



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 have firmed up as domestic end users consider needs for Q1 and look to secure more imported beef for delivery in early 2019
- New Zealand supplies have started to trickle in but the seasonal supply increase has been fairly average for this time of year.
- Fed cattle slaughter in the US last week was estimated at around 500,000 head, just 0.3% higher than last year. Non fed slaughter was estimated at 133,000 head ,5% higher than last year. These numbers are subject to revision, however.
- The price of 90CL domestic lean beef currently commands as much as a 25% premium compared to the price of 85CL beef, a premium that we think in part reflects the low price of 50CL beef
- Running a 75CL meat block formulation using domestic 85CL vs. 90CL beef generated a consistent saving for much of last year and this year
- Strong demand for steak cuts, especially beef ribs, has been driving the gains in the US beef cutout. Currently the choice cutout is up 5% compared to last year and about half of that increase is due to the higher value of the rib primal
- US fat beef trim prices appear to have bottomed out and prices are expected to trend higher into year end and be notably higher by January.

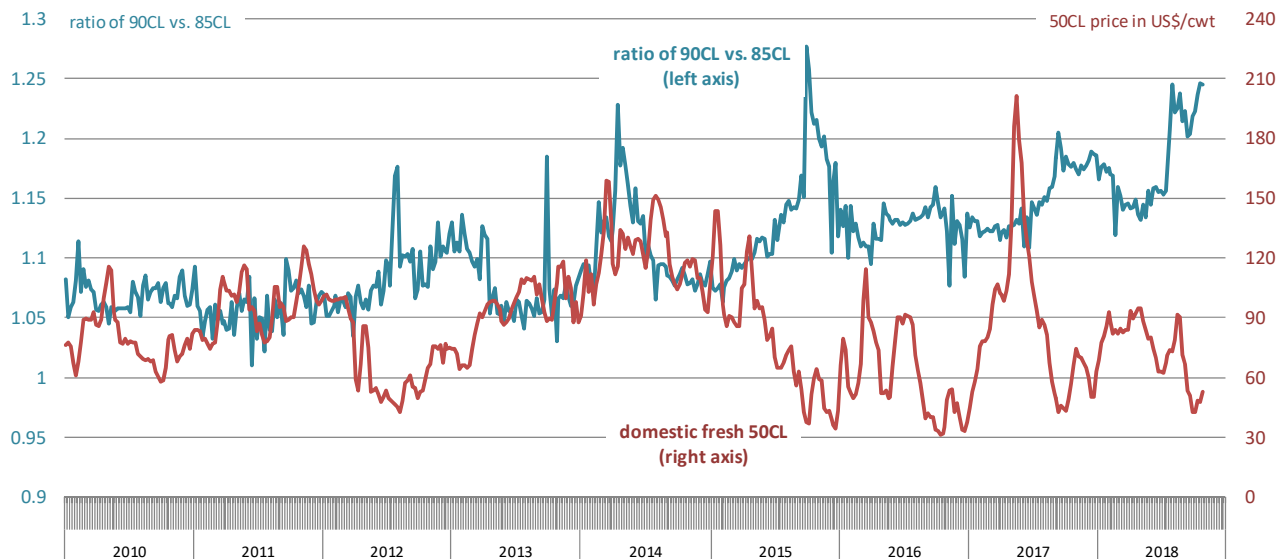
Imported Market Activity for the Week

Imported beef trading showed some improvement this week, largely as end users were more active in looking for product. Spot supplies remain adequate and some product sold at steady prices but forward offerings were higher than what we have seen in recent weeks. Packers in New Zealand appear comfortable with sales they currently have on the books and appear in no hurry to

extend their forward positions. US buyers are starting to consider their Q1 supply needs and plan accordingly. Discount of imported beef offers opportunities, especially when considering the normal seasonal increase in the price of domestic 90CL beef during the winter months. Cow slaughter numbers have been running significantly above year ago levels for much of this year, in large part because a larger herd also implies more cull cows. Dry conditions and a worsening profit

