Wednesday, November 21, 2018

Australia

Reports claim there is not much of a change in the overall situation in Australia as sources claim harvest levels appear steady and expected to remains this way through the end of 2018. In the meantime, beef prices in the country appear stable, while live cattle prices moving higher, only making for more red ink for packers and if there are any changes in harvest levels in the near-term, popular opinion is they move lower before higher.

As it pertains to hides, suppliers are starting to look at second-half Jan / Feb shipment in an attempt to build / strengthen their sold forward position for the 1Q of 2019. As of this writing, sellers attempting to adhere to their last traded levels which appear successful, with the exception of trading levels for cowhides which are coming in lower. Meanwhile, expectations are that feedlot hides should have some decent demand, as some Chinese shoe upper tanners look for alternative types of hides even in small volume, in case the tariff on US hides does come into play. In addition, spready hides will continue to look at going into the auto tanneries and will be interested to see how they react to predictions that this sector of business is slowing.

Meanwhile, there are rumors accusing one of major Australian hides producers of quietly selling S/R hides at $19-20 C&F China dating back to early October, as well as NSW at $27-28 C&F China. Worth noting, this same producer is reported to be pushing their customers in China to pay the same price to book new business right now for Jan./Feb. shipment; however, Chinese tanners have lowered their price idea of S/R all the way down to around $15 C&F these days, after they saw weak hides price from other countries and especially the US.

South America

Reports from Brazil claim no change in the situation compared to last week, as sales of fresh hides continue in a range of 1.00-1.10 Reais, while there continues to be claims of sales under 1.00 Reais that are unable to be confirmed and are being viewed as conjecture.

Reports from the wet-blue hide trade claim trading on wet-blue hides continues at levels of $0.57-$0.62 for TR #1's, while Tr #2 were back ten cents from these levels and sales of TR #3's back ten cents from these levels.

(Drovers.com) - Brazilian police arrested Joesley Batista on Friday in connection with an ongoing investigation into illegal campaign contributions. It is the second arrest for Batista, one of the controlling shareholders for JBS SA, the world's largest meat packer and parent company of JBS USA.

Bloomberg reports that Batista was detained amid a probe of illegal campaign financing and corruption of high-ranking members of the Brazilian Agriculture Ministry between 2014 and 2015. Batista, and his older brother Wesley, the former CEO of JBS SA, were arrested last year on insider-trading accusations. Joesley was also alleged to have concealed information during plea bargaining negotiations.

JBS SA's board voted last in September, 2017 to name company founder José Batista Sobrinho as the chief executive officer, replacing his son Wesley. The Batista brothers were at the center of a scandal last year after they reached an agreement to testify about a long-running scheme to bribe politicians, including President Michel Temer. Prosecutors later asked for the plea deals signed by both brothers to be revoked. The scandal nearly toppled the Brazilian government.

"Joesley Batista is a collaborator with the justice system," Batista's lawyer, Andre Callegari, said in a statement. "Therefore, the request for his arrest causes bewilderment in the context of an investigation in which he has already given more than one deposition as a cooperating witness and handed over innumerable corroborating documents."

Last month, Brazilian voters elected Jair Bolsonaro as their new president. Described as a far-right lawmaker and former army captain, Bolsonaro defeated leftist Fernando Haddad in a runoff, receiving about 55 percent of the vote.

(Leather Biz.com) - Packer and tanning group JBS has reported earnings for the third quarter of 2018 of $13 billion, a 20.1% increase compared to the same quarter in 2017. Earnings on this total reached more than $1.1 billion, 2.6% up on the figure for the same quarter last year.

Revenues at JBS Brasil, the division that now includes the group's leather manufacturing business, JBS Couros, achieved revenues of more than $1.8 billion. This represents an increase of 37.2% compared to third quarter of 2017. And earnings were much higher at $187.2 million, compared to $19 million for the same three-month period a year earlier.

JBS Brasil said on reporting the figures that the number of cattle slaughtered in the third quarter this year was higher by almost 30%, the volume of beef coming onto the Brazilian market was up by 18.1%, and sales prices were up by 4.4%.

Asia

Reports from members of the trade in Taiwan claim offers this week reflect lists that appear more populated as several of the packers have offer lists that appear as if they have a full complement of selections offered with many of the selections offered (especially heavier weight hides as well as HNS) available for shipment the first half of December. In addition, sources sharing that asking prices across the board appear as if they are $1-$2 lower than last week, while one of the packers had asking prices that were $5 and more, lower than last week on a number of selections, interpreted by the trade as an effort to bring their asking prices back in line with reality and actual trading levels.

