WORLD'S LEADING ANIMAL PROTEIN PRODUCER

Beef Market Update

October 3, 2018

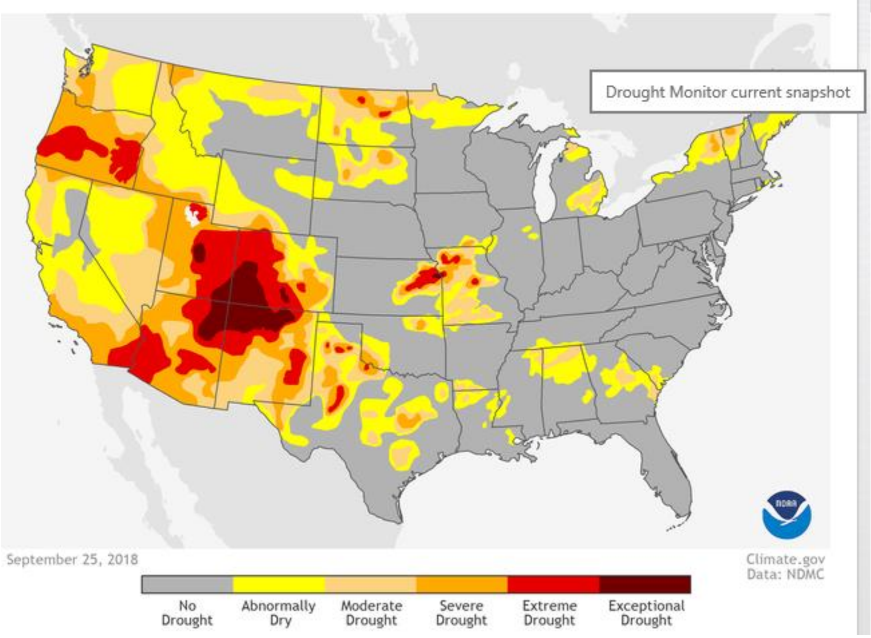
Beef market update

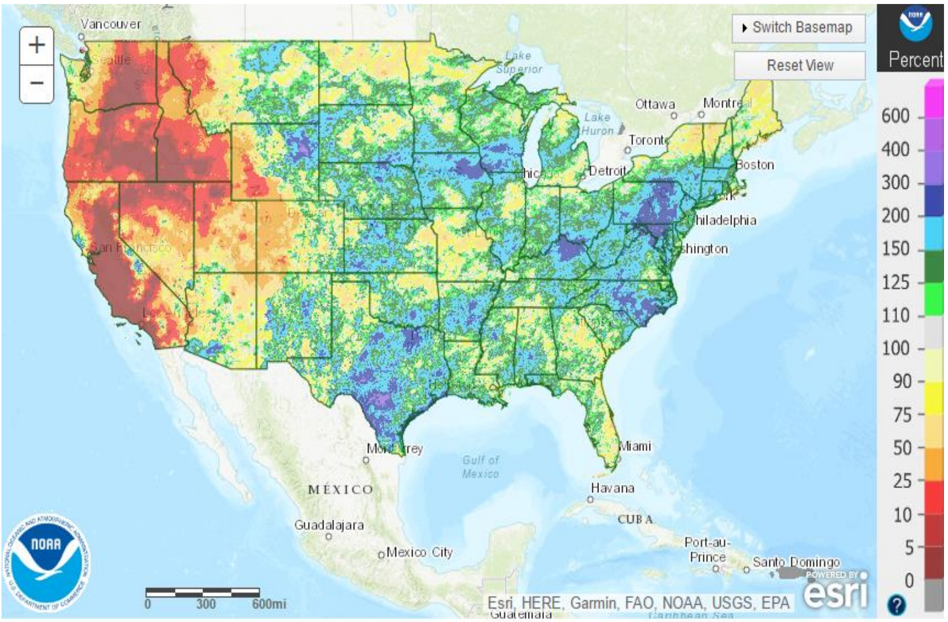
- The US cattle inventory continues to expand – but at a slow rate as more females have moved to slaughter
- Cattle on feed inventories remain record large as placements have stayed above one year ago
- Slower fed cattle slaughter has kept the inventory of market-ready cattle ample

- Cattle weights have stayed close to one year ago
- Beef production has been constrained somewhat due to slaughter capacity and labor availability
- Choice & prime grading has stayed close to last year's level

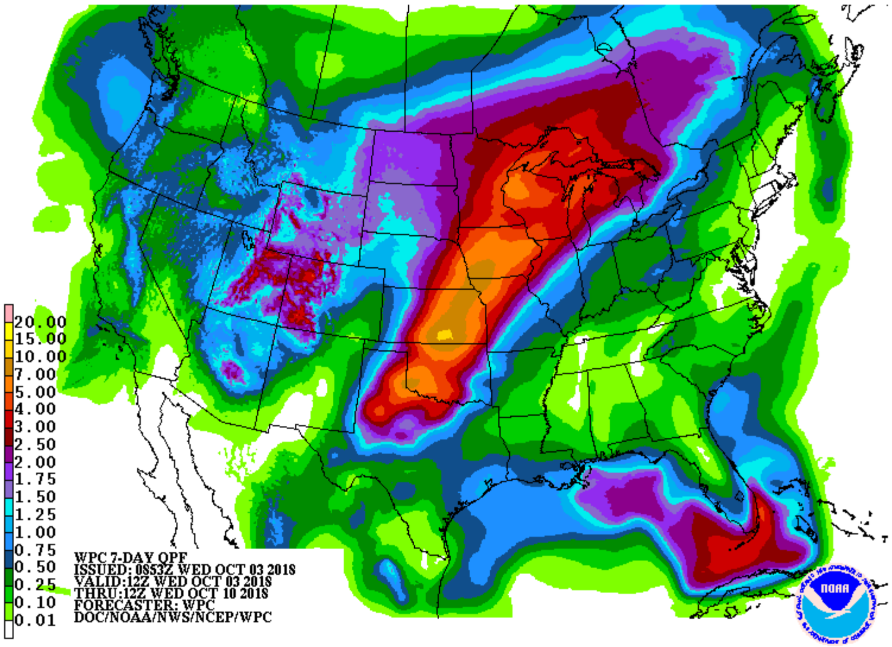
- Consumer demand has been excellent and has been the market driver – demand has been boosted by a positive economic outlook
- Beef export demand continues to show double digit growth in 2018
- African Swine Fever, trade disputes, and trade agreements have dominate the news

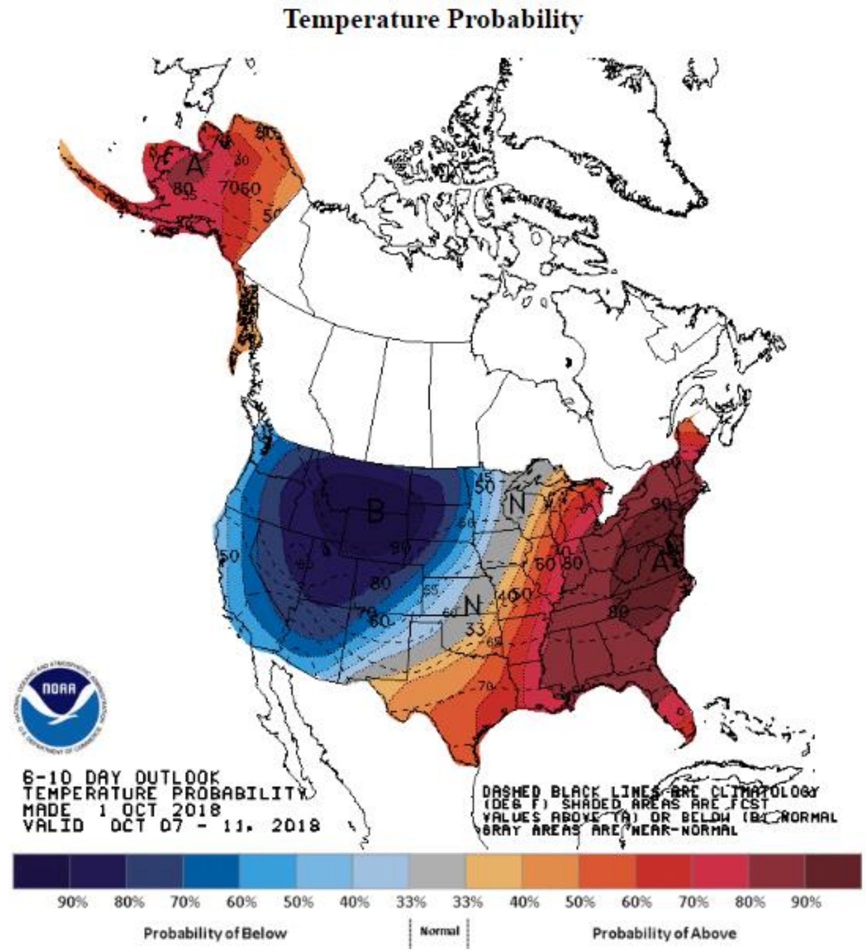
Drought monitor & 90 day precip departure from normal



