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Coverage starts on page 10

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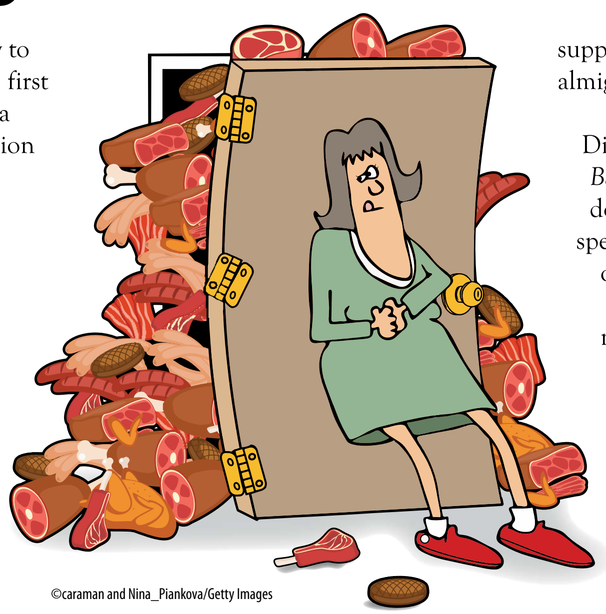
Perfect market conditions a win-win for consumers …

Supply dominates again

Abundant. This is the most accurate way to describe the protein situation during the first quarter of 2018. Suppressed feed prices, a weakened dollar, and production expansion in the United States and abroad have all contributed in some way to the influx of meat, poultry and seafood currently experienced in the U.S.

Q1 total red meat production, total ready-to-cook poultry production and shrimp imports all posted record highs for the quarter. Protein is available and, in many cases, offered at some of the lowest prices seen in some time. This has created both opportunity and challenge as the various industries learn to contend with these supplies and ultimately compete for the almighty consumer dollar.



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Dispersed throughout this issue of *Urner Barry's Reporter*, our analysts will break down how we got here; citing protein-specific factors and broader economic or geopolitical happenings in the process. While the story of every market is unique, common threads such as supply or trade concerns will be found intertwined throughout many of the pieces. During this period of expansion in food availability one winner appears to consistently emerge from these trials and tribulations—the consumer. UB

Three great days, one great event!

Urner Barry celebrates 42nd annual Executive Conference and Marketing Seminar

This past May Urner Barry celebrated its 42nd annual Executive Conference and Marketing Seminar in Las Vegas at the Aria Resort & Casino.

Top executives from the protein industries came together to celebrate another great conference. This year, guests had the opportunity to hear from top industry and business experts and intriguing speakers including Randy Day, CEO of Perdue Farms, and Phil Lempert, "the Supermarket Guru." Plus, Todd Cruise of Walmart, Trip Straub from the Straub Group and Cathy Strange from Whole Foods Market also provided informative sessions.

Urner Barry's guests also took part in the annual Person of the Year award ceremony. Since 1986, this prestigious event has been a highlight of the

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Marbling (taste fat) provides appeal, has much potential.


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Center of the plate

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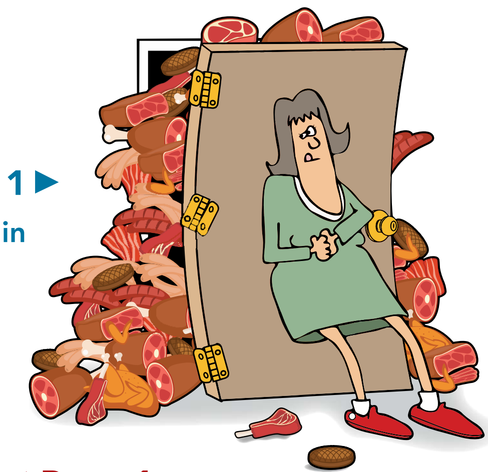
Supply dominates again



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Urner Barry celebrates 42nd annual Executive Conference and Marketing Seminar

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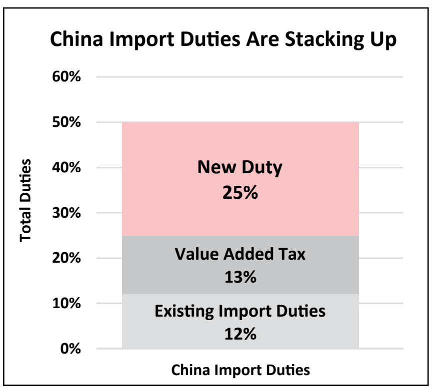
The numbers behind the Chinese pork duties

In the beginning of April 2018, China placed a 25% duty on a number of fresh and frozen pork cuts, including offals, carcasses, bone-in hams and shoulder products.

While the full impact of the newly imposed Chinese duties has yet to be realized, we can still take a look at the numbers behind the scenes.



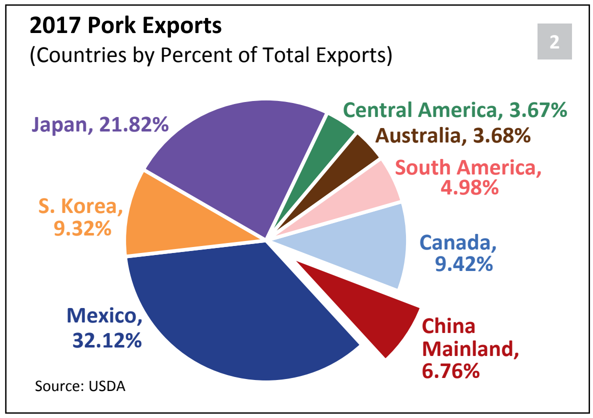
First, it is important to note that there were already duties imposed on pork going into China. An import duty of 12% and a value added tax (VAT) of 13% combined for an existing 25% tax on imports. That means that with the newly added 25% duty, there is now a 50% total tax on imports into the Asian nation... that's a figure that could certainly impact sales.

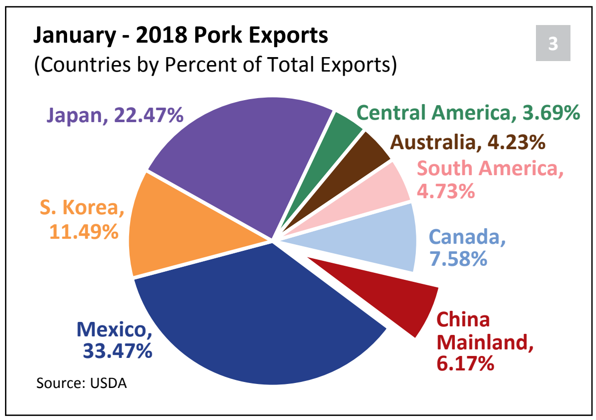
China may not even currently be that in need of U.S. pork regardless of duties. Their domestic hog prices have plummeted 35% since the beginning of the year, indicating ample domestic supplies of livestock and meat. In addition, they import more than twice as much pork from the EU than from the U.S. and

“Essentially this means that this tax will likely affect us more than it will them...”

have a number of other sources from which to secure meat if necessary. Essentially this means that this tax will likely affect us more than it will them, and the timing and decision to choose this commodity is likely not a coincidence (Chart 2).

On the topic of how much it will affect U.S. industry; while specifics are impossible to predict, we can inspect the recent history of supplies going to China. In 2017, exports to mainland China equated to just under 7% of our total pork exports. Of our total domestic pork production during the year, exports to China represented 1.5% or 380.5 million pounds of our 25.4 billion-pound 2017 production. Two points of reference: first, our number one destination of pork, Mexico, constituted 32% of pork exports in 2017 at 1.8 billion pounds. Secondly, the 380.5 million pounds that China imported over the whole of 2017 is 9.3 million pounds less than the smallest weekly pork production figure that we had in 2017 (the week of the 4th of July) (Chart 3).





The question of course is on the cuts that primarily composed that 380.5 million pounds. If the majority of that weight was carcasses or multiple primals, the effect of a slowdown may be modest. However, if a sizable amount of it is an isolated couple cuts or mostly offals, the effects could be more pronounced. Time will tell, and in the current environment, it does not look like these new measures will be reversed quickly. UB

Article contributed by **Russell Barton**
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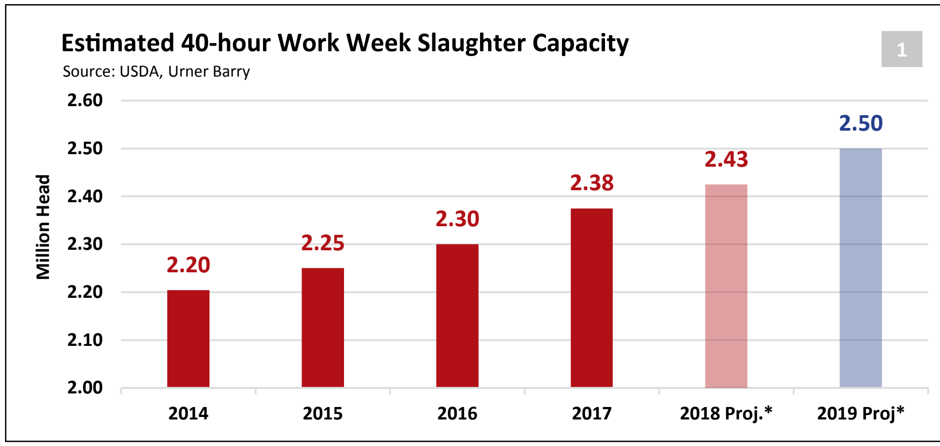
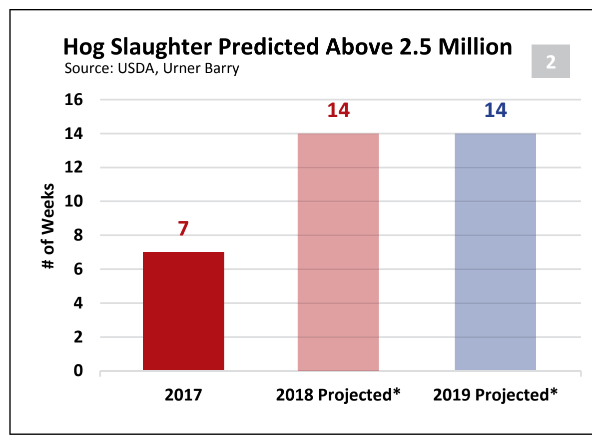
Additional pork processing capacity could pinch packers' supplies, returns

The U.S. pork industry has been preparing for the second round of additional processing capacity to come online, and some plants could feel the pinch in their hog supplies as well as their operating margins down the line.

A second shift is being added to the Seaboard/Triumph Foods plant in Sioux City, Iowa and is scheduled for late spring or early summer start up. The Prestage Farms plant in Wright County, Iowa is on pace to open late in the year. Each will be able to process about 10,000 head daily once they are running full speed, and that should push the industry's capacity to just under 500,000 head by sometime in the first quarter of 2019.

Since these two companies are vertically aligned or integrated, a large share of the hogs they process come from their own farms, LLC members or contract producers. The hog supplies that will be going to these plants have previously been available to other packers, but over time most of that source will dry up, and some facilities could feel the pinch on supplies. This could also affect the prices they pay as they compete for a smaller number of hogs that are not already committed to a particular packer.





With the daily capacity to approach 500,000 head a day in under a year, packers will be able to process nearly 2.5 million head in a five-day work week. To put this in perspective, in 2017, the U.S. had only seven weeks of 2.5 million head slaughter and in 2016 there were just four weeks that reached that level. If the projected supplies for 2018 (as based on USDA's March Hog and Pigs report) are achieved, this year could see 14 weeks of slaughter over 2.5 million head. This would be reached during the final four months of the year when daily capacity is expected to be in the area of 485,000 head or more. (Charts 1 & 2).

While hog production is up this year to record levels, the number of animals to be available on an open market or non-committed basis could be unchanged to somewhat smaller. That could force traditional packers that depend on other sources of supply to bid more aggressively or consider trimming their slaughter schedules to just five days a week. Some companies have regularly operated six days a week or rotated their plants between five and six-day workweeks when supplies are sufficient and they have acceptable processing margins.

Article contributed by Curt Thacker
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"The hog supplies that will be going to these plants have previously been available to other packers..."

Steak and whiskey ...

Irish beef exporters eye U.S. market

Marketing sustainability, traceability and taste to win over the biggest beef market in the world

Ireland's leading beef exporters have launched a promotional campaign to boost trade in the U.S. market.

Ireland's Minister for Agriculture, Food and the Marine, Mr. Michael Creed was on hand to help kick off the campaign at the 2018 Annual Meat Conference held in Nashville, along with Tara McCarthy, Chief Executive of the Irish Food Board, or Bord Bia.

"It's our biggest indigenous industry, the Irish agri-food sector. We export 90% of what we produce all over the world. We're in 180 different countries. So, we live or die by our reputation, and we take it extremely seriously," stated Creed. "We're very conscious that, in many respects, we're only as good as the last offering we made to the consumer. And that's why we insist on meeting the highest global standards."

Ireland's Minister for Agriculture, Food and the Marine, Mr. Michael Creed was on hand to help kick off the campaign at the 2018 Annual Meat Conference held in Nashville, along with Tara McCarthy, Chief Executive of the Irish Food Board, or Bord Bia.

Ireland is the fifth largest exporter in the world, and the largest net exporter in the northern hemisphere. Irish beef is offered in more retail outlets across Europe than any other exporter. In fact, 2017 marked the eighth consecutive year of export growth for the country. With the popularity of their product growing, Irish beef producers have now increasingly set their sights on the U.S. market.

Ireland was first approved to send primal cuts to the U.S. in January 2015. In 2016, access was extended to include beef intended for grinding. Two U.S. retailers listed Irish beef in 2017, according to Bord Bia.

There are currently six USDA-approved Irish meat exporters: ABP North America, Dawn Meats, Foyle Food Group, Kepak, Liffey Meats, and Slaney Foods International.

Tara McCarthy added that "the U.S. market, from our perspective, is the biggest beef market in the world. It's the biggest importer in the world. We felt our experience, our expertise, has a place here in the U.S. market."

Total beef production in Ireland has risen by 4.5% to 615,000 tons in 2017. Irish beef exports are currently valued at €2.5 billion.

McCarthy points out two important elements in their effort to market Irish beef: the first being taste, and the second being the how—touting the family farm and grass-fed process of raising Irish beef cattle.

"[Ireland] is the first country in the world to take a national approach to sustainability."

This is in reference to Origin Green, Ireland's national food and drink sustainability program. The program involves a system of auditors who work with farmers to track things like carbon efficiency, waste management, traceability, biodiversity, output levels, daily live weight gain, and fertilizer and nitrogen use.

"When you look at what makes up our industry, it's very strongly based on meat and dairy products. And if you analyze the background of meat and dairy—it's grass. And that's really the magic ingredient that comes from Ireland," McCarthy noted.

Irish beef, through USDA's Process Verified Program, received certification in 2017 for eight key claims: more than 80% grass diet for Irish beef cattle; pasture-raised up to eight months each year; raised on family farms; no growth hormones; responsible antibiotic use, prescribed only for the treatment of sick or injured animals; farm-to-fork traceability; Origin Green sustainability program; and quality assured farms and processing systems.

As for the taste component, Bord Bia cites the differences in taste between grain-fed, which is what most Americans are used to, and Ireland's mostly grass-fed beef as a factor in how the product is being introduced to U.S. consumers. However, marketers of Irish beef are confidently embracing the uniqueness and positive taste attributes of their product while fully acknowledging that there is, in fact, a difference.

"Our key challenge would be awareness and educating the consumer. And that's the phase we're in now."UB

Article contributed by **Jamie Chadwick-Lee** | jchadwick@urnerbarry.com

A long time ago, in an ocean far, far away ...

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The nation of Iceland is a peaceful one. Although its history began with the Vikings, the modern Republic of Iceland has never been in an official war. However, their history of neutrality is marred by one phenomenon: the Cod Wars. Officially a "militarized interstate dispute," the Cod Wars were a series of on-and-off conflicts between Iceland and the UK that ran from the 1950s until 1976. The cause? Fishing territories.

For centuries, British fishermen had fished international waters off the coast of Iceland. While Iceland had an exclusive fishing zone where foreign interests were forbidden, this zone had been negotiated when Iceland was a part of Denmark, and was rather small. Given the high importance of fishing to the Icelandic economy, this four nautical mile range was considered problematic. Following the first UN International Conference on the Law of the Sea in 1958, Iceland declared that their limit was now 12 miles, a move that was opposed by NATO. Britain said "no."

More specifically, they sent warships to say "no." Over the course of two years, more than 53 British warships escorted their trawlers in Icelandic waters, a force Iceland couldn't hope to match. Violence began between Icelandic fishing and patrol boats and the British fleet. While some encounters were defined by fisherman swinging chains, blasting hoses, and even lobbing codfish at one another, more traditional naval conflict happened as well. After months of collisions, warning shots, and literal gunboat diplomacy, Iceland's weaker military position was confirmed. So instead of fighting the larger British navy, they threatened to leave NATO and expel U.S. forces from the country. In 1961, the British and Icelandic governments agreed upon a new 12 nautical mile boundary, although certain areas remained seasonally accessible to the British. They also agreed to take all disagreements in the future to court at the Hague, a resolution which sounded promising but ultimately didn't work.

The second Cod War began in 1972, when Iceland decided to expand their fishing area to 50 miles. The move was once again opposed by other European nations. Iceland enforced this policy with new "net cutters," heavy sharpened hooks that were towed behind patrol boats to cut trawl wires. Once more, the British Navy was eventually called upon to support trawlers. Militarily overmatched and not receiving international assistance or support, the Icelandic government faced popular pressure to leave NATO. With the Cold War at its height, NATO needed Iceland to secure the strategic Greenland-Iceland-UK sea gap, so mounting pressure eventually convinced UK officials to concede. British fishing was once more limited but permitted within certain Icelandic waters, and fishable quantities were capped.

The third Cod War followed a UN conference in 1975 where nations voiced support of a universal 100-mile limit. Iceland decided 200 was the way to go (years later, the rest of the UN followed suit). Once more, Britain refused to acknowledge the expansion. This led to the most violent Cod War ever fought, with numerous incidents of ramming and shots fired, as well as the formal termination of Iceland-UK diplomatic relations. This was resolved once more by Cold War politics, as Iceland threatened to close the NATO base at Keflavik, leaving the Atlantic open to the USSR.

The Cod Wars saw one British casualty, when a trawlerman was wounded by a cut rope, and one Icelandic death, when a Coast Guard engineer was electrocuted by flooding equipment. The conflict was ultimately "won" by Iceland in spite of their comparatively tiny naval force. The Cold War effectively ended the Cod Wars, and the Cod Wars effectively stopped British long-distance fishing practices. Iceland's exclusionary fishing zone remains to this day, now joined by similar zones around all UN member states. UB

Article contributed by **Jake Muldowney**
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"[Iceland] threatened to leave NATO and expel U.S. forces from the country."

Protein and pep ...

This is your brain *on* food

"Scientists found relationships exist between our diets and mental states..."

©Tijana87/Getty Images

The impact of appetite on mood is well researched and understood. Anecdotally, readers can be assured that hungry anger, or "hanger," is indeed true. Science has thus moved onto specific research to determine exactly which foods influence mood in certain ways. In recent years, scientists found relationships do exist between our diets and our mental states that go far beyond the realm of comfort food, and into the world of neurochemistry.

Dopamine and serotonin are two of the most important hormones in determining our overall mood, and deficiencies in either of these are linked to depression. Dopamine is the core of the brain's reward system; it's behind the happiness we feel when we accomplish something or eat food that we like. A lack of dopamine can lead to a state called anhedonia where even "enjoyable" activities don't make us happy.

Serotonin helps our bodies manage lots of functions from sleep to blood clotting. Low levels of serotonin have been connected to insomnia, depression, and an inability to effectively focus. With these effects, it's clearly in our best interests to keep our dopamine and serotonin levels healthy. While individuals with extremely low levels of these hormones often take medication, others can help keep their hormones healthy with certain lifestyle choices. Regular exercise produces dopamine, serotonin, and other mood-elevating hormones.

In addition to exercise, our diets play a major role in the levels of both of these hormones. Serotonin, for example, is produced from tryptophan, a chemical found in our food. Some of the best foods for boosting serotonin are eggs, turkey, cheese, pineapple, and fish, especially tuna and salmon. Dopamine levels (particularly in young people) can be linked to both red and white meat consumption in conjunction with exercise, as well as fruits like banana and kiwi. In adults, overall mood is also correlated with antioxidant levels; antioxidants are found in many herbs and plant-based foods, including berries, coffee, and tea. Be careful though, since the caffeine in coffee and tea can also increase risks associated with anxiety.

There are also food choices that can negatively affect mood or scramble our bodies' abilities to correctly interpret hormonal messages. For example, diets high in sugary and fatty foods raise dopamine levels, but might also alter our brains' dopamine pathways. These impaired pathways lead to a mental state similar to an addict's tolerance, where the body now needs more dopamine (and therefore more unhealthy food) to generate the same level of reward (and make us feel as satisfied after eating). To get around this, some scientists are recommending diets high in protein, and lower in sugar, fat, and carbs. This diet (high in lean meats, eggs, and dairy) lets the body maintain healthy dopamine levels, while avoiding the dopamine tolerance caused by unhealthy dietary choices.

It's not surprising that an overall balanced diet, low in things like sugar and fats, is great for mental health; it's good for physical health as well. Our brains are part of our bodies, so it makes instinctive sense that we can care for both at the same time. UB

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2017-2018 YTD Egg Market Review

By Brian A. Moscogiuri
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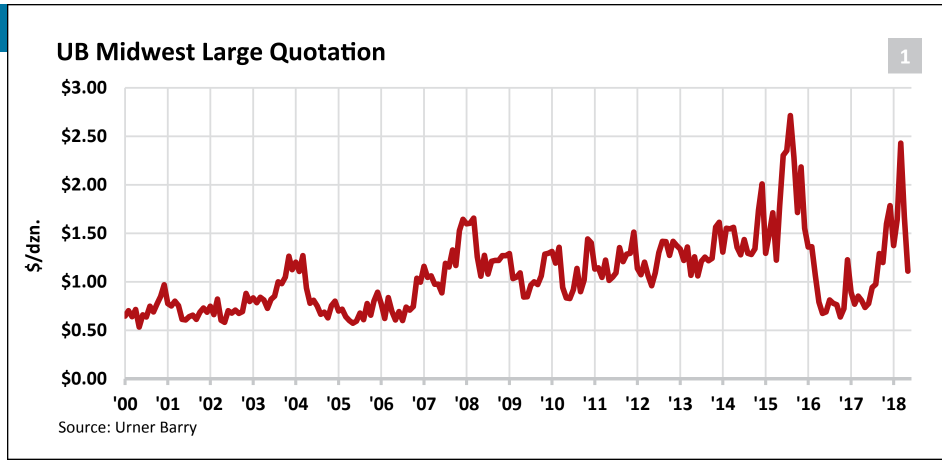
To say the egg market has been on a roller coaster ride over the last five years would be an understatement. Prices reached all-time highs several times and hit what most consider all-time lows, where truckloads of eggs were being given away for free. The industry saw record exports in 2014, went through the worst supply side issue in history during the 2015 bought with Highly Pathogenic Avian Influenza (HPAI), and then saw the flock reach unprecedent levels over the next few years. Inventories and demand have been just as volatile, leaving participants still searching for a new normal for much of 2017.

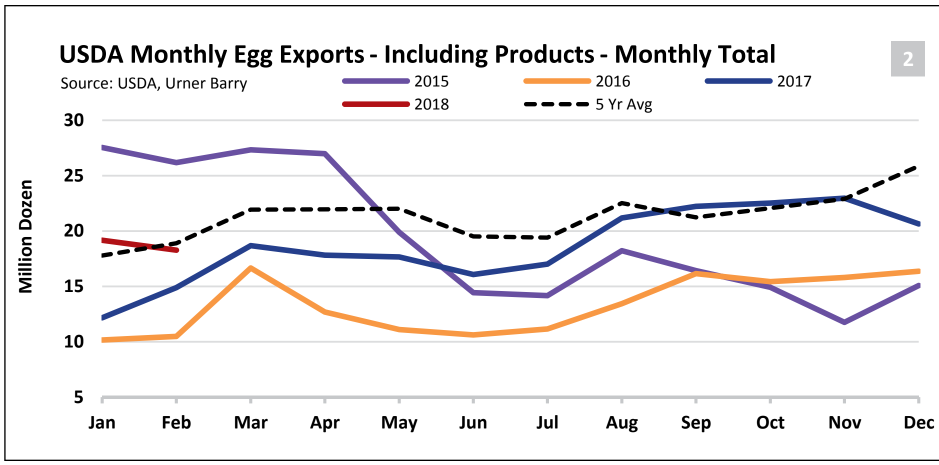
THE BENEFITS OF 2016 LOWS

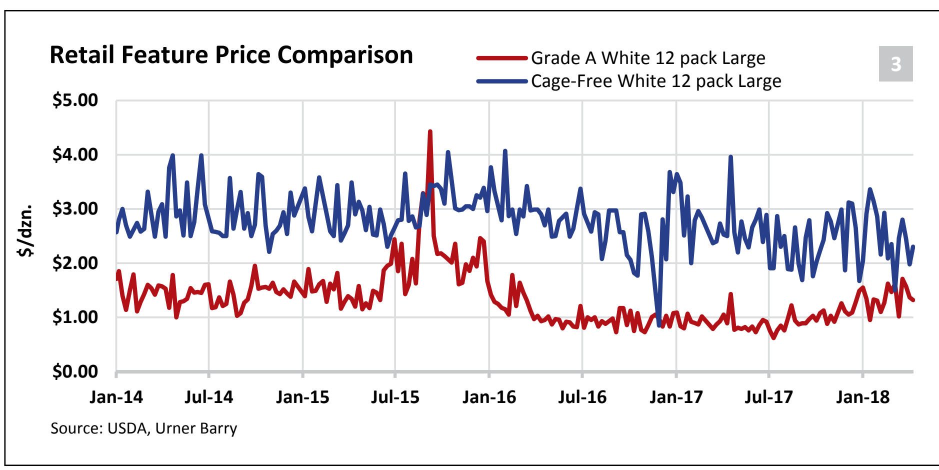
Prices were still in a state of recovery to begin the year. The benchmark Midwest large quotation (Chart 1) was lagging below pre-AI averages through the first half of 2017. The market's recovery from AI-related lows was evident though, as prices moved in lockstep with seasonal ebbs and flows into July. Producers were getting flocks into a better balance with demand, especially as usage and promotion returned. Retailers had all but forgotten about 99 cent ads in the years prior, but circled back to this important threshold due to the attractive market levels seen following AI highs. Other buyers also took note, both at home and around the globe.

EXPORT RECOVERY

2016 was the worst export year in the last five. Not only did the U.S. export less eggs and egg products, but imports also hit the highest levels ever seen. In fact, net exports only took the production of about 2.2 million layers in 2016. With prices low and dried egg inventories hitting highs of over 30 million pounds in the first quarter of 2017, we saw international demand recovering. Not only that, but prices were so cheap in the U.S. and demand had been destroyed, leaving little need for imports. Then, in late July, Europe went through its Fipronil scandal, which eliminated the production for more than 25 million layers. The EU saw prices spike and supply shortages occurred; to the extent of those which took place in the U.S. during the HPAI outbreak of 2015. Exports directly to the EU improved, but we saw an even better call from countries that were relying on EU supply. Exports surged over the last five months of the year, especially with egg product moving into Japan, South Korea and the rest of Asia. In total, the U.S. exported the equivalent of about 9.1 million layers, while only importing the production from about 1.27 million birds. That means net exports year-over-year rose nearly the equivalent of 7 million laying hens (Chart 2).







