

We will discuss the cold storage numbers in this report but a few words are in order regarding the potential 25% Chinese tariffs on US pork. We say potential since the door is still open for US/China negotiations. If they do go into effect, however, they are bearish for US pork prices, especially for fall and winter hog/pork values. US pork production is expected to be record large this fall and the tariff will make it more difficult to sell into the Chinese market. The tariff would be particularly negative for by-product values since China takes about a third of all our pork variety exports. **But bearish as the announcement is, it should not be overstated.** Our pork competes with pork from the EU for access to China. US average base hog carcass price is around US\$54/cwt compared to US\$83 in the EU. Lower hog prices this fall may be needed to maintain US competitiveness vs. EU products. The next area of uncertainty for the pork complex is the NAFTA re-negotiation and the possibility that Mexico, the biggest buyer of US pork, may also impose tariffs. This will continue to add uncertainty in a market that already is coping with larger than expected supplies and new trade barriers.

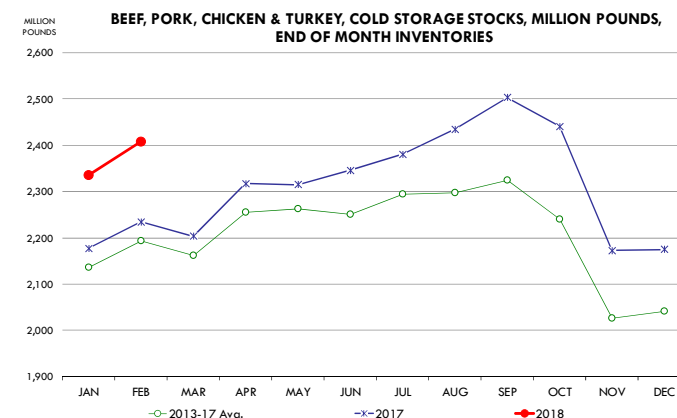
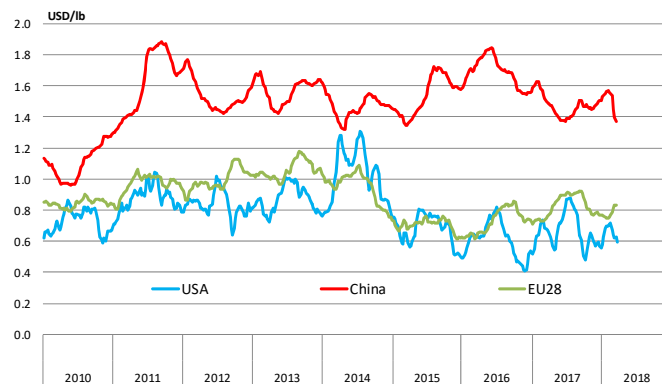
USDA issued yesterday afternoon the results of its monthly 'Cold Storage' survey and we thought the results were generally bearish for meat protein prices. Below are some of the highlights:

Beef inventories at the end of February were 460.3 million pounds, 8.4% lower than a year ago and 4.1% lower than the five year average. We think high beef trim prices and expectations for higher supplies in April and May likely induced some end users to deplete inventories. The drawdown in stocks in February was 8.3% compared to an average drawdown of 3% in the last five years. Last year boneless beef inventories declined sharply in the first half of the year and so far we have seen a similar trend. Beef imports and beef production year to date are higher than a year ago, leading us to think that the main reason for the lower beef stocks is robust domestic and export demand. **The results are constructive for beef prices in early spring.**

Pork inventories at the end of February were 614.9 million pounds, 8.3% higher than a year ago but still 3% less than the five year average. The pace of pork inventory accumulation was in line with normal levels but we were surprised by the sharp increase in the volume of pork trimmings that went into the freezer during February. This was offset in part by a lower than expected inventory of hams. **At the end of February ham stocks in cold storage were 122.8 million pounds, 1.9% less than last year and just 2.9% higher than the five year average.** Ham inventories in the past five years have increased by an average of 12% from January to February. This year the inventory increased by just 4%. High ham prices in January and early February may have caused some users to limit inventory build. What is harder to ascertain is whether the high ham prices negatively impacted Easter features and export demand. Today ham prices are down as much as 24% compared to late January levels. **Pork belly stocks at the end of February were 46.5 million pounds, significantly higher than the 16.2 million pounds on hand a year ago but still 16% less than the five year**

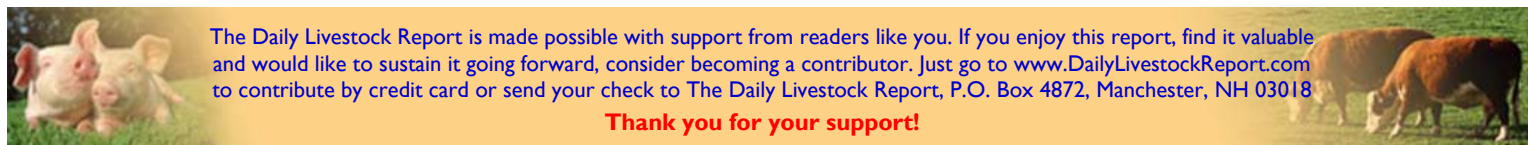
China, US & EU Hog Carcass Price

Source: USDA, Chinese Ministry of Agriculture & Eurostat. Converted in US\$ using weekly exchange rate



average. We think belly stocks are far from burdensome. However, we expect more bellies to go into storage in March and April, which should help temper summer belly values. At the end of February pork trim inventories were estimated at 59.4 million pounds, 59% higher than a year ago and now 21% higher than the five year average. It is quite telling that in the last five years the average m/m increase from January to February has been 5%. This year inventories jumped 22%. Large slaughter in March and early April will likely keep the trim market well supplied and prices below year ago levels.

