

Global Beef Market Monthly Review

March 2019

March 25, 2019

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Highlights:

- China beef imports in February jumped 56% compared to a year ago and in the first two months beef imports are up 55%. All exporting countries to China have registered double digit growth so far this year.
- US feedlots placed more cattle on feed in February than was expected but strong demand in both domestic and export markets is expected to support prices in 2019.
- Canada cow inventory was down as of January 1, 2019 and cattle/beef supplies in Canada are expected to be down next year on an expected lower calf crop and continued strong live cattle exports to the US market.
- Argentina beef exports were up some 40% in January and almost all the increase was due to a surge in shipments to China.
- Uruguay beef slaughter has started to ease lower and it is expected to be seasonally lower in April and May, limiting beef available for shipment into export channels.
- Irish beef prices have come under significant pressure due to fears of tariffs in the UK, which currently gets over half of all Irish beef exports.

Trade Update for Key Global Players

Main Global Meat Trading Countries, Both Export and Import

Countries	% of global export	% of global imports	Most Recent Trade Data	Y/Y Ch.	Y/Y % ch.	2018 Estimate	2019 Estimate	Y/Y Ch.	Y/Y % ch.	
EXPORTS										
Australia	19%	0%	Feb 2019	94,900	9,055	11%	1,125,653	1,046,858	-78,796	-7%
Argentina	2%	0%	Jan 2019	32,765	9,358	40%	368,577	423,863	55,287	15%
New Zealand	7%	0%	Jan 2019	33,117	-4,760	-13%	436,863	426,815	-10,048	-2%
Brazil	18%	1%	Feb 2019	115,457	17,354	18%	1,353,290	1,414,639	61,349	5%
USA	11%		Dec 2018	83,406	420	1%	921,663	945,627	23,963	3%
IMPORTS										
USA		20%	Dec 2018	67,537	1,374	2%	965,960	951,471	-14,489	-2%
China	0%	9%	Feb 2019	91,685	32,870	56%	1,039,389	1,351,206	311,817	30%
Hong Kong			Jan 2019	37,427	-11,028	-23%	435,056	465,510	30,454	7%
Japan	0%	9%	Jan 2019	50,573	14,943	42%	607,716	638,102	30,386	5%
Russia	0%	8%	Jan 2019	19,532	-1,849	-9%	320,927	311,299	-9,628	-3%

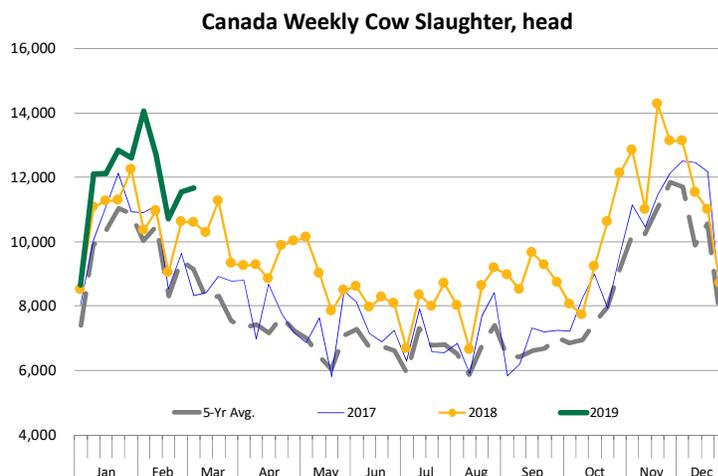
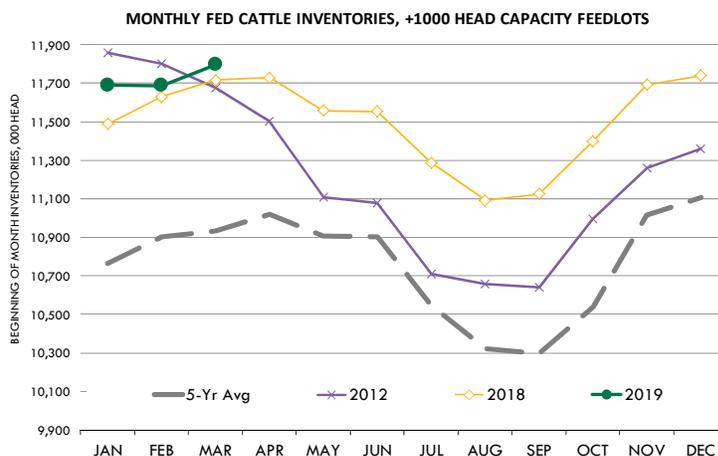
*** Product wt. basis. Projections for 2019 made by Steiner Consulting.

North America Market Update

United States: USDA published the results of its ‘Cattle on Feed’ survey on March 22 and all the key numbers in the report were on the bearish end of the range. Futures on Monday may decide to shrug off the report given the spike in hog prices and poor feedlot conditions across much of the country. The on feed numbers, however, may help temper some of that bullishness.

Feedlots marketed 1.683 million head of cattle in February, 0.5% more than a year ago. Analysts expected marketings to be 0.8% higher than last year. The marketing rate in February, i.e. the ratio of marketings to the +90 day cattle inventory, was 27.3%. This was lower than the 28.5% last year and 28.1% for the five year average. The marketing rate is expected to rebound in March but should be close to the 30% we saw a year ago. Weather disruptions have negatively affected the movement of cattle from feedlots into slaughter plants. Producers remain quite current and robust marketings in April are critical to clear up a feedlot supply that is very much front loaded.

