



US Imported Beef Market

A Weekly Update

Prepared Exclusively for Meat & Livestock Australia - Sydney

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Market Highlights for the Week:

- CME fed cattle futures were lower for the week but the impact from the sharp selloff in equities has been muted, at least to this point.
- USDA expects beef production in 2018 to increase by 6% Y/Y and market participants will pay close attention to demand drivers, which includes equity markets and implications they have for consumer wealth
- Real per capita beef expenditures, a proxy for beef demand, were up 5% in December. Seasonally beef expenditures/demand is higher in Q2
- Improved moisture conditions in New Zealand have reportedly reduced the amount of cattle coming to market and limited the amount of beef New Zealand packers are willing to show for March delivery
- Drought conditions in the US have deteriorated, especially in key cow-calf producer regions.
- Fat beef trim prices were particularly volatile in 2017 and they have continued this trend in early 2018
- All measures of the Restaurant Performance Index were sharply higher in December, pointing to improved business conditions for the US foodservice industry
- US fed cattle slaughter for the week ending February 11 was estimated at 467,000 head, 2.8% higher than a year ago. Non-fed slaughter for the week was estimated at 126,000 head, 1.3% higher than a week ago.

Imported Market Activity for the Week

Imported beef trade was very slow last week as traders and other market participants noted limited offerings from overseas packers and generally a wide bid-ask gap. The decline in supply availability from New Zealand was seen as a primary factor impacting markets in the short term. A number of market participants noted that they are not seeing the level of offerings they expected from New Zealand and packers there continue to show very firm bids, which often are far from what can be realized

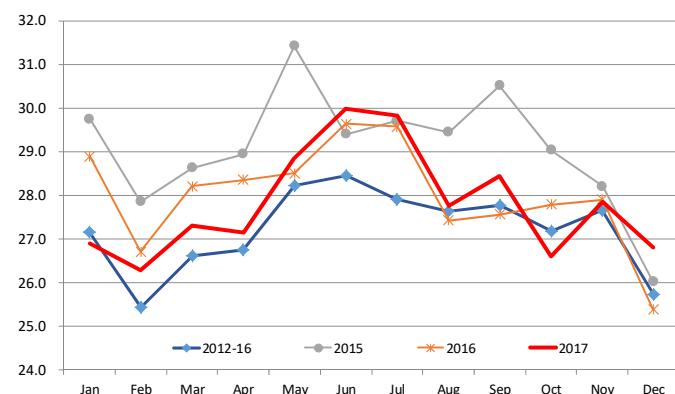
in the domestic market. Some end users that need to get product to cover immediate needs have had little choice but to pay up. Seasonally bull slaughter declines sharply in February and that has been the case again this year. An early start to the bull slaughter season has meant that even fewer bulls than expected have been coming to market in the last two weeks. Due to the lag in slaughter information availability, we will only know for sure when the official data is available at the end of the month. The decline in the price of US 50CL prices has also bolstered demand for extra lean product, further

