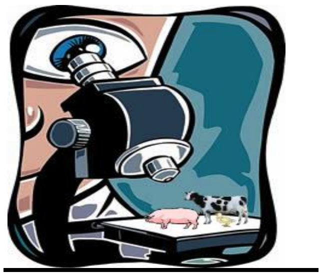
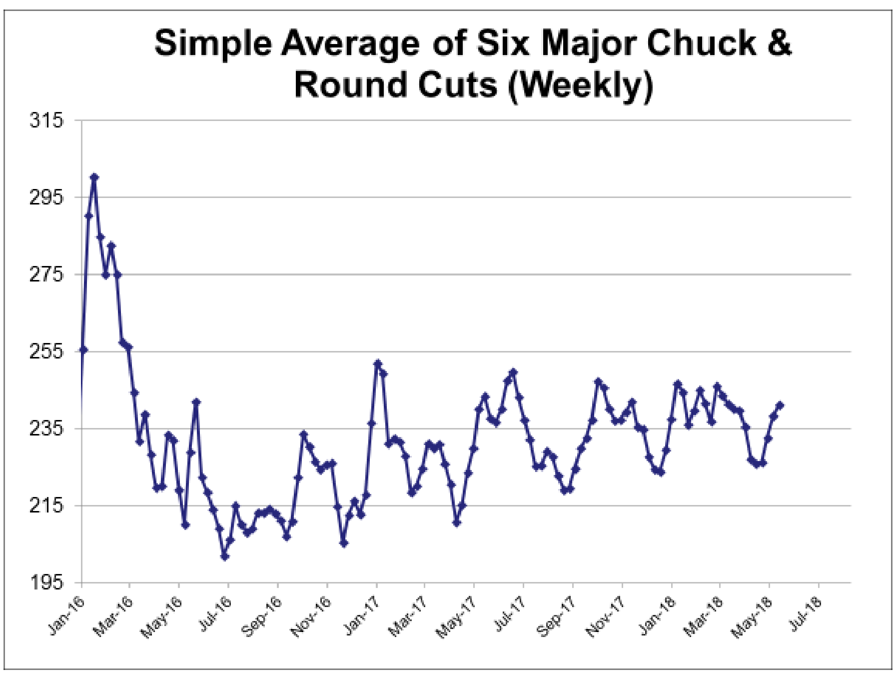


MEAT MARKETS UNDER A MICROSCOPE

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

May 13, 2018

It is widely believed that the beef market has achieved its seasonal top, and I have to go along with that notion. The combined Choice/Select cutout value changed little from Tuesday through Friday, pointing to either a pause in the uptrend or an ultimate peak. Assuming that the market is facing wave after wave of weekly steer and heifer kills in excess of 530,000; and given that Choice boneless ribeyes are practically matching their fall 2017 highs, and that Choice 0x1 strips are within 25¢ per pound of last spring's peak; and given that most chuck and round cuts are bumping up against major resistance levels; it seems likely that the next significant move in cutout values—especially of the Choice "flavor"—will be downward. [I should point out, though, that Select-grade strips and short loins are still roughly 75¢ per pound below their Memorial Day-through 4th of July 2017 peaks; thus, there is some significant upside potential remaining in these markets.] I try to summarize the situation in the chuck and round cuts below:



In case you're wondering, a decline in this simple average of the six major chuck and round cuts from the current $2.41 per pound to $2.15 would subtract roughly $6.00 per cwt from cutout values if all else remained unchanged. But we should allow for some near-term strength in ground beef and brisket prices, and I don't see a reason why the middle meats should crash—top out, yes, but not crash. Not yet.

Naturally, I'm trying to figure out the path that ribeyes and strips will follow between now and the end of June. To that end, I have compiled a set of statistics that I thought might be relevant. It turns out that some of them appear to be useful, some of them not. About the only thing missing is the Beyer Speed Rating.

	CH Ribeyes 1st Half May	CH 0x1 Strips 1st Half May	Ribeye: Strip Ratio	Peak Week in Ribeyes (Mth/Wk)**	Peak Price in Ribeyes**	Peak Week in Strips (Mth/Wk)**	Peak Price in Strips**
2018	$8.41/lb	$7.98/lb	1.05	6/3	$9.00	5/4	$8.75
2017	$8.66	$8.10	1.07	6/2	$10.31	5/3	$8.40
2016	$7.12	$6.86	1.04	6/3	$8.70	6/2	$9.60
2015	$8.59	$8.98	.96	5/3	$8.74	5/3	$9.49
2014	$7.11	$5.76	1.23	6/4	$8.23	6/4	$6.79
2013	$6.29	$7.08	.89	5/5	$7.22	5/5	$8.23
2012	$5.97	$5.88	1.02	6/3	$7.25	6/3	$7.92
2011	$5.61	$5.12	1.09	6/4	$5.41	6/4	$5.29
2010	$5.44	$5.78	.94	6/4	$5.56	5/3	$5.46
2009	$5.14	$5.92	.87	5/3	$5.15	5/4	$6.09
2008	$5.37	$6.16	.87	6/4	$5.97	6/1	$6.44

