



Thursday, February 12, 2015

Australia

Reports claim cattle harvest figures reached their highest level on record in December 2014, reflecting continued liquidation of the herd attributed to ongoing drought conditions. In the meantime, Queensland plants continue to operate at substantially reduced numbers due to excessive rains, as meatworks are struggling to source enough cattle. Elsewhere, northern Australian plants and feedlot operations remain well sold and prices are relatively firm.

As it pertains to hides, producers are seeing a bit more interest because of the problems with the US's inability to ship hides due to problems at west coast seaports. This has most sellers raising their asking prices, especially on heavier weight hides, as it appears interest on lighter weight hides still underwhelming.

Overall, prices reflect an increase over our last reported levels, a result on the stronger USD; however, also improved demand for product. Meanwhile, reports claim some Asian tanners bidding numerous dollars under asking prices last week, while sellers responded by not even countering. Elsewhere, domestic prices are steady to slightly higher in terms of AUD to compensate for the exchange rate.

South America

In Brazil, prices of fresh hides remain firm, as packers appear reluctant to succumb to lower ideas of tanners. As of this writing, we continue to hear reports of trading levels ranging from 3.20 Reais to 3.40 Reais with prices depending on which part of the country buyers are standing in and quantities purchased.

Meanwhile, tanners are experiencing underlying pressure on wet-blue hides. Sources share that asking prices as high as \$1.80 / sq. ft. last week for TR #1's were met with a considerable amount of resistance from buyers. As a result, this week have most producers with asking prices closer to levels of \$1.75 / sq. ft., while there are claims that some buyers have bought as low as \$1.70 / sq. ft. for voluminous type business.

(Leather Biz.com) - Just before close of business in Sao Paulo on February 6, JBS Couros, the leather division of Brazilian packer group JBS, announced a new agreement with Conceria Priante, a tannery in the Arzignano cluster in northern Italy.

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JBS Couros has 25 tanneries of its own, most of them in Brazil, but said in the announcement that it would now use the Priante name as its “luxury brand” in international upholstery and high-end leather goods markets.

“The agreement will be a milestone generating numerous synergies between Priante and JBS,” the companies said in a statement. Leather Biz has followed up with both companies since receiving the announcement and both have said they will make further information available in the future, but both insisted they would release no extra details immediately.

Among other things, Leather Biz asked if the agreement constitutes the acquisition of Conceria Priante by JBS Couros and if Conceria Priante will continue to carry out work on its own or if it will now work exclusively with or on behalf of JBS Couros.

(Leather Biz.com) - Exports of hides and skins from Brazil had a value of \$183.2 million for the month of January 2015, a decline of 9.3% compared to the same month in 2014, and of 28.2% compared to December 2014. In terms of volume, Brazilian tanners exported 2.2 million hides in January, down by almost 25% compared to the figure for December 2014. Of January’s 2.2 million hides, 44.1% left Brazil as wet blue and 43.4% as finished leather.

Asia (Information Limited due to CNY)

Reports from Taiwan claim interest from tanners has crawled to a halt, supported by today’s USDA Export Sales Report. According to sources, tanners who are still in the office do not have any interest in offers this week, as their focus appears on securing shipment of US hides they already own.

Overall, tanners leaning towards the opinion hide prices in general likely to continue to move lower, especially considering we are halfway through the busy seasons. Worth noting, numerous tanners insisting that leather orders are falling short of levels of a year ago, while we continue to hear comments that tanners and brands locked in heated discussions in regards to brands looking to lower leather prices on new business.

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Reports from China claim interest / inquires this week has slowed substantially as several tanners have closed for the CNY. However, hide buyers as always working; however, most do not appear as if they have any real interest in buying this week, especially at some of the asking levels on offer lists this week. That said, many hide buyers have told agents that if they have something “interesting” for them to consider during their holiday they would be willing to listen.

Meanwhile, problems at the US west coast seaports are wreaking havoc with schedules for a number of tanners, forcing them to cover their immediate needs with hides from Brazil, Australia, and Europe. In the meantime, many tanners are reluctant to consider purchasing additional quantities of US hides regardless of the price, until there is a resolve as tanners want to avoid dedicating any more of the line of credit to product that cannot ship in a timely fashion, while this is also affecting some tanners ability to open timely L/C's.

Elsewhere, there continues to be rumors of sales being concluded with tanners who are considered “A-List” customers of some of the various packers, and if reports are correct, prices paid are at least a couple of dollars and possible more under the reported trading levels that packers are touting. Meanwhile, tanners are also dealing with fluctuation in the exchange rate as the strong USD is certainly impacting calculations for tanners, especially those who receive payment in RMB in China domestic market, but must pay USD to import the hides.

