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Q2 BIG PICTURE OUTLOOK

SPECIAL REPORT: CATTLE & BEEF

Storm Market Effects & Strength of Middle Meats into Summer

HOSTED BY:

J.S. Ferraro & Company and Retail Ready Foods Inc.

DATE: April 16, 2019

SPECIAL GUEST SPEAKER:



Dr. Mike Sands, BS, MS, PhD Agri Economics
Livestock Analyst
Nesvick Trading Group

HOSTS:



Dr. Rob Murphy, BS, MS, PhD Agri Economics
Executive Vice President, Research & Analysis
J.S. Ferraro & Company



Kevin Grier
Market Analyst
Kevin Grier Market Analysis & Consulting

Linked by a common thread, integral within a protein based supply chain.

The JSF Group of companies:



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A provider of **innovative risk management solutions**, specializing in meat & livestock.

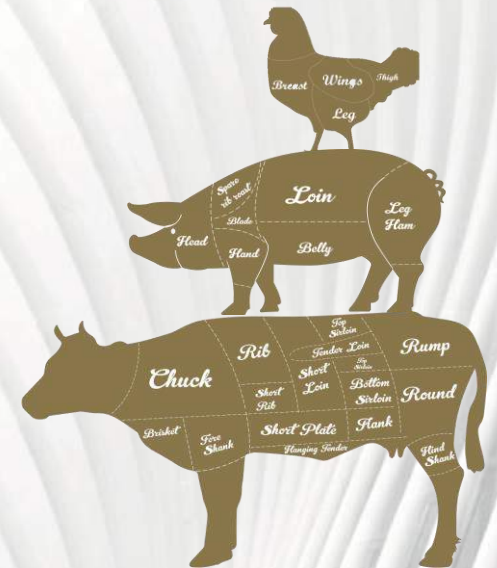


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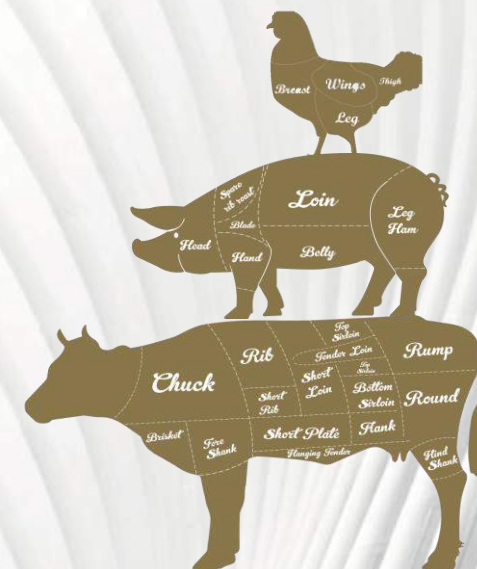


Red Meat Outlook: monthly market intelligence reports for both Cattle & Beef and Hogs & Pork markets;



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DISCUSSION OUTLINE:

1. HOGS & PORK OUTLOOK & AVAILABILITY

- US Market
 - Canadian Market
-

2. SPECIAL REPORT: CATTLE & BEEF

- Impact of storm market on growth weights & yield
 - Impact of African Swine Fever (ASF) on meat demand
 - Strength of middle meats going into the summer
 - Canadian outlook
-

3. CHICKEN & POULTRY OUTLOOK

- Canadian Market
-

4. Q&A

Dr. Mike Sands



Dr. Mike Sands, BS, MS, PhD Agri Economics

Livestock Analyst
Nesvick Trading Group
<https://nesvick.com/>



Mike Sands is Nesvick Trading Group's Livestock Analyst. Mike joined Nesvick after working at Informa Economics for a number of years, heading the economic, research, and analysis program in the cattle and beef area. Mike coordinated a multi-commodity livestock and meat research team of professionals to service a broad spectrum of clients. His team developed marketing, merchandising, and risk management plans for livestock and livestock products with particular emphasis on cattle and beef procurement and sales.

Mike currently consults intensively with clients that are actively engaged in the livestock and meat industry. His primary responsibilities include economic research and market analysis which comprises of price discovery, production, trade, price relationships, and risk management strategies to support the diverse interests of his consulting clients.

Early in his professional career, Mike was a livestock marketing economist at Kansas State University where his team developed livestock marketing and management strategies for farmers and ranchers. Mike grew up on a dairy farm in central Wisconsin and received his B.S. degree from the University of Wisconsin-Platteville, and M.S. and Ph.D. degrees from the University of Illinois, all in agricultural economics.



Kevin Grier



Kevin Grier

Market Analyst

Kevin Grier Market Analysis & Consulting

www.kevingrier.com



Kevin Grier is a noted Canadian Agriculture & Food Market Analyst providing economic and market outlook for livestock, meat and grocery industries over the last 20+ years. His critical market insight and analysis helps his clients - from government and producer groups to small to large businesses - drive profitable bottom line decisions.

Kevin is a regular contributor and respected expert across media platforms throughout North America - Global News, CTV, National Post, Globe & Mail, National Hog Farmer and Grocery Business. Kevin speaks with clarity on a range of topics including market analysis, economic impacts, consumer trends and commodity analysis. He provides regular commentaries on the market and is a national and international keynote speaker known for his approachable yet pragmatic style.

His breadth of knowledge was developed over 18 years at the George Morris Centre, a leader in economic research in the agriculture and food industry. Prior to that Kevin was a manager with the Ontario Farm Products Marketing Commission, the supervisory body of the provincially regulated marketing boards. Currently, Kevin is managing director of Kevin Grier Market Analysis and Consulting, a company specializing in livestock, meat, poultry and grocery industry market insight and analysis working across a breadth of organizations internationally.

Dr. Rob Murphy



Dr. Rob Murphy, BS, MS, PhD Agri Economics
Executive Vice President, Research and Analysis
J.S. Ferraro & Company
www.jsferraro.com



An agricultural economist and business leader with over 27 years in the industry, Dr. Rob Murphy has a wealth of experience in the North American meat and livestock industries studying, analyzing and predicting market movements. His expertise spans commodity analysis, econometric modelling, forecasting, futures markets, hedging, and risk management.

Rob holds a Ph.D. in Agricultural and Applied Economics from Virginia Tech and has developed his market expertise over the past three decades by serving as an economist with the Chicago Mercantile Exchange, Sparks Companies and Informa Economics.

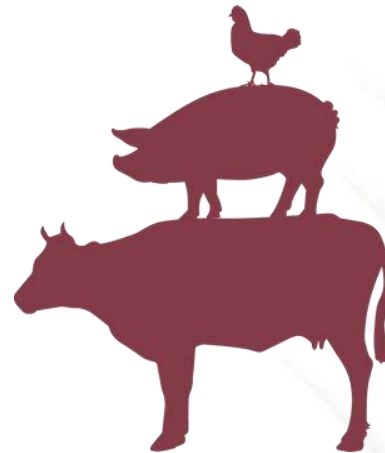
At Informa, Rob held two senior leadership roles (Senior VP of Livestock, Meat, Dairy and Poultry group and Vice President) over 13 years. He focused on the development of risk management programs and directed the division's work in commodity analysis in the protein sector. He has spoken internationally on many topics, including agri supply chain-development and international protein demand.

Currently, Rob is the Executive Vice President, Research and Analysis at J.S. Ferraro & Co. leading the team in commodity analysis, financial modelling, and the development of trading and risk management strategies.

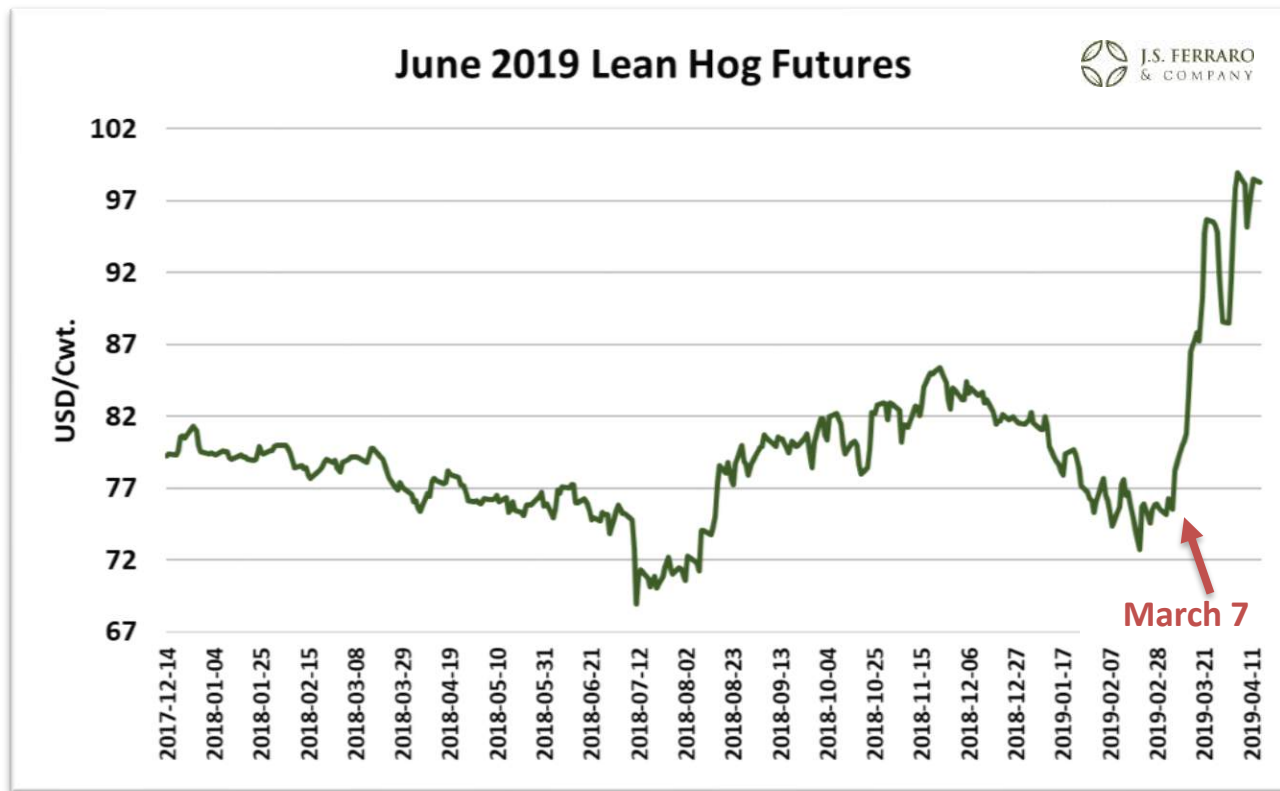


US MARKET OUTLOOK:

HOGS & PORK

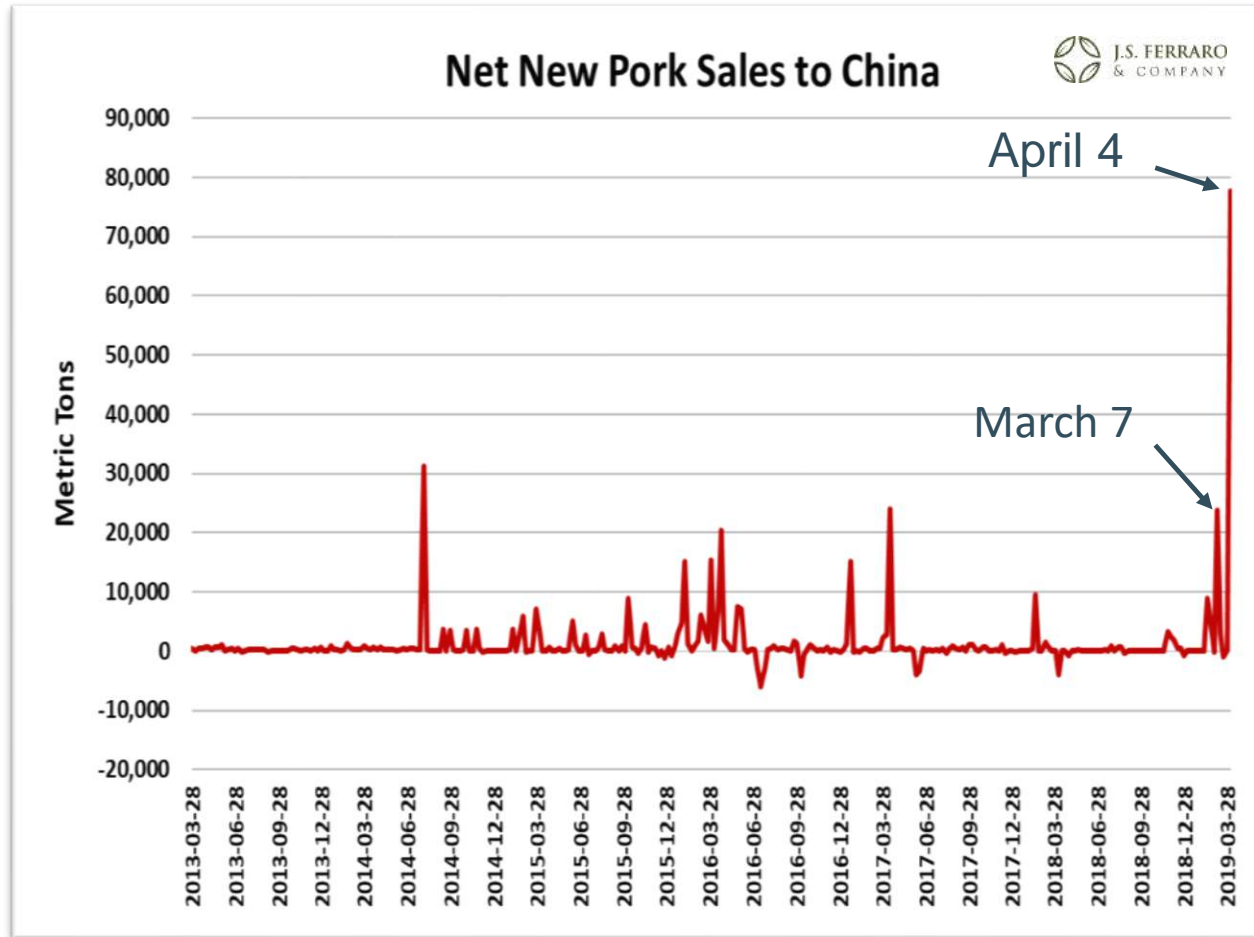


June 2019 Lean Hog Futures



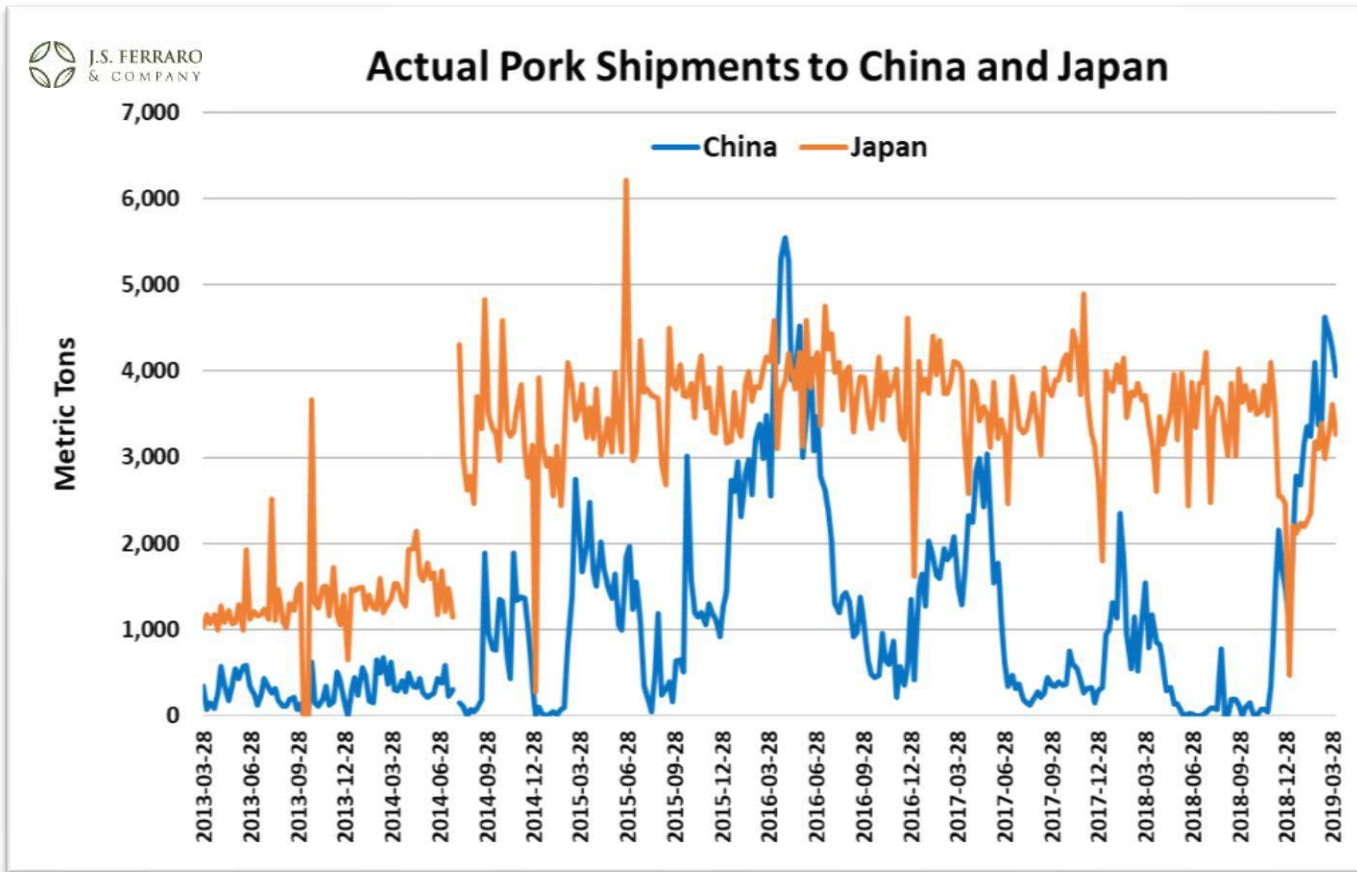
- LH futures had been trending lower since November.
- On March 7, USDA's weekly export report showed a total of 23,000 MT sold (but not yet shipped) to China.
- The market didn't react immediately, but the next day LH futures were up sharply
- This move was boosted by a number of analysts declaring that the ASF problem in China was massive.
- A few days later, the Chinese Ministry of Agriculture said that the hog population in China was down almost 20% in 2018
- That was gasoline on the fire.

