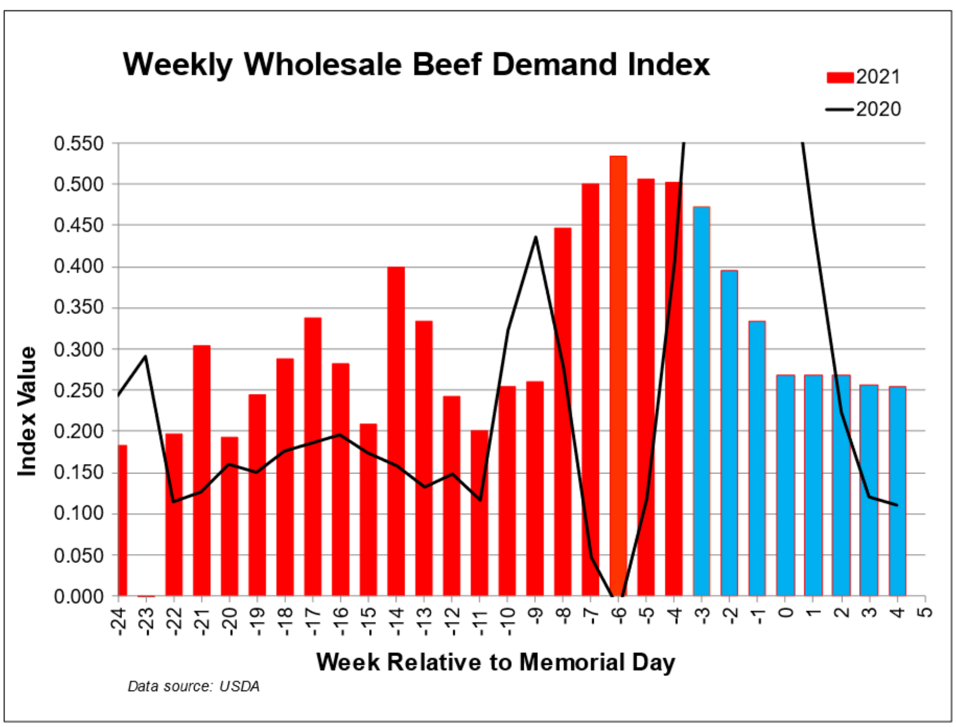
MEAT MARKETS
UNDER A MICROSCOPE

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

May 9, 2021

The notion of a $60 per cwt break in the combined Choice/Select cutout value over the next two months is not as far-fetched as it may seem—even to me. It hinges on the prospect of a pronounced deceleration in product movement through supermarket channels as a result of escalating retail prices. While the massive amount of "free money" that has been pumped into consumers' pockets has temporarily weakened the link between price and quantity demanded, I just can't believe that it has been permanently severed. It's not as though we all now have an unlimited amount of money to spend on food. And an increasing portion of that "food dollar" is being spent in the restaurant sector, presumably at the expense of the supermarket sector—the opposite of what was happening at this time last year. On that subject, I notice that employment in food services and drinking places increased by 187,000 during April, but employment in retail food and beverage stores declined by 49,000. As for the timing of this slowdown, I am taking my cue from the relatively light volume of beef that has been, and is being, purchased for post-Memorial Day delivery.



I am attaching the picture to the left because it illustrates what a minor decline in the weekly, seasonally adjusted demand index would be required to push the combined cutout value down to $240 per cwt by the end of June. [It was quoted Friday at $303.47.] All it would have to do is return to where it stood in March—which itself was a pretty solid performance by historical standards.

July is a familiar place for cutout values to hit bottom, and if they begin to drop here in May as I'm suggesting, then demand will be due for a cyclical low at that time. And so I thought it would be a worthwhile exercise to take a guess at the sort of individual product prices that we would have to see in order for the weighted Choice/Select cutout value to reach $235 per cwt in early July. So here's what I came up with:

