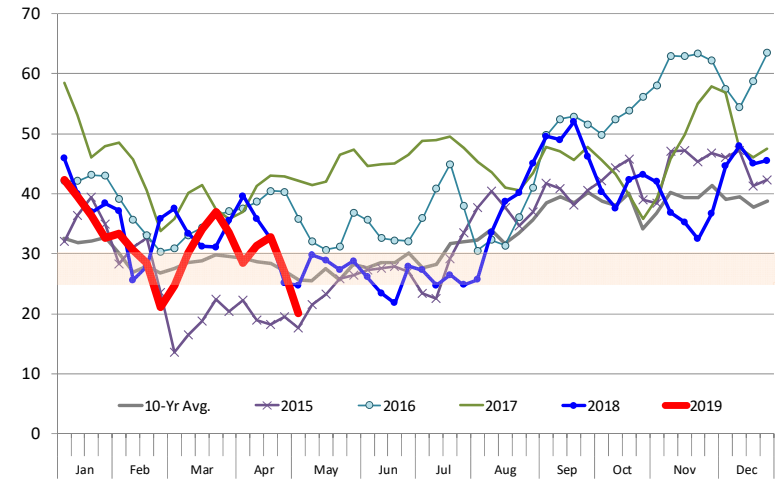


The regular weekly export report for beef and pork was released today and we viewed the report as neutral for the pork complex and bullish for beef. In the case of pork, we thought there were a number of positive indicators but probably just as many negative ones. The main positive number was the steady increase in pork export shipments. In the last four weeks exports were up 14% compared to a year ago. Lower exports to Mexico and Japan have been offset by higher exports to China and Hong Kong. Market participants that have a more bullish view will likely focus on the fact that US export shipments to China are up sharply vs. last year despite a punishing tariff of 62%. However, it is important to remember that some of this product was booked when US pork prices were notably lower than today. On the negative side one could point to a sharp pullback in both exports and export sales to Mexico. Sales to Mexico in the last four weeks are down 51% from last year. As for beef, the numbers were positive across the board. Weekly exports were near 24,000 MT compared to an average of around 13,000 MT in the previous three weeks. More importantly, export sales were up even more and in the last four weeks beef export sales were up 31% from a year ago. Net export sales to South Korea jumped to 11,761 MT and for the last four weeks have averaged 6,696 MT/wk, 88% higher than a year ago. Please note that USDA will issue official export statistics for all meat proteins today. Our review tomorrow will focus on the March export data and also look at how weekly exports compare to the official statistics.

Beef and pork packer margins have been going in different directions recently. While it is not unusual for pork packer margins to be squeezed in Q2 while beef margins expand, **current margins are on the high/low end of ranges for recent years.** Please keep in mind whenever you see such calculations that they are at best an approximation. Each packer will have different margins based on capacity utilization, labor cost structure, cattle availability, etc. **We simply look at a gross margin calculation to understand direction more than anything else.** Also important is to consider the assumptions/benchmarks analysts are using in their calculations otherwise you can draw conclusions that are far off field. **In the case of beef we calculate the gross packer margin for last week at \$329/head.** To figure out a net margin enter what your ideas are about the cost per head of processing cattle. In the shaded area we have a range of \$180 to \$210. Beef packer margins have been higher than a year ago for much of this year, a function of robust beef demand in the first quarter and continued strong demand for processing services. In the short term processing capacity is limited so as demand for processing cattle increases, it will result in higher margins for the processors. This is no different than any other service industry. As for the assumptions, we used an average cattle drop credit value of \$8.59/cwt live or \$113/head, a dress percentage of 63.5%, a cutout value of \$227.07 (USDA comprehensive report and an averaged dressed cattle

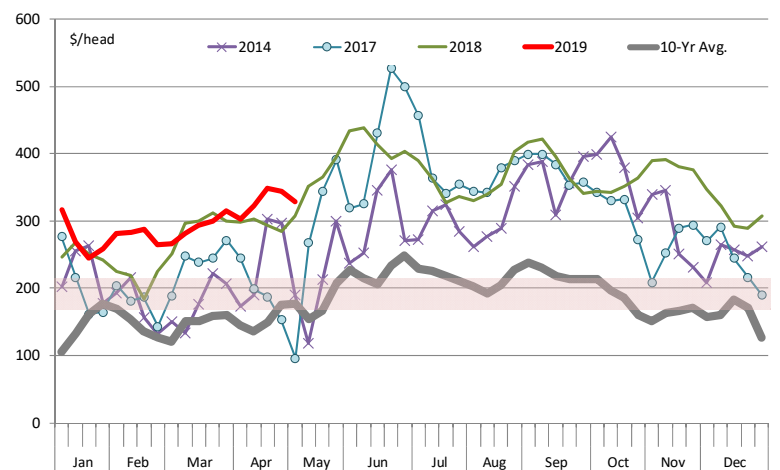
PORK PACKER CALCULATED GROSS MARGIN. \$/HEAD

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

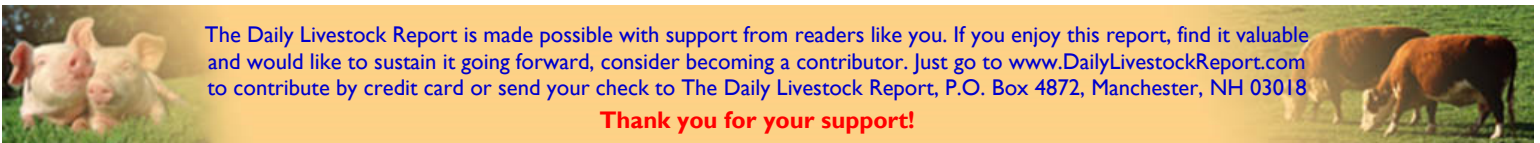


BEEF PACKER CALCULATED GROSS MARGIN. \$/head

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



price of \$201.2/cwt (USDA comprehensive cattle report). **Pork packer margins, on the other hand are currently at the lowest level for the year and also near the lowest point since 2015.** According to our current calculations the gross pork packer margin is around \$20/cwt. This assumes a drop credit value of \$18.86/head, an average hog price last week of \$82.43/cwt and an average cutout value of \$83.03. Dressed weights for hogs assumed at 213 lb.



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