Beef Quarterly Q2 2020

Beef During and Beyond Covid-19

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Following the outbreak of Covid-19 in China (as reported on in the previous quarterly), the virus spread around the globe and caused major disruptions to beef supply chains and distribution channels. In the feature article of this quarterly, we provide an update of the current situation and also comment on what beef demand may look like in a slower economy post Covid-19.

Plant slowdown in the US

Following the slowdown or closure of a number of beef processing plants in late April, US cattle slaughter dropped to almost 50% below 2019 levels. This has placed immense pressure on beef supplies and fed cattle numbers, with prices adjusting accordingly. Slaughter levels have since started to return to normal, but the large volume of cattle will take a number of months to work through. (See more details in the US column.)

Australian plants' export licenses suspended

China suspended export licenses of four large beef processing plants on May 12 on technical grounds. These four plants represent a large proportion of Australia's beef cattle slaughter and are believed to contribute a substantial volume of Australia's exports to China. A similar situation occurred in 2017, and in that case, it took three months for the matter to be resolved.

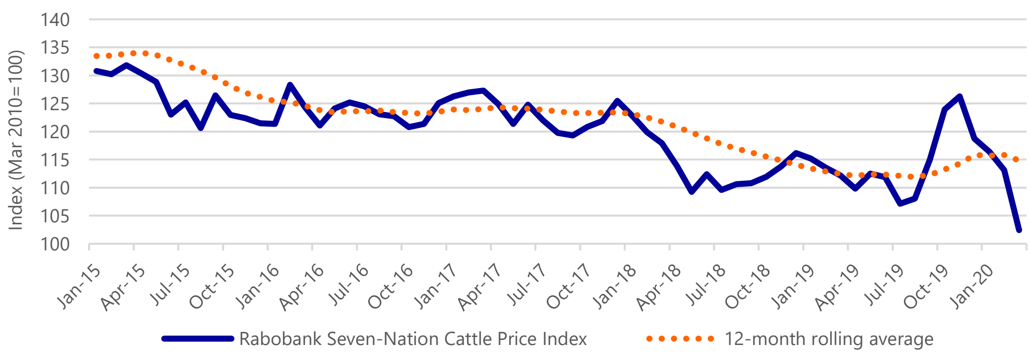
Indian carabeef slaughter disruptions

Supply chain disruptions (logistics and labor issues) during lockdown are impacting carabeef operations in India. Buffalo supply to slaughter houses has been significantly impacted, as animal markets are either not operating or operating in a limited way. Furthermore, there are delays at Indian ports for movement of product, as operations at ports are under pressure. We expect carabeef exports for March to May to be significantly lower.

Rabobank Seven-Nation Cattle Price Index

The impacts of Covid-19 and weaker currencies have seen cattle prices (in USD terms) drop over the last three months (to April) to take the index to its lowest point since March 2010. All countries, apart from Australia, have seen significant reductions in cattle prices (*see Figure 1*).

Figure 1: Rabobank Seven-Nation Cattle Price Index, Jan 2015-Mar 2020



Source: Rabobank 2020

Feature: Beef During and Beyond Covid-19

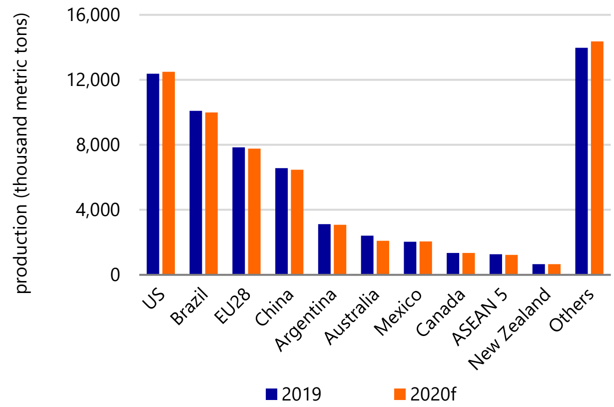
Covid-19 and the associated measures to contain it have created turmoil in the global beef market. While some countries, such as China, Australia, the US, and more recently Europe, start winding back some of the restrictions, other countries, such as those in South America, are just starting to feel the impacts. The containment of the virus, chances of a second wave of infections, consumer reactions, and economic consequences are still uncertain. In this article, we outline our thoughts on what might happen in the beef market over the coming quarters.

Covid-19 State of Play in Q2 and Into Q3

Covid-19 has caused major disruption to the processing and demand sides of the beef industry. While we do not expect large changes on the cattle-production side of the industry, ongoing management of the virus and the resulting economic contraction will play out during 2020 and will heavily influence processing and demand parts of the industry across different regions (*see Figure 3*).

March and April saw severe disruptions in beef processing. Due to the slowdown and, in some cases, shutdown of some US beef processing plants, daily slaughter volumes dropped to almost 50% below 2019 volumes in late April. Such limited slaughter capacity saw beef prices jump to record levels – the comprehensive cutout reached a record USD 470/cwt in early May – and fed cattle prices dropped. Social distancing measures implemented in New Zealand processing plants also restricted capacity to 70% of normal levels. On May 10, we saw the US comprehensive cutout start to retreat and processing capacity start slowly increasing. Likewise, easing restrictions in NZ saw processing capacity return to normal levels. Pending ongoing control of the virus, we expect production levels in the US to return to more normal levels through May and June. However, the backlog of cattle in the US is not expected to be cleared until late 2020 or early 2021.

