



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 for June 2018 were down the daily permissible limit on Thursday and down 12% in March as slow marketing pace fuels concerns cattle may back up in feedlots and bump up against processing capacity in June
- Fed cattle slaughter was 488k head last week, up 1.5% from a year ago. However, the inventory of +120day cattle on April 1 is estimated 24% above last year and significantly higher cattle slaughter is now expected for late April, May and June, potentially peaking near 540k head
- Lower fed cattle values and higher slaughter could impact the value of end cuts during Q2 and cause them to be under grinding values. US end users remain reluctant to bid on imported lean beef for delivery in May and June since lower priced end cuts could bolster grinding beef availability and pressure prices lower.
- Cow slaughter has also been trending higher due to both more beef cows (+9%) and more dairy cows (+9.6%) than last year
- Grain markets were bolstered last week by USDA reports showing farmers intend to plant 2 million fewer acres than previously expected. Higher grain prices are bearish for cattle in the short term as deteriorating profits will push more heifers in the feedlots

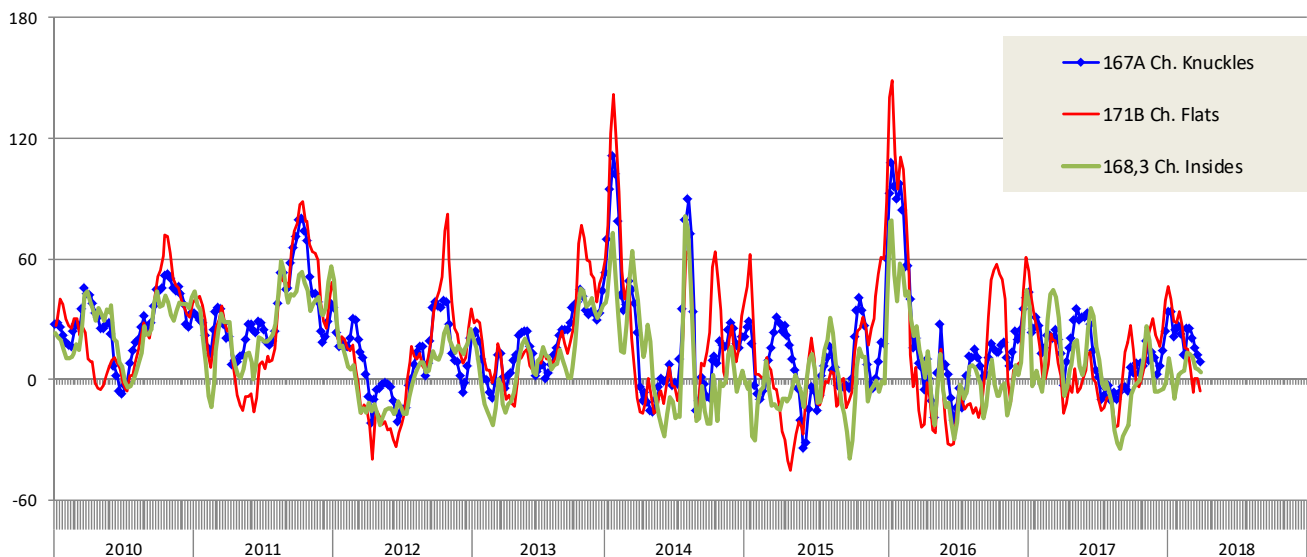
Imported Market Activity for the Week

Usually one expects imported and domestic grinding beef trade to be quite active in late March and early April but that has not been the case this year. Offers from overseas packers continue to be quite high while domestic users are quite apprehensive about the outlook for prices in May and June and thus are content to go hand to mouth, un-

willing to match offers for April and May. Futures prices for spring and summer have deteriorated quite rapidly as participants worry that an oversupply of finished cattle will start to bump up against available packing capacity. While this was a concern earlier in the year, participants were expecting/hoping that feedlots would start to ramp up marketings in March. That did not happen. This was in part due to still quite high beef prices, with

Point of Lean Premium (cents/lb.) of Round Cuts vs. 90CL Beef Trim

Peeled Knuckle assumed at 93CL, Flats at 87CL and Insides at 90CL. Weekly USDA Prices used.

