VOLUME 1, ISSUE 3

THE MONTHLY DECEMBER 2018

RED MEAT OUTLOOK: CATTLE & BEEF

The trend in the cattle market has been upward during the month of November, with some cattle changing hands at $117 late in the month. That was up about $3 from where the market started at the beginning of the month. Carcass weight data suggests that feedyards have done a pretty good job of marketing animals lately and the industry appears to be relatively current. Packers helped keep the cattle moving also, as their margins have been over $100/hd since early May, and at the end of November those margins were around $155/hd. Those large margins have provided plenty of incentive for packers to kill aggressively and provided room for them to pay up for cattle when necessary. The market is now near the apex of the holiday middle meat buying and price levels for ribs and tenderloins have exceeded last year's level. Of course, a beef carcass produces much more than just middle meats and packers have struggled to market all of the end meats and trim over the past few weeks. The blended cutout declined about $3 over the course of November as the gains in the middle meats were a little more than offset by declines in the end cuts and grinds.

> Beef production **could fall 5-6%** year-over-year into December 2018

SUPPLY PICTURE

Fed cattle kills remain around 500,000 head per week and are likely to be in the 490,000-500,000 head range for most of December, holiday weeks excluded. January could see a little larger fed cattle kills, perhaps reaching 510,000 per week. The most recent *Cattle on Feed* report indicated that placements into feedyards during October were down 6% from last year's large number. That was the second month in a row of year-over-year declines in feedyard placements and that has helped to pare back the total inventory of animals in feedyards to just over 3% more than last year. That has eased concerns somewhat about an over-supply of market-ready cattle in the first quarter of 2019. Cattle feeders in the US have had a terrible year financially in 2018.

We estimate that feeders will end up losing an average of about $100/hd on every head marketed this year. That has drained some equity out of the cattle feeding sector and made feeder cattle buyers a little less willing to pay up for feeder cattle this fall. It is almost as if the supply chain is coming back into balance after a year or more where cattle feeders paid too much for feeder cattle and were unable to recoup the cost when they sold the finished cattle. There is probably some more recalibrating to be done. We are looking for placements to fall short of last year through to at least February. Beef production this fall has been somewhat limited by light carcass weights. **Figure 1** shows steer carcass weights this year relative to 2017 and 2016. Weights were above last year through most of the spring and then tracked very close to last year in the summer. But wet, muddy feedlots this fall limited cattle performance and weights in October were significantly below last year. There is a strong tendency for carcass weights to increase each year. **Figure 2** shows annual average steer weights over the last 38 years. The projected annual average for 2018 is about 4 pounds below the long-run trend. If weights had been on the trendline this year, then production would have been larger and prices lower that what actually came to pass. There is a good chance that 2019 will see carcass weights return to the trendline. It appears as though steer and heifer beef production during November was only up about one-half a percent from November, 2017 and, with light carcass weights and a reduced holiday schedule ahead in December, it is possible that beef production in the last month of the year could fall as much as 5-6% below last year.

DEMAND SITUATION

On the demand side of the equation, things continue to look very good. **Figure 3** is a price-quantity scatter diagram that we use to illustrate the strength of demand. We use the blended cutout on the Y-axis and per-capita disappearance as the quantity measure on the X-axis. The green regression line indicates the average level of demand from 1996 through 2018. Data points that lie above the line are indicative of strong demand years and those below the line are years where demand was weaker than average. This particular scatter is for Q4. You can see that in 2018 demand was relatively strong and was even better than

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Figure 1: Weekly Steer Carcass Weights

