# MEAT MARKETS
# *UNDER A MICROSCOPE*

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

July 18, 2021

**Beef cutout values are not really close to a bottom just yet, but at least the pace of the decline should let up from here.** Over the last five weeks, the combined Choice/Select cutout has been losing ground at an average rate of $12.86 per cwt per week. My guess is that it is headed for a bottom in the second week of August, roughly $15 below last Friday's quote.

I had been thinking that beef prices would hit bottom by the end of July and mount a sizeable rally during August, but I have changed my mind about that because there is no indication that retail beef featuring will pick up again until the end of August—at the earliest. I'll come back to this subject in a minute.

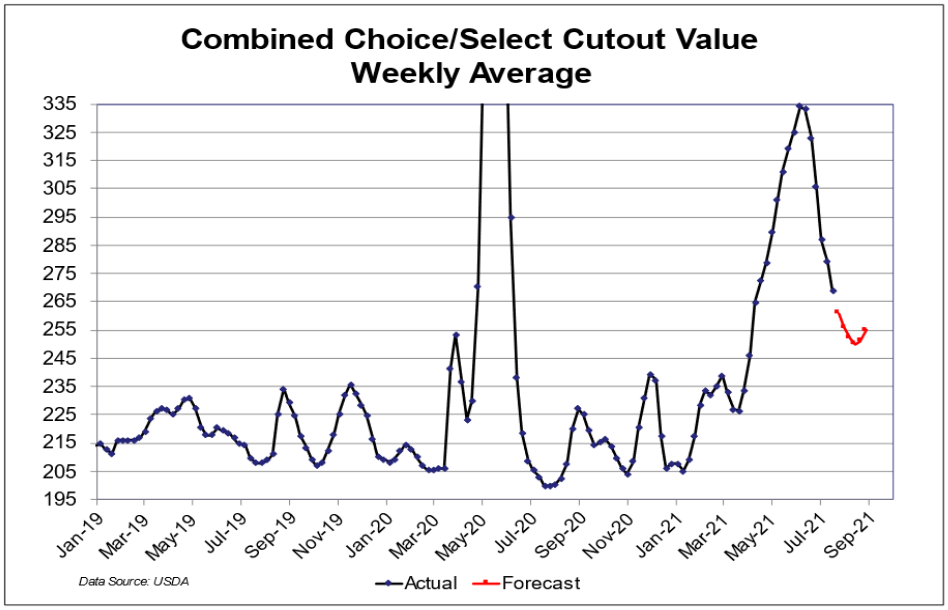
But when I make a subjective attempt to identify the likely *pre-Labor Day* support levels in the key items, I notice that some are not all that far away. Here's what I have in mind:

| | Last Week | Support (?) | | Last Week | Support (?) |
|---|---|---|---|---|---|
| CH Bnls Ribeye | 860 | 800 | 81% Ground Beef | 209 | 190 |
| CH 0x1 Strip | 682 | 625 | 50% Trim | 124 | 80 |
| CH 0x1 Short Loin | 639 | 625 | CH Chuck Roll | 358 | 330 |
| CH Top Butt | 376 | 350 | CH Clod | 276 | 240 |
| CH Tenderloin | 1400 | 1150 | CH Inside Round | 274 | 250 |
| SL Bnls Ribeye | 684 | 675 | CH Knuckle | 383 | 270 |
| SL 0x1 Strip | 566 | 550 | CH Flat | 273 | 250 |
| SL 0x1 Short Loin | 579 | 525 | CH Eye of Round | 316 | 275 |
| SL Top Butt | 359 | 325 | CH Brisket | 302 | 300 |
| SL Tenderloin | 1170 | 1100 | | | |

Generally speaking, it looks to me as though the Select-grade ribeyes and strips, along with briskets of all "flavors" have the least amount of remaining downside potential in the near term, while 50% lean trimmings, knuckles, and Choice tenderloins have the greatest.

