



MEAT MARKETS UNDER A MICROSCOPE

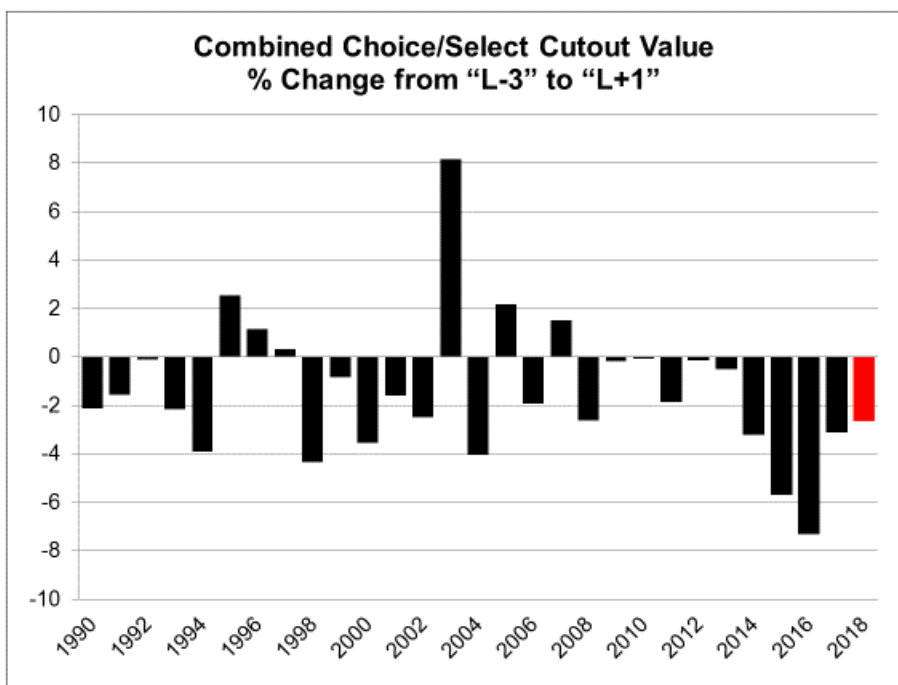
A perspective on the red meat markets by Kevin Bost...sometimes wrong, usually scientific, but always candid

August 15, 2018

Beef cutout values are in the midst of a fairly typical pre-Labor Day rally which probably will reach its zenith next week and then begin a gradual slide into the next low point at the end of September. That, too, would be fairly typical.

My guess is that the combined Choice/Select cutout value will slip from today's mid-day quote of \$208.47 per cwt to about \$203 in the second week of September, and then to something in the neighborhood of \$200. I notice that there is no support on the chart between the July 16 low of \$202.15 and the December 20, 2017 low of \$195.51, which makes \$200 a rather odd place for a bottom; but there is no rule preventing the market from defining a "fresh" support level.

Between the third week prior to Labor Day and the week after the holiday (i.e., over the upcoming four-week period), the change in the combined cutout over the last 15 years has averaged -1.24%. Thus, a decline to \$203 in the week ending September 15 would be somewhat steeper than normal:



But if steer and heifer kills bounce around between 510,000 and 515,000 between now and then as I expect (tracking at 99% of a year ago, on average); and if demand follows a typical seasonal path, then that's about where the combined cutout will land.

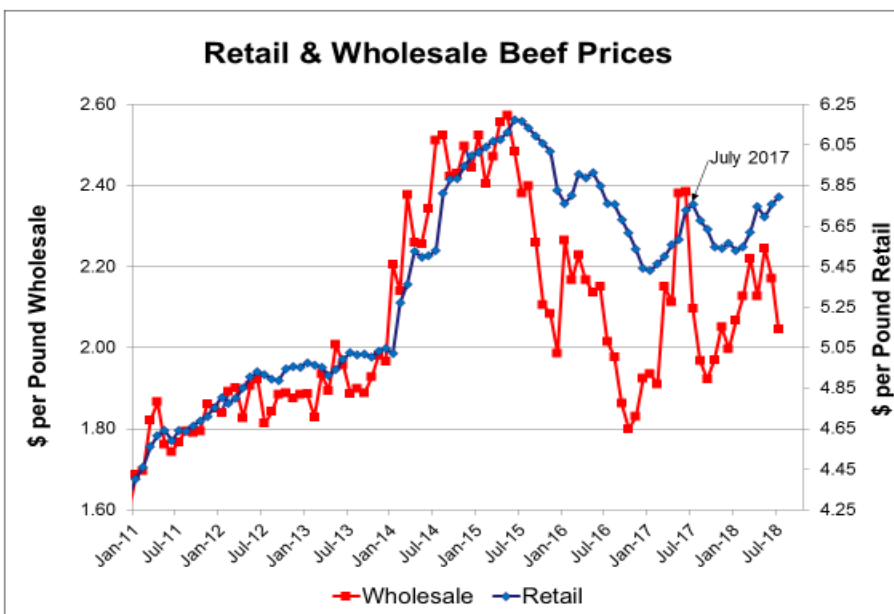
And I detect nothing that would cause wholesale beef demand to veer "off-course". Forward booking

statistics suggest that the volumes lined up for delivery next week and the week after may be a bit light, but they look pretty healthy again for deliveries in the first three weeks of September. For what it's worth, I notice also that the weekly demand index has held basically steady for the past seven weeks, which means that ever since Independence Day, demand has indeed been following a typical seasonal course.

