Daily Livestock Report

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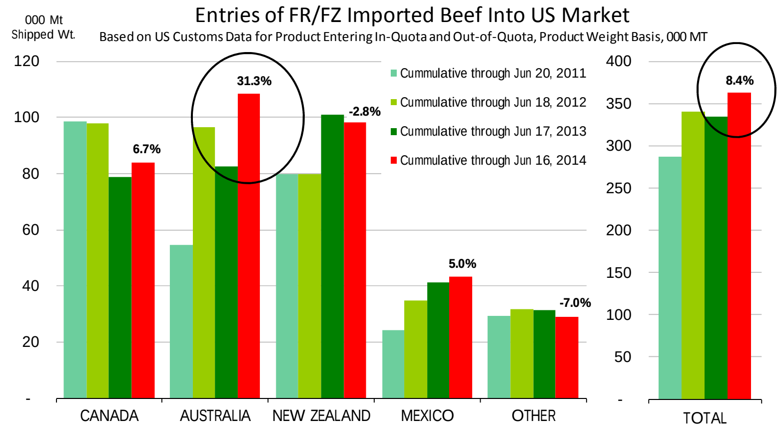
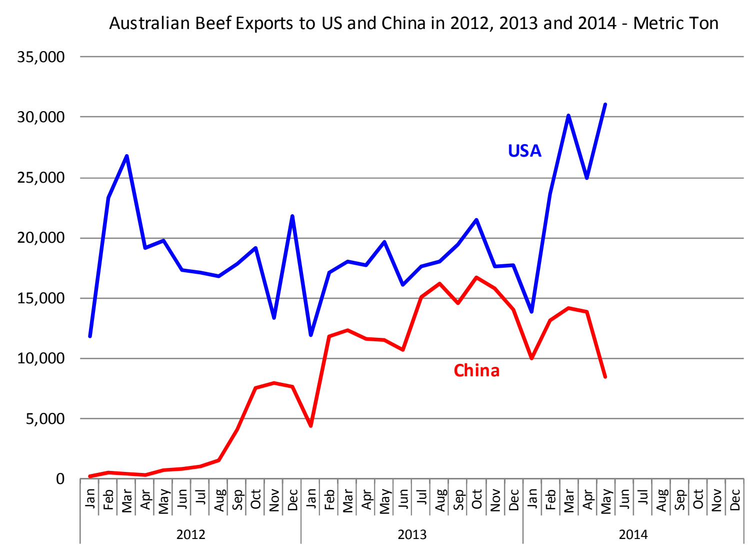
Sharply higher beef prices in the US, a weak Australian currency and a dramatic increase in cattle slaughter in Australia have helped boost US imported beef supplies in the first half of 2014. The increase in imported volume has certainly helped US fast food operators and others in the foodservice industry, which rely on the supply of imported lean grinding beef for a significant portion of their needs. The spread between 90CL frozen imported beef and fresh domestic 90CL beef was as high as 43 cents per pound in April and it has averaged about 32 cents per pound since February. To put this in perspective, this means a difference of about $12,500 on each truckload of product delivering to a processing facility. It is a very big savings and one that users of imported beef may find difficult to replicate in the second half of this year.

So what is driving the US imported beef market at this point and how do we see it developing in the second half of 2014? First, the combination of record prices in the US and sharply higher cattle numbers in Australia have proved to be explosive. According to US Customs, **the supply of Australian beef cleared through customs as of June 17 was 31.3% higher than the comparable period a year ago**. Overall imported beef cleared through customs was up 8.4% and higher imports from Australia accounted for about 92% of the overall increase. More beef has been imported from Canada (+6.7%) and Mexico (+5%) but lower imports from New Zealand and Central America have offset those increases. Australian cattle slaughter in the past 12 months has reached all time record levels as drought conditions have severely reduced feed availability. A majority of cattle in Australia are finished on grass and hopes of increased moisture in the fall and winter (Southern Hemisphere) have not come to pass. Indeed, the situation may remain dire should an El Nino weather pattern develop in the next six months as some meteorologists have suggested. In the last four weeks, **Australian cattle slaughter has averaged 18% above year ago levels and some 25% higher than the five year average**. Keep in mind that the beef industry in Australia is an export business, with some 75% of the volume going to other countries. The surge in slaughter numbers has meant that more beef has become available in the world market Until earlier this year, the additional Australian supply was absorbed by China, which has emerged in the last two years as a major global beef importer. Indeed, by late 2013 Australian beef exports to China were almost as large as those to the US (see chart). So far this year, however, Chinese purchases have not kept pace. In part this is due to product preferences, availability and ultimately price. Demand and prices for lean grinding beef (cow meat) have exploded in the US and we calculate that Australian shipments of lean grinding beef to the US are up some 50% since February. Australian beef exports to China in May were down 27% compared to year ago levels as authorities there imposed more stringent test for hormone growth promotants. But volumes to China are expected to pick up once again as industry adjusts to the new requirements and it is unlikely that China demand for beef will fade anytime soon.





US imported beef supplies seasonally decline in the second half of the year, largely because New Zealand supplies drop sharply and Uruguay is limited by quota. Australian slaughter is probably at full capacity now and a resurgence in Chinese buys will likely keep Australian shipments to the US at or below current levels. As a result, **the spread of imported beef to domestic product will narrow in the second half of 2014, implying higher costs for beef processors and ultimately US consumers**.