



US Imported Beef Market

A Weekly Update

Prepared Exclusively for Meat & Livestock Australia - Sydney

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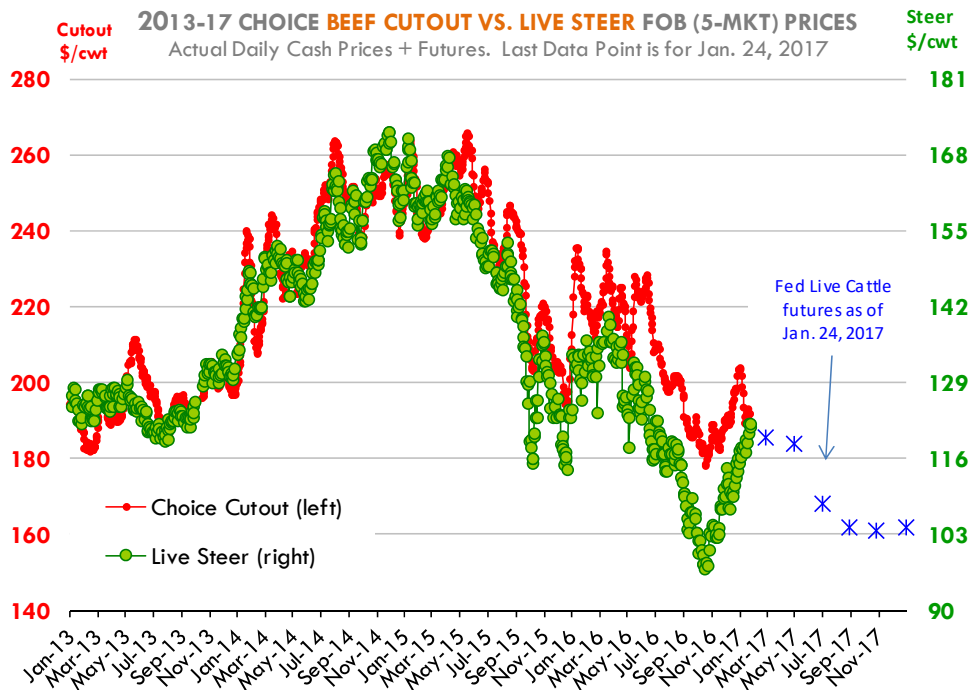
Market Highlights for the Week:

- Imported beef prices remain firm on limited offerings from overseas suppliers
- Holiday shortened weeks and above average pasture conditions in New Zealand have so far limited the supply of imported beef in the US market
- Mexico shipments to the US are off to a very strong start, in part thanks to a weak peso but also fears of trade disruptions later this year
- Brazil shipments to the US remain limited as industry has yet to streamline protocols needed to increase manufacturing beef exports to the US. For now some product offered in the US but at very light volumes
- US fed cattle prices higher on tighter feedlot supplies

Imported Market Activity for the Week

Prices for imported lean grinding beef this week registered additional gains compared to the prior week but some of the market participants also noted that the volume of trading was quite thin and they were not seeing the level of bids they saw towards the end of last week. The general consensus in our discussions was that prices had pushed higher too quick and now they were seeing some pushback from end users. This could be temporary and end

