Daily Livestock Report

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<u>USDA announced last night that it would suspend imports of all fresh/frozen Brazilian beef and this will likely be a point of discussion as markets open today</u>. Before we touch on the cold storage inventory results, a couple of points on this topic. The announcement followed the delisting of five Brazilian plants earlier in the week. No beef from those five plants, whether fresh/frozen or cooked will be allowed entry. The next step to ban all **<u>shipments of fresh/frozen beef</u>** came as USDA found the rejection rate of 11% was far higher than the 1% rejection rate from other markets. We do not know what the rejection rate was before the 100% testing was put in place in late March. Brazil was just granted access to the US market last fall and it had only recently started to ramp up shipments to the US. It is our understanding that with one exception, the rejections of Brazilian product were not due to food safety issues but product defects. At this point Brazil does not account for a significant portion of the beef supply in the US market and the suspension has no real material impact on the US beef market as a whole. Keep in mind that at this point only fresh/frozen beef imports from Brazil are affected and cooked beef imports from the five delisted plants. In April imports of all Brazilian beef were 17.1 million pounds and we think fresh/frozen was around 6.6 million pounds on a carcass wt. basis. This compares to monthly US beef production (cwe basis) of 1.96 billion pounds in April.

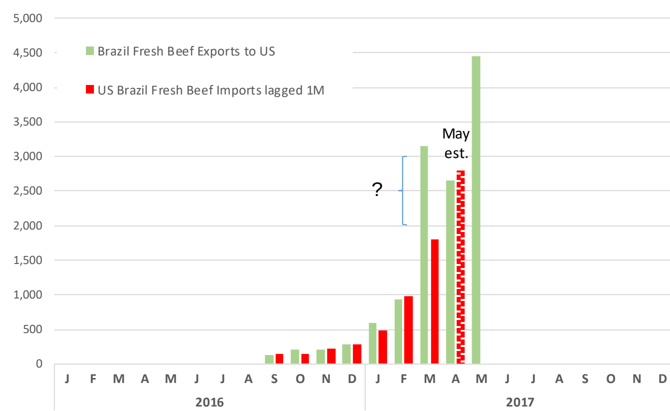
<u>Total supplies of beef, pork, chicken and turkey in cold storage at the end of May were 2.324 billion pounds, 0.6% less than a year ago but still 3.1% higher than the five year average</u>. Cold storage stocks of all major meat proteins at the end of May were about the same as where they were the previous month. In the past five years cold storage stocks have increased an average 1% from April to May. See page 2 for full details.

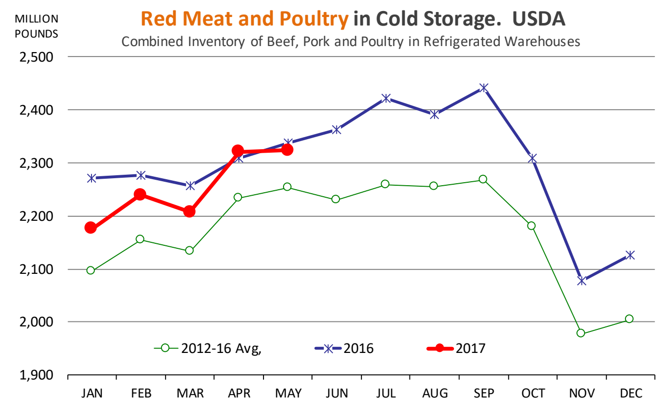
<u>Beef</u>: Sharp price increases, especially for fat beef trimmings, likely caused end users to rely heavily on their freezer inventories. Boneless beef stocks at the end of May were 377.8 million pounds, 11.2% less than a year ago and 8.3% lower than the five year average. The drawdown in stocks in May was 9.1% when in the last five years the average drawdown was 4%. Beef imports continue to track under last year, which also has reduced the supply of lean boneless beef going into cold storage. Sharp spike in middle meat cuts also caused end users to liquidate their stocks of beef cuts, which dropped 18% compared to the previous month. This is not unusual as end users had been accumulating inventories in March and April in anticipation of better demand in May and decided the time was right to unwind those freezer hedges. Total beef inventories at 412.8 million pounds down 10.6% from last year and 10% under the five year average. The lower inventories continue to be supportive for beef pricing in the short term. Beef exports continue to be generally positive although the recent price spike has reduced volumes shipped compared to the torrid pace earlier in the year.