Net New Pork Sales to China



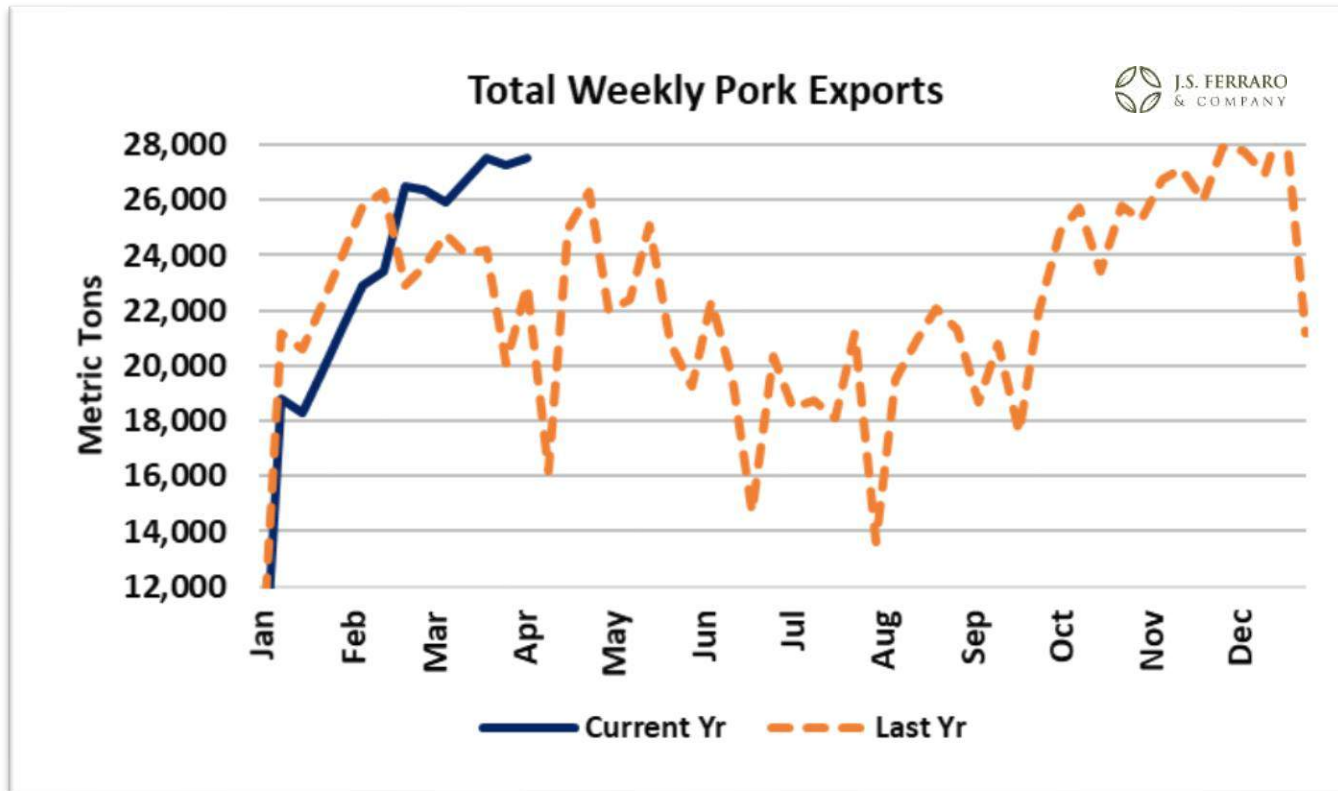
- Weekly reporting of pork export sales began in 2013. Frozen and chilled muscle cuts only.
- The law requires exporters to report, but it is pretty clear that not all export volume gets reported and the reporting that does happen is sloppy.
- China has made big orders in the past, but the buying has never been sustained for long.
- China is typically a value buyer, shopping for low-priced items. Most of what the US has historically shipped to China has been offal.

Actual Pork Shipments to China and Japan



- China is now taking more pork out of the US than Japan.
- This has only happened once since 2013 and it was brief.
- The one time that it did happen, in April-June, 2016, the cutout rose about \$7/cwt during the period.
- As US prices rise, it is likely that other major export destinations such as Japan and Mexico will take less product.
- So far in 2019, the weekly export data shows movement to Mexico down 10%.

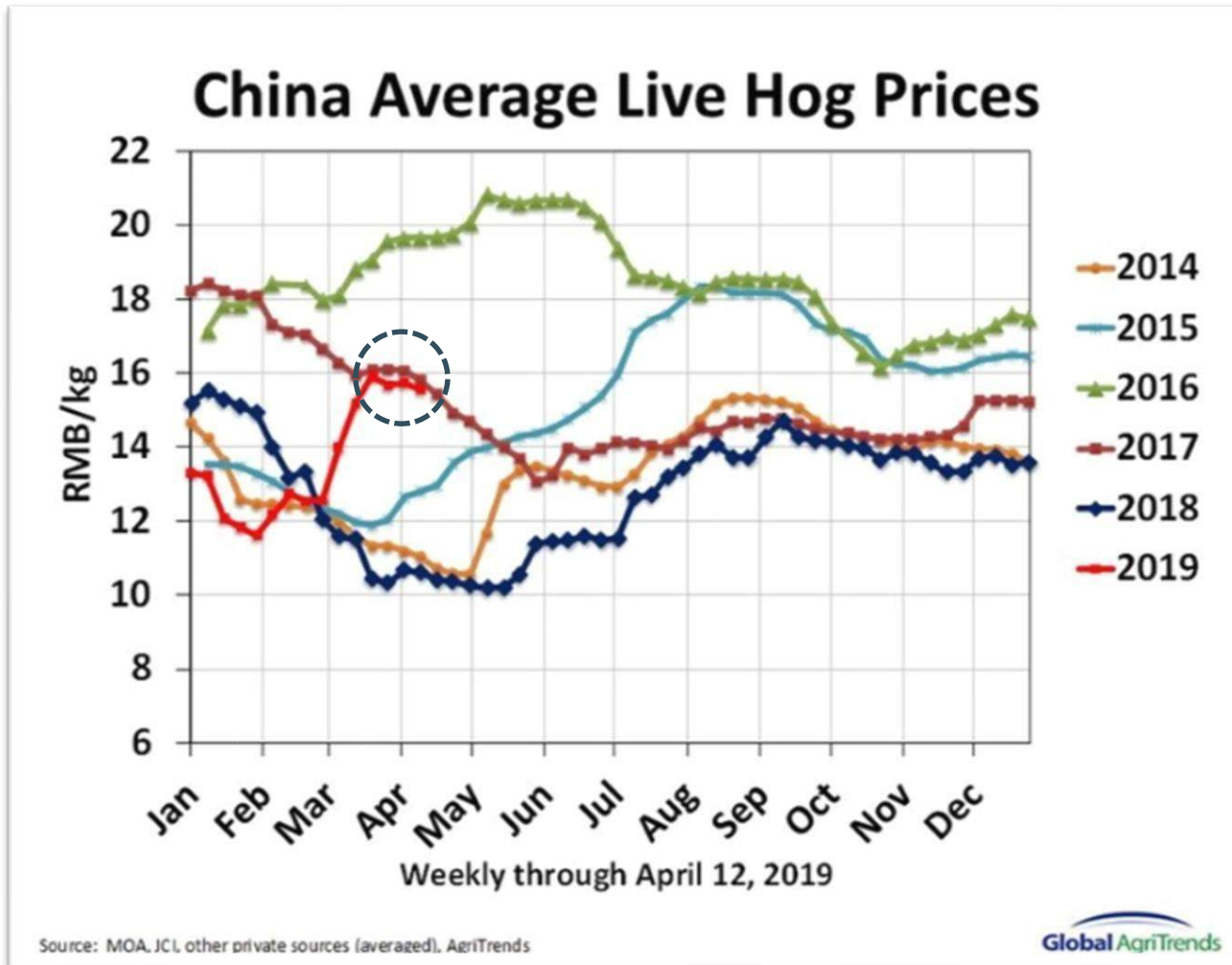
Total Weekly Pork Exports



- Total pork exports is what matters for per capita consumption. This is the year-over-year comparison using the weekly export data provided by USDA.
- After starting the year somewhat weak, exports are now running stronger than last year.
- Last week's data showed a 20% YOY increase, but we are comparing to a relatively soft export period last year.
- Note how export movement declines in the summer when price levels are the highest. If hog prices were to rise to the level futures want to imply, it should have a negative impact on exports.



China Average Live Hog Prices



- Chinese hog prices were historically low during most of 2018 and the early part of 2019.
- This happened at a time when China says it lost close to 20% of its swine inventory.
- Prices moved sharply higher for 3 weeks starting in March 2019 but have flattened out since then.
- Perhaps China's reduced hog supply has been mostly offset by reduced consumer demand.

Global Market Report

The First Power In Genetics
GENESUS
Global Market Report

Price as of April 1st, 2019

Domestic price (own currency) US dollars
(Liveweight/lb.)

USA (Iowa-Minnesota) [Weighted Avg.]	76.32	USD/100 lb. carcass	56.48 c
Canada (Ontario) [Base Price]	144.57	CAD/100 kg carcass	39.41 c
Mexico City	27.18	MXN/kg liveweight	64.26 c
Brazil (South Region)	4.01	BRL/kg liveweight	46.97 c
Russia	93.00	RUB/kg liveweight	64.75 c
China	14.97	CNY/kg liveweight	\$ 1.01
Spain	1.274	EUR/kg liveweight	64.80 c
France	1.283	EUR/kg carcass	56.12 c
United Kingdom	137.96	GBP/100 kg carcass	65.67 c
Vietnam	40,000	VND/kg liveweight	78.23 c
South Korea (national average)	4,494	KRW/kg carcass	\$ 1.38

- As of April 1, hog prices in both Canada and Brazil were lower than in the US.
- Neither one of those countries face near the tariffs that the US does in exporting pork.
- China traditionally takes a lot of product out of the EU.
- Keep in mind that the tariffs are assessed as a percentage of the purchase price, so as the price rises so does the absolute amount of the tariff.



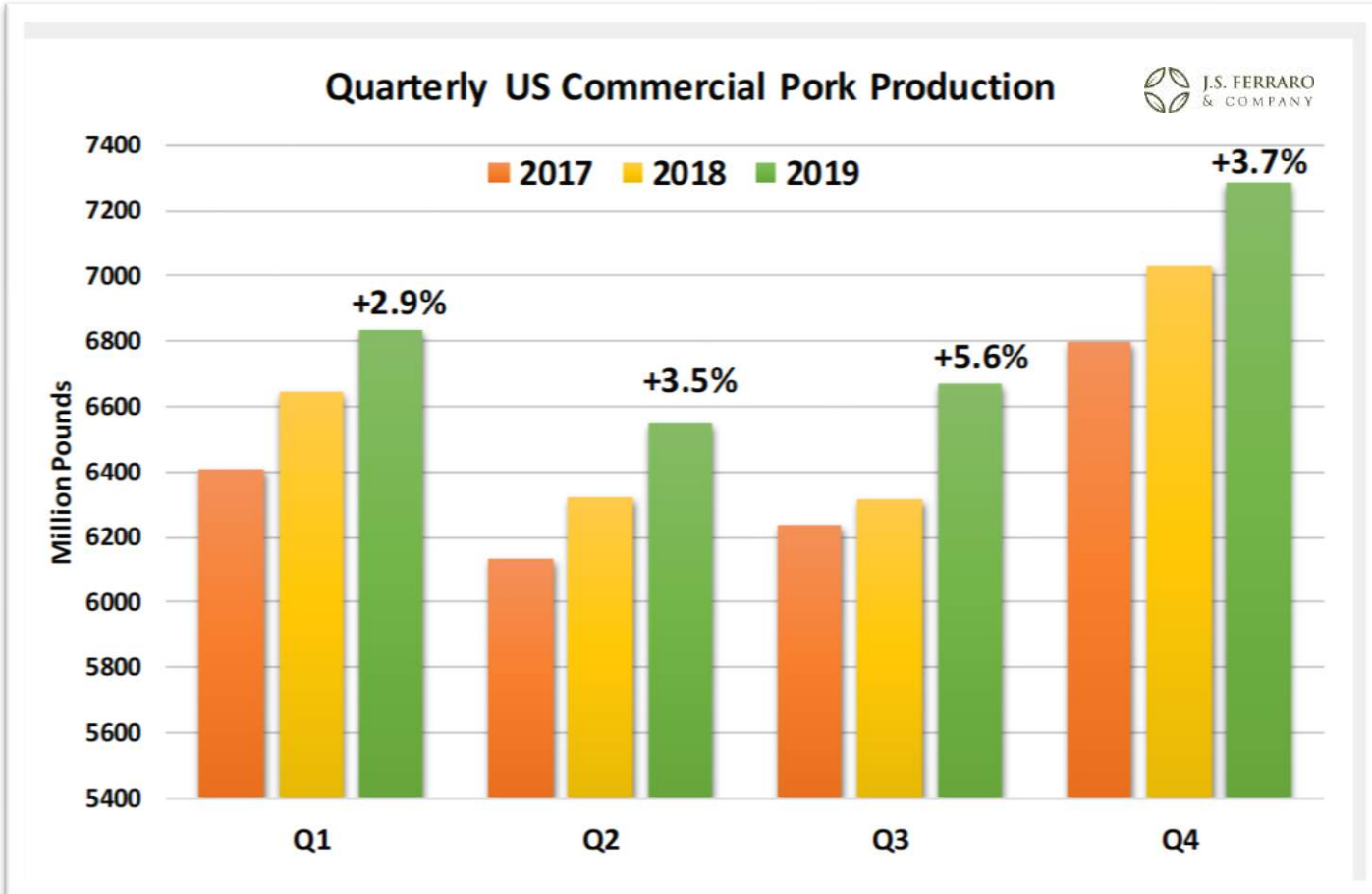
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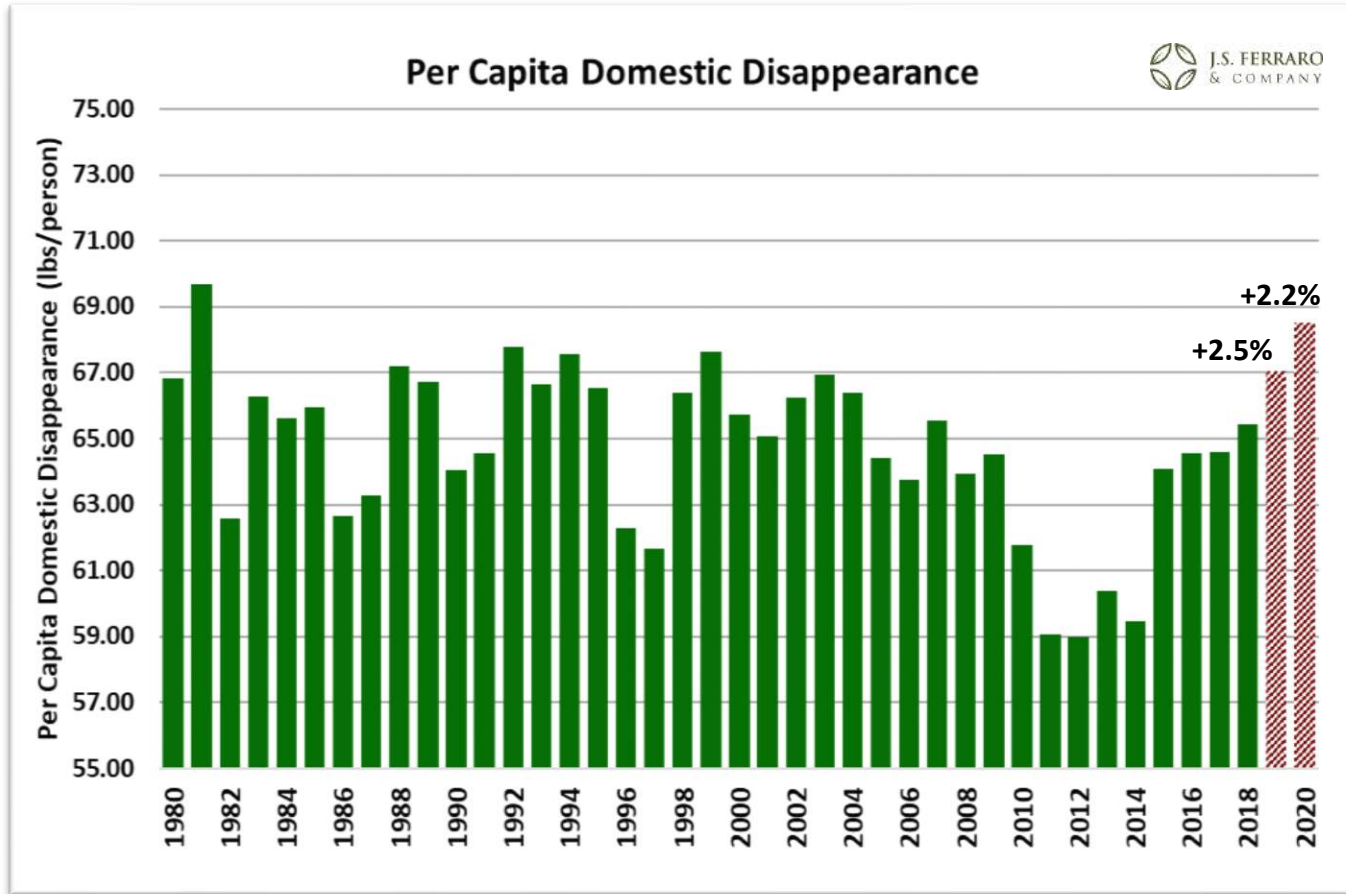
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Quarterly US Commercial Pork Production



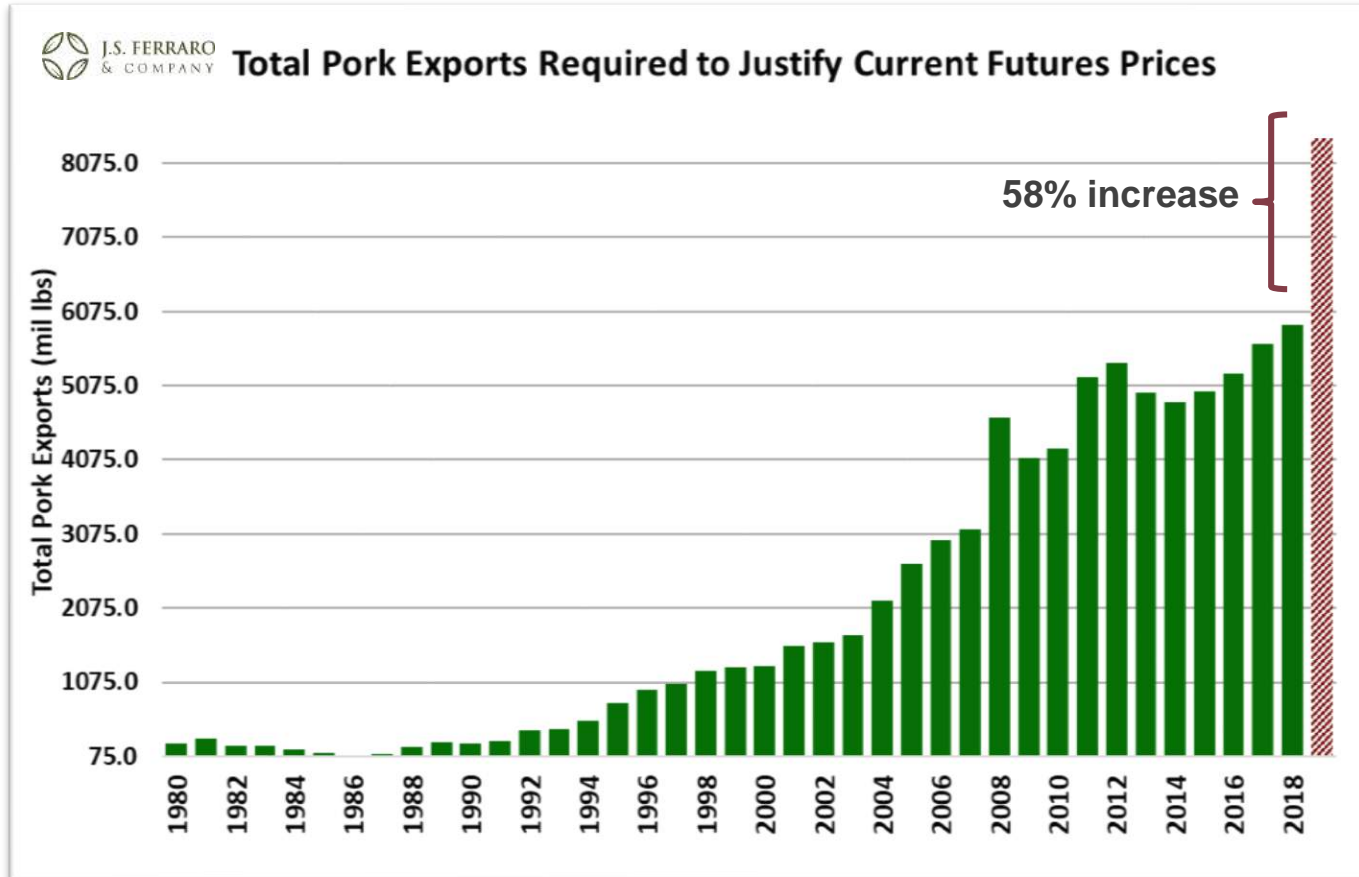
- JSF is forecasting US pork production to be up 3.9% in 2019.
- The largest year-over-year increase comes in the third quarter, but production will be very large in Q4 as well.
- The industry has added several new plants in the last couple of years and those assets will need to be productive.
- The last time we had an annual increase greater than 4% was in 2015 as the industry recovered from PEDv (a 7.3% increase)

