US Imported Beef Market

A Weekly Update

Prepared Exclusively for Meat & Livestock Australia - Sydney

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Market Highlights for the Week:

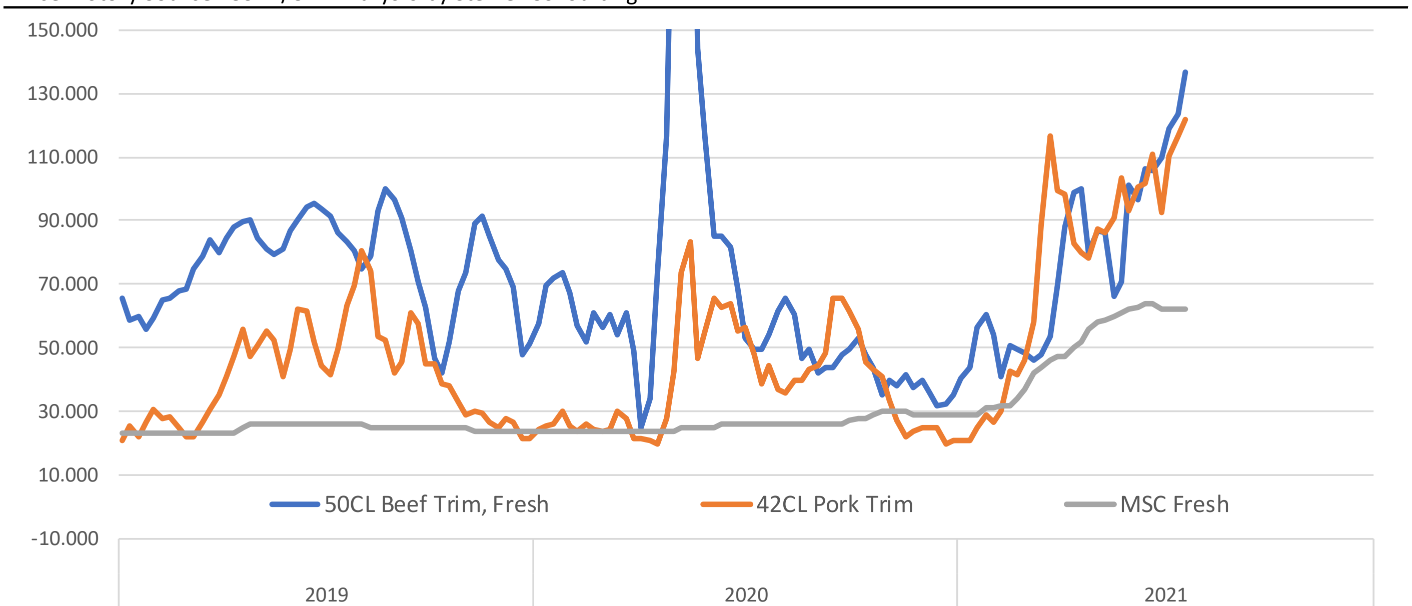
- Fat trim prices continue to trend counter seasonally higher. High prices for competing product and limited supply due to strong ground beef demand and fewer trim lines have also contributed to the up trend.
- Cattle slaughter last week was near the same level as a week ago, with a big Saturday slaughter helping bolster throughput.
- Beef offerings from Brazil have increased in the last few weeks and lean beef is trading at a significant discount (15+ cents) vs. Oceania product. A slowdown in sales to China/Hong Kong as well as other destinations likely contributing to the increase in offerings and lower prices
- Drought remains a major concern for US beef cow producers. Slaughter in the West, Southern Plains and some Northern states was up in the double digits during Q2. As pasture conditions deteriorate, liquidation could pick up steam.
- The inventory of all cattle and calves on July 1 was estimated 1.3 million head less than the previous year. The beef cow herd is estimated down 650k head (-2%) from last year but a higher calving rate will help keep calf crop numbers near 2020 levels.

