MEAT MARKETS
UNDER A MICROSCOPE

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

December 15, 2017

The combined Choice/Select cutout value is completing its fifth consecutive week of decline, and in the process, has lost about $13 per cwt. It seems to me that the next significant move will be upward, with the next peak occurring in early January.

OK, ribeye prices are crashing, and they have more room to go. Even the Shoeshine Guy told me as much. But we should consider that they have already come down quite some distance from their highs, especially the Select-grade product. If we can regard last year's post-holiday lows as "safety nets"—and I can't think of a good reason why we should *not*—then Choice boneless ribeyes should lose roughly $1.50 per pound from current quotes, and Select boneless ribeyes should lose only about $.20. Altogether, the rib complex should negatively impact the combined cutout value by about $3.50 per cwt between now and the week following the holidays. However, the seasonal track records of other major cuts are quite good:

	Years Up	Years Down	Avg % Change
CH Bnls Ribeyes	0	15	-24.9
SL Bnls Ribeyes	1	14	-13.7
CH Tenderloins	0	15	-12.7
SL Tenderloins	3	12	-6.7
CH 0x1 Strips	12	3	+5.5
SL 0x1 Strips	11	4	+4.8
CH Top Butts	15	0	+7.0
SL Top Butts	13	2	+8.8
Inside Rounds	12	3	+7.4
Knuckles	14	1	+11.0
Bottom Round Flats	14	1	+13.7
Eye of Round	13	2	+8.1
Chuck Rolls	12	3	+7.9
Shoulder Clods	12	3	+8.9
Briskets	12	3	+6.6
81% Lean Ground Beef	14	1	+16.9
50% Lean Trimmings	13	2	+13.7
CH Flap Meat	12	3	+5.8
CH Ball Tips	13	2	+5.2
CH Tri Tips	14	1	+6.9
Flank Steaks	13	2	+5.4
Combined Cutout	12	3	+1.8

In the table I show the 15-year history of price changes between now and the week after New Year's Day (i.e., the week ending January 13). Now, as I have said in so many ways myself, history is of limited value in forecasting; it is essential to identify any factors that might cause price behavior to diverge from its seasonal norm. But I have to say that the tendency toward higher prices in just about everything except rib meat and tenderloins is so consistent that it is difficult to refute.

It would take an average appreciation of 4-5% in the other parts of the carcass to completely offset the remaining negative impact of ribeyes and tenderloins on the combined cutout value. As you can see, this is not a very tall order.

So, then, what might be different enough about current market conditions that would cause the cutout value to "fizzle"?

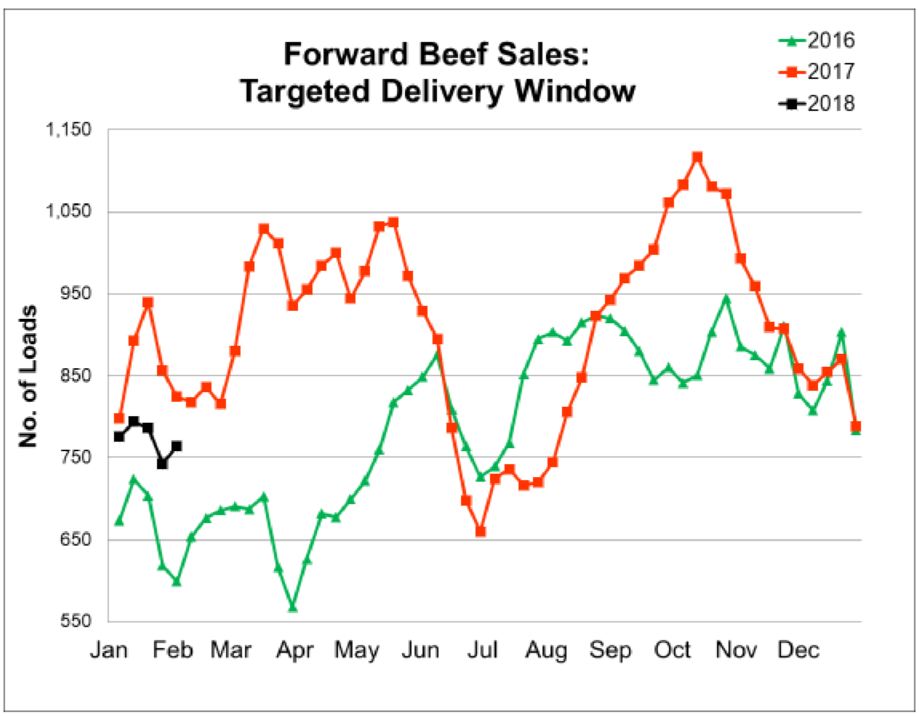
Forward booking activity for January deliveries has been tepid, as I show in the picture below. These figures are not exact, of course, but they are based on the weekly reported volumes of product that has been booked for delivery one to two months "out front", and these volumes are recorded for every delivery week that falls into the corresponding window.

