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RED MEAT OUTLOOK: CATTLE & BEEF

February was a period of recovery following the brutal cold snap in January. Feedyard cattle lost a lot of weight during the weather event and much better weather in February allowed cattle weights to stabilize and get back on the weight gain path. Packers found it harder to coerce cattle away from feedyards during this period of recovery and thus higher cash cattle prices were needed. The national average cattle price moved from around $178 at the end of January to a little over $183 last week. Packer margins were dismal, as they often are at this time of year, and that resulted in light slaughter schedules, which bought more time for cattle weights to recover. Light kills supported beef prices and we saw the Choice cutout move from $295 early in the month to nearly $305 last week. Beef demand has been seasonally soft and focused on the end cuts and grinds, but soon the first green shoots of spring will appear and that normally portends a much better demand environment.

> Seasonally **soft demand and poor packer margins** continue to limit beef production

The concern about cattle backing up in the pipeline hasn't gone away and, in fact, is probably more acute now than it was a month ago. However, the sharp losses in weight following the severe cold snap required that cattle be kept on feed longer in order to become marketable and that has given feedyards some breathing room, allowing them to spread cattle marketings over a longer time frame and thus push back the day of reckoning when feedyards will be forced to market cattle aggressively. If the seasonal improvement in beef demand arrives quickly, it may be that packer margins can be improved from the demand side and thus kills can be expanded, sparing the need for a sharp drop in cattle prices to facilitate clearance of any backed-up cattle.

SUPPLY PICTURE

Fed slaughter during February averaged close to 472,000 head per week, which was 10-15,000 head per week below what our flow model suggested would be available. However, the model becomes less relevant in situations where the weather has caused a big disruption in the weight gaining ability of cattle in feedyards. So, it is possible that what might look like a large backup of cattle on paper, isn't all that severe in reality. In these situations, price movements can help clarify the picture and since cattle prices have been slowly rising over the past few weeks, it is a good bet that the actual supply of market-ready cattle isn't all that burdensome at the moment. However, the number of cattle reaching market weight will increase in March and so it is imperative that feedyards keep cattle moving at a good clip in order to avoid problems down the road.

Carcass weights tell an interesting story. **Figure 1** gives the path of steer weights over the last couple of months, and we note that as 2024 began, steer weights were nearly 20 pounds heavier than last year. Then came the polar vortex in early January and that drove weights down rapidly. By the last week of January, weights were almost dead even with last year. However, for the last couple of weeks, the reported data (which is delayed by two weeks) has shown a stunning counter-seasonal increase in carcass weights. This was a signal that the impact of the weather event had dissipated and feedyard cattle were again gaining weight at a good pace. In fact, the pace of weight gain in February was likely above normal because cattle tend to experience a period

> **Carcass weights**, which declined dramatically in January, **have rebounded in recent weeks**

of compensatory weight gain after coming through a stressful event. The direction of carcass weights from here will be an important indicator of whether or not cattle are backing up and the likely impact on cattle prices. As you can tell from our forecast, we expect weights to resume their seasonal downtrend and eventually track closer to last year. If that doesn't happen in a timely fashion, then cattle prices are likely to experience a sharp correction lower as cattle feeders feel a sense of urgency to move cattle out of feedyards.

The polar vortex event not only reduced cattle slaughter and cattle weights for a period of time, but it also slowed down the movement of young cattle into feedyards. USDA recently reported placements during January down 7.4% YOY (**Figure 2**). Those are cattle that will become market ready in June and July, so we should expect a bit less early-summer expansion in cattle supplies than normal this year. However, feedyards have been playing catch up during February and early indications are that those placements could be up anywhere from 5-10% YOY. Feeder cattle prices are very high and will likely get a lot higher as we move forward in the cattle cycle, so feedyards are opting to extend the feeding period and thus make cattle heavier. As cattle supplies tighten cyclically, this will be an ongoing theme, with feedyards attempting to make up for smaller cattle numbers by putting more weight on each animal. Sharply lower corn prices this year compared to the past couple of years will facilitate that effort.

DEMAND SITUATION

Domestic beef demand normally hits a lull in February and March and this year is no exception. In this period of the year, consumers are saddled with holiday bills and the cold weather doesn't lend itself to grilling or eating out, so demand is typically tepid. On a macro level, price inflation seems to be coming down at a slower pace for food than in other parts of the consumer's budget, so that has been a headwind. Interest rates are still being held at high levels by the Federal Reserve in an effort to stamp out the last remnants of price inflation, and that is making consumer borrowing more expensive. On the positive side, consumer spending is still strong, and we have seen big gains in the equity markets over the past several months. That wealth effect normally leads to a sense of optimism, at least among the 50-60% of the population that holds stocks as investments. However, for the beef market perhaps the strongest influence on beef demand comes from the weather. As we move from the cold days of winter into spring warmth, consumers want to spend more time outdoors and grills get dusted off. With spring less than three weeks away and temperatures across the US already running well above normal, we should expect some relatively strong demand

