



US Imported Beef Market

A Weekly Update

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Market Highlights for the Week:

- Imported beef prices were steady this week as overseas packers noted they already had booked significant business for May and early June and wanted to see how market developed in the next three weeks,
- Firm spot cattle prices and robust seasonal beef demand have bolstered fed cattle futures in recent days.
- Futures continue to price a significant discount for June and August, when the bulk of the fed cattle inventories are expected to come to market. Still, current prices are between 5-11% higher than at the start of the month.
- Retail ground beef features increase significantly in May, June and July, in line with the seasonal increase in beef supplies during this period and warmup in weather in the Northern Hemisphere.
- Pork prices have been especially weak this spring, largely because retail demand has been insufficient to absorb the +5% surge in pork production during the last four weeks.
- The increase in read meat supplies has been moderated somewhat but lower than expected growth in chicken production, which has been up less than 2% so far this year.

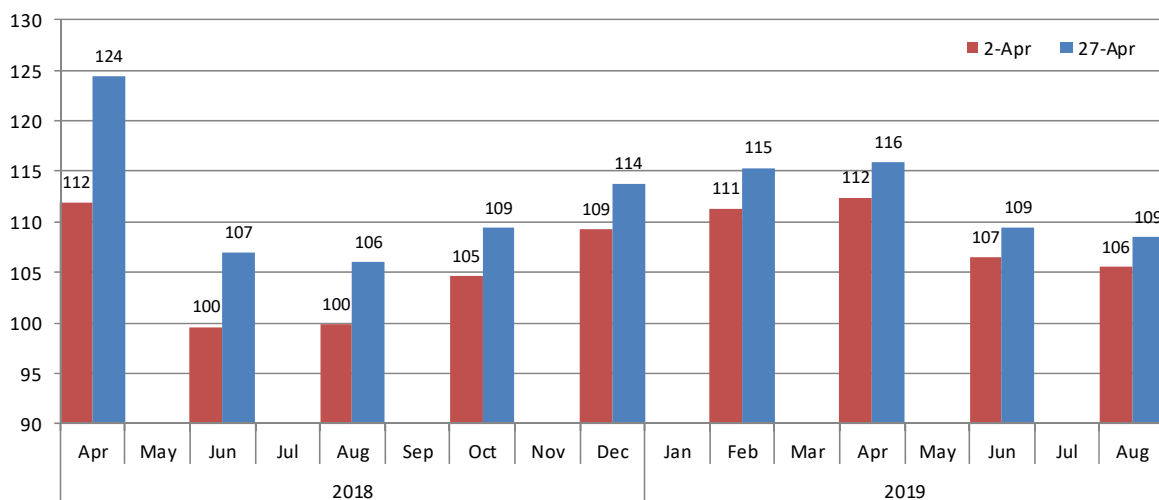
Imported Market Activity for the Week

Imported beef prices were steady this week and prices held a firm undertone, especially towards the end of the week. Market participants noted that offerings from New Zealand and Australia have increased but the rally in US cattle prices caused them to hold firm on asking prices and pass on lower asking prices. Large end users have secured significant volumes for May and June and spot supplies remain relatively light.

While there is broad expectation that higher slaughter in New Zealand during May and June will tend to bolster available supplies, much will depend on the trend in domestic markets. Those that hold a more bearish view of the market note the increase in Australian slaughter recently. While in the short term prices may be supported by seasonal demand improvement and a relatively tight spot market, the concern is that the bulk of supplies will come into the market by June and July, when demand seasonally softens. Last year