Analysts polled ahead of the report on average expected placements in February to be down 3.8% compared to the previous year. The USDA survey pegged placements for the month at 1.857 million head, 2.2% higher than a year ago and outside the range of expectations. This is the largest February placement number since 2000. The survey result is a reminder that anecdotal evidence is no substitute for good analysis. Some analysts were expecting a sharp decline in placements, in part because they focused on poor feedlot conditions in places like Nebraska and Kansas. However, ample supplies and lower prices for feeder cattle proved to be a strong inducement for feedlots during the month. Placements in Nebraska, a state that has struggled with poor feedlot conditions, were 15,000 head or 3.4% higher than a year ago. Placements in Iowa were also 15,000 head but due to the smaller inventory this increase represents a 13% jump over the previous year. Placements in Colorado were up 20,000 head or 12% vs. last year while placements in Texas were up just 5,000 head or 1.4%. The supply of long fed cattle remains above year ago levels. This has helped keep prices in check in the near term. The inventory of cattle that, as of March 1, had spent 150 days or more on feed was estimated to be 2.310 million head, 22.7% higher than a year ago. The inventory of +120 day cattle was estimated at 4.489 million head, 6.8%



higher than a year ago. This is the highest March inventory of +120 day cattle since March 2012. That year a very strong marketing pace during April, May and June helped set the stage for more robust cattle prices later in the year. Will that happen again this year?

Canada: The latest Canadian cattle inventory report evidenced the effect of drought on the industry during 2018 and the likelihood of lower beef production in 2019 and 2020. The total inventory of all cattle and calves at the start of the year was estimated at 11.450 million head, 125k head or 1.1% lower than the previous year. This is the lowest inventory level since January 1, 1991 and represents a decline of 1.22 million head or 9.6% since 2010. Last year cattle inventories in Canada were modestly higher and there was some hope the industry would slowly start to recover thanks to strong global beef de-

North America (continued)

mand and robust exports to both US and other market. However, drought conditions in the Canadian Prairies last year significantly affected livestock producers, forcing them to liquidate. The beef cow herd on January 1 was estimated at 3.661 million head, 39k head or 1% lower than a year ago. The dairy cow herd in Canada is much smaller at 978k head and inventories were modestly higher. The calf crop in 2018 was estimated at 4.297 million head, 1.4% lower than the previous year. The smaller calf crop in 2018 and the lower inventory of beef cows at the start of the year set the stage for a continued decline in Canadian beef supply potential in the medium term. Cattle slaughter in Canada has been higher recently (see table to the right), in part as producers continue to put more heifers on feed and liquidate their beef herd. This will only accelerate the contraction and further limit the potential of Canada for beef exports in the coming years.

Mexico:

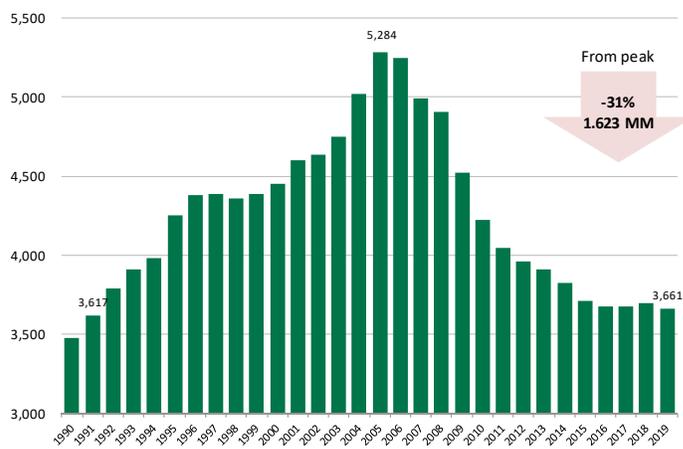
Beef production in Mexico is expected to increase in 2019 and early data supports that forecast. Total beef production in February was estimated at 162,211 MT, 1.4% higher than the previous month and 2.3% higher than the previous year. Seasonally beef production in Mexico has a very distinct seasonality pattern, with production slowly increasing in the summer and then finding a peak into the Christmas holidays. Holiday demand and culling patterns tend to drive seasonal slaughter. Production in the two major beef producing states of Veracruz and Jalisco continues to post strong growth. Veracruz production in February was 21,032 MT, 2% higher than a year ago and production in Jalisco at 19,468 MT was 3% higher.

Mexican feeder cattle to the US rose sharply in 2018 and shipments remain above year ago levels so far this year. US imports of feeder cattle from Mexico in the five weeks ending March 3 were 158,584 head, 21% higher than the previous year.

Higher production and strong prices in export markets continue to drive Mexican beef export volumes. The latest available data is for January, showing total exports were 19,352 MT, 10% higher than the previous year. USA and Japan are the two top markets for Mexican beef. Exports to the US in January were 17,003 MT,

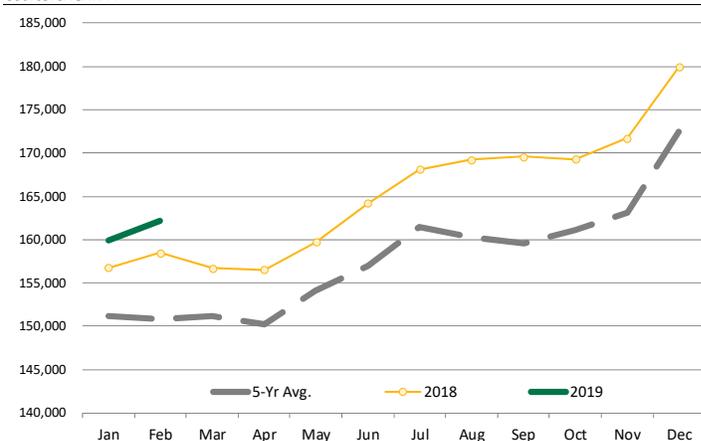
JANUARY 1 INVENTORY OF BEEF COWS IN CANADA, '000 Head

Source: Statistics Canada



Mexico Beef Production

Source: SAGARPA

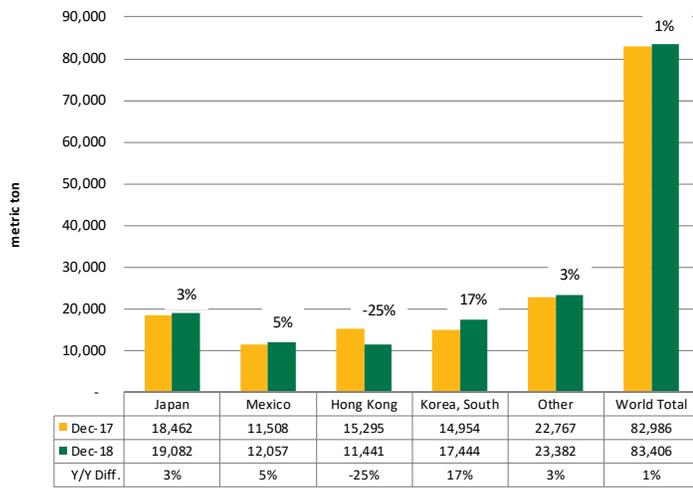


9% higher than the previous year. Exports to Japan were 911 MT, 16% higher than last year.

