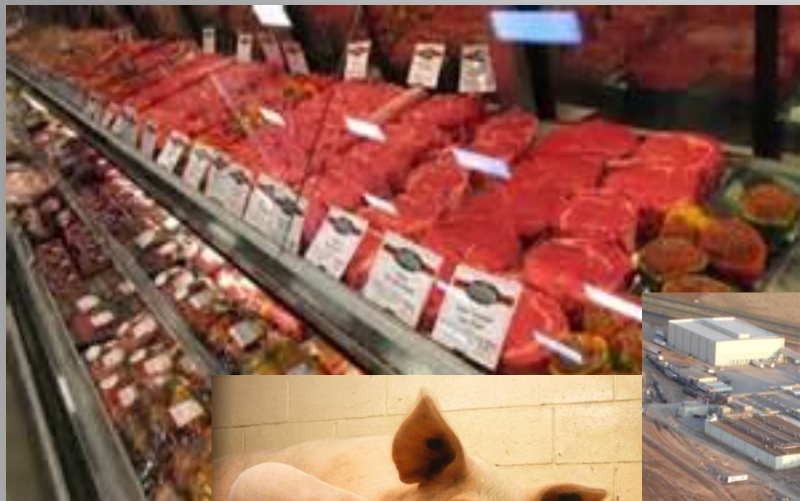
Navigating the Economics of the Red Meat Industry Beyond 2015






NAMI
Meat Industry
Management Conference

Intercontinental Hotel – Chicago

April 6, 2016

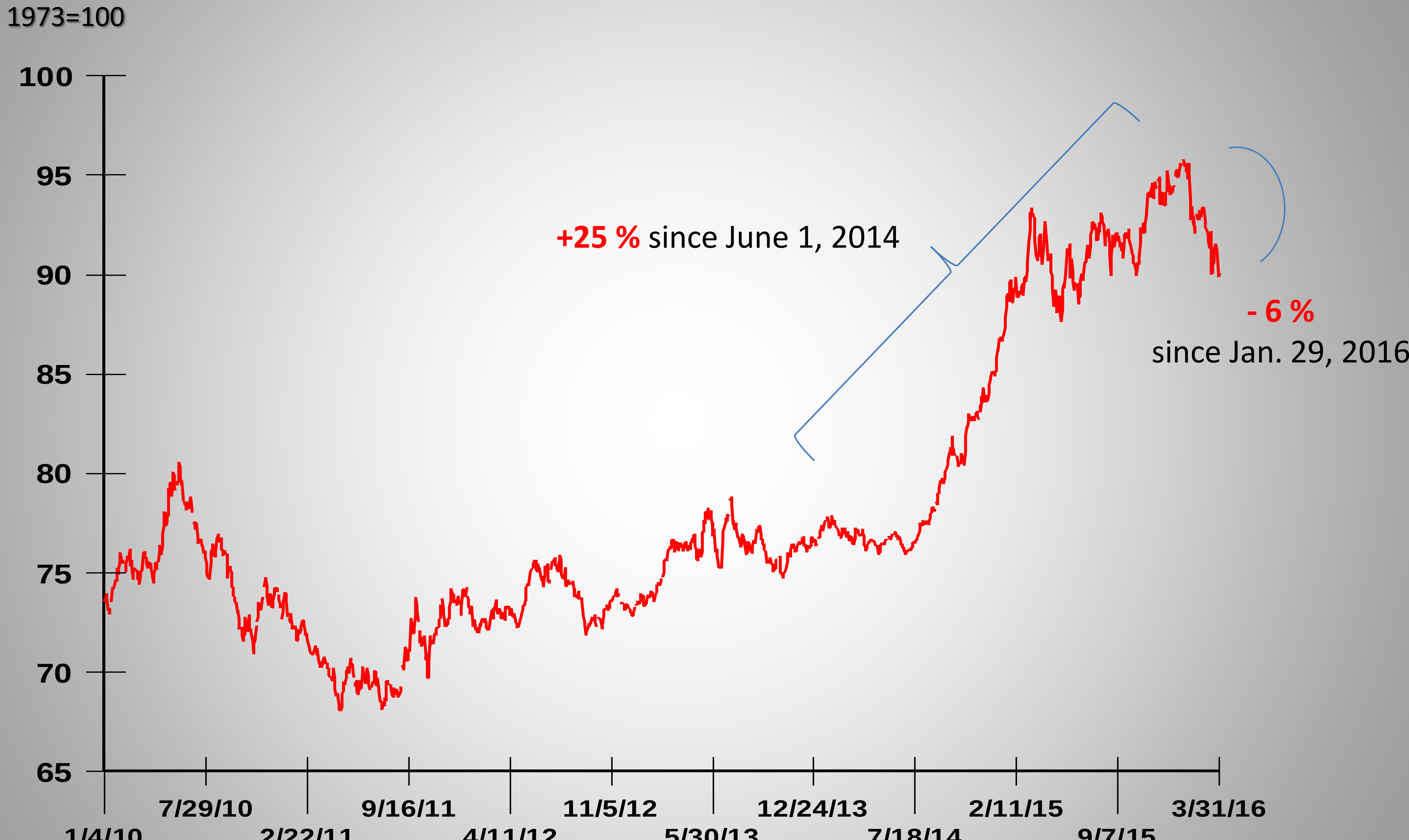
STERLING MARKETING INC

25 YEARS

The most dangerous phrase in the language is **"we've always done it that way."**

Rear Admiral Grace Hopper

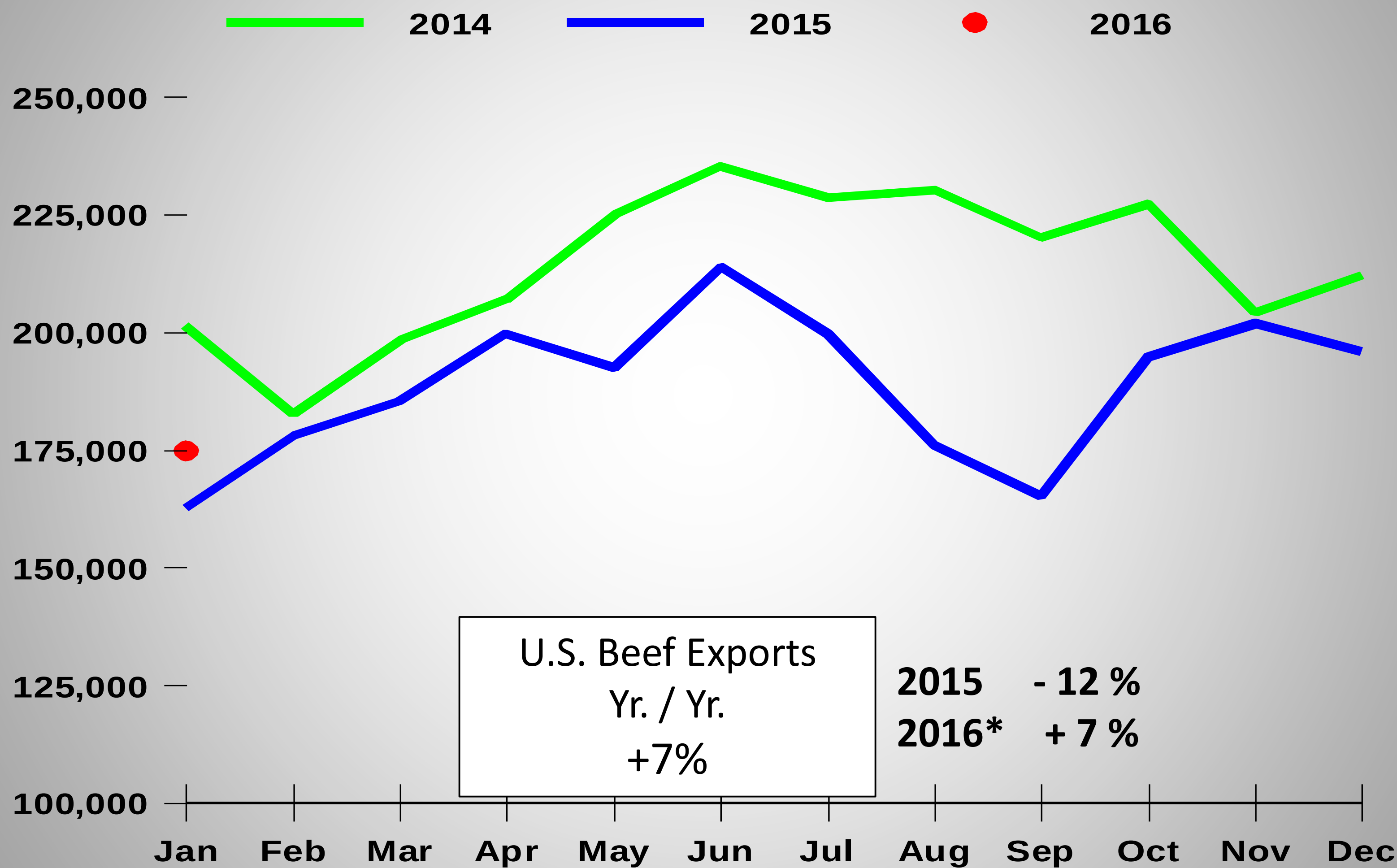
Dollar Index – Trade Weighted – Major Currencies



Source: Board of Governors, Federal Reserve

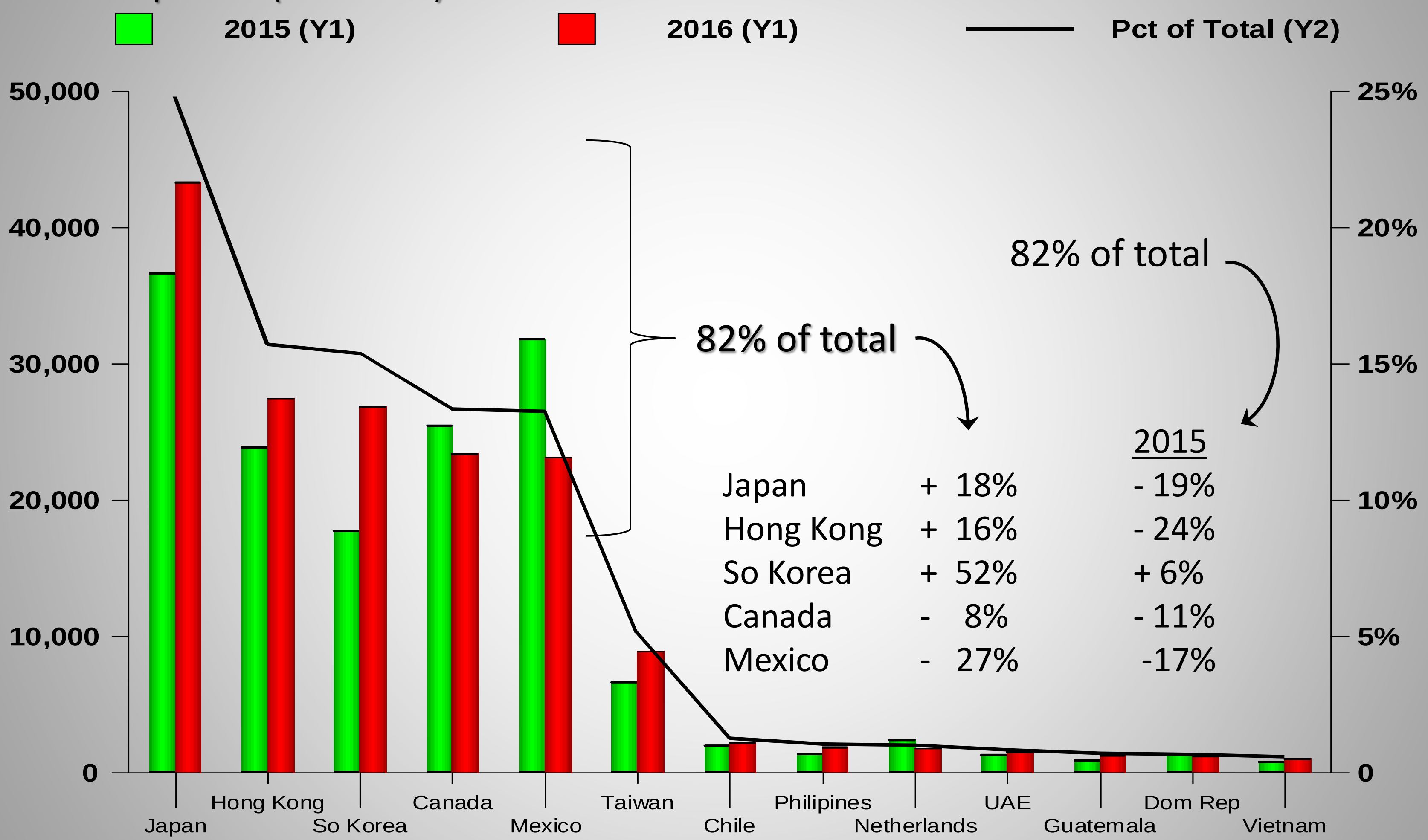
U.S. Beef Exports

Thousand pounds (carcass wt)



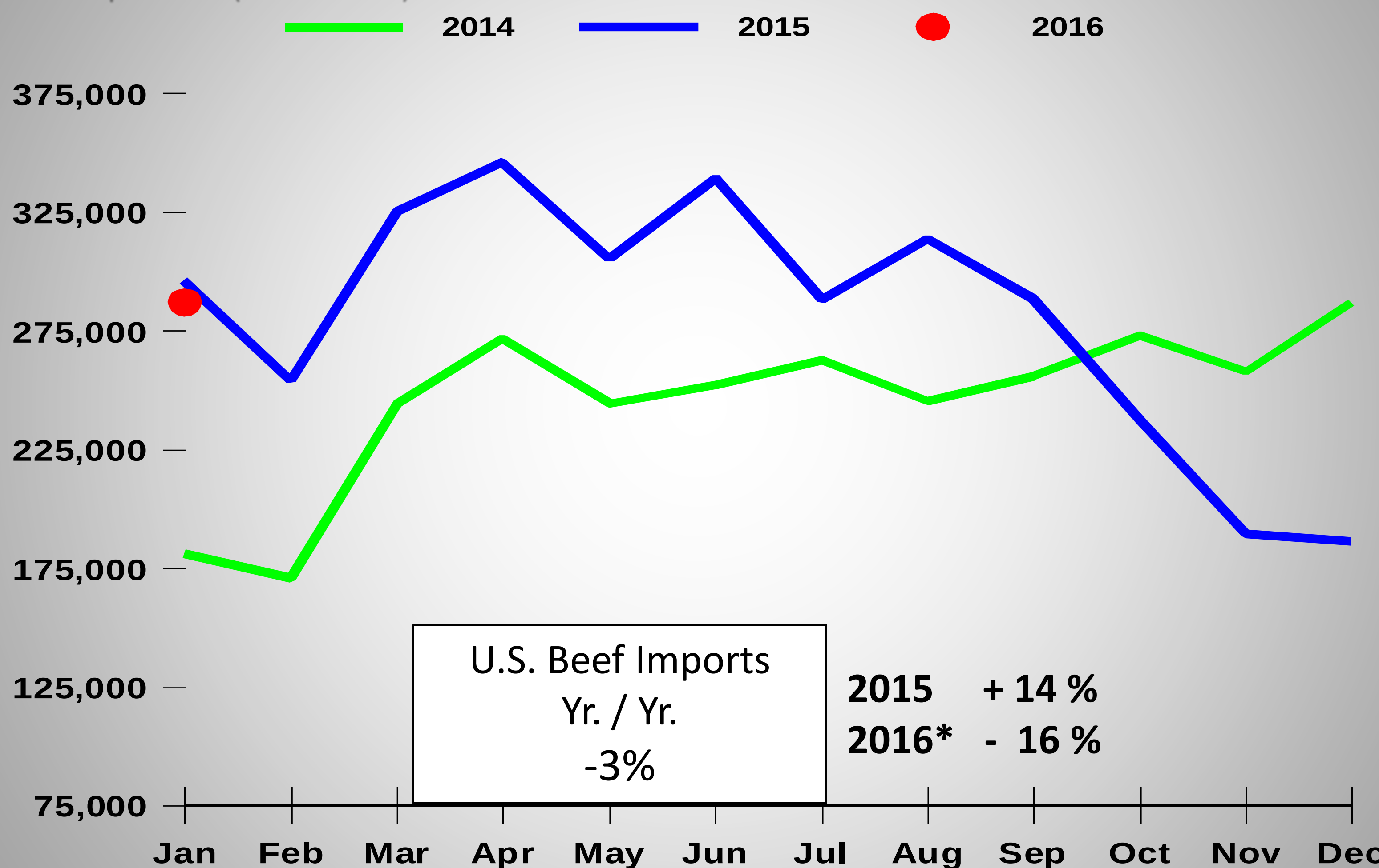
Top U.S. Beef Export Markets – Jan 2016

Thousand pounds (carcass wt)



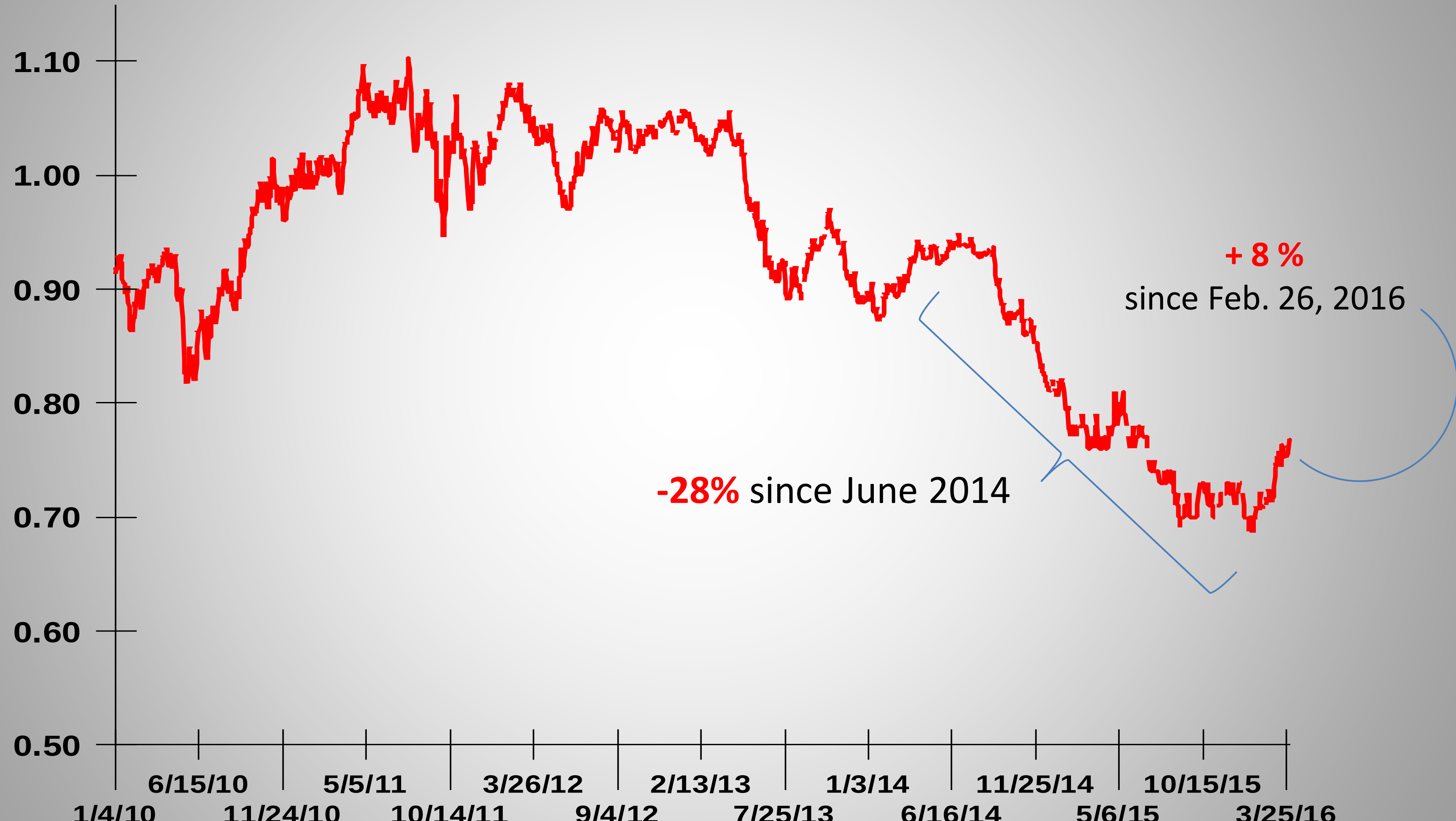
U.S. Beef Imports

Thousand pounds (carcass wt)



U.S. / Australia Currency Rate

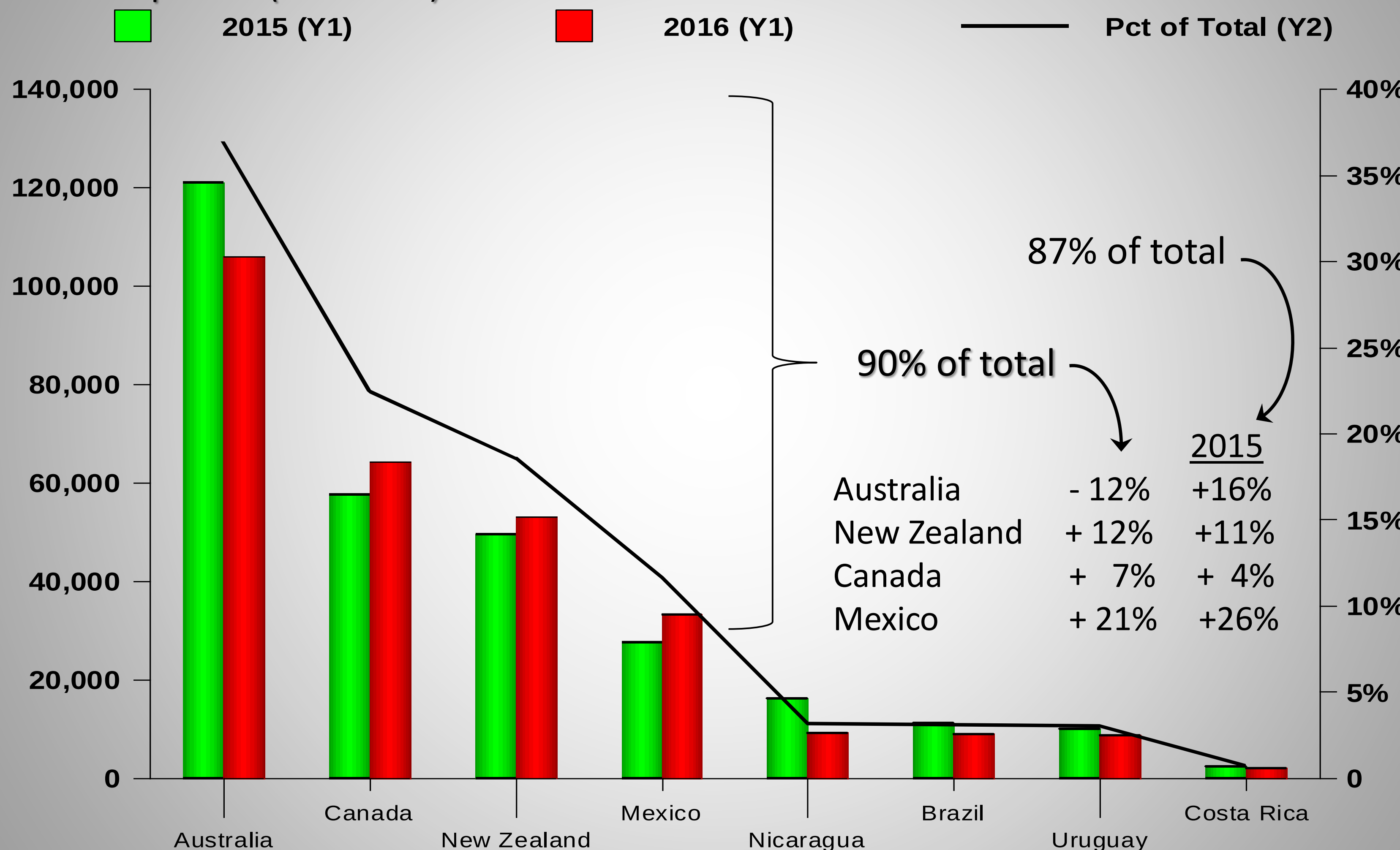
U.S. dollars per Aus. dollar



Source: Board of Governors, Federal Reserve

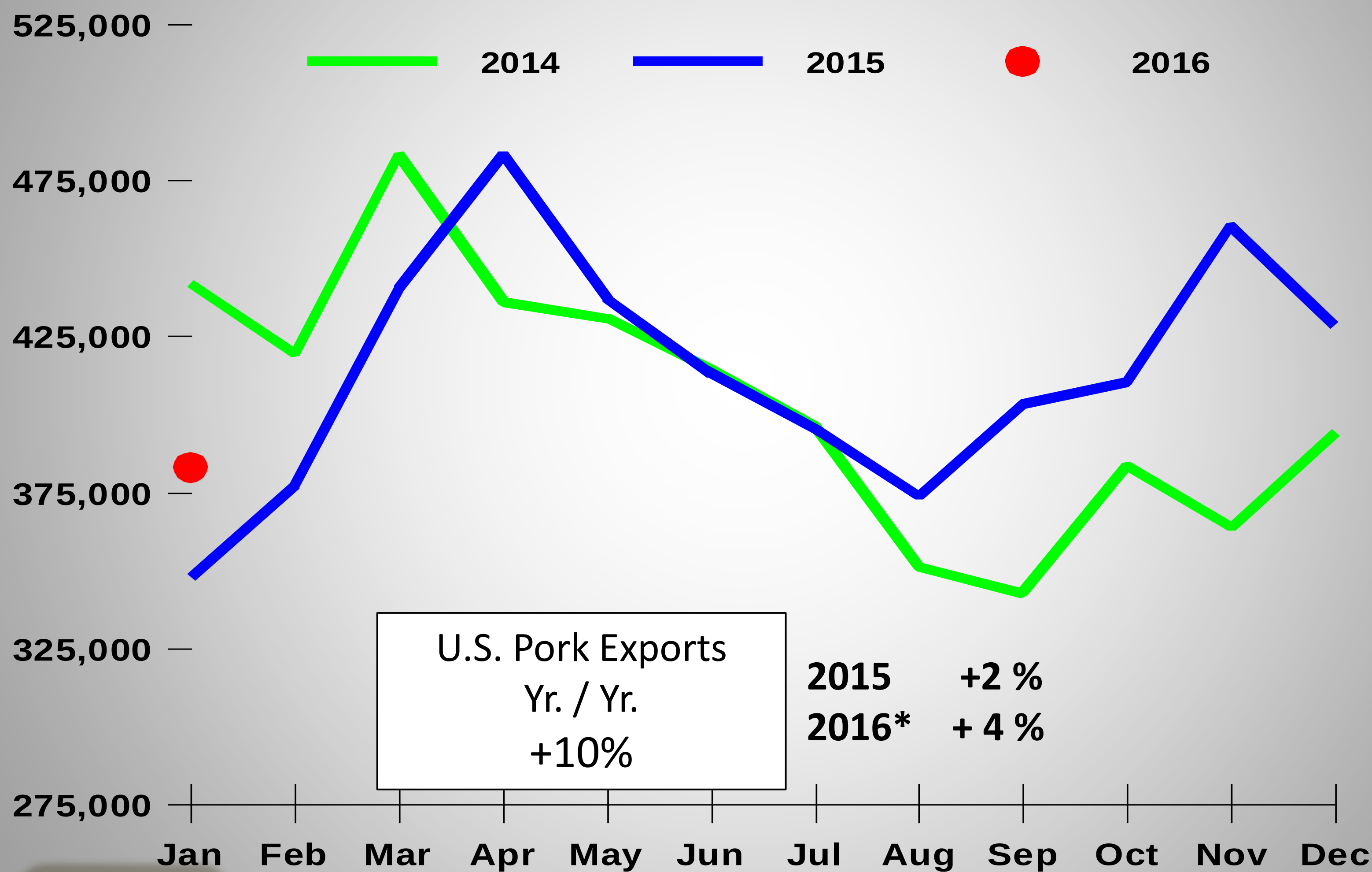
Top U.S. Beef Import Markets – Jan 2016

Thousand pounds (carcass wt)



