

Packers have significantly **reduced the number of cattle that they have contracted for delivery in the next few months**. A number of factors have likely contributed to this: a) demand is highly uncertain and forward beef sales are sharply lower than a year ago; b) front end cattle supplies are heavy; c) slaughter capacity has increased but COVID remains a major wild card that could further disrupt slaughter and especially line speeds. Ultimately, if the packer does not see much supply risk and faces uncertain demand, the result is a decline in forward contracted cattle. Back in 2014, when supply risk was high we saw a larger share of cattle purchased on a forward contract basis.

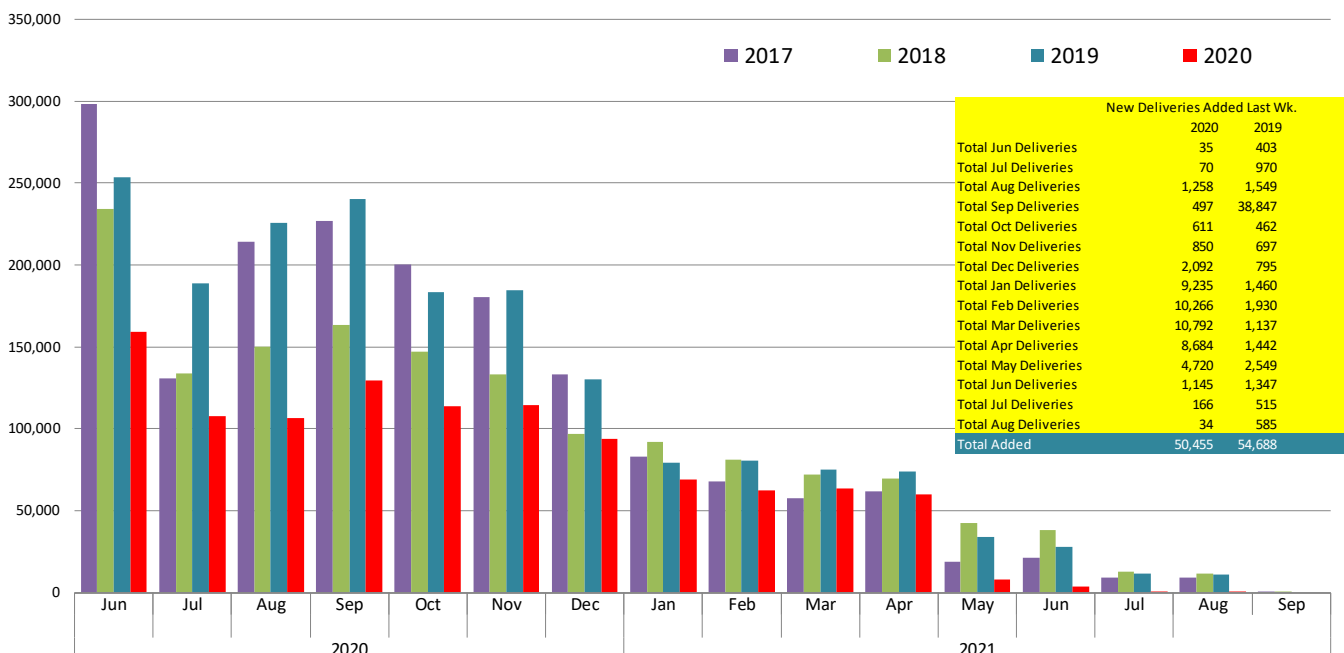
The latest data from USDA shows that cattle forward contracted for delivery in July are currently 43% lower than a year ago, August was down 53%, September was down 46% and October was down 38% (see chart). However, the data also showed that packers may perceive a bit more upside risk in 2021 and have started getting some cattle on the books for delivery next winter and early spring. Of the 50,455 head of cattle purchased for forward delivery last week, about 77% of those cattle were purchased for delivery in the first four months of 2021. Forward coverage for those months is still lower than in previous years but the difference is relatively small.

Forward contracted cattle are only one of the marketing arrangements between packers and feedlots. They provide the packer and feedlots with the ability to cover some of their risks. While trading cattle on a negotiated basis is important to establish price discovery, having some supply on the books offers benefits to both sides. In any given week the supply of forward contracted cattle delivered to packing plants moves around but in the last 12 months it has averaged about 9.6% of all deliveries. For the latest reported week forward contracted cattle were 9.25% of all delivered cattle. But while the supply of forward

contracted cattle has declined in the last few weeks, **we have seen a notable shift in the number of cattle negotiated on a grid basis**. The increase in the number of negotiated grid cattle may present a benefit for those feedlots that do not want to be penalized by the current market conditions, especially if they are delivering good quality cattle to packers and would like to see the benefit of that. Some context may help. Negotiated cattle sales are done either on a live or dressed basis. In the case of live sales, both sides agree on the value of the animal and the packer takes on the dressing percentage risk. When negotiated on a dressed basis, the dressing risk shifts to the feedlot. Grid sales represent an additional shift of the risk from the packer to the feedlot since the feedlot operator will either gain or be penalized depending for the quality and yield grade of the carcass. There are a number of premiums and discounts that the packer will charge depending on carcass quality, carcass size and carcass yield grade. For a full list of those premiums and discounts you can see [USDA report LM CT155](#). For the week ending May 31, USDA reported that 16.8% of cattle delivered to plants were on a negotiated grid basis. In the last three weeks, the share of such cattle was 18.7%. Prior to this the share of this marketing arrangement was just 3.4% for the year and in 2019 the share was also 3.44%. When we combine the number of negotiated grid with other negotiated cattle, the total supply for the week ending May 31 represented almost 40% of all cattle delivered to plants, a dramatic shift from the 20% share we saw in mid April. As for the number of imported cattle delivering to plant, the supply remains limited. For the most current week imports accounted for just 1.7% of all the cattle delivered and since the start of the year imported share has been 1.5%.

Cattle Forward Contracted for Delivery in a Given Month

Supply Cumulative as of June 1, 2020 and Comparable Period in Previous Years. Source: USDA MPR System



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