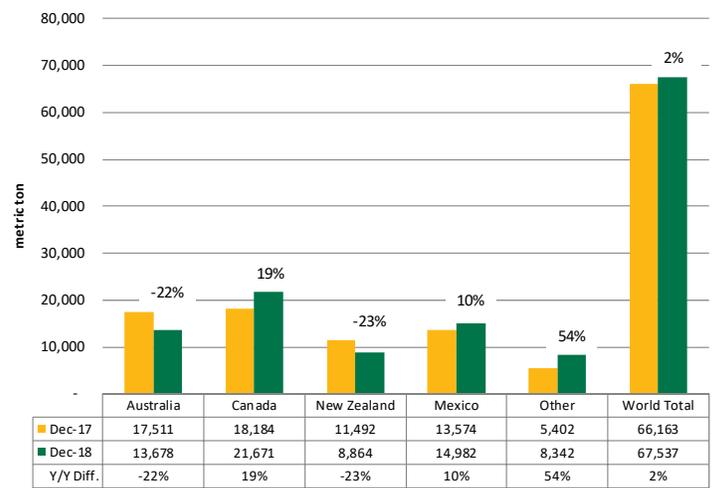
USA and Canada are the two main beef importing countries in Mexico. Imports from the US in January were 9,864 MT, 3% higher than a year ago while imports from Canada at 1,209 MT were 1% higher than last year.

North America Trade Statistics

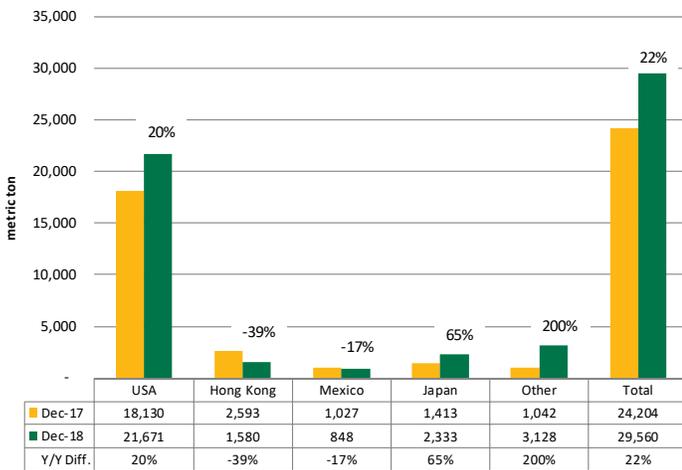
USA Fresh/Frozen Beef Exports - December Data, MT



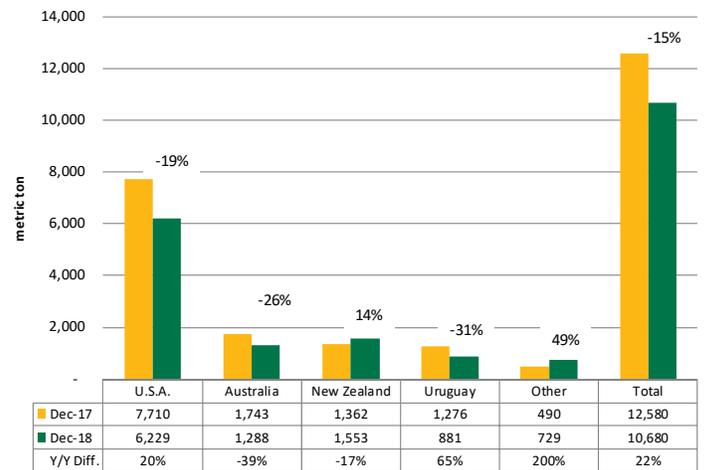
USA Fresh/Frozen Beef Imports - December Data, MT



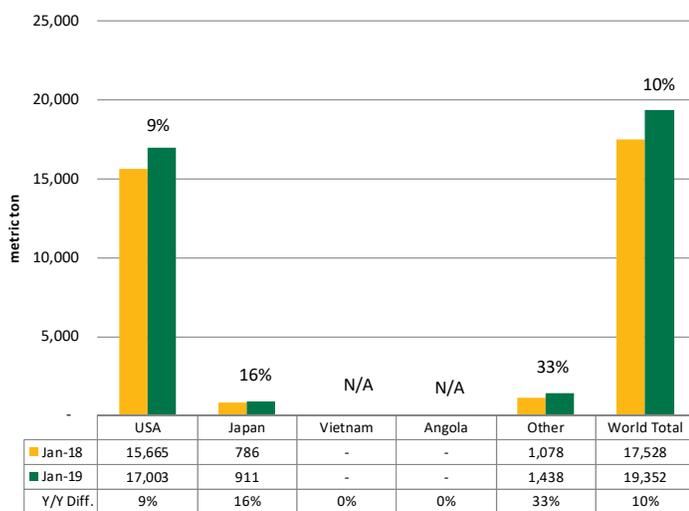
Canada Fresh/Frozen Beef Exports - December Data, MT



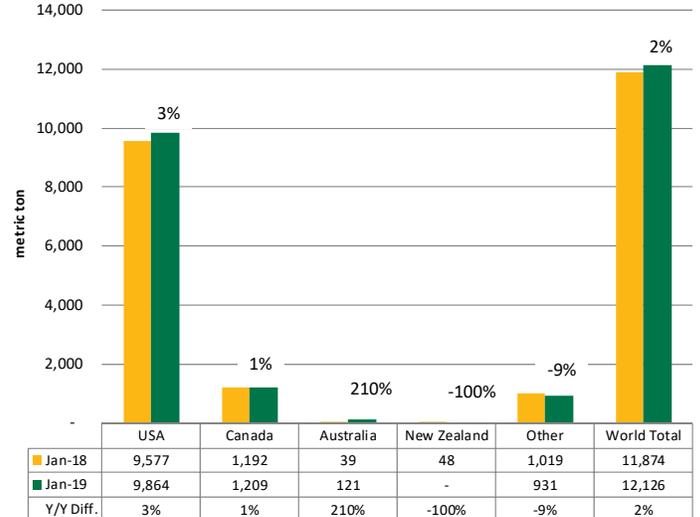
Canada Fresh/Frozen Beef Imports - November Data, MT