Overall, sources sharing that buyers are not exhibiting any sense of urgency this week as the sentiment amongst buyers is, they longer they wait, it is more likely they can buy at even lower prices, and with the number of hides being offered, there is no worries in regards to being able to take delivery of the ides at their schedule. In the meantime, there are numerous reports of many of the big packers and their agents "encouraging" some of the larger tanners to share their price ideas, while buyers are trying to be very cautious with their price ideas in fear that if they submit a bid – even an aggressive one, it could be booked.

Elsewhere, many sources insist there has already been trading the last week to tend days by a couple of the packers very quietly at levels well below the market direct with tanners; however, as expected the packers involved are denying they participated in this business, despite the fact there have been several members of the trade who have seen the contracts in question.

As of this writing, leather orders are not exhibiting any substantial sings of improving and this coupled with leather buyers attempting to drive leather prices into the ground on new sales, is yet just another reason for tanners to remain on the sidelines.

Members of the trade in China share there is not much new news to reports. According sources, they claim offers this week are similar to what we are hearing from Taiwan as it is clear there are a number of offers not only from US producers, but various producers from around the globe. In fact, the sentiment of many members of the trade is that the total number of hides offered this week in China is likely enough hides to cover orders for the next 2-3 months if all were purchased.

Meanwhile, sources add that the number of heavier weight hides offered continues to grow, while the number of lower grade offers appear too numerous to count. In addition, the number of wet-blue hides offered each week also continues to grow and will be interesting to see if US producers continue to push to keep their wet-blue facilities running at full capacity, or will opt to reduce their soaks, but end of the day – sales on wet-salted hides is not any easier.

Overall, popular opinion of the trade is that asking prices are only a formality, as they are being judged as a "starting point" for negotiations, as there are already a number of claims of several of the packers attempting to trade quietly on a direct basis at prices that are easily $2-$3 and more under their "official" asking prices.

In other news, we have additional confirmations that a few Chinese furniture upholstery tanners followed the path of another large tanners and have accepted new business at prices lower than $1.00 / sw. ft., and as a result is forcing the hand of many medium and most small tanners as they will struggle to compete at these levels. Meanwhile, sources claim there are substantial inventories of all kinds of lower grades hide and wet-blue being offered right now and in fact, prices are so cheap, is why other tanners opted to book business under a dollar.

Elsewhere, sources reporting demand on dairy steers have begun to decrease with most sources claiming asking prices are too high, especially considering some of the asking prices this week for HNS / BBS, and if able to take prompt delivery, prices are even more favorable. In the meantime, huge push from packers and their agents for bids on Jumbo and Super-jumbo steer hides and many for prompt shipment.

In the meantime, the on-going trade war between the US and China continues to be in the back of the mind of most furniture upholstery and handbag tanners, and of course fears of tariffs increasing come January 1 is even more concerning. However, at the end of the day, there is not much tanners can do other than protect themselves – just in case, and for now it is a situation of "wait and see". Overall, few tanners, if any (regardless of the segment of the market they are in) hold a positive view of the market and most of convinced that as we move through the remainder of the year, there is a strong likelihood we will see a sizeable correction in prices.

(Drovers.com) - Japan's Food Safety Commission is scheduled to meet to possibly remove the age restrictions on cattle for U.S. beef exports to Japan. According to the Japanese news agency Kyodo, the research unit of the Food Safety Commission has considered the potential impacts of removing the age limit since April, in response to continued pressure from the U.S. to remove the Bovine Spongiform Encephalopathy (BSE)-linked age restriction.

In 2003, Japan banned all imports of U.S. beef following the discovery of BSE in a U.S. cow, but resumed imports in 2005 from cattle no more than 20 months of age. That age limit remained until January 2013, when Japan agreed to ease the restriction to beef from cattle up to 30 months of age.

Japan has been America's number one beef export destination for years. Prior to the BSE-related ban in 2003, Japan was importing $1.3 billion in U.S. beef. In 2017, Japan imported more than $1.5 billion from U.S. beef suppliers, and through September of 2018 it had already imported $1.3 billion.

Removing the age restrictions could further help the U.S. relative to competitiveness in the Japanese market as it seeks to compete against Australia with both Japan and Australia in the revised Trans-Pacific Partnership (TPP) agreement, dubbed CPTPP.

(Leather Biz.com) - The chairman of Chinese group Shandong Ruyi, which earlier this year acquired a controlling stake in high-end accessory and footwear group Bally, has said his company wants to learn from the multi-brand approach of luxury conglomerate LVMH and hopes to emulate its success in the future. In a recent interview, Qiu Yafu said: "We understand there's still a long way for us to reach there. We hope to make Ruyi a well-known Chinese equivalent of LVMH in perhaps 30, 40 or 50 years."

