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THE MONTHLY

RED MEAT OUTLOOK: CATTLE & BEEF

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Packers let their guard down during September and allowed fed slaughter to expand after a concerted effort in August produced several weeks of smaller-than-anticipated kills. The August kill reductions caused cash cattle prices to decline, but as kills expanded in September the cash cattle market moved higher once again. In the southern feeding regions, cash cattle went from around $178 at the end of August to a little over $183 at the end of September. While cattle prices were rising, the cutouts were moving lower and that created another margin pinch for packers. The Choice cutout dropped approximately $15/cwt. during September and last week's packer margin was calculated to be just a little over $100/head in the red. Another feature that developed in the cash cattle market was a significant narrowing of the price premiums packers were paying for cattle in the North compared to the South. That premium is now only about $2/cwt. On the demand side, concerns about the health of the macroeconomy in the US sent a bearish chill through the futures market last week and probably kept cash cattle prices from advancing again. Traders were also concerned about the potential for a shutdown of the US government on Oct 1 due to Congress' inaction on passing spending legislation. US equity markets have been on the defensive for the past couple of weeks in anticipation of a shutdown and that could be starting to affect consumer spending negatively. A deal was reached at the last minute to avoid a shutdown, but the issue will re-emerge less than two months from now. Early October typically sees a boost in demand from September's level, but the uneasiness about the economy may help to temper those seasonal gains this year.

> **Packer margins are back in the red,** making more slaughter reductions likely

> **The government shutdown cat-and-mouse game** rattled markets and **continues to be a threat**

SUPPLY PICTURE

Weekly fed cattle slaughter during the non-holiday weeks of September averaged around 490,000 head, which was only slightly below what our flow model suggested would be available. That larger-than-expected kill level helped to undo all of the progress that packers made during August when they kept the fed kill down around 480,000 head per week. Unless we see some strong gains in demand soon, packers may need to undertake a fresh effort to dial back steer and heifer slaughter during October. They will get some help in that regard because past placement patterns suggest more cattle should become market-ready during October. If packers can manage to keep the fed kill in the 480-485,000 head range for a few weeks, that may prove sufficient to move cattle prices lower and beef prices higher.

Carcass weights are rising seasonally but remain very close to the levels seen over the past couple of years (**Figure 1**). The long-term trend typically sees carcass weights rise about half a percent per year, but high corn prices in the past couple of years has reduced cattle feeders' desire to feed to heavier weights thus our de-trended and de-seasonalized carcass weights remain very low. The corn harvest is underway now and it looks as though production will be sufficient to keep corn prices below $5/bushel for the foreseeable future. That will give feeders a bit of relief in their production costs and might lead to heavier carcass weights in 2024. For now, it looks like feedyards are still relatively current on their marketings and that helps to explain why packers have had such a difficult time pressuring the cash cattle market lower.

USDA reported feedyard placements during August down 5.1% from the year before, marking the sixth monthly YOY decline so far this year (**Figure 2**). There will likely be several more months where placements fail to reach last year's level in 2023. The US industry remains in the liquidation phase of the cattle cycle and, as the herd shrinks, there will be less cattle available for placement (and eventually slaughter) as a result. Our projections have the US cattle herd down a little over 2.5% YOY on January 1, 2024, and we really don't expect the bottom in cattle numbers to occur until 2025. Between now and then, beef production will be reduced, and prices are likely to move substantially higher than what we are seeing today.

DEMAND SITUATION

Domestic beef demand continued to impress during September and that just adds to a long string of months where demand has outpaced expectations. However, the nervousness in the market over beef demand is becoming palatable and that has caused futures traders to take some of the premium out of the deferred contracts lately. There seems to be a feeling that the ongoing fight in Congress over funding the government would push the economy closer to a recession and that is partly responsible for the pessimism surrounding demand. Student loan repayments will restart in October as well, and that is likely to cause a downward shift in consumer discretionary spending. Retail beef prices are at all-time record highs and with the cattle herd shrinking, it is unlikely that retailers are going to entertain ideas of lowering prices any time soon. So, there are lots of reasons to be bearish with regard to domestic demand. However, that can be balanced against the seasonal tendency toward better beef demand that normally emerges in October and carries through November as buyers build positions in anticipation of the holiday season. Ribs and tenderloins are the items that normally get the most lift, but we often see better demand in October for the end cuts as well. Right now, the December live cattle futures are trading at about a $4/cwt. premium to the October contract, suggesting that on balance, traders expect both cattle and beef prices to be higher later in the year than they are right now. We concur with that view, but this year the price gains could be tempered by the bearish factors listed above. There have been other years where we forecasted modest price gains in Q4, only to be surprised at how strong the cutouts were once the holiday buying got going. That makes it difficult to bet against seasonal demand strength this year in Q4.