Per Capita Domestic Disappearance



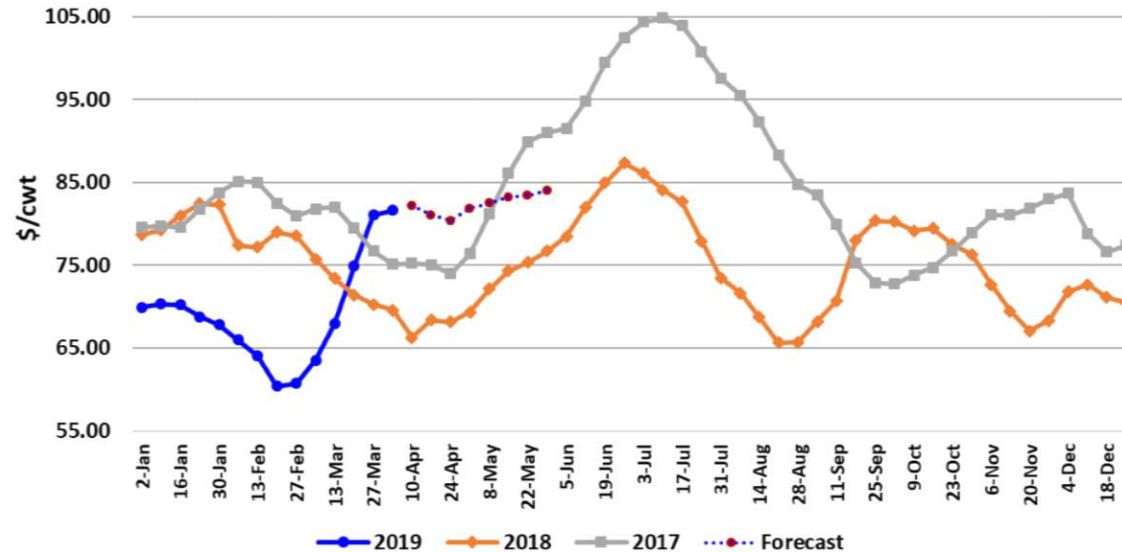
- Per capita disappearance measures the amount of pork that is available to each person in the US and is the main determinant of price.
- PC Disappearance = Production minus exports plus imports minus the change in cold storage.
- PCD has been creeping higher over the past few years and is projected to exceed 67 lbs. per person in 2019, a 2.5% increase over 2018.
- We are assuming pork exports will be up 5% in 2019.

Total Pork Exports Required to Justify Current Futures Prices



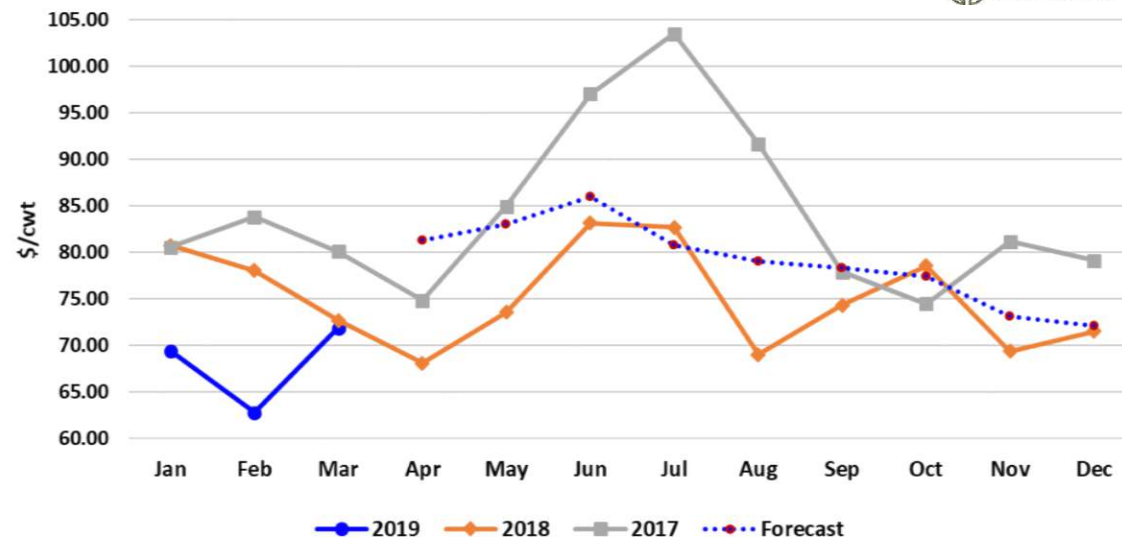
- We ran a little experiment to see just how big exports would need to be in 2019 to justify hog futures prices at \$100 this summer and over \$80 this fall.
- It would take about a 58% increase to accomplish that, all else equal. That would imply the US is exporting 34% of its production.
- Keep in mind that if the LHI is at \$100, the cutout is probably several dollars over that.
- High prices like that would likely discourage exports to traditional destinations like Mexico, S. Korea and Japan.

Pork Cutout

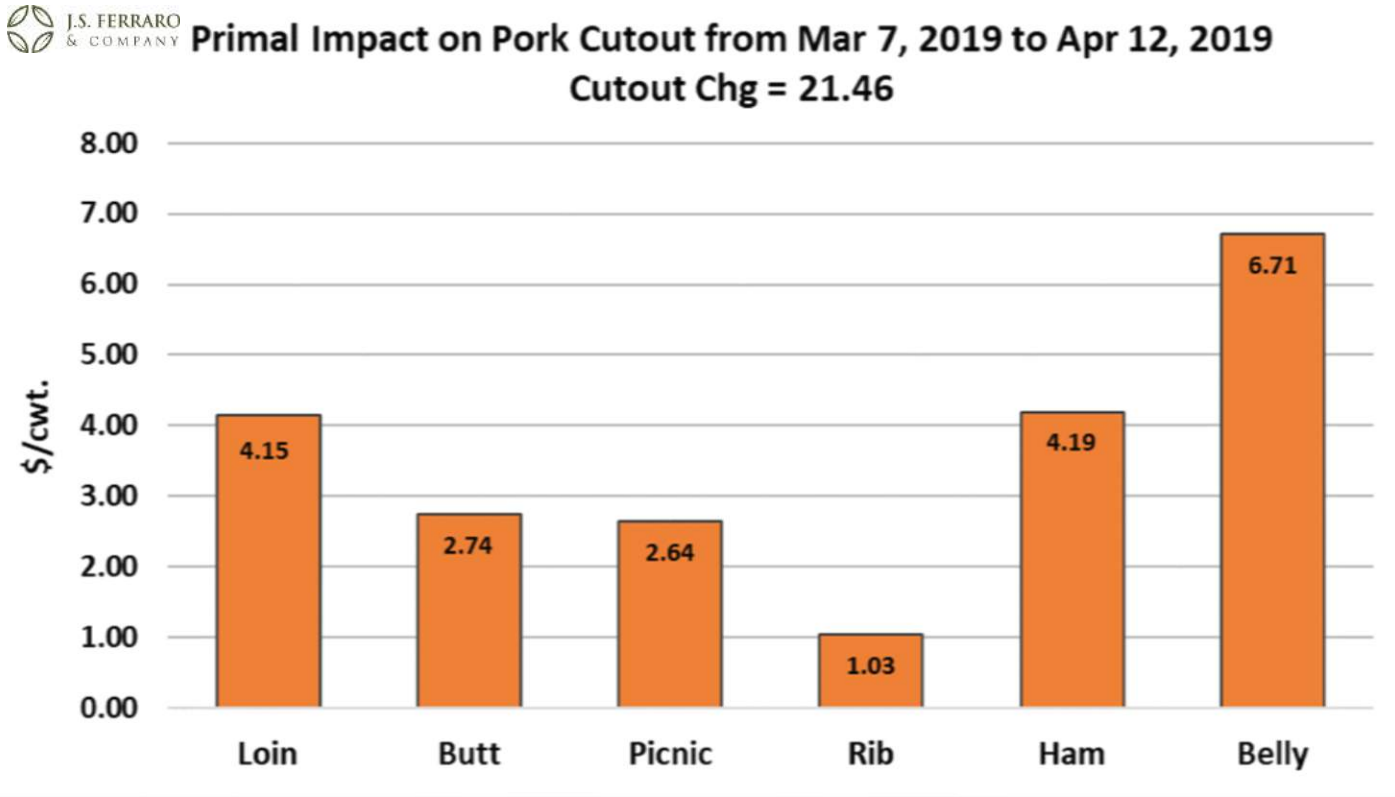


- Prior to March 7, the pork cutout had been really struggling under the weight of soft demand and plentiful supplies
- Following the China news, buyers rushed into the market sending the cutout sharply higher.
- In a 4-week period, the cutout added about \$21, almost a 35% increase.
- Since then, things have cooled and the cutout has moved sideways.
- The forecast has the cutout topping in the \$85-90 range in June, followed by a gradual decline right on into December.

Pork Cutout

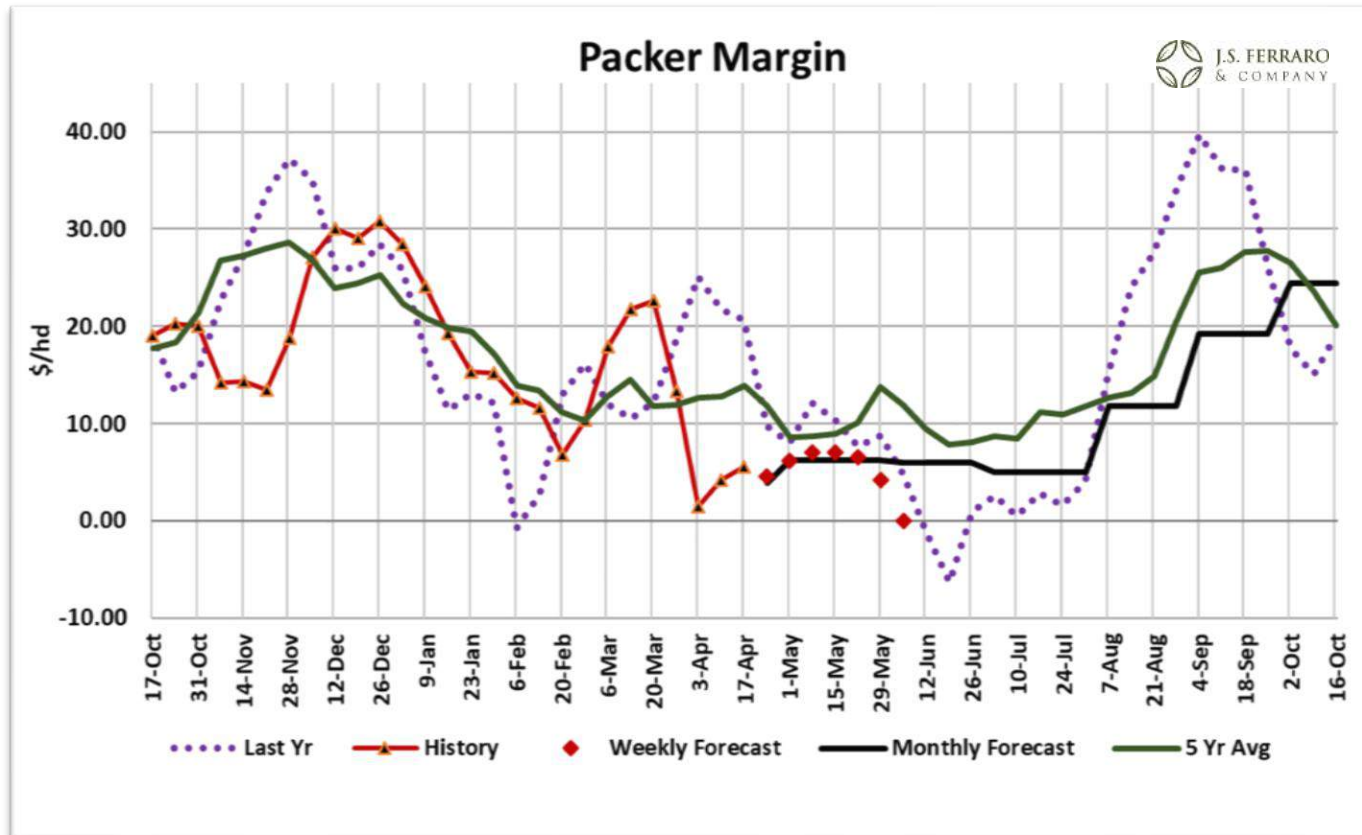


Primal Impact on Pork Cutout



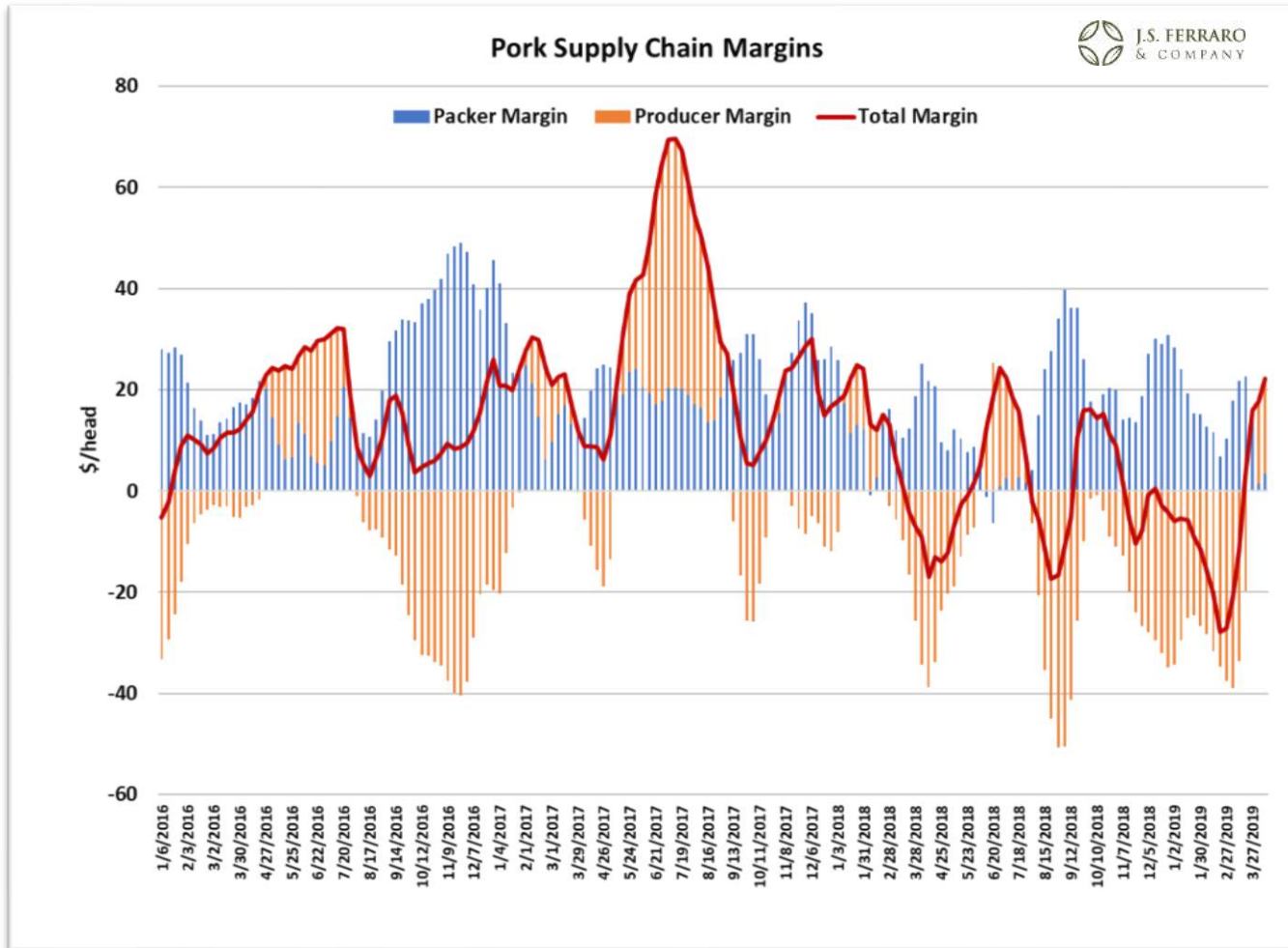
- All primals are up since the March 7 event
- Bellies and hams have shown the biggest gains.
- China will often take cut carcasses rather than individual cuts from the US
- Bellies have a very inelastic demand and thus small changes in quantity can bring about big changes in price.
- US pork in cold storage as of March 1 is up about 1% from last year.

