



# MEAT MARKETS UNDER A MICROSCOPE

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

July 25, 2019

**The beef market is in pretty decent balance right now.** The combined Choice/Select cutout value has lost about \$6 per cwt since Independence Day, which is not out of the ordinary. It has stabilized and appears to be bottoming in the fourth week of July, which is also fairly normal. And so it might be valid to expect the next high and the ensuing low to occur when they usually do--namely, in the second week of August and in the first week of October. This sort of timing would align with the notion that wholesale beef demand will not make any major adjustments (outside of the seasonally typical) within the next two months.

Middle Meats	This Week	Average Changes		Forecasts	
		W/E 8/17	W/E 10/5	W/E 8/17	W/E 10/5
CH Bnls Ribeye	\$7.55/lb	\$7.82/lb	\$7.71/lb	\$7.95/lb	\$8.10/lb
CH 0x1 Strip	5.70	5.64	5.10	5.90	5.25
CH 0x1 Short Loin	5.35	5.33	4.84	5.30	4.55
CH Top Butt	3.12	3.09	2.69	3.20	2.75
CH Tenderloin	9.15	9.51	9.64	9.65	10.00
SL Bnls Ribeye	5.55	5.67	5.56	5.90	6.25
SL CH 0x1 Strip	3.80	3.78	3.20	4.00	4.00
SL 0x1 Short Loin	3.80	3.76	3.31	4.00	4.00
SL Top Butt	2.60	2.60	2.22	2.70	2.55
SL Tenderloin	8.03	8.38	8.37	8.60	8.85
Flap Meat	5.95	5.86	4.89	5.70	5.10
Ball Tip	3.25	3.15	2.79	3.25	2.25
Tri Tip	3.10	2.84	2.65	2.70	2.70
<b>End Meats &amp; Trim</b>					
Chuck Rolls	2.75	2.94	3.23	2.90	3.05
Shoulder Clod	2.25	2.33	2.35	2.25	2.25
Knuckle	2.25	2.35	2.35	2.35	2.30
Inside Round	2.18	2.29	2.20	2.28	2.17
Btm Round Flat	2.07	2.15	2.34	2.20	2.35
Eye of Round	2.21	2.43	2.70	2.40	2.65
Brisket	2.65	2.78	2.73	2.70	2.65
81% Lean Grind	1.85	2.02	1.78	1.95	1.75
50% Lean Trim	.83	.81	.65	.85	.60
<b>Combined Cutout</b>	208.75	214.25	205.50	215.00	203.00

OK, so I put together this table that shows where the major individual items would stand if the price changes between now and the week ending August 17; and between now and the week ending October 5 were to equal their respective 15-year averages. I also show where I think the markets will be trading at each of those points in time. For example: if the change in the price of Choice ribeyes between now and the week ending August 17 were to match the 15-year average, then they would be

trading at \$7.82 per pound at that time. In my humble opinion, though, the market will be more like \$7.95.

**If the beef market continues to behave in accordance with the seasonal norm, then the next peak in the combined Choice/Select cutout value will occur in the second week of August at about \$214-something (that's about \$6.00 above the current quote), and the next low will land around \$205 in the first week of August.** My own projections of supply and demand point to an August peak that is slightly higher than an average increase would carry it, and a slightly steeper-than-average decline from that point into early October. By the way, there is a major support level just above \$200 on the chart, so this neighborhood seems a likely place for a major low.

