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1988-2018

Q4 BIG PICTURE OUTLOOK

FACING THE NORTH AMERICAN RED MEAT MARKETS
& IMPLICATIONS FOR PRICING IN Q4 OF 2018

HOSTED BY:

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

DATE: SEPTEMBER 19, 2018

FEATURING:



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



J.S. FERRARO
& COMPANY

The JSF Group is a set of companies linked by a common thread, integral within a protein based supply chain.



JSF Group is the parent company of several businesses that have a strong foothold in the agri-commodity market in North America and service a breadth of customers including value added processors, large national retail chains and independents, food service operators and distributors.



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Retail Ready is your **“Go-To” protein merchandising** & industry expert.
Protein expertise at your fingertips.

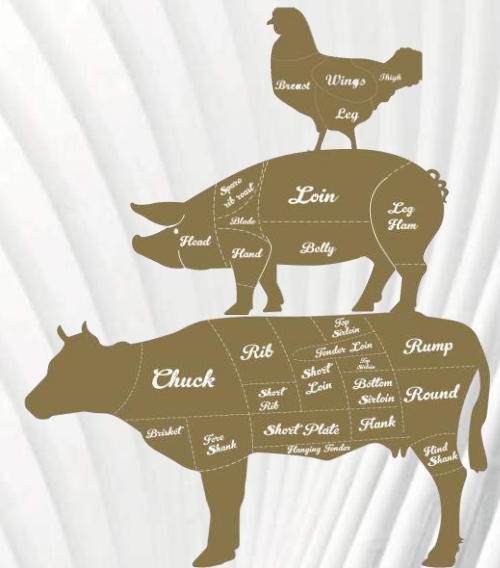


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A provider of **innovative risk management solutions**,
specializing in meat & livestock.



An integrated sustainable food brand committed to creating the **best-tasting fresh protein** experience.



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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.



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](http://www.kevingrier.com), a company specializing in livestock, meat, poultry and grocery industry market insight and analysis working across a breadth of organizations internationally.



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DISCUSSION OUTLINE:

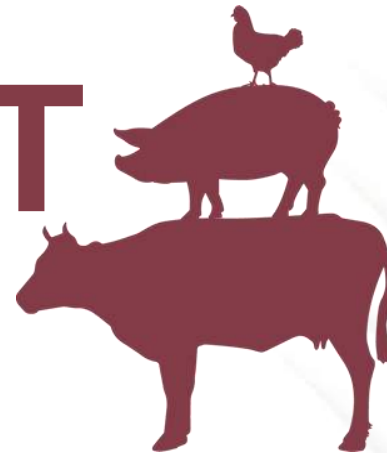
1. CURRENT RETAIL MEAT SITUATION

2. AFRICAN SWINE FEVER (ASF) AND TRADE DISPUTES

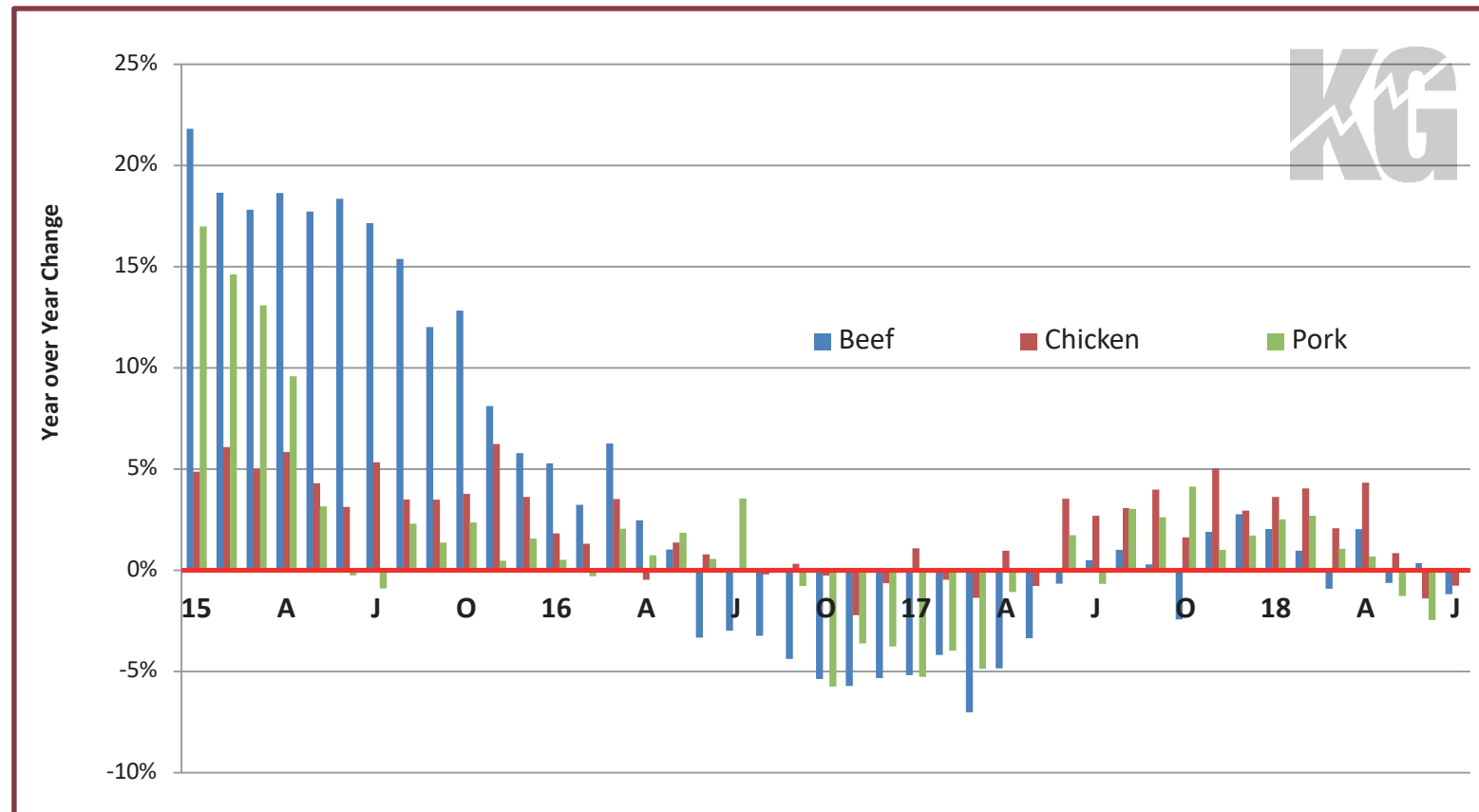
3. PORK PROSPECTS

4. BEEF PROSPECTS

CANADIAN RETAIL MEAT SITUATION

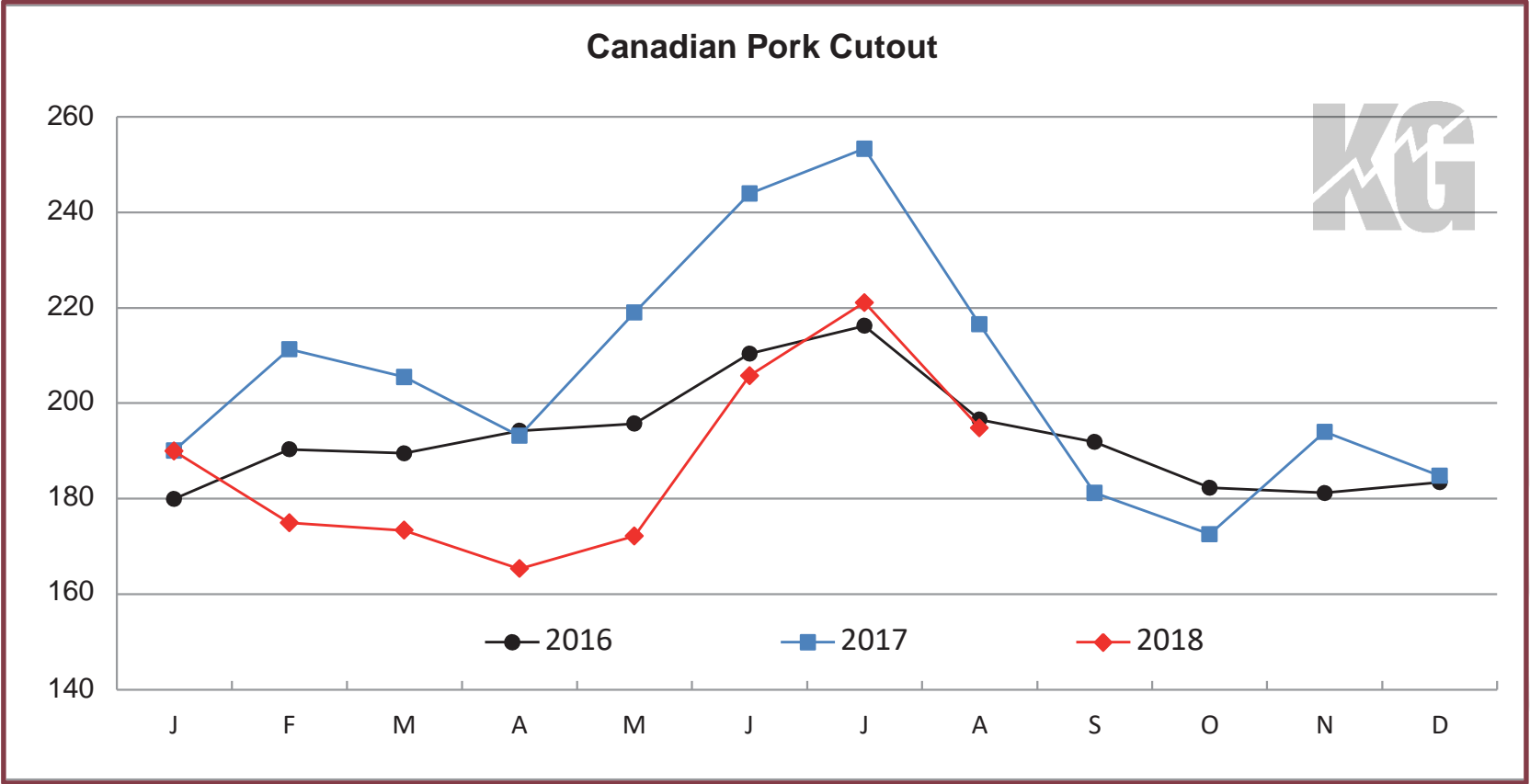


CANADIAN RETAIL MEAT SITUATION

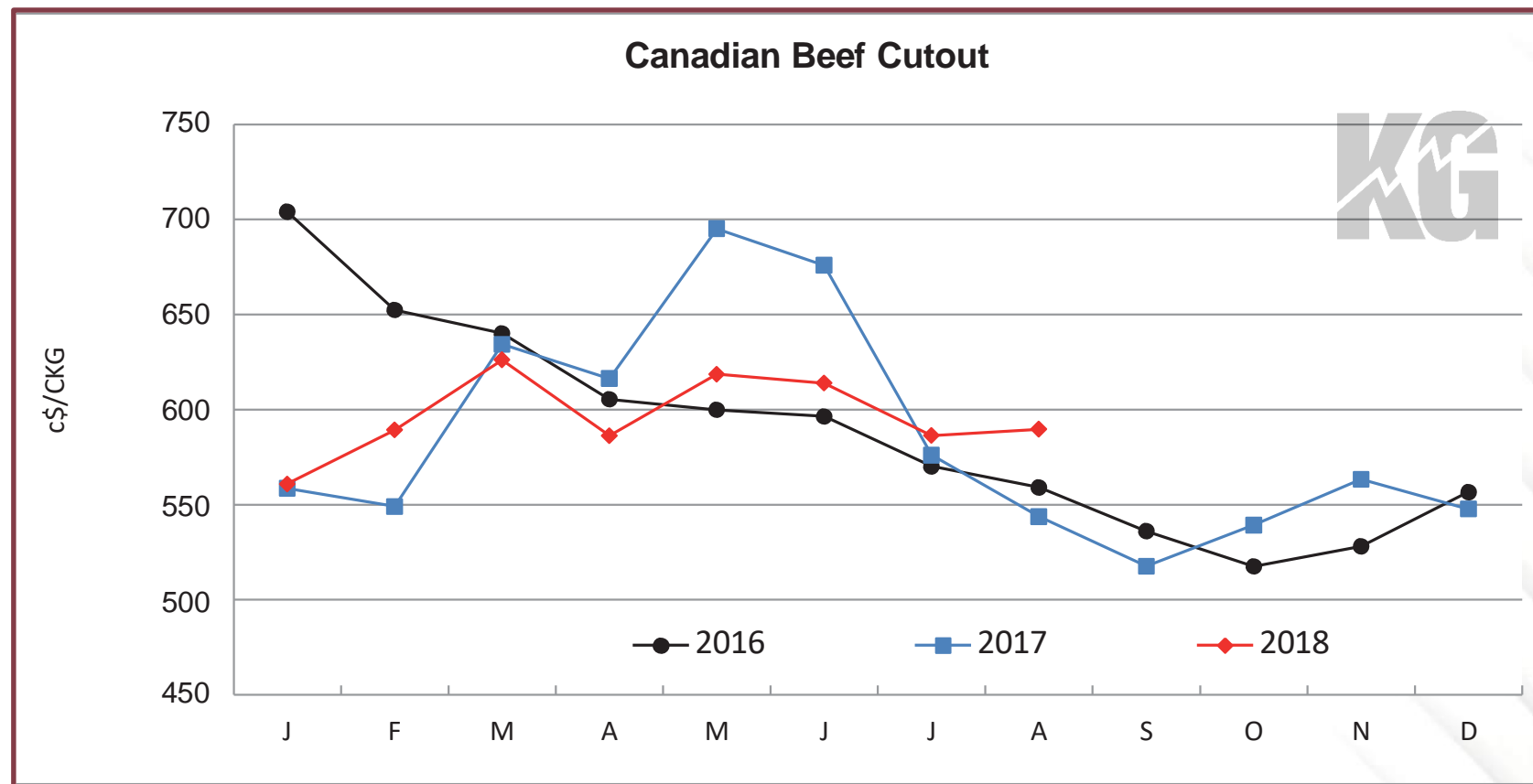


Stable to lower retail prices after volatility in 2015-2017.

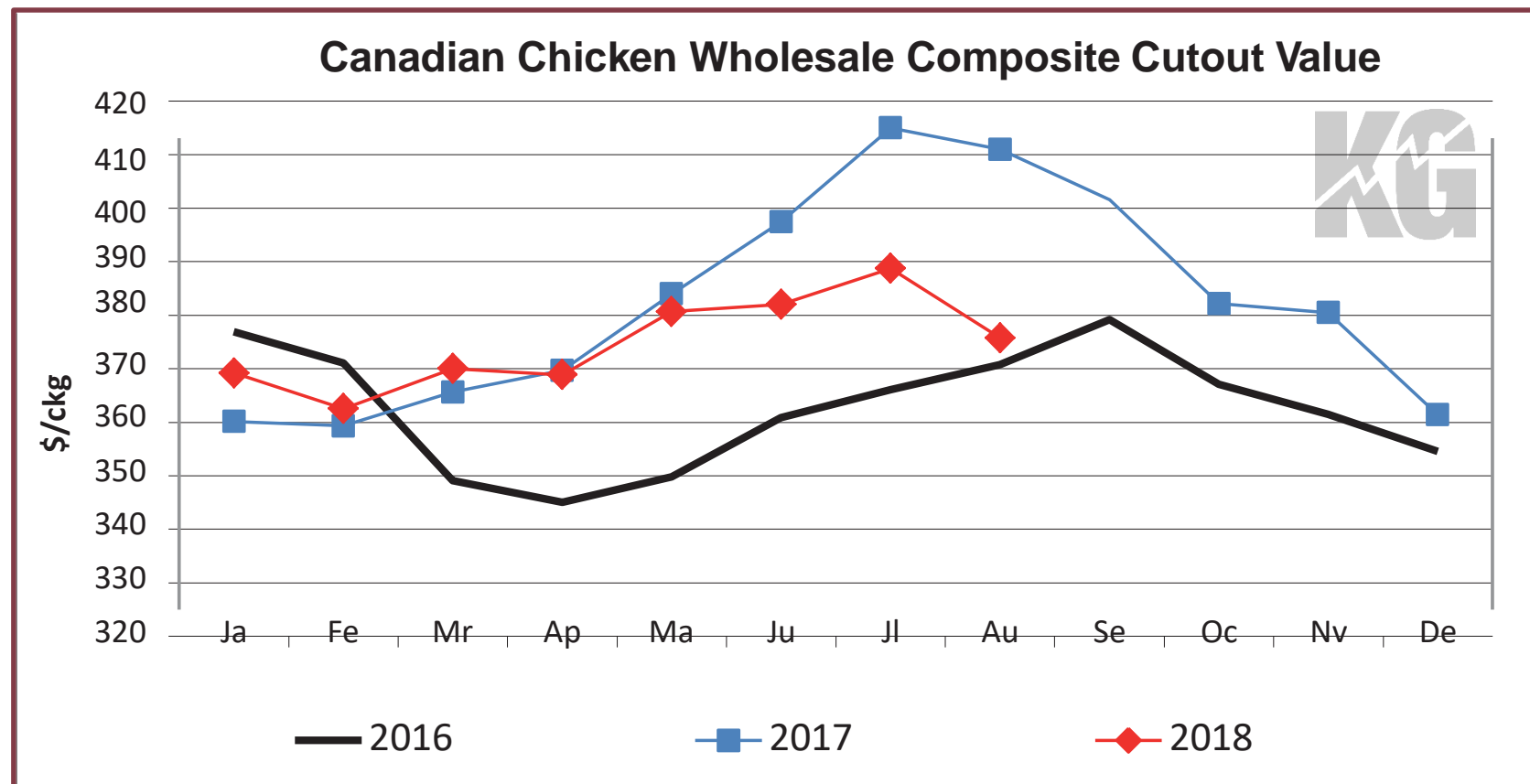
CANADIAN PORK CUTOUT



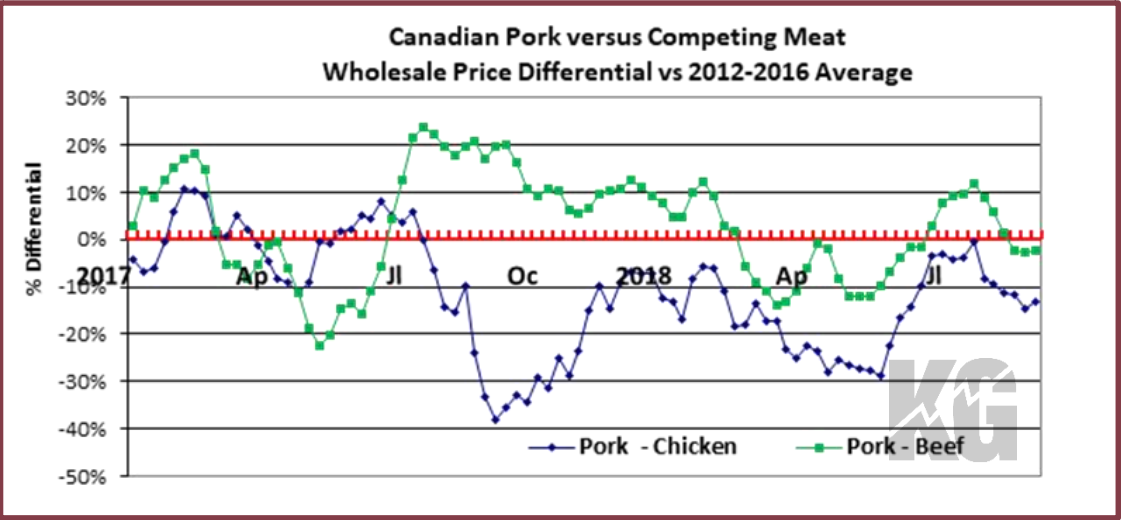
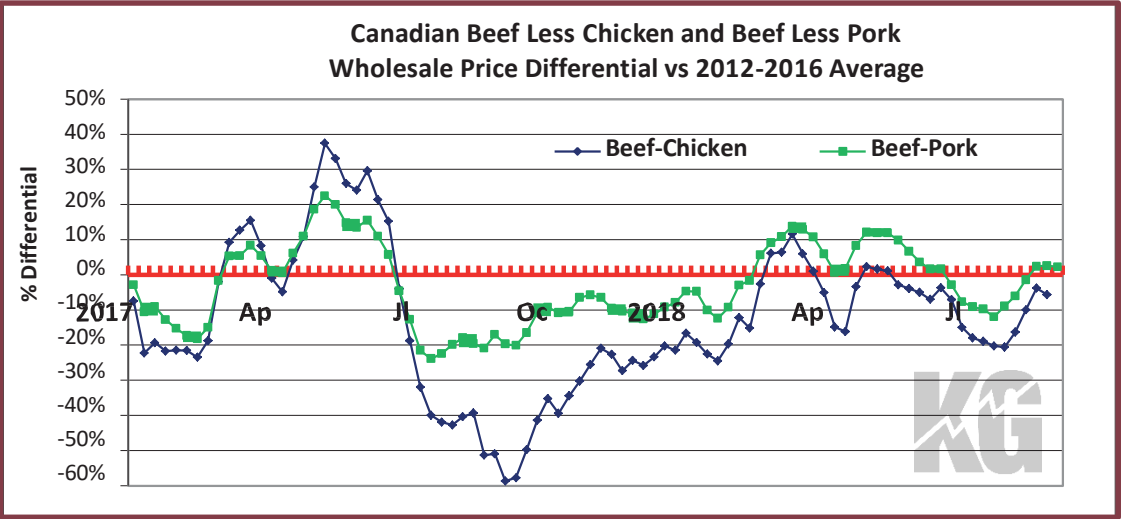
CANADIAN BEEF CUTOUT