Packer Margin



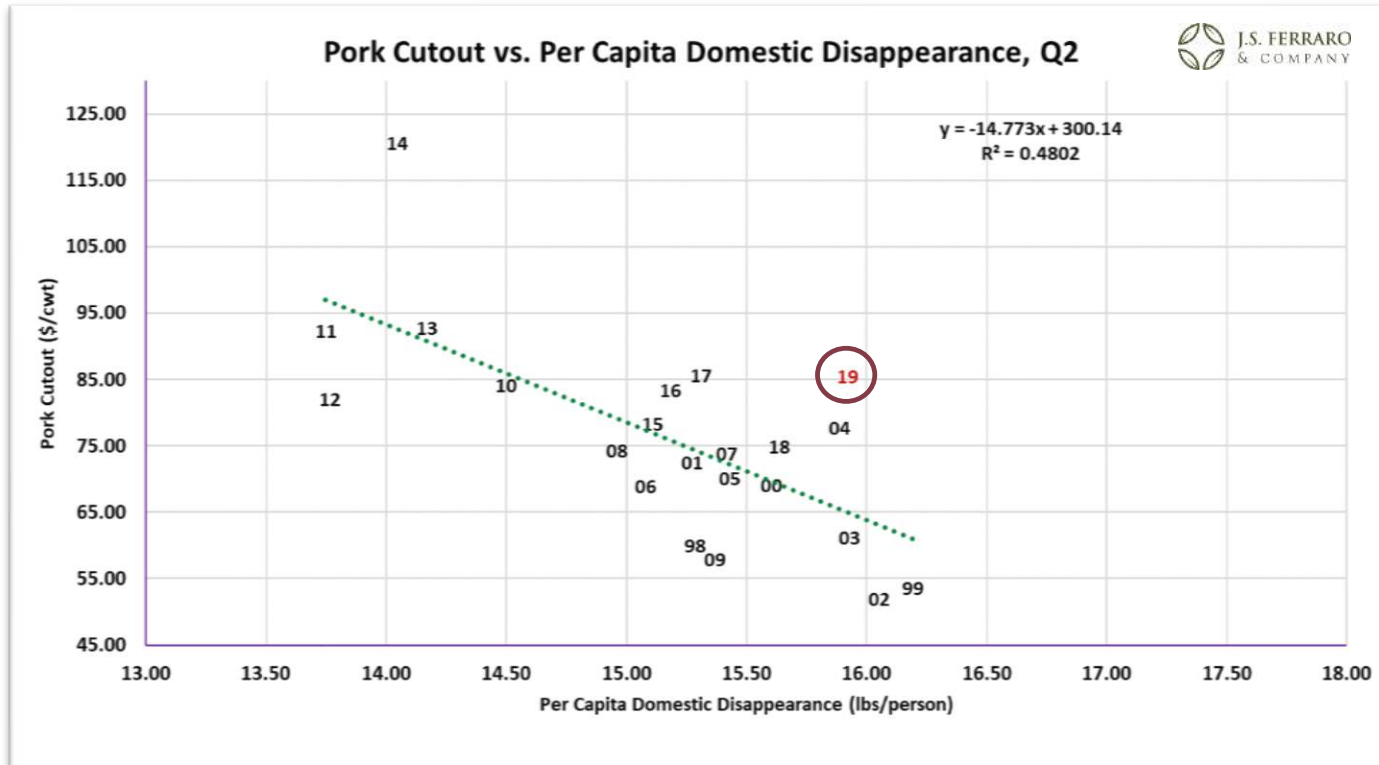
- Pork packing margins have been above last year since December until they plunged lower in early March as increasing hog prices outpaced the cutout.
- When the futures display a big premium to the current spot market, there is a tendency for producers to attempt to delay marketings.
- Packer margins are forecast to be in the \$5-10/head range for most of the summer.
- For 2019, packer margins are projected to average about \$14.50/hd, about \$1 lower than in 2018.

Pork Supply Chain Margins



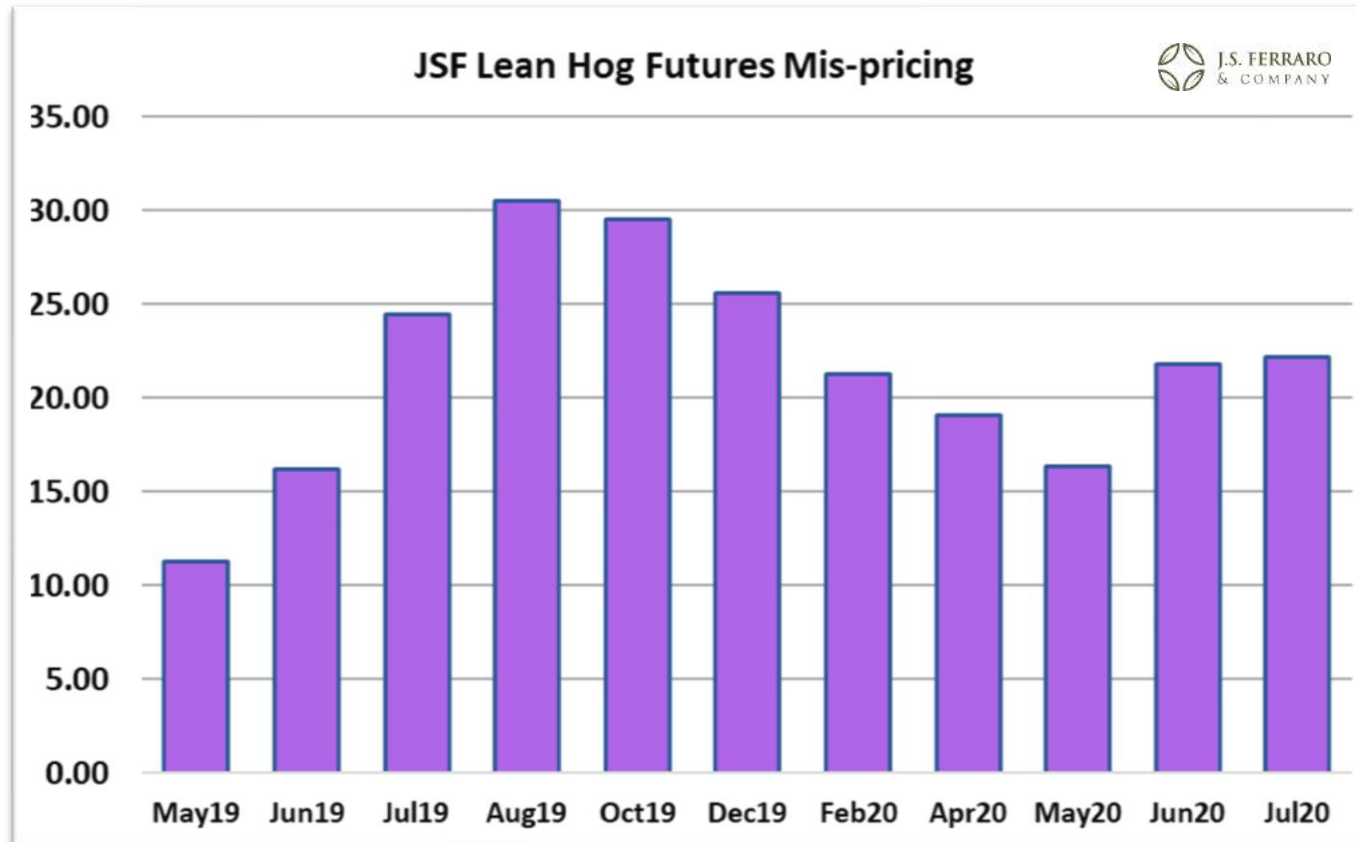
- The combined packer+producer margin helps provide a rough gauge of overall demand for pork.
- The idea is that when demand is strong, there is enough margin in the system for both players to be profitable.
- We refer to the deep valleys as “demand air pockets”—periods of unexplained weakness in demand.
- There have been 3 of these air pockets in the last year.
- Currently the combined margin is approaching highs not seen since late 2017.

Product Cutout vs. Per Capital Domestic Disappearance



- This is a typical price-quantity scatter diagram used to gauge the strength of demand.
- For Q2, we are building in pretty robust pork demand, second only to the PEDv year of 2014.
- This stronger demand helps to offset some of the price impact of large domestic supplies.
- We expect Q2 cutout values to be similar to Q2 of 2017, even though domestic availability should be larger.

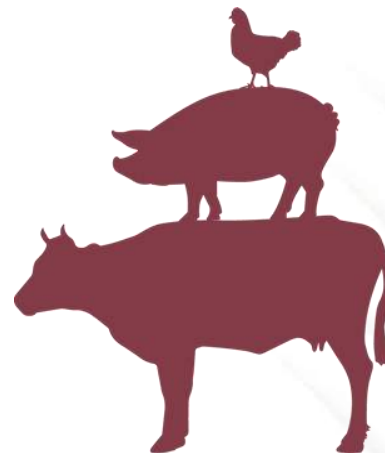
JSF Lean Hog Futures Mis-pricing



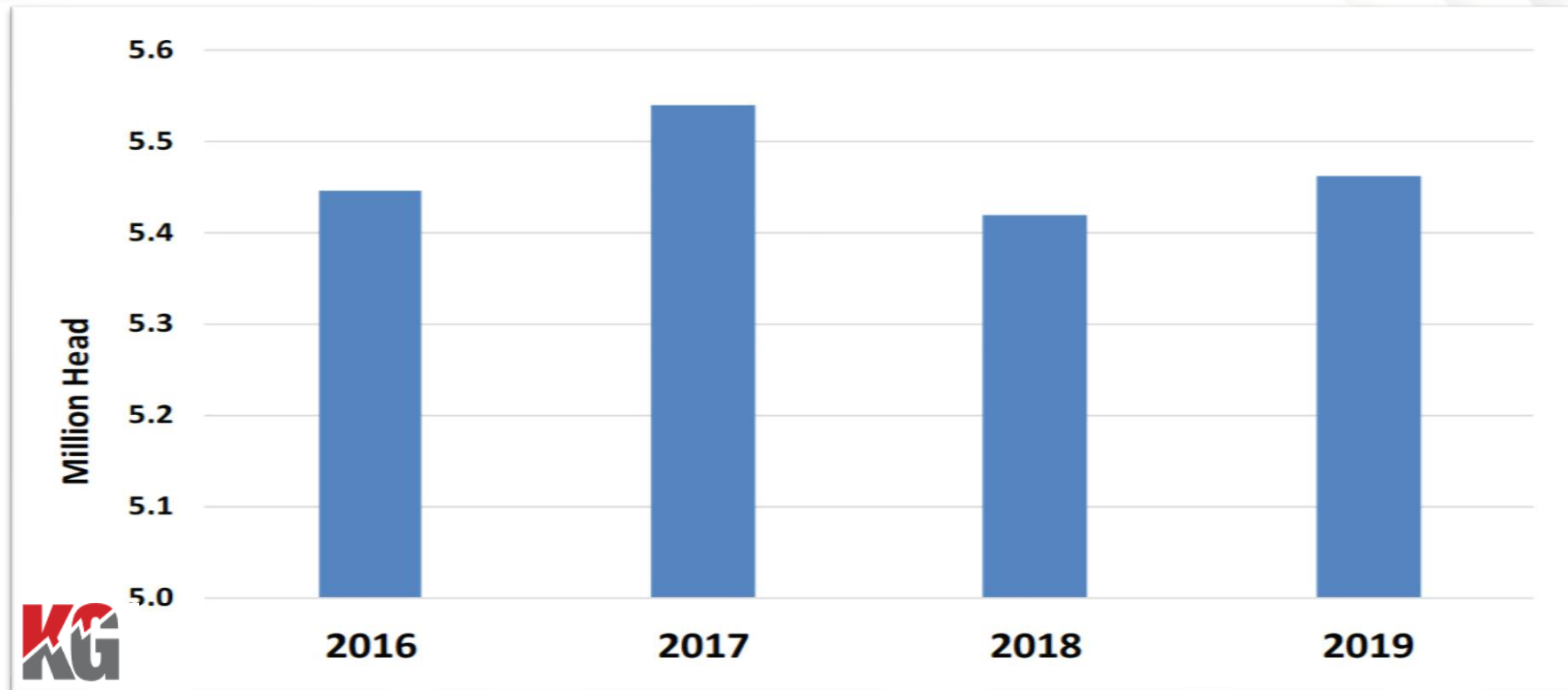
- The futures market looks way over-priced relative to JSF's reading of the fundamental factors.
- This mis-pricing extends well into 2020.
- As a result of extraordinarily high futures prices, asking prices for forward deals on pork will be very high as well.
- Buyers are advised to wait for a significant downward correction in the futures before booking for product to be delivered this summer and fall.
- We will not run out of pork.

CANADIAN MARKET OUTLOOK:

HOGS & PORK



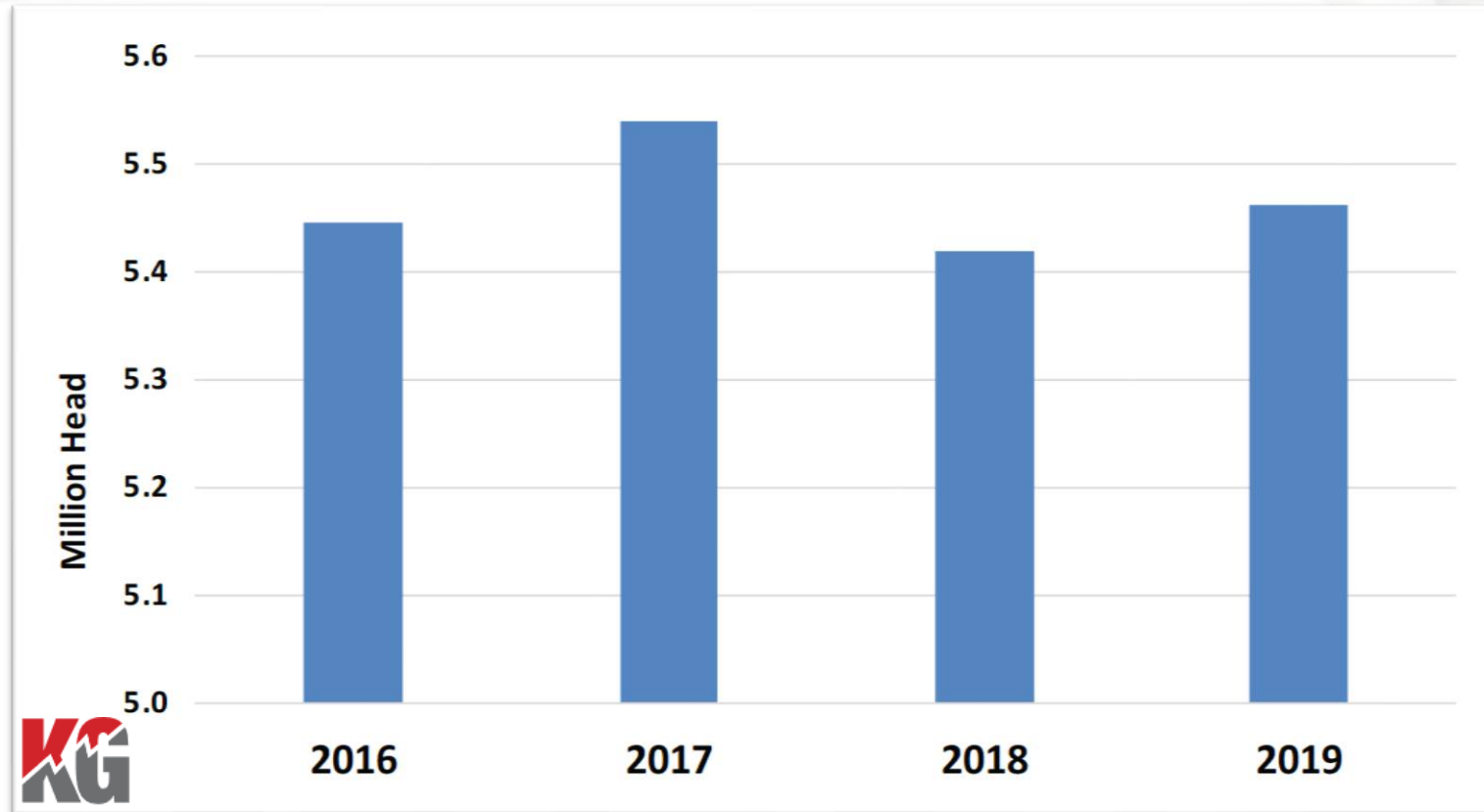
Cdn First Quarter Hog Slaughter 2016-2019



- 1% increase in Q1 2019
- Bounce over PED 2018
- HL and Conestoga expansions



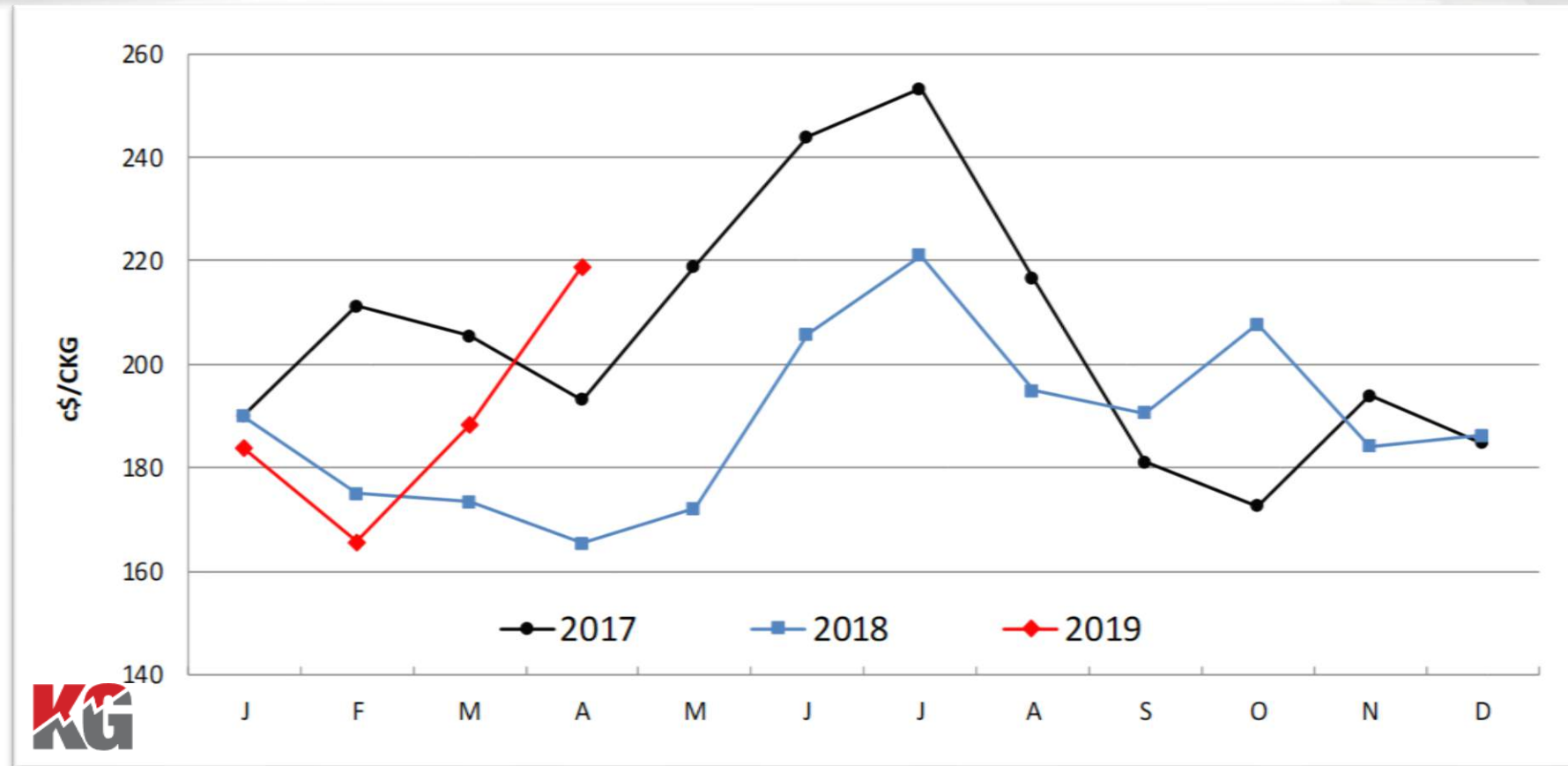
Cdn 2nd Quarter Hog Slaughter: 2016-2019



