



# MEAT MARKETS UNDER A MICROSCOPE

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

November 7, 2018

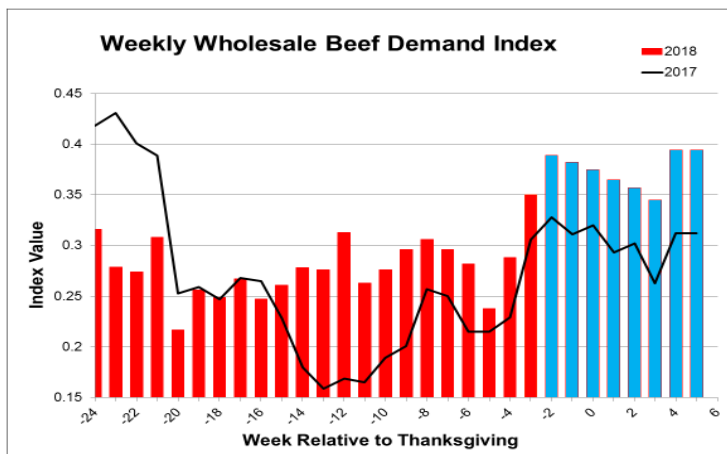
**As best I can tell, the combined Choice/Select cutout value should finish the month of November about where it started—we'll call it \$215 per cwt.** I am approaching the question from as many different angles as possible, including both identifying the cutout value at which supply and demand should come into balance at the end of the month, and then determining the individual product prices that fit this cutout value projection; and also evaluating how the individual cut prices should perform, and *then* calculating the resulting cutout value from those prices.



WHAT?

Never mind.

First of all, there should not be any material change in fed beef production within the next 30 days. steer and heifer kills should hold basically steady through November. I expect that they will remain between 505,000 and 512,000 in the three upcoming non-holiday weeks, compared with last week's total of 506,000. The decline in fed cattle slaughter from October to November will be slight, and smaller than usual; the change in the inventory of cattle on feed 120 days or longer declined only 4.8% from October 1 to November 1 vs. the 15-year average decline of 8.3%. Also, packers certainly have an incentive to maintain production schedules, as they apparently have a lot of "meat on the books" (via forward sales) and margins are extremely positive.



**But at the same time, the change in demand from October to November looks like it will be stronger than normal....quite a bit stronger, in fact.** In the picture to the left, the first blue bar represents the week we are in right now. Assuming a steer and heifer kill of 505,000 and an average cutout value of \$216 per cwt, this is pretty much a "done deal". My guess is that after such a sharp spike, the weekly demand index will back off gradually—but only to about where it stood last week. That would

place the combined cutout at about \$215 in the final week of November. I admit that one reason I'm guessing that the demand index will come down a little over the next three weeks is because this rally is now five weeks old; another is that it makes for a seasonally normal change in the cutout over this time frame. But if the index were to stay right where it is, then we would be looking at something more like \$218....

So, then, here's what I have in mind:

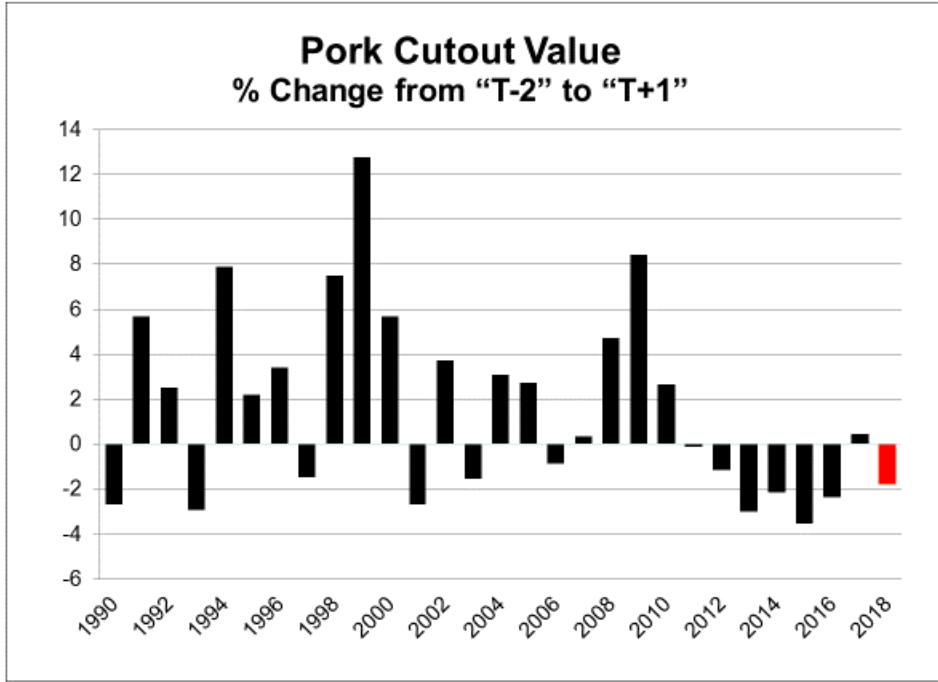
	Current	W/E 12/1		Current	W/E 12/1
CH Bnls Ribeyes	895	960	CH Tri Tips	330	340
CH 0x1 Strips	495	480	Shoulder Clods	207	210
CH 0x1 Short Loins	460	470	Chuck Rolls	305	290
CH Tenderloins	1160	1230	Briskets	266	268
CH Top Butts	304	315	Knuckles	243	240
SL Bnls Ribeyes	725	760	Inside Rounds	225	225
SL 0x1 Strips	380	380	Btm Round Flats	247	239
SL 0x1 Short Loins	400	375	Eye of Round	245	240
SL Tenderloins	1100	1100	81% Ground Beef	172	161
SL Top Butts	285	280	50% Lean Trim	69	62
CH Flap Meat	510	510			
CH Ball Tips	235	235	<b>Combined Cutout</b>	<b>215.94</b>	<b>215.00</b>

