

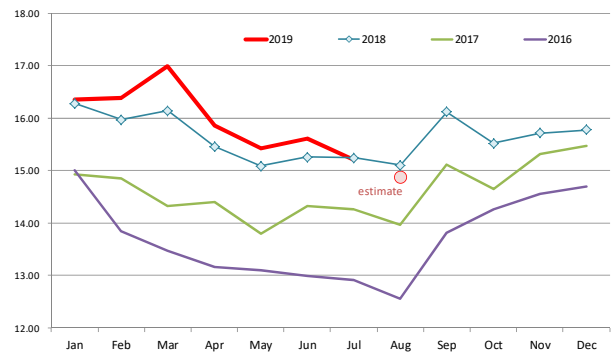
Prices for lean grinding beef have been running higher than expected this summer and continue to defy seasonal trends.

Last night USDA quoted the average price of 90CL fresh beef at just a little under \$225/cwt, 18 cents or 9% higher than a year ago but still about a nickel lower than the same time in 2017. Seasonally the value of 90CL beef is strong in June and July thanks to robust demand at both retail and foodservice and seasonally lower cow meat supplies. That was the case again this year. But having 90CL values at or above June levels post Labor day is surely surprising. We think the primary reason for this is supply related, as a number of factors have coalesced to prop up lean beef values. Domestic cow meat supplies were lower in July and we think they continued to drift lower in August as well. USDA reported total cow slaughter for the month of July at 520k head, 4.3% higher than the previous year. However, there was one extra marketing day in July which skewed the numbers. Adjusting the slaughter numbers on an average slaughter day basis results in July avg. daily slaughter of about 23,636 head/day, 0.4% lower than the previous year. Average July cow carcass weight (dressed) was 643 pounds, just 0.2% higher than a year ago. Indeed, this was the first month this year where cow carcass weights were higher than the previous year. Cow meat production was higher in the first half of the year but lower carcass weights offset some of the increase in slaughter. We think cow slaughter in August, again on an average daily basis, will be about 2% lower than a year ago. This is based on cow slaughter through August 24. If average carcass weights are once again up about 0.2% from last year, this would imply an average daily cow meat production down about 1.8% from the previous year.

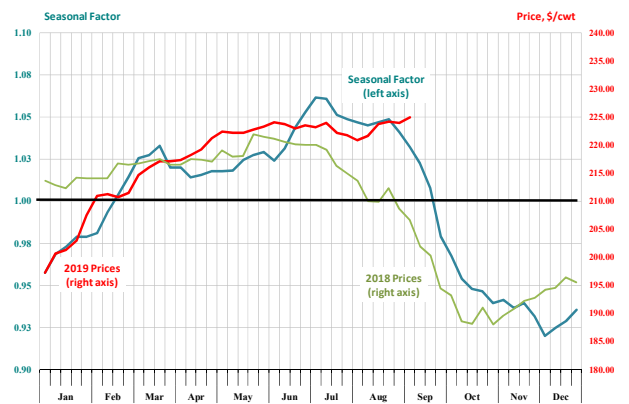
The y/y decline in domestic cow meat supplies comes at a time when there is a significant shortfall in supplies of imported lean grinding beef and prices for domestic fed end cuts are sharply higher than a year ago.

The chart to the right shows the trend in weekly beef imports from countries that are traditional suppliers of grinding beef to the US. Please note that this is not all grinding beef but we think it is a good proxy for the trend in the availability of imported lean beef. The main reason for the decline is the reduction in supply availability in New Zealand. According to USDA, July imports from New Zealand were down some 10,626 MT or 44%. To put this in context, the reduction in monthly import volume from New Zealand (most of it lean grinding beef) was down the equivalent of 590 full truckloads of product. In the first seven months of the year, imports from New Zealand were down 42,118 MT or 28.6%. In July, New Zealand reported that shipments to China increased by 73% while their exports to the US were 50% down. This implies a significant decline in imports from New Zealand during August as well (ocean transit time). US grinding beef users also have limited options in grinding fed beef cuts at this time. The price of choice knuckles last night was \$266/cwt, 19% higher than last year while the price of choice flats was \$253/cwt, up sharply from a year ago as well.

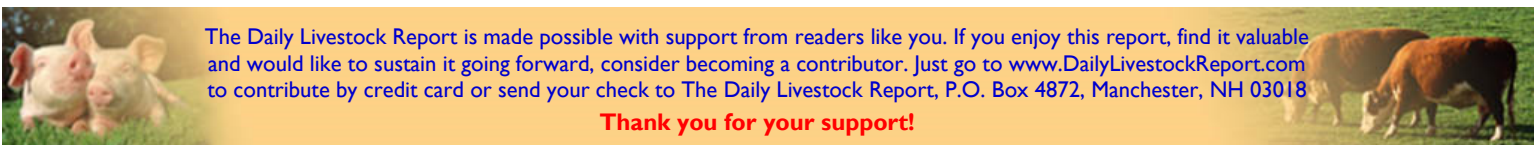
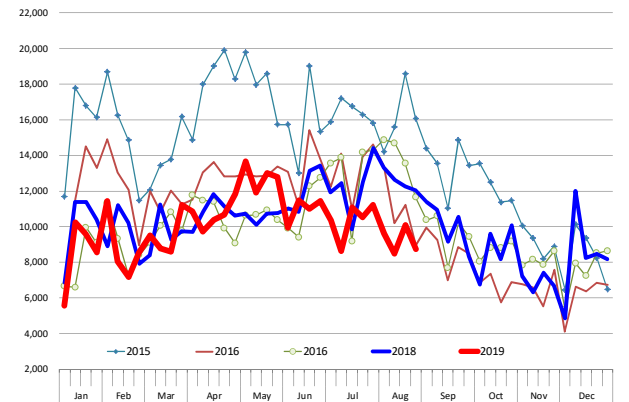
Avg. Daily Cow Meat Production. Carcass Weight Basis. Million Lb. USDA-NASS
Calculated as Monthly Sltr * Avg. Carcass Wt / Slaughter Days in a Month. Analysis by Steiner Consulting



90CL Trlm: 5-Yr Seasonal vs. Current Price Trends



BEEF IMPORTS FROM MAJOR GRINDING BEEF EXPORTING COUNTRIES. FR/FZ BEEF ONLY. METRIC TON
Data Source: USDA-AMS. Analysis by Steiner Consulting



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