Figure 3 Beef production of select countries, 2019-2020f



Source: USDA PS&D, USDA baseline projections, OECD-FAO Agricultrual Outlook 2018, European Commission, FAO FIGIS

At the time of writing, some economies are starting to relax lockdown measures, with foodservice and public gatherings being permitted in limited forms. Recovery of this consumption channel will be contingent on social distancing rules and consumer confidence. In China, where progress through the Covid-19 response is more advanced, we see that demand recovery is weaker than originally expected and there has not been the surge that some had expected from consumers freely returning to normal. A more cautious approach appears to be the case. There have also been some additional lockdowns put in place as a second wave of cases occurs. Such a second wave of infections will compromise consumer trust and slow the recovery process.

Figure 2 : Beef supply chain Covid-19 disruption, Q2 and Q3 2020

		Impact due to COVID											
Current Quarter (Q2)		United States	Canada	Argentina	Brazil	China	Indonesia	Vietnam	India	Europe -28	Mexico	Australia	New Zealand
	Production	Normal	Normal	Normal	Normal	Normal	Normal	Normal	Normal	Normal	Normal	Normal	Normal
	Processing	Major Decline	Moderate decline	Minor decline	Minor decline	Minor decline	Major Decline	Normal	Major Decline	Minor decline	Normal	Normal	Moderate decline
	Demand	Moderate decline	Moderate decline	Minor decline	Minor decline	Minor decline	Major Decline	Minor decline	Major Decline	Moderate decline	Moderate decline	Minor decline	Normal
Next Quarter (Q3)		United States	Canada	Argentina	Brazil	China	Indonesia	Vietnam	India	Europe -28	Mexico	Australia	New Zealand
	Production	Minor decline	Minor decline	Normal	Minor decline	Normal	Normal	Normal	Normal	Normal	Normal	Normal	Normal
	Processing	Normal	Normal	Minor decline	Minor decline	Normal	Major Decline	Normal	Moderate decline	Normal	Normal	Normal	Minor decline
	Demand	Moderate decline	Moderate decline	Minor decline	Minor decline	Normal	Major Decline	Minor decline	Moderate decline	Normal	Moderate decline	Minor decline	Normal

Source: Rabobank 2020

Production Outlook

Rabobank's global beef production outlook has been revised down (*see Figure 3*). While Covid-19 is impacting production, consumption, and markets, there are also other factors that continue to affect production.

High levels of female slaughter in Brazil and Australia in the last couple of years have led to a reduction in breeding herds. Improved seasonal conditions in Australia have allowed herd rebuilding to commence, reducing the number of cattle sent to slaughter. In Brazil, weak domestic demand, uncertain export opportunities, and good seasonal conditions are expected to see more cattle finished on pasture. As a result, we expect Brazilian beef production to be down by about 1% on 2019 levels.

Argentina has seen a combination of challenges in the domestic market and with exports. While we had anticipated a challenging domestic market in 2020, our view had been that exports would keep rising, as they had done in 2019. However, changes in tax regimes and softening demand in export markets have brought our production estimate down.

A processing slowdown in the US has reduced the throughput of plants and slaughter numbers and will affect 2020 US beef production overall.

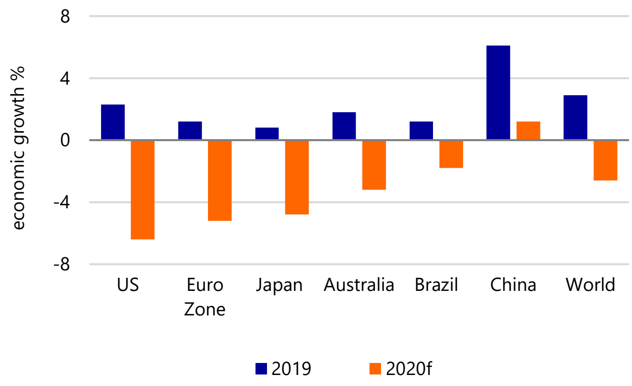
In China, beef has seen ongoing firm demand, as high retail prices for pork provide a substitution opportunity.

Our revised forecast for 2020 beef production in the major production countries is for a decline of about 1% on 2019 levels (*see Figure 3*).

Beef Demand in a Slowing Economy

In the special report 'Global Economic Contractions: Reassessing the impact of Covid-19,' Rabobank forecasts

