



MEAT MARKETS UNDER A MICROSCOPE

A perspective on the red meat markets by Kevin Bost...sometimes wrong, usually scientific, but always candid

February 16, 2018

My focus is usually on the upcoming three or four-week period, but it is critical that I don't lose sight of the Big Picture. And so, sparing you the verbiage (and avoiding as much work as possible on my part), I'm going to take a step back and look at the "slow movers" in the longer-term pricing equation via a bunch of charts and tables. It is a good time for me to do this, since I have been dreadfully wrong about the short-term behavior of the beef market. It is holding up much better than I had anticipated, as demand has maintained during a time at which I thought it would not.



I'm not interested in looking at your damn pictures.

I just thought it would be a more concise way to make my point, that's all.

Which is....?

Mainly, that the meat markets are going to be heavily dependent on export business to absorb a big supply without driving prices downward.

Let's start with a closer look at prospective exports. Now, my export forecasting methodology is primitive, largely based on trends, seasonality, and a vague perception of currency value changes. Yet, somehow, my projections usually turn out to be reasonably accurate. Here's what I'm thinking in terms of U.S. beef exports:

U.S. Beef Exports (million pounds)

	Q1	Yr-Yr Change	Q2	Yr-Yr Change	Q3	Yr-Yr Change
Japan	205	+3%	235	+16%	239	+2%
HK/Taiwan/China	119	+18	123	+6	132	+12
Korea	111	+5	115	+8	132	+5
Mexico	93	-2	101	+1	109	-3
Canada	77	-2	90	+20	84	+7
Total	680	+4	746	+9	782	+5

Some footnotes:

- The big year-over-year increase in second-quarter shipments to Japan reflects a comparison with relatively low volumes last spring, particularly in April. Remember, Japan placed an additional tariff on imports of U.S. beef last summer, which comes off April 1.

- I am assuming that shipments to China will gradually gain momentum as more cattle meet Chinese requirements regarding traceability and the exclusion of beta-agonists.
- As in the case of Japan, the big increase in projected shipments to Canada in Q2 are due to a curious drop in shipments last April and May.

U.S. Beef Imports (million pounds)

	Q1	Yr-Yr Change	Q2	Yr-Yr Change	Q3	Yr-Yr Change
New Zealand	177	+9%	203	+13%	132	-4%
Canada	174	+15	180	-6	203	-4
Australia	150	+6	205	+23	215	+2
Mexico	136	-7	157	+8	162	+9
Nicaragua	35	+10	32	-2	32	-3
Brazil	26	-16	34	-36	35	+32
Uruguay	26	+15	36	-4	38	+1
Total	733	+5	856	+5	826	+2

Some footnotes:

- Australian production was going to be up this year anyway, but it's looking as though herd liquidation (due to drought in Queensland) might pump it up further. Yet, I am told that Australia likely will aim first toward China to alleviate any surplus.
- Lower prices (vs. a year earlier) of domestic lean trim should keep a lid on imports this spring and summer.
- I would be surprised if the U.S. were to allow imports of raw beef from Brazil any time soon. That ban was lifted in late 2016 but reinstated last June.
- **Imports of Mexican beef are in a long-term growth mode.** They're plain-looking, but have you seen the prices of SuKarne steak cuts in the grocery store? They're getting easier to find.

U.S. Pork Exports (million pounds)

