



US Imported Beef Market

A Weekly Update

Prepared Exclusively for Meat & Livestock Australia - Sydney

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Please note that due to summer vacation we will publish a shortened version of this report next week (August 10). The next full report will return the week of August 17.

Market Highlights for the Week:

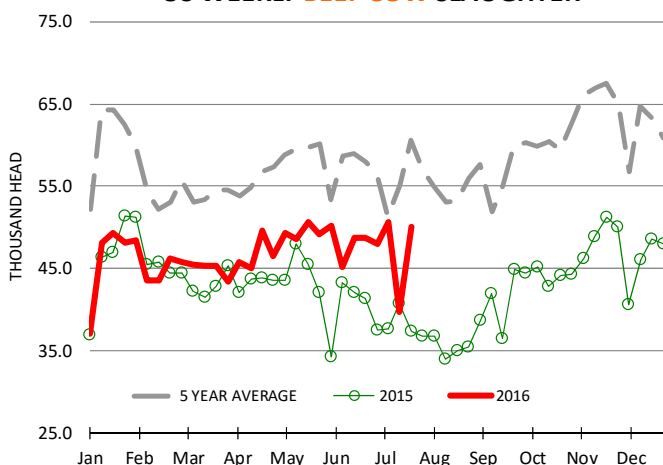
- Price of 90CL imported beef was lower this week as end users moved to the sidelines and some sellers were forced to lower prices to get product sold. Volume was described as very light
- Lower slaughter in Australia continues to keep exports here very light but sellers there still have to sell some product into the US and the seasonal demand weakness is taking a toll following the market rally in June and early July
- Price of 50CL beef now down 21% compared to early July levels. The dog days of summer are here
- US cow slaughter in the last six weeks up 8%, beef cow slaughter up 21% as cull rate returns to more normal levels
- Pace of female slaughter implies January inventories up 2% from previous year, up 5.5% in just two years,
- Brazil will likely start shipping fresh/frozen beef to the US shortly, but not manufacturing beef

Imported Market Activity for the Week

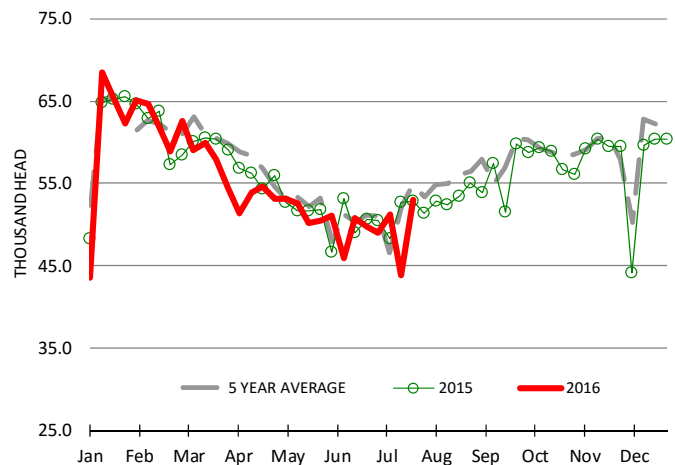
Prices for imported beef in the US market were lower this week as US end users appeared to take a break from chasing the market. Prices for domestic lean grinding beef continue to soften and seasonally ground beef business at this time of year tends to be slow. A clear indication of the weaker demand is the sharp correction in the price of 50CL beef, which in early July was trading over 90 cents a pound and today closed at around 71 cents (-21%). The decline in the value of domestic fat trim has come even as pack-

ers have reduced the pace of steer/heifer slaughter in the last three weeks. All this is largely a seasonal move but it highlights some of the headwinds for the imported beef market going into the fall. Overseas supplies are far from burdensome, with slaughter in New Zealand at seasonal lows and Australia kills down by more than 30% in the last reported week. As you will note in our survey results on page 5 and 6, prices for both lean and fat imported trim were lower than the previous week. The low end of the range was mostly New Zealand product while Central America availability remains