CANADIAN CHICKEN CUTOUT



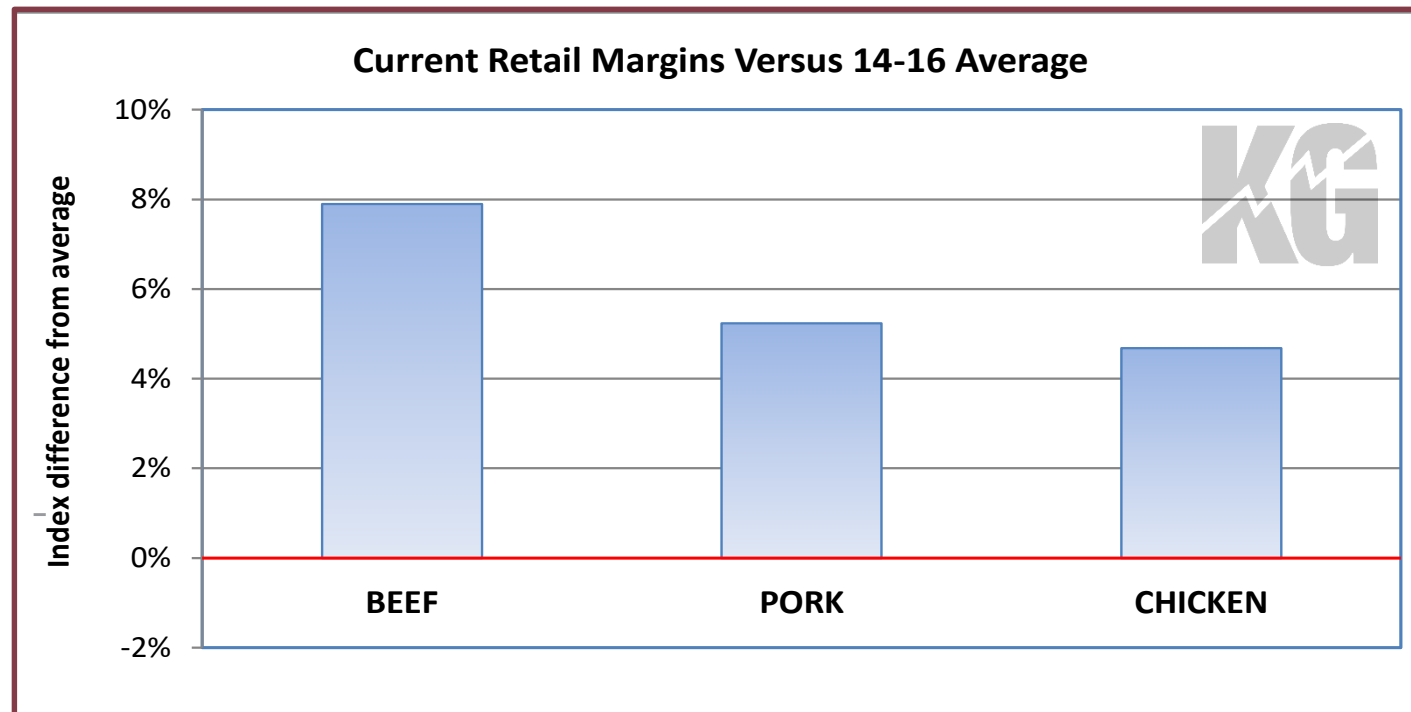
BEEF AND PORK WHOLESALE PRICE SPREADS



Relative price levels are normal in recent months.

Not much to make one meat preferred compared to another.

RETAIL MARGINS NOW VERSUS AVERAGE



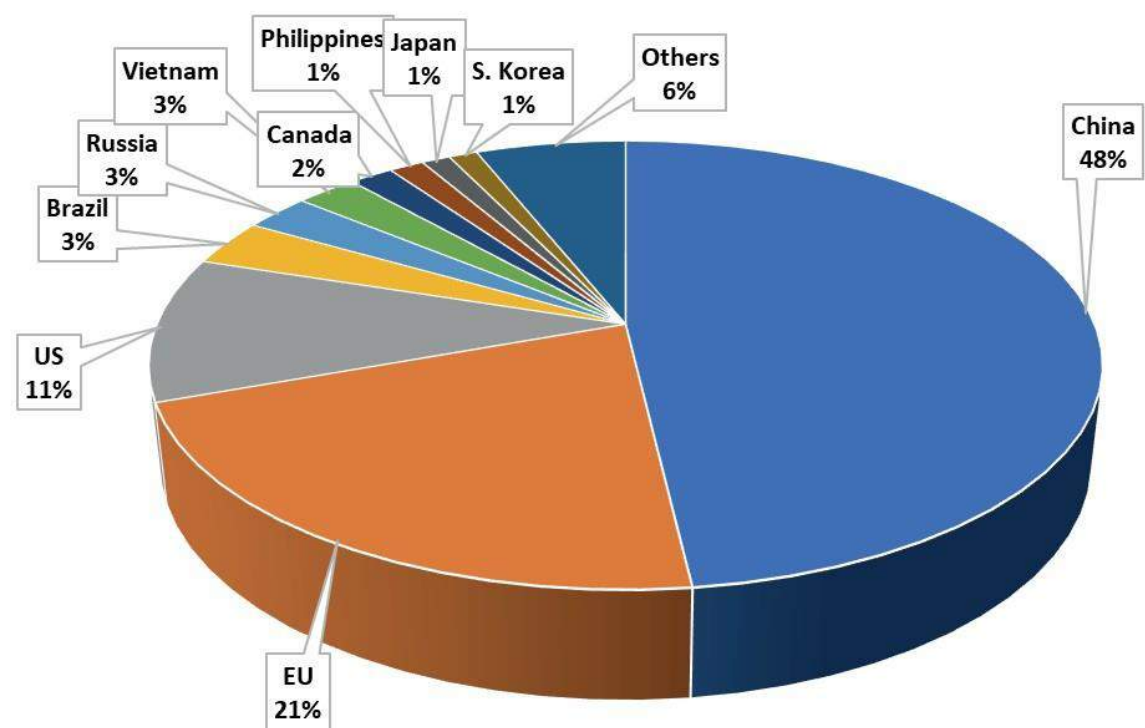
Margins in the meat case are probably favorable for the three main meats compared to 2014-2016.

AFRICAN SWINE FEVER (ASF) & TRADE CLIMATE




CHINA IS HOME TO NEARLY HALF OF THE GLOBAL SWINE POPULATION

Global Share of Pork Production | 2017



Top 10 Pork-Producing Countries			
		Thousand Metric Tons	
		2016	2017
1	China	52,990	53,400
2	European Union	23,866	23,675
3	United States	11,320	11,610
4	Brazil	3,700	3,725
5	Russia	2,870	2,960
6	Vietnam	2,701	2,741
7	Canada	1,914	1,970
8	Philippines	1,540	1,563
9	Japan	1,279	1,282
10	Korea, South	1,266	1,280
Others		6,691	6,722

Source: USDA Foreign Agricultural Service Updated: 5.5.18

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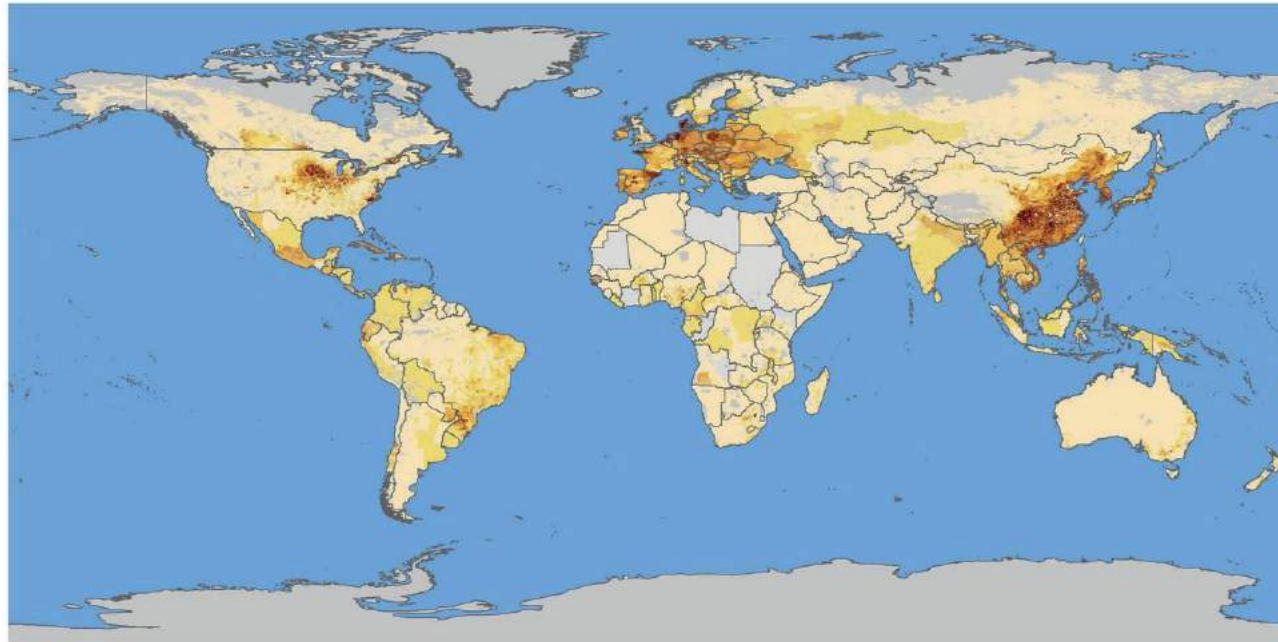
Quick Facts

CHINA ALSO HAS THE HIGHEST PIG DENSITY IN THE WORLD



Pigs density map – 2005 (census data)

AGRICULTURE AND CONSUMER PROTECTION DEPARTMENT
Animal Production and Health Division



Number per square km



Source: Gridded Livestock of the World

High pig density greatly increases the chances for spread of ASF.

There is no vaccine and the disease is spread by contact with infected animals or meat. Wild boars are often carriers.

Biosecurity measures play a big role in limiting the disease, but China has very little biosecurity given that a large proportion of production occurs in “backyard” operations.

The practice of feeding table scraps to hogs in China can also spread ASF.



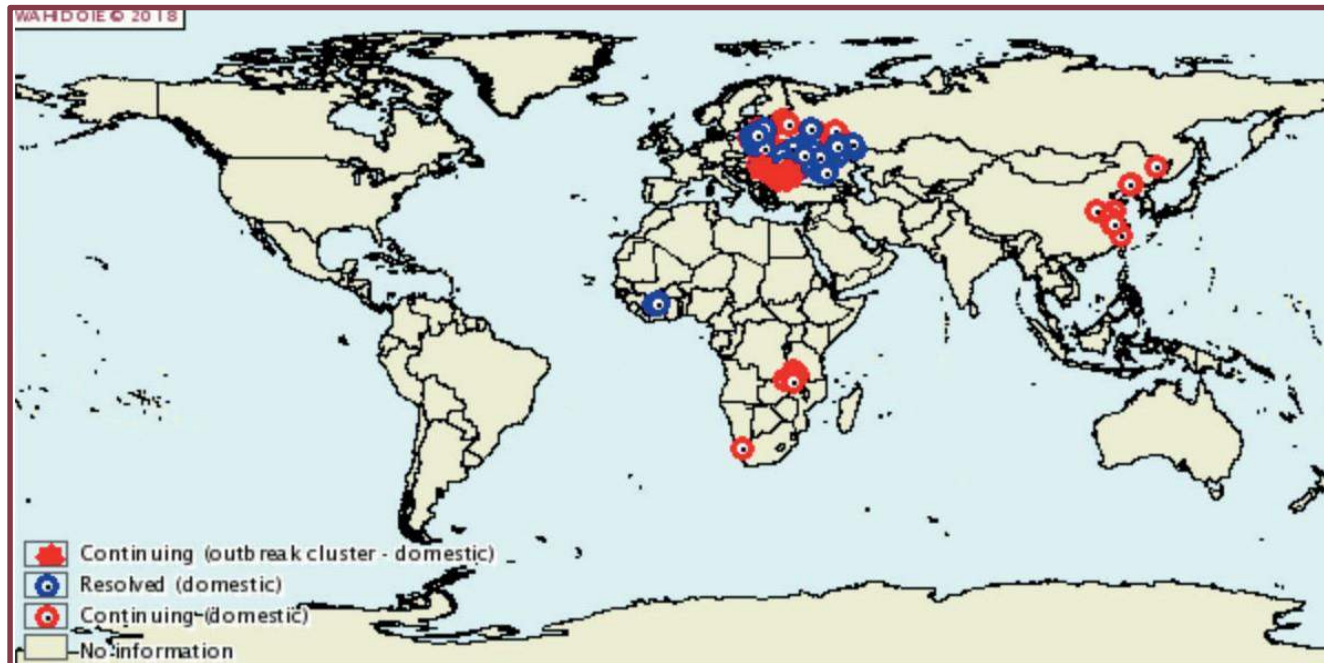
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AFRICAN SWINE FEVER (ASF) OUTBREAKS



ASF has been present in Eastern Europe and Western Russia since 2007.

Recently, cases have been found in Western Russia and now in mainland China.

ASF is contained by depopulating all swine in the area where an outbreak surfaces.

China has not always been forthcoming about the extent of its disease problem.

Pig populations in S. Korea and Japan are at risk due to proximity.