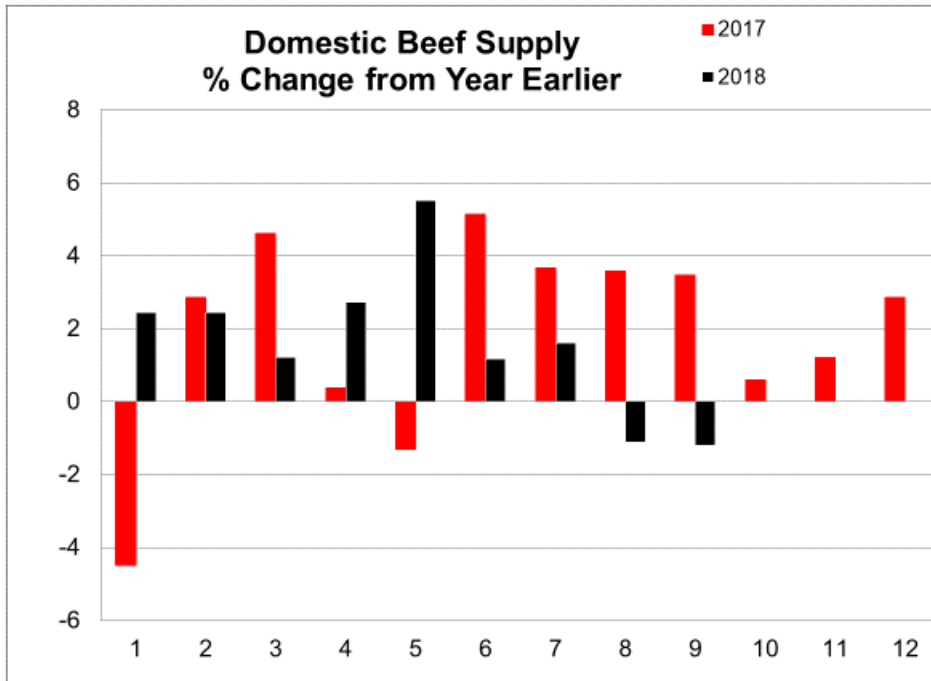
	Q1	Yr-Yr Change	Q2	Yr-Yr Change	Q3	Yr-Yr Change
Mexico	439	-6%	437	+3%	457	+8%
Japan	317	-1	314	+2	291	+4
Korea	168	+7	145	+9	88	+15
China/HK/Taiwan	143	+5	164	-8	106	+10
Canada	126	+1	132	+3	140	0
Australia	64	-16	52	-36	42	+32
Colombia	46	+6	45	+19	47	+7
Total	1437	0	1440	+1	1306	+6

Some footnotes:

- Clearly, the pork market is much more vulnerable to a "hiccup" in export business than is the beef market.
- **If you're looking for insight into the prospect of a dismantling of the North American Free Trade Agreement, you've come to the wrong place. But if it**

happens, then the greatest impact would presumably be on Mexican demand.... which could be catastrophic. Something to think about on President's Day.

- The Euro is in a distinct uptrend vs. the U.S. dollar, which is making U.S. pork more competitive against European product in the Asian markets.
- I read more and more about a great transition toward larger, more productive hog farms in China, which will restrict Chinese demand for imported pork.... but gradually.
- All I have to say about U.S. pork imports is that I'm guessing a total of 264 million pounds here in the first quarter, the same as a year ago; 272 million pounds in Q2, down 3%; and down 3% again in Q3, at 275 million pounds.



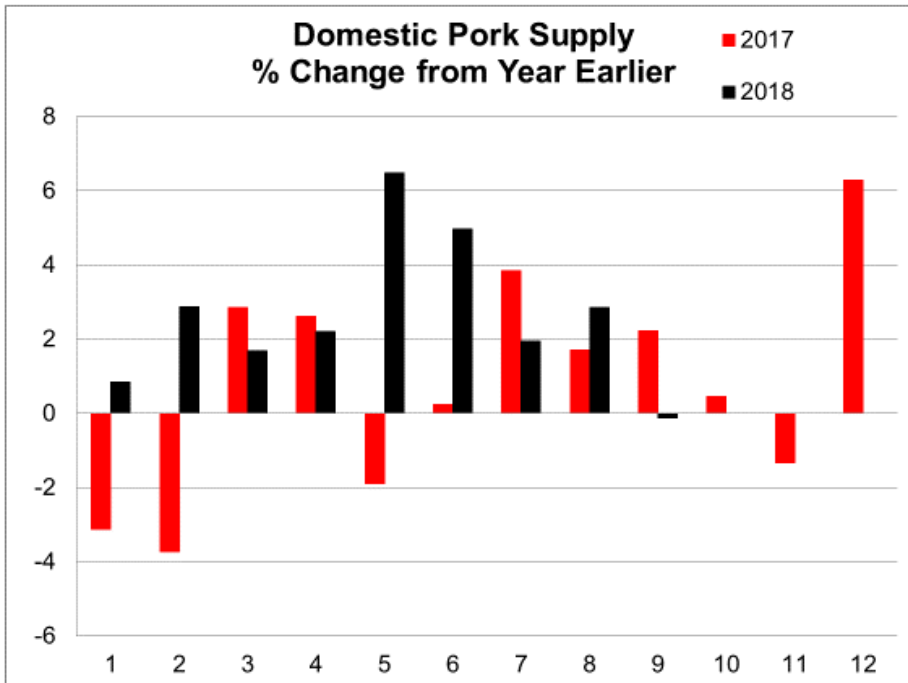
OK. After combining imports and exports with production, it looks to me as though net domestic beef supplies will show consistent year-over-year gains through July, with the greatest increases in April and May. Honest to God, though, there is a good chance that fed cattle slaughter will