<u>Pork</u>: While the tight belly stock situation remains positive for the pork market in the short term, inventories of other pork products increased at a faster pace. Total pork in cold storage at the end of May was 592.1 million pounds, 3.9% lower than a year ago and 5.8% less than the five year average. **<u>Pork inventories in May were 0.5% less than the previous month when compared to an average 4% drawdown in stocks during the past five years</u>**. The trend in cold storage for the next three months will be critical. Pork production is expected to ramp up higher in Q3 and it is necessary to get into that quarter with relatively current pork stocks. If product starts to accumulate in the freezer, be this because of slower exports or because high prices kill some demand in late summer, it could put further downward pressure on fall pork prices. Ham inventories at the end of May were 144.1 million pounds, unchanged from a year ago and 3.5% higher than the five year average.

US Monthly Beef Imports from Brazil vs. Brazil Monthly Beef Exports to the US

Import Data Lagged by 1 Month (Apr Brazil Exports vs. May US Imports).





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USDA STOCKS IN COLD STORAGE REPORT

COMMODITY	Stocks in All Warehouses			Percent Of	
	31-May-16	30-Apr-17	31-May-17	May-16	Apr-17
		1,000 Pounds			
Frozen Pork					
Picnics, Bone-In	9,914	7,224	7,757	78	107
Hams, Total	144,060	113,303	144,057	100	127
Bone-in	70,368	37,177	51,944	74	140
Boneless	73,692	76,126	92,113	125	121
Bellies	77,683	33,536	31,589	41	94
Loins, Total	39,115	42,872	40,380	103	94
Bone-in	11,666	16,365	15,432	132	94
Boneless	27,449	26,507	24,948	91	94
Ribs	109,997	137,006	115,333	105	84
Butts	16,340	24,414	21,548	132	88
Trimmings	40,686	41,014	37,753	93	92
Other	82,116	89,320	91,836	112	103
Variety Meats	48,293	54,471	49,848	103	92
Unclassified	47,920	51,811	52,026	109	100
Total	**616,124**	**594,971**	**592,127**	**96**	**100**
Frozen Beef					
Boneless	425,450	415,592	377,826	89	91
Beef Cuts	36,233	42,826	35,046	97	82
Total	**461,683**	**458,418**	**412,872**	**89**	**90**
Other					
Veal	6,482	15,383	12,782	197	83
Lamb & Mutton	44,816	28,603	29,800	66	104
Total	**51,298**	**43,986**	**42,582**	**83**	**97**
Total Red Meat	**1,129,105**	**1,097,375**	**1,047,581**	**93**	**95**
Chicken					
Broilers, Fryers, Roasters	20,203	21,761	20,632	102	95
Breasts and Breast Meat	182,119	187,418	184,951	102	99
Leg Quarters	116,785	116,144	118,841	102	102
Wings	81,993	61,830	56,729	69	92
Other Chicken	405,542	409,400	404,149	100	99
Total	**806,642**	**796,553**	**785,302**	**97**	**99**
Turkey					
Whole Turkeys	215,315	217,096	277,354	129	128
Turkey Breast	80,361	105,780	106,456	132	101
Other	158,471	148,636	149,755	94	101
Total	**454,147**	**471,512**	**533,565**	**117**	**113**
Ducks	8,605	3,872	3,364	39	87
Total Poultry	**1,269,394**	**1,271,937**	**1,322,231**	**104**	**104**