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RED MEAT OUTLOOK: CATTLE & BEEF

After holding in a narrow trading range from June through October, the cash cattle market broke lower in November, dropping nearly $10/cwt. as it moved from $184 at the beginning of the month to $174 last week. The cutouts moved lower also, with the Choice dropping about $7/cwt. over the course of the month to where it is now trading just a little under the $300 mark. The inability of the cutout to advance during November was a huge warning sign that consumer demand was beginning to deteriorate from the strong levels that had been in place since summer. Persistently high retail pricing in an environment where consumer purchasing power was slipping finally resulted in stout consumer resistance. The decline in demand has been masked to some extent in recent weeks by seasonal increase in middle meat demand for the holidays, but when we look at all of the other items outside of the rib complex, and particularly the end cuts, it becomes obvious that consumers are pushing back. The softening in beef demand kept packer margins in negative territory and they responded by limiting the kill through much of November. At the same time, the number of cattle on feed was growing and that finally reached a point where something had to give. In typical fashion, the futures market sniffed it out first and we have seen some dramatic declines in both live and feeder cattle futures recently. This is not the end of the bull market in cattle and beef, but rather a temporary correction that should eventually allow retail prices to ease. If anything, this setback may make the future look more bullish because it probably extends the length of time that the cattle industry is liquidating animal numbers and thus may leave the industry smaller, and prices higher, than they would have been otherwise.

> **Cash cattle prices have declined $10** in four weeks, with further declines likely

> **Consumer resistance to high retail prices** is building, creating a threat to the cutout

SUPPLY PICTURE

We noted last month that fed cattle slaughter during November needed to run a little above 500,000 head per week in order to clear all of the animals that would become ready for market. However, packers' margin problems prompted them to keep the fed kill closer to 490,000 head in the non-holiday weeks and thus feedyards lost some currentness and carcass weights continued to climb. That eroded the bargaining power of feedyards, and they finally started to agree to accept lower cattle prices. We think that this is just the beginning of a supply bubble that will probably extend through February. The flow model suggests that Jan/Feb kills will need to run at or slightly above 500,000 head per week to process all of the market ready cattle. However, consumer demand probably won't support that level of production and thus slaughter levels are likely to fall short, which would further erode feedyard currentness and drive cattle prices lower.

Weights are the canary in the coal mine for this type of supply situation. FI steer carcass weights that had been tracking nearly dead on with last year have suddenly risen to six pounds over last year and that gap is projected to expand. The de-trended and de-seasonalized carcass weights shot higher in November and are now at levels that suggest cattle could be backing up in feedyards (**Figure 1**). Cattle feeders have two choices in this situation: they can try to accelerate marketings to clean up the backlog or they can slow placements and wait for the backlog to clear over time. With retail prices at very high levels and consumers pushing back, it may be impossible to accelerate marketings so they may be forced into "placing their way" out of this mess. That is a slow process that likely means months of poor margins on the horizon for feedyards. Those margins are already crumbling, going from nearly $300/head last month to near zero currently. It is painful, but that is the way the market signals producers to slow down production to better align it with what consumers are willing to purchase at prevailing prices.

A potential cattle backlog looms as cattle supplies grow and consumer off-take softens

Feedyard placements were reported 3.8% higher YOY in October following a 6.1% increase in September. That left the industry with 1.7% more cattle in feedyards as of November 1 compared to last year. Now that prices have moved lower, cattle feeders should respond by restricting placements. That may not have fully materialized in November, but almost certainly will be an important feature of the market in December and January. It would create a reduction in demand for feeder cattle and thus lower cash feeder cattle prices, which will not incentivize cow-calf producers to expand. In fact, it will do just the opposite, and keep them in liquidation mode. Thus, we expect further herd size reductions in 2024 and that will eventually result in another, perhaps stronger, round of beef price increases later next year.

DEMAND SITUATION

The long-awaited seasonal price increase for middle meats is finally starting to materialize. The value of the rib primal has moved substantially higher in the past few weeks and is now only about $20 below the all-time high recorded back in September 2021. That is great, but it is very temporary, and by mid-December we are likely to see rib prices start to collapse. The bigger problem, in our opinion, is with demand for all of the other parts of the carcass not called ribs. **Figure 2** illustrates the sharp decline in the round primal value over the past month or so. Prices for fat trim are also now very weak and below last year's level. It looks like demand for lower-valued beef items, which are the ones favored by lower-income consumers, is eroding while demand for the expensive, high-quality items remains fairly strong. However, overall demand is likely to take a hit once all of the holiday middle meat procurement is complete. That will expose the softening demand for the lower quality items and likely means that the cutout continues moving lower. Further, from a demand perspective, things probably get worse in January and February as consumers will be grappling with holiday bills and will have less tolerance for the high retail beef prices they are being shown.

Reductions in the cutout will eventually lead retailers to lower their prices to consumers, which is what needs to happen before market balance can be restored. Right now, retail prices are just too high to clear all of the beef that is ready to come to market. However, retailers are notoriously slow to lower prices and may be even slower to react this time around because they are fully aware that the long-run trend is toward smaller production and higher prices. We may therefore need to see wholesale beef prices move substantially lower in order to get the desired price reductions out of the retail sector.