RETAIL WARS

As mentioned above, retail features returned. Retailers saw great success in promoting eggs at very low prices. Not only were they selling more, but they saw total store traffic increase and overall dollars benefit from having more shoppers in their stores. In addition to the promotion, major chains were partaking in "retail wars" competing for customers and battling the presence of online offerings from large retail outlets and meal delivery companies. Eggs, milk, bread and other items were used as a loss leader to get people into the store. Why eggs? Eggs have an extremely high market penetration, they are used in breakfast, lunch, dinner and even dessert, they are also one of the most affordable sources of protein. These staples are also located in the back of the store, meaning consumers must walk past all the other offerings to get them. Through the end of 2017 retail wars had turned eggs into a promotional item, driving consumption of shell eggs up 6.5 eggs per person over 2016 (Chart 3).

PRODUCTION SLIPS

Though production levels hit some of the highest ever seen through the end of 2017 and through the Easter period of 2018, they have slipped. Cage-free production increased from under 20 million birds in 2014 to over 50 million in just four years. Producers, at times are finding that cage-free layers are less productive at this point than traditionally housed hens; purportedly as much as 3-4%. The flock peaked in March of 2018 at a record 324 million birds. However, the USDA reported that total production was down 1% from the year prior. In addition to

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the cage-free growth, some farms pointed to breed issues, while others dealt with illness. Young birds put in after the AI crisis made for the most productive flock in history during 2017, but that same flock has now aged and rate of lay could be down as a result. These factors, coupled with the improved export climate and retail conditions, led to record high markets for Easter in most of the country, with the benchmark Midwest large quote falling just a penny short of the all-time high set during the summer of 2015; a truly remarkable and unexpected turnaround for the industry.

USAGE REBOUNDS

Through the first quarter of 2018, dried egg inventories continued to fall. Exports helped to absorb some of the output and stocks, while less eggs were being broken because of the strong retail push (Chart 4). Domestic product demand was also improving. It seems that since the beginning of the year, some manufacturers have returned, or we've seen new products and promotions. Egg whites have been recovering after 2017, where standard liquid whites average under the $0.20 per pound level. QSRs are also getting back into the game. Major players like McDonald's, Burger King, Dunkin Donuts, Starbucks, Taco Bell, and Chick-fil-a are all promoting breakfast offerings centered around eggs. Even Chipotle Mexican Grill is kicking around the idea of adding breakfast to their menus to turn sales around.

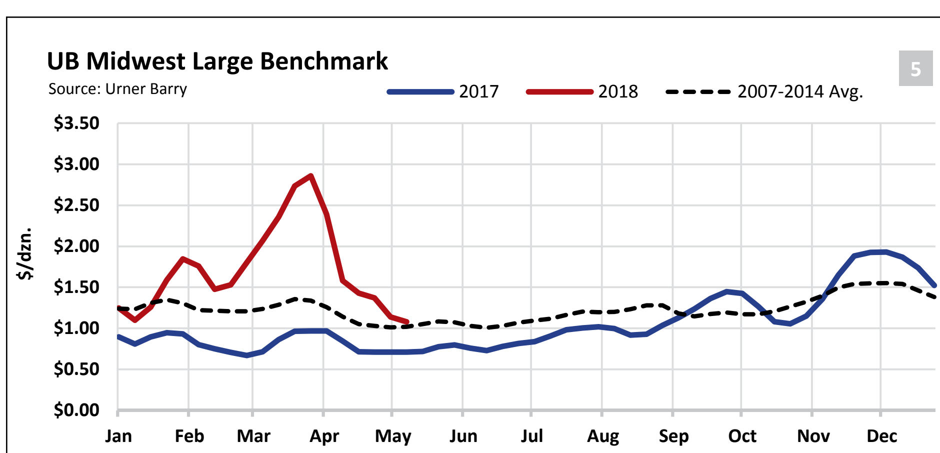
CHALLENGES AHEAD

As we head into the middle of the year, it will be interesting to see if these key drivers will remain intact. Europe has recovered from their production deficits and prices have fallen sharply, much like we saw after AI highs here in the States. The EU is already getting more aggressive in the international marketplace, and is increasingly competitive, particularly in the white category. Retailers are also seeing the markets rebound. Though the everyday low pricing has been successful, features have been directly impacted by the

"To say the egg market has been on a roller coaster ride over the last five years would be an understatement."

escalating markets, especially as we move beyond the Easter marketing period and into the warmer summer months. During periods of heightened shelf prices, we've seen upticks in specialty and branded egg demand, which is interesting as spread between generics and cage-free look to find a new state of normalcy. This could have tremendous impact on cage-free initiatives for 2025.

The market has been on quite a roller coaster ride alright, and it doesn't look like it is going to stop anytime soon, especially with all the external factors still in play both domestically and around the globe (Chart 5). UB



Safer Food.
Our Responsibility.
Poultry growers, processors, and retailers need non-antibiotic solutions to meet today's consumer demands.
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Less is more for 2018

By Russell W. Whitman
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To say the turkey industry, along with its marketing efforts, has been frustrated in recent years is likely an understatement. Much like at this time in 2017, ample inventories and adequate production are allowing for an unhurried buyer approach. But currently one that is quickening the pace. The result is that despite wholesale values, which have hit multi-year lows during the past six months, the upward, price-prompted swing many expected to see, has not fully developed. Nowhere is this more evident than with whole turkeys and breast meat. At the same time, there's been an absence of any overly negative influences at the hatch level meaning that as a rule slaughter is coming to fruition without any unexpected influences. Although tangible data is at arm's length, the curtailed use of antibiotics is having at least some offsetting impact on bird performance in the field. Also, still in place from the trend that developed during Q2 last year is a heavy dose of poult destruction weighted heavily towards toms. Looking into spring, slowly the industry is letting out a collective sigh of relief as avian influenza cases in the United States have not had a significant negative impact in the year's marketing efforts.

A LOOK BACK

Those of you who read this piece last year might experience a case of déjà vu as so much of the present-day market situation continues to be rooted in the trials and tribulations initiated by 2015's historic highly pathogenic avian influenza incidences followed by the period of lethargic, less than needy demand the following year. Unlike during early 2017, whole birds have joined the white meat market in the unfortunate mix generated by excessive on-hand inventories, more than sufficient current production and lackluster demand. The early year optimism that counted on price being the white knight to swoop in and help motivate inventory reduction has dissipated into less self-assured posturing. Saving a complete fall from grace are parts, which overall have performed seasonally or better for the past several quarters. Exports continue to bounce back and are running above year-over-year levels. Consistent domestic demand provided a solid backdrop to the complex and in the end a rising tide floated all boats. Drums, wings and necks achieved and maintained market heights not recorded since Q1 2015. Lastly, the third and fourth quarter supply a scenario mimicked the year earlier in terms of agreeable growing conditions, a productive flock and total tonnage. On the market front, seasonal demand patterns were in play before it was in vogue to be seasonal and that meant waning demand was present far earlier than in a typical year. Then again little was typical about 2017. Despite insurmountable immediate odds, trade sentiment was buoyed by the fact that low whole bird and breast meat values would benefit seller efforts, if not during the fall, then for their 2018 marketing efforts. In the meantime, whole body turkeys were well entrenched in a quickly weakening market which started to decline by the first week of November. The seasonal path that breast meat usually follows never showed up during 2017. Ample inventories and production levels didn't mix with fair at best buying interest leading to the worst performance breast meat has experienced in years. As for Q4's actual results, whole turkeys closed the year at $.87/lb., $.22 lower than 2016. Breast meat kept its composure, but it didn't have much to lose, maintaining $1.55/lb. through the year's end. Movement of parts and thigh meat into Mexico and the other top export destinations was consistent through the year and is a highlight of the current market picture as well. Q4 hatch figures proved encouraging. Eggs sets moved lower for each of Q4's 12 weeks beginning October 4. The 12-month tally for 2017 showed egg sets up about 0.5% and poult placements down by the same—a change in the weather from the significant advances recorded for 2016. RTC production was virtually identical to 2016 while head count declined by 0.5%. The December 31 whole bird holdings were 110 million pounds; 47% above last year and about double what was in freezers at the close of 2016. Total turkey stocks ended the year at 310 million pounds, 11% above last year, the highest on record.

NEW YEAR, NEW CHALLENGES

As the new year emerged, and despite supply side indications that cutbacks would eventually surface, processors had multiple challenges on their hands. Certainly, most obvious were record, or near record, high inventories of whole birds and breasts. History has shown, and is proving again, that high production levels, when paired with demand that doesn't quite keep up, translates to an increase in cold storage greater than seasonal norms. Once the holiday season was well behind the trade and business settled into a routine, it became clear that this year's routine would include hand-to-mouth buying in a less than needy demand environment. Sharply heightened year-over-year tom poult destruction numbers offered a glimpse into production intentions, while egg sets trended lower with surprising consistency kicking off the year. However, noteworthy slaughter reductions aren't supposed to surface until the end of Q2, so in the meantime early 2018 behaved pretty much as one would expect with lackadaisical buying patterns keeping markets trending flat. Tom and hen inventories started 2018 46% above the year prior, sending an immediate and favorable signal to potential suitors. Sales were generated in a typical enough fashion, but negotiated values struggled to find support. The first

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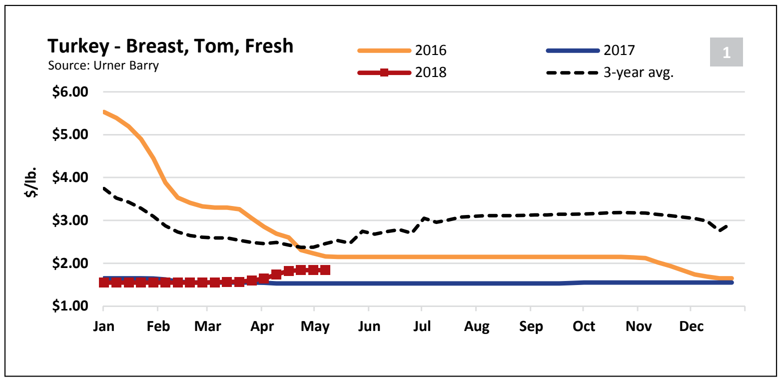
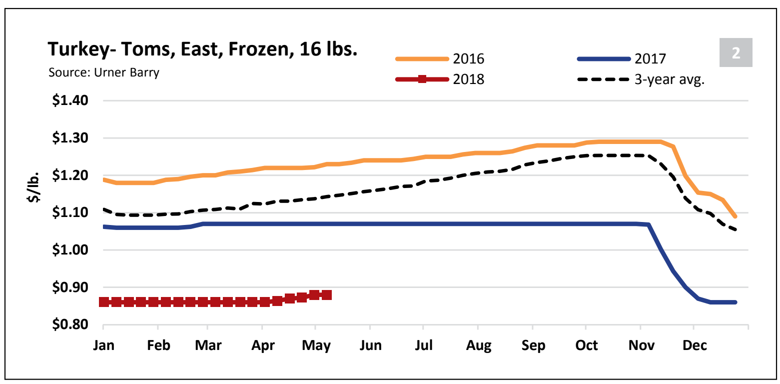
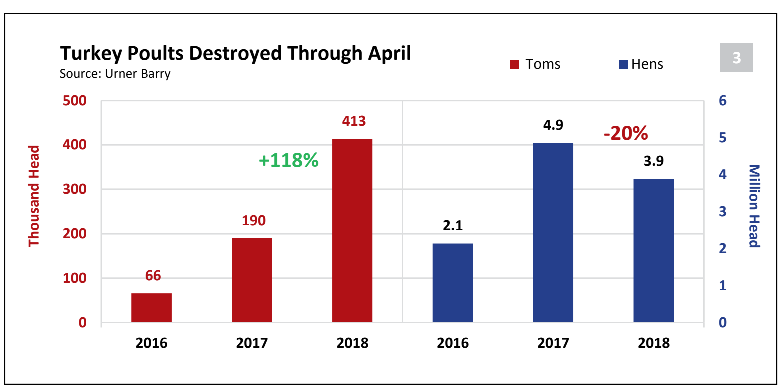
quarter low came early with Urner Barry quotations settling at $.86/lb. by January 4. By the end of March, they remained unchanged. Thigh meat proved to be surprisingly resilient to traditional and usually negative market influences such as Lent and completive ham prices. Unlike in early 2017, despite stronger than expected market performance, thigh meat continued to display better than seasonal movement and demand. That allowed for surprising price support through the Lenten season. By mid-March, fresh breast meat was starting to field seasonal attention along with some interest that was generated from market values which were well below costs of production. By the end of March breast meat was gaining momentum (Chart 1).







In the end, Q1 2018 was uninspiring if not disappointing to processors who had been counting on attractive price points to stimulate interest even if buyers' needs weren't significant. While it's true that thigh meat outperformed expectations, it's fair to say that breast meat and whole birds did not. In fact, whole bird values, along with those for fresh and frozen breast meat hadn't displayed such poor performance since the less than memorable market years of 2008-2010. Buying activity for toms and hens was more consistent than during the year prior, but it took until early in Q2 for whole body turkeys to start displaying any noteworthy seasonality. Breast meat also did not attract any genuine broad-based attention until about the same time. By the time May rolled around, the most vocal optimists finally got some satisfaction as increasing levels of need began to take shape. Even the figures which held the greatest challenges for the trade started to look less daunting. Although still lofty, freezer stocks were being reduced through the combination of fairly good demand and cutbacks in production which started to materialize by March. Participants on the buy side found enough of their motivation, which had been lacking, to enter the ring and complete a few practice rounds while the price was right. Fresh and frozen breast meats, along with the balance of fresh muscles and trims, commanded attention and were usually quickly absorbed once offered. In a similar fashion as last year, mechanically separated turkey, drums and scapula highlighted early second quarter performance. Whole birds and breast meat chimed in on the late side while institutional packaged breasts have yet to attract much interest. Thigh meat displayed surprisingly strong resolve in the face of ample hams and reasonably stout market values. Despite export buyers stepping back a few clicks from their most aggressive days, fresh domestic requirements kept this line well supported through Lent, Easter and well into the second quarter. As of this writing, whole body turkeys are being negotiated for near future bookings with only modest premiums attached to listed levels. When forward priced sales are recorded, they still are ranging well behind the same time frame last year. Breast meat is much improved and is currently valued about $.30/lb. above 2017. Buying patterns are displaying the familiar price sensitivity which is almost always typical as buyers oscillate between raw material options in their pursuit of low cost formulations. Looking into the balance of the year, the potential for the 2018 whole bird market (Chart 2) to exceed the values realized last year seems low. Retail and distributive based demand is having an easy time of it and business is written without event or fanfare. Supplies seem adequate for the near-term call. The recent heightened sense of buyer urgency is being prompted by hatch figures which suggest that by mid-year, head counts will be down appreciably. Not only are whole birds benefitting from hatch-based expectations (more on that later), but the breast meat market is also reflecting a return to a more seasonal posture rooted in the combinations of attractive price levels and the potential for sincere cutbacks during quarters three and four. Fresh tom breast meat has already outperformed what was displayed during the 12 months of last year. Thigh meat started out a bit slow but quickly gained ground prompted by balanced supplies and excellent demand from both export and domestic channels. Heightened seasonal domestic participation has helped offset some of the challenges which were expected to surface in relation to the easy availability of pork hams and price competition that would likely spark. However, despite the odds, through early Q2 thigh meat is still finding support. Parts movement seems likely to continue at a good pace assuming no significant trade bans surface before year's end. Positive trade developments with India and, earlier in 2018 with China, could throw the current prognosis out the window if new and noteworthy demand influences develop. On the production front, Urner Barry's Weekly Insiders Turkey Hatch Report suggests that slaughter decreases will have their presence felt sometime late in Q2. The year's poult placements are down about 3% as of this writing and are expected to translate into consistent reductions in head count by late June. The most recent USDA figures are forecasting RTC production for the year to be down by about 0.7% year over year. Meanwhile YTD head slaughter is below 2017 by more than 2% while total live weight is down about 1% through April 7. The tallied storage figures through Q1 were 8% above last year with whole birds up 21% year on year; breasts and breast meat were up 3%. MST performance is reflected in the freezer inventories which are well below 2016. The leg category showed that inventories were higher by 23% which isn't too surprising given significantly improved export activity and consistent flow of product into top destinations.

For the foreseeable future, whole birds and breast meat almost have no choice but to improve. Early Q2 trade patterns are progressing beyond the sluggish activity experienced most of 2017 and previously this year. Breast meat demand seems rooted in price and production forecasts which indicate cutbacks are on their way. Unlike toms and hens, breast meat is also benefitting from values which are well below cost of production and will be that way for the foreseeable future. Of the two, further processors are hopeful that breast meat demand will continue to evolve into Q3 but competition at the deli counter is sure to be fierce. Currently there is spark to whole birds, then again, white meat market values are very easily digested. The typical buyer has assumed an attitude of "There is no time like the present" in conjunction with something like "How can I go wrong?" For now, the buying activity that's in place seems genuine and buyers are keenly aware of the value these lines represent. For parts, the start of 2018 has brought with it a continued sense of optimism in the export arena. The real possibility that India will again be a trade partner is especially positive for the turkey industry. Should current trade discussions with China turn a positive corner, the future trade potential for turkey and U.S. poultry in general is substantial. In the short-term the likelihood is high that the major parts lines will continue to trade in well established price ranges and exhibit good overall positioning.

WHAT LIES AHEAD

This is the third year running where poult destruction deserves an honorable mention in helping to shape the prognosis for future production potential (Chart 3). Unlike during early Q2 last year, hen poult destruction is not the news it was. Down about 20% YTD, it might imply that processors have hen production goals in line with the live supply. However, just like last year, tom poult destruction is still taking place with a vengeance. The head count tally is well above last year—373% (118%) as of this writing, for a total of 413 thousand poults. The obvious takeaway here is that as the year moves forward, tom slaughter will be reduced as a percentage of total turkeys killed. The above scenario holds encouraging undertones for processors and shouldn't cause too much alarm for bargain hunting buyers. Competitive proteins, rather than over production or price-stifled demand, are likely to play a large role in challenging merchandisers. Building on existing trade momentum in the coming months will no doubt provide upbeat sentiment. Otherwise, curtailment in production and value-oriented pricing are being counted on to generate much needed demand and clear ample inventories before year's end. UB

Bird weights key to 2018 marketing efforts

By Dylan K. Hughes and Russell W. Whitman
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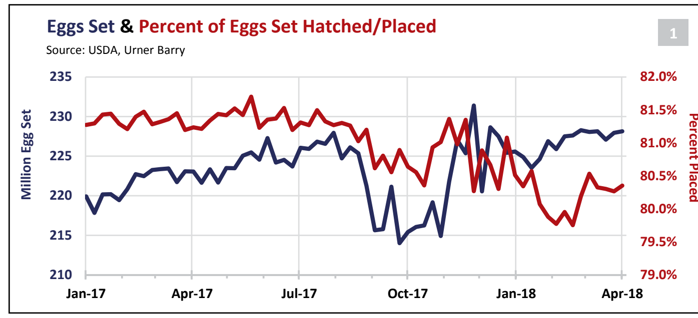
Last year, the chicken market analysis was titled "Supply: No longer a guarantee." This theme still holds some weight when it comes to the present state of the industry, but the catalyst is a little different. Pullet placements, hatchability, and slaughter head count are all common topics of conversation as participants keep a watchful eye on these metrics in an effort to uncover hints as to what might be in store for the future.

BROILER HATCHERY

Since the year's outset, and even before that time, industry reports have been circulating related to the fact that hatching egg supplies were "tight." Sure enough, these reports are clearly reflected in the number of pullet chicks hatched for placement in the domestic supply flock. Year-to date head counts are currently situated lower than during the past three years. This situation follows a strong showing in Q4 2017 where the pullet hatch trended higher than it ever had for the months of October through December. While cumulatively the weekly number of egg sets and chick placements have trended higher, beginning around Q4 2017 and early into this year, the percentage of eggs hatched began to drop; which is attributed to an aging layer flock as well as productivity challenges for some plants. However, by February 2018, the percentage of eggs hatched began to show signs of improvement with numbers that fall in line with more acceptable levels (Chart 1).



SLAUGHTER

With hatchability issues now becoming a memory, slaughter head count, which got off to a sluggish start this year, is now aligning itself within a close range of the three-year average. More promising weather and a return to more favorable hatchability and heavier bird weights are all playing a role in this rebound. With that being said, the weekly average slaughter numbers are currently 1.7% below where they were this time last year, which some participants attribute to less than optimal weather conditions as well as a less productive domestic flock, as previously mentioned.

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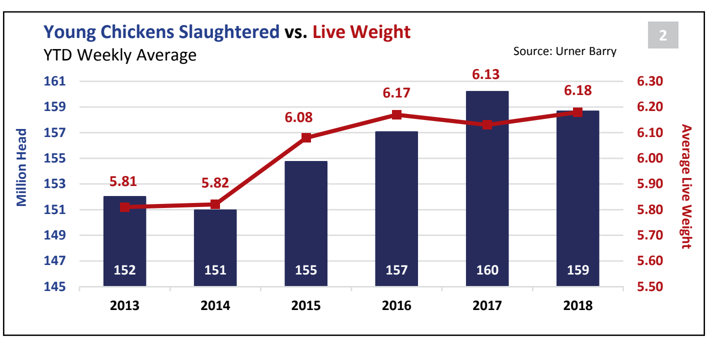
While the low head count of broilers crossing the line has created shortages for much of the industry, the weekly average live weight has found some traction and is currently trending higher than it has over the past five years. Chickens in the jumbo category are up 5% YTD while the number of small birds being slaughtered is down 11% (Chart 2).



EXPORTS

Overall, exports in the outgoing months of last year and at the start of 2018 have proven to be fairly steady. When comparing the average year-over-year volume of exported broilers since 2013, February is situated right in the middle of the pack. Year-to-date broiler export volume through February remained stationary, while total value has enjoyed an 11% boost. Despite YTD figures being down slightly, Mexico continues to top the charts with a total export volume of 98 thousand metric tons. The most noteworthy change for 2018 is reflected in Taiwan's export volume, which has increased by 50.0%. Cuba is the third largest broiler export destination with January and February's volume totaling 36.4 thousand metric tons, a 31.9% increase from 2017. With 24.3 metric tons, Angola is situated in spot number four. Guatemala rounds out the top five broiler export destinations at 20.2 thousand tons. Despite these positive YoY increases in volume, sentiment in the export arena is a bit mixed. On one hand, HPAI outbreaks have been few and far between, at least domestically, and the few low path reports that did occur were sufficiently contained and didn't affect much of the surrounding areas. Furthermore, despite increased trade tension with China, progress has been made to reopen the Indian market after a ban on U.S. poultry since 2008.

COLD STORAGE

Strong overall pull for broilers, legs, leg quarters and thighs is reflected in diminished YoY cold storage holdings for February. These items don't necessarily paint the entire picture though. Total chicken (786M lbs) in cold storage through February 2018 was up 15% from the year prior. With some lines receiving a sluggish call, they have since found their way into the freezer as sellers wait for a renewed interest to surface. Compounded by heavier average bird weights than the year prior, demand for items like wings, breasts and drumsticks have been challenged to keep up with availability during 2018.

WHOLE BIRDS AND WOGS

With supply-driven shortages during the end of Q4 2017 and into Q1 2018, producers were challenged in their ability to keep up steady demand patterns. As the hatch percentage begins to return to normal levels, supply lines should be more readily filled. For the time being, however, the market is driven by an overall shortage of offerings being shown. Buyers have typically found no other option than to pay a premium in order to secure their immediate needs and have become more calculated with their purchase decisions.

BREAST MEAT

Following a dismal showing during Q4 2017, jumbo boneless/skinless breasts slumped to an all-time low of $1.03/lb. During late February, however, they experienced a sharp and sustained rise. Peaking at $1.43/lb., unrelenting demand patterns often overshadowed a diminished supply. Eventually, as prices continued to rise, buyers began to transition over to alternative white meats, namely breast tenders, which dampened breast meat's run up in value. As offerings eventually came back in line, demand patterns were slow to follow suit, at least at the same pace that product was being made available. As a result, quoted values have once again begun to level off.

TENDERS

Despite their small size, tenders are making a big splash, particularly in the foodservice industry. In fact, demand stemming from this segment of the market has helped to propel values to a seasonal high of $1.74/lb. during February of this year. During this time, availability was proving to be extremely difficult to uncover, as the promotion-driven demand arising from the fast food industry quickly absorbed anything on the market.

WINGS

Wings haven't been an easily interpreted item in the chicken complex this year. While they have traditionally experienced an uptick in value during major sporting events such as the Super Bowl and March Madness, this year they received a relatively weak call. Competing lines such as boneless breast meat are putting a damper on wing's seasonal flight patterns. With recent foodservice

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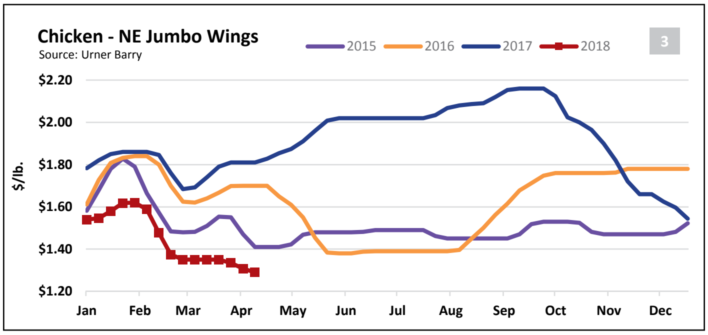
promotions heavily favoring boneless varieties over the more traditional bone-in counterparts, wings have yielded to a steadier undertone with less peaks and valleys (Chart 3).



LEG QUARTERS

Although there haven't been any major speed bumps such as HPAI this season, supply side challenges have created a competitive bidding environment for limited raw materials. As a result, leg quarters are currently trending above the previous three years. Quoted price points have reached their highest values since the avian influenza outbreak of 2015.

THIGH MEAT AND LEG MEAT

Boneless dark meat is now becoming a central focus for many buyers. On one hand, foodservice continues to provide opportunity to satisfy an expanding ethnic consumer base. At the same time, labor shortages complicate the ability to fully satisfy deboning requirements. Additionally, positive export opportunities for leg quarters reduces the amount of product to debone; in effect supporting values due to the absence of supply rather than overtly aggressive demand. Resilience, especially during the Lenten holiday and amidst a very competitive protein environment, has surprised many market participants.