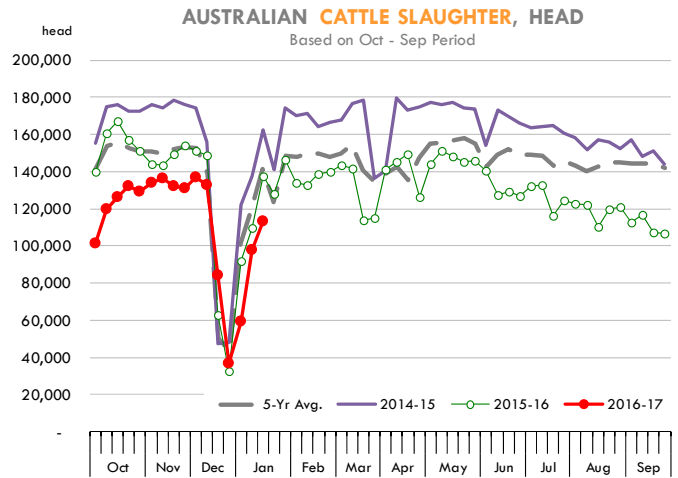
users could once again be back in the market looking for product. But it will also greatly depend on the volume of slaughter in Australia/New Zealand during February. One thing we heard several times this week was that the level of offers from Australia was particularly light. And looking at Australian slaughter levels in recent weeks one gets a pretty good sense as to why that is the case. Australian cattle slaughter for the week ending January 20 was 125,051 head, 17.9% lower than the comparable week a year ago (Jan 22, 2016). In the last four re-



ported weeks slaughter has averaged 76,801 head (-13%) from last year. As the chart to the right shows Australian slaughter normally improves into February and March. In the short term, light slaughter due to holiday disruptions (including Australia Day on Jan 26) have caused Australian packers to severely limit the amount of beef the offer into the US market. We expect shipments in January to remain extremely light due to this and for the moment spot supplies of Australian grinding beef are very thin.

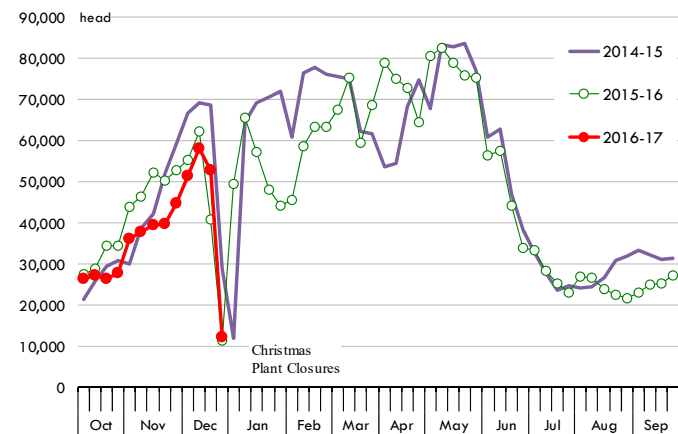
As for New Zealand supplies, we think slaughter has recovered following the holiday shortened weeks but it is about similar to what it was a year ago. Note in the attached chart the significant pullback in New Zealand slaughter in late January and early February of last year. Slaughter in New Zealand remains vulnerable to weather conditions. So far moisture conditions have been well above average and this has limited the supply of cattle, particularly the supply of bulls, coming to market. Market participants are also noting that because of the ample feed supplies the bulls are coming to market with a bit more fat than normal, which has widened the spread between 95CL and 93CL or 90CL bull meat. Cow slaughter in New Zealand generally is around 10-13000 head at this time of year but should push past 30,000 head by the end of February. Some market participants noted that New Zealand packers took advantage of the higher prices in the last 10 days to extend their forward sold positions and for the moment appear in no rush to book significant volumes. But if history is any guide things could change quite rapidly should weather conditions deteriorate in February and March.

We included a chart on page 1 that should be of interest not just to those looking to source US beef but also those that trade beef into the US. After all grinding beef values are dictated in part by the general level of prices in the US market, which in turn are dictated by the price that packers have to pay for cattle. What the chart on page 1 shows is the general relationship of the price of fed steers and the value of wholesale beef as measured by the choice beef cutout. For those that are not completely familiar with the US beef market, the cutout is basically a weighted average price of all the various muscle cuts sold at wholesale. USDA uses a well defined formula for calculating the value of individual primals based on the value of muscle cuts and then rolls this up into one number that represents the value of all meat in a steer or heifer carcass. One thing that is quickly obvious from the chart is that fed steer prices declined much more sharply in late 2015 and 2016 than the value of the cutout. What this effectively means is