The equivalent snapshot of the pork market looks like this:

	Current	W/E 12/1
Bn-in Loins	88	83
Bnls Loins, Strap On	125	120
¼" Trimmed Butts	101	100
Spareribs	130	130
23-27 lb Hams	51	55
Bellies	127	115
Bnls Picnics	67	70
72% Lean Trim	45	50
42% Lean Trim	24	23
<b>Pork Cutout</b>	<b>74.08</b>	<b>72.50</b>

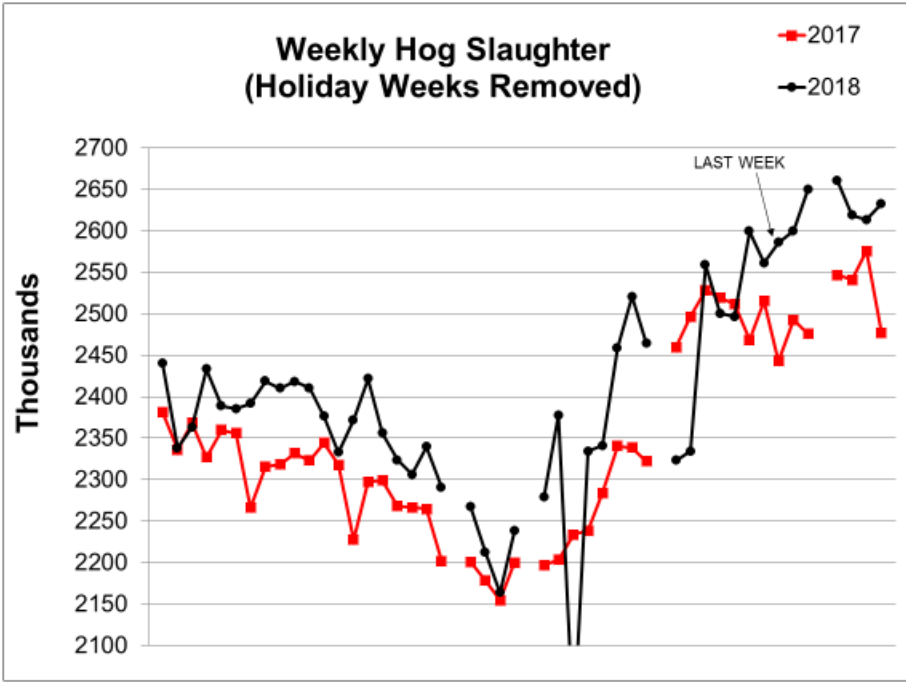
**It appears that the pork cutout value may be only about \$1.50 per cwt from the seasonal bottom.** The decline from last week to this week (i.e., "T-3" to "T-2", referencing the distance from Thanksgiving) is shaping up to be among the steepest on record for this particular window, largely due to the fact that the belly market is just now coming off its high. But from now to the week after Thanksgiving, a \$1.50 drop would be quite similar to those which occurred each year from 2012 to 2016. I show this picture on the next page.

**If my forecast of the cutout value at the end of November is too high, it's because I could be giving the belly market too much credit.** The increase in belly prices between Labor Day and the end of October was, by far, the steepest on record for that time frame, and I have to think that this will adversely impact demand for bacon from supermarket chains during November and possibly December as well. [It won't affect demand from the restaurant sector in the short run.] This market is in a "demand recovery" mode. As you are well aware, the pork belly market wastes no time in going where it needs to go in adjusting to an imbalance of supply and demand. First in line to be uncovered will be storage demand, and my guess is that the bulk of it lies somewhere in the neighborhood of \$1.10 per pound.



There is probably a quite a bit of cold storage space to be filled during the final two months of 2018. Because of the sharp price rally, I suspect that there was a small drawdown of frozen belly stocks during October, leaving the November 1 inventory five to ten million pounds below a year earlier (we won't know until November 21). I would *think* that the appetite for freezing and storing pork

bellies would be greater than it was at this time last year, due to the well-advertised threat of a surge in U.S. pork exports to China (either directly or indirectly). This could place a more solid floor underneath the market, which is why I am willing to assume that the ultimate low might be somewhere northward of \$1.00 per pound.



Otherwise, there is probably one more leg up remaining in hog slaughter. I have adjusted my sights downward for November and December production, recognizing that it has fallen somewhat short of indications based on USDA's spring pig crop estimate so far, and keeping November-December kills in reasonable alignment with the quarterly total. Still, there should be a

couple weeks of 2,650,000-plus totals, just prior to and just after Thanksgiving. It's not a huge increase from last week's volume of 2,586,000, but it's significant.

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