



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 continue to be well bid given very tight beef supplies in the US market, higher prices for domestic beef and the approaching seasonal decline in New Zealand availability
- US 50CL beef prices now near \$190 per cwt, just a few cents short of the price of 85CL beef.
- Fat trim availability almost non existent and users caught short have to pay exorbitant prices in order to keep commitments to customers
- Beef features exploded this spring as low prices encouraged retailers to feature beef extensively. We think a similar situation happened with foodservice operators
- US packers continue to have trouble finding market ready cattle and have had to buy cattle that are short fed, which has significantly reduced the weight of cattle coming to market
- Lower weight cattle generating less fatty trim, further exacerbating shortages.
- Participants now hoping that retailers will back off the market and bring some stability but history tells that such events have a long tail

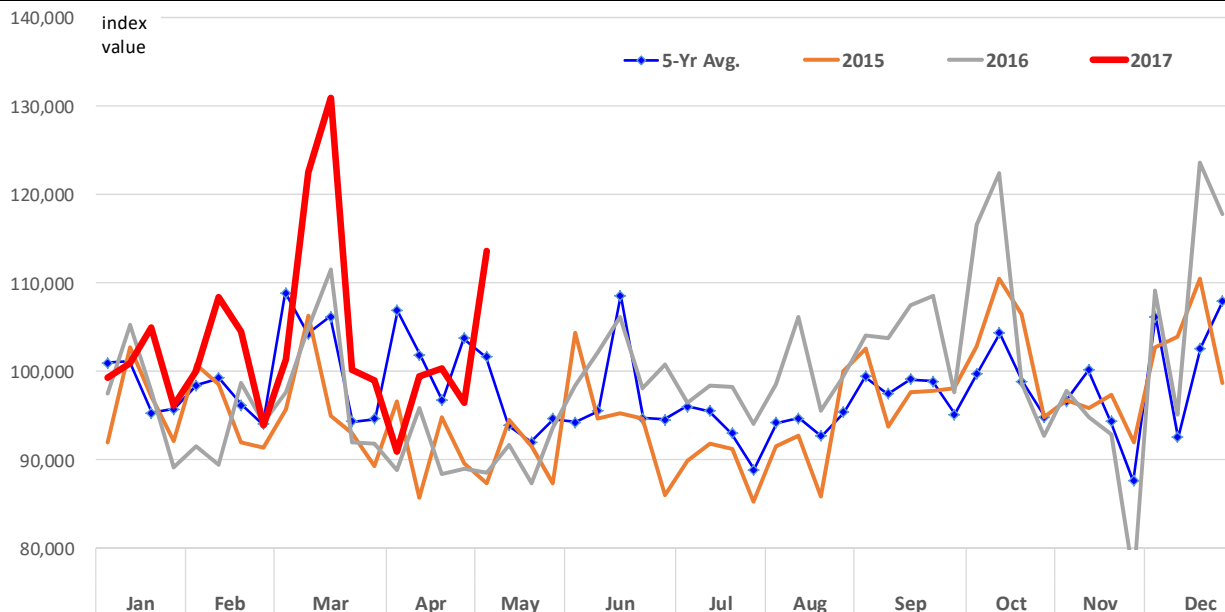
Imported Market Activity for the Week

Prices for imported lean grinding beef were higher once again this week, largely driven by end users that were struggling to fill needs in the domestic market. The market for fat beef trim has been particularly difficult as market participants find domestic packers are woefully short of product in the short term and thus have to turn to imports to fill needs. At the same time, there is a lot of fear given the degree to which domestic

prices have increased in the last two weeks and the potential for a sharp decline once Memorial Day needs are filled. Market participants we contacted today indicated very good sales of imported fat beef trimmings as US prices now easily outbid other markets. Lean beef prices were firm, with asking prices from Australia significantly higher than New Zealand product. Packers in New Zealand have some meat to sell but realize they need to manage expectations for late June and July orders given the seasonal decline in cow slaughter during that period.