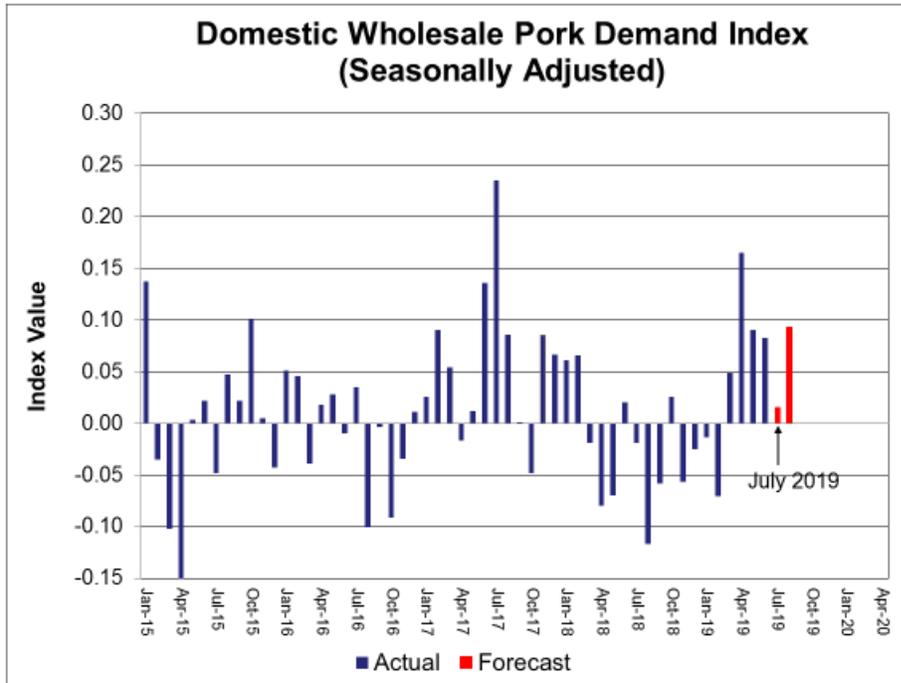
Among the individual products, though, there are some substantial differences between my expectations and the seasonal directives. This is true of just about all of the middle meats, but especially the Select-grade products. The main reason for the relative strength in the Select rib and loin cuts is because these have been extraordinarily depressed recently, such that they are in a good position to pique demand from both supermarket chains and steak cutters--the latter of which would be looking to put meat in the freezer for either fourth quarter or 2020 usage. In the case of both Choice and Select ribeyes and tenderloins, the proliferation of "suspended fresh" programs allows merchandisers to freeze and store subprimals in July or August as opposed to waiting until September, which is diminishing the traditional post-Labor Day downdraft in prices. I won't go into detail right now, but the "suspended fresh" designation permits products to be frozen under strictly controlled conditions and labeled as "fresh" in the store. Go figure.

Among the end cuts, bottom round flats and round eyes are also fairly cheap for this time of year, and could attract the interest of supermarkets for post-Labor Day features. While the flats are priced about even with a year ago right now, they have declined steadily over the past eight weeks; at this time last year, they were capping off a 15¢ per pound rally.

It looks to me as though the change in ground beef prices between now and early October should be pretty close to the seasonal average. My guess of a \$1.75 per pound market for 81% lean ground beef would place it at the bottom of the range that this market has been in all year long.

Finally, I notice that 50% lean beef trimmings have descended into a major support level at \$.80 per pound, and I am assuming that there will be a near-term bounce before this market heads into its ultimate fall lows. My guess is that this ultimate low will approach, but not penetrate, the next support level at \$.50. The fall 2018 bottom was recorded on October 1 at \$.406....

