



Consultancy & Research
Prospective et Stratégie

US beef sector trends and impact on global trade

Bord Bia Meat Prospects Seminar
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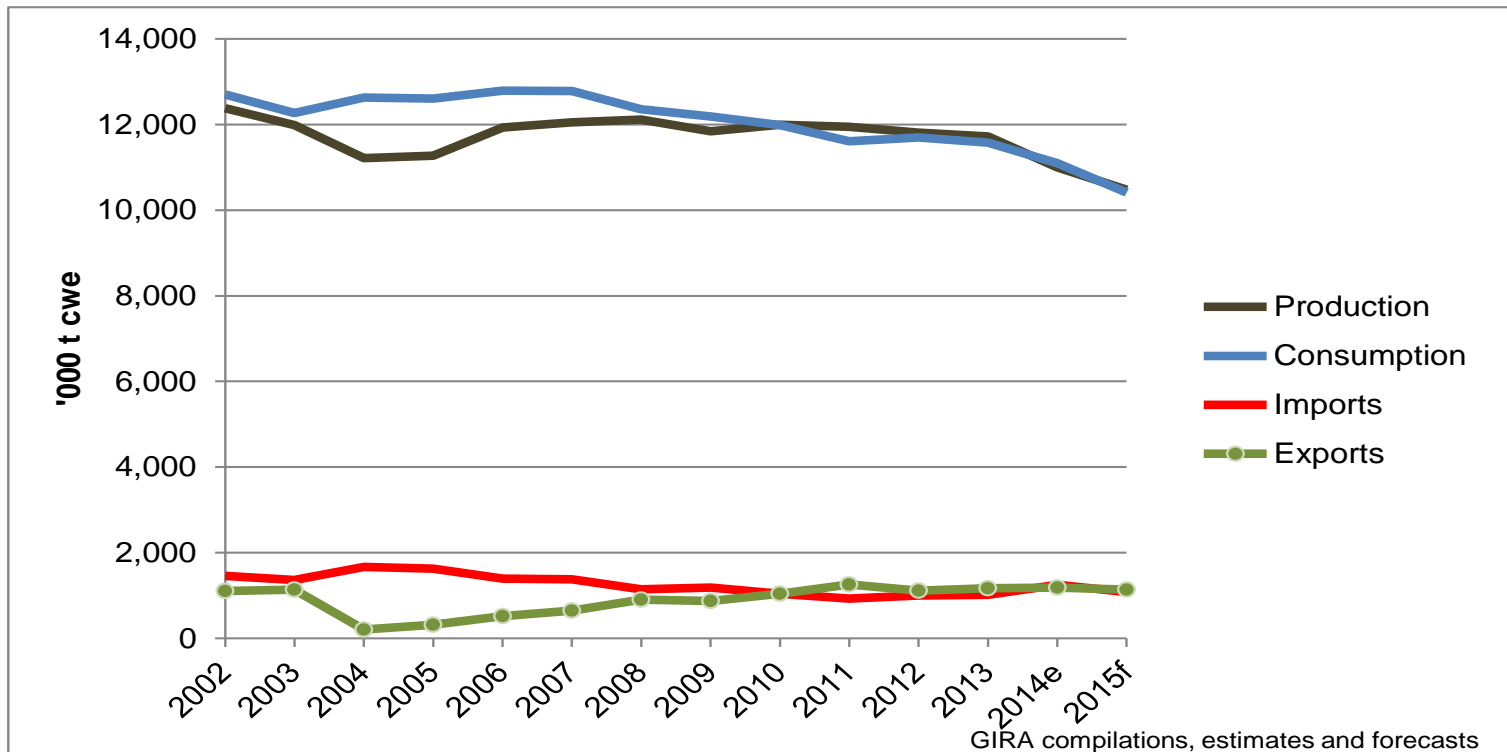
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US beef sector situation

Global beef trade impact

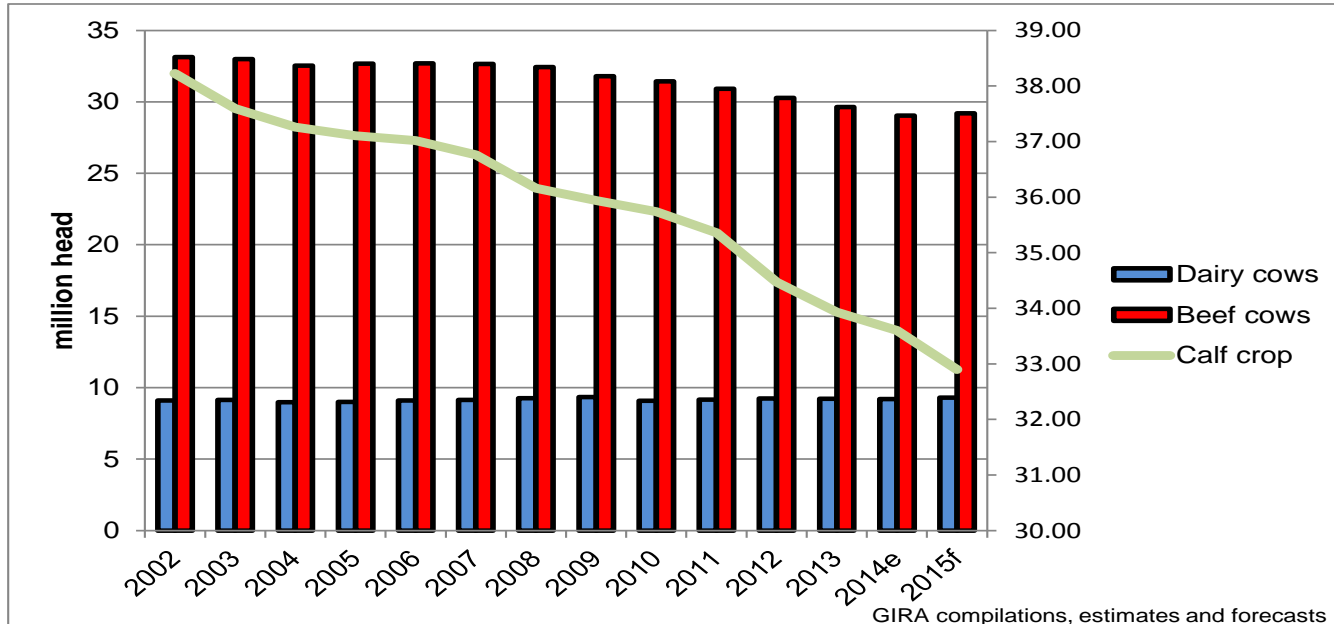
Recent sharp supply declines for beef (and tight 2014 PY and PK supply) led to record US meat pricing

US Beef balance 2003-15f (000 t cwe)



