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J.S. FERRARO

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RED MEAT OUTLOOK: CATTLE & BEEF

A polar vortex-type event hit the Plains States in the second week of January, delivering extremely cold conditions and snow across much of cattle feeding country. It was difficult to move cattle in such weather and that, along with concern for the well-being of packing plant employees, caused packers to run reduced slaughter schedules for well over a week. That sudden, sharp reduction in beef production caused the cutouts to turn higher and gave a small lift to cash cattle prices. The Choice cutout, which had traded down to $275/cwt. during the first week of 2024, rose to the $300/cwt. level by the end of the month. Cash cattle markets added about $3 over the course of the month, going from $172/cwt. to 175/cwt. last week. The weather event caused a sharp drop in cattle weights

> The weather event caught beef buyers off-guard and they **pushed the Choice cutout to $300**

and that helped alleviate some of the near-term supply pressures that had been building at the end of 2023. However, temperatures have moderated considerably, and cattle will soon be recovering that lost weight, so the supply side pressures could re-emerge if the weather continues to be mild. Retail feature activity during January shifted towards end meats and grinds and found good reception among consumers. That pushed prices for chucks and rounds higher and led to a stunning recovery in the price of trimmings. February also has the potential to bring weather surprises, so market participants need to be vigilant in that regard. For now, the near-term forecast looks favorable, but weather forecasts can change quickly and without much notice.

SUPPLY PICTURE

The sharp reduction in slaughter during the second week of January was equivalent to adding another holiday week, so that when combined with the reduced kills at Christmas and New Year's, the industry effectively had to deal with three reduced kill weeks in a row. Normally, that would cause cattle to back up in the pipeline, but in this case the severe weather caused cattle to lose weight rapidly and thus negated much of the influence of the small kill. For that three-week period, fed slaughter averaged only 417,000 head per week. In the subsequent two weeks, fed slaughter averaged close to 490,000 head per week. That was still below the 505,000 head or so that the model projected to be market-ready in January. Packer margins improved to over +$100/head briefly as the cutout rallied on reduced production, but now rising cattle prices and a slowing of beef price gains threatens to send packers back into the red as early as next week. As a result, we expect packers to remain judicious with the kill and that has the potential to backlog more cattle as we move through February.

> **Harsh winter weather** in January curtailed slaughter and **caused carcass weights to plummet**

Steer carcass weights were at all-time highs just prior to the weather event, but weights have come down substantially since then. USDA reported a one-week decline of 10 pounds in steer weights for the week in which temperatures were the coldest. Although this has bought cattle feeders some time, there are still a large number of cattle that will need to move through the supply chain in the next couple of months. In our opinion, that renders the near-term supply picture for cattle rather bearish. However, there is always the risk that more nasty weather will visit cattle country and further depress performance before the recent weight losses are regained. If the weather remains mild, cattle should recover fairly quickly from this one-time event, but if more blizzards and severe cold hit the Plains States

jsferraro.com | 130 Adelaide Street West, Suite 3302 Toronto, Ontario M5H 3P5 | 416.306.8788

we could see weights continue to drop rapidly, helping to turn a bearish supply picture into a bullish one.

Beyond these short-run, weather-induced supply issues, the longer-term picture for both cattle and beef is decidedly bullish. The industry remains in liquidation mode and there are no signs yet that producers are in the mood to rebuild herds. Next week, USDA will provide the results of its annual cattle inventory survey. We expect it to show the total number of cattle down by a little more than 2% YOY and the 2023 calf crop down close to 2%. That means less cattle and less beef, likely accompanied by higher pricing, down the road. Beef buyers should be cognizant of this cyclical tightening in supply and be prepared to shift a larger share of purchasing away from the spot market and into forward-priced and other risk-managed positions in the second half of 2024 and beyond.

DEMAND SITUATION

Demand appears to have received a modest boost during January, but much of that might be "artificial" in the sense that it came from buyers that came into the new year short bought and then were surprised by the sudden shortfall in production caused by the weather. End meats and grinds have performed exceptionally well during this period, while the middle meats have taken a breather following the holiday season. Of particular note is the rapid turnaround in the lean trim market where the price of 90s went from $250/cwt. at the beginning of January to over $290/cwt. last week (**Figure 1**). Some of that is likely due to lighter-than-expected production, but it also signals some improvement in demand for grinds. This is a welcome sign given that there was considerable concern about demand for lower-priced beef items at the end of 2023. Prices for chucks and rounds have tracked higher along with lean trim prices. Going forward, the ends and rounds are expected to continue to see a lot of retail featuring during February and that should be supportive to pricing. By March however, demand for these items should begin to wane. Middle meat demand normally sees a small boost ahead of Valentine's Day, but we don't expect large price increases there. Sudden, unexpected shortfalls in production, like were seen in January, often disrupt the supply chain and make true demand difficult to discern. Hopefully those events are now behind us and a clearer picture of true consumer demand will emerge in the coming weeks. The current forecast, which assumes no further production surprises, has the Choice cutout holding in the high $290s for much of February, before climbing back over $300 in March.

Demand from international buyers has been limited by high US beef prices relative to beef produced in other countries, such as Brazil. Further, macroeconomic woes in other parts of the world, especially China, have also tempered international demand for US beef. Current projections have 2023 beef exports down a little over 14% YOY. With continued liquidation on the beef herd, beef exports are likely to contract further in 2024. Our early estimate has exports down 7% YOY. China, which emerged as a major importer of US beef in 2021-2022, is struggling with high unemployment and a lackluster economy. Hence we saw a reduction in movement to that Asian destination of over 20% in 2023. At the same time that exports are declining, beef imports into the US are increasing. High US prices have acted like a magnet, drawing supplies from other nations. It appears as though 2023 beef imports will be up 9-10% and current projections have that increasing another 4-5% in 2024 (**Figure 2**). Much of that imported product is lean beef from Australia and New Zealand.