US WEEKLY BEEF COW SLAUGHTER



US WEEKLY DAIRY COW SLAUGHTER

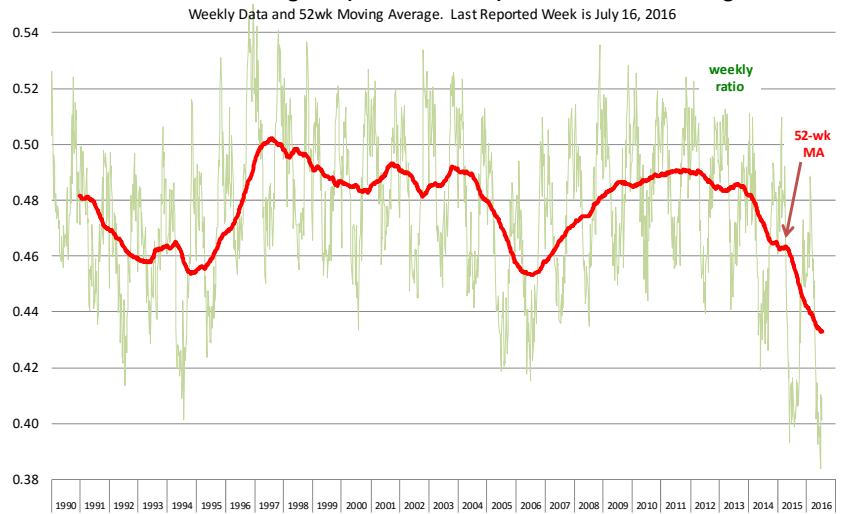


particularly limited at this time. The price of round cuts so far is holding up quite well, in part because of the modest recovery in the value of fed and cow rounds. It is not unusual for the round market to get a bit stronger in August, stay about flat in September and early October and then move higher in the winter months. So far we see prices for round cuts following this trend. Fed cattle prices in the US have mounted a notable recovery, in part because of short covering. The challenge for the US beef market in general and particularly for the grinding beef market is the over abundance of other competing meats and the dramatic correction in both the pork and chicken market. August hog prices in early June were priced by futures markets participants at near 90 cents per pound. Now they are priced at 68 cents and December is priced at around 55 cents. There is a glut of pork here already and it will get even worse in the fall, with a real risk of running out of packing capacity. This has seriously negative implications for the beef/cattle complex even beef prices for the moment are benefiting from features planned last spring.

US cow meat supplies

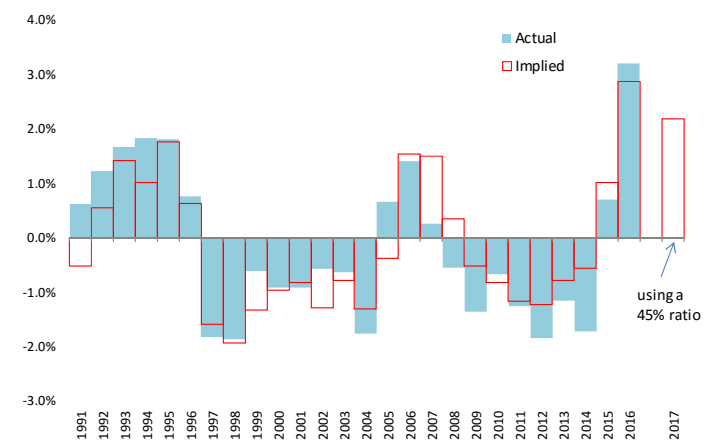
The trend towards bringing more cows to market this summer continues, as evidenced by the latest slaughter numbers (see chart on page 1). Total US beef and dairy cow slaughter for the last six reported weeks is up 8% compared to the previous year. Beef cow slaughter during this period was up 21.3% while dairy cow slaughter was down 1.9%. But while beef cow slaughter numbers look quite large, keep in mind that they are still 15.8% lower than the five year average. At this point beef cow producers have returned to a more normal culling rate for the summer. Pasture conditions are running a bit under year ago levels although they are still rated as above the long run average. Cow slaughter numbers should remain above year ago levels into the fall given the significant increase in the beef cow herd the last two years. A larger herd simply implies a larger culling rate. At this point we do not think producers are anywhere close to entering a liquidation period. Rather, they have slowed down the pace of herd rebuilding. The top two charts place the current rate of female slaughter in context. More heifers in the slaughter mix and an increase in beef cow slaughter has contributed to an increase in the share of female slaughter. Still, the current share is quite low by historical standards and it points to increasing cattle

Ratio of Female Slaughter (Heifers + Cows) To Total US Cattle Slaughter



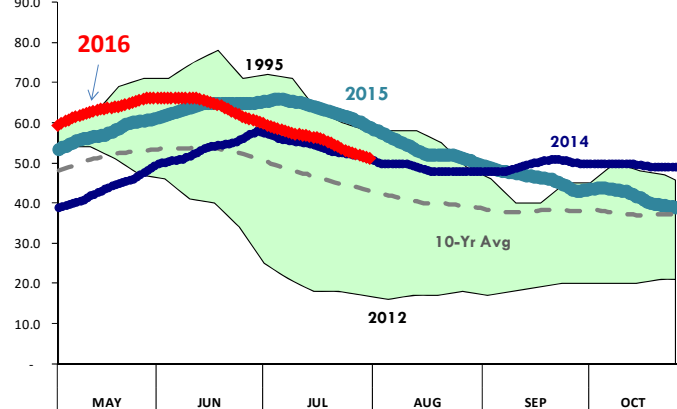
Y/Y % Change in US January 1 Cattle Inventory.