The **supply of whole broilers and chicken parts** in cold storage at the end of February was 905.2 million pounds, **15.2% higher than a year ago and 25.8% higher than the five year average.** The inventory of boneless skinless chicken breasts remains some 30% higher than the five year average. Leg quarter inventories down 36% vs. five year avg.



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USDA STOCKS IN COLD STORAGE REPORT

COMMODITY	Stocks in All Warehouses			Percent Of	
	28-Feb-17	31-Jan-18	28-Feb-18	Feb-17	Jan-18
1,000 Pounds					
Frozen Pork					
<i>Picnics, Bone-In</i>	8,437	7,074	8,684	103	123
<i>Hams, Total</i>	125,167	118,407	122,788	98	104
<i>Bone-in</i>	50,874	35,572	36,927	73	104
<i>Boneless</i>	74,293	82,835	85,861	116	104
<i>Bellies</i>	16,153	43,810	46,509	288	106
<i>Loins, Total</i>	38,155	40,773	39,017	102	96
<i>Bone-in</i>	13,911	14,276	14,680	106	103
<i>Boneless</i>	24,244	26,497	24,337	100	92
<i>Ribs</i>	139,525	114,366	128,090	92	112
<i>Butts</i>	22,052	25,477	22,937	104	90
<i>Trimming</i>	37,339	48,602	59,426	159	122
<i>Other</i>	86,028	104,544	97,162	113	93
<i>Variety Meats</i>	50,908	30,735	35,324	69	115
<i>Unclassified</i>	44,091	46,926	54,981	125	117
Total	567,855	580,714	614,918	108	106
Frozen Beef					
<i>Boneless</i>	463,934	458,749	416,976	90	91
<i>Beef Cuts</i>	38,514	42,995	43,300	112	101
Total	502,448	501,744	460,276	92	92
Other					
<i>Veal</i>	16,950	19,912	21,158	125	106
<i>Lamb & Mutton</i>	25,694	26,790	28,352	110	106
Total	42,644	46,702	49,510	116	106
Total Red Meat	1,112,947	1,129,160	1,124,704	101	100
Chicken					
<i>Broilers, Fryers, Roasters</i>	16,274	12,841	14,282	88	111
<i>Breasts and Breast Meat</i>	191,083	200,238	203,475	106	102
<i>Leg Quarters</i>	112,677	88,635	84,688	75	96
<i>Wings</i>	71,523	64,627	70,058	98	108
<i>Other Chicken</i>	394,316	510,993	532,703	135	104
Total	785,873	877,334	905,206	115	103
Turkey					
<i>Whole Turkeys</i>	155,180	158,533	186,560	120	118
<i>Turkey Breast</i>	87,836	85,313	101,897	116	119
<i>Other</i>	135,354	131,342	138,315	102	105
Total	378,370	375,188	426,772	113	114
<i>Ducks</i>	5,329	2,802	2,703	51	96
Total Poultry	1,169,572	1,255,324	1,334,681	114	106

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US Trade with China/Hong Kong in 2017. Selected Products

Source: USDA/FAS. Volume data is in Metric Ton, Product wt. basis.

			China Mainland		Hong Kong		World Total		% of Total	
Beef, Fresh/Frz	mil. \$	\$	31	\$	801	\$	832	\$	6,176	13.5%
	'000 MT		3		111		114		1,263	9.0%
Beef Cooked	mil. \$	\$	0.02	\$	32	\$	32	\$	218.18	14.8%
	'000 MT		0		6		6		34	16.4%
Beef Variety	mil. \$	\$	0.15	\$	51	\$	51	\$	875	5.8%
	'000 MT		0.04		14		14.5		315	4.6%
Total \$ Value	mil. \$	\$	31	\$	884	\$	915	\$	7,269	12.6%
Pork, Fresh/Frz	mil. \$	\$	237	\$	87	\$	324	\$	4,559	7.1%
	'000 MT		127		44		171		1,722	9.9%
Pork Cooked	mil. \$	\$	1	\$	11	\$	12	\$	755	1.6%
	'000 MT	\$	0		3		3		184	1.9%
Pork Variety	mil. \$	\$	251	\$	317	\$	568	\$	886	64.1%
	'000 MT		148		140		287		484	59.3%
Live Hog	mil. \$	\$	10	\$	-	\$	10	\$	23	44.1%
	head		5,923		-		5,923		59,469	10.0%
Total \$ Value	mil. \$	\$	499	\$	415	\$	914	\$	6,222	14.7%
Broiler, Fresh/Frz	mil. \$	\$	0.07	\$	146	\$	146	\$	2,908	5.0%
	'000 MT		0		126		127		2,998	4.2%
Live Broiler	mil. \$	\$	-	\$	-	\$	-	\$	0.64	0.0%
	head		-		-		-		214,308	0.0%
Total \$ Value	mil. \$	\$	0	\$	146	\$	146	\$	2,909	5.0%

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