



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 continued to drift lower this week, widening the gap with US domestic product
- Concerns about lower fed cattle prices in the summer have kept end users on the sidelines and pressure imported prices lower.
- New Zealand slaughter should be near its annual peak, bolstering offerings in the near term. Market participants recognize New Zealand offers will fall off sharply by late June and July
- US May pasture conditions are off to a very poor start due to extreme drought conditions in parts of the Texas Panhandle and Western Oklahoma
- Poor pasture conditions have yet to spur a liquidation of the beef cow herd but if the situation persists through July and August we could see significant regional liquidation get underway
- US cattle slaughter last week was 660,000 head, 7.8% higher than a year ago and the highest weekly slaughter since 2011
- Steiner estimates feedlot placements in April down 6.7% compared to a year ago. On feed inventory is estimated up 5.4% compared to last year.

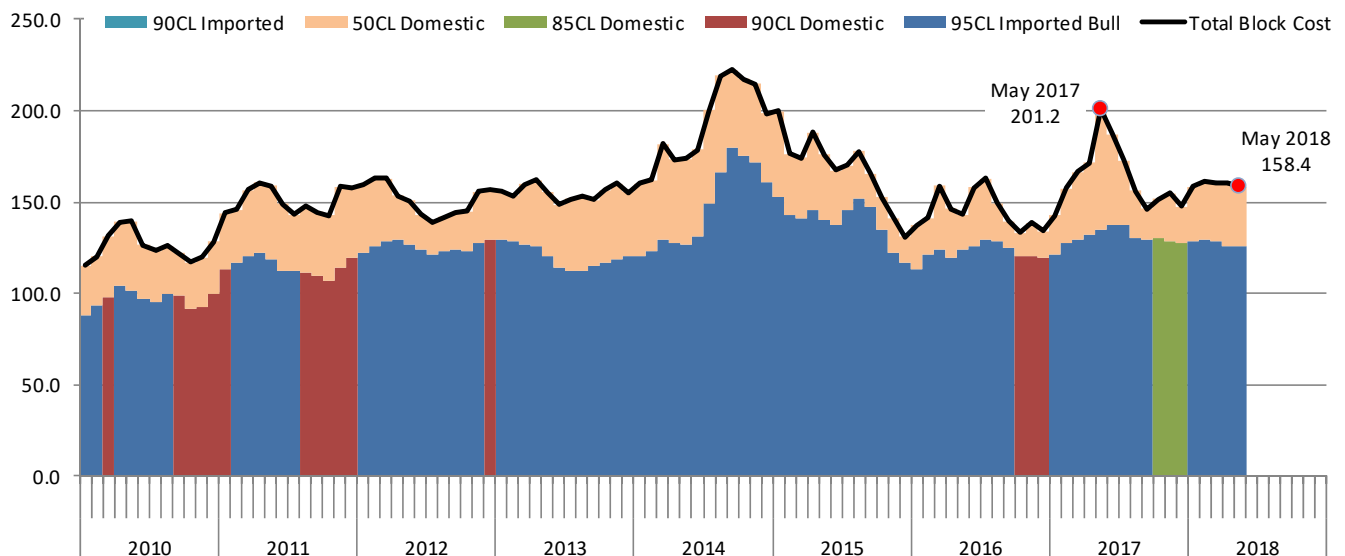
Imported Market Activity for the Week

Imported beef prices were steady to lower this week. Participants noted that while some product traded at lower prices overall volumes remain limited. Australian suppliers were willing to sell some lean and extra lean product in the US at modestly lower prices as the weaker AUD helped offset the lower USD prices. New

Zealand supplies should be near annual highs at this time although the lag in reporting means we don't have specific numbers. New Zealand slaughter for this marketing year is significantly above year ago levels. Last year slaughter was stretched out into June as good moisture conditions allowed producers to leave cows in pastures deep into the fall. This year slaughter has followed the seasonal pattern a bit more closely and we expect

Least Cost Formulation of a 75CL Meat Block Using Imported/Domestic Lean & 50CL Domestic

Assumption that Domestic Lean Can Be Replaced 100%. FOB Prices used not adjusted for Freight.



slaughter should decline sharply in June. Fat trim availability remains limited, with more Australian 80CL and 75CL trim going into Asian markets. Japan, S. Korea, China and the Philippines account for a larger share of Australian exports this year than a year ago.