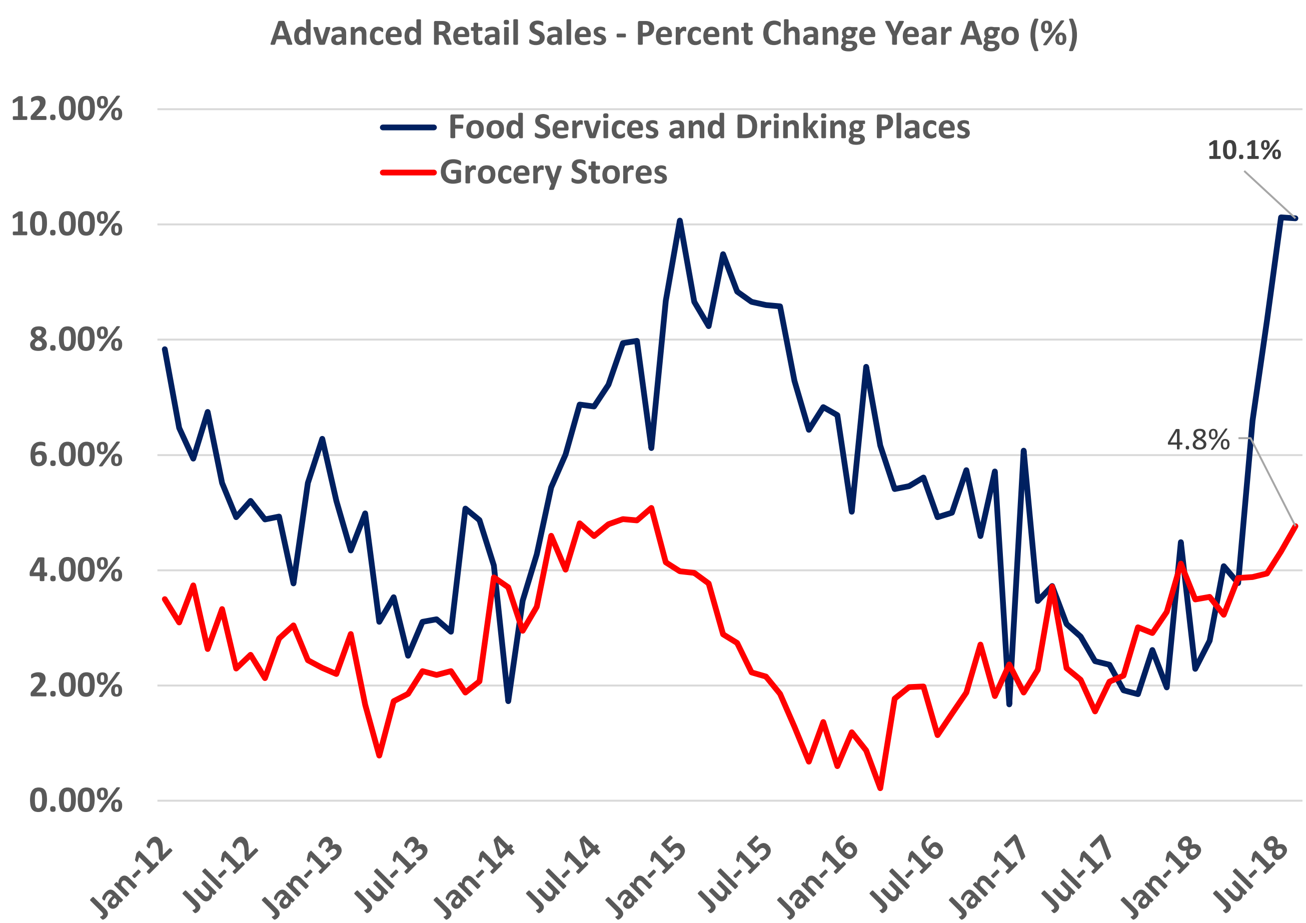


7 day precipitation and 6-10 day temperature

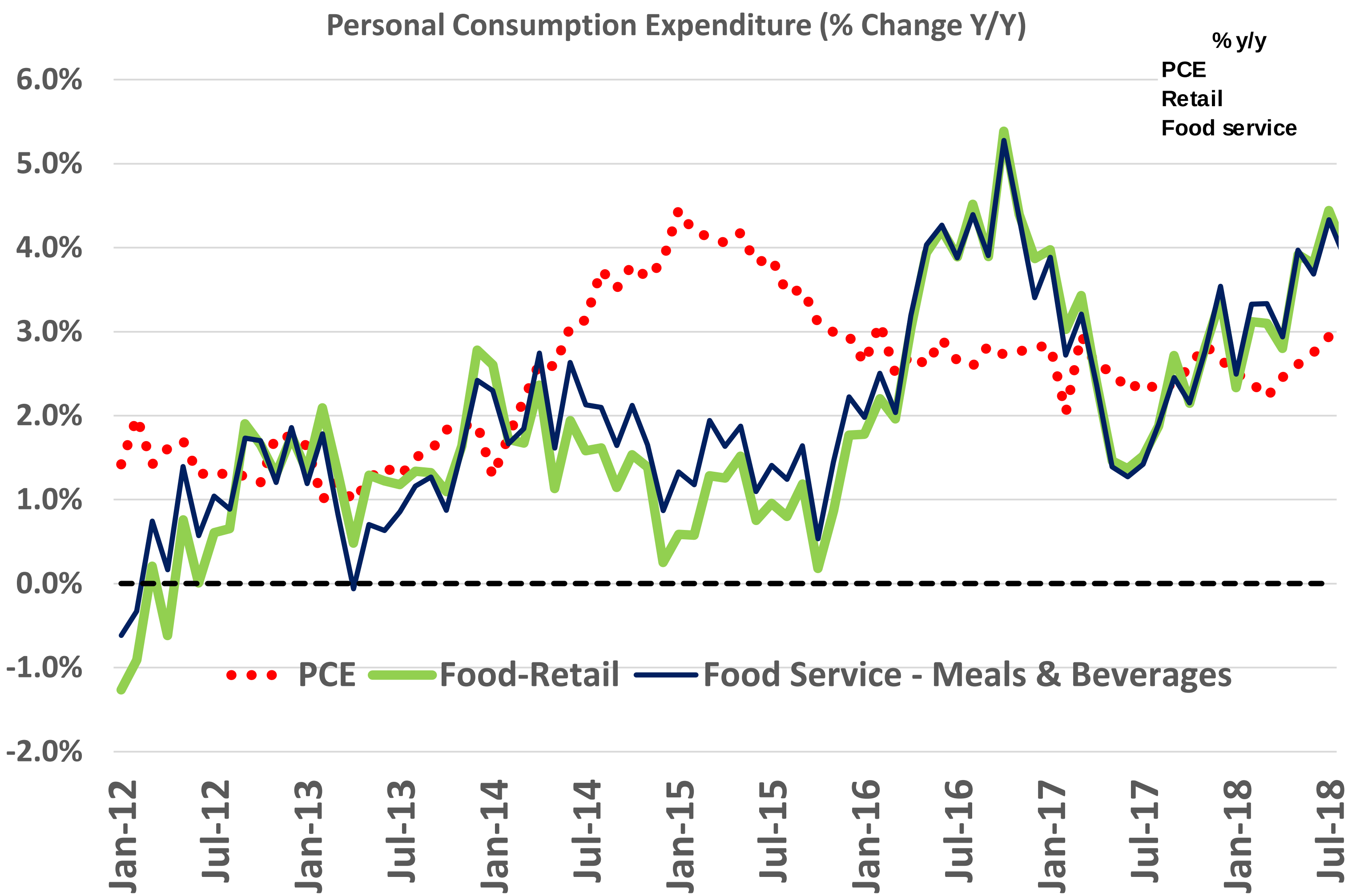




Retail sales – percent change year ago



Real expenditures



% y/y	Aug-18
PCE	3.0%
Retail	3.9%
Food service	5.5%

2018 year-to-date summary

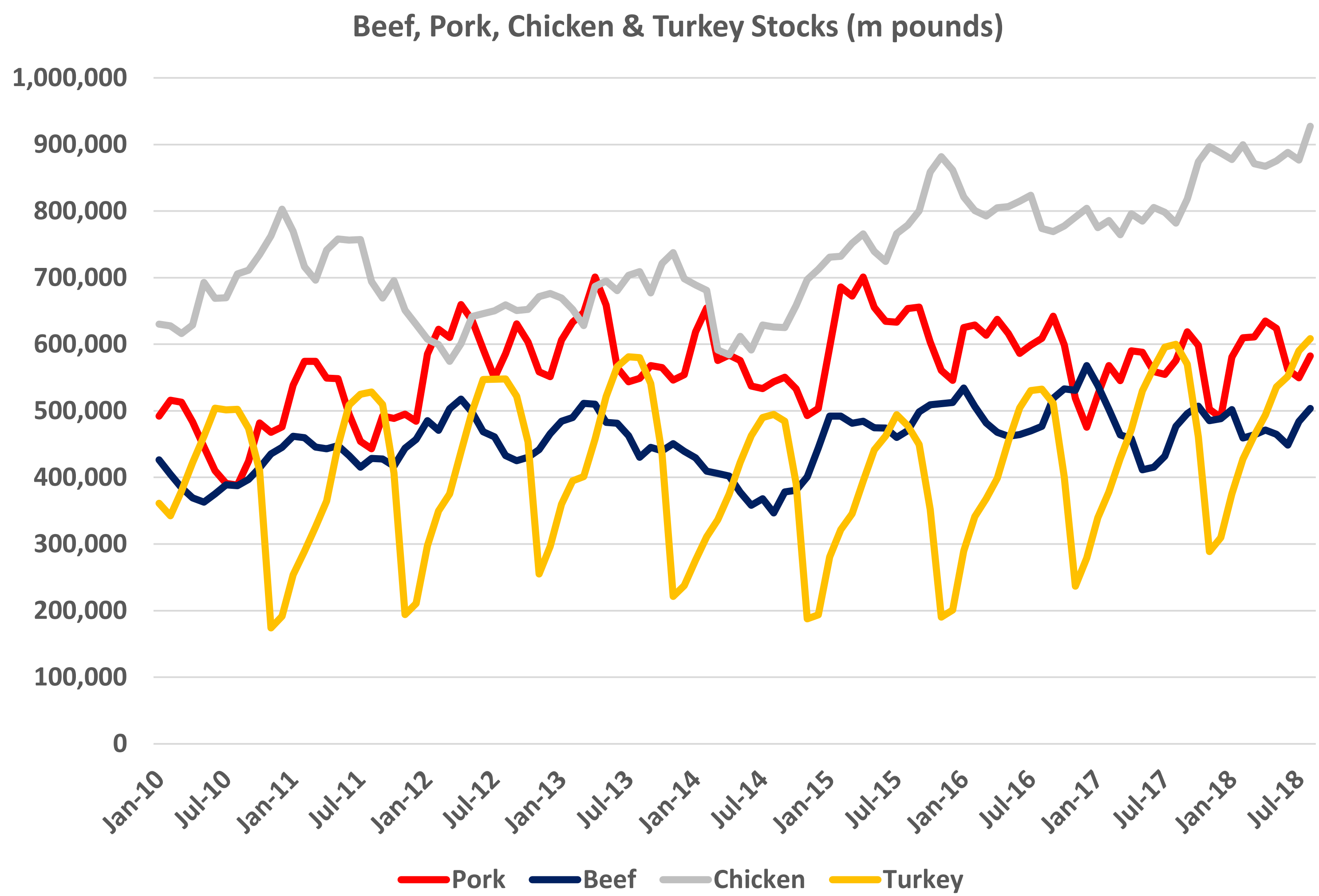
Year to date	2017	2018	Difference	% 18/17	
Cattle Slaughter (k head)	23,678	24,309	631	2.7%	
Weights (pounds)	811	813	2	0.3%	
Production (m pounds)	19,195	19,758	563	2.9%	
Exports (m pounds)	1,572	1,808	236	15.0%	Jan-July
Imports (m pounds)	1,813	1,822	9	0.5%	Jan-July
Steer Price ($/cwt)	122.2	117.2	(4.9)	-4.0%	
Comprehensive Cutout ($/cwt)	209.0	211.0	2.0	1.0%	

2018 year-to-date summary by class

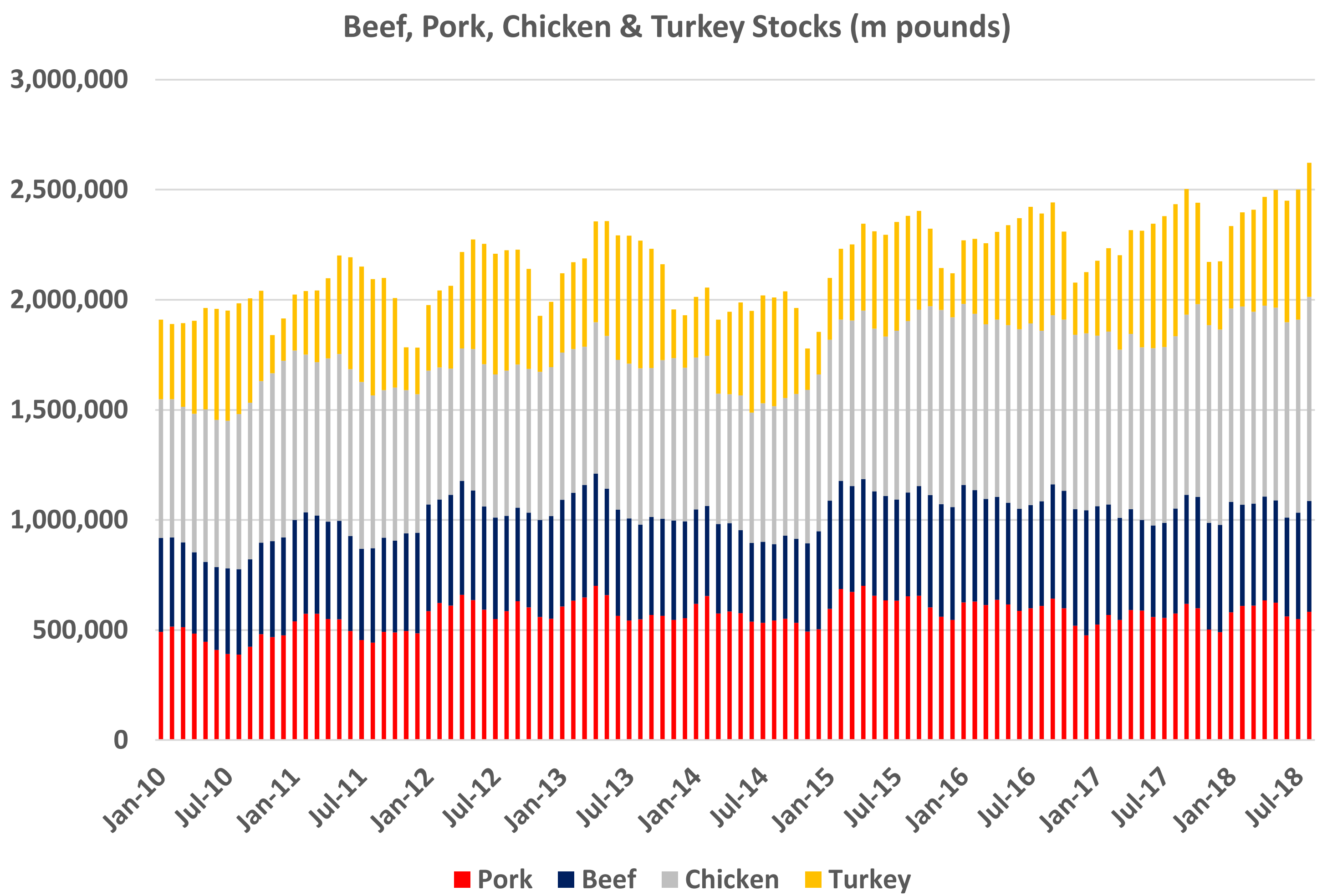
Year to date	2017	2018	Difference	% 18/17
Cattle Slaughter (k head)	**23,678**	**24,309**	**631**	**2.7%**
Steers & Heifers	**18,991**	**19,309**	**318**	**1.7%**
Cows + Bulls	**4,687**	**5,000**	**313**	**6.7%**
Below lags 2 weeks				
Steers	**12,057**	**11,908**	**(148)**	**-1.2%**
Heifers	**5,902**	**6,359**	**457**	**7.7%**
Percent heifers	**32.9%**	**34.8%**	**1.9%**	
Dairy Cows	**2,117**	**2,214**	**98**	**4.6%**
Beef Cows	**1,923**	**2,135**	**212**	**11.0%**
Total Cows	**4,039**	**4,349**	**310**	**7.7%**

