

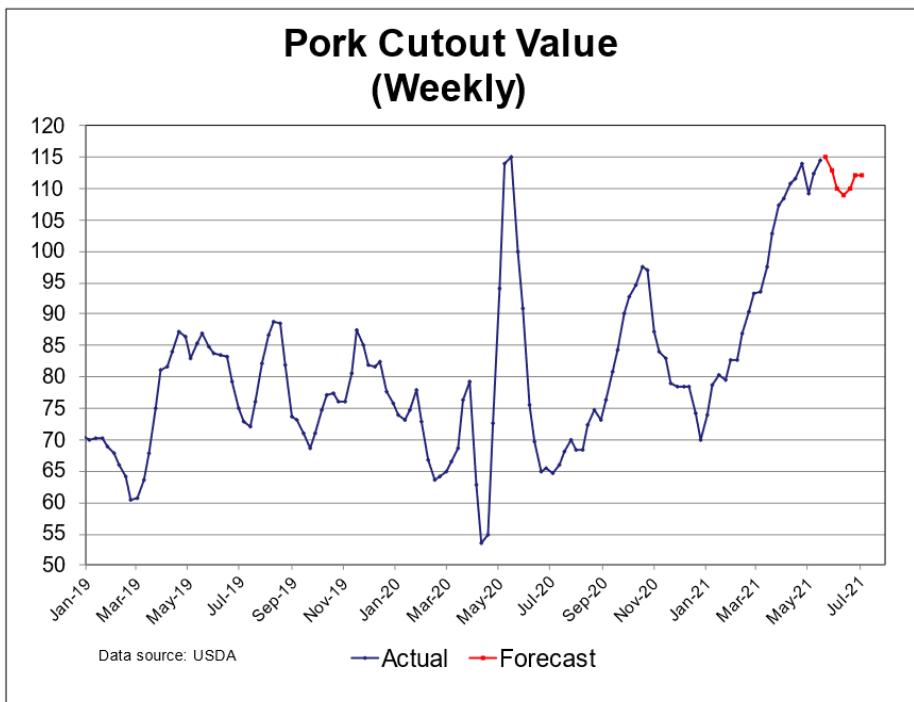


MEAT MARKETS UNDER A MICROSCOPE

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

May 16, 2021

The pork cutout value made a new single-day high for this move last Thursday at \$116.19 per cwt, but I feel a bit more confident that the primary trend will be sideways between now and the end of June. More specifically, what I have in mind is a \$6-7 per cwt setback into the second week of June followed by a minor recovery from that point into Independence Day:



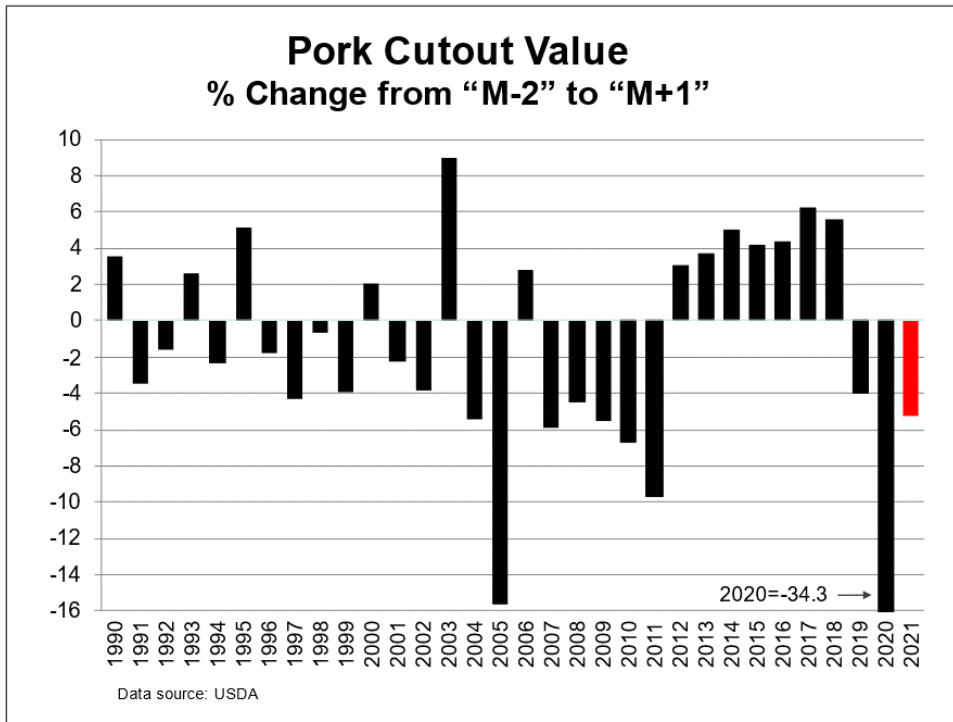
OK, I'm not exactly *brimming* with confidence, having failed to foresee the second half of this giant move, but two very basic indicators are pointing toward this sort of pattern: hog slaughter and seasonality.