USA NATIONAL RETAIL BEEF REPORT: ACTIVITY INDEX

Source: USDA "LSWBFRTL" Report. Latest data point is for May 5, 2017

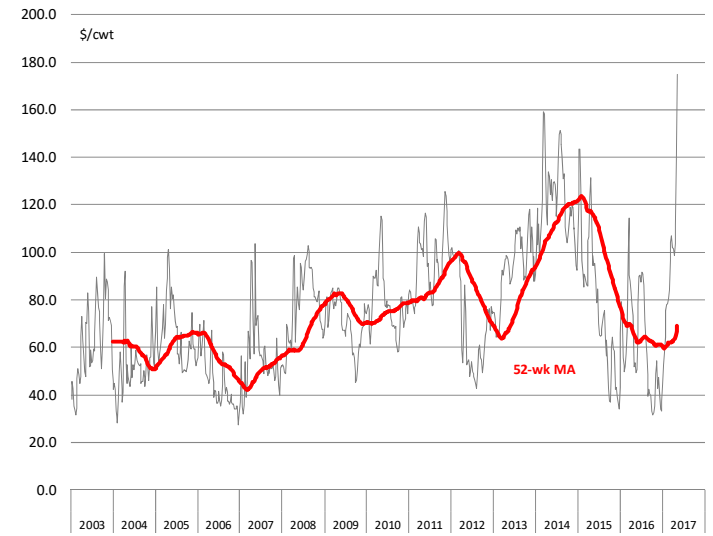


What is going on in the US Market?

Much of what is happening with imported beef in the US is being driven by the dynamics of the US domestic market and we think it is appropriate to devote some time to that. While we can talk about supply availability in New Zealand or the lack of cattle in Australia or robust imports from Mexico, the reality is that current US price levels are dictated by the extreme moves in prices for domestic beef. What accounts for this situation? Much of the discussion among market participants has to do with beef demand and the impact that it is having on prices. After all US beef production is up this year and higher prices would imply very strong demand at the consumer level. The reality is a bit more complicated and it involves some of the lag effects from extremely low forward prices late last year and early this year. One also would do well to recognize that in the short term processor/retailer and foodservice operator demand is sticky. This is different from consumer demand and it is dictated by the requirements of running complicated supply chains.

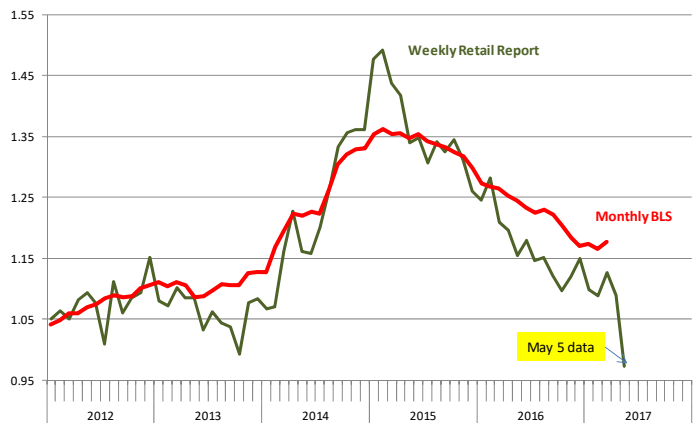
The chart on page 1 shows the retail beef activity index as measured by USDA in its weekly retail beef report. USDA defines the activity index as follows: “a measure of the absolute frequency of feature activity equal to the total number of stores for each advertised beef item (e.g., a retailer with 100 outlets featuring 3 beef items has an activity index of 300).” In other words, the higher the number of beef items featured weekly by a retailer the higher the index. In March the US retail beef activity index hit an all time record high and it was up 18% from the previous year. A warmer than normal winter and lower prices likely stimulated higher beef features. More recently we have seen a notable increase in retail beef activity, far and above the levels we saw in the last two years and the five year average. Retailers have been featuring beef more aggressively and **(this is key)** at notably lower prices than previous years. There is always some confusion about the notion of demand. The demand curve is a schedule of prices whereby a consumer is willing to purchase a given amount of product at a given price. You lower the price and the quantity demanded increases and vice versa. As retailers have significantly lowered prices for a number of beef items, consumers have reacted by buying more beef, buying more beef more frequently or, those that were priced out of the market before, starting to buy beef again. This is not a shift in demand, it is normal response to the lower prices in the market. Many of the marketing decisions made this spring likely were put in place months ago. Retailers probably saw a good response