COLD STORAGE

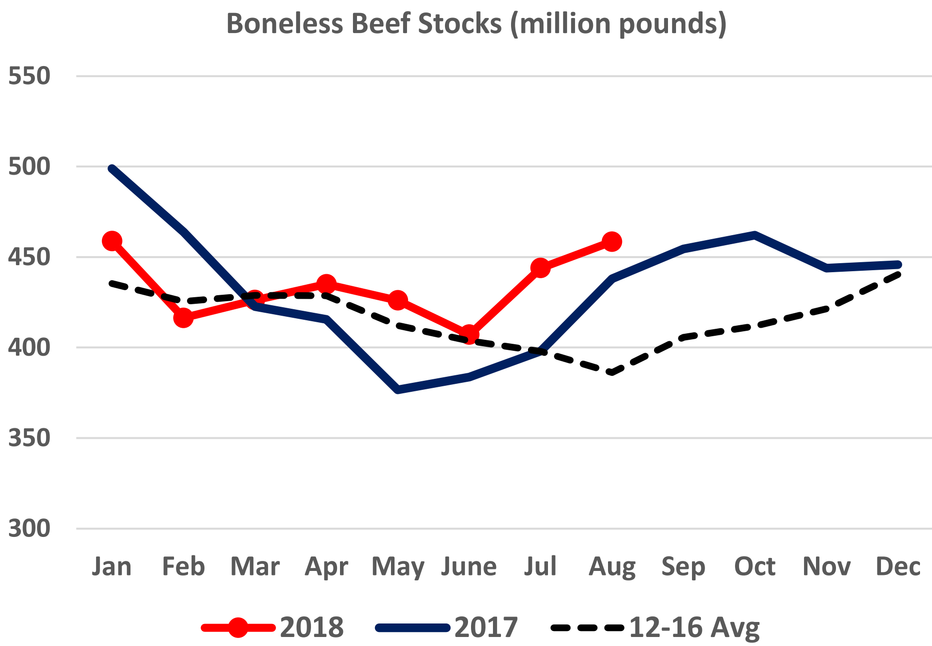
Cold storage stocks by species

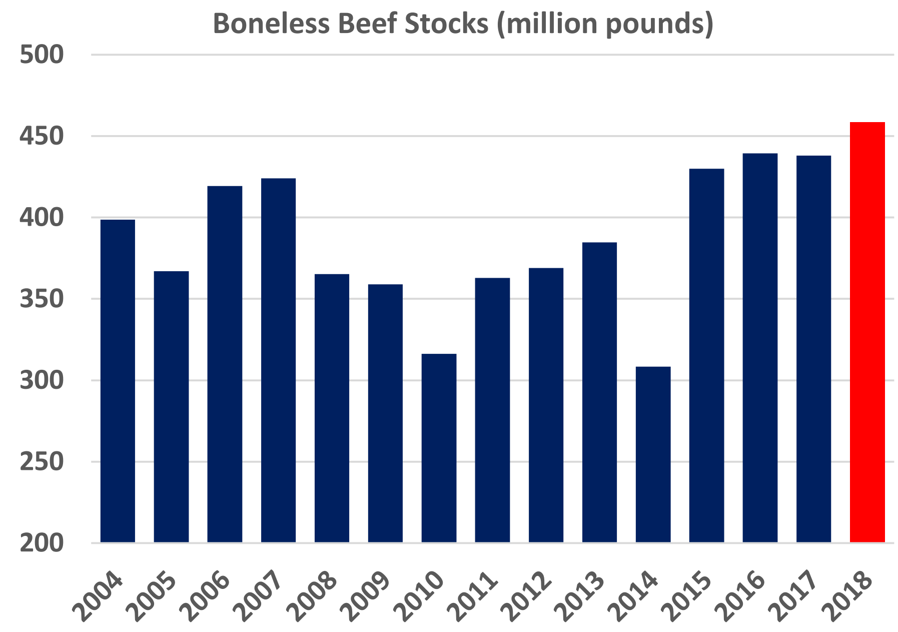


Cold storage stocks by species



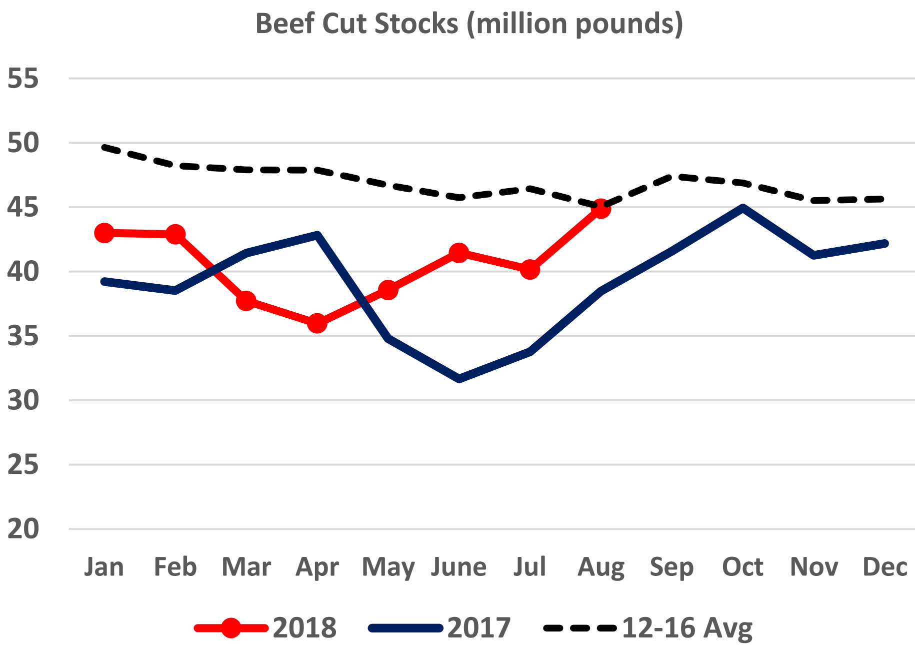
Boneless beef stocks

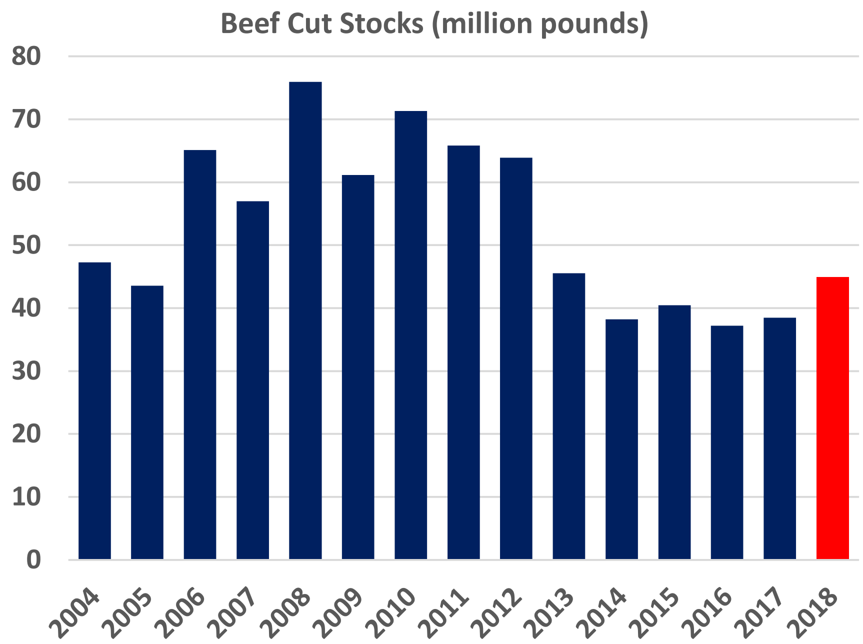




- End of August boneless beef stocks were 459 million pounds – up 5% from one year earlier
- Boneless beef stocks increased by nearly 15 million pounds in August
- The five-year average movement in August is -11.6 million pounds

Beef cut stocks



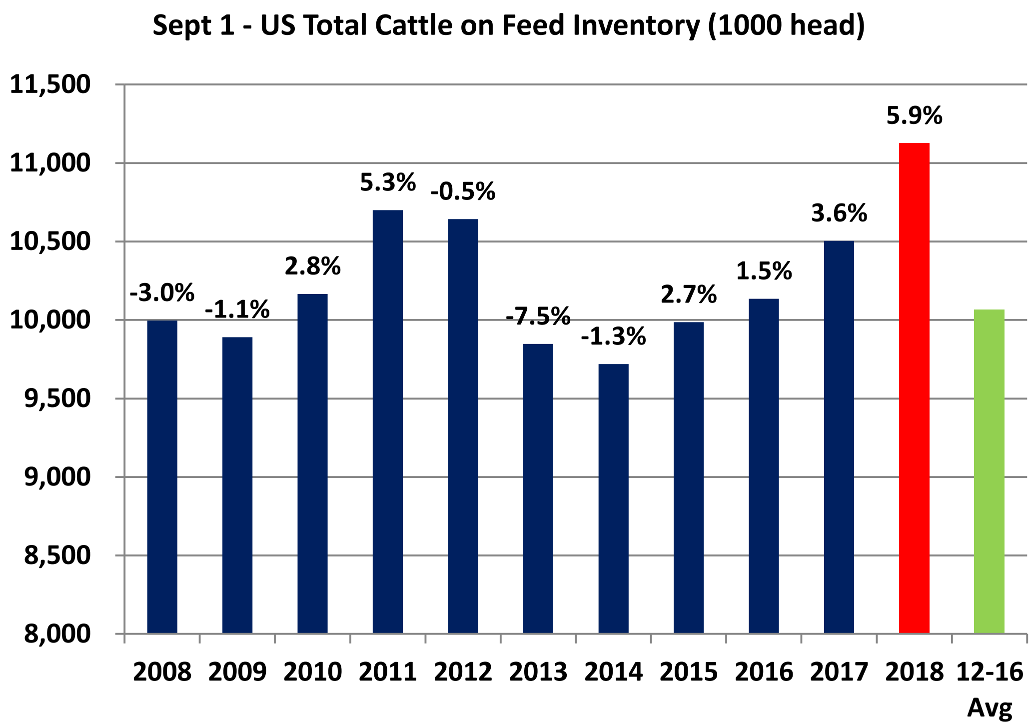


- Beef cut stocks at the end of August were 45 million pounds – up 19% from one year earlier
- Beef cut stocks increased by nearly 5 million pounds in August – well above the average movement of -1.4 million pounds

CATTLE ON FEED

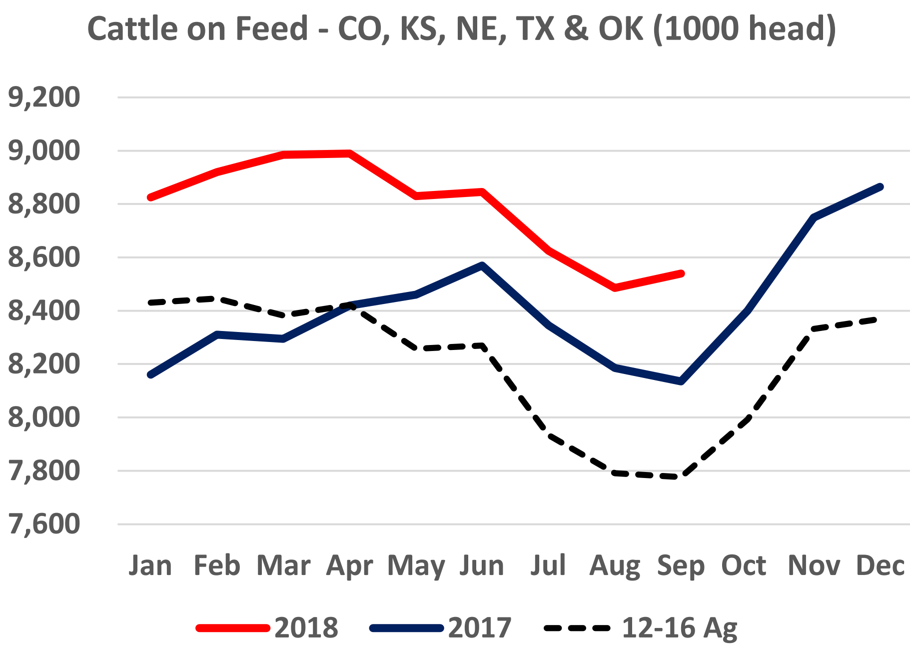
Cattle on feed

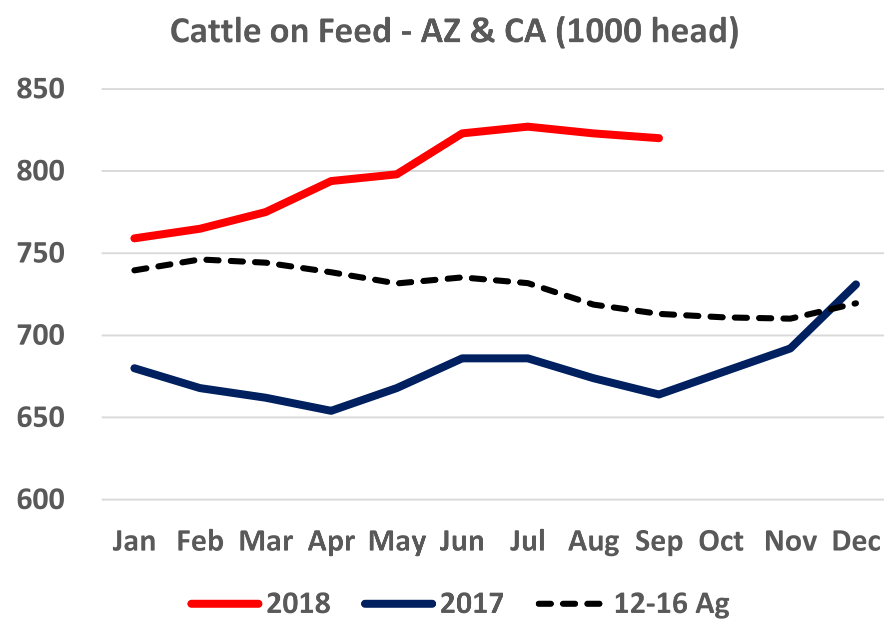
Cattle on Feed (1000 head)	Sep 1 2017	Sep 1 2018	Head Year Ago	% Yr Ago
AZ	244	295	51	120.9%
CA	420	525	105	125.0%
CO	860	900	40	104.7%
ID	240	255	15	106.3%
IA	640	680	40	106.3%
KS	2,220	2,310	90	104.1%
MN	120	125	5	104.2%
NE	2,150	2,330	180	108.4%
OK	315	320	5	101.6%
SD	215	200	(15)	93.0%
TX	2,590	2,680	90	103.5%
WA	200	210	10	105.0%
Other States	290	295	5	101.7%
US	**10,504**	**11,125**	**621**	**105.9%**
Trade estimate		11,071	567	105.4%
IA+MN+SD	975	1,005	30	103.1%
IA+MN+NE+SD	3,125	3,335	210	106.7%
OK+TX	2,905	3,000	95	103.3%