In regard to the former, the ratio of March-May barrow and gilt slaughter to the fall 2020 pig crop estimate is

shaping up to be very close to the 2012-2019 average. If USDA counted the fall pig crop accurately, then it seems to increase the likelihood that the winter pig crop was also counted accurately. And if that's the case, then hog slaughter should be at its seasonal low point either this week or next. After accounting for exports and freezer stocks, net domestic pork supplies should also reach a practical bottom here in May.

It's easy to dismiss the seasonal track record of the cutout value as irrelevant, because it has not been a very good guide in the last two to three months. But this is because there was an upward shift in underlying demand taking place. Unless there is more of that to come—which I

doubt, because the market has been in a demand-rationing mode ever since February—then prices may be more likely to follow their seasonal tendencies from this point forward. Anyway, the notion that the cutout value could slip 5% over the next four weeks is not really outrageous. Prior to 2012, such a decline was commonplace:



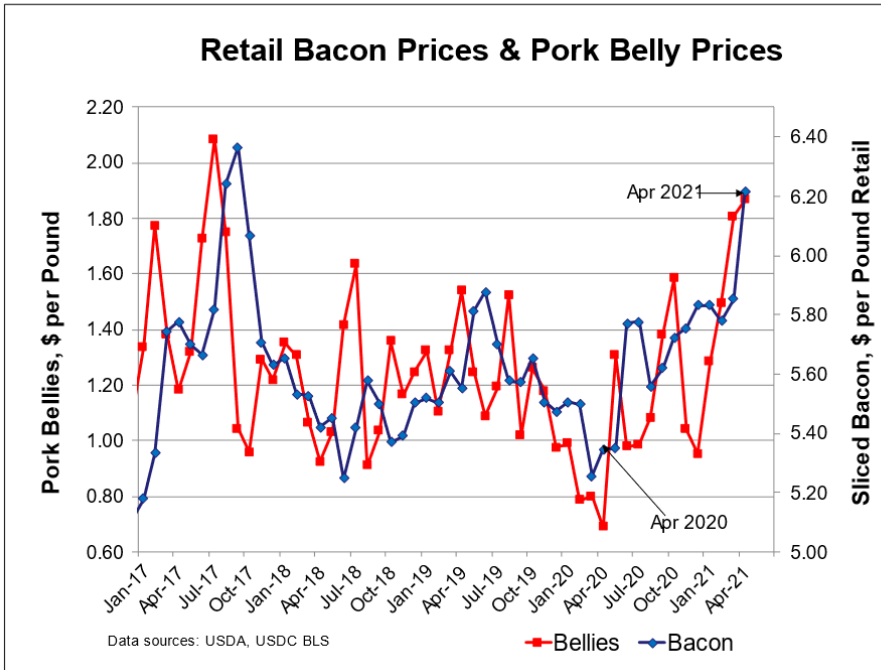
Looking at the individual product prices that would be required to push the cutout value back down to its most recent weekly low (\$109 per cwt in the final week of April) this doesn't seem like such a tall order. The key item on the menu in this regard will be spareribs, which *should*

be headed for a major "reboot"—similar to that which the bellies have undergone—once Memorial Day business is completed. I'm taking a guess here and suggesting that the post-Memorial target in the sparerib market will be \$2.00 per pound, which normally would be regarded as a very expensive price.

