

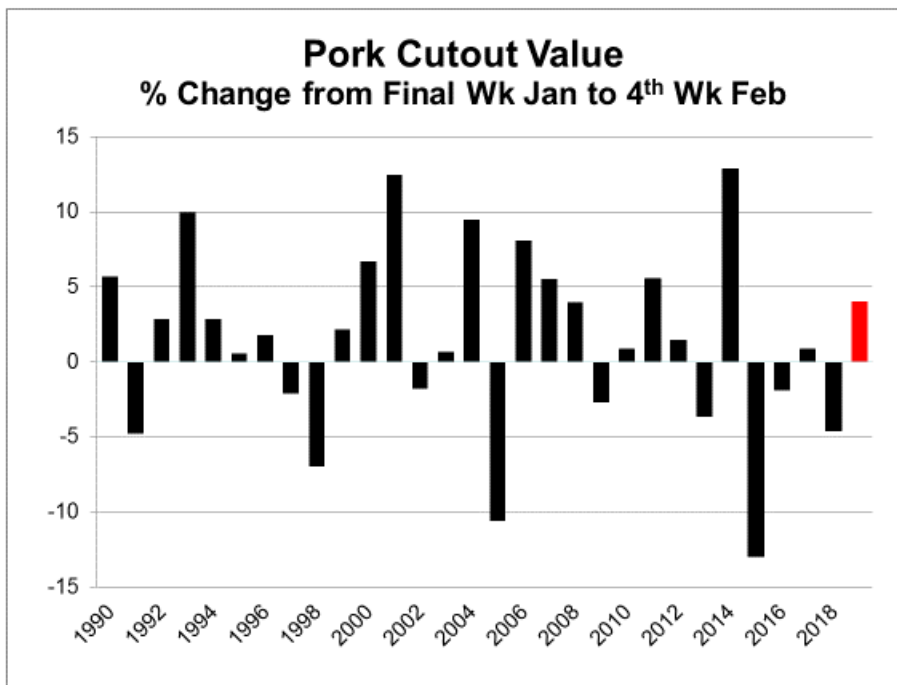


# MEAT MARKETS *UNDER A MICROSCOPE*

*A perspective on the red meat markets by Kevin Bost...sometimes wrong, usually scientific, but always candid*

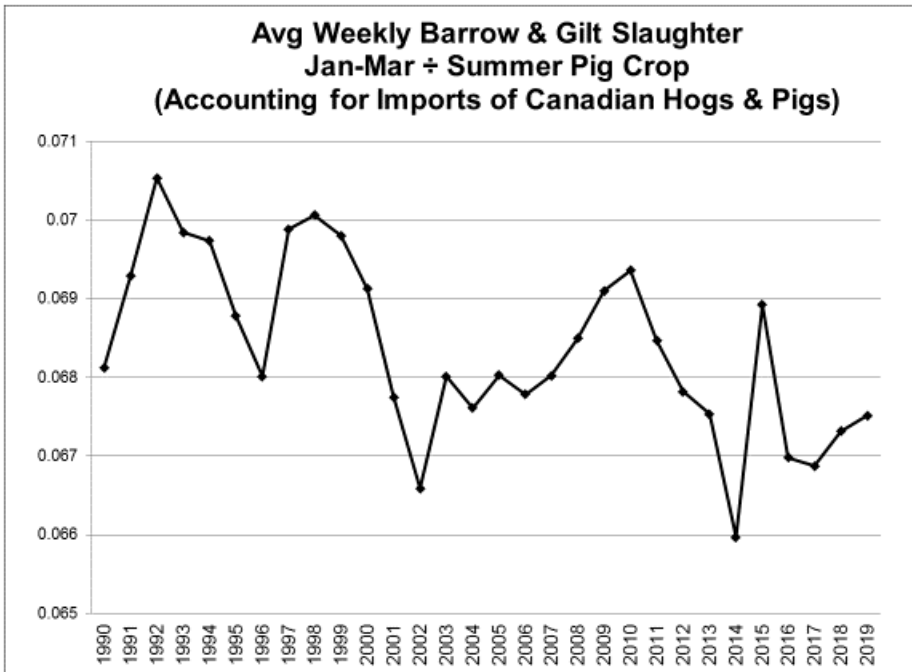
January 30, 2019

**Contrary to my expectations, demand for pork at the wholesale level has failed to perform up to seasonal standards here in July.** The seasonally adjusted demand index makes this quite clear, having slipped to an eight-week low. OK, so now that demand has made the downward adjustment, I have to assume that it will follow a seasonally normal course through the month of February. This is the most objective approach I can take. Consequently, it now looks as though the pork cutout value will be \$3-\$4 per cwt higher at the end of February than it is today:



Actually, that would make for a pretty typical change between now and then. But I had anticipated exceptionally strong demand after the holidays, and well above-average appreciation in the cutout value, simply because of cheap price levels (both in comparison to beef, and also from an historical perspective). Obviously, that wasn't the case.