MAKING YOUR WORLD STRONGER

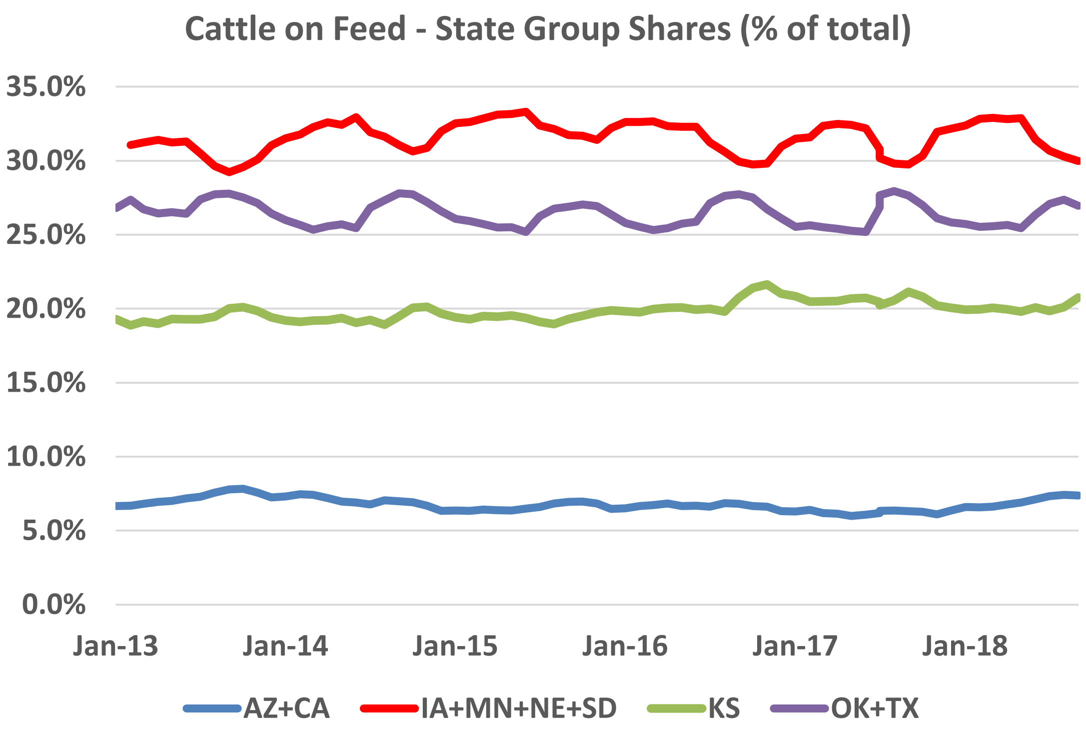
Cattle on feed – top 5 states & Far West





- September 1 cattle on feed in the 5-state area were 8,540k head - up 5.0% or 405k head from year prior
- Arizona and California cattle on feed were up 156k head or 23.5% from last year's level

Cattle on feed share by state groups evolution

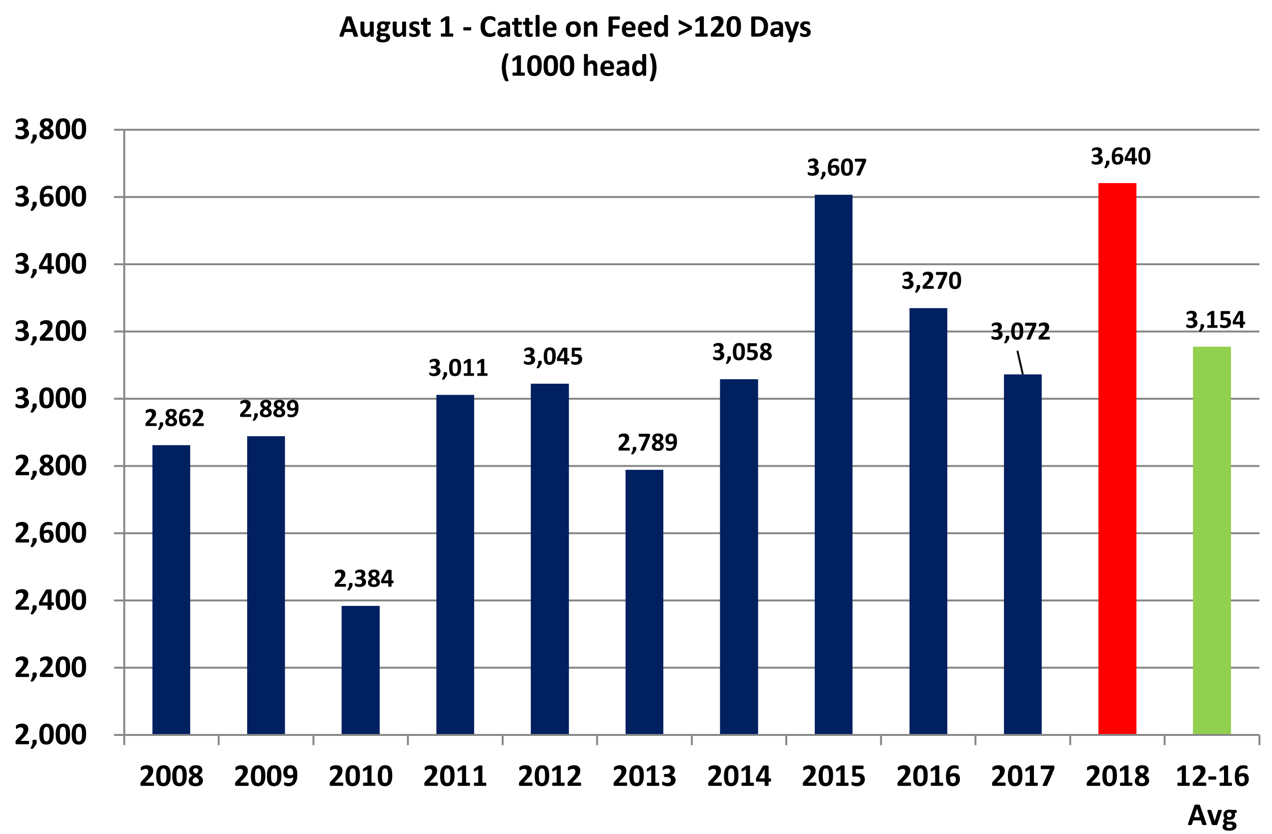


Share of Cattle on Feed Inventory

	AZ+CA	IA+MN+NE+SD	KS	OK+TX	5 Area
Sep-13	7.8%	29.2%	20.0%	27.8%	77.0%
Sep-14	7.0%	31.1%	19.5%	27.8%	77.3%
Sep-15	6.9%	31.7%	19.3%	26.9%	76.1%
Sep-16	6.8%	29.9%	20.8%	27.7%	77.0%
Sep-17	6.3%	29.8%	21.1%	27.7%	77.4%
Sep-18	7.4%	30.0%	20.8%	27.0%	76.8%

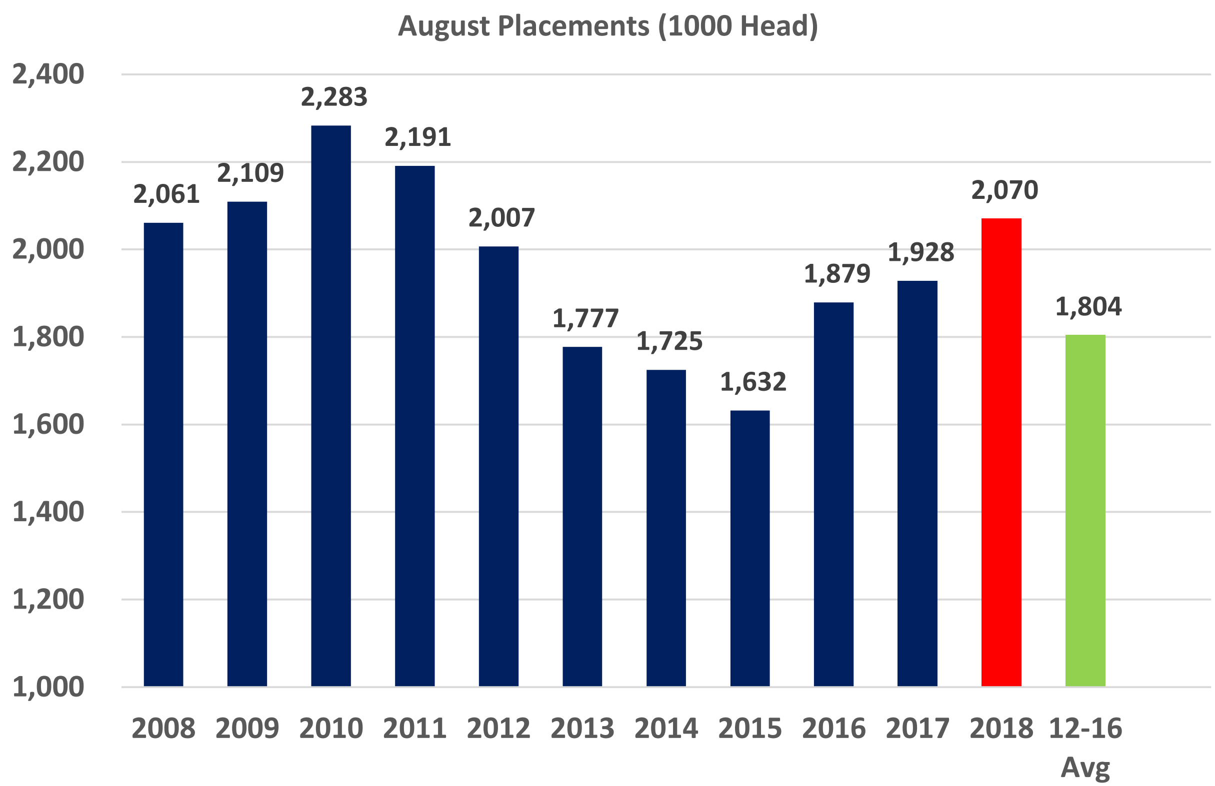
- The most noticeable share increase has been in Arizona and California

Cattle on feed >120 days



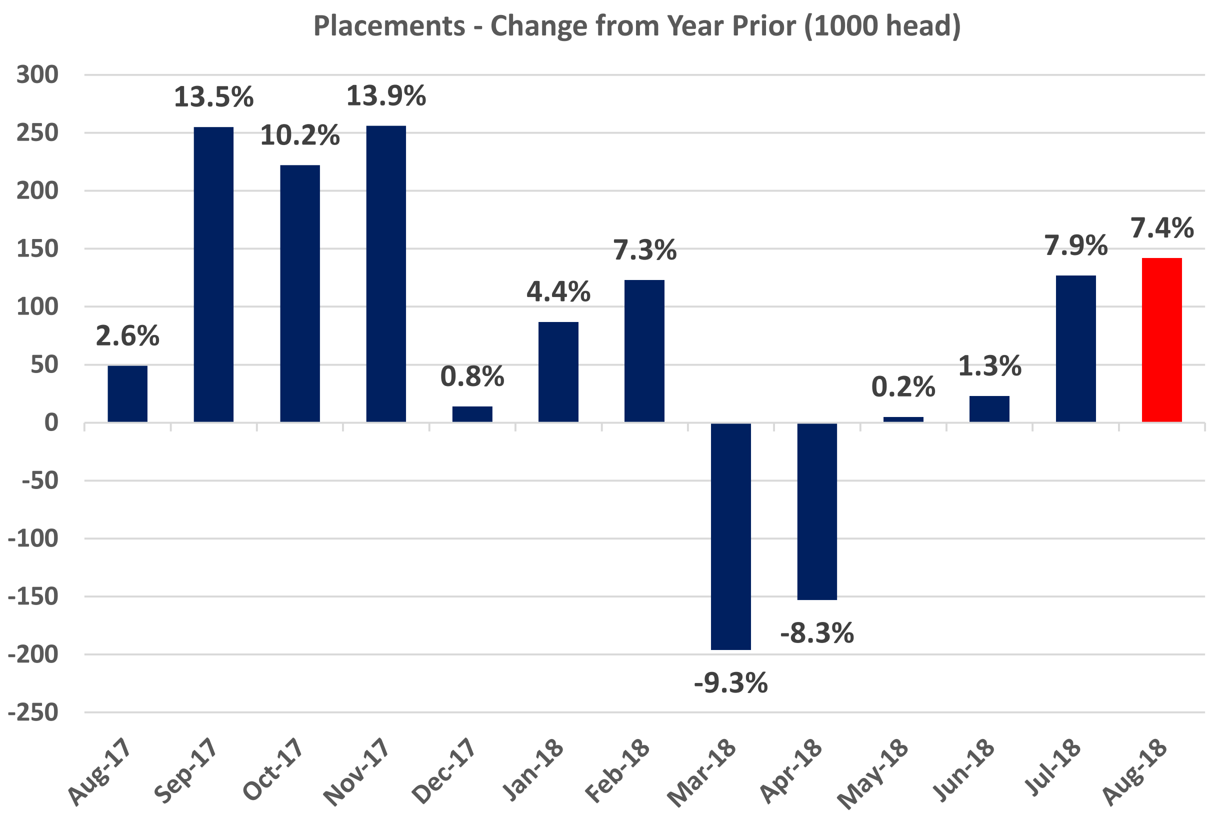
- September 1 cattle on feed >120 days were 3,640k head - up 18.5% or 568k head from year prior