Shandong Ruyi has made a series of high-profile investments in the past 18 months. As well as Bally, this has included Hong Kong-based apparel retailer Trinity and Israeli tailored clothing company Bagir. It has also agreed to pay a reported $2 billion for the advanced textiles (A&AT) business of polymer and fiber manufacturer Invista.

Mr. Qiu has said Shandong Ruyi will now slow its acquisitions, instead focusing on integrating the brands it already owns. He added that it will only consider buying companies that are profitable and have high growth potential. Returning to his aspiration to emulate LVMH, Mr. Qiu pointed to the French group's successful integration of brands while still preserving their individuality and market niches. He also wants to match LVMH when it comes to the quality of products Shandong Ruyi's brands produce.

Europe

The sentiment of the trade is that the market appears to have turned difficult with lots of rumours of several producers attempting to trade very quietly at prices well below the last reported trading levels, accompanied by those participating denying any involvement. Meanwhile, cowhides continue to be difficult to sell with the Hebei shut down, while demand from other parts of China for cowhides is lackluster as well. In addition, reports of problems with payments / obtaining LC's are growing as there is simply too many hides for sale and uncertainty in the market. Further complicating things is that harvest levels are running at their highest levels of the year.

Reports from the UK / Ireland claim the market has a very weak tone, as there does not appear to be any positive news coming from either China or from Italy. In fact, sources share their agent in China reports the Chinese government appears as if it is very focused on "cleaning up" the tanning industry and speculates that the current capacity in China is barely over 50% as of this writing. Meanwhile, Italian tanners are reported only to be buying hand-to-mouth and with harvest levels running at their highest levels of the year is not enough for producers to liquidate their weekly production. In addition, sources share that the largest buyer of UK and Irish hides will be reducing throughputs again in December, while rumored to be decreasing the prices they are willing to pay by as much as 10%.

In other news, male hides continue to experience substantial price declines on the heels of automotive tanners reducing their soaking levels, while interest / demand for cowhides remains difficult come by with Hebei closed, coupled with reports there are more than ample competing types of hides offered from various origins around the world. Meanwhile, the winter season is upon us – meaning the "dung season" is just around the corner and this coupled with larger harvest numbers has most pundits leaning towards additional price declines are likely.

Reports from Germany claim that pressure continues to mount, while demand for hides continues to appear as if it is well short of demand. In the meantime, announcement by a couple of large automotive tanners that they will reduce their requirements continues to wreak havoc on the bull market, while sales of cowhides remain a difficult task as well, as there are simply too many of these types of selections offered from various producers around the globe.

As to business, sources share the usual program business was concluded at lower levels; however, volumes were far from satisfying, unfortunately continuing a trend that has been ongoing now for several weeks. Overall, prices were lower on several selections with cowhides and male hides seeing the largest of the declines, while harvest levels continue at seasonal levels and are at their highest levels of the year.

(Leather Biz.com) - Italian luxury group Salvatore Ferragamo achieved revenue of €972 million in the first nine months of 2018, a drop of 1.6% at constant exchange rates compared to the same period of last year. Net profit for this period was down 17.5% to €65 million. This came despite a strong third quarter (three months ended September 30), during which its revenue increased 2.5% year-on-year. In terms of product categories, footwear posted a 4.3% decrease in revenue during the first three quarters, while handbags and leather accessories showed an increase of 3.4%.

Asia Pacific remains Ferragamo's most important market in terms of revenue. This region's sales were stable during the first nine months of the year. There were declines in revenue in a number of other regions, including Europe (-5.2%), North America (-1.2%) and Japan (-1.7%). Earlier this year, Ferragamo appointed former Gucci executive Micaela Le Divelec as its new chief executive officer. She replaced Eraldo Poletto, who had stepped down from the role in March after just 18 months.

(Leather Biz.com) - Leather chemicals manufacturer Lanxess has reported sales of €1.79 billion in the third quarter of 2018, an increase of 4.4% compared to the same period of last year. It attributed this increase to higher selling prices. The company's profit before tax for this period was €277 million, up 1.5% year on year. It cited higher selling prices and synergies from its acquisition of Chemtura among the reasons for this growth. The Performance Chemicals segment, which includes Lanxess's leather business unit, suffered an 8.5% drop in sales to €334 million.

(Leather Biz.com) - UK-based leathergoods brand Mulberry achieved revenue of £68.3 million in the first half of 2018, a drop of 8% compared to the same period of last year. Earlier in the year, the company had said it expected its results to take a hit from the collapse of UK department store group House of Fraser. This proved to be the case, with its UK retail sales down 11% year on year. It also incurred a one-off cost of £2.1 million as a result of the group entering administration. Mulberry's international sales were up 13%, while its revenue from global digital channels was 5% higher. In 2018, digital sales made up 17% of its total revenue, up from 14% in 2017.

