

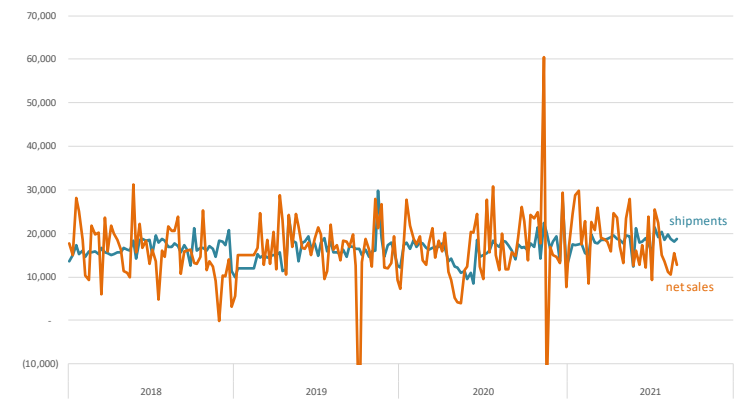
Earlier this morning USDA provided an update on weekly beef and pork exports for the week ending September 2. We thought the latest numbers were largely negative for beef and positive (at least in the very near term) for pork. Our assessment of the report as negative or positive largely is based on sales rather than shipments. The thinking is that futures markets are focusing out front and a slowdown in sales, especially if supplies are steady or possibly increasing, will eventually leave more product in the domestic market and pressure prices. Below are some of the highlights from the latest report:

**Pork export highlights:** For the second consecutive week pork export sales were solid and shipments continue to hold up. We think this has been a contributing factor to the pork cutout hovering in the low 100s despite the increase in production in August. Going into the fall the market remains concerned about the downward pressure on prices that develops once starts to seasonally pick up. China demand remains a key topic of discussion. USDA reports that last week net pork sales to China were near 15,000 MT compared to an average weekly sales pace of 1,100 MT/week the previous four weeks. Does this mean China is back in the US looking to buy product? Its too early for a yes on that question since US hog prices still hold a premium to EU and Canada, and Chinese domestic hog prices remain weak and trending down. Since July, we have had three weeks where net sales to China have averaged about 16,000 MT/week, three weeks of negative sales (cancellations) and four weeks with net sales around 1,000 MT. This does not paint a robust export picture. Shipments to China last week were around 5,000 MT. At the current export shipment pace, outstanding sales to China represent a 5.5 week supply. Net sales to Mexico slowed down, pegged at 8,200 MT, 42% lower than the average of the previous four weeks. Shipments to Mexico remain robust at 13,800 MT but Mexican buyers continue to be opportunistic, stepping in the market when bone-in hams dip and then just as quickly pulling back. This remains an issue for bone-in ham values this fall as packers are limited in their ability to bone and trim product. Pork cutout has been incredibly volatile in recent weeks depending on the volume of bone-in and boneless hams trading in the spot market.

**Beef highlights:** We are starting to see that high beef prices are rationing out export demand. Net beef sales last week were 12,400 MT, 2% lower than the average of the previous four weeks but 34% lower than beef export shipments. Export shipments last week were once again robust at around 19,000 MT, 17% higher than a year ago. Packers continue to deliver on export orders that were put on the books during the summer and this has contributed to the extreme price inflation we have seen in the beef market so far. However, for a number of weeks we have seen net sales trend below the export pace and eventually that will catch up with export volumes. USDA reports that total outstanding beef sales currently represent a 10.6 week supply. However, this number is skewed by what we think is a bad number for Hong Kong. Current outstanding beef sales to Hong Kong represent a 72 week supply. Eventually USDA will come around and make an adjustment here, like

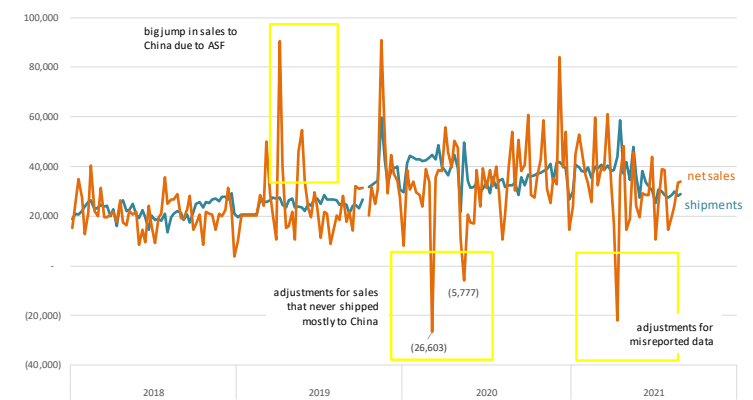
Weekly Beef Export Shipments and Net Sales. All Markets

