Daily Livestock Report

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<u>Fed cattle slaughter last week was estimated at 463,000 head, 0.2% higher than the same period last year</u>. Please note that this total does not include cows and bulls. Overall cattle slaughter for the week was 574,000 head. The expectation is for cattle supplies to be at or above year ago levels in the next few weeks. We expect total slaughter this week to be around 578,000 head, with fed cattle slaughter in the 465,000 head range. Normally cow slaughter increases at this time of year, which will add to the front loaded feedlot inventories. Cattle coming to market are much heavier than a year ago, which implies total beef production in Q4 up around 2-2.5% compared to a year ago. Steer weights for week ending September 12 were an average 919 pounds, a new all time record. Given the normal seasonal for weights to continue to climb in the fall, **<u>we would expect steer weights last week were around 925 pounds</u>** (reflected in the chart) and they should gain another 10 pounds or so in the next four weeks. The pace of fed slaughter will be a very critical factor for weights, however. Packers may have an incentive to accelerate slaughter given strong margins but they also have to be careful to balance their daily supply with where they perceive demand to be. Last year we talked about short term inelastic demand as being responsible for pushing cattle/beef prices to all time record high. Because end users needed to purchase a given amount of product, a reduction of supplies under certain levels meant that prices would go up at a faster rate at the margin. This works in reverse as well and that is where we are today. We have seen this play out in the market for 50CL beef, which is currently stuck in the 40 cent range as short term supplies have overwhelmed the market. Last year the value of 50CL beef was in the $115 to $120 range. There is an expectation in the market that cattle prices will recover once we move past a short term glut of overfinished cattle. It is not an unreasonable expectation and it is already priced in the current spread between October and December fed cattle futures, with December holding a $5 premium. But for this to happen **<u>feedlots need to quickly work through their backlog of cattle, which may prove to be a bit more difficult than expected</u>**. True, packers have increased slaughter but they will likely need to increase it even more, and this could be problematic. Packers need to see notably better demand develop before they are willing to ramp up slaughter and pay up for cattle. Some of that better demand will come from year end holidays. Also, it is likely that some end users have been sitting on the sidelines deferring purchases and waiting for a bottom. Eventually they will come into the market. But fixing the demand issue for beef will take a bit longer than some appreciate. Foodservice operators made decisions regarding promotions and menu items months ago. It will take them months to once again focus on beef offerings. And beef prices still are at historically high multiples to other proteins. Export demand also remains weak and that is unlikely to improve in the short term, especially given lower beef prices across the world. So while cattle prices should find a bottom (we don't know yet what that is) in the next few weeks, a potential recovery may be capped by demand challenges, at least until spring.