darlings during this period and are likely to see the largest price gains. Ground beef demand appears to be struggling a bit and that has lowered prices for both fat and lean beef trim. It is starting to look like beef demand may be a bit bifurcated currently, with consumers at the high income levels continuing to exhibit strong demand for high quality cuts, while lower income consumers are struggling to maintain their consumption levels of lower-valued items like ground beef. Overall domestic demand is likely to remain on good footing through November, but as the holiday middle meat business dries up in early December, we could see demand move back into a downcycle to finish up the year. When demand finally does falter and the cutouts begin to trend lower, it will put packers in a precarious margin situation because cattle feeders are not likely to want to concede lower cattle prices as long as feedyards remain relatively current. Packer margins are currently positive by about $65/head, but there is a very real chance that packers will experience negative margins in Q1 of next year.

The beef export numbers continue to look relatively good. USDA recently reported September exports down only 4.5% from last year's strong number and the weekly export totals make us think that the export market will remain healthy through the end of the year. Our current projections put 2022 total beef exports up 2% from last year and an all-time record high. China remains the big driver of export gains (see **Figure 2**). The Chinese seem to have developed an appetite for US grain-fed beef that hasn't been hampered much by the economic slowdown with that country. That gives us hope that the Chinese business is going to remain on firm footing in spite of covid lockdowns and other macro headwinds. Unlike pork, China produces very little domestic grain-fed beef, so there isn't much risk that their demand for US beef is going to get curtailed in the near term by significant growth in internal supplies. We think that exports to other important Asian destinations such as Japan and S. Korea are more at risk from the deteriorating global economy than are exports to China.

China's appetite for US beef has yet to be diminished by the economic slowdown in that country

SUMMARY

Domestic beef demand cycled higher in October as buyers began their annual quest for quality beef items ahead of the holidays. Packers have a relatively large book forward contracted beef that will come due for delivery in November. That is likely to keep packers eager to keep slaughter levels elevated for a few more weeks and that means they will likely be forced to pay higher prices for cash cattle. The strong pull that packers have exerted on the cattle supply has kept feedyards very current and cattle feeders are not feeling much urgency to market cattle, especially if the price is not to their liking. Our flow model projects that the available supply of fed cattle during November should be sufficient to fuel weekly kills near 505,000 head, but there is a strong likelihood that packers will keep the kill above that level so that they can make good on their holiday orders. Stronger beef pricing over the next few weeks should keep packer margins in the black, but once the holiday buying is complete, there could be sharp compression in packer margins as the cutouts turn lower but cattle feeders resist attempts to lower cattle prices. Export volume remains good, mostly because of continued interest from China. Other Asian destinations, such as Japan and S. Korea, could be more troublesome for exports if recessions take hold in that part of the world. Beef buyers who need beef that grades Prime or high Choice for the holidays should be procuring it now and booking for future delivery since the better-grading beef is expected to be rather tight supply this holiday season. Our near-term price forecasts for cattle and beef are provided in **Table 1**.

Figure 1: Detrended & Deseasonalized Steer Carcass Weights

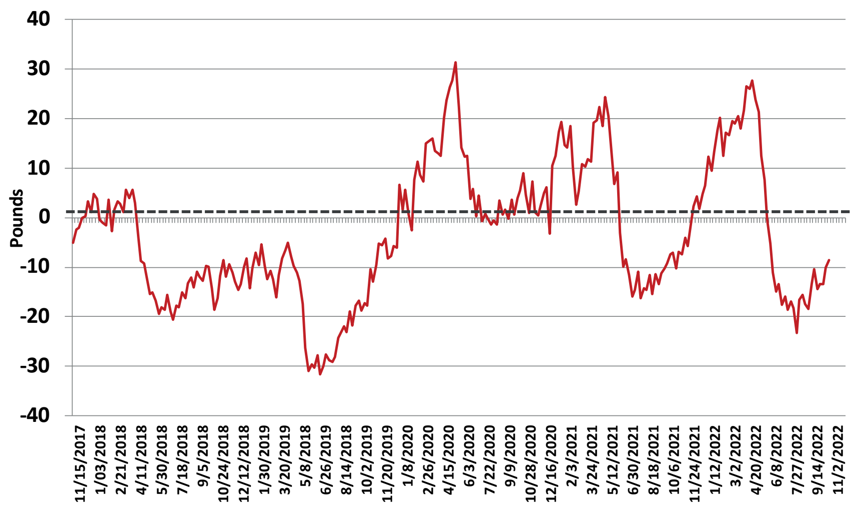

Figure 2: US Beef Exports to China, 2020-Present

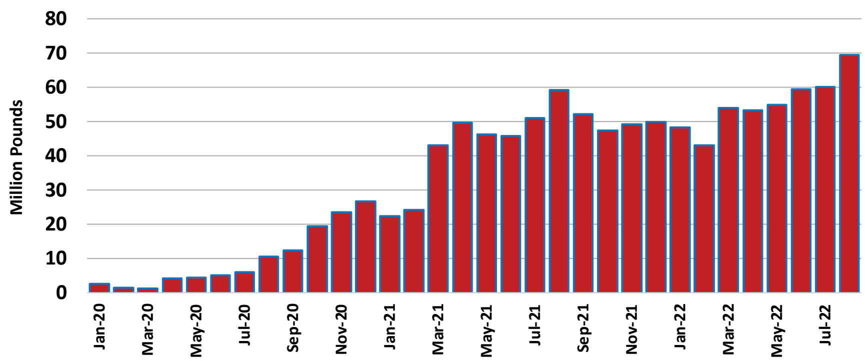

Table 1: JSF Cattle and Beef Price Forecasts

	16-Nov	23-Nov	30-Nov	7-Dec	14-Dec	21-Dec
Choice Cutout	269.0	265.8	263.1	258.8	256.6	249.2
Select Cutout	235.2	235.0	231.9	226.6	226.5	222.8
Choice Rib Primal	459.3	462.1	451.0	443.1	439.7	423.3
Choice Chuck Primal	231.8	227.0	222.1	215.2	211.5	207.9
Choice Round Primal	232.4	229.1	225.3	219.0	214.4	210.1
Choice Loin Primal	330.0	323.9	326.1	327.6	329.9	316.5
Choice Brisket Primal	204.0	204.9	208.2	211.7	210.5	206.4
Cash Cattle	152.6	151.8	151.8	149.1	148.6	146.3

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.