Cow Herd and Calf Crop

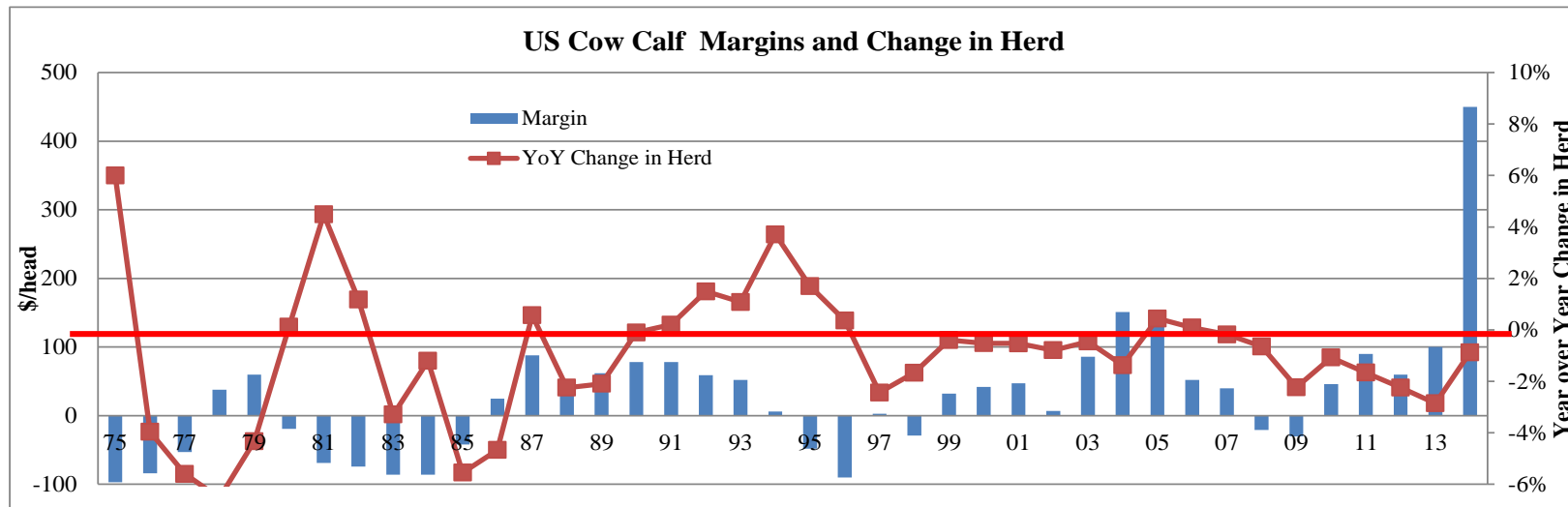
Stark message of tight supplies



- Historic trend of declining cattle supply is the most important factor facing all segments of the industry:
- ... until now: when breeding herd recovery is starting

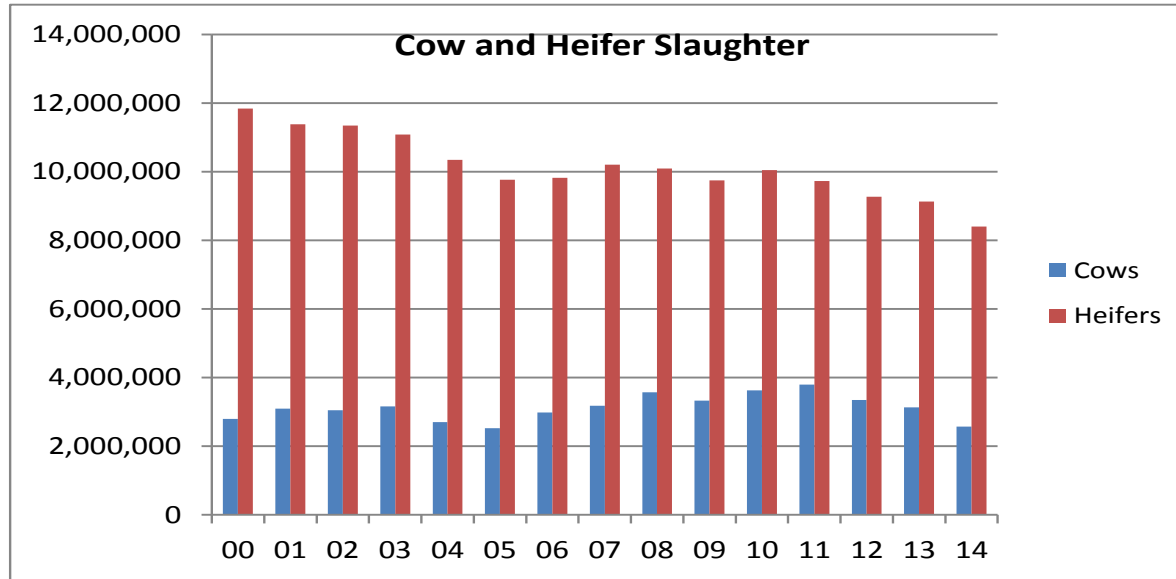
US Cow Calf rancher margins vs Expansion

This industry has not expanded despite modest historic profits



- Usually, after a series of profitable years, ranchers start to retain cows and expand.
- There has been enough \$ incentive to expand...based on history
- ...other factors? Demographics, risk aversion, opportunity costs
- Drought in cow-calf regions...major issue for 2011-2013
- 2013 and 2014 still no expansion

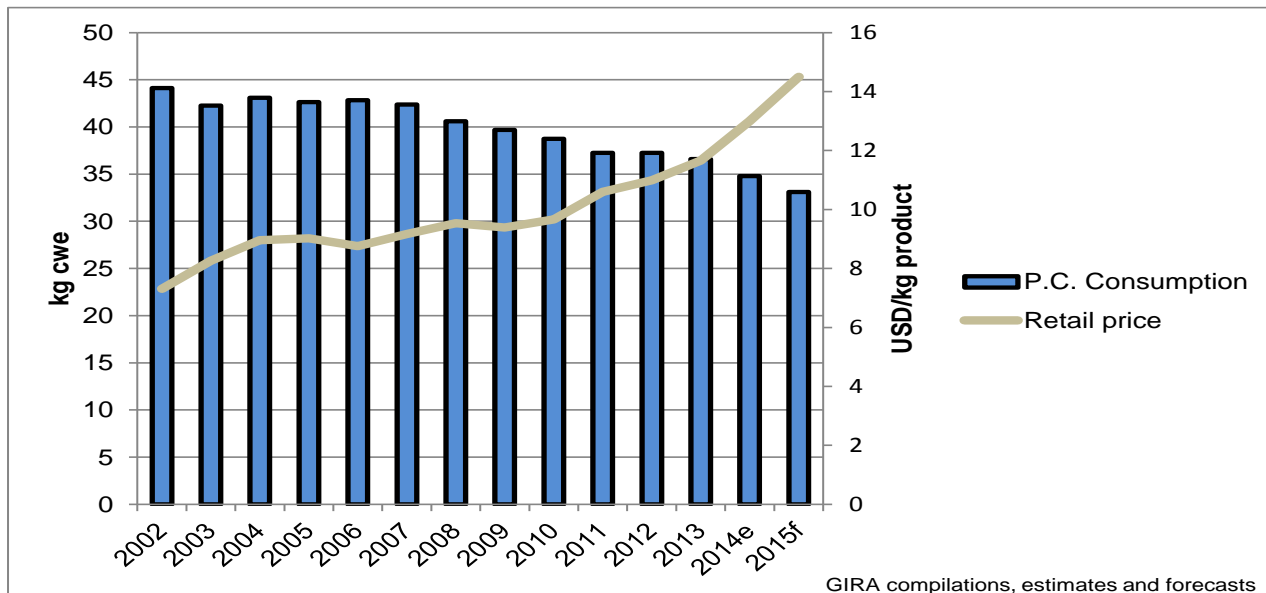
Dramatic reduction in slaughter...signals more supply challenges for immediate future



- 18% reduction in cow slaughter in 2014
- 8% reduction in heifer slaughter in 2014
- Message: Tight current slaughterings ... but finally herd expansion!