Actual Change vs. Change Implied by Female Slaughter Ratio



US PASTURE CONDITIONS: 20 YEAR HISTORY

% RATED IN GOOD/EXCELLENT CONDITION. WEEK of July 31, 2016. Source: USDA/NASS



numbers going forward. USDA did not conduct a cattle inventory survey in July due to budget constraints so we will have to wait until January for the annual inventory count. Based on the female slaughter rate, however, we currently expect US cattle inventories as of January 1, 2017 to be up 2.2% compared to a year ago. This compares with the USDA forecast for a 2% increase in cattle inventories next year.

FSIS establishes equivalency, opens the way for entry of fresh/frozen Brazilian beef

For the last couple of weeks we have noted in this report that it was likely USDA would announce it had cleared the path for resumption of beef imports from Brazil. The FSIS stamp of approval on Brazilian inspection equivalence was the last official step in this regard but trade will likely not resume tomorrow. It is our understanding at this point, and in consultation with MICA leadership, that Brazilian officials need to follow up the USDA announcement by sending to FSIS a list of plants that they deem eligible to ship product to the US. At that point FSIS, should it not have any objections, will publish the list of plants in its website and trade will commence. However, grinding beef will not be allowed to enter the US since Brazil still needs to do a lot of work to convince FSIS about the efficacy of its STEC testing regime. This is clear reading the FSIS final audit report, which we have included on page 12. It requires little comment on our part. We do not have any particular insight as to how long it will take Brazilian plants to comply with the FSIS request. Often these matters take time. As you can see from the final report, the FSIS plant visit was concluded last November and it took six months for the final report to be written. As FSIS notes, another visit may be required to verify the STEC testing protocols. It took Ireland a little over a year to receive the green light in order to ship grinding beef to the US. Brazil is home to the largest beef trading houses in the world so it is possible that they are better prepared and have the necessary expertise to put the systems in place in short order. However, whether the bureaucrats in Washington or Brasilia wrap things up quickly, that remains to be seen.

US Domestic Prices

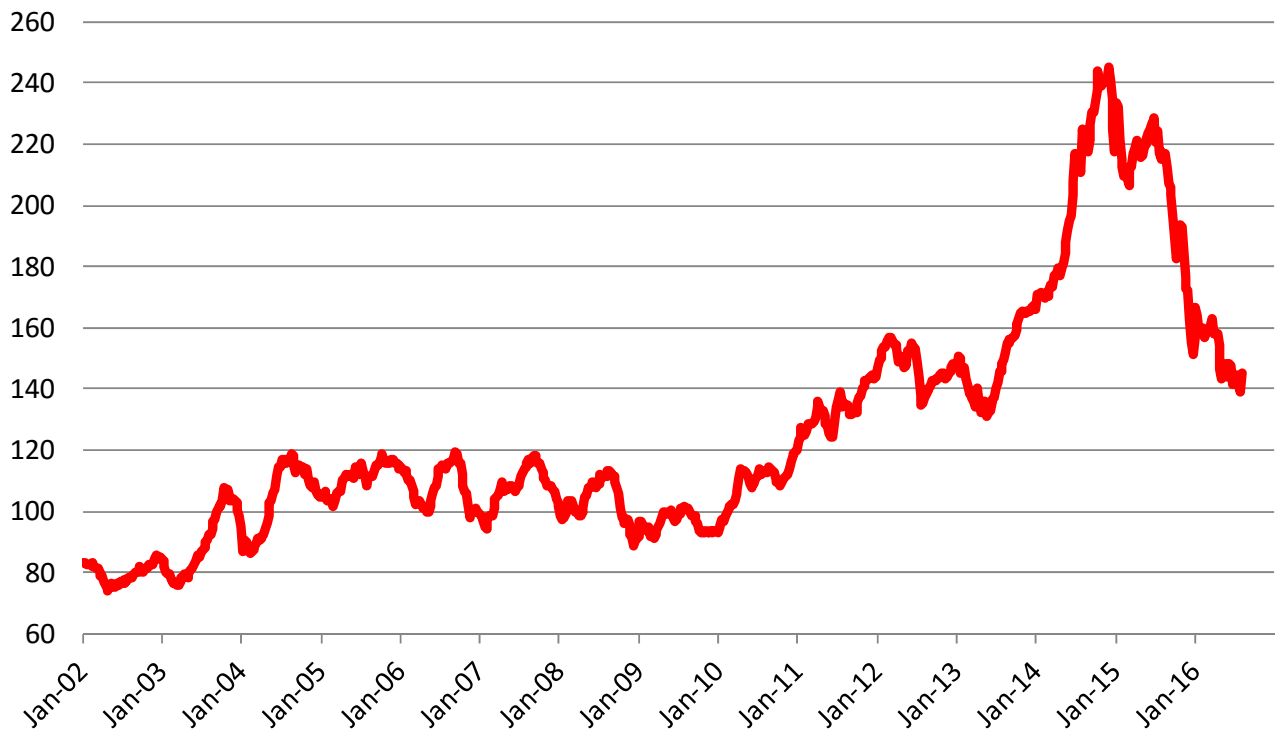
Prices for 90CL boneless beef were quoted at 216.3 US cents on the top side, 3 cents lower from a week ago and 69 cents lower than year ago levels. The weighted average price tonight was quoted at 212 cents per pound, 2 cents lower than a week ago. 85CL beef trim prices on the top side were quoted tonight at 193 cents, 7 cents lower than last week and 57 cents lower than last year. On a weighted average basis the price of 85s was 187 cents. 50CL beef price was 74 cents on the high side, 18 cent lower than a week ago and now a penny lower than the same week last year. After holding high through June and early July the price of fat trim is finally pushing lower as ground beef demand wanes. Prices for pork trim remain volatile. Price of fat pork trim was 65.3 cents this week, up 7 cents compared to a week ago while lean pork trim was down 3 cents. Pork trim prices remain above last year but the sharp decline in hog values should pressure pork trim prices lower in August and September.