New Zealand Weekly Adult Cattle Slaughter

Based on Oct - Sep Marketing Year. Source: New Zealand Meat Board



that packer margins got bigger. There is quite a debate among US market participants as to what drove the wider spread. Producers were quick to blame the monopolistic power of US packers, pointing to the fact that the top five firms account for over 80% of overall fed cattle slaughter. But this begs the question, if packers have so much market power, why do they not exercise this all the time. After all it was not very long ago when fed cattle prices in the US hit all time record highs, peaking at \$170/cwt. Rather than a monopoly play, what we see happening in the US market in 2015 and 2016 was the result of fed cattle supplies expanding at a much faster rate than the packing industry could adjust. In the short term packing capacity is fixed and it takes time for packers to ramp up slaughter and processing times. The result was a wider gap and big packer margins. But those big margins do not last forever. Eventually packers will be incentivized to increase slaughter to capitalize on the big margins. And if a packer tries to hold on to the big margins for too long, others will come in and try to take away market share and customer accounts. Bottom line, we have now seen that gap narrow significantly and fed cattle values in the US are now more than 20% higher than where they were in the fall.

Where do we go from here?

The chart on page 1 shows where futures markets participants believe fed cattle to be into the summer and fall of 2017. The expectation is for prices to once again be pressured lower due to a larger calf crop in 2016 and expanding feedlot supplies this coming spring. The upcoming cattle inventory report will provide some guidance in that respect. It will be particularly interesting to see what the supply of cattle outside feedlots shows. Last year there were +5% more cattle outside of feedlots and eventually this drove the sharp decline in cattle prices in the summer and fall of 2016. The upcoming report will give us some guidance as to what sort of supply increase we should expect. One thing that futures likely are not considering at this point is the fact that both packers and their customers downstream have adjusted to the larger supplies. Packers have expanded processing lines and end users have lowered retail beef prices and have been promoting beef more aggressively. As a result, we think those packer margins will be tighter in 2017 than they were in 2016. Current expectations are for the beef choice cutout to average around 180-185 in 2017, which implies fed cattle values in the \$115 area (see chart) rather than the \$104/cwt that futures currently are pricing for the second half of the year. We think the higher than expected prices for fed cattle and firm beef prices have been a good part of the reason for the runup in the value of imported beef in the US in the last two months. One critical uncertainty, however, is the level of beef imports we will see from Brazil. So far the level of shipments is minimal and the asking prices are at par with Australian and New Zealand product.

US Domestic Price Summary

Prices for 90CL boneless beef were quoted at 209 US cents on the top side, unchanged from a week ago and 3 cents higher than year ago levels. **The weighted average price tonight was quoted at 205, about 4 cents lower than a week ago.** 85CL beef trim prices on the top side were quoted tonight at 183 cents, 3 cents higher from last week but 6 cents lower than last year. The weighted average price for 85CL beef was 182 cents a pound, 5 cents higher from the previous week. 50CL beef price was 67 cents on the high side, 6 cents higher than a week ago but 1 cent lower than the same week last year. On a weighted average basis, the price of 50CL beef is now 64 cents, at par with where it was a year ago.