50CL BEEF TRIMMINGS. WT. AVG. PRICE. USDA



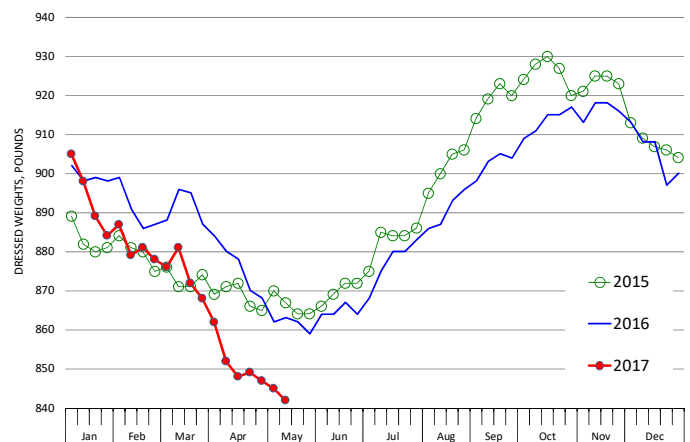
US Retail Ground Beef Prices (Official BLS) vs. 80-89% GB Weekly USDA Prices

Data Source:



Actual USDA Weekly Steer Weights. Reported with a Two week lag + Steiner Estimate

Source: USDA & Steiner Consulting Estimates



in terms of consumer traffic when they put beef on sale in March and they planned on doing the same for the weeks leading to Memorial Day. For those not familiar, Memorial Day weekend (last Monday in May) is the biggest beef consumption weekend in the US. Backyard grilling and BBQs are ubiquitous in the US

and during Memorial Day even the most sheltered city folk try their hand at grilling. July 4th (Independence Day) is the second largest beef consumption weekend. The second chart on page 2 shows an index of retail ground beef prices. The BLS official ground beef retail price series was last updated for March and it pegged retail ground beef prices about 18% above the 2011 average. However, when we look at the weekly retail prices published by USDA, the price of the 80-89% blend (the most common) has declined sharply in April and early May and it is now below the 2011 average. For week ending May 5, the average price of the 80-89% ground beef blend was \$2.90 compared to \$3.29 the previous year (a 12% decline is huge for retail prices). Needless to say the lower prices are causing beef to move pretty well but again, this is not higher demand, just a response to the shift in price. Faced with the need to fill orders, the beef packer has had little choice but to go out and bid up the price of cattle in order to secure adequate supplies. End users, especially small operators that do not have forward positions, are finding out that much of the meat already is spoken for. Spot markets are extremely thin at a time when a full out bidding war has broken out. This is a cautionary tale for those large operators that think they can just go out and buy beef in the fresh market. It is our opinion that going all fresh means increased volatility and the situation this year is a perfect example of what could happen. During certain times of the year operators will have to compete vigorously with retailers and may find supplies simply are not there. The price of 50CL beef that last year was trading at around 50 cents closed tonight at \$1.86, a 265% price increase and all time record. When there is no meat, what price are you prepared to pay rather than short your customers. We are finding out that the price could be pretty stiff. Further exacerbating the situation in the fat beef trim complex is the sharp decline in fed cattle weights, which has dramatically reduced the amount of fat beef trim available. One also needs to add to this the increase in beef exports to markets such as Japan. In the past Japan has purchased a large amount of fatty beef cuts. With beef exports to Japan up as much as 44% during certain times, this has further shortened the supply of fat trim around.

Bottom line: Many people have been caught short. Moreover, the lower prices at both retail and foodservice have encouraged consumers to buy more beef. Lower consumption in the past was not because people no longer wanted to eat beef, it was because beef was too damn expensive. There is a lot of debate in the US market as to when the rally in beef/cattle prices will end. We think it will come to an end when

the consumer once again is faced with higher prices. For now the response from some users is to jump to the sidelines and limit forward purchases. That rarely fixes the problem, all it does is add to normal demand in future months. The hope among foodservice operators is that retailers will reduce their beef features in the summer. But history has shown that it will take time for the beef/cattle market to adjust. And expected lower placements later this summer will limit the amount of US beef available in the market by the end of this year and in Q1 of 2018.