Reacting to the results, Mulberry CEO Thierry Andretta said: "We are delivering on the strategy to develop Mulberry as a global luxury brand with new subsidiaries in Korea and Japan, the creation of Digital partnerships in China and the additions to our own store network in Asia." He also reiterated the brand's commitment to manufacturing in the UK. It operates two factories in Somerset and Mr. Andretta said Mulberry was proud to be "the largest manufacturer of luxury leather goods in the UK".

Mexico (No Update due to Travel)

The overall tone of the domestic market continues to have a negative feeling, and with the end of the year just around the corner, most members of the trade appear as if they are going through the motions leading up to the upcoming holiday season. In the meantime, tanners are looking to conclude their last outstanding contracts (meaning the last thing they have on their minds is concluding new business), while packers / traders appear as if they have a full complement of selections for sale.

This is leading to thoughts the situation will likely deteriorate even further during the holidays, supporting thoughts by most that it is likely we will see further declines as we head into the 1Q of 2019, as demand continues to underwhelm supply.

In the meantime, the news surrounding the automotive industry in Mexico appears upbeat in light of news of declining auto sales in the US the past couple of months. Sources report expectations are calling for leather in automobiles to increase in 2019, as statistics claim that leather in cars in the US totaled only 29% of vehicles in 2001, totaled 48% in 2017.

However, worth noting, the numbers to not take into account that the amount of leather in cars today versus nearly twenty years ago is noticeably less. That said, a segment of the market that is driving demand is the use of leather into cross-over vehicles that are gaining in popularity. According to sources, that of all of the crossover vehicles produced in 2017, approximately 53% of them had leather.

Elsewhere, reports from the show trade claim that new leather orders slow to develop and as mentioned above, many shoe tanners appear as if they are simply "going through the motions" trying to ensure they keep running up until the holidays. Worth noting, there is "chatter" that many tanners will take extended time off during the holidays, blaming a lack of leather orders.

(Leather Biz.com) - Almost 90% of the shoes made in Mexico in 2017 stayed in the domestic market, according to analysis of figures published by CICEG, the shoe industry's main representative body in the state of Guanajuato. In total last year, Mexican footwear factories produced 260 million pairs, exporting 26.3 million of them. But the 233.7 million pairs that stayed in Mexico fell short of satisfying the whole of the domestic market's demand and the country imported an additional 88 million pairs.

CICEG and other industry associations have frequently expressed concerns about the threat to their member companies' prosperity of lower-quality footwear coming into Mexico. The 2017 figure of 88 million pairs is lower than the 100 million pairs Mexico imported in 2014, but it is up by 7% on the figure for 2016 and is the second-highest this decade.

China and Vietnam were the sources of 70 million pairs of these shoes, 80% of total imports. Most of the imported footwear had uppers made from textiles (53.9% of all imports) or textiles (31.8%); only 9.7% of imported shoes were made of leather.

The average price per pair was $11.87, but this is skewed by the very high average price per pair, $98.86, of the 730,000 pairs of shoes imported into Mexico from Italy last year. In contrast, the average price per pair for Chinese-made shoes coming into the country was $8.14. Italy's share of the total volume of imported shoes was 0.8%, but its share of the value was 6.9%.

On the export side, 72.8% of the footwear Mexico exported last year went to the US, which bought almost 19.2 million pairs from its neighbor to the south. Singapore is a surprising second-biggest export market for Mexican footwear, buying 1.7 million pairs in 2017. On average, exported Mexican footwear had a price of $18.03 per pair (Singapore paid the most, $24.96, compared to $18.91 for the US), and 35.3% of the shoes Mexican companies exported in 2017 were made of leather.

United States

Reports from members of the big packer trade claim as expected, the offer lists from many of the major packers were more populated last week. According to reports a vast majority of the hides offered were numerous selections of Jumbo / Super-Jumbo hides, while it also appeared as if there continued to be more than ample offers of HNS. In addition, the number of wet-blue selections appeared as if they increased last week on the heels of reports that interest / demand for wet-blue hides has decreased substantially this quarter, falling well short of weekly production for numerous weeks.

As to interest last week, the majority of people we spoke with shared that although they had bids to evaluate last week, it appears there were not as many as the week prior and unfortunately, for those selling hides, we are not aware of anyone the week before boasting they had a busy week of trading. As to bids last week, sources claim that interested parties continued their efforts to bid prices lower, with some buyers showing some "reasonable" price ideas – down $1-$2, while bidding levels from other perspective buyers much more aggressive, looking for some substantial reduction in prices.