Figure 4: Global GDP growth of selected countries, 2019-2020f



Source: RaboResesarch, NiGEM, Macrobond 2020

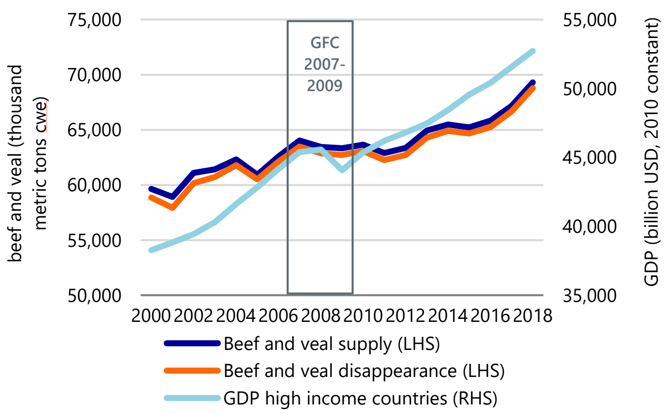
a severe downturn in the global economy, with world economic growth contracting 2.6% in 2020 (*see Figure 4*). The US is expected to face the largest contraction at 6.4%, followed by the euro zone, down 5.2%. Developing economies, while still experiencing a dramatic drop in growth, are expected to see less contraction, largely because these economies were starting from a higher growth rate before the coronavirus pandemic. Brazil's economy is set to contract by 1.8%, while China will grow by 1.2%.

The current reduction in economic activity resulting from Covid-19 forces one to consider the impact of reduced economic well-being on global beef demand and consumption.

A Slowing Economy Leads to Slowing Beef Demand

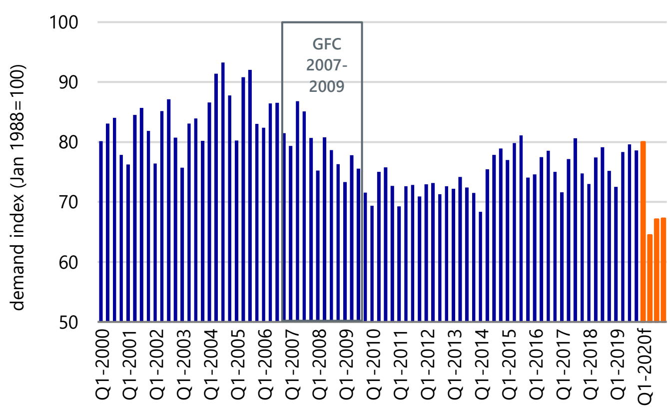
As a perishable product, annual global beef ending stocks typically represent less than 1% of annual supply, according to the USDA FAS. We quickly consume what we produce, and there is a consistent relationship

Figure 5: World beef and veal supply disappearance and GDP, 2000-2018



Source: USDA FAS, World Bank, Kansas State University, Rabobank 2020

Figure 6: Quarterly average US domestic beef demand index, 2000-2020



Source: Kansas State University, Rabobank 2020 between production and consumption, even in times of economic stress (*see Figure 5*). Understanding that whatever beef is produced will be consumed relatively quickly, the question becomes at what price will we consume the given quantity?

During the global financial crisis (GFC), US beef demand (as measured by Kansas State University) declined. At the same time, there was only a flattening in global beef production and consumption (*see Figure 6*). Determining the exact cause-and-effect timeline requires a deeper analysis given the cyclical nature of beef production and the multi-year time delays and momentum in the beef production process. However, such a drop in demand suggests that substantial price discounting was required to clear product through the marketplace. The projected economic slowdown in 2020 foretells a strong likelihood that we will experience a reduction in beef demand.

Europe experienced a similar drop in demand for beef during the last economic slowdown. To stimulate consumption during economic downturns, discounting is usually needed. With the economy starting to crumble in 2008, sales growth in value terms was much lower than that in volume terms, indicating decreasing prices (*see Figure 7*). In 2008, the value of European beef sales dropped the most of all proteins, dipping 2%. Interestingly, in 2009, with the volume of sales declining, the value of sales for beef remained stable, indicating increasing prices and a lift in demand.

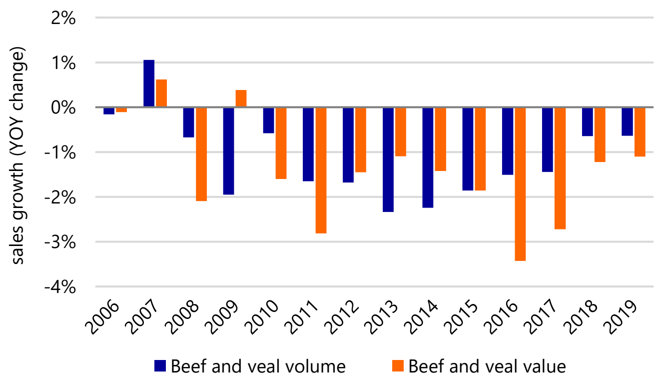
Whereas global beef consumption is rigid in its relationship to production, where and how beef is consumed has more flexibility. During the GFC, major beef exporters shipped a smaller percentage of production (*see Figure 8*). Congruently, beef imports represented a smaller percentage of total beef supplies for major beef importers. On balance, if major importers face economic challenges, major beef exporters will be forced to chew through a greater quantity of beef than would be expected in good economic times.

With economic stress, there is the risk that consumers may shift to cheaper animal protein products, such as pork and poultry. Many consumers will also shift to less expensive beef. We expect demand for cheaper beef products to increase, while demand for middle meats softens in step with consumers' financial situation.

Currently, the closure of foodservice, particularly middle-meat focused hotels and high-end restaurants, is the primary driver in the incredibly narrow spread in the US market between the value of the round primal (a source of many retail cuts) relative to the rib primal (a source of steaks served at restaurants). A deep recession will likely maintain this unusually narrow spread, even if dine-in restaurants find creative ways to reopen.