Fed Cattle Futures by Month

CME Fed Cattle Contract Value on April 2 and April 27



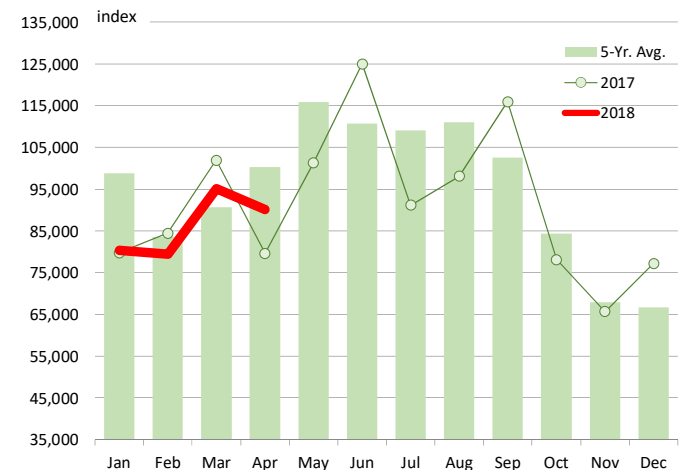
we saw imported beef prices trade at a significant discount to domestic product during the summer and early fall for precisely that reason. They also point to the slow but steady shift by some large end users towards using more domestic fresh lean beef. At this point it is unknown how this will change the market for imported beef in the US. Early indications are that the hamburger offerings made with fresh beef have been received quite well. This is to be expected as consumers will respond to promotional activity. The key is repeat sales and the degree to which the premium hamburger offerings made with fresh beef cannibalize sales of hamburgers that use frozen imported product.

Seasonal demand improvement will be key: The charts to the right illustrate the improvement in retail feature activity for ground beef during late spring and summer months. USDA reports weekly on the number of stores that feature various meat products. The features are collated in order to calculate a feature activity index. For the last five years the feature activity in May was about 20% higher than in February. Keep in mind this is not actual demand, it simply points to the degree to which beef features increase over time. Demand, on the other hand, includes both a volume and price component. It reflects the amount of ground beef that consumers are willing to buy at a given price. When consumers pay more for the same amount of consumption then we can say demand has improved. In the next page we show our calculations of consumer expenditures, a proxy for beef demand. Ground beef feature activity was higher than a year ago in April and the price of ground beef features was higher than a year ago but still quite a bit under the five year average. We expect feature prices to be lower in May and the expected increase in fed cattle slaughter is expected to drive significantly more ground beef features. Beef demand drivers, incomes

US domestic cow slaughter remains high as both more beef and dairy cows come to market. For the four weeks ending April 14 (latest actual data) dairy cow slaughter averaged 61,250 head/wk, 7% higher than a year ago. Beef cow slaughter during this period averaged 55,800 head/wk, 10% higher than a year ago. The new slaughter plant that went in operation in Idaho last year had significantly increased supplies in region 10. Total slaughter for the region is about double what it was a year ago. Drought conditions in the Southern Plains and into

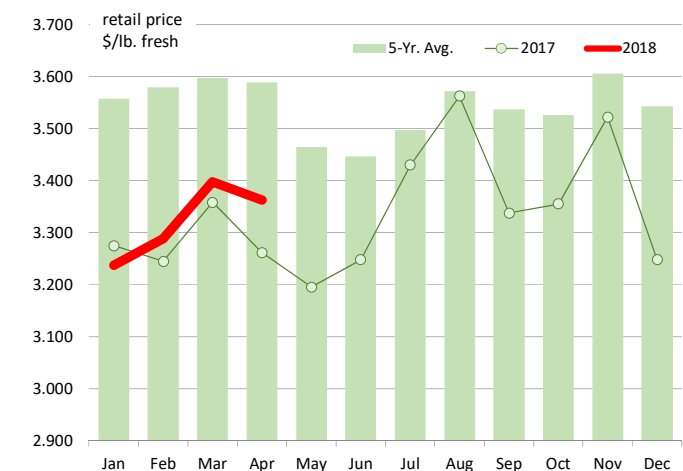
Monthly Average **Retail Feature Activity for Ground Beef**

Based on USDA Weekly Feature Activity Report



Monthly Average Retail **Price of Ground Beef 80-89%**

Based on USDA Weekly Feature Activity Report



Kansas have pushed more beef cows to market but the increase is in line with the relative size of this region. Beef cow slaughter for region 6, which includes Texas and Oklahoma, is up 11% compared to a year ago. Beef cow slaughter from this region accounts for about a quarter of US cow slaughter. US lean grinding beef values have been relatively steady despite the increase in cow slaughter. This is not that unusual given that wholesale beef prices in the US have been firm so far. Indeed, much of the weakness in US cattle markets has been speculative. It is more a matter of what the market “expects” rather than what is actually happening.