At the end of the day, as most beam house and finishing operations are now closed for the holiday, there are plenty of questions as to what we can expect following their CNY. Opinions of the trade vary, as producers continue to insist that tanners need coverage of raw stock, while tanners continue to insist that leather business is not equal to levels of a year ago. Meanwhile, we understand that split prices are coming under fire again with buyers looking to push already depressed prices even lower and this coupled with claims that leather buyers are pressing hard for concessions on new business, may have many tanners facing “big” headaches when they return.

(Leather Biz.com) - Reports from China say the country's leather makers produced 54.4 million square meters in December 2014, 8% more than in December 2013. In terms of regions, Zhejiang produced a quarter of the total, 13.9 million square meters; Henan produced 10.5 million square meters; Hebei, 6 million square meter; Jiangxi, 5.7 million square meters; and Fujiang, 5.5 million square meters.

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Europe

Members of the trade share that they continue to see some offers of mostly cows into the Chinese market. Meanwhile, there are reports that German and Dutch traders much more active the past week to ten days, with more than ample hides to offer. In the meantime, exchange rate has improved slightly from its most recent lows; however, not enough to provide enough of an advantage over its highs of a few months ago.

Overall, popular opinion of the trade is that European market is simply only trading water and most report this week and next is likely to be uneventful due to the CNY. Meanwhile, L/C's opening remain slow with several tanners blaming the problems on the US west coast seaports monopolizing a substantial amount of their credit lines. Elsewhere, the Paris show is this week and reports so far are claiming an relative uneventful event with several members of the trade questioning as to why they are there.

The good news for those selling hides is that Italian tanners have improved their ideas the past week to ten days and sources share that many tanners now paying equivalent prices as sales to Asian tanners. Meanwhile, the time to take advantage of appreciating currencies has now passed and many European hide traders have had to readjust their buying and selling ideas and insist margins are minimal at best.

In the UK, the confusion at the abattoirs continues, as a new company (supposedly is a Chinese backed English company) appears as if they are attempting to buy market share and grossly overpaying for hides. Sources report the focus of this group appears more towards heavier weight hides. However, standard operating procedure is for the buyer to accept ALL hides types and will be interesting to see if this policy continues to prevail, considering this group is paying several dollars higher than their closest bidder is willing to pay.

The opinion of the trade is that although there are likely able to eke out a profit on the heavier weight hides they are buying, if forced to take the entire production (usual practice), they are looking at some sizeable losses on lighter weight material. Meanwhile, worth noting, the same buyer is also supposedly y securing good decent volumes of skins in Australia as well.

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Members of the trade in Germany claim that traders are pushing hard for lower prices arguing that demand is not nearly as robust, with sources claiming demand from automotive tanners down slightly; however, furniture tanners appearing as if they have a bit more interest. In the meantime, producers arguing that supply is lower, so no need to change prices. However, at the end of the day, it appears buyers have met with some success as we have several selections down as much as five cents versus a week ago.

Worth noting are comments to see less demand from automotive tanners in spite of reports that sales of German brands remain strong illustrates a couple of things: 1) tanners must have adequate stocks since the drop in demand dating back to November. 2) There are reports of some brands now using lower quality hides (example – Mercedes sticks to South German Bulls for its S-class sedans. However, Mercedes is now placing less expensive leathers in their E-class series, similar to what they have already done for their C-class series.

(Leather Biz.com) - Première Vision Leather, the former Cuir a Paris, kicks off this week in Paris (February 10 to 12), featuring 430 exhibitors. A Brazilian delegation, led by the Centre for the Brazilian Tanning Industry (CICB) and including tanneries Best Brasil, Fuga Couros and Nova Kaeru, has said they expect to do \$4 million of business at the show.

CICB said: “At Premiere Vision Leather, leather is treated as it should be: a sophisticated material, of refined textures, forms, and finishing’s, perfect for the production of elegant shoes, handbags and accessories.” The collections from the Brazilian companies revolve around the theme “ostentation”.

Mexico

In Tamaulipas, Agricultural delegate report the bovine herd is down by 20%.due to drought. This has forced farmers to sell their livestock at very cheap prices, as conditions will not allow farmers to keep their livestock as it is becoming much too expensive, while also weighing heavy on the economy in Tamaulipas. The good news is that the Mexican Central Government I insisting that it is prepared to assist farmers and will try to revive a herd-restocking program to recover the animals lost to drought and willing to commit 100 million Pesos to this effort.