Price Ratio of 90CL Boneless Beef vs. 85CL Boneless Beef & 50CL Beef Prices

Weekly Price Data. Data Source: USDA-AMS. Analysis by Steiner Consulting



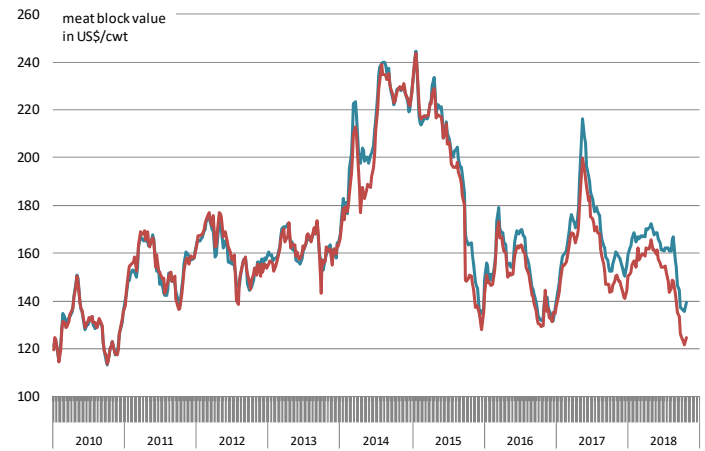
outlook for some cow-calf operators also contributed to the increase in cow grinding beef supplies. However, ever increasing cow meat supply availability is far from a given, especially at the start of the year. Calf prices have been trending higher this fall as low feed costs cause feedlots to bid more aggressively for supply. Fed cattle prices for 2019 have also improved considerably, which also tends to bolster what feedlots are willing/able to pay for calves. Consider that in July the average futures price for 2018 was around \$110 and for 2019 was \$113. Currently the price of fed cattle for 2018 (settled futures and current Dec) is around \$112 and fed cattle prices for 2019 are priced at around \$118 (average of where contracts are trading). It remains to be seen if the current premiums for 2019 cattle remain in place but market participants certainly are more bullish about beef demand next year. This may impact how aggressively cow-calf operators sell cull cows during Q1 and consequently the value of lean and extra lean grinding beef.

One thing that has come up in discussions with market participants recently is the ever increasing premium of 90CL beef vs. 85CL product. The chart on page 1 shows the ratio of 90CL prices relative to the price of 85CL beef. We are showing the ratio rather than the absolute spread since prices over time tend to increase so a \$10 spread today is not the same as a \$10 spread a few years ago when price levels were lower. We think that part of the reason for the increase in the premium of 90CL beef is the decline in the value of 50CL fat trim. While there is a fair amount of noise and lower price for 50CL do not always correspond to a higher premium for 90CL beef, there does appear to be a relationship nonetheless. Note for instance the spike in the premium of 90CL beef in 2012 when the price of 50CL beef collapsed. Similarly, the premium spiked in late 2015 as prices for 50CL beef came under pressure. Fat beef trim prices were quite soft again this fall, in part because of seasonally higher cattle carcass weights but also because of a slowdown in ground beef demand after Labor Day. Prices for 50CL beef have been trending higher and should be higher still in November. Fed cattle carcass weights have declined in the last two weeks and we have been told of a large package of 50CL beef that was sold.

Higher prices for 50CL beef should narrow the spread between 90CL and 85CL beef. Still, we expect to see a benefit from using 85CL vs. 90CL in meat block formulations. Processors that can substitute 85CL in least cost formulations could