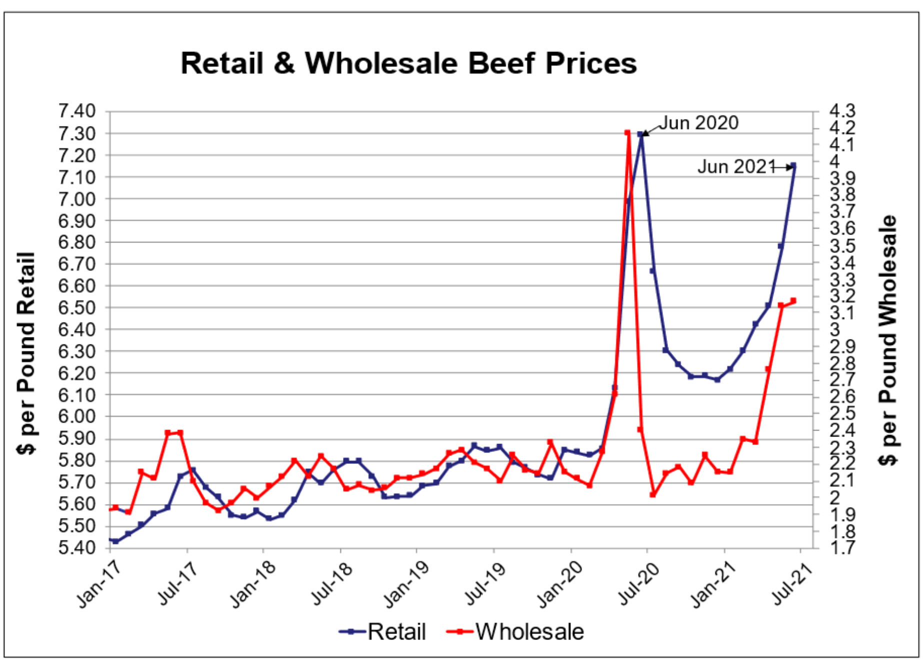
Specifically in regard to the "50's", I have a hard time understanding exactly how they got this high in the first place. Obviously, a number of buyers have been caught short of fat trimmings and have been forced to chase the market. But one thing I think I *do* know is that this is a short-term phenomenon….and once the supply/demand balance tips over, the downward price adjustment will be sudden and swift. Thus, the $.80 support level that I show in the table above could be tested sooner than it might seem.

**When I sum the differences between last week's weighted average quotes and the listed support levels, they combine for a $24 per cwt drop in the Choice cutout value—which would take it down to $248.** That's where the Choice cutout would land if all products were to reach there assigned support levels *simultaneously.* But it doesn't usually work that way. I'm guessing that the market will follow the pattern shown in the picture below, which would place the weekly low in the combined Choice/Select cutout at $250 and the Choice cutout at $253.



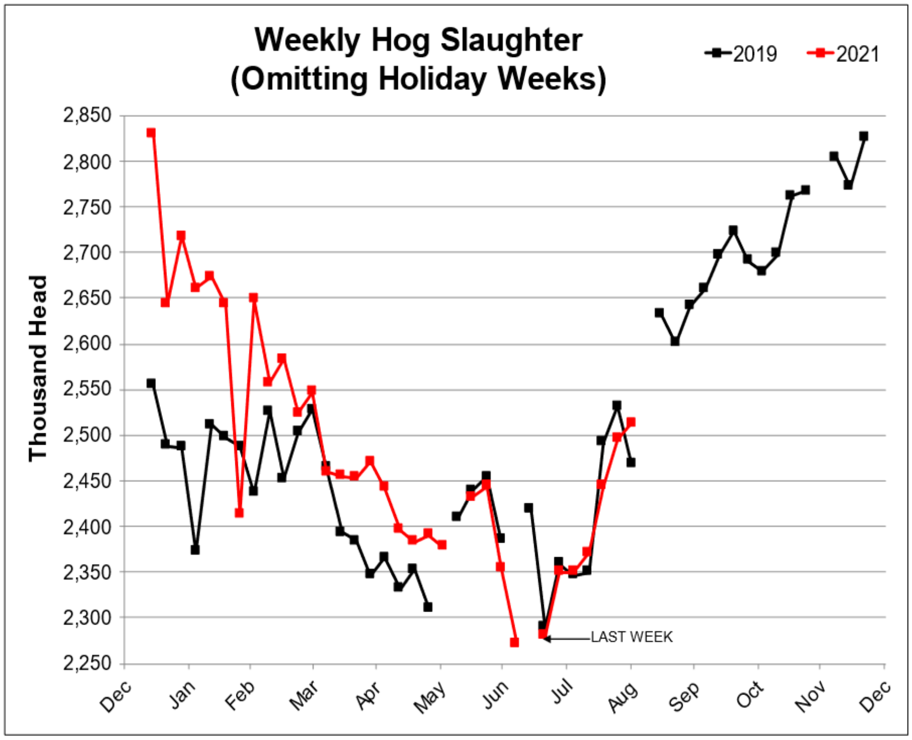

This pattern assumes that steer and heifer kill will range from 505,000 to 515,000 per week, steady to slightly below this past week's total. And it assumes that wholesale beef demand will moderately underperform relative to the seasonal norm between now and mid-August.

Forward bookings for August delivery have been very light up to this point, which of course indicates that supermarket chains—the larger ones, anyway—are not planning to feature beef more aggressively until (possibly) the end of the month.




It makes sense that retailers would keep prices elevated for a while, because in spite of the steep jump in sticker prices, their margins remained exceptionally thin during the month of June. July's results will be better because of the drop in product costs over the last four weeks. and so the "ground could be more fertile", so to speak, in September.