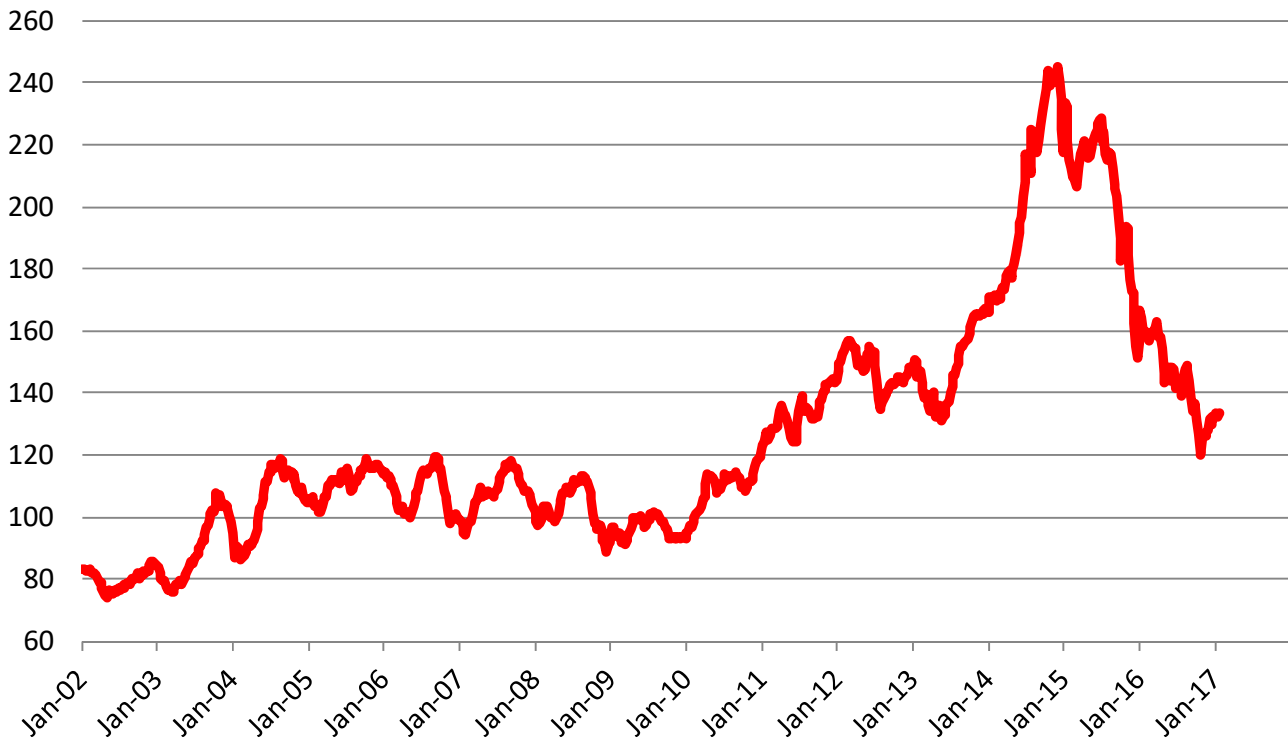
Prices for pork trim were lower this week but at par with year ago levels.

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
	24-Jan-17	17-Jan-17		26-Jan-16	
CME FEEDER CATTLE INDEX	133.32	132.37	0.7%	158.90	-16.1%
	25-Jan-17	18-Jan-17		27-Jan-16	
FED STEER (5-MKT AVG)	121.85	118.78	2.6%	133.51	-8.7%
CUTTER COW CARCASS, NATIONAL, 90% LEAN, 350-400 LB. (carcass wt.)	101.50	100.50	1.0%	139.00	-27.0%
BONER COW CARCASS, NATIONAL, 85% LEAN, 400-500 LB. (carcass wt.)	110.00	105.00	4.8%	138.00	-20.3%
BREAKER COW CARCASS, NATIONAL, 75% LEAN, 500+ (carcass wt.)	105.00	97.50	7.7%	128.00	-18.0%
CUTTER COW CARCASS CUTOUT, 5-DAY MA, USDA	162.42	163.70	-0.8%	164.40	-1.2%