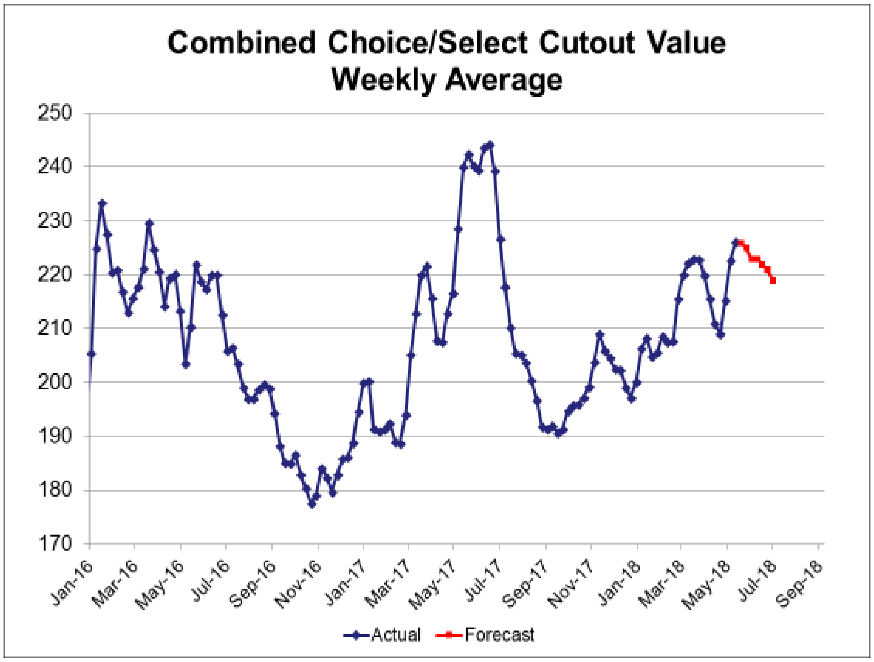
**Peak during second half May through end of June

One thing that is readily apparent is the long-term inflation in both of these items over time, which accelerated in 2012. For this reason, only the price peaks in 2014-2017 seem to be relevant. I also notice that in the case of ribeyes, the market has shown a tendency to top out in the second half of June; there is no such pattern in the strips. The cost differential between the two in the first half of May apparently means nothing; however, both ribeyes and strips were priced slightly below a year earlier, which is somewhat of a bullish condition.

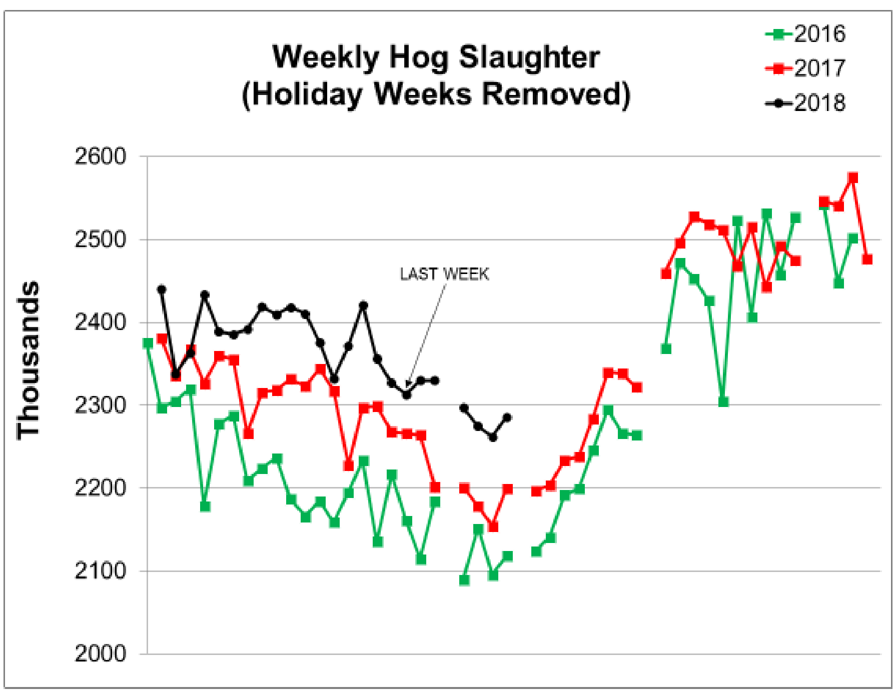
On the surface, the price peak in the 2017 ribeye market gives the impression of being an "outlier", and I doubt that it has another $2.00 per pound in it within the next six weeks…. though I must confess that this notion is mainly intuitive. Actually, the price action since the first of April has been pretty similar to that of a year ago. My guess is that the $8.75-$9.00 per pound area is the most likely "high-water mark" this time around. As for strips, I'm guessing that the top will be in the $8.50-$8.75 range. If this is to be the case, then we're talking about adding roughly $.25 per pound to each market, which is good for a contribution of only about $1.50 per cwt toward higher Choice cutout values. Other positive contributions should come from briskets and bottom sirloin cuts, but steady/weak prices of 50% lean trimmings and lower end meats should be more than offsetting.