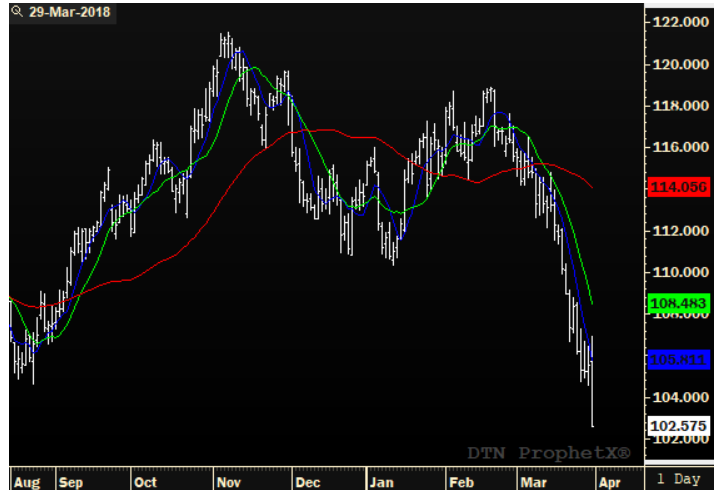


the cutout well above year ago levels but also because a relatively cold March in heavily populated areas negatively impacted foodservice demand. The futures market is now looking to incentivize feedlots to accelerate marketings via a very large basis level. Basis is the difference between the cash market and futures. Cash prices for fed cattle last week were \$120-\$121/cwt, about \$5 lower than the previous week but still as much as \$8/cwt higher than late April levels.

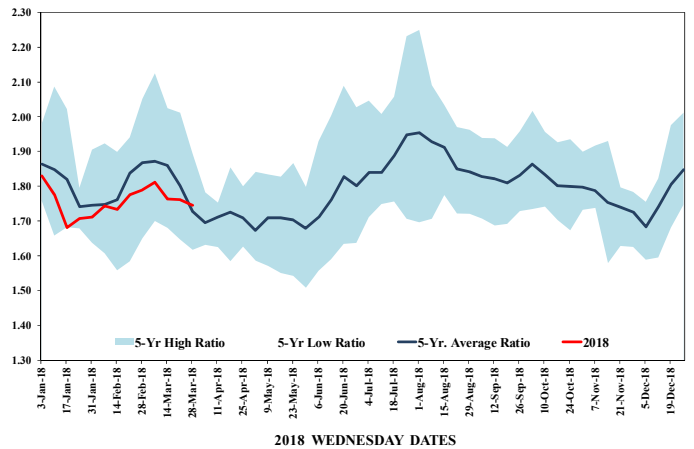
End users in the US cannot ignore the trend in the fed cattle market given the potential for a number of lean cuts to drop below current grinding values. There are a lot of ways to go about calculating grinding cuts and assumptions about CL content are always key. The chart on page 1 offers and illustration and we have noted our assumptions. We looked at the value of three key round cuts, insides/peeled knuckles/flats, relative to the benchmark 90CL boneless beef. Because the cuts in question have different fat content we could not simply calculate the price spread. Rather, we calculated the point of lean value for each cut (price/CL content) and then calculated the spread to the point of lean value for 90CL beef. As expected round cuts have a significantly higher point of lean value than 90s in the winter, when fed cattle supplies decline and retail demand supports prices for these “cold weather cuts.” However, in the past we have seen that the CL value of these items can indeed decline below the 90CL lean point value. If that goes on for long enough, it could cause packers to grind a larger percentage of them. Some end users also can opt to purchase cuts for grinding if the math of freight/processing cost works. The chart to the right offers a bit more info as to where we are going with this. Currently fed cattle prices are trading at around \$120/cwt and the price of fresh Choice 168,3 inside rounds is near \$220/cwt, thus a multiple of 1.8 (see second chart). This is a bit on the higher end of the range for this time of year. But if fed cattle futures are right and fed cattle prices drop to the \$100/cwt area, even on the high end of the range insides would be worth \$200. One can see why a domestic user would be somewhat reluctant to bid for imported 90CL beef with a potential delivered cost of \$215-\$220 when they see the possibility of round cuts being \$200 or less.