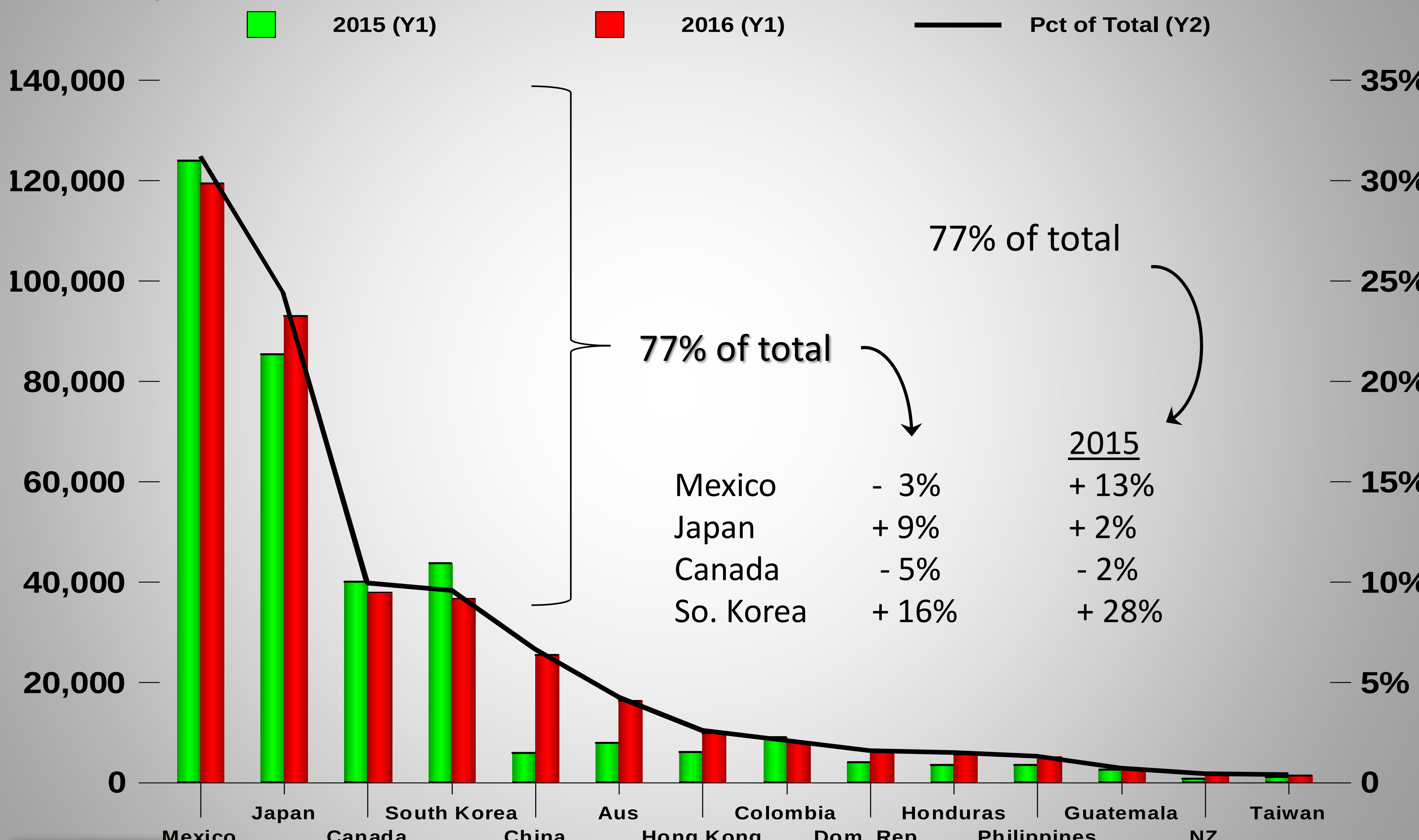
U.S. Pork Exports

Thousand pounds (carcass wt)



Top U.S. Pork Export Markets – Jan. 2016

Thousand pounds



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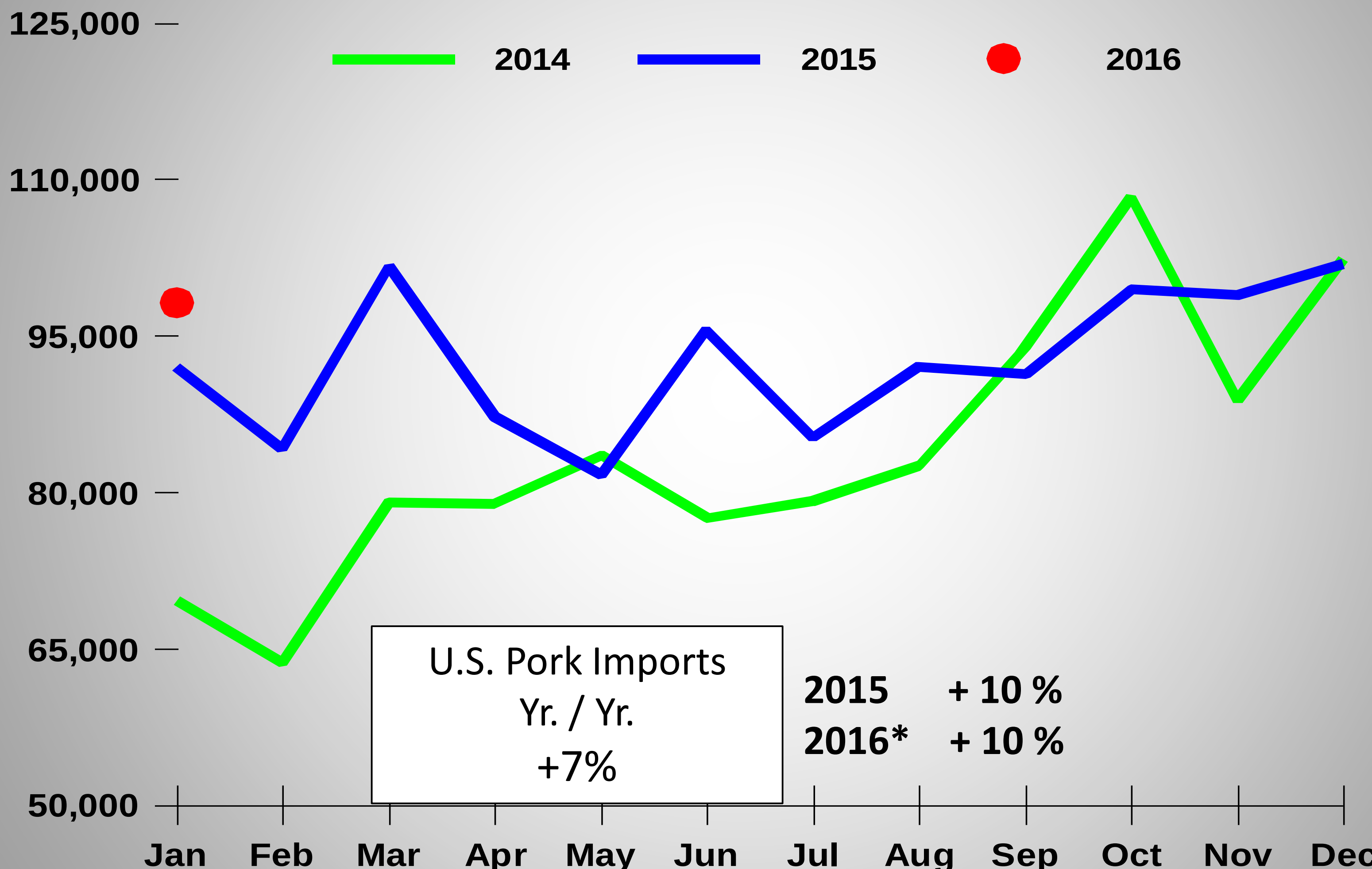
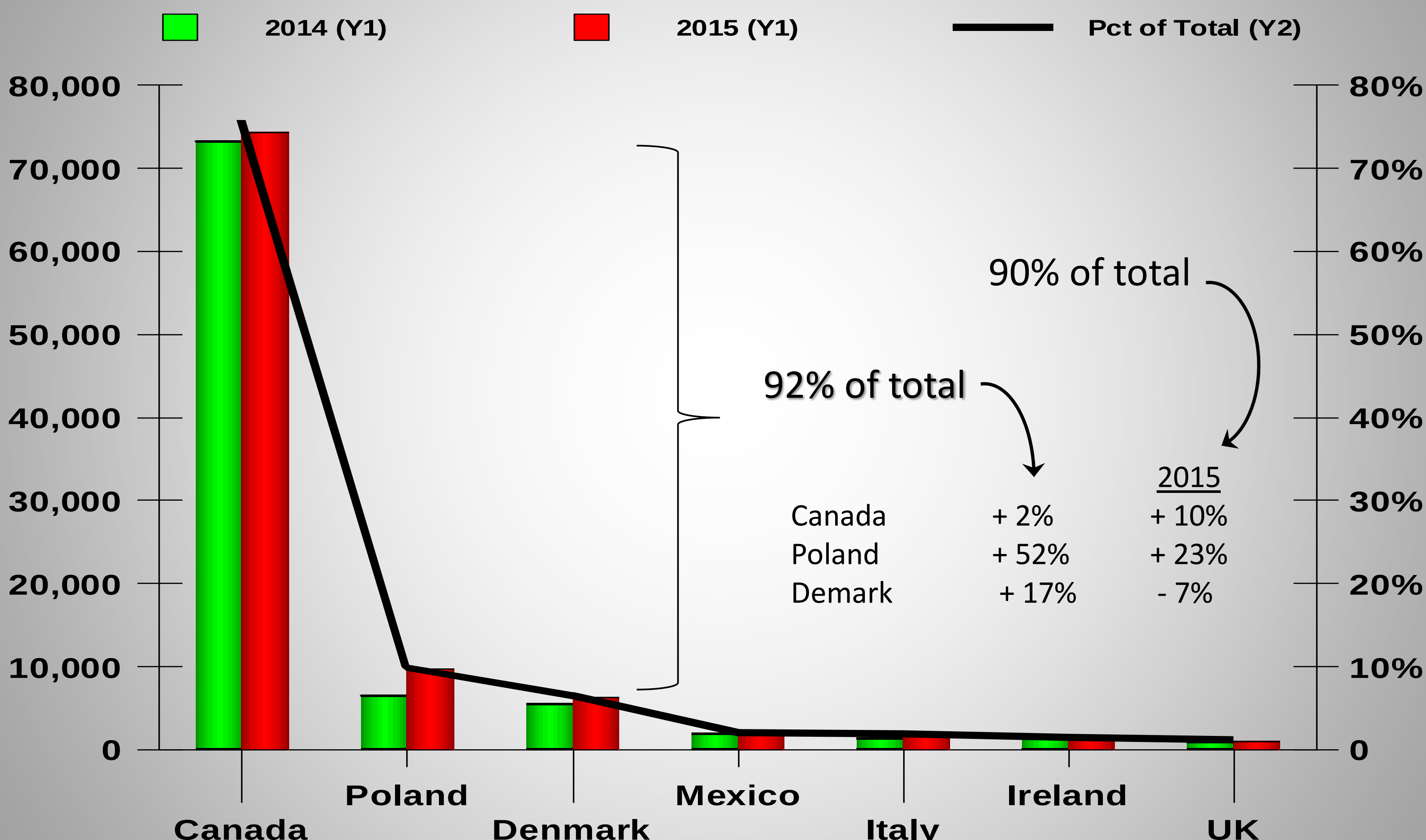
U.S. Pork Imports

Thousand pounds (carcass wt)



Top U.S. Pork Import Sources – Jan. 2016

Thousand pounds



Trans-Pacific Partnership

Key Elements of the Agreement

Pertaining to U.S. Beef and Pork Industries

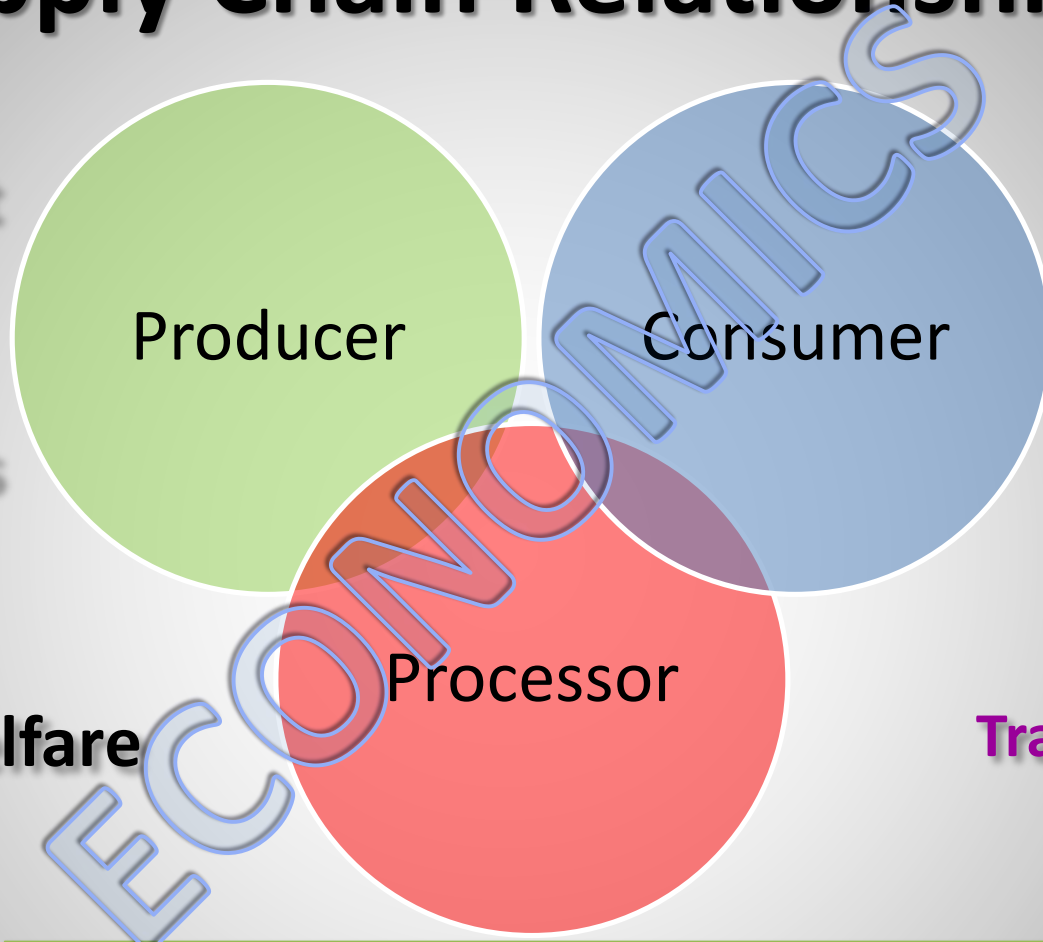
The detail in the agreement is not currently available but these are key point concerning the U.S. beef and pork industries.

- **Sharply reduces and eliminates tariffs** on U.S. beef sold into TPP countries.
- **New and commercially meaningful market access** through significant tariff reductions or preferential tariff rate quotas.
- **Elimination of export subsidies**.
- **Discourages export restrictions** as a means to prop up domestic market.
- Ensures food safety, animal health, and plant health measures are **developed and implemented transparently** and in a **science-based manner based on risk**, as we do in the United States.

Supply Chain Relationships

Environment

Demand



Best Practices

Global Markets & Trade Agreements

Animal Welfare

FOOD SAFETY

Changing Consumer Demand

Trends or Fads?

Natural

Organic

Buy local

Sustainable Production

It’s all about . . . .