	Today	1st Wk July	Change
CH Bnls Ribeye	$12.40/lb	$8.25/lb	-$4.15/lb
CH 0x1 Short Loin	9.00	6.00	-3.00
CH 0x1 Strip	9.80	6.25	-3.55
CH Top Butt	4.90	3.20	-1.70
CH Tenderloin	16.00	10.50	-5.50
CH Clod	3.02	2.25	-.77
CH Chuck Roll	3.55	2.90	-.65
CH Brisket	4.35	2.90	-1.45
CH Knuckle	2.97	2.50	-.47
CH Inside Round	3.00	2.30	-.70
CH Flat	2.50	2.25	-.25
CH Eye of Round	2.75	2.50	-.25
CH Flap Meat	10.25	6.00	-4.25
CH Ball Tip	5.10	3.00	-2.10
CH Tri Tip	5.40	3.75	-1.65
81% Ground Beef	2.25	1.90	-.35
50% Lean Trim	.87	.75	-.12
SL Ribeye	11.00	7.25	-3.75
SL 0x1 Short Loin	8.25	4.75	-3.50
SL 0x1 Strip	9.10	5.00	-4.10
SL Top Butt	4.50	3.00	-1.50
SL Tenderloin	15.75	10.25	-5.50
CH/SL Cutout	$303/cwt	235/cwt	-68/cwt

Are these prices realistic? I have to admit, some of them made me squint. Specifically, I wonder if Choice boneless ribeyes really have to fall all the way down to $8.25 per pound before they "catch" in the current environment….or Choice short loins and strips to $6.00-$6.25. Yet, we all know how powerful that vortex can be when demand falls short of supply in the beef market.

And since the U.S. Commerce Department a few days ago released official trade statistics for the month of March, I have revised my projections of imports and exports through the balance of 2021. There is not much worth noting in regard to imports. I am assuming that sharply reduced cattle slaughter in Australia will trump all other considerations and curtail shipments to the U.S. throughout the year. Australia's Department of Agriculture, Water, and the Environment, in its wonderfully timely manner, reports that shipments to all destinations were down 22% from a year ago in April. This would seem to be a good reason to expect prices of imported lean grinding beef to maintain premiums to their domestic counterparts indefinitely.

U.S. Beef Imports 2021 and Change from Year Earlier
Million Pounds

	Q1	% Chg	Q2	% Chg	Q3	% Chg	Q4	%Chg
Canada	200	+6	210	+9	225	-3	203	-4
Australia	82	-52	109	-29	145	-33	125	-1
Mexico	144	7	185	-9	175	-4	150	+35
New Zealand	127	-2	170	+12	127	-20	70	-6
Brazil	50	+100	66	+53	73	-9	68	-6
Nicaragua	41	-27	40	-11	42	+4	48	+1
Uruguay	31	+30	38	+1	43	-26	30	+7
Total	696	-10	845	0	877	-15	726	+5

As for U.S. beef exports, first of all, the year-over-year comparisons are exaggerated here in the second quarter because we're comparing with pandemic-related interruptions last spring (in the case of Mexico and Korea, anyway. But the main story is China. Clearly, China's removal of practically all significant restrictions on U.S. beef has had quite an impact. Prior to last spring, when the new rules were adopted, exports to the Greater China region had been holding pretty steady at 35-40 million pounds per month, expanding seasonally in the fourth quarter. But in March 2021 they amounted to 75 million pounds. Having no particular insight to guide me otherwise, I am simply assuming that they will hold near this monthly rate, taking another seasonal step upward in the fall. If they do, then China/Hong Kong/Taiwan will account for roughly one fourth of total U.S. beef exports in the second and third quarters.

U.S. Beef Exports 2021 and Change from Year Earlier
Million Pounds

	Q1	% Chg	Q2	% Chg	Q3	% Chg	Q4	%Chg
China/HK/Tai	173	+68	225	+97	225	+50	255	+26
Japan	201	-12	212	+4	215	+3	187	-1
Korea	193	+13	197	+39	210	+5	180	+15
Mexico	87	-14	83	+130	103	+79	115	-8
Canada	66	-10	72	-1	72	-3	72	+9
Total	796	+4	864	+42	908	+20	899	+10

Proceeding with the equivalent analysis in the pork market, my projections of U.S. pork exports could be a bit generous, in the sense that they reflect very little "pushback" to higher prices. I notice that outstanding sales—product that has been sold into export markets but not yet shipped—are currently running 24% behind a year ago.

