Daily Livestock Report

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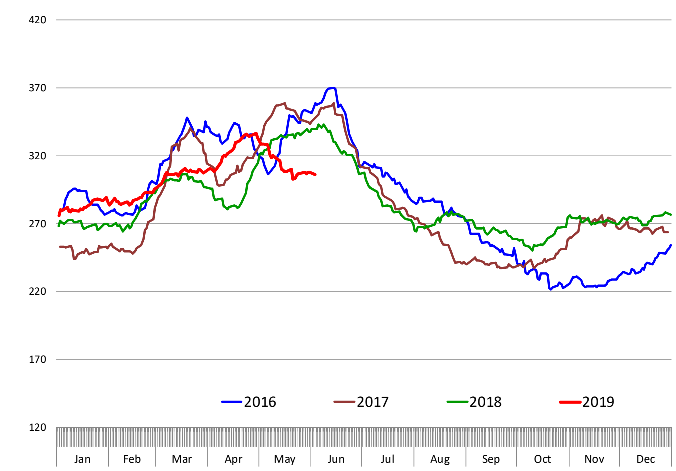
Fed cattle futures continued to lose ground yesterday, as market participants worry about the broader macro trends and the potential impact this may have on beef/cattle market down the road. Beef business so far has also been disappointing and there is some concern that turning around beef sales will take longer than some expect. There is still a fairly large number of managed money longs in the market and attempts to get out of those positions could put some pressure, especially if fundamentals start to erode in the second half of June. The choice beef cutout has been steady to modestly higher in the last two weeks and about 2% lower than the previous year. The main disappointment in the market has been the performance of the loin and rib primals. Last night the value of the loin primal was quoted at $304.24/cwt, $34 or 10% lower than the previous year. Seasonally the value of the loin primal peaks in early June abd then heads lower. **Foodservice sales appear to have faltered**, something that some distributors have also confirmed in public reports. Retail features have also struggled due to cool temps in heavily populated areas. The steak and burger meals that were lost in late April and May cannot be made up and retailers are not keen to feature steaks in July and August. But current low prices, at least for some items, may be offering **opportunities for end users to plan on doing more with beef later in the year**. Forward sales of beef that will deliver three months or longer into the future are now double what they were a year ago. But participants focusing on the short term are finding little to cheer. Packers, on the other hand, seem to have plenty of cattle to process and see no need to chase this market. They have more cattle purchased on a forward basis for June and July and the lack of wholesale price momentum further limits their incentive to pay up. USDA reported some cattle were trading in Nebraska at $110/cwt. This is a bit early in the week to see cash trade develop but the big discount to last week's cash price further adds to the negativity currently prevalent in the complex.

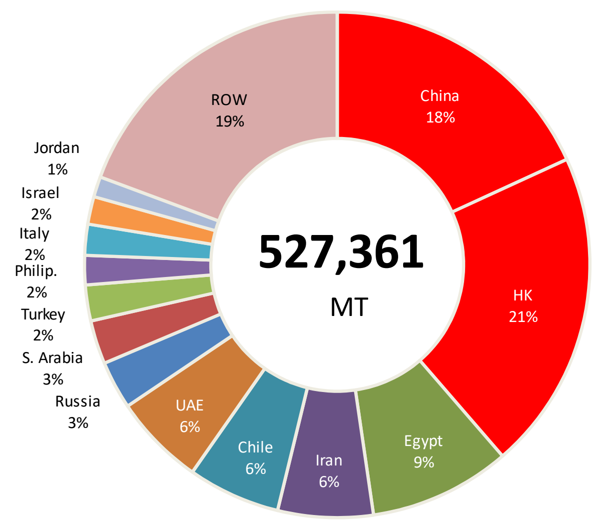
Will the recently announced BSE case in Brazil impact US cattle prices? Our guess is that the impact will be negligible but **much will depend on how China responds to this**. We mention China specifically because it is, by far, the biggest customer for Brazilian beef. China is not only the biggest beef buyer in the world, it has recently absorbed all the growth in exports from all major world exporting countries. **China beef imports in April jumped 75%**. Chinese buyers are scouring the world to get additional beef as demand in the country far exceeds the ability to meet it domestically. Initial reports say that Brazil has suspended shipments to China as part of the normal protocols they have in place. The suspension will stay until Chinese officials have been able to assess the situation and decide to lift it. How long it lasts is hard to say but we think **Chinese officials have an incentive to resolve this situation quickly**. Media reports note that this was an atypical case of BSE that affected a 17 year old cow. OIE, the World Organization for Animal Health, continues to regard Brazil as a minimal risk country for BSE despite the recent case.

Choice Loin Primal Value. Source: USDA-AMS. $/cwt



Brazil Exports of Fr/Frz/Prep Beef and Beef Offal. Jan-Apr 2019. MT

Source: COMEX. Analysis by Steiner Consulting



With the suspension in place Chinese buyers will have to turn to other South American countries to secure beef but those supplies are already maxed out. If Brazil is shut out of the Chinese market for a prolonged period of time then we could see Chinese buyers become even more aggressive in the Australian market. This could force Japanese and S. Korean buyers to source more US beef. But, as mentioned earlier, much will depend on how long China decides to keep Brazil in the penalty box.