Consumption and Pricing Patterns

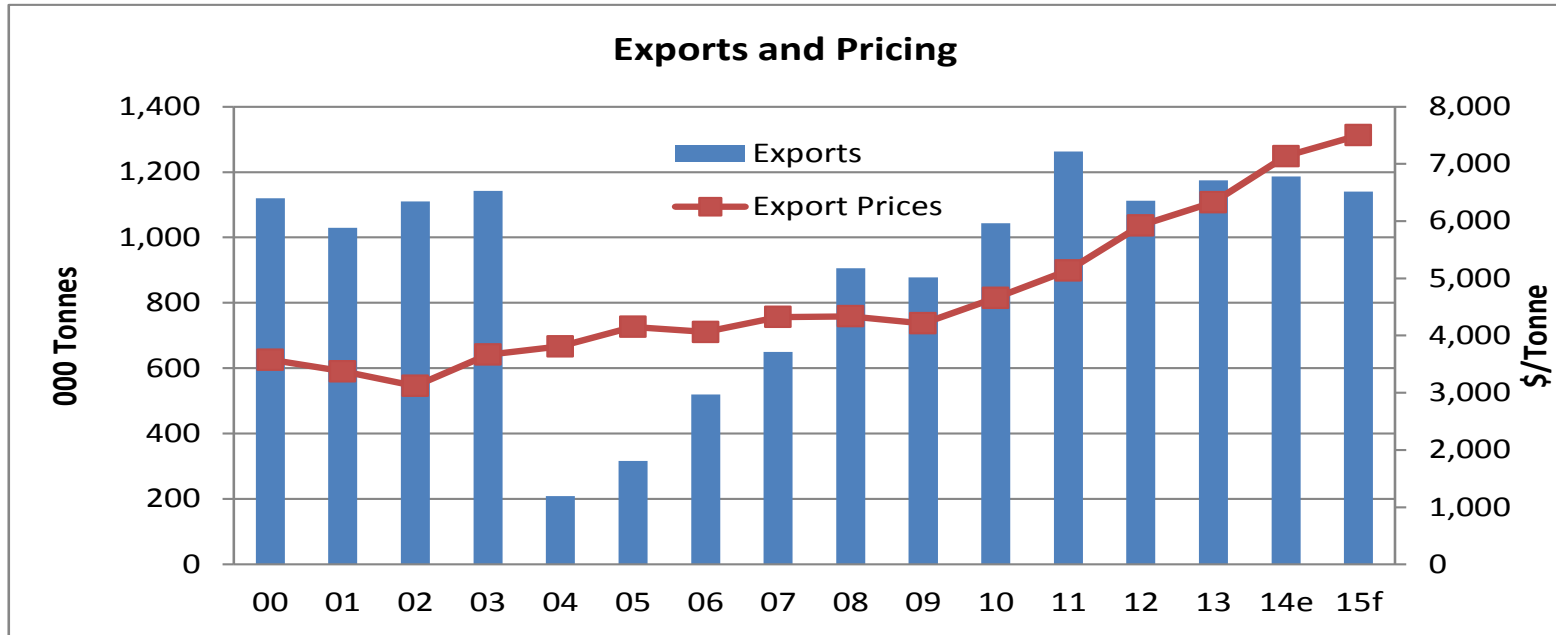
Higher prices cause declining consumption



- Retail prices soar in response to cattle and beef costs.
- Consumers respond rationally by reducing consumption but:
 - Beef expenditures indicate strong demand
 - Pork and poultrymeat were also very high priced through 2014
- Might more PK & PY supply undermine 2015 BF price? We think not!