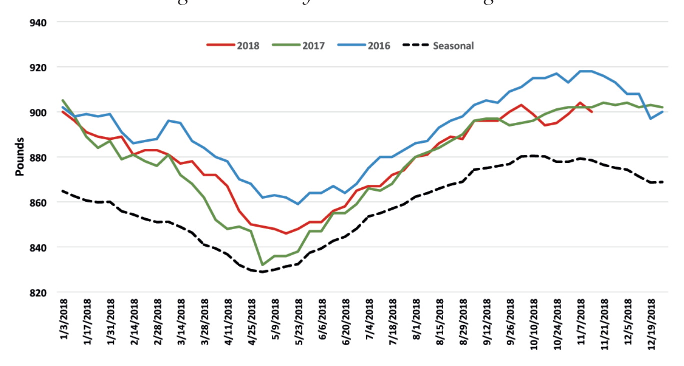


Figure 2: Steer Carcass Weights, Annual

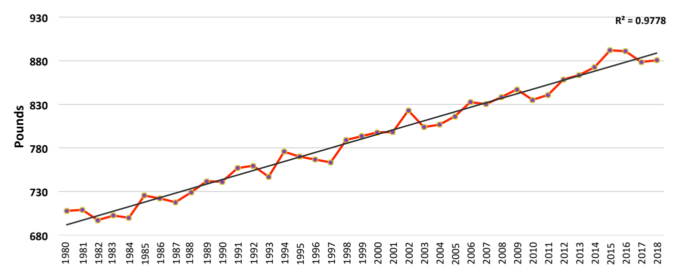


Figure 3: Blended Cutout vs. Per Capita Beef Consumption, Carcass Wt, Q4

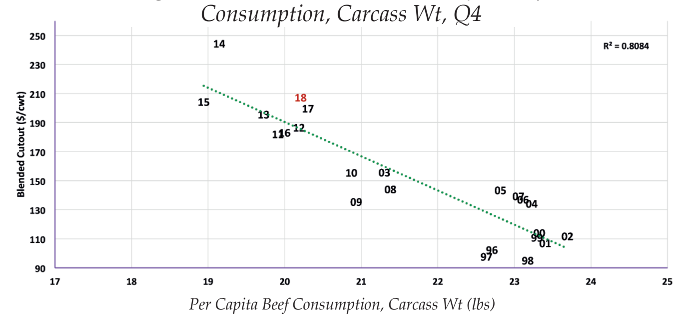


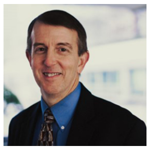
Table 1: JSF Cattle and Beef Price Forecasts

	5-Dec	12-Dec	19-Dec	26-Dec	2-Jan	9-Jan
Choice Cutout	212.8	209.9	209.5	207.7	204.4	202.4
Select Cutout	196.3	194.7	196.4	197.9	196.4	195.9
Choice Rib Primal	419.3	395.7	376.2	355.0	329.0	314.0
Choice Chuck Primal	166.4	169.3	173.4	177.0	178.3	176.9
Choice Round Primal	158.9	161.1	165.0	166.8	168.8	171.6
Choice Loin Primal	275.1	272.2	270.3	267.0	262.0	260.0
Choice Brisket Primal	185.3	182.1	180.5	177.4	172.8	169.1
Cash Cattle	119.9	118.7	117.9	118.2	117.9	117.6

Q4-2017. We have said before that the strong economy in the US and worldwide has helped to fuel strong beef demand this year. Our forecasts for 2019 assume that demand will be just a tad bit below 2018, but still pretty strong in a historical context. There is always the risk however, that demand will fail to live up to expectations next year and if that's the case, then price levels will be lower than what is currently forecast. Seasonally, demand tends to decline at the very end of the year as all of the holiday-related buying is completed and consumers start to focus on the financial outlays associated with the Christmas holidays. That softer demand is often offset by smaller supply as packers run reduced slaughter schedules during the final two weeks of the year due to holidays. As production picks back up in early January, we can expect the cutouts to work lower.

CONCLUSION

November was a month where the industry came back into balance with kills adequate to meet demand and both cattle and beef prices advancing modestly. Feedlots were actively paring back placements in response to dismal profitability this year and that will likely continue for several more months. Light carcass weights helped to constrain beef production and provided price support. Looking ahead, December promises more of the same with price levels remaining firm during the first half of the month and some risk that they retreat a bit as the end of the year approaches. At this point, the biggest risks to the forecast are winter weather and a macroeconomic slowdown. If winter weather severely impacts the cattle producing regions, this could reduce carcass weights further and raise price levels for both cattle and beef. Demand is strong currently, but if there is a major macroeconomic event such as a sharp decline in the stock market, this could cause consumers to become more frugal and trade down from beef to less expensive proteins. Neither looks particularly likely at the moment, but both bear a close watch.



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