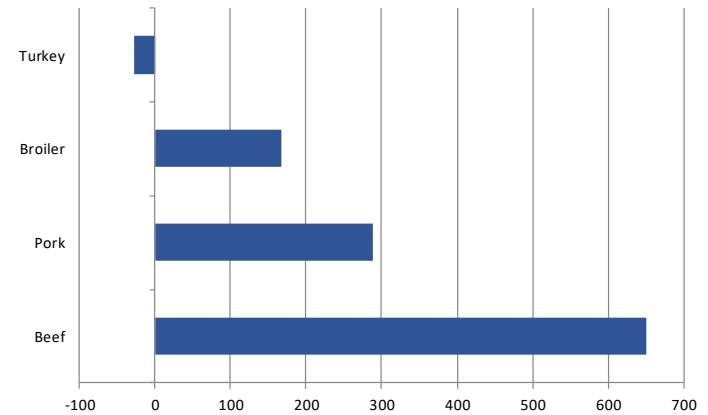
Chicken supply growth has been less than expected, helping moderate the overall increase in meat protein supplies in Q2. Combined beef, pork, chicken and turkey production in Q2 is currently projected by USDA to be up a little over 1 billion pounds (+4.4%)

during Q2. This information was presented in early April as part of the WASDE update and it is possible we may see a modest downward revision given the pace of cattle slaughter so far this month. The increase in beef production is by far the biggest contributor to the expected growth in meat protein supplies during spring and early summer. Beef production in Q2 will account for 28% of all the red meat and poultry produced during the quarter and yet contribute 60% of the growth. Broiler production is by far the largest meat protein available, with Q2 production well over 10 billion pounds compared to 7 billion pounds for beef and 6.4 billion pounds for pork.

USDA is forecasting only a modest increase in broiler meat supplies for the quarter and also for the year. Could we see a surprise in those numbers? So far production data does not suggest so. Each week USDA/AMS reports on the number of broilers slaughtered, what the slaughter dress percentage was and the implied amount of ready to cook broiler meat that came into the market. These numbers are estimates and at some point may be revised but provide an early indication of production trends. In the last six reported weeks (March 4 - April 14), weekly broiler slaughter has averaged 158,998 head/week, 0.8% less than the same period a year ago. **The decline in broiler slaughter has come even as industry has increased the size of the broiler hatching flock and the number of eggs set in incubators continues to increase compared to a year ago.** Consider the following numbers, which we find somewhat stunning. The broiler hatching flock at the start of the year was 56.8 million head, 3.2% higher than a year ago (note that year ago numbers were revised recently so update your data set if you have not done so). The flock then expanded to 57.9 million in Feb/Mar and it was reported to be almost 59 million head on April 1, 4.3% higher than year ago levels. The number of broiler eggs set in incubators for hatching since the start of the year has averaged 226.9 million/wk., 2.4% higher than the same period a year ago. Current hatchability is reported by USDA to be around 82%, a percentage point lower than a year ago. The lower hatchability rate has limited the number of chicks placed in grow out operations, which so far this year has averaged 181.8 million per week, 1.1% higher than a year ago. Obviously the broiler industry has run into productivity issues, we are guessing because of the rapid expansion of the no-antibiotics ever (NAE)