- Inventories are down but...
- More will stay in Canada...Conestoga and HL



Canadian Pork Cutout Monthly 2017-2019



- Bounce started in March
- Continued into April

US CATTLE & BEEF

- **Record Meat Supplies**
- **Trade Tensions Pose Challenges for Cattle**
- **Beef Price Prospects**



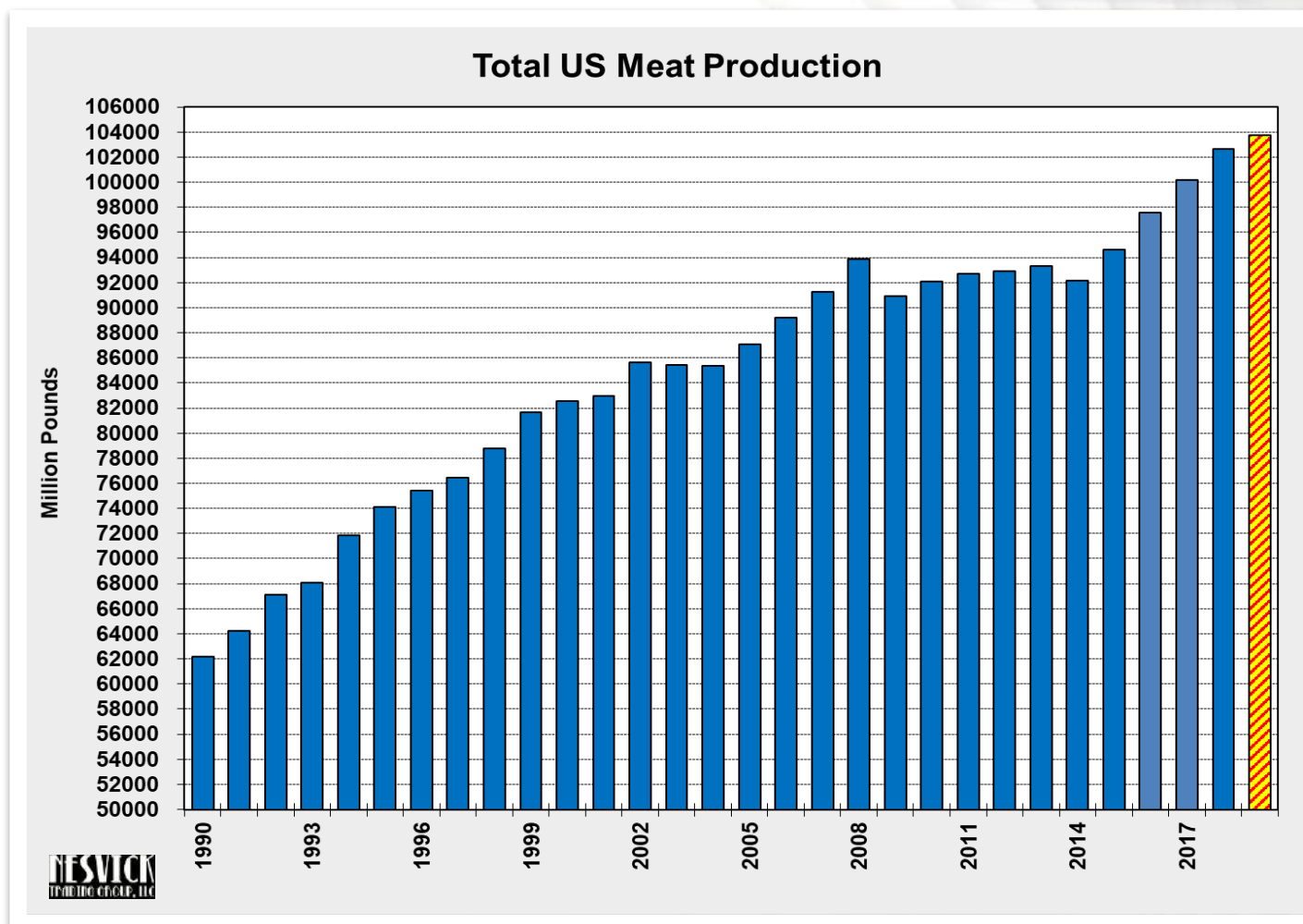
Livestock Production and Price Prospects

- Larger cattle inventory, growing calf crops, and rising feeder cattle supplies—but pace of increase has slowed—peaking?
- Feed costs moderating; larger stocks; more acres
 - Moisture/pasture conditions have improved dramatically since mid 2018
 - Potential for planting delays; tight forage supplies
- Seasonally larger fed cattle supplies; tempered by prospects for lighter carcass weights in “weather” market
- Large spring feedlot placements, followed by larger summer fed cattle supplies
- Large competing meat supplies bolstered by expansion in chicken & pork production capability
 - Domestic meat supplies may be tempered by larger exports, smaller imports; export risks heightened by elevated trade tensions; slowing world economic growth; stronger dollar; disease disruptions?
- Prices likely to remain volatile; expansion pace slowing, but production continuing to expand; Trade uncertainties—tariffs, disease; Demand risk

MBS Research

Growth in Total Meat Production-Across All Sectors

- Rebound from 2014 low in domestic meat production mostly pork and chicken—now fully joined by rising beef output—likely to extend through 2019/20
- Total meat production up over 3% in 2016; 2.7% in 2017; 2018 near 2.5% and 1-2% in 2019; rapid recent growth slowing
- Increases from all major species



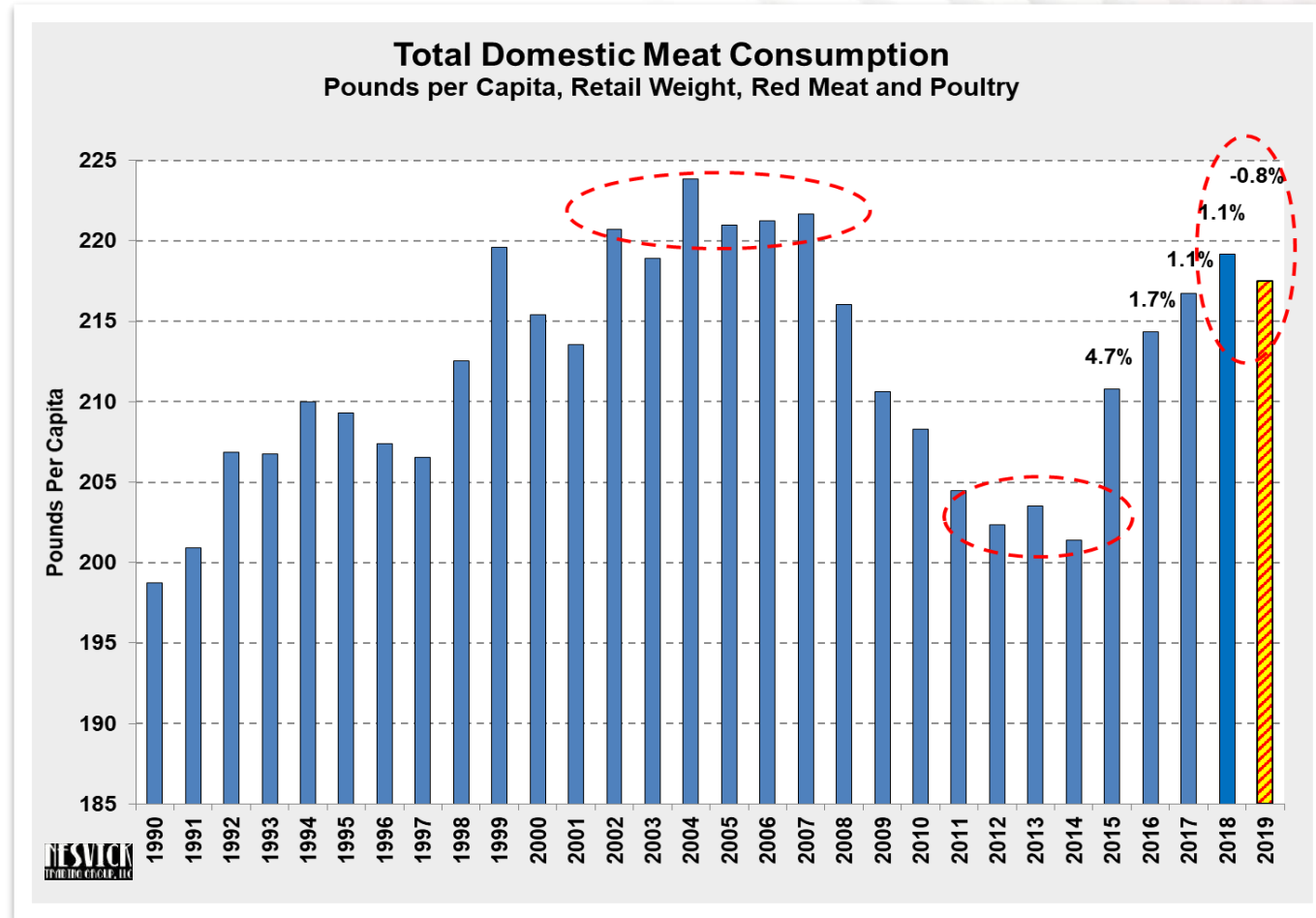
Larger Meat Production, Lower Prices, Disease Uncertainty, Spurring Export Prospects -Tempering Growth in Domestic Supplies

- Total meat exports in 2018 up about 19% from 2015 low; that export growth has tempered increases in domestic meat supplies
- Further export growth projected; but may be hampered by heightened trade tensions—TPP/NAFTA, tariffs—slowing world growth, rebound in dollar
- Response to ASF-induced production short-falls uncertain
- Key growth areas include Mexico, Asia; competition for continued growth escalating



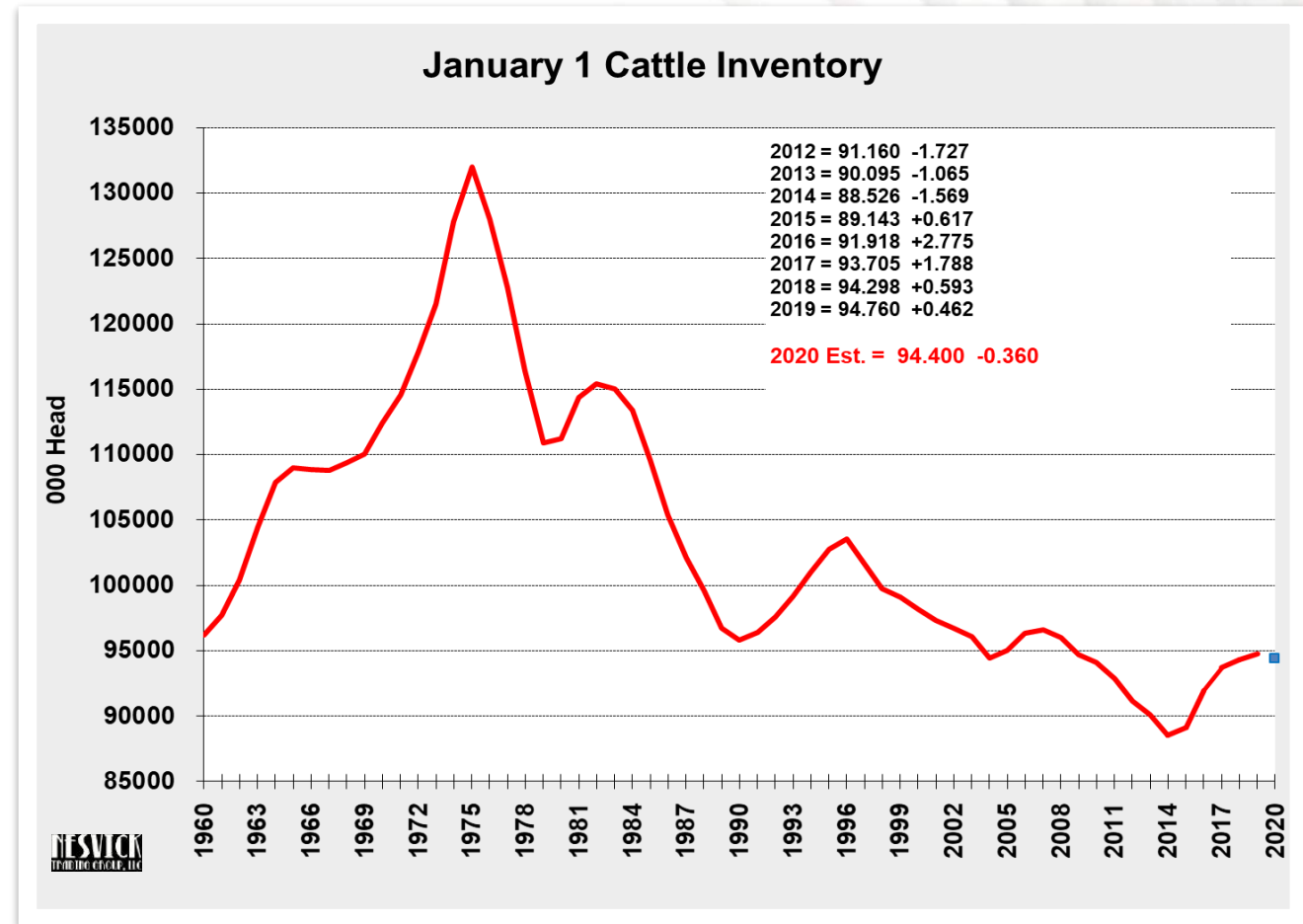
Despite Larger Production, Rebound in Total Domestic Meat Supplies Slowing

- Domestic meat supplies declined sharply in the wake of rising feed costs, plunging feeding margins, and the PEDv in hogs, dropping from over 220 pounds ten years ago to around 205 pounds
- Initial rise in domestic meat supplies mostly pork and chicken—now joined by rising beef output
- Total meat supplies approaching record levels in 2018
- Prospective 2019 moderation hinges on exports—production will be larger



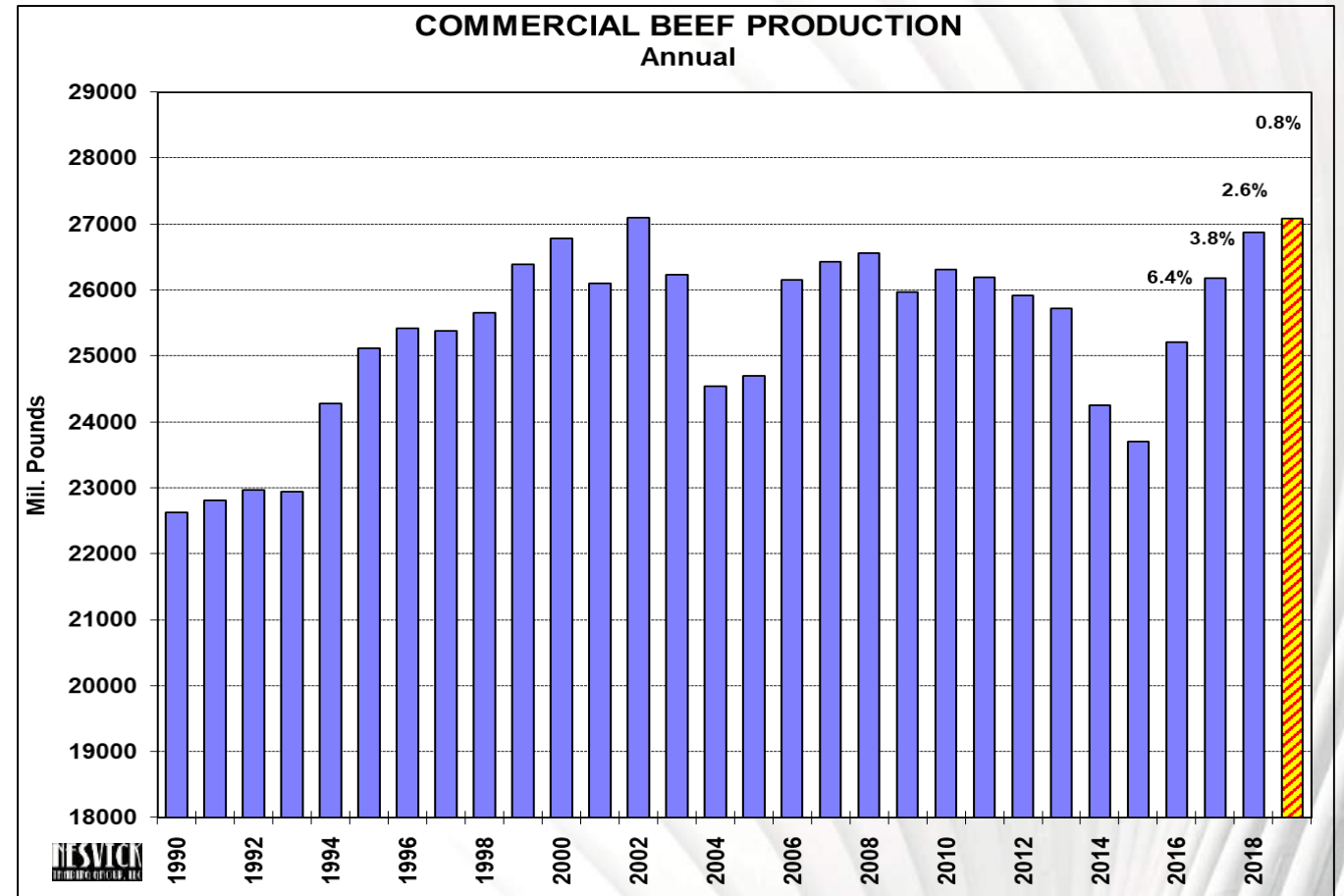
Aggressive Inventory Rebuilding is Slowing—May Have Peaked

- Jan 1, 2019 cattle inventory up by 460,000 head from a year earlier and 6.2 mil off the cyclical low at the beginning of 2014
- Limited growth in the cow herd at the beginning of the year, coupled with fewer heifers retained, may lead to a smaller calf crop and trim the inventory by 300-400,000 head at the beginning of 2020
- Rate of growth slowing; further inventory expansion limited, but liquidation also doubtful unless



