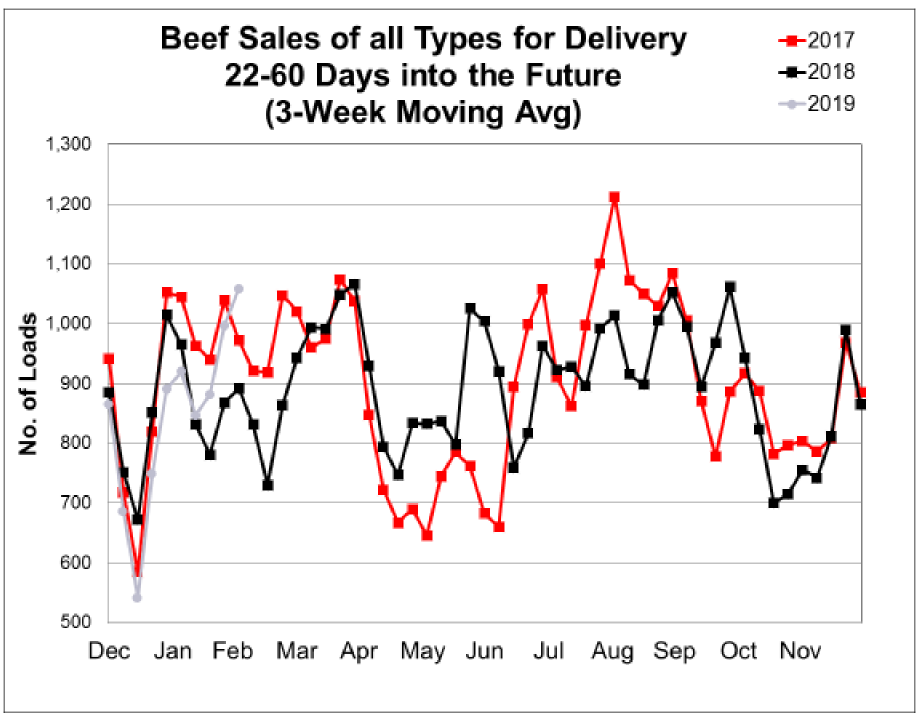
MEAT MARKETS
UNDER A MICROSCOPE

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

March 5, 2019

I should begin by acknowledging that forward booking activity has picked up rather dramatically in the last few weeks, causing me to rein in my erstwhile bearish posture toward beef demand in April. The three-week average quantity of product secured for delivery one to two months into the future now stands distinctly above a year ago; since most of the larger supermarket chains are operating six to eight weeks "out front", it appears that the interest is centered on deliveries from late March through the middle of April.



This comes as a surprise to me because forward prices for this time frame have not been *that* attractive, especially for middle meats; prices of chuck and round cuts have been more appealing, but these are not the items that one would expect to "lead the charge" in the springtime. Still, I have to look at these statistics objectively and judge accordingly.

It still appears, though, that the combined Choice/Select cutout value is headed for an interim peak around the third week of March--i.e., the week after next--in the neighborhood of $228 per cwt. [It was quoted today at $223.] This target is based on a few general observations, and a few specific assumptions.

Among the former is the fact that the seasonal rally would be five weeks old by then, which could be regarded as a typical duration. Looking back over the last 15 years, I find eleven years in which there *was* a "March rally" (sometimes there is not). Within that group, the average span from weekly low to weekly high was between four and five weeks, ranging from three to seven weeks.

Among the specifics are the fact that if steer and heifer kills are fairly stable and hover around 480,000 per week; and if demand were to follow a perfectly normal path through March (i.e., if the demand index were to remain flat); then the high weekly average would indeed land in the third week of March, between $224 and $225 per cwt.

And trying to express myself in English, adding another $5 to the cutout value before the end of the month would probably require the trade levels listed in the table below. In this table, I have included only those major items that are likely to show any material change within the next two weeks:

	Current	Target
CH Boneless Ribeyes	$8.00	$8.75
SL Boneless Ribeyes	$7.25	$7.75
CH 0x1 Strips	$6.25	$7.00
SL 0x1 Strips	$5.45	$6.00
CH Short Loins	$5.75	$6.50
SL Short Loins	$5.30	$5.75
CH Top Butts	$3.65	$3.90
SL Top Butts	$3.65	$3.90

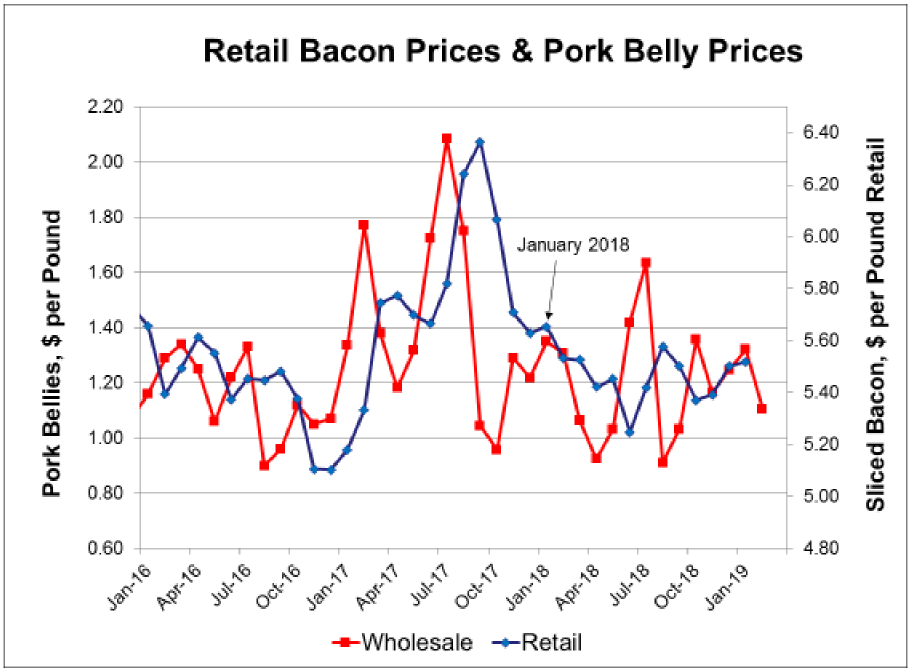
	Current	Target
CH Tenderloins	$10.10	$10.50
SL Tenderloins	$10.30	$10.50
Knuckles	$2.60	$2.55
Bottom Round Flats	$2.42	$2.30
Round Eyes	$2.70	$2.60
50% Lean Trimmings	$.75	$.80

