



# MEAT MARKETS UNDER A MICROSCOPE

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

June 26, 2018

	Monday's Quote	Expected	Change (¢ per lb)
CH Bnls Ribeyes	757	690	-67
CH Shoulder Clods	211	210	-1
CH Chuck Rolls	287	280	-7
CH 0x1 Strips	779	600	-179
CH Top Butts	364	365	+1
CH Flap Meat	506	450	-56
CH Ball Tips	251	255	+4
CH Tri Tips	430	335	-95
CH Tenderloins	947	940	-7
CH Knuckles	224	230	+6
CH XT Inside Rounds	199	205	+6
CH Bottom Round Flats	206	215	+9
CH Round Eyes	212	220	+8
CH Briskets	273	225	-48
50% Lean Trim	65	65	0
81% Lean Ground Beef	162	160	-2
SL Bnls Ribeyes	655	610	-45
SL Shoulder Clods	205	205	0
SL Chuck Rolls	267	265	-2
SL 0x1 Strips	542	480	-62
SL Top Butts	349	350	+1
SL Flap Meat	512	450	-62
SL Ball Tips	218	230	+12
SL Tri Tips	331	300	-31
SL Tenderloins	851	875	+24
SL Knuckles	223	230	+7
SL XT Inside Rounds	199	205	+6
SL Bottom Round Flats	203	215	+12
SL Round Eyes	214	220	+6
SL Briskets	274	225	-49
CH Cutout Value	217.69	208.20	-9.49
SL Cutout Value	201.89	197.63	-4.26
Combined Cutout Value	214.41	206.08	-8.33

**As I preached last week, there are several angles from which the notion of a bottom in the combined Choice/Select cutout value around \$205 per cwt in late July makes sense.** Today I'll propose more precisely how that should come about. In the table at left are the trade levels that I expect to prevail in the third week of July.

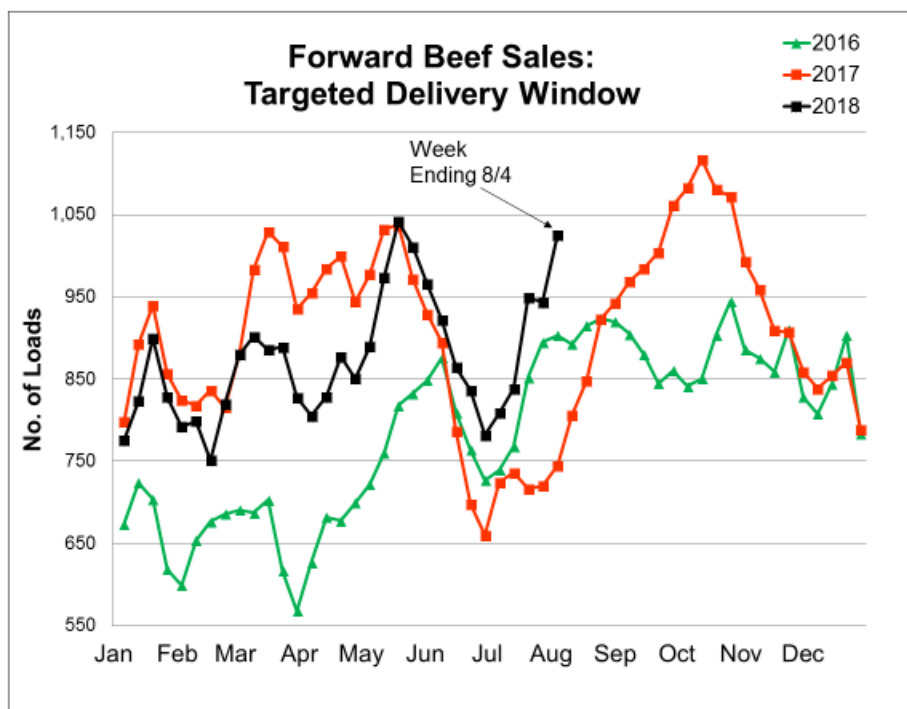
OK, it doesn't land exactly on \$205 per cwt, but it's pretty close. And this "ground up" approach to the question is largely independent of the reasoning I expressed last week, which was based on a combination of projected production and composite wholesale beef demand. That still doesn't make it accurate, but it makes me feel better.

