Slowly Higher

The fed cattle cash market lows for 2017 came around Labor Day at just below $105/cwt. Last week's fed cattle trade at $111 took out the downtrend in place since the spring highs at $145. And, cattle producers should gain bargaining position from the packer and retailer through the winter.

That positive cash market news follows already better futures market trends, but it does not necessarily mean producers should expect an impulsive rally to the cattle markets in the weeks ahead. It marks the seasonal transition where the USDA composite cutout value and All-Fresh retail beef price generally have less influence on cattle markets through the winter. As cattle producers gain some leverage, a weaker cutout or retail price does not automatically imply cattle prices need to fall by equal measure. Likewise, stronger market prices downstream can offer cattle markets more upside than experienced through the summer.

The weekly fed cattle price (minus the drop credit) as a percentage of the cutout value has improved to 51 percent now. That is up 2 points from the summer lows. It is feasible the ratio improves to as much as 54 or 55 percent by late winter as fed cattle supplies tighten seasonally. The cutout has been trading within a $5/cwt price range since mid-August between $191 and $196. Supply and demand suggests the wholesale beef complex could stay in a relatively tight trading range through winter. CattleFax believes support will remain near $190/cwt and resistance is likely to develop near $200. That suggests the cattle market has risk to revisit the previous 2017 lows but upside through the winter is around $120/cwt – similar to where December live cattle futures have already traded.

The cutout was choppy this week as packers cleared burdensome cooler inventories. Some chuck and round cuts could continue with a short-term correction, but the seasonal rally for ribeyes and tenderloins is coming soon. Items like short loins and top butts have also been a value in recent weeks. Buyers could bid higher for these items as ribeyes and tenderloins rally. A higher middle meat complex can offset declines elsewhere, and elevate the cutout to new fourth quarter highs.

Bottom Line: Cattle producers need a steady-to-higher cutout through the fall and winter for cattle prices to rally. The futures market may have already priced in the best news winter has to offer, but the cash market can climb to that target as a seasonal winter market persists.

Fed-Drop % Next Week Composite Cutout

Source: USDA, *Excludes drop credit

Fed Cattle

Prices for fed cattle were primarily steady to $1 higher last week at $111/cwt. live and $174 to $175/cwt. dressed. Trade volumes remained active while working through large available supplies.

One of the most surprising aspects of this fall's market is how well demand is holding up in the face of historically large protein supplies. This does not apply only to cattle and beef, but to the pork and poultry segments as well. This suggests that overall demand for protein is very strong. This may be tied to an improving economy that has consumers more willing to spend money on beef, pork and poultry as well as strong world-wide protein demand as well. With total protein production set to increase in 2018 and very possibly longer, it will be important to keep demand near current levels if we are to maintain prices that are even close to today's levels. If demand for any reason falters, or if the U.S. or world's economy would note any kind of an economic shock, current price forecasts moving forward for cattle, beef and pork may prove to be too optimistic.

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Fed cattle values may be near a short-term peak as protein supplies stay ample. Look for October to end near $110. During November, values are anticipated to trade from $108 to $110/cwt. early but improve late, closing near $112 to $114. In early December, values could near the $116 market before tumbling as we near the holidays. January could trade primarily at $108 to $111/cwt. because of seasonally slow demand and then increase during February. By late February, prices could be at $112 to $114 followed by March at $113 to $116, and then April and early May at $120 to $125/cwt.

Loin
Loin values have stabilized as demand stays strong even with larger supplies. While there may be some short-term weakness on many cuts over the next 30 days, buyers may see value on most cuts as the end of the year approaches. Early next year prices will likely move higher on many cuts led by top butts, while other cuts stabilize or in the case of PSMOs, deteriorate. By late January the spring rally could begin in earnest with better demand and lighter supplies pushing values higher into late spring. Prices many struggle to eclipse last spring levels due to larger supplies in 2018 as compared to 2017.