Costs vs Revenue

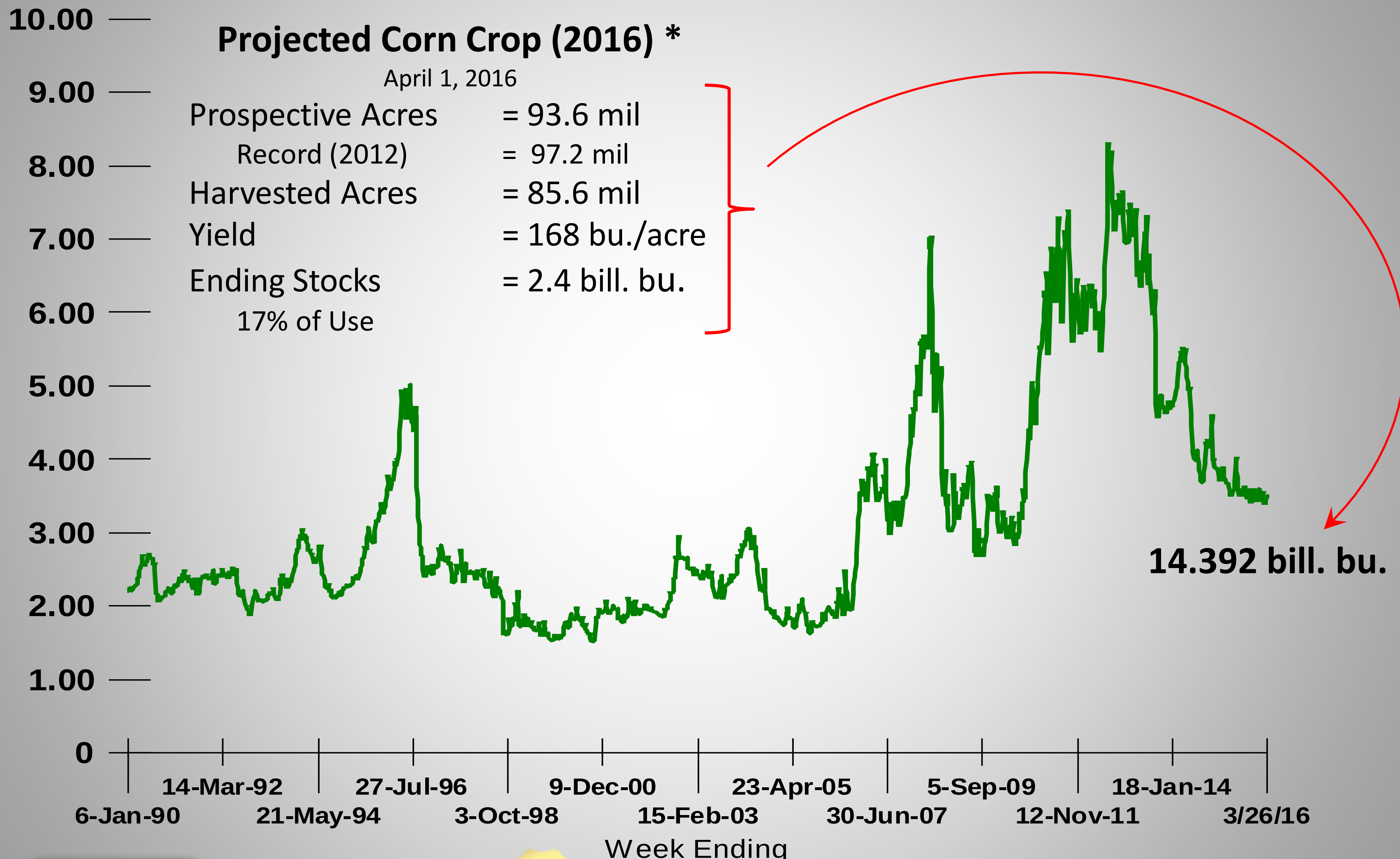
Margin Management

Capacity

Consolidation

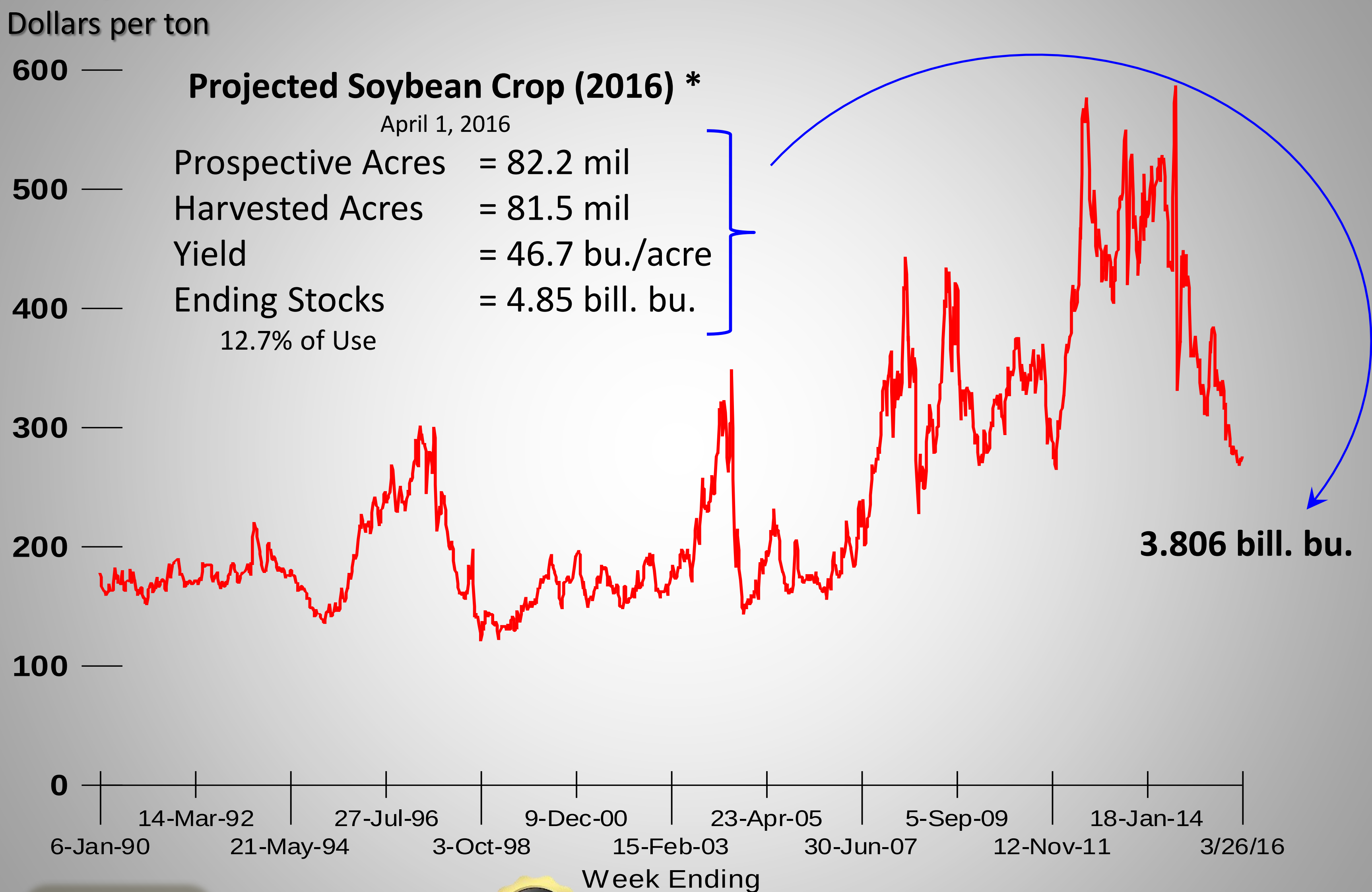
Corn Price - Omaha- Council Bluffs

Dollars per bushel



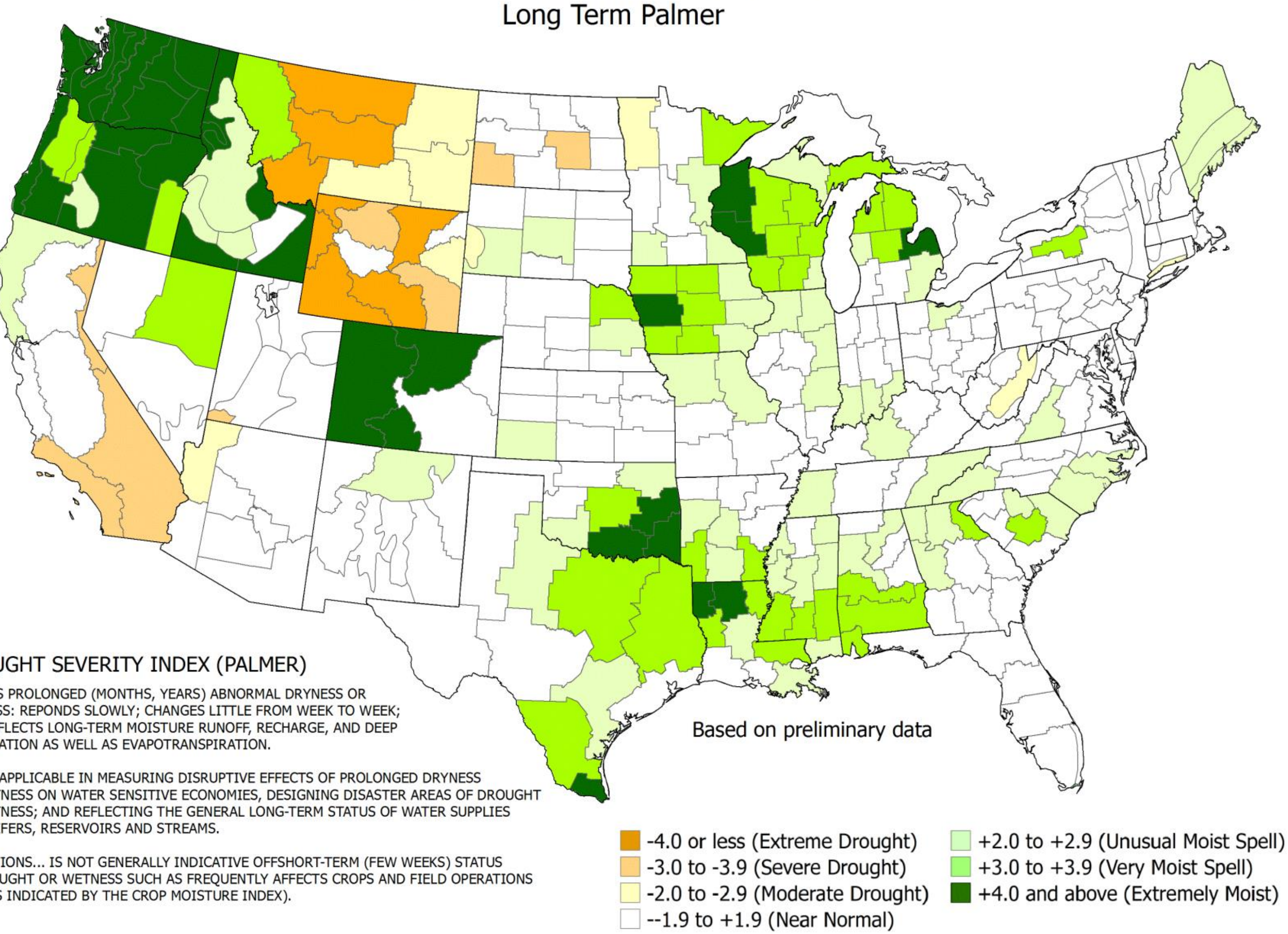
*AES Projection – April 1, 2016

Soybean Meal Price - Decatur



*AES Projection – April 1, 2016

Drought Severity Index by Division
Weekly Value for Period Ending Apr 02, 2016
Long Term Palmer



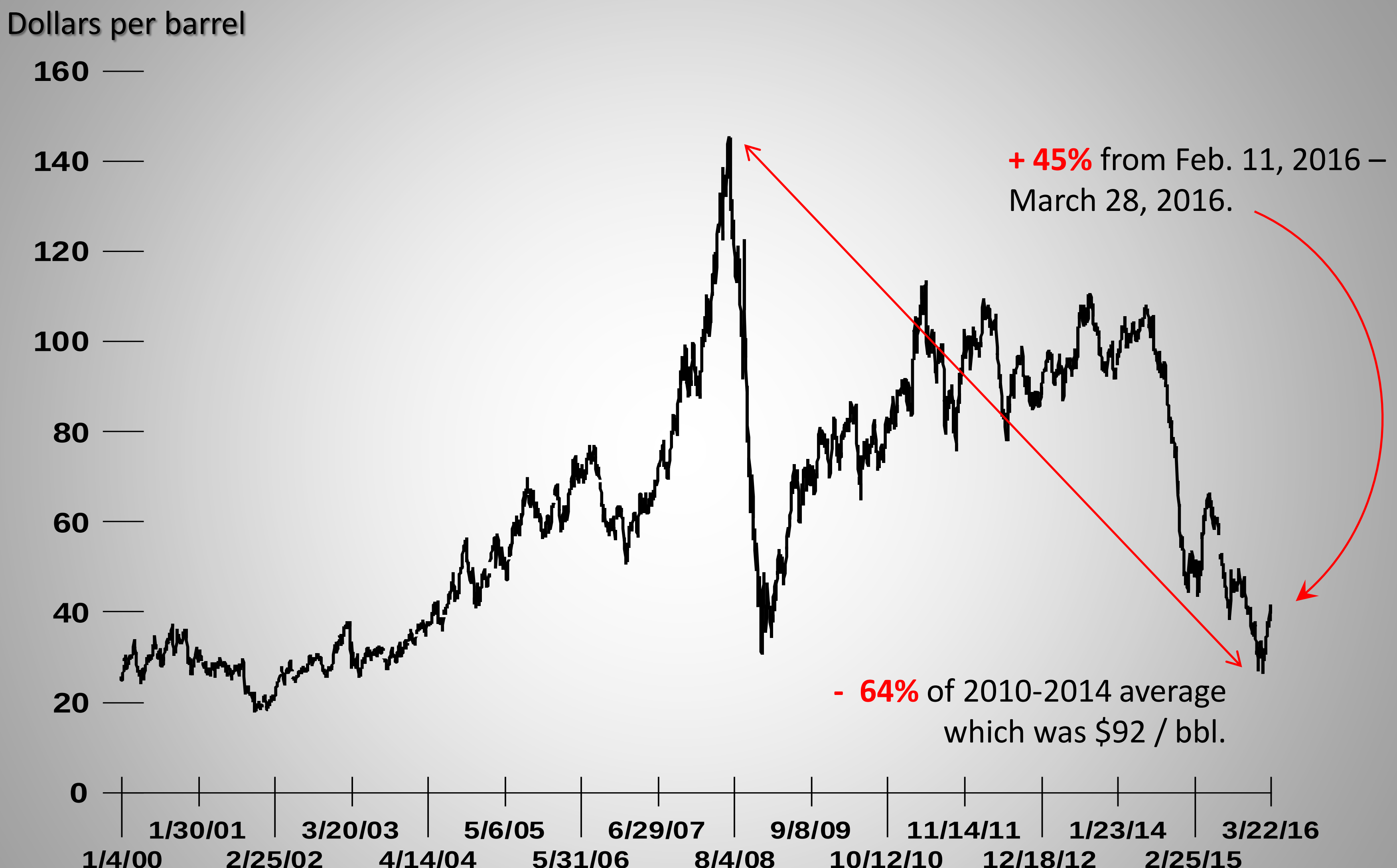
DROUGHT SEVERITY INDEX (PALMER)

DEPICTS PROLONGED (MONTHS, YEARS) ABNORMAL DRYNESS OR WETNESS: REPONDS SLOWLY; CHANGES LITTLE FROM WEEK TO WEEK; AND REFLECTS LONG-TERM MOISTURE RUNOFF, RECHARGE, AND DEEP PERCOLATION AS WELL AS EVAPOTRANSPIRATION.

USES... APPLICABLE IN MEASURING DISRUPTIVE EFFECTS OF PROLONGED DRYNESS OR WETNESS ON WATER SENSITIVE ECONOMIES, DESIGNING DISASTER AREAS OF DROUGHT OR WETNESS; AND REFLECTING THE GENERAL LONG-TERM STATUS OF WATER SUPPLIES IN AQUIFERS, RESERVOIRS AND STREAMS.

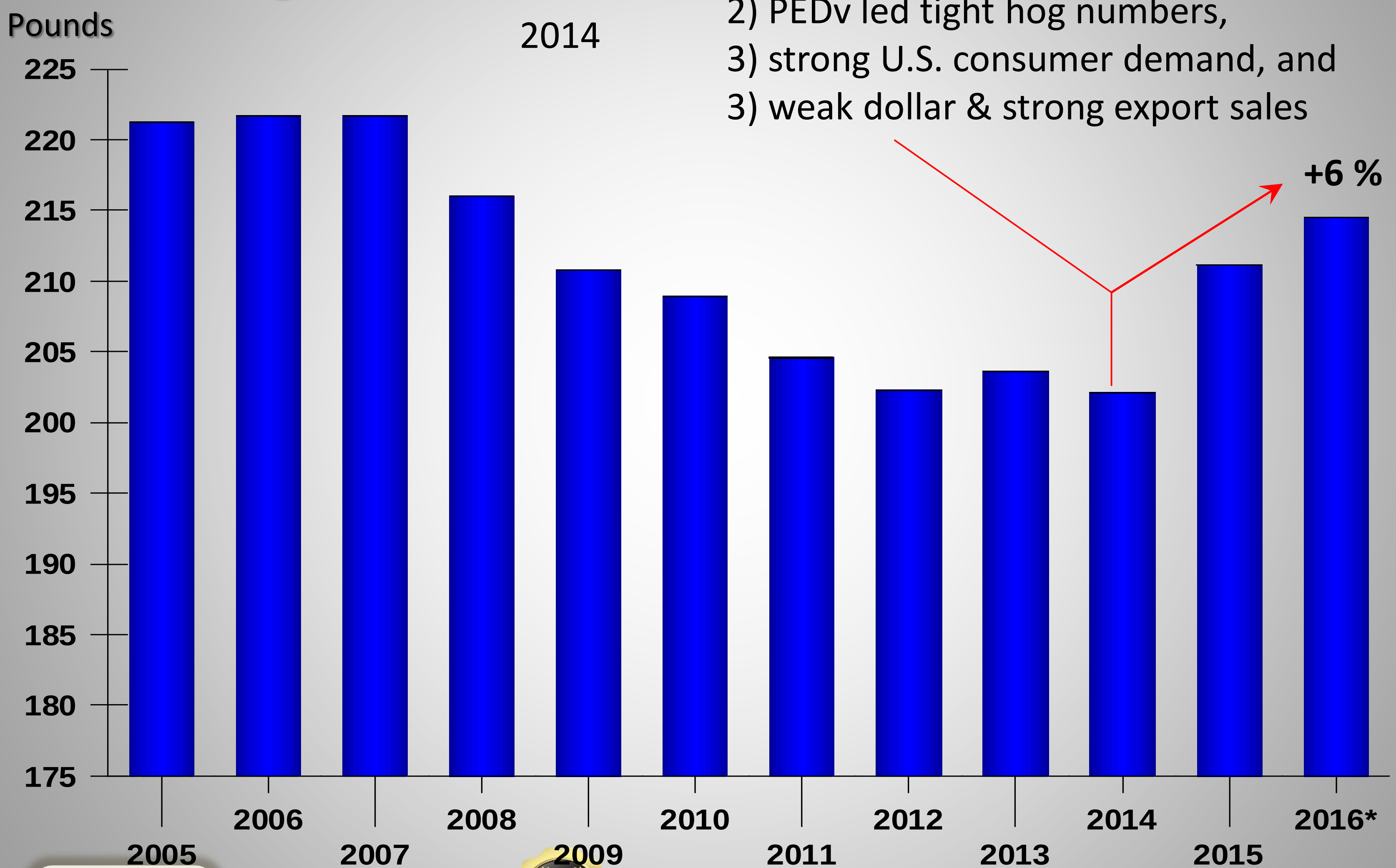
LIMITATIONS... IS NOT GENERALLY INDICATIVE OFFSHORT-TERM (FEW WEEKS) STATUS OF DROUGHT OR WETNESS SUCH AS FREQUENTLY AFFECTS CROPS AND FIELD OPERATIONS (THIS IS INDICATED BY THE CROP MOISTURE INDEX).

Crude Oil Price – Cushing, OK

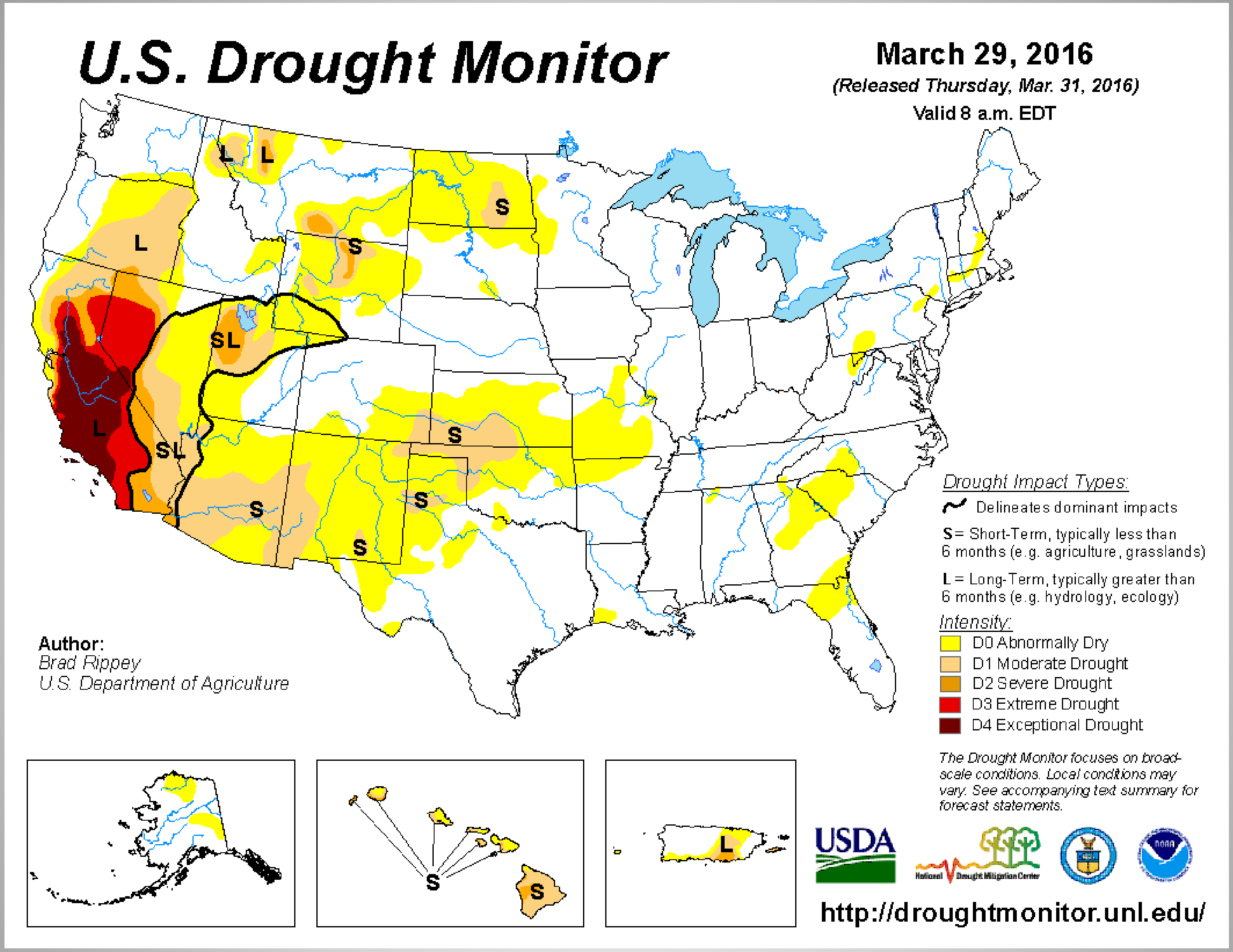


Per capita supplies of red meat & poultry are increasing.

The Perfect Storm: 1) Liquidation led tight cattle numbers,
2) PEDv led tight hog numbers,
3) strong U.S. consumer demand, and
3) weak dollar & strong export sales

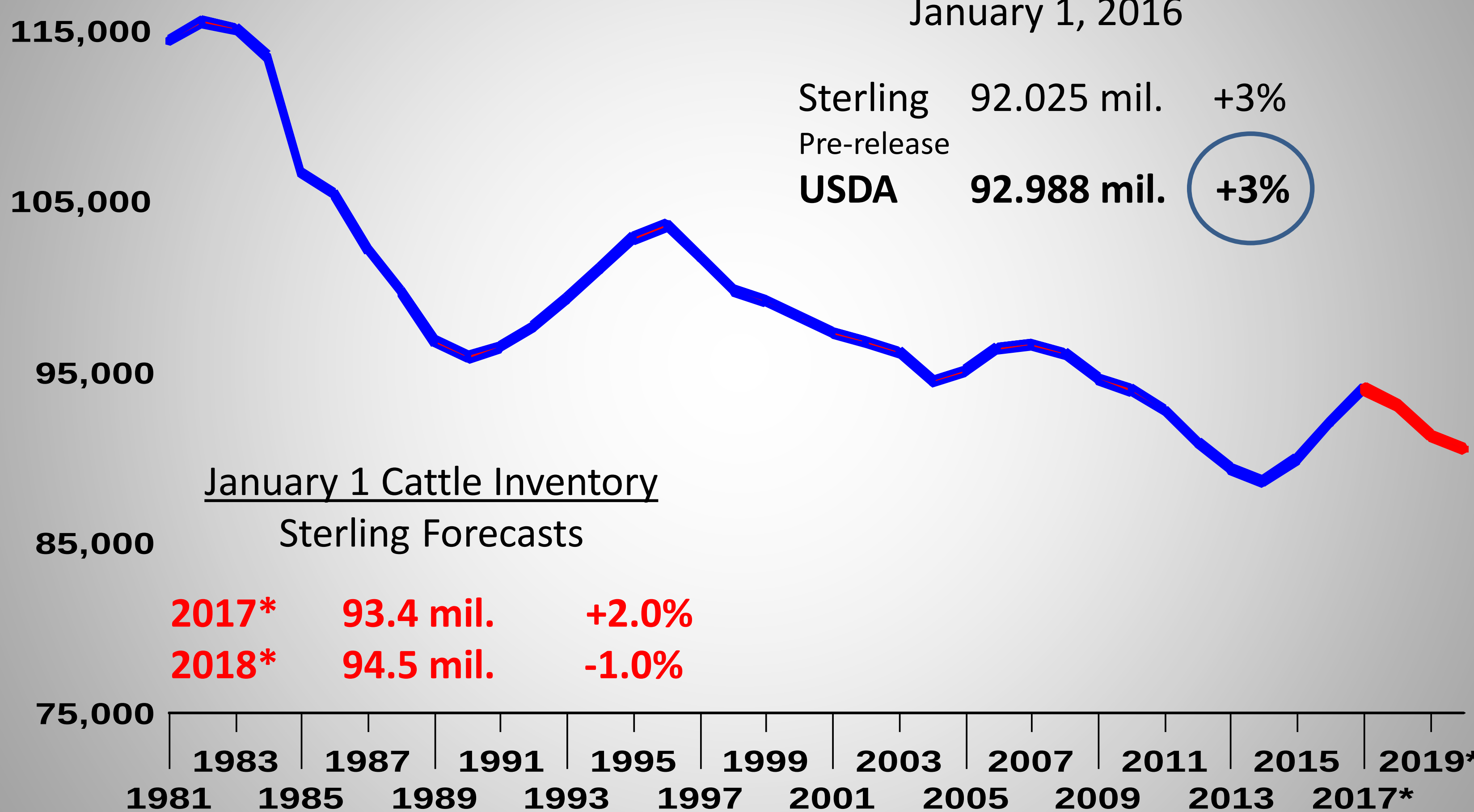


Beef Industry


U.S. Drought Monitor
March 29, 2016
(Released Thursday, Mar. 31, 2016)
Valid 8 a.m. EDT
Drought Impact Types:
Delineates dominant impacts
S = Short-Term, typically less than 6 months (e.g. agriculture, grasslands)
L = Long-Term, typically greater than 6 months (e.g. hydrology, ecology)
Intensity:
D0 Abnormally Dry
D1 Moderate Drought
D2 Severe Drought
D3 Extreme Drought
D4 Exceptional Drought
The Drought Monitor focuses on broad-scale conditions. Local conditions may vary. See accompanying text summary for forecast statements.
Author:
Brad Rippey
U.S. Department of Agriculture
USDA
National Drought Mitigation Center
http://droughtmonitor.unl.edu/

U.S. cattle inventory

Thousand head



January 1, 2016

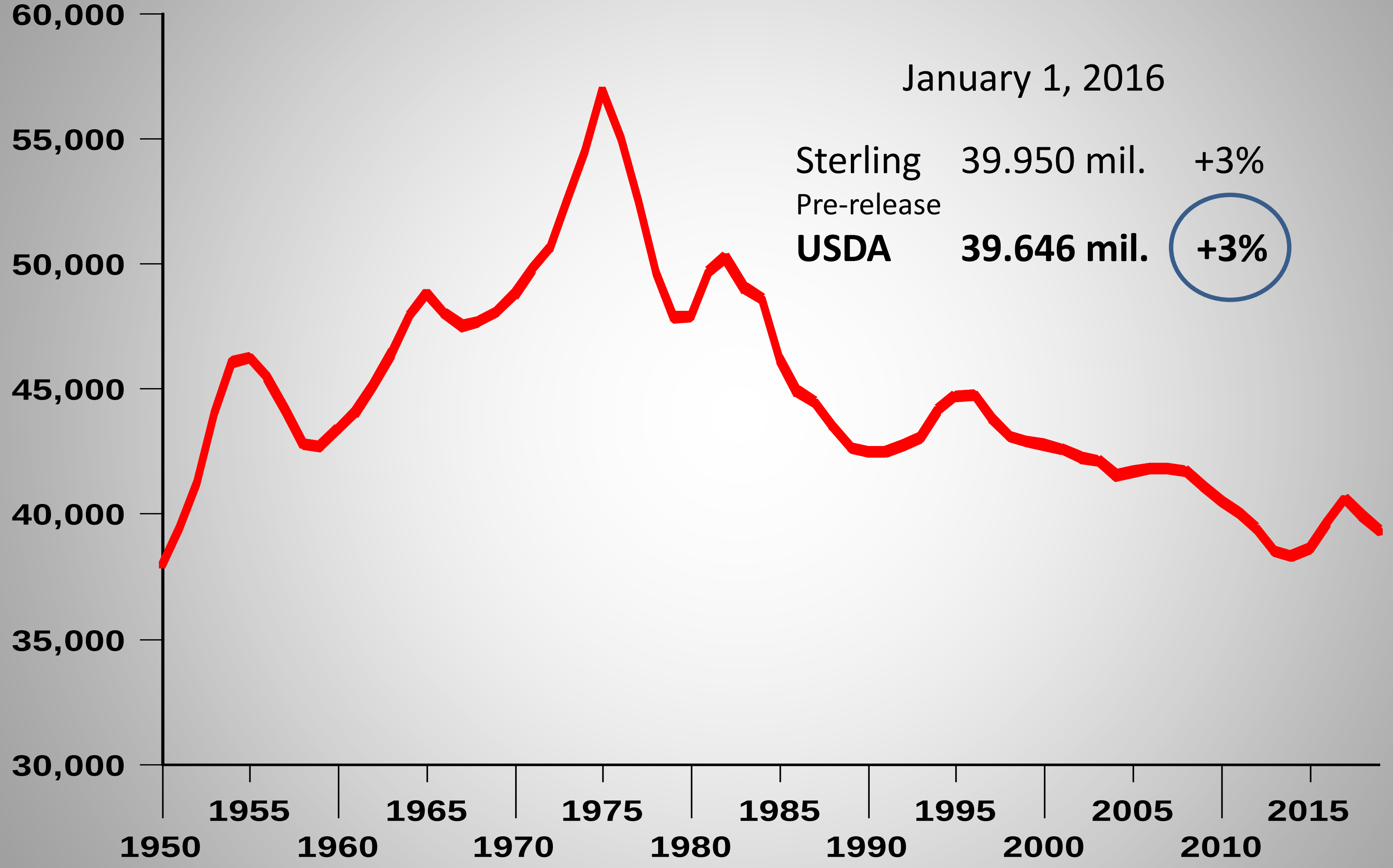
Sterling Pre-release	92.025 mil.	+3%
USDA	**92.988 mil.**	**+3%**

