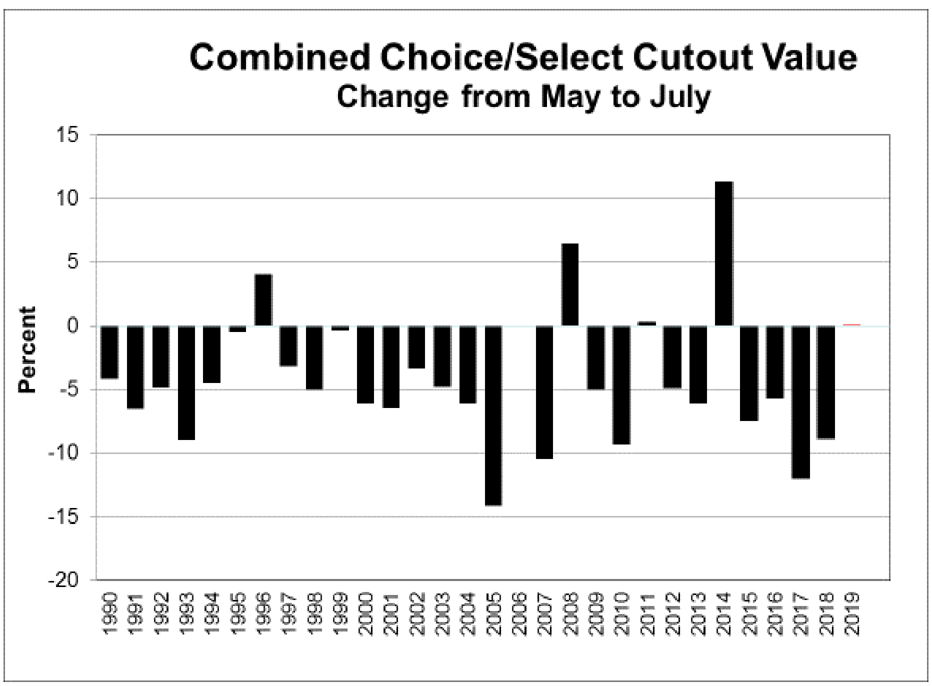
# MEAT MARKETS
# *UNDER A MICROSCOPE*

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

May 27, 2019

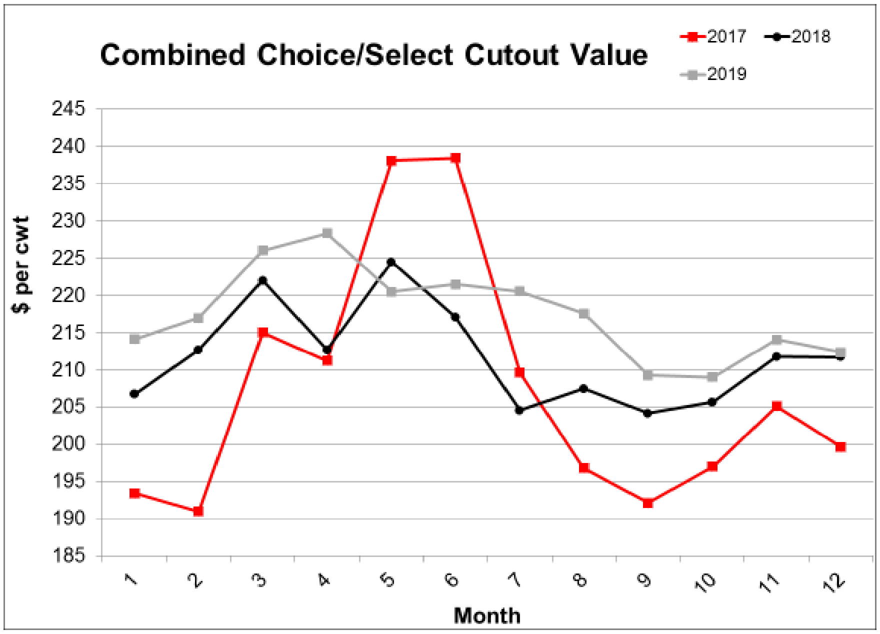
**Overall, supply and demand in the beef market are in pretty decent balance right now, as evidenced by a tight range in the combined Choice/Select cutout value over the past eleven trading days.** Most indicators suggest that this balance will swing slightly toward the demand side for a while, resulting in somewhat higher prices over the next month. The consolidation has taken place at a rather conspicuous support level on the chart ($217-218 per cwt, the upper boundary of the November-February trading range), suggesting that the next significant move will be upward.