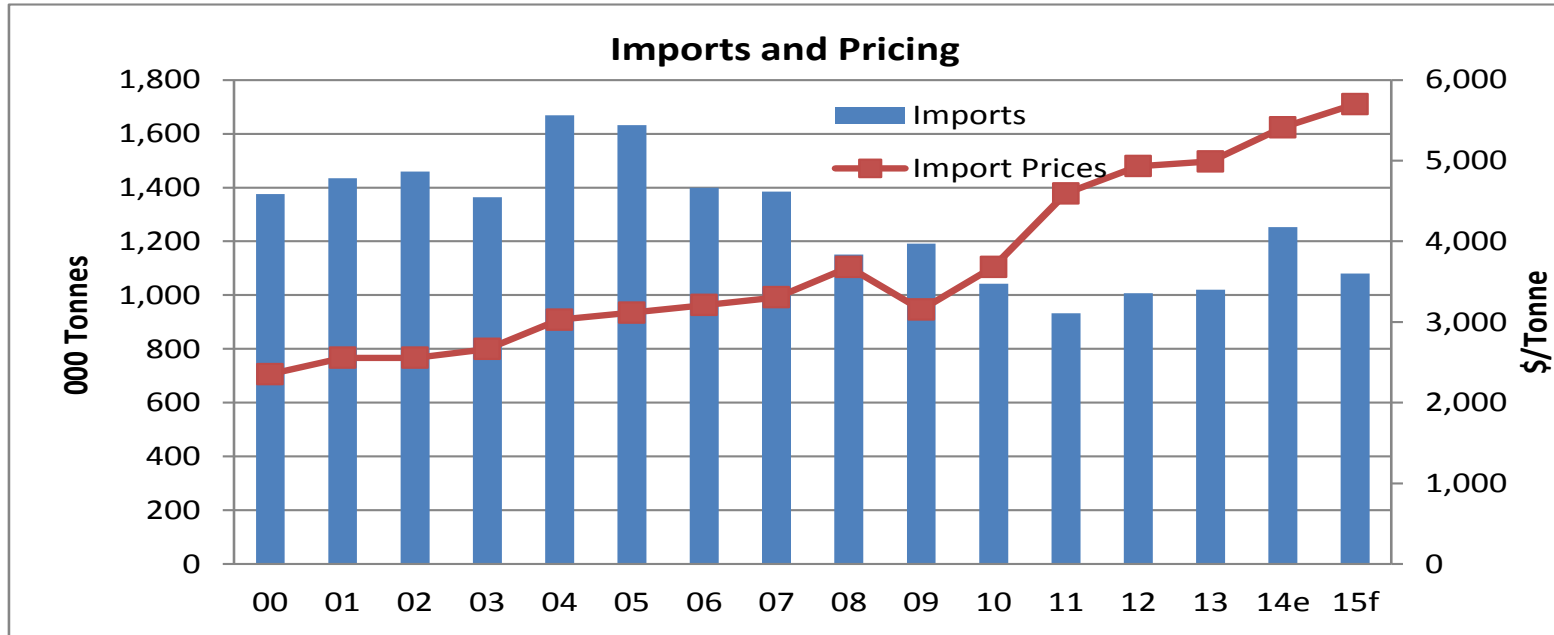
US BF Export Tonnage and Pricing

Impressive performance despite reduced production



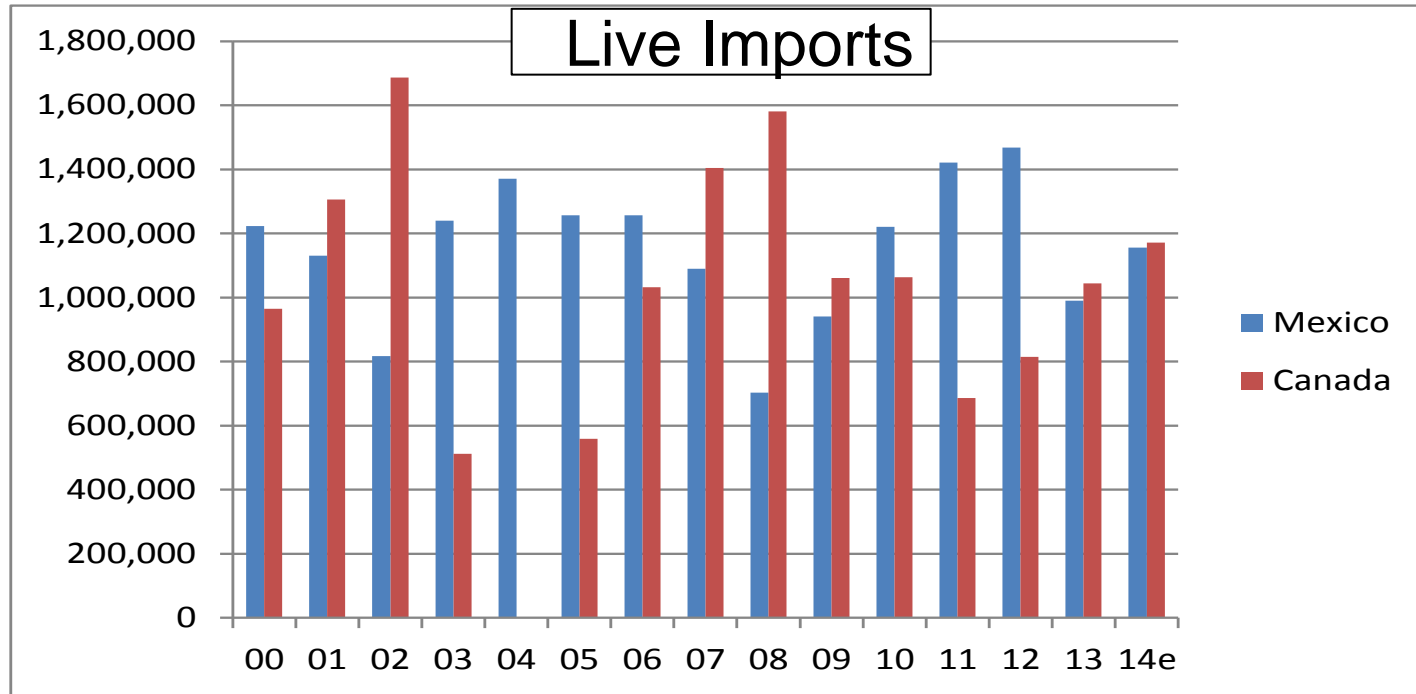
- Prices in export markets are strong.
- Tonnage increased despite reduced production.

Strong U.S. BF pricing draws product

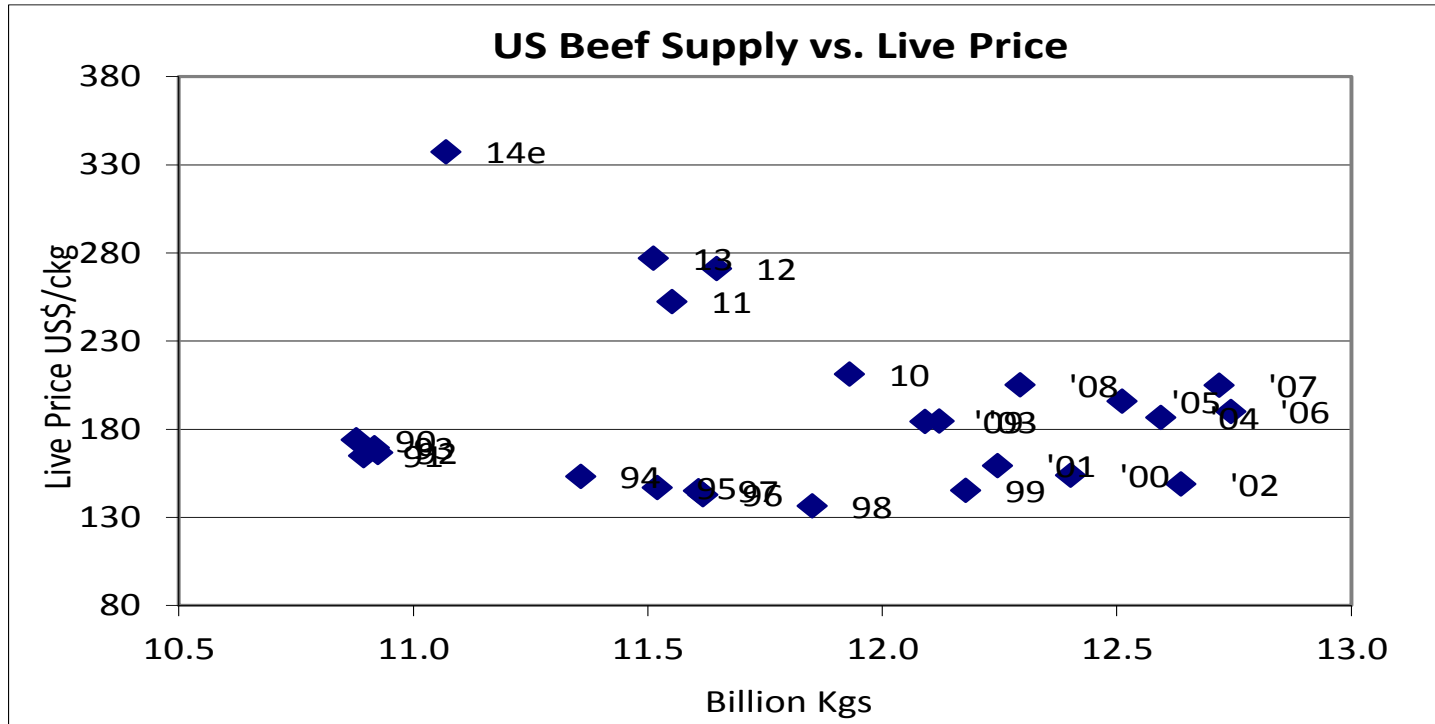


- Short market with higher prices draws major increases in 2014 tonnage.
- ... but lack of global availability limits import supply for 2015f

Imports drawn in due to tight domestic supplies



- Strong live import pull despite COOL.
- Record high US feeder cattle prices pull cattle from Mexico and Canada.
- Regional importance to Texas and Northern Tier states

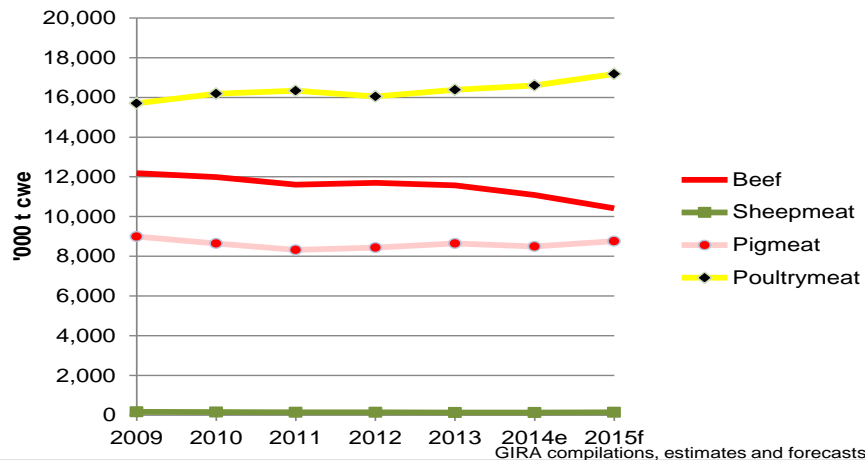


- Export demand creates new pricing levels.
- Prices hit new record driven by very low production and excellent demand.