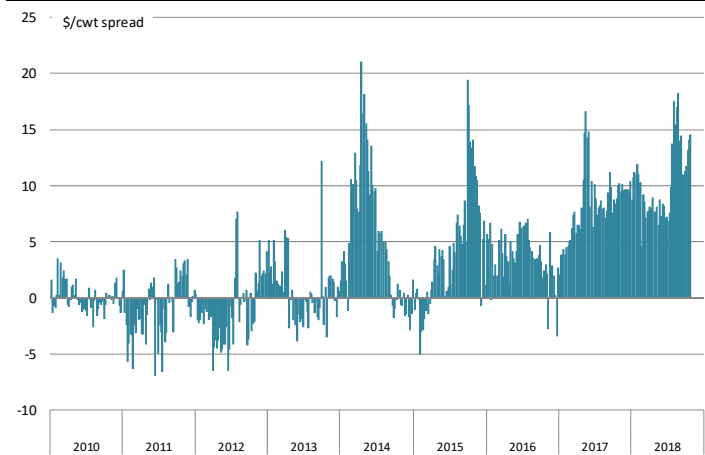
75CL Meat Block Made using 90CL or 85CL Dom. Trim & 50CL

Weekly Price Data. Data Source: USDA-AMS. Analysis by Steiner Consulting

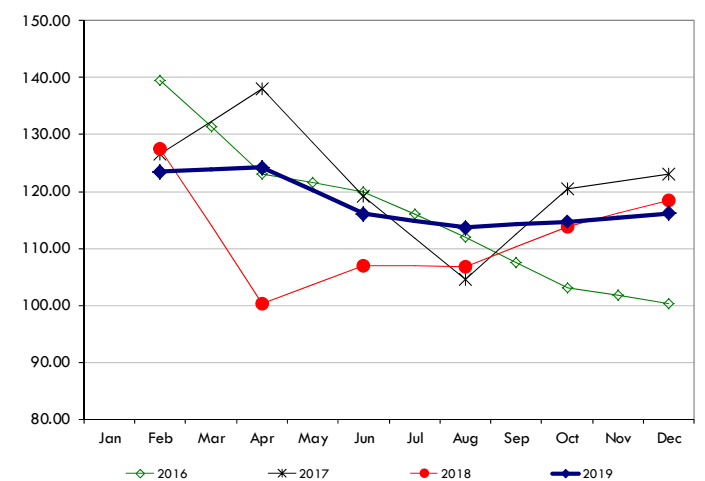


\$ Difference Between 90CL/50CL Block and 85CL/50CL Block

Weekly Price Data. Data Source: USDA-AMS. Analysis by Steiner Consulting



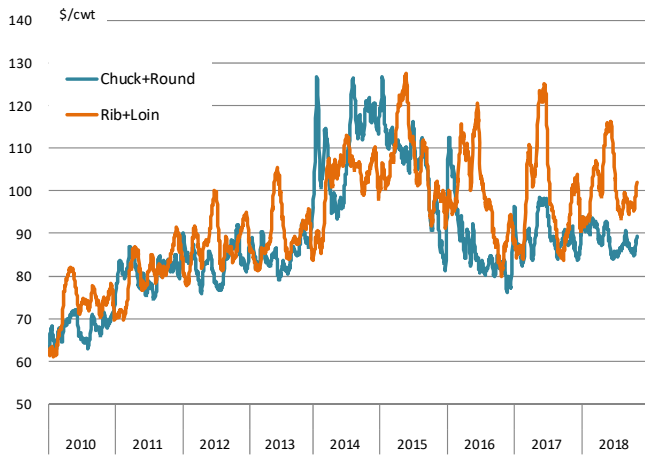
LIVE CATTLE FUTURES



derive as much as an \$18/cwt benefit during some weeks. The benefit has been fairly consistent for much of last year and this year. This is something that end users that price their meat block using a formula based on 90CL and 50CL should keep in mind.