Real Per Capita Expenditures, a Proxy of Consumer Meat Demand

Source: Steiner Consulting

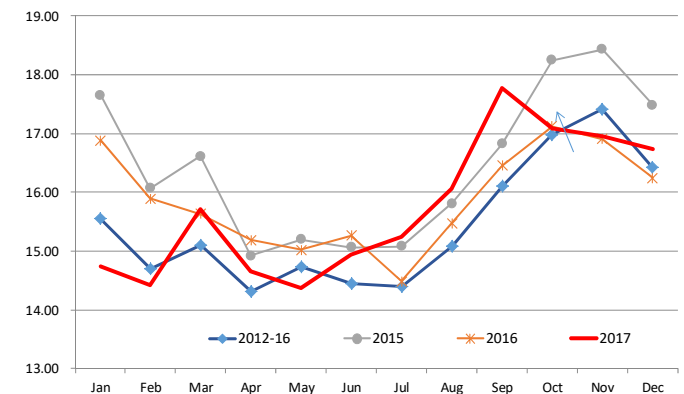
REAL PER CAPITA EXPENDITURES - ALL FRESH BEEF

Calculated Per Capita Monthly Disappearance * Retail Price in 2014 Dollars



REAL PER CAPITA EXPENDITURES - PORK

Calculated Per Capita Monthly Disappearance * Retail Price in 2014 Dollars



supporting prices for bull and 95CL cow meat. Prices for imported cuts have been steady to modestly weaker. This is not so much a function of supply. Rather, US domestic prices for both fed and non fed round cuts have been softer in the last two weeks. As a result, those overseas packers that need to move some product into the US have had little option but sell at lower prices in the US or simply wait. Asia demand was very strong earlier in the year but some participants also reporting slowing sales.

Key topics/market issues this week

New Zealand weather / slaughter

Moisture conditions in New Zealand have improved dramatically in the last 30 days. Both the North and South Island have received significant amounts of rain and the drought conditions (SPI index) is now dramatically different than it was back in November and early December. The larger cow herd in New Zealand and weaker dairy prices are still expected to bring more cows to market than a year ago. However, the improvement in moisture has made New Zealand packers more cautious as to the volume they are willing/prepared to offer. Tuesday was a national holiday in New Zealand and further contributed to the dearth of offerings.

Drop in 50CL price

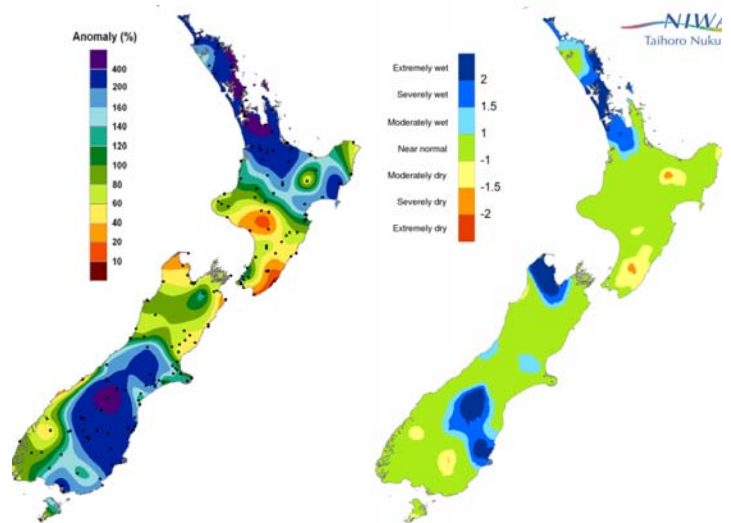
Fat trim prices in the US remain extremely volatile and this further complicates the timing of lean purchases for US processors. Fat trim prices were hovering around 50 cents per pound in December offering processors an incentive to chase lean and extra lean grinds. With New Zealand supplies also increasing at the same time, traders and importers did some brisk business during that time. By January, however, fat trim prices climbed well past the 75 cent target many (including us) had predicted. In some case as much as 100 cents were paid, a doubling in price in less than 30 days. Last week the price had once gain settled lower, trading in the mid 70s. It is not unusual for fat trim prices to be weaker in February, in part because retail ground beef business slows down during Lent. But the extreme volatility complicates things for processors that buy imported beef but often will not take delivery until mid March or later. It's part of the reason why the bid-ask spread continues to be so wide.

US Equity market uncertainty

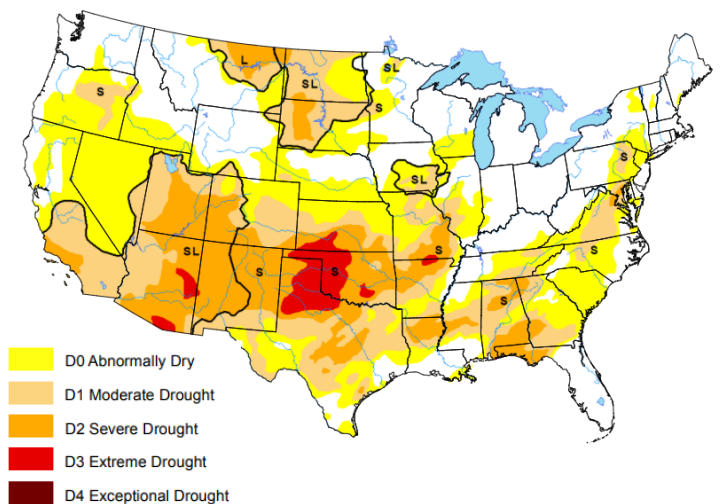
The sharp decline in equity prices has further added to the uncertainty in meat markets. Fed cattle fu-