Fed cattle slaughter was under year ago levels in March but it is expected to ramp up significantly in April and May. Per our calculations the supply of cattle that have been on feed for more than 120 days on April 1 will be about 24% higher

June 2018 Fed Cattle Futures

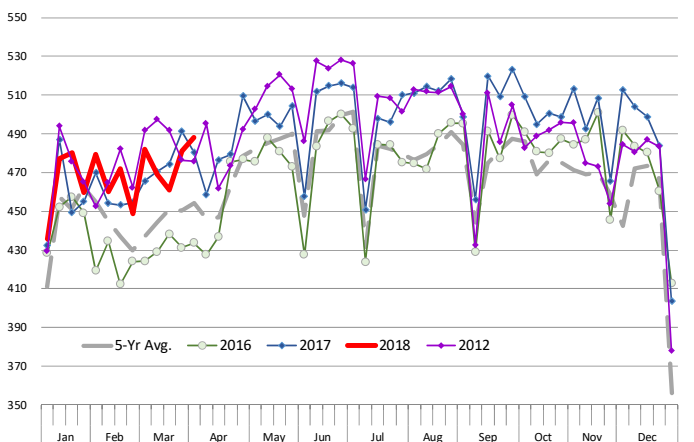


Price Ratio of US Domestic Choice Inside Rounds vs. Fed Steer



WEEKLY STEER AND HEIFER SLAUGHTER, '000 HEAD

Source: USDA



than a year ago. Last week we estimated fed cattle slaughter at 488,000 head, 1.5% higher than a year ago. We expect to see fed cattle slaughter climb above 500k/week in the second half of April and slaughter could potentially reach 530k to 540k head

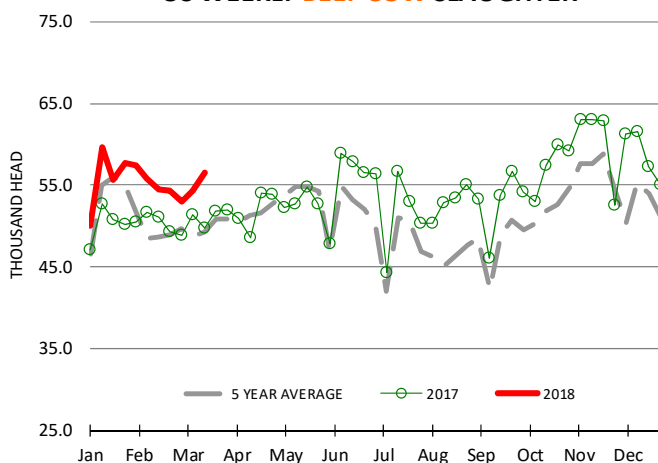
by June. Non fed cattle slaughter has also increased sharply in recent weeks. This is due to a combination of more beef and more dairy cows coming to market. The cow slaughter data by category is reported with a two week lag. For the four weeks ending March 17, dairy cow slaughter averaged 65,730 head/week, 9% higher than a year ago. Beef cow slaughter during that period averaged 54,560 head/week, 9.6% higher than last year (see charts below). The increase in dairy slaughter is significant. Dairy cow inventories increased for much of last year. Higher feed costs and weaker dairy product values could potentially push more dairy cows to slaughter in the coming weeks, further adding to the beef supply available.