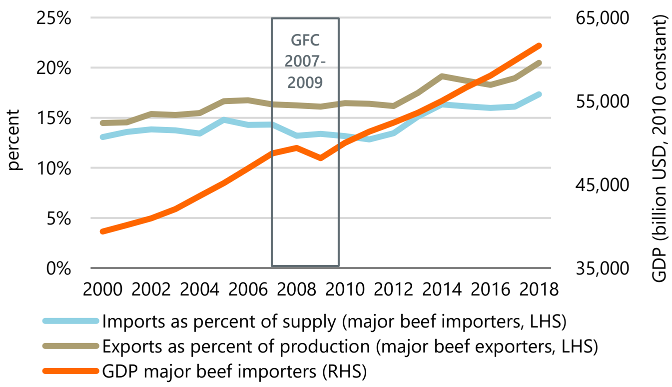
Overall, we expect changes in the patterns of consumption to continue to evolve over the balance of 2020 in all parts of the world. This will result from the effects of the economic recession, combined with restrictions on some consumption channels during Covid-19 lockdowns, and in some markets, seasonal conditions also play a part.

Figure 7: EU beef and veal sales growth, 2006-2019



Source: Euromonitor, European Commission, Rabobank, 2020

Figure 8: Beef and veal trade relative to GDP, 2000-2018



Source: USDA FAS, World Bank, Rabobank 2020

Regional Outlooks

Australia: Constrained by Supply

Limited cattle supplies and improved seasonal conditions continue to dominate the Australian cattle market, although Covid-19-associated pressures are causing disruption at the consumer end of the supply chain. Foodservice and restaurant trade were severely limited following the imposition of social distancing measures in mid-March. March retail sales figures show a 23% decline (seasonally adjusted) in restaurant, café, and takeaway turnover. Meanwhile, the pivot to retail and panic buying caused retail food turnover to increase by 24%. Preliminary figures for April show food retail contracting 17% as panic buying subsided and consumers worked through food stockpiles. With the number of Covid-19 cases now stable or declining in some jurisdictions, containment measures are being relaxed, and foodservice and restaurant trade are expected to slowly increase.

Australia has been fortunate to avoid any major disruptions to beef processing capacity. Rather than Covid-19 disruptions, Australia's beef processing is being limited by a reduced availability of cattle. East coast cattle slaughter for the year to date (May 11) is down 8% on 2020 volumes. NSW and Queensland female slaughter is down 13%, demonstrating the producer demand to rebuild herds. Reduced slaughter has resulted in reduced exports, down 1% YTD (April). But market disruptions resulting from Covid-19 have also seen a shift in export volumes between markets, with volumes to China down in February and March but recovering in April, while exports to the US dropped in March and April (*see Figure 9*).

Australian cattle prices increased through the first two weeks of May, following US import prices higher. However, with four major processing plants having their export licenses to China suspended on May 12, we may see prices ease off until the matter is resolved.

Brazil: Covid-19 Raises Processor Risks

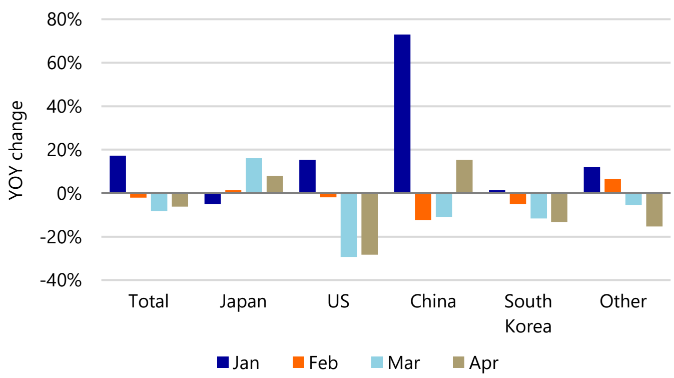
The spread of Covid-19 continues at an increasing pace, and the risks of possible impacts on the processing sector have put the market on alert. As of May 18, three poultry plants in the State of Rio Grande do Sul had to cease operations due to a lack of labor, and there are possibilities that other sectors could also become affected, leading to limitations in meat supply.

On the supply side, beef production has been lower since the beginning of the year. Cattle slaughter is believed to have fallen about 9% in Q1. Low volumes of cattle are currently being presented for slaughter following the high female slaughter in the last two years. Heifer slaughter was 18% and 11% higher YOY in 2018 and 2019, respectively, which has reduced breeding capacity.

On the demand side, a seasonal decline in domestic consumption and a reduction in China's imports due to the Covid-19 lockdown (down 29% MOM in February) contributed to easing demand. Domestic consumption usually lifts through March as schools return and taxation expenditures decline. However, lockdown requirements have meant consumption has remained subdued.

