

Market Comments

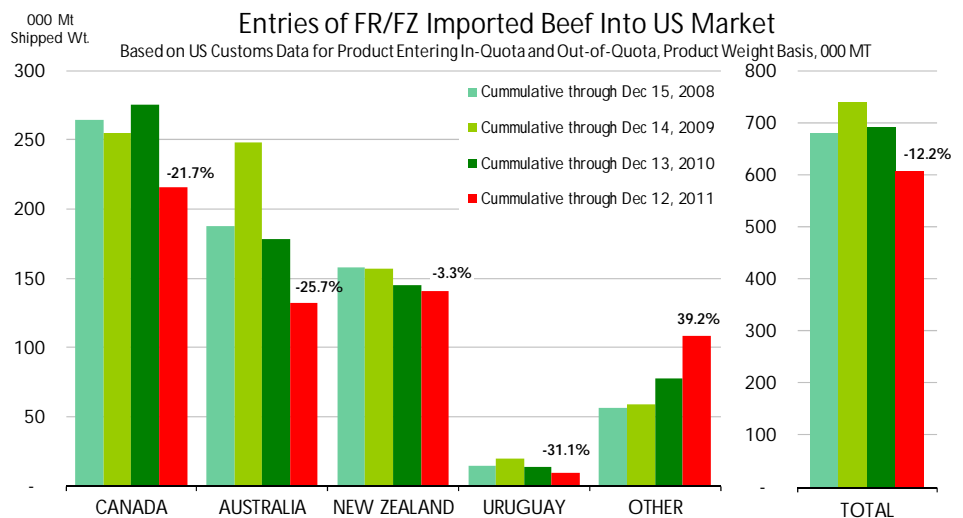
Beef supplies in the US are expected to remain tight into 2012, in part due to the shift in the US beef trade balance. For the first time in more than 40 years, the US will become a net beef exporter in 2011 and that trend is expected to continue in 2012. It is a significant shift given that only a few years ago, the US market imported some 3 billion pounds of beef more than it exported to the rest of the world. That was in 2004, immediately after the outbreak of BSE and closure of a number of beef markets. But that does not make the impact on US beef supplies any less significant. US beef producers have been in liquidation mode since the mid 1990s and the outbreak of BSE only delayed the full impact of this liquidation. The US beef industry has been able to sustain production levels by accelerating the time it takes cattle to reach market weight and also by increasing the number of pounds per carcass. Still, the industry has not been able to keep up with normal population growth and as beef exports have finally normalized, the supply of beef available per capita is now at the lowest point in almost 20 years.

USDA/Census data is published with a 45 day lag but the latest data from US Customs (which is updated weekly) shows significant reductions in imports from a number of key supplying countries. US Customs reports that through December 12, Australian beef entries (product that has cleared customs) were down 25.7% from a year ago while entries of Canadian beef were down 21.7% compared to the same period a year ago. Entries of New Zealand beef have been more consistent with historical levels, declining only 3.3% compared to a year ago. We still show Uruguay in the chart as it was a large supplier of imported beef in 2006 and 2007. However, since then supplies of Uruguayan beef have been minimal as strong demand from other markets, particularly Russia and the EU have pulled Uruguayan product away from the US. One area of growth this year has been in imports from other countries, which are up 39.2% from a year ago. Entries of Mexican beef are up 51% from a year ago, largely due to very

strong beef prices in the US, a weaker Peso and softer beef demand in Mexico. Drought in a number of Mexican states has pushed more cattle to slaughter, increasing the supply of beef available for imports. Imports from Central American suppliers also are up 30% compared to last year. Overall, imports of fresh/frozen beef are down 12.2% from a year ago.

One item not included in the table below is cooked beef, most of it coming from Argentina and Brazil. For that, we have to rely on the USDA data which showed Brazilian beef imports through October were down 51% from a year ago while Argentine shipments, limited as they are, were modestly higher than last year. Brazil continues to work on gaining access to the US fresh/frozen beef market and there is a possibility this may happen in 2012. One Brazilian state, Santa Catarina, can potentially ship even now but no plants there have been certified to ship to the US.

Outlook: Beef imports are expected to increase modestly in 2012 but this forecast remains vulnerable to currency shifts as well as the broader global economic outlook. A number of countries (Australia, Canada, Brazil) are in herd rebuilding mode, which will limit global beef supplies in 2012 and constrain US imports. However, imports may recover in 2013 and 2014 on higher cattle numbers and slaughter in the above key exporting countries.



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