Other factors of note this week:

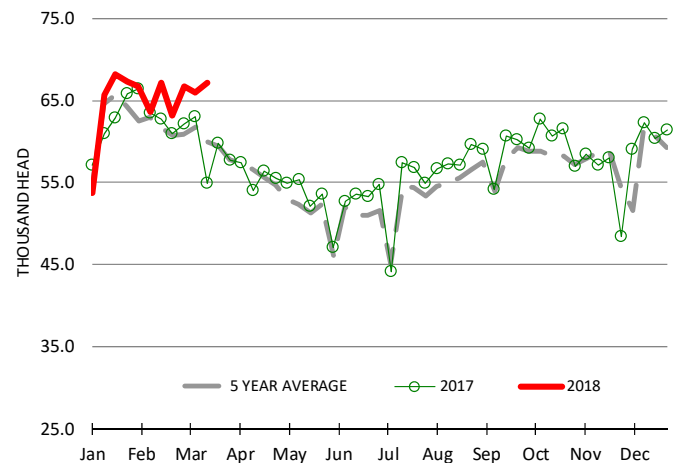
- Grain prices are trending higher and, in the short term, this is bearish for beef prices. USDA reported on Thursday that US farmers intend to plant 2 million fewer acres with corn than previously expected. The combination of lower acres, lower yields due to dry conditions and higher domestic feed demand and exports is expected to result in a significant reduction of grain pipeline supplies. There is still plenty of time until the new corn crop is established but, for now, futures will likely build a risk premium for the new corn crop to account for this lower supply potential.
- USDA also reported last week that pork supplies are on track to expand by 4% in the next 12 months. The hog breeding herd was up 1.7% and at the highest level in a decade. The larger breeding herd and more pigs saved per litter are expected to push fall hog supplies

above 3% and with trend higher weights production could be 4% or higher. More than other proteins pork is heavily dependent on export demand. Almost 1 out of 4 pounds of pork produced in the US goes to export. Importantly, export markets in Asia are key for pork by-product values, with China and Hong Kong purchasing as much as 60% of all US pork exports of variety meats. We still don't know if China will implement a 25% tariff on US pork in retaliation for US tariffs on Chinese products. If the tariffs do go into effect they could significantly curtail US pork export potential to the Chinese market and negative impact pork values. The potential for trade disruptions has added a significant element of uncertainty in the US protein markets given significant expansion across the entire complex.

US WEEKLY BEEF COW SLAUGHTER



US WEEKLY DAIRY COW SLAUGHTER



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
	29-Mar-18	22-Mar-18		28-Mar-17	
CME FEEDER CATTLE INDEX	136.21	137.98	-1.3%	133.36	2.1%
	30-Mar-18	23-Mar-18		29-Mar-17	
FED STEER (5-MKT AVG)	121.03	126.09	-4.0%	131.19	-7.7%
CUTTER COW CARCASS, NATIONAL, 90% LEAN, 350-400 LB. (carcass wt.)	104.50	101.50	3.0%	117.00	-10.7%
BONER COW CARCASS, NATIONAL, 85% LEAN, 400-500 LB. (carcass wt.)	108.00	108.50	-0.5%	122.00	-11.5%
BREAKER COW CARCASS, NATIONAL, 75% LEAN, 500+ (carcass wt.)	107.50	107.00	0.5%	114.00	-5.7%
CUTTER COW CARCASS CUTOUT, 5-DAY MA, USDA	172.52	173.21	-0.4%	154.79	11.5%