Slow marketing rates continue to raise concerns about a potential backlog in feedyards

improvement over the next couple of months. Those gains will likely be focused on the middle meats, but grinds can also see better demand. The huge surge in the price of lean trim since January can be attributed, not only to tighter supplies resulting from lighter cow slaughter, but also to improving demand for the lower-priced end of beef complex. High 90s prices have spilled over into the market for chucks and rounds from fed cattle as users seek to replace expensive 90s with ground primals. It looks like the market for ground beef in the spring and summer is going to see some very high pricing, so users should prepare for that. We also look for middle meat demand to be strong this spring, with prices for ribs and loins exceeding last year's levels consistently. Packer margins are currently about $70/head in the red and beef buyers should keep a close eye on that this spring because persistently poor margins are likely to keep packers in slaughter reduction mode, thus limiting availability at a time of year when demand will be improving.

International demand for US beef has been looking somewhat better in recent weeks. USDA reported total exports for December down only 5.2% YOY, which was much improved over the double digit declines we saw for most of 2023. The more-timely weekly export data shows strong growth in beef movement to Mexico during Jan/Feb and total exports that are tracking very close to last year. This comes in an environment where beef prices in the US have been about 7% stronger than last year, so improvement in export demand is apparent. Whether or not these gains will persist through the spring is an open question, but with US beef pricing expected to trend higher as the weather warms, it seems unlikely that beef exports will exceed last year. Currently, USDA is reporting that export sales made, but not yet shipped, are running about 20% below last year, so that is a pretty strong indicator that movement through export channels this spring will be lighter than last year.

SUMMARY

The US cattle and beef complex spent February recovering from the devastating cold weather in January. That process is mostly complete now and carcass weights have rebounded off of their lows. Domestic demand has been in a seasonal soft spot, leading to poor packer margins and they have constrained kill levels. There are still concerns about cattle becoming backed up in the system, but the huge weight losses during the cold spell reduced the immediate need for feedyards to market cattle aggressively. There is still a significant risk that a backup in the cattle production pipeline will cause a sharp reset in cattle pricing during March, but if the spring demand improvement comes quickly perhaps that will ease the pressure on packer margins, leading to stronger kills and thus allowing feedyards to escape this near-term supply problem without much price concession. Regardless of whatever happens in the near-term, buyers should not forget that the industry is still in the liquidation phase of the cattle cycle and animal numbers are shrinking. In the medium to long run, that means reduced availability and higher prices. Any periods of price weakness are likely to be transitory and buyers should be prepared to use those opportunities to extend coverage into the second half of 2024. Our near-term price forecasts for cattle and beef are provided in **Table 1**.

Figure 1: FI Steer Carcass Wt.

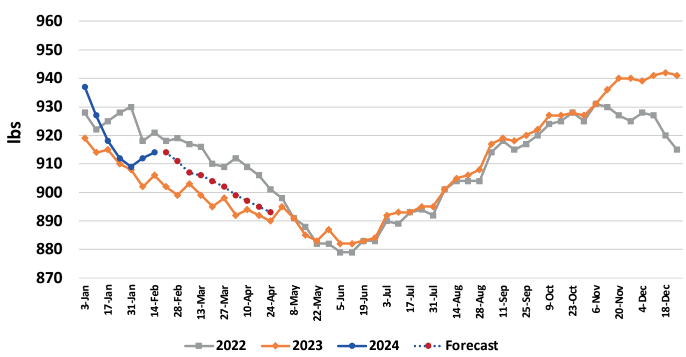

Figure 2: US Feedyard Placements, YOY Change

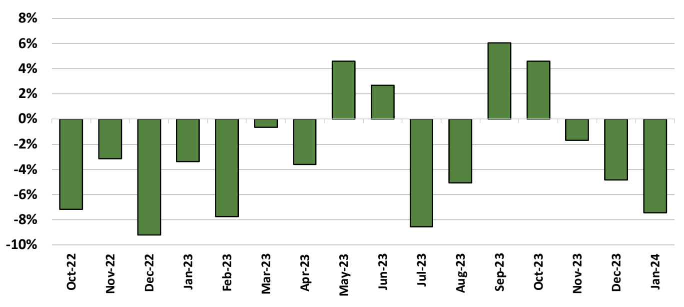

Table 1: JSF Cattle and Beef Price Forecasts

	13-Mar	20-Mar	27-Mar	3-Apr	10-Apr	17-Apr
Choice Cutout	305.9	307.2	307.5	310.6	315.0	316.3
Select Cutout	291.8	292.2	292.1	290.9	293.0	292.5
Choice Rib Primal	467.3	474.0	481.1	489.5	498.3	506.8
Choice Chuck Primal	256.5	253.3	247.5	248.3	250.1	249.2
Choice Round Primal	262.2	260.8	262.3	263.0	265.4	263.3
Choice Loin Primal	411.2	418.2	421.0	426.4	434.1	437.7
Choice Brisket Primal	231.1	228.9	232.1	237.5	242.1	249.9
Cash Cattle	184.1	182.1	181.8	182.9	185.6	186.7

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