

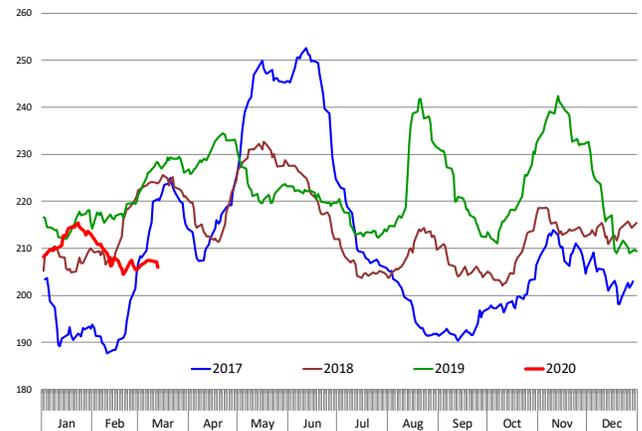
The spread of Coronavirus into a global pandemic has so far impacted both lean hog and cattle futures. Since mid January, **the April fed cattle contract is down 22%, the April feeder cattle contract is down 19% and the April lean hog contract is down 18%**. Prices in product markets have not declined as much but it is important to recognize that futures are forward looking and they try to price in all the information and trends at a given point in time. The speed with which Coronavirus has managed to alter life in the US and other markets has resulted in significant price erosion.

Beef prices normally move higher into March and April as the improvement in weather bolsters spring features and foodservice traffic improves. It may be too early to say whether consumer beef demand has been affected but early signs do not bode well. **The choice beef cutout last night was \$206.01/cwt, down 9.5% compared to a year ago.** Beef output has been running above year ago levels in the last few weeks and this has likely contributed to the decline in the cutout. We think fed cattle slaughter this week will be around 499k head, 5.2% lower than a year ago. In the last four weeks fed cattle slaughter has averaged 498k head per week, 7% higher than a year ago. In addition to more cattle coming to market, **fed cattle weights continue to run well above year ago levels and we estimate that weekly fed beef supply in the last few weeks has been running about 8-9% above last year's levels.** The disruptions created by the spread of Coronavirus and efforts to contain it have just started to materialize. However, end users probably started to anticipate the possibility of a slowdown in sales and acted accordingly. We can only imagine the conversations between purchasing and sales department teams for large foodservice organizations as they considered the impact the disease had in China. Numerous media reports from the past month have highlighted sales declines of 40% or more and that likely got people's attention.

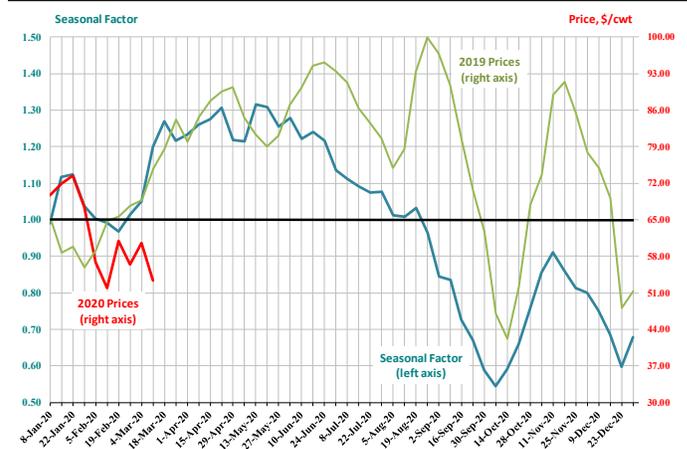
All beef primal values are lower than a year ago but some items have been affected more than others. The brisket primal, an item that benefits from both St. Patrick's day parties this time of year and export demand, is down 18% from a year ago. The rib primal is down 10% at this time while the loin primal is down 12%. The best performing beef product at this time are beef rounds, an item that usually benefits from retail business at this time. Indeed, we continue to see reports of strong retail sales, which have benefited some items. One could surmise that ground beef would benefit from good retail demand but there are two issues at this time. First, ground beef at retail benefits more when consumers are out there grilling. The current rush of sales at retail seems to be more for shelf stable products and frozen foods. Second, there is a fairly large amount of ground beef that is sold through foodservice channels. One could argue that fast food drive through business should continue to perform well. However, if more people are working from home, that could eventually impact that side of the business as well. Furthermore, there is a

CHOICE BEEF CUTOUT VALUE

Daily Prices, \$/cwt. Source: USDA-AMS Mandatory Price Reporting Service



50CL Trlm 5-Yr Seasonal vs. Current Price Trends



fairly sizable amount of ground beef that is sold through restaurant chains and that part of the business could be significantly impacted. The chart above shows the price trend of 50CL boneless beef trim, a key component in the various ground beef formulations. Last year the price of 50CL trim was in the mid 70s. Yesterday it was at 56 cents and two days ago it was trading at 53 cents. For now much of the reporting is that things will get worse before they get better. In this situation, foodservice buyers and processors that sell into those channels, have taken a very defensive stance. Buy what you need, then wait and see. The result is weak pricing for now and dramatically lower futures for this spring and summer.



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