What???

For example, during the week ended December 9, USDA reported that 764 loads were booked for delivery 22-60 days into the future. That product could have been scheduled for delivery any time between December 26 and February 2.

That doesn't tell me s___.

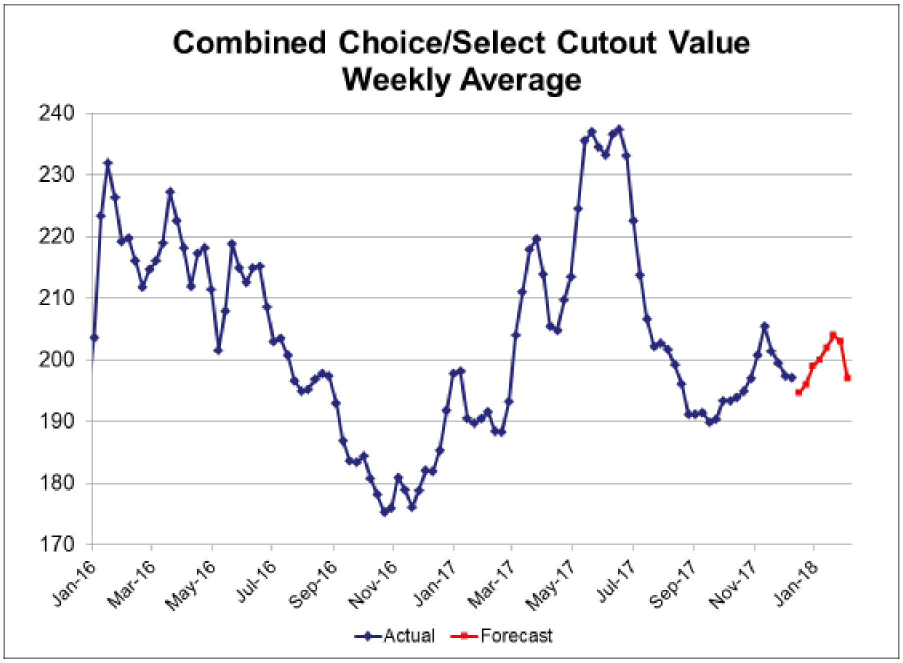
Well, let's look at it another way. Theoretically, the product that was pre-booked for delivery this week (and reported in this category by USDA) *could* have been booked as early as the third week of October, or as late as the third week of November. So I calculate the average weekly volumes within that interval, and this becomes the data point for the week ending December 16 in the graph below:



The figures for January aren't very impressive, are they? But I'm speaking of a rally in cutout values *over the next four weeks*. Forward booking volumes for this period were decent.

It follows that I am anticipating seasonally typical demand through the holidays, but underperforming demand thereafter.

Meanwhile, I am incorporating the following rate of steer and heifer slaughter into my humble forecast of weekly cutout values, which I show on the next page: W/E 12/23 497,000; W/E 12/30 388,000; W/E 1/6 427,000; W/E 1/13 488,000. These are all lower than the current rate.

