Market Comments

Coming into this year (DLR 1/19) we thought there was a good chance the US would be a significant net beef exporter in 2011 (in 2010 exports and imports were almost the same.). Halfway through the year, US beef imports continue to track well below the dismal levels of a year ago and forecasts are for US beef exports to surpass imports by about 412 million pounds. To put this in perspective consider that in 2011, total US beef disappearance is expected to be 26.034 billion pounds (USDA), 1.4% or 358 million pounds less than a year ago. In other words, the decline in overall US beef supply availability in the domestic market is for the most part a result of the shift in US beef trade patterns and, to a lesser extent, lower beef production.

The chart above summarizes the latest statistics for imports for fresh/frozen beef product. Through June 27, total fresh/fz beef imports were down 14.8% from a year ago. Beef imports from Australia are down 28.9% compared to the already low levels in 2010 and a whopping 59% lower than in 2009. Part of the reason for the decline in Australian shipments is the depreciation of the US dollar vs. the Australian dollar. In 2009, Australian beef packers would ship product to the US and for every 1 US$ worth of product they sold, they would get back a little over $1.5 Australian dollars. Today, $1 US only brings them about 95 cents in Australian money. Demand for Australian product in other markets, particularly Asia and Russia, remains strong. Russia has emerged as a significant buyer of Australian beef as Argentina and Brazil, traditionally two large beef suppliers to the Russian market, have cut back on exports. Indeed, the shortages of South American beef in the global market have supported to this point the upward trend in US beef exports while limiting US beef imports. In the case of Argentina, beef exports are down sharply in part due to the significant liquidation of the cattle herd that took place in the last couple of the years but also because of government policies that have sharply curtailed beef exports. Brazilian beef exports in the first five months of the year are down 16% compared to the same period a year ago. Brazilian producers are trying to rebuild the herd while at the same time trying to meet growing domestic demand. The value of the Brazilian currency, the Real, also has risen sharply in the last two years given strong rates of economic growth and the influx of investment money. Also important to note in the above chart is the sharp decline in US beef imports from Canada. The decline reflects the negative impact of a strong Canadian dollar, which currently trades at a premium to the US currency but also smaller cattle inventories. The only reason US imports of fresh/fz beef are not down even more is because we are currently importing more beef from Mexico (+75%) and from Central America (+29%). Finally, one needs to also account for the impact of cooked beef imports (or lack thereof) in the overall US beef supply. The only data available on this is through April but it shows that even though cooked US beef imports accounted for just 4% of overall imports, they contributed about 22% to the overall decline. Imports from Brazil in the first four months of 2011 are down 90% while total cooked beef imports are down 54% from last year. This has supported the value of some beef cuts (100vl beef) and contributed to overall US cow and steer carcass values.