August cattle placements

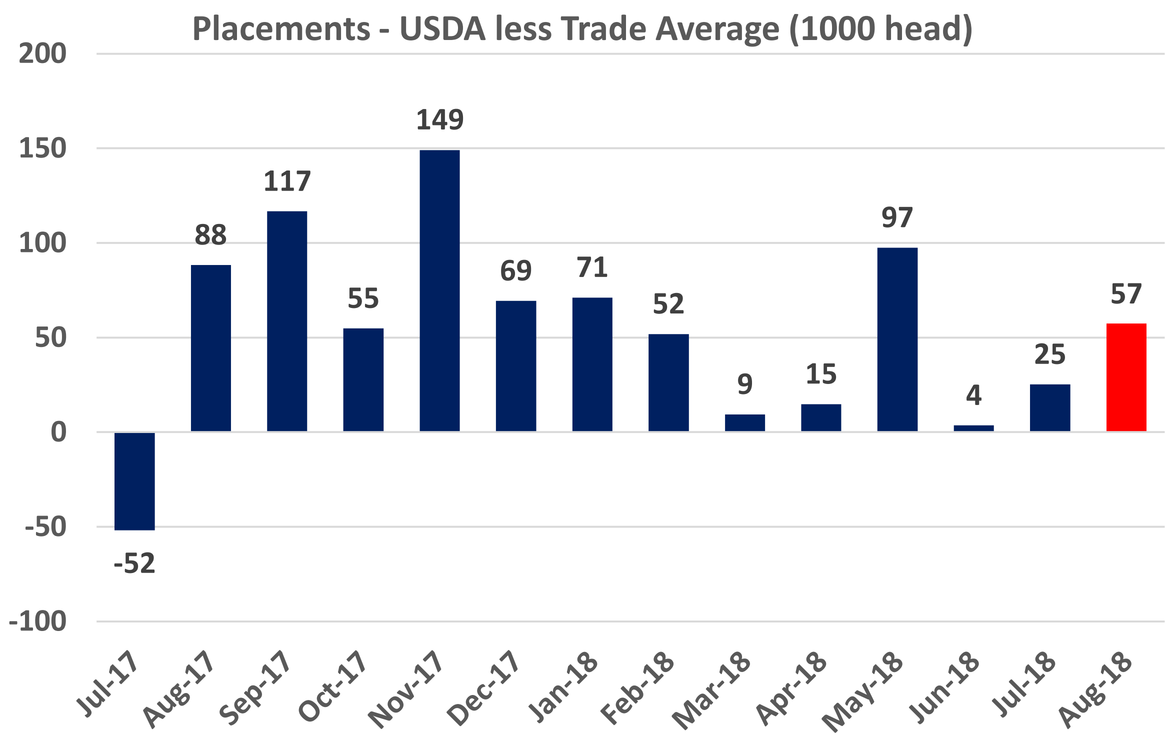


- August placements were 2,070k head – up 142k head or 7.4% from one year earlier
- August placements were up 5.3% from the five-year average

Placement evolution

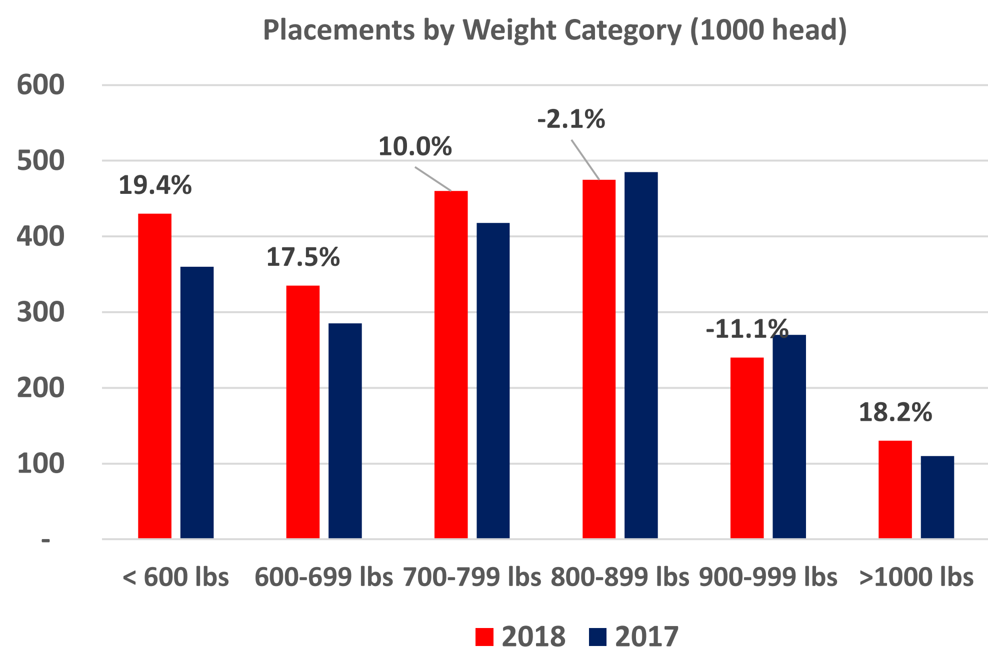


Cattle placements – USDA vs Trade



- Placements continue to come in above the trade average estimate
- The last time placement were below the trade average guess was for the July 2017 placement estimate)

August placements weights

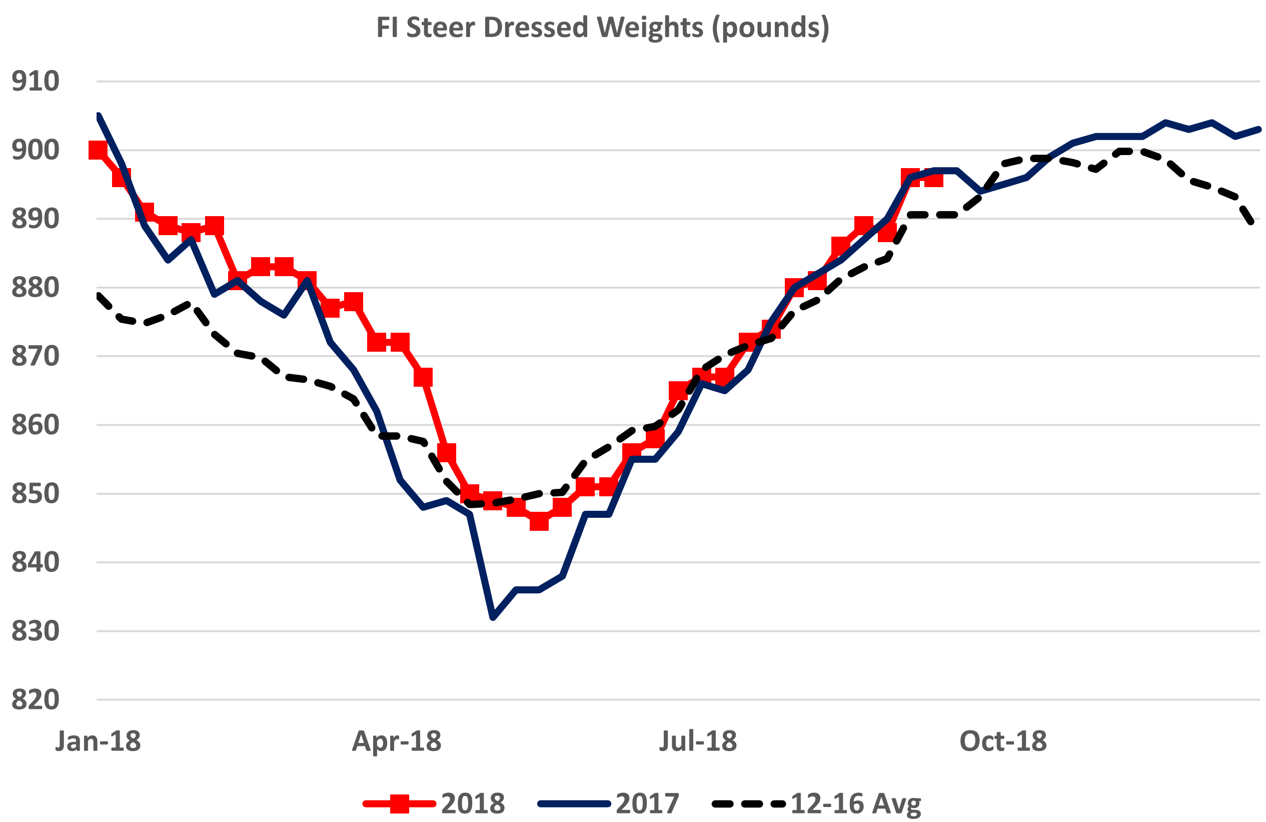


Placements by weight (1000 head)	2017	2018	Head Year Ago	% Yr Ago
< 600 lbs	360	430	70	19.4%
600-699 lbs	285	335	50	17.5%
700-799 lbs	418	460	42	10.0%
800-899 lbs	485	475	(10)	-2.1%
900-999 lbs	270	240	(30)	-11.1%
>1000 lbs	110	130	20	18.2%
Total	**1,928**	**2,070**	**142**	**7.4%**
Avg Placement Wgl	**775**	**764**	**(10)**	**98.7%**

- Placements continue to be skewed toward the lighter weight categories

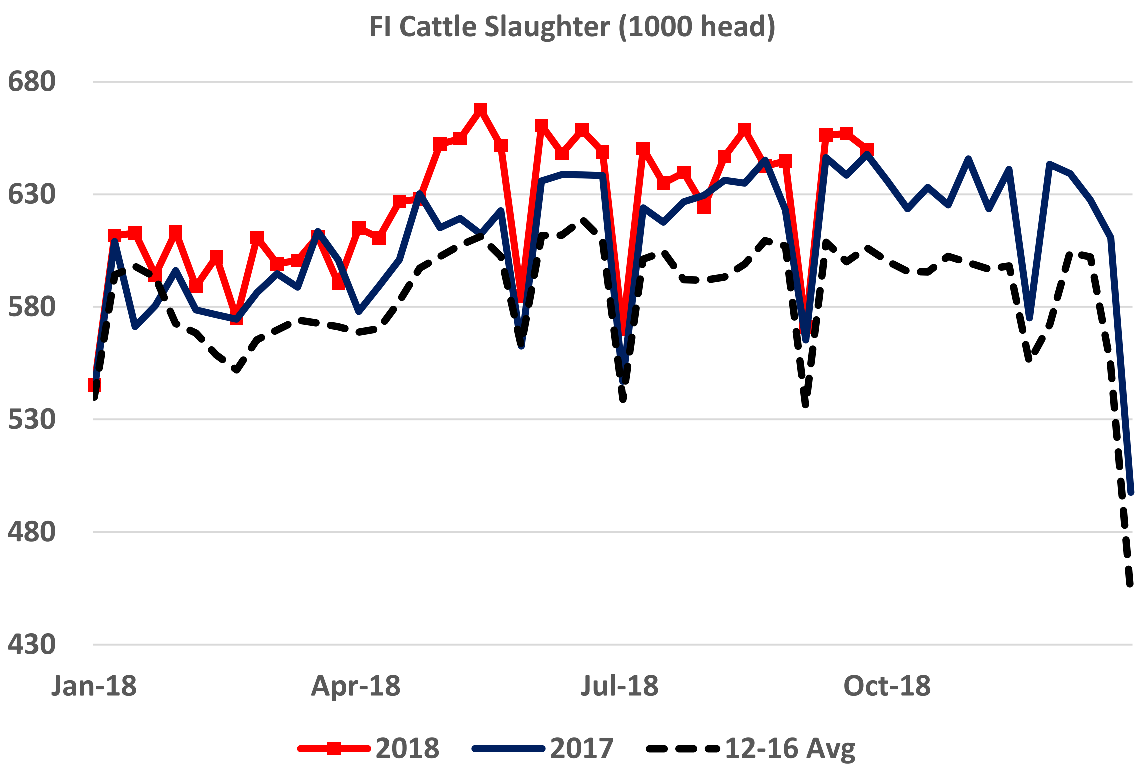
SUPPLY, DEMAND & PRICES

FI steer weights



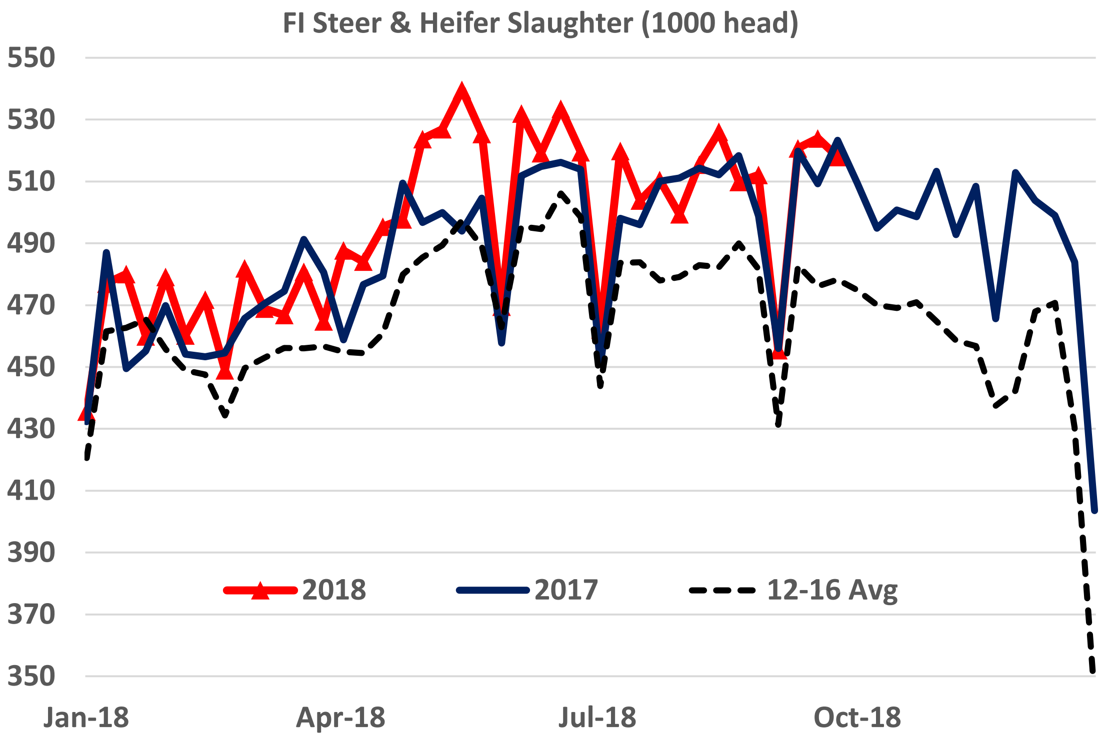
- During week ending September 15, FI steer weights were 896 pounds – unchanged from week prior and down one pound from one year ago
- Steer weights were expected to gain 2 to 3 pounds week-on-week

