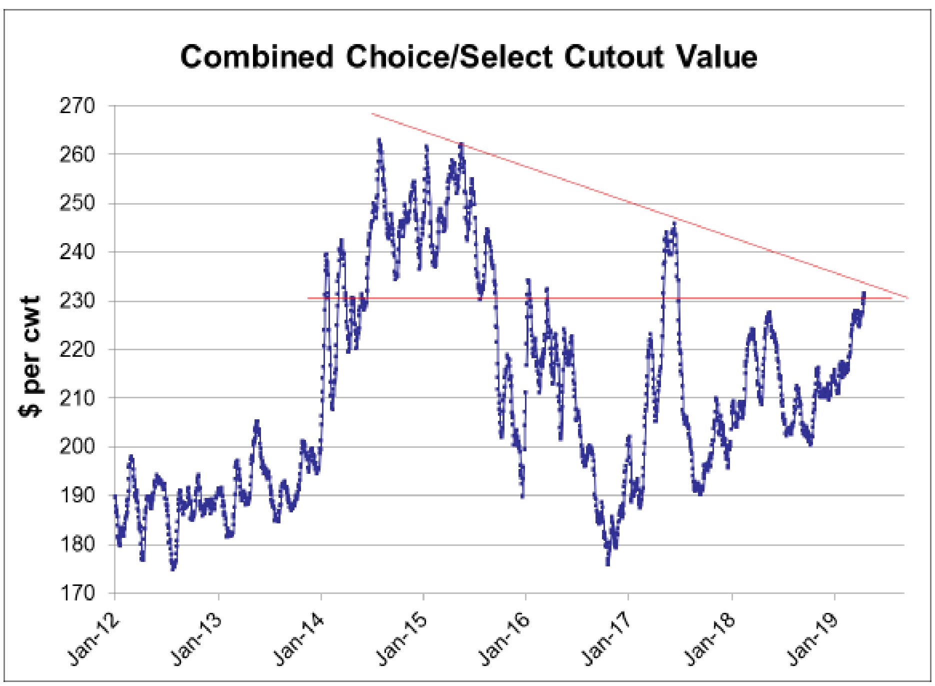
MEAT MARKETS
UNDER A MICROSCOPE

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

April 22, 2019

Contrary to my expectations, the combined Choice/Select cutout value drove through its 2018 high this past week, and I have to admit that the chart looks bullish. The nearest conspicuous resistance level on the longer-term chart (shown below) stands between $245 and $246 per cwt, $13.50-$14.50 above Friday's quote. But if you look closely enough, you might also notice that the $233.50-$235.00 area has been a significant one in the past, and a major trend line passes through this area. Of course, there is always the possibility that the market will completely ignore its past behavior and forge a new resistance level of its own….and this may be the most likely outcome of all. I *do* think, however, that in accordance with the more recent chart pattern, $224.50 and $217 will be important support levels on the way back down.



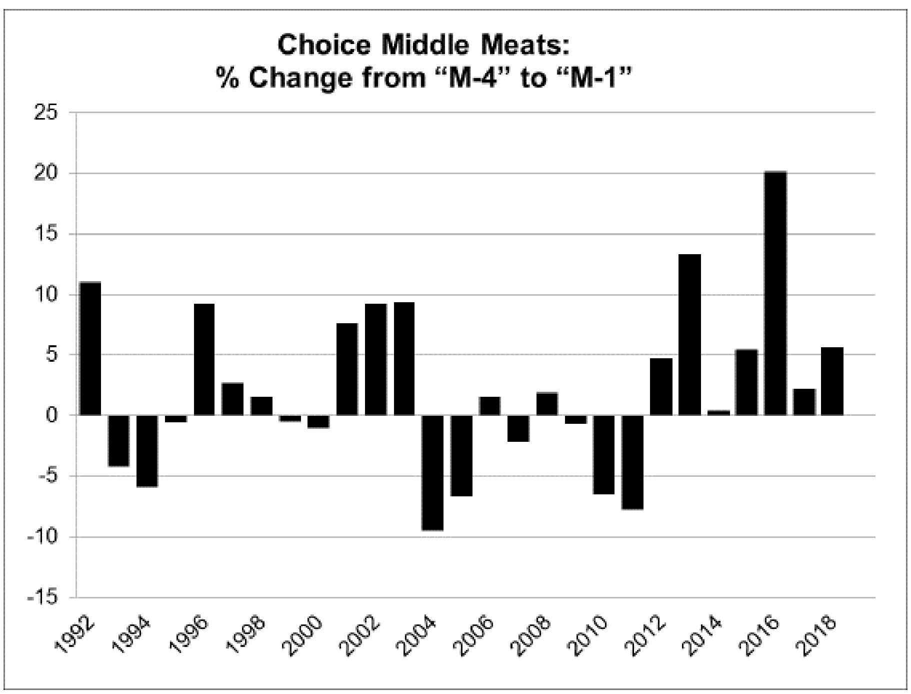
I'm not trying to be a Poopy Pants Pauline here, but the probability of a meaningful rally in cutout values from this point appears to be rather low.