Increase/Decrease in Q2 Meat Production from Main Species

Source: USDA April WASDE Report. Million Pounds



supply. The increase in the broiler hatching flock recently may represent efforts from the industry to offset the lower than expected productivity. It is important to consider the recent productivity trends when you look at the hatching flock numbers. Just because you have a 4% increase in the flock does not mean you slaughter will get anywhere close to 4%. One way to bolster production is to feed birds to heavier weights. In the last four reported weeks, slaughter of small broilers (less than 4.25 lb. live wt) was down 17% compared to the same period a year ago. Slaughter of broilers between 4.26 and 6.25 lb was also 1% lower. However, slaughter of birds weighing 6.26 lb and 7.75 lb was up 24%. Overall broiler weights in the last four weeks have averaged 1.5% higher than last year.

Bottom line: The increase in red meat supplies is expected to pressure prices lower this summer. Slower broiler supply growth will help moderate the overall increase in meat protein supplies but the reality is that there is plenty of meat protein in the US market at this time, and this will limit price inflation for much of this year.

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
	26-Apr-18	19-Apr-18		25-Apr-17	
CME FEEDER CATTLE INDEX	139.99	136.56	2.5%	139.44	0.4%
	27-Apr-18	20-Apr-18		26-Apr-17	
FED STEER (5-MKT AVG)	121.99	120.98	0.8%	131.60	-7.3%
CUTTER COW CARCASS, NATIONAL, 90% LEAN, 350-400 LB. (carcass wt.)	102.50	101.50	1.0%	122.00	-16.0%
BONER COW CARCASS, NATIONAL, 85% LEAN, 400-500 LB. (carcass wt.)	109.00	109.00	0.0%	118.50	-8.0%
BREAKER COW CARCASS, NATIONAL, 75% LEAN, 500+ (carcass wt.)	105.50	106.50	-0.9%	108.50	-2.8%
CUTTER COW CARCASS CUTOUT, 5-DAY MA, USDA	173.03	172.47	0.3%	154.79	11.8%

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
	27-Apr-18	217.0	20-Apr-18	217.0		26-Apr-17	231.0	
<u>US East Coast Australian/NZ Lean, CIF</u>								
95 CL Bull, E. Coast	216.0	217.0	215.0	217.0	0.0	229.0	231.0	-14.0
90 CL Blended Cow	197.0	198.0	197.0	198.0	0.0	210.0	212.0	-14.0
90 CL Shank	200.0	202.0	202.0	203.0	-1.0	208.0	210.0	-8.0
85 CL Fores	190.0	191.0		190.0	1.0	191.0	194.0	-3.0
85 CL Chucks		UNQ		UNQ	N/A		UNQ	N/A
95 CL Bull, W. Coast		216.0	215.0	216.0	0.0	228.0	230.0	-14.0
Uruguay CFH 90CL, E. Coast		UNQ		UNQ	N/A		UNQ	N/A
<u>US East Coast, Trimmings, CIF</u>								
85 CL Trimmings	188.0	189.0		189.0	0.0	190.0	191.0	-2.0
80 CL Trimmings	176.0	177.0		178.0	-1.0	170.0	175.0	2.0
75 CL Trimmings		170.0	170.0	171.0	-1.0	161.0	163.0	7.0
65 CL Trimmings		UNQ		UNQ	N/A	130.0	135.0	N/A
<u>US East Coast Australian Cuts, CIF</u>								
Cap Off Steer Insides	285.0	290.0	285.0	290.0	0.0	275.0	280.0	10.0
Steer Insides 14/18		UNQ		UNQ	N/A		UNQ	N/A
Steer Flats		UNQ		UNQ	N/A		UNQ	N/A
Steer Knuckles	245.0	247.0		245.0	2.0	245.0	250.0	-3.0