US cattle slaughter



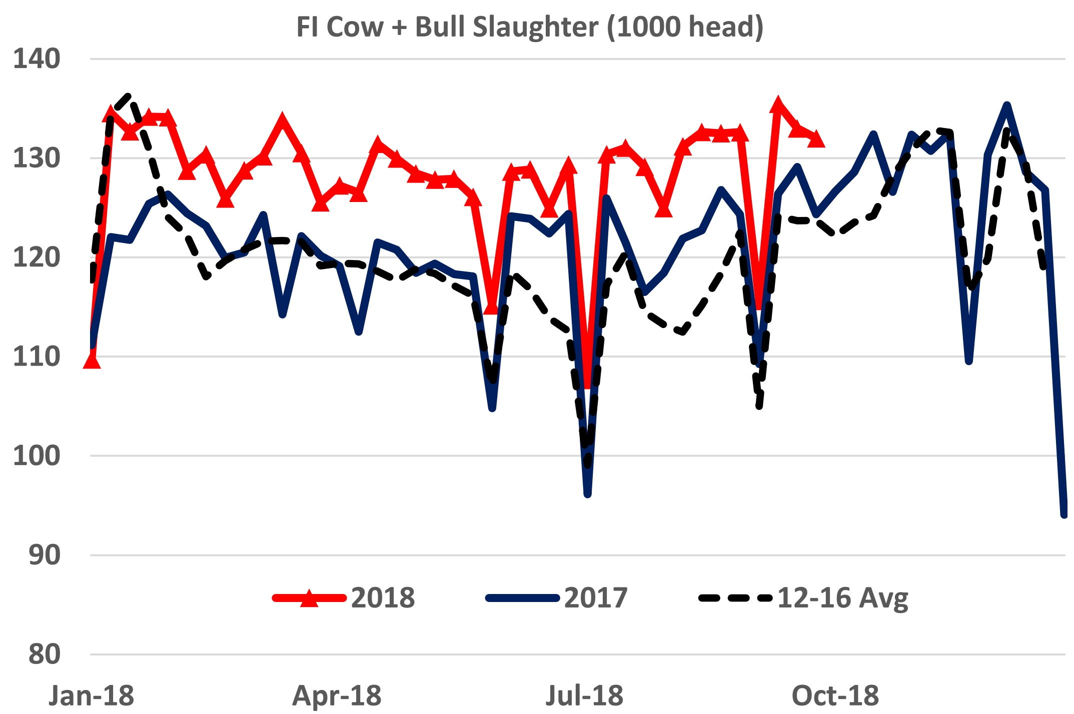
- Last week's cattle slaughter was 650k head – up 0.4% from one year earlier
- During the last four weeks, cattle slaughter was up 1.5% from the year prior's level
- Year to date, cattle slaughter was up 2.7% with the 2017 level

US steer & heifer slaughter



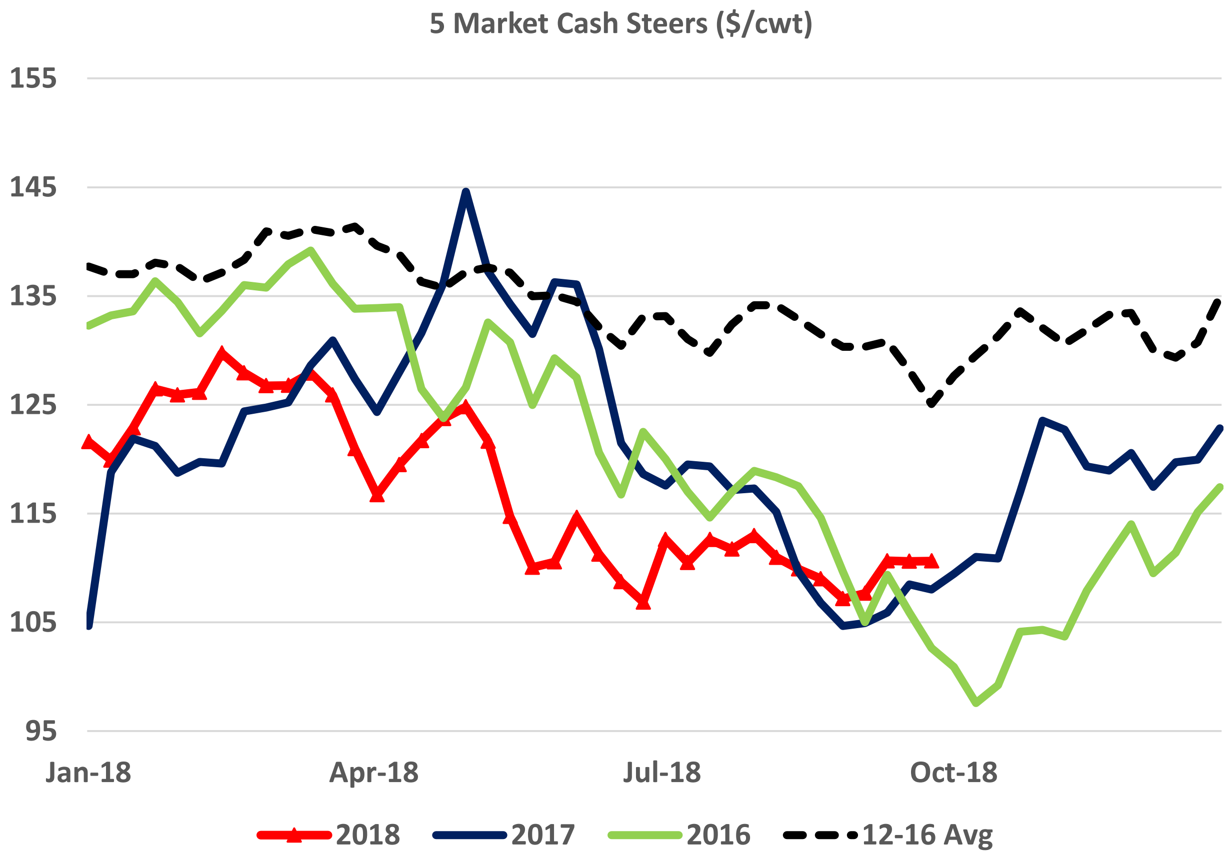
- Last week, steer & heifer slaughter was 518k head – down 1.0% from one year earlier
- During the last the four weeks, fed slaughter was up 0.5% from year prior and was up 1.7% year-to-date

US cow & bull slaughter



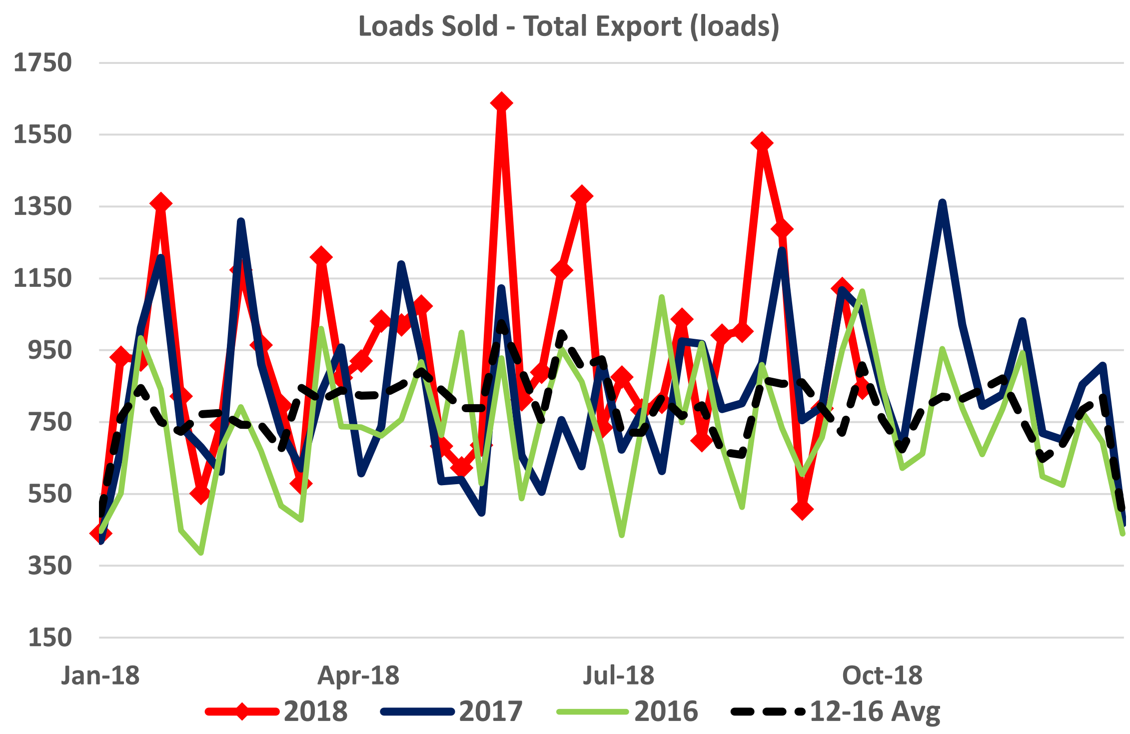
- Last week, cow & bull slaughter was 132k head – up 6.2% from one year earlier
- During the last the four weeks, cow & bull slaughter was up 5.5% from year prior and was up 6.7% year-to-date

Cash cattle prices



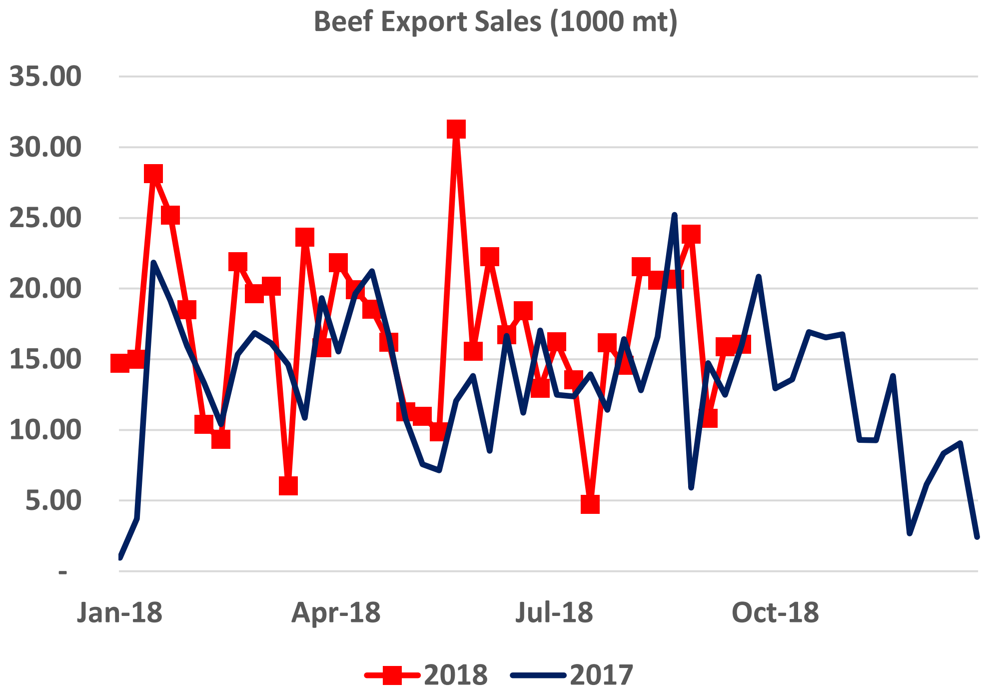
- Last week, the weekly average cash steer price decreased to $110.65 per cwt – up $0.04 per cwt from the previous week and up 2.4% from last year's level

Comprehensive cutout – export volume



- Last week, export sales volume decreased from week prior and were down 20.3% from last year’s figure
- During the last four weeks, total export sales volume was down 12.4% from last year’s level