COMPETING MEATS

Both pork and beef production are expected to advance considerably during 2018. This means that some healthy competition between all three proteins is in the cards for the future. With retail feature activity well below the seven-year average, and little incentive for the grocer to generate additional ads, chicken marketers certainly have a challenging road ahead of them. This is especially true when considering the voluminous number of competing pork and beef features which are expected. UB

> **"Pullet placements, hatchability, and slaughter head count are all common topics of conversation…"**

Planting patience ... 2018 corn season in full swing

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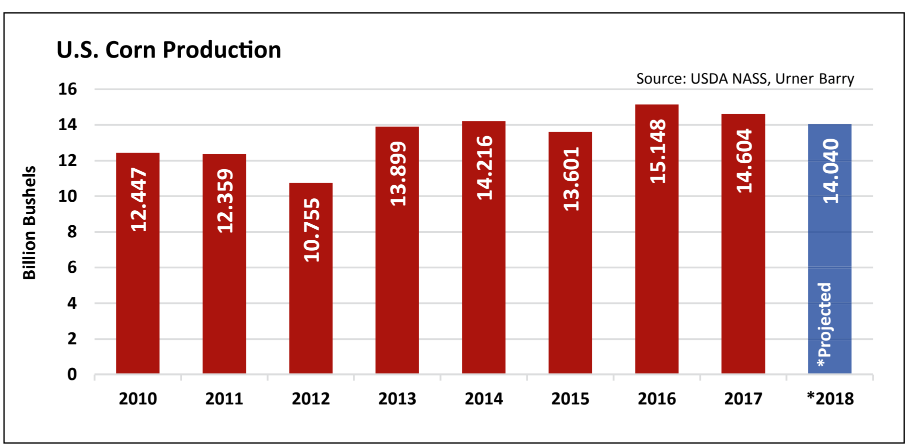
By Jamie Chadwick-Lee | jchadwick@urnerbarry.com

Corn plantings got off to a slow start for the 2018-19 crop season, trailing year ago progress as well as the 5-year average by notable amounts in the first few weeks as winter-like weather conditions caused delays in fieldwork throughout the Corn Belt. However, by mid-May plantings had nearly caught up to the average pace as more ideal spring weather finally arrived, promoting a rapid planting pace.

In the USDA's May World Agricultural Supply and Demand Estimates (WASDE) report, which is the first report to provide projections for the upcoming crop year, estimates showed a notable decrease in expected corn production and supplies.



The upcoming corn crop was projected at 14.040 billion bushels, down 564 million bushels from the previous year. This was attributed to both a lower forecast planted area of 88 million acres, down 2.2 million from a year ago, and a lower harvested area of 80.7 million acres, down from 82.7. In addition, a lower yield projection of 174 bushels per acre, down from 176.6 bushels per acre in 2017-18 is also anticipated. Based on this, as well as lower beginning stocks compared to a year ago, total corn supplies would be down 675 million bushels from the previous year, at 16.272 billion bushels.

Total corn use was forecast to decline modestly, down 175 million, on lower domestic use and exports. Food, seed and industrial (FSI) use was projected to rise, driven in part by an expected increase in the amount of corn used to produce ethanol (up 50 million bushels) as consumption of gasoline is expected to grow. Meanwhile, feed and residual use was estimated lower.

WASDE projected U.S. ending stocks down 500 million bushels from last year to 1.682 billion. The season-average farm price was projected 40 cents higher at the midpoint, ranging $3.30 to $4.30 per bushel.

Looking at the global stage, U.S. corn exports were forecast to decline 125 million bushels on increased competition in the latter half of the marketing year. A large increase in corn exports from the Ukraine and Russia is expected to weigh on U.S. corn export potential.

Global corn production was forecast higher, on increases for China, Brazil, Argentina, Ukraine and Russia. Global corn use was set to grow 2%. World ending stocks were projected down 35.8 million tons from the previous year, and if realized would be the lowest since the 2012-13 crop year. This news was considered supportive to corn price outlooks.

As we move forward through the growing season, weather will (as always) play a huge role in the performance of the corn crop here in the U.S. In addition to growing conditions, traders continue to monitor developments on the global front that could impact trade and supplies of world corn.

Strength in the lamb complex

By **Bill Smith**
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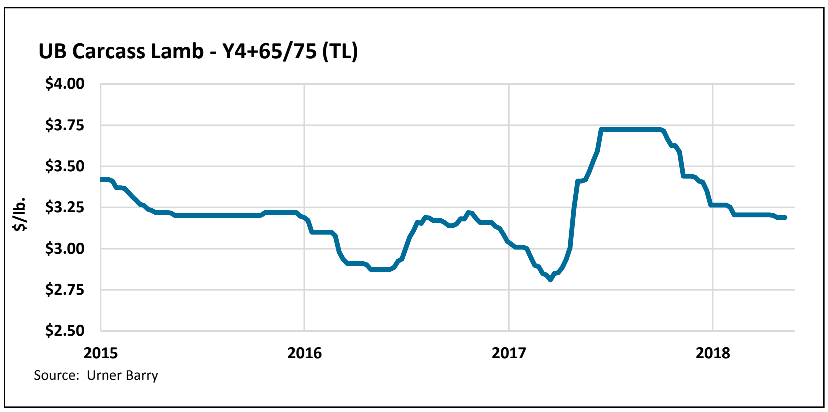
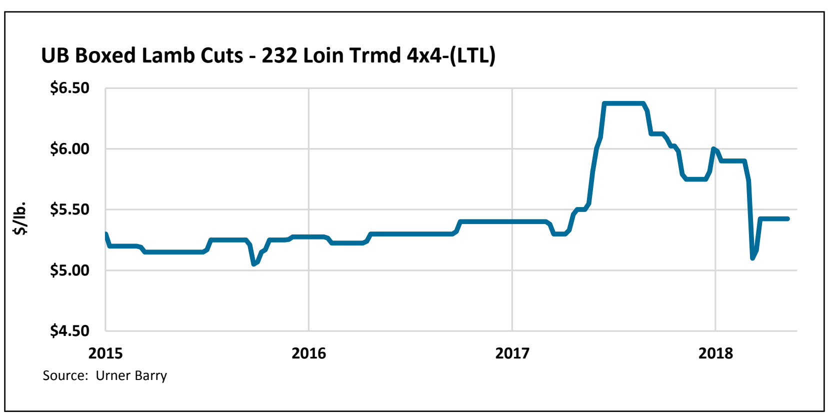
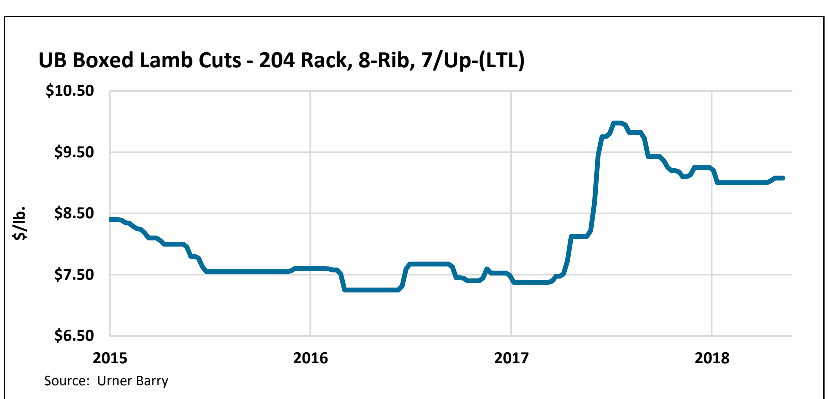
Overall, 2017 ended up being a fairly strong year for boxed lamb cuts. Last year started off with prices at a discount which then experienced significant gains in the second quarter. 2018 opened with most cuts trading at a premium when compared to the year prior. Boxed lamb prices have held mostly steady in the first quarter despite larger production numbers. Year-to-date lamb and mutton production numbers are roughly 4% higher than the equivalent time for 2017. Demand is expected to be steady to a little stronger as we progress through the rest of 2018.

Q1 of 2018 has seen lamb carcass prices hold steady to a little weaker in some instances. Using the 65/75 weight selection as a benchmark; the monthly average price has held above the equivalent month for the prior year. Increases have ranged from 10.4-14.5%. Prices did vary between the different weight selections as supplies of the lighter selections continue to be harder to secure in some areas. The market for lamb carcasses is expected to strengthen as the year progresses.

Most of the boxed lamb cuts were a little firmer in the first quarter of 2018. Higher prices were exhibited despite larger lamb slaughters. Demand for product was also a little stronger in some areas. Colder weather so far in 2018 has delayed some grilling demand. Demand for lamb still falls well short of other proteins.







The pricing for racks has been generally steady throughout Q1 of this year (right around $9/lb.). Prices have remained well above year ago price levels. Each of the first three months of the year have averaged about 22% higher than the equivalent month for 2017. Strength in that market is due to strong demand.

Loins opened 2018 with prices almost 10% higher than the same time for last year. Prices have remained above last year levels, but the gap has narrowed as the year has progressed. Monthly average prices saw substantial increases starting in April of last year. The 52-week high price ($6.75/lb.) was noted in the summer which was just slightly lower than the all-time high price ($6.80/lb.). Monthly average prices did trend lower from late summer to the end of 2017.

Leg prices were steady to a little firmer in the first three months of 2018. Year-over-year monthly comparison showed the market strengthening as the first quarter developed. January's monthly average price was 1.6% higher than the same month for last year. February and March were respectfully 4.9% and 8.8% higher. Demand was stronger than expected in some regions.

Looking forward to the rest of 2018, lamb carcasses and boxed lamb cuts have mixed undertones. Last year's lamb and mutton production was about 4% lower than 2016. Early expectations are for this year's production levels to be at or slightly higher than 2017. Demand is not expected to change significantly. UB

Seasonal swell of cattle coming

By Jamie Chadwick-Lee
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The cattle market tends to follow a seasonal pattern, though herd size and cattle prices can be affected by numerous factors. As we head into the summer, the impact of seasonal variances becomes apparent.

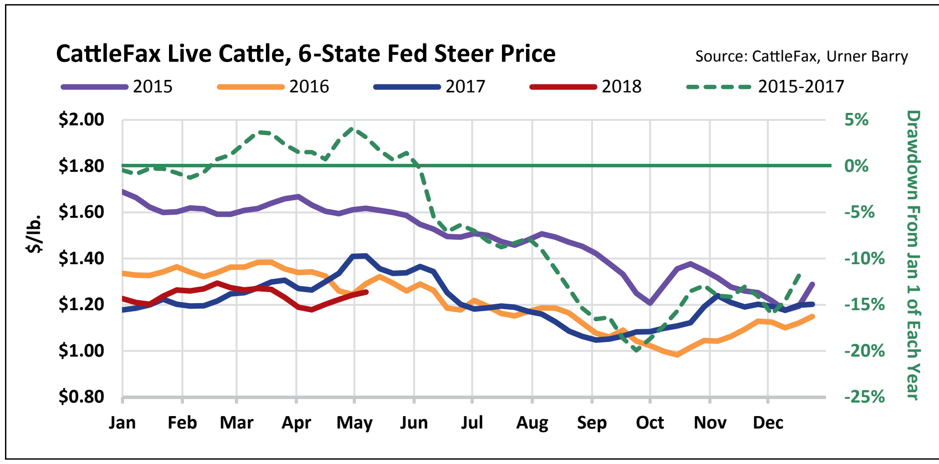
The final quarter of 2017 rounded out the year in generally unspectacular fashion, keeping in line with seasonal trends but managing to float above the deep discounts of Q4 2016. Early 2018 boasted steady to slightly firmer levels at times, falling by the second half of March into early April before getting a boost from seasonal spring demand.

The number of cattle on feed in the U.S. has been approaching historically high levels in 2018. Cattle on feed as of April 1st totaled 11.729 million head. Placements of cattle into feedyards have been higher due to drought conditions in some major cattle producing regions, affecting pasture and rangeland quality. As a result of poor grazing conditions, more cattle are put on grain earlier than planned.

Following a short-lived bump in demand as packers fill beef orders for the Memorial Day through 4th of July period, cash cattle prices typically fall off as we move into summer. This is due to supplies of fat cattle seasonally increasing during this time. Placements of cattle into the feedyards peak in the late summer and fall months, meaning those cattle going to market by spring come in large numbers. Cattle marketings usually hit their peaks for the year during the months of May and July.

Also, as a result of higher slaughter during the summer, beef prices tend to fall post-Independence Day as demand wanes and supplies remain ample—further impacting packer willingness to shell out for cattle.

"One factor that could contribute some additional pressure on the cattle market is potential limits in processing capacity..."



As of now, 2018 seems to be a rather ordinary year, so barring any surprises, it's likely we'll see the seasonal trend remain intact. So, how much will cattle prices fall this summer? CattleFax addresses this question in the quarterly Obsono report. According to CattleFax, a leading research and analysis company for the beef and cattle industry, the futures market has already priced in one of the biggest declines in the cash market historically. However, relatively positive demand should help to limit the bottom side.

In fact, according to the U.S. Meat Export Federation, the U.S. is exporting a strong share of its red meat production at higher prices, which the federation says is a clear sign of solid international demand.

One factor that could contribute some additional pressure on the cattle market is potential limits in processing capacity. With large supplies this summer, some analysts have wondered whether or not packers will be able to process all the cattle coming to market. Some have also questioned if they will be able find the labor to do so, given that plants will need to operate many Saturdays.

All in all, cattle prices are currently at multi-year lows. The 6-State Fed Cattle Average is 11.5% under the 5-year average. The USDA's World Agricultural Supply and Demand Estimates report projects steer prices in the second quarter of 2018 to be between $116 and $120 per cwt, while third quarter steer prices are projected $106 to $112. Q4 prices are projected between $108 and $116. For 2019, the WASDE forecasts fed cattle prices above 2018 as relatively strong demand is expected to absorb increases in supply. UB

Imports challenged by increased supply of domestic beef

By Joe Muldowney
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Australia, New Zealand, Central America and Uruguay are key suppliers of lean grinding material that are used in hamburger patties. Many of the hamburgers purchased at fast food outlets and in retail frozen meat case utilize imported material as an ingredient. Imports compete with domestic 90% boneless beef, 85% boneless beef and, at certain times of the year, cuts from the fed cattle sector.

As of late April, the 160.5 million pounds of imported boneless beef had passed through FSIS inspection for the year. This is fairly consistent with 158.7 million pounds for the same period in 2017, but


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well below the YTD numbers of 198.7 million and 241.9 million for 2016 and 2015 respectively. Looking at individual countries, Australia, Canada, Mexico, and Uruguay have all shipped slightly less so far this year while New Zealand, Costa Rica and Honduras shipped a bit more to help offset the other countries' lighter shipments.

A number of factors influence the amount of imported grinding material hitting U.S. ports. Among them are each country's supply situation, the strength of worldwide markets compared to the U.S., and prices of U.S. domestic grinding materials.

The production season in New Zealand is highly cyclical, but depending on weather patterns, seasonal slaughter can sometimes shift by a couple of weeks. January was fairly consistent with last year, followed by a lighter kill in February and higher kill in March. Overall New Zealand cattle slaughter for Q1 was up 2% as compared to Q1 '17. Australian cattle slaughter in Q1 was up about 6% as compared to Q1 of last year.

When looking at other markets vying for Aussie beef, we see that the U.S. took 21% of Australia's beef and veal exports for the first four months of 2018. This compares to 23%, 28% and 35% in '17, '16, and '15 respectively.

Looking at relative market values for some benchmark items, early May year-to-date trading values for Australian/New Zealand Blend Cow 90s were $205/cwt. which compares to $212/cwt for fresh domestic 90% boneless beef. BC 90% have been priced at a premium 7 out of 18 weeks or 39% of the time so far this year. In 2017 imports were priced at a premium; a whopping 94% of the weeks leading into May. However, looking at the same period in 2016, Blend Cow 90s were only priced at a premium 6% of the time. In 2015 they were never priced at a premium from January through early May which would mean that they were always the cheapest way to formulate—especially for processors located on the coasts where imports located at the ports generally hold a freight advantage to fresh material.

When we consider overall demand for ground beef so far in 2018 we see that poor weather for much of Q1 and stretching into early spring is widely believed to have reduced demand. This is particularly true in retail applications. But there have been some bright spots. Fast food chains who have been aggressively featuring burgers have generally reported active consumer demand. When we look at the cost of raw materials associated with popular fast food menu items, we note for most of Q1 2018, the cost of producing a hamburger was relatively low compared to the raw materials associated with chicken nuggets or a chicken sandwich which could favor burgers.

The U.S. remains an important destination for imported beef, but stakeholders need to be savvier than ever as they navigate challenges from cyclical increases in domestic supply and other markets' demand for Aussie, Kiwi, South and Central American beef.

"Fast food chains who have been aggressively featuring burgers have generally reported active consumer demand."

Strong start for domestic boneless beef

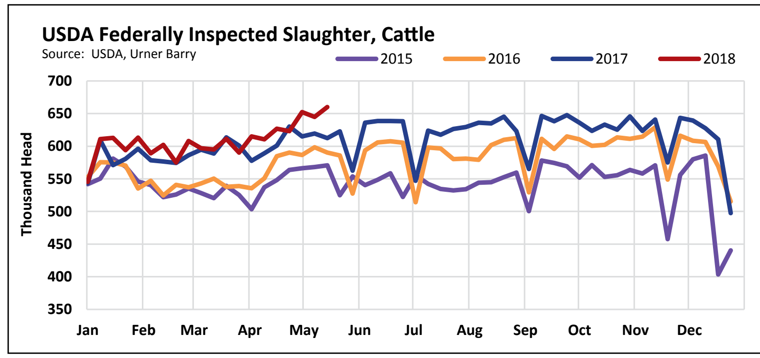
By Bill Smith | bsmith@urnerbarry.com

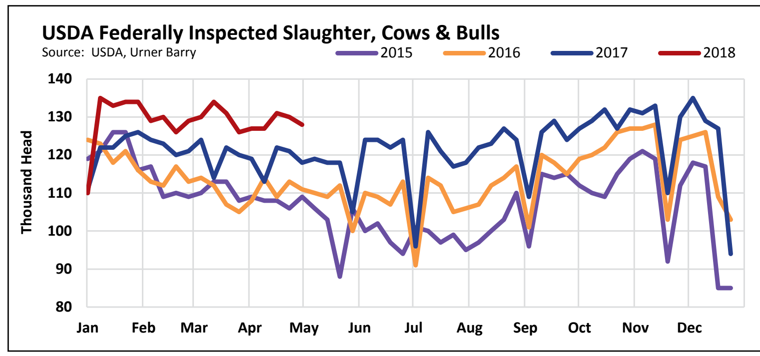
Last year opened with both fresh 50s and 90s trending higher. 2018 opened with an about steady undertone. The most recent USDA weekly production report showed the year-to-date cattle slaughter up 2.2%, live weights are up 29 pounds, overall production is up 2.9%. 2017 was the third consecutive year in which production numbers increased.

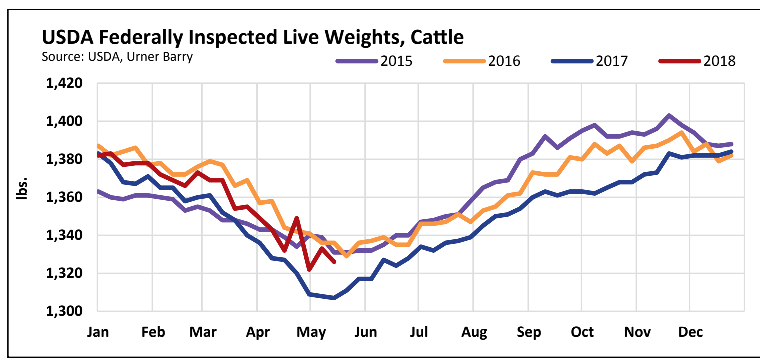
Fresh 50s started off the first quarter with prices well above last year's levels. The January monthly average price was up over 38% compared to the equivalent time in 2017. February prices were up 7.85%. March was steady to a little weaker, with the monthly average price down roughly 16%. The record high price of $203.67 occurred in May 2017. Prices could improve a little as we make our way through the spring, but it is unlikely that we will see prices get anywhere near those levels this year. Production schedules heading into the summer and fall months will likely limit the upward movement in that market.

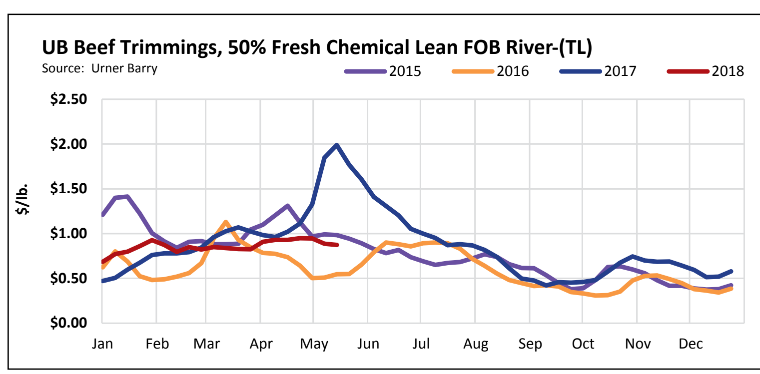
Fresh 90% lean boneless beef opened Q1 of 2018 with prices at steady to slightly higher levels. 2017 started the year off with a firmer undertone. Prices were already at an elevated level this year compared to last year. The fresh 90s market has been largely rangebound for most of this year so far. When comparing the monthly weighted average price to the corresponding month for 2017, prices have been up roughly 1-4% for the first quarter. Federally inspected cow numbers continue to outpace year ago levels. This is the second year in a row that this trend has held true. Can prices continue to trend higher while production numbers continue to increase? UB

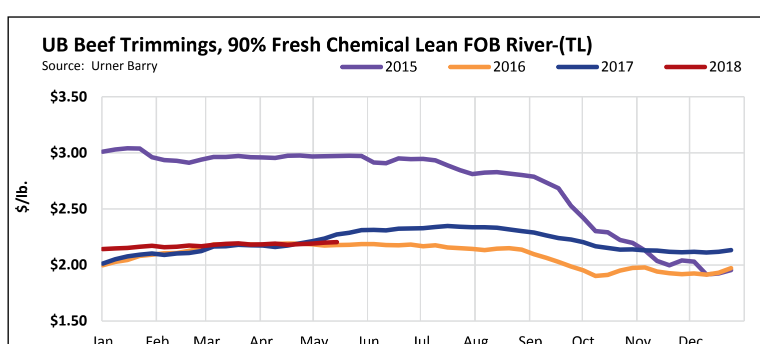
> **"Production schedules heading into the summer and fall months will likely limit the upward movement in that market."**











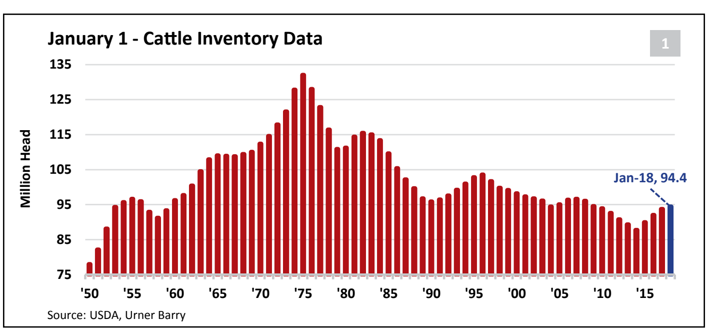
Despite sustained growth in supplies, increased demand has kept market in balance

By Gary Morrison
gmorrison@urnerbarry.com

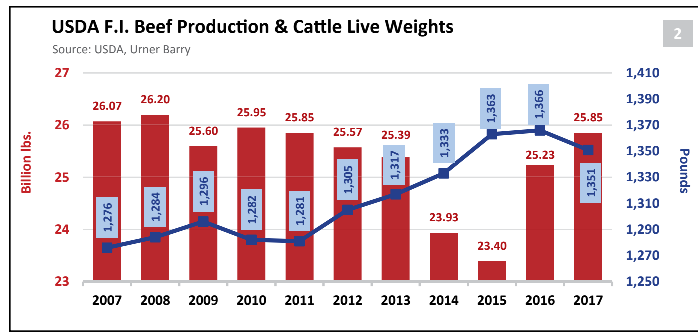
It is hard not to have noticed the growing trend in red meat and poultry supplies over the last few years. That has been the single most common theme discussed in the industry, and especially among those in the boxed beef market since coming out of drought conditions several years ago. It also looks like it is not going to end anytime soon given where we are in the cattle cycle. As a result, conventional wisdom postulated that there would be price pressure associated with this. Demand, however, has been better than expected which has helped the market maintain somewhat of a balance.

There are a few macroeconomic factors which helped drive demand: tax cuts and rising wages have increased disposable income, GDP growth has been positive, and unemployment is lower. This has driven the domestic and foreign demand increase.

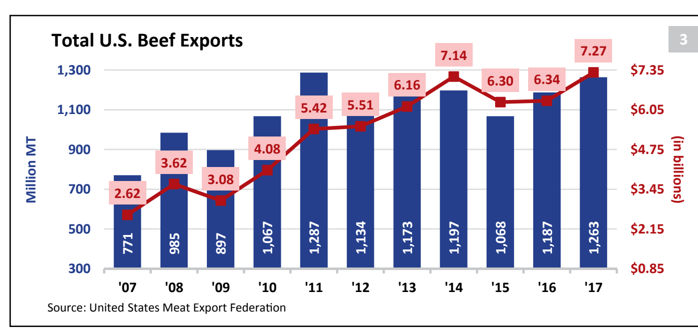
The cattle inventory was nearly one percent higher at 94.4 million head on January 1, 2018. This was the fourth straight year-over-year gain after seven years of consolidation from 2008–2014 (Chart 1).



Larger cattle inventories naturally lead to more cattle on feed. The total inventory of U.S. cattle on feed was 11.72 million head on March 1, 2018, the largest year-over-year increase in over 10 years. More cattle on feed leads to more slaughtered. Even though live weights dipped to 1,351 pounds from 1,366 pounds, the increased slaughter offset it enough to grow production (Chart 2).

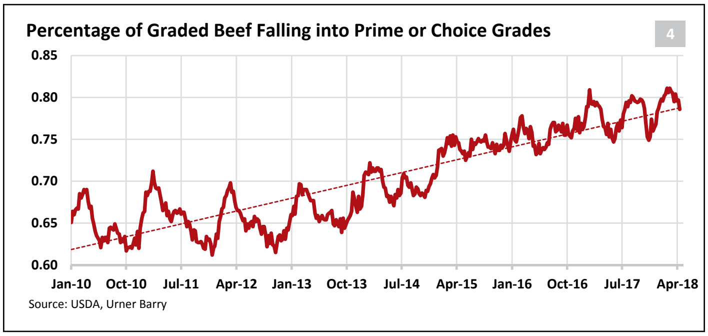


The pressure of larger net supplies has been noticed, but this has been somewhat offset by increased U.S. beef consumption. The U.S per capita net beef supplies was 56.19 in 2017, up from 55.56 last year. It is also projected to be up another 2.5 percent in 2018. Export growth has also eased the glut of extra inventory. Beef and beef varieties sent to our trade partners totaled 1.26 billion pounds in 2017, up almost 6.5 percent according to data collected the U.S. Meat Export Federation (Chart 3). This followed growth of over 11% from 2015 to 2016. The annual poundage touched near the record 2011 year. Maybe even more impressive was the new value record of $7.27 billion—a shocking increase of nearly 15%. Our top four markets remain unchanged—Japan, Mexico, Canada, and China/Hong Kong. Continued improvement will be pivotal in easing price pressures moving forward.