One thing worth mentioning is that Choice-grade ribeyes have not become nearly as expensive as they did last spring. In June 2017 they traded as high as \$10.38 per pound, whereas the highest single-day quote here in June 2018 was \$8.80. Thus, I think it's logical that the "demand backlash" in and July and August will be much milder; this is one reason why I anticipate a fairly strong midsummer floor around \$7.00.

The same is *not* true of any of the other major steak cuts, either Choice or Select. The May/June peaks in strips, short loins, top butts, tenderloins, and Select ribeyes have all been in the vicinity of their 2017 highs, which leads me to think that their post-Independence Day declines could be similar to last year's setbacks.

Applying the same logic, one could reasonably expect a stronger undertone in shoulder clods, knuckles, inside rounds, and ground beef during July than that which prevailed last summer, since prices of these items—and especially the latter two—did not come near their June 2017 peaks.

**It follows that forward booking activity for July and August delivery has been much more robust than it was at this time last year.** You probably already know that my favorite picture to illustrate the point is one I call the "Targeted Delivery Window", which shows the average weekly volume of product booked four to eight weeks prior. It is a generalization, of course, but it *should* be a valid indicator of the amount of meat that is already "spoken for". It's definitely more fun for me to look at:



In case I have done a poor job of explaining, let me try a different way. The final observation on the black line represents the week ending August 4. In its LM\_XB463 publication, USDA reports the total volume of beef sold for delivery 22 to 60 days into the future. Deliveries occurring in the first week of August could have been included in this report as many as eight weeks

prior, or as few as four weeks prior—i.e., any time between the week ended June 9 and the week ending July 7. And so, I average the volumes across this five-week span to come up with a number for the week of August 4, which is 1,025 loads.

But wait—we have not yet seen the reports for the last week of June and the first week of July. Well, when three of the five weeks' worth of data are collected, I judge it to be a large enough

sample to merit attention. Besides, the projection after three weeks of data usually turn out to be close to the final number.

**Anyway, the point is that the amount of beef booked “out-front” for delivery in the second half of July and early August is apparently quite a bit greater than it was at this time last year, implying that packers will be in a pretty good “forward-sold” position.** It is not surprising, in view of the cheap prices that have been (and are still being) offered for deferred delivery.



*Couldn't you have just gone straight to the point without dragging me through all this bull----?*

Well, there are some who are curious about how I come up with such numbers.

*Don't flatter yourself.*

Alright, then. A good place to pick up the discussion might be to explain how I think an \$84.00 per cwt pork cutout value might be comprised in the third week of July:

	Monday's Quote	Expected	Change (¢ per lb)
Bone-in Loins	100	101	+1
Bnls Loins, Strap-on	115	115	0
Butts	109	98	-11
Spareribs	160	128	-32
23-27 lb Hams	61	63	+2
Bellies	152	154	+2
Bnls Picnics	95	93	-2
72% Lean Trim	89	76	-13
42% Lean Trim	68	54	-14
Pork Cutout Value	86.44	84.00	-2.44

I am assuming that hog slaughter will rebound to 2,250,000-2,275,000 per week in the three weeks following the holiday, only slightly below my initial projections after the March *Hogs and Pigs* report. The are adjusted slightly downward because of a guess that whatever

conditions pushed slaughter rates down so far in June will, to some extent, be present again (still) in July. Of course, a new *Hogs and Pigs* report will be released this Thursday, but I seriously doubt that USDA will make any revisions to its previous winter pig crop estimate. It has been the *modus operandi* in recent years not to tinker with an already-counted pig crop estimate unless actual slaughter has proven it to be off the mark.

As for demand, my basic assumption is that it will modestly outperform its seasonal norm as we move from June into July, simply because the combination of low and declining retail prices and relatively wide retail margins will eventually attract difference-making supermarket pork features. I'm referring mainly to loins, butts, and ribs, but bacon certainly fits the mold as well.

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