USDA/FAS Export outstanding sales

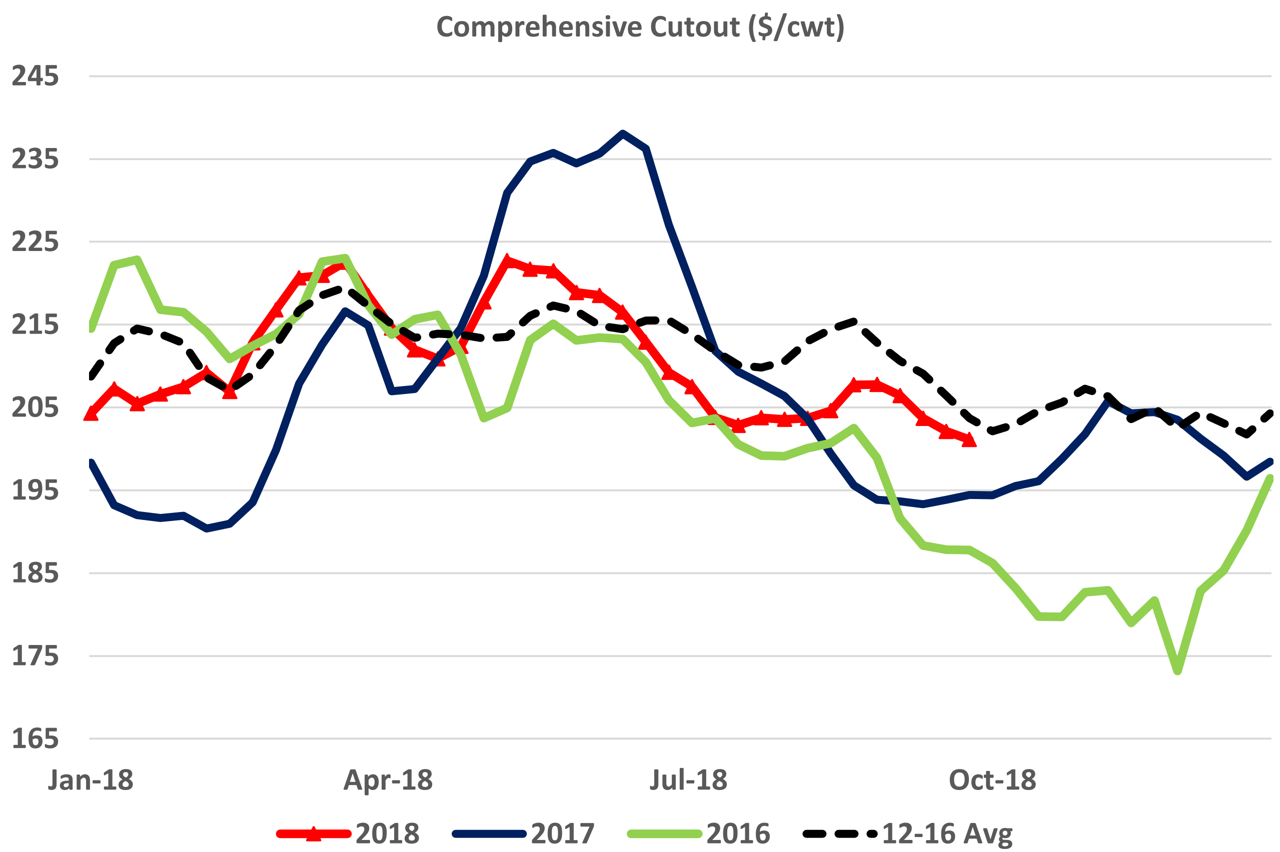


Outstanding sales (mt) as of Sep 20

	2017	2018	% YOY
CANADA	4,467	7,080	58.5%
CHINA	442	315	-28.7%
HONG KONG	19,616	31,883	62.5%
JAPAN	25,540	35,295	38.2%
SOUTH KOREA	26,371	29,978	13.7%
MEXICO	11,828	13,693	15.8%
PHILIPPINES	1,100	1,796	63.3%
TAIWAN	9,670	8,770	-9.3%
OTHER	4,381	7,942	-44.8%
KNOWN	103,415	136,752	32.2%

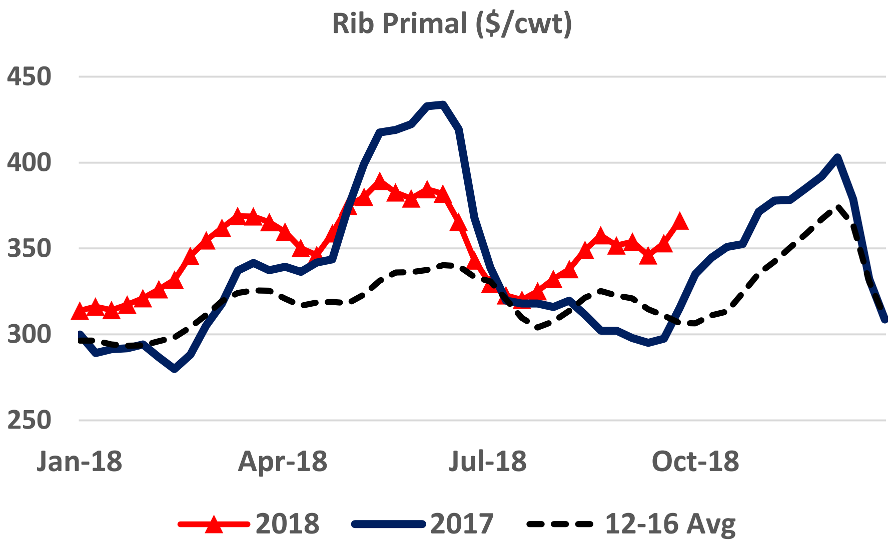
- During the week ending September 20, net sales were 16.0 kmt – unchanged from last year's level
- During the last four weeks, total beef net export sales were up 36% from year prior
- Outstanding sales were up 32% from last year's level

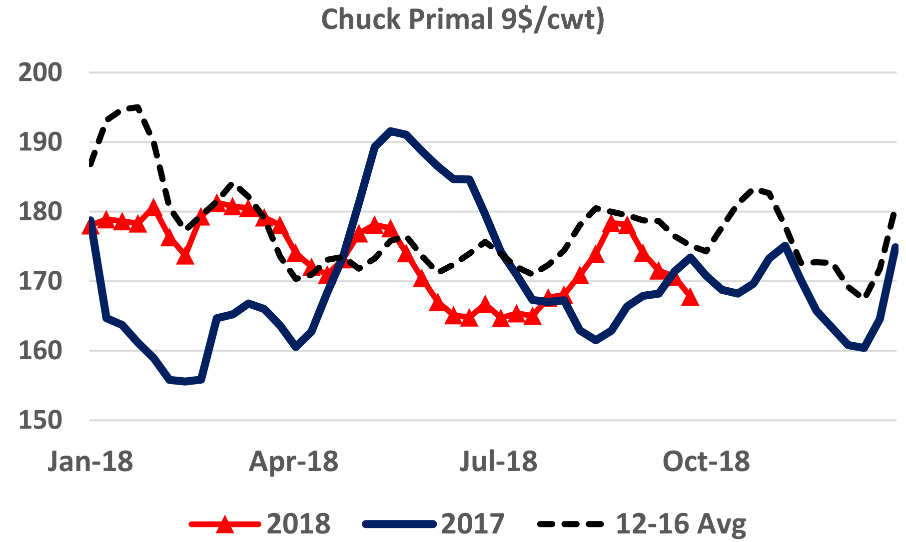
Comprehensive cutout

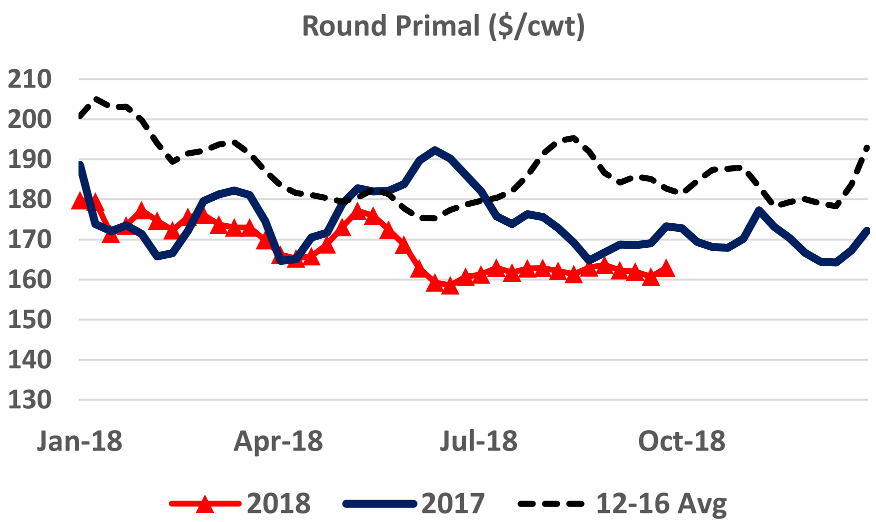


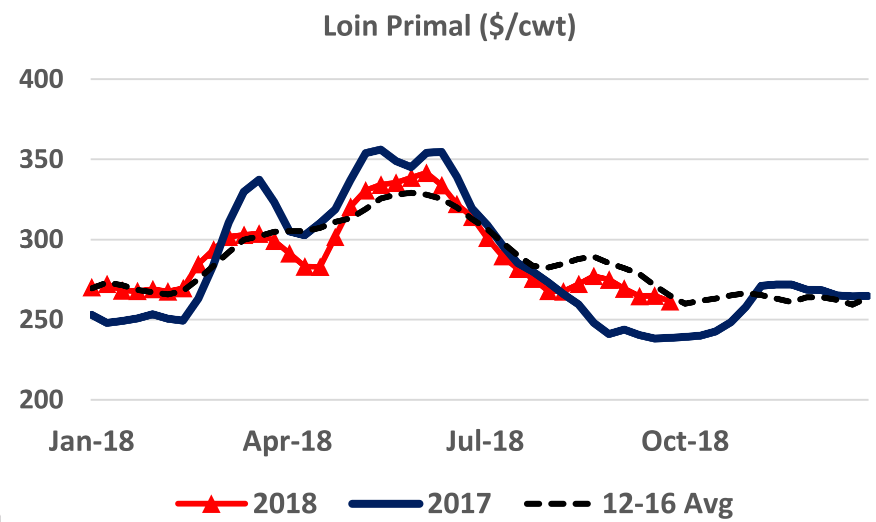
- Last week, the comprehensive cutout decreased to $201.13 – down $0.98 from week prior and up 3.4% from one year ago