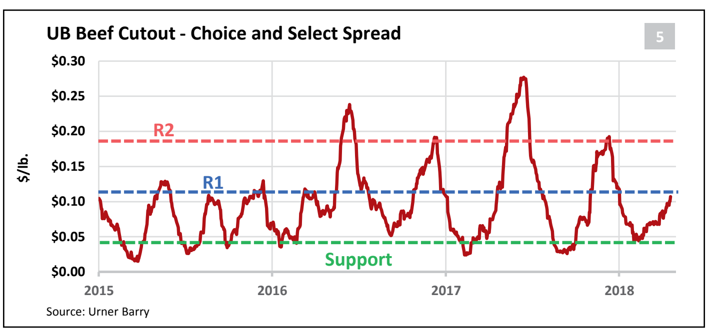


But isn't beef consumption going up because we are simply producing more beef? That is true, however, by itself doesn't indicate better demand. To illustrate, we can look at a couple of price factors to really make a determination.

"Maybe even more impressive was the new value record of $7.27 billion — a shocking increase of nearly 15 percent."

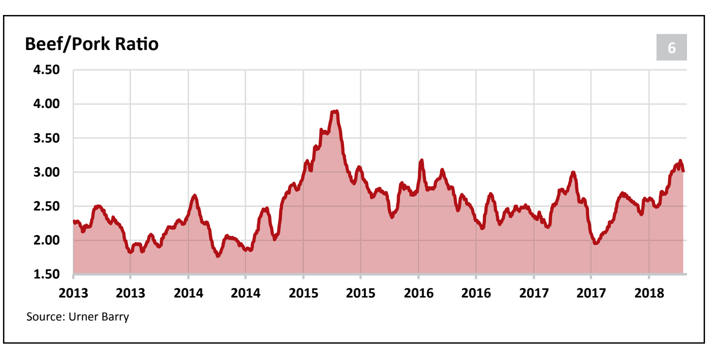


Larger supplies combined with better breeding techniques and near perfect weather in cattle regions led to better grading (Chart 4). More and more cattle are grading Prime and Choice than ever before. Included in the year was the alteration to camera grading. This quickly settled and the market became more normal. Notice that the spread widened to record levels before seasonally retrenching (Chart 5). New resistance levels continue to be tested. Prime to Choice, and Certified Angus Beef® to Choice Spreads have followed a similar pattern. This indicates that people are still willing to pay for beef, especially high-quality product.

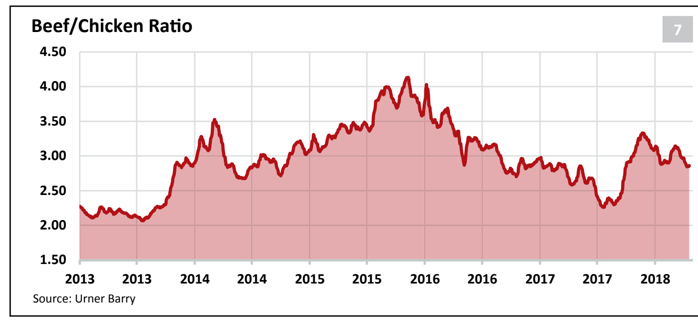


Retail prices were virtually even on average in 2017 compared to 2016; despite the rise in beef supplies. That reaffirms the strength in demand.

It's not only the beef market in this supply super cycle. Both pork and poultry production are also accelerating, but beef is still performing well against both those proteins (Charts 6 & 7).

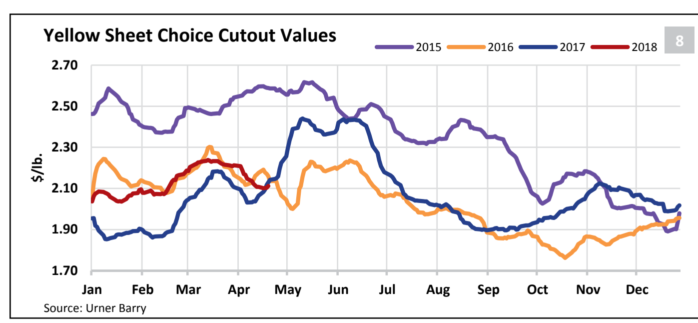


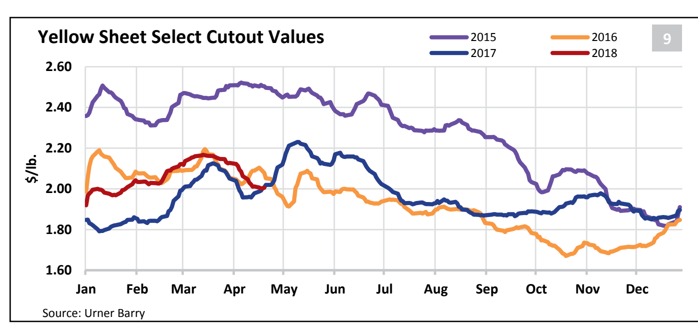
Pork prices have declined at a rapid pace amid the growth in production. Price incentives seem to be the recourse most sellers have used. The ratio of beef to pork prices remained elevated above historical norms; and is above the most recent history if you take away drought-induced higher beef prices.



It's not quite as stark when compared to chicken prices, but it is still almost three times more expensive for beef than chicken.

So while everybody was preparing for the wall of supplies coming at them, maybe the limited few that went against the conventional wisdom of massive price pressure positioned themselves well. The increased consumption driven by better retail movement, solid exports, and other macro factors helped prices perform better than expected. The second half of the year prices were above year earlier levels (Charts 8 & 9).



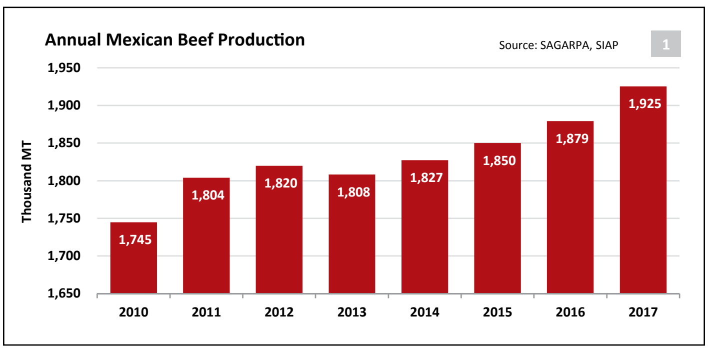


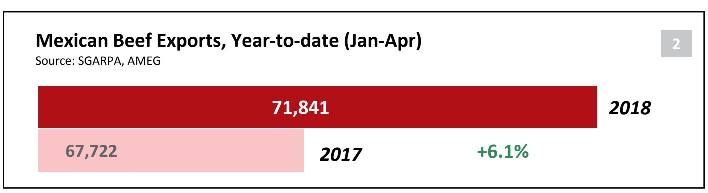
The supply situation is not going away. Throw in political unknowns such as tariffs, trade wars, and concerns with trade pacts, and there is no wiggle room for error.

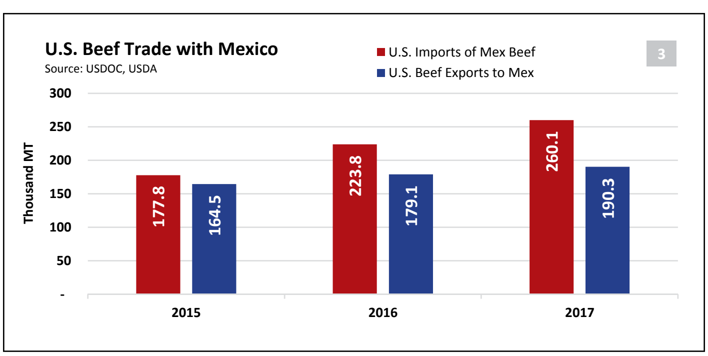
Exports remain strong amid shaky NAFTA negotiations

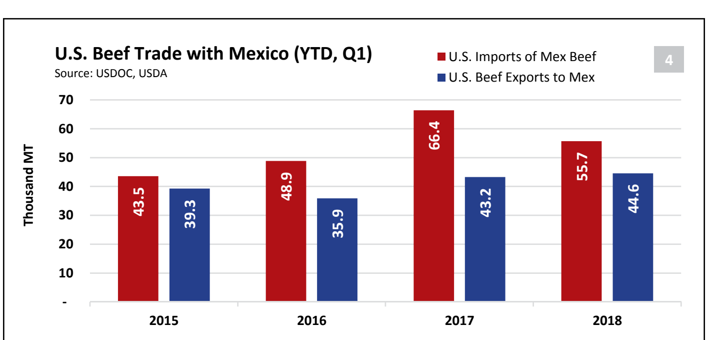
By Angel Rubio | arubio@urnerbarry.com

The Mexican beef industry continues to grow amid increasing production and exports. Over the past several years we have reported on this industry's success only to sound almost like a broken record. However, the numbers speak for themselves. According to official data from the Mexican Government, production in 2017 expanded to 1.925 million metric tons from 1.879 metric tons in 2016, or an increase of 2.45 percent (Chart 1). Furthermore, according to official data from the Mexican Government, beef exports through April 2018 are up 6.1 percent compared to last year, from 67,722 metric tons to 71,841 metric tons (Chart 2). Mexican beef's largest market continues to be the United States, taking over 86 percent of all shipments. However, according to U.S. Department of Commerce data, imports of Mexican beef into the U.S. contracted 22 percent on a year-to-date basis; but only with data through March.









However, on May 31, 2018, the U.S. imposed tariffs on steel and aluminum from Mexico, Canada and the European Union, and some of the first retaliatory announcements by the Mexican Government was to impose tariffs on U.S. pork. While Mexico is a big destination for U.S. pork, Mexican beef depends largely on the U.S. market, and because of the interconnectedness of the meat business, Mexican beef exporters stands to lose big if a trade dispute ensues. At the moment, Mexico enjoys a trade surplus of beef but a large deficit of pork (Charts 3 and 4).

A fairly large portion of loin and rib primals of Mexican beef end up in the U.S. market as Mexican consumers prefer these higher-marbled cuts only on the northern part of the country, while the rest of the country prefers leaner items like rounds and clods. Therefore, when looking at cuts like the short loin and ribeye, and their ratio to cutout values, Mexican beef depends on the U.S. market as a destination for these cuts. To alleviate some of this pressure, Mexico could look to other markets, but this is no easy task. However, Mexico has reported to be working out trade deals with many countries, including Brazil as it is currently trading large volumes of poultry and corn from there, and could expand into pork and beef. Yet, even if NAFTA negotiations fail, "Mexican beef exporters will continue shipping product to the U.S. because it is our natural market," according to Rogelio Perez, Director of the Mexican Beef Exporters Association.

Fortunately, the Mexican domestic market has remained at relatively strong at levels as published by Urner Barry, with many traders reporting good domestic demand. We will remain vigilant on all market changes. UB

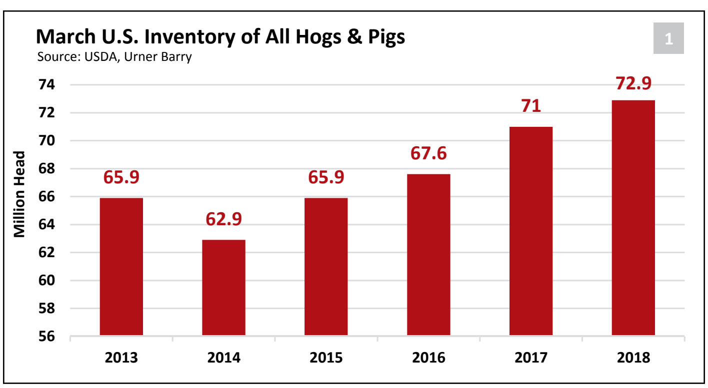
"...Mexican beef exporters stands to lose big if a trade dispute ensues."

Yet another tale of record production

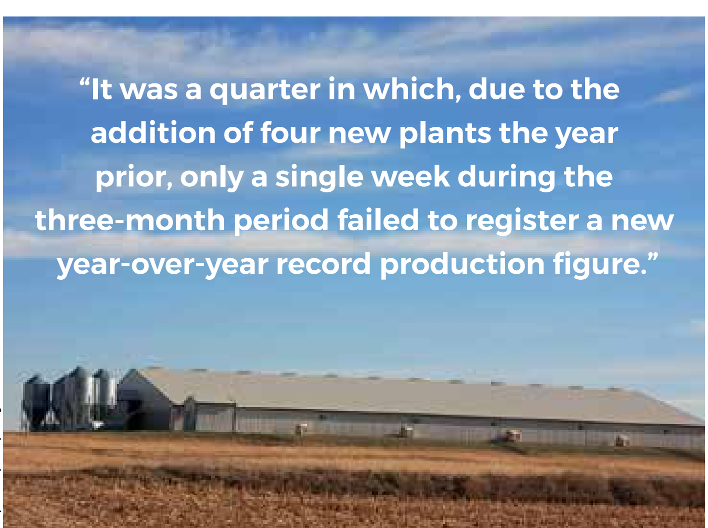
By Russell Barton | rbarton@urnerbarry.com

The first quarter of 2018 was yet another story of record pork production and the trickle-down effects therein. It was a quarter in which, due to the addition of four new plants the year prior, only a single week during the three-month period failed to register a new year-over-year record production figure. With the increased processing capacity resulting in plenty of pork availability, wholesale pork performed more poorly than hog prices, shrinking packer profitability versus a year ago. Based on our estimated margin indices, operating margins for outside purchasers of hogs and those for vertically integrated operations were down 17.3 and 15.6 percent respectively on average, compared to 2017.

The U.S. inventory of all hogs and pigs on March 1, 2018 was 72.9 million head. This was up 3 percent from March 1, 2017 but down 1 percent from December 1, 2017. Breeding inventory, at 6.2 million head, was up 2 percent from last year and up slightly from the previous quarter. Market hog inventory, at 66.7 million head, was up 3 percent from last year but down 1 percent from last quarter.



Taking a look at the weighted average of the bellwether Iowa-Southern Minnesota hog market during the quarter, livestock there traded between $49.41 and $71.46/cwt and averaged $63.95/cwt on a carcass basis. This compares to a range of $55.03 to $73.87/cwt and an average of $66.09/cwt a year ago.



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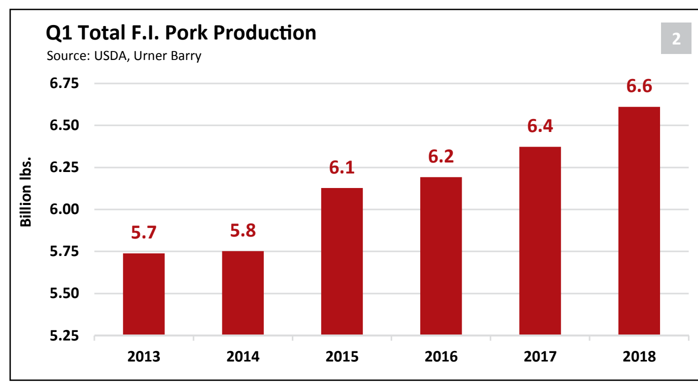
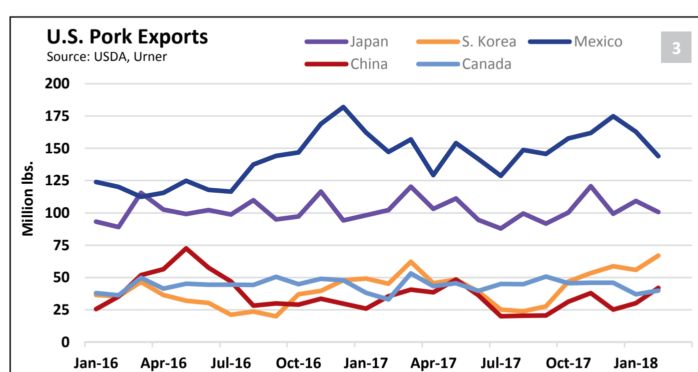
The average pigs saved per litter was a record high 10.58 for the December-February period, compared to 10.43 last year.

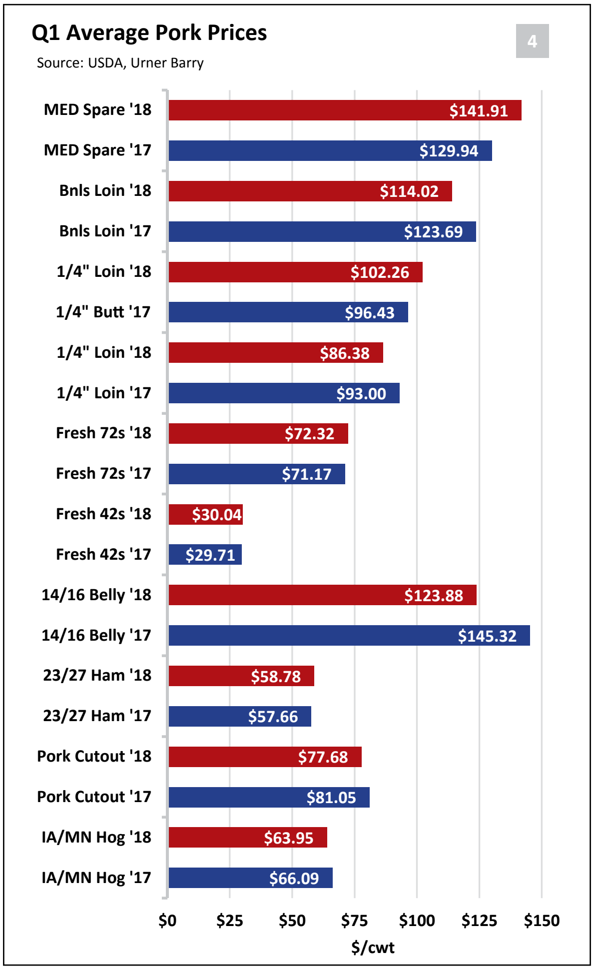
The first quarter of 2018 saw a federally inspected hog slaughter at approximately 30,891,600 head, which represents an increase of 3.04 percent from year ago levels. Sows comprised 2.45 percent of the slaughter, compared with 2.5 percent in 2017. Commercial pork production set a new Q1 record at 6.645 billion pounds, which was up 3.67 percent from last year totals. Federally Inspected pork production was also a new record high for the first quarter, totaling 3.73 percent greater than a year ago.



Depressed pork prices made U.S. pork an attractive prospect to our export partners, even as the U.S. dollar remained at record levels through the entirety of the quarter. March export data had not yet been released at the time of publication of this report. For the first two months of the year, total exports were up 7.6 percent from the first two months of 2017. South Korea was the real growth story so far this year, importing 30 percent more pork than last year. Japan, China, and Canada were up 4.75, 17 and 7.84 percent respectively. Exports to Mexico were down .9 percent for the Jan-Feb period versus last year.



Record pork production kept overall wholesale pork values subdued for the majority of the first quarter of 2018. Cutout values ranged between $70.94 and $82.42/cwt in Q1, compared to $76.93 and $84.49/cwt in Q1 2017 on a weekly basis.



While demand for hams domestically and globally continues to be healthy, the softer exports to Mexico resulted in a more modest year-over-year gain for the ham complex than last year. 23-27 lb bone-in hams on average were up 1.9 percent from a year ago, with values ranging between $51.00/cwt and $68.40/cwt. This compares to the 2017 Q1 range of $49.60/cwt to $62.80/cwt.

With cold storage stocks in a considerably better state than this time last year and production setting new year-over-year records, the belly market was depressed to start the year. 14-16 square cut pork bellies ranged between $101.50 and $148.30/cwt, averaging $123.88/cwt. This was a 15 percent decrease from a year ago; a quarter in which bellies traded between $114.60 and $181.50/cwt and averaged $145.32/cwt.

Fresh 42 percent trimmings spent Q1 2018 ranging between $23.63 and $42.70/cwt, compared to $24.30 and $37.40/cwt last year. Fresh 72s ranged between $63.25 and $80.60/cwt, compared to $65.80 and $79.20/cwt in Q1 2017.

Record production particularly weighed on loin values in the first quarter of 2018. The continued increased focus on pork butts domestically and abroad remains a burden on the health of the loin complex. ¼" bone-in loins averaged 7.1 percent lower versus the same time last year, ranging between $80.30 and $92.00/cwt, compared to $86.00 and $104.30/cwt in 2017. Boneless loins averaged 7.8 percent lower versus a year ago.

As mentioned earlier, exports to South Korea during the first two months of the year saw outstanding growth and a large portion of these sales can be assumed to be in the form of pork butts, traditionally their most sought-after item. This, combined with an increased domestic focus on pork butts due to their wide range of uses and more year-round featuring, resulted in a ¼" butt which averaged 6 percent higher than Q1 of 2017. Prices ranged between $98.90 and $113.38/cwt, compared to $84.30 and $109.20/cwt last year.

Spareribs performed considerably better this year than last. Medium sparerib values ranged between $136.25 and $144.00/cwt in Q1 2018, compared to $122.50 and $133.70/cwt last year.

Looking forward, the pork industry has and will likely continue to have growing pains. Production capacity has expanded notably in a very short period and finding consistent, dependable homes for this new pork will be a key factor in the coming months and years. With the domestic market saturated with plenty of not just pork, but beef and chicken as well, exports, which have always been a critical element for the U.S. pork market, will be more necessary than ever to maintain and build upon. UB

BY-PRODUCT MARKET

Larger production numbers weigh on by-product market

By **Bill Smith** | bsmith@urnerbarry.com

Expectations for the by-product market in 2018 vary noticeably. Beef production thus far in 2018 is up about 3%, pork production is up roughly 3.5%.

Demand for by-products is largely segmented between the oleo chemical, biodiesel, feed, pet food and baking. Buying interest can be challenging to predict, as these different sectors are influenced by so many different things.

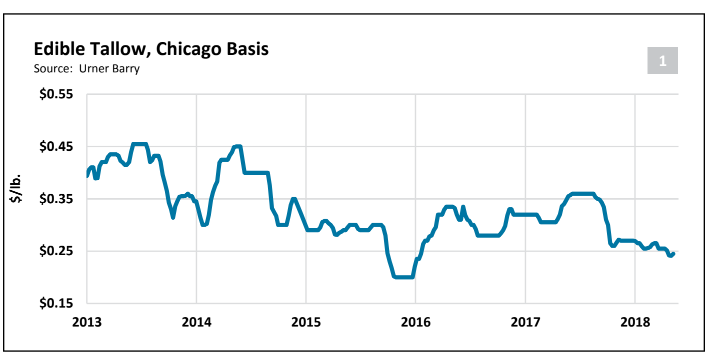
There are only two items on the by-product report that are edible for human consumption. Edible tallow and loose lard. Edible tallow opened the year at a discount compared a year ago and continues to trend lower (Chart 1). Loose lard, on the other hand, continues to trade in light volume at a premium compared to the equivalent period for 2017. The monthly average price for loose lard in April was about 8.5% higher than the previous year (Chart 2).

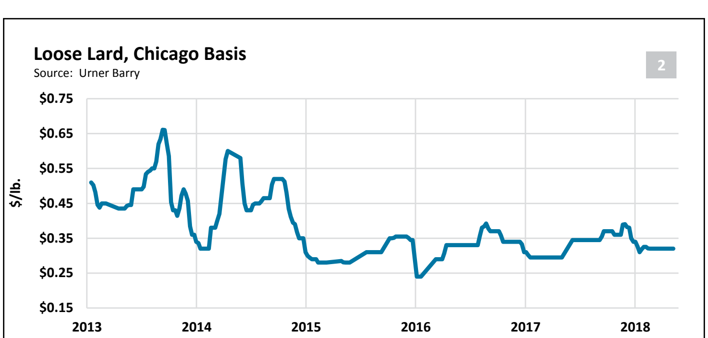
Q1 2018 monthly average prices for renderer and packer tallow were discounted each month in comparison to the corresponding month in 2017 (Chart 3). Demand for inedible tallow will likely improve as we progress through the second and third quarters of this year. Production levels will continue to play a key role in price direction.

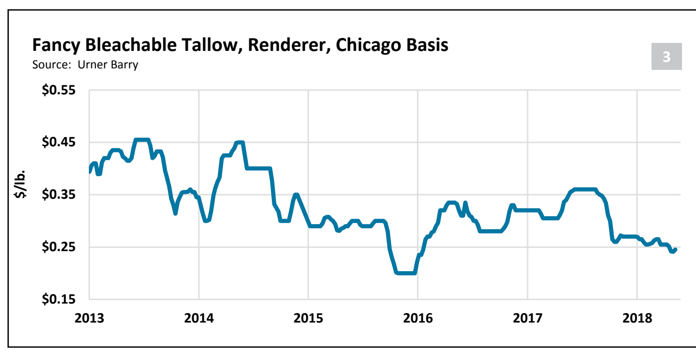
Choice white and yellow grease both opened the year at discounts when compared to 2017 (Charts 4 & 5). Choice white grease was down 19.2%, yellow grease was off about 20%. Demand has improved as of late. Seasonal trends will likely hold true with these markets trending lower the second have of the year. Don't expect the discounting to be as steep as past years though as we are already entering a period of lower price levels.

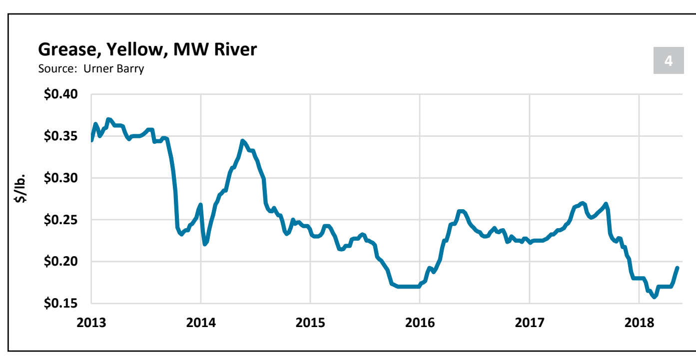
2018 will see a lot of the same key issues in the by-product market this year. Production schedules, changes in demand and government regulations are just some of things that can potentially impact these markets moving forward. UB

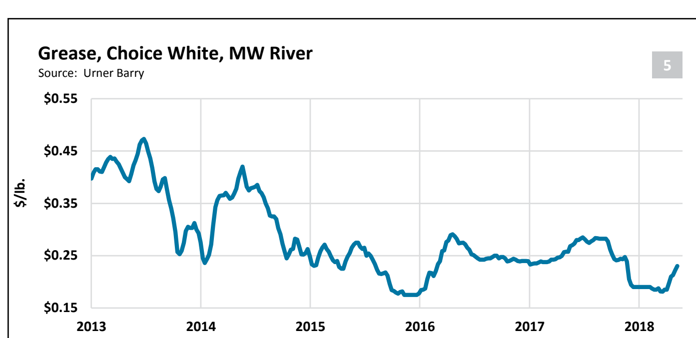
"2018 will see a lot of the same key issues in the by-product market this year."