My guess is that this will not be anything big--something on the order of a $5 per cwt advance from Friday's quote of $218.98. Accordingly, the ensuing post-Independence Day downturn should be a mild one, much more so than the futures market is discounting. Thus, the unusual price pattern we have witnessed so far this spring should persist into midsummer.



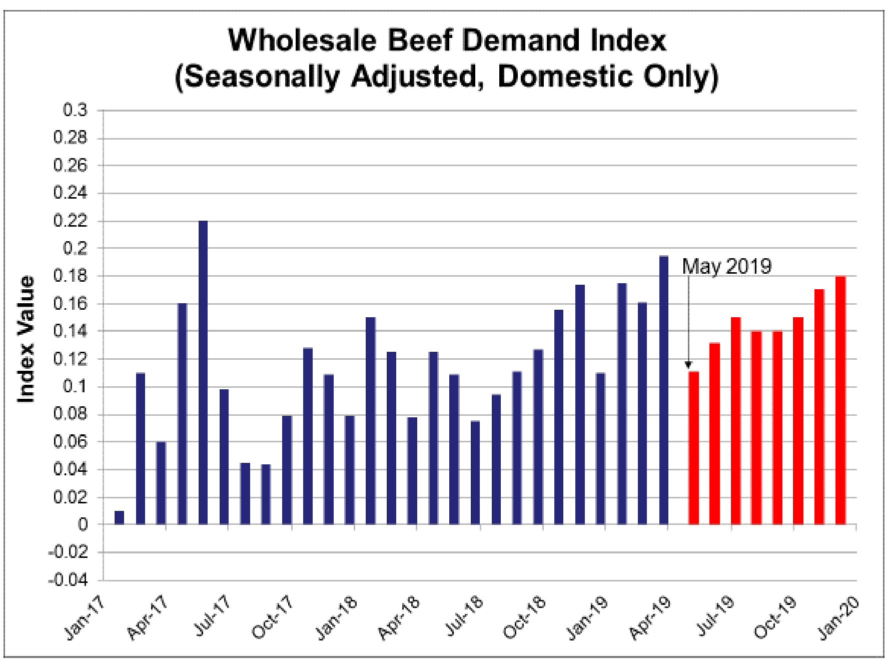

Specifically, I am referring to the fact that the April-to-May change in cutout values is turning out to be uncharacteristically weaker; it will be a decline of 3.5%, compared with the 15-year average change of +1.7%. In my humble estimation, the May-to-June change will be somewhere around 0.5% *higher* vs. the average of minus 2.1%. And in turn, I am anticipating a decline of just 0.5% from June to July vs. the average decline of -2.8%. It follows, then, that the combined cutout value in July might very well be the same as it is here in May….unusual indeed, as I show in the picture above.

I couldn't help but take a closer look at the four years in which cutout values actually *were* the same in July as in May, to see if I could find a common thread in any of the major variables in the pricing equation. And what I found was….nothing. Oh well. That, itself, is information of some sort.




**Odd as it looks, a stable beef market over the next three months is what I come up with when I combine my best-effort projections of supply demand.**

