



# US Imported Beef Market

A Weekly Update

Prepared Exclusively for Meat & Livestock Australia - Sydney

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## Market Highlights for the Week:

- US livestock, dairy and grain futures markets were rattled this week by prospects of an escalating trade war with China and higher tariffs on US pork and dairy products in Mexico
- The tariffs act as a tax on exports at a time of record pipeline supplies for beef, pork and chicken,
- USDA now forecasts Q4 pork production to increase 6.4% compared to the all time record production we saw a year ago. Ham prices have declined 20% in the last four weeks, coincidentally the same as the current tariff on US hams going into Mexico
- Imported beef trade in the US has been sluggish, with prices steady to lower as more New Zealand beef has become available and end users see no rush to cover needs in the short to medium term
- US fed cattle slaughter this week is estimated at 519,000 head, 4.2% higher than a year ago while non-fed slaughter at 131,000 head was 4% higher than last year and the highest non-fed weekly slaughter since April. Please keep in mind that these are preliminary estimates and actual data will be available in two weeks.
- Dairy futures have declined since mid May as US cheese now faces a 25% tariff in the Mexican market, the biggest buyer of US cheese exports
- Steiner estimates on feed inventories on July 1 to be 3.8% higher than a year ago.

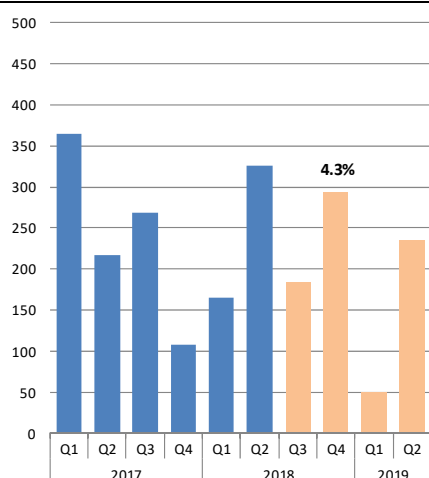
## Imported Market Activity for the Week

Imported beef prices were largely steady this week. Market participants we contacted for our weekly survey indicated that there is a variety of prices in the market at this time, with significant differences depending on delivery time, packer and country of origin. New Zealand packers have sold some meat in the last two weeks as slaughter there appears to be running a bit higher than expected. The latest data available to us is for the week ending June 16, showing cow slaughter for that week

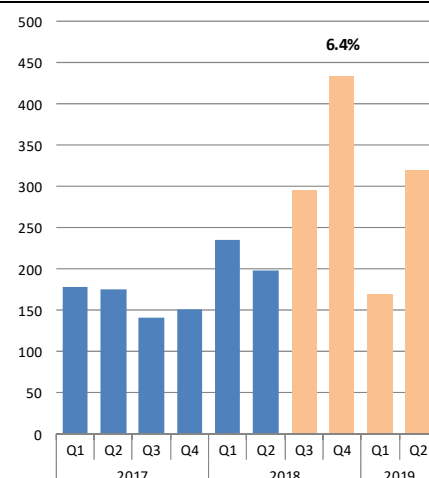
at 30,300 head, 36% higher than the previous year. Bull slaughter for that week was 15,966 head, 52% higher than the previous year. There is some speculation as to whether this has to do with the culling program to remove the mycoplasma bovis disease. The program is expected to remove 150,000 cows from farms affected by the infection. Weak dairy markets appear to have also contributed to the increase in cow slaughter in recent weeks. The result is more lean grinding beef available in the US market and a fairly large discount of imported frozen lean beef to domestic fresh.