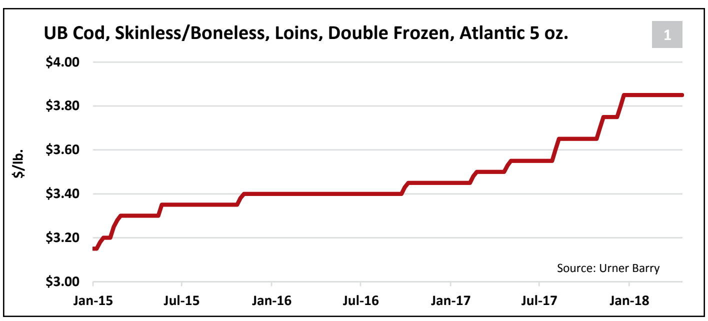


Whitefish shortage causes upward pressure in the market

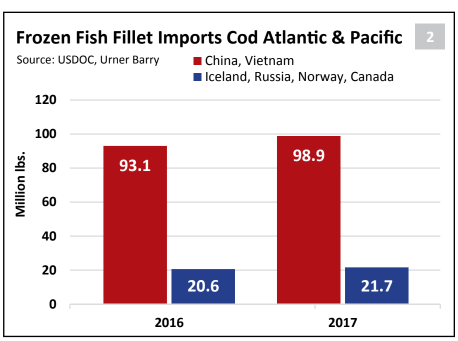
By **Lorin Castiglione** | lcastiglione@urnerbarry.com

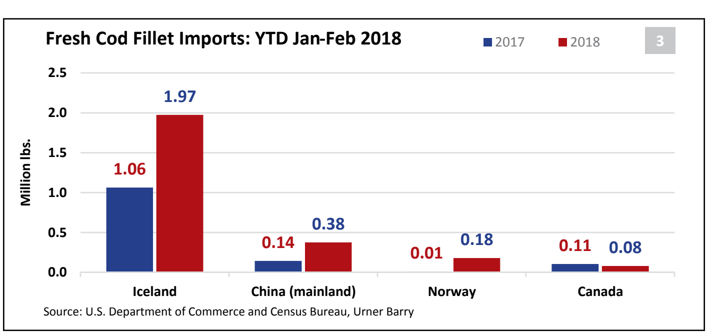
COD

Atlantic and Pacific cod fillet prices increased steadily in 2017 as demand remained active amongst an overall shortage of whitefish in general (Chart 1). Single and double frozen cod fillets continue to be a key foodservice item in the U.S. Chinese imports of twice frozen cod continued to dominate the U.S. market for cod fillets with imports totaling 98,993,509 pounds, up 6% from last year (Chart 2).



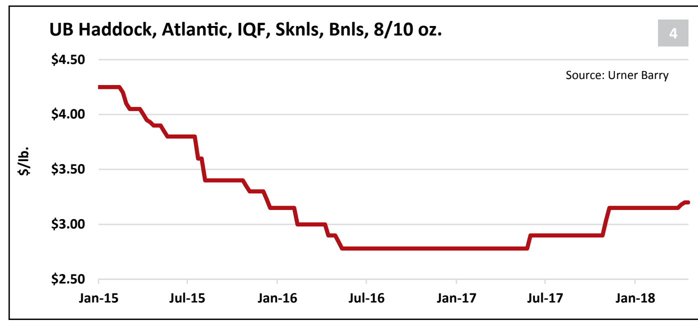
Total imports increased significantly for fresh cod fillets at the start of 2018, more than 100% (Chart 3). Iceland, Norway and China showed dramatic increases from last year which contributed to this substantial spike. Traditionally, Iceland is the largest exporter of fresh Atlantic cod fillets to the U.S., however, Iceland's fishermen strike that lasted from November 2016 to February 2017 had an immediate impact on the fresh market, but we are beginning to see it rebound.





HADDOCK

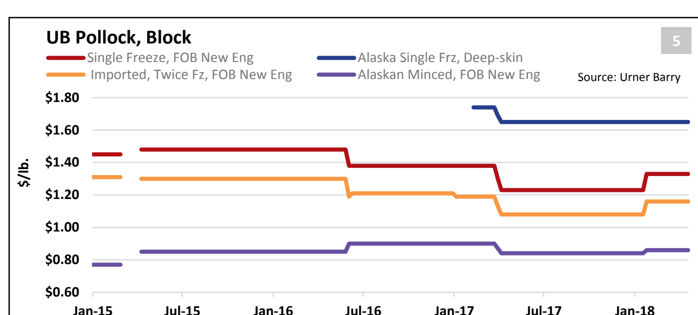
Haddock imports have been increasing for the last four years, totaling 33,575,304 pounds, up 7.3% from 2016. Double frozen fillets have been seeing a steady increase, ending 2017 at $3.10, up 15% from January 2017. Prices are still relatively low compared to 2015 where the prices nearly doubled (Chart 4).



On single frozen fillets, prices also began to increase in July 2017 after a weak start to the year. The effect of the Icelandic strike that disrupted production and depleted inventories during the three-month strike that occurred November 2016 through February 2017, had traders predicting low haddock prices are going to be a thing of the past and after seeing the premiums emerge in the market in Q3 and Q4, they may be right.

POLLOCK

Pollock imports have been on the decline since 2013. Many believe demand is moving away from breaded and prepared items in the U.S. in exchange for healthier options like natural fillets. While demand hasn't fallen off completely, growth has been slow due to this very reason. However, with the situation that is going on with *pangasius*, pollock is being offered, among other species, as an alternative to the highly-priced, short-supplied *pangasius* market right now. Prices for single freeze PBO and imported twice frozen processed pollock blocks are seeing a slight uptick (Chart 5). Will pollock result in a viable alternative for *pangasius*? If the demand for pollock fillets increases, how will the block market react? Many traders are asking these question because of the uncertainty that lies ahead. **UB**



"Total imports increased significantly for fresh cod fillets at the start of 2018, more than 100%"

Extended scallop season produces highest landings in 5 years

By **Jim Kenny** & **Lorin Castiglione**
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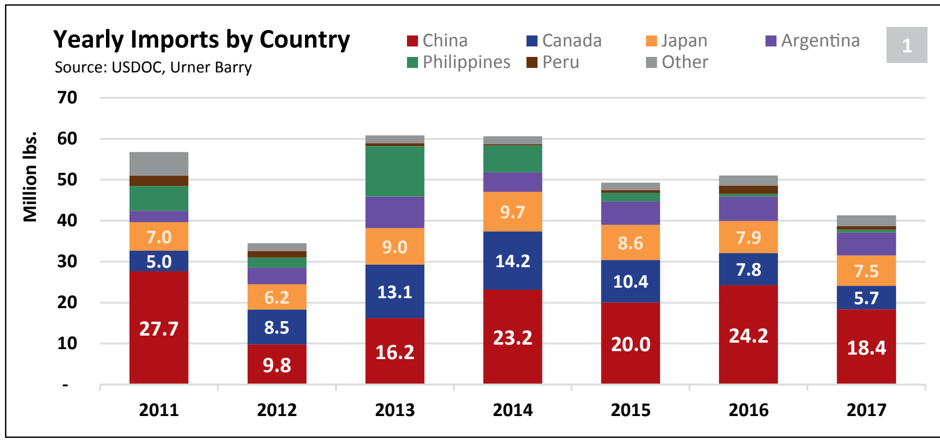
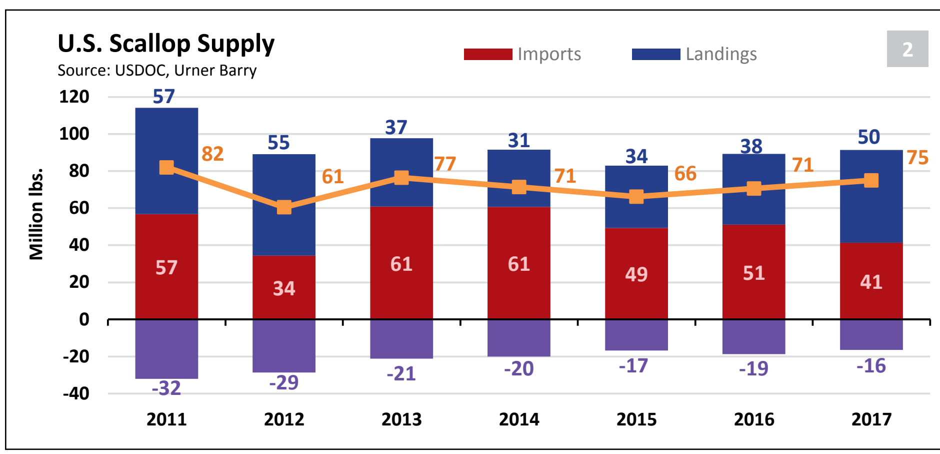
THE DOMESTIC FISHERY

The Atlantic sea scallop (*Placopecten magellanicus*) is one of the most valuable fisheries in the United States and is the most valuable wild scallop fishery in the world. It's managed by the New England Fishery Management Council in cooperation with the Mid-Atlantic Fishery Management Council under the Atlantic Sea Scallop Fisheries Management Plan through a combined approach of effort limitation and rotating harvest areas.

The scallop season has traditionally started March 1 and ended February 28 (12 months in length), but Framework Adjustment 28 extended fishing year (FY) 2017 by a month in an effort to more effectively manage the opening. Starting with FY 2018, the scallop season will run April 1 to March 31. This means that the 2017 fishing year was 13 months long. This extended season resulted in 51.7 million pounds landed; the highest total in any of the last five years.

Meanwhile, Framework Adjustment 29 to the Atlantic Sea Scallop FMP, which contains catch specifications for the 2018 and 2019 (default) fishing years, is advancing for NMFS review and implementation. The most likely scenario includes six 18,000 lb. access area trips and 24 days-at-sea. These allocations are projected to result in landings of about 60 million pounds of scallops in FY 2018.





SCALLOP TRADE

Scallop imports into the United States declined 19%, or 9.7 million pounds in 2017. However, this was largely by design as the domestic catch was set to improve and marketers had a diminished need for imported products. China continues to be the largest scallop supplier to the United States, accounting for about 45% of the 41 million pounds of scallops imported into the U.S. Shipping fewer scallops to the U.S. are China (-24%), Canada (-28%), Japan (-5%), Argentina (-6%), and Peru (-55%) (Chart 1).

Export activity declined year-over-year. Jan-Dec exports totaled 16.41 million pounds, 12.2 percent fewer than the 18.69 million pounds shipped in 2016. Canada remains our largest export destination, accounting for roughly 29% of annual exports; other significant destinations for U.S. production are the Netherlands, France, Belgium and the United Kingdom.

> **"This extended season resulted in 51.7 million pounds landed; the highest total in any of the last five years."**

THE MARKETS

Fewer imports, larger landings, and a decline in exports, resulted in an increase in net supply. Our net supply calculation suggests an annual total of nearly 75 million pounds compared to 70.66 million in 2016; a 6% improvement (Chart 2).

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The market for U.S. origin sea scallops fell considerably in 2017, getting more in-line with historical averages. Robust domestic production weighed on the market, especially in the first half of the year. The market strengthened in the third and fourth quarters, a typical price action for when effort slows. The average price paid for a domestic dry U10 in 2017 was $15.25/lb, down 17% from the previous year average of $18.47/lb. Similarly, dry 10/20 count scallops decreased by 13%, averaging $10.80/lb compared to $12.36 in 2016.

The market for Canada origin sea scallops declined throughout the year despite a reduction in Canada's TAC. Robust U.S. landings limited the need for imports and weighed heavily on this segment of the market. Shipments from Canada fell 2.17 million pounds or 14% year-over-year. The average price paid for a 10/20 count Canada origin sea scallop in 2017 was $13.41 down 6% from the previous year average of $14.32/lb in 2016. 40/50 count scallops were down 13% averaging $9.98/lb compared to 11.42/lb in 2016.

The market for China origin scallops also declined. Shipments of scallops from China declined 45% or 5.8 million pounds compared to last year. 60/80 count China origin scallops traded at an average price of $6.42/lb, almost steady to the 2016 average of $6.47, while 150/200 count scallops fell 11% from $3.74/lb in 2016 to $3.32/lb in 2017.

LOOKING FORWARD

The outlook for this year is that with an increased net supply, prices could continue to fall, attracting a wider consumer base at the restaurant and retail levels this summer. Conservation efforts have been strong resulting in productive years for fisherman, however, there is concern as to what this weakness could mean for the industry compared to recent years. Are we at the forefront of a long term correction? UB

Consumers may reap the benefits of low replacement costs through retail promotions

By Jim Kenny, Angel Rubio and Paul Brown
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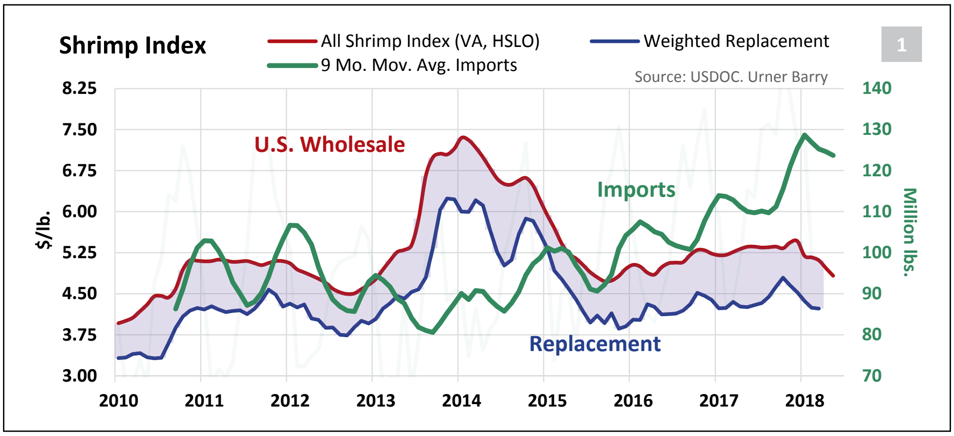
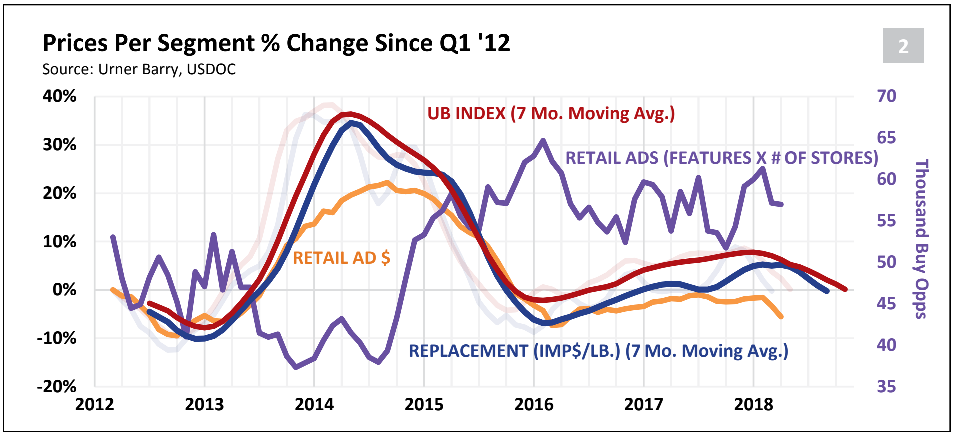
It is common for commodity markets to hit cycles of bubbles and busts. Nothing new there, right? Yet, the shrimp market remained surprisingly flat for an extended period of time after the Early Mortality Syndrome (EMS) market correction, only to see prices adjust down gradually both abroad and domestically last year. 2017 was an unusually flat year, with historical volatile levels (a measure of rate of change) and multi-year lows. When this happens, red flags should be raised, meaning that we ought to look at fundamental indicators as catalysts for potential changes in the future. For example, production abroad and imports—which are not the same—should be at the core when analyzing supply. As a function of demand, we should look at replacement costs and U.S. wholesale prices (Chart 1).

So, let's begin. For 2018, India is targeting upwards of 700 metric tons of shrimp production, a number that not even Thailand, once the world's largest shrimp exporter, reached at its peak prior to the EMS supply shock. Other major producing and exporting countries like Ecuador and Indonesia have also increased their production over the past few years, and it appears that 2018 will be no different. Furthermore, gradually declining prices abroad, or in the context of the U.S. market, the costs U.S. importers replace their inventories at, can cause further discounting in the U.S. market. This situation can effectively cause these "savings" to be passed along the distribution chain all the way to the consumer. In other words, as packers overseas lower their offerings to sell surplus product, U.S. importers will have a larger incentive to lower their prices if future expectations of purchasing prices are lower. Retailers and restaurants will also be eager to promote shrimp consumption if buying prices and future expectations are comparatively lower. Data shows that as replacement costs adjusted lower in the aftermath of the EMS supply shock, prices in the U.S. wholesale market and at the retail level also retreated. At the same time, retail promotions increased (Chart 2).

> **"Total volume imported in 2016 and 2017 reached a back-to-back record high."**



Import data is smoothed using a 9-month moving average while both the Urner Barry Index and the weighted import price per pound series are in current/nominal U.S. dollars.



So, given the absence of a supply shock in the world market (e.g. disease) since 2011-2013, let's assume that U.S. import volumes are indicative of each country's production level, at least trend wise. For example, if shrimp imports from Ecuador increase, then that country's production also increased.

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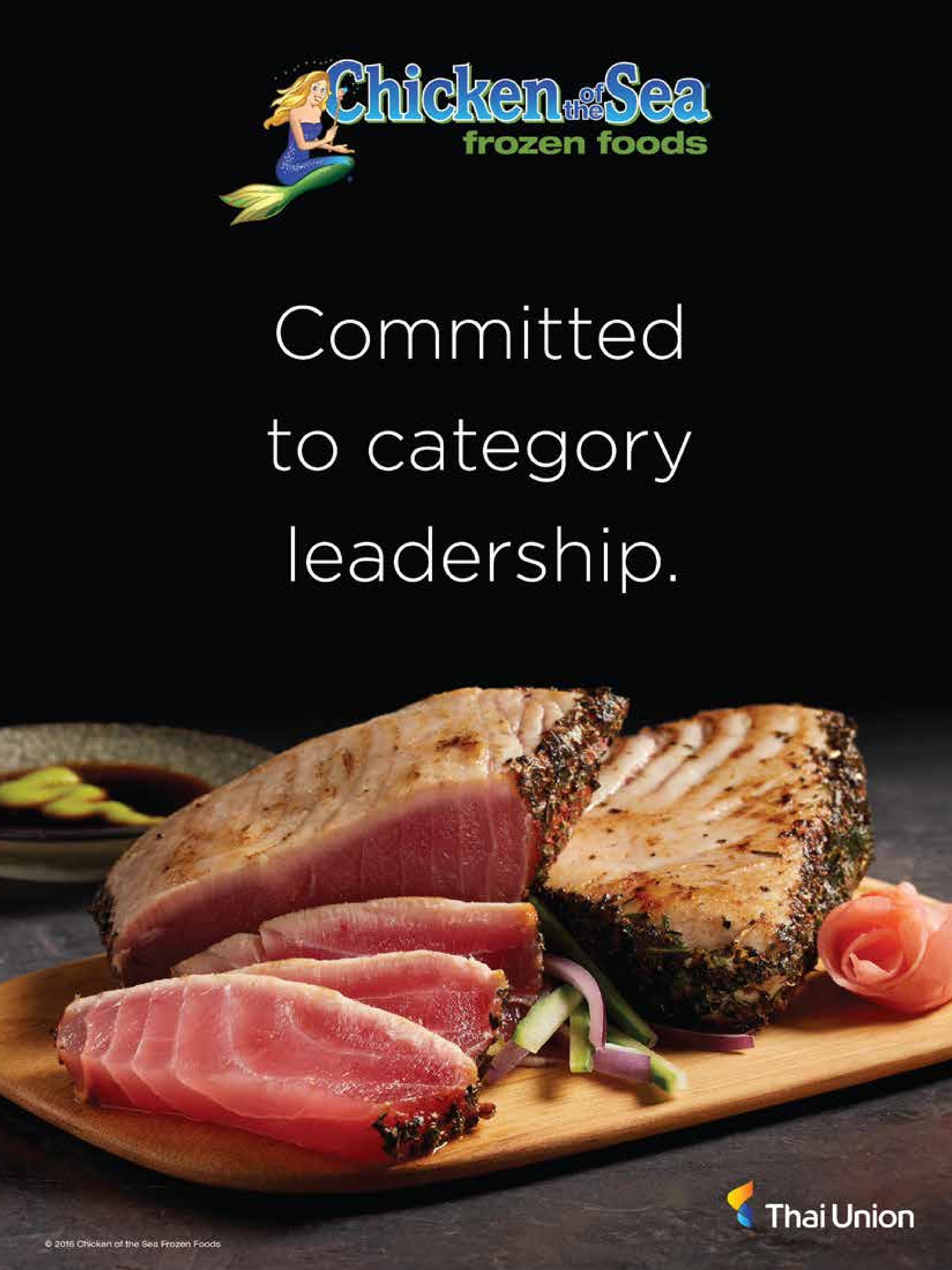
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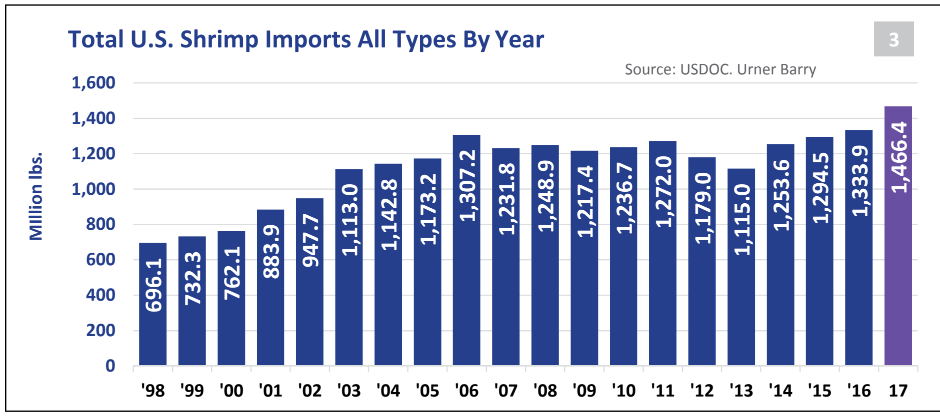
Continued from page 36

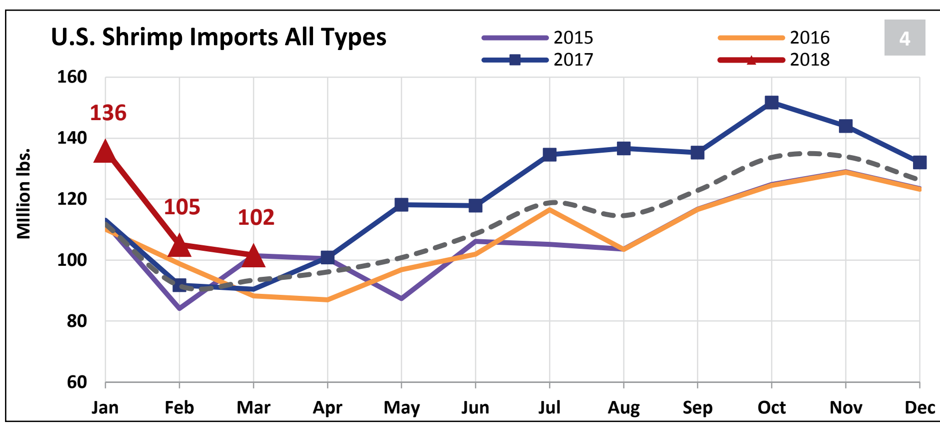
Beginning with total imports from all origins and all types of shrimp. Total volume imported in 2016 and 2017 reached back-to-back record highs (Chart 3). In 2017, however, seasonal imports began to trend well above the 3-year average right around May—this data would not have been available last year due to the dates in which this data is publicly released—and lasted into February of 2018 (Chart 4).

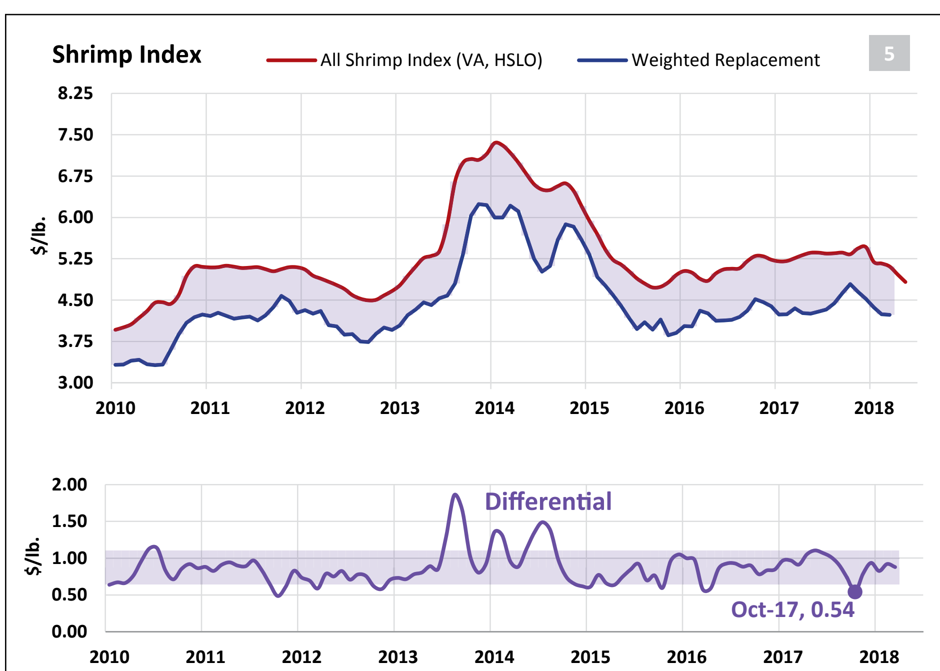
These increases in import volume would have suggested a decrease in prices, all else equal. However, relatively high replacement costs—the price at which U.S. importers bought product—throughout 2017 caused U.S. importers to hold or even increase offerings in the U.S. domestic market. Although the increase in replacement costs was comparatively modest, the price difference between replacement costs and U.S. wholesale prices managed to reach their multi-year low, suggesting that either prices in the U.S. had to move higher or replacement costs had to come off in order to return to historical norms (Chart 5). In other words, U.S. importers needed better margins. However, with back-to-back yearly record-high import volumes, a price increase in the U.S. market seemed unlikely, again, all else equal. Though a slight price increase did take place in late November and December 2017, helped by a good seasonal demand, prices in the U.S. began adjusting rapidly lower into 2018. This downward adjustment accelerated again in late March and continued until presstime (Chart 6). Heavy inventories in the U.S., coupled with lower replacement costs from overseas, particularly from India and Indonesia since November 2017, caused sellers in the U.S. to further discount offerings.

Although assessing the situation going forward could be tricky, there is plenty of information that can help market participants understand the factors affecting the market. Anecdotally, U.S. importers reported low replacement costs in February, March and April. That means that we will see those data points represented in import figures for April, May and June, which will not be released until June, July and August, assuming it takes approximately 5-6 weeks for those purchases to arrive in the U.S.