Overall, popular opinion of the trade is that the number of hides exchanging hands last week, will once again fall well short of the harvest, leading to thoughts we will see offers even more populated this week. In the meantime, as to trading levels, the sentiment of the trade is that trading levels were a soft-steady at best, while it appears the majority of hides traded at least a dollar under their last reported trading levels.

Worth noting, there were unconfirmed rumors all last night accusing some of the various packers of offering very quietly to some of their "old friends" and if sources are correct, some of the offers were easily $2-$3 below the "official" asking prices issued by packers. In the meantime, it is worth noting,

there were a couple of rumors running through the trade late Friday afternoon insisting one of the packers had reported to one of the reporting services that they had taken prices that were $2-$3 lower than the last reported trading levels.

Elsewhere, reports from the cowhide trade not much different from what we have been sharing the past few weeks. Sources reported that most producers entered the week in possession of offer lists that appeared to be a bit more populated than the week before, while collectively as a group, it appeared most producers opted to leave asking prices unchanged, as most appear as if they are of the opinion that they refuse to trade the market any lower.

As to interest last week, sources share that it does not appear as if there were as many bids as the week prior; however, it should be noted that we are not aware of anyone laying claims that the week before was a busy week of trading. In the meantime, buyers willing to share their price ideas last week appeared as if they were looking to push prices lower, while obtaining bids in any kind of volume appeared to be a difficult task.

In regards to sales last week, it appeared that the number of hides exchanging hands, likely were not enough to allow producers to liquidate their production last week, while as to trading levels, it appears most sales were concluded at levels roughly a dollar lower than the last reported trading levels.

U.S. EXPORT SALES FOR WEEK ENDING 11/8/2018

Wet-Salted Hides & Skins: Net sales of 353,900 pieces reported for 2018 were down 18 percent from the previous week and 17 percent from the prior 4-week average. Whole cattle hide sales totaling 354,200 pieces were primarily for China (198,800 pieces, including decreases of 15,900 pieces), South Korea (86,000 pieces, including decreases of 3,700 pieces), Mexico (51,600 pieces, including decreases 1,800 pieces), Slovenia (8,300 pieces), and Thailand (4,000 pieces, including decreases of 100 pieces). Exports of 508,500 pieces reported for 2018 were up 9 percent from the previous week and 13 percent from the prior 4-week average. Whole cattle hide exports of 504,600 pieces were primarily to China

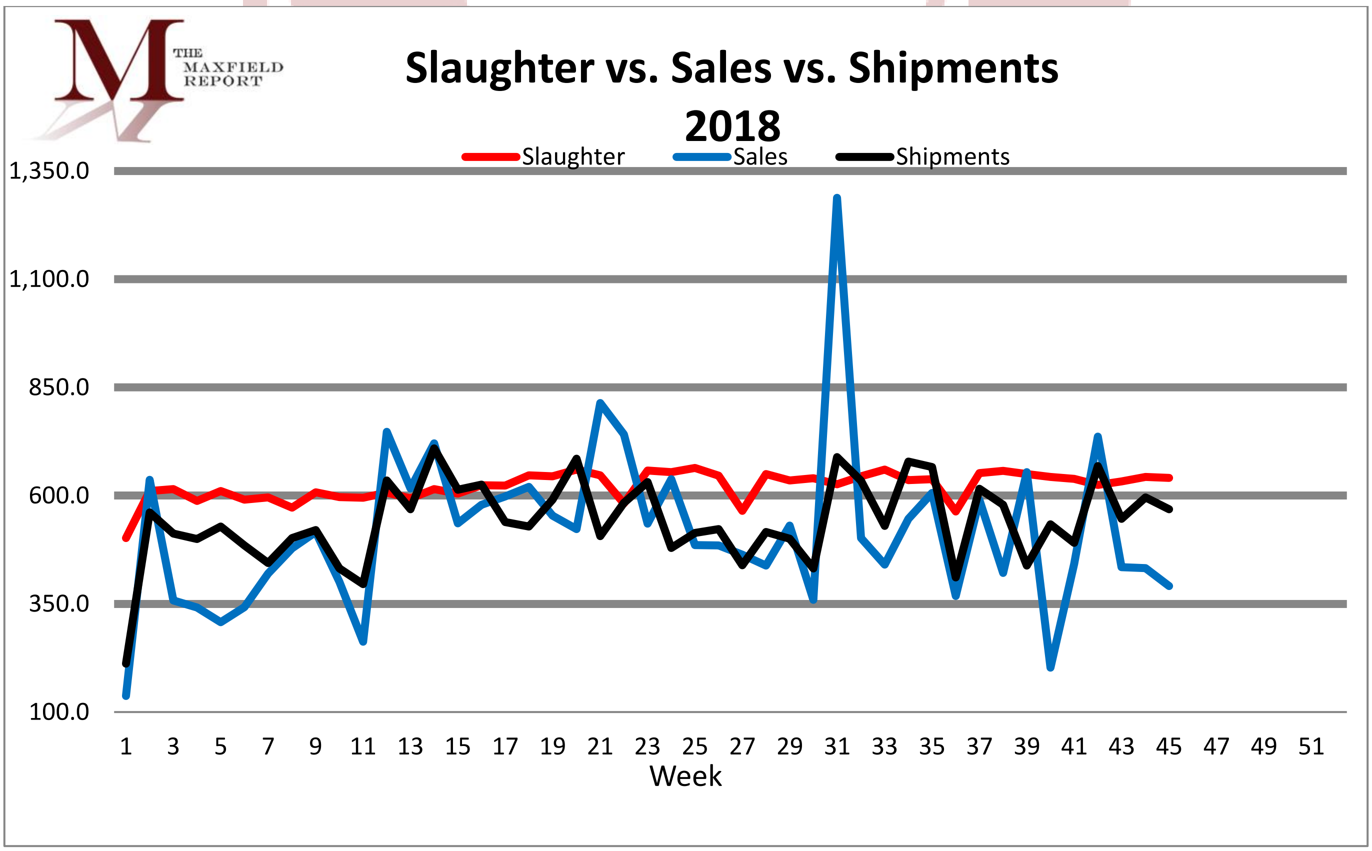
(316,200 pieces), South Korea (104,200 pieces), Mexico (60,900 pieces), Indonesia (10,500 pieces), and Japan (5,800 pieces).