drop below a year earlier in the August-October period, partly because of significantly lighter placements from March through May. Those placements should be down because many of those would-be candidates already went into feedlots as younger calves this past fall.

Remember that the supply of feeder cattle outside feedlots was 2% smaller than a year earlier on January 1.

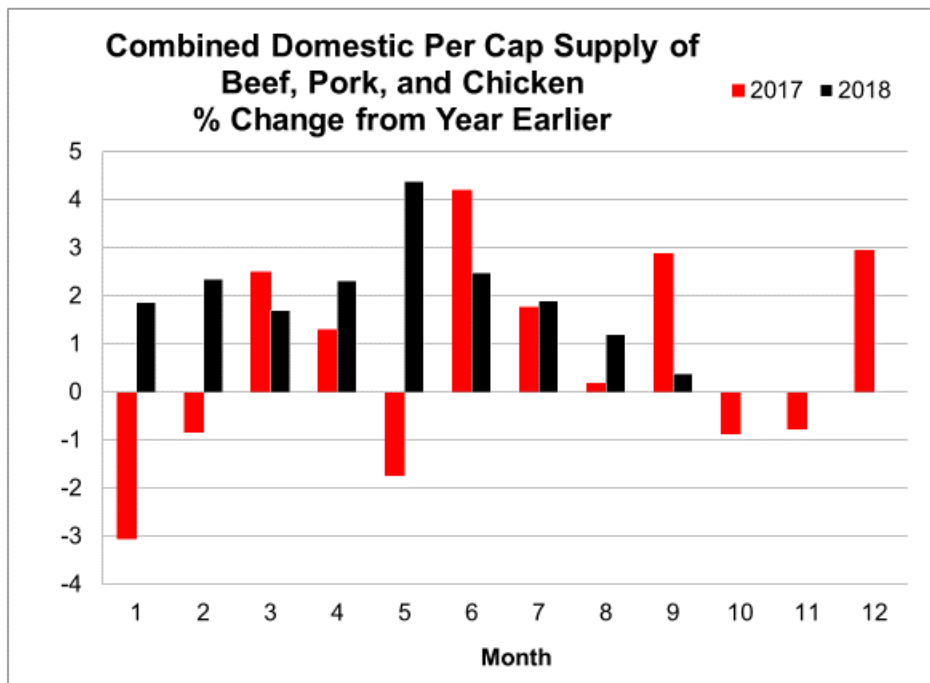
The equivalent picture in the pork market is shown on the next page. Once again, consistent year-over-year gains, with the greatest increases in May and June. I am assuming, of course, that hog slaughter proceeds as indicated by USDA's most recent pig crop estimates. I am also assuming that carcass weights will follow a seasonally normal path, which would place them one to two pounds heavier than a year earlier through the first half.

As "icing on the cake", chicken production is on course for a 2-3% increase as well. **Piling this on top of the red meat, and we're facing a consistent, 2% increase in combined per capita domestic supplies of beef, pork, and chicken (with a "bubble" in May).** Two percent may not sound like much, but for this particular metric, it is quite significant.



It is readily apparent that in addition to further growth in exports, declining retail prices and somewhat smaller retail margins will be essential to stronger domestic demand *at the wholesale level*, which in turn will be needed in order to prevent a nosedive in prices. They will probably come about, but this is rarely a smooth process. In any case, the 2017 highs in the

pork cutout value (\$105.82 per cwt) and the combined Choice/Select beef cutout value (\$245.72 per cwt) seem a *long* way off.



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