Imported Market Activity for the Week

Imported beef market continued to drift lower this week as end users remain reluctant to book significant amounts on a forward basis while domestic lean beef prices appeared to soften a bit. With that said, buying meat in Australia and New Zealand remains difficult and it is hard to put a good number on CIF values currently. Some of the sales at lower prices quoted reflect product in inventory. Sellers of Australian and New Zealand product also have to compete with South and Central American beef that is reportedly trading as much as 20 cents back of Oceania lean beef values. We do not know whey South American beef is offered at lower prices but it would seem packers there are looking to keep the trade moving. US lean beef prices also represent a premium to what other markets are offering at this time for lean beef, including China. Sometimes a bird in the hand is better than two in the bush. There is also

Price History of 50CL Beef Trim, 42CL Pork Trim and Mechanically Separated Chicken

Price History Source: USDA/UB. Analysis by Steiner Consulting



speculation/uncertainty about Chinese beef demand in the second half of the year. Chinese beef imports slowed down in Q2, with June imports pegged at 161,055 MT, down 4% from the previous month and 9% lower than a year ago. This was the lowest monthly import volume since last May. Imports from Brazil in June were near 7,000 MT lower 11% lower than a year ago even as imports from Australia declined 65% and imports from New Zealand were 35% lower. Keep in mind that Chinese beef imports in June reflect May shipments out of Brazil. Brazilian June export data showed shipments to China were up about 4% but exports to Hong Kong declined by 8,573 MT or 44% and exports to Egypt, a key market, were 12,163 MT or 77% lower. Overall Brazilian beef exports in June were 12,160 MT or 8% lower than the previous year and we think that the situation has not improved much in July, hence higher offerings at lower prices in the US.

<u>Other market notes from the past week:</u>

- **<u>Fat beef trim values continue to defy expectations and last week were priced in the mid 130s, about 35-40 cents higher than where we expected they would be in July</u>**. The rise in the value of 50CL beef comes at a time when choice beef prices are heading lower, ground beef prices are down 40% from June and fed cattle weights have stabilized. Odd as this situation appears, we thought the comparison to the price of other competing products offers context and helps explain current price levels. Processors continue to face short supplies of fat and paying a premium for it. Tight labor supply has limited the ability of packers to trim, something we have known for some time. Mechanically separated chicken prices for many years traded in the mid 20 cent range but they have jumped in the 60s this year as plants have not been able to run as many lines as they normally do. The price of 42CL pork trim is currently in the 120s when in the past a price in the 60s would be considered historically high and 72CL pork trim traded near $150 this week. For much of this year, 50CL beef prices have kept pace with the price of other trim prices and that continued to be the case in July as well.
- Drought conditions remain a major concern and we have provided periodic updates on the drought impact on producers. June slaughter data came out yesterday and it allows us to calculate the slaughter numbers for all of Q2. Below are a few highlights:

Despite an improvement in moisture conditions, **<u>region 6</u>** (see map) saw the biggest increase in beef

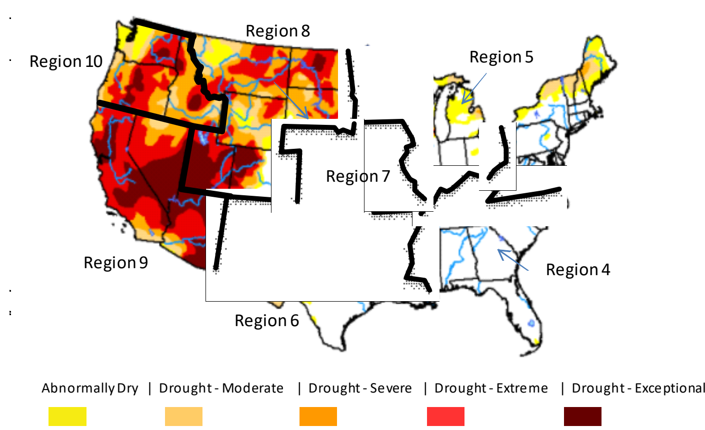
Chinese Fr/Frz Beef Imports in April and YTD. Product Wt. Basis

Source: China Customs. Analysis by Steiner Consulting

Import Partners	6/1/2020	6/1/2021	Y/Y MT	Y/Y %	Jan - Jun 2020	Jan - Jun 2021	Y/Y MT	Y/Y %
Brazil	64,027	57,099	(6,928)	-11%	350,234	431,216	80,981	23%
Uruguay	20,245	21,982	1,737	9%	115,584	156,304	40,719	35%
Argentina	37,543	38,565	1,022	3%	217,451	252,155	34,704	16%
Australia	22,567	7,993	(14,574)	-65%	161,758	76,323	(85,435)	-53%
New Zealand	20,679	13,353	(7,327)	-35%	95,157	101,911	6,753	7%
Canada	339	1,728	1,390	410%	3,495	8,402	4,906	140%
South Africa	445	903	458		3,943	5,801	1,858	47%
Costa Rica	1,723	1,278	(445)	-26%	7,803	8,515	711	9%
United States	1,394	12,442	11,048	793%	6,098	54,018	47,920	786%
Other	7,687	5,712	(1,974)	-26%	35,568	38,519	2,951	8%
Total	**176,648**	**161,055**	**(15,594)**	**-9%**	**997,092**	**1,133,163**	**136,070**	**14%**