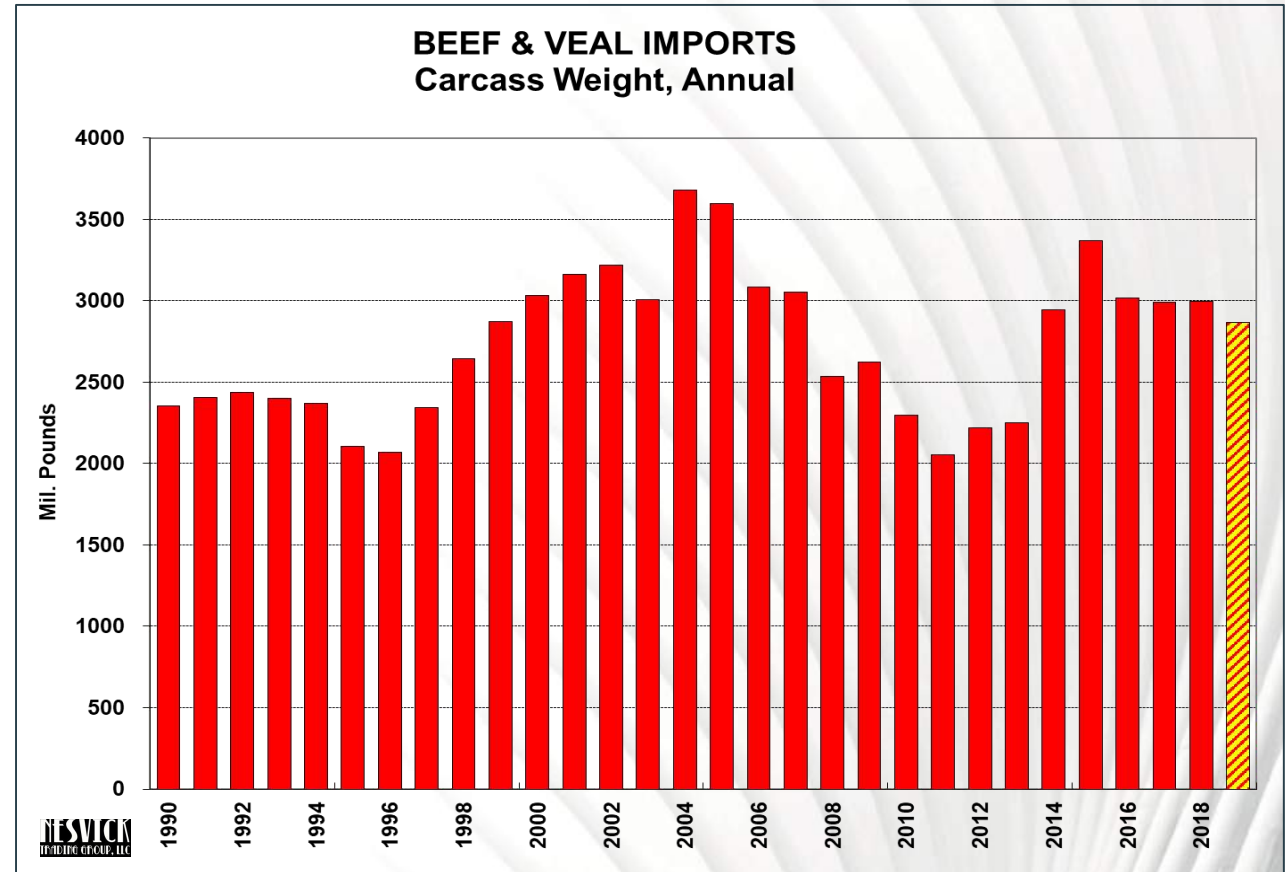
Beef Production Rebounding From Historic Lows in 2014/15— Fueled by Aggressive Herd Expansion

- Larger beef production spurred by both, more fed cattle and more cows in the slaughter mix
- Fed cattle carcass weights in a “weather” market--declining more than seasonal from fall and well below last year
- Smaller placements last fall and lighter weights continue to trim beef tonnage and tighten front-end fed cattle supplies
- But, transitioning to larger placements this spring, leading to larger fed supplies and heavier carcass weights, boosting beef tonnage after mid year



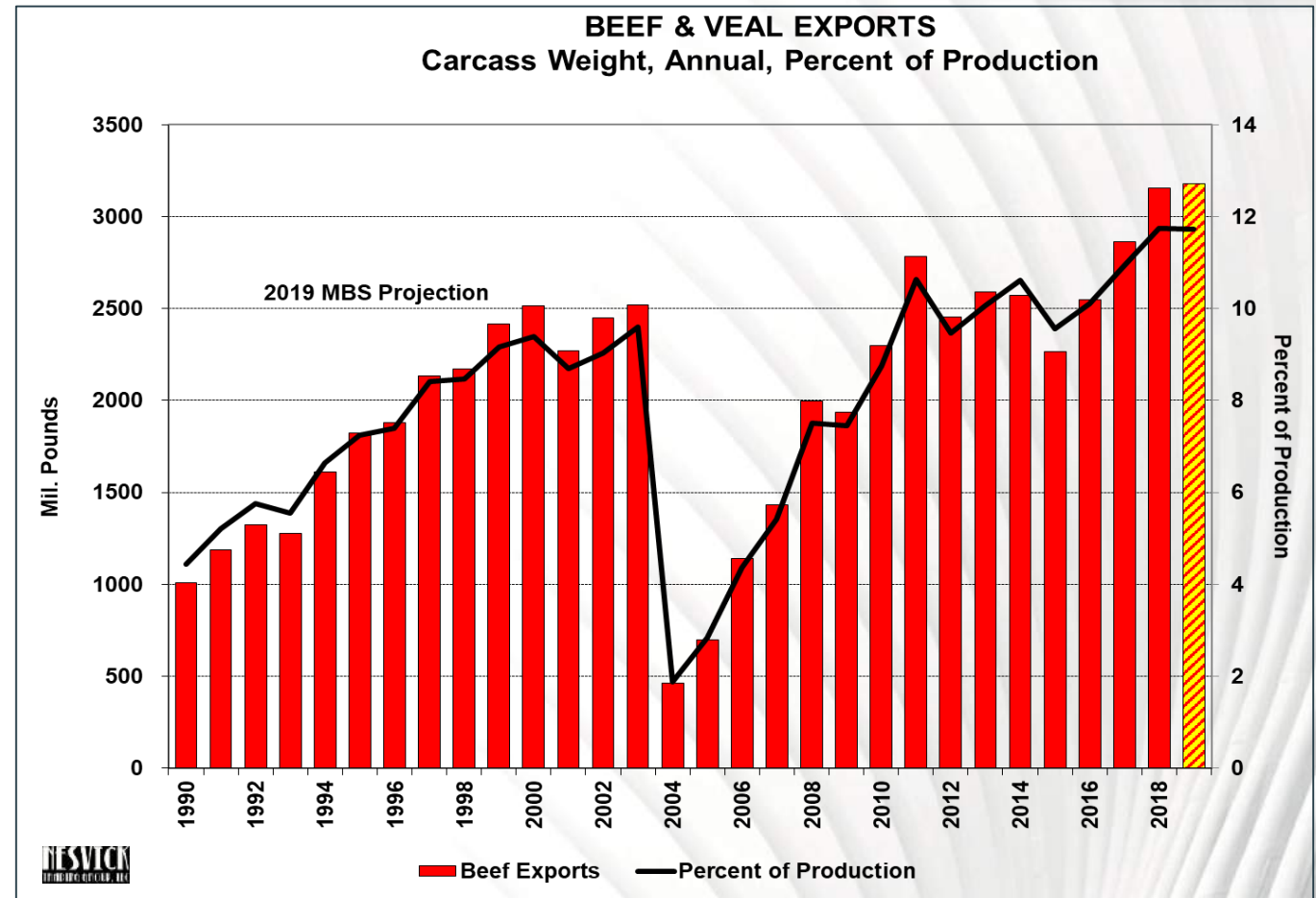
Limited Decline in Beef Imports, Key Suppliers/Competitors Expanding; Strong US Prices

- Liquidating Australian cattle inventory; more cattle on feed, may compete with larger US shipments to Asian destinations
- Transition to smaller Australian/New Zealand beef production and exports still in play; may pose less competition for Asian market share
- Mexico has shifted from a net importer of US beef to a net exporter
- Prospects for larger imports from Central & South America--Brazil



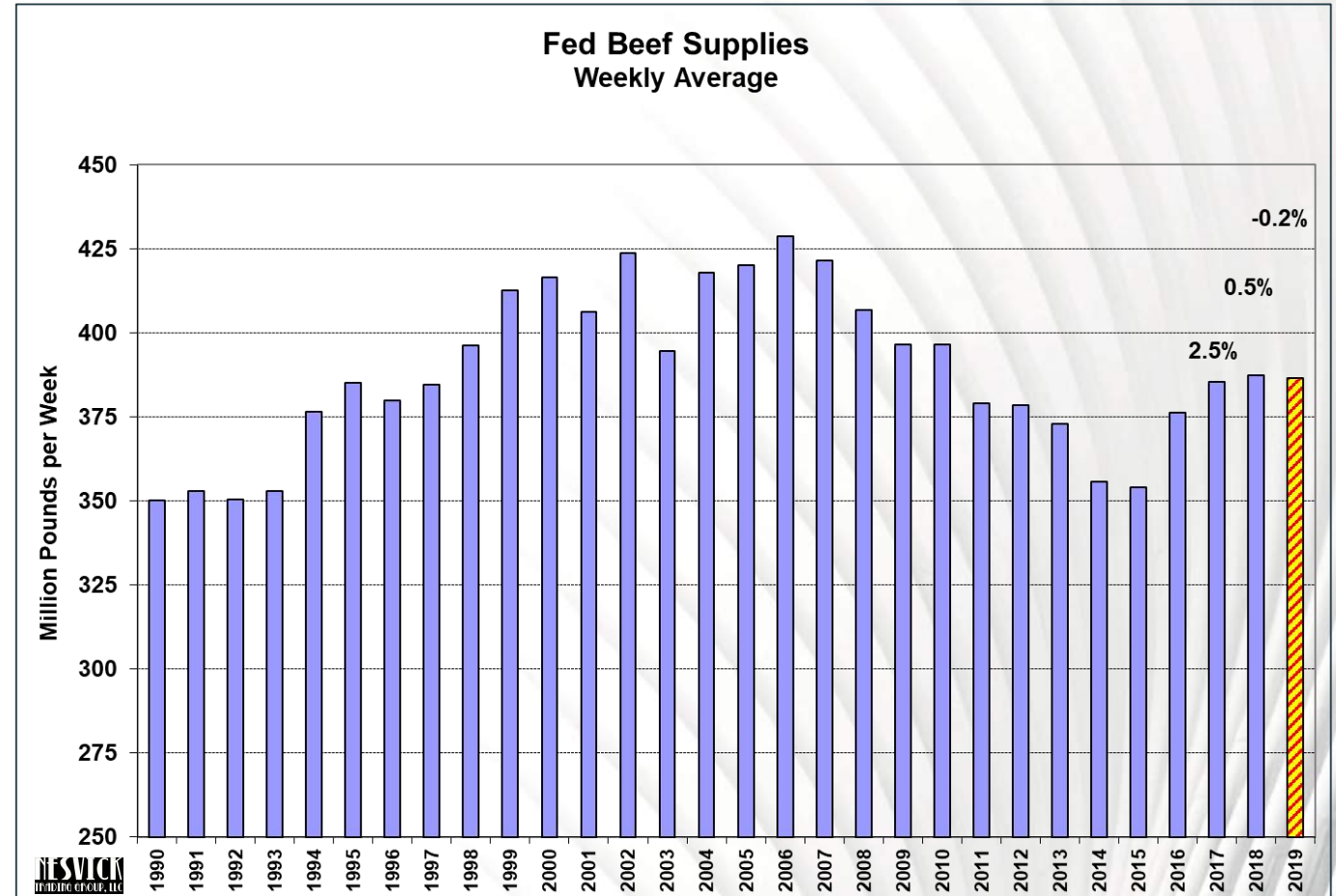
Larger Exports Reflect Larger US Production, Lower Prices; May be Challenged by Larger Output from Key Suppliers/Competitors

- Record 2017 exports extended in 2018; further growth in 2019?
- Largest export potential remains in Asia—Japan, S. Korea; Hong Kong/China--ASF?
- Continuing trade tensions—Canada, Mexico & China tariffs, etc.--may hamper growth
- Slowing World economic growth, rebound in US dollar less supportive
- Production growth in key competitor suppliers more of a challenge to maintaining US market shares



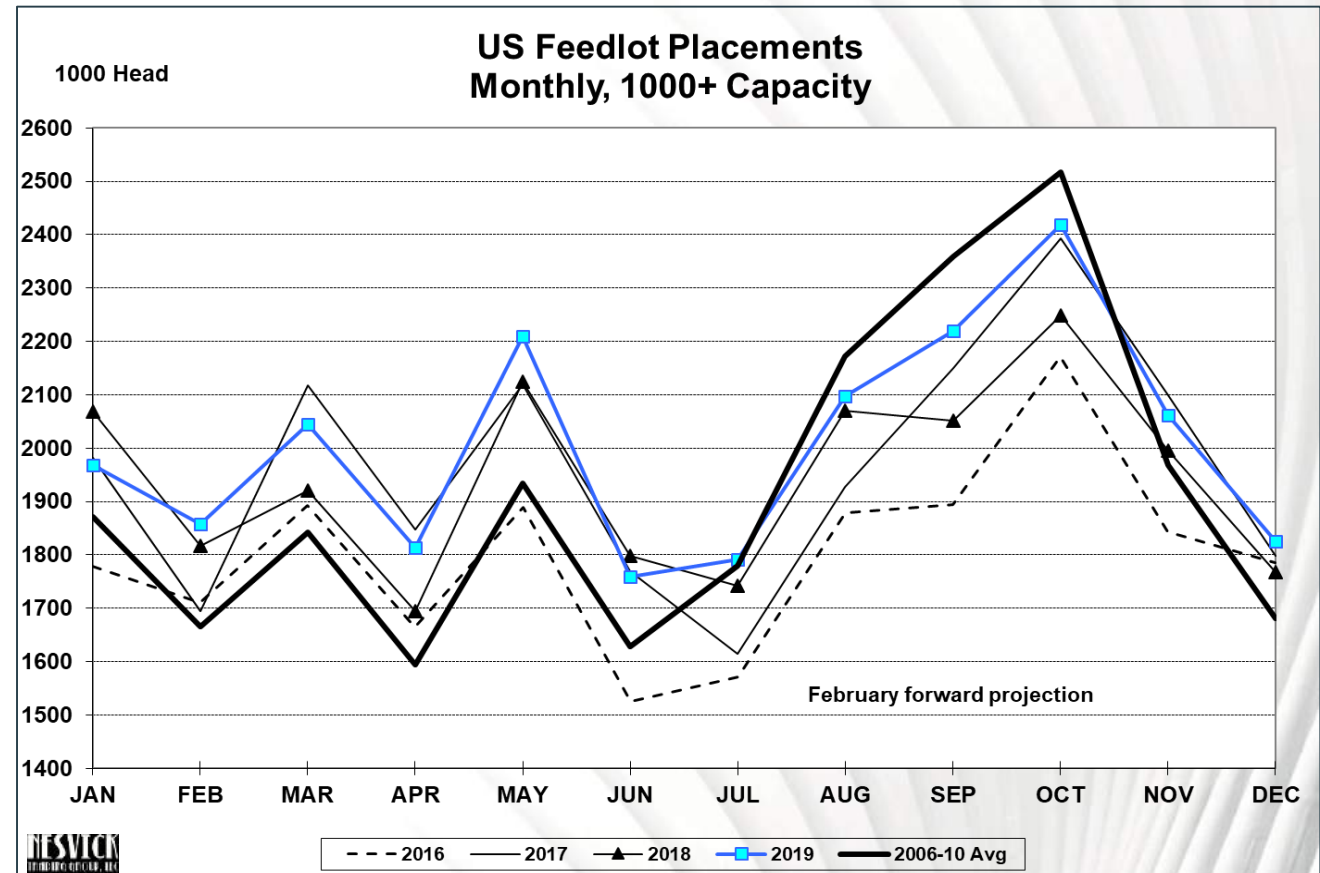
Increases in Domestic Fed Beef Supplies Tempered by Larger Exports

- Larger exports have consistently absorbed a significant portion of production increases in recent years—also true of competing meats
- Domestic beef supplies not burdensome, by historical standards
- Amid larger beef production, larger competing meat supplies; slowdown in exports will leave larger domestic supplies



Smaller Late Summer/Fall Feedlot Placements Rebounding in Early 2019

- Summer pasture conditions boosted lighter-weight placements, tempered late summer feeder supplies and boosted prices, slowing movement into feedyards
- But, those smaller late summer/fall placements, improved wheat pasture prospects, firm undertone in deferred LC futures likely to boost feedlot placements during the first half of 2019—boosting fed cattle supplies after mid year



