VOLUME 2, ISSUE 2

THE MONTHLY FEBRUARY 2019

RED MEAT OUTLOOK: CATTLE & BEEF

The cash cattle market in the US was mostly sideways during January, with prices holding in the $123 area. During that time, the blended cutout was able to gain about $4, so packer margins improved somewhat. Last month, we highlighted the fact that heavy precipitation during November and December caused feedyards in the Great Plains to become muddy and cattle performance to suffer. While there was much less precipitation in the feeding areas in January, the new setback was extreme cold weather, particularly near the end of the month. Feedyards probably didn't dry out much, but it's likely that the ground froze in the northern areas, which will help cattle mobility and performance somewhat. However, as temperatures rise and the ground thaws, there is the potential for feedyards to turn soggy again. It is a bit of a mystery as to why cash cattle prices didn't advance along with the cutout in January, but the speculation is that cattle feeders in some parts of the country badly wanted to move cattle out of the mud and so were more willing to agree to steady money in order to achieve that objective. We expect that cattle feeders will become much tougher negotiators during February and that should help cash cattle market advance, perhaps approaching the $130 mark by the end of the month.

> Blended cutout **gained approximately $4** in January

SUPPLY PICTURE

Steer and heifer slaughter during January fell a little short of our expectations, coming in around 485,000 head per week in the non-holiday weeks. That makes sense given the poor conditions in feedyards and the need to slow slaughter down in order to better match up with the number of cattle that were market-ready. February promises to be more of the same, with fed kills projected to be down around 475,000 head per week. Packers will want to run their plants at reduced levels because beef demand is seasonally weak during February and those light kill levels should allow the feedyard cattle more time to attain ideal slaughter weight. The government shutdown that prevailed during much of January deprived us of critical carcass weight data so it is difficult to ascertain just how much productivity has been lost due to weather. Government employees are now back on the job and working diligently to fill in the missing data gaps, so hopefully by next month we should have a much better picture of how much the severe winter influenced cattle weights. The government shutdown also delayed the monthly *Cattle on Feed* report for January and the important annual cattle inventory report, which was also scheduled to be released at the end of January. Those two critical reports will be released in late February, assuming that there is not another government shutdown in the interim.

If our slaughter and weight estimates are correct, beef production from steers and heifers during February should only be up around 1% from last year. Given how strong demand is this year compared to last, it's very likely that beef prices will be higher this February than last, even with the increase in production. Cow slaughter continues to run large. In 2018, we estimate that beef production from cows was up almost 8%, and the forecast looks for another 5% increase this year. A large part of the cow slaughter increase comes from the fact that the cattle herd has been growing and that means that, at normal culling rates, more cows will go to slaughter. We think that when the cattle inventory report is released, it will show about a 1% increase in the total US cattle population as of January 1, 2019. That will likely be the peak in cattle numbers before the industry enters the liquidation phase of the cattle cycle and, once that takes hold, culling rates will increase and the availability of cow beef will expand even further. Price levels for 90% lean beef during January were about 5% below last year.

The consensus estimate for feedyard placements during December was up about 2%, but we think that the actual number (when it is released) will be slightly below that. We are currently forecasting a 3.8% decline in placements during January under the idea that poor feedyard conditions limited cattle feeder's enthusiasm for placing cattle. However, as feedyard conditions improve in February and March, it is reasonable to expect we will see year-over-year gains in placements. Feeder cattle prices have become cheap relative to the finished cattle price and that will often stimulate feedyards to place cattle aggressively.

DEMAND SITUATION

Domestic demand for US beef remains strong. The scatter diagram for the month of January in **Figure 1** illustrates this. The data point for 2019, lies well above the regression line (which represents average demand over all years included in the analysis) and slightly higher than what we saw in January of 2018. However, consumer confidence in the US was shaken by the plunging stock market in December and the government shutdown so there is a substantial risk that beef demand will start to fade as we move deeper into 2019. For now, things look robust with respect to domestic demand.