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
	30-Mar-18		23-Mar-18			29-Mar-17		
<u>US East Coast Australian/NZ Lean, CIF</u>								
95 CL Bull, E. Coast	221.0	223.0	222.0	224.0	-1.0	233.0	235.0	-12.0
90 CL Blended Cow	208.0	210.0	210.0	212.0	-2.0	212.0	217.0	-7.0
90 CL Shank	207.0	210.0	210.0	212.0	-2.0	212.0	214.0	-4.0
85 CL Fores	193.0	194.0	193.0	196.0	-2.0	194.0	195.0	-1.0
85 CL Chucks		UNQ		UNQ	N/A		UNQ	N/A
95 CL Bull, W. Coast	220.0	222.0	221.0	223.0	-1.0	232.0	233.0	-11.0
Uruguay CFH 90CL, E. Coast		UNQ		UNQ	N/A		UNQ	N/A
<u>US East Coast, Trimmings, CIF</u>								
85 CL Trimmings	191.0	192.0	191.0	193.0	-1.0	193.0	194.0	-2.0
80 CL Trimmings	179.0	180.0	177.0	180.0	0.0	166.0	169.0	11.0
75 CL Trimmings	170.0	172.0		UNQ	N/A	153.0	155.0	17.0
65 CL Trimmings	135.0	136.0		UNQ	N/A	120.0	125.0	11.0
<u>US East Coast Australian Cuts, CIF</u>								
Cap Off Steer Insides	285.0	295.0	290.0	295.0	0.0	270.0	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	250.0	255.0	-5.0	250.0	255.0	-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
	30-Mar-18		23-Mar-18			29-Mar-17		
<i>US East Coast Australian/NZ Lean, FOB US Port</i>								
95 CL Bull, E. Coast	230.0	231.0	232.0	234.0	-3.0	239.0	240.0	-9.0
90 CL Blended Cow	213.0	215.0	217.0	219.0	-4.0	221.0	222.0	-7.0
90 CL Shank	215.0	218.0	217.0	218.0	0.0	218.0	220.0	-2.0
85 CL Fores	202.0	203.0	203.0	205.0	-2.0	200.0	201.0	2.0
85 CL Chucks		UNQ		UNQ	N/A		UNQ	N/A
95 CL Bull, W. Coast	228.0	229.0	229.0	232.0	-3.0	237.0	238.0	-9.0
Uruguay CFH 90CL, E. Coast		UNQ		UNQ	N/A		UNQ	N/A
<i>US East Coast, Trimmings, FOB US Port</i>								
85 CL Trimmings	200.0	202.0	201.0	203.0	-1.0		200.0	2.0
80 CL Trimmings	184.0	185.0	182.0	183.0	2.0	174.0	175.0	10.0
75 CL Trimmings	174.0	175.0	172.0	173.0	2.0	160.0	161.0	14.0
65 CL Trimmings		UNQ		UNQ	N/A	128.0	132.0	N/A
<i>US East Coast Australian Cuts, FOB US Port</i>								
Cap Off Steer Insides	295.0	300.0	300.0	305.0	-5.0	280.0	285.0	15.0
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	260.0	0.0	260.0	265.0	-5.0

TABLE 4 – US DOMESTIC BEEF AND CATTLE PRICES

	Current Week		Prior Week		Change From Last Week	Last Year		Change from Last Year	
	30-Mar-18		23-Mar-18			29-Mar-17			
<u>Domestic Cutouts</u>									
Choice Cutout	221.04		223.09		-2.1	216.92		4.1	
Select Cutout	208.69		216.40		-7.7	210.26		-1.6	
<u>Domestic Lean Grinding Beef</u>									
90 CL Boneless	215.0	216.0	218.0	221.0	-5.0	216.0	221.0	-5.0	
85 CL Beef Trimmings	188.0	189.0	188.9	193.0	-4.0	191.0	201.0	-12.0	
50 CL Beef Trim	82.0	96.8	83.5	87.8	9.1	99.0	112.1	-15.2	
<u>Domestic Pork Trim</u>									
42 CL Pork Trim	36.0	39.0	36.5	52.3	-13.3	34.9	48.3	-9.3	
72 CL Pork Trim	58.3	60.3	54.8	80.3	-20.0	62.9	85.3	-25.0	
<u>Point of Lean Values</u>									
90 CL Domestic	240.0		245.6		-5.6	245.6		-5.6	
50 CL Beef Trimming	193.7		175.5		18.2	224.1		-30.5	
42 CL Pork Trim	92.9		124.4		-31.5	114.9		-22.0	
72 CL Pork Trim	83.7		111.5		-27.8	118.4		-34.7	
<u>National Direct Fed Steer</u> <u>(5-day accum. wt. avg. price)</u>	121.03		126.09		-5.1	131.19		-10.2	

