MEAT MARKETS
UNDER A MICROSCOPE

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

June 7, 2021

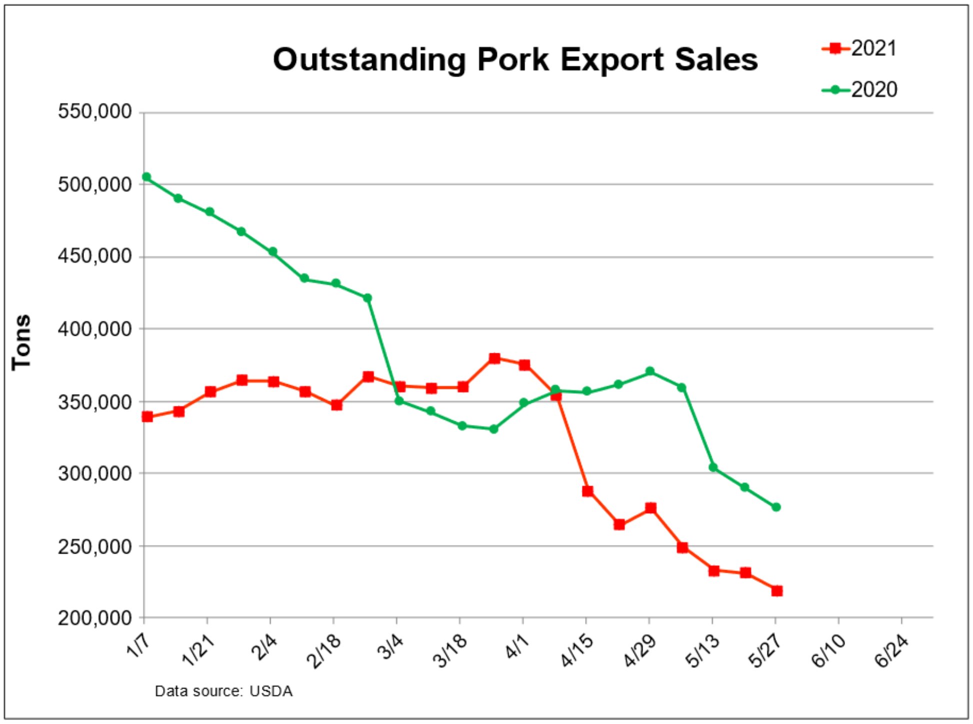
Please note: Meat Markets under a Microscope will not be published next week, as I'm taking a rare week off to visit my daughter (and to catch three days of racing at Gulfstream Park, not necessarily in that order). I hope you don't mind.

It's impossible to tell exactly how much of last week's $6.70 per cwt increase in the pork cutout value was prompted by a knee-jerk reaction to JBS' stunted production schedule, but my guess is that was significant. We'll find out very soon, now that all plants presumably are back up to full speed.

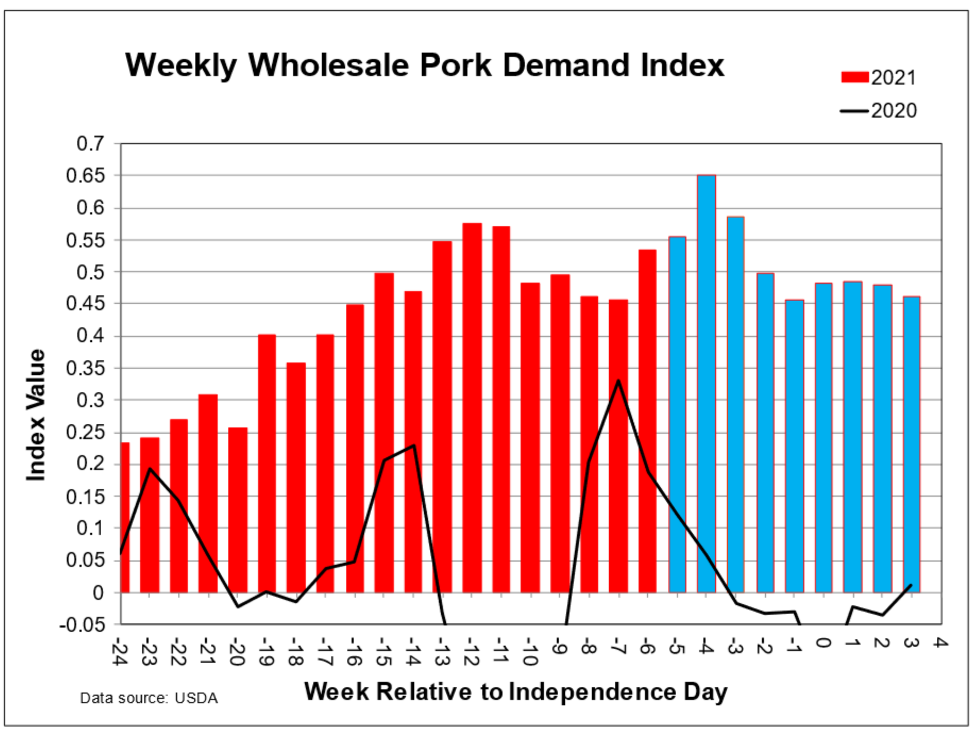
The other possibility is that sales over the holiday weekend were brisk, and that fill-in demand drove the higher prices. However, this would only pertain to loins, butts, and ribs—not hams, bellies, boneless picnics, or lean trimmings, each of which gained anywhere from 9¢ to 17¢ per pound. I am respecting this possibility anyway, because my track record has not been very good lately. I'm sure you are aware that I thought the cutout value had topped out three weeks ago at $116 per cwt….but what's an extra $17?