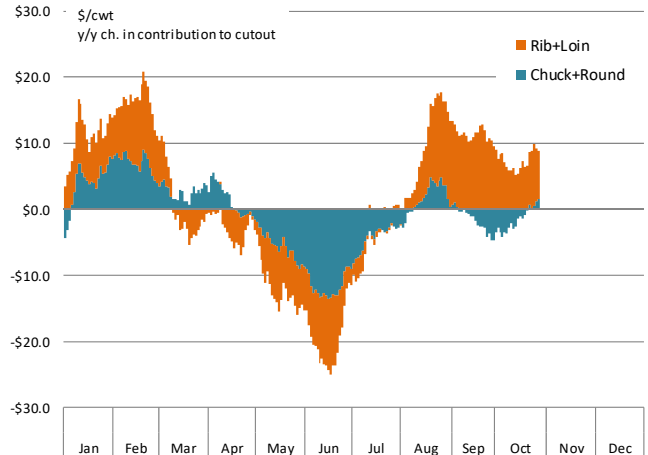
\$ Contribution to the Choice Cutout from End Cuts and Middle Meats

Daily Cutout Value Calculation. Source: USDA-AMS. Analysis by Steiner Consulting



Y/Y Change in Carcass Contribution from Main Primals. 2018.

Daily Primal Value Calculations. Source: USDA-AMS. Analysis by Steiner Consulting



USA Domestic Beef/Cattle Market Situation

Futures market participants have shrugged off any big concerns regarding currentness and on feed supplies. Prices were higher on Friday as participants responded to reports of higher prices paid for fed cattle. Demand has been a focus of the market for some time and participants are looking for any sign of demand weakness rather than signs of building supplies. Winter and early spring futures have gained considerable ground in the last three months and prices continue to hover near contract highs. There was nothing particularly alarming for the beef market from the last ‘Cold Storage’ report while cattle on feed data was supportive. One need only look at what beef rib prices are doing these days to understand why some end users jumped early to put some product away in cold storage. It is clear that during certain times of the year, and especially going into Christmas, there are not enough ribs to satisfy demand. The value of the rib primal on Friday was calculated by USDA at \$402/cwt, about \$35/cwt or 9% higher than a year ago. Boneless ribeyes are approaching \$900/cwt - and it is only October. The choice cutout last night was quoted at \$213/cwt, \$15 higher than a year ago. Half of that increase is due to the higher value of middle meats (loins and ribs). Brisket and plate values are also much higher than a year ago. On the other hand, the combined value of the round

and chuck primal is just \$1.6/cwt higher than a year ago even as those two primals make up over half of the overall carcass. Increased competition in the retail meat case has helped keep prices for these beef items in check. But there is no good replacement for a rib roast or steak and in this booming economy middle meats and fatty export items continue to carry the carcass. For now, the gains in the cutout continue to drive packer buying interest and ultimately fed cattle values.

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
	25-Oct-18	18-Oct-18		24-Oct-17	
CME FEEDER CATTLE INDEX	155.01	155.36	-0.2%	#N/A	#N/A
	26-Oct-18	19-Oct-18		27-Oct-17	
FED STEER (5-MKT AVG)	110.21	109.65	0.5%	110.92	-0.6%
CUTTER COW CARCASS, NATIONAL, 90% LEAN, 350-400 LB. (carcass wt.)	95.00	97.00	-2.1%	111.00	-14.4%
BONER COW CARCASS, NATIONAL, 85% LEAN, 400-500 LB. (carcass wt.)	89.00	90.00	-1.1%	102.50	-13.2%
BREAKER COW CARCASS, NATIONAL, 75% LEAN, 500+ (carcass wt.)	88.50	89.50	-1.1%	97.00	-8.8%
CUTTER COW CARCASS CUTOUT, 5-DAY MA, USDA	154.35	152.78	1.0%	154.79	-0.3%

