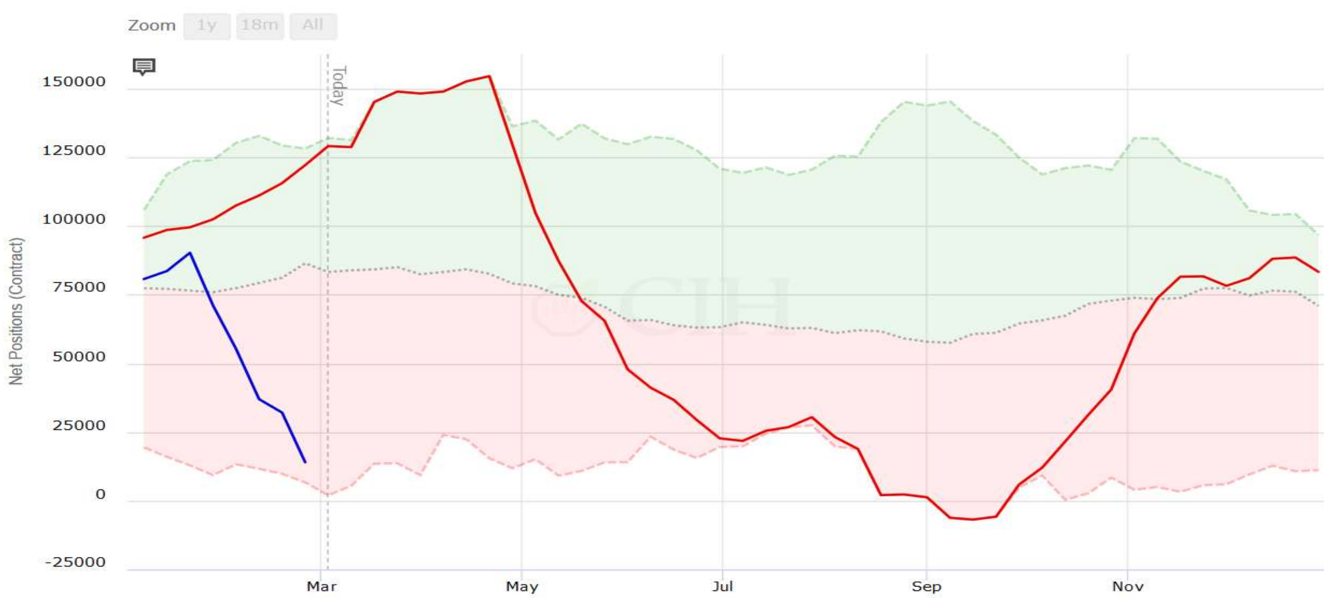
Beef Margin Watch: February

Cattle prices dropped sharply over the second half of February as expanding coronavirus fears and general bearish sentiment weighed on the market. Heavy fund liquidation has been a feature recently, as speculative length built up over Q4 and through January was significantly pared back in the past couple weeks. The managed money net position shed 76,245 longs since January 21 in the most recent CFTC report for the latest reporting period (see chart). Without much other feature in the market, this has led to a 6%-11% decline in fed cattle futures across the curve, with the heaviest pressure noted in nearby expirations. Demand concerns remain front and center in the market given that the potential spread of Coronavirus in the U.S. has especially negative implications for beef demand. Beef is by far the most important protein at foodservice, with 99% penetration and representing 16% of total food purchases made by restaurant operators according to NCBA. It is noteworthy that forward beef sales for delivery +61 days out are running 38% lower than last year based on a four-week average. Meanwhile, beef supplies are quite large compared to a year ago, resulting from a combination of more cattle coming to market at heavier weights. Since the beginning of the year, weekly fed cattle slaughter has averaged 486,000 head, up 3.4% from last year while fed cattle weights are significantly higher than last year. USDA data through February 8 show steer weights up 17.5 pounds per head or 2%, while heifer weights are up 9.7 pounds on average or 1.2% higher than a year ago. Average steer and heifer carcass weights together are up 1.6% on average, and when combined with larger slaughter runs equate to beef production up about 5% year-to-date. Our clients continue to adjust previously established cattle hedges in order to add upside price flexibility and capture hedge equity following the recent selloff.

CFTC COT – Live Cattle Net Managed Money Position:



Date	Value	Change	% Change	1yr Diff.
2/25/2020	14,008	-18,059	-56.32%	-88.53%
2/18/2020	32,067	-4,895	-13.24%	-72.26%
2/11/2020	36,962	-18,297	-33.11%	-66.73%

2009 2010 2011 2012 2013 2014 2015 2016 2017 2018 2019 2020 MAX AVG MIN