As such, after carefully looking at the data from a holistic point of view, we found that prices in the U.S. wholesale market tend to react approximately 2 to 5 months prior to replacement costs' figures being reflected when product arrives into the U.S. In the same fashion, but not to the same extent, both increases and decreases in prices at the wholesale level are eventually passed on to the consumer. The latter was found when looking at Urner Barry's retail database, which tracks retail ads and ad prices. We found that it takes between six to 12 months for any increase or decrease in price in the wholesale market to be reflected at the retail level. We also found

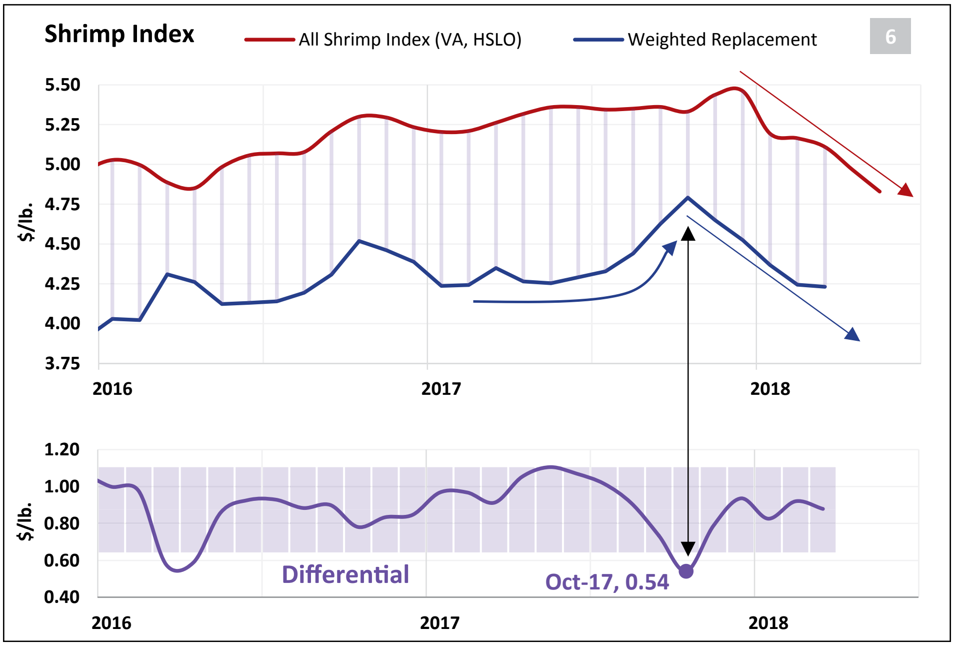






that sudden increases and decreases do not tend to be passed along to the consumer with the same magnitude. In other words, an increase of 20 percent in the wholesale market does not translate into a 20 percent increase in the offered retail ad price to the consumer. By the same token, a 20 percent decrease in the wholesale market will very unlikely translate into a 20 percent decrease.

For example, when prices at the wholesale level started rising in 2013 and reached their maximum level in March 2014, prices didn't reach consumer highs until eight months later in October of that same year. In 2018, however, retail prices began adjusting lower in February, only two months after prices in the U.S. wholesale level started their downward trend. So, when taking things into context over the last six months, replacement costs have adjusted at a monthly rate of 2.6 percent since October 2017—the pivotal month above mentioned—or nearly 12 percent through March 2018. Prices at the wholesale level, which are represented by Urner Barry's Shrimp Composite Index, have adjusted downward at a monthly rate of 2.1 percent since reaching their seasonal peak in December; losing 11.6 percent through May. Retail ad prices have also moved lower at a similar monthly rate of 2.05 percent since December, which translates into a decrease of 8.3 percent through April. This simply means that replacement is adjusting lower at a more



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CRAB MEAT MARKET

Back to back record prices for blue swimming crab

By Angel Rubio
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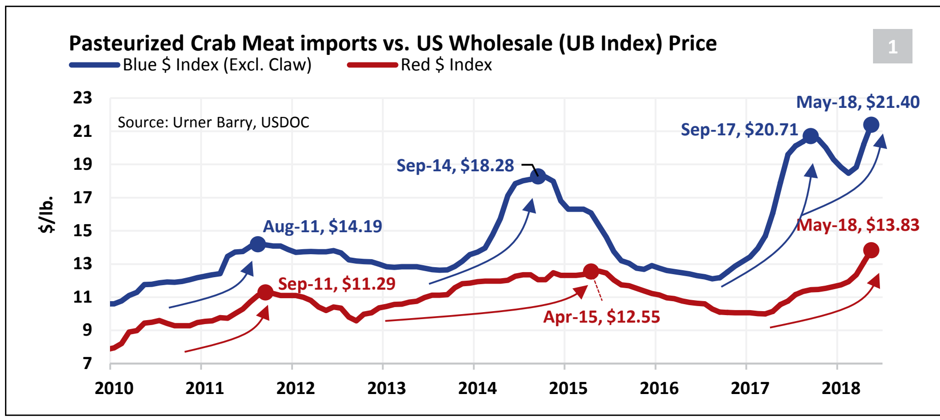
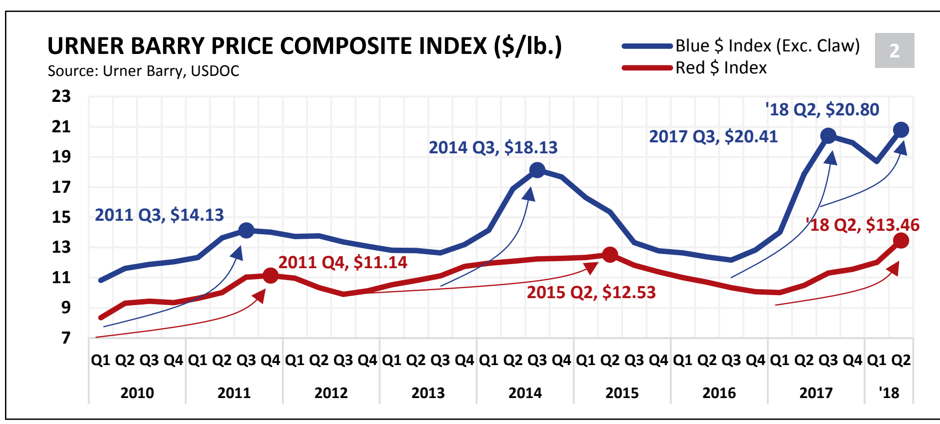
If last year consumers paid record prices for their crab cakes, this year it might flat out make them weep while they eat them. Prices for pasteurized crab meat reached a record high a few weeks before this article went to press, which is also the kick-start of summer and seasonally the highest demand period. Many plants in Indonesia, the largest supplier of pasteurized crab meat to the U.S., are slowing down production due to Ramadan. Additionally, there are limited inventories of red crab meat (*Hannii*) from China and we are in conservation mode until mid-August, meaning things could get worse before they get better.

The market has experienced similar situations before. In September 2017 the blue swimming crab meat market reached record high prices. Low catches in late 2016 into Q1 and Q2 of 2017, in addition to a strong U.S. demand fueled by multi-year low prices in 2016, caused the market to spike. The previous record-setting price





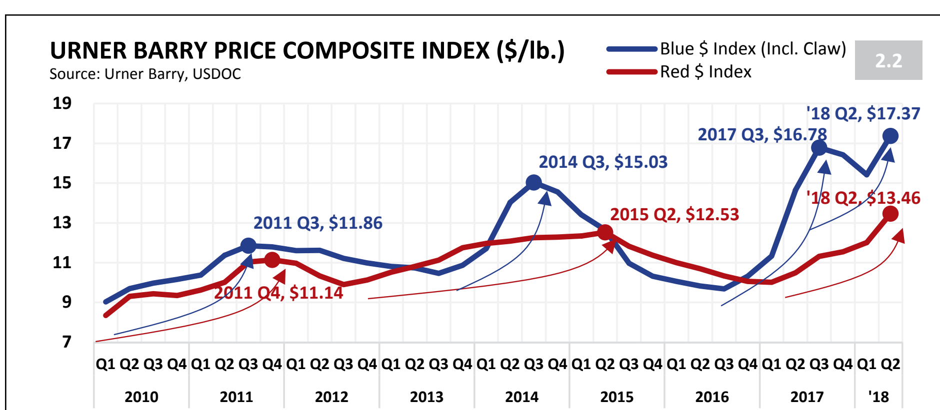
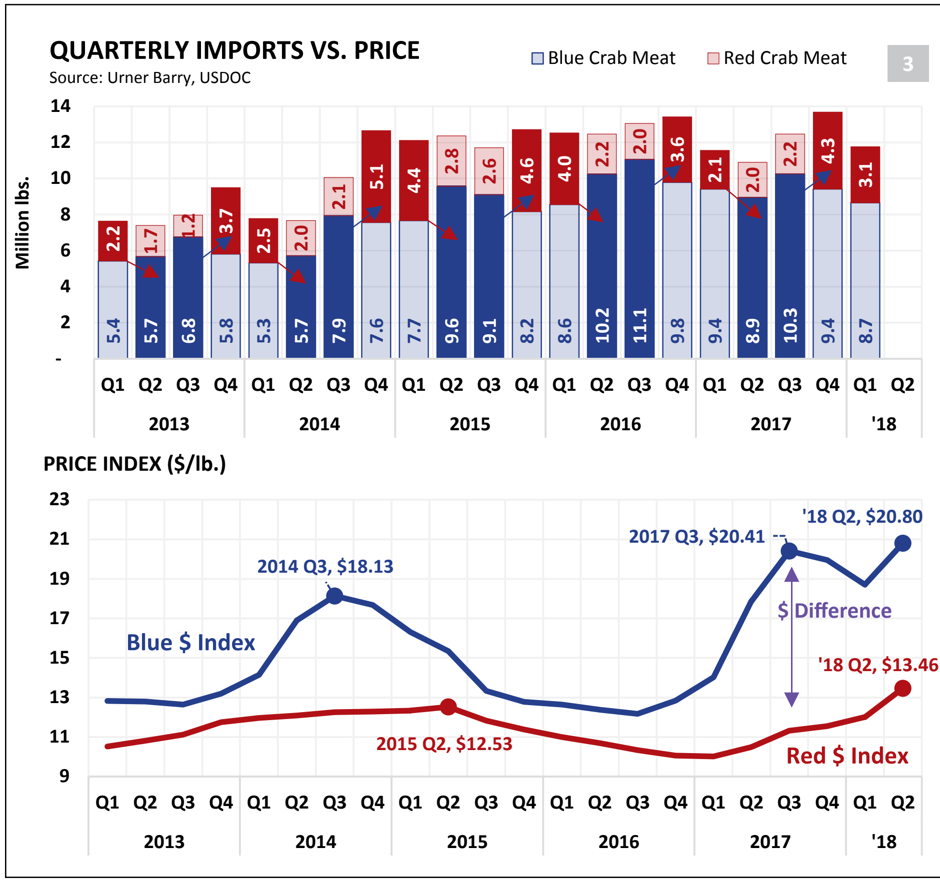


Chart 2 and 2.2: Two indexes are displayed for blue swimming crab meat; one with claw meat removed and one including this meat grade. We aim to display an average yield for this meat grade for blue swimming crab given that this meat grade does not trade in large quantities for red swimming crab. Again, like any other index, the intent is to display a general overview of the market and its trend rather than a granular look at each meat grade.

level reached occurred only 26 months prior in September 2014 (Chart 1).

In the past, we have noticed that when prices for blue swimming crab meat rise rapidly, there tends to be substitution; first, users of larger grades start downgrading to smaller grades; if prices remain relatively high, or continue to rise, some users of blue crab meat can switch to red swimming crab. This last effect is anecdotally collected by sellers and supported by price and volume changes. For example, back in 2011, when prices for blue swimming crab meat rose rapidly in Q2, prices for red swimming crab meat rose as well into Q4. In 2014, when prices rose rapidly and reached record highs in Q2, prices for red swimming crab reached a record high in Q4 and remained strong into Q2 of 2015 (Chart 2 & 2.2). As a result, imported volume of red swimming crab increased as demand shifted from blue to red. Thereafter, both blue and red corrected downward to multi-year lows into 2016 (Chart 3).



Last year, however, when prices for blue swimming crab meat accelerated at the fastest pace on record—also into Q2 of 2017—and reached another record high during Q3, prices for red swimming crab meat rose only modestly and at a significantly slower pace. As a result, the price difference between blue and red swimming crab reached historic highs. It was only into Q1 of the current year when significantly higher replacement costs for blue swimming crab, in addition to a strong demand caused by many users switching from blue to red swimming crab, caused prices for red swimming crab to also reach the fastest quarterly upward adjustment and record high levels. Naturally, volume imported of red swimming crab increased significantly during Q4 of 2017 and into early 2018 (Chart 3) compared to the previous year.

The curious part of this situation is that Q2 of 2018 prices for both blue and red swimming crab meat have reached record highs, but also, the price difference between the two remains hovering near historic highs. Many in the industry have commented publicly that these markets are likely to continue moving higher as we approach the high demand summer season. Already at record highs, there is increasing uncertainty even with the onset of summer. If the U.S. wholesale market doesn't absorb these record high prices throughout the summer, we could see major re-adjustments in this market going into Q4. UB

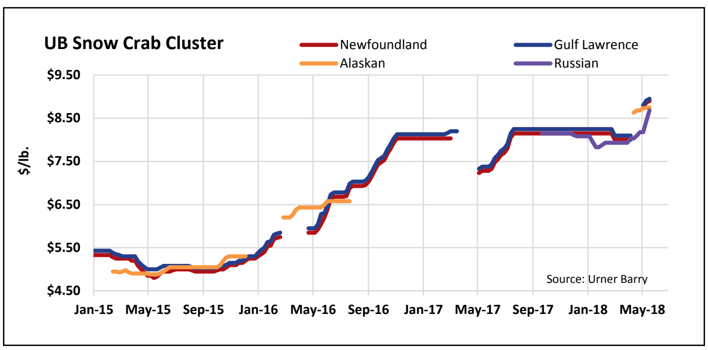
"If last year consumers paid record prices for their crab cakes, this year it might flat out make them weep while they eat them."

King crab supplies dwindling; Canadian Snow Crab prices at record highs

By Janice Schreiber | janice@urnbarry.com

KING CRAB

The crab market is much more dynamic this year than last. A flat king crab market has turned into one where product is available one day and gone the next. The U.S. continues to compete for its spot at the table for buying king crab. However, the U.S. market does not exist in a vacuum. More aggressive buying continues out of Asia for the live Asian crab markets in Japan, Korea, and China. Russian vessels fishing king crab that once would process for the North American market are instead fishing solely for the Asian market, which is outcompeting the U.S. for crab. In this instance, the U.S. buyers are not even given the chance to compete on price once the crab is caught; they have been outbid long before boats even left the dock.



Inventories on both Russian red and golden king crab continue to thin. Many sellers are reporting they are out of mid-sized crab with no replacement in sight for several months. In addition to the replacement product timeline being longer, replacement costs are continuing to rise. Again the U.S. importers continue to see upward pricing pressure on king crab due to the rise of Russian crabbers going for live crab for the Asian markets.

Out of Alaska, the red king crab quota out of Bristol Bay was reduced again this season from 8.5 million pounds to 6.6 million pounds; a 22 percent decline. Larger 6-9 and 9-12 count crab is still being quoted, however, smaller crab 12-14 and 14-17 count Alaskan red crab quotations have been removed; product available in the open market is nil.

Overall, larger-sized crab out of both Alaska and Russia have been extremely steady, while the middle-sized crab has been firm over the last several weeks.

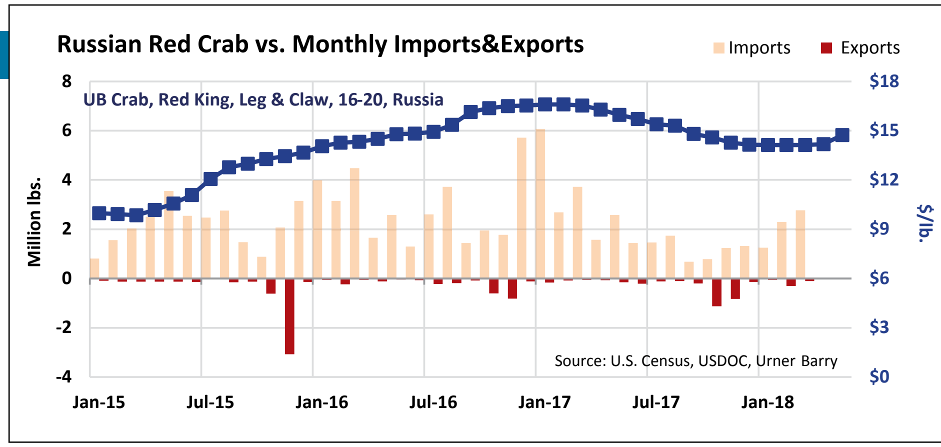
SNOW CRAB

Snow crab is currently in an extremely fluid situation. Supplies out of all major origins, Canada, Alaska and Russia, are tight, leaving buyers with little choices but to dive in at record high prices or potentially move on to a different product entirely.

Alaska continues to post reductions to its quota. The quota for the 2017-2018 season is at 18.9 million pounds, a 12 percent reduction from the season prior. Quotations are currently listed for 5-8 ounce crab, however, quantities are reported to be limited.

Russian snow crab imports through the first quarter are down 20.4 percent from a year ago. Although monthly imports in March 2018 (the most up-to-date information at the time of this writing) are up 63 percent from February to 1.6 million, this still leaves the U.S. market looking and needing available product. Russian snow crab prices have spiked from $8.10 at the beginning of May on 5-8 ounce crab to $8.60 (as of this writing in mid-May), with continued upward pricing pressure noted. The same situation we see in king crab exists in the snow crab market where the U.S. continues to compete for product overseas. Live snow crab to the Asian markets continues to compete with the U.S. market buying interests.

Finally, the Canadian snow crab market is in a situation never before seen. Several factors have led up to this scenario. The first being 2017 pricing levels at record highs and inventories of available product from last season being nil; therefore the 2018 new season product would be entering the market in a dry supply situation. Additionally, there were large quota reductions seen in the Gulf of Saint Lawrence and more specifically in zone 12, one of the highest producing areas in the Gulf region; with a quota cut of about 40 percent from last year. Furthermore, the Japanese, who are normally strong buyers of Canadian snow crab early on in the season, have reportedly been buying very aggressively due to these factors



and the ones we'll continue to discuss. With a more favorable exchange rate this year compared to last year, the Japanese buying pattern has been an aggressive and swift one. Moreover, both the Gulf and Newfoundland experienced heavy ice from a harsh winter and fishing has been off to a slower start. Compounding these factors are additional precautions and measures in the Gulf in regard to the protection of the Right Whale population within the fishing grounds. It's a fluctuating situation and some areas have already been closed as of this writing. However, the fear does exist that the entirety of the quota, even though reduced, may not be able to be caught; creating an even tighter supply situation than previous predicted. Pricing, since first being reestablished May 8, 2018, has been extremely firm and the undertone remains firm as well.

Taking all these factors into account, there appears to be strong indications that a contraction in the available supply of snow crab, regardless of origin, is imminent. Likewise, with the firm undertone in the current market, it appears the lack of supply has exceeded a potentially reduced demand due to higher priced crab. This situation does not look like it will ease anytime in the near future. UB

Demand continues growing as applications continue to expand

By Jim Kenny and Liz Cuozzo
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NORTH AMERICAN LOBSTER

The North American Lobster (*Homarus americanus*), and its derivative products, account for the vast majority of lobster trade in the United States; roughly 86 percent of all imported lobster products of this variety are sent from Canada. It's a popular item in the U.S. market, but demand has grown in recent years as applications were expanded. Additionally, the call from China has grown considerably and altered the landscape.

Imports of North American lobster products from Canada declined for the second year in a row, falling 4.3 percent year-over-year. 112 million pounds of lobster products were imported into the U.S. from Canada in 2017, compared to 117 million in 2016. Leading the decline was a 21 percent drop in shipments of meat, however, 2016 was a record year for meat imports. Imports of in-shell products, which include tails and whole cooked, were down 5.4 percent, while live increased 1.5 percent.

Maine lobster landings declined 16.4 percent in 2017; falling from roughly 133 million pounds in 2016 to 111 million pounds in 2017. This is a significant change as the prior five-year average was 127 million pounds and no year was less than 123 million pounds.

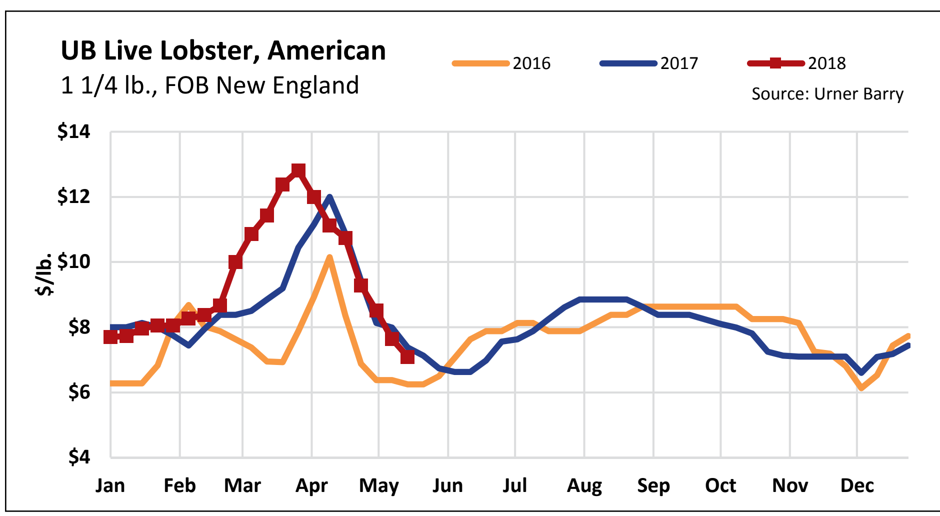
Exports of live *Homarus* from the United States declined 11.9 percent in 2017, largely the result of shipping 16 million fewer pounds to Canada. The majority of the live exports go to Canada for processing into tails, meat and other processed products. Meanwhile, shipments to China increased 51 percent, or 5.5 million pounds, to 16.45 million pounds.

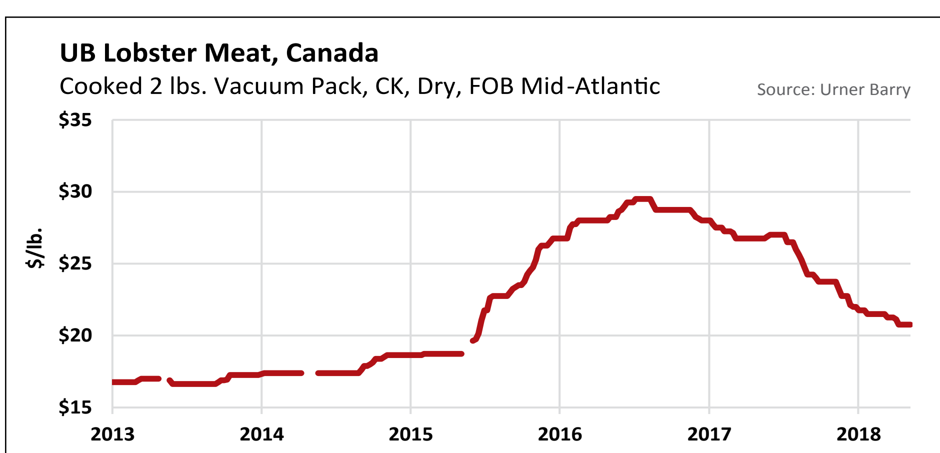
Lobster tail market values steadily increased all through 2017 and into 2018, with the biggest gains seen in the market for larger tails. Production constraints and sales of whole raw and whole cooked to Asian buyers was once again price supportive. Meanwhile, meat values continued to retreat from the record-high set in August 2016. Usage has slowed considerably, and buyers have been somewhat slow to re-enter the market. The live market moved largely in seasonal form, but generally at a premium to 2017 levels. A small increase in imports, coupled with fewer exports, was not sufficient enough to make-up for a roughly 22 million pound decline in domestic landings.

WARM WATER LOBSTER

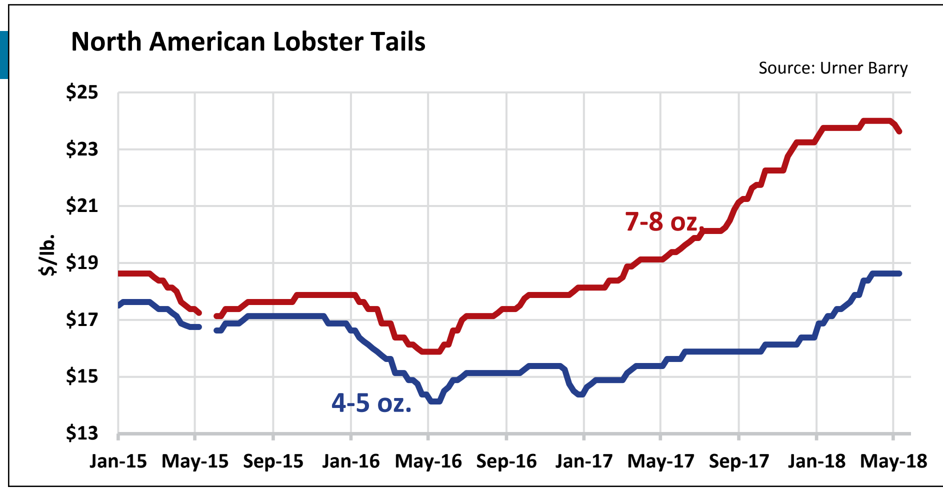
The second largest category of lobster in the U.S. market, accounting for roughly nine percent of all lobster products imported in 2017, is the spiny warm water lobster. Imports of warm water lobster tails increased in 2017, reversing the recent trend of year-over-year declines. The annual total stands at 12.11 million pounds; 15.2 percent more than the prior year, but still 14.7 percent lower than the prior five-year average. Individually, shipments from the Bahamas and Brazil increased, while Honduras and Nicaragua shipped less. Bahamas shipped 50.8 percent more for the year and Brazil 33.6 percent, meanwhile Honduras shipped 6.2 percent fewer for the year and Nicaragua 7.7 percent.

The Brazil season traditionally opens on June 1, followed by a July 1 opening in Nicaragua and August 1 in the Bahamas and Honduras. At the open, the market



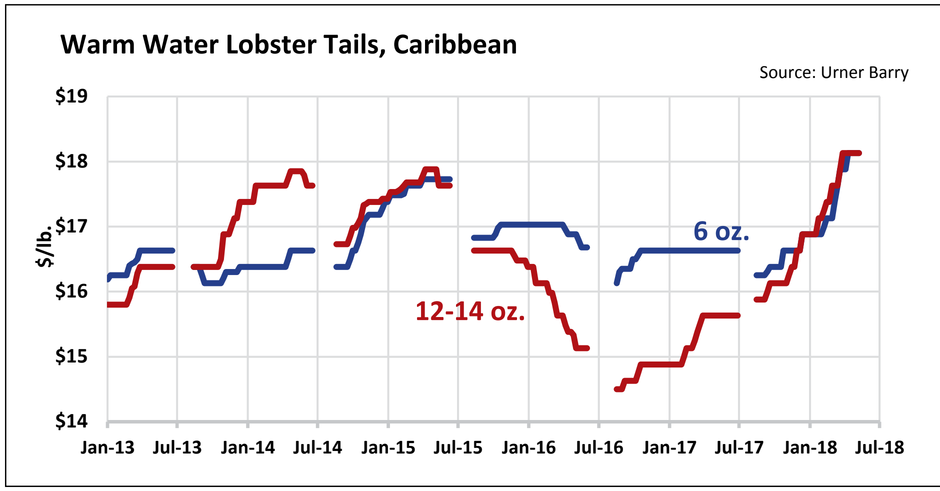


for prime size tails declined. These sizes appeared to be in generally good supply, while larger were somewhat short of full needs and opened the season at a premium. Initially priced at a discount, prime size tails have since moved to a 52-week high. Meanwhile, larger tails opened and maintain a premium over our previous quotations. All have moved sharply higher in 2018.