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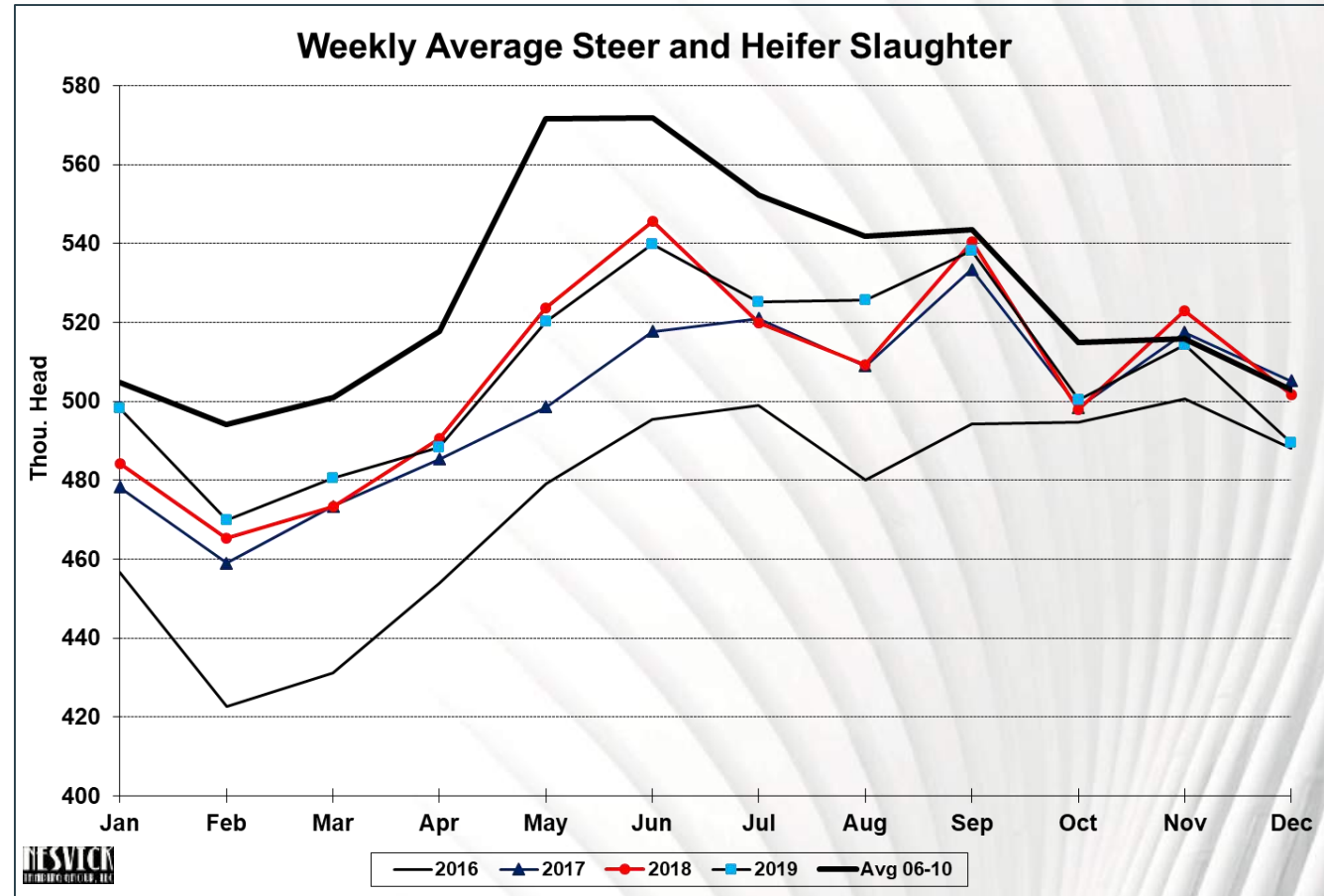
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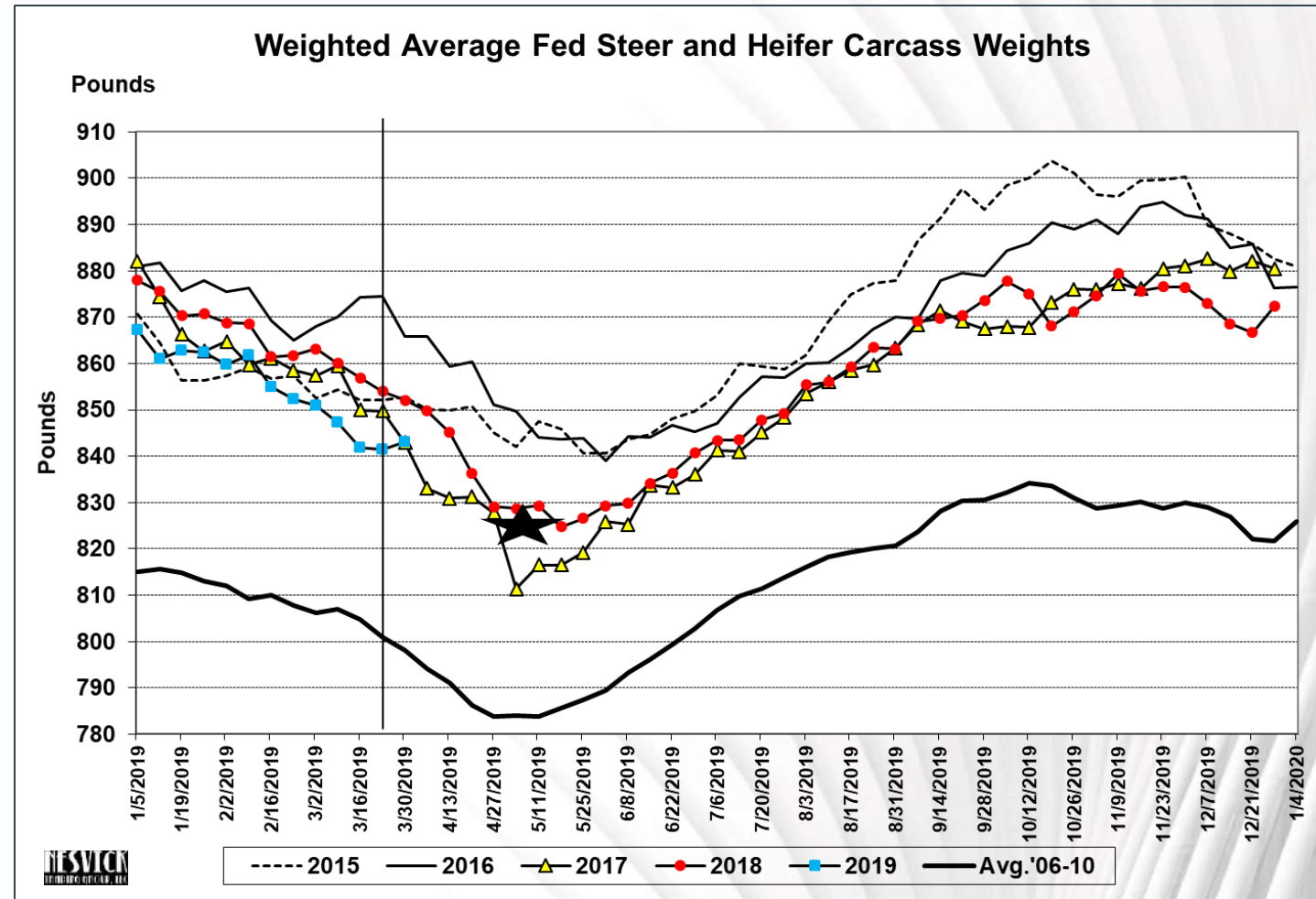
Fed Cattle Supplies Rise Into Spring, and Likely to Remain Elevated in the Summer

- After tightening into the winter months, fed cattle supplies to rise less than seasonal into the spring
- Lighter carcass weights; tightening front-end supplies will temper fed beef production
- Larger volume of long-day cattle more related to lighter placement weights than delayed marketings
- Larger placements at heavier weights likely to bolster fed cattle supplies this summer and early fall



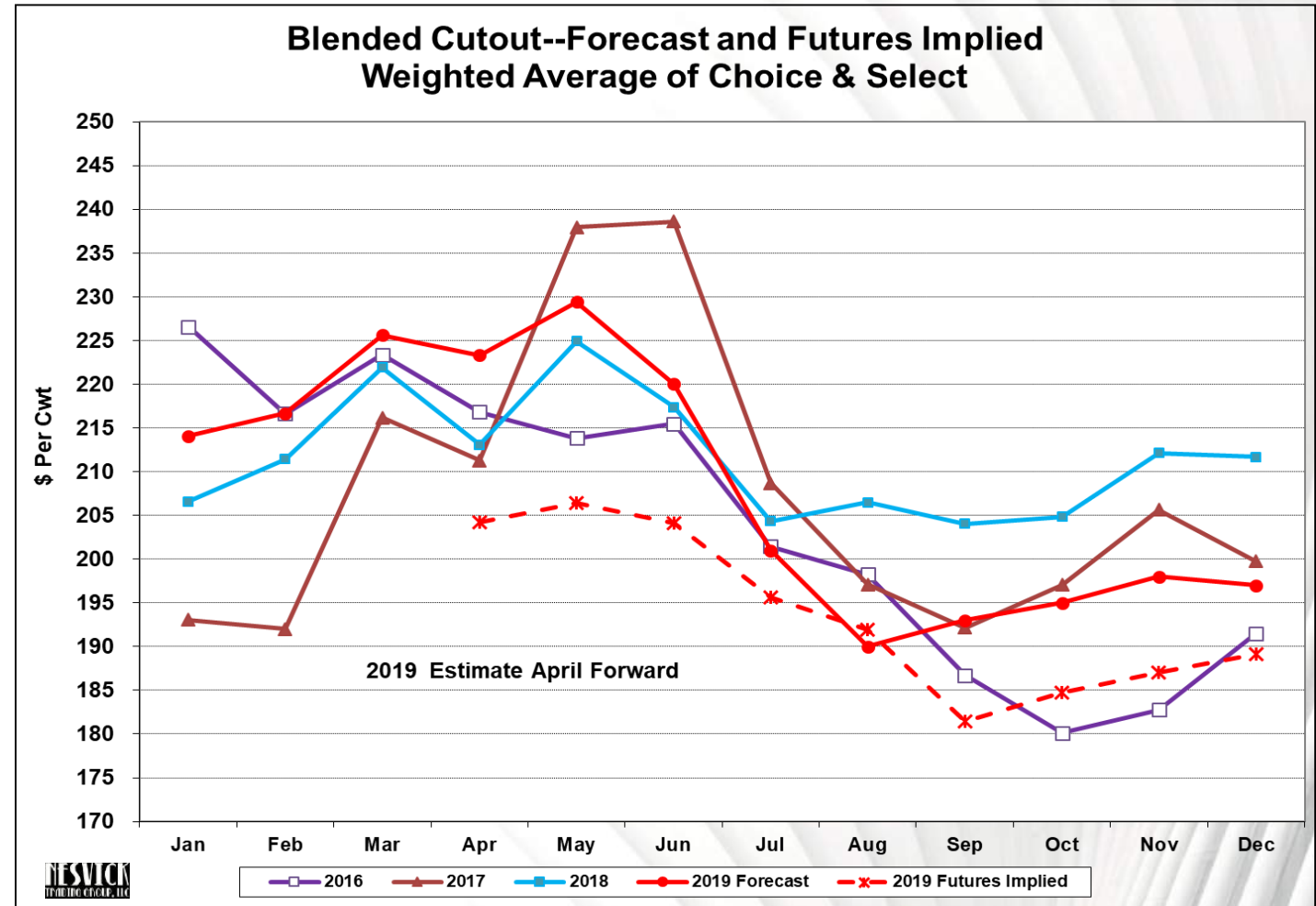
Fed Cattle Carcass Weights Declining—More than Seasonal

- Seasonal peaks last fall about even with a year earlier before declining sharply into mid winter
- More lighter-weight placements last summer also tempers out-weights—despite relatively weak basis
- Persistent “weather” induced weight declines will temper beef tonnage and tighten front-end fed cattle supplies
- Prospects for heavier placement weights this spring; weaker basis, may lead to heavier weights during the last half of 2019



Larger Fed Beef, Competing Meat Supplies A Challenge After Mid-Year; Trade Prospects Add Uncertainty

- Seasonally increasing fed beef supplies countered by seasonal demand interest; strong middle meat interest; strong undertone in lean beef and trim; seasonally eroding competing meat supplies; larger export prospects
- Summer/early fall beef prices vulnerable to larger supplies; trade tensions
- Adverse weather tempering marketings, carcass weights; also tempers interest from beef buyers; out-front beef commitments, export sales have eroded
- Strong beef demand persists—but additional strength questionable while weakness poses sizeable risk



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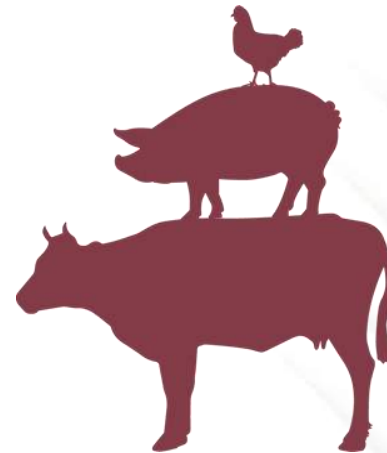
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Summary Beef Production and Price Prospects

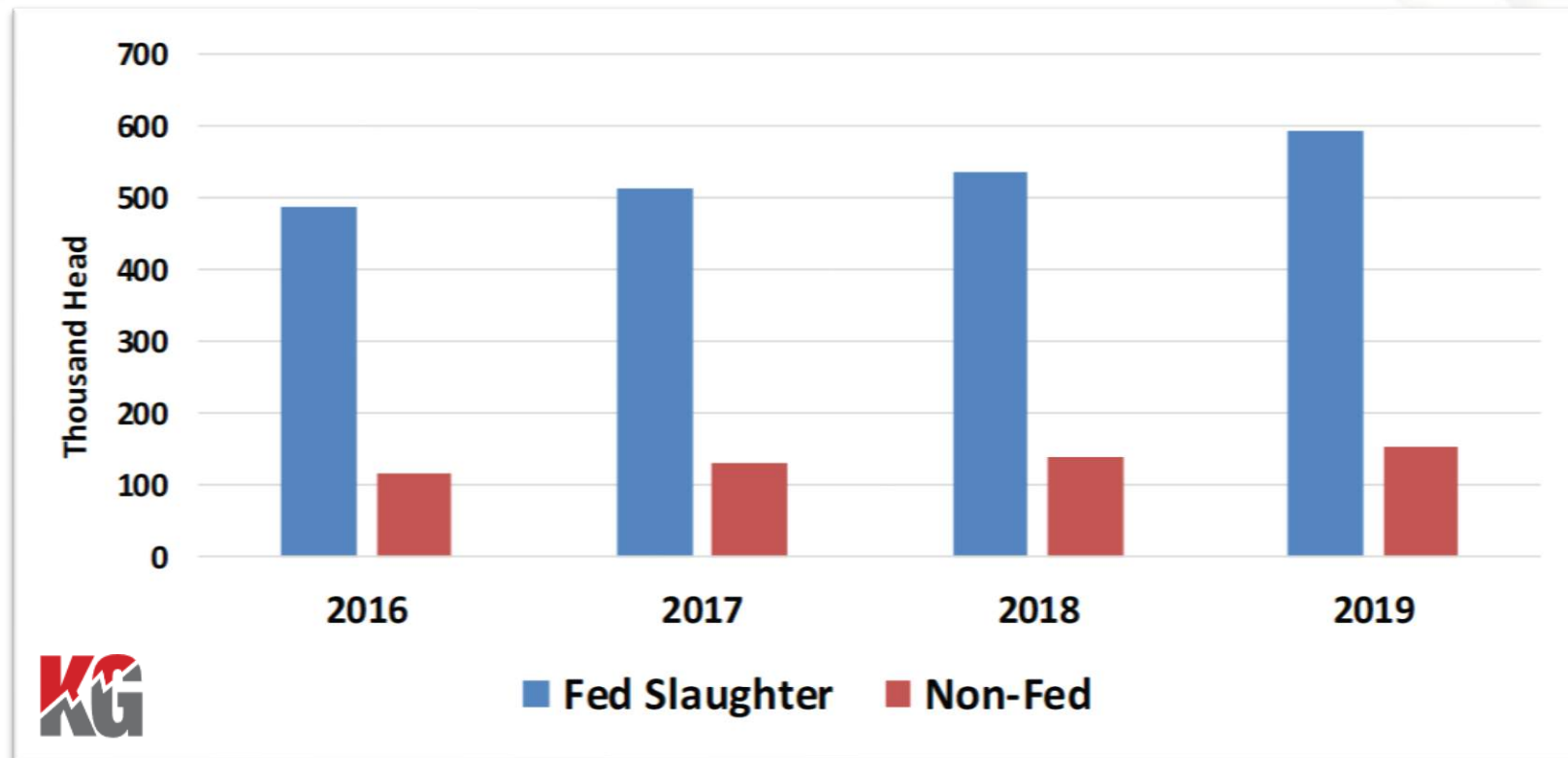
- Transition to larger cattle inventory, growing calf crops and rising feeder cattle supplies continuing and will lead to larger beef output through 2019 and beyond
- Larger stocks, more acres likely to temper strength in feed costs; planting timeliness, large feed usage supportive
- Besides larger beef output, large competing meat supplies will continue to weigh on beef prices—a demand risk
- Expect exports to increase; imports to decline; but rising trade tension may hamper export growth; still, rising domestic supplies related to cyclical expansion in beef production
- Strong domestic, export beef demand remains vulnerable—a price risk; ASF impact a wild card
- Risk remains that price rallies will prove disappointing and fall short of expectations, while price declines are extended and exceed expectations



CANADIAN CATTLE & BEEF



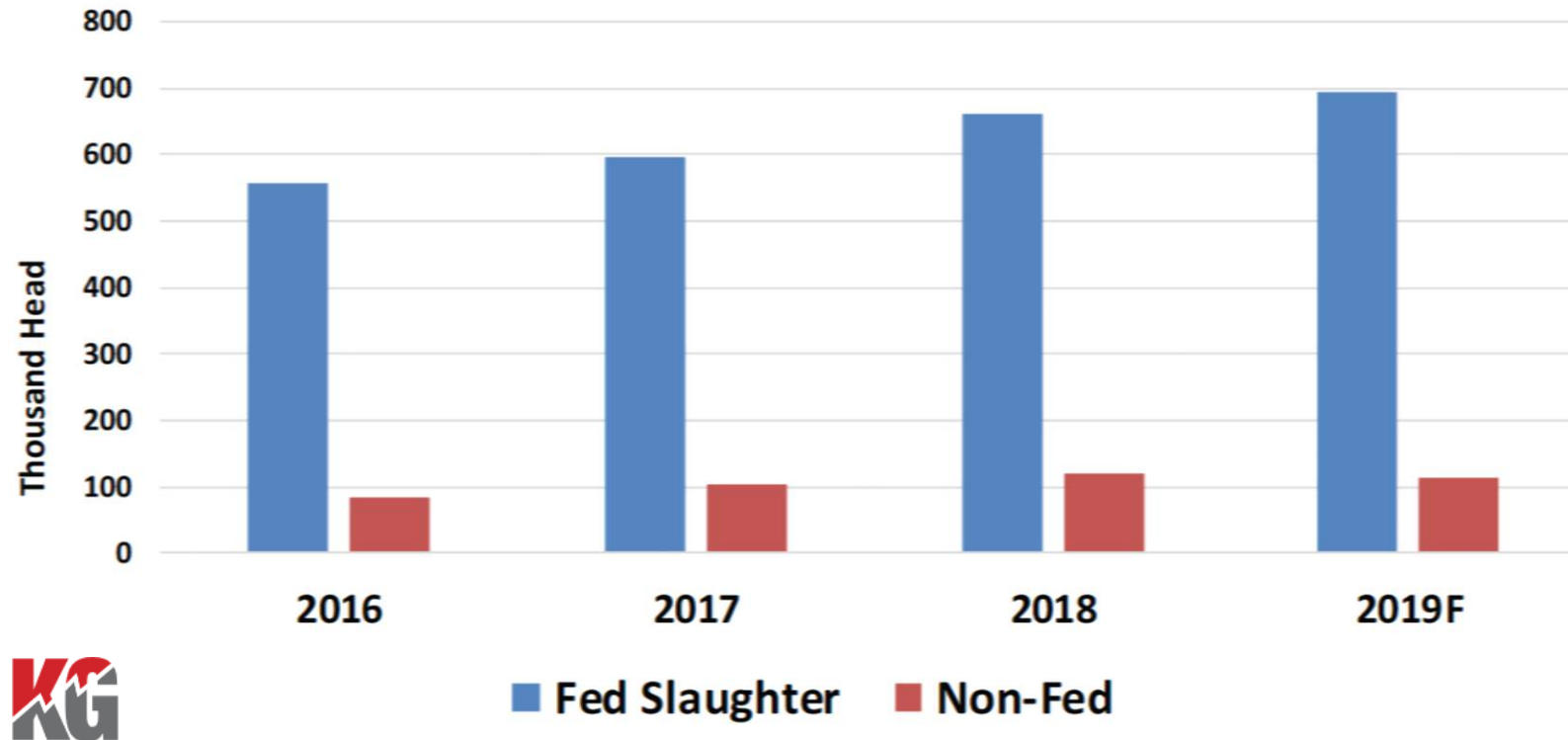
Cdn First Quarter Cattle Slaughter 2016-2019



- 10% increase in Q1 2019 despite...
- JBS cutting kills in Jan-Feb.