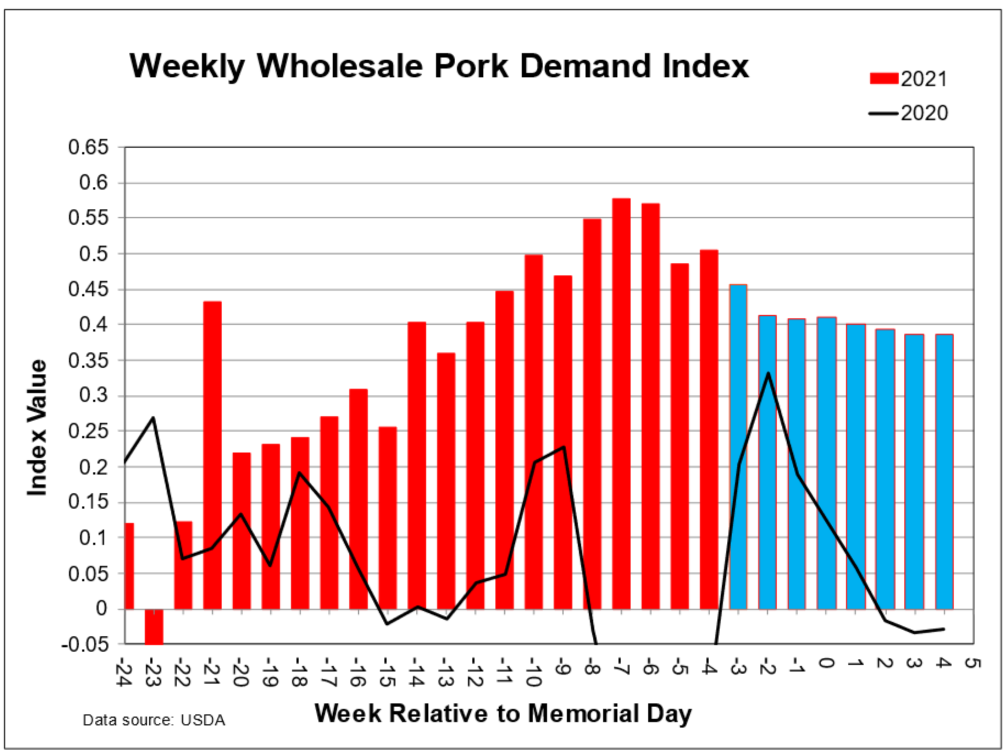
U.S. Pork Exports 2021 and Change from Year Earlier
Million Pounds

	Q1	% Chg	Q2	% Chg	Q3	% Chg	Q4	%Chg
China/HK/Taiwan	465	-23	650	-5	480	+14	550	+15
Mexico	423	-3	405	+38	400	+4	455	0
Japan	329	+2	310	+10	290	+4	315	-1
Canada	147	-4	141	+20	156	-4	150	+3
Korea	145	-8	128	-2	92	+5	133	+20
Philippines	66	+295	92	+332	75	+87	55	+72
Australia	67	-18	56	+6	43	-11	60	+16
Colombia	73	+22	66	+107	48	+25	70	+18
Total	1927	-5	2066	+16	1761	+8	2001	+8

So why, then, am I factoring in a 16% increase in the second quarter and an 8% increase in the third quarter? That's a fair question. I am listening to reports of new waves of African Swine Fever in China (from people who should know what they're talking about) and believing that China will become a bit more aggressive in the market for imported pork because of it—seasonally subdued in the third quarter though they may be. Also, I am puzzled by Mexico's persistent interest in hams and butts in spite of climbing prices. And in general, I must admit that I am intimidated by the relentless uptrend in futures prices, which at times can convince me to believe *any* bullish story that comes along in regard to the pork market.

I am trying to remain as objective as possible, though, and so I have to believe that there cannot be a $20 per cwt increase in the pork cutout value during March-April—on top of a $15 rally in February—without adversely impacting demand in the late spring and summer. The fact that beef and chicken prices have gone through the roof is keeping pork loins, butts, and ribs competitively priced in supermarkets, but the point still stands.

In the context of the weekly demand index, my reasoning is similar to that which I am applying to the beef market. That is, since we are comparing against a period of strong seasonal demand in May and June (unlike March and April), it is likely that the seasonally adjusted index value will pull back to about where it stood in March. The difference is that if the demand index follows the path that I am suggesting, then the pork cutout value will trend essentially sideways between now and Independence Day, instead of heading into a swoon like the beef cutout values. And one reason for *that*, in turn, is simply that pork production is on its way downward seasonally, whereas steer and heifer kills are headed in the opposite direction.



And finally on the subject of production, I make note of the fact that up to this point, hog slaughter is still tracking fairly closely to USDA's fall 2020 pig crop estimate. If it continues to do so in relation to the winter pig crop, then weekly kills will drop into the 2,360,000 range (from last week's total of 2,408,000), and that should be the end of the seasonal decline….all the more reason for the cutout value to remain in a sideways trend.

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.