Near-term cutout direction hinges on whether or not **holiday demand** kicks in during October

One of the consequences of very high beef prices has been some deterioration in export demand. USDA reported beef exports during July down nearly 22% from the year before. The weekly export data since July hasn't looked much better. It is pretty typical for exports to suffer at this stage in the cattle cycle where production is falling, and prices are rising. There has also been some strengthening in the US dollar recently and that could prove to be an impediment to exports. If the US slips into a recession, that will have a chilling effect on the global economy and thus could drive export demand even lower. Of course, the stronger dollar and high US beef prices will encourage imports, but those are heavily skewed towards trims and ground beef, while exports tend to consist of higher-valued muscle cuts.

SUMMARY

As the US cattle and beef complex heads into Q4 we find packers struggling with poor margins while cattle feeders are very profitable. Packers need to double-down on their kill reduction efforts if they want to see margin improvement, but this has been difficult for them to accomplish. Recent tightness in the cattle supply should ease somewhat as we move into October, but that alone is unlikely to turn the cattle market lower. Carcass weights are rising seasonally, but not unusually heavy, and thus cattle feeders are not feeling a sense of urgency to sell cattle if the price is not to their liking. Macroeconomic conditions are looking a little more challenging after a government shutdown was narrowly avoided. That raises concerns about beef demand going forward, but recent data hasn't indicated much in the way of demand erosion. Retailers understand that cattle and beef prices are likely to move higher in coming months as the cattle herd slowly shrinks, thus they are unwilling to lower retail beef prices. That has left beef at a competitive disadvantage to pork and poultry, but so far consumers have shown a willingness to pay up for quality beef. Middle meat prices normally rise as the calendar turns to October and beef buyers begin to gear up for the holidays. It is unclear at this point whether or not the seasonal improvement in beef demand during Q4 will be enough to outweigh the negative demand influence that could originate from softer macroeconomic conditions. Buyers are still urged to cover any remaining holiday middle meat needs in case packers opt to slash the kill in response to poor profitability this fall. Our near-term price forecasts for cattle and beef are provided in **Table 1**.

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Figure 1: FI Steer Carcass Wt.

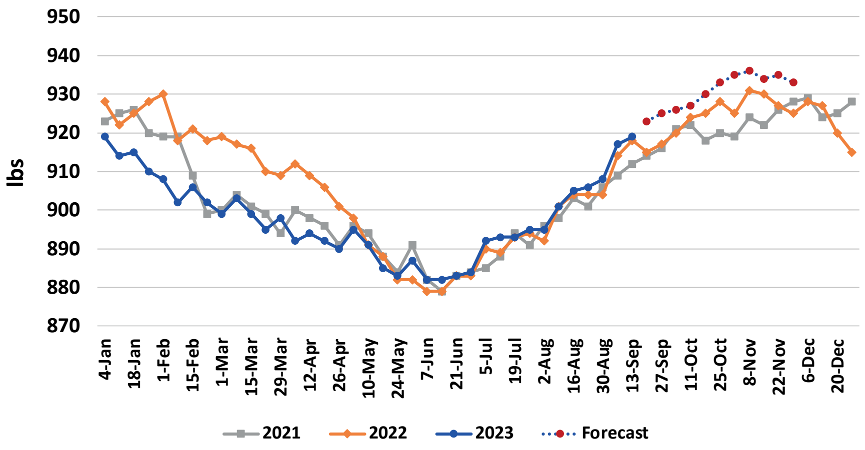

Figure 2: US Feedyard Placements, YOY Change

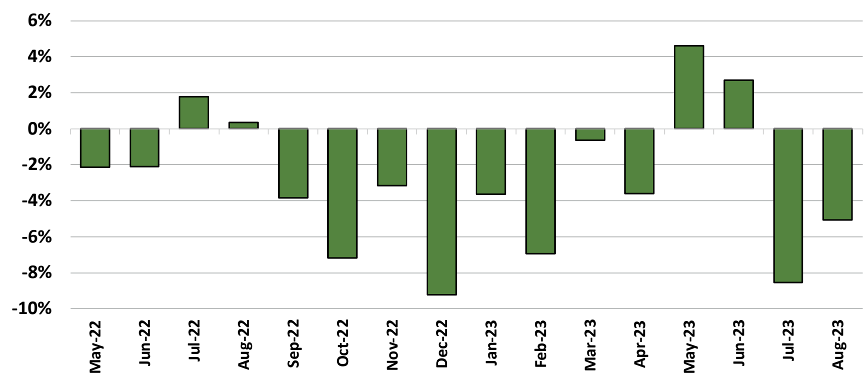

Table 1: JSF Cattle and Beef Price Forecasts

	11-Oct	18-Oct	25-Oct	1-Nov	8-Nov	15-Nov
Choice Cutout	305.3	305.2	303.5	301.2	298.8	300.3
Select Cutout	278.1	274.7	271.5	270.9	270.4	271.1
Choice Rib Primal	525.4	533.4	532.4	536.5	539.8	548.0
Choice Chuck Primal	259.3	256.8	255.0	251.3	248.5	249.1
Choice Round Primal	271.6	273.4	271.2	268.5	264.7	267.2
Choice Loin Primal	360.4	358.0	356.8	354.5	351.8	350.8
Choice Brisket Primal	233.5	235.6	235.5	232.2	235.0	239.7
Cash Cattle	184.7	183.3	182.7	182.2	182.5	182.9

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