I'm leaning heavily on the fact that forward bookings for May delivery have been light (far below those of both April 2019 and May 2018), indicating that retail featuring will be unaggressive over the next month.

While supermarket meat managers are usually pretty good at predicting how much product will be moved at various price points, it is possible that they have underestimated product movement and have been reaching into the spot market to add to their orders. That might explain why spot prices lately have been surprisingly stout. But of course, we're not into the month of May just yet, and the landscape could change soon. Actually, I expect that it *will*.

Choice ribeyes, strips and short loins gained a lot of ground last week, and these items, along with ground beef, were almost entirely responsible for the combined cutout value's move into new highs. Generally speaking, higher prices in this group are seasonally normal in the springtime. But this time around, the seasonal advance got off to an earlier start, and may not have as much "fuel in the tank" on May 1 than they had in the last few years. I notice that Choice boneless ribeyes are currently trading $1.00 per pound higher than at this time last year; Choice strips are up nearly $1.50 per pound; Choice short loins are up a bit more than $1.00 per pound; and 81% lean ground beef is up $.30 per pound. I'm not saying that they have no remaining upside potential; but the upside potential is considerably less than it was at this time last year.

Surely, if the Choice middle meats were to flatten out after this week, then the advance in the combined cutout value would also come to a halt. But how likely is *that*, really? Actually, it's not all that rare. In seven of the last 15 years, Choice middle meat prices, as a group, traded either equal to or lower in the week prior to Memorial Day than they did at the beginning of May. In the picture below, I define "Choice Middle Meats" as the simple average of boneless ribeyes; 0x1 strips; top butts; and tenderloins. "M-4" refers to the period four weeks prior to Memorial Day, and "M-1" refers to the week prior to Memorial Day:



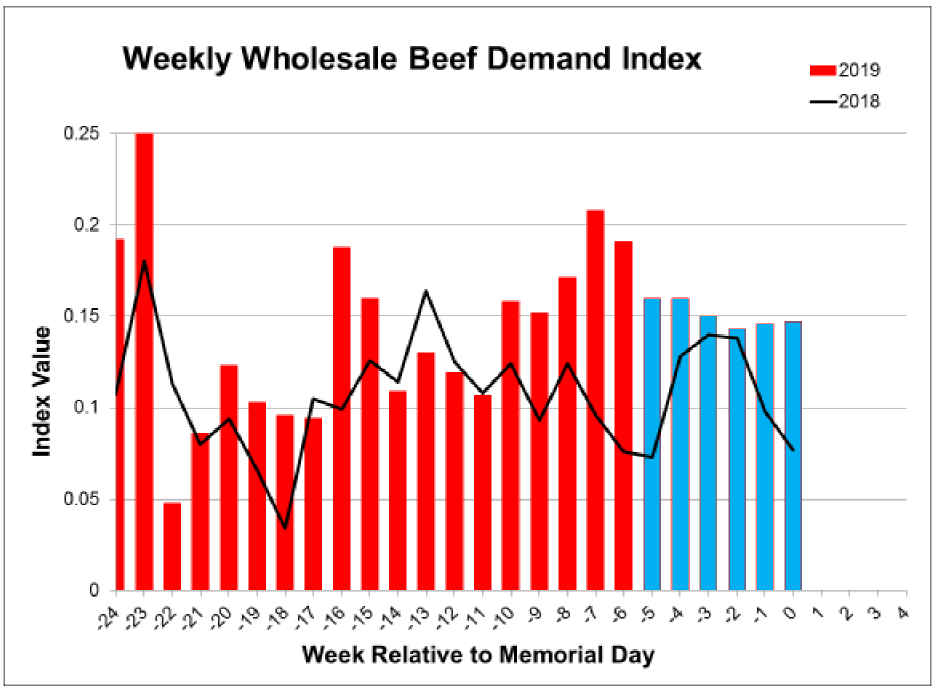
Looking at the situation from a different angle, the apparent suppression of retail featuring in May points to a somewhat weaker-than-normal change in demand at the wholesale level in the weeks ahead, and thus a decline in the short-term demand index readings. This notion makes sense from the standpoint that weeks "M-8" through "M-6" in the graph on the next page represent the month of April, when prices are often weak (this year, obviously, they were not); in weeks "M-5" through "M-0" they are most often strong….and this year they will again be firm in May, just not as strong as usual. A return of the demand index to pre-April levels would seem to be in order.

