THE MONTHLY
RED MEAT OUTLOOK: CATTLE & BEEF
JANUARY 2019

Muddy feedyards **hinder** cattle performance and **reduce** carcass weights

The cash cattle market moved higher in December as packers slaughtered at a relatively aggressive rate and thus were forced to raise prices in order to attract the needed animals. At the same time, a couple of winter storms came across cattle feeding country, leaving feedyards muddy and wet, and slowing down weight gains on the animals in the yards. Cash cattle prices advanced from $117 at the beginning of the month to $123 near the end of the month. Packers were also successful in raising beef prices to their customers and thus were able to maintain strong margins even in the face of rising cattle prices. As we move into the new year, it appears that feedyards remain quite current in their marketings and that should provide cattle feeders the leverage they need to prevent much in the way of price declines for cash cattle over the next few weeks. Whether or not they will be able to advance prices much remains an open question and to some degree depends on packer's success in moving the cutout higher at a time of year when beef demand typically softens.

SUPPLY PICTURE
We were expecting weekly fed kills in December to run in the 490-500,000 head range, but in actuality those kills were much higher, averaging about 525,000 head in the non-holiday weeks. That strong kill pace has helped to keep feedyards current and cattle feeders used that to their advantage to push cash cattle prices higher. The gain in cash cattle prices helped cattle feeding margins considerably, but they still remain slightly negative. By our estimate, feedyard margins near the end of December were about $50/hd in the red. That's an improvement over the dismal margins that cattle feeders endured in the summer and fall, but probably not enough to spur a rebound in feedyard placements in the near term. Weather is a very big issue for feedyards at this time of year. When storms drop a lot of moisture on feedyards, whether in the form of rain or snow, serious mud problems can develop that hinder animal performance. A couple of weather events in December muddied up feedyards, particularly in the northern feeding areas and thus cattle are not able to

achieve the daily weight gains that would have been possible had the feedyards remained dry. The weather has been more favorable in early January and that could help feedyards recover, but there is still plenty of winter yet to come and the risk of additional storms in cattle country is something that market participants are watching closely. Carcass weights have fallen below last year as a result of the weather-induced performance losses. It will take a while for the industry to regain its footing and recover the lost weight. As a result of the strong kills we saw in December, we have raised our fed slaughter estimates for January, now looking for weekly fed kills to average around 505,000 head. If that comes to pass, it would likely mean January fed beef production about 5-6%

Beef demand **remains excellent**, both domestic and internationally

larger than last year. Kills should be smaller in February, perhaps only averaging 480,000 head per week, but even that would lead to a 2-3% year-over-year increase in fed beef production for February **(Figure 1)**. The bigger production doesn't necessarily mean that beef prices will be lower than last year because demand looks like it has a decent chance to be better than in the early part of last year. The most recent *Cattle on Feed* report showed feedyard placements during November down about 5% from last year. The long string of financial losses that feedyards suffered in 2018 is finally curtailing cattle feeder's enthusiasm for putting cattle on feed. We think there is a reasonable chance that placements in December were also down slightly from last year and that trend could extend into the first quarter of this year. Smaller placements mean less beef available down the road—in this case for the April-June time frame. Beef buyers need to keep this in mind as they begin to plan spring purchases.

DEMAND SITUATION
Beef demand was the beneficiary of a strong global economy in 2018, but there is some question as to whether or not that strong demand will remain in place. In December, we saw signs that China's economy was slowing and that doesn't bode well for the global economy as a whole.

The interconnectedness of global markets these days makes it highly likely that if the Chinese economy softens, then the rest of the global economy will also grow weaker. Since beef is a premium price protein, a softening global economy will cause consumers to turn to lower-priced competing protein sources and thus the demand for beef should fall. We haven't seen much evidence of that yet, but it should be on the radar for the second quarter of this year and beyond. Then there are the demand issues that are specific to the United States. In December, the government went into a partial shutdown as politicians squabbled over funding priorities and that has left some 800,000 federal workers without a regular paycheck. That is likely to put a dent in domestic beef demand. Further, the US stock market plunged in December which erased a chunk of consumer's net worth and thus is likely to temper their confidence about what the future holds and this will further weigh on beef demand. The stock market remains very volatile here in early January and that is likely to continue for as long as the government remains shutdown and possibly beyond. It really does look like this shutdown is going to extend far longer than ones in the past as both sides are deeply dug in and unwilling to compromise. As with the global macroeconomic situation, the problems in the US have not yet materialized into a measurable softening of domestic beef demand but very well could in the months ahead.