January 1 Cattle Inventory
Sterling Forecasts

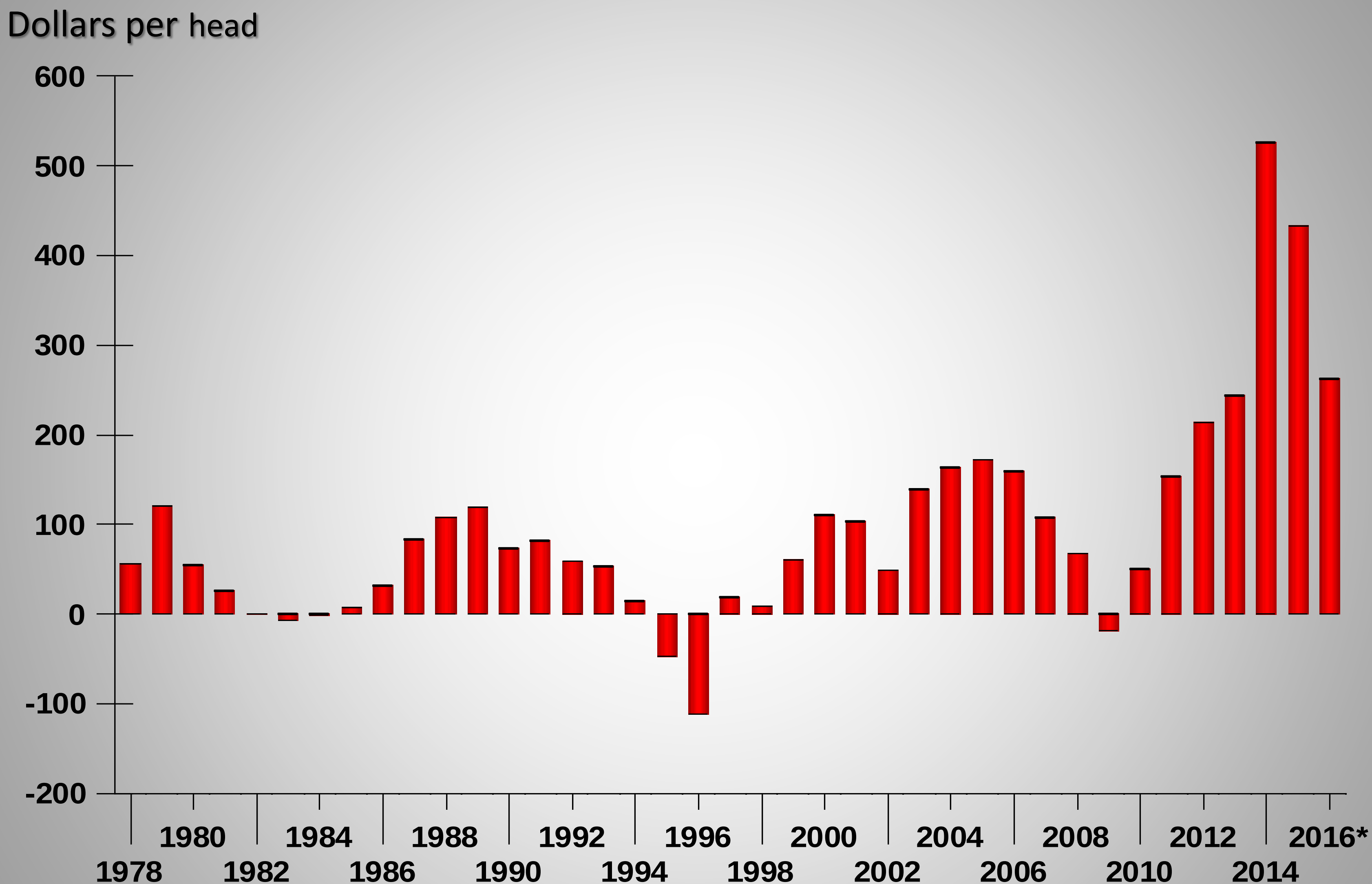
2017*	**93.4 mil.**	**+2.0%**
2018*	**94.5 mil.**	**-1.0%**

The U.S. Cow Herd

Thousand head

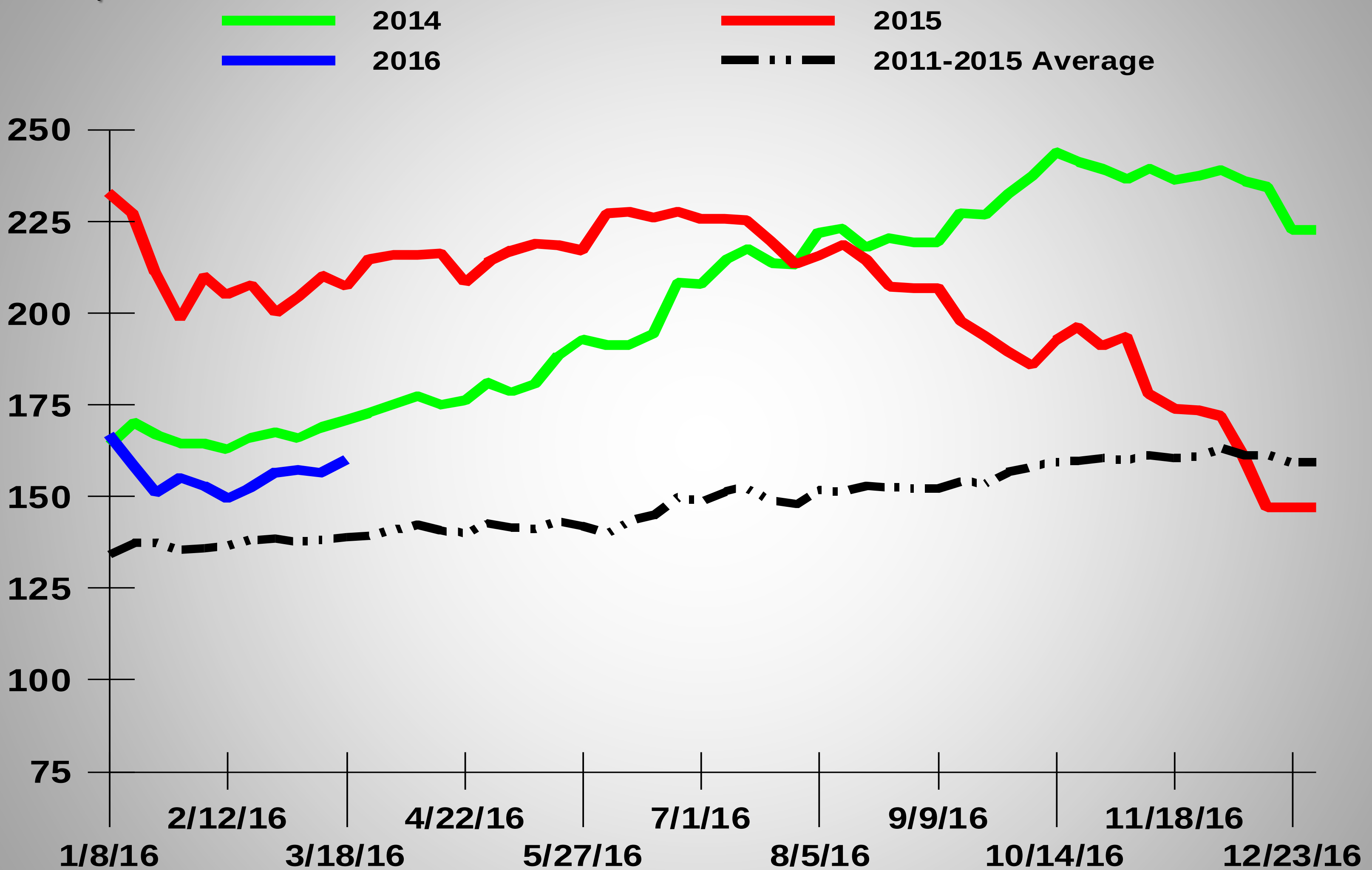


Returns to Cow-Calf Producers

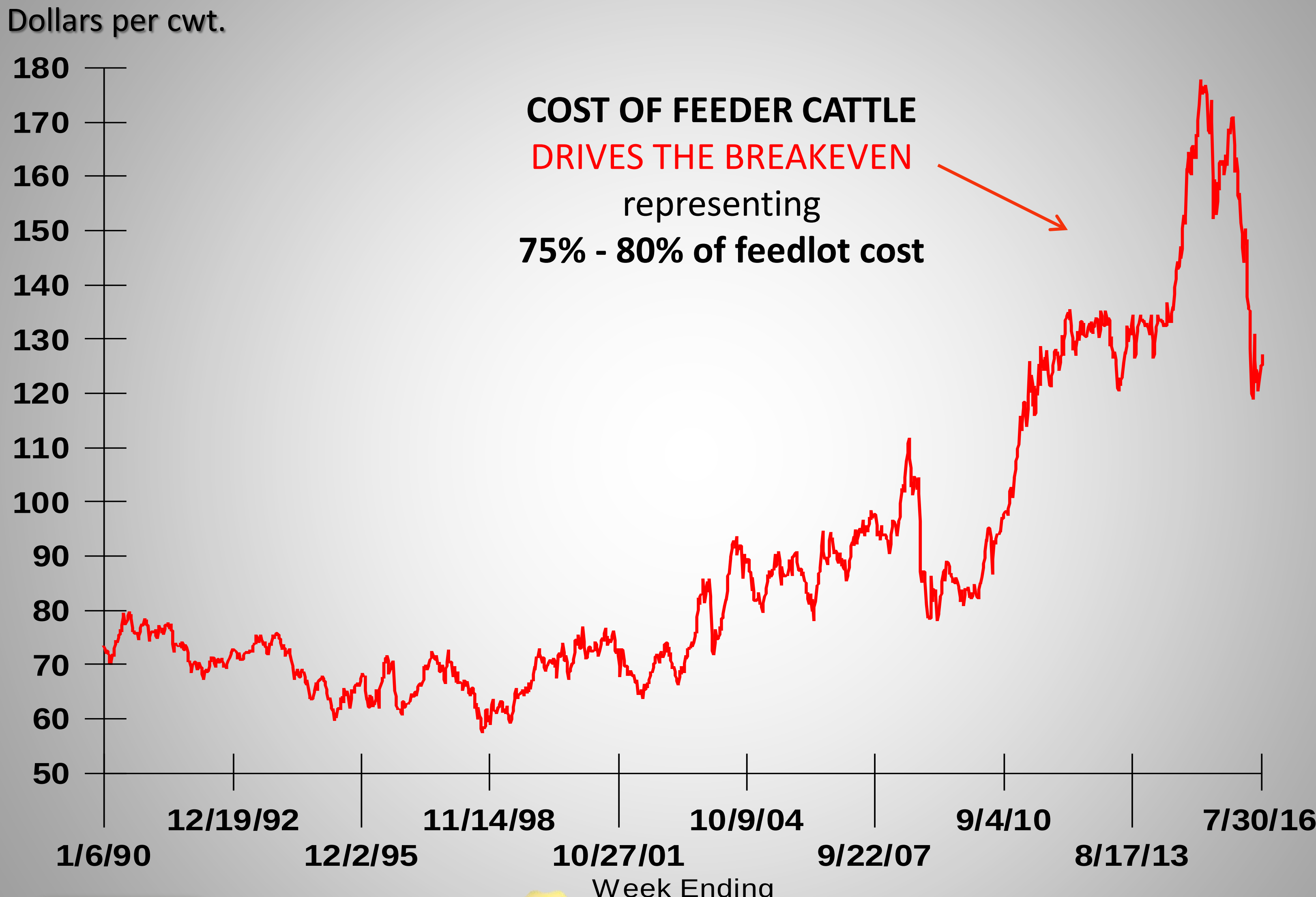


Feeder Cattle Price

Dollars per cwt

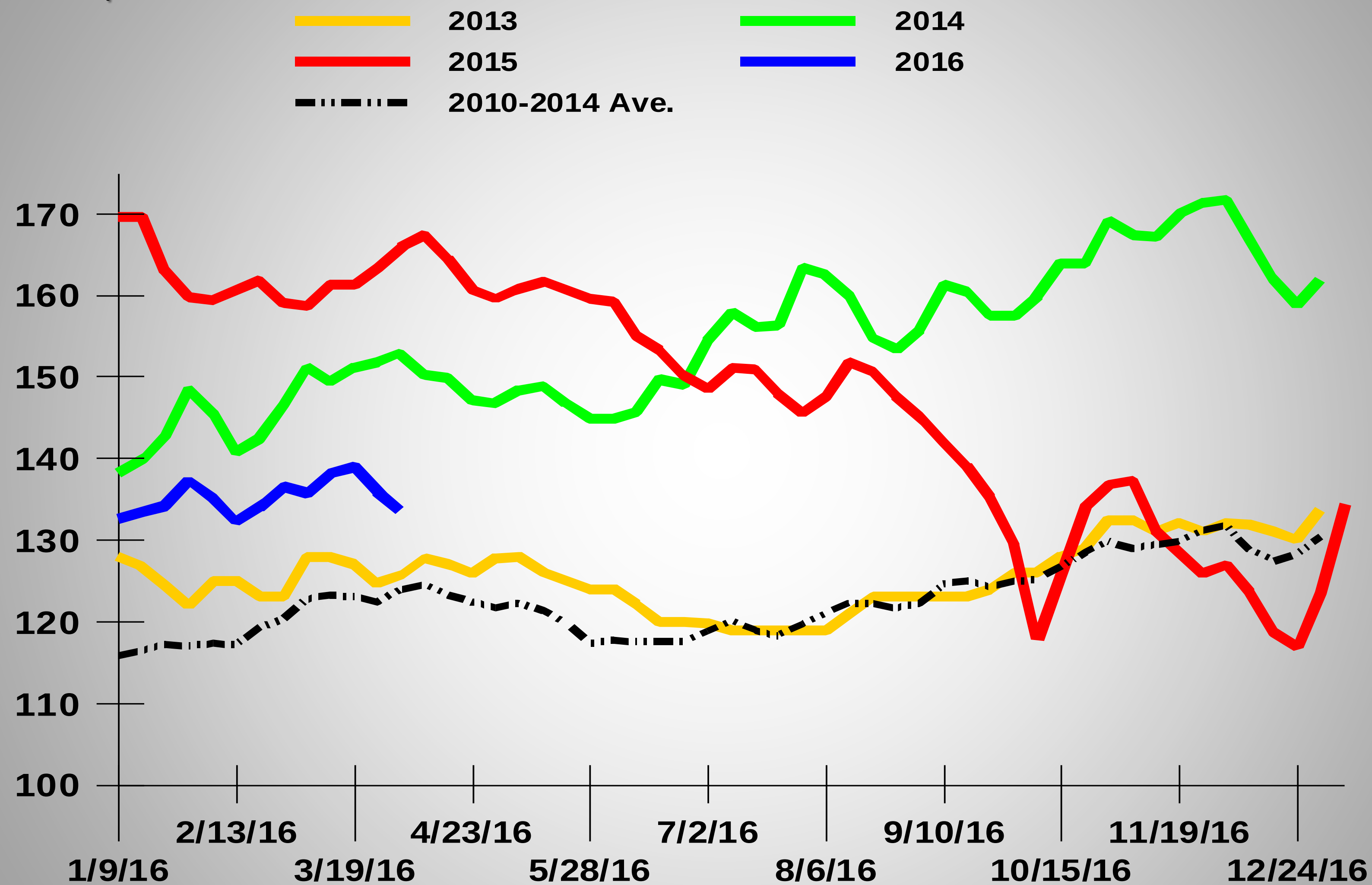


Feedlot Breakeven Price



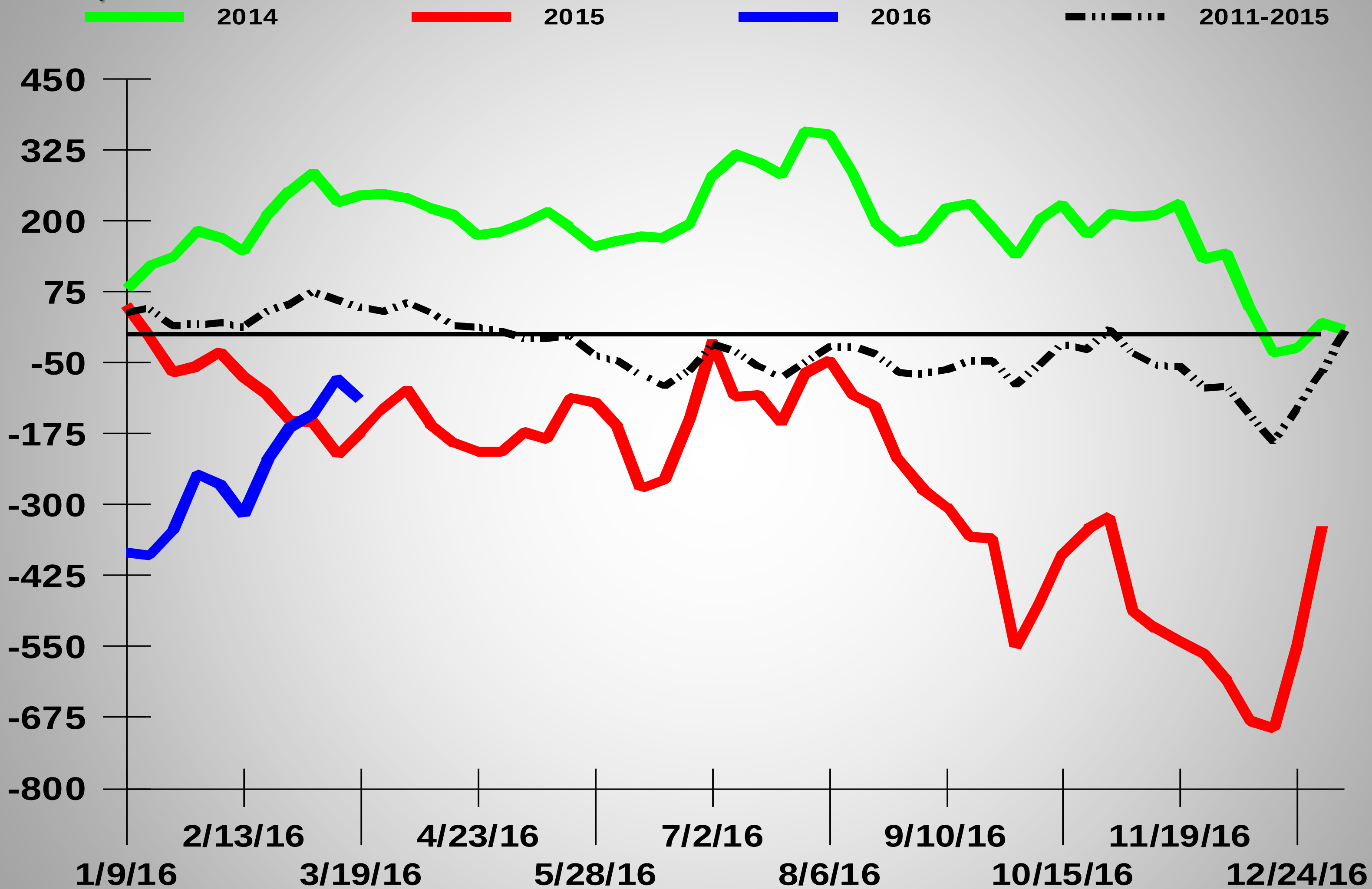
Choice Steer Price

Dollars per cwt

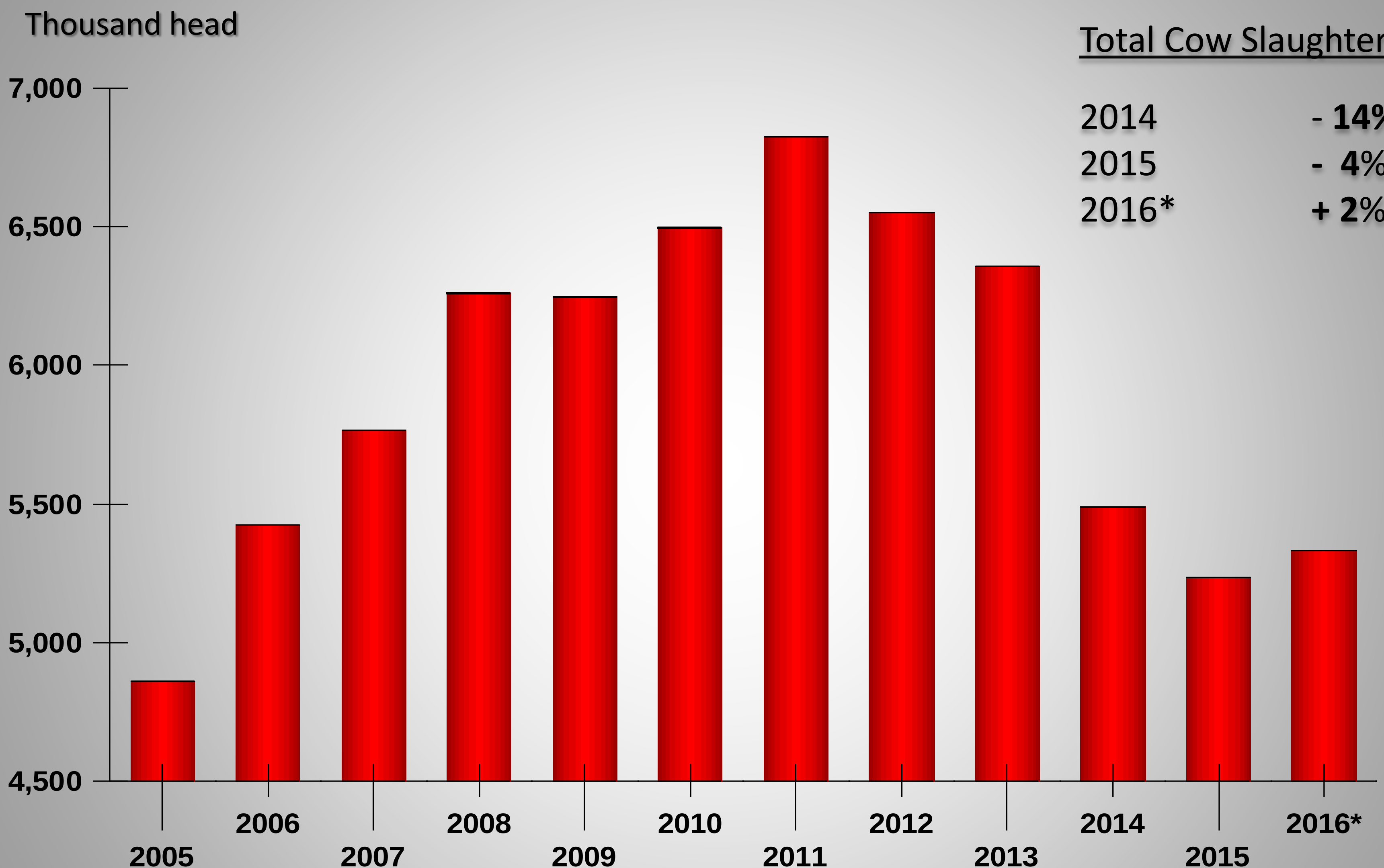


Cattle Feeding Margins

Dollars per head



U.S. cow slaughter falls sharply.