Mexico Fresh/Frozen Beef Exports - January Data, MT



Mexico Fresh/Frozen Beef Imports - January Data, MT



South America Market Update

Brazil: After a slow start in January, Brazil beef exports were notably higher in February. And different than Argentina and Uruguay, the big increase in shipments was not driven by China. In part this is due to the fact that as China becomes more active in a number of markets, world buyers are looking to source more beef from Brazil. Total Brazilian beef exports in February were 115,457 MT, 17,354 MT or 18% higher than a year ago. In the first two months of the year Brazilian beef exports are up 10% y/y. Exports to China were 25,856 MT, 24% higher than a year ago but exports to Hong Kong declined 5,685 MT or 22%. Chinese officials imposed much more stringent controls on transshipment of product from Hong Kong to the Mainland, creating a backlog of product that negatively affected demand for more Brazilian beef imports. Hong Kong is currently running a very big surplus of commitments for beef exports that have yet to deliver. Brazilian beef exports to Hong Kong in the first two months of the year are down 13,195 MT or 25% from a year ago.

Brazil is exporting more beef to Russia and the Middle East. February shipments to Russia were 4,656 MT compared to zero a year ago. Exports of frozen beef to Iran 9,439 MT, 4,961 MT or 111% higher than a year ago. In February 2018 exports to Turkey were just 71 MT. This year exports were 2,703 MT, contributing to the overall Y/Y increase in Brazilian beef exports.

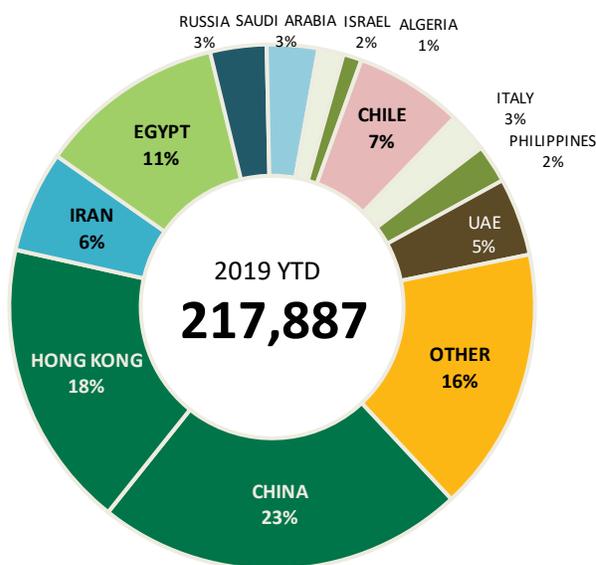
Argentina: The first shipment of Argentine beef arrived in the US market recently. Argentine industry officials are currently in Washington DC looking to meet with US importers and other market participants in order to get feedback. So far very little product has come into the US and the flow is expected to be quite slow until all processes have been developed.

Argentine beef supplies were quite strong for much of 2018 but it appears production has slowed down considerably. This will ultimately affect Argentine beef exports. Total cattle slaughter in February was estimated at 1.02 million head, 1.8% lower than a year ago. Cow slaughter in February was up 29% compared to last year but heifer slaughter was down 3% and young steer (novillito) slaughter declined 14% compared to a year ago.

Argentine beef exports in January were 32,765 MT, 40% higher than the previous year. Strong demand in world markets and a very weak Argentine peso contin-

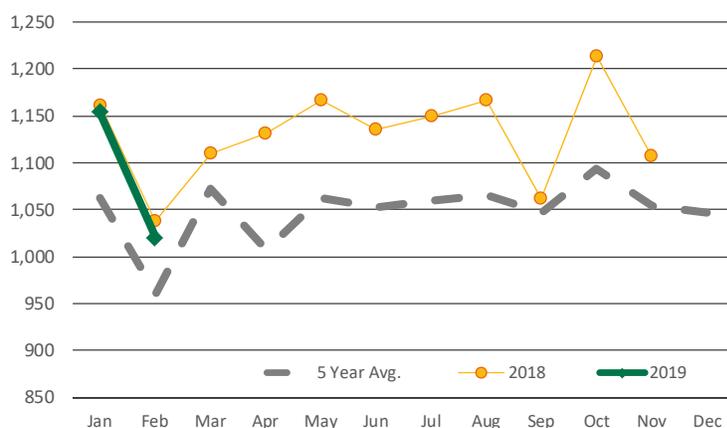
Brazil Beef Fr/Frz Beef Exports. Metric Ton

Source: COMEX. Jan - Feb 2019



Monthly Argentina Cattle Slaughter, Total Slaughter. '000 Head

Source: SENASA



ues to push more beef into export channels. Exports to China in January were 22,550 MT, 88% higher than a year ago. Last year China accounted for about 56% of all Argentine beef exports and at the start of this year China share has expanded, absorbing not only the growth in exports but also “buying” product away from other markets.

Uruguay: Seasonally slaughter in Uruguay peaks in the first quarter of the year as producers look to market more animals ahead of winter. This year has been no different and strong demand in export channels has further supported slaughter. But there are clear signs that

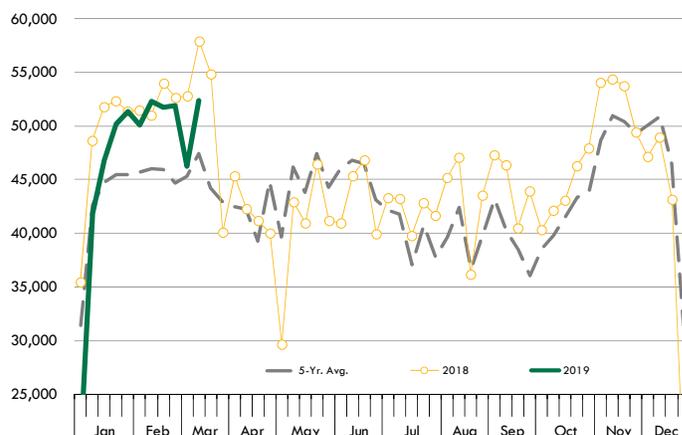
South America (continued)

producers are looking to slow down cattle liquidation and we expect to see lower y/y slaughter numbers, especially in the second half of the year. For the four weeks ending March 16 cattle slaughter in Uruguay averaged 50,578 head/wk, 6.9% compared to year ago but still as much as 10% compared to the five year average. Steer slaughter during this four week period averaged 25,038 head/wk, 13.2% lower than last year but 9.4% higher than the five year average. Cow slaughter averaged 18,355 head/wk, 25% lower last year and 16.8% lower than the five year average.