What?

I mean, I'm not talking about a big drop in demand….just a weaker-than-normal change in demand between now and the holiday….

What?

I mean, partly because it was stronger than usual over the last three or four weeks, and because it doesn't look like there will be a lot of "hot" retail ads in May. Anyway, the scenario shown in the picture below would align with a flat cutout value over the next month.



Last week I delved into the subject of pork belly prices in July, and I abbreviated the discussion by saying that there was more to the story. Well, here's the rest.

If you recall, last week I talked about the forecast of a $117 per cwt average cutout value in July, and the share of that cutout value that would be carried by pork bellies. Refreshing the projection of the latter, I am bumping up the "product ratio"--the ratio of belly prices to the total cutout value to somewhere between 1.55 and 1.70, which would align a $117 cutout value with a July average belly price somewhere between the low $1.80's and the upper $1.90's per pound.

At the top of the next page I apply the same approach to all other cuts, resulting in a forecast of average prices in July, item by item. I'm setting myself up to look like a fool, but hey--I've played the role before. I would rather bare my soul than hide behind "wishy-washiness".

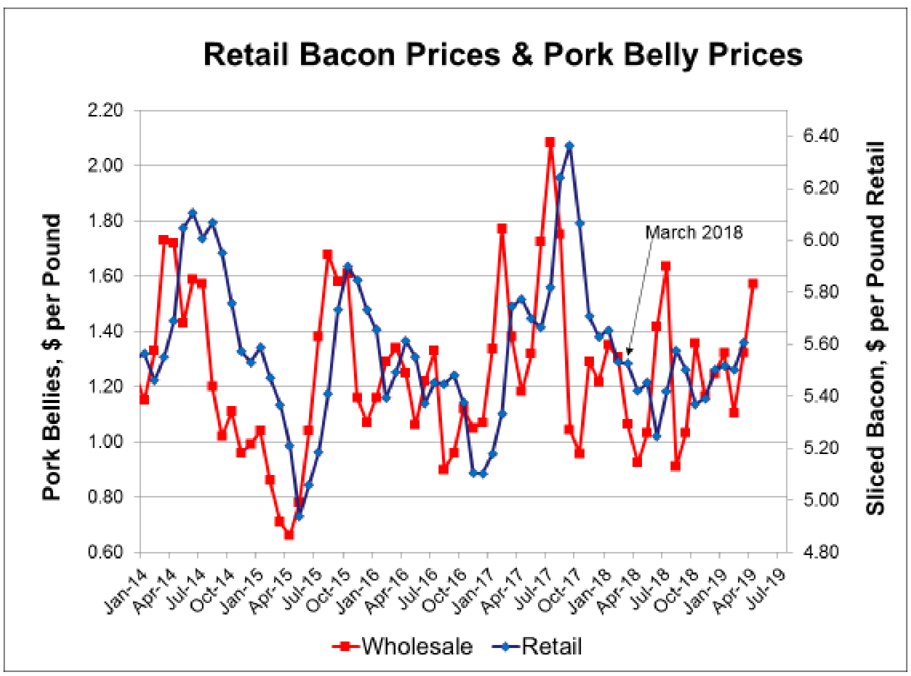
Back to the belly market, my guess is that freezer stock grew by five to ten million pounds during March, leaving them unchanged to up five million pounds from a year ago on April 1. [The monthly *Cold Storage* report is to be released today.] Prices averaged $1.32 per pound in March, and $1.22 in the first half of the month….not terribly prohibitive to freezer programs. Since then, however, I doubt that there has been much interest in storing bellies because the stakes have gone up.