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
	30-Mar-18	23-Mar-18			29-Mar-17		
<u>Live Cattle Futures</u>							
April '18	113.750	116.050	↓	-2.30	121.350	↓	-7.60
June '18	102.575	106.200	↓	-3.63	111.850	↓	-9.27
August '18	101.475	104.950	↓	-3.48	107.550	↓	-6.08
October '18	105.425	108.925	↓	-3.50	107.225	↓	-1.80
<u>Feeder Cattle Futures</u>							
April '18	133.325	135.700	↓	-2.38	133.300	↑	0.02
May '18	134.025	136.100	↓	-2.07	134.400	↓	-0.38
August '18	140.425	137.300	↑	3.13	133.225	↑	7.20
September '18	141.325	142.300	↓	-0.98	133.225	↑	8.10
<u>Corn Futures</u>							
March '18	387 3/4	385 3/4	↑	2.00	366	↑	21.75
May '18	396 1/4	392	↑	4.25	373 1/4	↑	23.00
July '18	403 1/4	399 1/4	↑	4.00	382	↑	21.25
September '18	411 1/2		↑	411.50	382	↑	29.50
<u>Ch Wheat Futures</u>							
March '18	451' 0	460 1/4	↑	#VALUE!	425 1/2	↑	#VALUE!
May '18	468' 4	476 1/2	↑	#VALUE!	438 1/2	↑	#VALUE!
July '18	485' 2	492 1/2	↑	#VALUE!	453 3/4	↑	#VALUE!
September '18	506' 4	513 3/4	↑	#VALUE!	473 3/4	↑	#VALUE!

Slaughter Information	7 Days Ending	7 Days Ending	Change From Last		7 Days Ending	Change From	
			Week	Week		Last Year	Last Year
	31-Mar-18	24-Mar-18			1-Apr-17		
Total Cattle Slaughter	597,000	608,000	↓	-11,000	595,000	↑	2,000
	17-Mar-18	10-Mar-18			18-Mar-17		
Total Cow Slaughter	123,678	120,333	↑	3,345	104,640	↑	19,038
Dairy Cow Slaughter	67,125	65,953	↑	1,172	54,944	↑	12,181
Beef Cow Slaughter	56,553	54,380	↑	2,173	49,696	↑	6,857

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

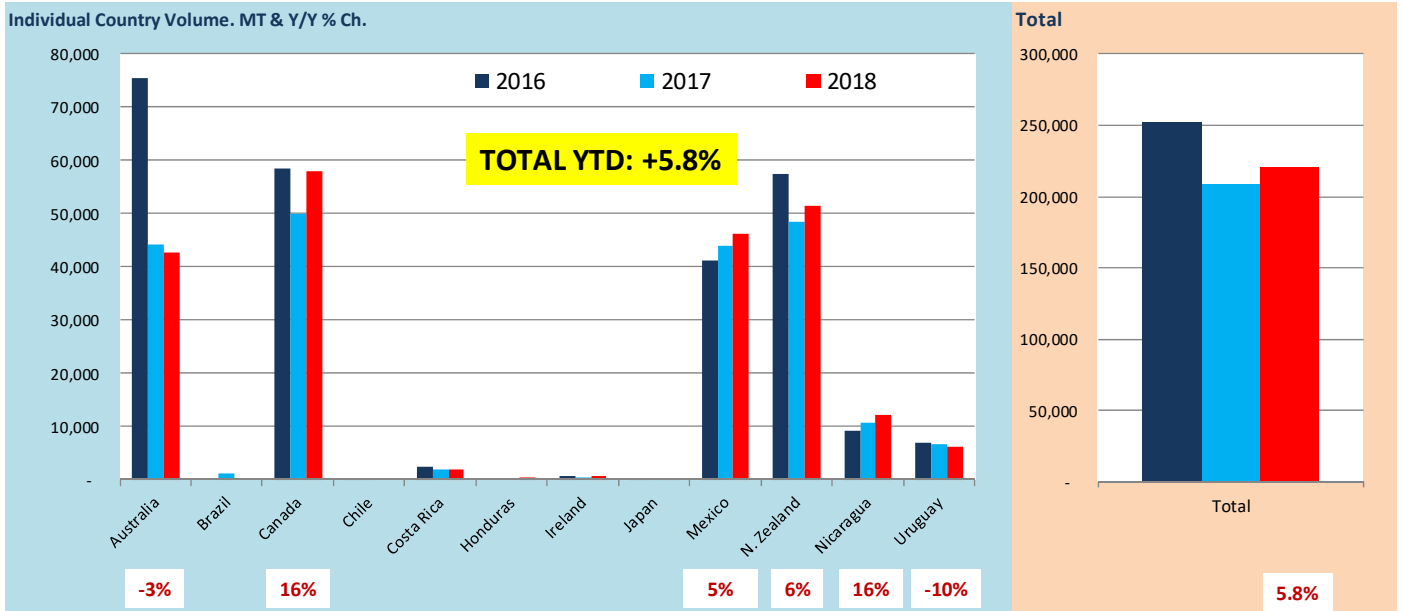
YTD Imported Fresh Beef Passed for Entry in the US