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
	25-Jan-17	212.0	18-Jan-17	208.0		27-Jan-16	196.0	
<u>US East Coast Australian/NZ Lean, CIF</u>								
95 CL Bull, E. Coast	210.0	212.0	205.0	208.0	4.0	194.0	196.0	16.0
90 CL Blended Cow	200.0	203.0	199.0	200.0	3.0	184.0	186.0	17.0
90 CL Shank	202.0	204.0	200.0	203.0	1.0	185.0	186.0	18.0
85 CL Fores	179.0	182.0	175.0	180.0	2.0	161.0	163.0	19.0
85 CL Chucks		UNQ		UNQ	N/A		UNQ	N/A
95 CL Bull, W. Coast	208.0	209.0	204.0	206.0	3.0	193.0	194.0	15.0
Uruguay CFH 90CL, E. Coast		UNQ		UNQ	N/A		UNQ	N/A
<u>US East Coast, Trimmings, CIF</u>								
85 CL Trimmings	178.0	180.0	175.0	177.0	3.0	160.0	161.0	19.0
80 CL Trimmings	160.0	164.0	160.0	164.0	0.0	141.0	143.0	21.0
75 CL Trimmings	145.0	146.0	141.0	145.0	1.0	134.0	135.0	11.0
65 CL Trimmings		UNQ		UNQ	N/A	95.0	96.0	N/A
<u>US East Coast Australian Cuts, CIF</u>								
Cap Off Steer Insides	270.0	275.0	270.0	275.0	0.0	295.0	300.0	-25.0
Steer Insides 14/18		UNQ		UNQ	N/A		UNQ	N/A
Steer Flats	220.0	225.0	220.0	225.0	0.0	230.0	235.0	-10.0
Steer Knuckles	230.0	235.0	230.0	235.0	0.0	245.0	250.0	-15.0

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

	Current Week		Prior Week		Change From Last Week	Last Year		Change From Last Year
	25-Jan-17	22-Jan-17	18-Jan-17	15-Jan-17		27-Jan-16	20-Jan-16	
<u>US East Coast Australian/NZ Lean, FOB US Port</u>								
95 CL Bull, E. Coast	220.0	221.0	215.0	217.0	4.0	205.0	206.0	15.0
90 CL Blended Cow	208.0	209.0	208.0	210.0	-1.0	192.0	193.0	16.0
90 CL Shank	209.0	210.0	209.0	211.0	-1.0	194.0	195.0	15.0
85 CL Fores	185.0	188.0	185.0	186.0	2.0	169.0	170.0	18.0
85 CL Chucks		UNQ		UNQ	N/A		UNQ	N/A
95 CL Bull, W. Coast	217.0	218.0	214.0	215.0	3.0	202.0	204.0	14.0
Uruguay CFH 90CL, E. Coast		UNQ		UNQ	N/A		UNQ	N/A
<u>US East Coast, Trimmings, FOB US Port</u>								
85 CL Trimmings	185.0	186.0	184.0	185.0	1.0	167.0	168.0	18.0
80 CL Trimmings	168.0	169.0	166.0	167.0	2.0	149.0	150.0	19.0
75 CL Trimmings	154.0	156.0	153.0	155.0	1.0	140.0	141.0	15.0
65 CL Trimmings		UNQ		UNQ	N/A	99.0	102.0	N/A
<u>US East Coast Australian Cuts, FOB US Port</u>								
Cap Off Steer Insides	275.0	280.0	275.0	280.0	0.0	300.0	310.0	-30.0
Steer Insides 14/18		UNQ		UNQ	N/A		UNQ	N/A
Steer Flats	225.0	230.0	225.0	230.0	0.0	240.0	245.0	-15.0
Steer Knuckles	240.0	245.0	240.0	245.0	0.0	255.0	260.0	-15.0