July Average Pork Product Prices with Cutout Value @ $117 per cwt

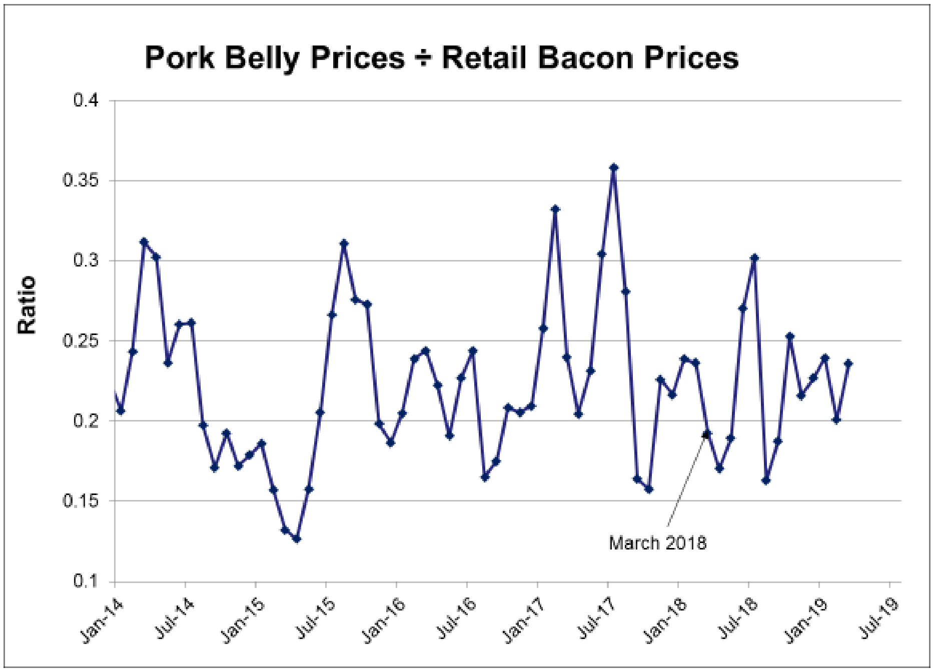
	Product Ratio Low	Product Ratio High	Low Price	High Price
23-27 lb Hams	.89	.97	$1.04	$1.13
Bone-in Loins	1.11	1.18	$1.30	$1.38
Bnls Loins, Strap On	1.28	1.38	$1.50	$1.61
Pork Bellies	1.55	1.70	$1.81	$1.99
Boneless Picnics	1.07	1.15	$1.25	$1.35
Butts	1.15	1.25	$1.35	$1.46
Spareribs	1.40	1.50	$1.64	$1.76
72% Lean Trim	.98	1.08	$1.15	$1.26
42% Lean Trim	.70	.77	$.82	$.90

At this point, I have to think that belly stocks will be at least equal to a year earlier on July 1. And so the tightness in supplies will result from restricted availability of fresh product, not frozen product.

One thing to keep in mind is that the regulator of pork belly demand will be the level of retail prices in the supermarket sector. If prices go high enough and remain there long enough, then demand rationing will also occur in the restaurant sector; but it will happen first in the grocery store.



In the picture to the left, I show retail bacon prices through March 2019, as reported by the U.S. Bureau of Labor Statistics. Alongside are pork belly prices, including the projection for April 2019. It looks very much as though retail bacon prices will soon begin a steep ascent, if they haven't already. Based on my humble forecast of pork belly prices, I would guess that retail bacon prices could rather easily match the 2017 all-time high, perhaps by midsummer. There is not much room for supermarkets to absorb higher wholesale costs, since the wholesale-to-retail price spread is pretty narrow. Such an increase in consumer-level prices cannot be effected without a distinct slowdown in the rate of product movement through the "pipeline"….which translates into a reduction in demand at the wholesale level.



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