International demand for US beef has been soft for some time now and we don't expect that to change much in the next few months. Of particular concern is a declining interest in US beef by Chinese buyers who are grappling with softer economic conditions in their country. Beef shipments to China are down 20% year-to-date and that gap is likely to grow as the Q4 numbers get reported. Other Asian destinations, notably Japan and S. Korea, are also running well below last year's levels with respect to purchasing US beef. This is simply a case of high US beef pricing causing international consumers to switch to other sources of protein. If wholesale beef prices decline as expected in Q1 next year, then there is potential for some improvement in exports, but it likely won't be enough to generate YOY gains.

SUMMARY

Prices in the US cattle and beef complex are in the process of resetting lower as consumer resistance to high retail prices grows at the same time the number of market-ready cattle are increasing. Packer margins remain in the red and that means they will likely keep slaughter levels constrained during December, particularly once the holiday middle meat business is complete. There will also be two weeks of light kills during Christmas week and New Year's week that may contribute to further loss of feedyard currentness. That likely means that cattle prices remain on a downward trajectory and wholesale beef prices could follow that pattern as well. Carcass weight indicators are flashing red, indicating a potential backlog of cattle building in feedyards. That could take a few months to clear and it will come at a time of year (Q1) when beef demand is typically weak. That increases the odds of substantial price reductions. However, we shouldn't lose sight of the big picture, which is still one of longer-run reductions in the nation's cattle herd that should eventually result in even higher cattle and beef pricing than what was seen in 2023. Beef buyers can probably relax and go to more of a hand-to-mouth procurement approach in Q1 but shouldn't get complacent because tighter supplies and rising prices are likely to return by late spring and may get acute by next fall. 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

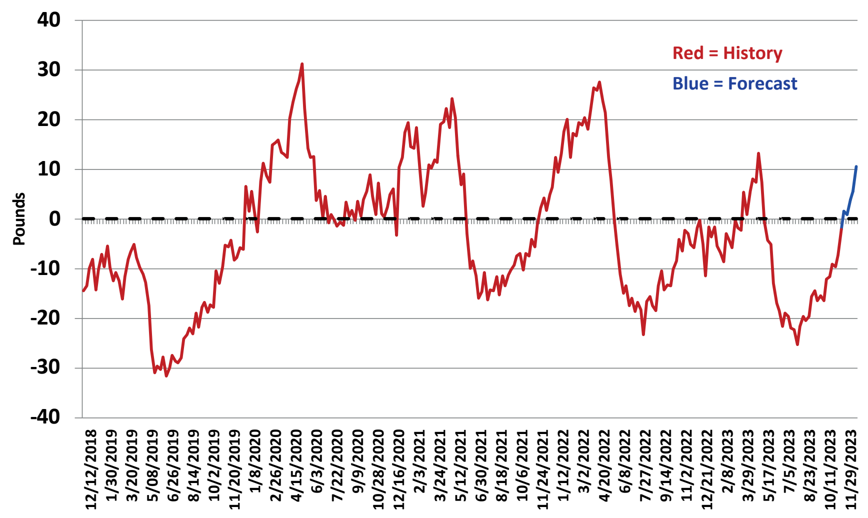

Figure 2: Ch. Round Primal

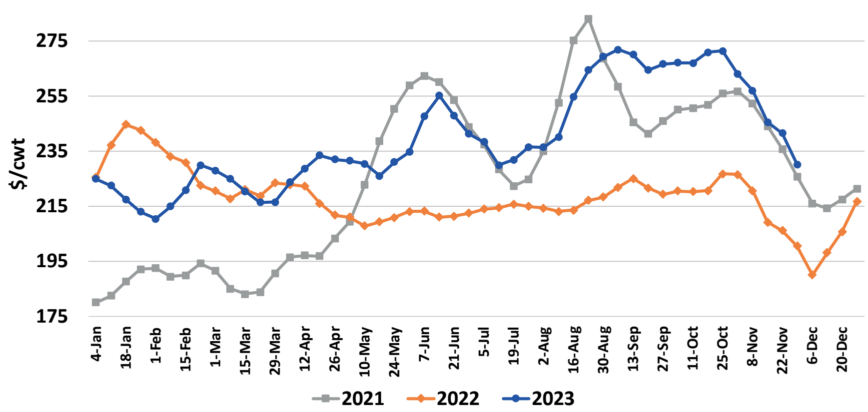

Table 1: JSF Cattle and Beef Price Forecasts

	13-Dec	20-Dec	27-Dec	3-Jan	10-Jan	17-Jan
Choice Cutout	290.3	288.1	287.8	288.6	291.6	292.2
Select Cutout	263.0	268.3	270.6	272.7	275.9	278.6
Choice Rib Primal	576.2	538.0	511.1	504.1	506.0	500.1
Choice Chuck Primal	230.2	232.8	236.6	238.7	240.5	241.1
Choice Round Primal	221.1	225.3	228.8	230.1	235.0	236.3
Choice Loin Primal	379.8	379.6	381.5	383.2	385.9	388.4
Choice Brisket Primal	236.0	230.4	227.1	228.1	232.3	235.8
Cash Cattle	171.3	170.1	168.6	169.2	169.8	170.5

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