	Current	W/E 6/12
Bn-in Loins	\$1.28/lb	\$1.20/lb
Bnls Loins, Strap-off	1.69	1.55
Butts	1.53	1.25
Spareribs	2.99	2.00
23-27 lb Hams	.77	.80
Bellies	1.65	1.70
Bnls Picnics	1.24	1.25
72% Lean Trim	1.30	1.25
42% Lean Trim	.92	.85
Cutout Value	\$115.70/cwt	\$109/cwt

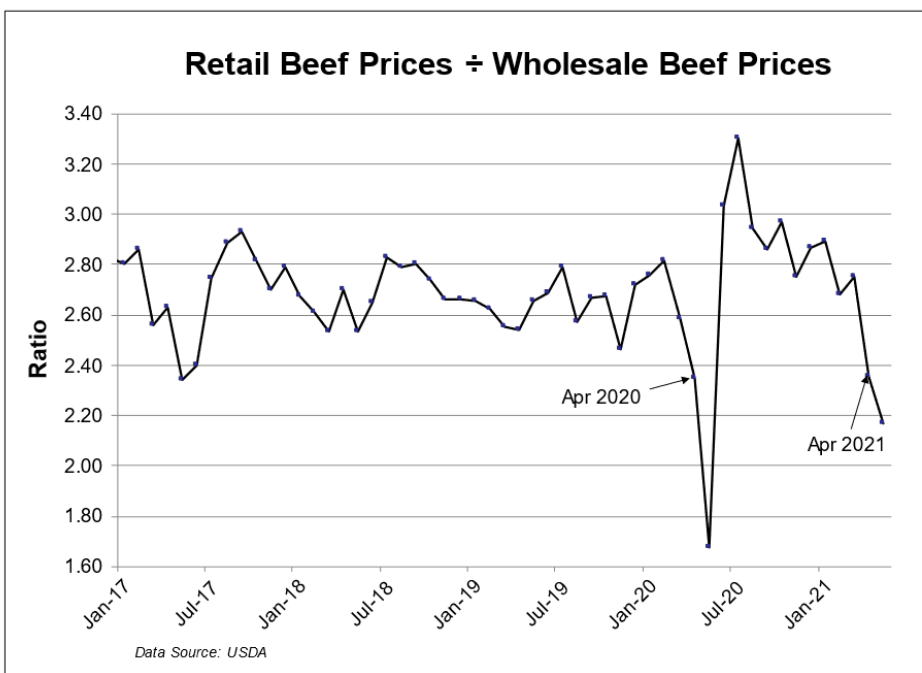
Loins and butts will probably be due for a downward adjustment after Memorial Day as well, although it will not be anywhere near as steep as the spareribs will go through. These items have benefitted from a lack of competition from beef and chicken for supermarket features here in May, but wholesale prices have gone up enough in the last couple of weeks to pinch retail margins pretty severely. Thus, retail prices in this subcategory likely will be increasing very soon.

And on that subject, the U.S. Commerce Department reported last week that retail bacon prices took quite a leap in April, and now stand at their highest level since September 2017 (which is the all-time record). Yet, in spite of the sharp increase in sticker prices, and in spite of the moderation in wholesale costs, retail bacon margins remain extraordinarily thin.



Whatever slowdown is taking place in the movement of bacon through supermarket channels, it is very likely to persist—if not worsen—in June. Meanwhile, I have to wonder how long it will be before bacon inventories in the foodservice pipeline reach a semi-comfortable level. It seems that the primary supportive factor in this market through the summer will be the small freezer stock.

The central issue in the beef market is the extent to which quantity demanded by consumers will be reduced in response to higher retail prices. So far, the impact appears to have been surprisingly light, and I have to conclude that this is one major reason why the weekly wholesale demand index has registered such strong readings ever since April 1. However, it is also possible that inventory replenishment in the foodservice sector has come along faster than product movement through supermarket channels has slowed down. There's really no way to tell. But it seems a plausible theory.

