



Challenges and opportunities in world beef market

International beef trade issues continue to be dynamic and are impacting cattle prices both short term and long term. The United States is a major producer of beef, pork, chicken and turkey in the world; and also a major exporter of those commodities. The United States is also a major importer of beef. International trade is increasing in importance to the U.S. beef sector. As new trade issues surface, cattle and beef prices — as well as the competing meats' prices — can be volatile.

Global changes

It seems there are an increasing number of issues, some controversial, surrounding the global beef market. Some provide challenges for beef-exporting and -importing countries, but also may provide opportunities for countries like the United States.

USDA has projected that the top four beef-exporting countries in 2017, in order of importance, will be India, Brazil, Australia and the United States. Also predicted is that the China/Hong Kong beef market will overtake the United States as the world's leading beef importer. There are important issues with each of these other countries that could impact the U.S. cattle market.

India's ranking as the world's leading "beef" exporter is somewhat controversial in itself. "Beef" that is exported is actually meat from water buffaloes, since cows are sacred in the Hindu religion. Nevertheless, the meat from water buffaloes, also referred to as carabeef, is in direct competition with lower-quality, grass-fed beef from other

countries such as Brazil and Australia.

Many packing plants in India are operated by Muslims, which have had issues with the Hindu-dominated federal government. Recently, the Indian Ministry of Environment imposed a ban on the sale of buffaloes at livestock markets for animals to be slaughtered. That ban was temporarily suspended by a court ruling. Since buffalo meat exports are a lucrative market for India, many expect the ban to be lifted. However, the situation certainly bears watching, because any significant reduction in export volumes could provide market opportunities for other beef exporters.

Brazil, the second leading beef exporter, has had its share of turmoil recently, as well. A meat inspection bribery scandal involved several meat companies, and at least temporarily reduced beef exports in early 2017. JBS, headquartered in Brazil and the world's largest meat company, has been rocked by a political bribery scandal and is divesting some assets. One is Five Rivers

Cattle Feeding, a wholly-owned subsidiary of JBS, and the largest cattle-feeding entity in the world. Headquartered in Greeley, Colo., Five Rivers owns feedlots in Colorado, Kansas, Oklahoma, Texas, Arizona and Idaho. It manages a feedlot in Alberta, Canada.

In late 2016, bilateral fresh and frozen beef trading between the United States and Brazil was approved by both countries. Relatively small amounts of lower-quality beef have been imported into the United States from Brazil, and some high-quality beef has been shipped from the United States to Brazil. JBS was a major player in these transactions. I am writing this column June 22, and an announcement was just released by USDA stating that the United States is halting beef imports from Brazil due to food-safety concerns.

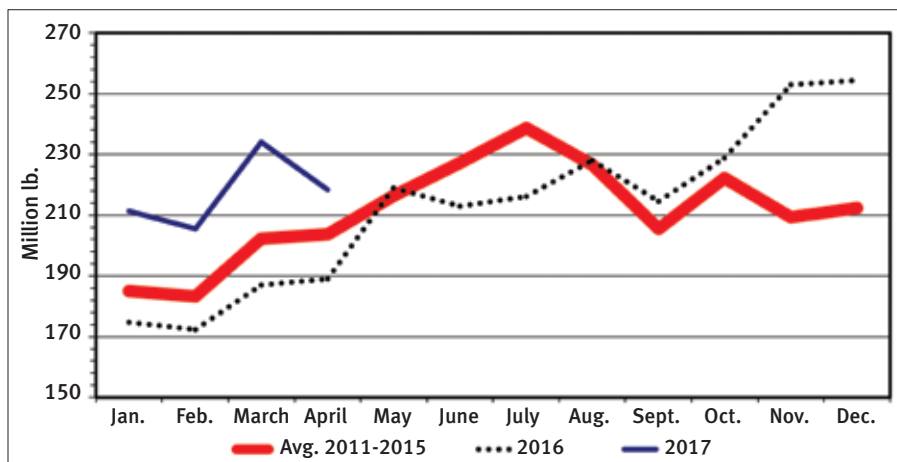
Australia, the third-largest beef exporter, experienced a severe drought in a major cattle-producing region in 2014 and 2015. Forced herd reduction resulted in increased beef production and exports. A return to more normal rainfall allowed herd rebuilding to begin in 2016 and the lower beef production reduced exports.

Australia was the largest supplier of beef to the United States, but has fallen to third place in 2017 behind Canada and New Zealand. Beef imports from Australia were off 39% in 2016 from the inflated levels of 2015, and that slower pace is continuing in 2017. The lower production and record-high beef prices are also causing a lower volume of exports to other countries, as well.

The export market is becoming more and more important for cattle prices in the United States, the world's fourth-leading exporter. After a difficult beef export year in 2015 due to several factors, beef exports were up more than 12½% in 2016 and are forecast by USDA to be up another 10% in 2017. Exports were actually up about 20% the first four months of 2017. That was one reason for the cattle price rally into May 2017.

U.S. exports were especially strong to the four major customers — Japan, Mexico, Canada and South Korea. Noteworthy is that the United States is currently in trade negotiations with Japan since the United States withdrew from the Trans-Pacific Partnership (TPP). The United States is also discussing provisions of the North American

Fig. 1: U.S. beef and veal exports, carcass weight, monthly



Source: USDA ERS & USDA FAS, Livestock Marketing Information Center.

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Free Trade Agreement (NAFTA) with Canada and Mexico. It is important that the United States maintains the robust beef trade with those top beef customers.

The major hurdle to resuming U.S. beef exports to China was the political negotiating process. Now that an agreement is in place and beef is allowed to be exported, the size of the Chinese market will need to be determined. The requirements that beef must be traceable to the birth farm using a unique identifier; and not contain growth

promotants, feed additives and other chemical compounds may restrict the amount of beef that is initially available for export to China. Longer-term, price premiums may provide the incentive for beef producers to raise animals that meet those requirements.

Several of the issues discussed above have at least temporarily affected cattle prices and particularly the futures market. At times a “buy the rumor, sell the fact” has caused price volatility that may have been frustrating for

cattle producers. With the instant access to worldwide information that is now so readily available, expect that price volatility to continue as the dynamics of the global beef market continue to evolve.



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