US Domestic Price Summary

Prices for 90CL boneless beef were quoted at 225 US cents on the top side, 2 cent higher than a week ago and 4.8 cents higher than year ago levels. **The weighted average price tonight was quoted at 221, the same as a week ago.** 85CL beef trim prices on the top side were quoted tonight at 196 cents, 18 cent lower than last week and 2 cents lower than last year. The weighted average price for 85CL beef was 196 cents a pound, unchanged from a week ago. 50CL beef price was 189.61 cents on the high side, 44.5 cent higher than a week ago and 134.6 cent higher than last year. On a weighted average basis, the price of 50CL beef is now 186 cents, about 50 cents higher than last week

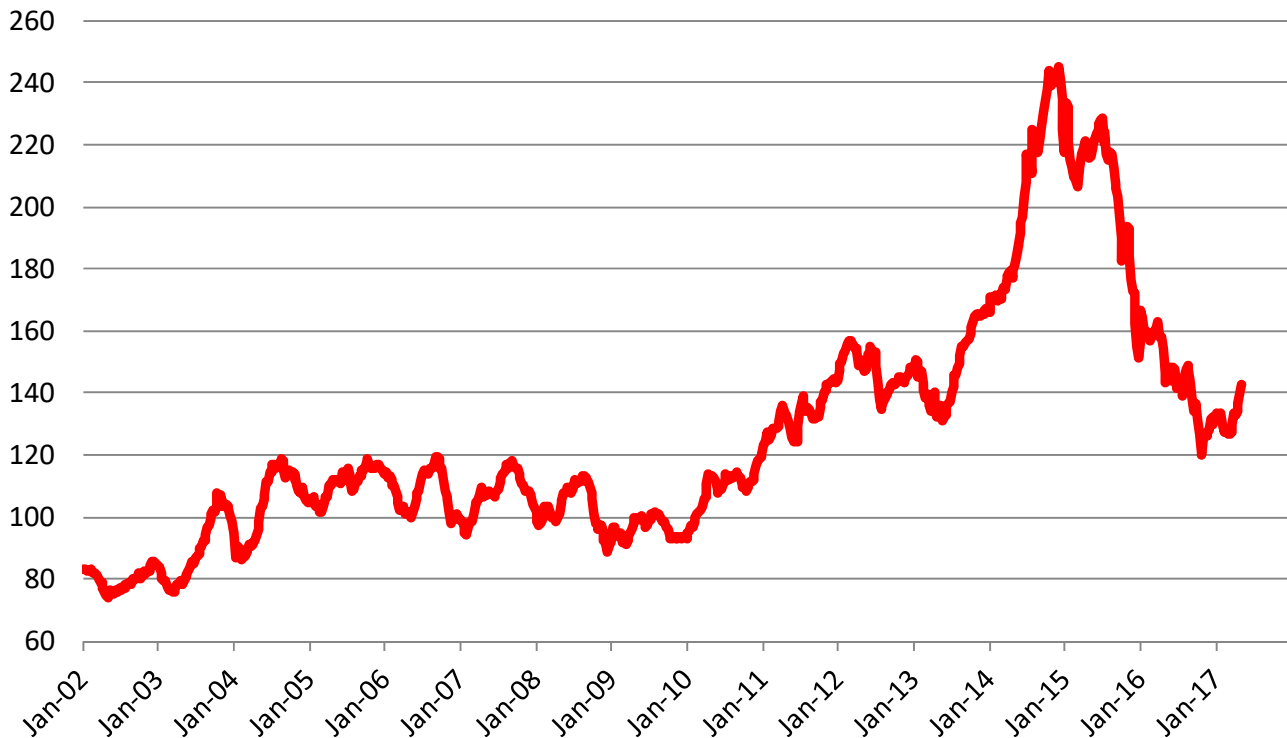
Prices for 42CL pork trim were mixed compared to a week ago, with fat pork prices down as much as 18 cents compared to last year despite the very expensive prices for beef trimmings. Large hog numbers continue to keep the market for pork well supplied.

