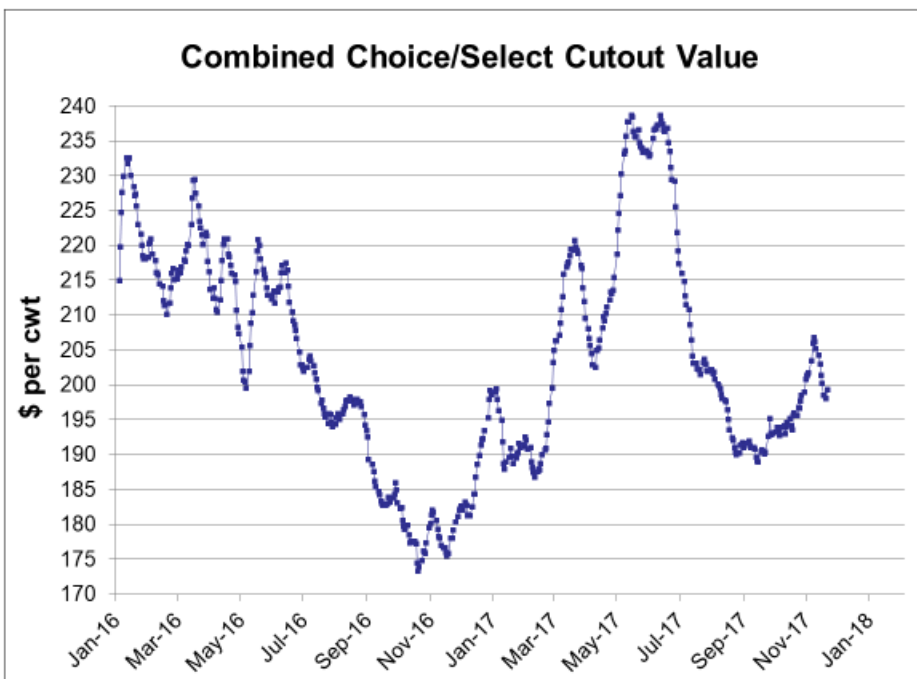




# MEAT MARKETS UNDER A MICROSCOPE

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

November 21, 2017



**The beef market has lost more ground than I had anticipated over the past week, but I am still of the opinion that this will turn out to be a relatively minor setback in the broader picture.** This morning, the combined Choice/Select cutout value stood in an area of significant support, and so no real damage has yet been done to the chart.

There is talk within the Sewing Circle that cutout values will continue to lose ground into mid-December, based on various reports indicating that packers will have a lot of product to move in the spot market through and beyond Thanksgiving. Personally, I have not received any communiques from the "troops on the ground" to either confirm or deny this notion. But approaching the question as objectively as I know how, I don't see the reasoning that would support a negative near-term outlook.

Based on the December 1 inventory of cattle on feed 90 days or longer and assuming moderate marketing rates, fed cattle slaughter should pull back significantly in the four non-holiday weeks between Thanksgiving and Christmas. But let's say that they hold steady with last week's total of 510,000. In that case, a normal seasonal change in demand from this point forward would indeed bring the combined cutout value down about \$2.00 per cwt below today's quote in the week ending December 9. But such a rate of production would require an unrealistically aggressive marketing rate, which is why I would rate this possibility as highly unlikely. If, on the

other hand, steer and heifer kills average the more likely 486,000 during that stretch, then a normal demand pattern would carry the cutout up about \$4.00 above today's quote. What is there to indicate that demand will underperform relative to the seasonal norm from now through the end of the year? Nothing that I can identify. Forward bookings for December delivery have been what I would call nondescript, suggesting neither a stronger- nor weaker-than-average change in demand between now and mid-December.