January is the time of year when middle meats normally put in their annual lows and this year is no different. But it does appear that the lows in rib values this year will be well above what we saw last January 2018 **(Figure 2)**. Retailers normally turn their attention to end meats in January and February because holiday bills have consumers looking for lower priced items at this time of year. The end meats performed well in December, but are looking weaker than expected as the new year starts and that could spell trouble for the cutout in January. The Choice cutout is currently trading near $215, but could easily lose $5-10 by the end of the month. **Table 1** provides our weekly price forecasts.

SUMMARY

The supply side of the market looks relatively bullish at present because feedyards have been kept current by strong December kills and poor weather at the end of 2018. The demand side is a little more dicey and there are risks to both US and global beef demand. Packers are still profitable, but not nearly as profitable as they were in the spring and summer of last year. Cattle feeders have slowed down placements in response to poor feeding conditions and poor profitability. That points to relatively snug beef availability this spring and early summer. Buyers should plan for the potential to see spring beef pricing above last year's level. The two main factors to watch in January are the macroeconomic situation and its impact on beef demand and the weather which, if it turns nasty again, has the potential to curtail supply and put upward pressure on prices.

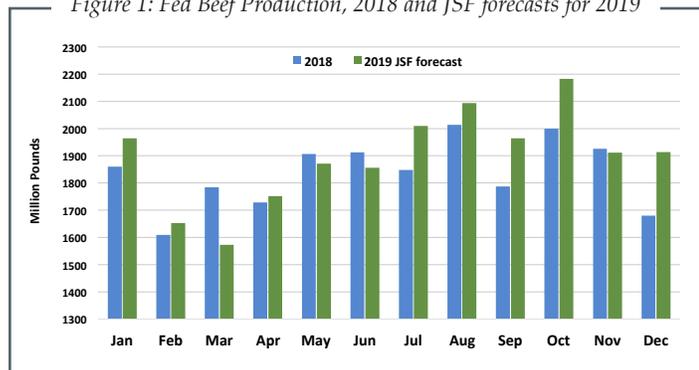*Figure 1: Fed Beef Production, 2018 and JSF forecasts for 2019*
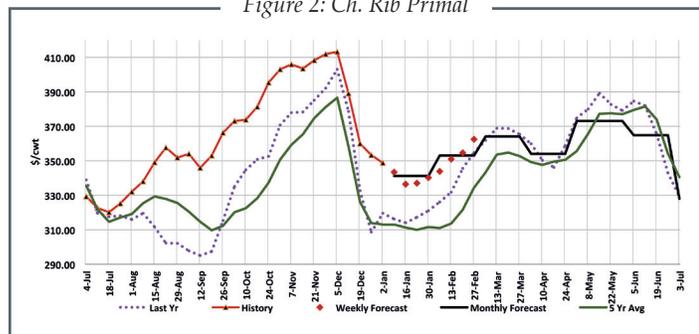

Figure 2: Ch. Rib Primal

Table 1: JSF Cattle and Beef Price Forecasts

	16-Jan	23-Jan	30-Jan	6-Feb	13-Feb	20-Feb
Choice Cutout	212.8	209.5	209.4	210.8	213.5	217.0
Select Cutout	203.8	204.4	204.8	206.3	209.3	212.9
Choice Rib Primal	336.5	337.0	340.3	343.9	351.0	354.7
Choice Chuck Primal	175.3	176.1	175.3	174.3	175.4	176.2
Choice Round Primal	174.2	173.1	172.0	173.4	174.6	175.3
Choice Loin Primal	276.4	277.3	277.0	280.4	285.0	296.0
Choice Brisket Primal	188.3	185.0	185.0	187.0	186.0	184.0
Cash Cattle	121.3	121.6	121.1	122.3	124.0	126.7

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

E: Rob.Murphy@jsferraro.com [in]

Dr. Rob Murphy is an agricultural economist and business leader with over 27 years in the industry. He has a wealth of experience in the North American meat and livestock industries studying, analyzing and predicting market movements.

SUBSCRIBE NOW to receive our monthly edition