Y/Y Change in **Beef Production**: Actual + Forecast

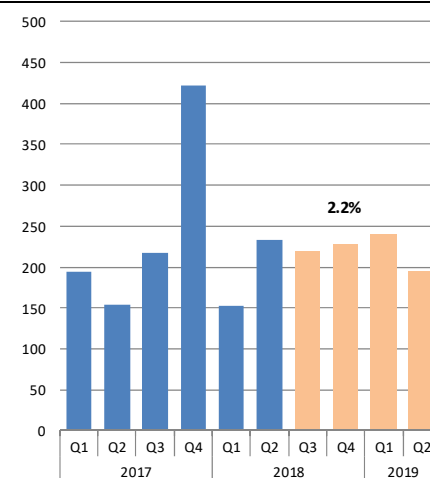
Source: USDA WASDE



Y/Y Change in **Pork Production**: Actual + Forecast



Y/Y Change in **Broiler Production**: Actual + Forecast



## Market Comments:

- It has been **a very rocky week for US livestock and grain markets**. Futures prices have responded quite negatively to news that the US administration is prepared to escalate its trade war with China. Additionally, there is still no timeline for the resolution of the tit-for-tat tariffs with NAFTA countries. Dairy and hog markets have been particularly affected, largely because of the Mexico tariffs on pork and dairy. The current Mexico tariff on US pork is now at 20% compared to zero that it was in May. Most of the pork that Mexico buys from the US are hams. The price of hams a month ago was around 63 cents per pound. Currently it is around 51 cents per pound, a 20% discount equivalent to the value of the tariff. Pork supplies in the US seasonally increase in the fall and latest USDA forecast has pork supplies in Q4 up 6.4% compared to the record levels of a year ago. A huge increase over already record supplies and a tax on exports (which is what a tariff is) has caused a significant selloff in the futures complex (see chart).

- **Beef markets so far have not been impacted as much as say pork, dairy or soybeans that face direct tariffs**. In our opinion, the real risk for the beef/cattle market comes from a deterioration of broader macro conditions. Some recession indicators, such as the yield curve, are currently flashing warning signs. We will not get into the details of the yield curve other than to point out that in the past it has been a pretty good predictor of recessions. The current spread between 2 year and 10 year treasuries is at the lowest level since 2007, the year prior to the great recession. In the event of a recession, especially a recession that may impact the Chinese economy, could be particularly problematic for beef demand. Chinese beef demand has been growing with leaps and bounds in the last five years and China is now the biggest beef importer in the world.

- Meat protein supplies are expected to increase sharply in Q4, mostly because of a sharp increase in the supply of pork coming to market. The chart on page 1 shows the latest supply forecasts from US for the next four quarters. We are not aggressive in the forecasts for Q4 pork as USDA, our projection is for a 5% increase. Still, the main takeaway is that retailers will have a lot of options to feature into the holidays.

## December 2018 Lean Hog Futures



## December 2018 Class III Milk



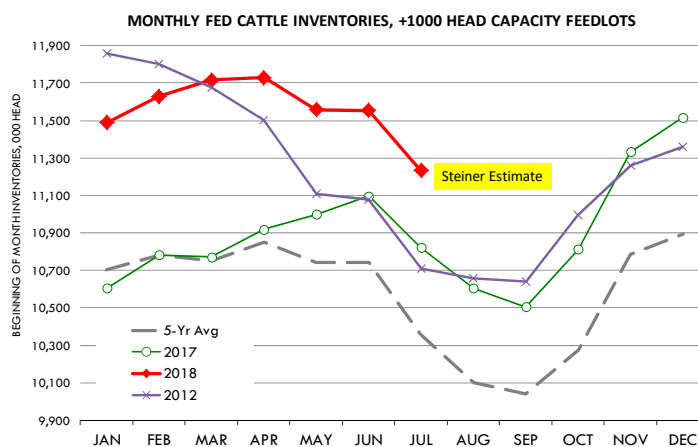
- US dairy prices have been dramatically impacted by the imposition of Mexican tariffs on US cheese. Current tariff is around 25% although some cheese classes have to pay even higher tariffs. Class III December milk futures, which is milk that will be used in cheese production, have declined from 16.8 cents per pound in mid May to 15.49 cents currently. Mexico is the biggest buyer of US cheese and the combination of higher tariffs and record cheese cold storage inventories has negatively impacted prices in the short term. We have yet to see the price declines translate into more dairy cows coming to market. In part this is due to the recent decline in feed costs. There was real fear that escalating corn prices and tariffs could push a lot of dairies to liquidate dairy numbers. That may yet happen but so far the pace of dairy cow slaughter has been close to year ago levels. Weekly dairy cow slaughter in June averaged 3% above year ago, not unusual considering that the

