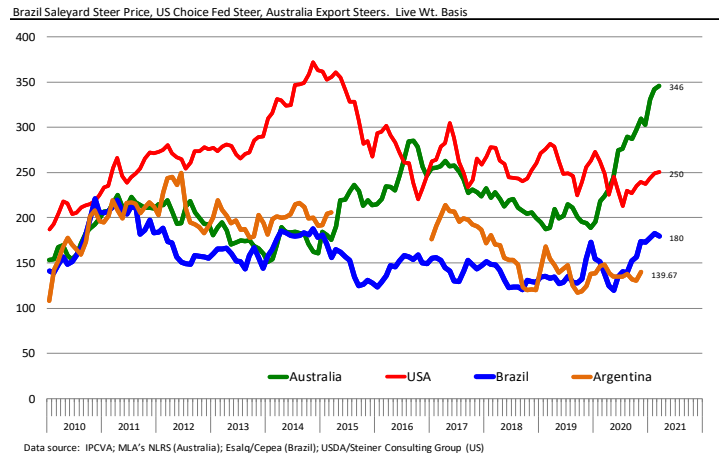


Following up on yesterday's discussion of February beef exports and the pace of shipments in March, we thought it would be interesting to review what's happening in the global beef trade. **By far the most significant development of the last 12 months is the shift in the supply and pricing of Australian beef.** Dry conditions and herd liquidation has resulted in the smallest Australian cattle herd of the last 30 years (per USDA estimates). Australian cattle prices have jumped 83% since late 2019 and feeder cattle prices (EYCI) are up 85% during this period. In the past decade, Australia has been the second largest exporter of beef in the world, behind Brazil. Between 2010 and 2020, Australia exported 36.7 billion pounds of beef (carcass wt.) compared to 29.5 billion pounds exported by the US and 44 billion pounds exported by Brazil. However, Australian beef exports declined 16.3% in 2020 and they are expected to decline another 6.5% this year to the lowest level since 2012. The chart to the right shows the current premium of Australian cattle prices to cattle prices in other major exporting countries.

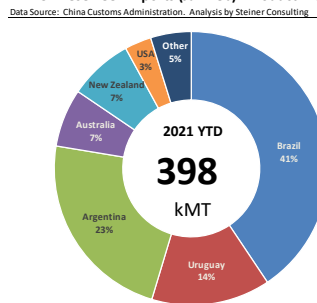
One thing that should always be noted is that yield differences have a significant impact in the carcass/meat cost. So while the price of Brazilian cattle is significantly lower than in the US, those cattle also yield less consumable beef. For instance, if a US steer that costs \$118/cwt yields 63.5%, the implied value of the dressed carcass would be around \$186/cwt. On the other hand, if a Brazilian steer value in US\$ is say US\$82/cwt and it yields 51%, then the dressed value would be US\$163/cwt. So the cattle price in Brazil may not be 28% lower but rather 12% lower, a major difference. US cattle are by far the best performing in terms of yield among major global beef suppliers. The United States also is far ahead of others in terms of productivity, here defined as the pounds of beef per animal in the breeding herd. Consider that last year, US beef industry produced 289 pounds of beef (carcass wt. basis) for every animal in the herd (i.e. production / cattle inventory). Australia produced 197 pounds, Argentina 130 pounds and Brazil only 91 pounds. This is the reason why US beef production is 22% higher than beef production in Brazil even as the US cattle herd is 60% smaller.

Lower prices, in part due to the exchange rate, and more supply availability has meant that South American producers have benefited the most from the big jump in Chinese beef demand. Ten years ago China was importing only about 84 million pounds of beef (cwe) compared to Japan that was importing 1.5 billion and US importing 2.3 billion pounds. Last year, China imports over 6 billion pounds on a carcass weight basis or 4.7 billion product weight. Almost 75% of all Chinese beef imports in 2020 came from three countries in South America, Brazil, Argentina and Uruguay. The more limited supply of Australian beef has opened the door for US beef to take a larger share of the Chinese demand in 2021. In the first two months of this year, Chinese imports of US beef are about half of all the US beef that China imported last year and imports in March and April are expected to increase further based on recent sales. This is adding another dimension to the competition for beef in the US market and should help bolster US cattle values as feedlots eventually become more current.

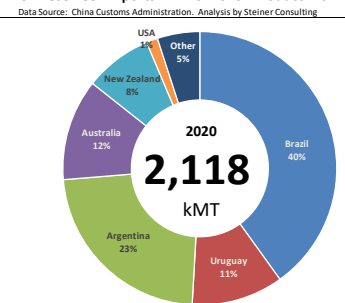
CATTLE PRICES IN TOP BEEF EXPORTING COUNTRIES, US\$/100KG. Live Basis.



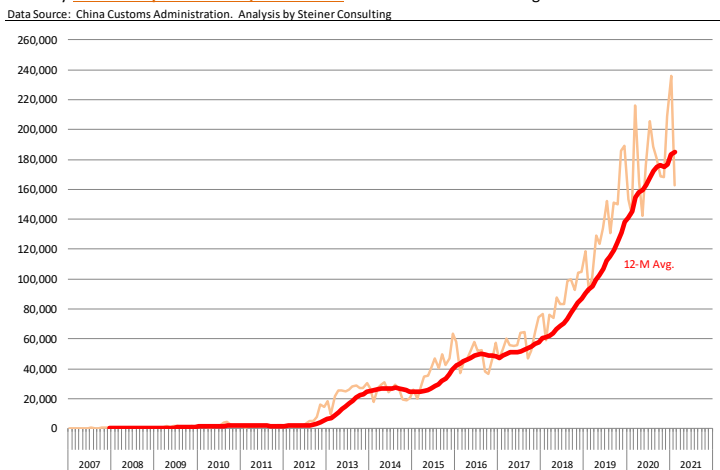
YTD Chinese Beef Imports (Jan-Feb). Product Wt. Basis



Chinese Beef Imports in All of 2020. Product Wt.



Monthly Chinese Imports of Fresh/Frozen Beef. Metric Ton. Product Weight Basis



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