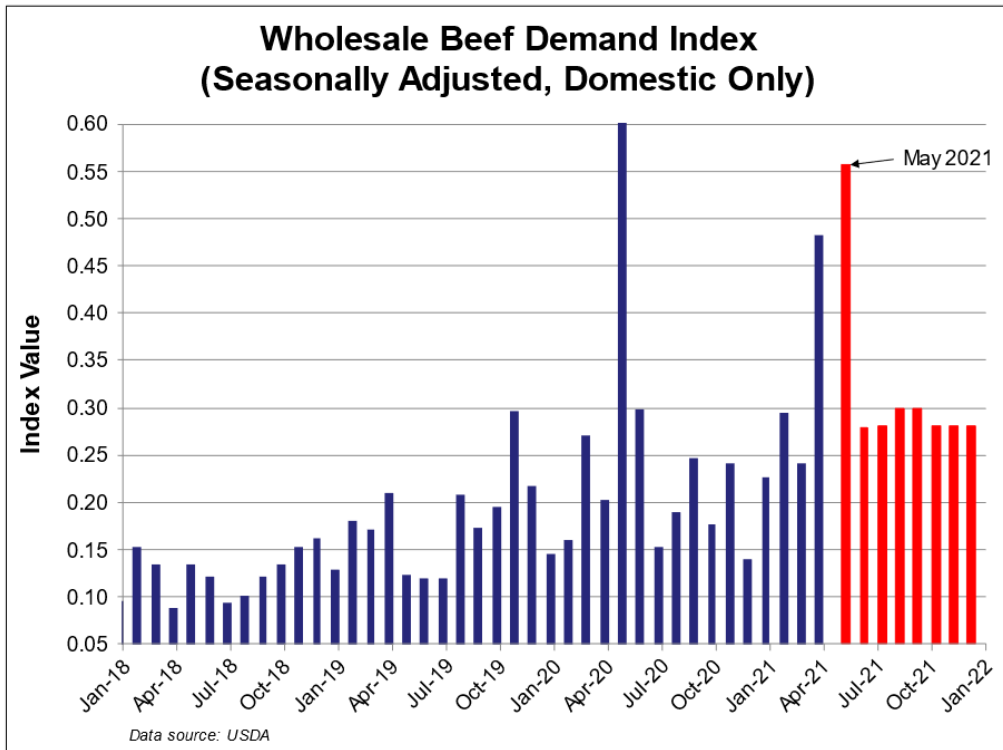


In any case, retail beef prices are headed upward, and probably at an accelerating pace. Retail margins in the beef category were squeezed pretty hard in April, and they likely have not improved here in May. In the picture to the left, the final data point compares current wholesale prices with April retail prices.

If you're living in the same world as I, then noticeably higher sticker prices are going to cause you change your spending patterns to some degree. You're going to "trade down" in order to stay within the boundaries of some sort of household food budget, even if it's a loose one. And as a larger percentage of that food cost budget is spent in restaurants, the amount available to be spent in the grocery store will shrink. At this time last year, it was working the other way around.

I don't want to belabor the point, which I have discussed *ad nauseam* in recent reports. But clearly, it is an important one, and it stands to adversely affect prices of middle meats more than end cuts or ground beef, even though wholesale costs of the lower-end items have also gone up a lot just within the past several weeks. [I note shoulder clods, knuckles, and inside rounds trading above \$3.00 per pound; briskets at \$4.50; and 81% lean ground beef at \$2.60.] Now, if beef demand has shifted permanently into a higher tier, then eventually these prices will not seem so expensive; but initially, they come as a shock. My cousin, who operates a trucking business and is dealing with a similar condition in fuel prices, drew this analogy: if you change the pH in the lake *gradually* from acid to alkaline, the fish will be OK; if you do it suddenly, they all die.

And so it is not all that difficult to imagine beef prices coming off in chunks after Memorial Day, quite possibly starting within the next week. If the seasonally adjusted demand index merely pulls back to around the spike highs of February 2021; June 2020; and November 2019, and if fed cattle slaughter is able to maintain a pace of 520,000 per week (a separate subject altogether), then the combined Choice/Select cutout value will average near \$250 per cwt in June as compared with Friday's quote of \$313.



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