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RED MEAT OUTLOOK: CATTLE & BEEF

Cattle prices began June at around $182/cwt. and ended the month closer to $181/cwt., but in between those two points, the market made a brief trip up to $189/cwt. around mid-month. That was another all-time record high cattle price and was driven by tighter-than-expected fed cattle availability. As cattle prices surged, packers quickly raised asking prices on beef and buyers complied. The Choice cutout moved rapidly higher and peaked near $343/cwt. That took a big bite out of retail margins and thus retailers will respond by raising their prices to consumers even more in the next couple of months. The cutouts have retreated somewhat since making their peak but haven't shown signs that they are going to collapse. Domestic beef demand remains very strong at present and that has kept packer margins in the black throughout this period of extremely high cattle pricing. However, once consumers see the new, higher retail pricing on beef, they are likely to slow consumption and that should help keep beef prices on the defensive for the remainder of the summer, especially since we expect cattle availability to improve through July and into August. Of course, that is what current data and economic theory points toward, but there have been several instances so far this year, where the market has behaved contrary to what the theory anticipated. The potential for that happening again is still fairly high.

> **Beef demand has been surprisingly strong** since Memorial Day and that could very well continue in July

SUPPLY PICTURE

Weekly fed steer and heifer slaughter averaged just a bit over 500,000 head during June, which was a little smaller than what our flow model had been indicating. Packers probably felt a little burned by the sharp rise in cattle prices and thus did not want to test stronger kills. However, as July begins, packer margins are registering close to $140/head in the black and that should encourage stronger fed kills in the month ahead. Our flow model suggests that the cattle will be there to fuel bigger kills and we could see fed slaughter average close to 515,000 head in the non-holiday weeks. As a result, we expect to see continued downward pressure on both the cattle and beef markets during July.

> Fed slaughter should expand **to about 515,000 head per week** in July

Carcass weights should also be working higher during July and that will add to beef availability. However, we note that carcass weights were slow to turn higher this year and thus they may not rise at a rapid rate during mid-summer. One interesting feature surrounding carcass weights has been the rapid erosion in the de-trended and de-seasonalized carcass weights that we watch as an indicator of feedyard currentness (**Figure 1**). Those weights peaked at +13 pounds in early May and are now close to -13 pounds — the low end of recent the range in the past few years. We interpret this to mean that feedyard currentness has improved and may have been an important reason why cattle prices surged higher during June. It also raises the risk of yet another move higher for cattle prices at some point in the next few weeks.

Feedyards remain very profitable in spite of the recent retreat in cattle prices. We estimate cattle feeding margins as of last week were close to $325/head. For comparison, consider that from January through June, feeding margins averaged only $127/head. Cattle feeders are likely to use a good chunk of those profits to bid up the price of feeder cattle in July and August. USDA reported

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feedyard placements to be up 4.6% YOY during May — the first YOY placement increase since last August. However, we see that as a brief anomaly and expect that placements will continue to run below last year for much of the second half of 2023. That is just a consequence of the smaller beef herd and, since the herd is likely to remain in contraction mode for 2-3 more years, it is reasonable to expect YOY declines in feedyard placements to be a regular feature of the market for a long time to come.

DEMAND SITUATION

US consumers don't appear to be ready to give up their love affair with beef. According to our demand index calculations, domestic demand during June was considerably stronger than in May and the 1.095 reading for June was the strongest so far for 2023 (**Figure 2**). If demand continues at this rate, we could very well have demand in 2023 average higher than in 2022. To be fair, some of the strong demand in 2023 occurred when cattle prices unexpectedly surged, and beef packers quickly jacked up pricing to beef buyers. Those that were caught short were forced to pay up and that registers as strong demand. June was a good example of that. As wholesale beef prices have moved higher this year, retailers have been slow to incorporate those increases into the prices that consumers see. As a result, consumers are routinely faced with prices that are below what the wholesale market would imply. Retailers have become so conditioned to the idea that wholesale beef prices are on a long-run upward trajectory that they are unlikely to lower retail prices when the wholesale market starts to cool off. Thus, there is a risk that very high retail prices will slow beef consumption to a level below beef production. When that happens, wholesale prices could correct quickly lower. It doesn't look like we are at that point yet, but it could come later in the summer or in early fall. Student loan repayments won't start back until October, but that could also have a chilling effect on beef demand. There is also a reasonable chance of at least a mild recession in the next six to twelve months, which would also temper demand. But all of those things are months down the road and right now beef demand seems to be on solid footing.

Given how strong beef pricing has been in the US, it shouldn't be surprising that international buyers are being cautious. Mexico has been the only significant exception. Last week's FAS export data release showed shipments to Mexico running 49% stronger than last year. Contrast that to the Asian nations where we have movement to Japan down about 17% YOY and S. Korea off almost 38%. Interestingly, we often think of Mexico as being a very price-sensitive buyer of US beef, but even at current high price levels, Mexico continues to buy aggressively. As the US cattle herd shrinks in the next 2-3 years and price levels climb in response, it is reasonable to expect beef exports to remain on a downward trajectory.