CME Cattle Feeder Index and US Cattle Markets

Special Live Animal Reference Price

	Current Week	Prior Week	% CHANGE VS. WK AGO	Last Year	Change from Last Year
	2-Aug-16	26-Jul-16		4-Aug-15	
CME FEEDER CATTLE INDEX	145.27	139.26	4.3%	217.70	-33.3%
	3-Aug-16	27-Jul-16		5-Aug-15	
FED STEER (5-MKT AVG)	116.98	114.60	2.1%	147.42	-20.6%
CUTTER COW CARCASS, NATIONAL, 90% LEAN, 350-400 LB. (carcass wt.)	140.00	139.00	0.7%	197.00	-28.9%
BONER COW CARCASS, NATIONAL, 85% LEAN, 400-500 LB. (carcass wt.)	139.00	137.00	1.5%	194.00	-28.4%
BREAKER COW CARCASS, NATIONAL, 75% LEAN, 500+ (carcass wt.)	130.00	127.00	2.4%	195.00	-33.3%
CUTTER COW CARCASS CUTOUT, 5-DAY MA, USDA	170.36	171.72	-0.8%	217.74	-21.8%

CME Feeder Cattle Index



Source: Chicago Mercantile Exchange

TABLE 2 – IMPORTED BEEF PRICES, 7:45 DAYS, CIF

	Current Week		Prior Week		Change From Last Week	Last Year		Change From Last Year
	3-Aug-16		27-Jul-16			5-Aug-15		
<u>US East Coast Australian/NZ Lean, CIF</u>								
95 CL Bull, E. Coast	221.0	224.0	227.0	229.0	-5.0	269.0	270.0	-46.0
90 CL Blended Cow	205.0	209.0	210.0	212.0	-3.0	243.0	244.0	-35.0
90 CL Shank	205.0	206.0	205.0	207.0	-1.0	239.0	240.0	-34.0
85 CL Fores	187.0	190.0	188.0	191.0	-1.0	213.0	215.0	-25.0
85 CL Chucks		UNQ		UNQ	N/A		UNQ	N/A
95 CL Bull, W. Coast	220.0	223.0	227.0	228.0	-5.0	266.0	267.0	-44.0
Uruguay CFH 90CL, E. Coast		UNQ		UNQ	N/A		UNQ	N/A
<u>US East Coast, Trimmings, CIF</u>								
85 CL Trimmings	187.0	188.0	188.0	190.0	-2.0	212.0	213.0	-25.0
80 CL Trimmings	168.0	170.0	170.0	171.0	-1.0	174.0	175.0	-5.0
75 CL Trimmings	160.0	162.0	161.0	163.0	-1.0	144.0	145.0	17.0
65 CL Trimmings	112.0	113.0	108.0	110.0	3.0	100.0	102.0	11.0
<u>US East Coast Australian Cuts, CIF</u>								
Cap Off Steer Insides		UNQ	280.0	290.0	N/A	315.0	320.0	N/A
Steer Insides 14/18		UNQ		UNQ	N/A		UNQ	N/A
Steer Flats		UNQ	210.0	215.0	N/A	275.0	280.0	N/A
Steer Knuckles		UNQ	225.0	230.0	N/A	285.0	290.0	N/A