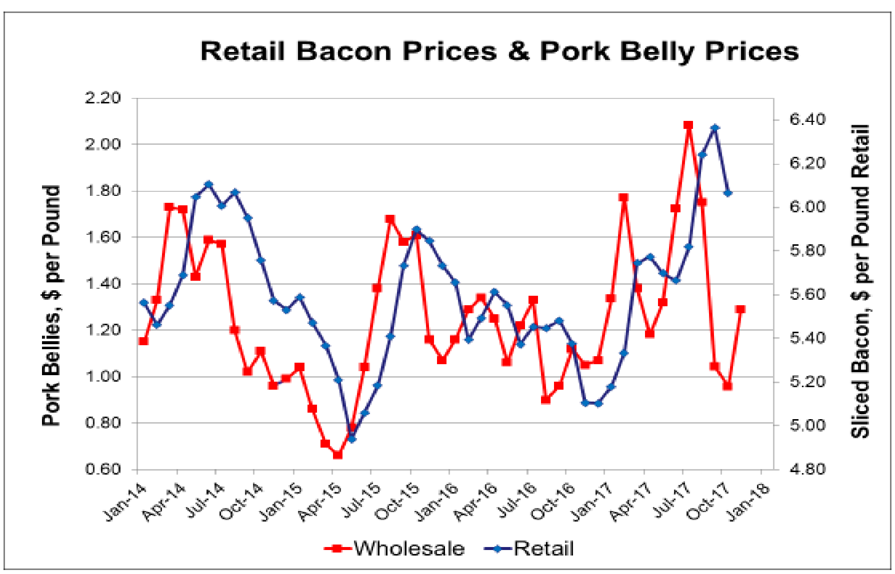


In this picture, the first red dot represents the current week; the last red dot represents the final week of January. Once again, this pattern assumes a weaker-than-normal change in demand from December to January.

In the World of Pork, it's mainly about the bellies—still—and not just right now, but in the first quarter as well.

By my better-informed colleagues (or at least those who are in a position to be better-informed), it is explained to me that the five-week, nearly $.50 per pound price rally that took place in the pork belly market was mainly due to pipeline replenishment following an aggressive drawdown of bacon inventories (not frozen belly stocks) in September/October. This sounds a bit lame—a bit too simple and convenient….but I can believe it, considering that wholesale prices certainly became cheap enough in September/early October to stimulate retail features, and how rapidly prices have fallen in the past week.

Next, I show a graph of pork belly prices and retail packaged bacon prices as reported by the U.S. Bureau of Labor Statistics. The correlation between the two is obviously very strong, and the one to two-month lag between changes in wholesale prices and changes in retail prices is readily evident.



In September, the spread became extremely wide, prompting a downturn in retail prices in October. Almost certainly, they dropped again in November. But retail margins have narrowed considerably at the same time, and chances are that the unseasonably high wholesale costs that prevailed from mid-November through last week will stop the decline in retail prices, at least temporarily. This should subdue the demand for pork bellies through at least January. Thus, it is unlikely that we'll see any sort of "spike" bottom in this market, which looks like it is headed for $1.00 per pound.

It will be more interesting than usual to find out how many bellies were placed into cold storage during November. Initially, I was thinking that the accumulation would be big, something on the order of 14 million pounds, as processors are keen to avoid the shortage that developed this past spring and summer. But it's hard to tell. Prices started out the month of November at $1.10 per pound, but finished at $1.45. My guess is that the growth in freezer stocks was not quite as big as I had been anticipating, but storage activity in December and January could make up for it. And so, one way or another, I still think that pork belly stocks next May will be 40-50 million pounds above a year earlier….naturally, this would not be bullish of prices next summer.

Meat Markets Under a Microscope is published weekly by Procurement Strategies Inc., 99 Gromer Road, Elgin IL 60120. For subscription information, please contact Kevin Bost at (847) 212-7523, or visit our website at www.procurementstrategiesinc.com.