INTERNATIONAL TRADE DISRUPTIONS: THE “TRUMP TARIFFS” – A TIMELINE

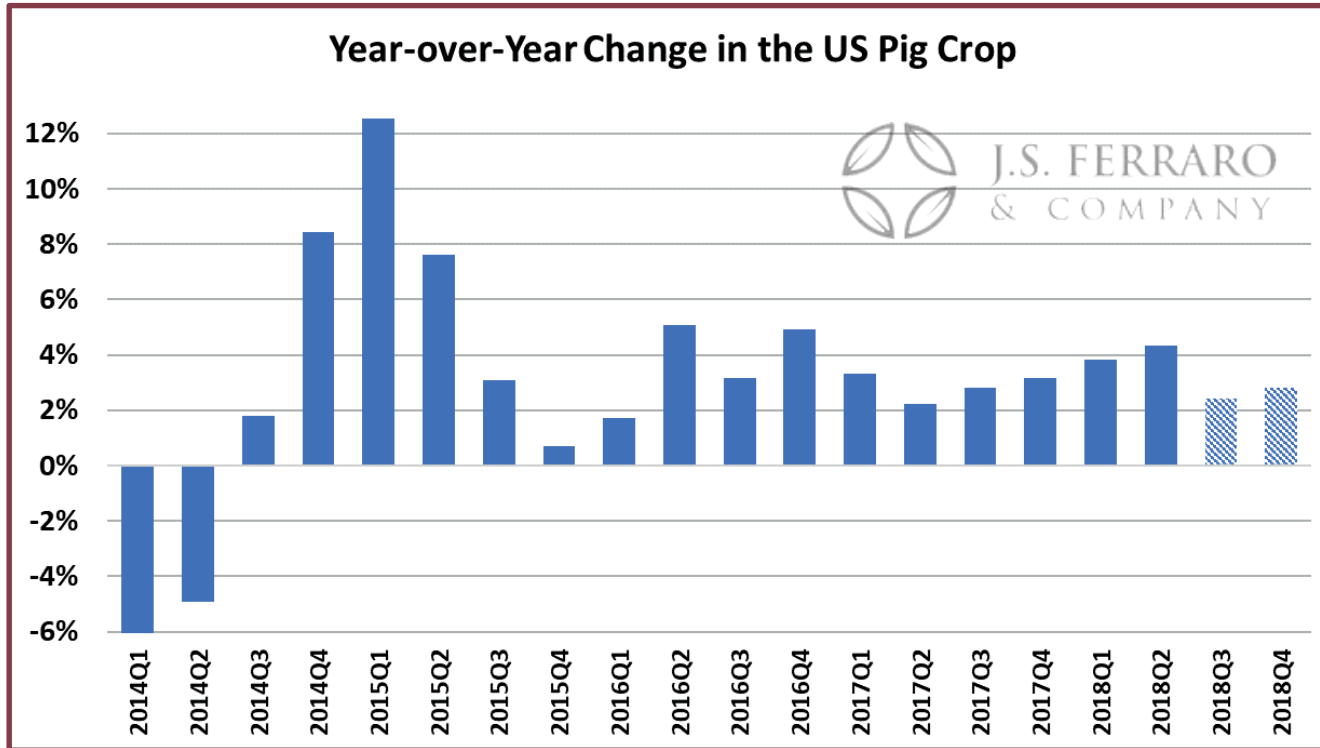
January, 2016	Three days after he took office, Trump withdrew the US from the Trans-Pacific Partnership Agreement (TPP).
March 1, 2018	The US imposes a 25% tariff on steel and a 10% tariff on aluminum imported from China.
April 1, 2018	China imposes retaliatory tariffs, including a 25% tariff on US pork.
June 1, 2018	The US imposes a 25% tariff on steel and a 10% tariff on aluminum imported from Mexico, Canada and the EU.
July 1, 2018	Canada announces a raft of tariffs on a host of US products in retaliation for the steel/aluminum tariffs. Processed beef is subject to a 10% tariff; pork not affected.
July 5, 2018	Mexico imposes a 20% tariff on pork imported from the US in retaliation for the steel/aluminum tariffs.
July 6, 2018	China imposes an additional 25% tariff on pork imported from the US.
Current	Trump continues to threaten China with additional tariffs and the Chinese have vowed to respond with more tariffs of their own. A tentative trade deal has been reached between the US & Mexico, discussions are ongoing with Canada. All tariffs remain in effect until the deal is ratified, which could take several months.



PORK PROSPECTS



THE US HOG SECTOR HAS BEEN CHURNING OUT MORE HOGS FOR 4 CONSECUTIVE YEARS



Three new hog slaughter facilities added in 2018. Processing capacity increased by over 20k head/day.

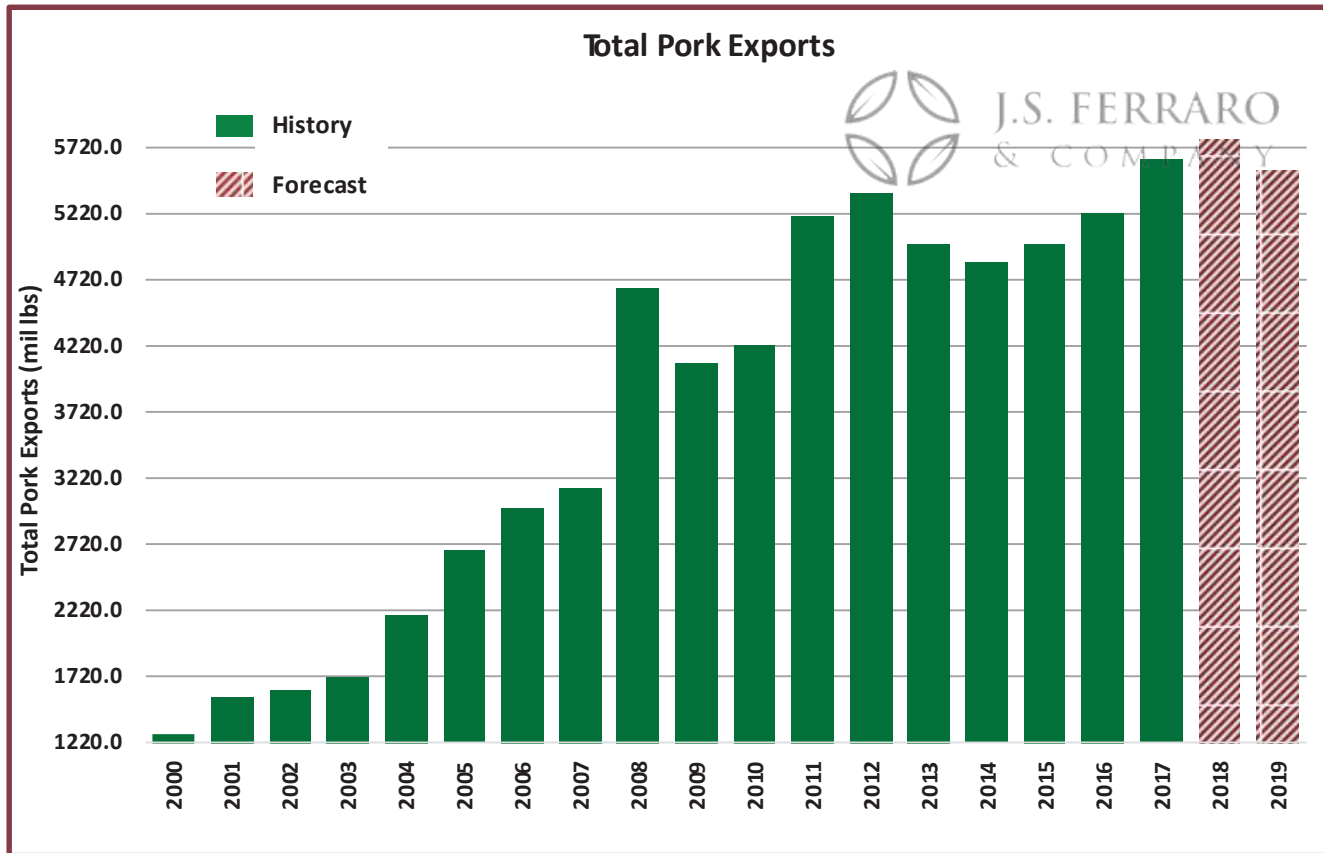
Another big plant scheduled to come on line near the end of the year. Will add another 10k/day once fully operational.

This industry expansion has largely been driven by ever-increasing exports.

US pork exports grew by 20% from 2014 to present

Production in Q4 should be up at least 4% from last year.

RAPID EXPORT GROWTH IS DRIVING EXPANSION IN THE US HOG & PORK SECTOR



In order of volume, Mexico, Japan, S. Korea and Canada are the major destinations for US pork.

In 2017, the US exported 22% of its pork production.

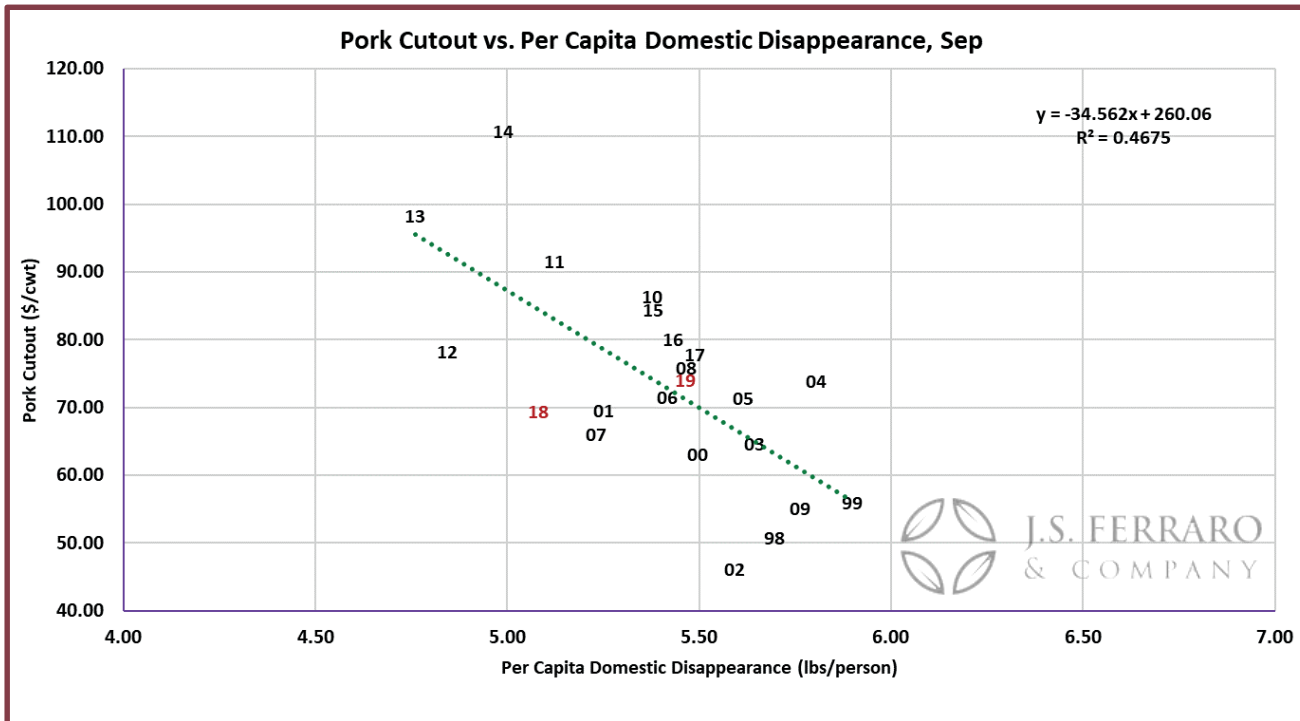
J.S. Ferraro & Co. (JSF) forecasts 2019 exports to decline 3-4% mostly as a result of increasing trade friction.