And so, it appears that the combined Choice/Select cutout value is forging a new level of major resistance between $226 and $227 per cwt. However, it is equally *un*likely that the major Choice steak cuts will lose much ground between now and the middle of June. Only once in the last seven years (2015) have Choice ribeyes broken significantly between the third week of May and the third week of June; strips have done so on just three of the past ten years; and both top butts and tenderloins have dropped significantly in two of the last seven years.

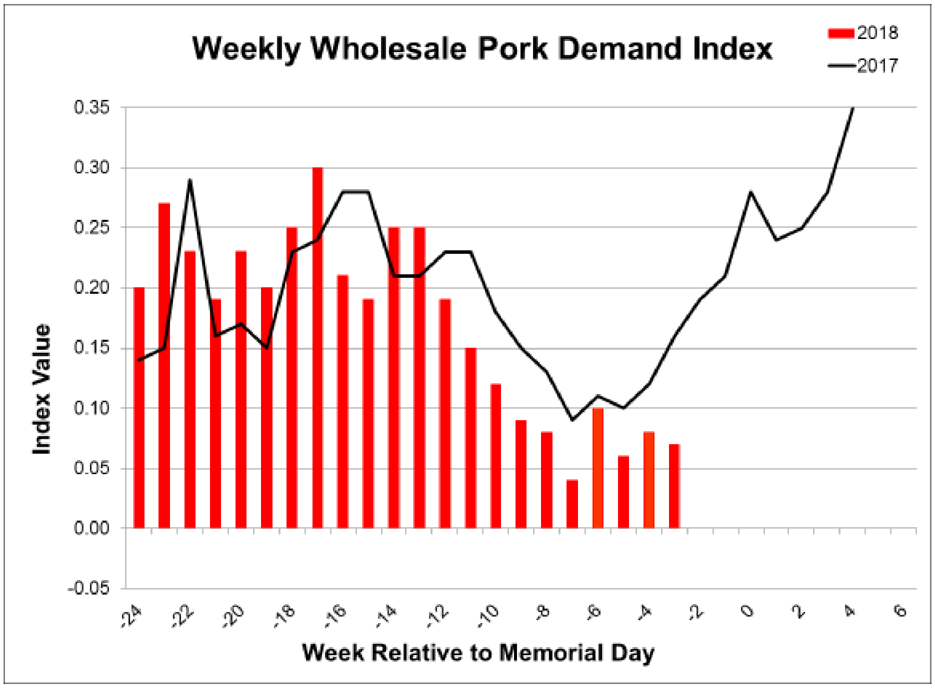
What I'm describing—i.e., a peak in the combined cutout value but no hard break until late June—would align with a seasonally normal demand scenario. In fact, the prospects of wholesale demand may be even slightly stronger than usual as we move from May into June, because the statistics indicate that forward bookings for first-half June delivery are fairly impressive. My guess is that the combined cutout value will proceed as suggested in the picture on the next page.



So far, hog slaughter this spring is coming in a bit on the low side in relation to USDA's fall 2017 pig crop. **Unless one has a good reason to believe that the fall pig crop was underestimated—and I don't—then the implication is that a portion of that pig crop is being shoved into the final seven weeks of the quarter**. I'm not talking about a big adjustment, but it makes for a smaller seasonal decline in kills into June than I was originally projecting…. something like that which is depicted below. On that subject, I notice that as of this past week—according to USDA's LM_HG201 report ("Prior Day Hogs Slaughtered), barrow and gilt carcass weights were running three pounds heavier than a year ago.



It is not the hog supply that has been a surprisingly bearish factor in the pork market, though; demand has been frustratingly slow to improve from its sluggish readings of April. Trying to "read the writing on the wall", I have lowered my demand projections for the month of May and on through the summer—even though I am still of the opinion that the change in wholesale demand will be stronger than normal from this point, because of the positive impact of sustained low price levels. Accordingly, I have adjusted my forecast of the pork cutout value downward, thinking that it will reach a peak at around $85 per cwt in late June. Friday's quote was $73.47.



There has been no lack of supermarket featuring lately, and yet only the pork butts and spareribs have shown much of a price response. Boneless loins are still floundering within about 10¢ per pound of their low for the year. You *have* to believe that they will "spark" sometime between now and Independence Day, don't you?

But it is the ham market that is most confounding. We are now six weeks beyond Easter, and this past week's prices averaged a couple cents per pound *below* where they stood during Holy Week. As you already know, this is extremely rare; it has happened only three times in the last 20 years (2002, 2009, and 2011). In 2009 prices continued to decline for another six weeks, but at that time the market was ambushed by a dearth of demand from Mexico due to an outbreak of swine flu in that country. In 2011 the market advanced rather sharply from this point, for nine consecutive weeks. I can find nothing odd about the supply situation, and no other explanation comes to mind. Help!

Surely, there must be something amiss with foreign demand for U.S. hams, particularly as it relates to Mexico. It seemed a "given" that foreign buyers would sweep up as much product as practically possible with prices near $.50 per pound, but so far, that hasn't happened. What am I missing?

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.