

Packer margins have come under pressure in recent days, which has in turn negatively impacted the outlook for livestock prices in the short term.

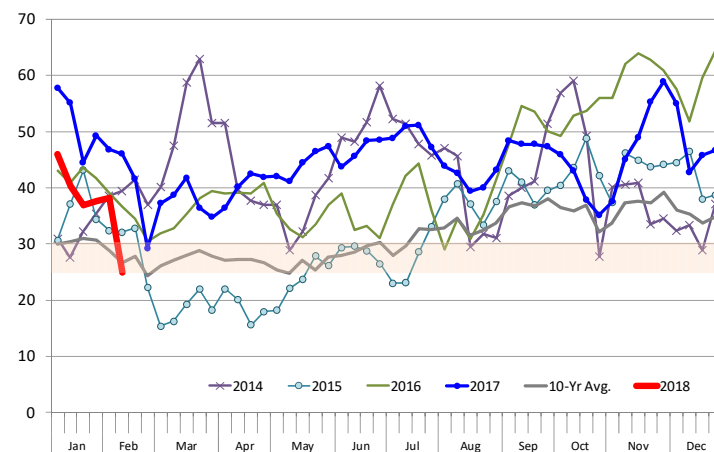
Some of what is going on is normal for this time of year. Lent will start on February 14 this year and will end on March 29. While Lent does not affect demand for meat protein as much as in the past, retailers still pay attention to it and, at the margin, we think it affects the amount of featuring around the country. Foodservice business tends to be slow during this time of year as well, further contributing to the negative demand picture. Keep in mind that we are talking about seasonal demand at this point. Overall meat protein demand remains quite good compared to previous years. Income growth, unemployment and housing markets all remain in good shape despite the recent shakeout in the equity markets.

We do not provide an estimate of the net packer margin because we think production costs tend to vary significantly from packer to packer and depend greatly on capacity utilization.

The charts to the right illustrate gross margin calculations. The shaded area in each chart shows where we think packers need to be in order to cover costs. View it as an indication and nothing more. Pork packers margins have deteriorated the most. The table on page 2 shows the average net price for hogs last week was around \$74.4/cwt and the average value of the cutout was \$77.4. Keep in mind that the price of hogs in our table is preliminary. Friday hog prices are not available until Monday so the preliminary price is calculated using the five most recent business days. The meat spread (difference between cutout and hogs) is now under \$3/cwt or around \$6/head. This is the lowest level since July of 2015. The line chart above shows the parallels between the current margin level and what packers/producers experienced during that year. For the entire Q1 of that year the meat margin averaged \$10/head and in Q2 it was under \$6/head.. High prices the previous year (PEDv in 2014) and resurgent meat supplies negatively impacted pork values this year. While we think the demand picture this year is better than it was in 2015, recent trading shows what happens when markets sometimes get ahead of themselves. Meat sales are only part of the revenue that packers generate from processing hogs. According to LMIC data the value of hog by-products is running around \$18-19/head. This is higher than what the USDA calculates but we think it better values these sales. The overall gross packer margin currently is around \$25/head, compared to \$46/head at the start of the year and \$46/head a year ago. Ham values will be critical for the pork cutout in the short term. Normally ham prices are supported

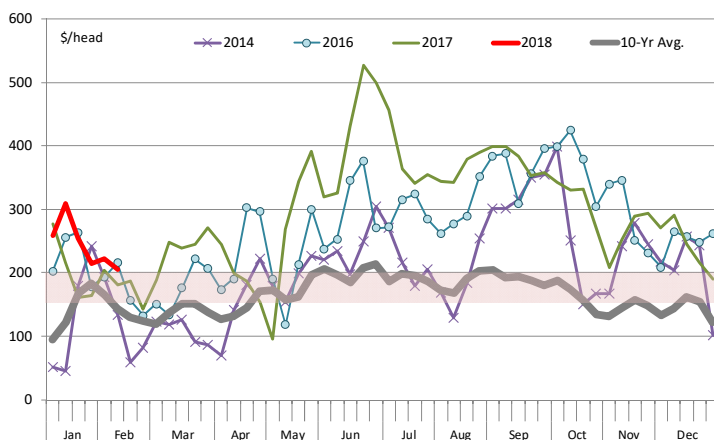
PORK PACKER CALCULATED GROSS MARGIN. \$/HEAD