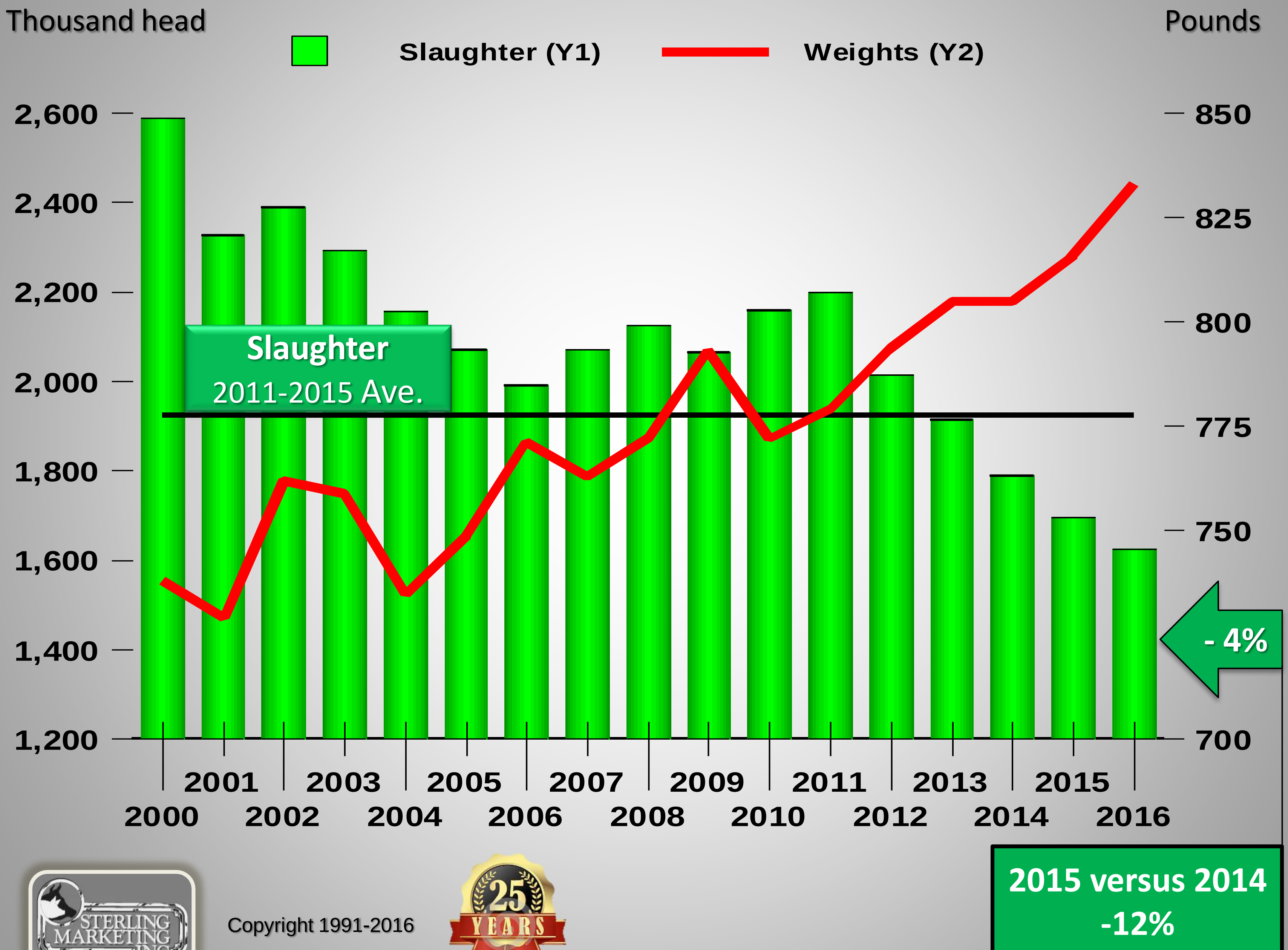


Total Cow Slaughter

2014	- **14%**
2015	- 4%
2016*	+ 2%

Sterling Forecast – March 21, 2016

U.S. Heifer Slaughter – YTD thru March 19th



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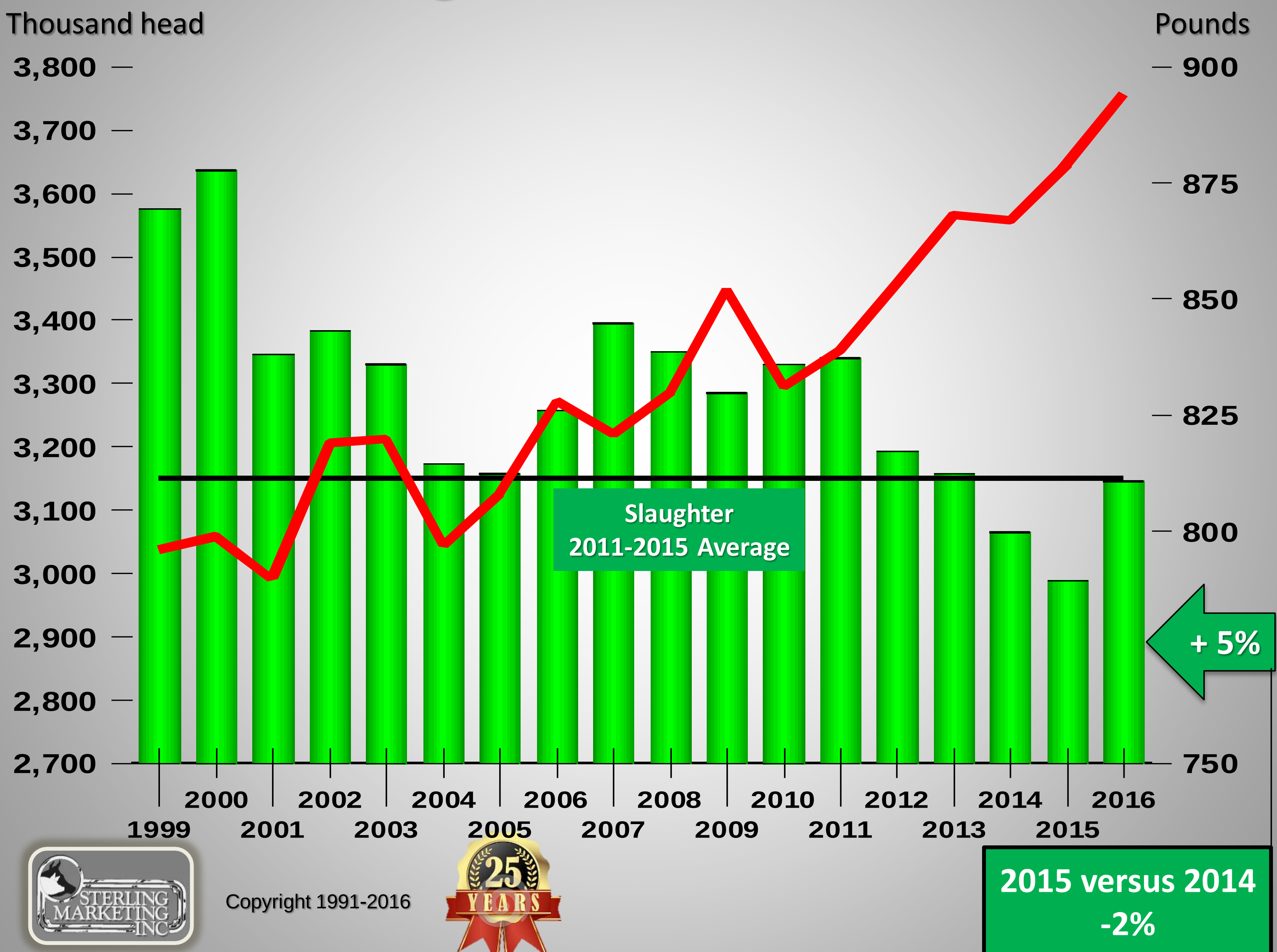
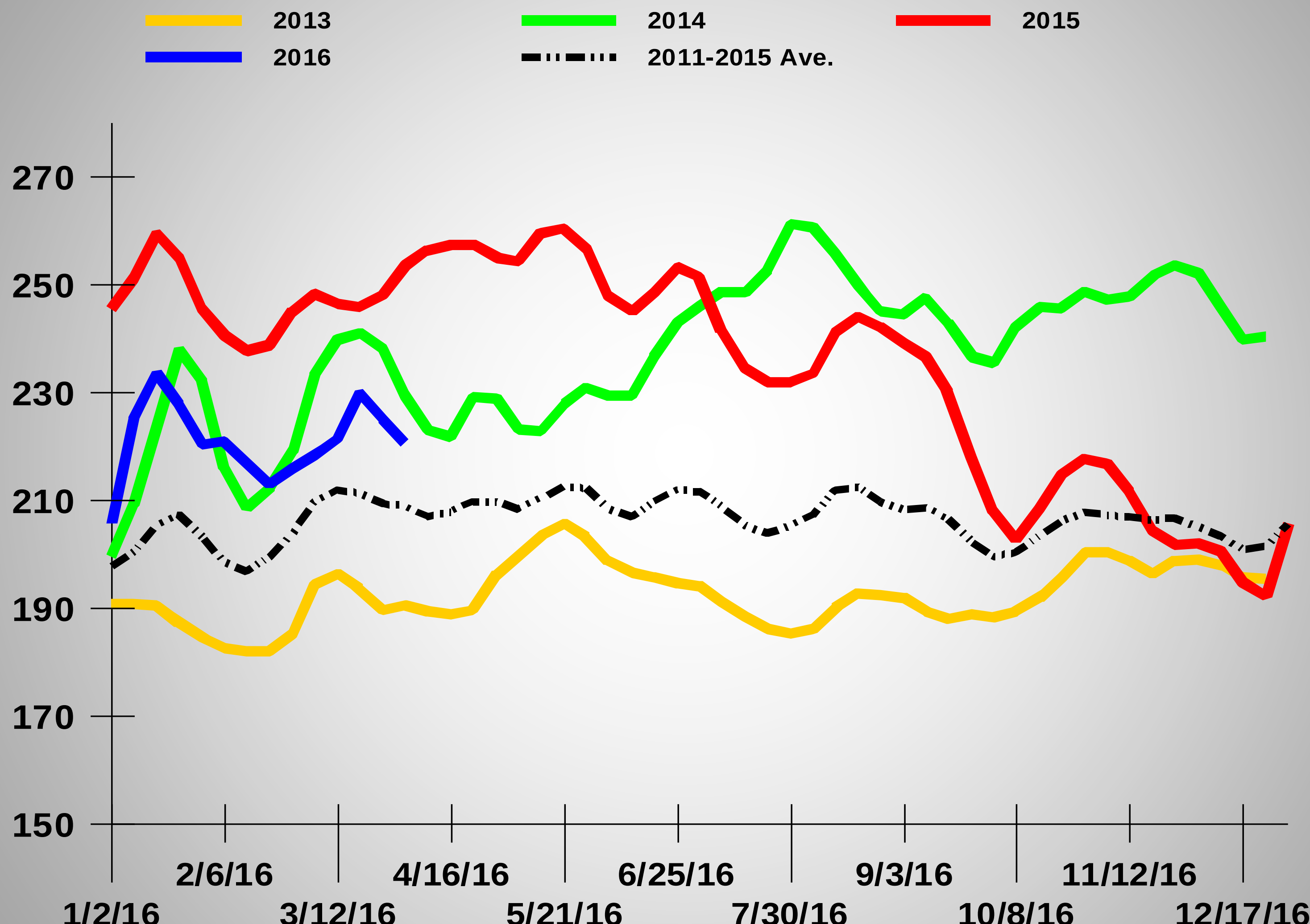
U.S. Steer Slaughter – YTD thru March 19th



Wholesale Beef Price

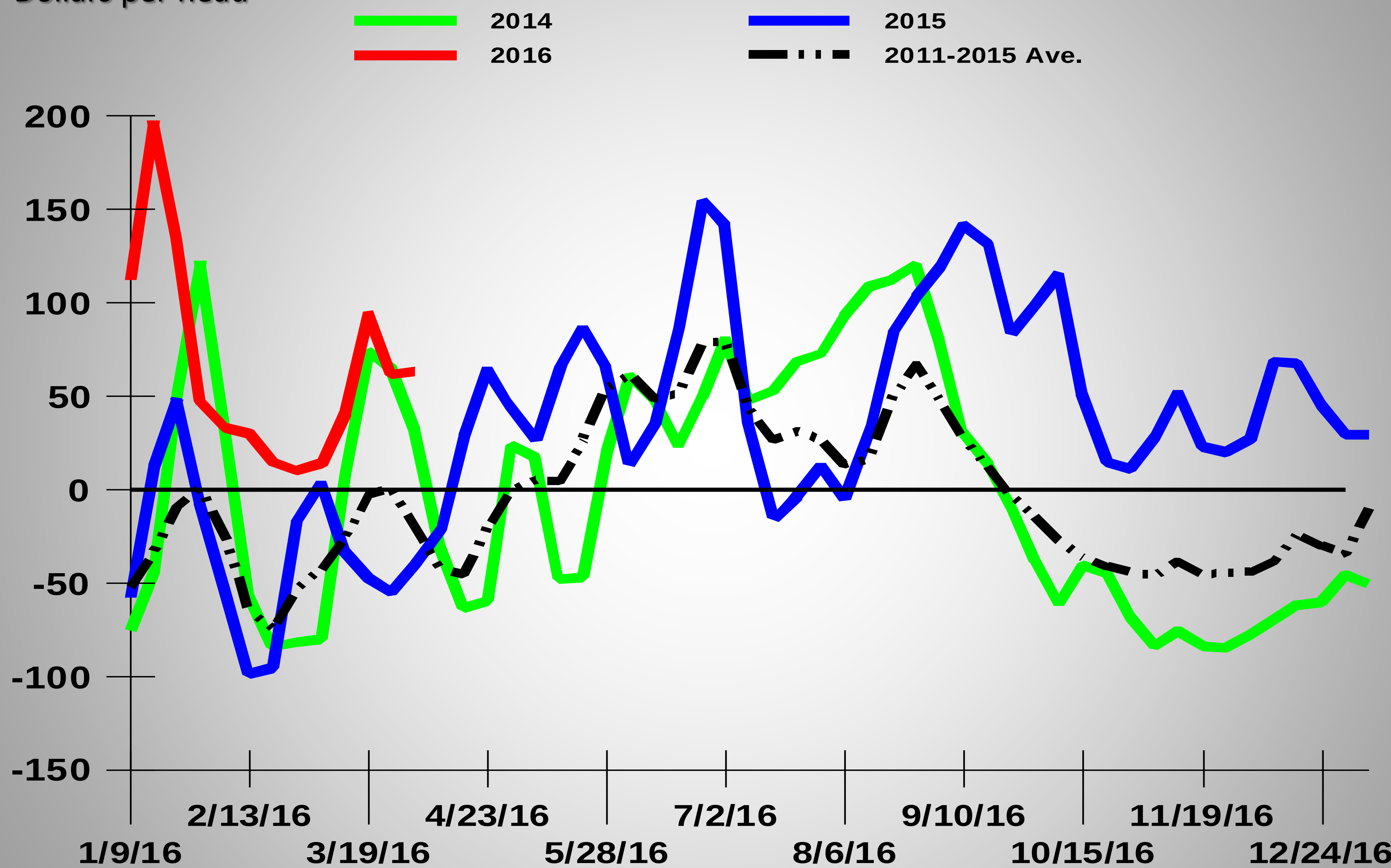
Dollars per cwt.