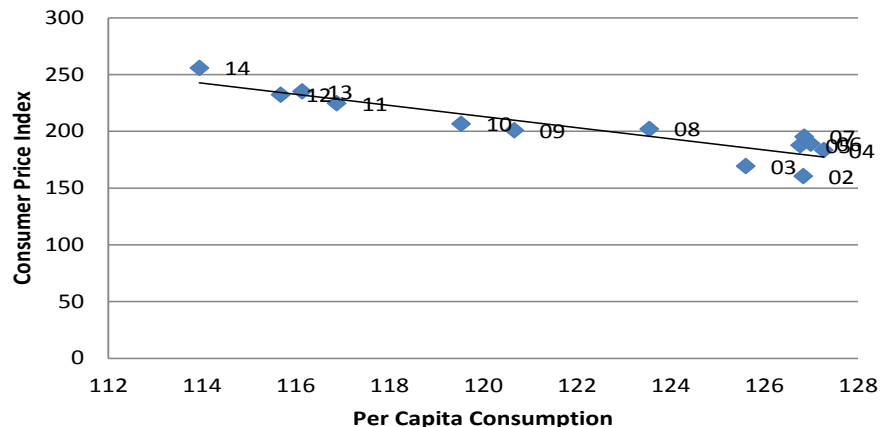
Total US meat consumption and price evolution

US meat demand has been remarkably stable

Total US meat consumption (000 t cwe)

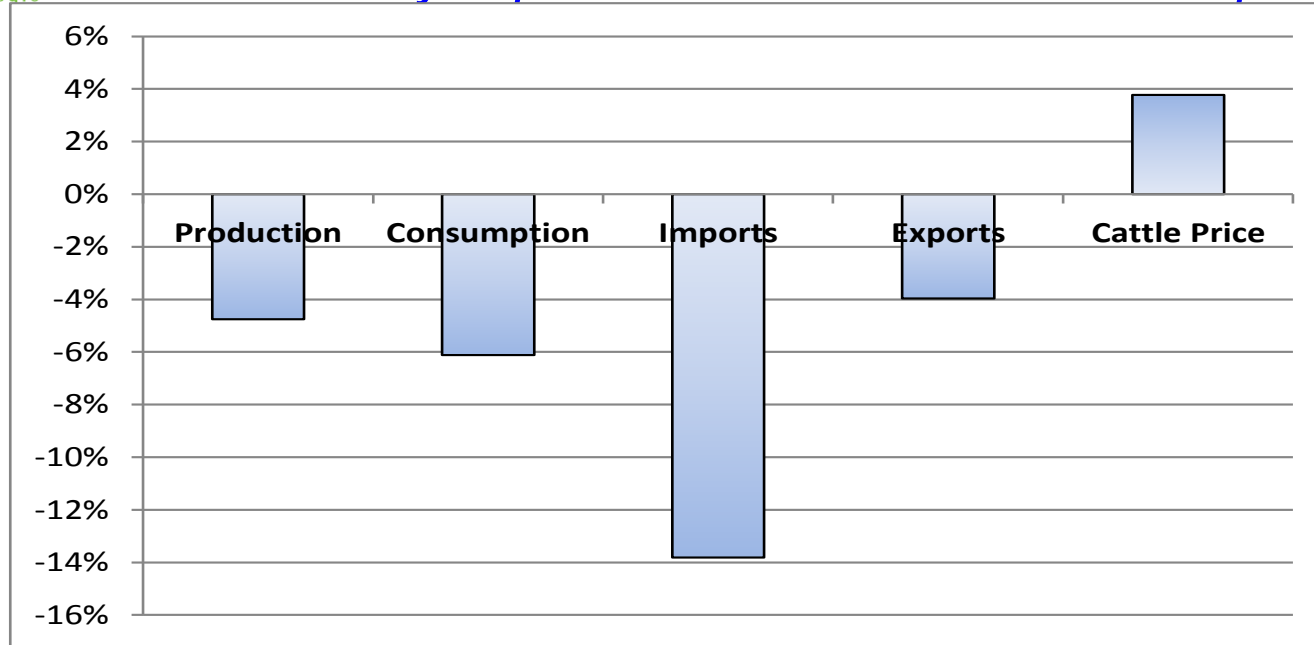


US meat demand: per capita consumption (kg cwe) vs. meat CPI



- Per capita consumption has declined to 114kg cwe ... but at higher prices
- Prices hit new records driven by very low production and robust demand ... in an improving, but unexciting economy

Every aspect evolves around the lower production



- Lower production due cattle shortage
- Imports are in demand but not available
- Consumption and exports ease due to production and price rise (Gira forecast lower than futures market suggests)
- Only major risk is that US PK and PY rise by more than the 3% Gira expects

US beef sector situation

Global beef trade impact

2015: global overall meat market characteristics
Profit consolidation in a year of low feed costs ... for most, but not all!

- **2013: year of caution: feed cost**
- **2014: year of contradiction: disruptions ... very profitable for many (not EU)**
- **2015 Economic growth should be better:** but much more risk than prior years
 - **Major risk of RU economic & banking crisis:** threat to import volumes and origins ... and therefore prices
- **Modest 1.3% global meat production & consumption growth**
 - still at lower rate than historical average
- **Low feed costs**
- **More typical trade patterns & growth @ 2%:** subject to RU
- **Scope for profitable year**
- **CN meat industry profit expected to improve**
 - Better import opportunities
- **Persistent high US meat prices: especially BF**
- **Somewhat bleak EU outlook for PK mainly ... and processors**
- Continued **high-alert on diseases:** ASF spreading, PEDv in US and xxx, etc

*Tight supply, in a reasonable demand environment
should maintain price levels ... but there are risks*

- **Modest cattle herd rebuilding in many countries**
 - Specialist beef herds and also dairy farms
- **Production: -0.7% globally, as US production is so constrained (and AU)**
 - BR being the most positive major producer @ +3%, illustrative of other serious S.Americans
 - Slaughter cattle supply: still tight. Intensification: catalysed by global demand outlook and cheap feed
 - Indian growth will continue
 - Expanding dairy herd (buffalo & cows)
 - Increased offtake rate: made possible by higher prices. Assumes BJP does not impede
- **Demand reasonably robust:** especially in N & S America and Asia
- **Prices stable:** at a relatively high level
- **Trade marginally down:** Import demand is OK, but supply is tight
 - **Risk: a Russian economic crisis will slash their import demand**
- **US supply tightness will continue**
 - Lower domestic supply ... with some temptation to draw in more live cattle
 - Lower meat import availability from traditional partners: some further access
- **AU production and export will fall sharply** – assuming pastoral conditions recover
 - Much tougher times for the processors

Beef & Veal Net Production by Country

The US decline shows a striking 2014/15 decline in response to low cattle supply. AU drought impact