dairy cow inventory is higher than a year ago.

- **Next week USDA will issue the results of its monthly survey of feedlots with +1000 head capacity as of July 1.** Our forecasts are as follows (as % of a year ago):

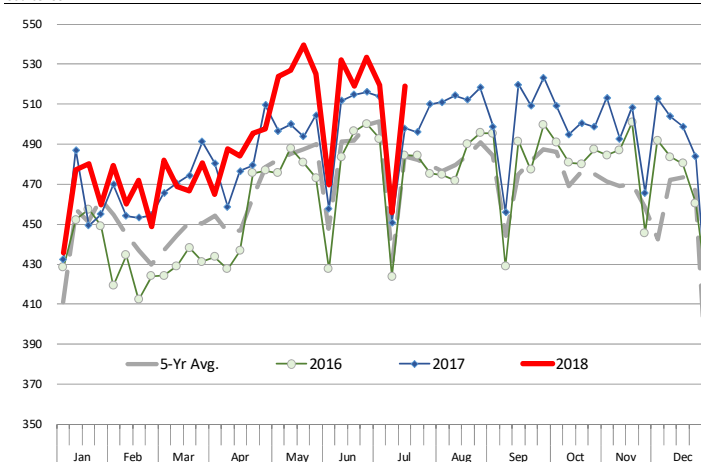
Placements on feed in June: -1.4%  
Marketed in June: +0.6%  
Total on feed July 1: +3.8%

The marketing rate for June may appear low but there was one less marketing day, which tends to skew the numbers. Placements last year were particularly high so we are comparing against a relatively high base. Auction data shows a significant number of cattle were sold during June. Not all these cattle went into feedlots but generally the increase in auction sales activity correlates with higher placements. Additionally, we have seen a notable increase in the number of feeder cattle imported from Canada and Mexico. Many of these animals going into US feedlots rather than back-grounding operations. A strong US dollar and very strong US feeder cattle prices in June likely encouraged Mexican and Canadian producers to ship their animals to the US rather than local lots. In the four June weeks feeder imports from Mexico were a total of 99,203 head, 48% higher than a year ago. Feeder imports from Canada during this period were 17,580 head, 140% higher than a year ago. The increase in feeder imports added almost 43,000 head to the total supply of feeder cattle destined for US feed yards in June.



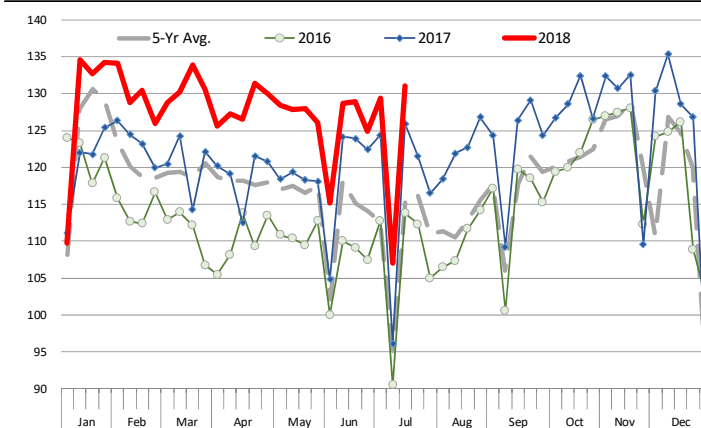
#### WEEKLY STEER AND HEIFER SLAUGHTER, '000 HEAD