Beef Cutout Value, Adjusted for Beef Grade

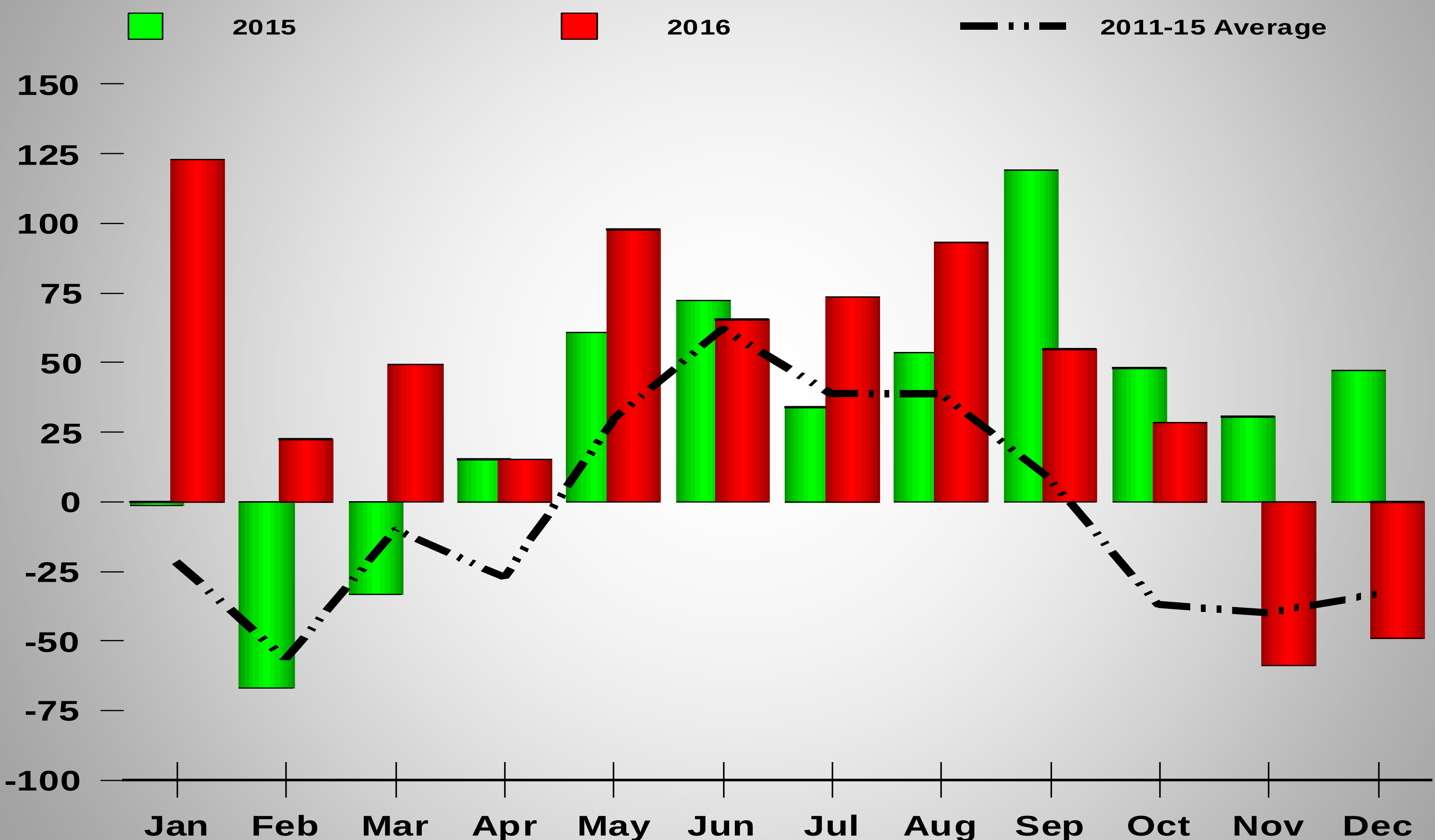
Beef Packer Operating Margins

Dollars per head

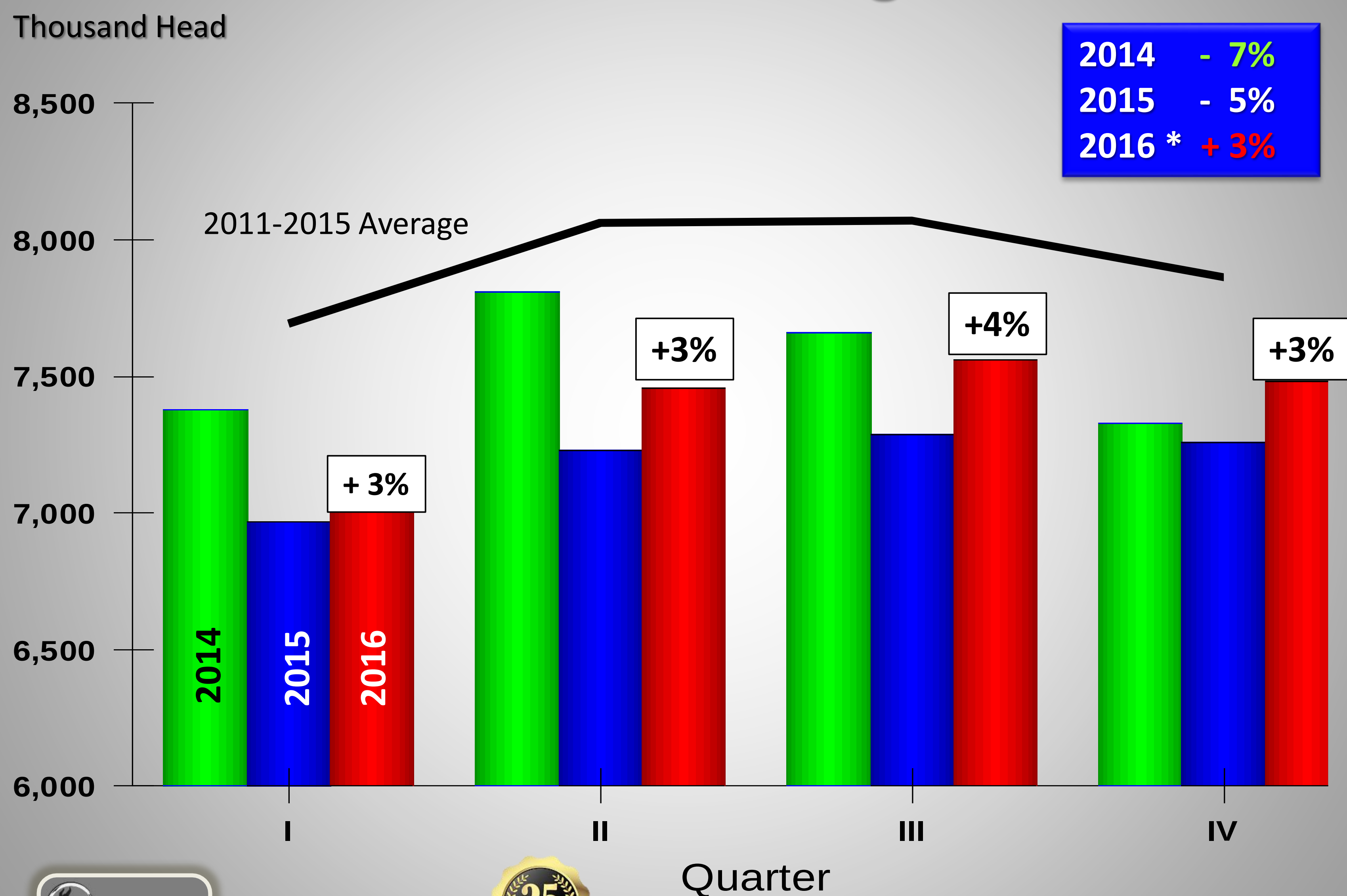


Beef Packer Margin

Dollars per head

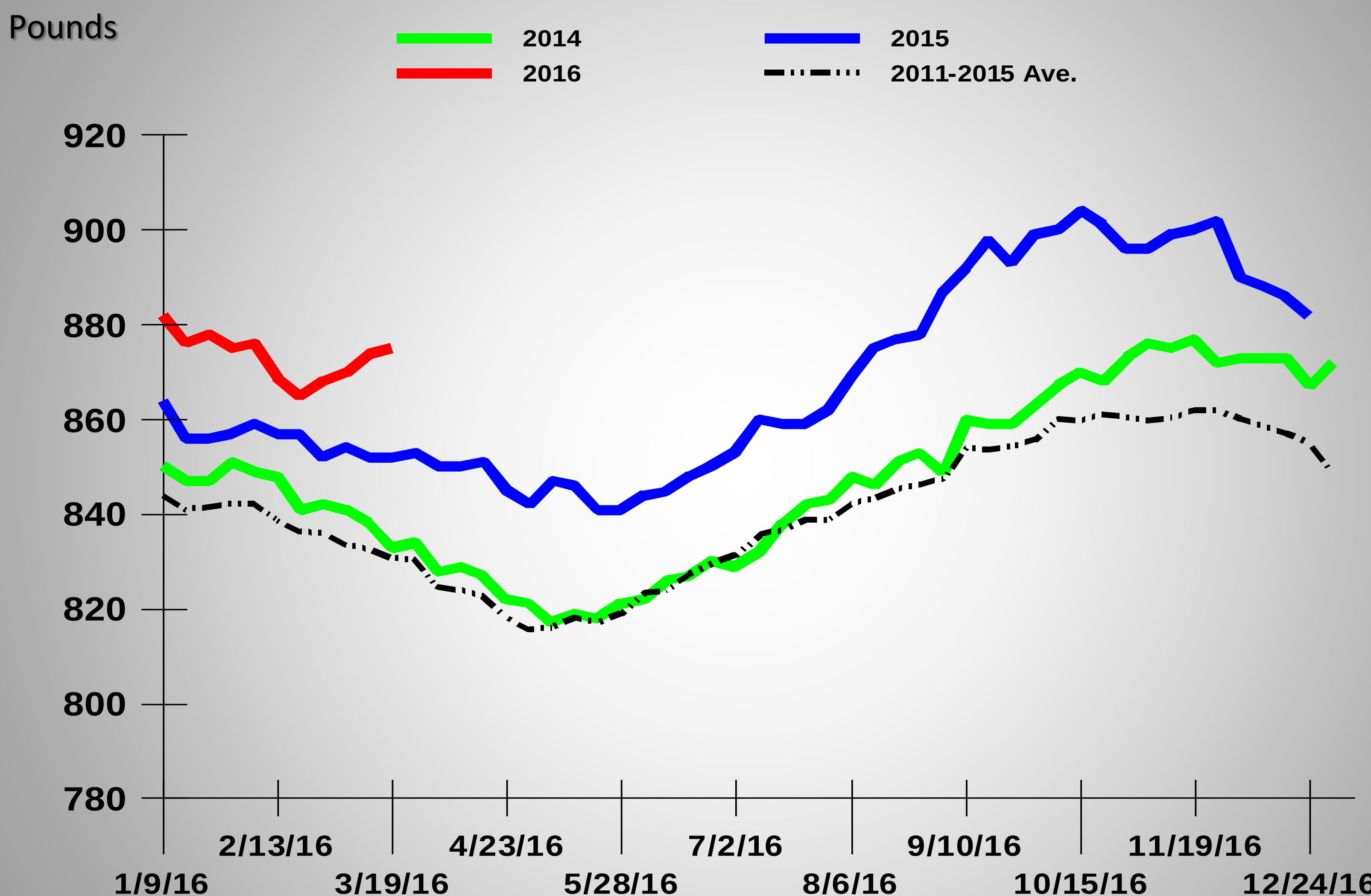


U.S. Commercial Cattle Slaughter



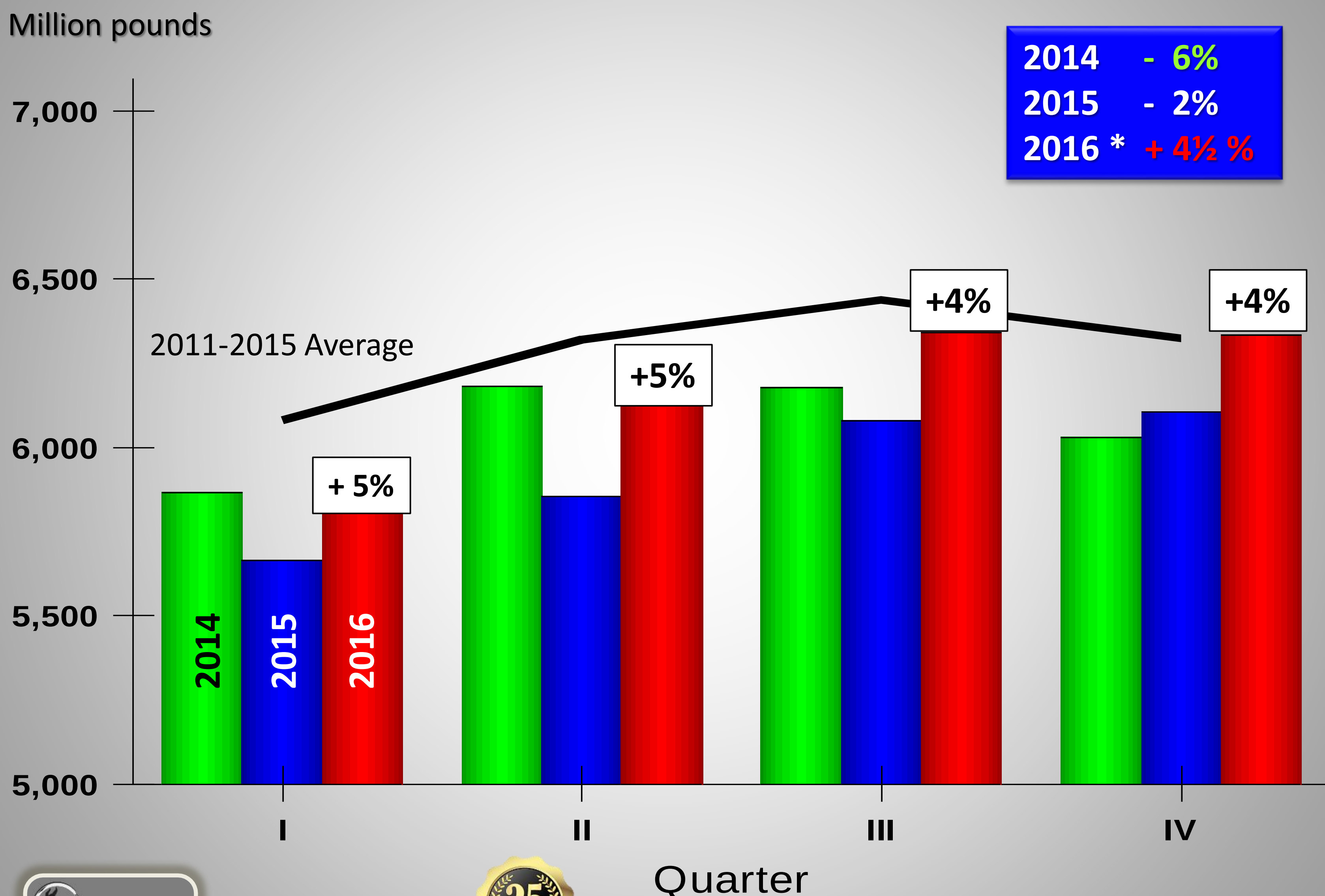
Sterling Forecast – March 29, 2016

Combined Steer & Heifer Carcass Weights



25 YEARS

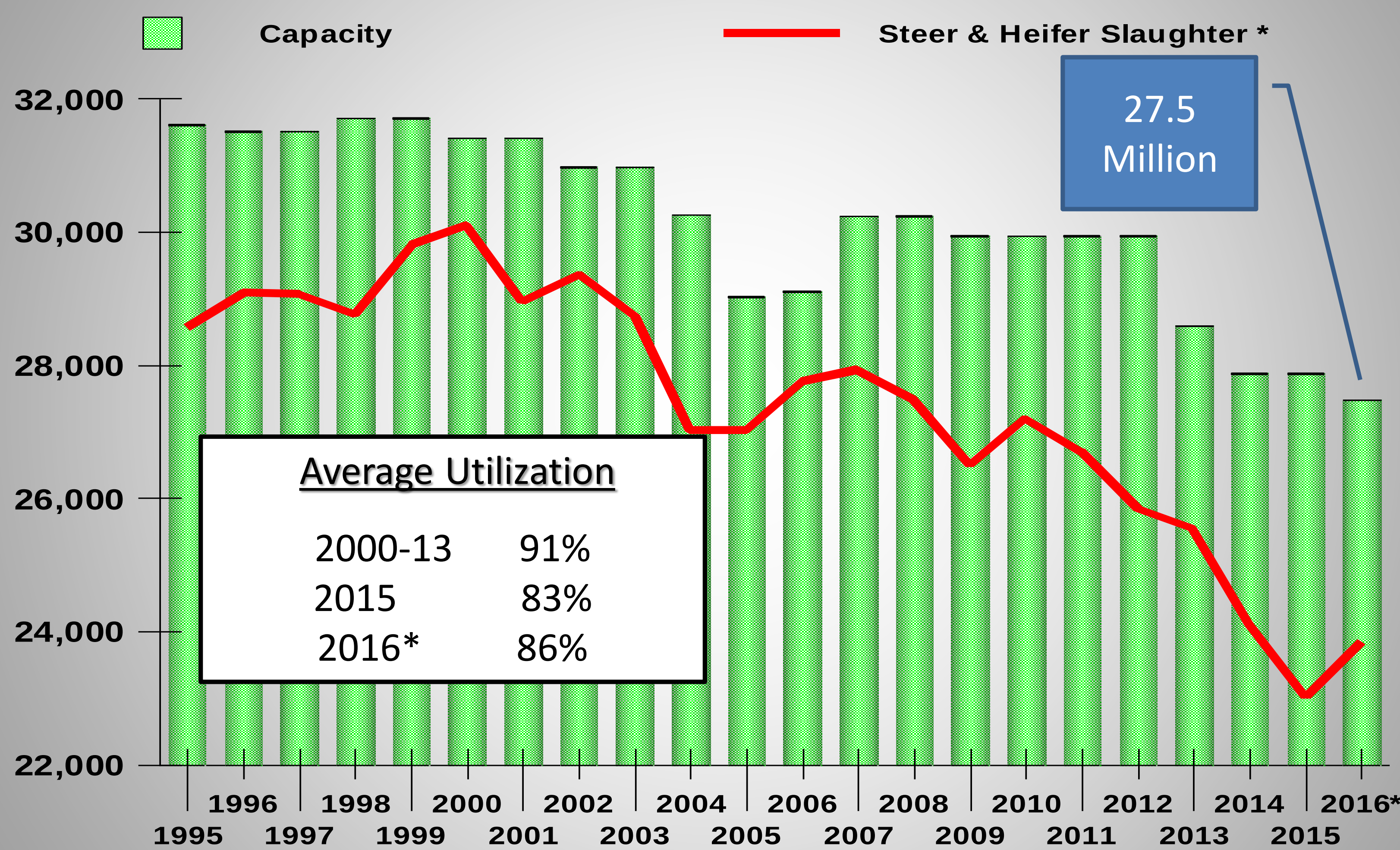
U.S. Commercial Beef Production



Sterling Forecast – March 29, 2016

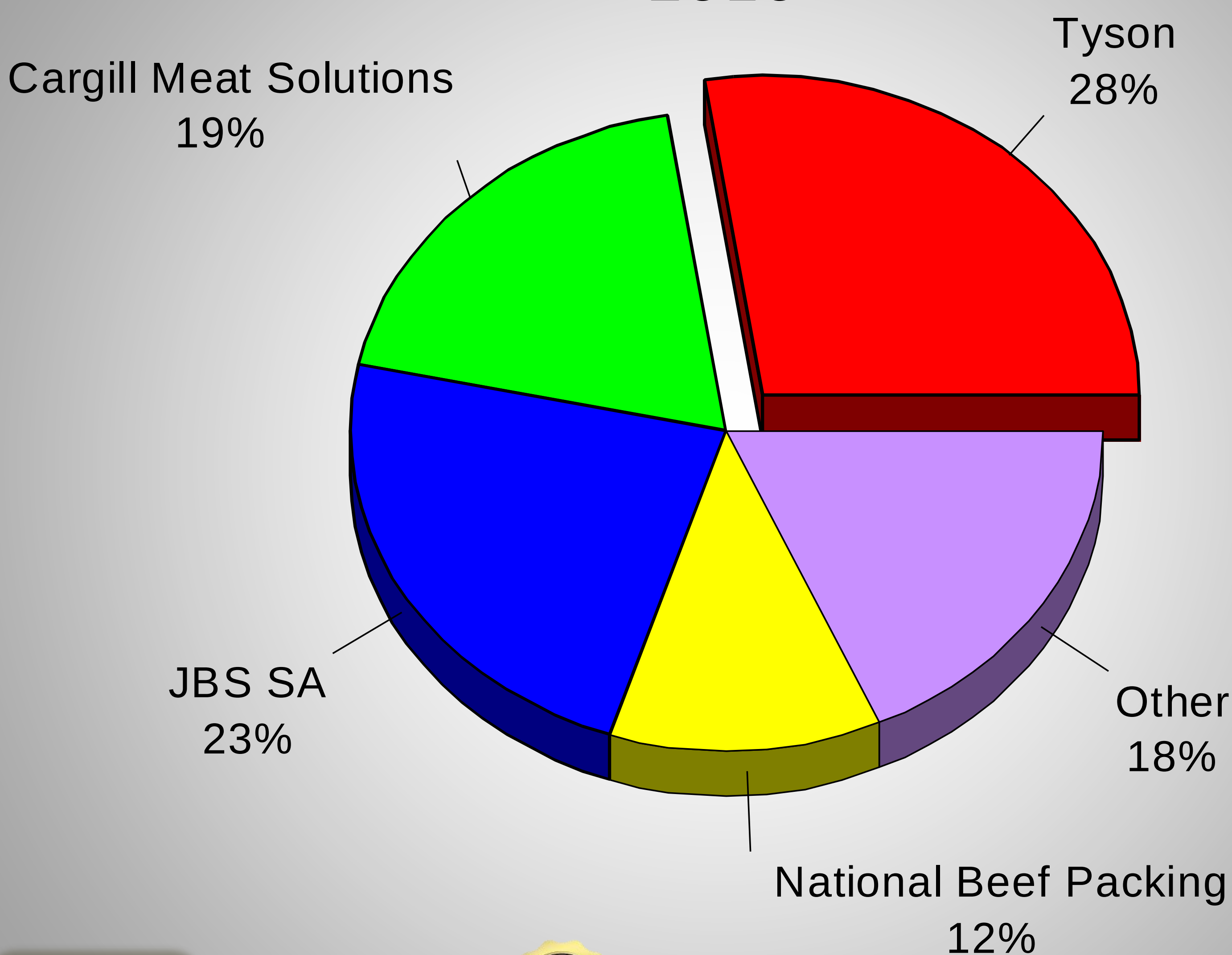
Fed Cattle Slaughter Capacity & Utilization

