

Cattle and hog slaughter is on track to post big declines this week.

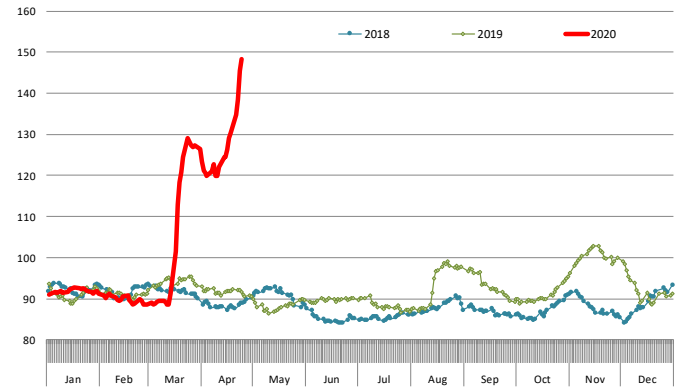
At this point our projections suggest at least a 30% decline in fed cattle slaughter and a 16% decline in hog slaughter vs. the comparable week a year ago. Our report on Monday should offer a better idea on slaughter for the week. But even that one will not be the final word since the USDA will revise its initial estimates using statistics it collects from inspectors. The initial estimates are based on information USDA receives on the number shifts running at major plants. That only gives an approximation of the number of cattle processed if the plant is running as normal. Right now nothing is running as normal. Yesterday USDA issued updated slaughter statistics for the week ending April 11. Fed cattle slaughter for that week was estimated at 406,173 head, 7,827 head smaller than the initial estimate two weeks ago. **Hog slaughter data also showed similar downward revisions.** The initial estimate for the week ending April 11 showed 2.407 million head were processed. Actual data published yesterday showed slaughter was 14,434 head smaller than the initial projection. On page 2 we have included two charts that show the deviation of the actual slaughter from the initial estimate for both fed cattle and hogs. This should help put the latest revisions in context.

The ability of packers to harvest livestock and poultry in a timely fashion has been significantly impacted by the spread of Corona virus in their work force. A number of hog processing plants are currently closed as they try to sanitize the workspace, test their employees and implement new measures to protect workers. A number of other plants are working below capacity due to workers either being sick, quarantined or not showing up for work due to fear of contracting the virus. On the positive side, the JBS cattle slaughter facility in Greeley Colorado is scheduled to resume operations today. At this point it is uncertain how long it will take for the plant to ramp up production. **Also unknown is how the spread of the virus and measures taken to contain it will impact capacity going forward.** The beef industry was already struggling with limited capacity before this virus hit. Now the situation has become extremely dire, reflected in the futures fed cattle prices for the summer months. Seasonally, peak demand for cattle processing happens in Q2 as more cattle are placed on feed during the fall months and normally come to market in the spring and early summer when beef demand peaks. Using analyst estimates, we calculate that on April 1 there were 4.473 million cattle that had been on feed for 120days or more. These are cattle that should be harvested in April and May. At this point we think steer and heifer slaughter in April could be down 427k head or 19% from a year ago. Could we see another half a million cattle get backed up in May also? That's the fear currently built in futures.

The shortfall in processing capacity tends to depress cattle prices while at the same time boosting meat prices. Product that traditionally sells at retail has seen a big jump in price, in part because demand in the very near term tends to be inelastic. Retailers have a certain number of products that they normally stock in the meat case, with ground beef a primary staple.