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

	Current Week		Prior Week		Change From Last Week	Last Year		Change From Last Year
	27-Apr-18		20-Apr-18			26-Apr-17		
<i>US East Coast Australian/NZ Lean, FOB US Port</i>								
95 CL Bull, E. Coast	222.0	225.0	223.0	223.0	2.0	239.0	241.0	-16.0
90 CL Blended Cow	205.0	206.0	205.0	206.0	0.0	221.0	223.0	-17.0
90 CL Shank	207.0	209.0	210.0	210.0	-1.0	217.0	218.0	-9.0
85 CL Fores	197.0	198.0	197.0	198.0	0.0	201.0	204.0	-6.0
85 CL Chucks		UNQ		UNQ	N/A		UNQ	N/A
95 CL Bull, W. Coast	222.0	224.0	222.0	223.0	1.0	238.0	240.0	-16.0
Uruguay CFH 90CL, E. Coast		UNQ		UNQ	N/A		UNQ	N/A
<i>US East Coast, Trimmings, FOB US Port</i>								
85 CL Trimmings	195.0	196.0	196.0	197.0	-1.0	200.0	202.0	-6.0
80 CL Trimmings	185.0	186.0	185.0	185.0	1.0	180.0	182.0	4.0
75 CL Trimmings		175.0	174.0	175.0	0.0	167.0	168.0	7.0
65 CL Trimmings		UNQ		UNQ	N/A	135.0	137.0	N/A
<i>US East Coast Australian Cuts, FOB US Port</i>								
Cap Off Steer Insides	295.0	300.0	290.0	295.0	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		UNQ	N/A
Steer Knuckles	255.0	257.0	254.0	255.0	2.0	255.0	260.0	-3.0

TABLE 4 – US DOMESTIC BEEF AND CATTLE PRICES

	Current Week		Prior Week		Change From Last Week	Last Year		Change from Last Year
	27-Apr-18		20-Apr-18			26-Apr-17		
<u>Domestic Cutouts</u>								
Choice Cutout	221.74		211.98		9.8	219.18		2.6
Select Cutout	204.32		200.13		4.2	205.72		-1.4
<u>Domestic Lean Grinding Beef</u>								
90 CL Boneless	217.0	221.9	217.0	220.3	1.7	218.0	221.0	0.9
85 CL Beef Trimmings	188.6	193.0	187.0	194.0	-1.0	192.2	197.0	-4.0
50 CL Beef Trim	89.0	99.8	93.3	95.8	4.0	106.9	115.1	-15.4
<u>Domestic Pork Trim</u>								
42 CL Pork Trim	31.3	43.3	35.5	46.3	-3.0	30.1	42.3	1.0
72 CL Pork Trim	60.0	73.3	53.9	73.3	0.0	70.0	88.3	-15.0
<u>Point of Lean Values</u>								
90 CL Domestic	246.6		244.7		1.8	245.6		1.0
50 CL Beef Trimming	199.5		191.5		8.0	230.2		-30.7
42 CL Pork Trim	103.0		110.1		-7.1	100.6		2.4
72 CL Pork Trim	101.7		101.7		0.0	122.6		-20.8
<u>National Direct Fed Steer</u> <u>(5-day accum. wt. avg. price)</u>	121.99		120.98		1.0	131.60		-9.6

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
	27-Apr-18	20-Apr-18			26-Apr-17		
<u>Live Cattle Futures</u>							
April '18	119.350	116.550	↑	2.80	127.875	↓	-8.53
June '18	103.725	103.650	↑	0.07	115.875	↓	-12.15
August '18	103.800	104.275	↓	-0.48	112.225	↓	-8.43
October '18	108.150	108.725	↓	-0.57	111.350	↓	-3.20
<u>Feeder Cattle Futures</u>							
April '18	137.300	139.375	↓	-2.07	138.600	↓	-1.30
May '18	139.325	140.375	↓	-1.05	140.100	↓	-0.78
August '18	144.500	145.100	↓	-0.60	142.775	↑	1.72
September '18	145.575	146.575	↓	-1.00	142.750	↑	2.82
<u>Corn Futures</u>							
May '18	376 1/2	386 1/4	↓	-9.75	361 1/2	↑	15.00
July '18	385 1/2	394 1/2	↓	-9.00	368	↑	17.50
September '18	393	401 1/2	↓	-8.50	375 1/2	↑	17.50
December '18	402 1/2	410 3/4	↓	-8.25	385 3/4	↑	16.75
<u>Ch Wheat Futures</u>							
May '18	463 1/4	472 1/2	↓	-9.25	420 3/4	↑	42.50
July '18	477 1/4	489 1/4	↓	-12.00	435 1/2	↑	41.75
September '18	495 3/4	507 3/4	↓	-12.00	449 1/2	↑	46.25
December '18	520	531 1/4	↓	-11.25	471 1/2	↑	48.50