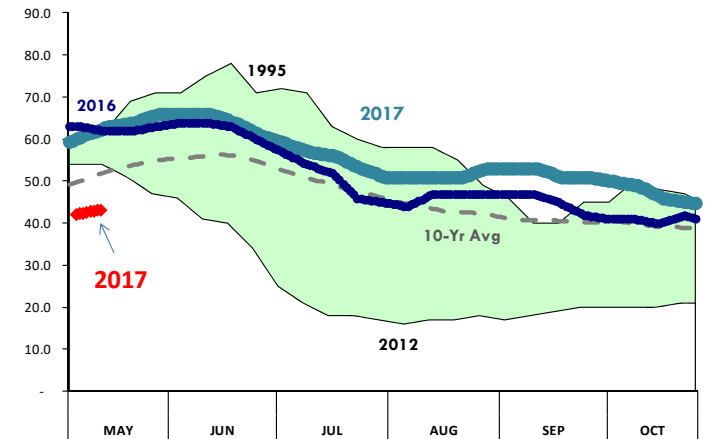
Highlights for the week:

- We have presented different versions of the chart on page 1 in the past. Often we look at a 75CL meat block that uses a blend of imported and domestic 90CL beef and domestic fat trim component. We thought it might be interesting to see what a least cost formulation of the meat block would look like if we could substitute up to 100% of the domestic with imported lean. The chart on page 1 is not realistic for a large grinder largely because sourcing all 95CL bull is difficult. While the New Zealand bull run at the start of the year provides ample supplies, trying to source multiple loads in June and July is more challenging. The point, however, is that in recent years imported extra lean product has provided a better blending option than either straight domestic or fatter grinds. Interestingly, last year including 85CL in the blend tended to provide the lowest cost option. We think the increase in domestic fed supplies likely pressured prices for fatter grinds and thus 85CL domestic presented a more favorable point of lean value. With fed cattle slaughter expected to increase this summer and remain higher through the fall, this could be the case once again this year.

- In the next five months we will keep a close eye on US pasture conditions and the potential impact on the beef cow herd and cow meat supplies. The start of this year has been particularly difficult for cow-calf operators and if conditions do not improve, we could see significant beef cow herd liquidation. In the short term drought conditions would bolster cow meat availability but reduce potential beef production in 2020 and 2021. The latest USDA report on crop and pastureland conditions indicated that for the week ending May 13 only about 43% of US pastures and rangeland were in good/excellent condition. This compares to the last two years when the g/e rating was in the low 60s. Drought conditions in the Southern Plains have worsened, with some parts of the Texas Panhandle and Western Oklahoma experiencing exceptional drought conditions.

US PASTURE CONDITIONS: 20 YEAR HISTORY

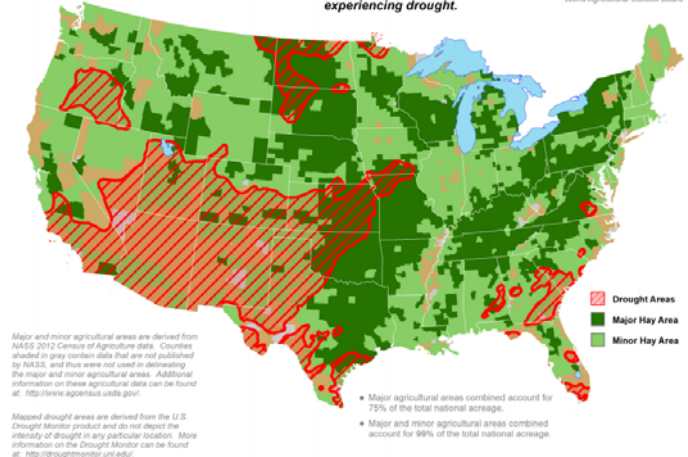
% RATED IN GOOD/EXCELLENT CONDITION. WEEK of May 13, 2017. Source USDA/NASS