week 12	3/25/2017	3/24/2018		
Australia	44,145	42,838	(1,307)	-3.0%
Brazil	1,214	-	(1,214)	-100.0%
Canada	49,946	57,951	8,005	16.0%
Chile	89	-	(89)	-100.0%
Costa Rica	2,020	1,938	(82)	-4.1%
France	-	-	-	
Honduras	-	434	434	
Ireland	517	676	159	30.8%
Japan	71	193	122	171.8%
Mexico	44,044	46,299	2,255	5.1%
Netherlands	-	-	-	
New Zealand	48,567	51,436	2,869	5.9%
Nicaragua	10,693	12,360	1,667	15.6%
Spain	-	-	-	
Uruguay	6,850	6,190	(660)	-9.6%
Total	208,255	220,317	12,062	5.8%

Source: USDA/FSIS

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

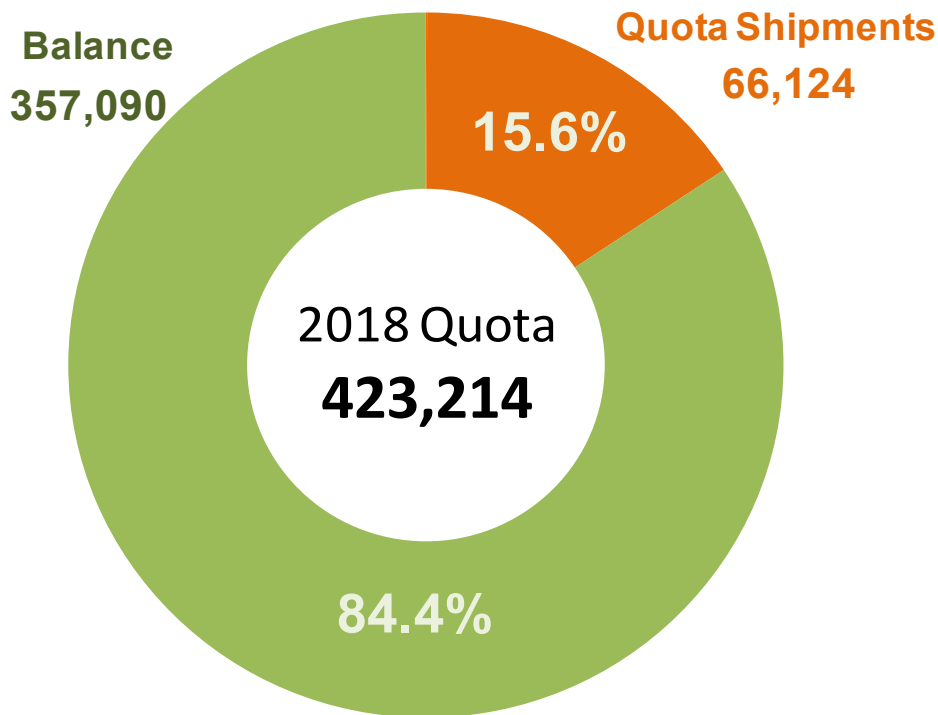
Imports as of March 24, 2018



Australian Beef Quota Position

28-Mar-18

Metric Ton. Australian Department of Agriculture Statistics



USA Quota Entries through Week Ending March 26

Source: US Customs