But let's back up a step. **Save for this week's weather-shortened schedules, hog slaughter is aligning pretty closely with USDA's estimate of the summer pig crop.** If the ratio of January slaughter to the first quarter average is to approximate the ten-year average, then weekly kills in both February and March will average near 2,450,000. I always have to adhere to the assumption that the quarterly slaughter will be distributed normally among the individual months—in the quest for objectivity—until proven wrong. Under this scenario, first quarter slaughter would land near the middle of the road in relation to the summer pig crop, as I show on the next page.



When this rate of production is applied to the “flatlining” demand scenario that I described above, the result is a cutout value that creeps steadily upward into the middle of March, and then eases off a bit into early April. I’m just telling you the statistical truth.

But I must say that if it errs in either direction, it would more likely be to the bullish side. There is still time and

room for demand to respond to the persistently cheap price levels. This is especially true of hams, loins, and pork butts. I notice that 1/4” trimmed butts, which are currently quoted at \$.79 per pound, were in good balance from late January all the way through March 2018 in the \$1.00-\$1.02 range. Of course, pork butts as well as hams will receive a “jump-start” when the Mexican tariff on U.S. pork is removed. As far as I know, this development will wait until Congress approves the new North American trade pact—which, according to U.S. Trade Representative Robert Lighthizer, was originally scheduled for March, but will now be delayed until mid-April because of the government shutdown.

Anyway, the most objective forecast I can come up with places the pork cutout value at about \$71 per cwt in the final week of February. In the table below I show my guess of how it will get there:

	Current	W/E 3/2	Change
Bn-in Loin (1/4”)	\$.84/lb	\$.86/lb	+.02
Strap-on Bnls Loin	\$1.15	\$1.15	0
Butt (1/4”)	\$.78	\$.86	+.08
Sparerib	\$1.41	\$1.42	+.01
23-27 Ham	\$.47	\$.51	+.04
Belly	\$1.16	\$1.30	+.14
72% Lean Trim	\$.58	\$.56	-.02
Bnls Picnic	\$.61	\$.61	0
42% Lean Trim	\$.30	\$.30	0
<b>Cutout</b>	<b>\$67/cwt</b>	<b>\$71/cwt</b>	<b>+4</b>

Finally, it is worth mentioning that two of the heaviest anchors holding the cutout value down have been processing raw materials, as opposed to items that go straight from the packing plant to the consumer. [I’m talking about hams and bellies.] As such, the prices of the raw materials are somewhat detached from the cost of the finished product to the retailer. Thus it may be taking longer to stimulate product movement through cheap ham and belly prices, but this will most definitely happen....it always does, eventually.

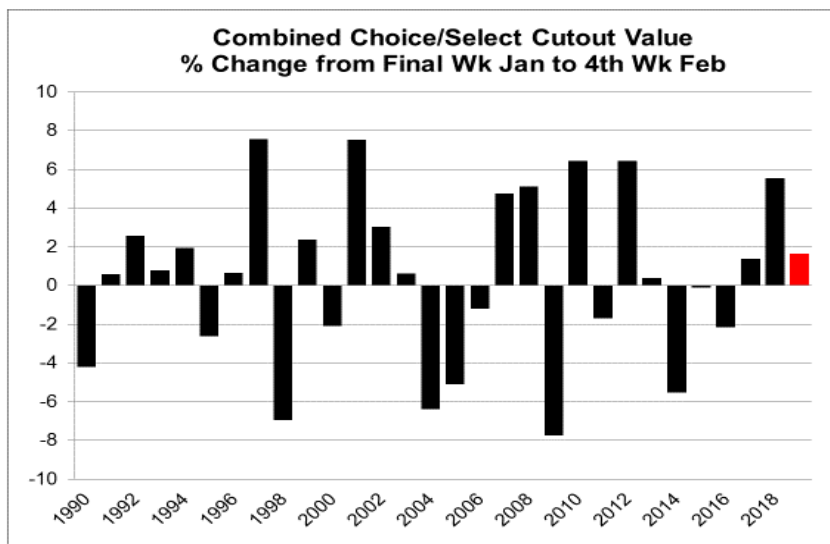
Let's look at the beef market from a similar angle. I'll start at the end point and work backward from there:

Middle Meats	Current	W/E 3/2	Change
CH Bnls Ribeye	\$7.45/lb	\$8.00/lb	+.55
CH 0x1 Strip	\$5.40	\$6.10	+.70
CH 0x1 Short Loin	\$5.00	\$5.50	+.50
CH Top Butt	\$3.61	\$3.70	+.09
CH Tenderloin	\$10.35	\$10.50	+.15
SL Bnls Ribeye	\$6.88	\$7.25	+.37
SL CH 0x1 Strip	\$5.19	\$5.65	+.46
SL 0x1 Short Loin	\$4.90	\$5.40	+.50
SL Top Butt	\$3.52	\$3.60	+.08
SL Tenderloin	\$10.30	\$10.30	0
CH Flap Meat	\$5.27	\$5.40	+.13
CH Ball Tip	\$2.65	\$3.00	+.35
CH Tri Tip	\$3.18	\$3.25	+.07
End Meats & Trim	Current	W/E 3/2	Change
CH Chuck Roll	\$2.87	\$2.95	+.08
CH Shoulder Clod	\$2.16	\$2.15	-.01
CH Knuckle	\$2.38	\$2.35	-.03
CH Inside Round	\$2.25	\$2.30	+.05
CH Btm Round Flat	\$2.19	\$2.15	-.04
CH Eye of Round	\$2.60	\$2.25	-.35
CH Brisket	\$2.74	\$2.70	-.04
81% Lean Grind	\$1.91	\$1.85	-.06
50% Lean Trim	\$.59	\$.70	+.11
Combined Cutout	\$217/cwt	\$220/cwt	+3.00

As always, I approach these forecasts from two separate angles: one by applying the expected supply and demand conditions to the total cutout value, and projecting the relationship between the cutout and each individual component; and the second by applying sensible seasonal changes to each individual item, and calculating a cutout value from the item-by-item forecasts.

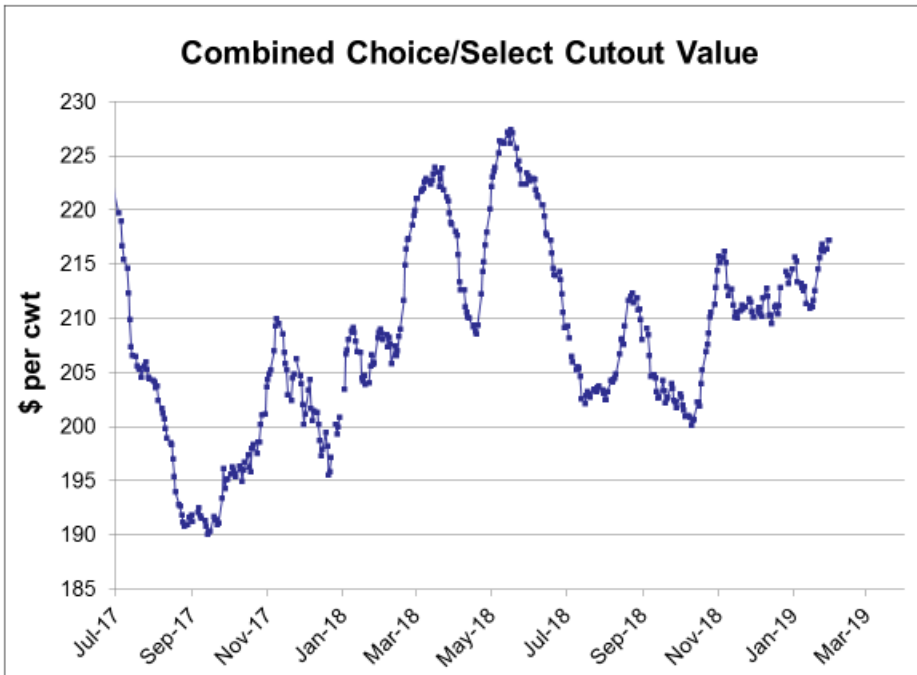
**In the case of beef, demand remains suspect over the next three weeks because of an apparent lack of pre-booked February deliveries....indicating that supermarket featuring will remain unaggressive for another month.** I'll spare you the details today, but judging from the volume of product booked four to eight weeks prior, it does look as though there is considerably more interest in deliveries beginning in the first week of March....which is what one would expect, given the subdued prices that prevailed throughout January.

**And so, while it is still likely that cutout values will slip backward between now and then, they likely will finish the month of February roughly \$3 per cwt higher than they are now.** There is nothing terribly unusual about this, either:



The weekly index of beef demand fell back last week and the week before, but it appears to be recovering this week—back about to where it stood in the first two weeks of January. Therefore, I am willing to assume that it will remain near this level through most of February before rising somewhat in March. This pattern points to a pullback in the Choice/Select cutout

value over the next three weeks, perhaps all the way back to its most recent low point of \$211 per cwt.



In any case, I'm guessing that the middle meats in general will not rally as strongly between now and the end of February as they did last year, partly because they have already covered a lot of ground since their seasonal bottoms.

As for the supply side, I am proceeding on the assumption that steer and heifer kills will level out around 475,000 per week,

compared with last week's estimate of 485,000. [I must say that I am a bit skeptical that fed cattle slaughter was actually that high, because it implies that Saturday's cow slaughter was oddly small; but who am I to say? We will find out soon, now that actual slaughter and carcass weight data are being rolled out once again.] I am also sticking with the assumption that steer carcass weights are running 15 pounds lighter than a year ago, placing fed beef production in January down to 402 million pounds per week vs. 407 million a year earlier. That would be the biggest year-over-year decline since July 2015.

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