Source: USDA-FAS. Analysis by Steiner Consulting

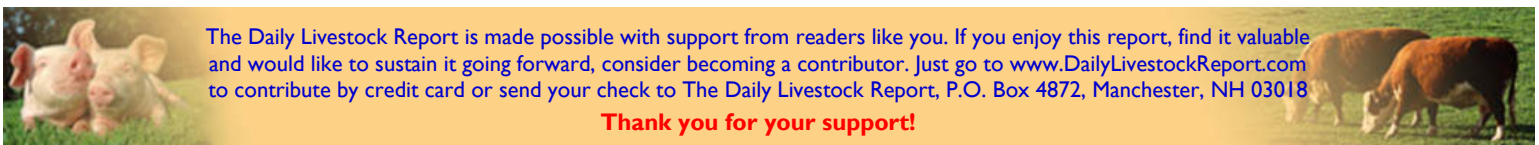


Weekly Pork Export Shipments and Net Sales. All Markets

Source: USDA-FAS. Analysis by Steiner Consulting



they have done in previous years. If we take Hong Kong out, outstanding beef sales represent an 8.9 week supply. China demand remains one of the few bright spots in the export data but even those are slowing down. Net sales to China last week were 2,700 MT, 121% higher than the average of the last four weeks but below the 4,000 MT export shipment number for last week. Net sales to S. Korea were lower following a big sale reported the week before while sales to Japan were in line with the export pace at 4,600 MT. One thing to note is that the weekly report only covers muscle cuts, not trim. There has been a lot of talk about China buying fat trim. If that's the case, then those sales/shipments are not reportable. Periodically we match up the weekly sales report with the official monthly statistics, which capture all exports. It will be interesting to see if a divergence starts to appear between these two datasets, possibly because of more trim going to the Chinese market (see page 2)



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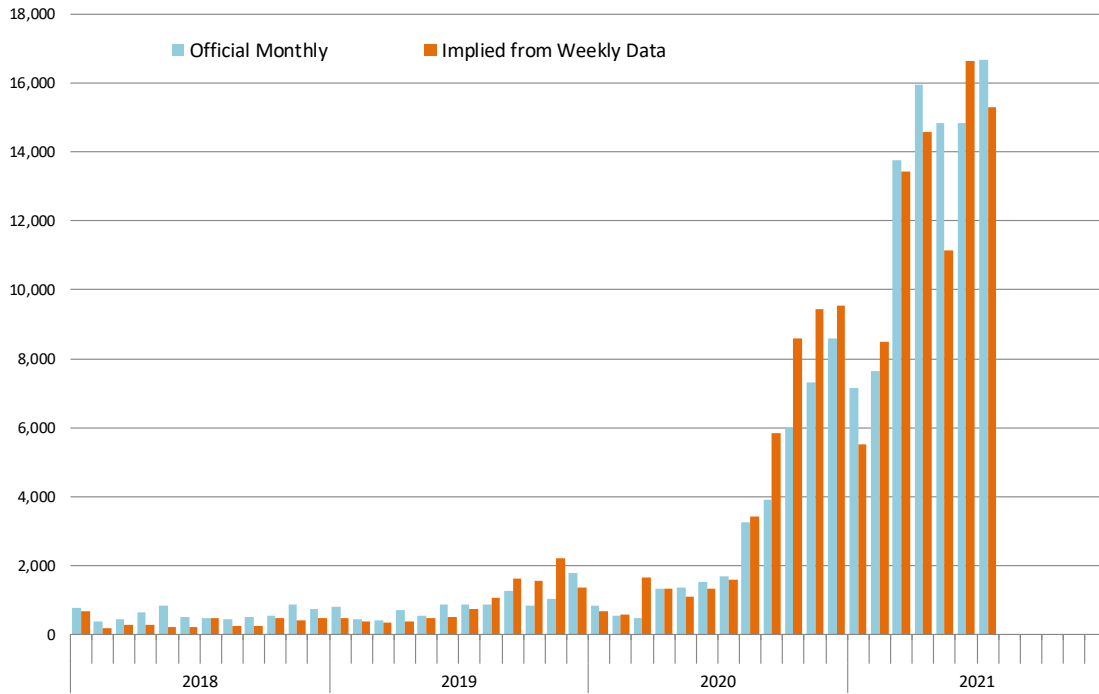
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## Official Census Fr/Frz Beef Exports to China vs. Implied Monthly Volume Using Weekly Export Data

Data in Metric Ton, Shipped Weight Basis. Source: USDA-FAS. Calculations by Steiner Consulting



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