TABLE 4 – US DOMESTIC BEEF AND CATTLE PRICES

	Current Week		Prior Week		Change From Last Week	Last Year		Change from Last Year
	25-Jan-17		18-Jan-17			27-Jan-16		
<u>Domestic Cutouts</u>								
Choice Cutout	191.25		193.22		-2.0	221.33		-30.1
Select Cutout	189.16		188.06		1.1	215.02		-25.9
<u>Domestic Lean Grinding Beef</u>								
90 CL Boneless	204.0	209.4	208.0	209.0	0.4	202.0	206.0	3.4
85 CL Beef Trimmings	181.0	183.0	179.4	180.0	3.0	176.0	189.0	-6.0
50 CL Beef Trim	62.0	67.3	55.0	61.0	6.3	42.0	68.5	-1.3
<u>Domestic Pork Trim</u>								
42 CL Pork Trim	21.0	32.3	23.2	35.3	-3.0	16.6	37.3	-5.0
72 CL Pork Trim	66.9	86.3	73.0	92.3	-6.0	43.3	84.8	1.5
<u>Point of Lean Values</u>								
90 CL Domestic	232.7		232.2		0.4	228.9		3.8
50 CL Beef Trimming	134.5		122.0		12.5	137.0		-2.5
42 CL Pork Trim	76.8		83.9		-7.1	88.7		-11.9
72 CL Pork Trim	119.8		128.1		-8.3	117.7		2.1
<u>National Direct Fed Steer</u> <u>(5-day accum. wt. avg. price)</u>	121.85		118.78		3.1	133.51		-11.7

TABLE 5 – FUTURES AND SLAUGHTER INFORMATION

Futures Contracts	Current Week	Prior Week	Change From Last		Last Year	Change From Last Year
			Week	Week		
	25-Jan-17	18-Jan-17			27-Jan-16	
Live Cattle Futures						
February '17	119.875	120.275	↓	-0.40	135.550	↓ -15.68
April '17	118.675	119.400	↓	-0.73	134.900	↓ -16.23
June '17	108.100	108.925	↓	-0.83	124.250	↓ -16.15
August '17	103.975	104.325	↓	-0.35	120.175	↓ -16.20
Feeder Cattle Futures						
January '17	132.375	131.000	↑	1.38	160.950	↓ -28.58
March '17	129.850	129.550	↑	0.30	159.000	↓ -29.15
April '17	129.375	129.075	↑	0.30	158.700	↓ -29.33
May '17	127.500	127.575	↓	-0.08	158.700	↓ -31.20
Corn Futures						
March '17	366 1/4	365	↑	1.25	369 1/4	↓ -3.00
May '17	373 1/2	372 1/4	↑	1.25	374 1/2	↓ -1.00
July '17	380 3/4	379 1/4	↑	1.50	379	↑ 1.75
September '17	387	385 1/2	↑	1.50	383 1/4	↑ 3.75
Ch Wheat Futures						
March '17	424 1/2	431	↓	-6.50	476 1/2	↓ -52.00
May '17	438 1/2	446	↓	-7.50	482 1/4	↓ -43.75
July '17	453 1/2	461 1/2	↓	-8.00	488	↓ -34.50
September '17	468 1/2	477	↓	-8.50	494 1/2	↓ -26.00

Slaughter Information	7 Days Ending	7 Days Ending	Change From Last		7 Days Ending	Change From Last Year
			Week	Week		
	25-Jan-17	18-Jan-17			27-Jan-16	
Total Cattle Slaughter	612,000	556,000	↑	56,000	578,000	↑ 34,000
	7-Jan-17	31-Dec-16			9-Jan-16	
Total Cow Slaughter	104,298	96,995	↑	7,303	116,624	↓ -12,326
Dairy Cow Slaughter	57,139	49,687	↑	7,452	68,500	↓ -11,361
Beef Cow Slaughter	47,159	47,308	↓	-149	48,124	↓ -965