NZ % of Rainfall Above Normal
January 2—February 2, 2018

Drought Monitor (SPI)



USA Drought Monitor. Prepared February 8, 2018
Source: Eric Luebehusen, U.S. Department of Agriculture



tures have been somewhat restrained in their response to the equity selloff but that could change if the rout deepens next weeks. Lean hog futures have been more susceptible to a selloff from managed money. For now firm prices in the spot market continue to support fed cattle prices. Beef demand was very good last year. December per capita expenditures, a proxy for beef demand, were up over 5% from the previous year and they were up for the entire year. But deteriorating economic conditions could quickly change the demand outlook. With 5-6% more beef expected to come to market in 2018, demand will be a critical factor for futures market participants.

US Drought Conditions

The map above 2 shows worsening drought conditions in regions that are key for beef production, especially in

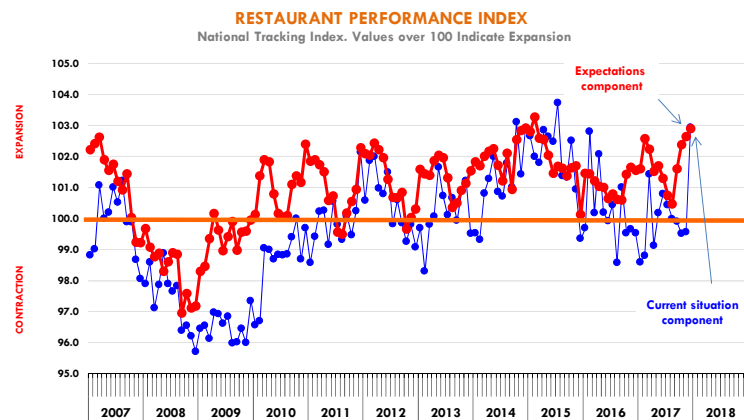
the Southern Plains. It is still too early in the year to sound the alarm bells and spring rains can make this a non-issue. However, a number of models continue to point to higher odds of La Nina weather patterns developing this spring and summer, which could bring above average drought conditions across the Southern US. The immediate impact of drought will be bearish for US lean beef prices, as producers cull more cows and earlier than normal. If the situation worsens we could see a widening discount of domestic to imported beef during Aug - Nov.

Restaurant Performance Index

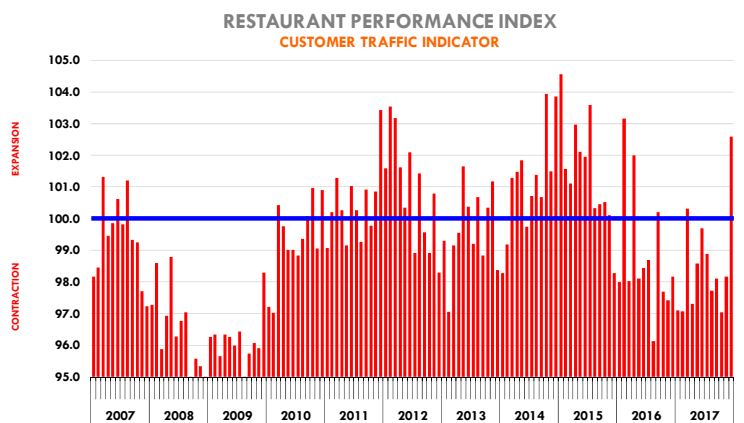
The restaurant performance index was sharply higher in December, supported by a significant improvement in current conditions and a more positive outlook for the next six months. The total index was at 102.9 in December, 1.8 points higher than the previous month and the biggest one month jump since 2012. The current situation index was 102.9 in December compared to 99.6 in November while the expectations component at 102.9 was 0.3 points higher than a month ago. Customer traffic has been a concern for the industry in the last two years, in part because we think the sharp increase in restaurant openings has led to significant cannibalization of traffic at established chains. The customer traffic index in December was 102.6 compared to 98.2 the previous month. We would caution against reading too much into this big jump, however. As you can see in the chart above, there have been several times in recent years when the index has jumped above 100 only to settle back down the following month.

