Daily Livestock Report

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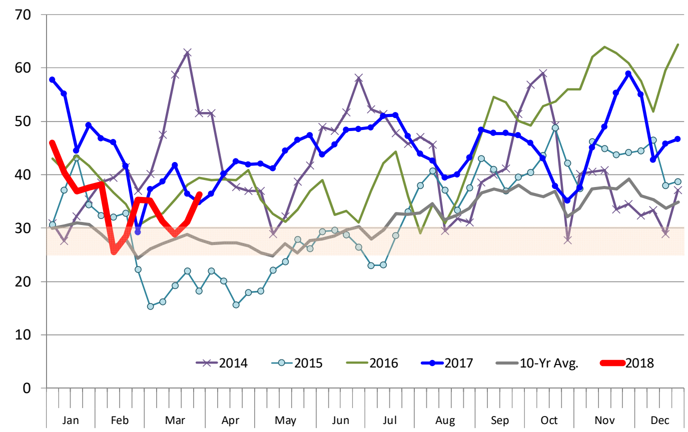
<u>Livestock futures markets were down yesterday as market participants worry about the immediate impact of a 25% tariff on US pork but also the effect that a trade war with China will have on the broader economy.</u> Given the larger exposure of the pork market to China demand, the impact has been more pronounced on hogs. Following the announcement of an immediate 25% hike in the tariff on US pork and pork variety meats going to China, lean hog futures for spring and early summer months declined the daily permissible limit. The decline had little to with the USDA 'Hogs and Pigs' report as survey data was very close to what analysts were expecting (see DLR posted 3/30 for details on this report). The report underscored that pork supplies will continue to expand in the next 12 months and pork production in the fall will hit new all time record highs. Weekly slaughter is currently around 2.4 million head, it will likely seasonally decline to around 2.25 million head by summer but then jump to as high as 2.6 million by fall. Given this increase in supplies, a slowdown in exports to China will push more product into already well saturated domestic channels. Additionally, an escalating trade war could negatively impact domestic and global growth, further impacting demand. Pork packer margins were lower in February and March. In part this was due to slower export growth but, in our view, the main reason was weaker domestic retail business. The meat margin in the last nine weeks (Feb/Mar) averaged $6.43/cwt or $13.63/head, 30% lower than the same period a year ago. We calculate the value derived from by products at $18.61/head in Feb and March, down 5% from a year ago. This is based on by-product values calculated by LMIC rather than those from USDA. It will be interesting to see how those by-product values perform now that they are faced with a 25% tariff in the Chinese market. The higher tariff could potentially subtract as much as $1.50/head on the value of the by-products alone. Please note that all our margin calculations are done on a gross basis. The shaded area in the chart is where we think the breakeven levels are for most packers. Keep in mind, however, that packer operating costs have been increasing in recent years due to higher labor, transportation and health care inflation.

<u>Fed cattle futures have also declined sharply in recent weeks on fears of a supply bulge in Q2</u>. There is little question that short term pipeline cattle supplies are heavy and producers need to market aggressively in Q2 in order to stay current. Cattle on feed supplies are about 9% higher than they were a year ago and we think on April 1 the supply of cattle that have spent at least 120 days on feed will be 25% higher than it was at the same time last year. Fed cattle availability has been limited in the first quarter, which in turn has limited slaughter levels and bolstered overall cutout values. Futures are now saying they expect the situation to flip in Q2 and Q3. Beef packer margins appear to be in excellent shape and eventually this should encourage packers to increase slaughter. Lower prices may be needed in order to encourage retailers and foodservice operators to feature more beef. The latest comprehensive cutout report showed a notable improvement in beef sales late April and May. June cattle now have a 17% discount to current cash market and end users will likely try to hit the trifecta: improve margins, drive traffic and hit dollar sales targets.

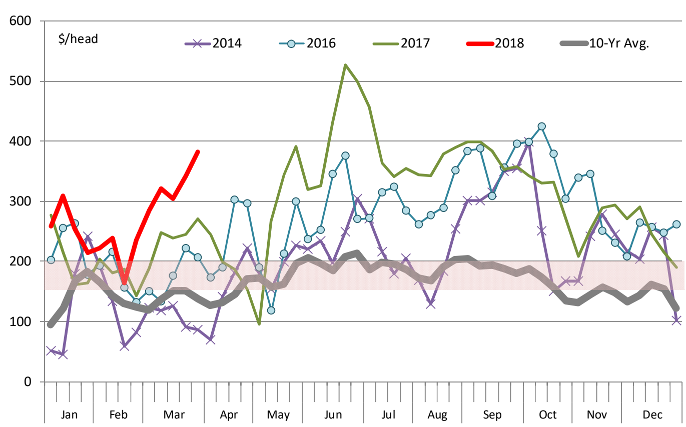
PORK PACKER CALCULATED GROSS MARGIN. $/HEAD

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



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