China was by far the biggest market for Uruguayan beef in January and it is expected to remain in this position for all of this year. Total shipments to China in February were 19,616 MT, 47% higher than a year ago. Total shipments for the month were 31,218 MT, 8% higher than the previous year. In the first two months of the year exports to China were 34,490 MT, 25% higher than a year and accounting for 63% of all Uruguayan beef exports.

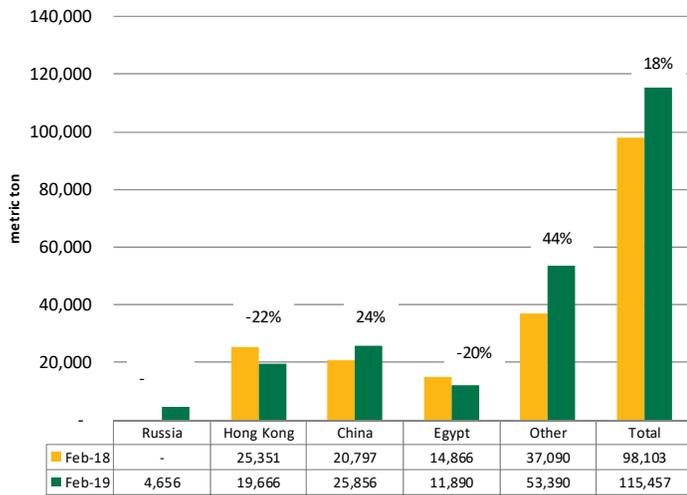
Uruguay Cattle Slaughter, Total

Weekly Slaughter in Head. Source: World Beef Report

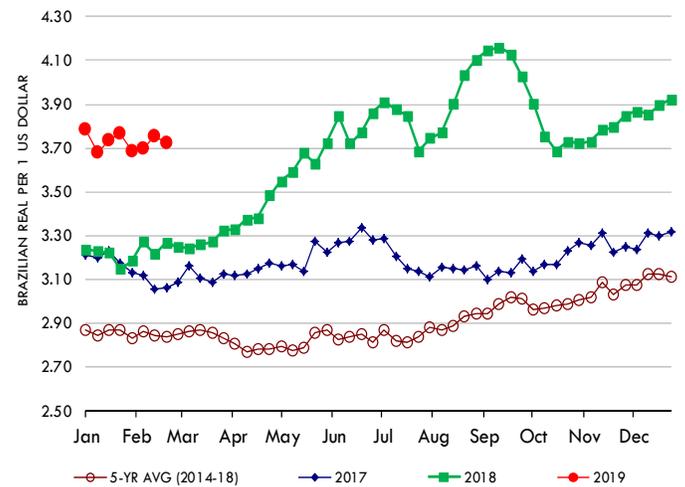


South America Trade Statistics

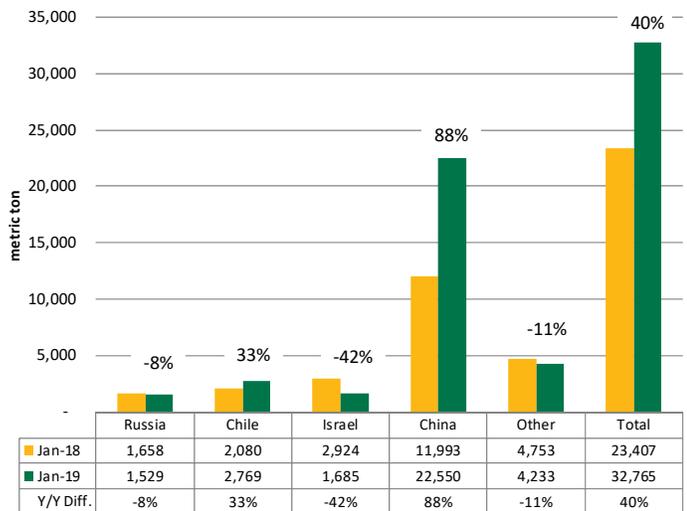
Brazil Fresh/Frozen Beef Exports - February 2019 Data, MT