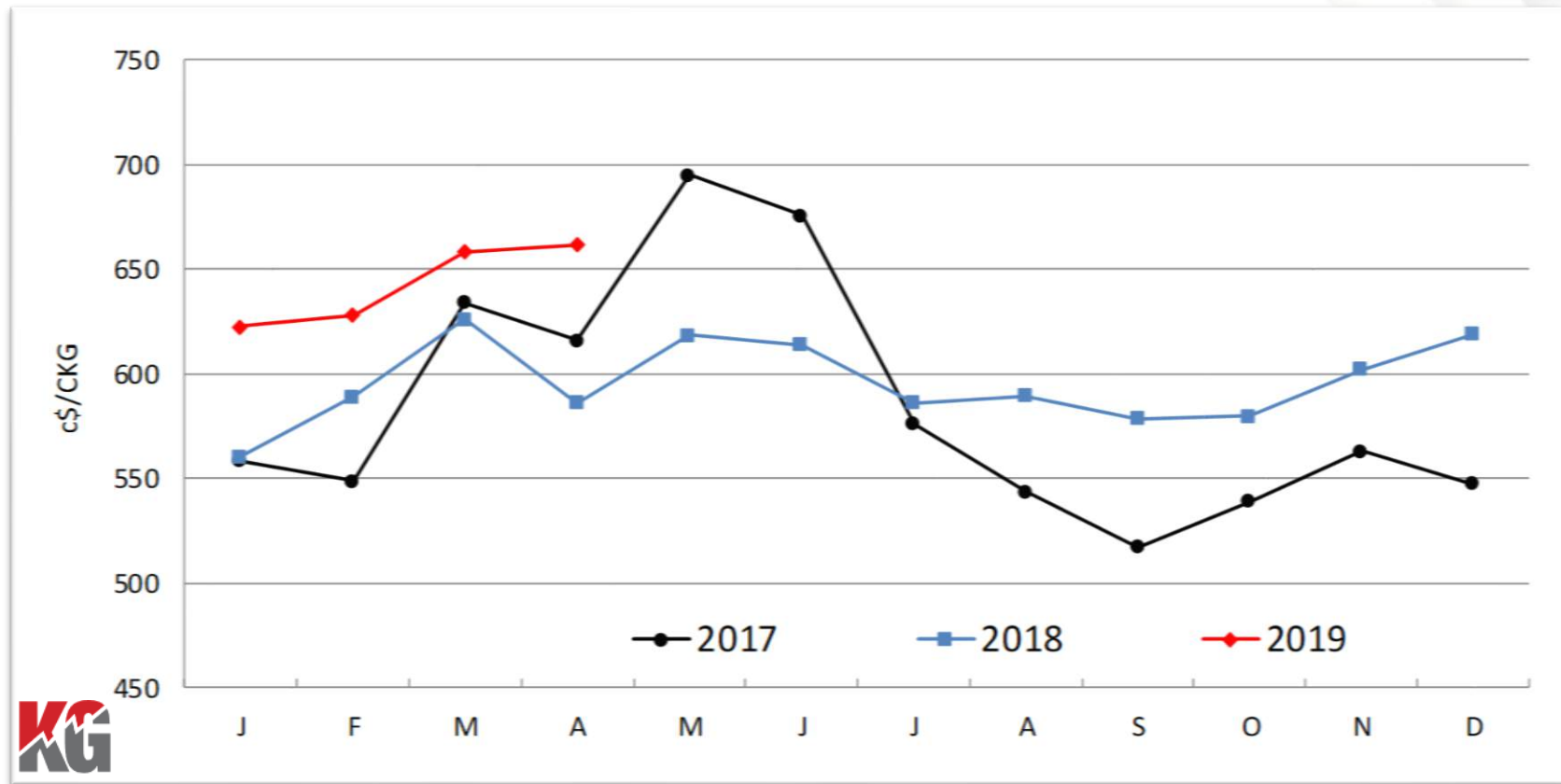


Canadian Quarterly Cattle Slaughter 2016-2019F



- Q2 2019 larger fed slaughter
- Lower non-fed

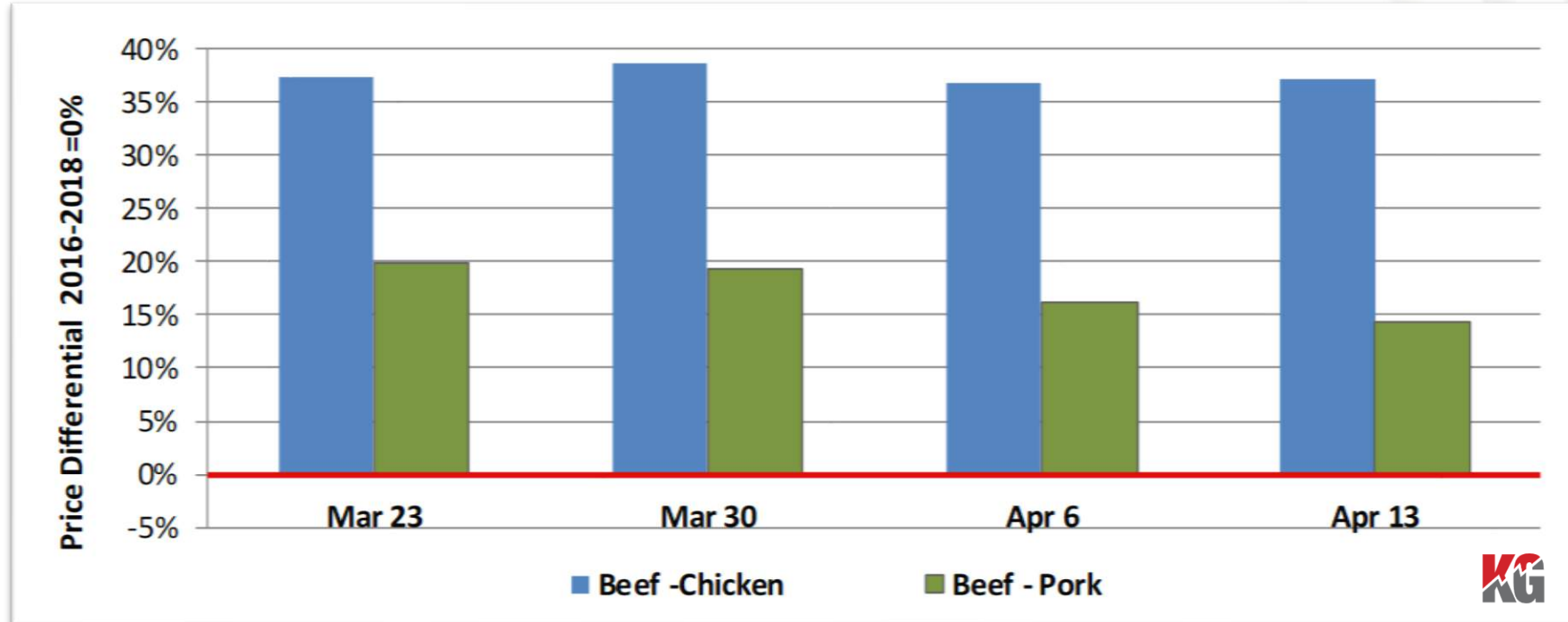
Canadian Beef Cutout Monthly 2017-2019



- Strong demand
- Weaker CAD\$ provides support



Canadian Beef less Chicken and Pork Wholesale Price Differential vs 2016-2018 Average



- Beef has become more expensive vs. competing meats
- Less competitive



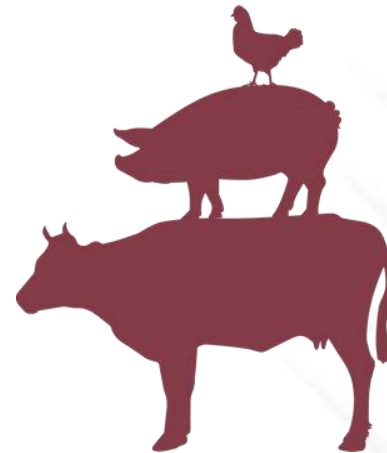
Current Retail Margins vs 2016-2018 Average



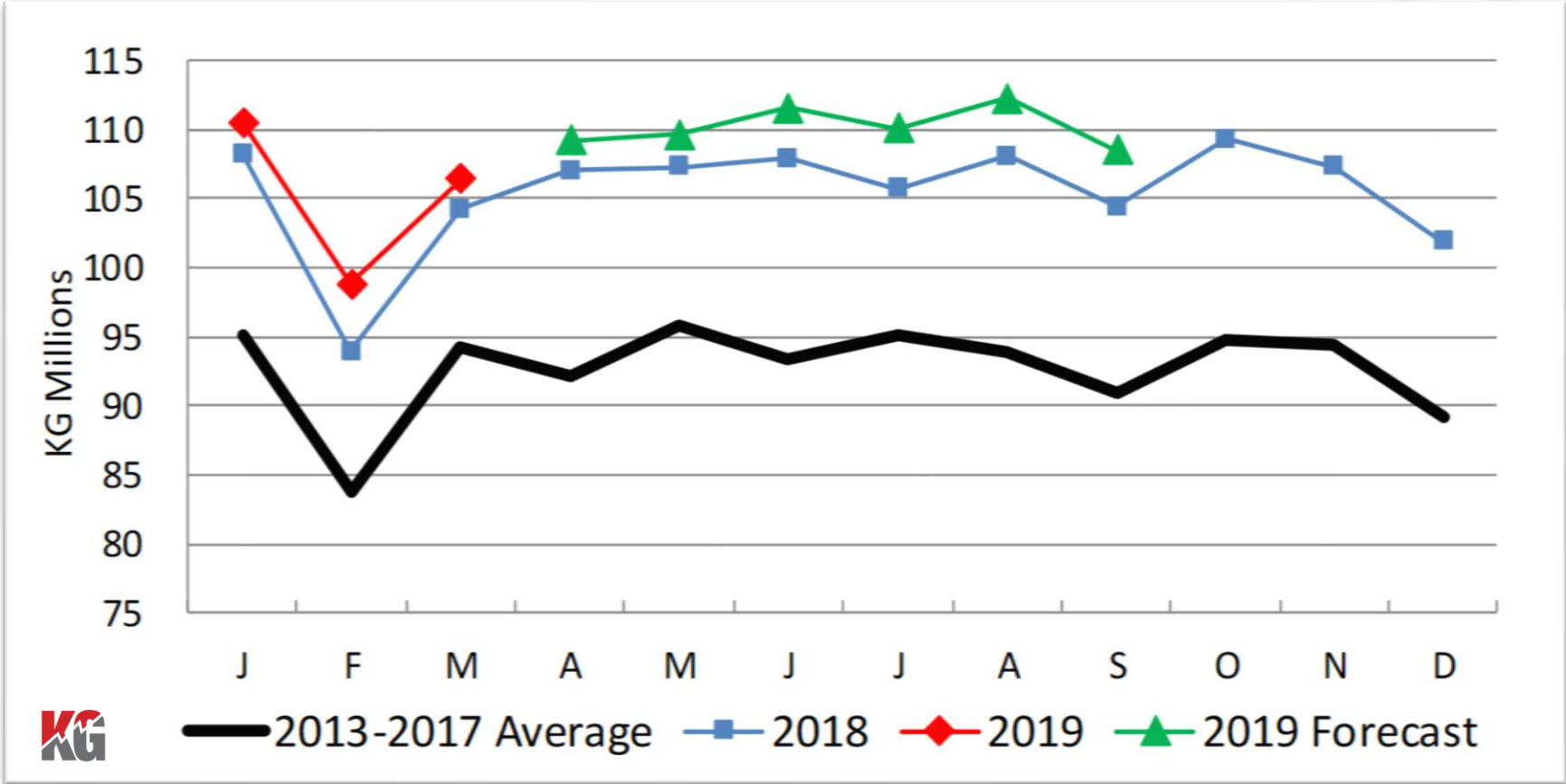
- Beef margins at retail are underperforming

CANADIAN MARKET OUTLOOK:

CHICKENS & POULTRY

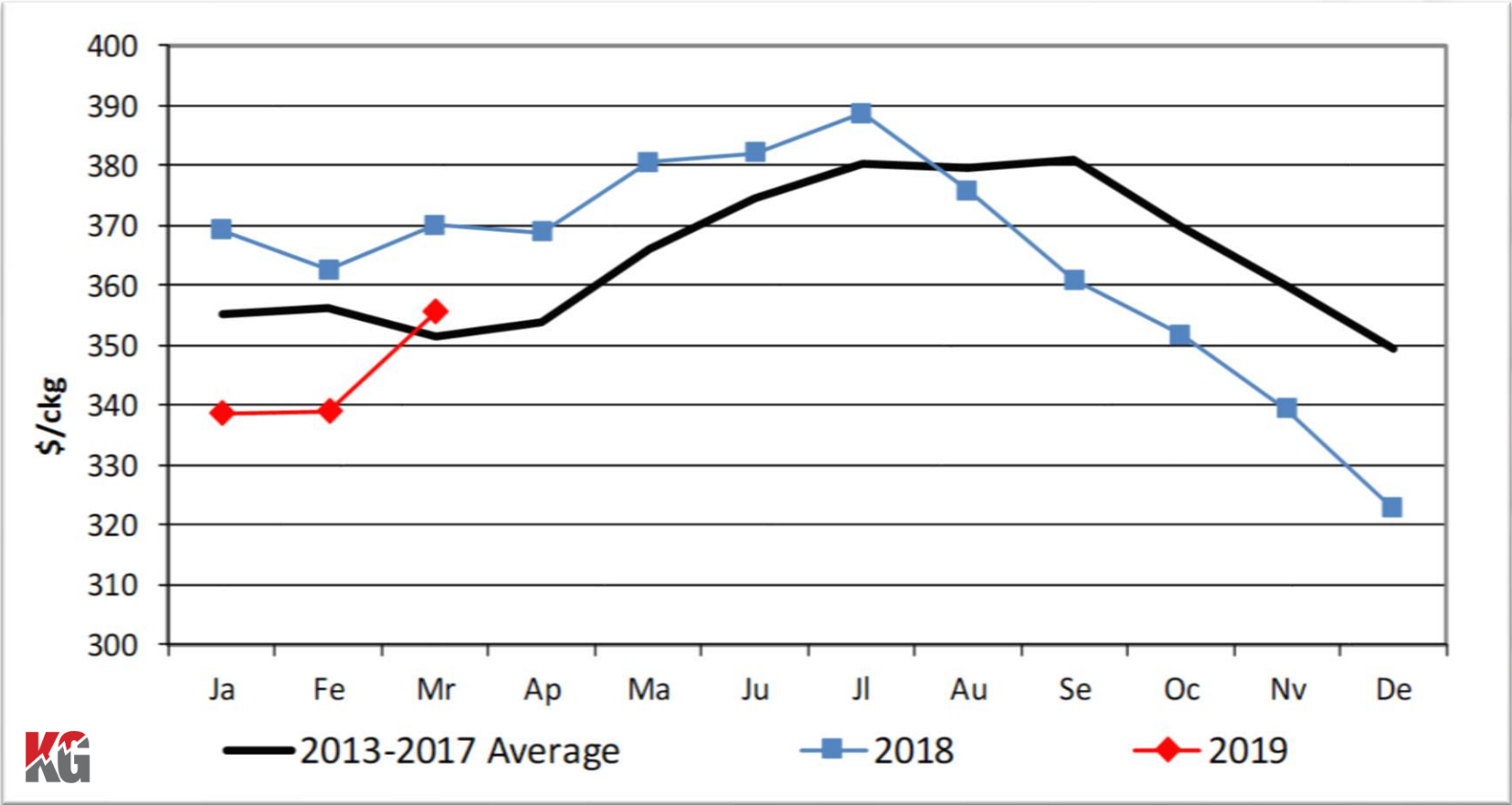


Canadian Chicken Production Monthly 2018, 2019, 2013-2017 avg



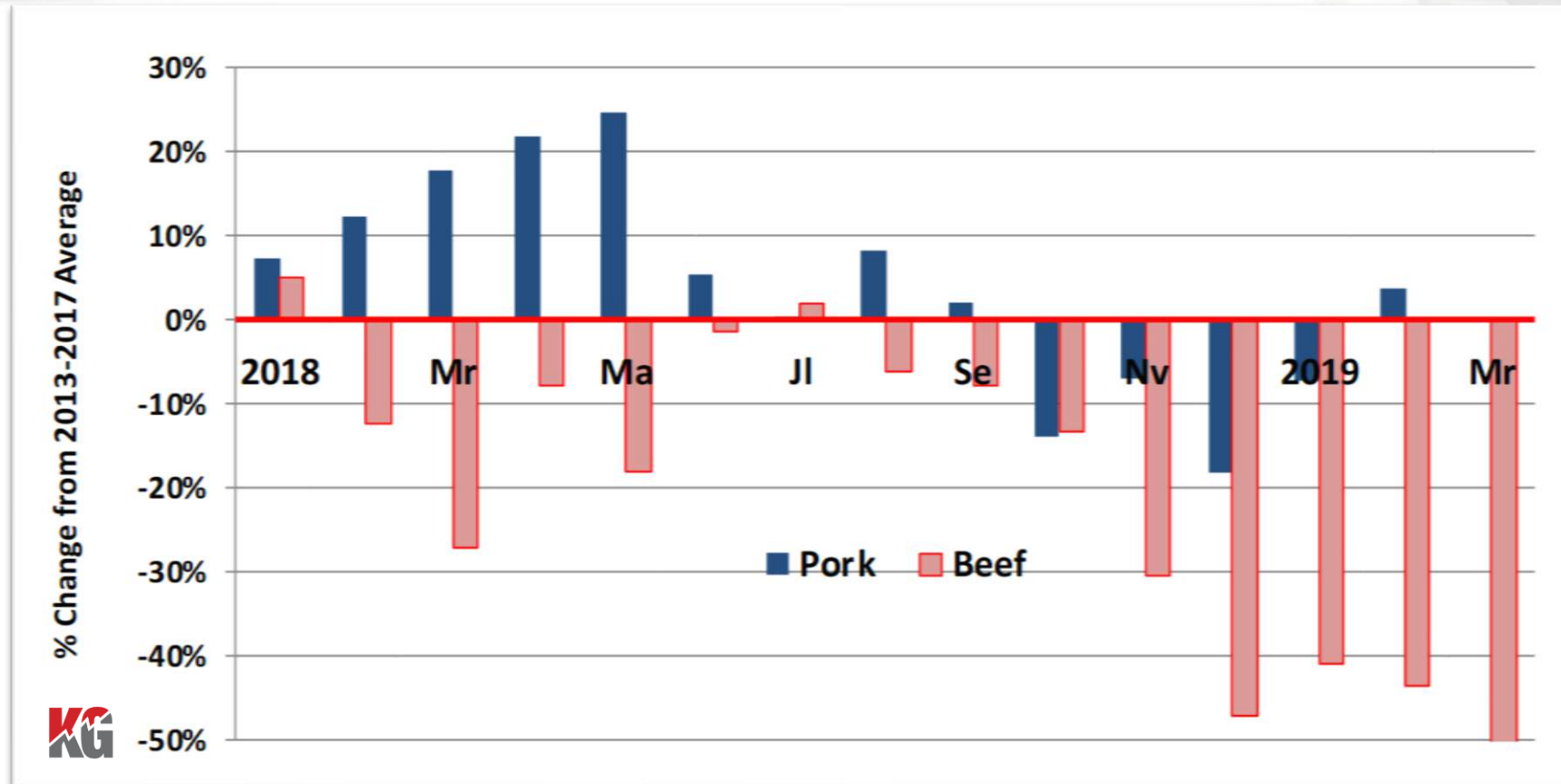
- Surprising increases into the summer!

Canadian Chicken Wholesale Cutout Values 2018-2019 and 2013-2017 avg



- Bounce back...more expected

Chicken less beef and pork wholesale monthly vs 2013-2017 average



- Wholesale chicken is very competitive....
- ...and margins are good...finally



THANK YOU

ADDITIONAL QUESTIONS:



You can email our panelists directly at:

- Msands@nesvick.com
- Rob.Murphy@jsferraro.com
- Kevin@KevinGrier.com

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