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THE MONTHLY

RED MEAT OUTLOOK: CATTLE & BEEF

JUNE 2023

After peaking at $180/cwt. back in April, the cash cattle market eased down to $174 during May, but then prices firmed as May came to an end. Last week saw a sharp move higher that pushed the weekly average close to $182/cwt., an all-time record. These average price levels mask a large price disparity between the northern and southern feeding areas. Live prices in the North have been running $7-10 over those in the South. Cattle availability is much tighter in the North and that is where the best quality cattle are found, so packers who needed high quality cattle to fill Memorial Day and Father's Day orders were forced to compete much more aggressively in the North. The rebound in cattle pricing is squeezing packer margins to the point where we expect negative margins to appear this week and probably persist through much of June. Packers did a fairly good job of supporting the beef market in the weeks leading up to Memorial Day. The Choice cutout at the end of May was about $298/cwt., down from close to $310/cwt. at the end of April. Interestingly, the middle meats played a much smaller role in supporting the cutouts during May than we had anticipated. End meats and fat trim were the items that outperformed expectations. June should continue to see decent domestic beef demand with Father's Day and Independence Day just around the corner. However, cattle supplies are expected to expand modestly in June and beef availability should improve. Packers will likely force beef prices upward in the next couple of weeks to help recoup part of their escalating cattle costs, but buyer resistance will likely make that move short-lived. By mid-June, look for beef prices to turn lower and by the time July rolls around, the Choice cutout might be once again testing the $300 level.

SUPPLY PICTURE

Our flow model was projecting fed cattle availability during May to be in the 480-490,000 per week range, but there were a couple of weeks in May where packers got aggressive and pushed the fed kill over 500,000 per week. That likely kept feedyards current enough that by the end of May the balance of power had swung back in their direction and allowed cash cattle prices to advance. June should see fed availability improve to about 500-510,000 head per week and by July we could see fed kills at or above 520,000 head per week (**Figure 1**). So, the supply side of the market should loosen up a bit in the coming weeks and for that reason, we don't advise buyers to take big forward positions at this time.

> **Packers overkilled available supplies in May**, causing cash cattle prices to turn higher

Fed cattle carcass weights are nearing their annual low and should turn higher within the next couple of weeks. From there, weights are likely to steadily increase until they top in early November. That will also add to beef production this summer and provides yet another reason for buyers to limit forward commitments in the near term. Blended steer and heifer carcass weights are now almost dead even with last year after spending the last five months below last year. Looking forward, we expect carcass weights to track a little above last year for the balance of 2023. Conditions are looking favorable for a much larger corn crop this summer and that should eventually push corn prices back down below $5/bu. if no weather surprises crop up during the growing season. That will provide cattle feeders with some relief on the cost side of their profit equation, but they have already shown that they will bid that savings back into the price of the feeder cattle that they purchase. Thus, we have seen feeder

> **Falling corn prices** have led feedyards to **increase the amount** they will pay **for feeder cattle**

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cattle prices escalate rapidly in the last couple of months and those cattle will likely need to bring $170/cwt. or higher just to breakeven when they are marketed this fall and winter (**Figure 2**).

Weather patterns have changed from those that produced considerable drought in cattle areas over the past two years, to a wetter pattern that is helping pasture conditions to improve. That has slowed down the flow of cows to slaughter, compared to the past couple of years and it may also slow down the progression of young animals into feedyards as they are diverted into stocker programs in order to put on weight cheaply by taking advantage of greener pastures. We haven't seen much in the way of herd rebuilding yet, but better pasture is a prerequisite for that to occur so if the rains keep coming (and feeder cattle prices stay high enough), we could see some modest heifer retention later this year as cattlemen seek to replenish herds that were decimated by drought recently. If it happens, that would set the stage for sharply higher cattle and beef pricing in 2024.

DEMAND SITUATION

Domestic beef demand was relatively strong in the lead-up to Memorial Day, but there is some question as to whether or not it will continue at the same level during June. Retailers have been busy raising the prices they charge consumers, with the most recent data showing a significant move higher in retail prices during April. We expect that the data for May, when it is released, will confirm a continuation of that trend. Father's Day is usually a strong beef demand holiday also, particularly for Choice middle meats. However, most of the wholesale buying for Father's Day is likely now complete, so we will be watching to see if retail clearance over the Father's Day weekend lives up to expectations. Demand for end cuts, which performed very well during May, is likely to soften a bit during June and July. Ground beef should continue to see strong demand, particularly ahead of Independence Day, when retailers often rely heavily on ground beef for features. Margins for retailers remain quite good, and will probably improve in the next few weeks as retail prices continue to work higher. Currently, retailers are seeing some of the best margins in the entire supply chain, but that will change over the next couple of years as cattle supplies dwindle and the cutouts press ever higher. That is likely to usher in new, lower, level of beef featuring where fewer items are promoted and those that are will probably be featured at less attractive pricing than what consumers have become accustomed to. It looks like the battle over the US debt ceiling has been resolved without causing a default and thus that removes one of the most concerning threats to the global macroeconomy. However, even without a default, we expect the US economy to slow further in the second half of 2023 and that could exert some downward pressure on domestic beef demand.