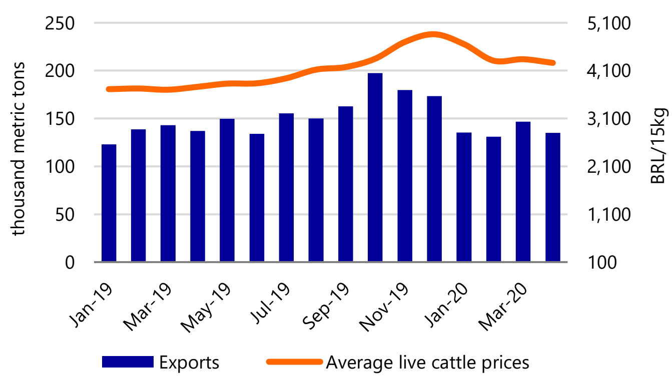
At this stage, the reduced supply and contracting demand have balanced each other out with stability in live cattle and wholesale beef prices (*see Figure 10*). But, with reduced rainfall and drier conditions in recent weeks, the supply of animals for slaughter is expected to increase, putting downward pressure on cattle and beef prices in the domestic market, particularly as quarantine restrictions remain in place or increase. With increasing supply and declining domestic consumption, we expect exports to increase. The volumes shipped in April are 1% higher YOY, and in value terms are 19% higher, supported by the strong devaluation of the currency – down 40% since the start of the year.

Figure 9: Australian monthly beef exports YOY change, 2020



Source: MLA, Rabobank 2020

Figure 10: Brazilian beef exports and cattle prices, Jan 2019-Apr 2020



Source: MDIC, Rabobank 2020

Canada: Starting to Recover

The Canadian cattle and beef market has been through the same Covid-19 struggles as the US market. However, because of its smaller size and dependence on fewer plants, closure of one or two plants places an even greater pressure on the market. Fed cattle prices started the year above CAD 160/cwt. In April, with some of Canada's largest beef processing plants shut down, prices collapsed. Fed cattle on May 8 were trading at CAD 107/cwt (*see Figure 11*).

Canadian processing plants are coming back on line, but they continue to work with labor limitations. Given that Canadian packers started having Covid-19 operating problems before the US, it is believed they will be able to start working out of the problem earlier than the US.

Canadian cattle on feed numbers have been dropping, driven by a counter-seasonal decline in placements. Marketings held up well through the first quarter but have declined in April and May.

Canadian beef exports for the first quarter were down 8% on volume and 7% on value. The decline in exports was driven by an 8% drop in shipments to the US, a 25% reduction in exports to Hong Kong, a 51% decline in shipments to China, and an 11% reduction in shipments to South Korea. The reduced export sales to Asia are believed to be a result of lower consumption due to Covid-19 restrictions, and we expect them to recover in time. The good news on the export front is that Canada's participation in the CPTPP has paid solid dividends. Exports to Japan, Mexico, and the EU were up 11%, 4%, and 60%, respectively, in the first quarter.

Over the past two weeks, fed cattle prices have posted a sizable recovery, driven largely from the record beef cutout values across the US and Canada. With packer margins at unprecedented levels, packers have been able to pay up for cattle. Better-than-expected recovery in deferred live cattle futures has provided support to feeder cattle prices, as cattle feeders have been able to buy replacement cattle with hedgeable margins.

China: Consumption Gradually Recovering

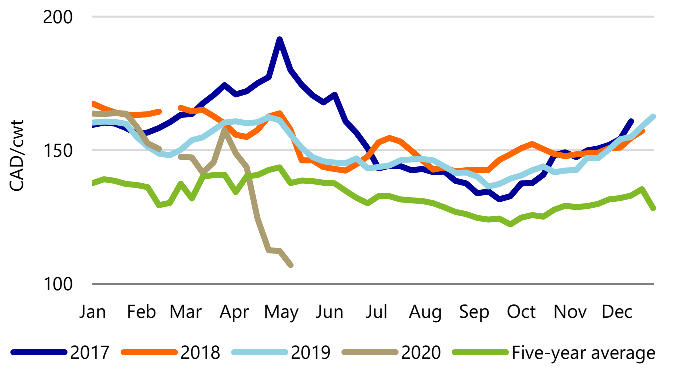
China's beef consumption is gradually recovering as foodservice slowly reopens. However, we believe full recovery will still take a few more weeks or even months, as many consumers still don't feel confident to eat out or get together. Furthermore, ongoing quarantine measures in some regions continue to restrict dining numbers in restaurants.

Although there has been a shift from foodservice to food retail for general food items, the shift in beef consumption has been limited as beef is not a typical home-cooked protein. Under normal conditions, the foodservice channel is estimated to account for 60% of total beef consumption in China. Beef consumption is expected to decline by 4% to 6% in 2020, mainly driven by the sharp decline in foodservice.

According to China Statistics Bureau, beef production in Q1 2020 was 1.56m metric tons, down 6.4% YOY. During lockdowns in February and March, there was some delay in cattle slaughter due to the disruptions of live cattle transport and the temporary closure of cattle trade markets. This resulted in tight supplies of fresh beef in the retail market, though frozen beef storage in foodservice was high. As such, China's fresh beef retail prices decreased only slightly to CNY 83/kg in April – usually the low season – from the peak of CNY 85/kg in February, still up 21% YOY (*see Figure 12*). In the coming months, we expect beef prices to stay strong, supported by tight pork supplies hit by African swine fever.

