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Daily Livestock Report

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Good Friday CME Calendar: Please note that there will be no livestock trading on the CME platform tomorrow in observance of Good Friday. The link below will take you to the CME holiday calendar if you need to look at other products.

There are two narratives in the market at this time and, unfortunately for producers, they are both negative, at least in the near term. On the supply side, there are increasing concerns about the ability of packers to process livestock and poultry in a timely fashion. In yesterday's report we highlighted the fact that Corona virus has not spared workers and staff at processing plants and **sometimes there is no choice but to stop operations in order to take care of the labor force**. So far those disruptions have been relatively small although this is slowly becoming a concern. Producers are the ones bearing the brunt of this because animals still need to be fed and sold. Adding more pounds quickly becomes a money pit, both in terms of operating costs and the discounts applied when an animal is out of spec. Yesterday we thought fed cattle slaughter for this week would be about 7% lower than a year ago. Today it appears slaughter could be down 10%. These projections assume we maintain the current pace of daily slaughter and a Saturday fed slaughter of around 35k head. Even if we assume that Saturday slaughter will be the same as the week before, weekly slaughter still would end up down 8.6% from a year ago. Either way you look at it, **there has been a slowdown in processing, in part because of Corona virus impact on the labor force and in part due to the extreme disruption that it has caused to foodservice demand**. Which brings us to the other narrative—demand. Everyone knows the immediate impact the disease has had on the foodservice industry.

Market research reports suggest overall **foodservice sales are down anywhere between 45% and 65%**. Fast food is doing better than most because it operates drive throughs and has also developed in recent years a robust food delivery system. The ones hit really hard are independent restaurants, like the coffee shop near our office that relied on breakfast and lunch business from nearby businesses. Fine dining, casual restaurants, bars and fast casual have seen sales down 70-100%. But for most rent is still due as are loan payments for items bought on credit. Over 50% of the beef consumed in the US goes through foodservice. And a large share (+65%) of processed pork is also sold through foodservice. That demand hole is only now starting to become evident, with belly, ham and 50CL beef trim in the mid to low 30s. These are historically low levels, especially when adjusted for inflation. No one knows when current lockdown measures will be lifted but in a recent survey, over 60% of restaurant operators indicated they are preparing for a 3-6 month business impact. And **one in five operators worry they may be go out of business**. And usually restaurant operators are the most optimistic people out there.

Export demand is also critical, especially for pork producers. This morning USDA issued its latest update on US beef and pork exports. We thought the latest export data was negative for pork in near term but a big jump in new sales may be viewed as supportive out front. Beef exports to Asia remain strong but forward sales continue to contract and dramatic drop in sales to Mexico a concern. There was **a big sale of 38,730 MT to China reported, the biggest such order in about a year**. At the beginning of March there was a cancellation of 45,222 MT of product and it appears we are starting to see some of that volume replaced. In **the last four weeks net sales to China have been a total of 82,877 MT. The implied weekly volume of +20,000 MT is higher than the pace of shipments so far this year and points to continued strong exports to this market going forward**. However, shipments to China last week slowed down somewhat and at 16,250 MT they were about 8.4% lower than the average of the past four weeks. What's concerning for the pork market in the near term is **the slowdown in both exports and sales to Mexico**. Pork export shipments to Mexico last week were 8,514 MT, 15% lower than the average of the previous four weeks. **Net pork sales to Mexico were 6,550 MT or 30% lower than the average of the last four weeks**. The business slowdown with Mexico and the sharp foodservice demand contraction helps explain the collapse in ham prices. Bone-in ham values last night were under $31/cwt, with some 3.6 million pounds traded in the open market.

Beef export shipments last week were 17,702 MT, 6.3% higher than a year ago. Strong demand in Japan and Canada helped support exports last week. But new sales data was disappointing at 15,822 MT but also understandable. Prices for some items that are sold into export markets, especially chucks, are extremely strong at this time and combined with the strong dollar that has negatively impact new sales. As with pork, demand in Mexico remains a challenge. New net sales to Mexico were just 158 MT, 80% lower than the previous four weeks. Net sales to Japan and South Korea also slowed down this past week.

Official Pork Exports to China (Census) vs. Monthly Exports Implied from USDA-FAS Weekly Report

Source: USDA-FAS. Data in Metric Ton, Product Weight Basis. Calculations by Steiner Consulting