U.S. Hay Areas Experiencing Drought

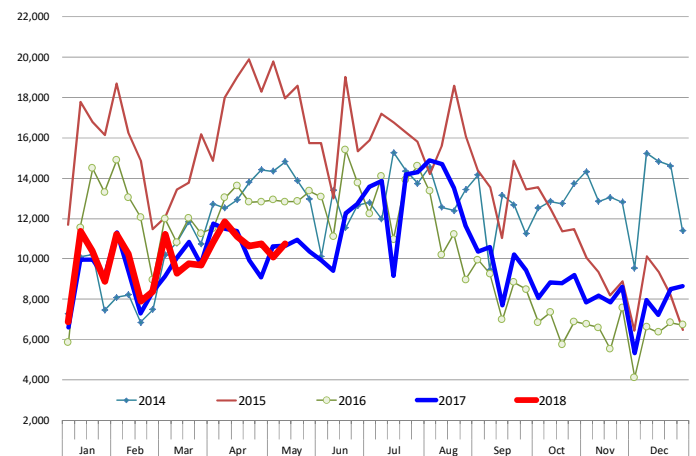
Reflects May 15, 2018
U.S. Drought Monitor data

Approximately 18% of hay acreage is within an area experiencing drought.



BEEF IMPORTS FROM MAJOR GRINDING BEEF EXPORTING COUNTRIES. FR/FZ BEEF ONLY. METRIC TON

Data Source: USDA Livestock, Poultry & Grain Market News



- Despite an increase in cattle slaughter in Australia and New Zealand in April, US beef imports from grinding beef suppliers have been very close to year ago levels so far. In the four weeks ending May 12, beef imports from grinding beef suppliers averaged around 10,550 MT/week, up 4.7% more than year ago but still about 18% lower than in 2016.

- US fed cattle slaughter last week was the highest of the year and the highest weekly slaughter since 2011. Total cattle slaughter for the week was reported at 660,000 head, 7.8% higher than a year ago. We estimate that steer/heifer slaughter was 535,000 head, 8.3% higher than a year ago. Cow and bull slaughter for the week was estimated at 125,000 head, 5.7% higher than last year. A number of cattle processing plants were closed in the last five years due to limited cattle supplies. Thus hitting the current slaughter levels is significantly more challenging as it requires packers to run longer shifts and more Saturday shifts. This can be taxing in the current environment when labor supply is very tight. US government policies that discourage immigration and look to punish employers that employ undocumented immigrants have negatively impacted labor availability. We think part of the reason why fed cattle futures have declined some much for June and August has to do with the ability of packers to process cattle in a timely fashion. At this time the market is giving packers an outsize margin to incentivize higher slaughter and avoid cattle getting backed up in the feedlots.

- USDA will issue at the end on Friday, May 25, the results of its monthly survey of feedlots with +1000 head capacity. These feedlots account for around 85% of all cattle on feed in the US. Below are our expectations:

| | |
|--------------------------|-------|
| Placed on Feed in April: | 93.3 |
| Marketed in April: | 106.1 |
| Total on Feed May 1: | 105.4 |

There is broad expectation that feedlots placed fewer cattle on feed in April. This is based on auction sales data for the month which were down sharply compared to a year ago as well as regional survey information. We would not be surprised if placements were down even more than what we are currently forecasting. The decline in placements during the month and higher marketing rate helped reduce total on feed supplies. Please note that there was one extra marketing day in April, which helped bolster overall marketings for the month.

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 |
|--|--------------|------------|------------------------|-----------|--------------------------|
| | 17-May-18 | 10-May-18 | | 16-May-17 | |
| CME FEEDER CATTLE INDEX | 133.66 | 137.21 | -2.6% | 142.12 | -6.0% |
| | 18-May-18 | 11-May-18 | | 17-May-17 | |
| FED STEER (5-MKT AVG) | 117.83 | 123.37 | -4.5% | 137.33 | -14.2% |
| CUTTER COW CARCASS, NATIONAL, 90% LEAN, 350-400 LB. (carcass wt.) | 103.50 | 102.00 | 1.5% | 125.50 | -17.5% |
| BONER COW CARCASS, NATIONAL, 85% LEAN, 400-500 LB. (carcass wt.) | 109.00 | 109.00 | 0.0% | 123.00 | -11.4% |
| BREAKER COW CARCASS, NATIONAL, 75% LEAN, 500+ (carcass wt.) | 103.00 | 102.50 | 0.5% | 114.00 | -9.6% |
| CUTTER COW CARCASS CUTOUT, 5-DAY MA, USDA | 174.98 | 174.31 | 0.4% | 154.79 | 13.0% |