Against this backdrop, it might be a good time to go with the format of the *Daily Racing Form*. So here goes:

Boneless Ribeyes: The near-term prospects are much stronger for Choice product than Select, because of the sudden—and to at least some extent—unanticipated drop in the grade-out due to recalibration of grading instruments; this development makes Select-grade product more suspect across the board. I'm not convinced that Choice ribeyes have made their

high for the season just yet, especially since this peak is not “due” for another two weeks; this market can go a long way in that length of time. Select ribeyes probably *have* established their seasonal peak, and I must say that I don't expect anything better than a sideways trend in the near term....even though the historical tendency is clearly toward higher prices over the upcoming two-week period.

Tenderloins: These come next in the discussion, because this “grade-out surprise” is creating some shortages of Choice product heading into the important holiday season. As with ribeyes, I have to approach the Choice product much more aggressively than the Select.

0x1 Strips: Support at \$5.00 in Choice and \$3.90-\$4.00 in Select should hold. Historically, Choice product shows no consistent tendency in either direction between now and mid-December; Select-grade product actually shows a mild upward bias.

0x1 Short Loins: More commonly downward over the upcoming three-week period, Select short loins should still hold at \$4.00 per pound; Choice product, on the other hand, more often higher than lower; yet Choice short loins are considerably farther from their lows (\$4.25) which creates some vulnerability. My guess is that there will be some time spent in the \$4.80 per pound range.

Top Butts: Tough one to call, especially Choice top butts. Wide spread has developed between Choice and Select, and Select has spent enough time around \$2.35 per pound to convince me that this is the bottom. Choice product has rallied 50¢ from its October low and trades about 75¢ higher than it did at this time last year....both to be regarding as a potentially bearish consideration in the near term. But in the broad picture, top butts have been a “sleeper” for the last several months, never coming close to their 2016 highs....and how expensive is a \$3.00 per pound sirloin, after all? On this one, I have to punt.

Chuck Rolls: One of the few major beef products of which I can say that prices rallied far enough in early fall to adversely affect demand. One tidy observation is that prices peaked at essentially the same level, and essentially the same time, as they did in both 2016 and 2015....and in those years, they fell back to \$2.40 and \$2.60, respectively, in December. Why

not this time around as well? Oh, and by the way: over the upcoming three-week period, this market has lost ground in 17 of the last 20 years.

Shoulder Clods: This one has demonstrated a fairly consistent but mild downward tendency over the upcoming three-week period; probably not moving far away from \$2.00 per pound any time soon.

Knuckles: This market has been remarkably flat since mid-July, which is demand-friendly. Solid support at \$2.25 per pound. Near-term seasonal track record quite unimpressive, though. More sideways action over the next few weeks.

Inside Rounds: Meaningful price declines are pretty rare between now and mid-December. The \$2.20 per pound mark proved to be a comfortable home during the entire month of October, and the market has since approach that level again, following a run to \$2.40. I think it holds here.

Eye of Round: The story is similar to that of the insides, only with a little more downside potential; it currently trades about 20¢ above major support (\$2.25 per pound). Mildly downward tendency over the next three weeks.

81% Lean Ground Beef: This market tends to move lower between now and mid-December. However, prices are already resting at their lows for the year, and so this time around there is a good chance that it will buck the trend. With retail margins wide, ground beef should get some “face time” in supermarket ads in December. No discernible resistance between here and \$1.80 per pound.

50% Lean Trimmings: After a 30¢ rally over the past five to six weeks, this market seems to be due for a setback—which is clearly its historical precedent; but rarely has the decline between now and mid-December exceeded 15%, which in today’s market would amount to about 10¢ per pound.

And continuing on with the pork market....

Bone-in Pork Loins: Believe it or not, these are trading about a nickel higher than they were at this time last year, but from 80¢ per pound, hard to expect any meaningful downside....pretty consistently firm between now & mid-December....have to think this is a sideways market until it pushes up in week ending 12/23

Pork Butts: Pretty similar to loins, only these are trading a good 15¢ above this time a year ago and above the 15-year average by the same amount, obviously reflecting much stronger demand in relation to most other pork cuts....pulled pork, perhaps? Seasonal track record over the next two weeks is nondescript, and so my guess is that this market slips backward under the heavier supply before it turns around during the week ending December 16.