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
	26-Oct-18	19-Oct-18	26-Oct-17	19-Oct-17		26-Oct-17	19-Oct-17	
<u>US East Coast Australian/NZ Lean, CIF</u>								
95 CL Bull, E. Coast	191.0	193.0	190.0	193.0	0.0	220.0	223.0	-30.0
90 CL Blended Cow	178.0	180.0	176.0	178.0	2.0	205.0	207.0	-27.0
90 CL Shank	177.0	179.0	176.0	178.0	1.0	206.0	209.0	-30.0
85 CL Fores	167.0	168.0	167.0	168.0	0.0	188.0	190.0	-22.0
85 CL Chucks		UNQ		UNQ	N/A		UNQ	N/A
95 CL Bull, W. Coast	187.0	191.0	190.0	192.0	-1.0	219.0	220.0	-29.0
Uruguay CFH 90CL, E. Coast		UNQ		UNQ	N/A		UNQ	N/A
<u>US East Coast, Trimmings, CIF</u>								
85 CL Trimmings	166.0	167.0	167.0	168.0	-1.0	187.0	188.0	-21.0
80 CL Trimmings	160.0	162.0		160.0	2.0	173.0	174.0	-12.0
75 CL Trimmings		UNQ		UNQ	N/A	161.0	162.0	N/A
65 CL Trimmings		UNQ		UNQ	N/A	114.0	115.0	N/A
<u>US East Coast Australian Cuts, CIF</u>								
Cap Off Steer Insides	265.0	270.0	265.0	270.0	0.0	273.0	275.0	-5.0
Steer Insides 14/18		UNQ		UNQ	N/A		UNQ	N/A
Steer Flats	205.0	210.0	205.0	210.0	0.0	215.0	220.0	-10.0
Steer Knuckles	225.0	230.0	225.0	230.0	0.0	245.0	250.0	-20.0

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

	Current Week		Prior Week		Change From Last Week	Last Year		Change From Last Year
	26-Oct-18		19-Oct-18			27-Oct-17		
<i>US East Coast Australian/NZ Lean, FOB US Port</i>								
95 CL Bull, E. Coast	202.0	204.0	201.0	202.0	2.0	232.0	235.0	-31.0
90 CL Blended Cow	185.0	187.0	184.0	185.0	2.0	215.0	216.0	-29.0
90 CL Shank	188.0	189.0	188.0	189.0	0.0	215.0	217.0	-28.0
85 CL Fores		175.0	174.0	175.0	0.0	193.0	195.0	-20.0
85 CL Chucks		UNQ		UNQ	N/A		UNQ	N/A
95 CL Bull, W. Coast	200.0	202.0	199.0	200.0	2.0	230.0	233.0	-31.0
Uruguay CFH 90CL, E. Coast		UNQ		UNQ	N/A		UNQ	N/A
<i>US East Coast, Trimmings, FOB US Port</i>								
85 CL Trimmings	174.0	175.0		174.0	1.0	192.0	193.0	-18.0
80 CL Trimmings		166.0		166.0	0.0	179.0	180.0	-14.0
75 CL Trimmings	155.0	156.0	155.0	156.0	0.0		170.0	-14.0
65 CL Trimmings		UNQ		UNQ	N/A	121.0	122.0	N/A
<i>US East Coast Australian Cuts, FOB US Port</i>								
Cap Off Steer Insides	275.0	280.0	275.0	280.0	0.0	275.0	285.0	-5.0
Steer Insides 14/18		UNQ		UNQ	N/A		UNQ	N/A
Steer Flats	205.0	210.0	205.0	210.0	0.0	225.0	230.0	-20.0
Steer Knuckles	230.0	240.0	230.0	240.0	0.0	255.0	260.0	-20.0

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>	26-Oct-18			19-Oct-18				27-Oct-17			
Choice Cutout	213.47			207.93			5.5	203.30			10.2
Select Cutout	198.83			194.24			4.6	192.48			6.4
<u>Domestic Lean Grinding Beef</u>											
90 CL Boneless	182.6	205.0	190.2	181.0	200.0	188.5	1.7	208.0	220.0	213.8	-23.6
85 CL Beef Trimmings	144.0	158.5	153.3	138.0	164.0	151.4	2.0	180.0	188.0	181.7	-28.4
50 CL Beef Trim	65.2	65.2	54.7	55.9	55.9	48.5	6.1	77.2	77.2	65.8	-11.2
<u>Domestic Pork Trim</u>											
42 CL Pork Trim	21.0	40.0	26.6	28.0	47.3	33.0	-6.4	23.0	37.3	24.5	2.1
72 CL Pork Trim	48.1	72.3	52.4	53.0	79.3	59.9	-7.5	62.0	65.4	63.9	-11.5
<u>Point of Lean Values</u>											
90 CL Domestic	211.3			209.4			1.8	237.6			-26.3
50 CL Beef Trimming	109.3			97.1			12.2	131.6			-22.3
42 CL Pork Trim	63.4			78.6			-15.3	58.4			5.0
72 CL Pork Trim	72.7			83.2			-10.4	88.7			-16.0
<u>National Direct Fed Steer price)</u>	110.21			109.65			0.6	110.92			-0.7