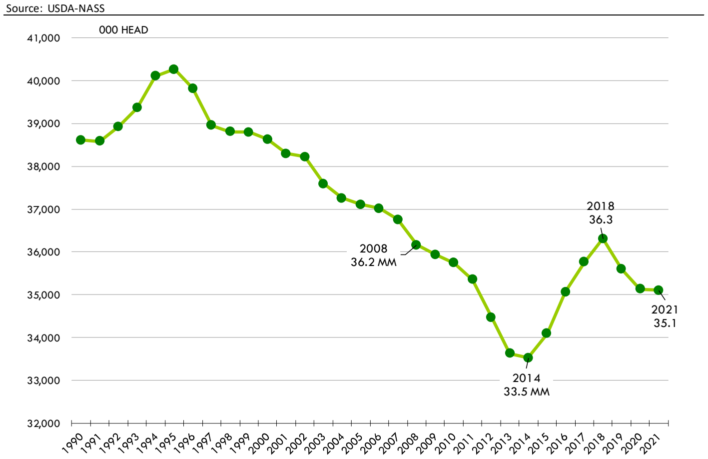
USDA Federal Regions & Current Drought Monitor

Cow Slaughter Region Definition from SJ_LS714. Drought Monitor as of July 13, 2021



USA ANNUAL CALF CROP

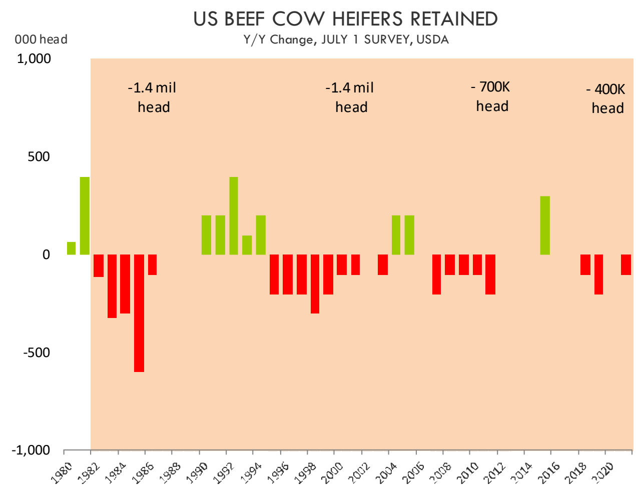
Source: USDA-NASS



cow slaughter. For all of Q2, beef cow slaughter was 224,700 head, 31.7k head higher than last year and 47.7k head or 27% higher than in 2019.
Region 8 has been affected significantly by drought but the effect on beef cow producers has been relatively limited, at least through the spring. Total beef cow slaughter in this region during Q2 was 80,200 head, 6.1k head higher than last year but still about 6.4k head lower than in 2019. Drought has been much more impactful in region 5, with Q2 slaughter pegged at 143,300 head, 23.1k head or 19% higher than a year ago.