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 |
|---|--------------|-------|------------|-------|-----------------------------|-----------|-------|-----------------------------|
| | 18-May-18 | | 11-May-18 | | | 17-May-17 | | |
| <u>US East Coast Australian/NZ Lean, CIF</u> | | | | | | | | |
| 95 CL Bull, E. Coast | 217.0 | 219.0 | 220.0 | 221.0 | -2.0 | 237.0 | 238.0 | -19.0 |
| 90 CL Blended Cow | | 200.0 | 198.0 | 202.0 | -2.0 | 217.0 | 220.0 | -20.0 |
| 90 CL Shank | 202.0 | 203.0 | 200.0 | 202.0 | 1.0 | 215.0 | 217.0 | -14.0 |
| 85 CL Fores | 187.0 | 189.0 | 187.0 | 190.0 | -1.0 | 199.0 | 201.0 | -12.0 |
| 85 CL Chucks | | UNQ | | UNQ | N/A | | UNQ | N/A |
| 95 CL Bull, W. Coast | 217.0 | 218.0 | 219.0 | 220.0 | -2.0 | 235.0 | 236.0 | -18.0 |
| Uruguay CFH 90CL, E. Coast | | UNQ | | UNQ | N/A | | UNQ | N/A |
| <u>US East Coast, Trimmings, CIF</u> | | | | | | | | |
| 85 CL Trimmings | 187.0 | 188.0 | 187.0 | 189.0 | -1.0 | 199.0 | 200.0 | -12.0 |
| 80 CL Trimmings | 179.0 | 183.0 | 178.0 | 179.0 | 4.0 | 182.0 | 185.0 | -2.0 |
| 75 CL Trimmings | | UNQ | | UNQ | N/A | | UNQ | N/A |
| 65 CL Trimmings | | UNQ | | UNQ | N/A | 135.0 | 140.0 | N/A |
| <u>US East Coast Australian Cuts, CIF</u> | | | | | | | | |
| Cap Off Steer Insides | | 285.0 | | 290.0 | -5.0 | 280.0 | 285.0 | 0.0 |
| Steer Insides 14/18 | | UNQ | | UNQ | N/A | | UNQ | N/A |
| Steer Flats | 215.0 | 225.0 | | UNQ | N/A | | UNQ | N/A |
| Steer Knuckles | 245.0 | 250.0 | 250.0 | 253.0 | -3.0 | 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 |
|---|--------------|-------|------------|-------|-----------------------------|-----------|-------|-----------------------------|
| | 18-May-18 | | 11-May-18 | | | 17-May-17 | | |
| <i>US East Coast Australian/NZ Lean, FOB US Port</i> | | | | | | | | |
| 95 CL Bull, E. Coast | 225.0 | 226.0 | 225.0 | 227.0 | -1.0 | 244.0 | 246.0 | -20.0 |
| 90 CL Blended Cow | 210.0 | 212.0 | 210.0 | 212.0 | 0.0 | 227.0 | 228.0 | -16.0 |
| 90 CL Shank | 212.0 | 214.0 | 212.0 | 215.0 | -1.0 | 224.0 | 225.0 | -11.0 |
| 85 CL Fores | 198.0 | 199.0 | 198.0 | 199.0 | 0.0 | 210.0 | 211.0 | -12.0 |
| 85 CL Chucks | | UNQ | | UNQ | N/A | | UNQ | N/A |
| 95 CL Bull, W. Coast | 224.0 | 225.0 | 225.0 | 226.0 | -1.0 | 244.0 | 245.0 | -20.0 |
| Uruguay CFH 90CL, E. Coast | | UNQ | | UNQ | N/A | | UNQ | N/A |
| <i>US East Coast, Trimmings, FOB US Port</i> | | | | | | | | |
| 85 CL Trimmings | 196.0 | 197.0 | 197.0 | 198.0 | -1.0 | 209.0 | 210.0 | -13.0 |
| 80 CL Trimmings | 186.0 | 187.0 | 185.0 | 186.0 | 1.0 | 191.0 | 193.0 | -6.0 |
| 75 CL Trimmings | 177.0 | 178.0 | 177.0 | 178.0 | 0.0 | 175.0 | 179.0 | -1.0 |
| 65 CL Trimmings | 138.0 | 140.0 | 140.0 | 142.0 | -2.0 | 148.0 | 150.0 | -10.0 |
| <i>US East Coast Australian Cuts, FOB US Port</i> | | | | | | | | |
| Cap Off Steer Insides | 290.0 | 295.0 | 295.0 | 300.0 | -5.0 | 290.0 | 293.0 | 2.0 |
| Steer Insides 14/18 | | UNQ | | UNQ | N/A | | UNQ | N/A |
| Steer Flats | 225.0 | 230.0 | | UNQ | N/A | | UNQ | N/A |
| Steer Knuckles | 250.0 | 255.0 | 257.0 | 259.0 | -4.0 | 255.0 | 260.0 | -5.0 |