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
	26-Oct-18	19-Oct-18			27-Oct-17		
<u>Live Cattle Futures</u>							
October '18	113.875	112.250	↑	1.63	115.375	↓	-1.50
December '18	118.400	116.775	↑	1.63	120.825	↓	-2.43
February '19	123.450	121.150	↑	2.30	125.750	↓	-2.30
April '19	124.175	122.175	↑	2.00	125.025	↓	-0.85
<u>Feeder Cattle Futures</u>							
November '18	154.800	154.100	↑	0.70	155.950	↓	-1.15
January '19	149.700	148.750	↑	0.95	153.000	↓	-3.30
March '19	147.825	147.050	↑	0.77	153.000	↓	-5.18
May '19	149.325	148.775	↑	0.55	151.900	↓	-2.58
<u>Corn Futures</u>							
December '18	367 3/4	367	↑	0.75	348 3/4	↑	19.00
March '19	380	379 1/2	↑	0.50	362 1/2	↑	17.50
May '19	388	387	↑	1.00	371 1/4	↑	16.75
July '19	393 3/4	392 3/4	↑	1.00	378 3/4	↑	15.00
<u>Ch Wheat Futures</u>							
December '18	505 1/4	514 3/4	↓	-9.50	427 1/4	↑	78.00
March '19	524 1/4	534 1/4	↓	-10.00	445 1/4	↑	79.00
May '19	536 3/4	547	↓	-10.25	459 1/4	↑	77.50
July '19	543 1/2	552 3/4	↓	-9.25	474	↑	69.50

Slaughter Information	7 Days Ending	7 Days Ending	Change From Last		7 Days Ending	Change From	
			Week	Week		Last Year	Last Year
	27-Oct-18	20-Oct-18			28-Oct-17		
<u>Total Cattle Slaughter</u>	633,000	625,000	↑	8,000	625,000	↑	8,000
	13-Oct-18	6-Oct-18			14-Oct-17		
<u>Total Cow Slaughter</u>	121,305	123,575	↓	-2,270	118,032	↑	3,273
<u>Dairy Cow Slaughter</u>	62,477	63,916	↓	-1,439	60,680	↑	1,797
<u>Beef Cow Slaughter</u>	58,828	59,659	↓	-831	57,352	↑	1,476

TABLE 7 - US BEEF IMPORTS

(Source: USDA/AMS)