Domestic Price Summary

Prices for domestic 90CL boneless beef were quoted at 214 US cents on the top side, 3 cents lower than a week ago but still 5 cents higher than last year. **Market was not quoted on Friday but the latest quote on a weighted average basis was 214, 2 cents lower than a week ago.** 85CL beef trim price on the top side was quoted on Friday at



Data source: National Restaurant Association



Data source: National Restaurant Association

215 cents, which has a 20 cent increase from the previous week. However, we think this is likely due to a small lot selling at a premium and don't see it as representative of the market. The weighted average price was 192 cents, modestly lower from a week ago. 50CL beef price was 87 cents on the high side, 8 cent higher than last week but 6 cents higher than last year. Prices for fat beef trim on a weighted average basis were 76 cents, 17 cents lower than last week

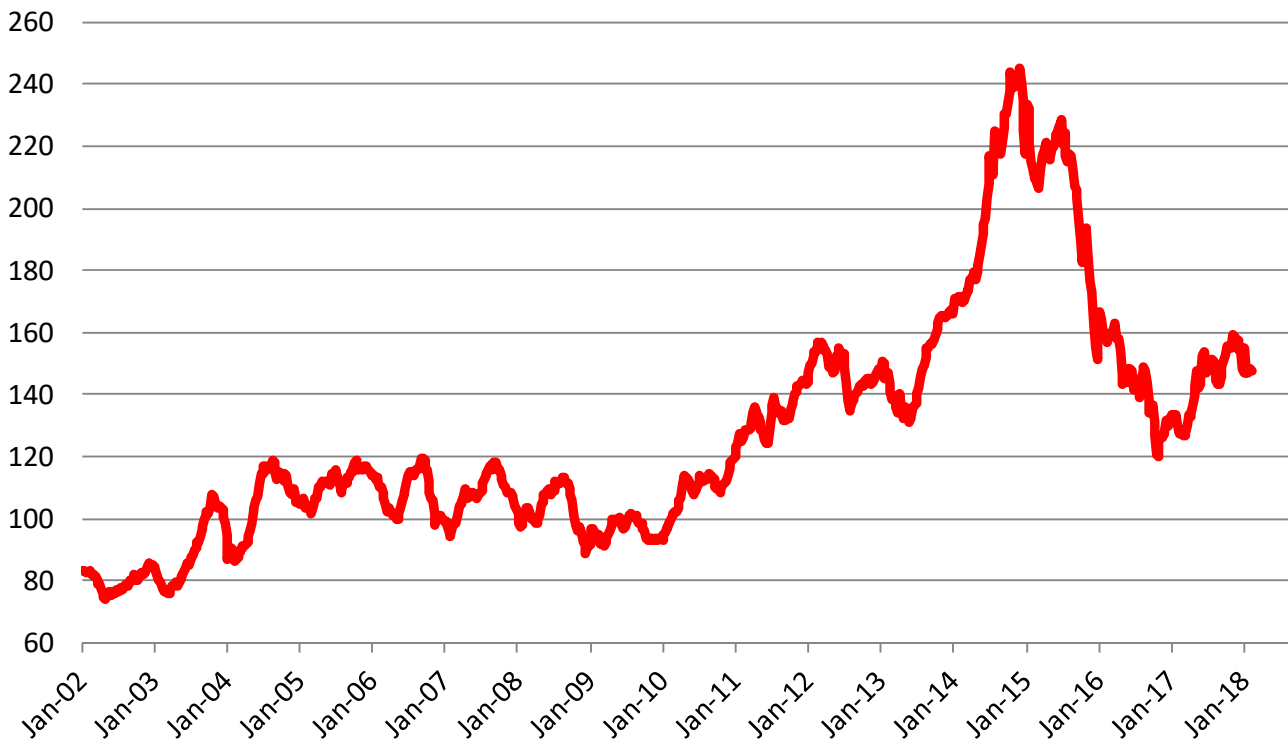
Pork trim prices have come under pressure in the last two weeks and are expected to be lower in February due to a combination of lower hog prices, higher Y/Y pork supplies and lower prices for fat beef trim.