Source: USDA



#### WEEKLY COW & BULL SLAUGHTER, '000 HEAD

Source: USDA



# 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
	12-Jul-18	5-Jul-18		11-Jul-17	
CME FEEDER CATTLE INDEX	148.16	145.15	2.1%	148.72	-0.4%
	13-Jul-18	6-Jul-18		14-Jul-17	
FED STEER (5-MKT AVG)	0.00	107.27	-100.0%	117.61	-100.0%
CUTTER COW CARCASS, NATIONAL, 90% LEAN, 350-400 LB. (carcass wt.)	109.00	109.00	0.0%	122.00	-10.7%
BONER COW CARCASS, NATIONAL, 85% LEAN, 400-500 LB. (carcass wt.)	110.00	113.50	-3.1%	131.00	-16.0%
BREAKER COW CARCASS, NATIONAL, 75% LEAN, 500+ (carcass wt.)	106.50	106.50	0.0%	120.00	-11.3%
CUTTER COW CARCASS CUTOUT, 5-DAY MA, USDA	176.81	175.98	0.5%	154.79	14.2%

## CME Feeder Cattle Index



Source: Chicago Mercantile Exchange

					Change From Last Week	Change From Last Year		
Current Week			Prior Week			Last Year		
13-Jul-18			6-Jul-18			14-Jul-17		
<u>US East Coast Australian/NZ Lean, CIF</u>								
95 CL Bull, E. Coast	206.0	210.0	208.0	211.0	-1.0	241.0	242.0	-32.0
90 CL Blended Cow	191.0	195.0	190.0	195.0	0.0	221.0	223.0	-28.0
90 CL Shank	194.0	195.0	194.0	195.0	0.0	214.0	215.0	-20.0
85 CL Fores	183.0	184.0	183.0	184.0	0.0	207.0	208.0	-24.0
85 CL Chucks	UNQ		UNQ		N/A	UNQ		N/A
95 CL Bull, W. Coast	206.0	209.0	208.0	209.0	0.0	238.0	239.0	-30.0
Uruguay CFH 90CL, E. Coast	UNQ		UNQ		N/A	UNQ		N/A
<u>US East Coast, Trimmings, CIF</u>								
85 CL Trimmings	181.0	183.0	182.0	183.0	0.0	206.0	207.0	-24.0
80 CL Trimmings	171.0	175.0	173.0	175.0	0.0	185.0	186.0	-11.0
75 CL Trimmings	167.0	168.0	UNQ		N/A	171.0	172.0	-4.0
65 CL Trimmings	UNQ		UNQ		N/A	UNQ		N/A
<u>US East Coast Australian Cuts, CIF</u>								
Cap Off Steer Insides	275.0	280.0	275.0	280.0	0.0	275.0	280.0	0.0
Steer Insides 14/18	UNQ		UNQ		N/A	UNQ		N/A
Steer Flats	UNQ		220.0		N/A	UNQ		N/A
Steer Knuckles	240.0		240.0	245.0	-5.0	250.0		-10.0

