

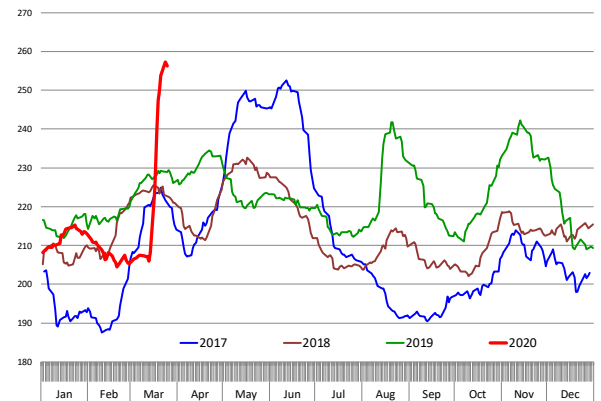
Look for **a discussion of the upcoming USDA ‘Hogs and Pigs’ survey in tomorrow’s report.** Today our focus will be on the surge in beef wholesale prices, how sustainable that is and implications for fed cattle prices in the near term.

Early last week this report noted that “retailers are selling out of meat in major metropolitan areas. In certain areas, we are hearing reports that stores are pulling featuring activities, and finding it unnecessary to offer discounts to move large volumes of meat because of panic demand...” The resulting **surge in wholesale beef prices is unprecedented. Between March 13 and March 24, the choice beef cutout jumped \$48/cwt or 19%.** The increase was largely due to higher prices for cheaper beef cuts sold at retail. Please note that a large supply of beef sold at retail is in ground form. However, the value of derived from ground beef is attributed to the various primals that product is derived from. The value of the chuck primal on Monday was quoted at \$242.37/cwt, \$72.55/cwt or 43% higher than on Friday, March 13. The increase came at a time when beef production is currently running as much as 8% higher than a year ago (+5% increase in fed slaughter and +3% increase in fed cattle carcass wt.). Quantity demanded in some parts of the country is dramatically higher than normal. While some may argue that hoarding food is not warranted, it is a normal human reaction that makes one feel as if they have some control over their future. It happens with any natural disaster (hurricane, blizzard) and this is no different, just on a much larger scale. Prices for all beef items were higher last week. The loin primal last night was quoted at \$299.49/cwt, \$31/cwt or 12% higher than on March 13. This is somewhat puzzling given reports of restaurant closures, which presumably will cut into beef demand. We think that more than half of the beef produced in the US goes into foodservice, while exports account for about 12% and the remainder goes into retail. Given this dynamic, one would expect the surge in retail demand to be offset the by the slowdown in foodservice sales. Retail stores were cleaned out almost immediately of product and, with limited inventory, the surge of retail orders to packers was just as immediate. On the other hand, the longer supply chain between foodservice operators and packers means there is a lag in demand transmission signals. Distributors that work with foodservice operators already had orders in hand and likely pushed them through. They likely wanted to see the re-orders drop off before adjusting. That is likely happening as we speak. There are also a number of processors that work with foodservice companies that will look to maintain operations, at least in the near term. Eventually, they will also have to balance the amount of product they will hold in inventory relative to the orders coming through. **The bottom line is that while the surge in retail orders was immediate, we should expect the slowdown in foodservice demand to play out in the next week or two.**

With that said, we cannot overstate the importance of the foodservice industry for the US beef market. Ground beef retail prices have spiked due to the surge in consumer demand. However, more ground beef will become available as orders into quick service restaurants fall off. According to a study commissioned by NCBA, about 64% of the beef sold at foodservice is ground beef. We think that ground beef tends to be fattier than what is normally sold at retail. This would imply an excess supply of 50CL trim, something supported by the extremely depressed market for this item. As we move forward, the excess supply of ground beef and other beef products currently going into foodservice should start to pressure cutout values.

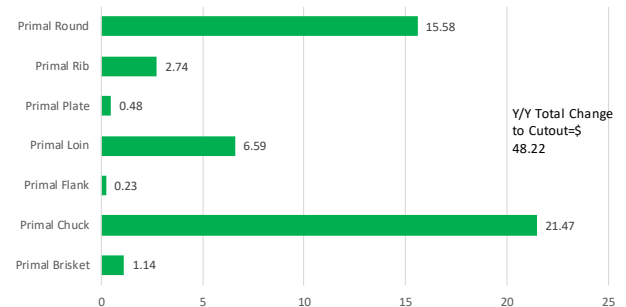
CHOICE BEEF CUTOUT VALUE

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



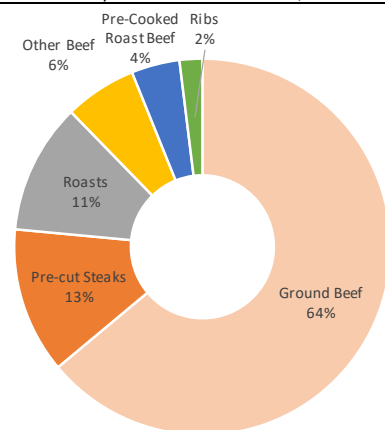
\$ Contribution to the Change in the Value of the Choice Cutout: 3/13 - 3/24

Source: USDA Data. Analysis by Steiner Consulting



Share of Various Beef Products Sold at Foodservice

Source: Technomic study done on behalf of NCBA, 2018



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