Some slowdown in the global economy is also expected to temper demand for pork exports next year.

However, if ASF spreads widely in China, US pork exports could be up double digits in 2019.



US DOMESTIC DEMAND FOR PORK IS CURRENTLY VERY WEAK



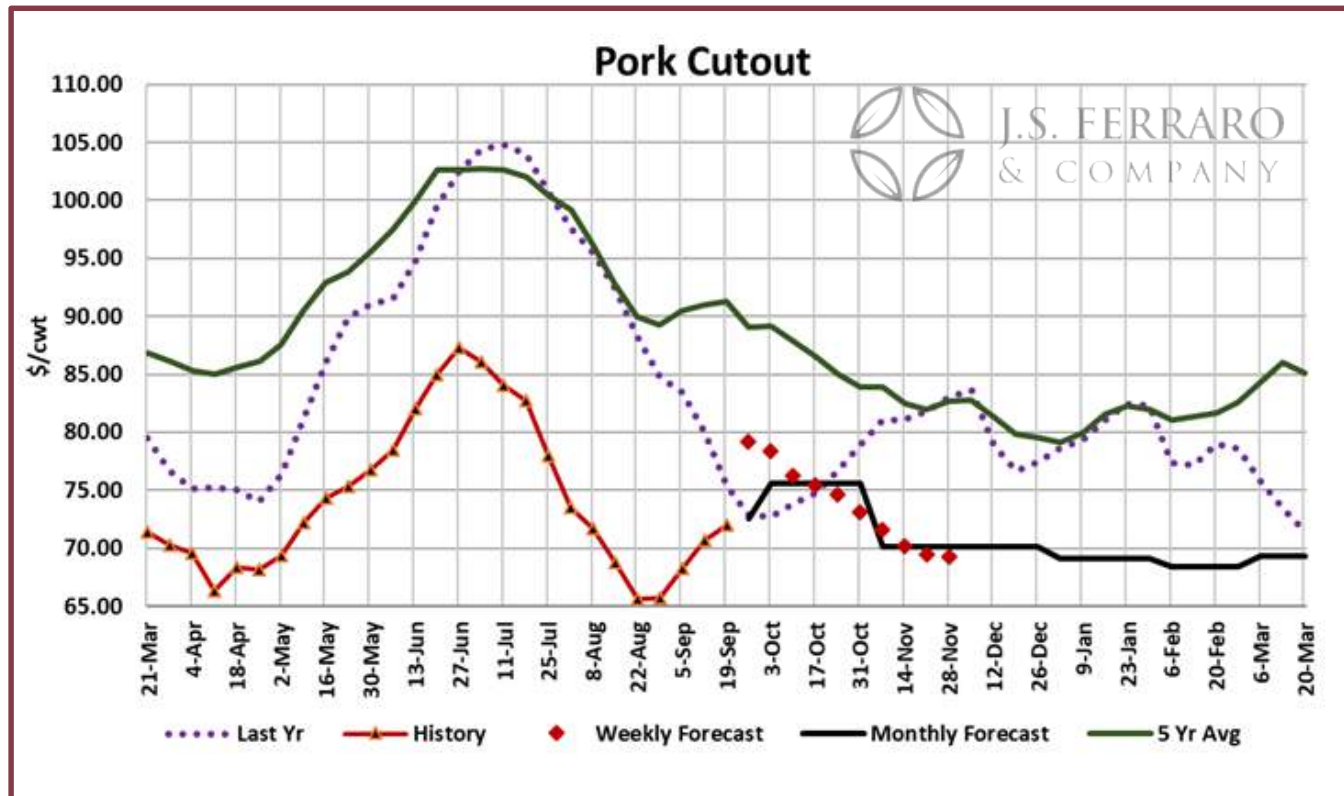
Domestic pork demand has struggled at times in 2018. We are currently in a soft spot.

The US economy is seeing strong growth, wage increases are beginning to accelerate.

Perhaps consumers are “trading up” from pork and chicken to beef as their incomes rise.

If this soft demand continues in Q4, then big production will limit price strength.

PORK PRICING PROJECTED TO REMAIN WELL BELOW LAST YEAR INTO 2019



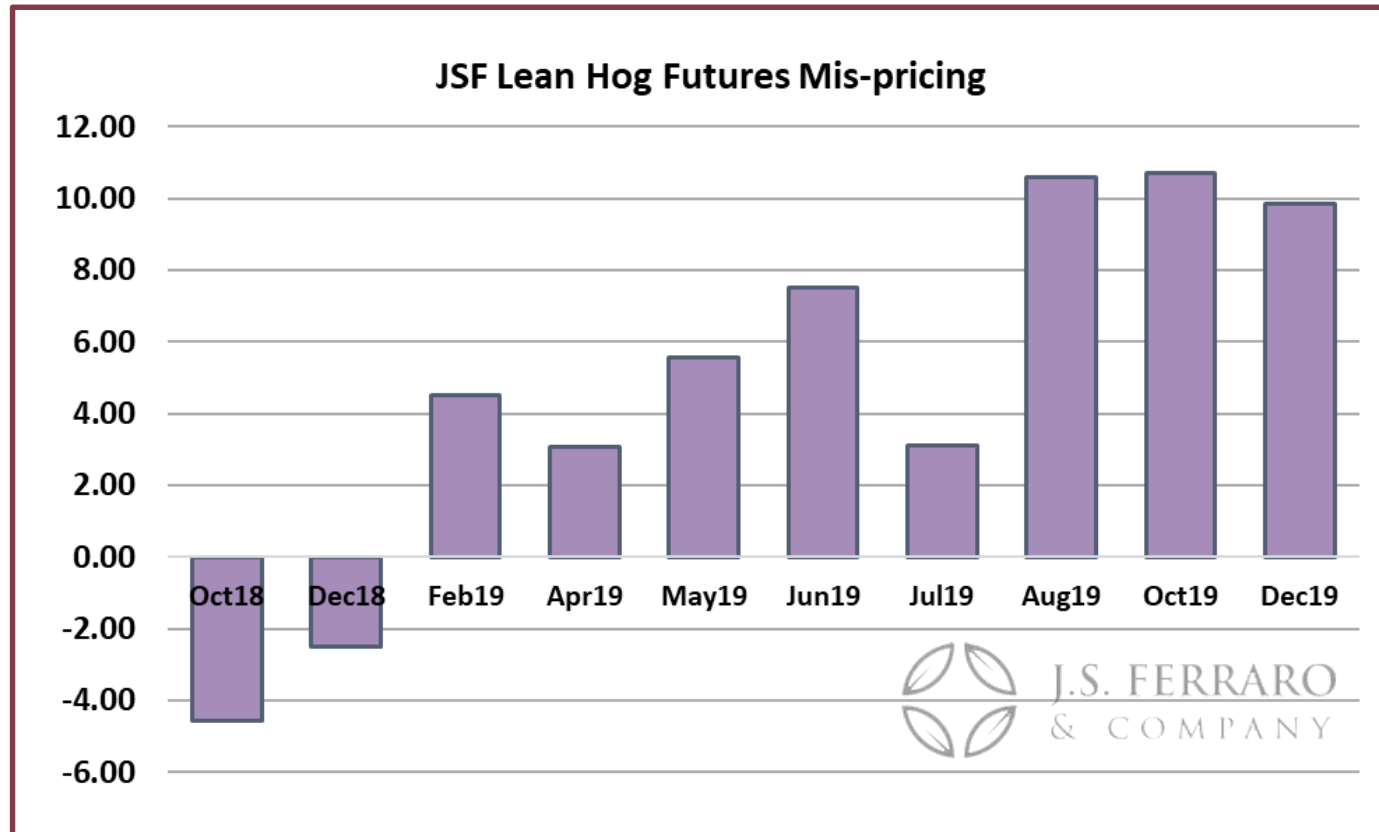
Current JSF forecast has the pork cutout trading between \$65 and \$75 for the next six months.

If demand improves, the cutout could challenge the top of that range.

Big supply will be an issue. Pork demand is inelastic meaning that small changes in supply can bring big changes in price.

Large domestic production is far more important to price in the near term than export market risk.

THE 2019 FUTURES ALL LOOK TOO HIGH RELATIVE TO THE FUNDAMENTAL FORECAST



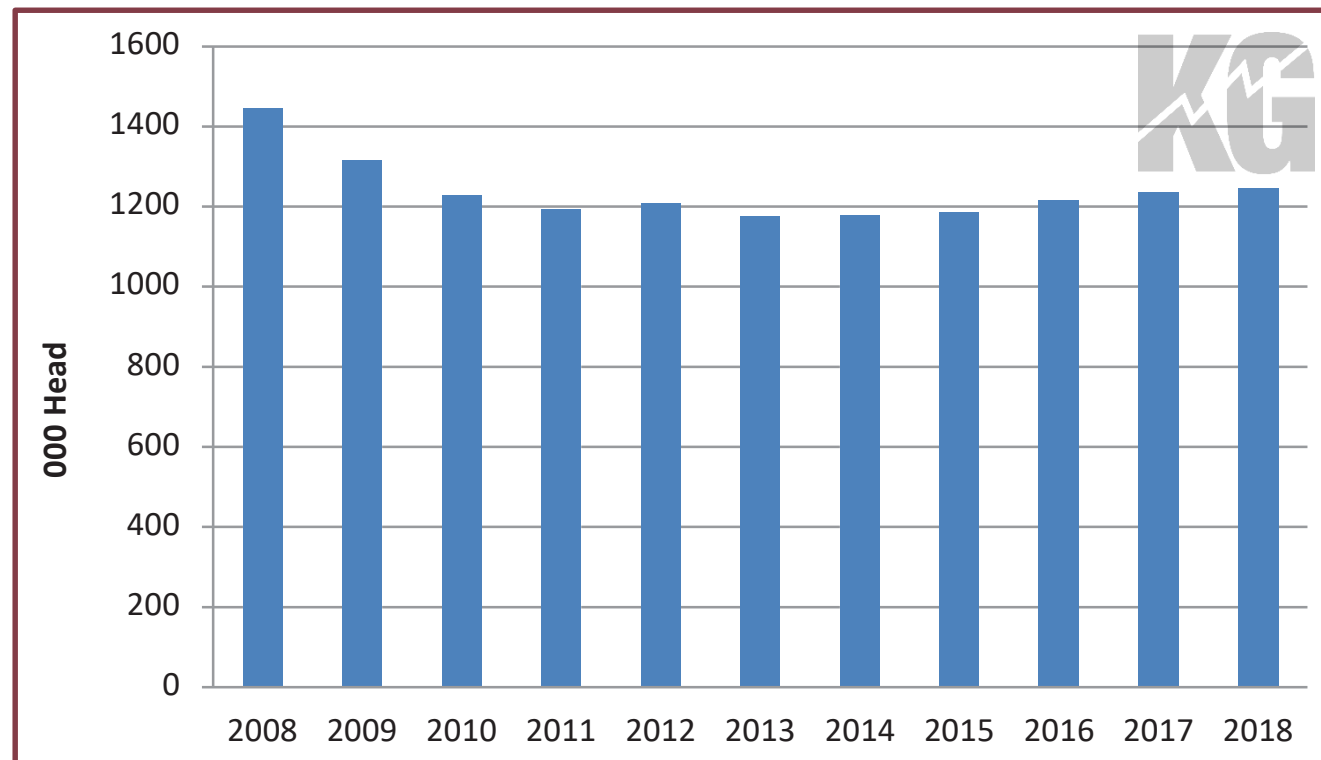
With yet another new plant opening in early 2019, it's a good bet that production will be up again in 2019.

The current JSF forecast has commercial pork production up another 3% in 2019.

The futures market for 2019 looks way over-priced given the production forecast. 2019 futures are likely pricing in the risk of a major escalation in ASF.