Figure SYN-BF 2: Beef & Veal Production, 2003-2015

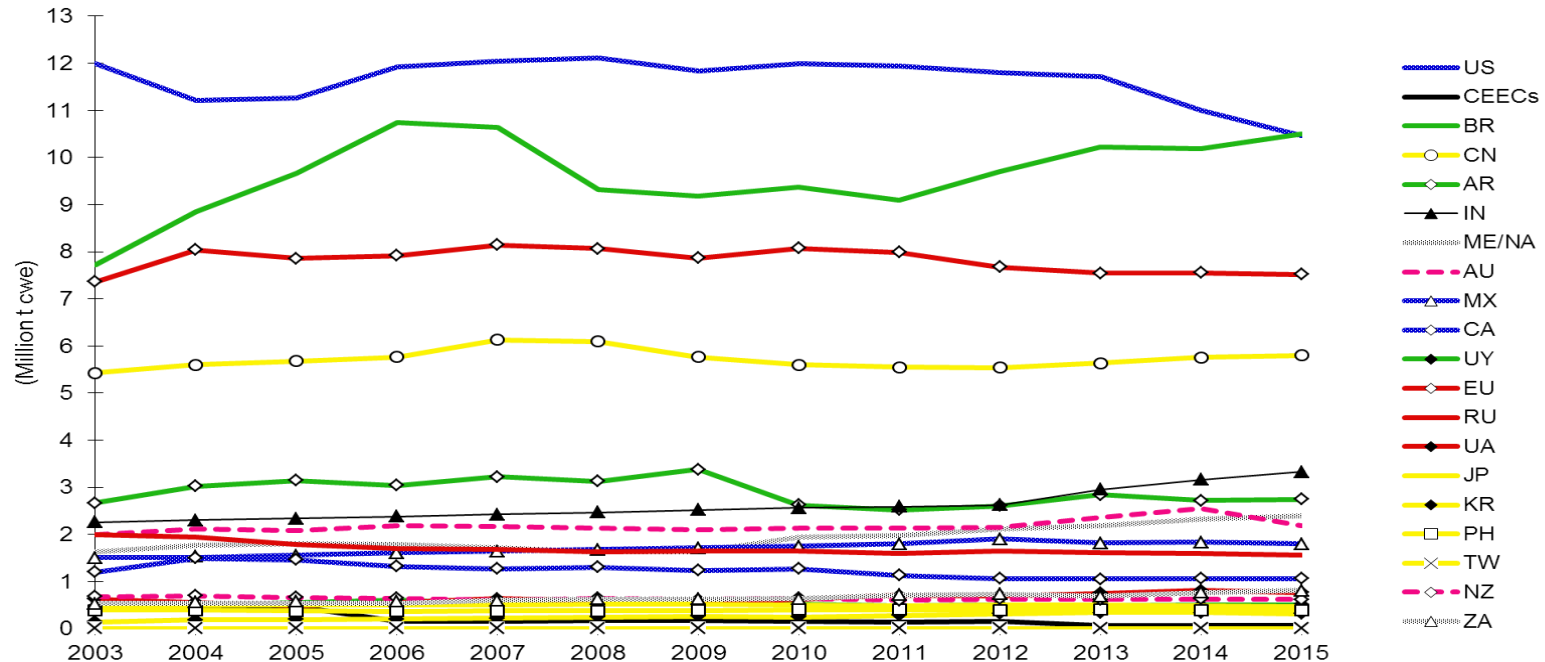
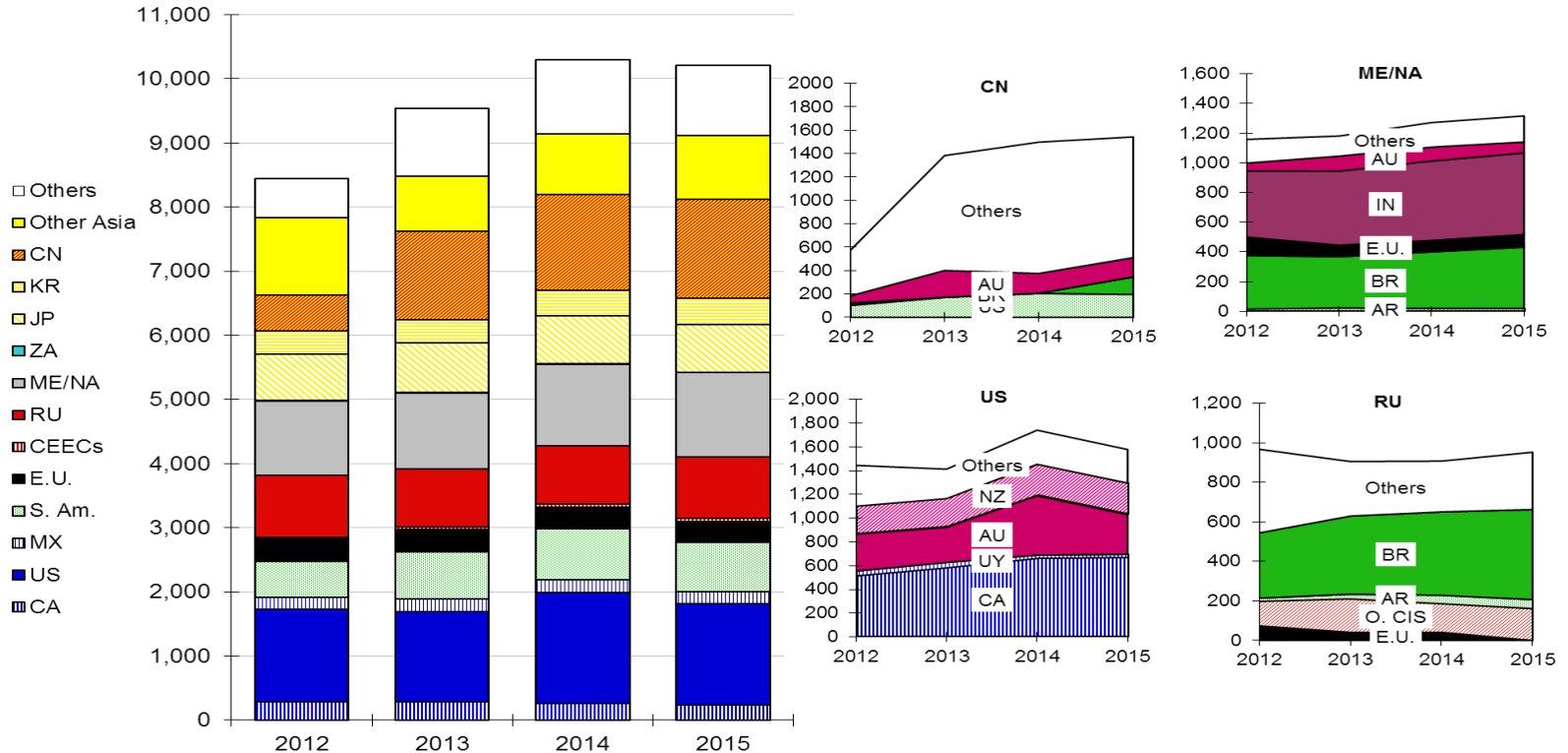
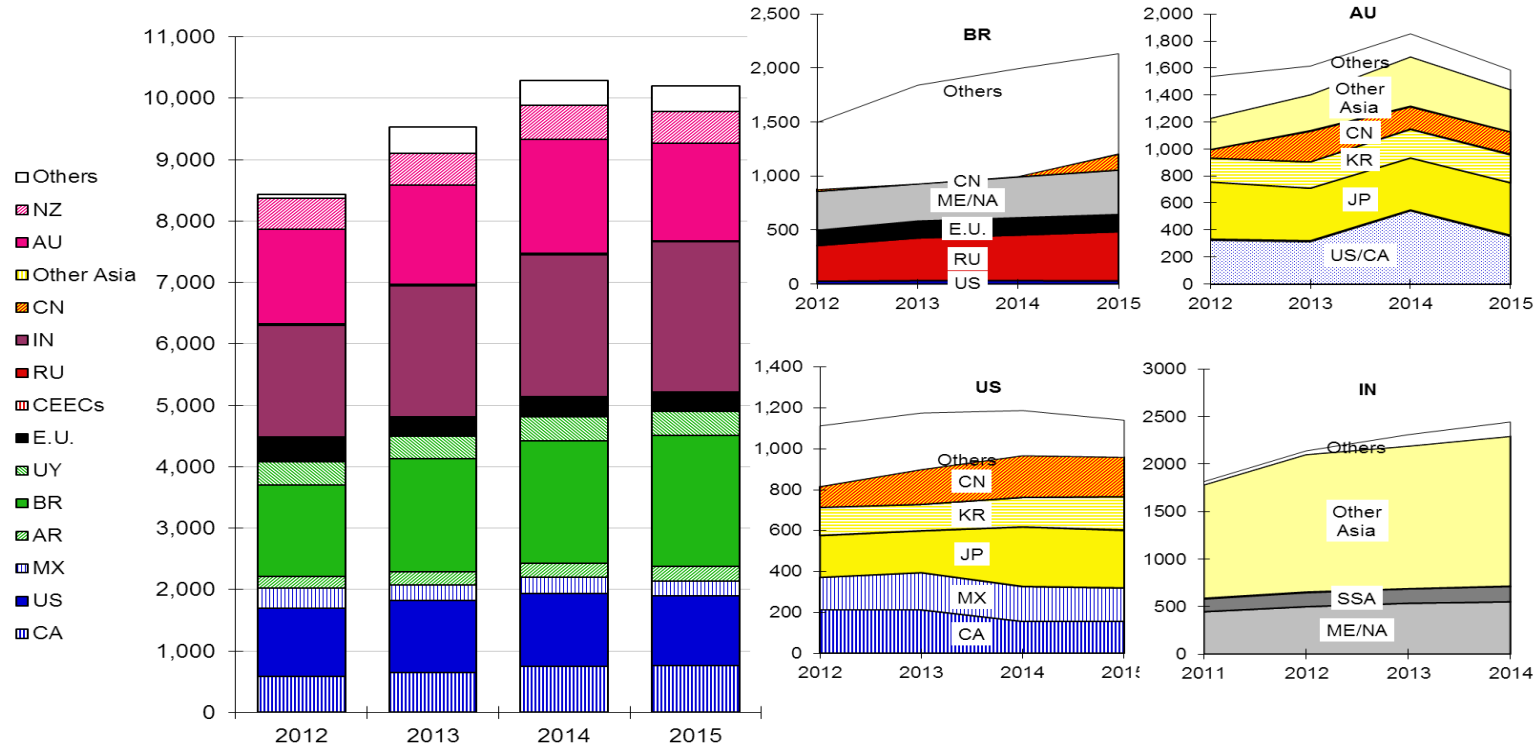