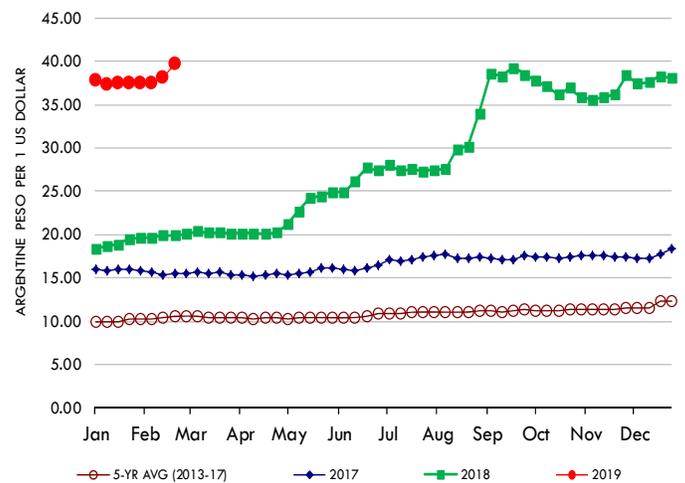
Brazilian Real Per 1 US Dollar



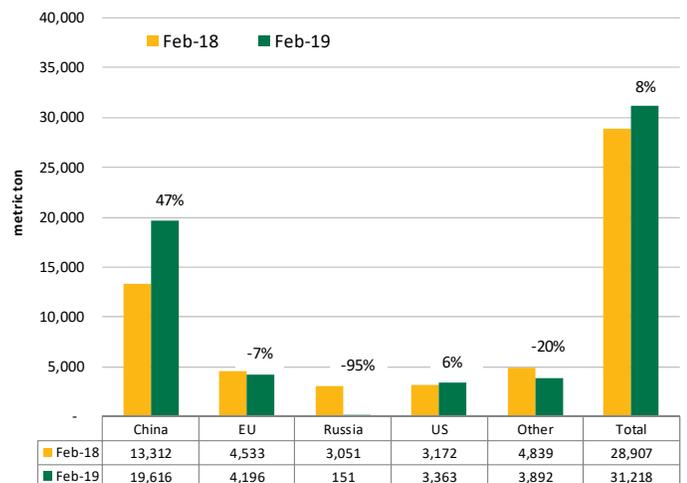
Argentina Fresh/Frozen Beef Exports - January Data, MT



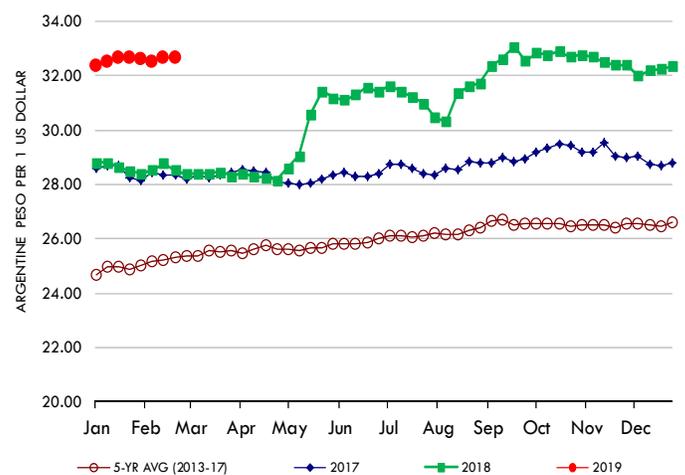
Argentine Peso Per 1 US Dollar



Uruguayan Shipments of Fresh/Frozen Beef: February Exports



Uruguay Peso Per 1 US Dollar



Asia / EU Market Update

China/Japan/S. Korea: China beef imports were lower in February compared to January levels but that was to be expected given the difference in business day. Total February imports of fresh/frozen beef in China were 91,685 MT, 56% higher than the previous year. In the first two months of the year Chinese beef imports have been a total of 210,006 MT, 55% higher than the previous year. Imports were higher from all markets. February beef imports from Australia were 13,403 MT, 82% higher than a year ago while beef imports from Argentina at 21,792 MT were 166% higher than last year. Brazil was the top beef supplier to the Chinese beef market in February, with imports reported at 24,638 MT, 31% higher than a year ago. About 98% of all the beef imports into China come in frozen form. Boneless frozen beef imports were 76,470 MT, accounting for 83.4% of all imports. Imports of fresh/chilled beef remain minimal, with Australia and New Zealand supplying almost all of this supply. In addition to the main beef importing countries that currently participate in China, some smaller suppliers are also trying to carve a niche. February imports from Chile were 487 MT while imports from Costa Rica were 375 MT.

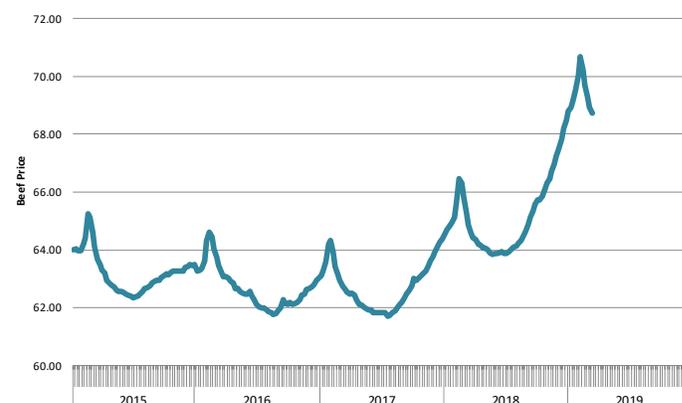
European Union:

Brexit uncertainty continues to weigh on Irish beef prices. Ireland is greatly dependent on the UK for much of its beef exports and threat of tariffs has significantly impacted prices in the near term. Producers are looking to market cattle more aggressively in order to avoid the possible future tax, which in turn tends to depress prices as processors are faced with limited capacity and strong processing demand. The official Irish statistics for 2018 show total exports of both fresh and frozen beef were 373,268 MT, 2% lower than the previous year. Exports of fresh and chilled beef to Great Britain were 142,818 MT, accounting for 48% of all exports. An additional 27,165 MT of fresh/chilled beef was shipped to Northern Ireland as well. Frozen Irish beef exports were 73,253 MT last year, with Great Britain taking 39,339 MT or 54% of the total supply. Exports of boneless frozen Irish beef last year were a mere 10,033 MT. Philippines was the biggest buyer, taking 4,285 MT.

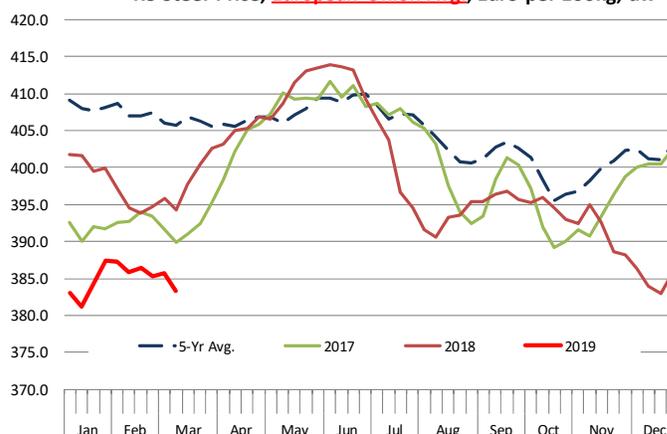
Cattle slaughter in Ireland in the four weeks ending March 10 averaged 37,447 head/wk, 11.9% higher

Average China Wholesale Beef Price

Source: China Department of Commerce. Prices in Chinese Yuan per Kg.