Calculated Using the Weekly Pork Cutout Value, Number of Head Processed, and Drop Credit Value. Data Source: USDA, Steiner & LMIC Drop Credit



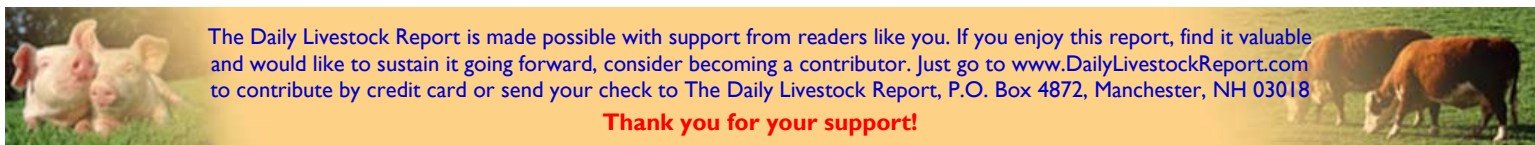
BEEF PACKER CALCULATED GROSS MARGIN. \$/head

Calculated using the Comprehensive Cutout, Drop Credit and Negotiated Fed Cattle Prices



until later in February so the recent decline was viewed as particularly negative. The selloff in bellies will likely push more product into cold storage but larger belly stocks then tend to temper the outlook for prices in late spring and summer.

Beef packer margins have also come under some pressure but so far the levels are normal for this time of year. We think gross margin is around \$200/head, near breakeven. Steer by-product is currently calculated at \$10.33/cwt or 144/head, \$20/head (-12%) less than the same week a year ago.



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PRODUCTION & WKLY AVG. PRICE SUMMARY

Week Ending **2/10/2018**

Source: Various USDA Agricultural Marketing Service reports. Some data are preliminary. Weekly Avg. Prices