It has been the middle meats that are really driving the demand growth. **Figure 2** shows the relative price changes in the various beef primals this year compared to last. It is clear that a large proportion of the gain in the beef cutout has been due to strong middle meat pricing and demand. That is likely to continue for a few more months, but if the economy slows and consumer confidence erodes further, demand for those high-priced middles will suffer more than the rest of the carcass, so if we were to generate this chart six months from now it is likely that the middles would show smaller increases and the end cuts would show better price performance. Currently we forecast rib and loin pricing well above last year until about June at which time we are more likely to see 2019 pricing closer to what developed in 2018. Buyers needing middle meats during the spring grilling season would be wise to start thinking about locking in pricing now in order to gain some protection from robust middle meat prices in April and May. **Table 1** provides our weekly price forecasts for the major beef primals.

> Cash cattle market **may approach $130** by end of February

SUMMARY

Fed beef production during February will be constrained by light slaughter volumes and carcass weights that are below last year. Packers will be working hard to protect their margins and the best way to achieve that is to refrain from pushing slaughter too high. That means beef availability will be not be much larger than it was in February, 2018. Combine that with strong domestic demand and we have the recipe for higher pricing, particularly on the middle meat items. Look for the Choice cutout to average about $6 stronger in February compared to January. Cash cattle prices are also likely to advance close to $130 by the end of February on their way to a spring top somewhere around $135 in March. Buyers should be building beef inventories and extending forward contracts in order to stay ahead of the coming price increases.

Figure 1: Blended Cutout vs. Per Capita Beef Consumption, Carcass Wt, January

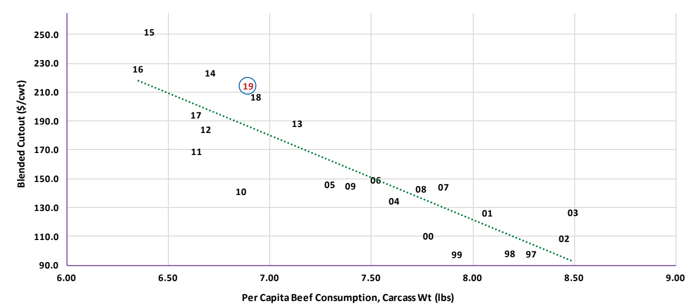

Figure 2: Primal Impact on Ch. Beef Cutout from Jan 31, 2018 to Jan 31, 2019

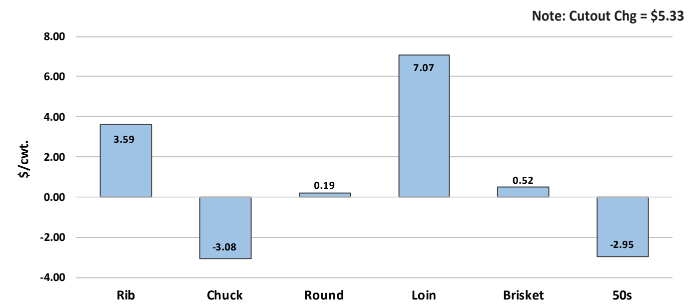

Table 1: JSF Cattle and Beef Price Forecasts

	13-Feb	20-Feb	27-Feb	6-Mar	13-Mar	20-Mar
Choice Cutout	212.8	221.2	223.7	225.6	227.7	231.0
Select Cutout	214.2	217.1	219.6	221.4	223.3	226.5
Choice Rib Primal	356.4	363.3	372.9	379.4	384.4	392.4
Choice Chuck Primal	178.4	177.2	178.0	179.0	181.0	182.6
Choice Round Primal	180.0	178.6	176.6	174.8	173.6	172.0
Choice Loin Primal	295.0	306.0	312.0	318.0	322.0	331.0
Choice Brisket Primal	188.5	190.0	193.3	191.5	192.8	193.4
Cash Cattle	126.4	128.1	129.1	129.7	130.5	132.0

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