July cattle inventory down 1.3 million vs. year ago

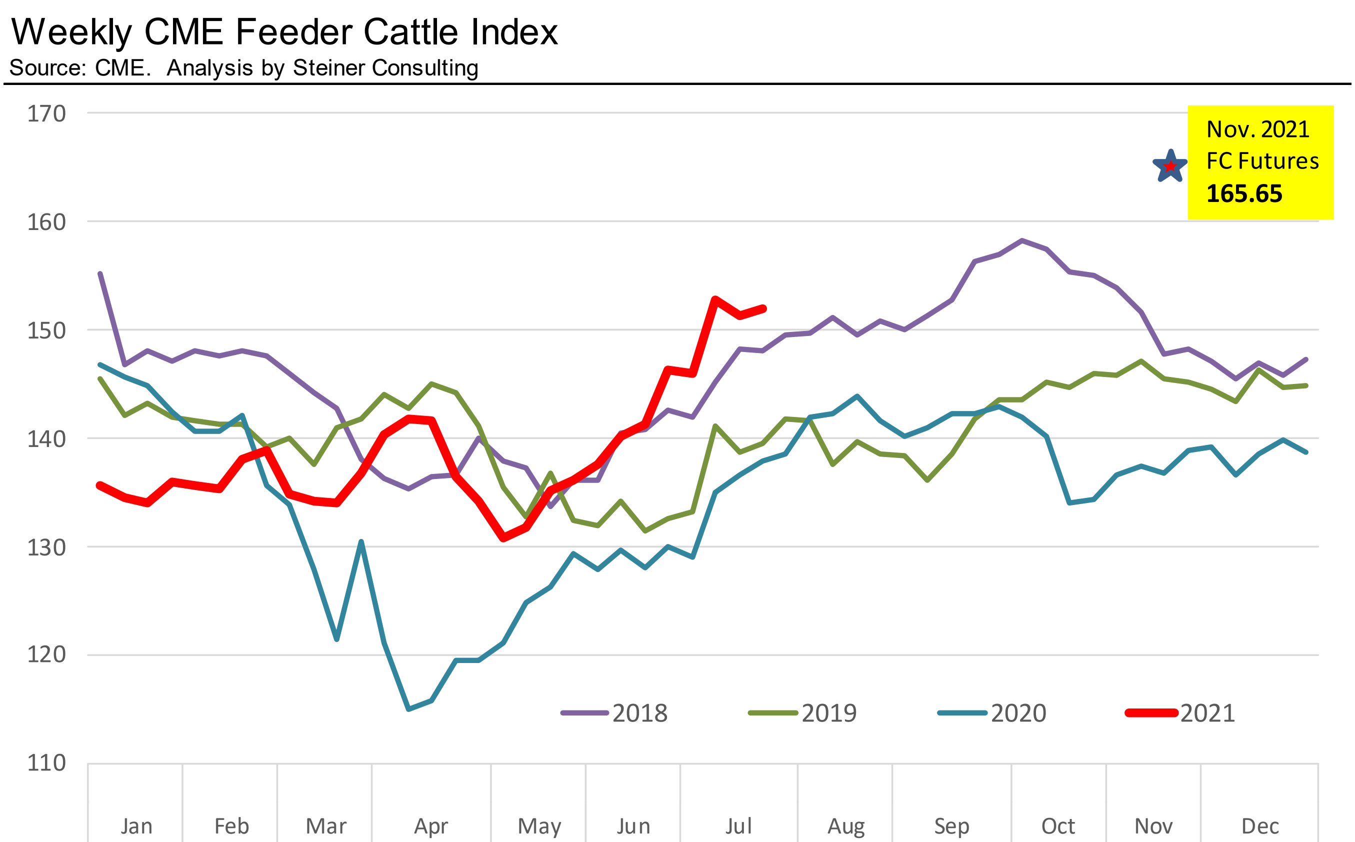
According to the latest USDA semi-annual 'Cattle Inventory' report, **the total inventory of cattle and calves as of July 1 was estimated to be 100.9 million head, 1.3 million head or 1.3% lower than the previous year**. Inventory numbers last year were affected by the backlog created due to the outbreak of COVID and impact this had on packing plants. The situation this year is very different and inventory levels are now back to normal trend. Below are key points and implications from this report:
- The reduction in inventory numbers reflects the decline in the calf crop the last two years. The calf crop in 2019 declined by 721k head and the calf crop in 2020 was down another 456k head. The cumulative effect of these reductions has impacted just about all the categories in the report. The inventory of heifers on July 1 was down 200k head, the inventory of steers was down 200k head and the inventory of calves under 500 pounds was down 400k head.
- Poor returns and drought have resulted in a significant decline in the beef cow herd. The report noted that on July 1 the total inventory of beef cows was 31.4 million head, 650k head or 2% smaller than a year ago. This is a bigger decline than many were expecting but it reflects the accelerating pace of liquidation in the last six months. Producers also noted that they expect to retain 100k fewer heifers for beef cow herd replacement. Combined with ongoing high beef cow slaughter, this sets the stage for an even smaller beef cow herd in 2022.
- Some of the decline in the beef cow herd was offset by an increase in the dairy cow herd, which



was estimated at 9.5 million head, 150k head or 1.6% higher than last year. Dairy returns were excellent in the second half of 2020 and producers added more dairy cows to the herd. While the impetus for dairy expansion has come to an end, we have yet to see a reduction in the dairy herd. The total cow inventory on July 1 was estimated at 40.9 million head, down 500k head or 1.2% lower than a year ago.
- Despite the decline in the beef cow herd, USDA is estimating the calf crop for all of 2021 at 35.1 million head, just 0.1% smaller than a year ago. While this appears somewhat surprising, it is important to look at the calf crop in relation to the cow herd long term. On page 2, we have included some relationships, including the ratio of the calf crop to the cow herd. The ratio last year was especially low at 84.87% compared to 85.56% the previous year and 86.87% two years prior. This year the ratio is back to more normal levels.
- The decline in cattle inventories implies fewer cattle outside of feedlots (feeder cattle supply). We calculate that on July 1 the feeder cattle supply was 36.1 million head, 600k head or 1.6% less than a year ago. The lower feeder cattle supply will continue to limit placements in the next few months and slowly bring feedlot inventories below 2019 levels.
- The supply of cattle on feed (all feedlots) was estimated at 13.4 million head, down 1.5% compared to a year ago. This is a bigger decline than what USDA shows in its monthly report that covers only feedlots with +1000 head capacity.
Bottom line: The decline in the beef cow herd and lower inventories point to continued decline in cattle availability and higher prices in the next 18 months.