COLD WATER LOBSTER

This segment of the market continues to contract, totaling only 1.056 million pounds in 2017 and accounting for less than one percent of all lobster products imported into the U.S. Still, it's a premium product in a premium space. Imports of cold water lobster tails, primarily from Australia, New Zealand and South Africa, declined 6.7 percent in 2017. Individually, shipments fell 37.7 percent from Australia, but increased from both New Zealand (+6.6%) and South Africa (+0.7%). Supplies are still constrained, but the market for South Africa tails is challenged. UB



Pangasius: delays, record prices and uncertainty
Tilapia: declining imports, lackluster demand

By Lorin Castiglione
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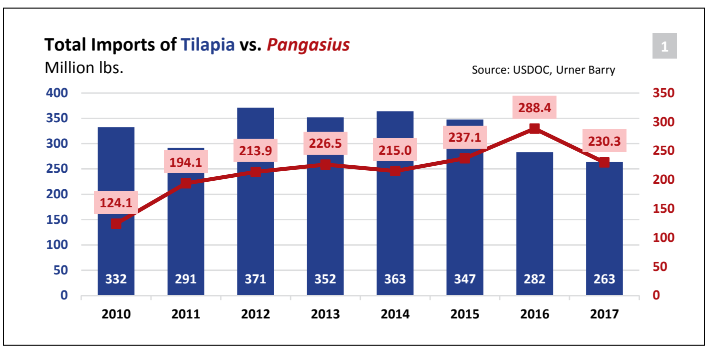
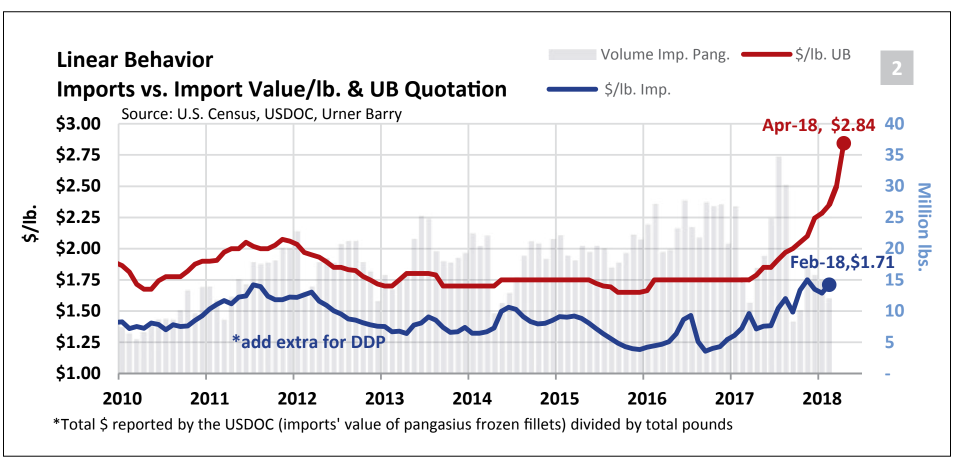
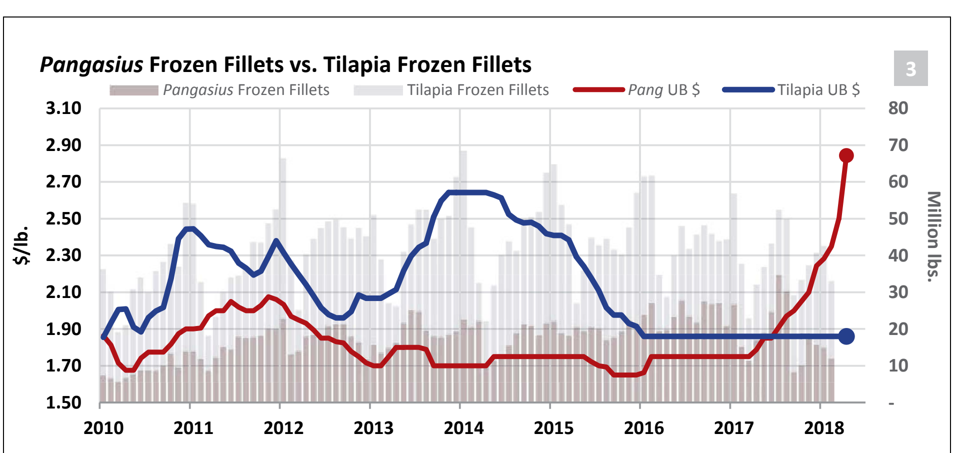
PANGASIUS

Imports of *pangasius*, which reached record high figures in 2016, have hit a major roadblock under USDA regulation. Beginning in 2015, *pangasius* imports were on the rise, increasing 10%, and then another 21% in 2016, surpassing total imports of tilapia frozen fillets for the very first time (Chart 1). However, since inspection has changed from the FDA to the USDA, *pangasius* imports have fallen more than 20% compared to 2016. January 2018 imports were down 44% and February imports were down 20% compared to year ago figures.



Increased inspections set by the USDA that began in September 2017 resulted in higher costs overseas as packing plants in Vietnam and China had to invest to comply with stricter regulations, according to many suppliers. Consequently, replacement costs for U.S. importers have also moved up considerably since September 2016. While the February import price of \$1.71/lb is slightly down from the record-setting level reached in November 2017, most in the industry predict an upward trend in the following months (Chart 2).



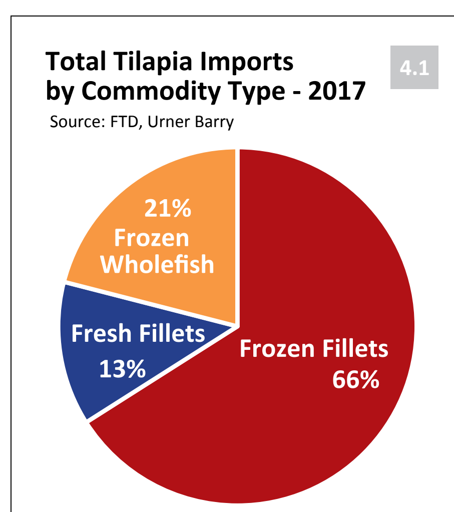


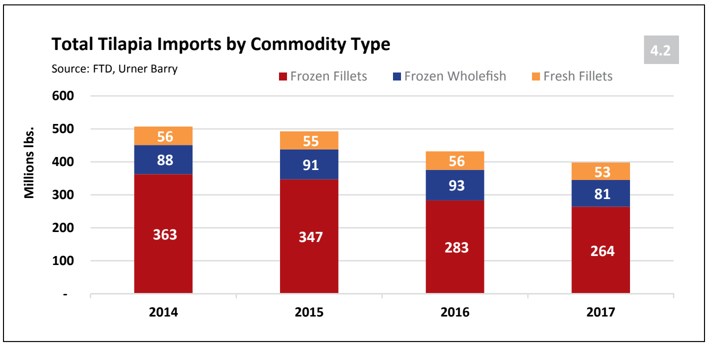
As imports fade and replacement costs rise, the market price for frozen *pangasius* fillets from Vietnam has surged 59% between January 2017 and March 2018. This is the highest price ever recorded in the market in 12 years (Chart 3). Historically, frozen *pangasius* fillets were characterized as a steady market. However, this year looks as if it will be pivotal, and many are curious to see just how high prices will rise.

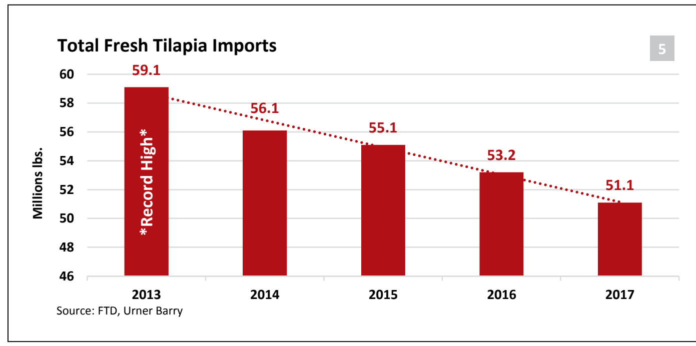
TILAPIA

Tilapia imports have been contracting steadily since 2014, when replacement costs were elevated along with record high market prices for frozen fillets. Last year, imports of frozen fillets compromised two-thirds of all tilapia imports into the U.S. (Charts 4.1 and 4.2), declining almost 7% compared to 2016, and following an 18% drop the previous year; the largest percentage drop on record for this market.

The gradual decline in imports for this commodity can be attributed to several factors; bad publicity and changes in consumer preferences as well as restaurant business being down. Even substitution at the wholesale trading level due to price, all attribute to less demand. According to many importers, supplies in the U.S.

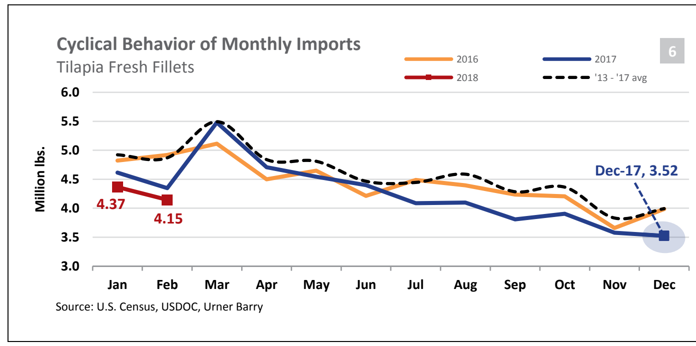






remain adequate, and offerings from recent harvests also remain mostly steady.

Similar to the frozen fillet market, imports of tilapia fresh fillets have adjusted downward since reaching a record high in 2013 (Chart 5). Imports in January increased significantly, up 24% from the previous month (Chart 6). This number comes after a record low December due to limited imports from Honduras, one of the largest suppliers of fresh tilapia fillets. February imports declined 4%.



CONCLUSION

This coming year will continue to be pivotal for these commodities. As prices continue to increase for *pangasius*, will demand shift more significantly to tilapia or other species such as channel catfish or pollock? Will the domestic catfish market prosper among the uncertainty overseas? In the next few months we will start uncovering the answers to these questions.

Chilean fillets experience upward pricing for 9 straight weeks; Farmed salmon starts to come off of a strong Q1 rally

By Janice Schreiber
Janice@urnerbarry.com

> "Canada has gone from a market share of 71 percent in 2016, to 55 percent in 2017, and now 53 percent in 2018."

After rallying for several weeks during the spring, the farmed salmon complex finally started to settle post Mother's Day and embarked on a pricing correction when it reached an all-time high on May 14th of $6.81 (Chart 1).

All origins of farmed salmon—Canada, Europe, Chile—participated in the rally. Supplies were falling well short of full needs on the spot market with most buyers reportedly accepting anything and everything that came their way. Yet, on a year-to-date basis, imports reached record highs on both fresh fillets (+13%) and whole fish (+7.4%). So, this short supply situation was most likely fueled by strong contracted volume that was not hitting the spot market. This can be illustrated by the amount of retail ads published in January, which were comparatively high (Chart 2).

That situation is starting to switch, however, and the farmed salmon complex as a whole seems to be slipping into its seasonal summer slowdown. Additionally, many contracts are through Mother's Day or middle of May and will be renegotiated during this time.

WHOLE FISH

The European and Chilean whole fish markets continue to gain ground in the U.S. market, at the detriment of the Canadian salmon market which is still seeing its market share dwindle.

Canada has gone from a market share of 70 percent in 2016, to 55 percent in 2017, and now 53 percent in 2018 on a year-to-date basis (Chart 3). Meanwhile the combined European countries of Norway, United Kingdom (Scotland), and the Faroe

Islands have gone from 24 percent in 2016, to 41 percent in 2017 and down so far this year to 37 percent through Q1. Chile has seen a more modest gain, going from a 4 percent market share in 2016 to 7 percent market share in 2018. Overall, only imports from Norway are up so far this year; Scotland and the Faroe Islands are down. Canada is up 3.77 percent, but that volume is still way down from where it was in 2016.

European whole fish pricing has been firm for all of 2018 with a few minor bumps here and there. Looking at 6-7 kg Norwegian whole fish, the market has climbed 30.77 percent since the beginning of 2018, and reached a 52-week high on May 17, 2018 (Chart 4). Market participants anticipate a possible easing sometime in the near future, however, the European market as whole can be fickle and volatile; seeing huge swings week-to-week. The U.S. market can be secondary to the European-producing countries as their focus remains with their major buyers in Europe.

On the Canadian side, volumes through Q1 year-to-date are 3.8 percent higher. Overall pricing has been similar to the European market with a few blips; Overall this market has been climbing through May.

FILLETS

The Chilean fillet market, like much of the rest of the farmed salmon complex, has been extremely firm through Q1. This firm market has also been coupled with a 25.5 percent higher year to date volume on fresh fillets out of Chile and overall the fresh fillet market is up 12.9 percent through March 2018. After a short slow down following the beginning of Lent, the Chilean fillet market was firm for nine straight weeks hitting all-time record high prices in May (Chart 5). As of this writing, the market is starting to moderate,

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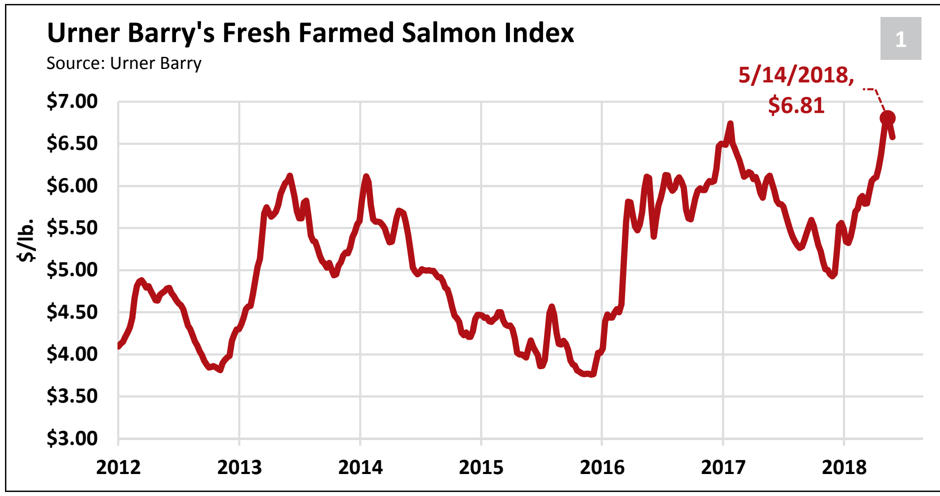
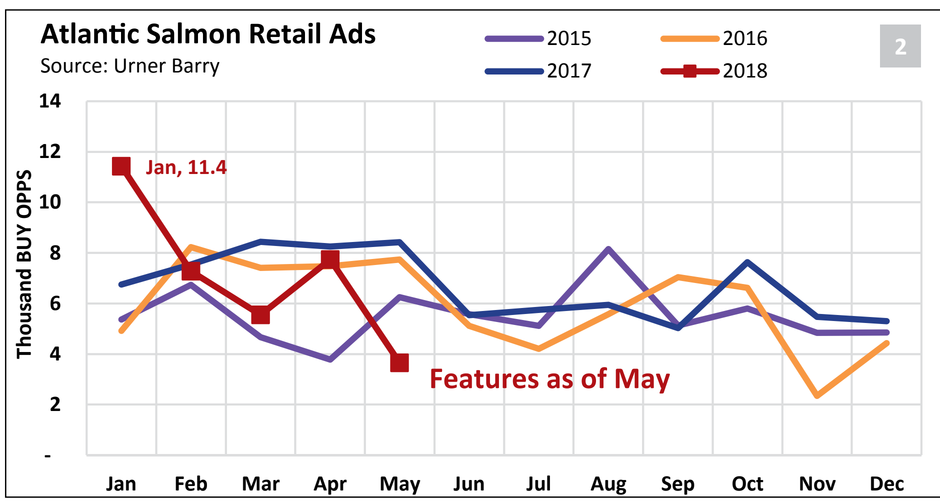
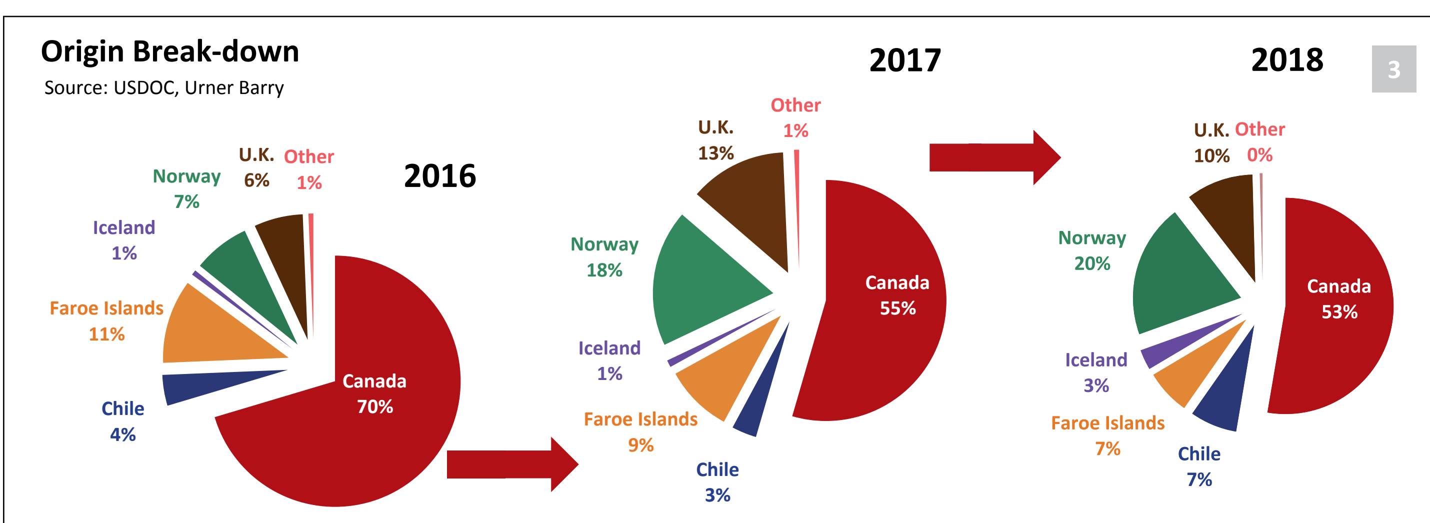


Urner Barry's Fresh Farmed Salmon Index is an indication of the combined average value for Chilean fillets, European fillets, Northeast whole fish, European whole fish, and West Coast whole fish. It institutes a weighted value of each commodity as a proportion of the total supply from the producing areas.



Retail "Buying Opportunities" are the number of retail ads times the number of stores.



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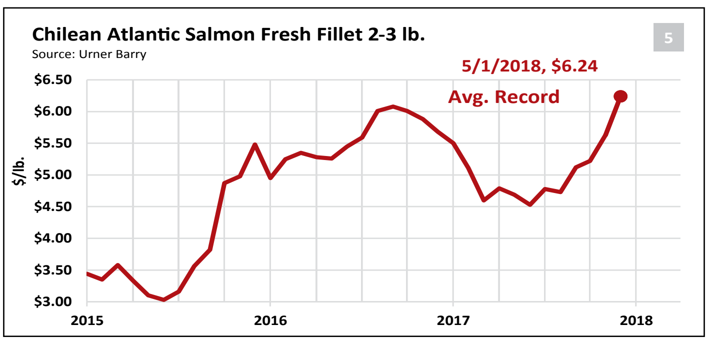
and some downward pricing pressure is noted heading into the end of May.

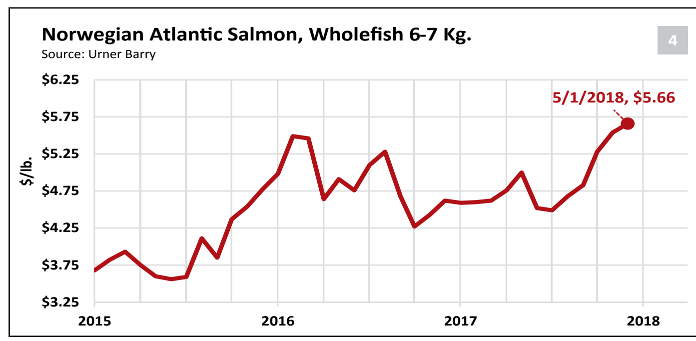
In the midst of the fresh fillet rally out of Chile, the frozen fillet and portion markets have also been climbing. There is little to no incentive to freeze fish right now in Chile with the fresh market close to all-time high prices. This may serve to hurt frozen inventories going forward with the long rally seen in the fresh market.

Looking more closely at retail features, we noticed that ads in May reached a multi-year low (Chart 2). This can be largely attributed to overall record-high prices in the spot market, in addition to previous contract talks heading into the wild salmon harvest. Although many expect prices to correct in the summer, the market is coming off record highs, so it will take a while before we see it settle. One thing we can certainly say based on greater imports and record-high prices is that demand in the U.S. has strengthened.

WILD

The 2017 Alaskan wild salmon season was labeled a banner year with an all species harvest of 224.6 million fish caught and the value of that fish up 66.7 percent compared to 2016. Sockeye salmon, probably the most competitive to farmed salmon of the wild salmon species, was the most valuable species out of Alaska accounting for 48 percent of the value of the 2017 harvest. This wild salmon season forecast has sockeye runs expected to be above their 10-year average, while pink and chum salmon are predicted to have significantly lower runs. Overall, the 2018 landings prediction is at 148.8 million fish; down from the 225.7 million fish caught in 2017. UB





New season sees reversal of import volume

By Angel Rubio and Liz Cuozzo
arubio@urnerbarry.com and lcuozzo@urnerbarry.com

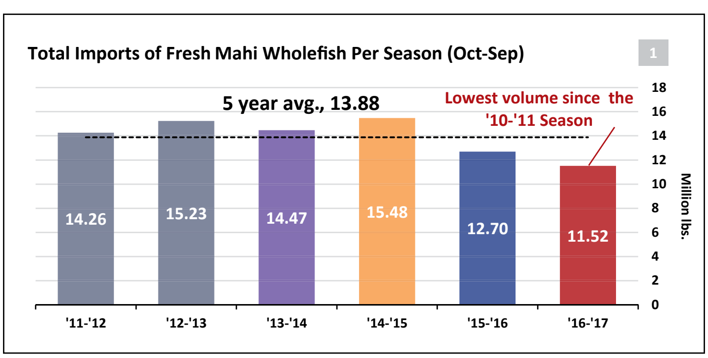
What a difference a year makes. Last year we experienced record low production out of Central and South America for both fresh and frozen mahi. Starting with fresh mahi, imports during the 2016-2017 season, which runs from October to September from Central and South America, were down 9 percent from the prior year (Chart 1). The scarcity of fish promptly resulted in a price spike across the sector with prices for both fresh and frozen mahi reaching all-time highs (Chart 2).

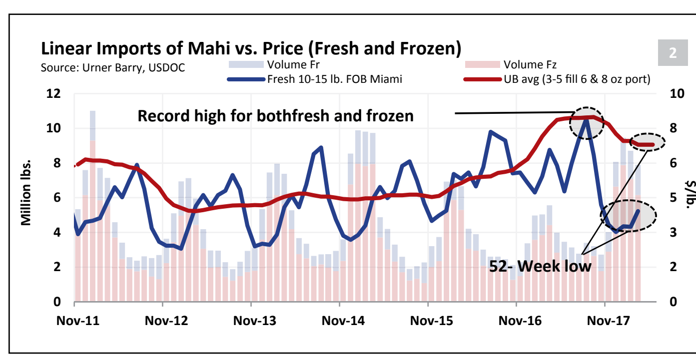
Production this year, or rather the 2017-2018 season out of South and Central America, started strong compared to year ago, and has remained above last year's figures as of the most recent data through March. Similarly, year-to-date (YTD) imports for frozen (all origins) mahi fillets, which incorporates imports starting in November as opposed to October for fresh, for the first five months of the season are up 96 percent compared to last year, and comparatively similar to the 2009-2010, 2011-2012, and 2014-2015 seasons (Chart 3).

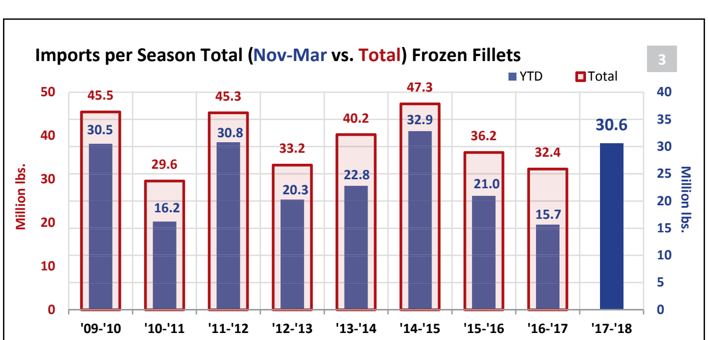
"...imports for frozen (all origins) mahi fillets for the first five months of the season are up 96 percent compared to last year..."

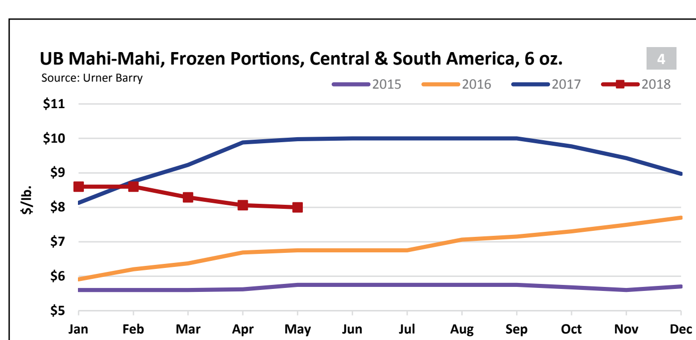
With the improved supply situation coming to market, prices naturally retreated. This additional product has kept prices for both the frozen fillet and fresh markets trading at their 52-week low. Specifically, we can see this when we see frozen mahi fillet prices adjusting down 28 percent compared to a year ago. However, frozen portion prices have not corrected as steeply. In fact, mahi portions are down 18 percent from a year ago and prices are 28 percent higher than the prices from the record import year of 2015 (Chart 4).

In reaction or response to the record low volume last season (2016-2017), buyers aggressively purchased product early in 2018 and at relatively high prices. As the season progressed, strong landings continued with a late run of landings out of Peru in February. Many importers have reported high-priced inventories for a percentage of their current holdings. Demand for mahi by the time this article goes to press, is currently lackluster, resulting in flat to lower offerings. However, many traders expect some seasonal improvement during summer sales aiming to offload some of their current inventories ahead of the new season that begins around October. Will we be seeing a lot of grilled mahi this summer? Only time will tell.









Cattle supplies could challenge processors to keep up

U.S. slaughter-ready cattle supplies are expected to be very large this summer and could challenge the processing side of the industry to keep up.

Futures prices built in historically wide spreads between the April contract and the June and August contracts. In late April, June futures were at a discount of more than $16.50 per cwt, the widest since 1980 according to industry analysts.

The market was pricing in concerns that supplies during the summer would overpower the packing industry's ability to handle that many animals and the extra meat that would be produced. The supply bulge was due in large part to the severe drought conditions throughout the southwest that have plagued the region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since the beginning of October. With too little wheat pasture for the young cattle to graze, the owners had no choice but to send the animals into the feedyards earlier than normal to be fed until reaching slaughter size.