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
	8-Feb-18	1-Feb-18		7-Feb-17	
CME FEEDER CATTLE INDEX	147.59	148.03	-0.3%	127.28	16.0%
	9-Feb-18	2-Feb-18		8-Feb-17	
FED STEER (5-MKT AVG)	126.04	126.16	-0.1%	118.74	6.1%
CUTTER COW CARCASS, NATIONAL, 90% LEAN, 350-400 LB. (carcass wt.)	112.00	103.00	8.7%	100.00	12.0%
BONER COW CARCASS, NATIONAL, 85% LEAN, 400-500 LB. (carcass wt.)	109.50	100.50	9.0%	105.50	3.8%
BREAKER COW CARCASS, NATIONAL, 75% LEAN, 500+ (carcass wt.)	103.00	96.50	6.7%	98.00	5.1%
CUTTER COW CARCASS CUTOUT, 5-DAY MA, USDA	170.53	172.08	-0.9%	154.79	10.2%

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
	9-Feb-18	2-Feb-18	9-Feb-18	2-Feb-18		8-Feb-17		
<u>US East Coast Australian/NZ Lean, CIF</u>								
95 CL Bull, E. Coast	225.0	226.0	220.0	223.0	3.0	220.0	223.0	3.0
90 CL Blended Cow	213.0	214.0	208.0	210.0	4.0	202.0	204.0	10.0
90 CL Shank	212.0	213.0	209.0	210.0	3.0	204.0	205.0	8.0
85 CL Fores	194.0	195.0	191.0	194.0	1.0	183.0	185.0	10.0
85 CL Chucks		UNQ		UNQ	N/A		UNQ	N/A
95 CL Bull, W. Coast	224.0	225.0	220.0	221.0	4.0	219.0	220.0	5.0
Uruguay CFH 90CL, E. Coast		UNQ		UNQ	N/A		UNQ	N/A
<u>US East Coast, Trimmings, CIF</u>								
85 CL Trimmings	193.0	194.0	190.0	192.0	2.0	181.0	182.0	12.0
80 CL Trimmings	165.0	167.0	167.0	168.0	-1.0	162.0	165.0	2.0
75 CL Trimmings		UNQ	160.0	162.0	N/A	148.0	150.0	N/A
65 CL Trimmings		UNQ		UNQ	N/A	101.0	103.0	N/A
<u>US East Coast Australian Cuts, CIF</u>								
Cap Off Steer Insides	280.0	285.0	285.0	290.0	-5.0	265.0	270.0	15.0
Steer Insides 14/18		UNQ		UNQ	N/A		UNQ	N/A
Steer Flats		UNQ		UNQ	N/A	220.0	225.0	N/A
Steer Knuckles	240.0	245.0	245.0	250.0	-5.0	235.0	240.0	5.0