CME Cattle Feeder Index and US Cattle Markets

	Current Week	Prior Week	% CHANGE VS. WK AGO	Last Year	Change from Last Year
	22-Jul-21	15-Jul-21		23-Jul-20	
CME FEEDER CATTLE INDEX	152.03	151.39	0.4%	137.96	10.2%
	23-Jul-21	16-Jul-21		24-Jul-20	
FED STEER (5-MKT AVG)	121.04	123.07	-1.6%	97.29	24.4%
CUTTER COW CARCASS, NATIONAL, 90% LEAN, 350-400 LB. (carcass wt.)	132.50	126.50	4.7%	122.00	8.6%
BONER COW CARCASS, NATIONAL, 85% LEAN, 400-500 LB. (carcass wt.)	132.50	134.50	-1.5%	129.50	2.3%
BREAKER COW CARCASS, NATIONAL, 75% LEAN, 500+ (carcass wt.)	134.00	135.00	-0.7%	109.50	22.4%
CUTTER COW CARCASS CUTOUT, 5-DAY MA, USDA	230.78	232.44	-0.7%	188.07	22.7%



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
	23-Jul-21		16-Jul-21			24-Jul-20		
US East Coast Australian/NZ Lean, CIF								
95 CL Bull, E. Coast	288.0	289.0	289.0	290.0	-1.0	242.0	243.0	46.0
90 CL Blended Cow	265.0	266.0	266.0	267.0	-1.0	220.0	221.0	45.0
90 CL Shank	269.0	270.0	268.0	270.0	0.0	221.0	222.0	48.0
85 CL Fores	243.0	244.0	243.0	245.0	-1.0	200.0	201.0	43.0
85 CL Chucks		UNQ		UNQ	N/A		UNQ	N/A
95 CL Bull, W. Coast		288.0	288.0	289.0	-1.0	241.0	242.0	46.0
Uruguay CFH 90CL, E. Coast		UNQ		UNQ	N/A		UNQ	N/A
US East Coast, Trimmings, CIF								
85 CL Trimmings		243.0	243.0	244.0	-1.0	198.0	200.0	43.0
80 CL Trimmings	227.0	228.0	225.0	226.0	2.0	191.0	192.0	36.0
75 CL Trimmings		UNQ		UNQ	N/A	179.0	180.0	N/A
65 CL Trimmings		UNQ		UNQ	N/A		UNQ	N/A
US East Coast Australian Cuts, CIF								
Cap Off Steer Insides	355.0	365.0	355.0	370.0	-5.0	290.0	300.0	65.0
Steer Insides 14/18		UNQ		UNQ	N/A		UNQ	N/A
Steer Flats		310.0	310.0	315.0	-5.0		UNQ	N/A
Steer Knuckles	280.0	290.0	280.0	290.0	0.0		UNQ	N/A

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

	Current Week		Prior Week		Change From Last Week	Last Year		Change From Last Year
	23-Jul-21		16-Jul-21			24-Jul-20		
US East Coast Australian/NZ Lean, FOB US Port								
95 CL Bull, E. Coast		294.0	295.0	297.0	-3.0	253.0	254.0	40.0
90 CL Blended Cow	272.0	274.0	275.0	276.0	-2.0	230.0	231.0	43.0
90 CL Shank		280.0		280.0	0.0	230.0	233.0	47.0
85 CL Fores	252.0	253.0	253.0	254.0	-1.0	212.0	213.0	40.0
85 CL Chucks		UNQ		UNQ	N/A		UNQ	N/A
95 CL Bull, W. Coast		293.0	295.0	296.0	-3.0	251.0	254.0	39.0
Uruguay CFH 90CL, E. Coast		UNQ		UNQ	N/A		UNQ	N/A
US East Coast, Trimmings, FOB US Port								
85 CL Trimmings	251.0	252.0		253.0	-1.0	210.0	212.0	40.0
80 CL Trimmings	235.0	236.0		235.0	1.0	205.0	206.0	30.0
75 CL Trimmings	219.0	220.0	217.0	219.0	1.0	194.0	195.0	25.0
65 CL Trimmings		UNQ		UNQ	N/A		UNQ	N/A
US East Coast Australian Cuts, FOB US Port								
Cap Off Steer Insides	360.0	370.0	360.0	380.0	-10.0	310.0	315.0	55.0
Steer Insides 14/18		UNQ		UNQ	N/A		UNQ	N/A
Steer Flats	320.0	325.0	320.0	330.0	-5.0	255.0	260.0	65.0
Steer Knuckles	285.0	290.0	290.0	295.0	-5.0		300.0	-10.0