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Meanwhile, record beef and pork prices in the US are being felt in Mexico and this coupled with a stronger USD is weighing heavy on the poor in Mexico. Worth noting, US beef prices are running close to 20 Peso / kilo, while pork prices are running at 10 Pesos / kilo.

Elsewhere, for the first time in history, the US sold more vehicles produced in Mexico versus vehicles produced in Japan, continuing a trend seen in 2014. Overall, Mexico exported 1,876,000 vehicles in 2014, and increase of 35.2% versus 2013. Also worth noting, exports to Canada, Colombia, and Peru were also higher.

In regards to January's numbers, there were 103,697 vehicles sold, which represents an increase of 21.3% more than Jan 2014. Meanwhile, Mexico produced an all-time record number of units with production equaling 266,424 vehicles, 6.8% higher than January 2014, while there were 204,907 units exported, which is another record number for a January.

In the meantime, there are not real any changes in the hide market to note. Mexican producers continue to press for more money; however, with less expensive “special” offers coming from carious US producers, it is difficult to justify higher prices. Worth noting, some packers are insisting that they were able to achieve price increase of roughly \$0.50 / hide last week; however, we have not been able to confirm such actions.

United States

The big concern in the US is the ongoing problems at west coast seaports as this is taking a toll on our market. Overall, packers continue to try to keep up the appearance of a steady market; however, we continue to hear about “private” conversations taking place with some of their “preferred” customers where there is supposedly prices being offered well below their last reported trading levels, but only if they are able to ship immediately.

Meanwhile, delays range from 10-12 days at some southern seaports, to as much as 2-3 weeks at seaports located in the northwest. In addition, we are now starting to hear problems about empty container availability, while last night (Wednesday) the port authority announced that they will temporarily close all seaports today through Monday in an effort to try to help alleviate some of the congestions. In addition, last count there are 35 cargo ships loaded that are waiting to be unloaded.

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As far as business this week, the CNY holiday as expected is taking a toll on interest. The majority of sources we are speaking with are reporting only minimal number of bids, while buyers in general do not act if they intend to pay the asking prices of packers, especially considering the widespread rumors of very cheap direct offers. Meanwhile, we are hearing reports of traders being much more active last week and suspect that with the HK Fair only six weeks away that many were positioning themselves for when they will be traveling next month.

Reports from members of the cowhide trade are starting to insist the firm tone of the market we were seeing towards the end of last month and earlier this month, appears to be losing momentum quickly. Overall, sources share that there was not nearly enough follow-up interest to sales concluded towards the second half of January and we are aware of sellers struggling to duplicate levels obtained.

In the meantime, we are hearing isolated reports of some producers willing to negotiate prices last week; however, with many tanners in Asia now closed for their CNY, interest has slowed to a crawl this week and likely to see this continue next week as well.

U.S. EXPORT SALES FOR WEEK ENDING 2/5/2015

Wet-Salted Hides & Skins: Net sales of 404,900 pieces reported for 2015 were down 11 percent from the previous week and 20 percent from the prior 4-week average. Whole cattle hide sales of 375,000 pieces were primarily for China (296,600 pieces), South Korea (47,800 pieces), Mexico (12,900 pieces), Taiwan (10,700 pieces), and Italy (4,000 pieces). Decreases were reported for Canada (500 pieces). Exports of 340,900 pieces were up 1 percent from the previous week and 7 percent from the prior 4-week average. Whole cattle hide exports totaled 339,600 pieces. The primary destinations were China (242,200 pieces), South Korea (55,600 pieces), Taiwan (15,800 pieces), Mexico (15,500 pieces), and Italy (3,200 pieces).

Wet-Blue Hides & Skins: Net sales of 122,200 wet blues for 2015 were reported for China (58,300 unsplit and 2,400 grain splits), Italy (31,900 unsplit), the Dominican Republic (8,200 unsplit), and Mexico (6,300 grain splits and 200 unsplit). Decreases were reported for Italy (200 grain splits). Exports of 170,200 wet blues were primarily to China (51,900 unsplit and 9,100 grain splits), Italy (33,700 unsplit and 9,100 grain splits), Mexico (15,700 grain splits and 3,200 unsplit), and Vietnam (17,600 unsplit). Net

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sales reductions of splits totaling 829,000 pounds for 2015 were for South Korea (764,500 pounds), Vietnam (57,900 pounds), and China (6,600 pounds). Exports of 761,200 pounds were reported to South Korea (485,800 pounds), China (125,400 pounds), Taiwan (100,000 pounds), and Hong Kong (50,000 pounds).