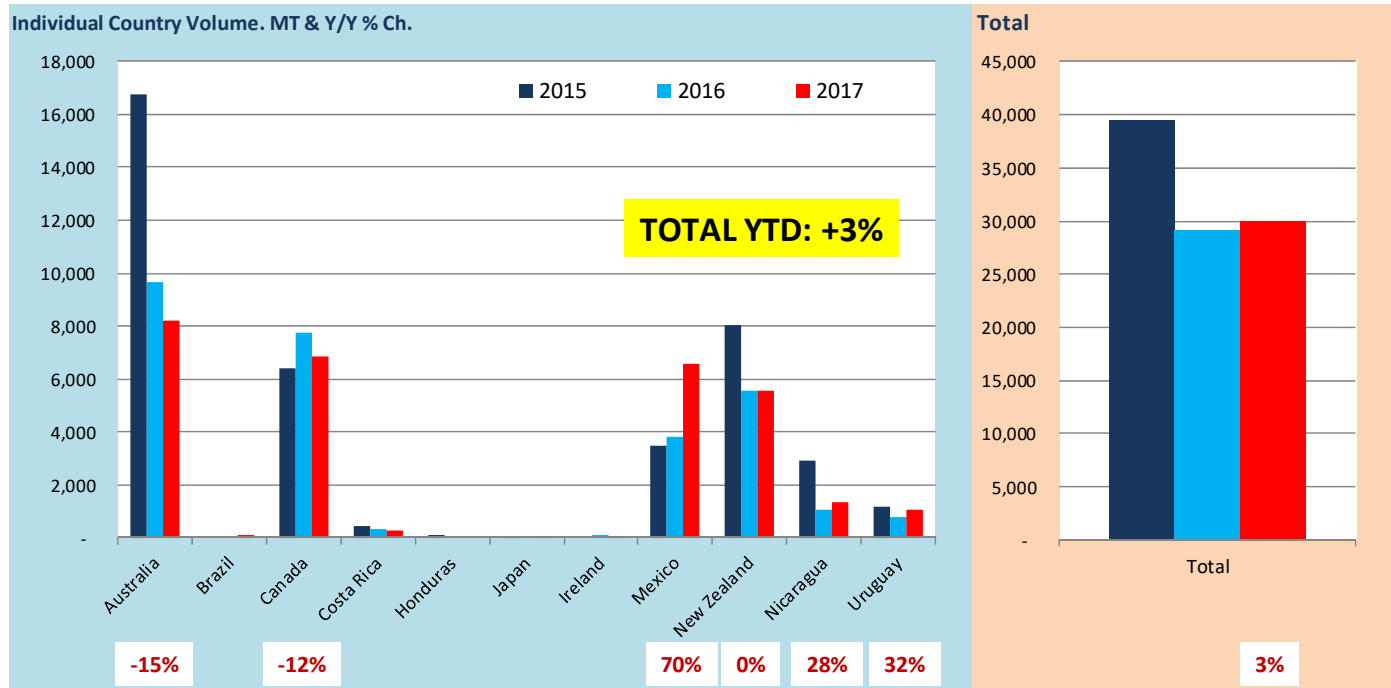
TABLE 7 - US BEEF IMPORTS (Source: USDA/AMS)

YTD Imported Meat Passed for Entry in the US

	1/9/2016	1/14/2017		
Australia	9,655	8,208	(1,447)	-15.0%
Brazil		107		
Canada	7,742	6,836	(906)	-11.7%
Chile		23	23	
Costa Rica	338	264	(74)	-21.9%
Honduras			-	
Japan	7	17	10	142.9%
Ireland	124	49	(75)	-60.5%
Mexico	3,849	6,560	2,711	70.4%
New Zealand	5,559	5,564	5	0.1%
Nicaragua	1,045	1,341	296	28.3%
Uruguay	804	1,064	260	32.3%