It remains difficult to come up with an objectively derived scenario that does *not* point to an imminent peak. Futures prices are behaving as though we are headed into a smaller-than-expected hog supply this summer, and maybe we *are*; but as I have mentioned quite often, there is no hard evidence to indicate that last winter's pig crop was overestimated. Hog slaughter during March-May lined up very well with the fall pig crop estimate. If they remain "on track", then weekly kills over the next four weeks will be near 2.4 million, slightly larger than they were in May. I would think that with prices as high as they are, the market would be sensitive to any increase in supply, even if its only marginal.

An increase in domestic supply can also be effected by a slowdown in exports, and it looks as though this might be happening gradually. According to the less-than-perfect weekly reports, outstanding export sales—product that has been sold but not yet shipped—to all destinations currently are running 24% behind a year ago. I'm paying more attention to the *trend*, though, which is downward. I show this picture on the next page. A couple of notes on this graph are in order: one, the big drop in March 2020 was due, of course, to the beginning of the systematic plant shutdowns; and two, the brakes came on this spring at about the time that prices started to race….which was no coincidence, I think it underscores the point that most export customers are price sensitive. And prices have only climbed higher since then. This is a subtle factor and nothing that would hit the market all at once, but it is, after all, one form of demand rationing.



And it is the notion that demand is being rationed, slowly but surely, which leads me to believe that the seasonally adjusted demand index will slip backward as we move into and through the summer. In other words, the changes that take place in wholesale pork demand from this point forward will underperform relative to the seasonal norm. And so, although this process has been much slower to take effect than I had anticipated, it *should* become increasingly evident as the weeks go by.



As you can see, I am attempting to factor in only a mild setback in the demand index between now and the end of July. In fact, I am assuming that for the next three weeks it will actually exceed this past week's reading—call it momentum, perhaps. But even under this sort of demand scenario, the pork cutout value would fall to around $120 per cwt by the end of June—I'm talking about the week ending July 3, after the Independence Day business has been priced.

In order to make that happen, something resembling the following array of individual product prices would have to prevail:

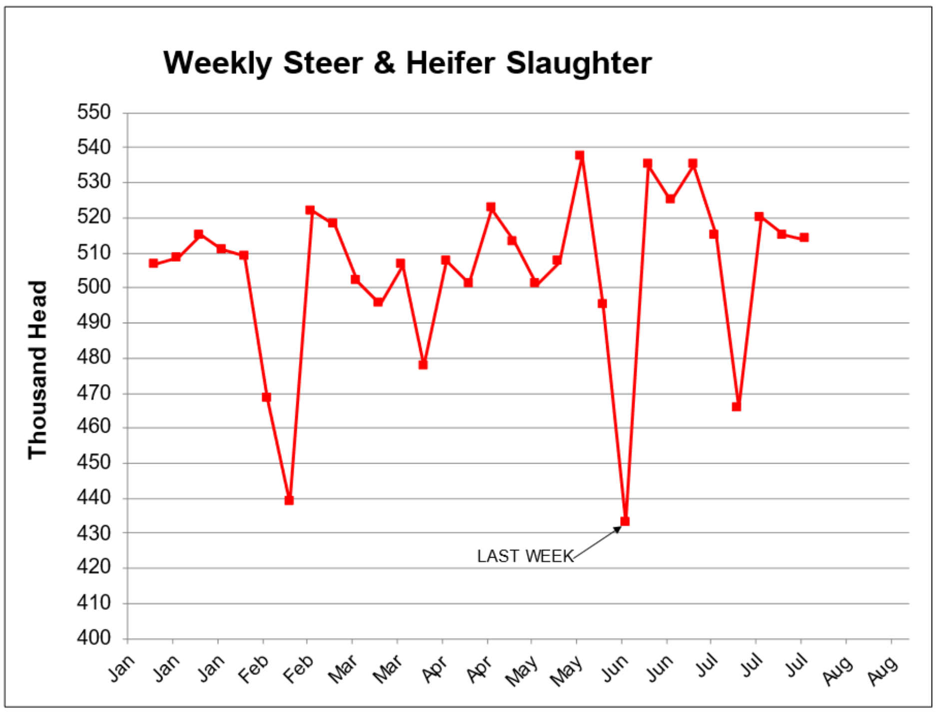
23-27 Hams	Bn-in Loins	Pork Butts	Spareribs	Bellies	Bnls Picnics	72% Lean Trim	42% Lean Trim	Cutout Value
$.80/lb	$1.20/lb	$1.40/lb	$2.50/lb	$2.10/lb	$1.35/lb	$1.30/lb	$1.00/lb	$120/cwt

These prices for loins, butts, and ribs seem kind of a long way off, don't they? But it has been only four weeks since loins and butts traded at these levels, and six weeks in the case of spareribs. And these are the items that will feel the most immediate impact of higher retail prices.