Figure SYN-BF 6 Beef & Veal Importers 2012-2015 (incl. live, '000 t cwe)



*India reinforces its position as the world's largest exporter
... of buffalo ... to CN (eventually)*

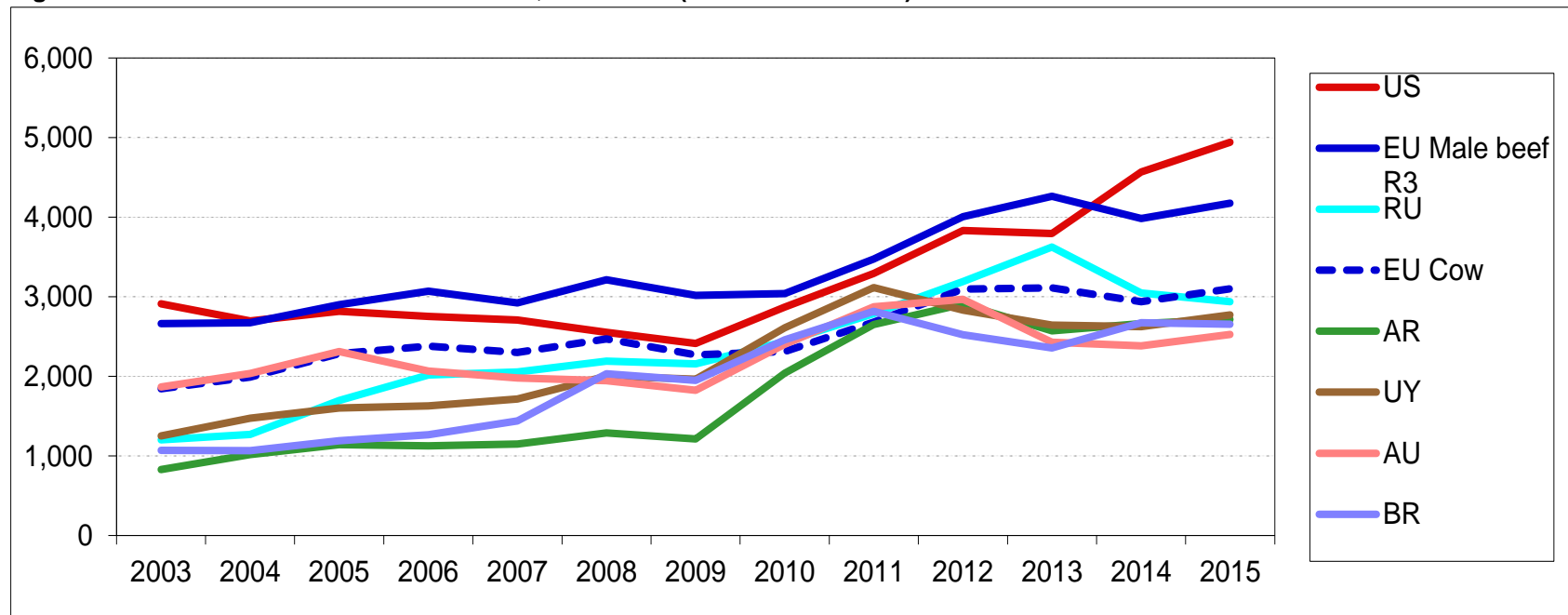
Figure SYN-BF 7 Beef & Veal Exporters 2012-2015 (incl. live, '000 t cwe)