TABLE 3 – IMPORTED BEEF PRICES, 7:45 DAYS, US WAREHOUSE

	Current Week		Prior Week		Change From Last Week	Last Year		Change From Last Year
	3-Aug-16		27-Jul-16			5-Aug-15		
<u>US East Coast Australian/NZ Lean, FOB US Port</u>								
95 CL Bull, E. Coast	230.0	234.0	234.0	235.0	-1.0	274.0	275.0	-41.0
90 CL Blended Cow	214.0	215.0	217.0	218.0	-3.0	249.0	250.0	-35.0
90 CL Shank	213.0	214.0	212.0	213.0	1.0	246.0	247.0	-33.0
85 CL Fores	195.0	196.0	197.0	198.0	-2.0	220.0	221.0	-25.0
85 CL Chucks		UNQ		UNQ	N/A		UNQ	N/A
95 CL Bull, W. Coast	230.0	233.0	233.0	234.0	-1.0	270.0	271.0	-38.0
Uruguay CFH 90CL, E. Coast		UNQ		UNQ	N/A		UNQ	N/A
<u>US East Coast, Trimmings, FOB US Port</u>								
85 CL Trimmings	194.0	195.0	196.0	197.0	-2.0	219.0	220.0	-25.0
80 CL Trimmings	175.0	177.0	178.0	179.0	-2.0	183.0	184.0	-7.0
75 CL Trimmings	168.0	170.0	169.0	170.0	0.0	150.0	152.0	18.0
65 CL Trimmings		118.0	118.0	119.0	-1.0	105.0	110.0	8.0
<u>US East Coast Australian Cuts, FOB US Port</u>								
Cap Off Steer Insides	290.0	300.0	290.0	300.0	0.0	320.0	325.0	-25.0
Steer Insides 14/18		UNQ		UNQ	N/A		UNQ	N/A
Steer Flats	230.0	235.0	230.0	235.0	0.0	290.0	295.0	-60.0
Steer Knuckles	240.0	245.0	240.0	245.0	0.0	300.0	305.0	-60.0

TABLE 4 – US DOMESTIC BEEF AND CATTLE PRICES

	Current Week		Prior Week		Change From Last Week	Last Year		Change from Last Year
	3-Aug-16		27-Jul-16			5-Aug-15		
<u>Domestic Cutouts</u>								
Choice Cutout	199.20		199.08		0.1	235.00		-35.8
Select Cutout	191.66		190.05		1.6	228.85		-37.2
<u>Domestic Lean Grinding Beef</u>								
90 CL Boneless	211.0	216.3	213.0	219.3	-3.1	278.0	285.0	-68.7
85 CL Beef Trimmings	184.0	193.0	188.0	200.4	-7.4	233.4	249.9	-56.9
50 CL Beef Trim	69.0	74.0	69.0	92.3	-18.3	64.0	75.0	-1.0
<u>Domestic Pork Trim</u>								
42 CL Pork Trim	58.0	65.3	44.0	58.3	7.0	33.0	44.3	21.0
72 CL Pork Trim	74.0	94.5	71.2	97.3	-2.8	48.0	85.8	8.8
<u>Point of Lean Values</u>								
90 CL Domestic	240.3		243.7		-3.4	316.6		-76.3
50 CL Beef Trimming	148.0		184.5		-36.5	150.0		-2.0
42 CL Pork Trim	155.4		138.7		16.7	105.4		50.0
72 CL Pork Trim	131.3		135.1		-3.8	119.1		12.2
<u>National Direct Fed Steer</u> <u>(5-day accum. wt. avg. price)</u>	116.98		114.60		2.4	147.42		-30.4