**Tight hog supplies and lighter-than-expected production have taken center stage in the pork market.** I think I've seen enough evidence to conclude that the winter pig crop was substantially overstated in both the March and June *Hogs and Pigs* reports. The difference between June-August hog slaughter and the original winter pig crop estimate seems to get wider with every week that goes by. In the picture below I show my revised weekly kill projections through August alongside actual 2019 figures, but I left out the 2020 actuals because they only clutter up the canvas.



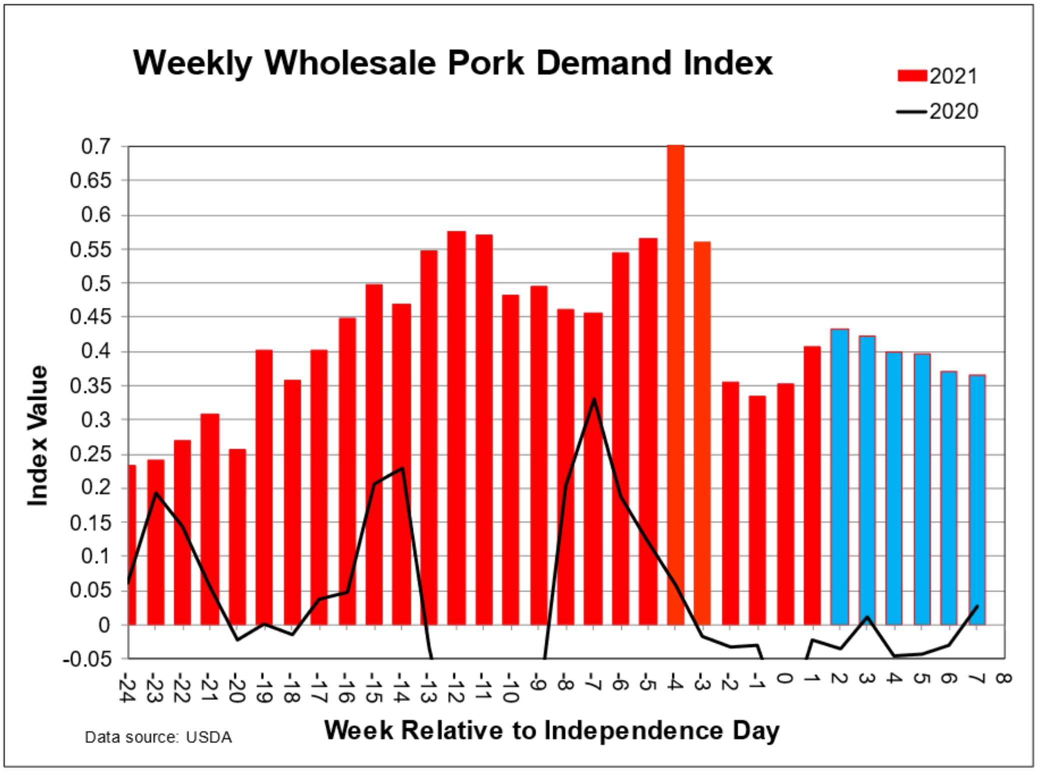

Trying to be as objective as possible, it is difficult to justify lowering the projections for the next six weeks even more than I already have—because the ratio of summertime hog slaughter to winter pig crop estimate is already matching its record low. [One way to bring this ratio back into line is to downwardly revise the December-February pig crop count, which USDA surely will do in its next report.]

Thus, despite the shortfall, I still have to bet that pork production in the second half of July will be significantly larger than in was in each of the last three weeks….and that it will take a bigger step upward in August, as usual. [In case you're curious, the 15-year average change in hog slaughter from July to August is +8.4%; my humble projection is +10%.]

Taking into consideration the probable increase in production starting this week, along with the fact that pork bellies, hams, and trimmings are all practically matching their previous highs, it seems very likely that the pork cutout value will turn downward from here. Just how far and how fast it will proceed….well, that will probably be up to the belly market to decide. There are easier things in this world than to try to predict pork belly prices from one week to the next in late July and early August. But for what it's worth, it would be fair to say that a top in this market is "due" this coming week….in the sense that over the last 15 years, the highest weekly pork belly price has, on average, landed in the second week after Independence Day.

It is unlikely that any loss in the markets for bellies, hams, or trimmings/boneless picnics would be offset in the "fresh retail" cuts right away, as supermarket chains are trying to restore margins in the fresh pork subcategory as well. Margins during June were not as thin as they were in fresh beef, but they were clearly sub-par.

Also, if the slaughter projections I just described are combined with the pattern in the weekly demand index shown below, then it suggests that the cutout value will descend gradually back to $110 per cwt by the end of August. This demand forecast is rather benign, as it assumes that demand for pork at the wholesale level will merely undergo typical seasonal changes through the middle of August.






*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](http://www.procurementstrategiesinc.com).