TABLE 4 – US DOMESTIC BEEF AND CATTLE PRICES

| | Current Week | | Prior Week | | Change From Last Week | Last Year | | Change from Last Year | |
|--|---------------------|-------|-------------------|-------|--------------------------------------|------------------|-------|--------------------------------------|--|
| | 18-May-18 | | 11-May-18 | | | 17-May-17 | | | |
| <u>Domestic Cutouts</u> | | | | | | | | | |
| Choice Cutout | 232.21 | | 230.97 | | 1.2 | 248.17 | | -16.0 | |
| Select Cutout | 208.46 | | 208.69 | | -0.2 | 221.93 | | -13.5 | |
| <u>Domestic Lean Grinding Beef</u> | | | | | | | | | |
| 90 CL Boneless | 218.0 | 220.0 | 217.0 | 227.0 | -7.0 | 221.0 | 230.0 | -10.0 | |
| 85 CL Beef Trimmings | 189.0 | 198.1 | 189.0 | 193.5 | 4.6 | 198.0 | 203.0 | -4.9 | |
| 50 CL Beef Trim | 78.6 | 88.8 | 81.0 | 95.0 | -6.3 | 198.0 | 204.5 | -115.8 | |
| <u>Domestic Pork Trim</u> | | | | | | | | | |
| 42 CL Pork Trim | 23.8 | 37.3 | 23.4 | 37.3 | 0.0 | 37.0 | 48.3 | -11.0 | |
| 72 CL Pork Trim | 60.9 | 81.3 | 69.0 | 86.3 | -5.0 | 79.5 | 95.3 | -14.0 | |
| <u>Point of Lean Values</u> | | | | | | | | | |
| 90 CL Domestic | 244.4 | | 252.2 | | -7.8 | 255.6 | | -11.1 | |
| 50 CL Beef Trimming | 177.5 | | 190.0 | | -12.5 | 409.0 | | -231.5 | |
| 42 CL Pork Trim | 88.7 | | 88.7 | | 0.0 | 114.9 | | -26.2 | |
| 72 CL Pork Trim | 112.8 | | 119.8 | | -6.9 | 132.3 | | -19.4 | |
| <u>National Direct Fed Steer</u> <u>(5-day accum. wt. avg. price)</u> | 117.83 | | 123.37 | | -5.5 | 137.33 | | -19.5 | |

TABLE 5 – FUTURES AND SLAUGHTER INFORMATION

| <i>Futures Contracts</i> | <i>Current Week</i> | <i>Prior Week</i> | <i>Change From Last Week</i> | | <i>Last Year</i> | <i>Change From Last Year</i> | |
|-------------------------------------|---------------------|-------------------|------------------------------|--------|------------------|------------------------------|--------|
| | 18-May-18 | 11-May-18 | | | 17-May-17 | | |
| <u>Live Cattle Futures</u> | | | | | | | |
| <i>June '18</i> | 102.400 | 106.050 | ↓ | -3.65 | 122.450 | ↓ | -20.05 |
| <i>August '18</i> | 98.225 | 105.075 | ↓ | -6.85 | 118.825 | ↓ | -20.60 |
| <i>October '18</i> | 101.700 | 108.450 | ↓ | -6.75 | 115.575 | ↓ | -13.88 |
| <i>December '18</i> | 107.650 | 112.650 | ↓ | -5.00 | 116.325 | ↓ | -8.68 |
| <u>Feeder Cattle Futures</u> | | | | | | | |
| <i>May '18</i> | 132.225 | 140.400 | ↓ | -8.18 | 141.975 | ↓ | -9.75 |
| <i>August '18</i> | 137.625 | 146.325 | ↓ | -8.70 | 147.725 | ↓ | -10.10 |
| <i>September '18</i> | 137.800 | 146.775 | ↓ | -8.97 | 147.875 | ↓ | -10.08 |
| <i>October '18</i> | 138.325 | 147.000 | ↓ | -8.68 | 147.875 | ↓ | -9.55 |
| <u>Corn Futures</u> | | | | | | | |
| <i>July '18</i> | 402 1/2 | 406 1/4 | ↓ | -3.75 | 379 1/4 | ↑ | 23.25 |
| <i>September '18</i> | 411 | 413 3/4 | ↓ | -2.75 | 389 | ↑ | 22.00 |
| <i>December '18</i> | 420 1/4 | 421 | ↓ | -0.75 | 398 1/2 | ↑ | 21.75 |
| <i>March '19</i> | 428 1/4 | | ↑ | 428.25 | | ↑ | 428.25 |
| <u>Ch Wheat Futures</u> | | | | | | | |
| <i>July '18</i> | 518 1/4 | 526 1/4 | ↓ | -8.00 | 440 1/4 | ↑ | 78.00 |
| <i>September '18</i> | 534 | 541 3/4 | ↓ | -7.75 | 461 3/4 | ↑ | 72.25 |
| <i>December '18</i> | 554 3/4 | 563 | ↓ | -8.25 | 479 1/2 | ↑ | 75.25 |
| <i>March '19</i> | 572 1/2 | | ↑ | 572.50 | | ↑ | 572.50 |