High futures prices translate into high asking prices on forward pork deals. Proceed with caution when booking pork for 2019 delivery.

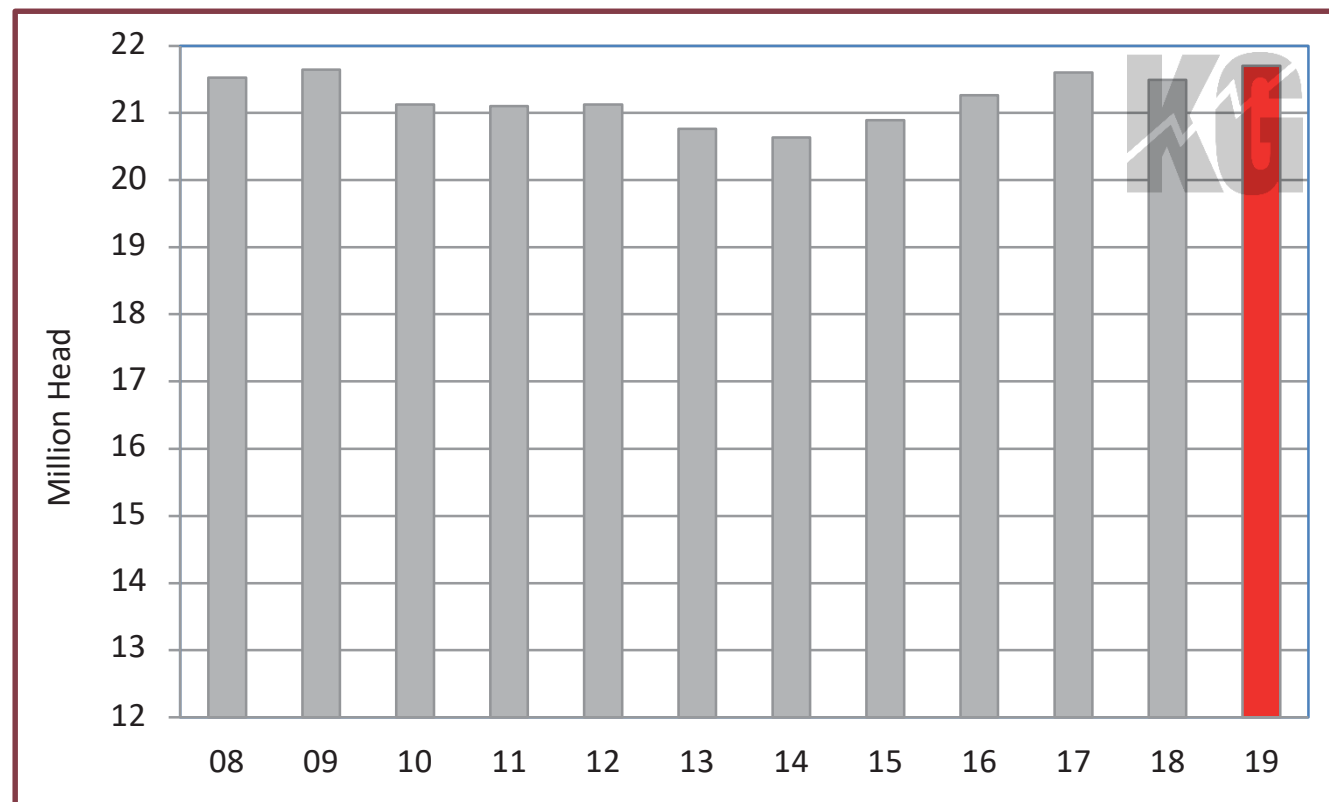
CANADIAN SOW HERD



Slow cautious growth in production

Packer capacity exceeds supply on the prairies

CANADIAN HOG SLAUGHTER



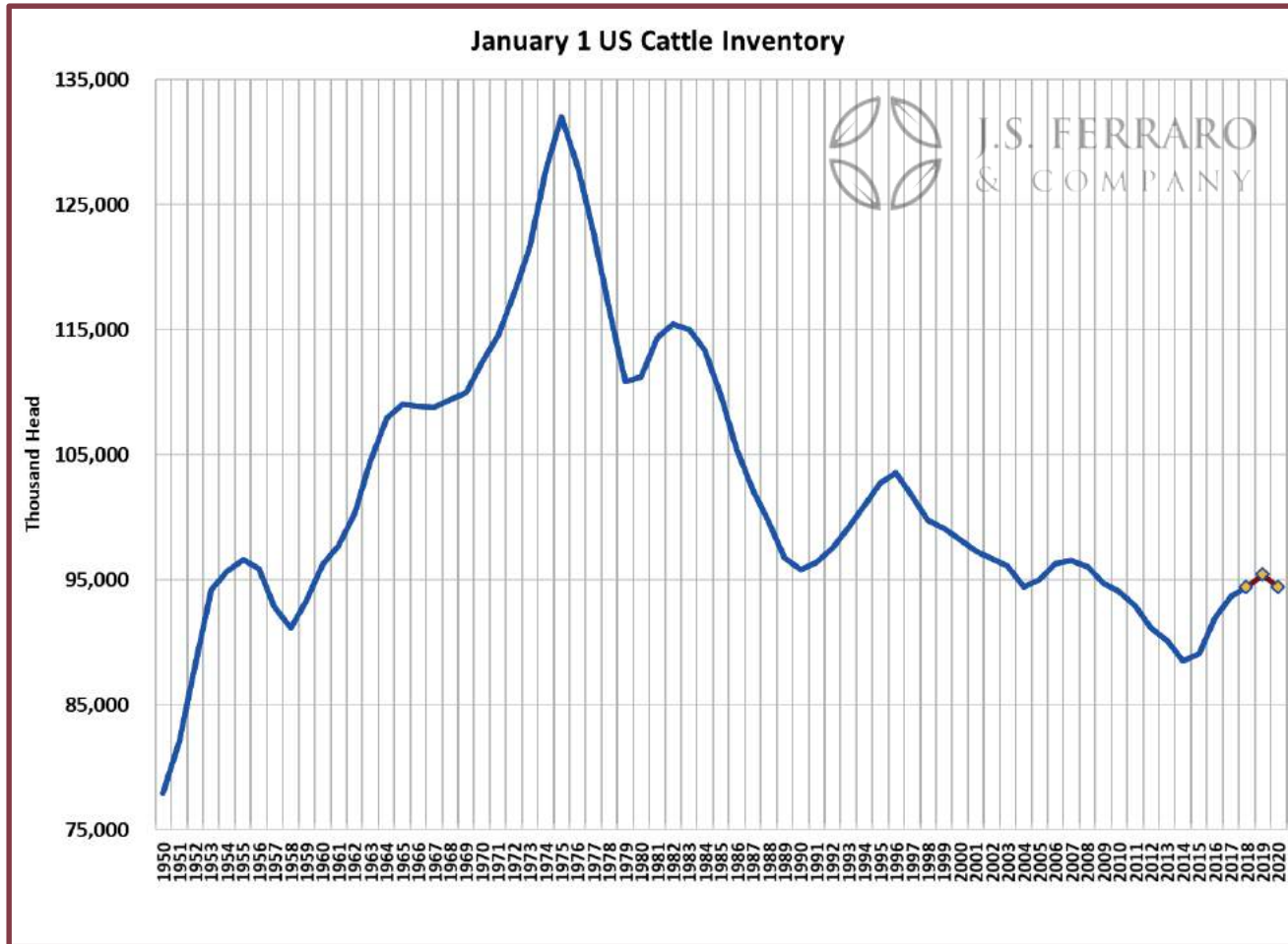
Modest Decline in 2018 (production issues)

Increase in 2019 (Oly Quebec, HyLife, Conestoga...)

BEEF PROSPECTS



THE US CATTLE HERD IS NEARING A CYCLICAL TOP



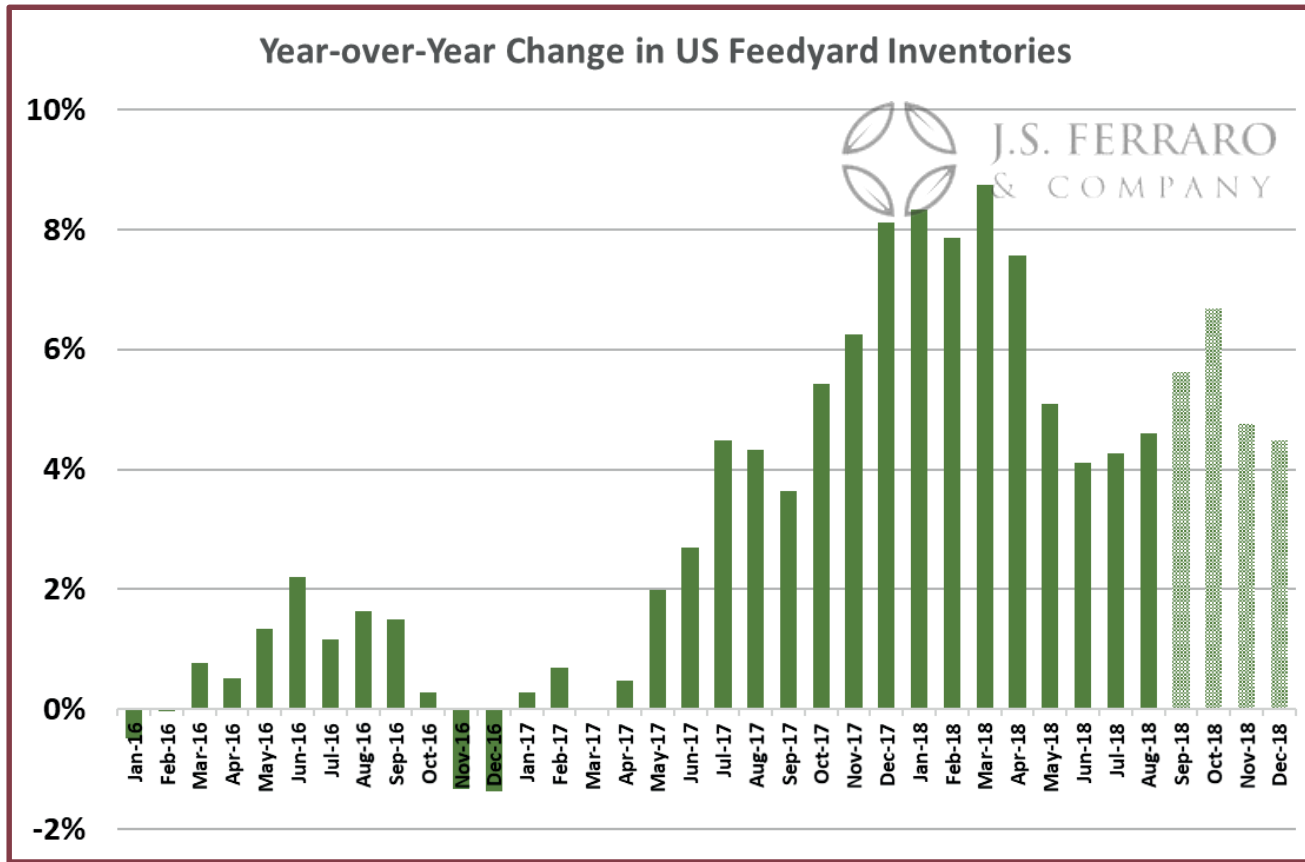
As the cattle herd expands, beef production increases.

Production will continue to increase for about 2 years beyond the cycle top.

All else equal, beef should get cheaper over the next 2-3 years until herd rebuilding takes hold.

However, strong domestic and international demand could limit how low beef prices go moving forward.