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

	Current Week		Prior Week		Change From Last Week	Last Year		Change From Last Year
	9-Feb-18		2-Feb-18			8-Feb-17		
<i>US East Coast Australian/NZ Lean, FOB US Port</i>								
95 CL Bull, E. Coast	234.0	235.0	232.0	235.0	0.0	227.0	228.0	7.0
90 CL Blended Cow	221.0	223.0	220.0	221.0	2.0	213.0	214.0	9.0
90 CL Shank	219.0	220.0	218.0	219.0	1.0	213.0	215.0	5.0
85 CL Fores	199.0	200.0	200.0	201.0	-1.0	192.0	194.0	6.0
85 CL Chucks		UNQ		UNQ	N/A		UNQ	N/A
95 CL Bull, W. Coast	232.0	233.0	231.0	233.0	0.0	225.0	226.0	7.0
Uruguay CFH 90CL, E. Coast		UNQ		UNQ	N/A		UNQ	N/A
<i>US East Coast, Trimmings, FOB US Port</i>								
85 CL Trimmings	198.0	199.0	199.0	200.0	-1.0	190.0	192.0	7.0
80 CL Trimmings	174.0	175.0	174.0	175.0	0.0	172.0	174.0	1.0
75 CL Trimmings	170.0	171.0	170.0	172.0	-1.0	158.0	160.0	11.0
65 CL Trimmings		UNQ		UNQ	N/A	115.0	120.0	N/A
<i>US East Coast Australian Cuts, FOB US Port</i>								
Cap Off Steer Insides	290.0	295.0	295.0	300.0	-5.0		275.0	20.0
Steer Insides 14/18		UNQ		UNQ	N/A		UNQ	N/A
Steer Flats		UNQ		UNQ	N/A	225.0	230.0	N/A
Steer Knuckles	250.0	255.0	255.0	260.0	-5.0	245.0	250.0	5.0

TABLE 4 – US DOMESTIC BEEF AND CATTLE PRICES

	Current Week		Prior Week		Change From Last Week	Last Year		Change from Last Year	
	9-Feb-18		2-Feb-18			8-Feb-17			
<u>Domestic Cutouts</u>									
Choice Cutout	206.52		209.10		-2.6	189.43		17.1	
Select Cutout	202.74		203.45		-0.7	186.49		16.3	
<u>Domestic Lean Grinding Beef</u>									
90 CL Boneless	214.0	214.0	215.6	217.0	-3.0	207.0	209.0	5.0	
85 CL Beef Trimmings	171.0	215.0	183.0	194.4	20.7	182.0	191.0	24.0	
50 CL Beef Trim	71.6	86.8	92.0	94.8	-8.0	75.2	80.3	6.5	
<u>Domestic Pork Trim</u>									
42 CL Pork Trim	28.3	37.3	26.6	37.3	0.0	25.0	45.3	-8.0	
72 CL Pork Trim	66.0	84.3	67.5	87.3	-3.0	58.5	77.3	7.0	
<u>Point of Lean Values</u>									
90 CL Domestic	237.8		241.1		-3.3	232.2		5.6	
50 CL Beef Trimming	173.5		189.5		-16.0	160.5		13.0	
42 CL Pork Trim	88.7		88.7		0.0	107.7		-19.0	
72 CL Pork Trim	117.0		121.2		-4.2	107.3		9.7	
<u>National Direct Fed Steer</u> <u>(5-day accum. wt. avg. price)</u>	126.04		126.16		-0.1	118.74		7.3	