Slaughter Information	7 Days Ending	7 Days Ending	Change From Last		7 Days Ending	Change From	
			Week	Week		Last Year	Last Year
	28-Apr-18	21-Apr-18			29-Apr-17		
<u>Total Cattle Slaughter</u>	597,000	608,000	↓	-11,000	595,000	↑	2,000
	14-Apr-18	7-Apr-18			15-Apr-17		
<u>Total Cow Slaughter</u>	0	117,317	↓	-117,317	102,542	↓	-102,542
<u>Dairy Cow Slaughter</u>	0	61,021	↓	-61,021	54,053	↓	-54,053
<u>Beef Cow Slaughter</u>	0	56,296	↓	-56,296	48,489	↓	-48,489

TABLE 7 - US BEEF IMPORTS

(Source: USDA/AMS)

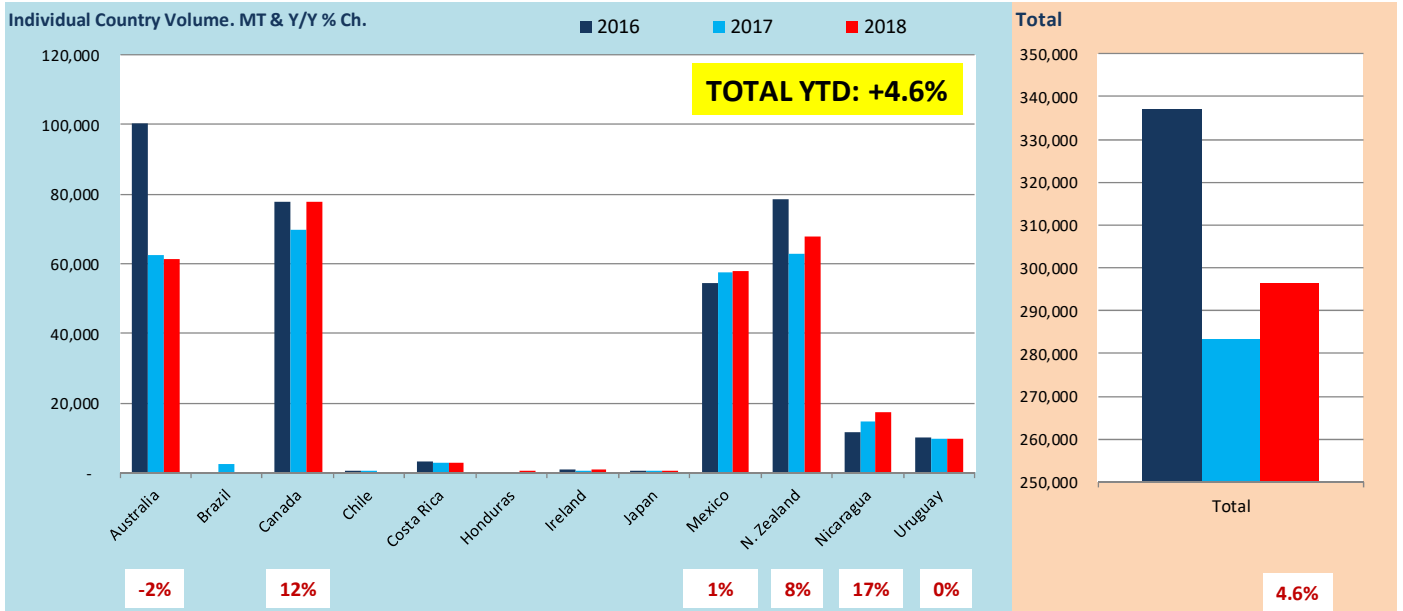
YTD Imported Fresh/Frz Beef Passed for Entry in the US