FEEDYARD INVENTORIES EXPECTED TO REMAIN LARGE THROUGH Q4



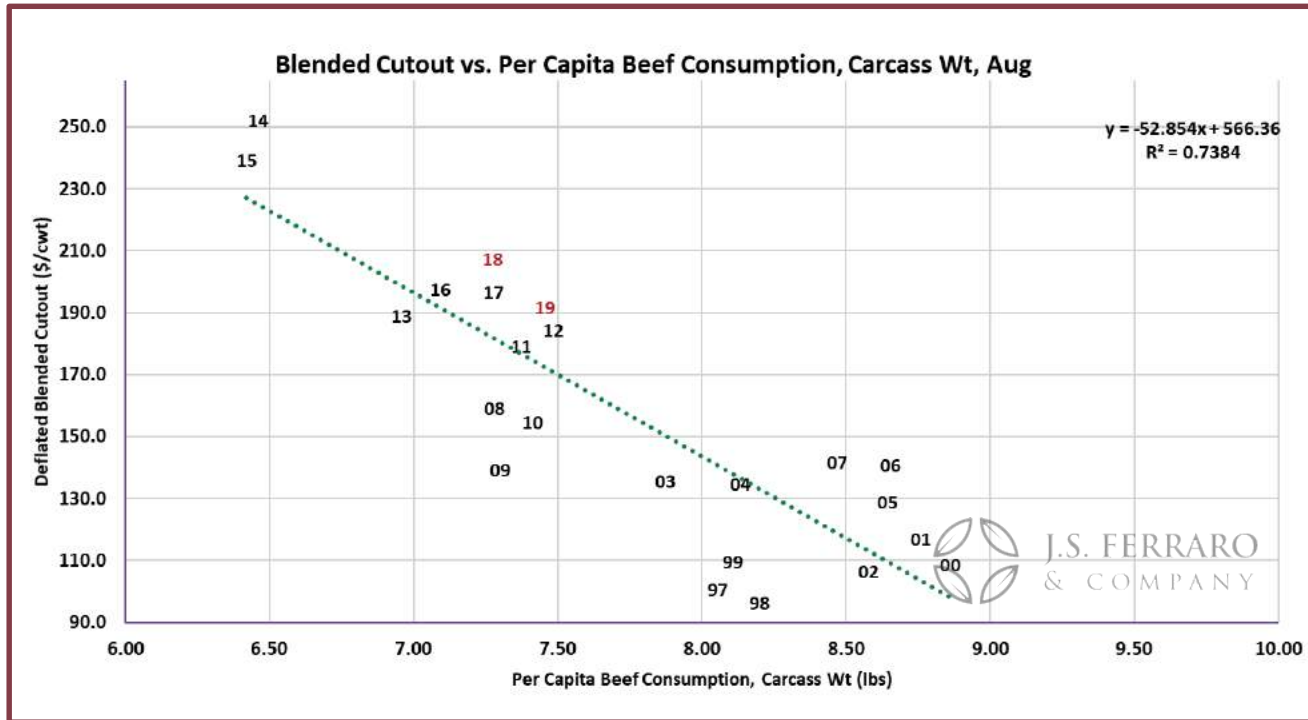
Feedlots have aggressively placed cattle on feed in 2018.

Current on-feed inventories are consistent with a growing cattle herd.

US cattle feeders have suffered financially, with margins mostly negative for over a year now.

Packer margins have been very strong over the same period. Currently, J.S. Ferraro & Co.(JSF) estimates packers are making just over \$200/hd.

DOMESTIC BEEF DEMAND LOOKS HEALTHY



Beef demand looks much better than pork demand currently.

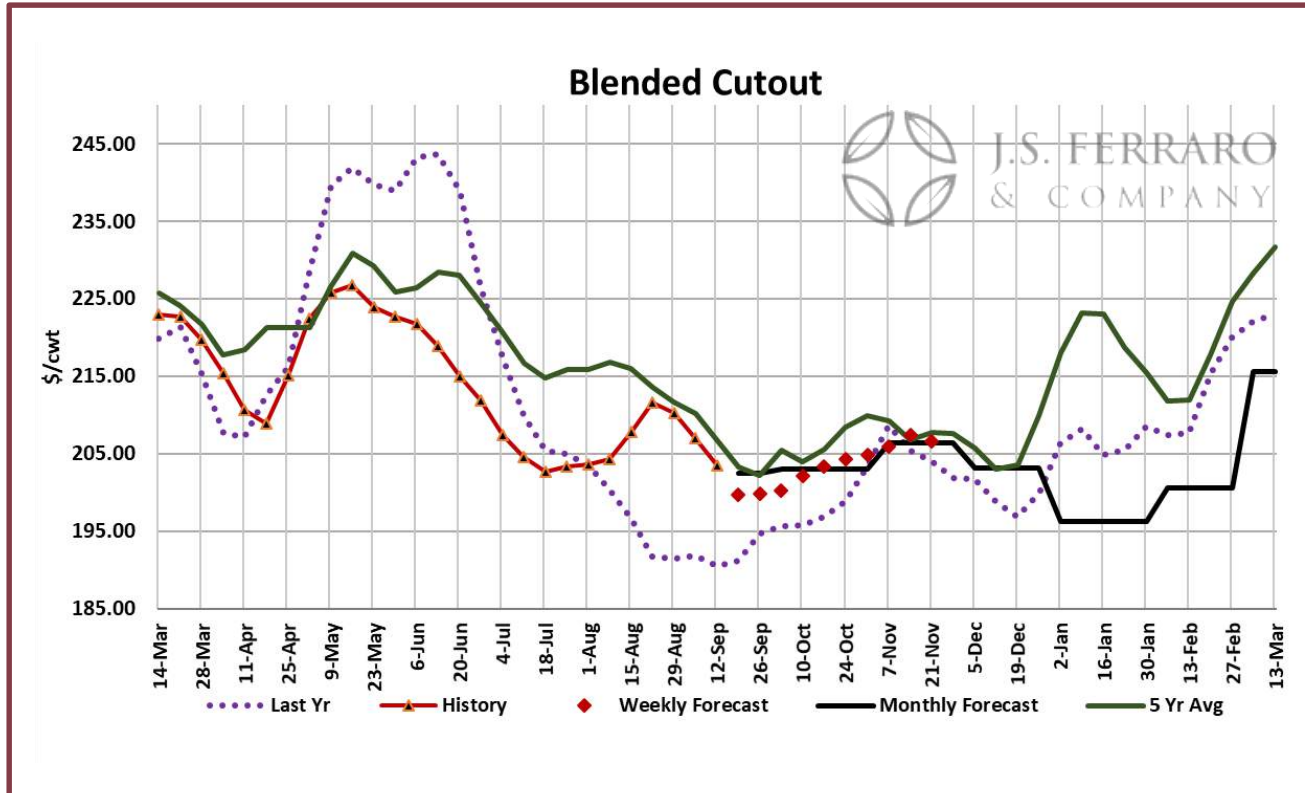
Possibly due to consumers “trading up.”

Middle meats in particular have seen strong demand in 2018 and that is expected to continue through the end of the year.

Beef is not as vulnerable to trade disruptions as pork. The US is a net importer of beef.



BEEF CUTOUTS SHOULD BE APPROACHING A NEAR-TERM BOTTOM



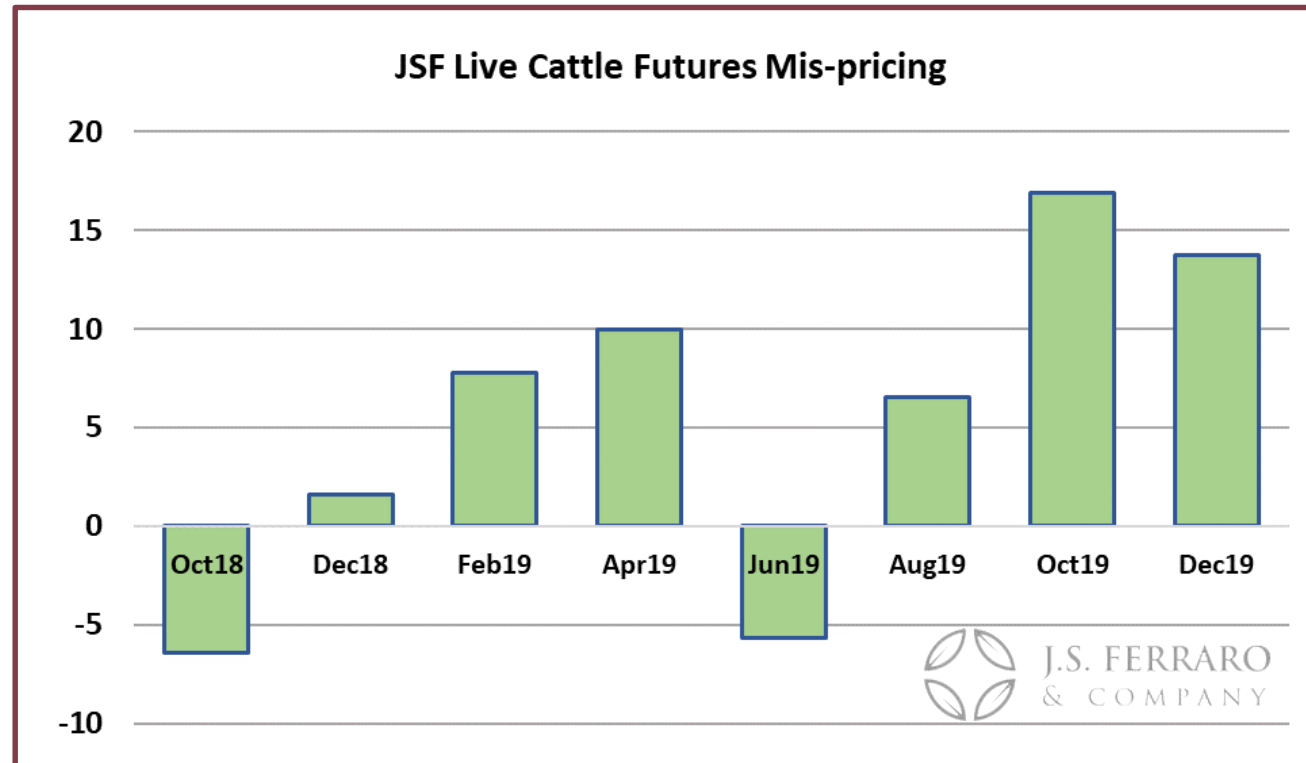
The cutout has performed very well this summer, especially since production was up about 2% in Jun-Aug.

J.S. Ferraro & Co. expects strong middle meat pricing heading into the year-end holidays. That should support the cutout and help offset the price impact of large production.

Cheap pork is a risk for beef in Q4.

Cattle weights point to relatively current feedyards, which reduces the odds of a cattle backlog developing.