TABLE 5 – FUTURES AND SLAUGHTER INFORMATION

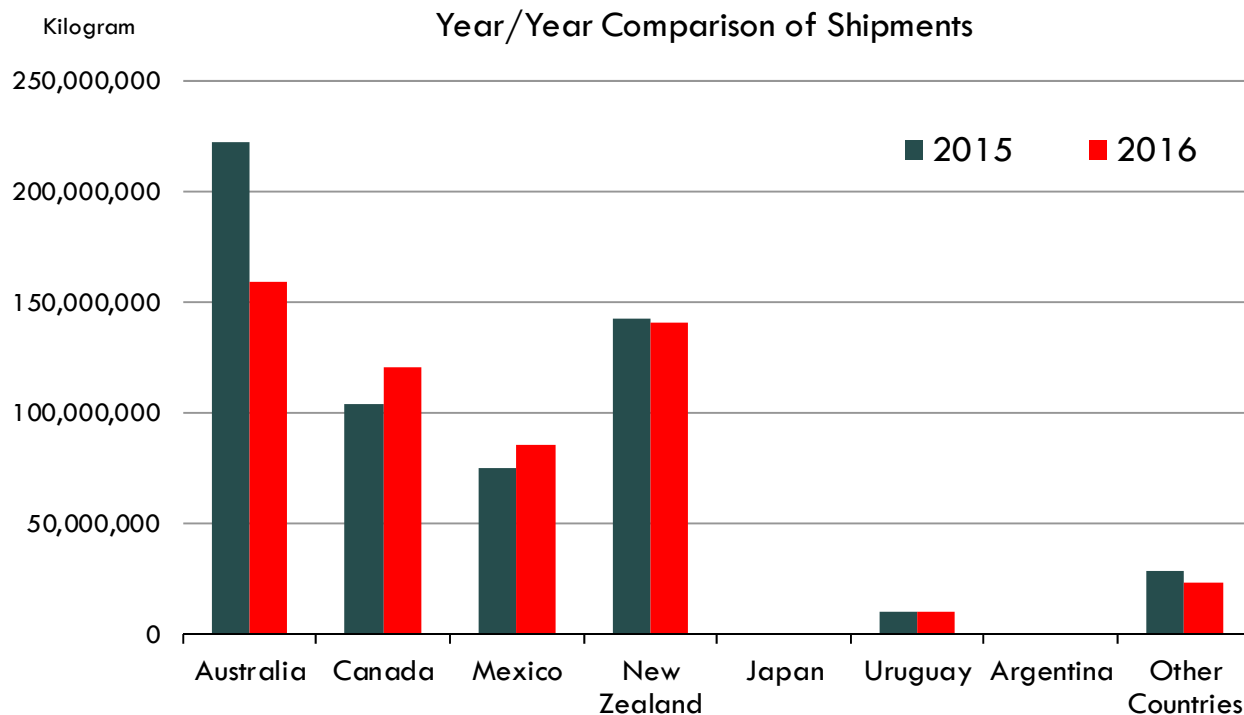
Futures Contracts	Current Week	Prior Week	Change From Last		Last Year	Change From	
			Week			Last Year	Last Year
	3-Aug-16	27-Jul-16			5-Aug-15		
<u>Live Cattle Futures</u>							
August '16	116.750	113.950	↑	2.80	148.800	↓	-32.05
October '16	115.200	113.050	↑	2.15	148.275	↓	-33.08
December '16	115.475	113.900	↑	1.57	149.750	↓	-34.28
February '17	114.825	113.275	↑	1.55	149.550	↓	-34.73
<u>Feeder Cattle Futures</u>							
August '16	147.475	142.275	↑	5.20	214.475	↓	-67.00
September '16	145.600	141.125	↑	4.47	211.025	↓	-65.43
October '16	143.700	140.250	↑	3.45	208.800	↓	-65.10
November '16	140.725	137.350	↑	3.38	208.800	↓	-68.08
<u>Corn Futures</u>							
September 16	325	335 3/4	↓	-10.75	372 3/4	↓	-47.75
December 16	335	343	↓	-8.00	383 1/4	↓	-48.25
March 17	345	351 3/4	↓	-6.75	394 1/2	↓	-49.50
May 17	351 3/4	357	↓	-5.25	401	↓	-49.25
<u>Ch Wheat Futures</u>							
September 16	410 1/4	414 3/4	↓	-4.50	502	↓	-91.75
December 16	436 1/4	414 1/2	↑	21.75	507 1/4	↓	-71.00
March 17	462 1/4	467 1/4	↓	-5.00	514	↓	-51.75
May 17	475 3/4	480 3/4	↓	-5.00	518 1/2	↓	-42.75

Slaughter Information	7 Days Ending	7 Days Ending	Change From Last		7 Days Ending	Change From	
			Week			Last Year	Last Year
	3-Aug-16	27-Jul-16			5-Aug-15		
<u>Total Cattle Slaughter</u>	581,000	595,000	↓	-14,000	531,000	↑	50,000
	16-Jul-16	9-Jul-16			18-Jul-15		
<u>Total Cow Slaughter</u>	103,033	83,585	↑	19,448	90,200	↑	12,833
<u>Dairy Cow Slaughter</u>	53,016	43,900	↑	9,116	52,900	↑	116
<u>Beef Cow Slaughter</u>	50,017	39,685	↑	10,332	37,300	↑	12,717

TABLE 6 - US BEEF IMPORTS, IN-QUOTA ENTRIES (Source: US Customs Bureau)

Amount YTD in Kilograms as of July 22, 2016

Country	7/20/2015	7/22/2016	% Change	Quota Levels 2016	% Filled Year to Date
Australia	221,597,965	159,434,262	-28%	418,214,000	38.1%
Canada	104,208,975	120,551,878	16%	N/A	
Mexico	74,885,673	85,831,981	15%	N/A	
New Zealand	142,436,566	140,495,071	-1%	213,402,000	65.8%
Japan	83,000	104,442	0%	200,000	52.2%
Uruguay	10,002,947	9,778,204	-2%	20,000,000	48.9%
Argentina	0	0		20,000,000	0.0%
Other Countries	28,364,012	23,650,732	-17%	64,805,000	36.5%
Total	581,579,138	539,846,570	-7%		



Note: US Customs appears to have changed how they report this data. At this point they are reporting only product cleared against a quota allocation. As a result, the last update did not include information on Canada and Mexico. In the next page we have included the data as reported by USDA AMS, which in the past has differed from US Customs. Going forward, however, the AMS data may provide a more complete view of imported beef entries YTD

TABLE 7 - US BEEF IMPORTS (Source: USDA/AMS)

