J.S. FERRARO

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RED MEAT OUTLOOK: CATTLE & BEEF

December saw the cash cattle market decline to $170/cwt. at midmonth and then recover in the final two weeks of the year to average a little over $172. The Choice cutout moved lower also, dropping about $10/cwt. during the month to finish the year just under $290. Seasonal softness in the rib primal and some weakness in the round cuts helped to drive the cutout lower. Packers' margin problems continued and at the end of the year we estimated average packer margins to be around $10/head in the red. Slaughter levels remained constrained as packers have attempted to keep the cattle market on the defensive. As we move into the new year, there are signs that slow marketings over the past few months has created a modest backlog of cattle in the nation's feedyards that could help drive cattle prices lower in January. Middle meat prices probably still have considerable downside risk in the next couple of weeks and we expect to see more retail featuring centered on end cuts and grinds. Beef demand has held up much better than demand for either pork or chicken recently, but we suspect that it is just a matter of time before price competition and slower consumer spending post-holidays combine to ease beef demand lower.

SUPPLY PICTURE

Steer and heifer slaughter during the non-holiday weeks of December averaged close to 495,000 head, but during the final week of the year, the fed kill dropped below 400,000 head. The most recent Cattle on Feed survey found that fed cattle marketings out of feedyards during November ran 7.5% below last year's pace. With the feedyard inventory greater than last year and feedyard marketings running well below last year, feedyard currentness has declined. The flow model suggests that fed slaughter during the Jan/Feb period will need to run a little above 500,000 head per week in order to prevent further backlogging of cattle. It isn't likely that packers will want to run that hard in light of their poor margin situation. Of course, cattle feeders could help that along by accepting lower cash cattle prices and thus boosting packer margins, but that typically doesn't happen until the supply situation becomes dire.

One of the reasons that feedyards have been losing currentness is that the weather across cattle feeding country has been exceptionally mild so far this winter. Snowstorms have been few and far between and temperatures in the Plains States have been running well above normal. Cattle have performed very well, adding weight at a strong clip. Steer carcass weights during the second week of December were reported at 941 pounds, which is an all-time record high. Of course, weights are scheduled to decline seasonally as we move from Q4 into Q1, but the cattle will come into the new year very heavy. That provides a bit of a buffer if the weather should turn nasty, but if it doesn't the cattle will remain heavier than normal, thus adding to beef production.

> Mild weather in the Plains has enhanced weight gains, leading to an **all-time record high carcass weight** in December

Cattle feeders have continued to pile cattle into feedyards. After September and October placements were up 6.1% and 4.6% YOY, respectively, November placements were reported to be down only 1.9% YOY. That left feedyard inventories as of December 1 up 2.7% YOY (**Figure 1**). This "bulge" in the cattle supply will be coming to slaughter during Q1 and should exert pressure on both

> Very slow marketing rates combined with strong placements have left **feedyard inventories up 2.7% YOY**

cattle and beef prices. It doesn't change the longer-term picture that focuses on the cyclical tightening of cattle supplies, but it does inject a bit of bearishness into the forecast for near-term prices. Unfortunately, the industry will need to work through these big cattle numbers during a period of the year when beef demand is typically not very strong (Jan/Feb).

DEMAND SITUATION

Domestic demand for the higher-priced beef cuts continues to look strong, but there are some concerns about the lower end of the market. In particular, demand for end cuts and grinds is looking noticeably weaker over the past couple of months. So far, that demand softening has been able to "hide" behind the price strength in middle meats for the holidays, but now that the holidays are behind us, the focus will turn to the lower-priced cuts and demand problems could become more evident. During the holidays, middle meats were the focus of most retail ads, but starting in January, retailers will rely much more on end cuts and grinds to drive business into their stores. After trading as much as $45/cwt. higher than last year back in August, 90s prices in December came very close to moving below last year (**Figure 2**).

Lean beef prices have tumbled, leading to concerns about demand in the lower-priced items

That could be evidence of demand deterioration at the low end of the price spectrum. Since chuck and round meat can serve as a substitute for lean trim, any softness in the trim market has the potential to spill over into the end cut markets. We will be watching closely for signs of this in the upcoming months. Consumer spending typically slows following the holidays as credit card bills become due. That also has the potential to temper beef demand in Q1. Pork demand has been very soft for a long time now and wholesale pork prices are very low compared to beef. So far that hasn't hurt beef demand much, but the potential is there for trading down by consumers in the months ahead. On the positive side, inflation seems to be fading fairly fast now and that could leave more dollars in consumers' budgets to spend on beef. The stock market also surged higher during Q4 and that often makes consumers feel wealthier, which can lead to improved beef demand. On balance, however, we think that the negatives will outweigh the positives during the first half of 2024 and thus cause some deterioration in the domestic demand picture.