TABLE 5 – FUTURES AND SLAUGHTER INFORMATION

<i>Futures Contracts</i>	<i>Current Week</i>	<i>Prior Week</i>	<i>Change From</i>		<i>Last Year</i>	<i>Change From</i>	
	9-Feb-18	2-Feb-18	Last Week		8-Feb-17	Last Year	
<u>Live Cattle Futures</u>							
February '18	126.850	124.600	↑	2.25	115.575	↑	11.28
April '18	126.125	124.625	↑	1.50	113.700	↑	12.43
June '18	118.000	116.175	↑	1.83	104.225	↑	13.78
August '18	114.975	113.050	↑	1.93	100.225	↑	14.75
<u>Feeder Cattle Futures</u>							
March '18	150.925	146.725	↑	4.20	122.075	↑	28.85
April '18	151.775	147.225	↑	4.55	121.725	↑	30.05
May '18	151.775	147.050	↑	4.72	120.625	↑	31.15
August '18	154.075	150.050	↑	4.02	120.625	↑	33.45
<u>Corn Futures</u>							
March '18	361 1/2	356 1/2	↑	5.00	368 1/4	↓	-6.75
May '18	369 1/2	365	↑	4.50	375 3/4	↓	-6.25
July '18	377 1/4	373 1/4	↑	4.00	382 3/4	↓	-5.50
September '18	384 1/2	380 3/4	↑	3.75	389 1/4	↓	-4.75
<u>Ch Wheat Futures</u>							
March '18	446 3/4	441	↑	5.75	433 3/4	↑	13.00
May '18	459 3/4	453 3/4	↑	6.00	446	↑	13.75
July '18	473 1/2	466 1/2	↑	7.00	459 3/4	↑	13.75
September '18	487 1/2	480 1/4	↑	7.25	474	↑	13.50

<i>Slaughter Information</i>	<i>7 Days Ending</i>	<i>7 Days Ending</i>	<i>Change From</i>		<i>7 Days Ending</i>	<i>Change From</i>	
	10-Feb-18	3-Feb-18	Last Week		11-Feb-17	Last Year	
<u>Total Cattle Slaughter</u>	629,000	588,000	↑	41,000	596,000	↑	33,000
	27-Jan-18	20-Jan-18			28-Jan-17		
<u>Total Cow Slaughter</u>	125,021	123,824	↑	1,197	116,046	↑	8,975
<u>Dairy Cow Slaughter</u>	67,309	68,120	↓	-811	65,846	↑	1,463
<u>Beef Cow Slaughter</u>	57,712	55,704	↑	2,008	50,200	↑	7,512

TABLE 7 - US BEEF IMPORTS

(Source: USDA/AMS)

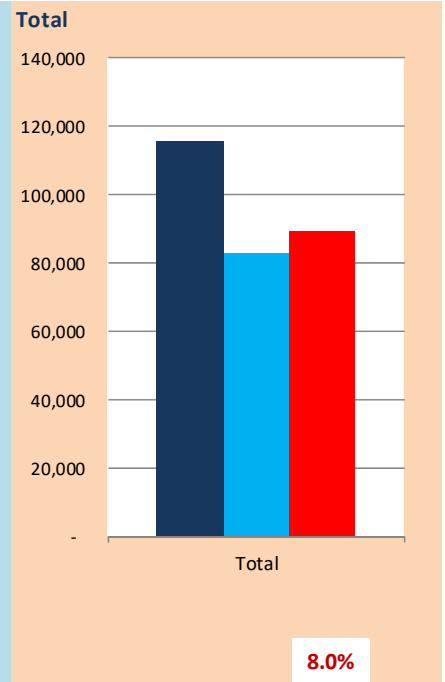
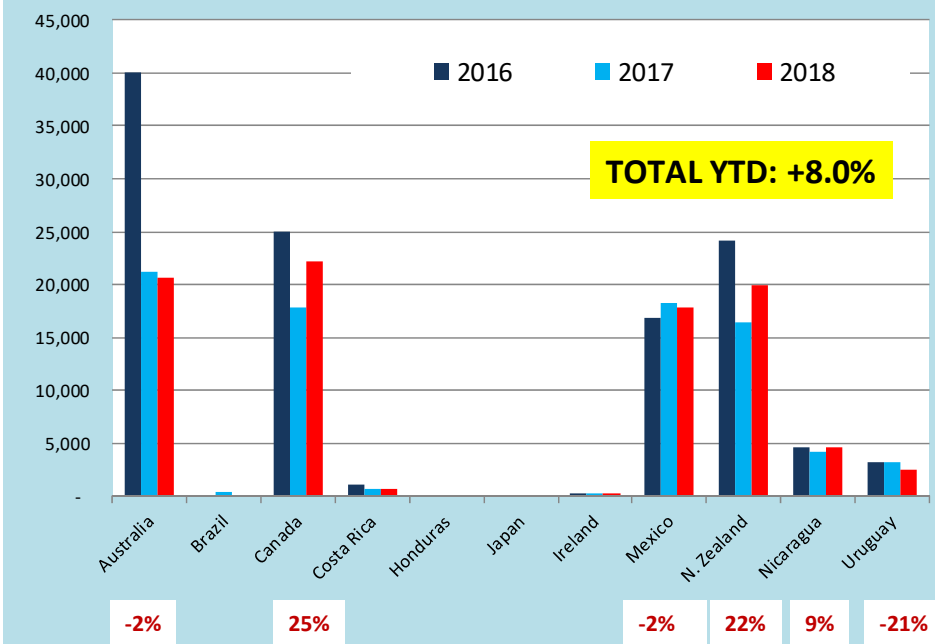
YTD Imported Fresh Beef Passed for Entry in the US