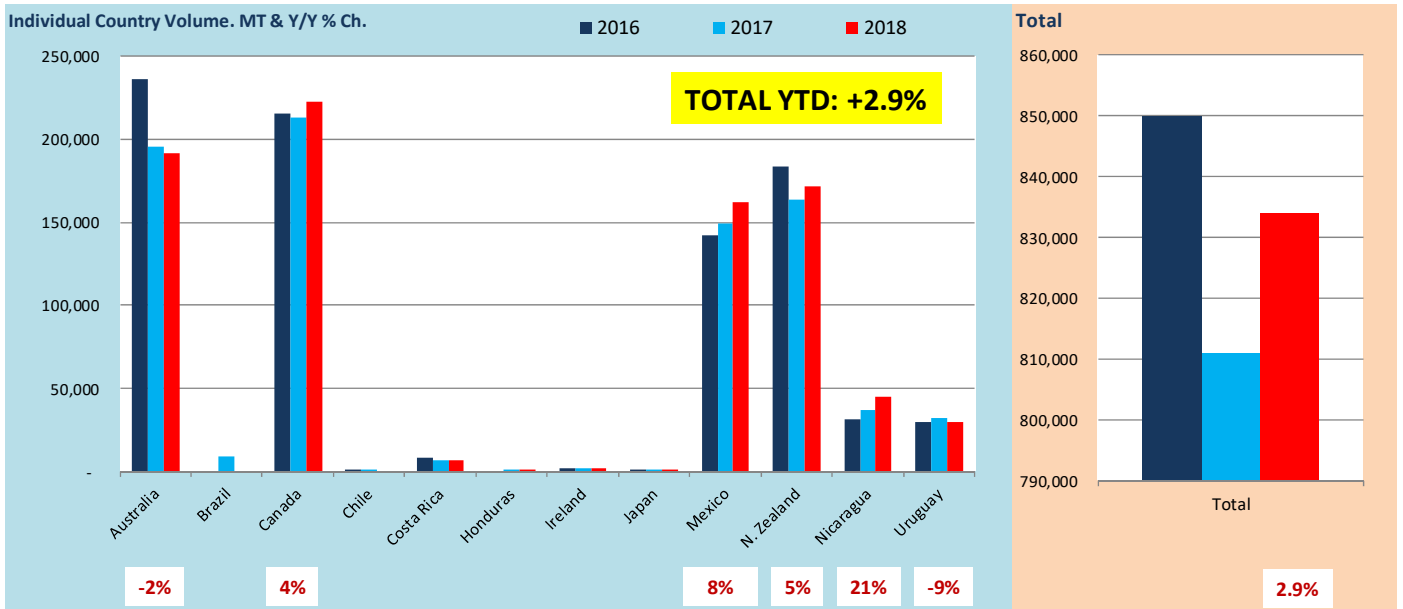
YTD Imported Fresh/Frz Beef Passed for Entry in the US

week 42	10/21/2017	10/20/2018		
Australia	195,815	191,857	(3,958)	-2.0%
Brazil	9,022	-	(9,022)	-100.0%
Canada	213,472	222,873	9,401	4.4%
Chile	226	-	(226)	-100.0%
Costa Rica	6,730	6,664	(66)	-1.0%
France	-	-	-	
Honduras	342	1,497	1,155	337.7%
Ireland	1,835	2,286	451	24.6%
Japan	265	343	78	29.4%
Mexico	149,554	161,879	12,325	8.2%
Netherlands	228	-	(228)	-100.0%
New Zealand	163,705	171,926	8,221	5.0%
Nicaragua	37,169	45,083	7,914	21.3%
Spain	-	-	-	
Uruguay	32,517	29,666	(2,851)	-8.8%
Total	810,880	834,073	23,193	2.9%