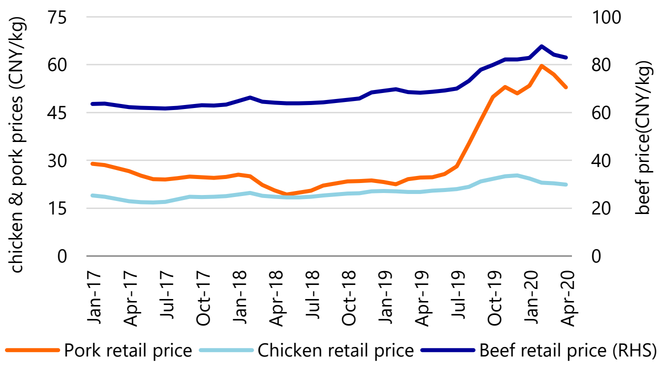
China's official beef imports still managed to reach 513,000 metric tons in Q1 2020, despite operation suspensions during lockdowns in February. This is 65% higher than the same period of last year and only down 2.6% on the record volumes in Q4 2019. Brazil was the only one out of the major exporting countries that increased exports to China, raising its share from 26% to 35% of total imports.

Figure 11: Alberta fed steer prices, Jan 2017-May 2020



Source: Canfax, Rabobank 2020

Figure 12: Chinese retail meat prices, Jan 2017-Apr 2020



Source: Chinese Ministry of Agriculture, CAAA, Rabobank 2020

Europe: Easing out of Lockdown

While Europe slowly brings the pandemic under control, worker absences at plants and sporadic plant closures due to the virus continue to pressure beef processing capacity. We expect this will continue into Q3 and offset the production growth experienced at the start of the year – production was up 1.3% YOY in February.

Slowing global trade, issues with container availability, and weaker global demand may increase inventories and associated costs. Net beef exporting countries, such as Ireland, the Netherlands, and Poland will need to find ways to manage these trade disruptions. In the first two months of 2020, EU-27 beef exports (119,000 metric tons) were up by 2% YOY. Volumes to the UK and China/Hong Kong dropped 16% and 4%, respectively. While recovering foodservice demand in China may support exports in Q3, we expect beef demand in southern Europe to be soft, given lower tourism activity. Imports in January decreased by 14% and will likely trend downward in Q2, as demand is seasonally lower during summer months.

Brexit negotiations continue, although they are far from efficient given the difficulties posed by social distancing. Principal differences between the two parties are yet to be worked out, and at this moment, agreement on a future trade deal in 2020 appears distant.

The average EU cattle price in 2020 has been below 2019 levels and dropping since the first week of March (-6%) (*see Figure 13*). We believe this is caused by deteriorating carcass value and softer demand due to the shutdown of foodservice across Europe. We expect recovery on the demand side as countries begin to ease lockdowns and reopen the hospitality and foodservice sectors. However, prices will likely remain under pressure, as high inventory levels built-up during lockdowns will remain in the market. The Private Storage Aid for beef, announced by the European Commission, will reduce product on the market. However, it may remove a high-value cut, such as steak, from the market, likely pressuring deadweight prices and carcass valuation.

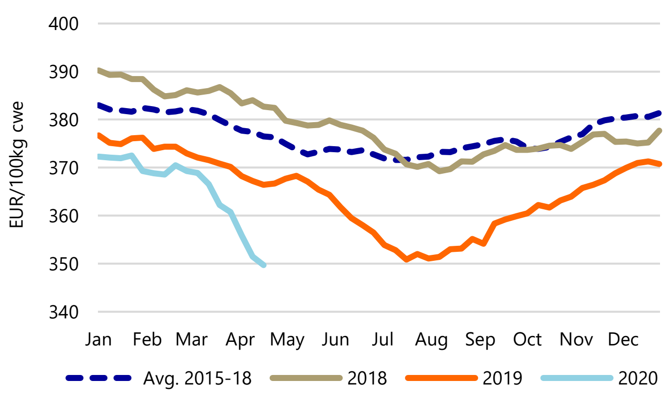
Indonesia: Deteriorating Economic Conditions Affecting Beef Demand

Imports of feeder cattle are expected to decline between 15% and 20% this year. With current finished steer prices and exchange rates, Indonesian feedlotters would need to procure Australian feeder cattle below AUD 2.75/kg lwt to break even. Further casting a shadow over the situation, we have seen slower movements of cattle through the slaughterhouses as demand for offal has dropped due to foodservice closures and demand for hides has been poor given the significant decline in the apparel industry. Lower offal and hide prices have not been offset by higher beef prices, as demand has weakened.

The drop in tourism, decline in oil prices, weaker currency, and sudden pause in festivities (where beef is customarily served) have had an adverse impact on overall beef demand, particularly in comparison with other, cheaper proteins. We expect demand to remain subdued during this year's Lebaran season, as annual thirteenth-month salaries may not be forthcoming in the affected sectors. While expectations are for the economy to reopen in July, we believe the recovery in beef demand will lag behind, as some foodservice outlets may be permanently impacted by Covid-19.