Thousand head



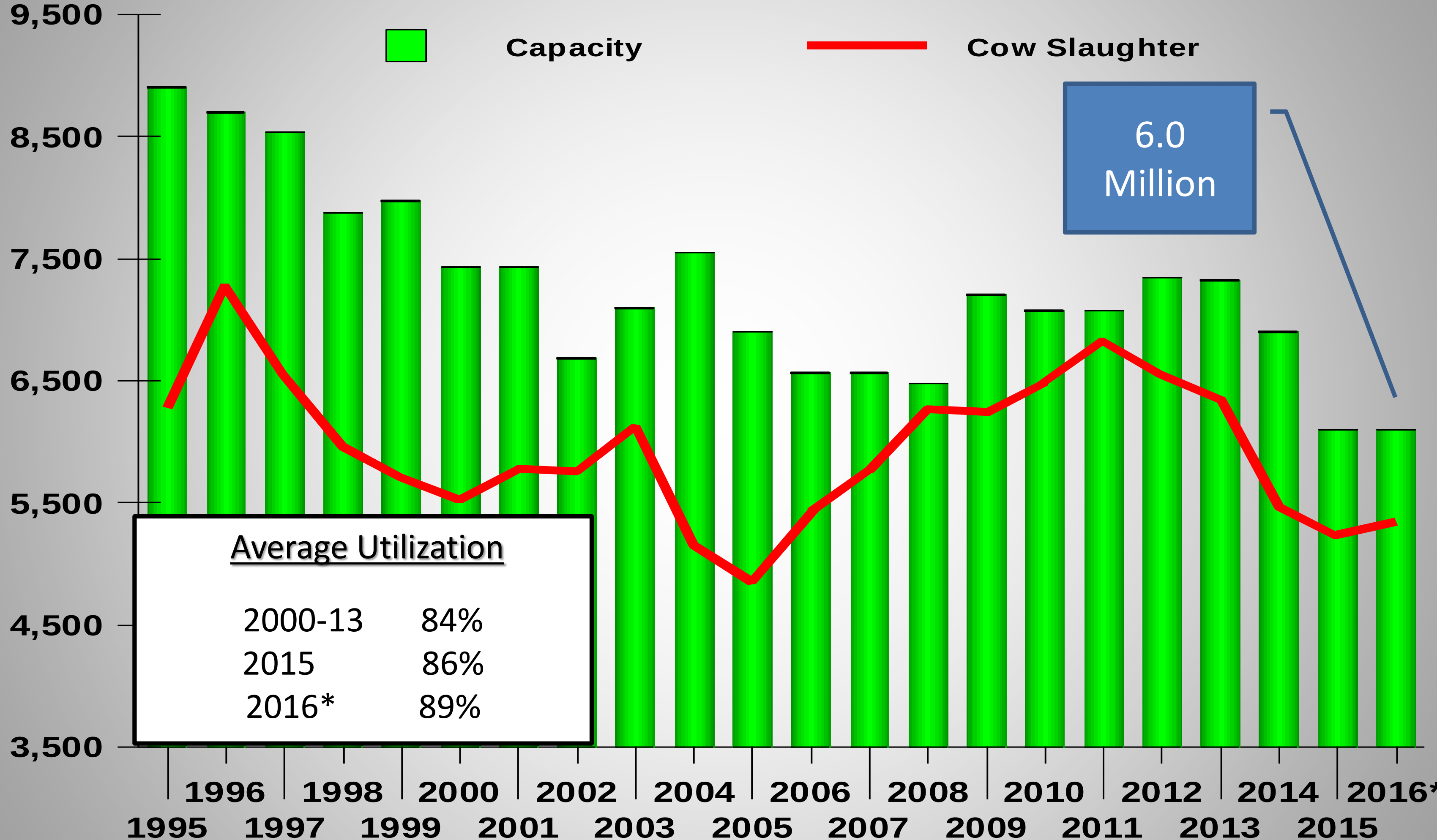
Fed Beef Packer Concentration

2016



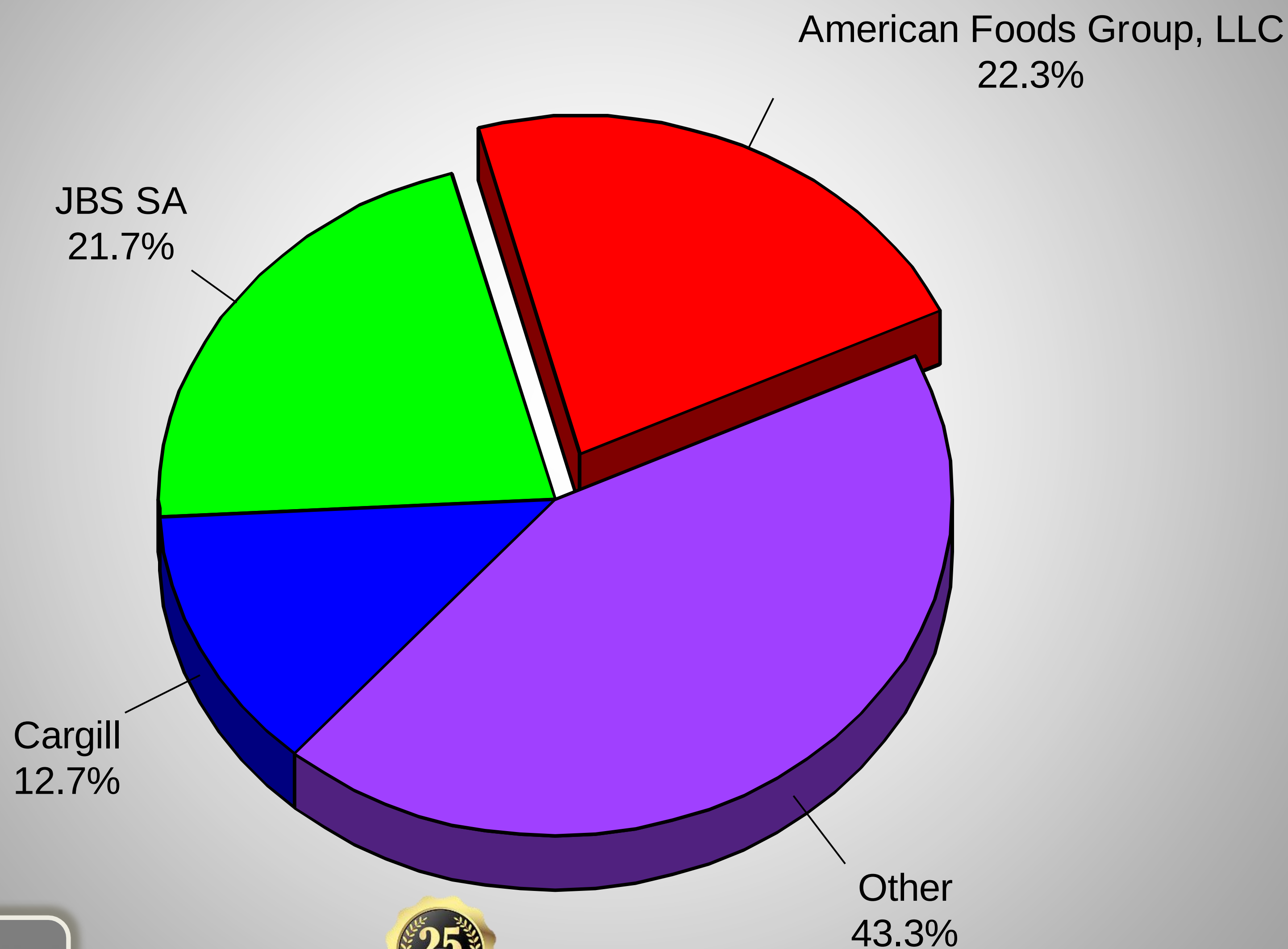
Cow Slaughter Capacity & Utilization

Thousand head



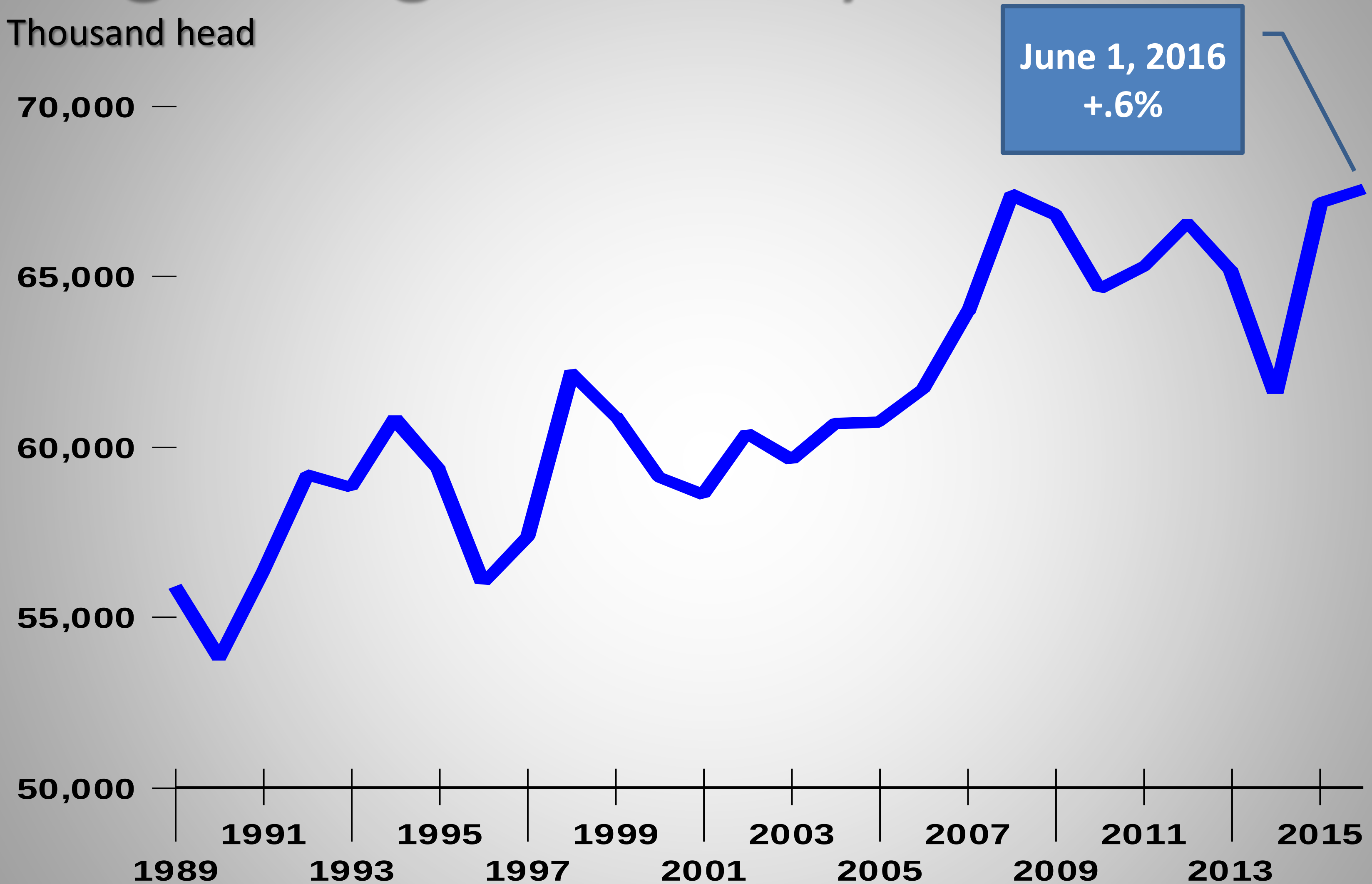
Cow Packer Concentration

2016

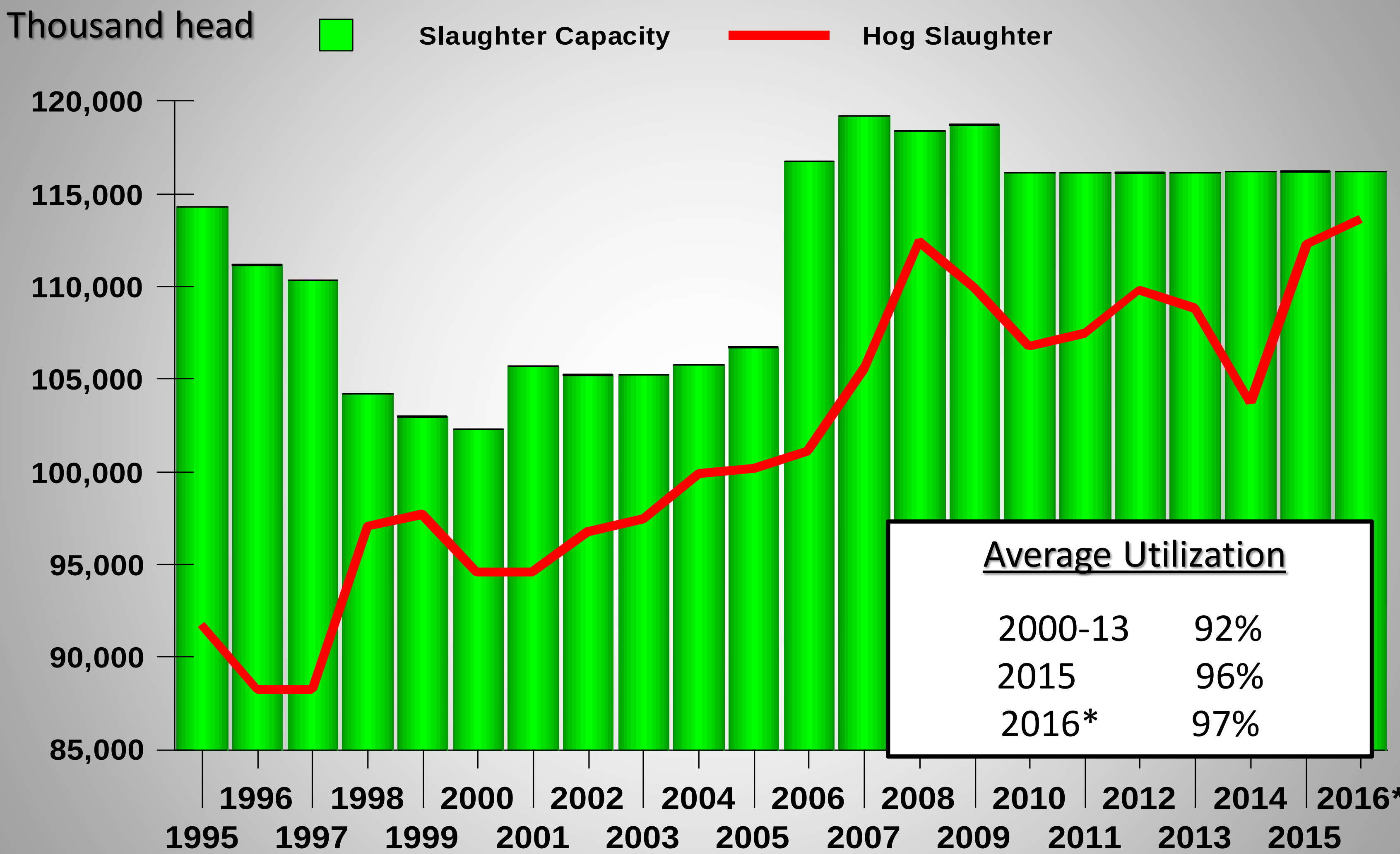


Pork Industry

Hogs & Pigs Inventory – June 1

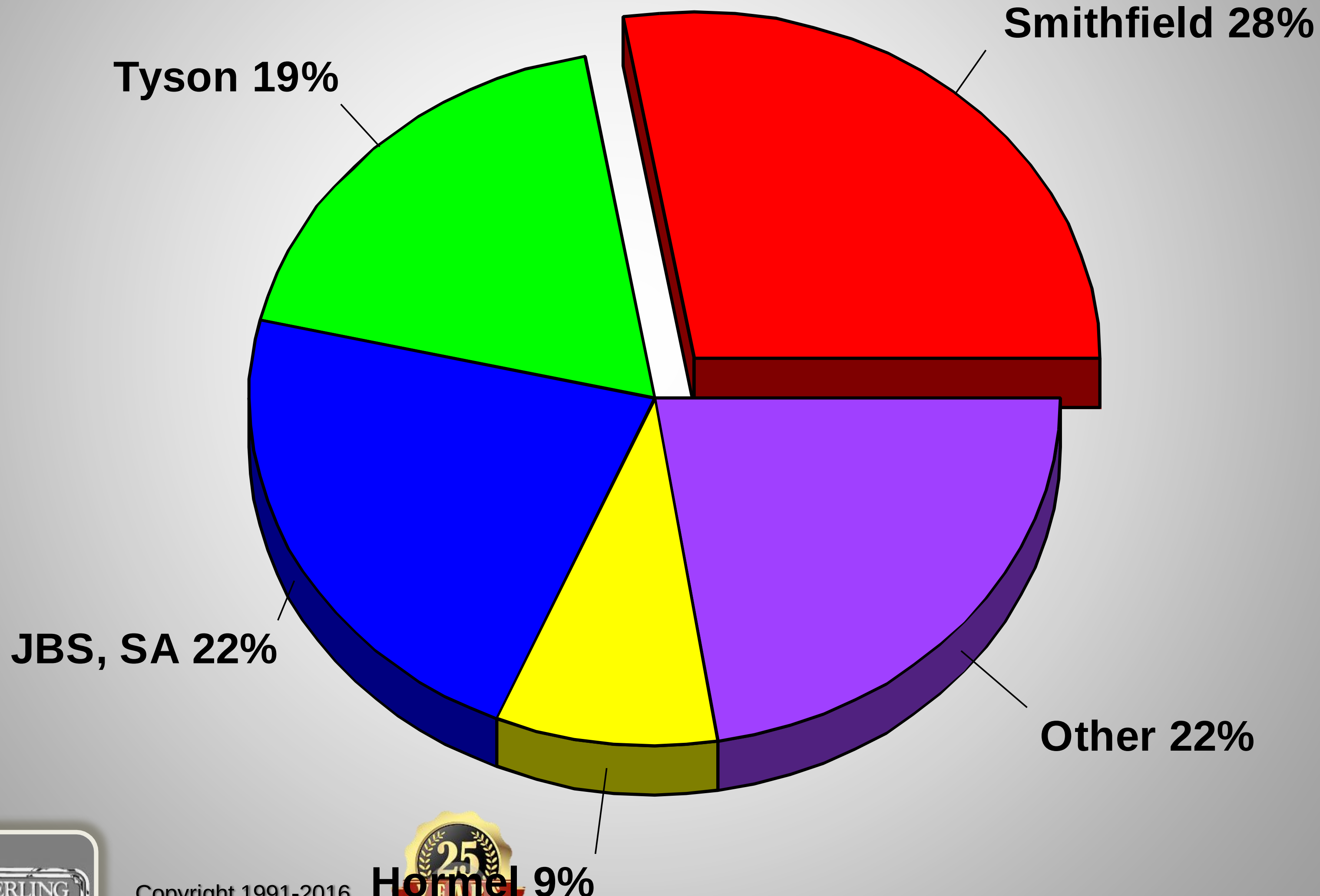


Market Hog Slaughter Capacity & Utilization



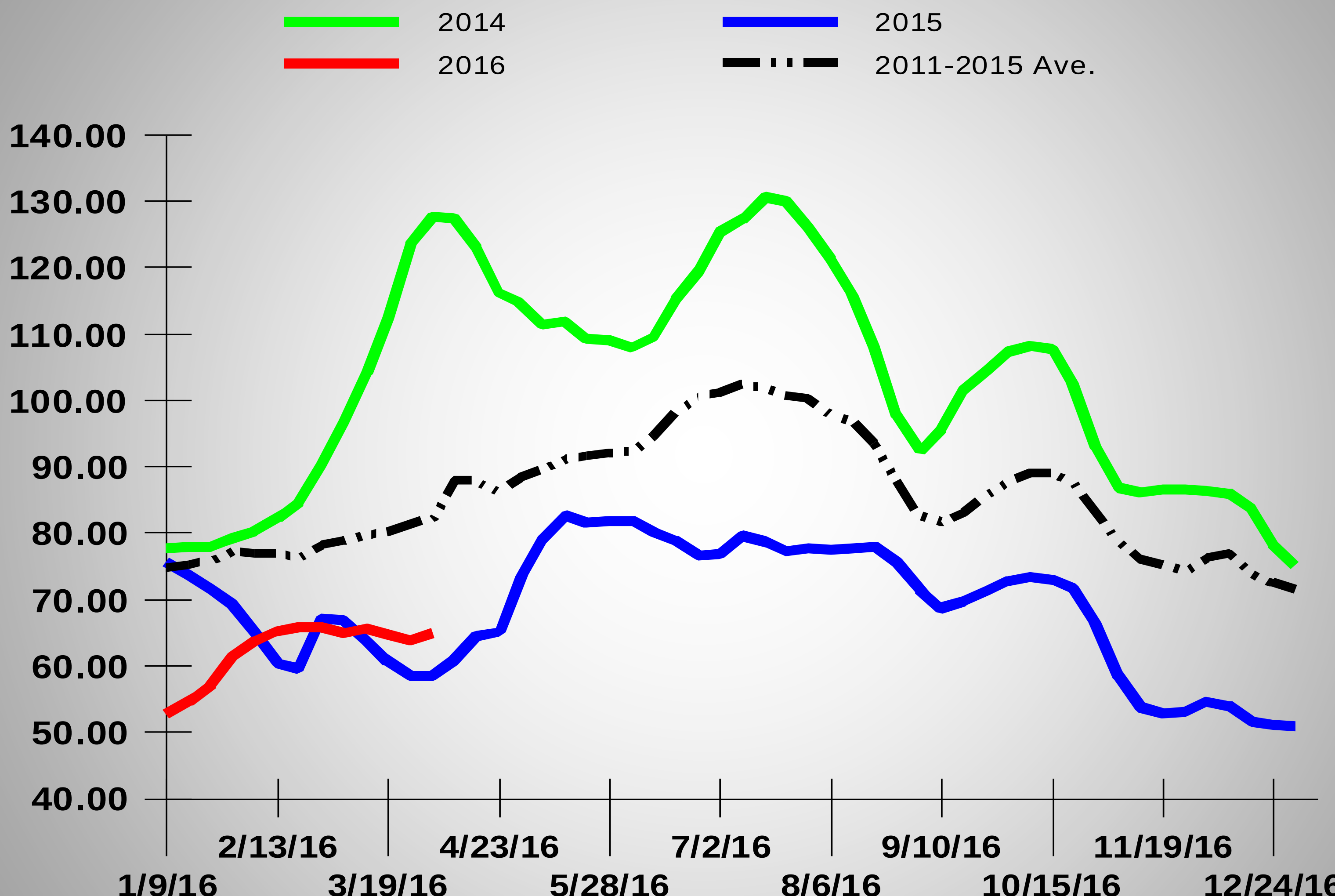
Annual Slaughter Capacity = 117 million
Daily Slaughter Capacity = 449,880