Cattle producer prices in current EUR/t cwe

Higher 2015f prices, lead by the US ... and even applying to EU

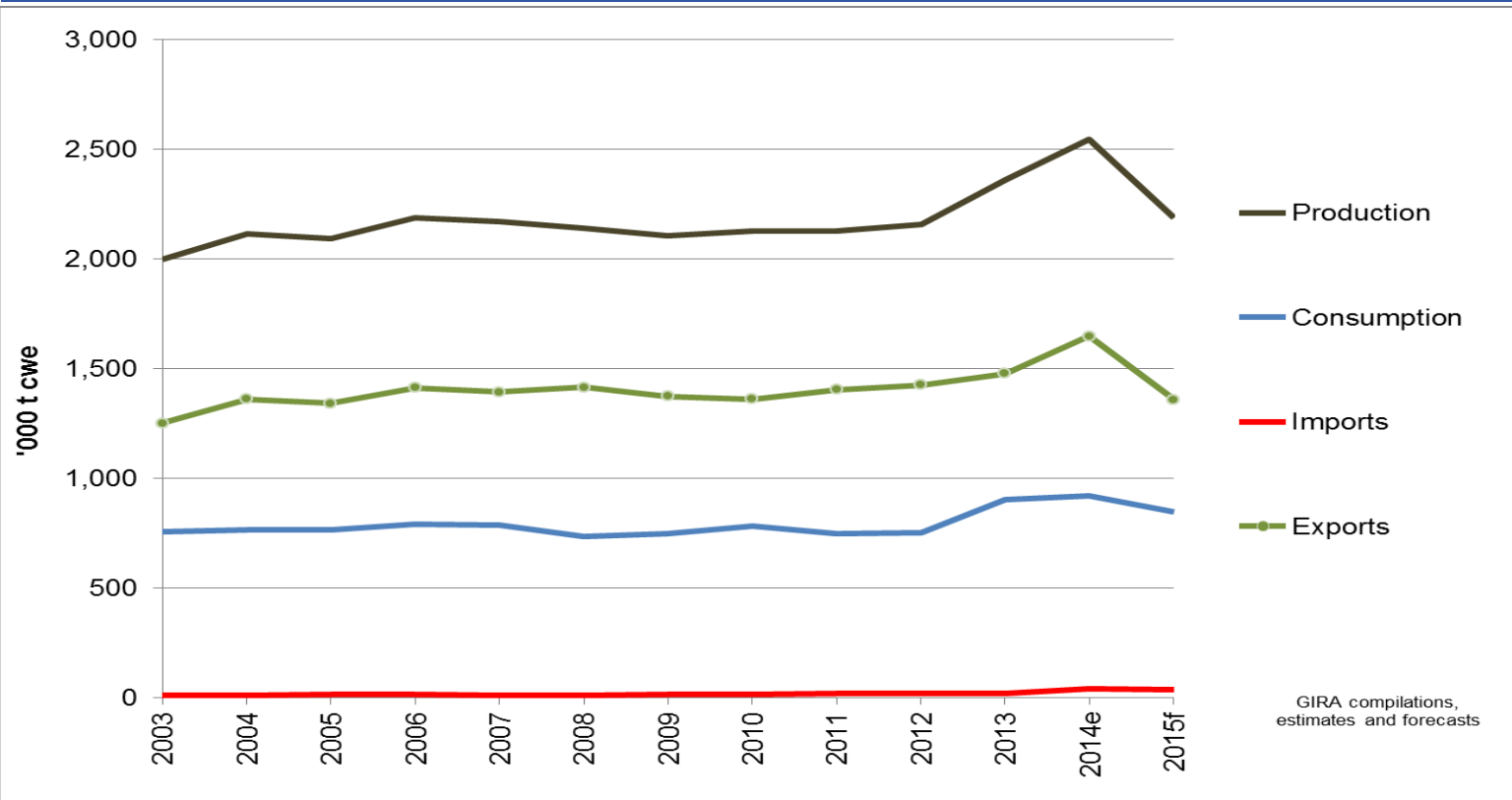
Figure SYN-BF 10a Cattle Producer Prices, 2003-2015 (current EUR/t cwe)



AU beef production to fall in 2015 following 2 year drought fuelled 'boost'



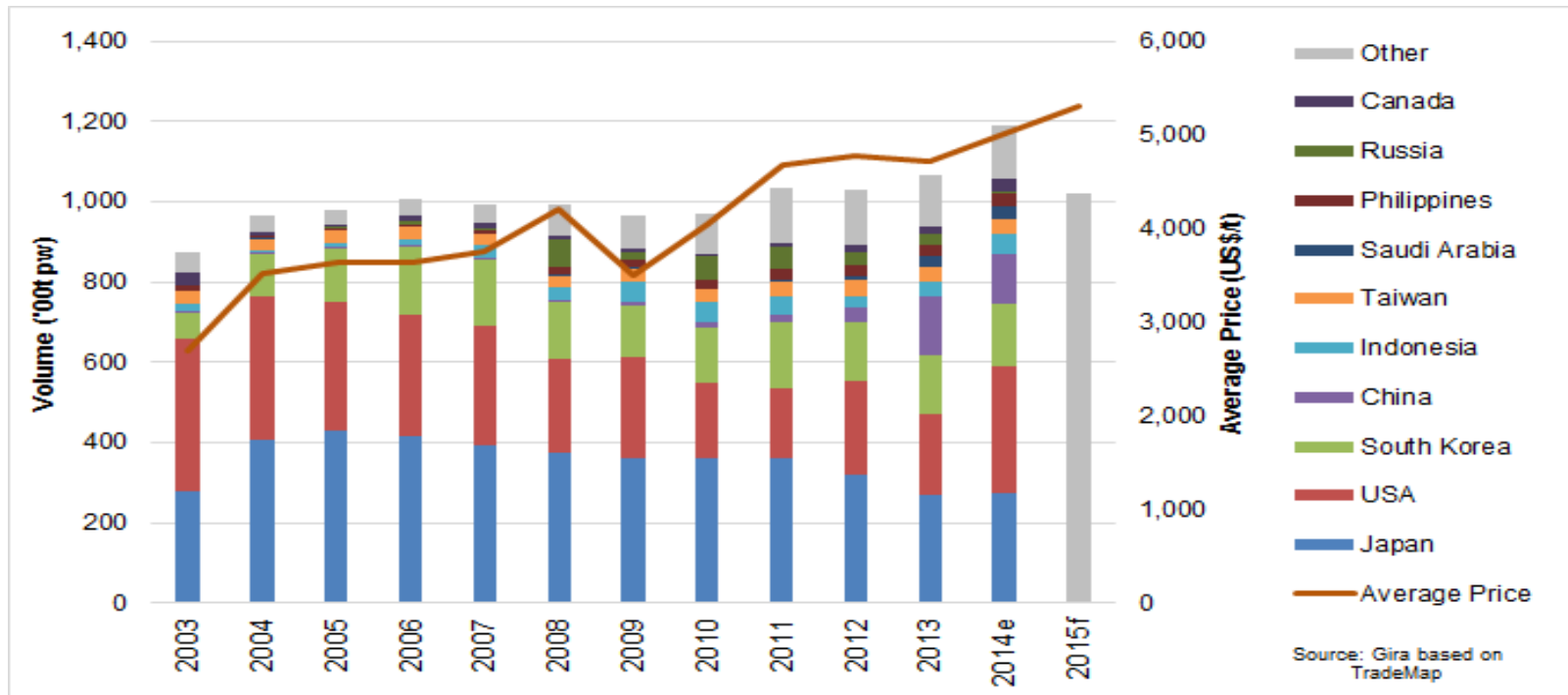
Australian Beef balance 2003-15f (000 t cwe)



2015 AU exports will decline as Australian production is supply constrained...



Australian Total Beef Exports (Fresh + Frozen), 2003-15f



Conclusion for Irish BF sector *Better outlook ... after a disappointing year*

- **Tighter EU BF supply:demand balance**
 - Some uplift in beef demand as EU economies improve
 - Production decrease
- **Tight global BF supply situation**
- **Robust global BF demand**
- **Important new Irish BF export opportunity to US**
 - US BF supply shortage: from domestic production and import origins
 - Robust US beef demand ... and record cattle and beef prices
 - Some caution in 2015 US supply increase for the other proteins
 - USDA “Beef equivalence reinstatement audit for Ireland” ...
 - **Commodity export opportunities**: short term?
 - **Niche export opportunities**: Irish-origin should be defensible for a long time

THANK YOU FOR YOUR ATTENTION