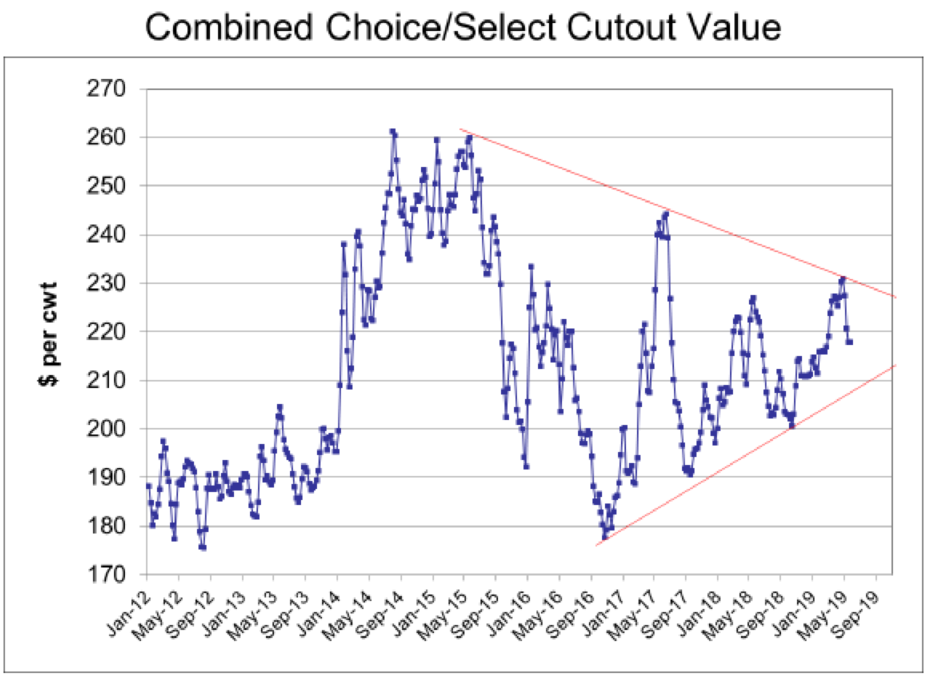
On the supply side, I am including the assumption that steer and heifer kills will average 530,000 per week in June and just above 500,000 in July (including the holiday), both slightly above a year earlier. I am assuming that steer carcass weights will follow a seasonally typical path, leading them to be seven pounds heavier than a year earlier in June and up nine pounds in July. I am projecting that total beef production will be up 1.2% and 1.0% respectively. None of these supply-side assumptions would start a fight at the dinner table.




The key to my unpopular price forecast is, as usual, in the demand variables.

Unless there has been some, sudden, deep-seated drop in consumer preference for beef, demand at the wholesale level will remain in the same general tier as it has been all year long, which means that it will rebound from its quite depressed level in May. The process of "buying back demand" is already underway, as reflected in much improved booking interest for late June and July deliveries. The improvement that I am suggesting in the chart above is really rather modest under the circumstances, and the implied increase in the seasonally adjusted demand index from May to July has been matched or exceeded nine times in the last 25 years.

Finally, I'd like to point out that the lowest spots in the forecast of the combined cutout value lie in September and October, in the neighborhood of $210 per cwt. These price levels assume that by the fall, high pork prices and an acceleration in export business will have begun to bolster demand for beef at the wholesale level. They were calculated independently of the long-term chart shown below, but I notice that the major uptrend line originating from the October 2016 low passes through that same neighborhood….

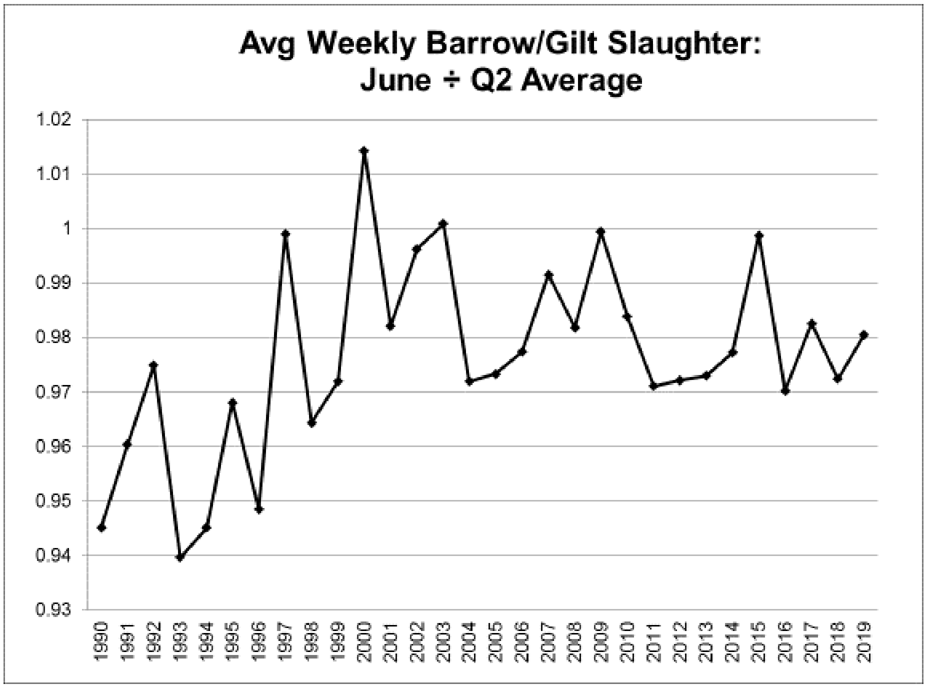



**The pork cutout value has been marking time lately, but I would think that the simultaneous, seasonal reduction in hog supplies and the ramp-up in carcass production for export will launch it into a major leg up between now and the end of June.**