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
	9-May-17	2-May-17		10-May-16	
CME FEEDER CATTLE INDEX	147.66	142.98	3.3%	144.37	2.3%
	10-May-17	3-May-17		11-May-16	
FED STEER (5-MKT AVG)	144.52	136.31	6.0%	126.66	14.1%
CUTTER COW CARCASS, NATIONAL, 90% LEAN, 350-400 LB. (carcass wt.)	125.50	123.50	1.6%	142.50	-11.9%
BONER COW CARCASS, NATIONAL, 85% LEAN, 400-500 LB. (carcass wt.)	123.00	121.00	1.7%	134.00	-8.2%
BREAKER COW CARCASS, NATIONAL, 75% LEAN, 500+ (carcass wt.)	112.50	110.00	2.3%	127.00	-11.4%
CUTTER COW CARCASS CUTOUT, 5-DAY MA, USDA	172.18	172.63	-0.3%	173.35	-0.7%

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
	10-May-17	238.0	3-May-17	235.0		11-May-16		
<u>US East Coast Australian/NZ Lean, CIF</u>								
95 CL Bull, E. Coast	237.0	238.0	234.0	235.0	3.0	212.0	213.0	25.0
90 CL Blended Cow	212.0	215.0	212.0	215.0	0.0	195.0	200.0	15.0
90 CL Shank	210.0	212.0	210.0	212.0	0.0		200.0	12.0
85 CL Fores	200.0	202.0	200.0	202.0	0.0		180.0	22.0
85 CL Chucks		UNQ		UNQ	N/A		UNQ	N/A
95 CL Bull, W. Coast	235.0	236.0	233.0	234.0	2.0	210.0	211.0	25.0
Uruguay CFH 90CL, E. Coast		UNQ		UNQ	N/A		UNQ	N/A
<u>US East Coast, Trimmings, CIF</u>								
85 CL Trimmings	199.0	201.0	199.0	201.0	0.0	178.0	179.0	22.0
80 CL Trimmings	177.0	180.0	175.0	177.0	3.0	150.0	155.0	25.0
75 CL Trimmings	166.0	167.0	165.0	166.0	1.0	134.0	135.0	32.0
65 CL Trimmings		140.0	135.0	140.0	0.0	99.0	100.0	40.0
<u>US East Coast Australian Cuts, CIF</u>								
Cap Off Steer Insides	280.0	285.0	280.0	285.0	0.0	295.0	310.0	-25.0
Steer Insides 14/18		UNQ		UNQ	N/A		UNQ	N/A
Steer Flats		UNQ		UNQ	N/A	210.0	215.0	N/A
Steer Knuckles	245.0	255.0	250.0	255.0	0.0	230.0	235.0	20.0

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

	Current Week		Prior Week		Change From Last Week	Last Year		Change From Last Year
	10-May-17		3-May-17			11-May-16		
<u>US East Coast Australian/NZ Lean, FOB US Port</u>								
95 CL Bull, E. Coast	243.0	244.0	239.0	242.0	2.0	220.0	222.0	22.0
90 CL Blended Cow	226.0	228.0	224.0	225.0	3.0	205.0	206.0	22.0
90 CL Shank	220.0	224.0	217.0	218.0	6.0		206.0	18.0
85 CL Fores	207.0	210.0	207.0	208.0	2.0	185.0	186.0	24.0
85 CL Chucks		UNQ		UNQ	N/A		UNQ	N/A
95 CL Bull, W. Coast	240.0	242.0	238.0	241.0	1.0	220.0	221.0	21.0
Uruguay CFH 90CL, E. Coast		UNQ		UNQ	N/A		UNQ	N/A
<u>US East Coast, Trimmings, FOB US Port</u>								
85 CL Trimmings	207.0	208.0	205.0	207.0	1.0	184.0	185.0	23.0
80 CL Trimmings	188.0	190.0	185.0	187.0	3.0	163.0	164.0	26.0
75 CL Trimmings	170.0	171.0	169.0	170.0	1.0	141.0	142.0	29.0
65 CL Trimmings	145.0	147.0	140.0	145.0	2.0	101.0	103.0	44.0
<u>US East Coast Australian Cuts, FOB US Port</u>								
Cap Off Steer Insides	285.0	290.0	285.0	290.0	0.0	300.0	320.0	-30.0
Steer Insides 14/18		UNQ		UNQ	N/A		UNQ	N/A
Steer Flats		UNQ		UNQ	N/A	230.0	235.0	N/A
Steer Knuckles	255.0	260.0	255.0	262.0	-2.0	245.0	250.0	10.0