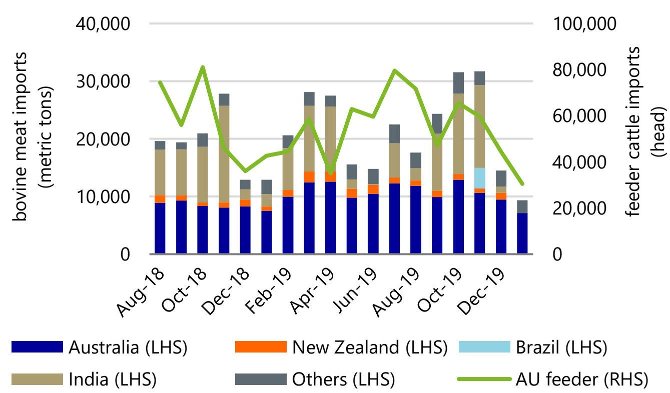
Indonesia imported a higher-than-usual number of feeder cattle in October-November 2019, as drought-driven herd liquidation in Australia had provided a window for lower prices. Over the same months, imports of frozen Indian carabeef and Brazilian beef also increased significantly (*see Figure 14*). The increased inventory caused a steeper seasonal decline in imports in January and February, before Covid-19 quarantine measures came into force. In view of reduced carabeef stock and supply chain disruptions in India between late March and early May, we expect frozen beef imports to temporarily shift toward Brazil.

Figure 13: Average EU cattle price, Jan 2018-Apr 2020



Source: European Commission, Rabobank 2020

Figure 14: Indonesian beef and cattle imports, Aug 2018-Jan 2020



Source: MLA, UN ComTrade, Rabobank 2020

Mexico: Production Increasing

The production side of the beef industry continues to perform well, with minor setbacks on the local demand side. While demand for beef in foodservice has declined, some of the affected product has been redistributed to retail or export markets. Despite solid production and alternative channels to sell beef, lower incomes will add to already depressed demand. Consumer purchasing power will be tested, as Mexico was already going through a technical recession and prospects for growth are not that optimistic.

Mexican beef production was up by 2.5% in Q1 2020 YOY. Despite lockdown measures, agriculture continues to be essential business, and there has been no disruption at the processing level. Companies continue to be proactive, implementing good practices to avoid infection of workers. Biosecurity is becoming more strict and is likely to remain so during 2020. Processing plants have not seen any delays on live cattle thus far.

Consumption of beef has declined with the closure of the foodservice sector, and even though take-out continues to operate, the volume sales in this sector have also declined. As a result, average beef carcass prices for January to May have dropped 8% compared to 2019. Consumption of beef will recover as the economy reopens, but we believe it is likely to see lower growth than last year. With a rapid economic slowdown, Mexico's consumers will adjust their expenditure patterns and likely trade down to lower-price proteins.

Exports have been exceptional in 2020 and have been crucial to offset some of the losses due to lockdown measures taken in Mexico. As the US faces limited supplies with processing plants forced to scale back or close, Mexico has seen export sales grow (*see Figure 15*). Beef exports to the US were up 6,000 metric tons (9%) in Q1, compared to same quarter last year. Exports to China have also seen strong growth, and companies that have been able to export will see less pressure on margins.

New Zealand: Major Processing Disruptions Impact Prices

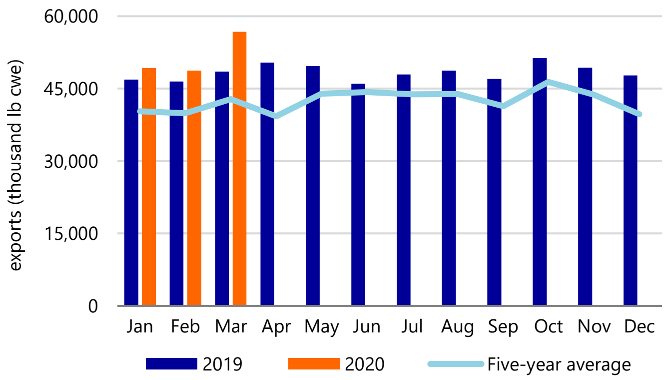
New Zealand cattle prices eased across all classes over the last quarter. North Island bull and prime prices were both sitting at NZD 4.85/kg cwt as of mid-May, down 3% since early February. In mid-May, cattle prices were down between 6% and 15% on last year, depending on the class of cattle and region in which producers are located.

The easing of prices was mainly due to reduced processing capacity resulting from Covid-19 lockdown requirements. Physical distancing rules meant processing capacity initially dropped by about 30% when New Zealand first went into lockdown in late March. As a result, processing costs increased, and with cattle supplies far outweighing available space, cattle prices declined through April. Efficiency gains since late March have improved throughput, and plant capacity in mid-May is down about 10%.

Securing space to kill cattle was a major challenge for New Zealand cattle producers over the last quarter, with challenging climatic conditions prompting a surge in supplies leading up to and during the period of reduced processing capacity. Kill space will remain restricted over at least the next month. Processors, while still operating slightly below normal capacity levels, will need to work through the seasonal peak in New Zealand's cow kill and the backlog created during April. Normal seasonal drops in supply are expected to occur in the second half of Q2.