Wet-Blue Hides: Net sales of 36,600 wet blues for 2018 were up 16 percent from the previous week, but down 56 percent from the prior 4-week average. Increases were reported for China (19,600 unsplit), Italy (10,700 unsplit), Thailand (7,200 unsplit), and Japan (600 grain splits). Reductions were reported for the Dominican Republic (800 unsplit) and Mexico (400 grain splits). For 2019, net sales of 14,600 unsplit were reported for Italy (13,800 unsplit) and the Dominican Republic (800 unsplit). Exports of 62,500 wet blues for 2018 were down 52 percent from the previous week and 50 percent from the prior 4-week average. The primary destinations were Italy (27,600 unsplit), China (11,800 unsplit and 3,400 grain splits), and Mexico (8,300 grain splits and 1,100 unsplit). Net sales of splits totaling 87,300 pounds were reported for 2018. Increases for China (100,100 pounds) were partially offset by reductions for Vietnam (12,700 pounds). Exports of 160,000 pounds for 2018 were down 70 percent from the previous week and 42 percent from the prior 4-week average. The destination was Vietnam.

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						
BELGIUM			-0.1				
ITALY			-0.2		10.7	-0.1	
SLOVENIA	8.3						
JAPAN	0.9					0.6	
TAIWAN	3.3				-0.2		
CHINA	198.8				19.6		100.1
INDNSIA	1.3						
KOR REP	86.0						
THAILND	4.0				7.2		
VIETNAM							-12.7
DOM REP					-0.8		
MEXICO	51.6				0.1	-0.4	

NET SALES	354.2	0.0	-0.3	0.0	36.5	0.1	87.3
WEEKLY EXPORTS	504.6	0.0	3.9	0.0	50.8	11.7	160.0
ACCUM. EXPORTS	18,206.3	88.7	123.1	0.0	4,941.8	1,124.6	22,569.1
OUTSTANDING SALES	2,794.0	42.4	35.5	0.0	511.1	106.9	4,077.8

Today's USDA Export Sales Report delayed a day by the holiday at the start of the week does not offer any real surprises, while in fact, most members of the trade view the report as rather bearish, as sales of both wet-salted hides as well as wet-blue hides fall well short of expectations of the trade.



Today' report claims sales of wet-salted hides totaled 354,200 hides last week, down 18% compared to the week prior and this is 17% lower than the 4-week prior average. As a comparison, sales are 35,200 hides or 9% lower than the average for the quarter.

Shipments of wet-salted hides last week check in at 505,800 hides, led by another larger round of shipments to China – as Chinese tanners continue to push to have outstanding shipments arrive before the first of the year. Worth noting, shipments are 9% higher than last week, while there are 13% higher than the 4-week prior average. As a comparison, shipments are 49,000 hides or 11% higher than the quarterly average.