Pork Packer Concentration
2016



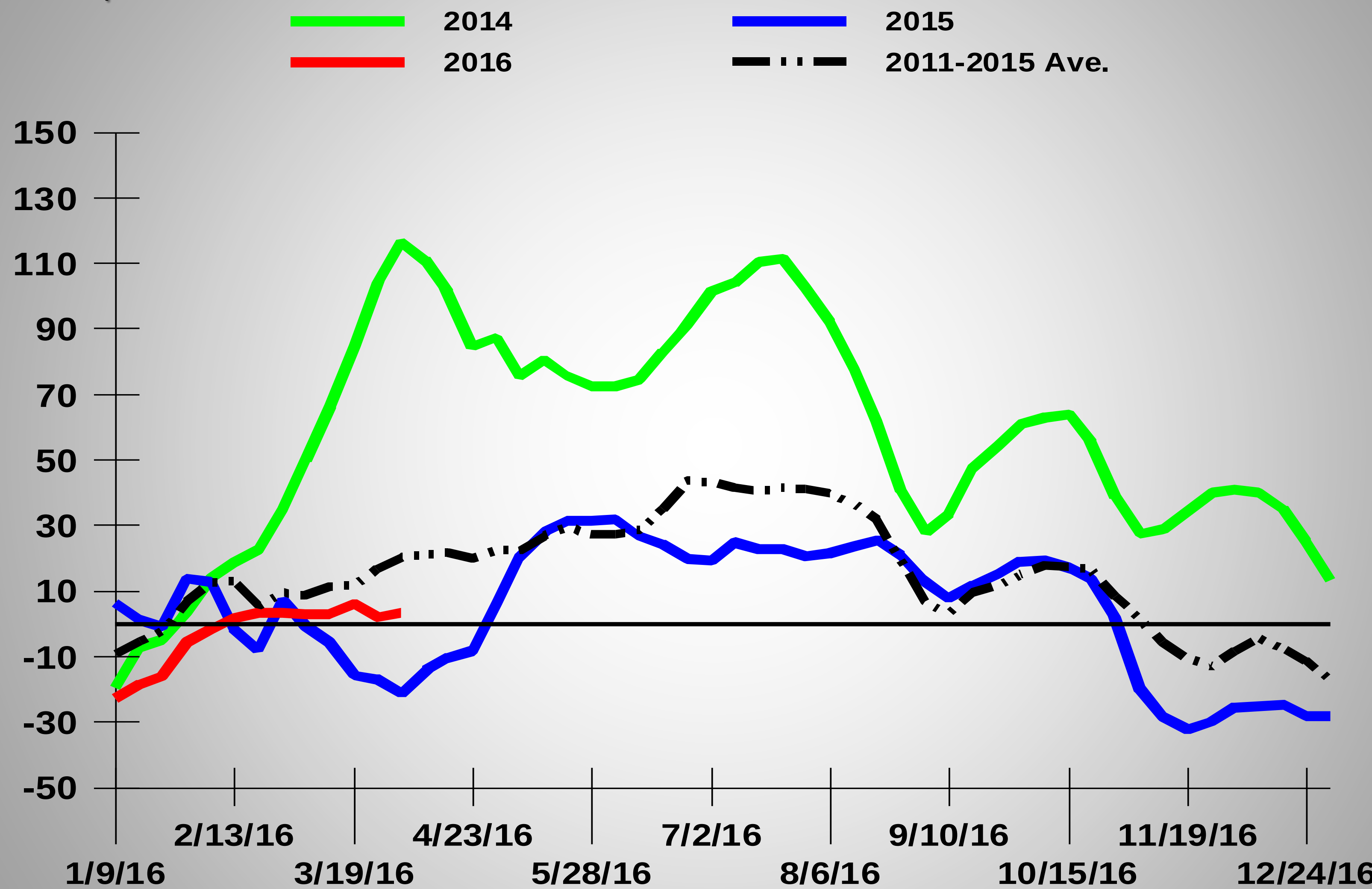
Lean Carcass Value

Dollars per cwt



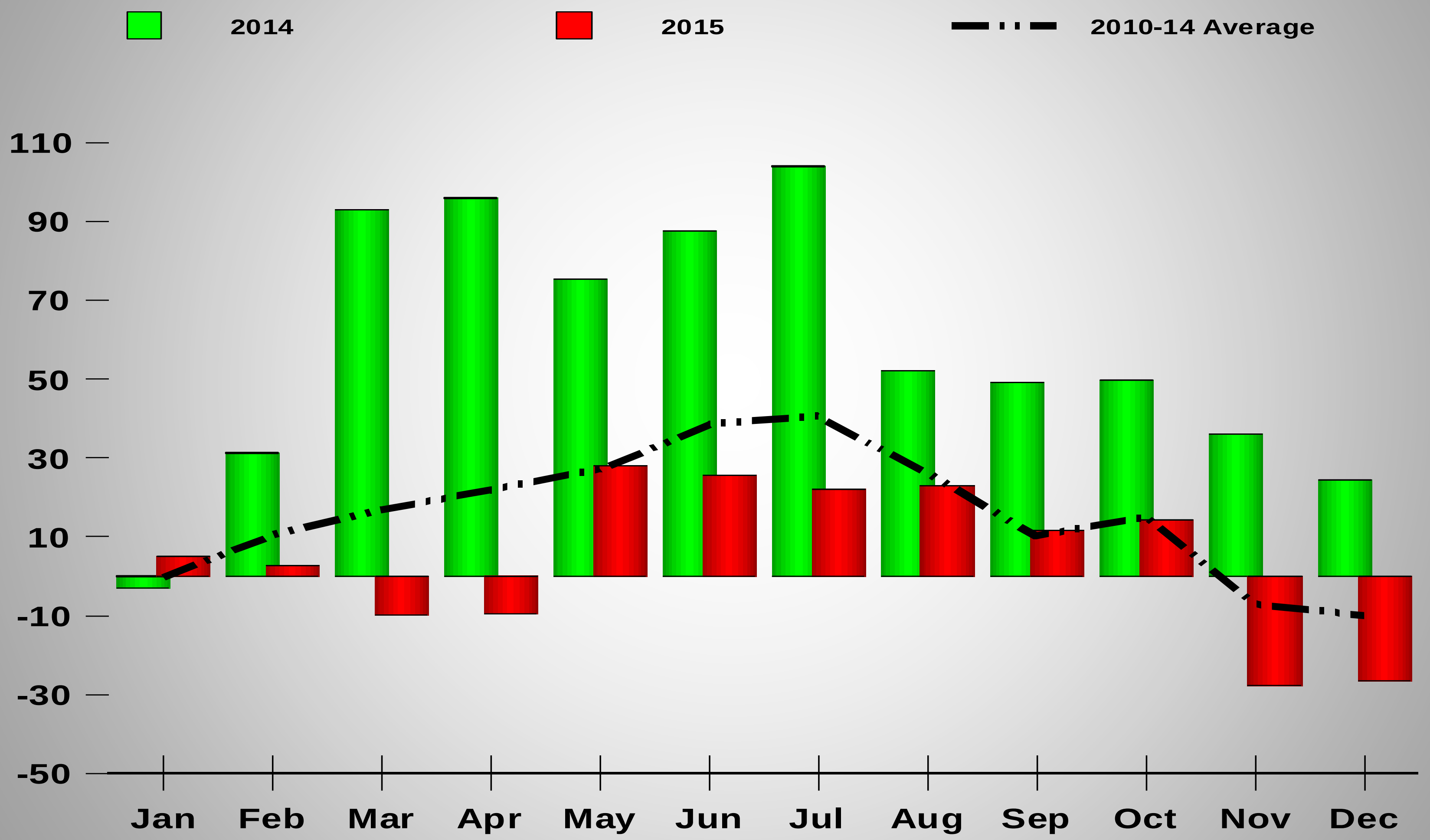
Hog Producer Margins

Dollars per head



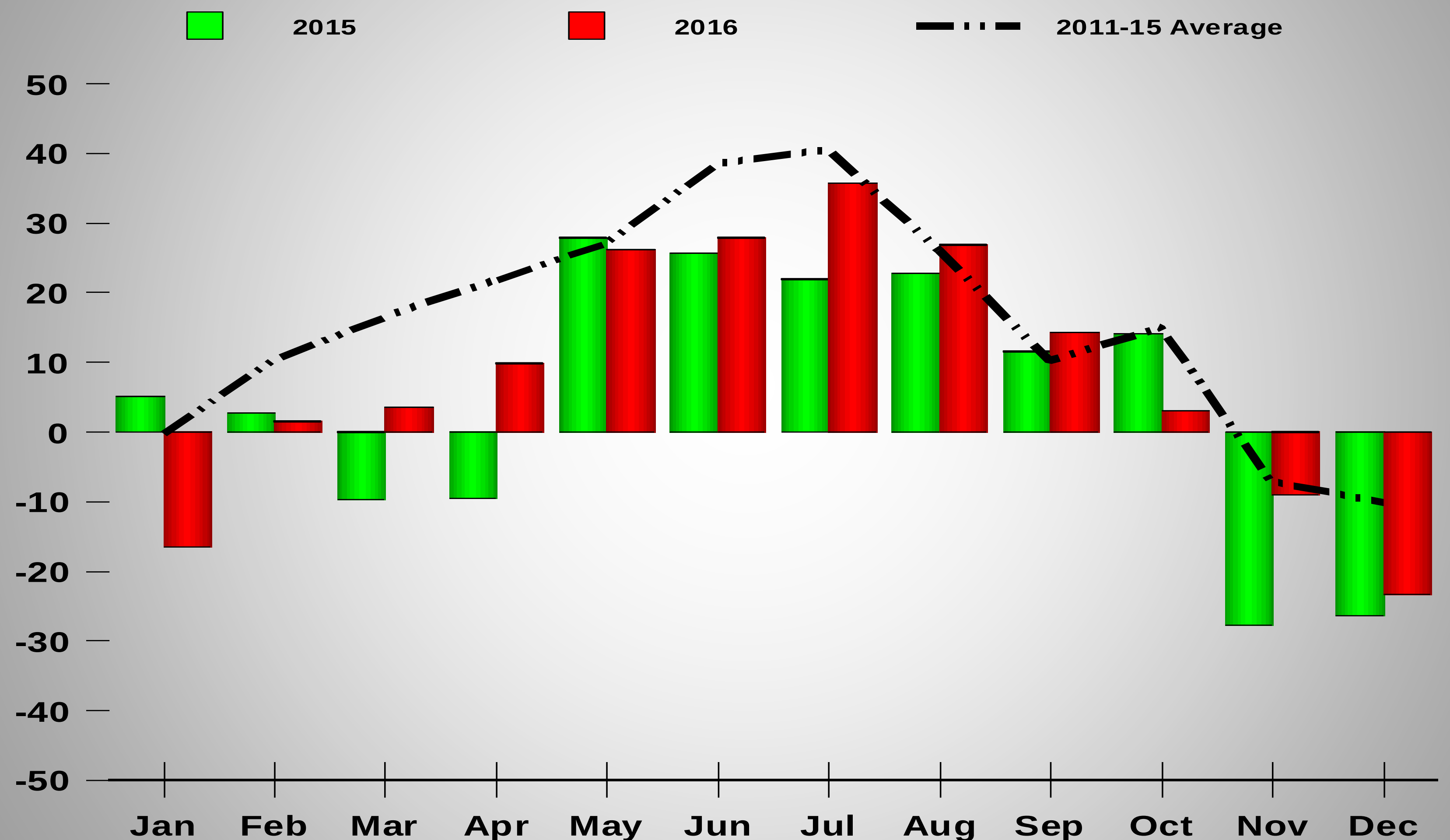
Hog Producer Margin

Dollars per head

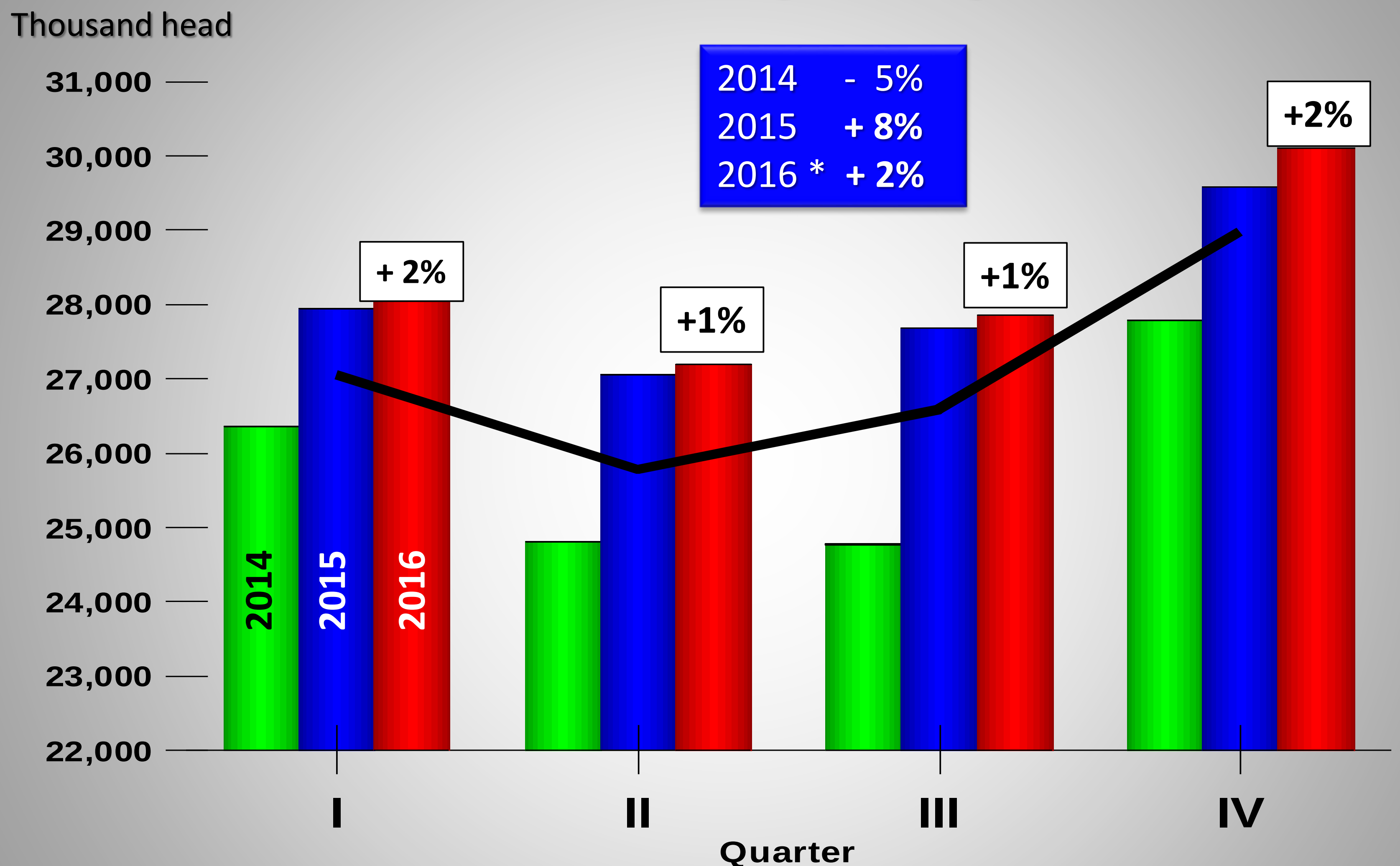


Hog Producer Margin

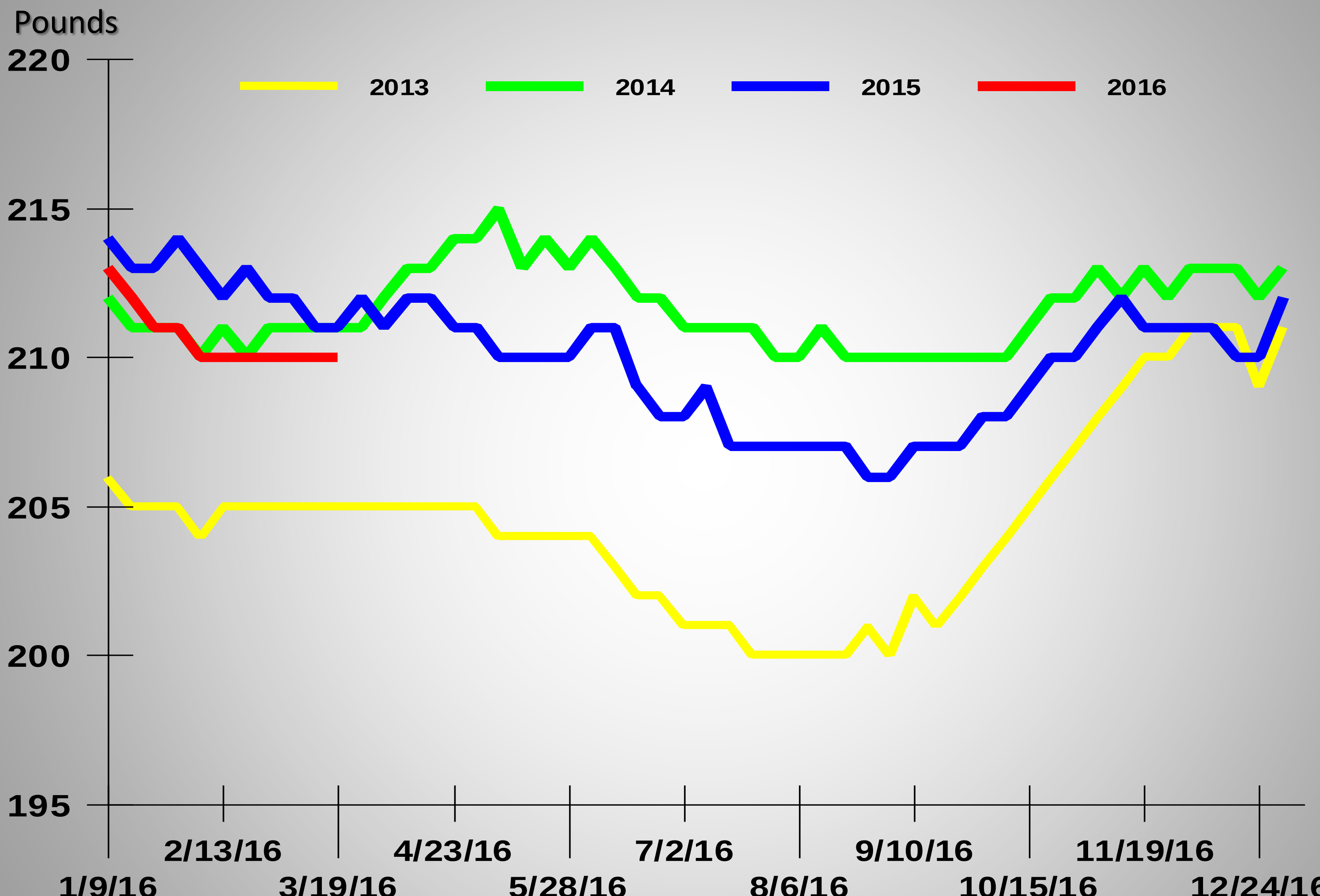
Dollars per head



Commercial Market Hog Slaughter



Market Hog Carcass Weights



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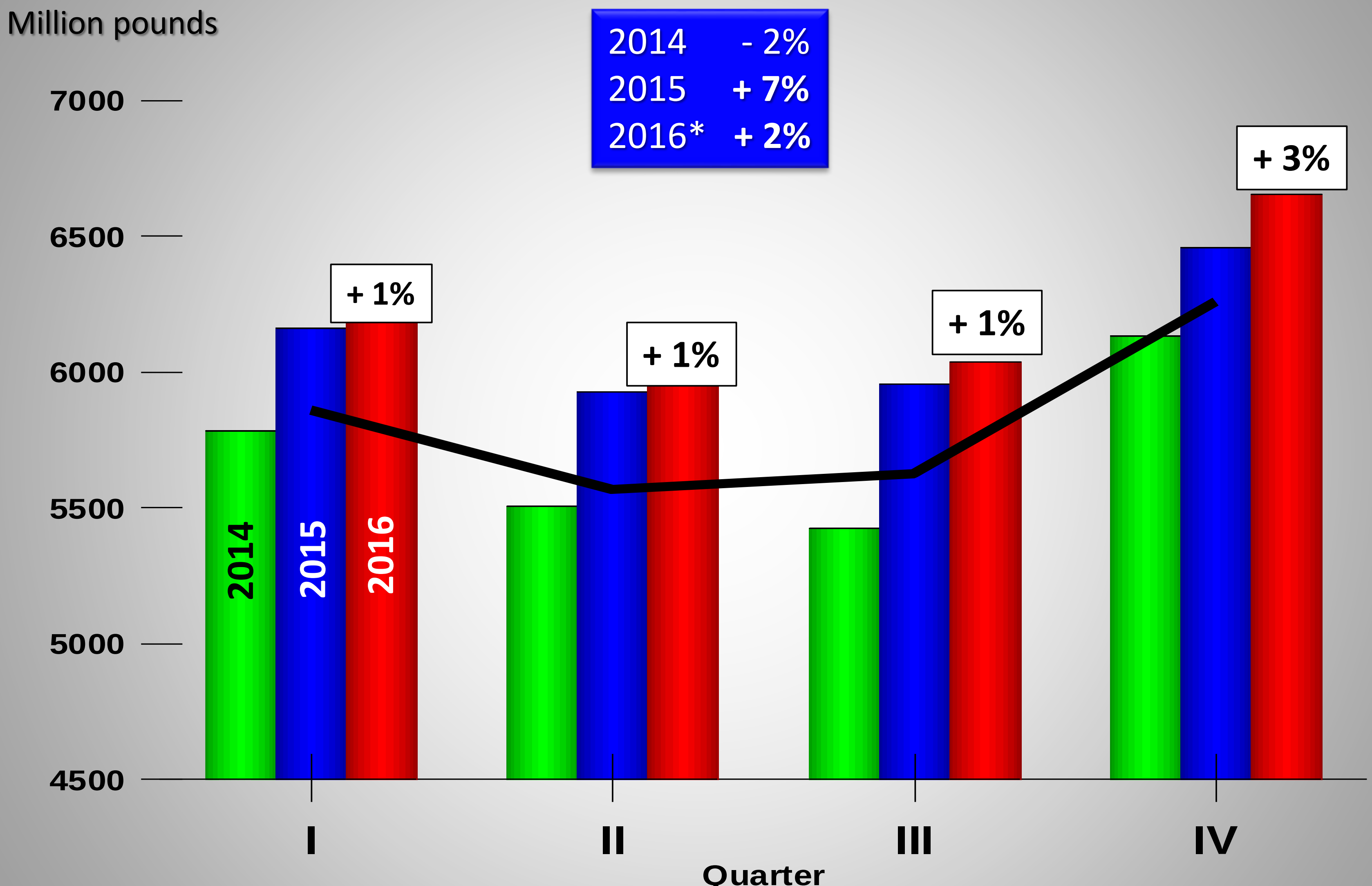
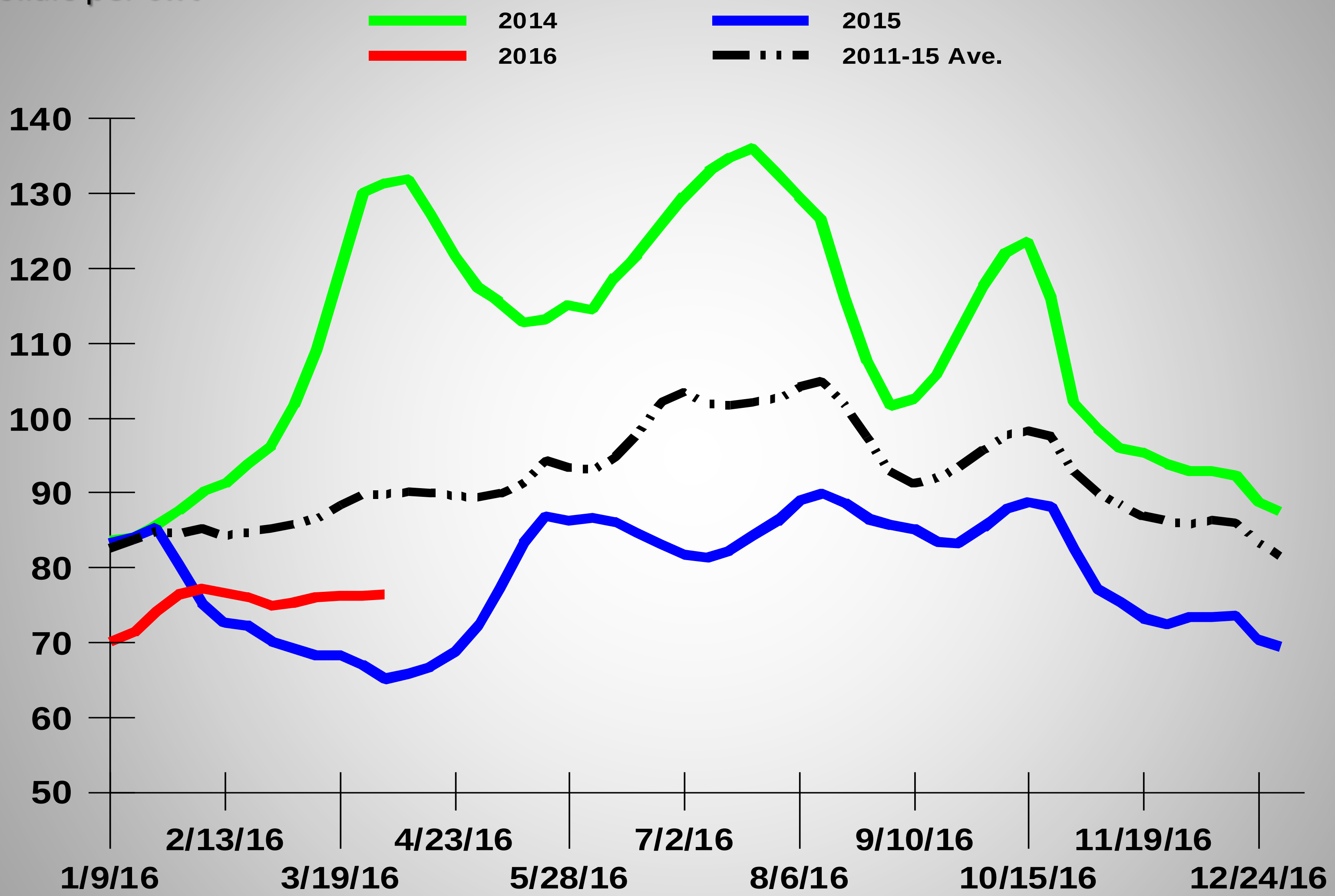
U.S. Commercial Pork Production

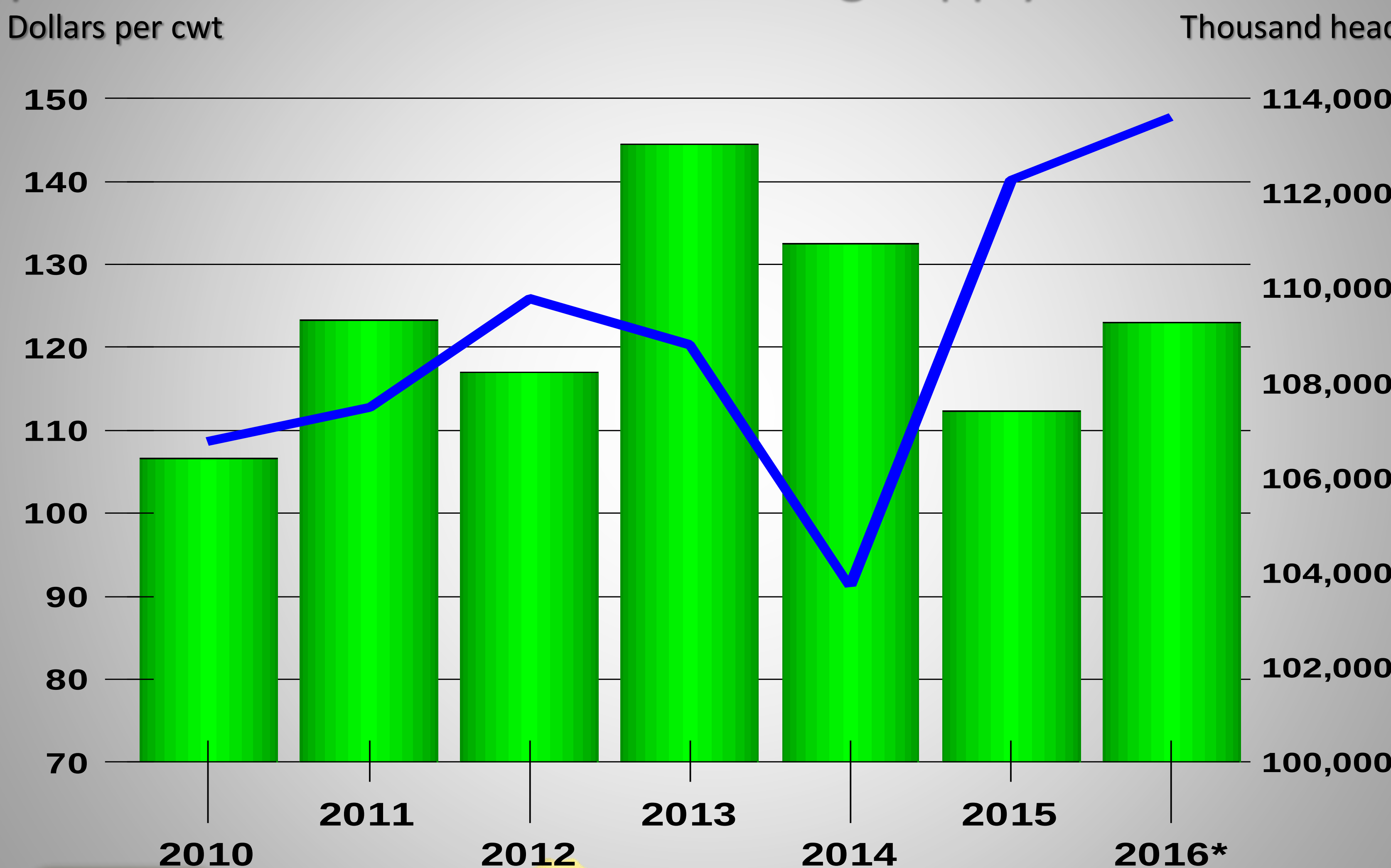


Pork Cutout Value

Dollars per cwt

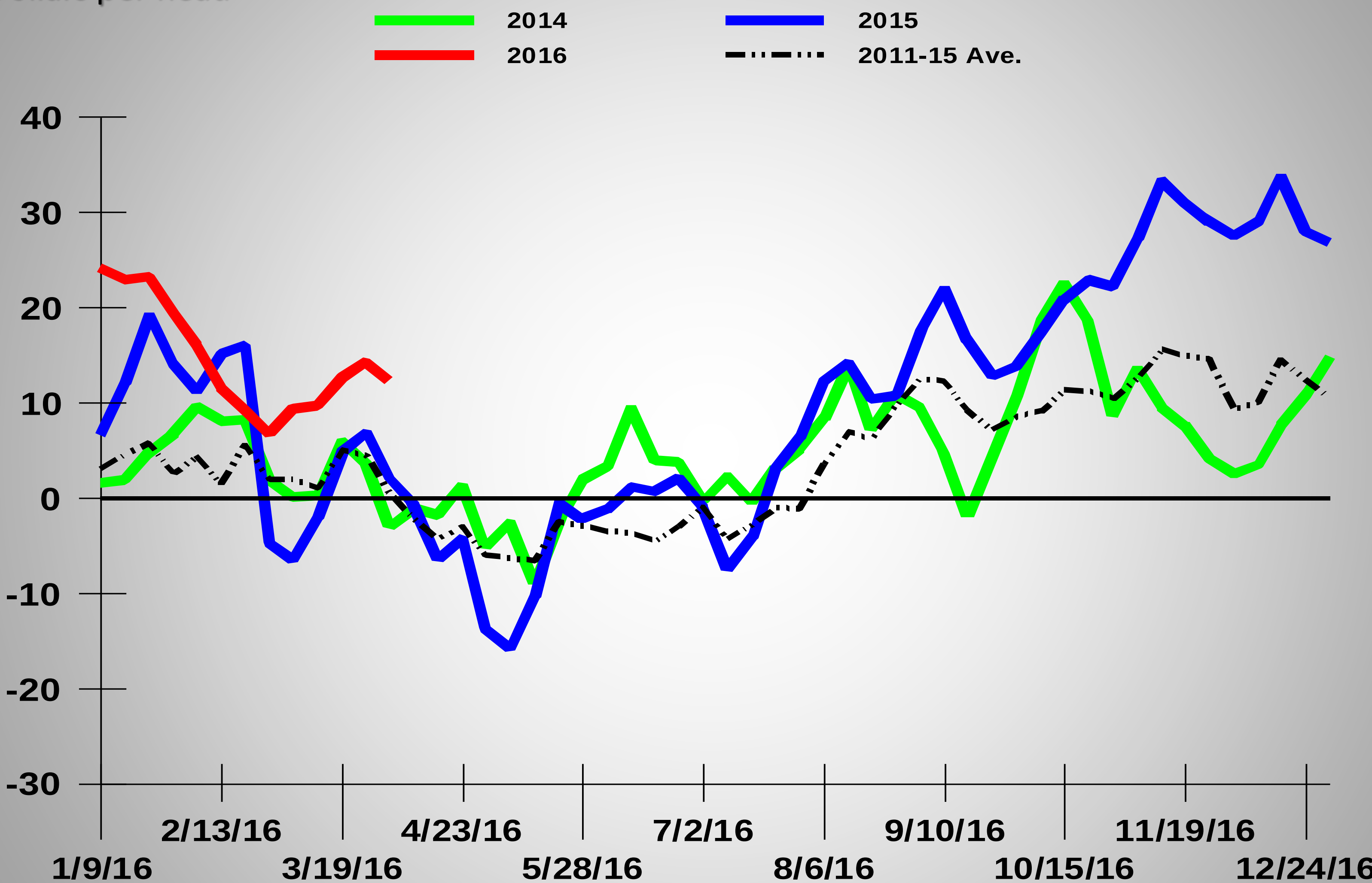


BACON DEMAND GROWS as evidenced by strong belly prices in the face of increased hog supply.



Pork Packer Operating Margins

Dollars per head



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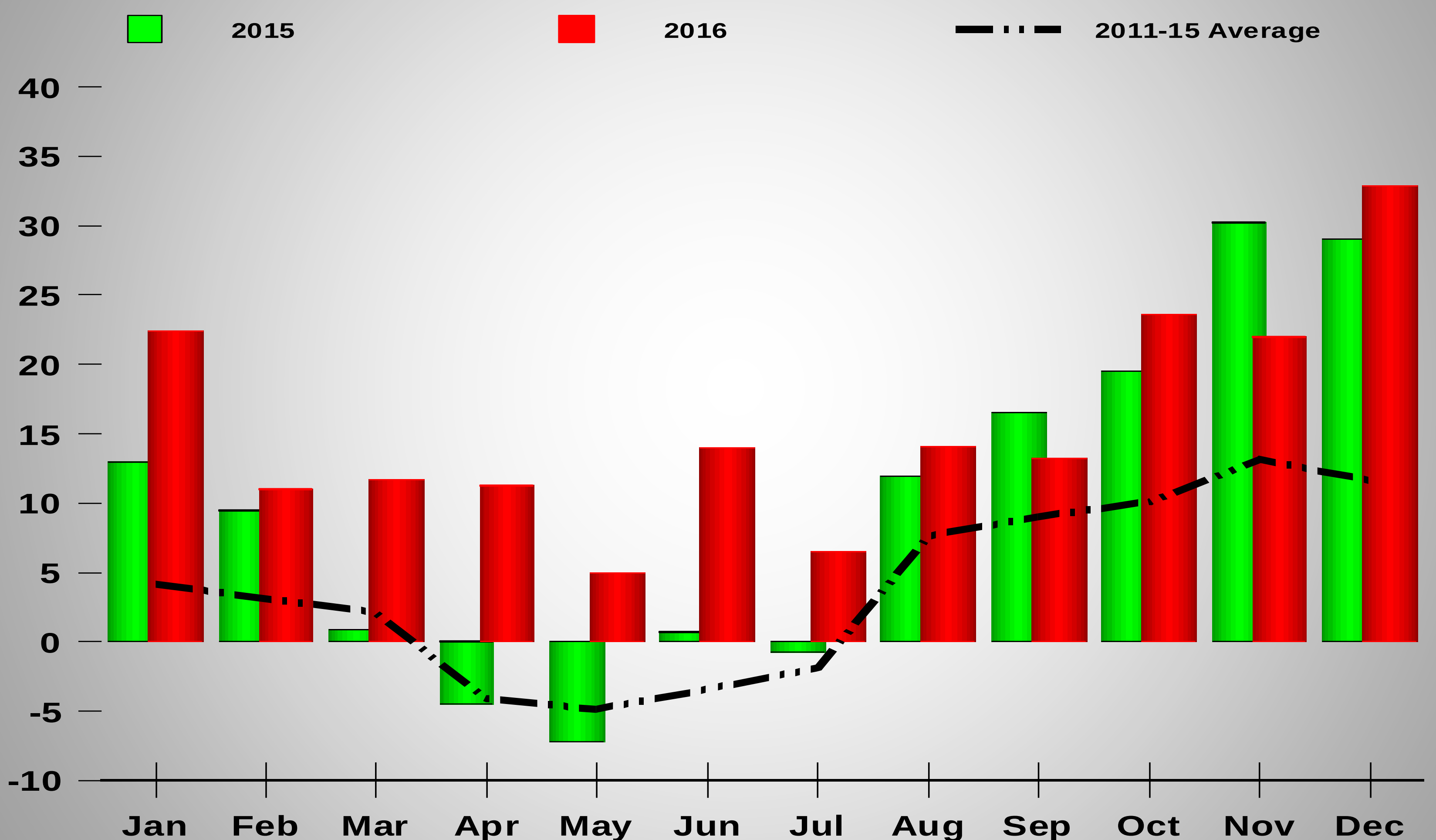
Pork Packer Margin

Dollars per head



Sterling Forecast – April 1, 2016