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

Imports as of January 14, 2017

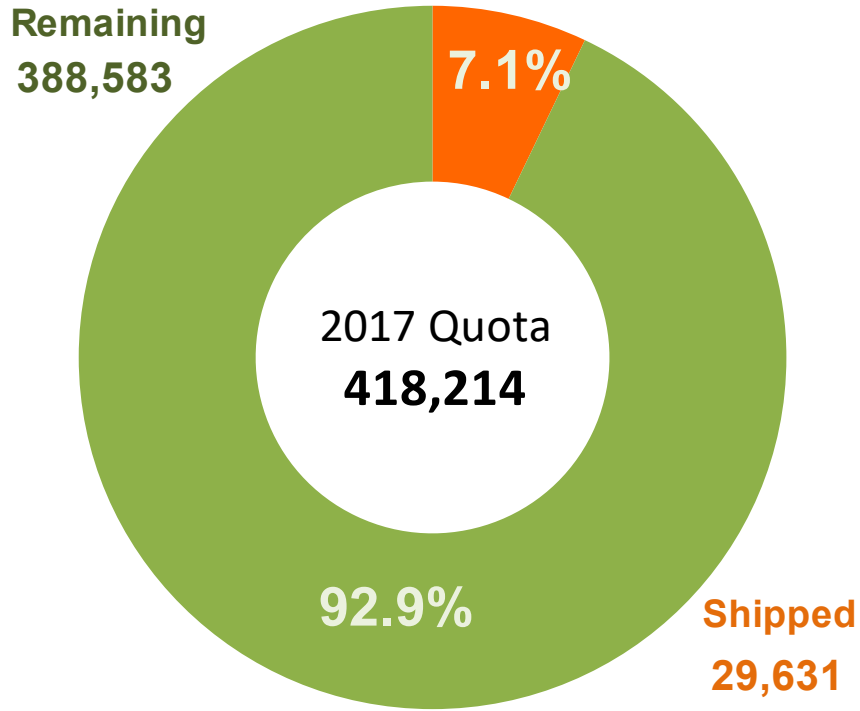


Please note that US Customs has discontinued its previous reporting and now only reports on countries that have a quota allocation. We are now using the AMS data to report YTD beef import entries. This data is slightly different than Customs. We will add at a later time a page that shows quota filled by each country based on the new Customs report

Australian Beef Quota Position

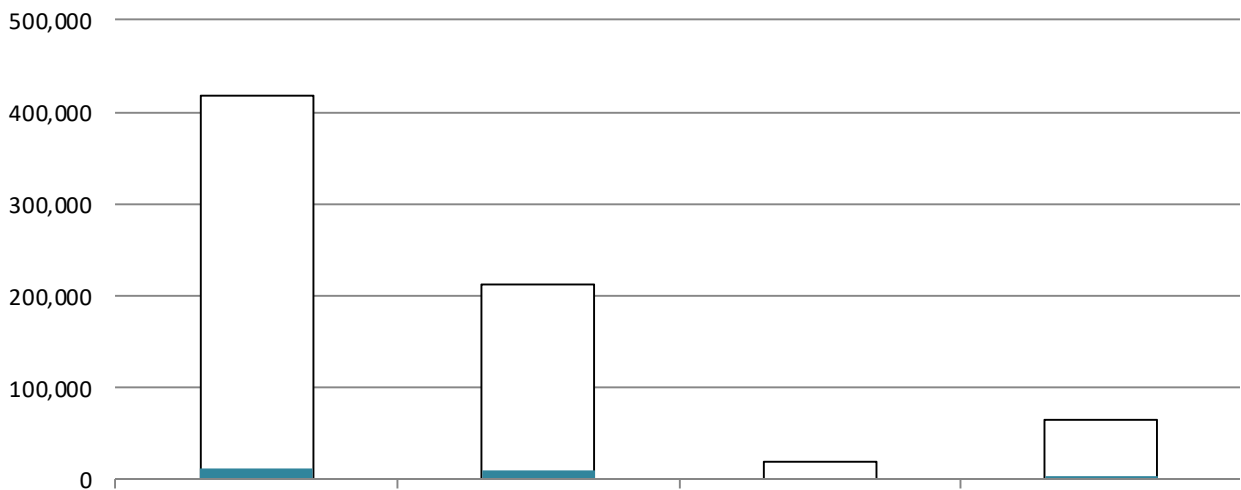
23-Jan-17

Metric Ton. Australian Department of Agriculture Statistics



USA Quota Entries through Week Ending January 23

Source: US Customs



	Australia	New Zealand	Uruguay	Other
2016 YTD	14,375,374	7,499,843	374,669	1,864,226
2017 YTD	11,480,836	9,880,870	1,043,394	3,349,309
% ch.	-20%	32%	178%	80%
Quota	418,214,000	213,402,000	20,000,000	64,805,000
% cleared	3%	5%	5%	5%