Bellies: Evidence of strong demand even more pronounced than in pork butts, as prices are *highest on record* for this, the fifth week prior to Christmas....have to think that a lot of product is going into the freezer here in November and even more during December if kills do indeed jump up to 2.5 million-plus and stay there until Christmas; this should severely stunt the upside potential in the first quarter; in the meantime, bellies are susceptible to a setback.

Lean Trimmings: Have outperformed relative to their typical Q4 behavior so far, not even coming close to fall 2016 lows (40¢ per pound); word is that McRib promotion is propping these up, and I have no idea how long this will be a factor....this item also trading above its 15-year average for this time of year....distinct downward bias historically between now and the week prior to Christmas, along with price level and projected supply leads me to think that prices will be in the mid-\$.50's a month from now.

Boneless Picnics: Another case of prices above the 15-year average for late November....72% lean trim a supportive influence, along with slim boning margins holding production down; export business also a convenient excuse for the price strength....unlike trimmings, boneless picnics have had a clear tendency in the past to appreciate between now and mid-December—but there *have* been exceptions, and this year could be one.

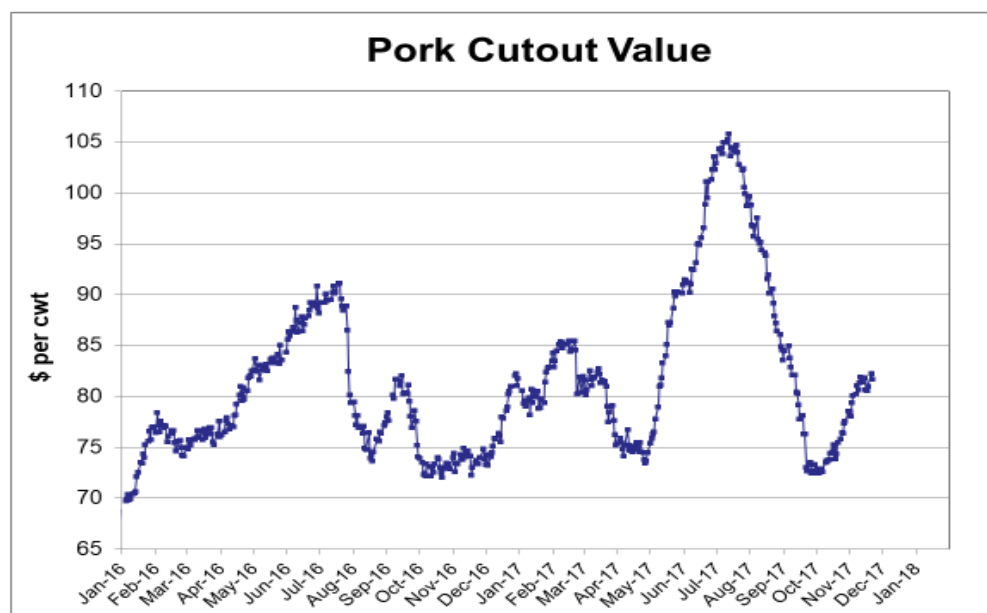
Fat Trimmings: Nothing to say that you don't already know—the lid is pretty solid, prices going nowhere to speak of.

Hams: 20-23 pound product winds up trading at 50¢ per pound by the first week of January, but what it does in the meantime is less certain; prices have declined prematurely (by historical standards) and so a minor rebound is likely before the show is over; it is normal for this market to do so anyway, as it has appreciated in eight of the past ten years over the upcoming two-week period.

**The net result: a lower trend in the pork cutout value through the end of the year, although not dramatically so.** The chart, by the way, appears to have topped out at a fairly significant price level resistance level—let's call it \$82-83 per cwt. My humble guess is that it loses roughly \$5 between now and the end of the year.

Oh, and the final entry in the DRF:

Kevin Bost: Consistent performer, but not in a good way; last three starts broke hard out of the gate, set the early pace but no kick in the stretch; clearly outclassed in this field; overpriced even at 30:1....



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