SUMMARY

After a brief price spike during June, US cattle and beef prices are once again working lower. Available cattle supplies should be increasing during July and August, so that argues for lower prices. One caution does apply, however. Carcass weights seem to be telling a story of feedyards which are very current and that raises the risk that another short-run spike in cattle prices could occur.

> Carcass weights should work seasonally higher from here, but **they are signaling that feedyards are very current**

Cattle feeders are finally seeing a decent stretch of strong profits. In that situation, we often see feedyards spend aggressively to restock empty pens and thus feeder cattle prices register strong. Domestic demand appears really hot at the moment, but we don't think it will be able to hold this level for much longer. Once retailers pass along the recent price increases they experienced in the wholesale market, consumer offtake should slow and that, in turn, can be expected to temper the cutouts. Further, there is the risk of a recession in the economy later this year and the restarting of student loan payments in October that could put a damper on demand. In this environment, where the market is coming down from recent high levels and supplies are projected to increase, buyers would do well not to extend coverage too far into the future. Prices could surge again in Q4 as the holidays approach, so buyers might want to concentrate their summer forward pricing efforts on Q4 needs, particularly for high quality middle meats. Our near-term price forecasts for cattle and beef are provided in **Table 1**.

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Figure 1: Detrended & Deseasonalized Steer Carcass Weights

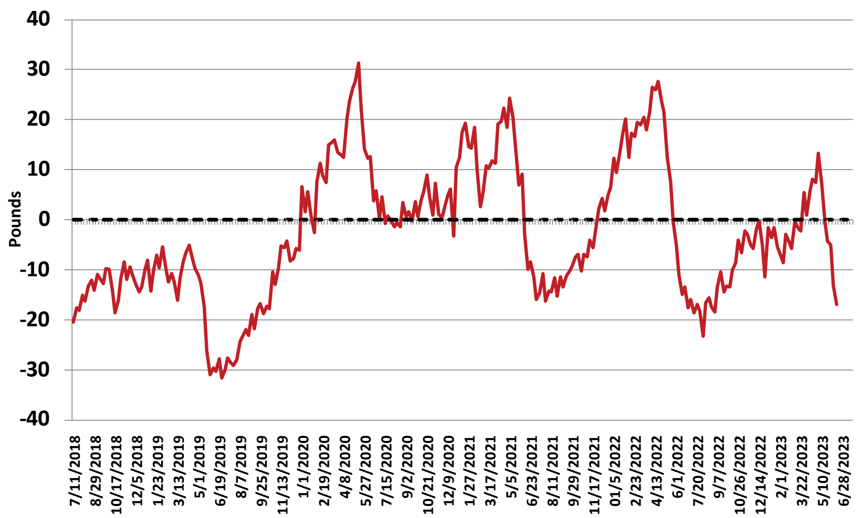

Figure 2: JSF Demand Index, Blended Cutout

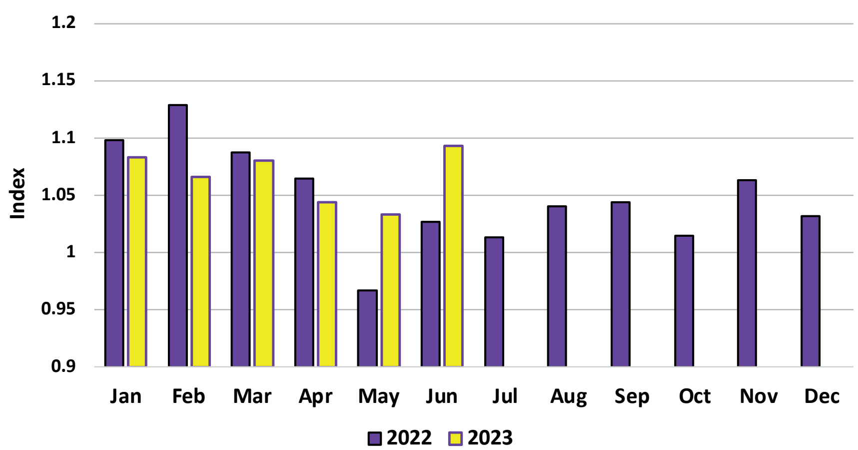

Table 1: JSF Cattle and Beef Price Forecasts

	12-Jul	19-Jul	26-Jul	2-Aug	9-Aug	16-Aug
Choice Cutout	316.8	314.2	310.2	305.4	298.9	295.1
Select Cutout	286.9	282.9	279.5	272.8	265.0	260.0
Choice Rib Primal	489.2	484.0	476.3	467.5	465.7	459.3
Choice Chuck Primal	247.0	243.1	242.6	238.1	233.4	228.2
Choice Round Primal	234.1	231.4	226.8	226.0	222.5	224.9
Choice Loin Primal	471.6	471.4	465.0	456.7	440.9	433.5
Choice Brisket Primal	255.3	257.4	254.7	256.1	256.2	249.3
Cash Cattle	180.9	178.7	177.2	175.2	172.3	170.2

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