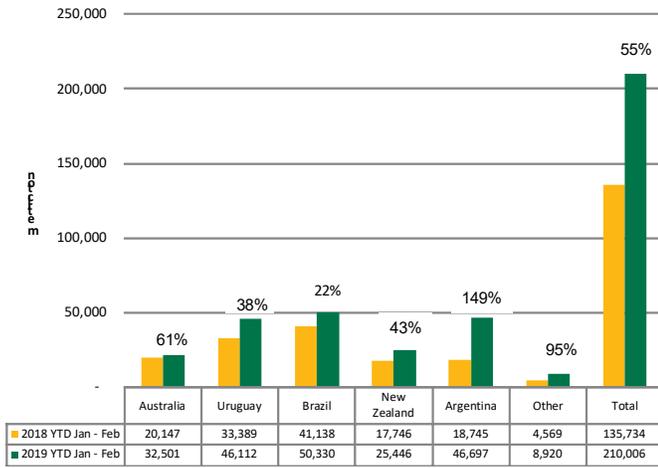
R3 Steer Price, European Union Avg., Euro per 100kg, dw



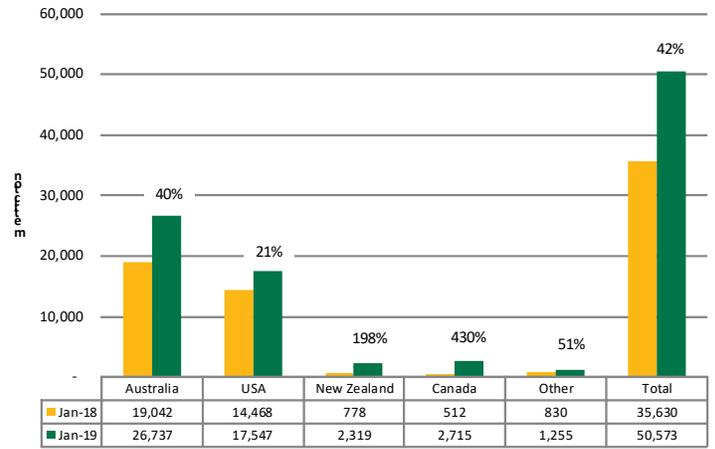
than the previous year. Faced with the uncertainty going forward, producers are sending more heifers to market. Heifer slaughter during this reference period averaged 10,767 head/wk, 16% higher than the previous year. Cow slaughter averaged 7,179 head/wk, 7.7% higher than the previous year. Cow prices in Ireland have been steady since the start of the year. The latest quote on Irish O3 cow carcass was 2.68 euro/kg (dressed basis), 18% lower than the same period a year ago. This compares to the average EU cow carcass price, last quoted at 2.83 euro/kg, 6% lower than a year ago.

Asia / EU Trade Statistics

China Imports of Fresh and Frozen Beef, YTD



Japan Imports of Fresh/Frozen Beef in January 2019



Oceania Update

New Zealand: New Zealand slaughter jumped above year ago levels in February, which was somewhat expected given the lower slaughter numbers we saw in late November and December. Total slaughter for the four weeks ending February 23 averaged 63,106 head/wk, 37% higher than the previous year and 11% higher than the five year average. Bull slaughter during this period averaged 19,564 head/wk, 49% higher than the previous year. Cow slaughter also averaged around 19,250 head/wk, 22% higher than last year.

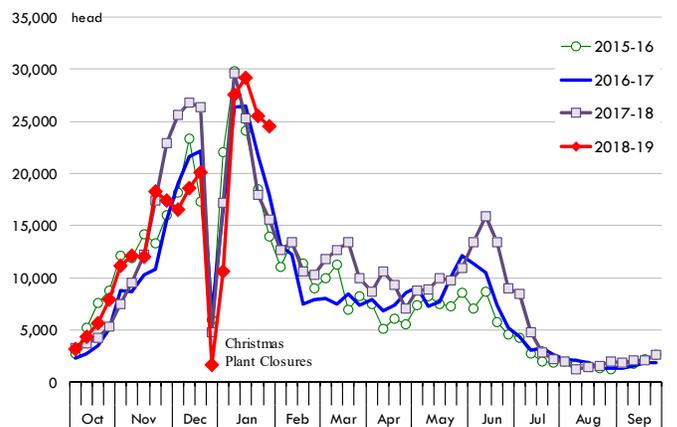
We have yet to receive the official New Zealand export data for February. In January, exports to China jumped 32% while exports to the US were down 28%. February exports should be notably higher than a year ago on account of higher slaughter. We expect to see shipments to the US near year ago levels and, once again, the bulk of the increase will be to China.

Australia: Drought conditions continue to force more cattle to market in Australia. While slaughter is not as high as it was during 2014-15, the inventory levels are also lower than they were back then. Cattle slaughter in the four weeks ending March 15 was estimated at 151,434 head/wk, 17.3% higher than the same four week period a year ago. Slaughter is higher across all states but the key driver has been the sharp jump in Queensland slaughter. The floods that affected cattle in the Northern part of Queensland in early February did little to alleviate conditions in other parts of the state. During the reference period slaughter in Queensland averaged 78,362 head/wk, 26.7% higher than a year ago.

