

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.

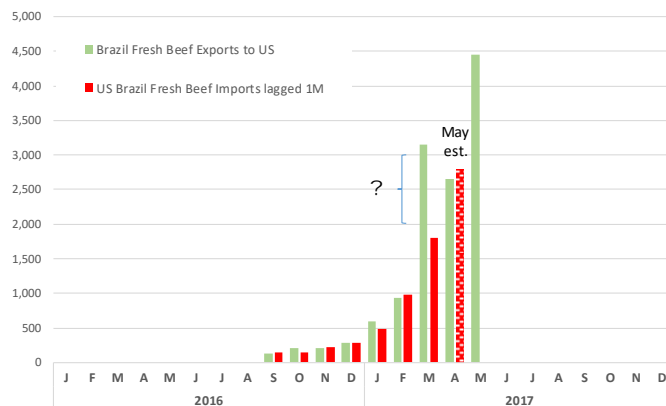
Before we touch on the cold storage inventory results, a couple of points on this topic. The announcement followed the delisting of five Brazilian plants earlier in the week. No beef from those five plants, whether fresh/frozen or cooked will be allowed entry. The next step to ban all **shipments of fresh/frozen beef** 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.

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. 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.

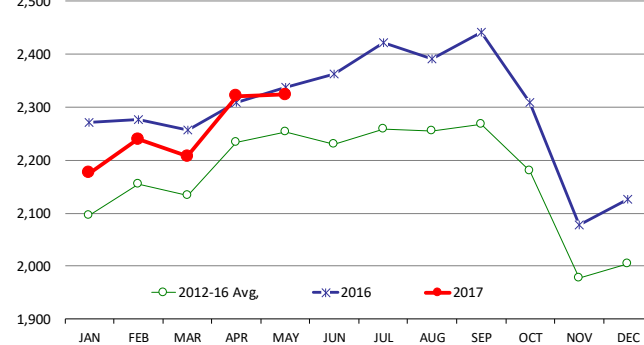
Beef: Sharp price increases, especially for fat beef trimmings, likely caused end users to rely heavily on their freezer inventories. Boneless beef stocks at the end of May were 377.8 million pounds, 11.2% less than a year ago and 8.3% lower than the five year average. The drawdown in stocks in May was 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.

Pork: While the tight belly stock situation remains positive for the pork

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).



Red Meat and Poultry in Cold Storage. USDA
Combined Inventory of Beef, Pork and Poultry in Refrigerated Warehouses



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. **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.** 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.

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

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