At this time last year, the pork cutout value was on the brink of a $12 per cwt slide into mid-April, which surprised even the Smart People. What would prevent that from happening again this time around?

Well, looking in the rearview mirror, the road over the past month or so has been quite different than it was last year. At the end of February 2018, the cutout value was higher than it had been at the beginning of the month; this year it lost about 10% during February, which made for the biggest February decline of the last 30 years. Over the first nine weeks of 2019 it fell about 13%, a period during which it has historically displayed an overwhelming tendency to rise….and significantly so. It's fair to say, then, that the market has been in a "demand building mode", whereas it is normally rationing demand.

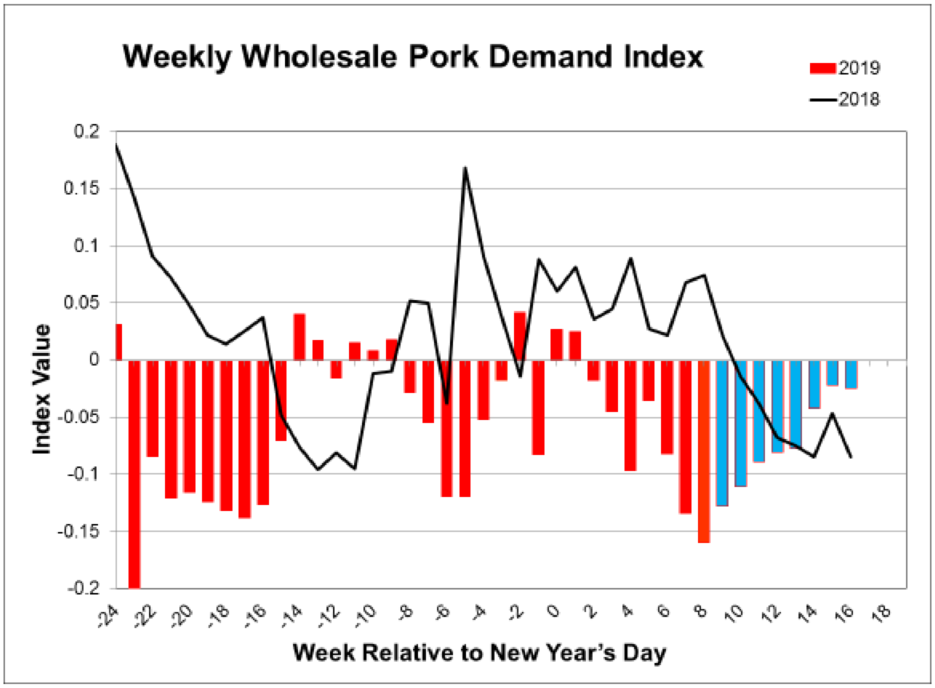
More than one half of the decline in the cutout value from the end of February through the middle of April 2018 was accounted for by pork bellies, which went from $1.25 per pound to $.85. This past week, the belly composite stood quite a bit lower than a year ago, at $1.02. Same story: demand building--or at least "demand-maintaining" vs. demand rationing.

It's also worth noting that the most recent reading by the U.S. Commerce Department showed that retail bacon prices were down 14¢ per pound from a year ago, and presumably headed lower in the near term. I say "presumably" because, as I show in the next picture, pork belly prices dropped quite a bit in February. [You'll notice that the lag between changes in belly prices and retail bacon prices is fairly consistent.] It seems likely that this would precipitate strengthening--not weakening--belly demand in March.



The same general theme runs throughout the pork complex, with retail prices both down from a year ago and trending lower….which *will* cause demand at the wholesale level to strengthen. It is the inevitable result. The challenge is to figure out just how long "eventually" may be. The last time that the short-term demand index values fell into such a trough was last August/September, and when demand finally recovered, it did so rapidly. I cannot say with a straight face that the same will happen in the weeks ahead. But if even if the recovery is gradual, as depicted below, then the cutout value will reach its nearest resistance level ($65-$66 per cwt) within about two weeks, and its next major resistance level (low $70's) will be achieved by the end of April….

….that is, if hog slaughter averages near 2,480,000 per week in March and 2,410,000 per week in April, which appears to be the most sensible projection at the moment. On that subject, it turns out that slaughter was up 4% from a year earlier in both January and February; the aforementioned rates in March and April would be up 3% and 2% respectively. Remember that the fall 2018 pig crop was reported to be 2% larger than a year earlier.



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