TABLE 4 – US DOMESTIC BEEF AND CATTLE PRICES

	Current Week		Prior Week		Change From Last Week	Last Year		Change from Last Year
	10-May-17		3-May-17			11-May-16		
<u>Domestic Cutouts</u>								
Choice Cutout	244.58		232.59		12.0	213.71		30.9
Select Cutout	224.62		214.89		9.7	202.99		21.6
<u>Domestic Lean Grinding Beef</u>								
90 CL Boneless	220.0	225.0	219.0	223.0	2.0	215.0	220.2	4.8
85 CL Beef Trimmings	196.0	196.0	193.0	214.0	-18.0	175.0	198.0	-2.0
50 CL Beef Trim	179.3	189.6	128.3	145.1	44.5	52.0	55.0	134.6
<u>Domestic Pork Trim</u>								
42 CL Pork Trim	38.0	41.1	31.0	43.3	-2.2	39.3	59.3	-18.2
72 CL Pork Trim	75.1	95.5	69.0	80.1	15.5	68.0	92.0	3.5
<u>Point of Lean Values</u>								
90 CL Domestic	250.0		247.8		2.2	244.7		5.3
50 CL Beef Trimming	379.2		290.3		88.9	110.0		269.2
42 CL Pork Trim	97.9		103.0		-5.1	141.1		-43.2
72 CL Pork Trim	132.6		111.2		21.5	127.8		4.9
<u>National Direct Fed Steer</u> <u>(5-day accum. wt. avg. price)</u>	144.52		136.31		8.2	126.66		17.9

TABLE 5 – FUTURES AND SLAUGHTER INFORMATION

Futures Contracts	Current Week	Prior Week	Change From Last		Last Year	Change From	
			Week	Week		Last Year	Last Year
	10-May-17	3-May-17			11-May-16		
<u>Live Cattle Futures</u>							
June '17	118.525	115.875	↑	2.65	117.800	↑	0.73
August '17	114.775	112.225	↑	2.55	114.700	↑	0.08
October '17	113.750	111.350	↑	2.40	114.375	↓	-0.63
December '17	114.600		↑	114.60	114.325	↑	0.27
<u>Feeder Cattle Futures</u>							
May '17	142.075	140.100	↑	1.97	145.075	↓	-3.00
August '17	145.850	142.775	↑	3.07	144.300	↑	1.55
September '17	146.275	142.750	↑	3.53	144.375	↑	1.90
October '17	145.525		↑	145.53	144.375	↑	1.15
<u>Corn Futures</u>							
May '17	359	361 1/2	↓	-2.50	380 3/4	↓	-21.75
July '17	366 3/4	368	↓	-1.25	384 3/4	↓	-18.00
September '17	373 3/4	375 1/2	↓	-1.75	385 1/2	↓	-11.75
December '17	384 1/4	385 3/4	↓	-1.50	390 1/2	↓	-6.25
<u>Ch Wheat Futures</u>							
May '17	407 3/4	420 3/4	↓	-13.00	474 1/4	↓	-66.50
July '17	426 1/2	435 1/2	↓	-9.00	483 1/2	↓	-57.00
September '17	439 1/4	449 1/2	↓	-10.25	493 1/4	↓	-54.00
December '17	462	471 1/5	↓	-9.20	510 1/4	↓	-48.25

Slaughter Information	7 Days Ending	7 Days Ending	Change From Last		7 Days Ending	Change From	
			Week	Week		Last Year	Last Year
	10-May-17	3-May-17			11-May-16		
<u>Total Cattle Slaughter</u>	0	612,000	↓	-612,000	591,000	↓	-591,000
	22-Apr-17	15-Apr-17			23-Apr-16		
<u>Total Cow Slaughter</u>	0	102,542	↓	-102,542	99,700	↓	-99,700
<u>Dairy Cow Slaughter</u>	0	54,053	↓	-54,053	53,200	↓	-53,200
<u>Beef Cow Slaughter</u>	0	48,489	↓	-48,489	46,500	↓	-46,500