Source: AMS - USDA

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

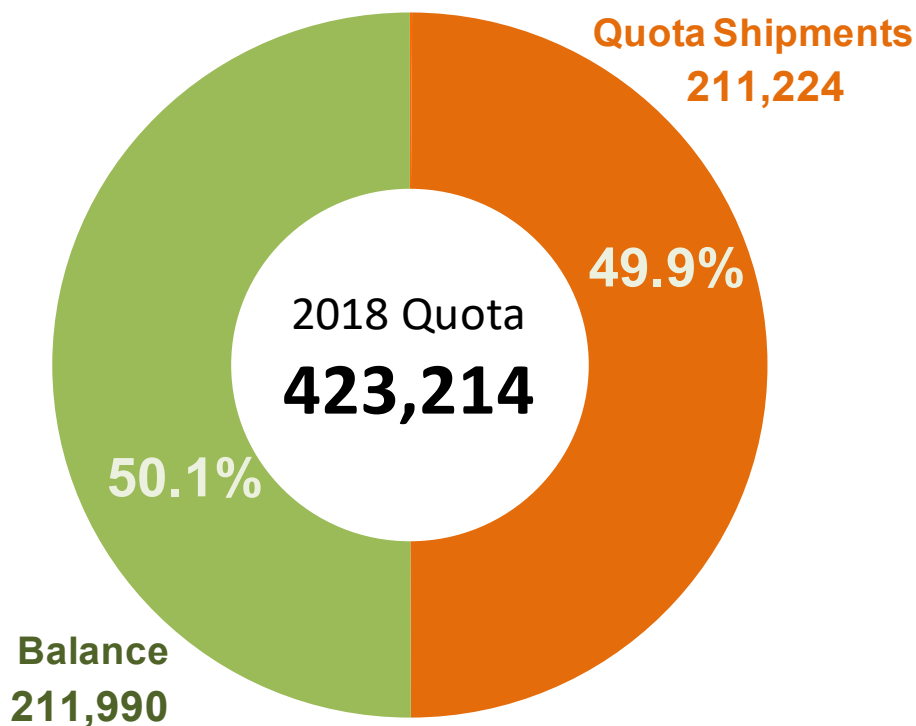
Imports as of October 20, 2018



Australian Beef Quota Position

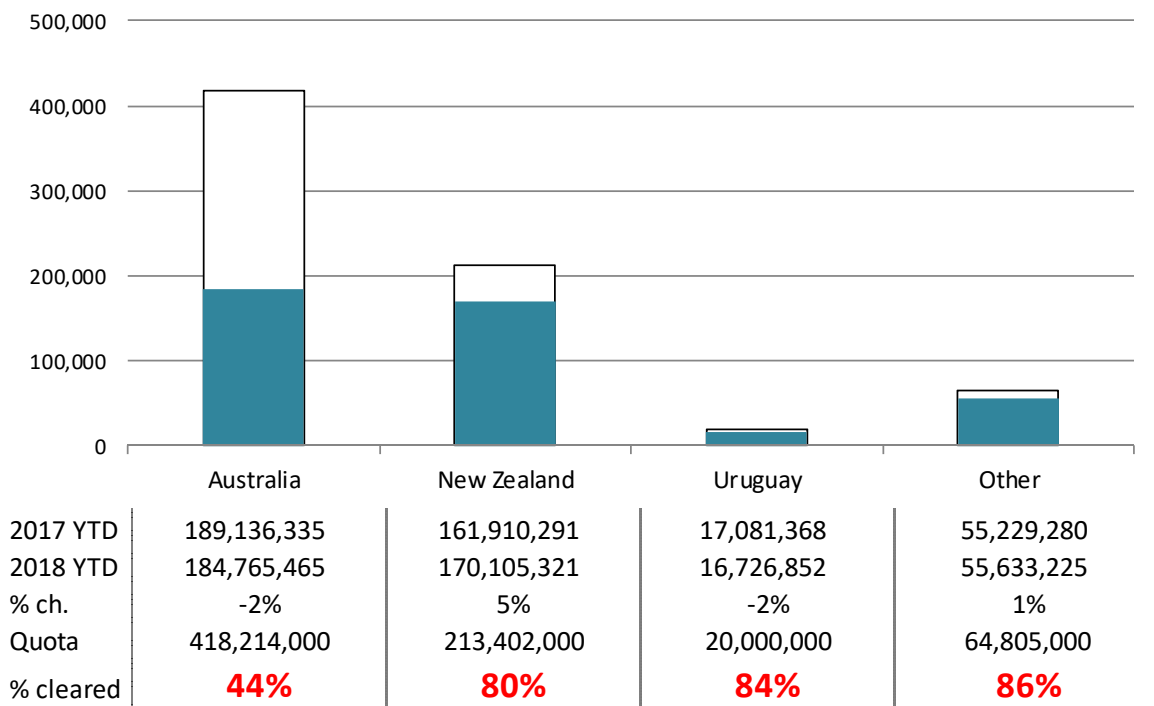
25-Oct-18

Metric Ton. Australian Department of Agriculture Statistics



USA Quota Entries through Week Ending October 22

Source: US Customs



Note: Customs did not provide an update this week. Data reflects last week's levels.