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

					Change From Last Week			Change From Last Year
Current Week			Prior Week		Week	Last Year		Year
13-Jul-18			6-Jul-18			14-Jul-17		
US East Coast Australian/NZ Lean, FOB US Port								
95 CL Bull, E. Coast	220.0		219.0	220.0	0.0	247.0	249.0	-29.0
	202.0	204.0	203.0	204.0	0.0	227.0	229.0	-25.0
90 CL Shank	205.0	208.0	206.0	208.0	0.0	220.0	222.0	-14.0
85 CL Fores	190.0	191.0	191.0	192.0	-1.0	212.0	215.0	-24.0
85 CL Chucks	UNQ		UNQ		N/A	UNQ		N/A
95 CL Bull, W. Coast	218.0	219.0	217.0	218.0	1.0	248.0		-29.0
Uruguay CFH 90CL, E. Coast	UNQ		UNQ		N/A	UNQ		N/A
US East Coast, Trimmings, FOB US Port								
85 CL Trimmings	189.0		190.0	191.0	-2.0	212.0	213.0	-24.0
80 CL Trimmings	181.0	183.0	183.0	184.0	-1.0	193.0	194.0	-11.0
75 CL Trimmings	175.0	176.0	178.0	179.0	-3.0	179.0	180.0	-4.0
65 CL Trimmings	UNQ		UNQ		N/A	141.0	142.0	N/A
US East Coast Australian Cuts, FOB US Port								
Cap Off Steer Insides	285.0		280.0	285.0	0.0	285.0	290.0	-5.0
Steer Insides 14/18	UNQ		UNQ		N/A	UNQ		N/A
Steer Flats	UNQ		225.0		N/A	UNQ		N/A
Steer Knuckles	250.0	255.0	250.0	255.0	0.0	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
	Low	High	Wt.Avg	Low	High	Wt.Avg		Low	High	Wt.Avg	
<u>Domestic Cutouts</u>											
Choice Cutout	204.14			208.03			-3.9	212.69			-8.6
Select Cutout	196.37			198.71			-2.3	198.73			-2.4
<u>Domestic Lean Grinding Beef</u>											
90 CL Boneless	214.3	223.0	219.2	219.8	225.0	220.9	1.7	231.0	237.2	233.0	13.8
85 CL Beef Trimmings	171.0	200.0	188.6	186.8	200.0	191.1	2.5	192.0	211.4	204.9	16.3
50 CL Beef Trim	73.8	73.8	66.8	71.7	71.7	63.3	-3.6	103.5	103.5	95.7	28.9
<u>Domestic Pork Trim</u>											
42 CL Pork Trim	62.1	129.0	73.3	70.0	90.3	83.0	9.7	54.0	79.3	67.9	-5.4
72 CL Pork Trim	68.1	113.8	75.6	73.0	109.0	83.7	8.1	91.4	93.9	93.5	17.9
<u>Point of Lean Values</u>											
90 CL Domestic	243.6			245.5			-1.9	258.9			-15.3
50 CL Beef Trimming	133.6			126.5			7.1	191.5			-57.9
42 CL Pork Trim	174.5			197.6			-23.1	161.6			12.9
72 CL Pork Trim	105.0			116.3			-11.3	129.9			-24.9
<u>National Direct Fed Steer price)</u>	0.00			107.27			-107.3	117.61			-117.6

**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>
	<b>13-Jul-18</b>	<b>6-Jul-18</b>		<b>14-Jul-17</b>	
<u><b>Live Cattle Futures</b></u>					
<b>August '18</b>	104.550	106.375	↓ -1.83	117.875	↓ -13.33
<b>October '18</b>	107.375	109.625	↓ -2.25	117.825	↓ -10.45
<b>December '18</b>	111.400	113.700	↓ -2.30	118.325	↓ -6.93
<b>February '19</b>	115.750	116.525	↓ -0.78	118.850	↓ -3.10
<u><b>Feeder Cattle Futures</b></u>					
<b>August '18</b>	150.725	152.200	↓ -1.47	151.750	↓ -1.03
<b>September '18</b>	151.075	152.275	↓ -1.20	151.675	↓ -0.60
<b>October '18</b>	151.350	152.150	↓ -0.80	150.000	↑ 1.35
<b>November '18</b>	151.025	152.025	↓ -1.00	150.000	↑ 1.03
<u><b>Corn Futures</b></u>					
<b>July '18</b>	330 1/4	351 3/4	↓ -21.50	376 1/4	↓ -46.00
<b>September '18</b>	341 1/4	360 1/4	↓ -19.00	385 1/2	↓ -44.25
<b>December '18</b>	354 3/4	373	↓ -18.25	398 3/4	↓ -44.00
<b>March '19</b>	366 1/2	383 1/4	↓ -16.75	408 1/2	↓ -42.00
<u><b>Ch Wheat Futures</b></u>					
<b>July '18</b>	481 1/2	512 3/4	↓ -31.25	522 1/2	↓ -41.00
<b>September '18</b>	497	515 1/4	↓ -18.25	537	↓ -40.00
<b>December '18</b>	512 1/2	530	↓ -17.50	560 1/2	↓ -48.00
<b>March '19</b>	527 1/2	543 3/4	↓ -16.25	578 3/4	↓ -51.25