TABLE 4 – US DOMESTIC BEEF AND CATTLE PRICES

	Current Week			Prior Week			Change From Last Week	Last Year			Change from Last Year
	23-Jul-21			16-Jul-21				24-Jul-20			
	Low	High	Wt.Avg	Low	High	Wt.Avg		Low	High	Wt.Avg	
Domestic Cutouts											
Choice Cutout		266.63			267.94		-1.3		201.77		64.9
Select Cutout		249.94			251.79		-1.8		190.63		59.3
Domestic Lean Grinding Beef											
90 CL Boneless	274.0	315.0	278.7	279.0	304.6	281.1	-2.4	234.0	256.0	238.2	40.5
85 CL Beef Trimmings	254.0	274.0	260.6	254.0	278.0	261.0	-0.4	202.1	220.0	209.8	50.7
50 CL Beef Trim	123.0	147.0	134.8	111.0	143.0	124.3	10.4	45.0	65.0	54.1	80.7
Domestic Pork Trim											
42 CL Pork Trim	104.7	137.8	121.1	100.5	131.3	111.5	9.6	34.0	62.5	40.3	80.8
72 CL Pork Trim	114.5	177.5	148.4	115.9	161.8	133.5	15.0	79.0	110.0	89.0	59.4
Point of Lean Values											
90 CL Domestic		309.7			312.3		-2.6		264.6		45.0
50 CL Beef Trimming		269.5			248.7		20.8		108.1		161.4
42 CL Pork Trim		288.2			265.4		22.9		95.9		192.4
72 CL Pork Trim		206.2			185.4		20.8		123.6		82.5
National Direct Fed Steer (5-day accum. wt. avg. price)		121.04			123.07		-2.0		97.29		23.8

TABLE 5 – FUTURES AND SLAUGHTER INFORMATION

Futures Contracts	*Current Week*	*Prior Week*	*Change From Last Week*	*Last Year*	*Change From Last Year*
	23-Jul-21	**16-Jul-21**		**24-Jul-20**	
Live Cattle Futures					
August '21	121.500	120.175	↑ 1.33	101.325	↑ 20.18
October '21	127.150	125.600	↑ 1.55	105.100	↑ 22.05
December '21	132.300	131.325	↑ 0.98	109.325	↑ 22.98
February '22	137.325	136.250	↑ 1.08	112.450	↑ 24.88
Feeder Cattle Futures					
August '21	160.075	155.625	↑ 4.45	142.050	↑ 18.03
October '21	164.500	160.475	↑ 4.03	142.800	↑ 21.70
November '21	165.650	161.775	↑ 3.88	142.675	↑ 22.98
January '22	165.700	161.700	↑ 4.00	141.025	↑ 24.68
Corn Futures					
September '21	547.250	556.000	↓ -8.75	326.250	↑ 221.00
December '21	543.000	552.000	↓ -9.00	326.250	↑ 216.75
March '22	551.000	559.500	↓ -8.50	346.000	↑ 205.00
May '22	555.000	563.500	↓ -8.50	353.000	↑ 202.00
Ch Wheat Futures					
September '21	684	692 1/2	↓ -8.50	539 1/2	↑ 144.50
December '21	693 1/2	699 3/4	↓ -6.25	545 1/4	↑ 148.25
March '22	701	704 3/4	↓ -3.75	551	↑ 150.00
May '22	702 1/4	706 3/4	↓ -4.50	554	↑ 148.25