Sales of wet-blue hides remain anemic, checking in at only 36,600 hides. Interesting enough, this is 16% higher than last week, while there are 56% lower than the 4-week prior average. As a comparison, sales are 8,600 hides or 19% lower than the weekly average for the 4Q.

Shipments of wet-blue hides last week totaled 62,500 hides and this is 52% lower than last week and is 50% lower compared to the prior 4-week average. As a comparison, shipments last week are 48,000 hides or 43% lower than the average for the fourth quarter.

Our takeaway from today's report:

- It appears Chinese tanners continue to push for shipments of wet-salted hides to arrive before the first of the year, as shipments of 316,200 hides are not only the largest of the quarter, but also a marketing year high
- Through the first six week of the 4Q, sales of wet-salted hides to Chinese tanners are running 10,000 hides higher on a weekly basis compared to sales for the 3Q
- Sales of both wet-salted to Mexico in the 4Q are running higher than in the 3Q, with sales up roughly 13,000 hides or 40% higher
- Combined sales of 390,800 hides falls well short of the harvest and is the second smallest sales number for the quarter
- Combined shipments at 568,300 hides also fall short of the harvest, while they are in line with the weekly average for the quarter

- Outstanding sales of wet-salted hides have declined 800,000 hides since the first week of August when they stood at 3,508,600 hides and currently stand at 2,794,000 hides, the lowest number dating back to the second half of May
- Outstanding sales of wet-blue hides stand at 618,000 hides, which is a marketing year low

THE BOTTOM LINE

Cattle feeding margins declined $9 per head last week, leaving average cash margins at $58. Despite cash prices $1 lower at $114, packer margins were mostly steady at $219, according to the Sterling Beef Profit Tracker.

The beef cutout was steady at $214.63 per cwt., roughly 30 cents better than the previous week. The cost of finishing a steer last week was calculated at $1,506, which is $81 lower than the $1,587 a year ago. The Beef and Pork Profit Trackers are calculated by Sterling Marketing Inc., Vale, OR.

A year ago, cattle feeders were earning $103 per head. Feeder cattle represent 73% of the cost of finishing a steer compared with 75% a year ago. Sterling Marketing president John Nalivka projects cash profit margins for cow-calf producers in 2018 will average $165 per cow. That would be steady compared to the $164 estimated average profit for 2017. Estimated average cow-calf margins were $176 in 2016, and $438 per cow in 2015.

For feed yards, Nalivka projects an average profit of $22 per head in 2018, which would be $159 less than the average of $181 per head in 2017. Nalivka expects packer margins to average about $165 per head in 2018, up from $120 in 2017.

Farrow-to-finish pork producers saw their margins decline from breakeven the previous week to a loss of $6 per head. Lean carcass prices traded at $57.30 per cwt., $3.15 per cwt. lower than the previous week, and $5.06 lower than a month ago. A year ago, pork producers earned an average of $4 per head. Pork packer margins averaged a profit of $23 per head last week.

For farrow-to-finish pork producers, Nalivka projects 2018 profit margins will average a loss of $3 per head in 2018, compared to profits of $21 in 2017. Pork packers are projected to earn $19 per head in 2018, down from $25 profit per head in 2017.

THE NEWS

(Leather Biz.com) - The personal luxury goods market will grow 6% at constant exchange rates to €260 billion in 2018, according to the latest annual report from specialist consultancy firm Bain & Company. This sector has outpaced the overall luxury market, which is only forecast to grow 5% this year.

Bain & Company expects this positive trend to continue in the coming years. It is predicting growth of 3-5% per year until 2025, which would see it reach €320-365 billion. The group warned however that socio-political issues, commercial policies, and potential short-term soft recessions could make this road to growth “a bumpy one in the short term”.

Returning to 2018, the report said Chinese consumers are leading the positive growth trend. It revealed that their share of global luxury spending is now estimated to be 33%. Overall, shoes and jeweler were the top luxury growth categories, at 7% each, followed by bags and beauty products. Apparel suffered due to lackluster sales in the menswear segment.

The report also brought interesting data about luxury sales channels. While the retail channel grew 4% and the wholesale channel grew 1%, they were comfortably outpaced by online shopping, which grew 22% compared to 2017. It is now valued at $27 billion, according to Bain & Company. This was the 17th edition of the Bain & Company Luxury Study. It is compiled with the help of Italian luxury goods association Fondazione Altagamma.