We sense that the economies of many countries that import US beef are starting to struggle and that has put a damper on demand from international buyers. This is expected to worsen before it gets better. In addition, high US beef pricing is a significant deterrent to overseas movement. We are particularly concerned about economic conditions in China, which has been a big growth market for US exports in recent years. Volumes moving to that destination are starting to fall and it seems that Chinese beef demand is starting to wane from the strong levels seen last year. Other Asian importing nations, like Japan and S. Korea, could face similar challenges. As a result, we expect US beef exports to remain below last year for the balance of 2023 and then another YOY reduction is likely in 2024.

Softening macroeconomic conditions in Asia are starting to **limit US beef exports**

SUMMARY

Both cattle and beef availability should slowly improve during June and will be even larger in July. That should help put cattle and beef prices on a downward trajectory, with the rate of decline likely to be slow at first and then increase as the summer progresses. Improved weather points to a better corn crop and thus lower corn prices as we get closer to harvest. Cattle feeders will welcome the reduction in feeding costs but are likely to pay more for feeder cattle and, in order to remain profitable, they will need very high cash cattle prices this fall. Buyers can safely remain in hand-to-mouth mode during the summer but should begin making plans to take coverage for the fall and winter months when price levels will likely strengthen. Domestic beef demand has been good this spring, but we expect at least a modest easing in demand during the summer. Market participants should keep a close eye on the macroeconomic situation and competing meat prices because deterioration in either of these is likely to have a negative influence on domestic demand. The same goes for the global economy, which is already starting to show signs of softening and that, along with high US pricing, has tempered export demand. As always, beef users need to be aware of where we are in the cattle cycle and expect smaller supplies and much higher pricing for the next 2-3 years. Our near-term price forecasts for cattle and beef are provided in **Table 1**.

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Figure 1: Weekly Average S&H Slaughter
(shaded is forecast)

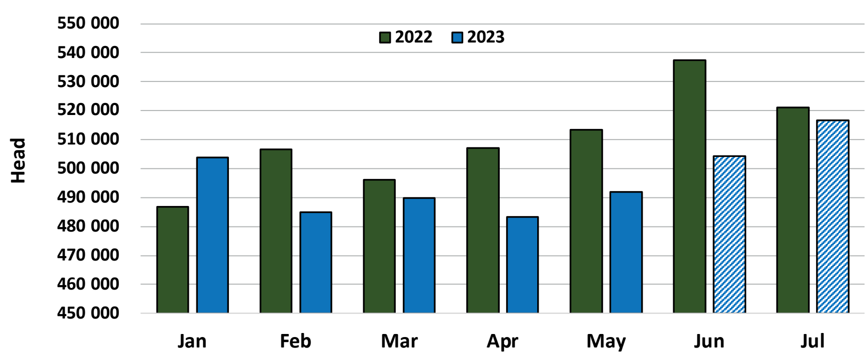

Figure 2: Cattle Feeding Breakeven

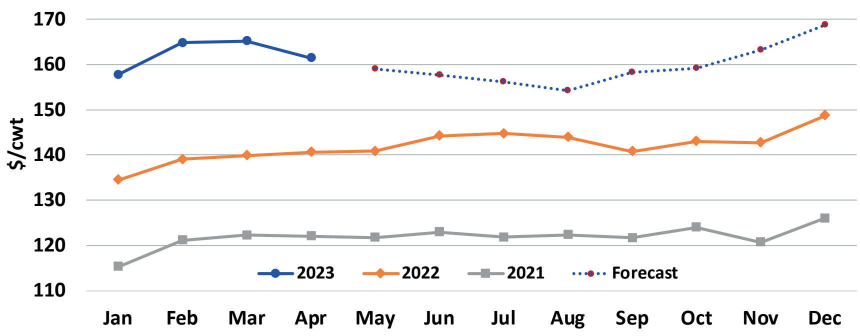

Table 1: JSF Cattle and Beef Price Forecasts

	14-Jun	21-Jun	28-Jun	5-Jul	12-Jul	19-Jul
Choice Cutout	312.3	307.3	303.0	298.7	293.6	291.2
Select Cutout	290.5	286.7	284.7	283.7	280.8	278.6
Choice Rib Primal	455.1	450.2	443.3	438.0	429.8	430.7
Choice Chuck Primal	249.3	241.6	238.7	235.4	232.6	229.4
Choice Round Primal	242.6	237.5	233.6	230.1	227.5	225.4
Choice Loin Primal	456.2	454.3	450.1	444.7	435.2	431.1
Choice Brisket Primal	234.1	229.0	225.6	221.0	217.5	218.3
Cash Cattle	184.4	181.9	179.9	177.8	175.2	173.2

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