Slaughter Information	*7 Days Ending*	*7 Days Ending*	*Change From Last Week*	*7 Days Ending*	*Change From Last Year*
	23-Jul-21	**16-Jul-21**		**24-Jul-20**	
Total Cattle Slaughter	652,000	653,000	↓ -1,000	640,000	↑ 12,000
	10-Jul-21	**3-Jul-21**		**11-Jul-20**	
Total Cow Slaughter	116,784	118,995	↓ -2,211	113,600	↑ 3,184
Dairy Cow Slaughter	53,734	52,901	↑ 833	50,100	↑ 3,634
Beef Cow Slaughter	63,050	66,094	↓ -3,044	63,500	↓ -450

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

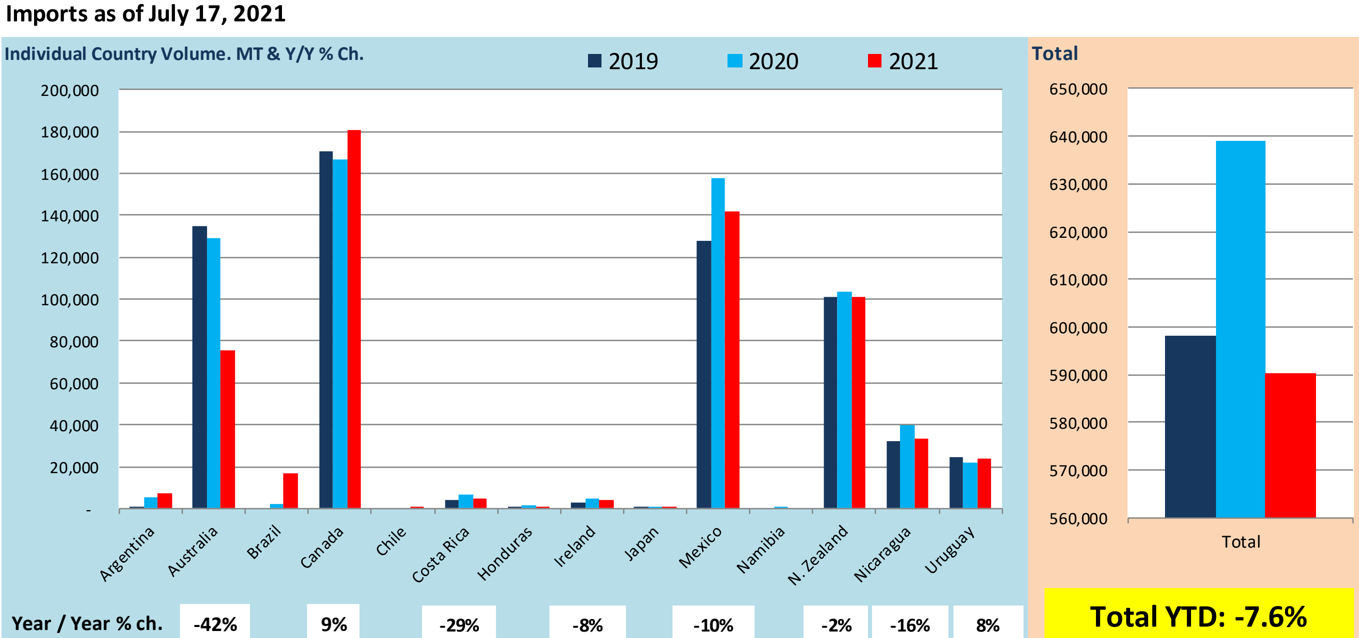
YTD Imported Fresh/Frz Beef Passed for Entry in the US

week 29	7/18/2020	7/17/2021		
Argentina	5,321	7,328	2,007	37.7%
Australia	129,097	75,301	(53,796)	-41.7%
Brazil	2,282	17,016	14,734	645.7%
Canada	166,573	180,932	14,359	8.6%
Chile	-	181	181	
Costa Rica	6,519	4,600	(1,919)	-29.4%
France	-	-	-	
Honduras	1,531	22	(1,509)	-98.6%
Ireland	4,665	4,304	(361)	-7.7%
Japan	206	545	339	164.6%
Mexico	157,539	142,007	(15,532)	-9.9%
Namibia		-	-	
Netherlands	-	-	-	
New Zealand	103,425	100,895	(2,530)	-2.4%
Nicaragua	39,985	33,475	(6,510)	-16.3%
Spain	-	-	-	
Uruguay	21,789	23,606	1,817	8.3%
Total	638,956	590,212	**(48,744)**	**-7.6%**

