



J.S. FERRARO



THE MONTHLY RED MEAT OUTLOOK: CATTLE & BEEF

JANUARY 2023

Beef prices in the US took a sharp turn higher around mid-December as packers finally pulled back on the kill ahead of the year-end holidays. Buyers that had been sitting on the sidelines hoping for further price declines suddenly surged into the market, driving spot prices higher. The speed of the price response has been impressive. End cut prices, which had been languishing in late November, shot higher. For example, the chuck primal, which had dropped to near \$186/cwt. during early December is now priced close to \$230/cwt. That price gain of more than 20% happened in only three weeks. Round cuts showed similar improvement. However, the most interesting feature of the market has been the persistent strength in the middle meat items. Normally, the rib primal will lose about 15% of its value between the end of November and the end of December. This time around, the rib primal actually gained about 6% and was trading higher at the end of the year than it did in late November when the last-minute buying for the holidays was in full swing (**Figure 1**). As a result, we enter 2023 with higher price levels on the rib and loin primals than in any previous year. Packers have been excellent at managing the middle meat market in the past couple of months, but at some point soon, buyers are likely to back away from the stout pricing and the middles could move significantly lower. All of this shows up in our metrics as a sudden and strong improvement in demand. That is true, but the stage was set for this turnaround by the extraordinarily large fed kills during October and November, which pushed price levels lower and allowed buyers to become complacent.

SUPPLY PICTURE

After averaging nearly 520,000 head per week in November, the fed kill in December averaged close to 455,000 head per week, including the holiday weeks. The market went from abundant supplies to much tighter availability in a short amount of time. Packers discovered something when kills shifted lower in December — their margins improved considerably. Last week we calculate that packer margins were near +\$80/head, which was a huge improvement over late November when margins were in the red by about \$100/head. The improved margin situation is likely

Smaller kills in December have helped to move packer margins temporarily back in the black

to cause packers to expand the kill a bit here in early January, but they must be careful not to push it too far. Our flow model suggests that there should be enough fed cattle to support steer and heifer slaughter near 500,000 head per week in January, but that falls to about 475,000 head per week in February. Of course, we don't expect demand in the Jan/Feb period to be as strong as it was in Nov/Dec, so the smaller kill levels do not necessarily mean higher prices.

Fed cattle slaughter during January may struggle to exceed 500,000 head per week

The short kills during December appear to have helped packer leverage in their weekly haggling with cattle feeders over the price of cash cattle. Cash cattle prices averaged close to \$158/cwt. last week and that was only about \$2/cwt. higher than where the cattle market was at the beginning of December. Now that packers have seen the financial benefits of slowing the kill down, they are likely to retain that strategy during the first two months of 2023. The first place where the kill slowdown should become apparent is in the Saturday slaughter. By the time we get to late January, fed kills on Saturday may have dwindled to 10-15,000 head. Carcass weights are coming down seasonally and there was a blast of super cold weather that hit cattle country right around Christmas that may have slowed weight gains somewhat. Fortunately, that cold spell was brief and was

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followed by a longer period of above-average temperatures, so any detrimental effect on carcass weights should be short lived.

USDA reported November feedyard placements down 2.1% from a year earlier and that left total feedyard inventories as of December 1 down 2.6% YOY. Given that the industry is now entering its fourth year in the liquidation phase of the cattle cycle (**Figure 2**), we should expect to see YOY declines in placements become the new normal. Eventually, a smaller cattle herd leads to smaller placements and ultimately smaller beef production. 2023 is likely to be the year when that pattern become more evident, but it is not likely to be the year where beef production reaches its cyclical low. We think that liquidation will stretch on for another couple of years and the cyclical low might not be hit until 2025 or 2026. Between now and then, buyers can expect a slow tightening in beef supplies and generally increasing price levels.

Feedyard inventories are now
about **2.6%** below last year

DEMAND SITUATION

After a sluggish November, domestic beef demand entered a new upcycle in December. Consumer spending has been good, but economists are beginning to note that consumers are now relying much more on borrowing to fuel continued spending. That is a common occurrence around the end of year holidays, but the bills for all of that spending will come due in January. As a result, consumers are likely to shift back to more at-home meal preparation and thus consume less at foodservice. They should also favor the cheaper items such as end meats and grinds. Retailers often help this trend along by featuring grinds and end meats aggressively after the first of the year. We don't expect middle meat prices to remain at current levels as consumers cut consumption of high-end cuts until the spring market starts to develop. For much of 2022, retailers enjoyed the best margins in the supply chain, but that came under threat during December as the cutouts moved quickly higher and thus compressed retail margins. The potential danger in that development is that retailers may decide to press retail pricing higher in the coming months in an effort to regain some of their margin. That would discourage beef consumption during a period of the year when consumer demand is not all that great to begin with. The recent gains in beef prices have also made beef less attractive for retail features compared to the cheaper alternatives of pork and poultry. Retailers could decide to lean more heavily on competing meats during Jan/Feb and that would further slow beef consumption. However, near-term demand strength is going to be primarily determined by how much consumers pull back in their spending habits now that the holidays are behind us.

We think that by late January the current demand cycle will have peaked and demand could soften during February. Of course, available beef supplies should be lower as we move through Q1, so the impact on prices depends on whether or not any softening in consumer demand is large enough to offset the price-enhancing impact of smaller production.