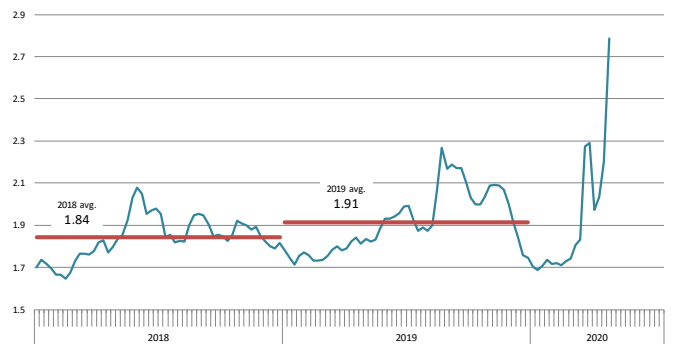
\$/cwt CONTRIBUTION TO THE CUTOUT FROM CHOICE BEEF CHUCK/ROUND PRIMALS

\$/cwt. Daily Values. Source: USDA-AMS. Calculations by Steiner Consulting

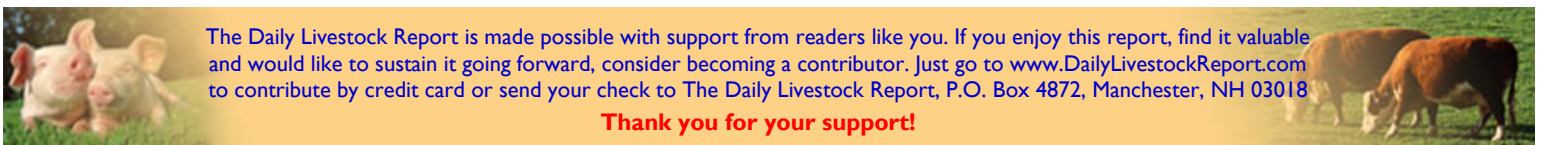


Ratio of Choice Cutout to Fed Cattle: 2018 - 2020

Weekly Price Ratio (Cutout/Live Cattle). Source: USDA. Analysis by Steiner Consulting



Round and chuck primal values have spiked higher as buyers are caught short and try to outbid each other in an effort to secure product. The value of the round primal last night was pegged at \$304.88/cwt, 77% higher than a year ago while the value of the chuck primal at \$270.48/cwt was 51% higher than a year ago. So retailers face a big price increase while producers and feedlots struggle to get their cattle sold and have to lower the price in the hope of getting the packer to schedule their cattle first. It is **a terribly unfair situation caused primarily by the supply chain dislocations created by the disease.** The choice cutout last night closed at roughly \$275/cwt while fed cattle prices are under \$100/cwt. Choice beef trading at a multiple of 2.75 to fed cattle is far higher than anything we have seen. Running below capacity will increase harvest costs for packers but current prices far exceed any such increases in cost. How you resolve this in a way that is equitable for producers but also recognizes the capacity crunch? We have no idea. We hope there will be more support for producers that are squeezed by this, enough to tide them over until the storm lets up a little.



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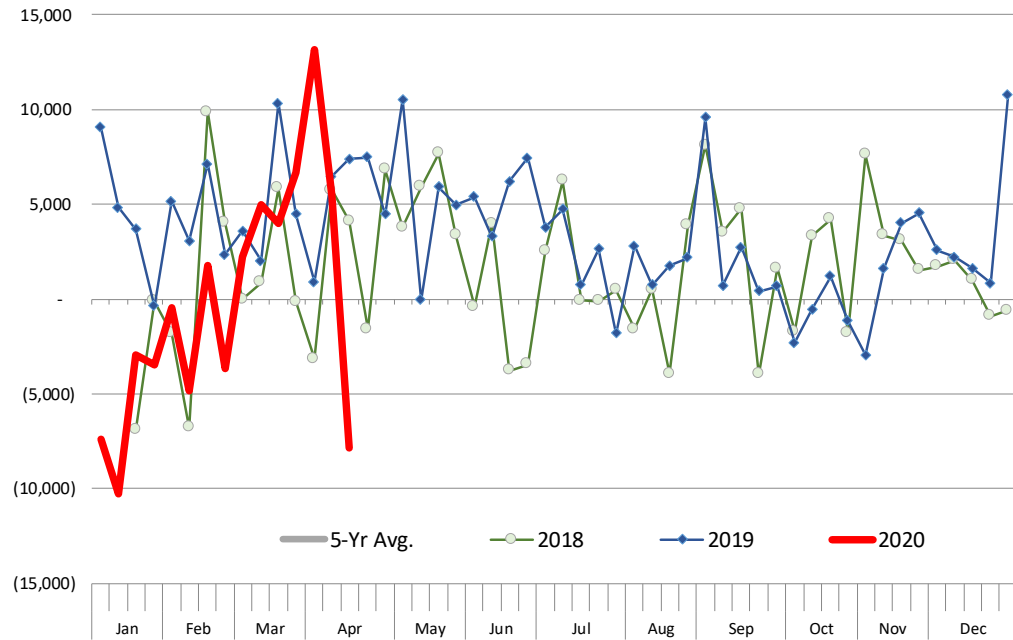
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ACTUAL FED CATTLE SLAUGHTER MINUS FIRST ESTIMATE

Source: USDA



ACTUAL HOG SLAUGHTER MINUS FIRST ESTIMATE

Source: USDA. First Estimate Reported on sj_Is710.txt. Actual Slaughter Reported in sj_Is711.txt