Source: AMS - USDA

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

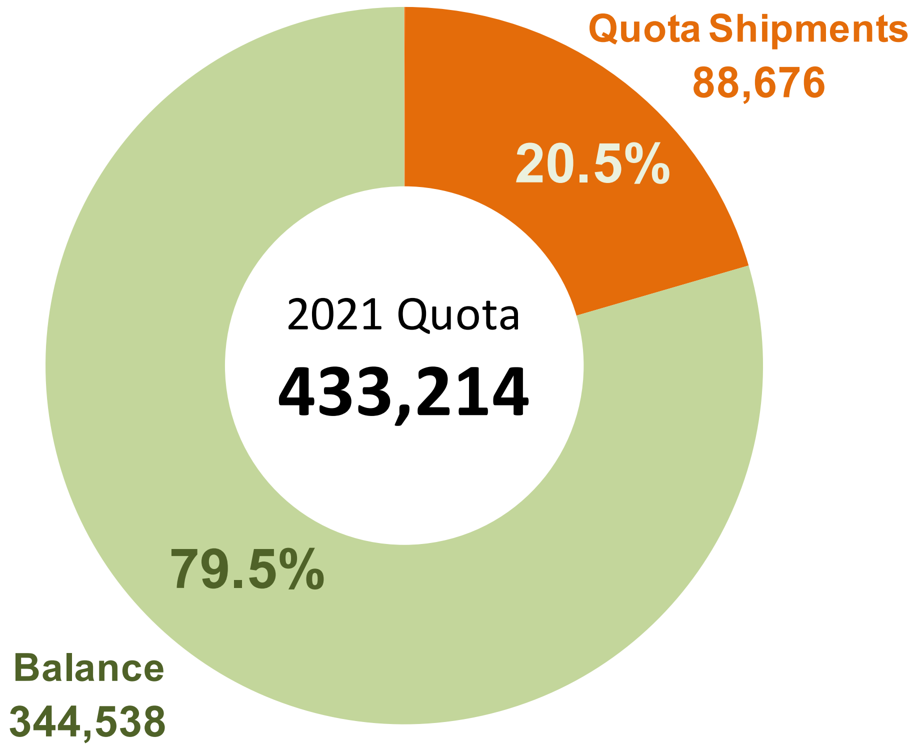
Imports as of July 17, 2021



Australian Beef Quota Position

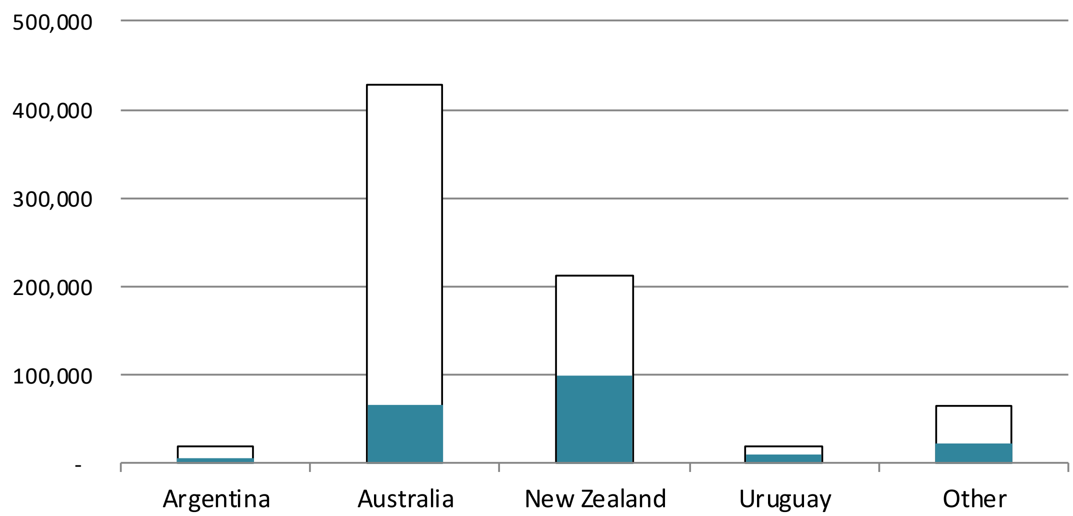
22-Jul-21

Metric Ton. Australian Department of Agriculture Statistics



USA Quota Entries through Week Ending July 19. Metric Ton

Data source: US Customs. Analysis by Steiner Consulting



	Argentina	Australia	New Zealand	Uruguay	Other
2020 YTD	6,509	122,294	106,577	13,110	8,123
2021 YTD	7,044	65,669	98,573	11,076	22,155
Y/Y %	8%	-46%	-8%	-16%	173%
Quota	20,000	428,214	213,402	20,000	65,005
% cleared	**35%**	**15%**	**46%**	**55%**	**34%**