Daily Livestock Report

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The release of the WASDE report usually gives us a chance to step back from the day to day moves in the market and focus on the bigger picture. Yesterday **USDA updated its balance sheet for the main proteins**, offering a more complete picture for the past year (all the data is now in) and updated expectations for the current year. Below are some highlights:

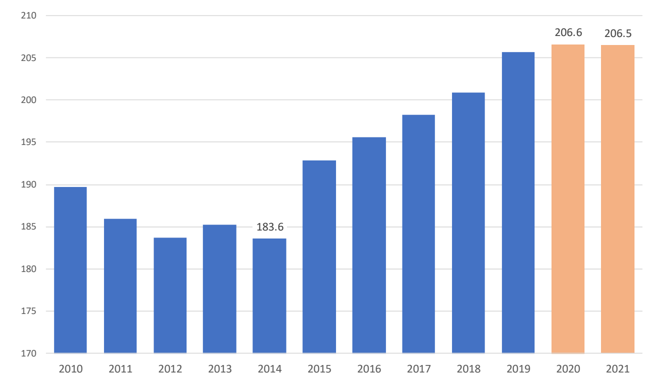
- USDA now thinks that **beef production in 2021 will be about 350 million pounds or 1.3% higher than the forecast presented just a month ago**. Current production forecast is also 1.4% higher than in 2020 and 2019. Why the change? USDA now expects more cattle to come to market, especially in the first half of the year. Also, fed cattle carcass weights are currently as much as 2% higher than a year ago, which will tend to bolster beef supplies in Q1. **The sharp rise in feed costs presents some challenges to this forecast, however**. The incentives have clearly shifted whereby producers will try to add more pounds outside feedlots. This should slow down the flow of cattle and limit beef production. Also, the supply of cattle on feed as of January 1 was only 0.3% higher than the previous year and the supply of feeders outside feedlots was 0.2% lower. Fed cattle weights were especially heavy last year as cattle got backed up along the supply chain. Weights are currently running heavy but y/y weight comparisons will change dramatically in Q2 and Q3.

- **USDA lowered beef imports by 110 million pounds or 3.5%** compared to January. The trend in imports during January clearly supports this as Oceania does not have as much beef to sell and South America is shipping all they can to their Chinese customers. A weaker US dollar also will tend to discourage imports while encouraging exports. USDA raised export forecasts by 55 million pounds and now expects US exports in 2021 to be up 6.4% compared to 2020 and up 3.9% compared to 2019. If US beef production does increase (as USDA forecasts), then accommodating the shift in the trade balance could work. Per capita beef consumption/availability for 2021 is now projected near the same level as last year (see chart). But if beef production volume does not materialize (likely in our view), then higher prices will be needed to ration out domestic and export demand. At this time futures clearly believe higher prices are needed. Despite the rally in futures, USDA is still pegging the average steer price for the year at $115/cwt, 1.5% lower than in 2019.

- USDA also ended up raising pork production by about 145 million pounds or 0.5% compared to what was put forth in January. **At 28.724 billion pounds pork production is now forecast up 1.4% from last year and almost 1.1 billion pounds or 3.9% higher than in 2019**. Just as importantly, per capita pork consumption/availability is currently the same as it was in 2019 at 52.4 pounds per person. It is interesting that as of this writing lean hog futures for all of 2021 are averaging $82.6/cwt compared to an average of $71.4/cwt for 2019 (using settlement of each contract). USDA made no changes to import or export forecasts. The latter are currently forecast to be down 1.5% compared to a year ago but still some 854 million pounds from 2019. Needless to say, robust exports remain critical for the pork market this spring and summer. For now, US producers have product to sell and world buyers are still coming here to cover their needs.

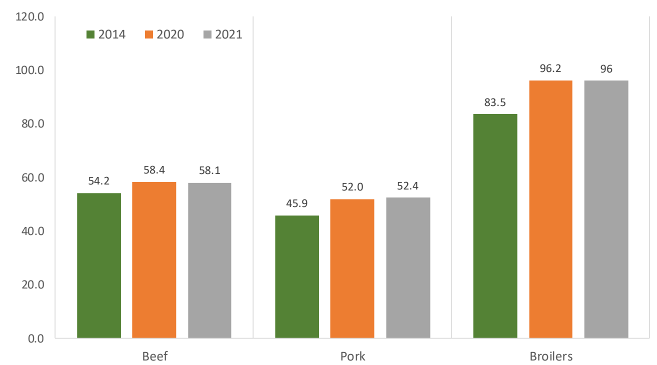
Annual Per Capita Consumption of the Three Main Species

Retail Wt. Basis. Lb./pp. Source: USDA. Analysis by Steiner Consulting



Per Capita Consumption of the Three Main Species since 2014

Retail Wt. Basis. Lb./pp. Source: USDA. Analysis by Steiner Consulting



Export Share of US Production of the Three Main Species

Source: USDA. Analysis by Steiner Consulting