| WEEKLY NET SALES ACTIVITY COUNTRY | WHOLE | | | | WET BLUES | | |
|---|-------------------------|-----------------------|----------------------|------------------|-----------------|------------------------|------------------------|
| | CATTLE HIDES 1601 | CALF SKINS 1602 | KIP SKINS 1603 | CROUPONS 1604 | UNSPLIT 1606 | GRAIN SPLIT 1607 | DROP SPLITS 1608 |
| | THOUSAND UNITS | | | | | | |
| ITALY | 4.0 | | | | 31.9 | --0.2 | |
| NETHLDS | | | 29.9 | | | | |
| JAPAN | 0.4 | | | | 4.6 | | |
| TAIWAN | 10.7 | | | | | 0.2 | |
| CHINA | 296.6 | | | | 58.3 | 2.4 | --6.6 |
| INDIA | | | | | | 2.1 | |
| HG KONG | 1.3 | | | | | | |
| KOR REP | 47.8 | | | | | | --764.5 |
| THAILND | 0.6 | | | | 3.5 | | |
| VIETNAM | 1.1 | | | | 4.8 | | --57.9 |
| CANADA | --0.5 | | | | | | |
| DOM REP | | | | | 8.2 | | |
| MEXICO | 12.9 | | | | 0.2 | 6.3 | |
| NET SALES | 375.0 | 0.0 | 29.9 | 0.0 | 111.4 | 10.8 | --829.0 |
| WEEKLY EXPORTS | 339.6 | 0.0 | 1.4 | 0.0 | 122.5 | 47.8 | 761.2 |
| ACCUM. EXPORTS | 1,596.4 | 0.0 | 23.2 | 0.0 | 558.3 | 180.3 | 2,655.7 |
| OUTSTANDING SALES | 3,164.1 | 9.6 | 60.7 | 0.0 | 542.5 | 334.4 | 7,843.2 |

Today's USDA Export Report does not offer any real surprises with 375,000 wet-salted hides sold, fifty thousand hides below the average for the quarter. Meanwhile, sales of wet-blue hides total 122,200 hides, which is thirty-three thousand hides below the average for the quarter. Combined sales of 497,200 hides

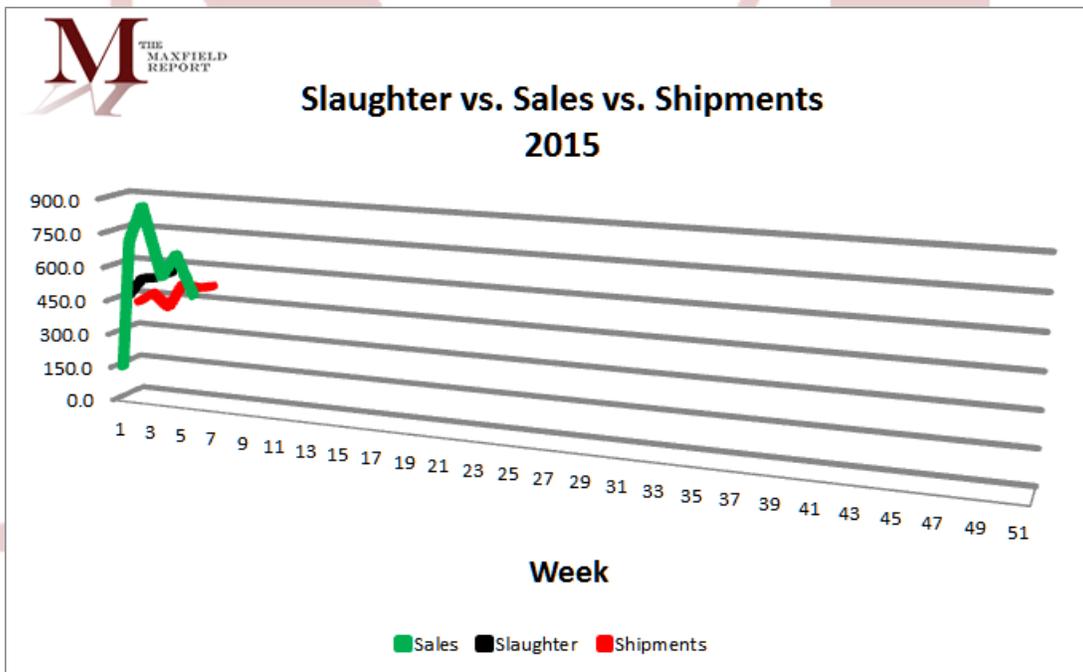
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is the first time we have seen sales number fall under five hundred thousand this year and is eighty-three thousand lower than the average for the quarter.

Shipments continue to remain a problem as we saw only 339,600 wet-salted hides shipped; however, the good news is that this is actually twenty thousand hides higher than the average for the quarter. Meanwhile, shipments of wet-blue at 170,200 hides are twenty-five thousand hides higher than the average for the quarter.