| <i>Slaughter Information</i> | <i>7 Days Ending</i> | <i>7 Days Ending</i> | <i>Change From Last Week</i> | | <i>7 Days Ending</i> | <i>Change From Last Year</i> | |
|--------------------------------------|----------------------|----------------------|------------------------------|---------|----------------------|------------------------------|-------|
| | 19-May-18 | 12-May-18 | | | 20-May-17 | | |
| <u>Total Cattle Slaughter</u> | 597,000 | 608,000 | ↓ | -11,000 | 595,000 | ↑ | 2,000 |
| | 5-May-18 | 28-Apr-18 | | | 6-May-17 | | |
| <u>Total Cow Slaughter</u> | 116,518 | 118,592 | ↓ | -2,074 | 107,206 | ↑ | 9,312 |
| <u>Dairy Cow Slaughter</u> | 57,457 | 57,226 | ↑ | 231 | 54,921 | ↑ | 2,536 |
| <u>Beef Cow Slaughter</u> | 59,061 | 61,366 | ↓ | -2,305 | 52,285 | ↑ | 6,776 |

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

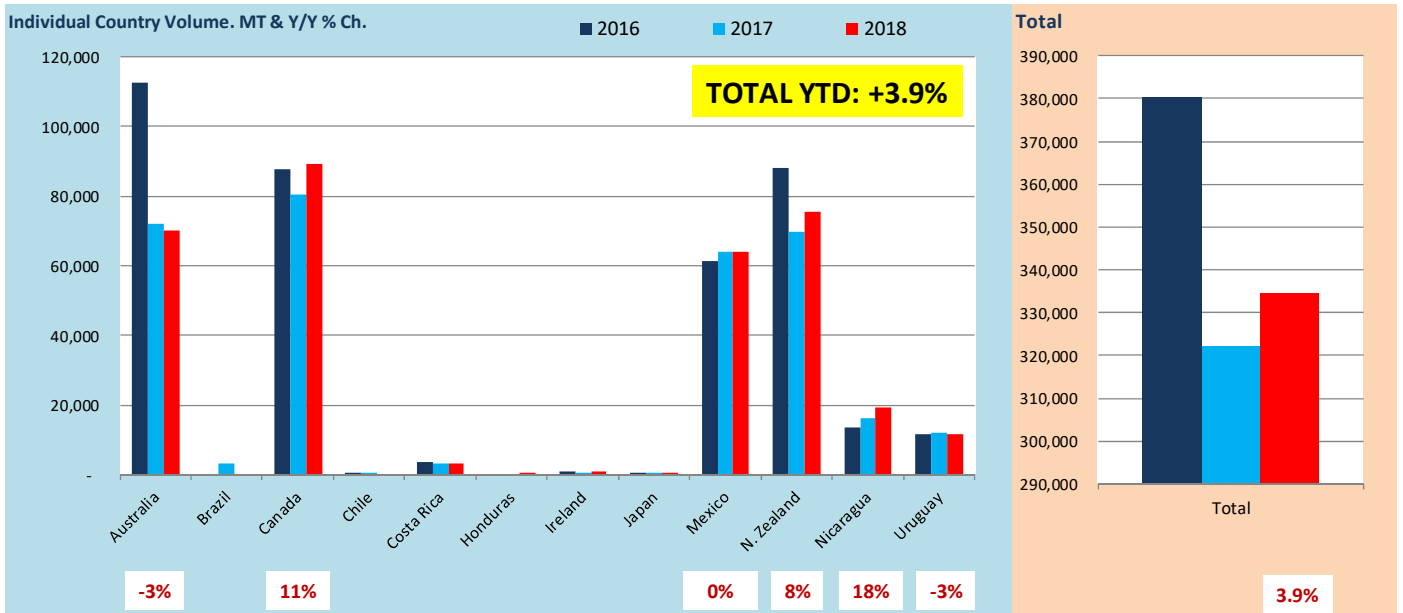
YTD Imported Fresh/Frz Beef Passed for Entry in the US