International demand for US beef remains weak and relatively high beef prices in the US have led some importers to turn to alternative suppliers. US beef exports during October were reported to be down almost 20% YOY. If prices decline in Q1, the US may win back some of that business, but the gain would likely be small. Instead, we think it is wise to expect beef exports to struggle over the next 2-3 years as cattle supplies dwindle and price levels rise. Japan, which has always been a big customer for US beef, has taken 20% less beef through October than it did in 2022. It is true that some other destinations, such as Mexico, have stepped up to help fill that void, but such a dramatic loss of business from a traditionally strong customer has to be concerning.

SUMMARY

We are now at the point in the calendar when the focus shifts from holiday middle meats to end cuts and grinds during Q1. Recent price action in the 90s market gives us some concern about the health of demand for lower-priced items during January. Without considerable support from chucks and rounds, the cutout will likely trade lower in the next couple of months. If demand proves weak, packers may limit slaughter volumes in order to support the cutout. That would be dangerous for cattle feeders because cattle have been performing well in feedyards and marketing rates need to be maintained in order to prevent further backlogging of cattle. Weather is always a wild card at this time of year and if it turns cold and wet, cattle could start to lose weight rapidly. That could quickly change the supply side picture. For now however, the forecast looks relatively benign and we expect cattle feeders to feel pressure to move cattle to slaughter. That may mean that they end up accepting lower cattle prices for a while. Beef buyers can remain close bought through the Jan/Feb period but should keep an eye on packer margins and if those worsen, action should be taken to protect against kill cuts. The longer-run bullish price picture remains intact as animal numbers will likely continue to shrink for the next couple of years, but over the next couple of months buyers are likely to find ample availability. Our near-term price forecasts for cattle and beef are provided in **Table 1**.

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

Figure 1: YOY Change in Feedyard Cattle Inventory

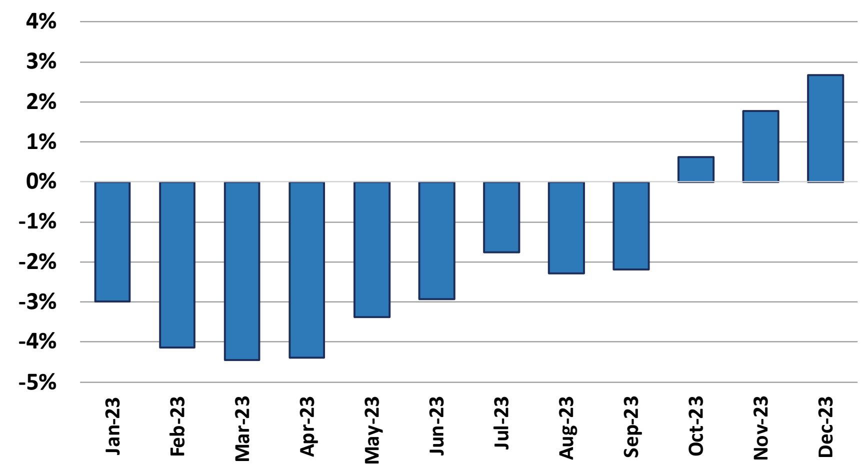

Figure 2: 90% Trim

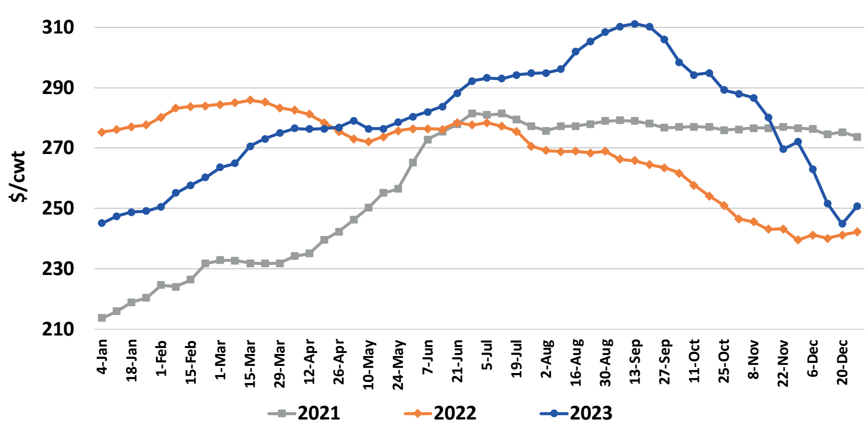

Table 1: JSF Cattle and Beef Price Forecasts

	10-Jan	17-Jan	24-Jan	31-Jan	7-Feb	14-Feb
Choice Cutout	282.1	280.0	278.5	281.1	282.9	283.3
Select Cutout	253.9	253.9	252.2	258.0	262.5	265.1
Choice Rib Primal	498.3	494.0	483.2	475.1	462.0	451.5
Choice Chuck Primal	234.1	230.8	227.1	229.4	234.4	235.6
Choice Round Primal	211.4	212.6	213.3	217.1	221.1	222.4
Choice Loin Primal	385.7	383.3	385.9	392.5	395.6	398.5
Choice Brisket Primal	252.1	248.7	246.5	244.3	240.8	242.2
Cash Cattle	169.5	167.9	165.5	166.3	166.1	165.6

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.