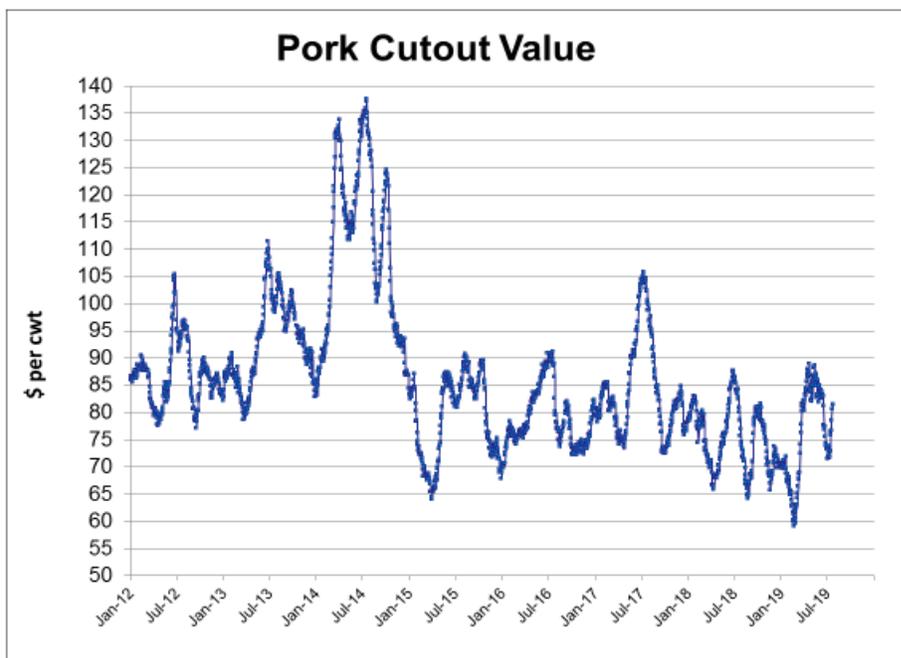
**I should not go so far as to say it is a waste of time to go through the same process in constructing the forecast for pork prices, but it's not really useful. The reason is because the pork market is *not* following its typical seasonal patterns, and there *are* major shifts taking place in wholesale pork demand apart from the normal seasonal changes.** Demand for pork at the wholesale level is most certainly in a state of flux right now, as I show in the picture on the next page. The volatility in demand is causing me, as a trader, to keep my hands in my pockets for the time being.



The pork market as a whole is searching for some sort of equilibrium, and the fact that the cutout value is racing upward right now makes it clear that supply and demand are out of balance. Focusing on the pattern in wholesale pork demand, it is apparent that the sharp run-up in prices during March/April and the surprisingly large hog slaughter in June caused demand to “recoil”

rather harshly. Now that production has dropped off and prices have set back, demand is blossoming once again. Some of this rebound in demand is of a short-term nature, as buyers are always attracted like bugs to the zapper when prices start to go up. The final red bar in the picture above represents August, which of course is a projection; but given where prices stand today, it should be a fairly accurate projection.

OK, so in only about two weeks’ time, the central question has changed from, “How Low Can it Go?” to “How High Can it Go?”.



**The \$90 per cwt area has obviously been an important one for the cutout value, and so this is a natural target.** But it’s a bit difficult to make a case for sustained prices above that level. For one, a seasonal increase in production is just around the corner. And by that, I mean three weeks away. This week’s total is headed for about 2,340,000; because

of scheduled “down” time for plant maintenance and floating holidays, the next two weeks will be short--2,300,000 and 2,280,000, I’m thinking. But after that, it should take a leap up to 2.5 million-plus, and move upward from there.

Another consideration is the timing and level of the next cyclical peak in the seasonally adjusted demand index. If the index value in August matches its May/June readings, as I am suggesting, and if it remains at that level, then the cutout value should average near \$88 per cwt in August and \$84 in September. And so, it would take a considerably stronger demand scenario to push the cutout value above \$90 for any appreciable length of time.

It would also require a lot of help from other parts of the carcass besides the pork belly. My unofficial Poll of the Experts places the peak in the belly market somewhere between \$1.50 and \$1.80 per pound. Let’s split the difference and call it \$1.65. The next likely candidate for a material move to the upside is the loin. A bone-in market up to \$1.05 and a strap-on, boneless trade back up to the June high of \$1.25 are achievable, I think. This combination would put the cutout value at approximately \$90 per cwt. Is there more upside potential in the hams, trimmings, or butts? Remember, we’re talking about *sustainable* price levels....

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