

Further pressure on cowhide prices expected

Italian tanners are just securing supplies up to the summer holiday shut down and tanners in China, especially for cowhides, are sitting on the side lines. A difficult period lies ahead for packers and traders. Writes Martin Ricker.

For tanners the current market situation should be welcome news as prices of raw materials continue to decline. As theSauerReport has often reported in its daily market World View over the past 18-24 months, it has been the sheepskin nappa market and now the bovine cowhide market that has taken the biggest hit, albeit for different reasons.

Ovine nappa leather is simply not fashionable and the reduction in leather in the footwear segment has meant that the least best qualities, lightweights and high-volume articles such as cowhides have been hit the hardest.

With the barbecue season well underway in North America and packers slaughtering above 650,000 head a week, we have a precarious situation where supply is high and demand is weak. Consequently, prices have tumbled over the past four months, especially for the ill-fated cows. Calf and heavier items such as heavy cows, bulls and ox/heifers are in safer territory but even these more prized items have reduced in price in recent weeks.

Figure 1 shows how the price for U.S. origin cow hides has drifted downwards in recent weeks and figure 2 shows a similar trend for German cows over a longer time span.

Contrasting the lower prices, the kill in the U.S. is increasing and is estimated to be around

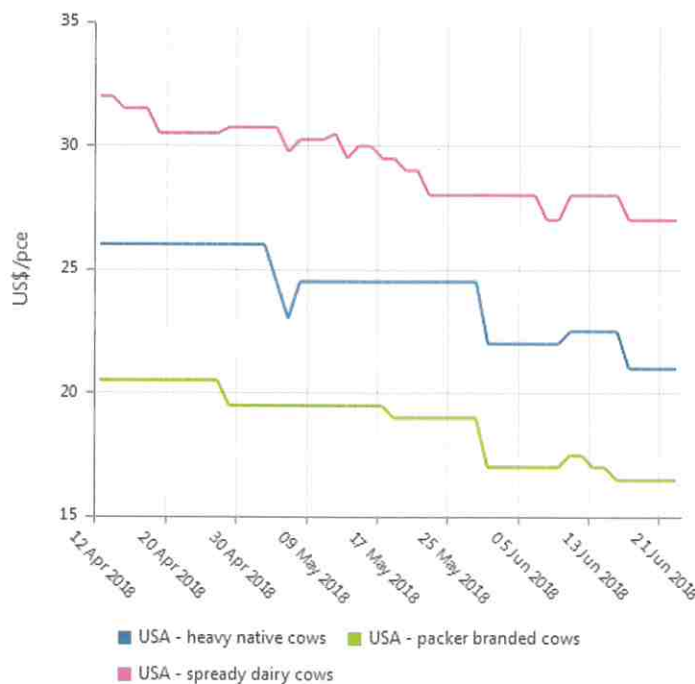


Figure 1. Sauer Report graph showing U.S. cowhide prices

6.5% higher than the corresponding period in 2017, according to USDA figures up to the middle of June. Figure 3 shows the weekly slaughter in the USA over the past year.

Rising concern

By late-June, the worries on where the hide trade is heading, and by extension the leather business, seems to have reached fever pitch in some quarters. The price of hides from some origins falling to record lows, the high inventories both in producing and destination countries, and the difficulty to find any taker for the lower grades are all very real elements plaguing the sector. On the demand side, shrinking demand from the footwear segment is the single most important factor behind the current state of affairs. As a demand-driven sector, the global higher availability seems a less convincing element in determining the current difficulties. After all, the level of slaughter in many major producing regions of the world, such as the U.S., Europe, Argentina or Russia to name a few, has been on a declining trend for a long time. Still, in the current situation shows that the recovery of the kill numbers in some countries only adds to the woes of the trade.

With a short-term view, the key question is: will we see the price of hides reach a bottom over the summer in the Northern Hemisphere, and a reverse of trend during the upcoming

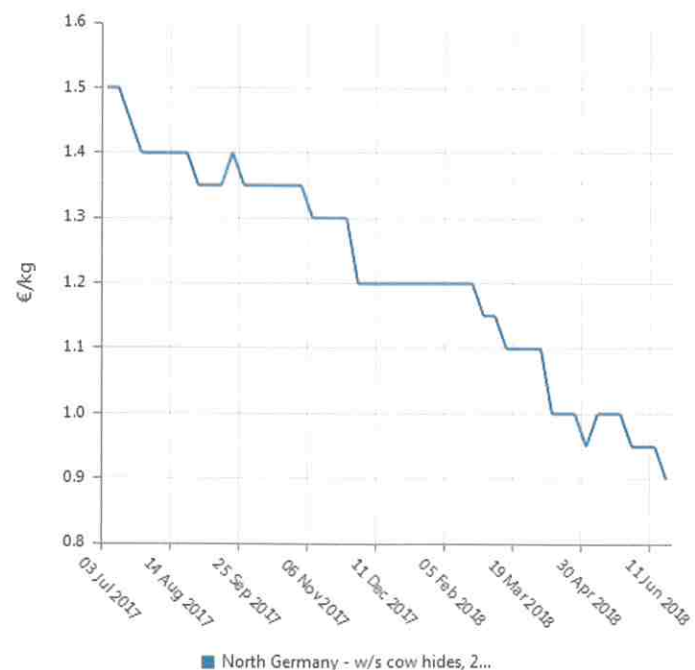


Figure 2. Sauer Report graph showing German cowhide prices