<i>Slughter 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>
	<b>14-Jul-18</b>	<b>7-Jul-18</b>		<b>15-Jul-17</b>	
<u><b>Total Cattle Slaughter</b></u>	650,000	565,000	↑ 85,000	624,000	↑ 26,000
	<b>30-Jun-18</b>	<b>23-Jun-18</b>		<b>1-Jul-17</b>	
<b>Total Cow Slaughter</b>	117,835	113,406	↑ 4,429	111,214	↑ 6,621
<b>Dairy Cow Slaughter</b>	57,745	53,199	↑ 4,546	54,796	↑ 2,949
<b>Beef Cow Slaughter</b>	60,090	60,207	↓ -117	56,418	↑ 3,672



## TABLE 7 - US BEEF IMPORTS

(Source: USDA/AMS)

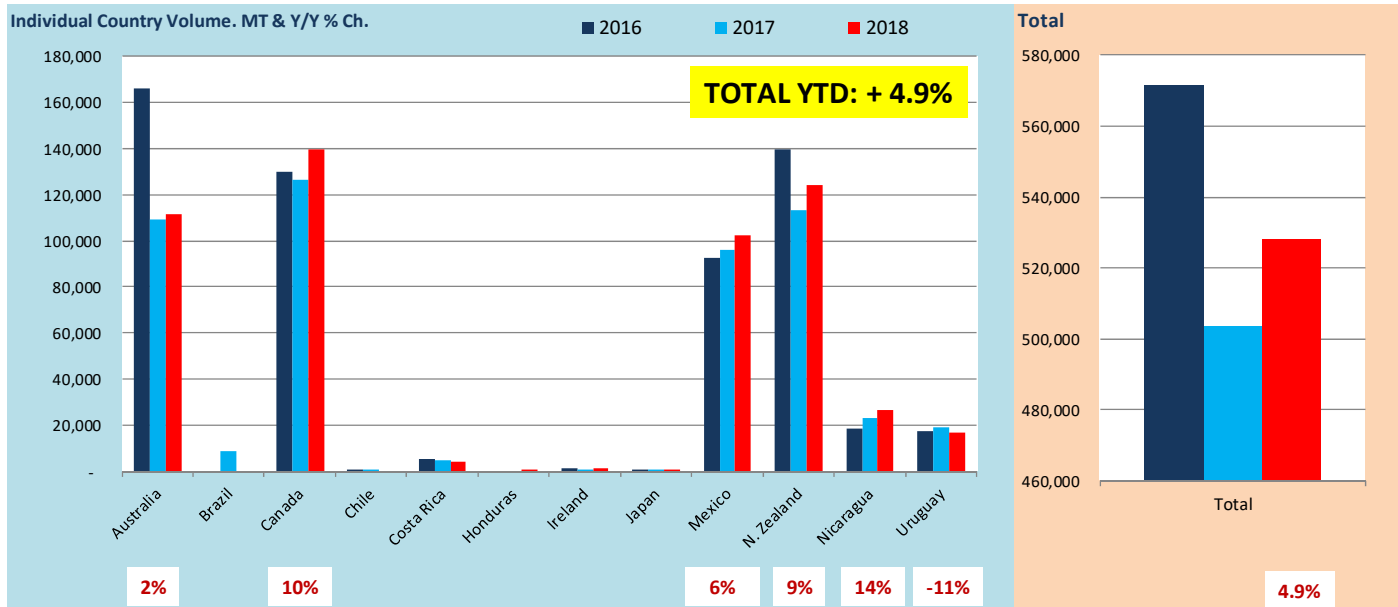
### YTD Imported Fresh/Frz Beef Passed for Entry in the US