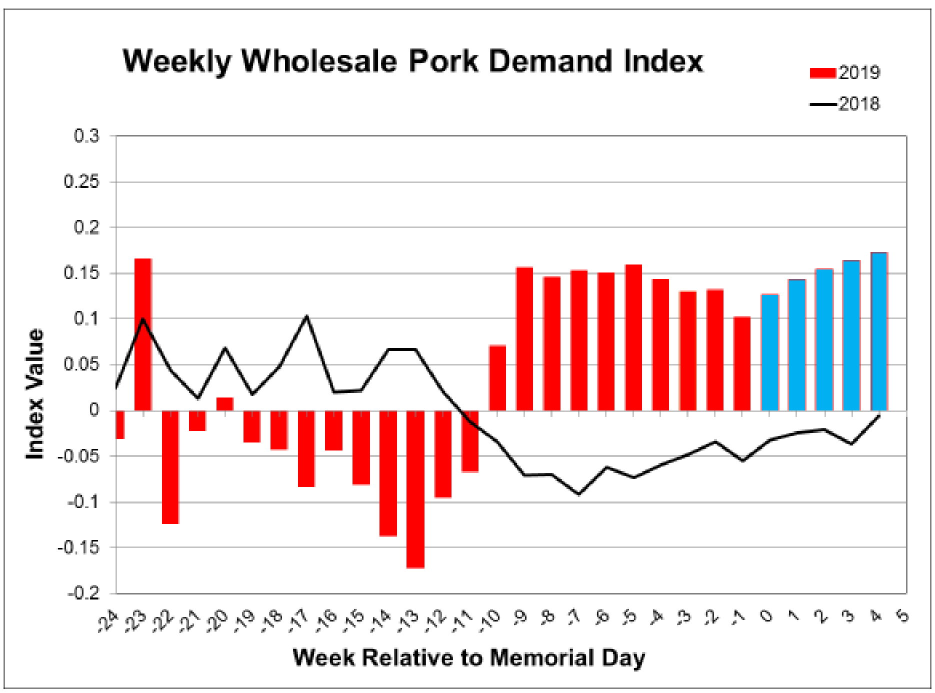
In regard to the latter, my understanding is that carcass production just got underway this past week and is running at a fraction of its planned pace of some 12,000 hogs per day….and that this target will be achieved very soon.

Meanwhile, hog slaughter should be moving another notch downward. Ever since April it has aligned pretty closely with USDA's fall pig crop estimate, and so I have to assume that both the fall and winter estimates were reasonably accurate. If so, then a typical distribution of the second quarter kill would place average weekly totals around 2,275,000 in June. That would be 2.6% above a year earlier, following a 1.1% increase in April and a 1.5% increase in May.

Including this week's holiday-shortened volume, hog slaughter here in May is going to wind up averaging about 2,292,000 per week. And so we're looking at a reduction of about 17,000 per week from May to June. Nothing special about that. But if 60,000 of those hogs are effectively removed from the domestic market each week (12,000 per day times 5 days), then the "real" decline from May to June becomes 77,000 head, or 3.4%. This is significantly steeper than the 15-year average decline of 0.8%.




**How can the pork market *not* advance in June, if domestic supplies are going to drop 3.4% from May levels?** I realize that I'm cutting a few corners with this kind of a statement, but I'm trying to save you the superfluous details. The point still stands. And the answer to my question is that cutout values would fail to advance--substantially--only if demand falls drastically short of the seasonal norm. For the past nine weeks it has pretty much followed a normal seasonal path, although it slipped somewhat this past week. Actually, there seems a good chance that it will *outperform* in the weeks ahead, given that it has gone through an extended pause, as supplies tighten:




**The pattern in demand that I show in this picture, combined with the rate of production that I just described, would push the cutout value up to $100 per cwt by the end of June.** It seems like a long way from where it stands today ($83.27), but such a rally would be similar to those which occurred last year and the year before.

*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.