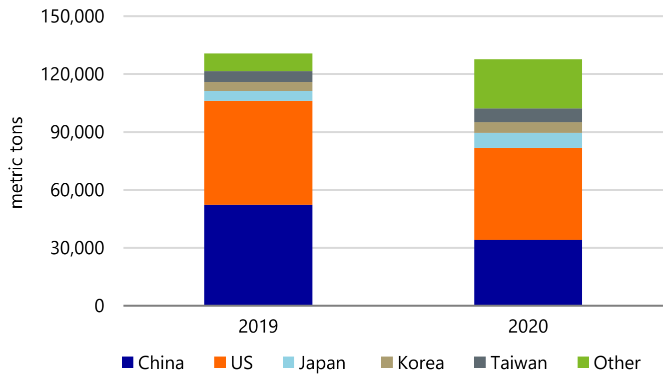
Total New Zealand beef exports were only marginally down (-2% YOY) for the February-April period, although there was a significant shift in the composition of export markets over that period (*see Figure 16*). New Zealand exporters effectively managed the significant market and trade disruption caused by Covid-19. While Chinese demand weakened, product was redirected into those markets where demand remained strong. With the assistance of a weakening NZD, this saw average beef export returns in NZD terms increase 10% YOY for the February-April period.

Figure 15: Mexican beef exports to the US, Jan 2019-Mar 2020



Source: USDA, Rabobank 2020

Figure 16: NZ beef exports February-April, 2019 vs. 2020



Source: B+L NZ Economic Service, Rabobank 2020

US:

In late March, the Covid-19 pandemic's major challenge to the beef supply chain was shifting a large portion of beef consumption from foodservice (typically 59% of beef consumption) to retail. That changed in early April. Despite enhanced sanitation and social distancing measures, several packing plants became hotspots for Covid-19. These outbreaks compelled several major plants to temporarily close, while those still operating were doing so at reduced capacity. For the weeks ending April 4 through to May 9, cumulative cattle slaughter was down 23% YOY, with the week ending May 2 seeing the largest drop, down 37% YOY.

Such massive and simultaneous supply chain shocks have never been seen before. The imbalance created between the number of fed cattle ready for harvest relative to plants' operational slaughter capacity has put immense negative pressure on live cattle prices (*see Figure 17*). The reduced availability of wholesale product has sent cutout price to all-time highs.

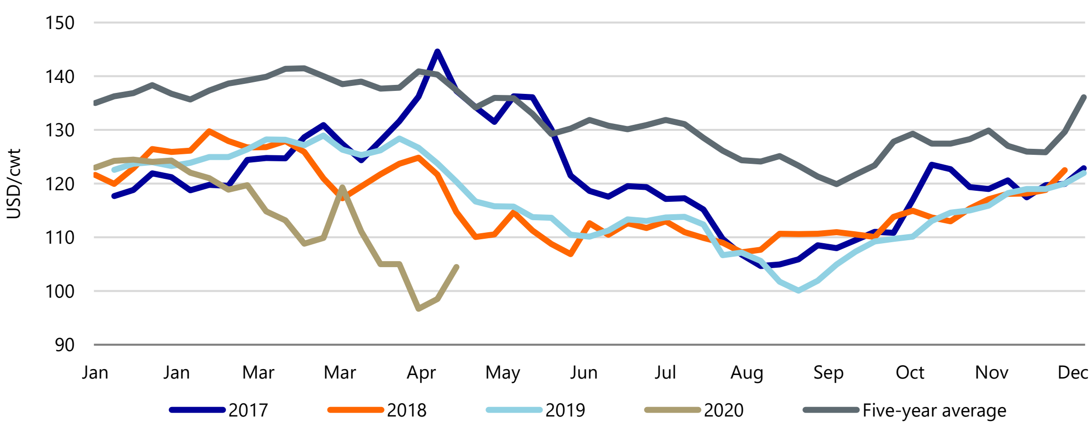
With the president's executive order on the meat packing industry, there's hope that the worst disruptions have passed. The week ending May 9 was the first WOW increase in slaughter since March. Unfortunately, the backlog in harvest-ready cattle created over the previous six weeks (estimated near 900,000 head) has backed up the entire production chain, from cattle feeder to cow-calf producer. Even if plants return to relatively normal processing capacity in June, it will likely be well into 2021 before the industry has fully digested the backlog.

Feeder cattle prices will track deferred live cattle futures, with slow fed cattle marketings and financial damage to cattle feeders curtailing demand in the short term. Stockers/backgrounders have also been reluctant to sell into a down market. March placements were down 23% YOY. April weekly feeder cattle receipts were down 29% YOY. Such delayed feeder placements likely creates a gap in fed cattle marketings in October, thus challenging bunk space for the fall calf run.

Q1 beef exports set a record pace, up 9% in volume and 8% in value. With favorable trade deals in place, weekly beef export volume has remained strong, up 18% for the YTD through to April 30. However, global recession, a strong US dollar, and rising geopolitical tensions put future export demand at risk.

As packing plant capacity disruptions are solved, the relative value between beef and live cattle will return to traditional levels, although the global macroeconomic challenges will weigh on the absolute price level of both. Cutout price should fall dramatically as the panic around short-term beef supply shortages is relieved. Q3 live cattle prices could trade near USD 105/cwt, with potential for USD 110/cwt to USD 115/cwt in Q4. Expect volatility moving forward as the market continues through uncharted territory.

Figure 17: US Five-Market Area Steer Price, January 2017-May 2020



Source: USDA, Rabobank 2020

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