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

YTD Imported Meat Passed for Entry in the US

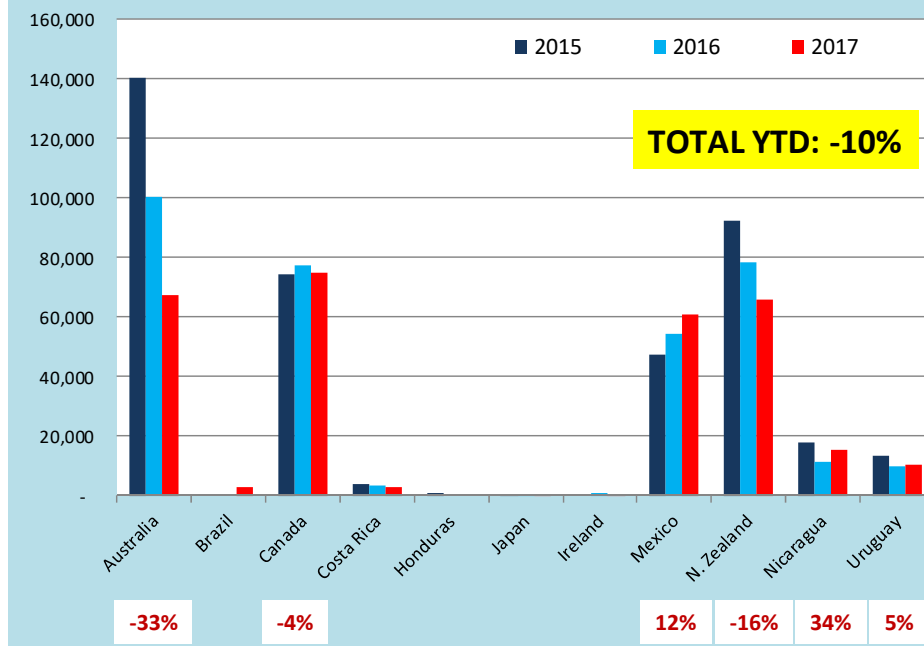
week 17	4/23/2016	4/29/2017		
Australia	100,506	67,559	(32,947)	-32.8%
Brazil		2,752		
Canada	77,702	74,962	(2,740)	-3.5%
Chile	163	136	(27)	-16.6%
Costa Rica	3,245	3,234	(11)	-0.3%
Honduras			-	
Japan	67	107	40	59.7%
Ireland	929	671	(258)	-27.8%
Mexico	54,367	60,902	6,535	12.0%
New Zealand	78,558	66,103	(12,455)	-15.9%
Nicaragua	11,679	15,685	4,006	34.3%
Uruguay	10,132	10,666	534	5.3%
Total	337,349	302,881	(34,468)	-10.2%

Source: USDA/FSIS

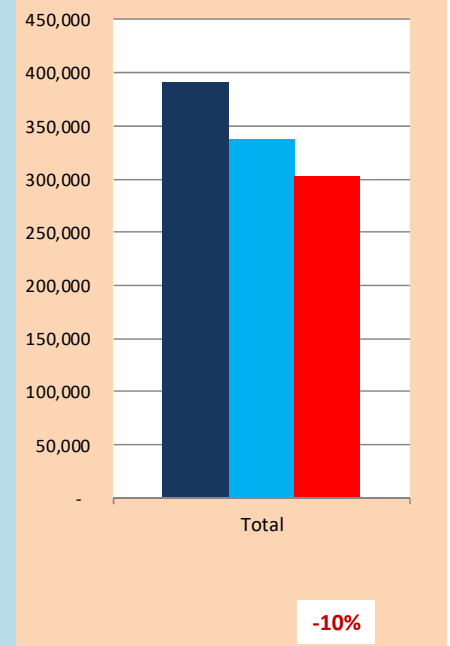
US Beef Imports. Metric Ton. Data Source: USDA/Agricultural Marketing Service