Choice primal prices

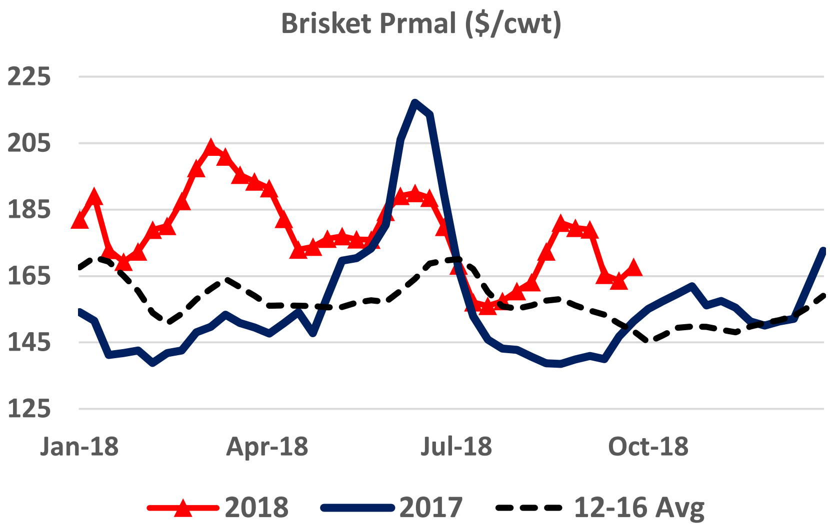


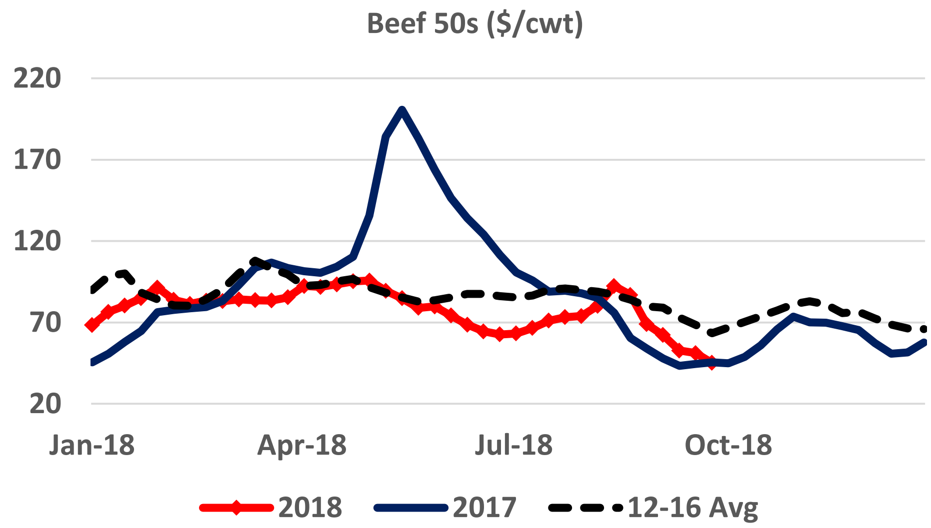


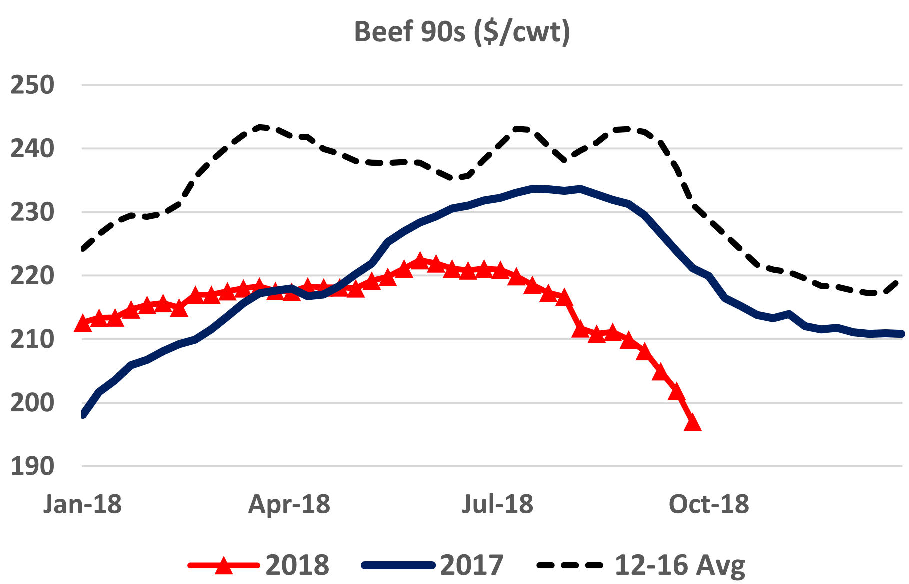


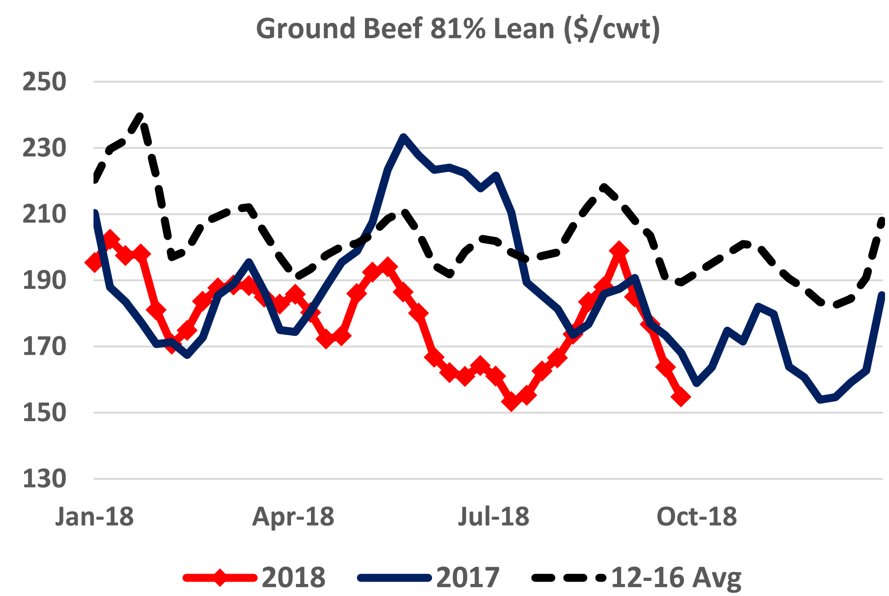


Choice primal prices, grinds and trim

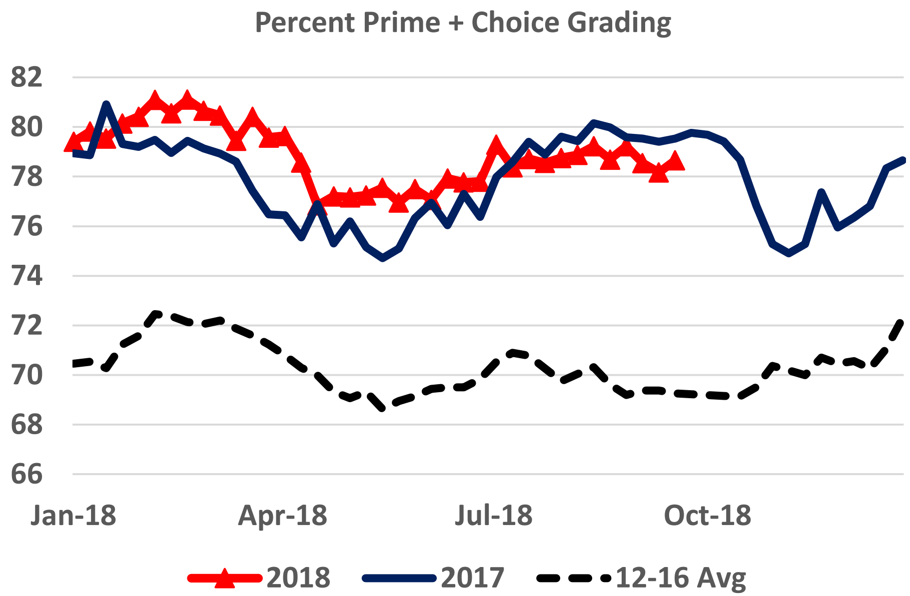


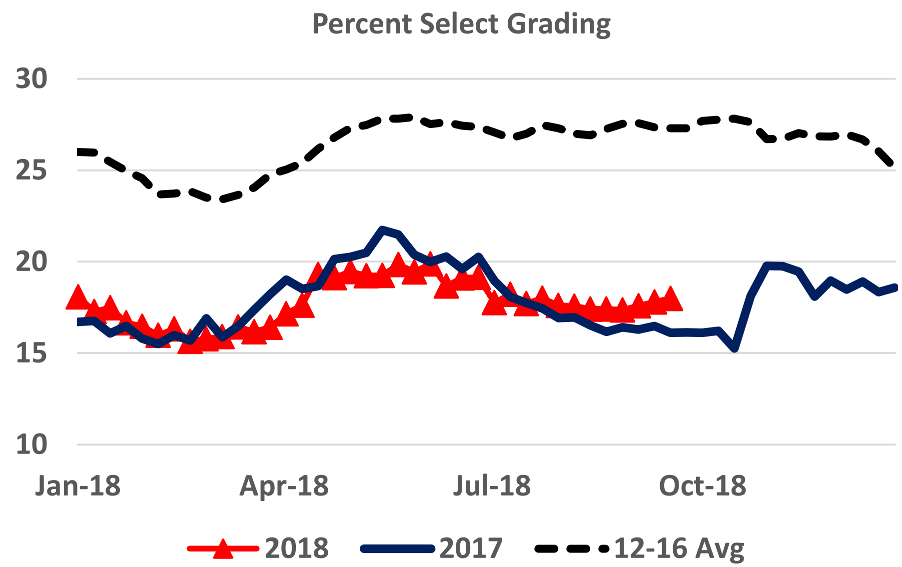






Choice + Prime & Select Grading

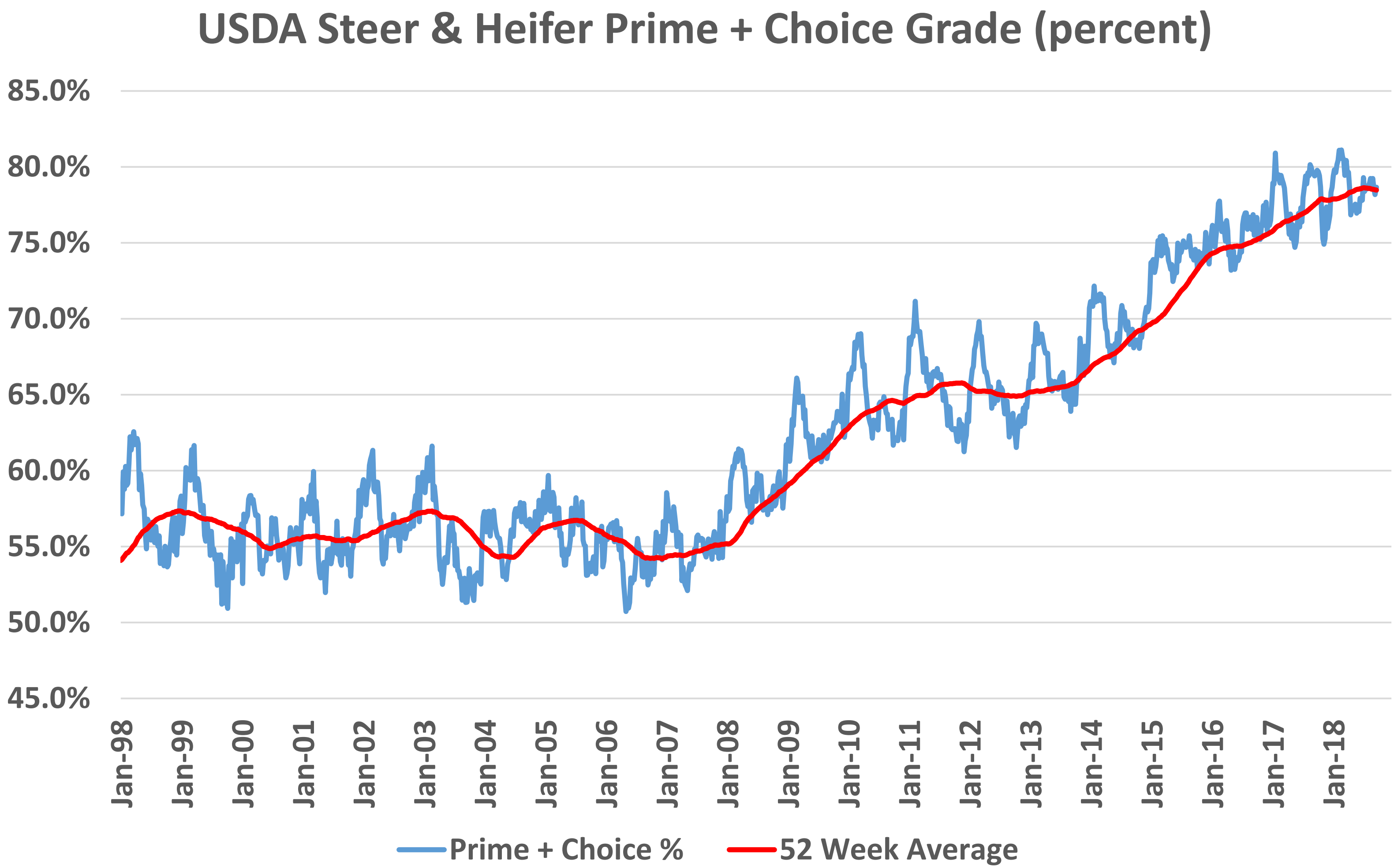




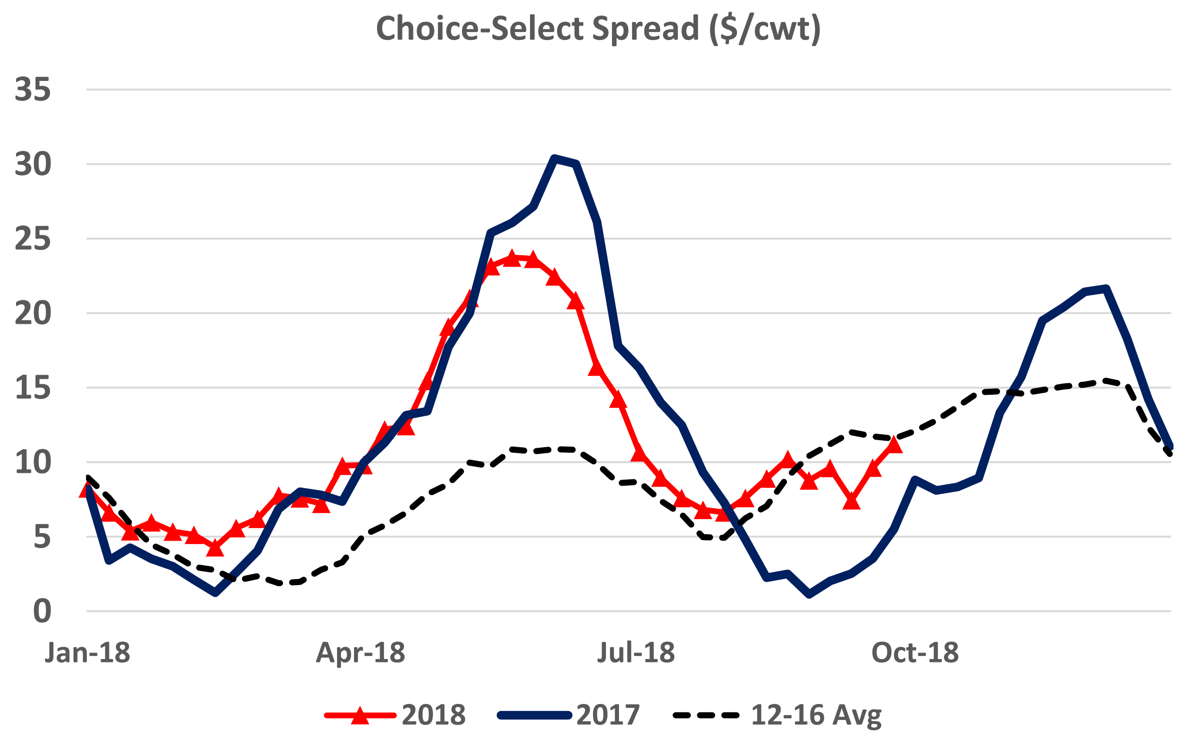
- The percent prime + choice increased week-on-week and was below last year's level

(percent)	9/22/18	9/15/18	9/23/17
Prime	7.93	7.75	6.86
Choice	70.73	70.42	72.67
Prime + Choice	78.66	78.17	79.53
Select	17.99	17.81	16.12
No roll	3.35	4.02	4.35

Prime + Choice grading



Choice – Select spread



- The choice-select spread gained ground last week

Branded programs- percent of weekly volume