| week 19 | 5/13/2017 | 5/12/2018 | | |
|--------------|----------------|----------------|---------------|-------------|
| Australia | 76,579 | 74,395 | (2,184) | -2.9% |
| Brazil | 3,610 | - | (3,610) | -100.0% |
| Canada | 85,191 | 94,699 | 9,508 | 11.2% |
| Chile | 158 | - | (158) | -100.0% |
| Costa Rica | 3,419 | 3,276 | (143) | -4.2% |
| France | - | - | - | |
| Honduras | - | 735 | 735 | |
| Ireland | 695 | 976 | 281 | 40.4% |
| Japan | 125 | 221 | 96 | 76.8% |
| Mexico | 67,288 | 67,436 | 148 | 0.2% |
| Netherlands | - | - | - | |
| New Zealand | 74,052 | 79,855 | 5,803 | 7.8% |
| Nicaragua | 17,195 | 20,391 | 3,196 | 18.6% |
| Spain | - | - | - | |
| Uruguay | 12,739 | 12,529 | (210) | -1.6% |
| Total | 341,161 | 354,513 | 13,352 | 3.9% |

Source: AMS - USDA

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

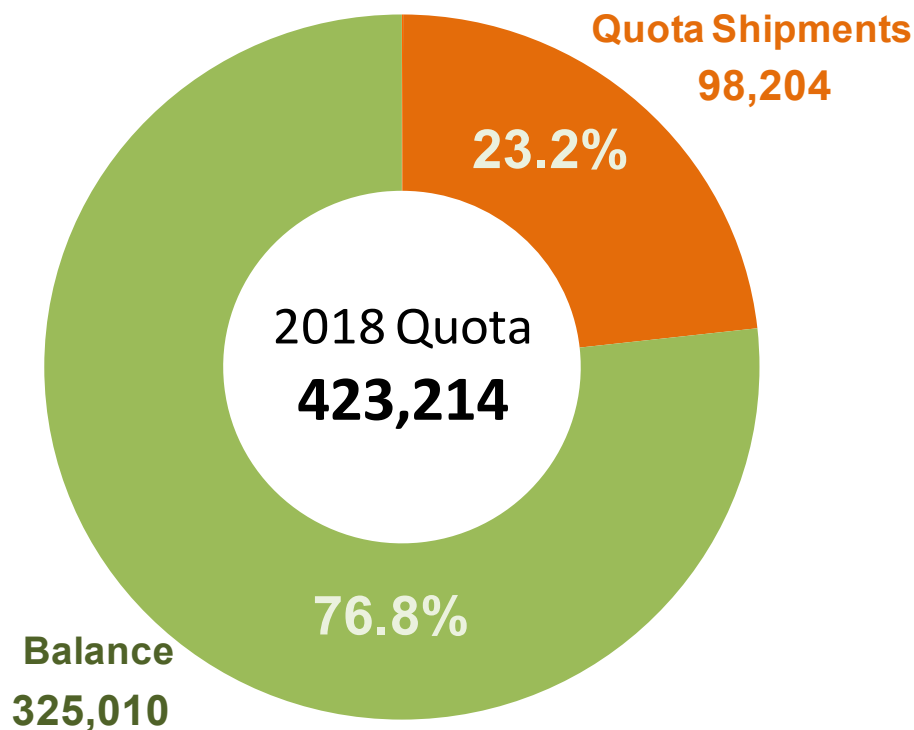
Imports as of May 5, 2018



Australian Beef Quota Position

17-May-18

Metric Ton. Australian Department of Agriculture Statistics



USA Quota Entries through Week Ending May 14

Source: US Customs