Export demand for US beef held up well until late December when some softening signals started to emerge. The biggest development there has been the shift in China's approach to covid, moving from a zero-covid regime to one where authorities have given up trying to control the virus and have now allowed it to run unabated through the population. China is the third largest importer of US beef and now that the population is dealing with a massive covid wave, interest in buying beef from the US is expected to soften. The Chinese economy is also likely to struggle for several months as businesses deal with increased absenteeism and a reluctance to work in jobs that require exposure to the public and the virus risk that carries. China is such a large part of the overall global economy that it is hard to imagine an economic slowdown in China not affecting the other economies in Asia and around the world. So, the first half of 2023 could be characterized by less-than-ideal macroeconomic conditions around the globe and that probably result in at least a moderate slowdown in beef exports from the US.

SUMMARY

Packers finally restricted kills during December and found that to be a great elixir for their margin problems. Now as we head into Q1, packers are not likely to return to the aggressive production schedules that maintained back in the fall. For buyers, that could mean reduced availability, but not necessarily higher prices because demand is expected to retreat as consumers cut spending and focus more on paying the holiday bills than purchasing beef. If we zoom out a bit, it is clear that the number of cattle in the US herd continues to shrink, and that contraction could easily last another couple of years or more. That means that price levels in the beef complex are likely to continue to work higher in the long run, but there will still be shorter-run demand fluctuations within that larger trend toward tighter supplies and higher pricing. Feedyards probably lost some currentness as kills slowed in December and that may make it easier for packers to get some price concessions from feedyards in the next couple of months. We see the beef cutouts generally working lower over the next few weeks as middle meat prices come back down to Earth and consumers shift their focus to lower-priced end meats and grinds. January and February have historically been relatively weak months for domestic demand and we think that will be the case again this year. Buyers should stay close bought in anticipation of slower movement and lower pricing on the horizon. Our near-term price forecasts for cattle and beef are provided in **Table 1**.

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Figure 1: Ch. Rib Primal Price Change, Last Week of November to Last Week of December

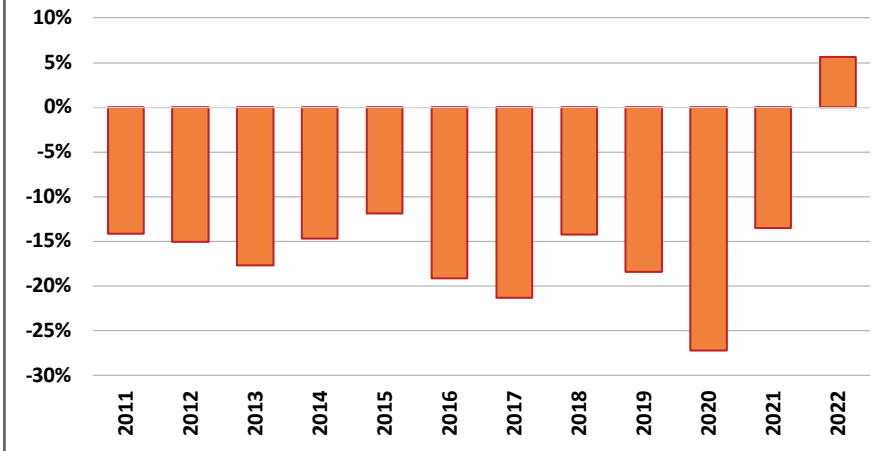


Figure 2: US Cattle Inventory, January 1

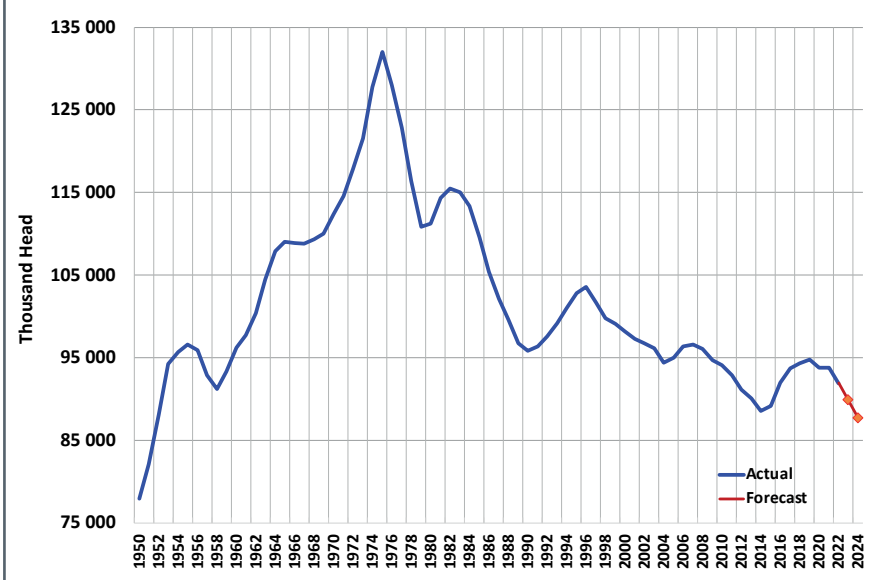


Table 1: JSF Cattle and Beef Price Forecasts

	18-Jan	25-Jan	1-Feb	8-Feb	15-Feb	22-Feb
Choice Cutout	268.8	262.6	256.2	253.8	253.6	255.5
Select Cutout	250.4	247.8	244.0	243.2	243.5	245.2
Choice Rib Primal	473.3	452.8	429.0	413.0	411.0	415.7
Choice Chuck Primal	220.3	215.7	209.2	211.4	211.0	209.3
Choice Round Primal	217.4	213.8	216.4	217.3	215.5	217.0
Choice Loin Primal	351.2	345.1	336.0	329.2	331.8	337.2
Choice Brisket Primal	205.2	202.4	200.8	201.6	204.7	206.3
Cash Cattle	155.4	154.1	152.3	151.7	151.4	153.4



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