Imports as of April 29, 2017

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



Total

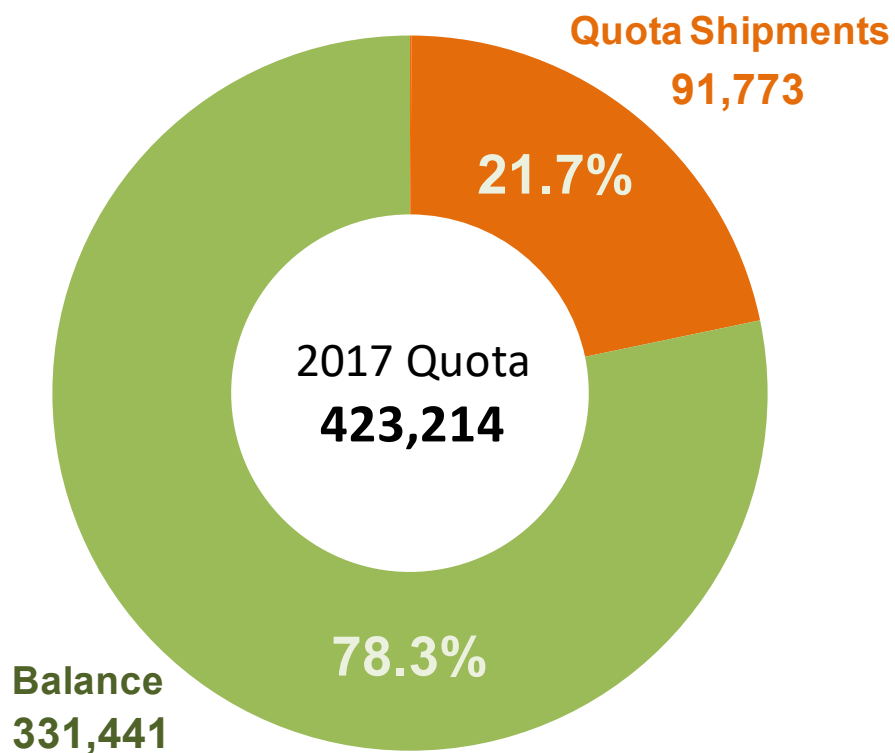


Please note that US Customs has discontinued its previous reporting and now only reports on countries that have a quota allocation. We are now using the AMS data to report YTD beef import entries. This data is slightly different than Customs. We will add at a later time a page that shows quota filled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

Australian Beef Quota Position

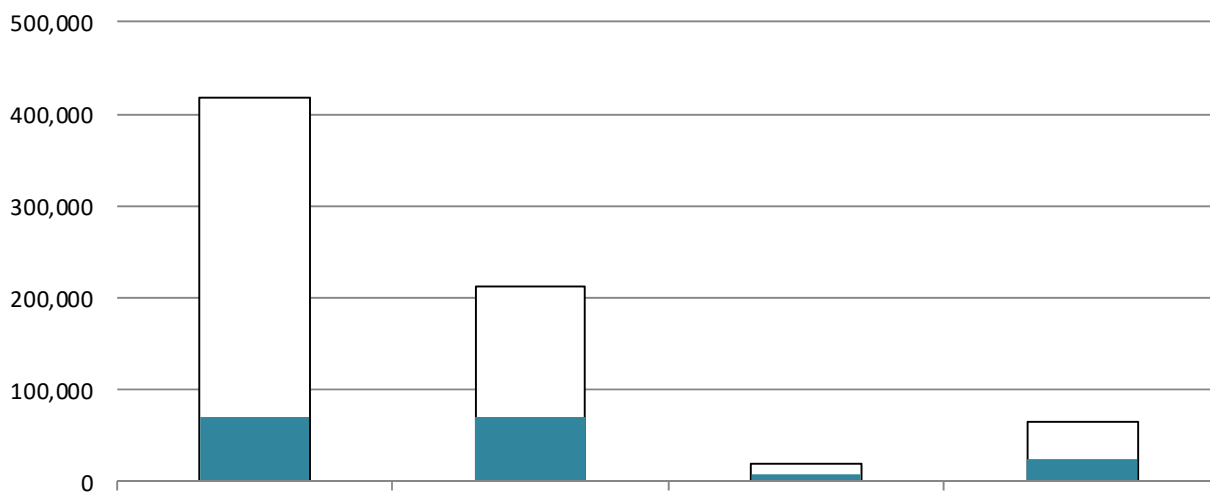
8-May-17

Metric Ton. Australian Department of Agriculture Statistics



USA Quota Entries through Week Ending May 8

Source: US Customs



	Australia	New Zealand	Uruguay	Other
2016 YTD	94,697,479	79,055,762	5,606,573	15,121,991
2017 YTD	69,859,010	70,537,968	7,621,794	24,555,197
% ch.	-26%	-11%	36%	62%
Quota	418,214,000	213,402,000	20,000,000	64,805,000
% cleared	17%	33%	38%	38%