The increase in slaughter has bolstered Australian exports in the short term. However, the bulk of the additional beef supply is currently going to other markets. Total Australian beef exports in February were 94,900 MT, 11% higher than the previous year. At this time we project Australian beef exports in March to be around 99,000 MT, 8.8% higher than the previous year. Given that the pace of slaughter has accelerated in the last two weeks we think there is a good chance that slaughter will surpass 100,000 MT, however. Exports to the US market in February were 19,864 MT, 2,607 MT or 15% higher than the previous year. Exports to the US absorbed about 30% of the additional beef that Australia exported in February. Where did the bulk of the additional beef go? China. Total shipments to the Chinese market in February

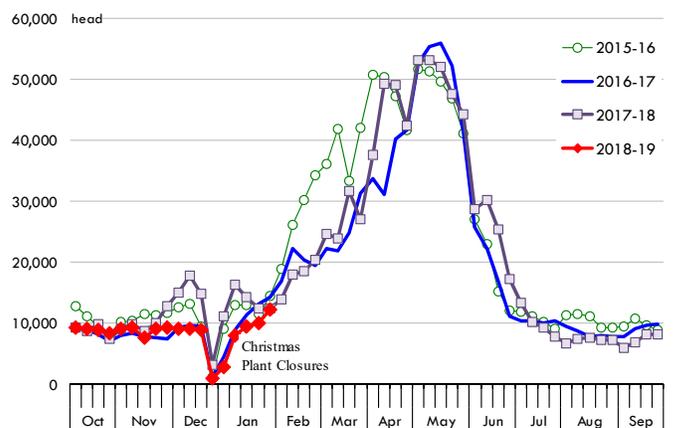
New Zealand Weekly Bull Slaughter

Based on Oct - Sep Marketing Year. Source: New Zealand Meat Board



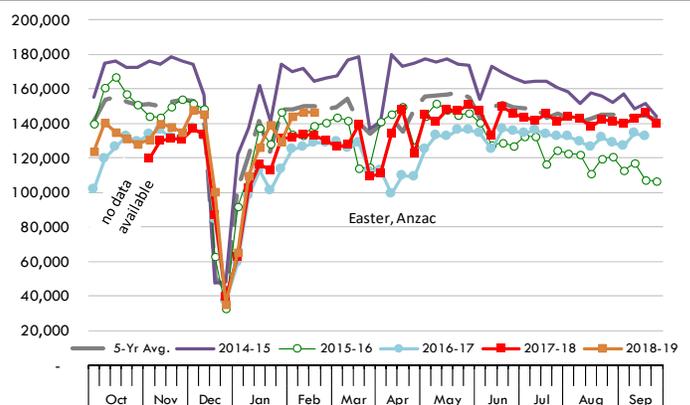
New Zealand Weekly Cow Slaughter

Based on Oct - Sep Marketing Year. Source: New Zealand Meat Board



Australia Weekly Cattle Slaughter, Head. Oct - Sep Base

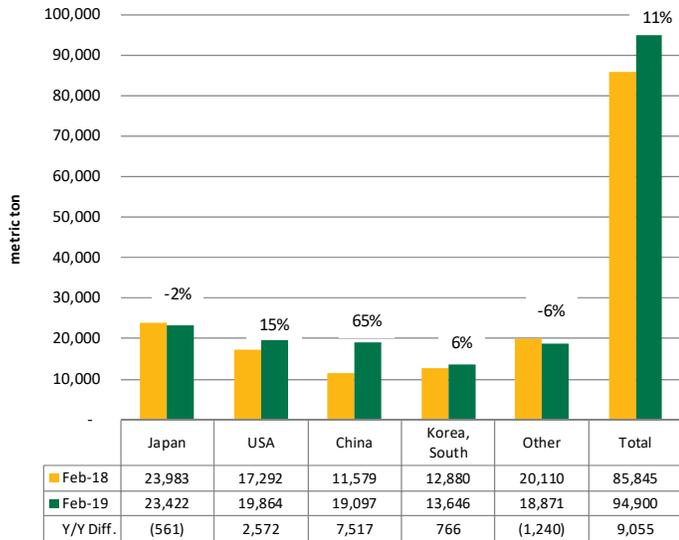
Data Source: Meat & Livestock Australia. Analysis by Steiner Consulting



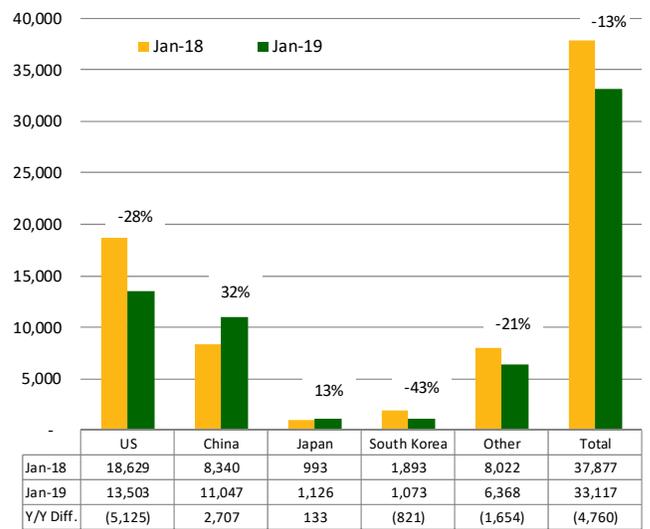
were 19,097 MT, 7,517 MT or 65% higher than the previous year. Exports to Japan in March could be down as much as 15% while exports to S. Korea are expected to be up 8%. Exports to China could be up as much as 60% in March.

Oceania Statistics

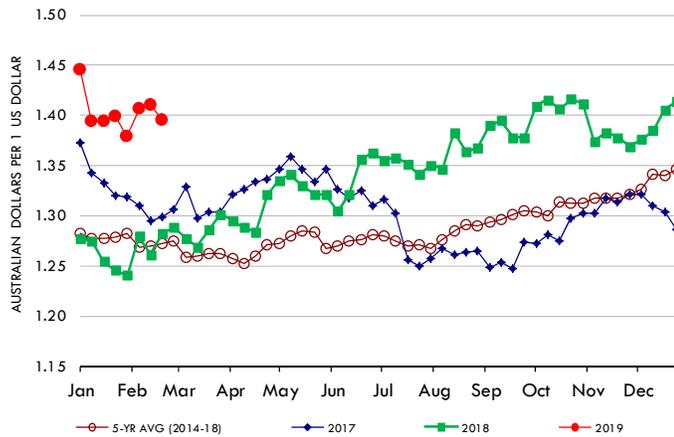
Australian Fresh/Frozen Beef Exports - February 2019 Data, MT



New Zealand Fr./Frz Beef Exports: January 2019. Data in MT



AUSTRALIAN DOLLAR: 5-Yr. Avg, 2017, 2018 & 2019



NEW ZEALAND DOLLAR: 5-Yr. Average, 2017, 2018 & 2019