Item	Units	Current	Last Week	Pct. Change	Last Year	Pct. Change	YTD	Y/Y % Change	
		Week							
		10-Feb-18	3-Feb-18		11-Feb-17				
Total Beef, Pork, Chicken, Turkey		mil lbs., cwe	1,882	1,926	-2.33%	1,836	2.50%	10,147	0.6%
C	FI Slaughter	Thou. Head	591	611	-3.27%	579	2.14%	3,566	2.5%
	FI Cow Slaughter **	Thou. Head	125	124	0.97%	116	7.73%	478	6.7%
T	Avg. Dressed Weight	Lbs.	829	832	-0.36%	819	1.22%	829	0.6%
T	Beef Production	Million Lbs.	488.8	507.1	-3.61%	473.0	3.34%	2,955	3.2%
L	Live Fed Steer Price	\$ per cwt	127.00	125.91	0.87%	119.75	6.05%		
E	Dressed Fed Steer Price	\$ per cwt	201.33	199.90	0.72%	190.05	5.94%		
	Oklahoma Steer (600-700 lbs)	\$ per cwt	N/A	161.56	N/A	140.47	N/A		
&	Choice Beef Cutout	\$ per cwt	208.46	209.51	-0.50%	189.39	10.07%		
	Hide/Offal	\$ per cwt, live wt	10.33	10.39	-0.58%	11.93	-13.41%		
B	Rib Primal, Choice	\$ per cwt	326.23	321.08	1.60%	286.77	13.76%		
E	Round Primal, Choice	\$ per cwt	174.68	177.33	-1.49%	165.77	5.37%		
E	Chuck Primal, Choice	\$ per cwt	176.32	180.68	-2.41%	155.78	13.19%		
F	Trimnings, 50%	\$ per cwt	83.88	91.47	-8.30%	77.76	7.87%		
	Trimnings, 90%	\$ per cwt	215.68	215.40	0.13%	208.11	3.64%		
	FI Slaughter	Thou. Head	2,389	2,438	-2.01%	2,360	1.24%	14,085	1.6%
	FI Sow Slaughter **	Thou. Head	58.3	61.2	-4.67%	58.1	0.29%	227	2.5%
H	Avg. Dressed Weight	Lbs.	214.0	214.0	0.00%	212.0	0.94%	214	0.6%
O	Pork Production	Million Lbs.	511.2	521.9	-2.05%	500.8	2.08%	3,014	2.2%
G	Iowa-S. Minn. Base	Wtd. Avg.	72.13	71.14	1.39%	71.28	1.19%		
S	Natl. Base Carcass Price	Wtd. Avg.	72.41	71.69	1.00%	70.32	2.97%		
	Natl. Net Carcass Price	Wtd. Avg.	74.48	73.61	1.18%	72.70	2.45%		
	Pork Cutout	205 Lbs.	77.41	82.31	-5.95%	85.11	-9.05%		
	Ham Primal	\$ per cwt	57.44	63.39	-9.39%	61.60	-6.75%		
	Loin Primal	\$ per cwt	71.82	71.95	-0.18%	74.45	-3.53%		
	Belly Primal	\$ per cwt	128.28	148.80	-13.79%	181.32	-29.25%		
	Trimnings, 72%, Fresh	\$ per cwt	68.73	72.34	-4.99%	60.54	13.53%		
	Hog By-Product Value	\$ per cwt, live wt	3.80	3.76	1.06%	3.96	-4.04%		
C	Young Chicken Slaughter *	Million Head	165.3	166.0	-0.42%	162.4	1.81%	773	-2.6%
H	Avg. Weight (RTC)	Lbs.	4.69	4.73	-0.96%	4.63	1.31%	6.20	0.0%
I	Young Chicken Production (RTC)	Million Lbs.	775.3	786.1	-1.38%	751.7	3.14%	3,646	-2.5%
C	Eggs Set (19-state)	Million	0.0	227.7	NA	220.8	NA	1,128	2.7%
K	Chicks Placed (19-state)	Million Head	0.0	179.6	NA	178.8	NA	909	1.8%
E	National Composite Whole Bird	Composite	90.63	91.66	-1.12%	84.68	7.03%		
	Northeast Breast, B/S	\$/cwt	105.21	107.45	-2.08%	101.79	3.36%		
	Northeast Leg Quarters	\$/cwt	38.53	37.92	1.61%	33.59	14.71%		
T	Total Turkey Slaughter *	Million Head	4.090	4.307	-5.04%	4.379	-6.60%	20,409	-0.4%
U	Avg. Weight (RTC)	Lbs.	26.00	25.85	0.59%	25.19	3.19%	32.45	0.8%
R	Turkey Production (RTC)	Million Lbs.	106.3	111.3	-4.48%	110.3	-3.62%	533	0.3%
K	National Hen (8-12 lb)	8-16 Lbs.	79.50	76.10	4.47%	100.50	-20.90%		
G	Corn, Omaha	\$ per Bushel	3.47	3.44	0.87%	3.42	1.46%		
R	Distillers Grain, Chicago	\$ per Ton	155.00	147.50	5.08%	102.50	51.22%		
A	Wheat, Kansas City (deliv.)	\$ per Bushel	4.61	4.58	0.66%	4.11	12.17%		
I	Soybeans, Cntrl IL	\$ per Bushel	9.77	9.73	0.41%	10.37	-5.79%		
N	Soybn Meal 48%, Cntrl IL	\$ per Ton	344.20	329.50	4.46%	335.40	2.62%		

* Chicken & turkey slaughter & production are 1 week earlier than the date at the top of this sheet.

** Cow and sow slaughter reflect levels from two weeks ago due to reporting lag. YTD still references 2017.

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