Rib
Cattle values have firmed in recent weeks, and the ribeye has posted a relatively strong rally. Prices have pushed higher and faster than seasonally expected. In years this happens, buyers should probably not expect a significant pullback in prices, but the rally should slow in coming weeks and be more of a chop into the November highs. Select ribeyes are finding support as quality grade increases, keeping inventories relatively tight. Buyers should entertain offers from packers but know they will be eager to get forward commitments on formula. The risk is it could keep year-end inventories tighter in the spot market and lead to a more impulsive late November rally.

Round
Recently the Round market has been finding some support, and seasonal declines have not been as strong as forecasts. Overall prices have not moved higher, only not as low as expected. Beef production is forecast to stay above year-ago levels for the remainder of 2017. With larger supplies, the round market is not expected to run away from buyers. Packer margins continue to be historically strong as such sellers are not defending the overall beef complex and buyers are able to negotiate better prices. Yet with the increased cattle cost recently packers may start to raise asking prices on specific cuts. This could limit the magnitude of the rallies for outside and eye of rounds but also could pressure knuckles and inside rounds during the Thanksgiving and Christmas periods. The risk is it could keep year-end inventories tighter in the spot market and lead to a more impulsive late November rally.

Chuck
It’s the time of the year where domestically the chuck market is pretty boring in terms of price moves. If something more significant is to develop, it would be relative to the export market having some big shift to impact the marketplace. That does not appear to be the situation today, when evaluating the markets. Thus, for the most part look for the market to be a sideways grind. Keep in mind there is plenty of competition for meat buyers to choose from for the remainder of the year.

Boneless Beef and Trimmings
The 50s market has absorbed sustained big production levels the last 30-60 days and has moved a little off the low end of the range. That is a telling sign that the $.40 to $.50 range is major support for the next several months. Buyers should recognize and build strategies around that price level going forward. Keep in mind, fed beef production will remain large all the way into the winter period. The 90s lean market still has the biggest supply in front of it and more price risk, but that window is shrinking. In sixty days, supplies will start to decline and prices will start to seasonally improve.

Pork Commentary
Production levels are historically large, but demand and buyer interest has picked up in pork month resulting in stronger live hog and pork complex prices. Live hogs in the terminal markets were selling from $42 to $46/cwt. Federally inspected slaughter levels were 2,485 million head last week. Production levels were down 1 percent compared to last week and down 1 percent compared to year ago levels. E.I. slaughter weights are at 282 lbs. – down 2 pound compared to year ago. E.I. slaughter levels are projected to be on top of 2.5 million head again this week. The pork cutout was stronger this past week. Hams, loins, butts, ribs were stronger; bellies were steady; while trimmings were lower.

Hams were stronger this past week. The call in the ham market is steady as values are well supported by continued strong exports and decent domestic usage. Butt prices were firmer, with a mainly steady call noted for this week as record production levels continue. Belly prices were mainly steady. The call in the belly market is stronger as good usage continues and movement into cold storage is noted offsetting the large production levels. Rib prices were steady to firmer. The call on ribs this week is steady at best, as ample product continues to be offered. Loin prices were firmer this past week. The call in the loin complex is steady to softer as large production levels continue. Trimming values were lower this past week. A steady to softer call is noted in the trimmings complex as production increases.

Turkey Commentary
Whole birds, breasts, tenders, and drums were quoted steady this past week while drums were higher on good seasonal demand from grinders. It’s time for whole birds to lift their head and see some strength, they’ve been quoted steady for eight straight months now. USDA reported turkey eggs in incubators on October 1 at 28.1 million, down 1 percent from same time a year ago. Poult hatched during September totaled 23.7 million, up a tick from September 2016, while poulets placed were down a tick from a year ago at 21.5 million. Overall, not much here to change current forecasts.

Chicken Commentary
A pretty flat week for poultry prices last week with the exception of leg quarters, leg meat, and thighs all continuing to show seasonal weakness. Whole birds should be finding their seasonal low at any time, unlike breasts and tenders which are expected to see further weakness as we move into November.