week 27	7/8/2017	7/7/2018		
Australia	109,277	111,453	2,176	2.0%
Brazil	8,993	-	(8,993)	-100.0%
Canada	126,569	139,557	12,988	10.3%
Chile	202	-	(202)	-100.0%
Costa Rica	4,591	4,321	(270)	-5.9%
France	-	-	-	
Honduras	-	983	983	
Ireland	1,065	1,269	204	19.2%
Japan	215	261	46	21.4%
Mexico	96,139	102,266	6,127	6.4%
Netherlands	-	-	-	
New Zealand	113,396	123,952	10,556	9.3%
Nicaragua	23,451	26,753	3,302	14.1%
Spain	-	-	-	
Uruguay	19,173	17,126	(2,047)	-10.7%
<b>Total</b>	<b>503,262</b>	<b>527,943</b>	<b>24,681</b>	<b>4.9%</b>

Source: AMS - USDA

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

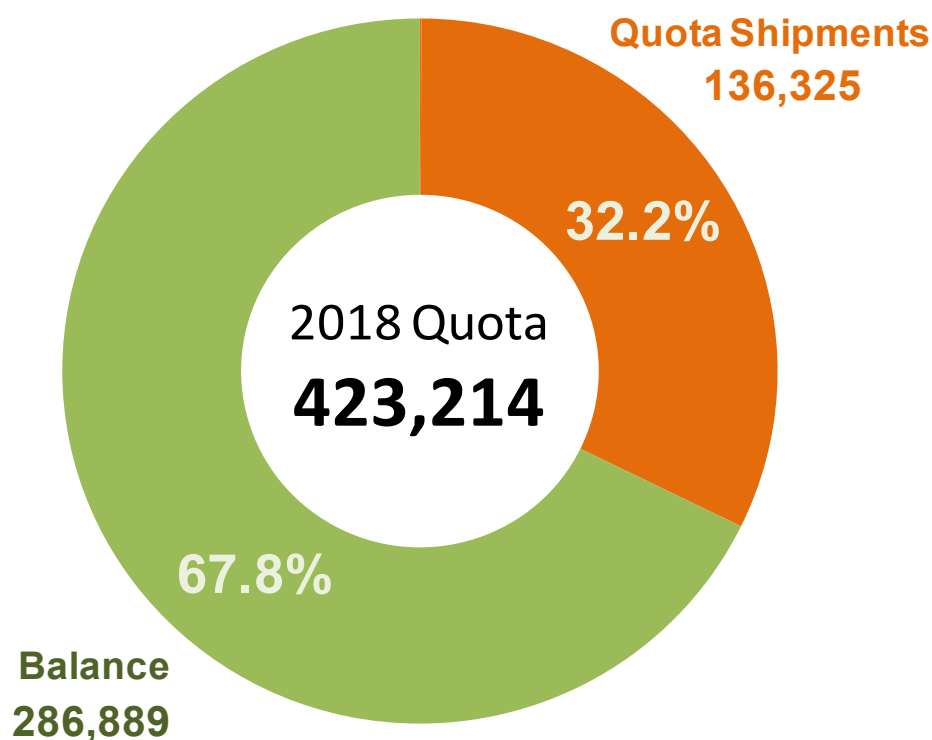
Imports as of July 7, 2018



# Australian Beef Quota Position

9-Jul-18

Metric Ton. Australian Department of Agriculture Statistics



## USA Quota Entries through Week Ending July 9

Source: US Customs