(Cattle Buyers Weekly.com) – Tyson Foods does what seemed impossible only a few years ago. It becomes the first beef processor in the U.S to make more than $1 billion in a year. Its Beef segment reports operating income of $1.013 billion for fiscal 2018 ended September 29. This easily surpassed last year's record $877M. It is also a stunning turnaround from 2015 when Tyson Beef had a $66M operating loss. The record profits mean the segment had an operating margin (income versus sales) of 6.5%, versus 5.9% in 2017. What's more, Tyson is confident the business will repeat these numbers in fiscal 2019.

Tyson's Prepared Foods' segment also reported record operating income for 2018. It made $868M, versus $462M in 2017. This just beat out Tyson's Chicken segment, which had income of $866M, versus $1.053 billion in 2017. Tyson's pork segment had operating income of $361M, versus $645M in 2017. But the segment had better than expected results in the fiscal fourth quarter, when pork exports were hit by punitive tariffs and forced wholesale pork prices lower in the U.S.

Tyson's beef results reflected positive supply and demand fundamentals, and growth in value-added sales, notably case-ready sales. The fourth quarter saw operating income of $347M, versus $305M a year ago. This was a record for any quarter. This was on sales of $3.913 billion, versus $3.808 billion last year. Margin at 8.9% was a record for any quarter. It went against 8.0% last year. Volume increased 3.4% while average prices declined 0.6%.

Sales for the full year totaled $15.473 billion, versus $14.823 billion in 2017. Volume increased 3.1% and average prices increased 1.2%. All the volume increase was in the additional number of cattle processed. CBW calculates that Tyson processed 6.895M head in 2018 and made $148 per head. It processed 6.760M head in 2017 and made $130 per head. The increase in operating income was partially offset by increased labor and freight costs and one-time cash bonus to employees in the second quarter, says Tyson.

Tyson's beef results were stronger than expected, driven by good cattle supplies, strong domestic demand and increased global demand, says president and CEO Noel White. In addition, Tyson has improved its performance relative to USDA benchmarks. Despite trade interruptions, volumes for U.S. beef and pork in the global market increased 12% and 7%, respectively, as global demand remained steady throughout the year. Tyson's beef export growth outpaced the industry, he told CBW.

Tyson's goal is to grow its value-added beef through case-ready and premium programs to help de-commoditize more of its business and reduce some of the volatility, says White. With cattle supplies looking good next year and into 2021, it expects the beef segment to produce an operating margin above 6% again in fiscal 2019. It fully expects a repeat of 2018 in 2019, he told CBW.

Tyson was able to overcome hurdles during the year, including trade disputes, volatility in the market, rising freight costs, shifts in demand and pricing pressures, says White. For fiscal 2018, overall sales of $40.05 billion, versus $38.260 billion in 2017, resulted in a record adjusted EPS of $6.16, a 16% increase over last year's $5.31. Net income was $3.024 billion versus $1.774 billion in 2017. The fourth quarter saw sales of $9.999 billion, versus $10.145 billion in 2017. Net income was $537M versus $394M and adjusted EPS was $1.58 versus $1.43.

White's focus in 2019 is to grow Tyson's Prepared Foods segment, its value-added chicken and its international businesses to help stabilize volatility and grow earnings, he told analysts. Growing its international business will be bolstered once Tyson's acquisition of Keystone Foods is finalized, he says.

USDA indicates that domestic protein production (beef, pork, chicken and turkey) in fiscal 2019 should increase 3% from fiscal 2018 levels, says Tyson. But it expects domestic availability of protein to increase only 2% as export markets should absorb a portion of the increase in production. It expects industry fed cattle supplies to increase 2% in fiscal 2019 compared to fiscal 2018. It expects ample supplies in regions where it operates its plants. It expects industry hog supplies to increase 3% in fiscal 2019 compared to fiscal 2018, it says.

Its Pork segment's adjusted operating margin will be around 6% in fiscal 2019, it says. USDA projects a 2% increase in chicken production in fiscal 2019 compared to fiscal 2018. Its Chicken segment's adjusted operating margin will be near 8% in fiscal 2019 (versus 7.2% in 2018). Its Prepared Foods segment's adjusted operating margin will exceed 11% in fiscal 2019. It was 10.0% in 2018.

Ken Maxfield, President and Editor in Chief of The Maxfield Report brings 26 years of experience trading and reporting on bovine hides. It is Ken's expertise trading hides, plus a global network of correspondents, that permits Ken to publish the industry's most accurate and comprehensive market report. Members of the trade recognize Ken as the world's leading market analyst, as he provides members a holistic approach and unique in-depth analysis. If you have questions, suggestions, or comments, or interested in receiving any of the reports offered by The Maxfield Report, please call 712-490-3666 or e-mail ken@themaxfieldreport.com.