week 16	4/22/2017	4/21/2018		
Australia	62,602	61,284	(1,318)	-2.1%
Brazil	2,364	-	(2,364)	-100.0%
Canada	69,655	77,929	8,274	11.9%
Chile	136	-	(136)	-100.0%
Costa Rica	3,023	2,775	(248)	-8.2%
France	-	-	-	
Honduras	-	641	641	
Ireland	650	831	181	27.8%
Japan	95	214	119	125.3%
Mexico	57,489	57,932	443	0.8%
Netherlands	-	-	-	
New Zealand	63,036	68,025	4,989	7.9%
Nicaragua	14,682	17,233	2,551	17.4%
Spain	-	-	-	
Uruguay	9,666	9,644	(22)	-0.2%
Total	283,500	296,507	13,007	4.6%

Source: AMS - USDA

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

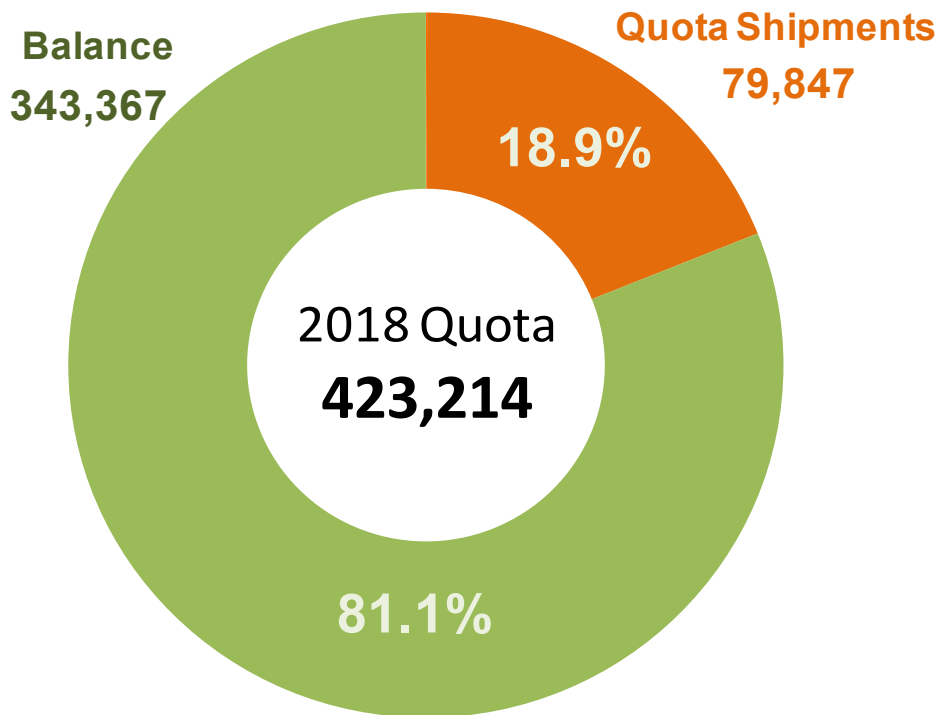
Imports as of April 21, 2018



Australian Beef Quota Position

26-Apr-18

Metric Ton. Australian Department of Agriculture Statistics



USA Quota Entries through Week Ending April 23

Source: US Customs