> **Lean trim prices are suddenly on fire**, rocketing higher on much improved demand

SUMMARY

A severe influx of cold weather blanketed the Plains States in early January, forcing slaughter reductions and causing cattle to drop weight rapidly. That upset what had been a rather balanced market at the end of 2023 and caused prices for both cattle and beef to rise. The market is now in the process of normalizing after the event and if there is no further severe weather, we should see prices for most items ease a bit during February. Lean trim may be the exception as prices have soared recently on markedly improved demand. There are still 2% more cattle in feedyards than there were at this time last year, so a near-term bubble in supplies is still in the offing, but to this point it has mostly been masked by weather disruptions. Packers are once again struggling with margins at or below breakeven and that likely won't encourage kills large enough to clear the backlog of cattle in the near term. It is possible that stronger-than-expected demand will save the day and allow those backlogged cattle to get processed without much price concession, but there is also a significant risk that cattle prices will need to decline in order to encourage packers to ramp up slaughter levels. By spring, this little bubble in supply should be cleared and the focus will return to cyclical tightening as the cattle herd continues to shrink. Buyers should expect stronger pricing in the second half of 2024 compared to the first half. Our near-term price forecasts for cattle and beef are provided in **Table 1**.

Figure 1: 90% Trim

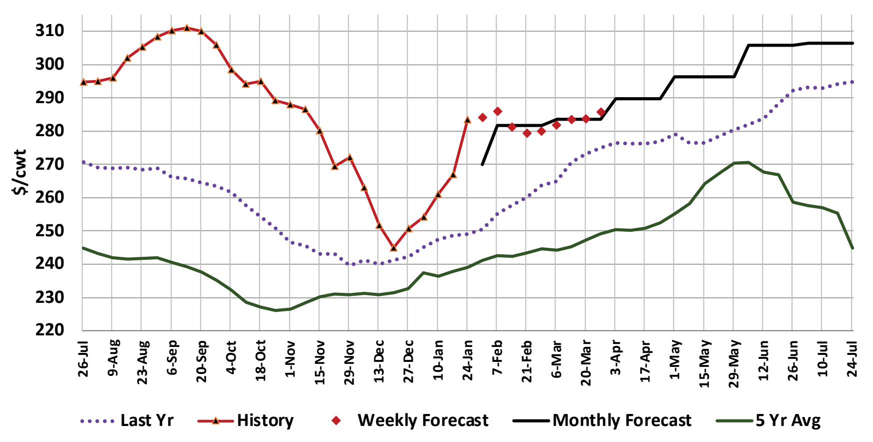

Figure 2: Total Beef Imports

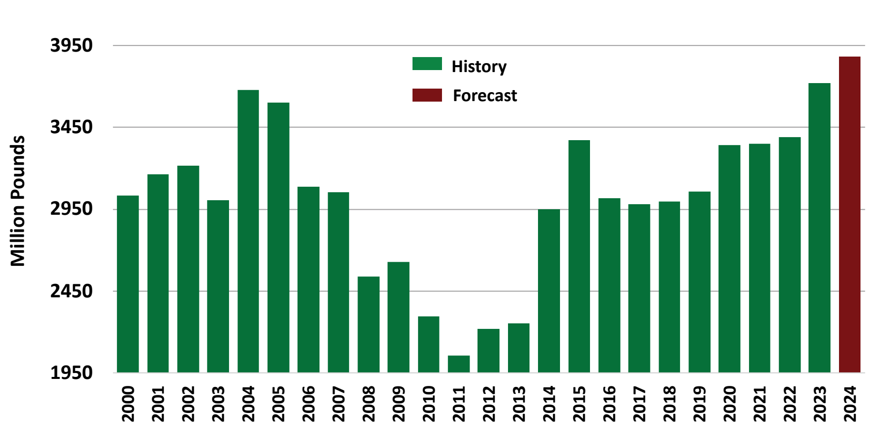

Table 1: JSF Cattle and Beef Price Forecasts

	7-Feb	14-Feb	21-Feb	28-Feb	6-Mar	13-Mar
Choice Cutout	297.5	297.0	299.8	300.2	302.2	303.8
Select Cutout	284.7	282.8	286.2	286.8	292.7	295.7
Choice Rib Primal	474.4	463.9	466.7	468.3	475.2	483.0
Choice Chuck Primal	261.3	255.6	256.6	254.7	251.2	246.5
Choice Round Primal	243.5	246.3	248.5	249.7	254.4	257.7
Choice Loin Primal	388.3	396.5	402.5	404.9	408.1	412.5
Choice Brisket Primal	245.1	241.6	245.0	243.7	241.9	238.0
Cash Cattle	174.2	173.0	172.4	172.1	172.8	174.8

DR. ROB MURPHY BS, MS, PhD Agri Economics,
Executive Vice President, Research & Analysis,
J.S. Ferraro

E: Rob.Murphy@jsferraro.com

Dr. Rob Murphy is an agricultural economist and business leader with over 33 years in the industry. He has a wealth of experience in the North American meat and livestock industries studying, analyzing and predicting market movements.