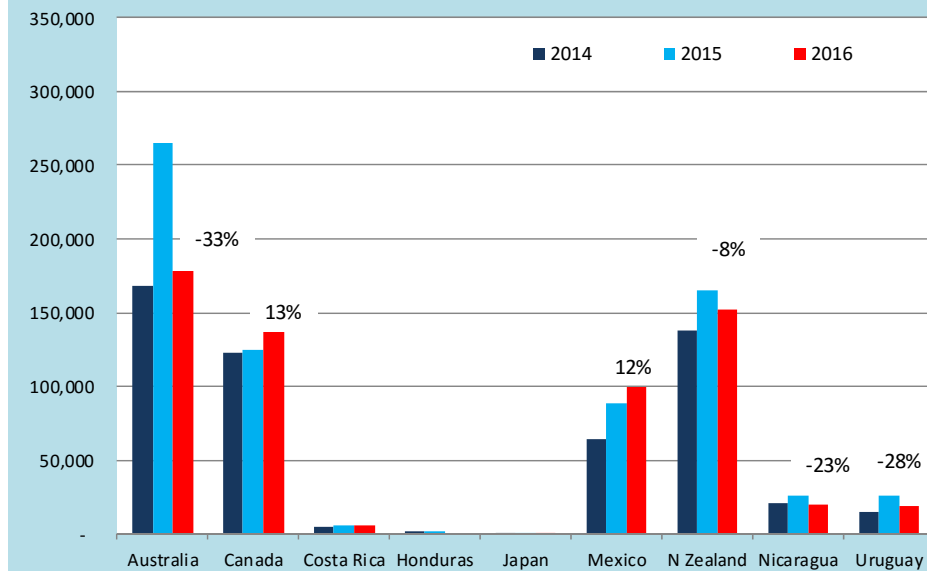
YTD Beef Imports

	7/25/2015	7/23/2016		
Australia	265,502	178,407	(87,095)	-32.8%
Canada	124,466	140,030	15,564	12.5%
Chile		312	312	
Costa Rica	5,867	5,647	(220)	-3.7%
Honduras	1,241	-	(1,241)	-100.0%
Japan	99	127	28	28.3%
Ireland		1,469	1,469	
Mexico	88,529	99,443	10,914	12.3%
New Zealand	165,204	152,431	(12,773)	-7.7%
Nicaragua	25,792	19,801	(5,991)	-23.2%
Uruguay	26,291	18,962	(7,329)	-27.9%
Total	703,525	616,630	(86,895)	-12.4%

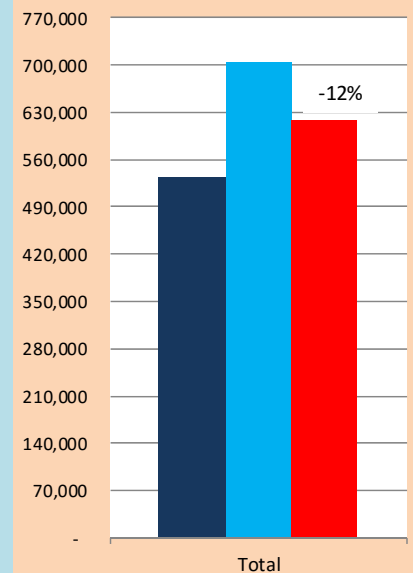
US Beef Imports. Metric Ton. Data Source: USDA/Agricultural Marketing Service

Imports as of July 23, 2016

Individual Country Volume. MT & Y/Y % Ch.