And finally, I notice that last Friday's cutout value quote was within $4.27 of its all-time high (established on July 18, 2014), for what it's worth.

I also have to wonder how much of last week's gain in beef cutout values ($8.50 per cwt in total) was driven by a scramble among buyers to take cover in case JBS' plant shutdowns were to turn into a protracted issue. As in the pork market, I suspect that it played a major role. If so, then the return to normal production schedules this week will finally put a top in this market.

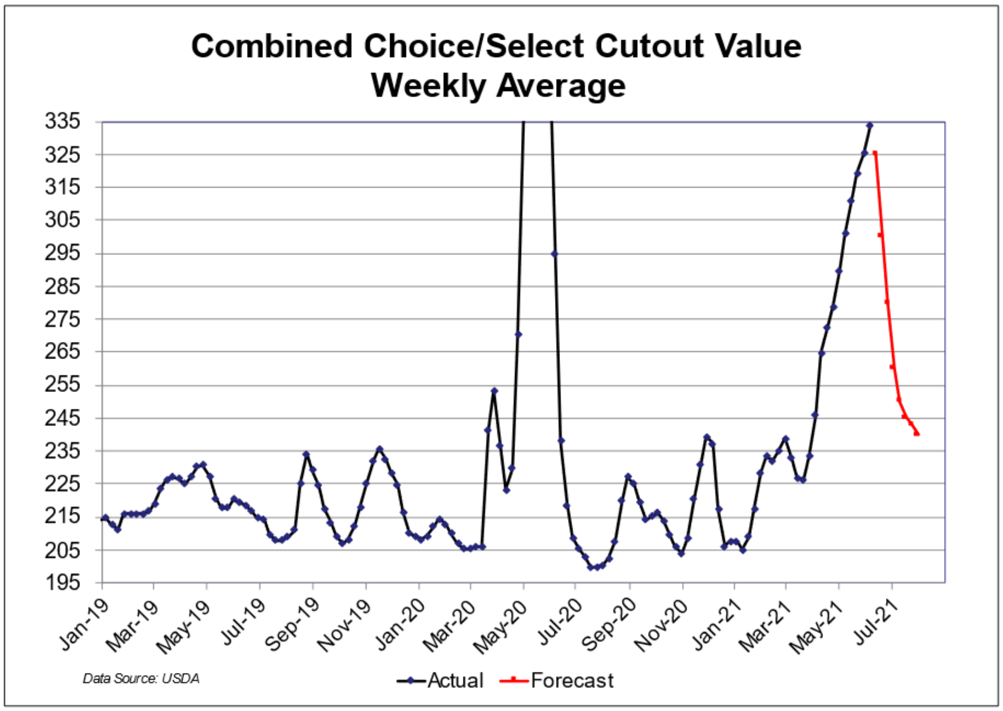
Steer and heifer slaughter has been erratic lately. Because of the temporary plant shutdowns, the industry as a whole produced less beef than originally planned this past week. But even in the week prior to that, the fed cattle kill was extraordinarily light at 495,000.



The incentive for both cattle feeders and packers to process as many cattle as possible is unequivocal. And even though labor constraints won't allow them to push through as many as they would like, I have to think that fed cattle slaughter over the next four weeks will be substantially larger than it was in May. Can they really handle 525,000-535,000 in the next three weeks, as I am suggesting? There is, of course, some doubt about that, but they *did* manage to process 537,400 in the week ended May 22. So we know it's possible.

What I'm looking for is something that would tip the scale in the beef market, and heavier production would probably do it. **My basic premise is that even though beef demand may have shifted into a permanently higher gear, retail prices are rising rapidly enough that they will put the brakes on product movement for a while.** The prices I have seen in some of the larger supermarket chains in the past week must surely be raising some eyebrows.

I'm pretty confident that once the scale has been tipped, the downdraft in beef prices will be intense:



This sort of decline looks excessive, but I have to keep in mind that for at least the next month, supermarkets will be focused on margin restoration; thus, lower wholesale prices will do little to stimulate demand from this sector until July….at the earliest.

The foodservice and export sectors will be a different story, however. In these channels, buyers are more likely to respond to lower prices, as are distributors….which would be classified as "inventory-building".

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.