CATTLE FUTURES LOOK APPROPRIATELY PRICED, OUTSIDE OF THE OCT18 AND JUN19 CONTRACTS



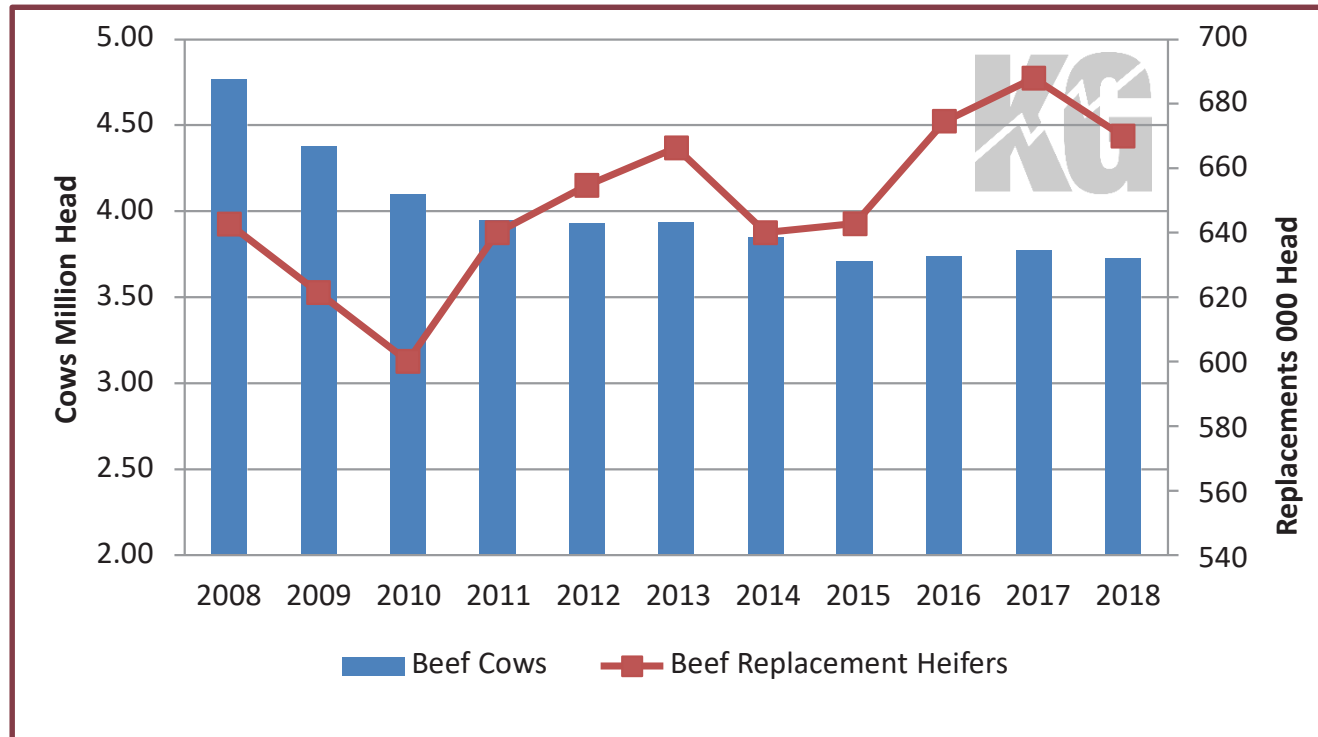
The cattle futures curve is much more in line with the J.S. Ferraro & Co. fundamental price forecast than hog futures.

J.S. Ferraro & Co. sees the Oct18 live cattle contract rallying significantly into expiration at the end of Oct.

Buyers should move quickly to book Oct & Nov needs before the market rallies.

The primary bearish argument for near-term price weakness is if a backlog of develops in the feedyards. So far, there's not much evidence of that.

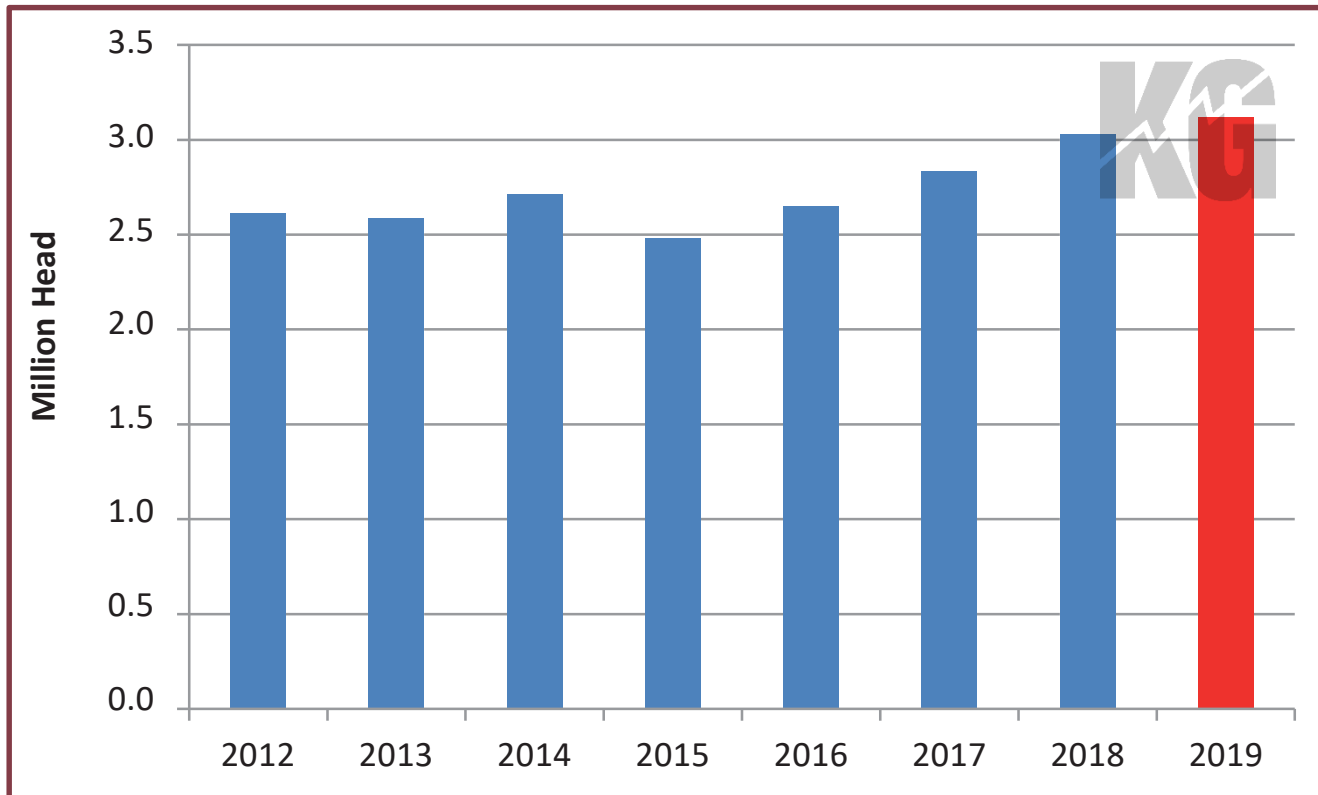
CANADIAN BEEF COWS AND HEIFER REPLACEMENTS



No real expansion occurred or occurring



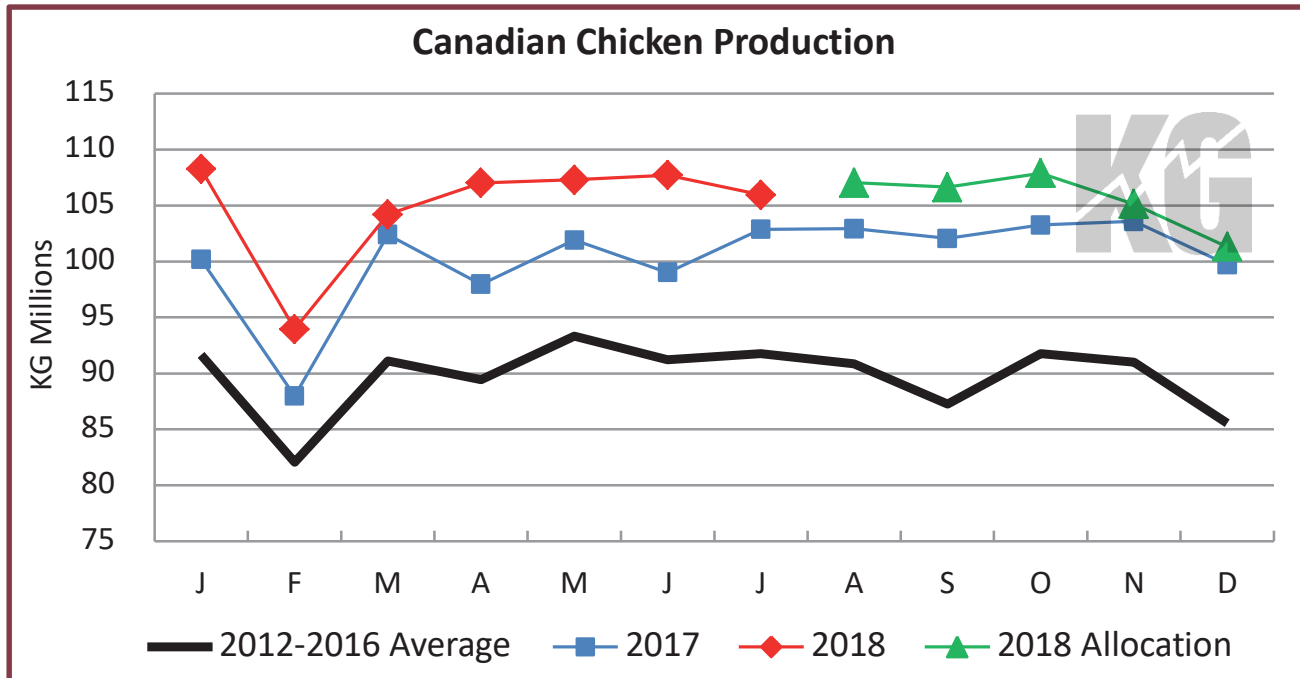
CANADIAN ANNUAL SLAUGHTER 2012-2019



The modest herd growth translates into modestly higher slaughter in 2019 in Canada.



A NOTE ON CHICKEN



Supplies back in balance after “fowl clampdown.”

HIGHLIGHTS

The ASF outbreak in China needs to be watched very carefully. If ASF begins to spread uncontrolled, China will be forced to import large quantities of pork which would cause sharp increases in the pork market and likely benefit beef as well.

The current trade war environment is more detrimental to pork than beef in the US. It is particularly negative for US pork exports into China longer term. If the trade issues don't get resolved or worsen, then pork pricing is very vulnerable in 2019.

Domestic US pork demand is currently very weak. With a 4%+ production increase coming in Q4, that weak demand will make it difficult for the pork market to reach last year's price level. Add another 3%+ production increase in 2019 and pricing next year could be even softer.

The demand situation in beef is much better than for pork. Beef middles in particular hold a lot of upside risk into Q4. Beef production will be large, but strong demand has the potential to mitigate the price impact of that large production. Price levels on middle meats could exceed last year while end cuts and grinds are more likely to be below last year.

Canadian meat case is seeing a period of stability in terms of costs and prices. Competing meats have moderated in cost. Canadian merchandisers will have plenty of competing offers in the coming quarter from all three meats.

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Q & A

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Retail Ready Foods Inc. is a major niche distributor of fresh beef and pork protein, providing peace of mind to mid-to-large retailers and processors across the Americas. We provide clients with superior market insight to help them make informed decisions about their meat purchases, supported by our expertise and well stocked inventory that we deliver just-on-time, every time.

“

Retail Ready is your “Go-To” protein merchandising & industry expert.

Protein expertise at your fingertips.



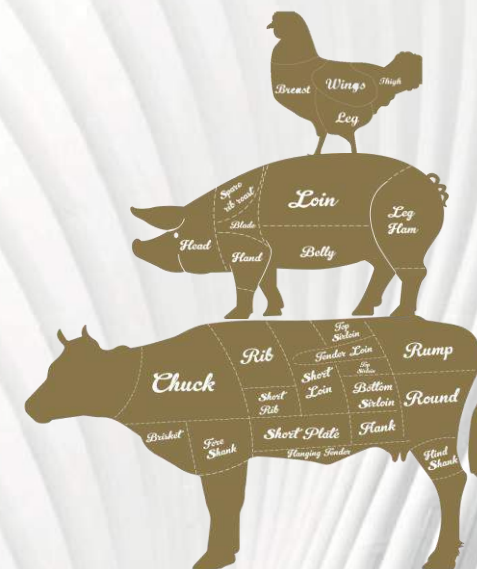
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At J.S. Ferraro & Company we combine our experience in the derivatives markets, expertise in econometrics and over 30 years in the cattle and hog industry to help our clients lead the herd, manage their risk, and maximize their margins.

Progressive thinking and precise quantitative modelling are the cornerstones of our margin management solutions.

“

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



THANK YOU

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