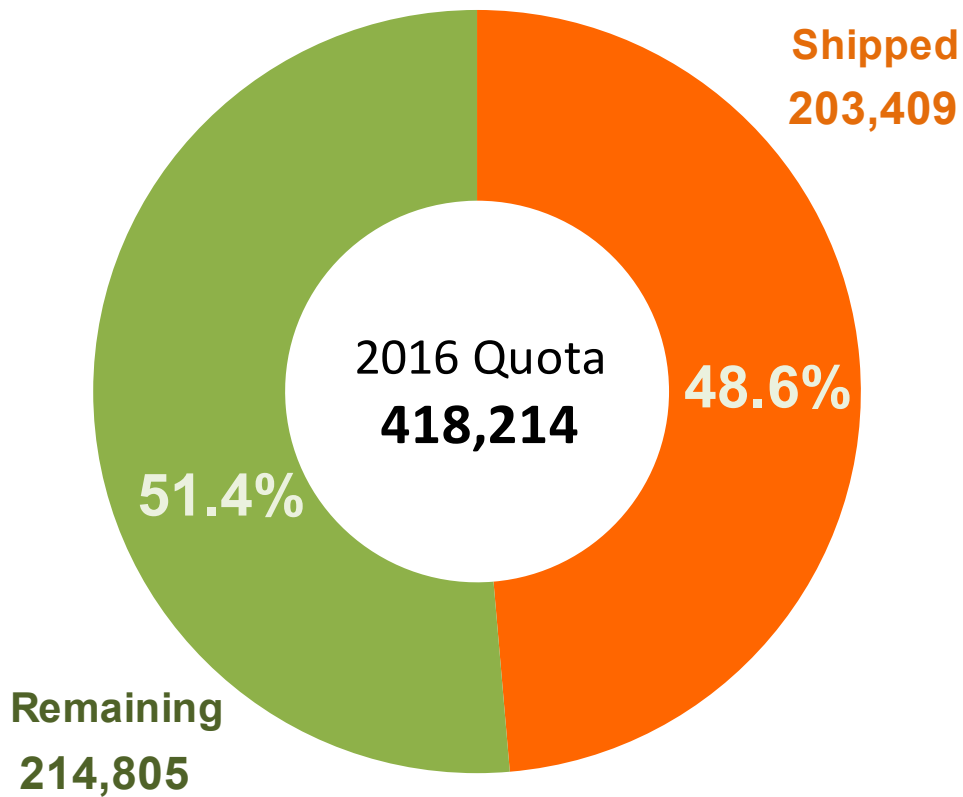
Total



Australian Beef Quota Position

1-Aug-16

Metric Ton. Australian Department of Agriculture Statistics



FINAL REPORT OF AN AUDIT CONDUCTED IN
BRAZIL

November 9 – 20, 2015

EVALUATING THE FOOD SAFETY SYSTEM GOVERNING
THE PRODUCTION OF MEAT PRODUCTS
INTENDED FOR EXPORT TO
THE UNITED STATES OF AMERICA

May 12, 2016

Food Safety and Inspection Service
United States Department of Agriculture

- b. *FSIS MLG 5.09, section 5.7, item (g)*: isolates that are flagellar antigen (H7) negative and found to be Shiga toxin and gene negative (by Enterohemorrhagic *E. Coli* [EHEC] test and genetic test for Shiga toxin genes), and
- c. *FSIS MLG 5.B.05, section 5.B.8*: confirmatory tests which are PCR positive but biochemically negative.

The deviations related to STEC testing warrant submission of the revised methods for equivalence review before FSIS can permit the importation of fresh (chilled or frozen) beef products from Brazil.

X. CONCLUSION AND NEXT STEPS

An exit meeting was held on November 20, 2015, at DIPOA headquarters in Brasilia, Brazil. At this meeting, the preliminary findings from the audit were presented by the FSIS auditors. The CCA understood and accepted the findings.

The audit identified the following operational (or procedural) findings within Brazil's meat inspection system:

- FSIS determined that the CCA needs to revisit its procedure entitled, *Investigation Procedures for International Notifications (306/2013)* as it relates to FSIS point-of-entry (POE) violation notifications. While FSIS requests a reply to these notifications within 30 calendar days, the auditors noted that the CCA's average response time is 109 calendar days. This finding is related to deficiencies identified during the last FSIS audit in September 2014.
- A portion of Brazil's inspection force was not familiar with procedures in the CCA's *Guidelines for Implementing the National Residue Control Plan (132/2012)*, which govern the targeting of animals suspected of containing violative levels of chemical residues at ante-mortem. This is a repeat finding.
- FSIS determined that the CCA needs to improve its verification activities related to the safety of retort cooling water and retort maintenance.
- Deficiencies regarding construction and enforcement of sanitation performance standards (SPS) were identified at five of the eleven establishments audited. However, no direct product contamination was observed.
- FSIS determined that the CCA needs to improve its slaughter verification activities. At one of the eight slaughter establishments audited, viscera did not routinely accompany carcasses railed-out for final veterinary dispositions. At another establishment, the design of a non-mobile stand used by the government for conducting zero-tolerance verification (contamination caused by feces, milk, or ingesta) did not permit adequate observation of carcass hindquarters.
- The CCA had not yet instituted a Shiga toxin-producing *Escherichia coli* (STEC) proficiency testing program at its government laboratories.
- Written STEC government laboratory testing procedures referenced the use of *E. coli* strain #EC 465-97, while the actual strain used was *American Type Culture Collection (ATCC) #43888*.
- No official procedure existed for the handling of inconclusive STEC sample results.

An analysis of these findings did not identify any systemic deficiencies representing an immediate threat to public health for those products that Brazil is currently eligible to export to the United States. However, the findings related to STEC testing will require submission of revised laboratory methods for equivalence review before FSIS can permit the import of fresh (chilled or frozen) beef products. As part of the equivalence review process, FSIS will consider whether an additional on-site audit is necessary in order to verify the CCA's ability to implement the revised methods once they are submitted.

During the audit exit meeting, the CCA committed to addressing the preliminary findings as presented. FSIS will evaluate the adequacy of the CCA's proposed corrective actions once received and base future equivalence verification activities on the information provided.