Combined shipments at 509,800 hides is roughly forty-five thousand hides higher than the average for the quarter and is the second time this year we have exceeded 500,000 hides. *This continues a disturbing trend where shipments continue to fall below the slaughter, which has occurred 19 times in the last 20 weeks.*



(USHALA Press Release) - The United States hide, skin and leather industry set a new record in 2014, exporting more than \$2.85 billion worth of cattle hides, pig skins, and semi-processed leather products.

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U.S. hides and skins companies – including producers, processors, brokers, and dealers – regularly export over 90% of total U.S. production of these products and are one of the top raw materials suppliers to the global leather manufacturing industry.

According to U.S. Department of Agriculture statistics, U.S. exports of wet salted cattle hides (cattle hides that have been preserved using brine solutions) dropped slightly to \$1.8 billion in value, a 1.2% decrease from 2013 levels. However, exports of wet blue cattle hides (semi-processed hides that have undergone the first stages of leather tanning), jumped 21% to over \$959 million in value.

The U.S. industry is undergoing a multi-year transition towards lower wet salted cattle hide sales and increasing wet blue sales, reflecting the higher value these products fetch in the market. China was the largest buyer of both products, with imports of wet salted cattle hides valued at over \$1.1 billion (a slight 0.8% increase over 2013) and \$374 million of wet blue products, a 33% increase over 2013. Other large destination markets include Korea, Taiwan, Mexico, and the European Union.

U.S. pigskin exports dropped 4% in value to \$54 million. The largest market for U.S. pigskins continues to be Mexico, accounting for nearly half of all U.S. exports. “The U.S. hides and skins industry continues to be a stalwart of U.S. agricultural exports,” said Stephen Sothmann, President of the U.S. Hide, Skin, and Leather Association (USHSLA). “However, if we wish to build on this success, we must look critically at our export infrastructure, especially our port operations.”

Despite record-setting export values, U.S. hides and skins companies face significant headwinds in 2015. Prices have retreated from the highs experienced for much of 2014, while the ongoing West Coast port labor dispute has nearly crippled the movement of products heading to Asian markets. USHSLA estimates between \$40-\$45 million worth of hides, skins and wet blue products are transported via West Coast ports each week, which have all but halted because of the ongoing negotiations between the port operators and labor union.

(Leather Biz.com) - Porsche Cars North America said sales in the US were 27% higher in January compared with January 2013 on the back of a record 2014. Sales of the Porsche 918 Spyder, 911, Boxster and Cayman sports cars, Macan and Cayenne SUVs and the Panamera four-door sports sedans totaled 3,937 vehicles.

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“It’s greatly encouraging that we are able to carry the momentum of last year’s record sales into the start of 2015,” said Detlev von Platen, the company’s CEO. “The 911 range with the new GTS models was an especially impressive performer this month with 1,052 deliveries.”

(WSJ.com) - Michael Kors Holdings Ltd. Thursday toned down its earnings outlook for the current quarter after sales growth slowed during the year-end holidays, a rare disappointment for a company that has long been impervious to the retail industry’s sluggishness. The slowdown was most pronounced in North America, where Chief Executive John Idol conceded the company used more promotions to entice shoppers to buy its selection of handbags, watches and accessories, a move that took a toll on profitability.

North American revenue growth -- excluding newly opened or closed stores and the impact of a stronger dollar -- slowed to 6.8% from 24% growth for the same period a year ago. Gross margins narrowed to 60.9% in the three months through Dec. 27, from 61.2% a year ago.

(Leather Biz.com) - Canadian retailer Danier Leather has said it will “explore strategic alternatives” including a sale or merger. It has encountered falling sales during the second quarter of fiscal 2015, which fell 10% to \$55.7 million compared. Year-to-date sales decreased by 12% to \$76.3 million, while comparable store sales decreased by 14%. Danier has implemented a cost reduction initiative to savings of between \$5 million and \$7 million during fiscal 2016; 15% of head office staff has lost their jobs. "We are disappointed with the company's unsatisfactory financial results and are implementing a number of changes which we believe will produce meaningful improvements," said CEO Jeffrey Wortsman.

Ken Maxfield, President and Editor in Chief of The Maxfield Report has nearly 25 years of experience trading and reporting on bovine hides. It is Ken’s experience, breadth of knowledge and holistic approach to his reports, why peers consider him the world’s leading market experts reporting on cattle hides. If you have questions, suggestions, or comments, or interested in receiving any of the reports offered by The Maxfield Report, please call 712-943-3210 or e-mail ken@themaxfieldreport.com.

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