week 5	2/4/2017	2/3/2018		
Australia	21,193	20,669	(524)	-2.5%
Brazil	423	-		
Canada	17,834	22,243	4,409	24.7%
Chile	23	-	(23)	-100.0%
Costa Rica	699	667	(32)	-4.6%
Honduras	-	151	151	
Japan	31	120	89	287.1%
Ireland	216	336	120	55.6%
Mexico	18,285	17,915	(370)	-2.0%
Netherlands	-	-		
New Zealand	16,460	20,021	3,561	21.6%
Nicaragua	4,253	4,647	394	9.3%
Uruguay	3,262	2,569	(693)	-21.2%
Total	82,719	89,336	6,617	8.0%

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

Imports as of February 3, 2018

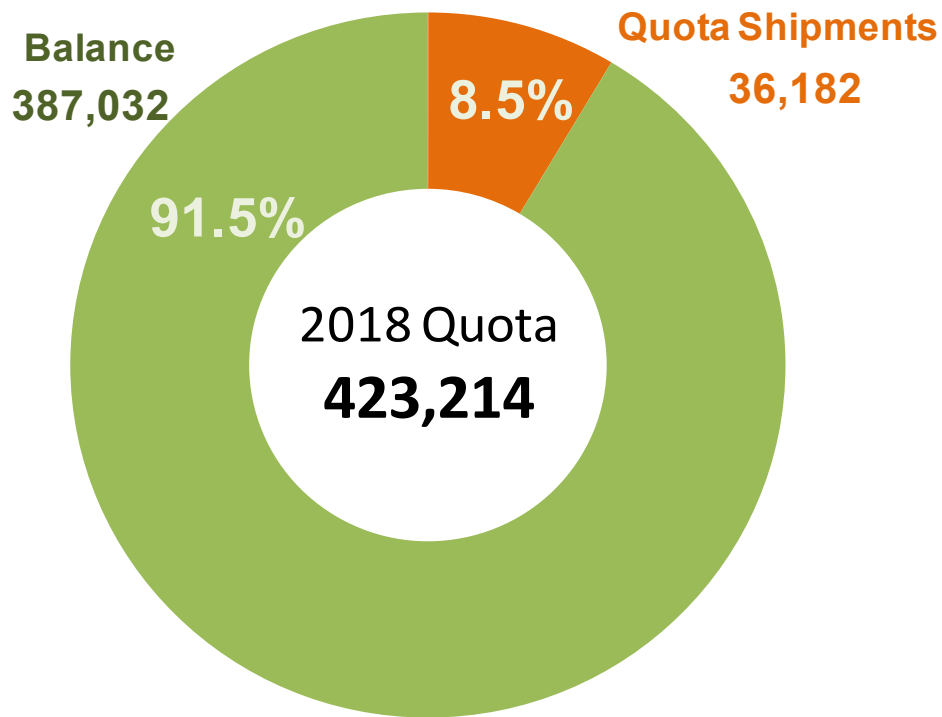
Individual Country Volume. MT & Y/Y % Ch.



Australian Beef Quota Position

31-Jan-18

Metric Ton. Australian Department of Agriculture Statistics



USA Quota Entries through Week Ending February 5

Source: US Customs