Anyway, in the table below I show precisely how I expect the combined cutout to fall to \$203 per cwt in the week after Labor Day:

	W/E 9/15	8/14 Quote		W/E 9/15	8/14 Quote
CH Bnls Ribeyes	700	740	SL Bnls Ribeyes	615	633
CH Clods	213	211	SL Clods	213	212
CH Chuck Rolls	310	298	SL Chuck Rolls	300	286
CH 0x1 Strips	500	528	SL 0x1 Strips	450	499
CH Top Butts	310	322	SL Top Butts	290	317
CH Tenderloins	940	928	SL Tenderloins	890	875
CH Peeled Knuckles	225	223	SL Peeled Knuckles	225	223
CH XT Inside Rounds	205	207	SL XT Inside Rounds	205	211
CH Btm Round Flats	210	194	SL Btm Round Flats	210	192
CH Eye of Round	225	217	SL Eye of Round	220	213
CH Briskets	230	249	SL Briskets	220	239
50% Lean Trim	70	91	81% Lean Grind	180	184

From a broader perspective, the monthly demand index is probably making a short-term cyclical low here in August following a three-month decline. This increases the likelihood that demand at the wholesale level will outperform the seasonal norm from September through at least October, and quite possibly November as well.



However, the direction and standing of retail prices and margins can be classified as just “neutral”. Retail beef prices, as measured by the simple average of the categories labeled by the U.S. Bureau of Labor Statistics as “All Uncooked Ground Beef”; “All Uncooked Beef Steaks”; and “All Uncooked Beef Roasts” are up slightly from a year

ago, and they have been trending upward since March—which is not particularly favorable of

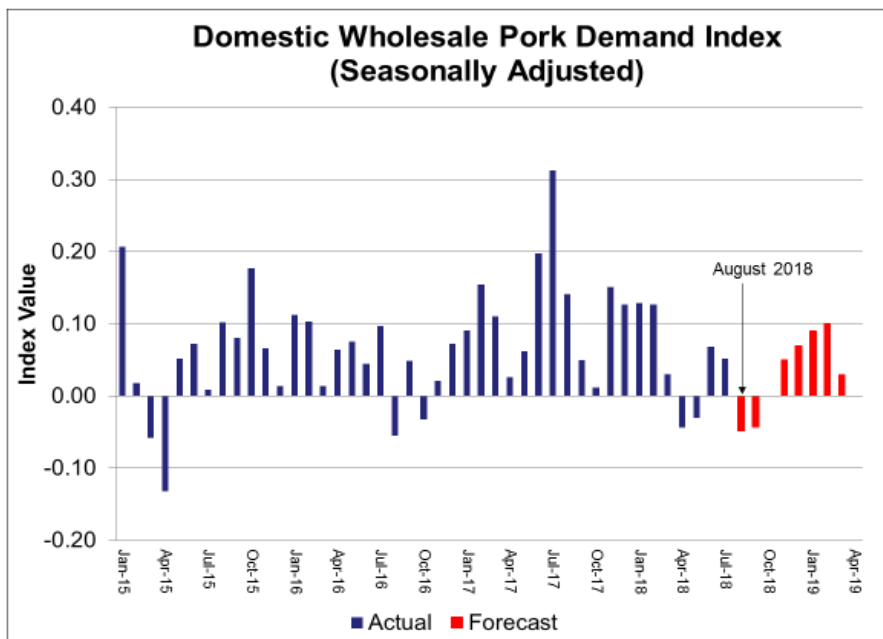
demand at the wholesale level. On the other hand, retail margins are wider, which leaves more room for supermarket features down the road.



The equivalent picture in the pork market is considerably more favorable of wholesale pork demand. Retail prices—in this case, a simple average of “Sliced Bacon”; “All Pork Chops”; “All Ham Excluding Canned and Sliced”; and “All Other Pork Excluding Canned and Sliced”—is down 4% from a year ago, and poised for a move downward this fall. Retail margins are

much wider than they were at this time last year. This is especially true of bacon.

It is mainly for this reason that I expect wholesale pork demand to recover to more typical levels in the fourth quarter and beyond, from its currently dismal readings.



This is not really asking much, is it? It takes some time for the market to adjust to cheaper product costs and expectations thereof; it does so by expanding restaurant promotions, reducing supermarket prices, making substitutions of beef or pork wherever applicable, etc. But it does adjust, always and without fail.

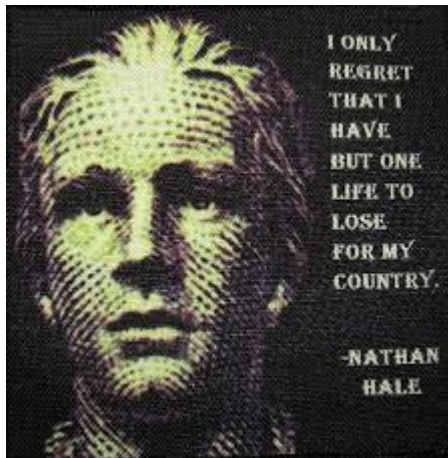
This is clearly a minority opinion (what *else* is new?), but assuming that fourth

quarter pork production will be 3% above a year earlier as USDA’s spring pig crop estimate

suggests, there is a pretty good chance that the pork cutout value will find a bottom in early September. I am thinking that this bottom will be in the neighborhood of \$67 per cwt, not far from today's mid-day quote of \$68.65. A \$67 average cutout value in mid-September would probably align with the following individual product prices:

	W/E 9/15	8/14 Quote
23-27 lb Hams	59	60
Bn-in Loins (1/4")	92	97
Bnls Loins, Strap On	105	109
Bellies	85*	90*
Bnls Picnics	60	61
Pork Butts (1/4")	93	98
Spareribs	120	131
72% Lean Trim	52	54
42% Lean Trim	31	37

The asterisk (which my programming instructor called the "Nathan Hale" operator, because he had but one asterisk) next to the belly price is there because I am referring to a price formulated from USDA's quote of derind bellies; it is not the pork belly composite quote, but the two are usually very close.



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