A supply bubble is expected from May through August. If the supplies become backed up even more due to insufficient processing capacity, the market could come under even more pressure. The industry can currently process about 120,000 head of cattle a day, but this includes cows and bulls which make up roughly 20% of total cattle slaughter. And, the plants that process cows and bulls typically do not handle many steers and heifers.

Some analysts have predicted that supplies of grain fed steers and heifers could at times exceed the processing industry's ability to keep up. Closures of some plants in recent years following herd downsizing along with tighter labor supplies, and in some cases better paying jobs in other nearby industries, have contributed to reduced slaughter levels.

Even if beef packers operate at capacity levels during the weekdays and process 600,000 head in the five days, some analysts say another 50,000 or more head will need to be done on Saturdays on a consistent basis during the peak supply period. That means more than half of the steer and heifer plants would need to work full shifts on Saturdays during that time. Failure to do so could back supplies up even more and drive prices lower.

The USDA's April cattle-on-feed report showed the number of animals in the nation's feedyards with 1,000 or more capacity at 7.4% above a year ago and the second largest for that date since the data series began in 1996. UB

Article contributed by **Curt Thacker**
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"A supply bubble is expected from May through August."

An international spotlight …

Spain: Europe’s seafood central

©IvanBastien

The Iberian Peninsula was home to dozens of barbarian tribes before being conquered by Carthage in the 500s BC. They called the land they took Hispania, and then the Romans came along and took it for themselves. Hispania gradually became España, which we now call Spain. Spain passed from the Romans, to Germanic tribes, to the Moors, until it was finally consolidated into a world power just in time to take on the New World. Spain rose to the most powerful empire on the planet for a century and a half, with colonies in the Philippines and Americas.

Modern day Spain is a parliamentary constitutional monarchy. Its economy has been challenged by the recent financial crisis, seeing broad unemployment and the implementation of austerity measures as the economy recovers. The GDP has fluctuated in recent years as the country works to recover.

Spain is the largest producer of olives in the world, beating out Italy and Greece. The average Spaniard will consume some 14L of olive oil during their lifetime. The primary livestock export of Spain is pork, accounting for 1.1% of their export revenue in 2013. Spain doesn’t import or export particularly large amounts of beef or poultry.

“Spain is Europe’s largest producer of seafood…”

One thing Spaniards love, however, is seafood. Spain is Europe’s largest producer of seafood, and still imports significant amounts of it, as it cannot keep up with its own demand. Spanish fisheries focus on yellowfin tuna, albacore, and crustaceans. Spain is also well known for its mussels and has a significant annual take of needlefish.

Spain will likely continue to import seafood as Spaniards continue to generate a demand for it, and as the national economy stabilizes, the GDP is expected to resume growth as well. UB

Article contributed by **Jake Muldowney**
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Spain / U.S. comparison

		
AREA	498,890 sq km	9,833,517 sq km
COASTLINE	4,964 km	19,924 km
POPULATION	48,958,159	326,625,721
LIFE EXPECTANCY	81.8 years	80 years
GDP	$1.233 trillion	$18.62 trillion
GDP (per capita)	$36,300	$57,600
AGRICULTURE AS A %GDP	2.5%	.9%
AGRICULTURAL PRODUCTS	Grain, vegetables, olives, wine grapes, beef, pork, poultry, fish	Wheat, corn, grains, fruit, beef, pork, vegetables
LABOR FORCE	22.82 million	159.2 million
UNEMPLOYMENT RATE	19.6%	4.9%
CRUDE OIL PRODUCTION	2,667 bbl/d	8.853 million bbl/day

Turkey demand across the country

Article contributed by the
National Turkey Federation

As the Turkey Demand Project continues to raise awareness of turkey to increase demand profitably, NTF also has engaged Washington to protect the industry from overly burdensome regulation.

NTF recently participated in the Culinary Institute of America's (CIA's) World of Flavor conference. This three-day, invitation-only event is where corporate chefs, menu developers, marketers, and suppliers have an opportunity to showcase and discover world cuisines, food cultures, and flavor trends.

For the conference, NTF worked with *Top Chef* runner-up Chef Sheldon Simeon. Calling on his Hawaiian and Filipino roots, Chef Simeon truly made turkey an unexpected experience for participants. Creating turkey adobo, Hainanese turkey, and turkey Raman, Chef Simeon challenged the expectation of what turkey is and how it can be prepared. These dishes surprised the culinary teams at CIA with how moist and versatile turkey could be, especially when taking on different cultural applications. That new understanding of turkey's potential is what NTF will continue to promote at our three remaining events this year: The National Restaurant Association's (NRA) Marketing Executive Group (MEG) meeting, the Turkey Smoke at the American Royal Barbecue competition, and the Reciprocal Meat Conference (RMC).

"These dishes surprised the culinary teams at CIA with how moist and versatile turkey could be, especially when taking on different cultural applications."

The MEG meeting precedes the NRA Show and NTF is hosting a sit-down dinner featuring turkey. This is an excellent opportunity to demonstrate the versality and flavor profile of turkey and display how adding the protein can elevate their menus.

Returning to the American Royal allows NTF to re-engage with the barbecue community that first utilized turkey in the competition last year. Royal event attendees vary from line cooks, who are hobbyists, to owners of established franchise barbecue operations. Participation in the Turkey Smoke showcases the potential for turkey on barbecue menus.

The RMC is an annual meeting for the American Meat Science Association and NTF will host a food competition. University teams will work with turkey and experiment with cooking techniques and flavors. Turkey breast will be the featured protein in an *Iron Chef*-style competition to encourage these young emerging scientists to innovate a protein with endless potential.

Meanwhile, back in Washington, NTF continues working to influence government legislation and regulation. Two important issues have been successfully resolved for the turkey industry in recent weeks: The Comprehensive Environmental Response, Compensation and Liability Act (CERCLA) on-farm reporting exemption was restored and the 2016 Organic Rule was withdrawn.

The CERCLA relief was included in the omnibus appropriations legislation Congress passed to fund the government through the end of the current fiscal year. Legislation was needed because a 2017 federal appeals court ruling had overturned a 2009 EPA regulation that limited the scope of reporting air emissions from animal waste under CERCLA. A significant number of turkey growers

and a watchful eye on Washington

would have been affected, but the legislation effectively restored the original reporting program.

The Organic Livestock and Poultry Practices (OLPP) final rule was published January 2017 in the final days of the Obama Administration and was delayed three times before being withdrawn in March 2018. From the beginning, NTF raised concerns about the predicted increased mortality for organic turkeys being contradictory to improved animal welfare and biosecurity requirements. The rule relied on chicken data for stocking density requirements and outdoor access rules that are simply not applicable to turkey production. Ultimately, the outgoing administration agreed with NTF's analysis and exempted turkey from that portion of the rule for the time being.

Under the new Trump Administration, the Agriculture Marketing Service (AMS) became increasingly concerned about the rule's inconsistency with USDA regulatory policy principles, imposing costs not justified by potential benefits. The rule was withdrawn in March.

On the horizon is the 2018 Farm Bill. The key priority for the turkey industry is a three-tiered Animal Disease Prevention Program. NTF is working hard to see this program included in and fully funded by the new Farm Bill. After the 2015 outbreak of highly pathogenic avian influenza, the turkey industry is all too familiar with the need for more tools and resources for prevention and rapid response to animal disease. UB

Top Chef runner-up Chef Sheldon Simeon challenged the expectation of what turkey is and how it can be prepared. Pictured is his version of turkey ramen.

Major league baseball hits a grand slam with foodies

Forget about the peanuts – and don't bother looking for a box of Cracker Jack®. Major league baseball stadiums are attracting foodies with new and unique mouthwatering snacks.

Attending a professional baseball game has never been about the concession stands. Yes, people flag down hot dog and pretzel vendors throughout the innings, but the focus has always been on the field—until now. Major league baseball is drawing crowds by expanding their concession offerings.

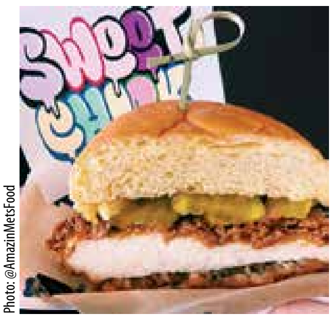

Photo: @AmazinMetsFood

Photo: Delaware North

Two ballpark food favorites, the Sweet Chick Sandwich and the Mac & Cheese Twister.

For seafood enthusiasts who double as Baltimore Orioles fans, a must-have at Camden Yards are the Chesapeake Waffle Fries. These waffle fries are topped with a creamy crab dip and have been a fan-favorite since they were first introduced in 2013. But these crab fries will have some competition this year. Delaware North Sportservice, the food, beverage and retail provider at Orioles Park at Camden Yards, has introduced the Mac & Cheese Twister, a pretzel cone stuffed with macaroni and cheese and the choice of crab meat, buffalo chicken or pulled pork. Plus, those on the lower concourse behind home plate can indulge in lobster rolls from Lobster Hut.

Meanwhile, meat lovers will want to head to Safeco Field to see the Seattle Mariners. Food vendor Holy Smoke BBQ sells Longbone Beef Ribs that are tender, house-smoked and served on a bed of coleslaw. And the ridiculously large serving size means that you likely won't waste another inning waiting on line at another food stand.

As for those who fancy some chicken, your best bet is to head to Queens to watch the New York Mets at Citi Field. This year the stadium welcomed a small chain called Sweet Chick, which happens to be co-owned by rapper and Mets super fan Nas. Despite having locations in New York City and Los Angeles, the fried chicken joint has three menu items that are exclusive to Citi Field—The OG Fried Chicken Sandwich, Nashville Hot Fried Chicken Sandwich, and Lil' Chicken & Waffles.

So, skip the generic hot dog and burger line and indulge in something new the next time you go to an MLB game. Your stomach will thank you. UB

Article contributed by **Amanda Buckle**
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"Major league baseball is drawing crowds by expanding their concession offerings."

A look at the largest shrimp supplier to the U.S.

India is the largest supplier of shrimp to the United States. Out of the 1.4 billion total pounds of shrimp that was imported into the U.S. in 2017, over 471 million pounds came from India. This is a 39 percent jump from 2016, which saw the U.S. import over 330 million pounds from India. Although India still produces black tiger shrimp (*P. monodon*), white shrimp (*L. vannamei*) is the largest cultured shrimp in terms of production and productivity in India. Commercial farming of this white shrimp, which grows faster and is heartier, began to take off in 2009-2010.

According to the Marine Products Export Development Authority (MPEDA), Andhra Pradesh is the leading region for culture and production, with an estimated 39,800 hectares under culture and 295,332 tons produced. Growth on the West Coast of India has slowed, but the areas with the greatest potential for growth are the East Coast states of Odisha and West Bengal, both north of Andhra Pradesh.

Article contributed by **Amanda Buckle**
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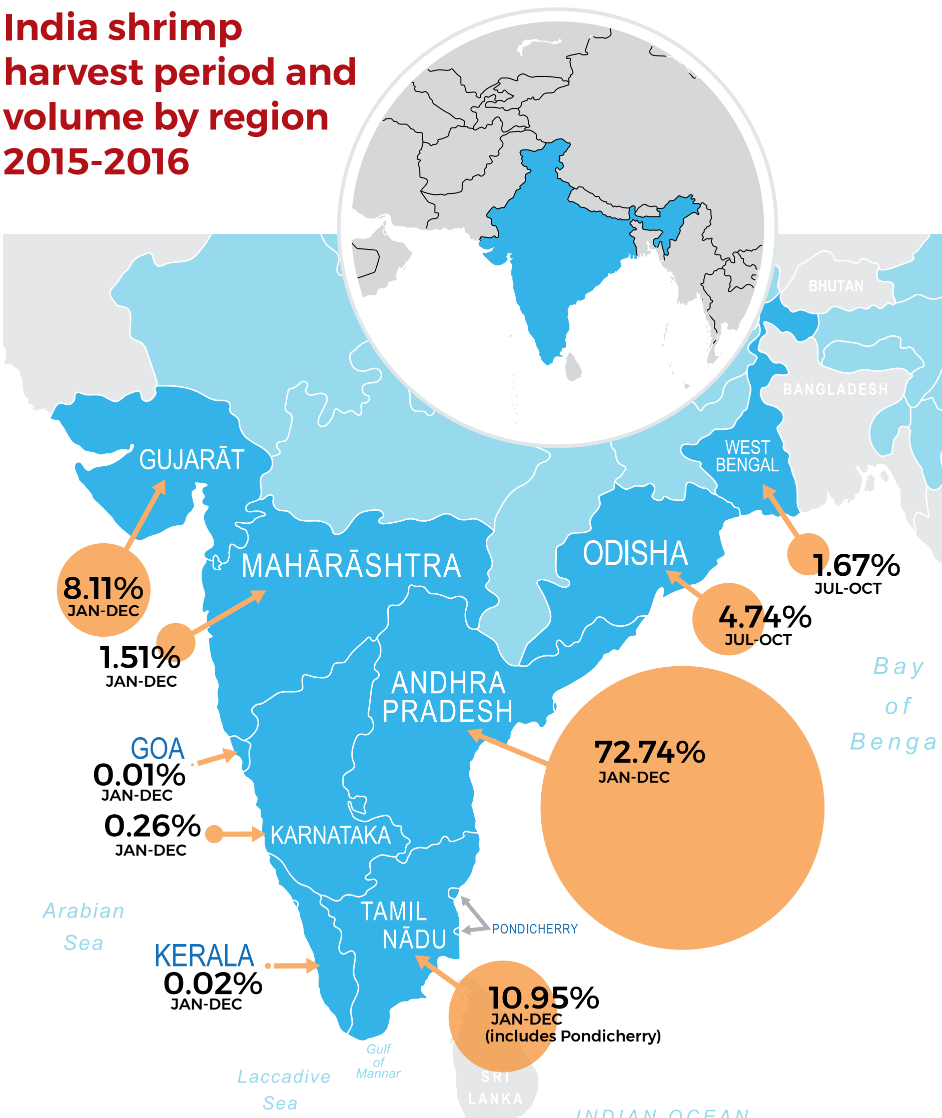
India shrimp harvest period and volume by region 2015-2016



> **"Out of the 1.4 billion total pounds of shrimp that was imported into the U.S. in 2017, over 471 million pounds came from India."**

Farm to phone to table – How many apps can a piece of meat meet?

In today's smartphone-driven digital age, people are looking more and more to phone applications, or "apps," to streamline their day-to-day lives. In the past ten-plus years of ubiquitous smartphone use, apps have shown up for just about everything. And I do mean everything. The sheer variety of apps out there got us at Urner Barry wondering: just how many different applications could a single piece of meat (let's say beef) encounter on its journey from farm to table?

This hypothetical piece of beef begins, as all pieces of beef do, inside of an animal. Specifically, it has yet to be born. Long before the calf has been observed by human eye, it can be logged in an app.

Applications exist to let users manage the entire process of cattle breeding, from pre-mating heat to the birth of the calf itself. Once it has entered the world, the calf can be tracked in another app that aggregates data over time to inform ranchers of calving performance metrics. Feeding and grazing? There's an app that lets users monitor the financial and nutritional impact of different feed types, and another that works to more efficiently manage rotation of herds between pastures. If a specific animal is concerning ranchers, they can log its tag number in yet another app, which will remind them to check in on it later. Overall herd records can be logged in a paper notebook or an app since several exist for the task.

©Zapp2Photo/Getty Images

"...their smart meat thermometer can update their phones with real-time temperature data."

Looking to buy or sell cattle? You can do so with an app, although we couldn't find any for large-scale processing and packaging. That said, there's more than one that covers breaking down a carcass and turning a side of beef into grocery-store friendly cuts. Once our hypothetical cut of beef (let's say it's a bone-in rib roast) is in a grocery store, a discerning digital age consumer can use one of several competing apps to have that cut delivered from the store to their door. There, they can use their smart doorbell's integrated camera function to check it out over their phone.

Once the cut is in the house, the consumer can log it in their smart fridge with one app, then enter the cut into another for recipe suggestions. Once they're sure how to prepare their roast, they can pop it into their smart oven, where their smart meat thermometer can update their phones with real-time temperature data. When they find the beef is cooked to their liking, they can cut and serve it, placing it onto their smart plate. The plate, which works with an app, tells them exactly how many calories, vitamins, and minerals are in their food. If they want, they can log those calories in a diet tracker app as well. Then they can use their smart fork (it prevents users from eating too quickly, and logs eating speed in a dedicated app) and smart knife (it comes with the smart fork) to take a bite (or byte) of a piece of meat that has, by our accounting, appeared in no less than seventeen individual smartphone applications, not counting those where multiple apps serve the same function. That's a conservative estimate, not including the apps related to personal or ranch accounting, hay auctions, or the inevitable meal photo for the phone fanatic's Instagram or food blog. UB

Article contributed by **Jake Muldowney**
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Deck the halls ...

Food halls: The latest evolution of the food court

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Let's talk about food courts. The idea of a food court isn't a new one. While food markets and "hawker centers" date back hundreds of years, the *Food Court*, our familiar shopping-mall staple, can be traced back about 45 years to suburban malls. These places were socially important venues, meeting places for young people in a time before cell phones and social media made "meeting places" less relevant. Now, mall food courts still matter—there's a solid financial benefit to providing food, keeping customers inside malls and spending money. That said, old-school food courts are losing their social footing.

Millennials like spending on experiences and dining experiences are no exception. Here, the traditional model of the chain-restaurant driven mall food court can fall flat. To fulfill this changing demand, many malls have remodeled, including more local and higher-end establishments alongside classic eateries. Some firms are going beyond even this upscale reimagining of the mall food court, ditching the mall entirely and turning the varied dining experience into an attraction all its own.

Imagine, if you would, a mall where every store is a restaurant. A food mall, if you will. A *trendy* food mall, where local chefs offer unique and affordable food out of bar-style stalls, the words "farm-to-table" are practically ubiquitous, and photographing literally anything will net you hundreds of Instagram likes. This is a food hall. The idea is simple: a firm builds or rents a large structure filled with spaces for restaurants, provides a few communal dining areas, and runs the bars and beverage operations on site. Depending on the area, this might be open-air dining or climate controlled for customer comfort. Then they work with local chefs and restaurateurs to construct storefronts and stalls fill their spaces. These tenants pay for their space in rent, a share of profits, or both. Management uses revenue to run promotional events, book entertainment, and pay security. This leaves stall owners free to focus on food.

This isn't a far-flung concept pitch, either. Food halls are finding success worldwide. More than 200 food halls currently operate in the U.S. (30+ in NYC alone!), with that number having the potential to double by 2019. The food hall model has found success in Europe as well, with buildings that once were (and sometimes still contain) more traditional food markets playing hosts in lieu of new construction. Australia has also seen new food hall construction in recent years, and halls worldwide remain a growth industry. And as long as consumers are interested in experience-based dining, Instagram- and Snapchat-friendly cuisine, and local chefs, it's likely going to stay that way. UB

Article contributed by **Jake Muldowney** | mail@urnerbarry.com

Executive Conference

Continued from page 1

conference as two representatives from within both the poultry and egg industries are presented with the award. This is an honor bestowed upon individuals who have exhibited tireless efforts toward improving the efficiencies of food production, marketing and distribution as well as overall universal respect they have earned from their colleagues.

Urner Barry announced Kerry Doughty, president and CEO of Butterball, LLC as its 2018 Poultry Person of the Year.

In presenting the award Urner Barry's Senior Vice President Russ Whitman said in describing Kerry's character, that Kerry is an "outstanding individual," someone who "treats you like family," and who possesses a "people come first" mentality. Whitman went on to say that Kerry is a high-energy, passionate man who strongly believes in surrounding himself with people that share his drive and positive outlook on life. All of the attributes are the epitome of what makes UB's Poultry Person of the Year honorable. Kerry's devotion, hard work and heartfelt efforts towards the betterment of the poultry business have not gone unrecognized and UB is proud to bestow the honor of this award this year to Kerry Doughty.

Meanwhile, this year's Egg Person of the Year Award was presented to Michael Foods' Terry Baker.

Urner Barry's Rick Brown presented the award to Terry Baker noting the professionalism and commitment Terry has always expressed within the industry. Terry's dedication to the industry has always been apparent, even at the beginning of his career at MG Waldbaum's on the loading dock. He quickly worked his way up in the sector and assumed various roles currently serving as VP of Egg Procurement for Michaels Foods his hard work and knowledge cannot be matched.

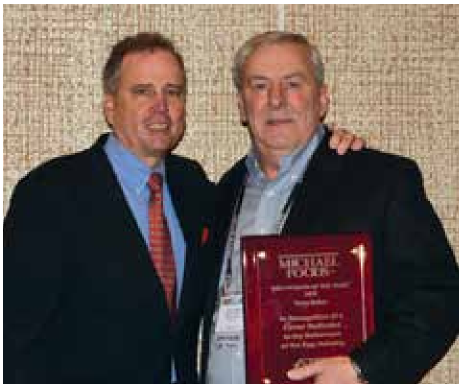
Following the morning presentations, top golfers gathered together for the annual Golf Outing at the pristine Bali Hai Golf Course. The evening wrapped up with an extended cocktail party at Mastro's Ocean Club Restaurant, Crystals at City Center.

The final day included Urner Barry's own Poultry and Egg Reporters delivering Roundtable sessions. The 2018 event concluded Tuesday evening after a full day of speaking forums. Guest speakers were on hand providing joint sessions on a variety of topics. David Kohl, Ph.D. Professor Emeritus, Virginia Tech, Kevin Good from Cattlefax and Colleen McClellan a Director from Datassential are just a few of the day's sessions. There was also a special export session with Jim Sumner of USAPEEC and Brett Stuart from Global Agritrends.

The conference concluded with a cocktail party for all attendees where we heard many comments such as how the conference had the ability to look at bigger issues affecting the industry and how Urner Barry has a unique outlook in this business.

Urner Barry would like to extend its gratitude to all of its guests, sponsors, and friends for making its 42nd Executive Conference and Marketing Seminar a success. Through the combined effort of dedicated people, the company is able to arrange and host a truly sensational event. Urner Barry is grateful to each and every one of you who took time from your busy schedules to attend, and looks forward to seeing you all again next year which will take place April 28th through the 30th. UB

Having an Egg-cellent time at the closing reception are (L to R) Lisa Beohm and Cindy Henning, Henning Companies, LLC; Belinda and Pete Block, Hy-Line North America, LLC; Steve Walcott, Big Dutchman; Del Farrer, Henning Companies.



Terry Baker, Michael Foods, was the recipient of the 2018 Urner Barry Egg Person of the Year Award. He joins a long list of celebrated individuals who have selfishly devoted their lives to the betterment of the egg industry. Terry is pictured here with Urner Barry's Rick Brown.

The bird is the word. Seen here during Monday's superlative reception at Mastro's Ocean Club is Farbest Foods' Ted Seger and Hendrix-Genetics's Peter Gruhl. Talking turkey, no doubt!

East Meets West. A few thousand miles usually separate industry veterans and right coast inhabitants Russ Whitman, Urner Barry and (L) Perdue Farms' Gerry Farrelly from Eastern Quality Foods' Jon Poole of Southern California. Through the years, the Executive Conference has been rooted in forging lasting business partnerships and friendships.

Urner Barry's Poultry Person of the Year, Butterball CEO Kerry Doughty (holding plaque) is flanked (L to R) by his son Devon, wife Jan and long-term industry associate and friend, Perdue Farms' CEO Randy Day.

An oasis in the desert. Las Vegas's Bali Hai is always played to rave reviews. Here (L to R) Andy and Scott Seger, Wabash Valley, take a break from the golfing action and pose with team members Drew Thomas of Huntington Bank and Bill Stabert, Philadelphia Macaroni Company.

Executive Conference attendees represent all facets of the business and are a virtual Who's Who of the food industry!

You know what they say about quality not quantity? These guys are in a class by themselves! Urner Barry's Michael O'Shaughnessy (far right) joins fellow poultry men (L to R) Willis Cooan and Doug Nielsen, Turkey Valley Farms; Steve Brody and Joe Canossa, Fancy Foods.

2018 EXECUTIVE CONFERENCE & MARKETING SEMINAR SPONSORS

Urner Barry would like to sincerely thank our generous sponsors for their continued support. Their involvement has contributed to the success of our event for the past 42 years. We recognize their contributions are imperative in providing the industry with this high-quality event that not only offers one of the best networking opportunities to the industry, it also presents exceptional educational and motivational content. Our deepest gratitude as we look forward to 2019!

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Nutritional knowledge trumps all ...

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Will organic foods consumers be swayed by negative press on their quality and safety? Not likely

Adapted from an article that originally appeared on Foodmarket.com on May 16, 2018

FOODMARKET.COM
News from the Center of the Plate

Recent publicity on the pesticide levels in organically grown foods being equal to that of conventionally grown foods raised the question: will consumers of organic foods switch to all natural or conventionally grown foods? It's not likely, says The NPD Group, a leading global information company, since organic consumers hold a strong belief in their nutritional knowledge and healthy lifestyle and won't let it be undermined.

Consumption of organic beverages and foods has been growing for a variety of reasons including increased availability, more affordable organic options than in the past, and a growing number of health- and nutritionally-conscious consumers.

The percentage of eating occasions where foods with organic labels were consumed increased from 7.5 percent to 9.7 percent in the past three years. Over a seven day period about 10 percent of the population consumes all organic foods, 19 percent consume all natural and organic foods, 20 percent all natural only foods, and 51 percent of the population are non-users of organic and all natural foods, according to NPD's National Eating Trends®, which continually tracks all aspects of how U.S. consumers eat.

Organic only consumers, who tend to be female, ages 35-44 and 55 to 64, live on the west coast, and have a household income of $75,000 plus, have strong convictions when it comes to their healthy lifestyle. They feel they know more about nutrition than most people and frequently check labels. The demographics of those who consume both all natural and organic foods skew towards children under the age of 6, females, ages 18-54, and Hispanics. Similar to organic only consumers, they maintain a healthy lifestyle and consider themselves knowledgeable about nutrition and the foods they eat. Although one might assume consumers of all-natural have the similar profile to organic only and those who consume both organic and all natural foods, all-natural consumers are remarkably average in their attitudes toward healthful eating and put greater importance on taste and convenience.

"Organic consumers will hold steadfast to their beliefs and continue to seek organic foods despite negative reporting, and all natural consumers will continue to place convenience and taste first," says Darren Seifer, NPD food and beverage industry analyst. "For food manufacturers, grocers, and producers, it's a matter of understanding the attitudes and behaviors of each group and responding to their unique needs and wants." UB

Pop-up restaurants

Rather than simply considering a new design or menu item, a growing trend among existing and aspiring restaurant owners alike is what is commonly being referred to as a "pop-up" restaurant. Despite popular misconception, pop-ups are not a new occurrence by any means. In fact, they have been playing a role in the food service industry since the 1960s in the form of "supper clubs," but have recently experienced resurgence.

Pop-up restaurants are essentially temporary restaurants which just pop-up, so to speak, in a variety of unconventional locations. Oftentimes relying on word of mouth, pop-ups can appear virtually anywhere as long as the space is safe to cook and serve food. Typical locations include underused warehouses, rooftops, parks, personal houses and even inside existing stores—no space is off limits. These restaurants not only offer entrepreneurs the prospect of less overhead cost, but allow chefs an outlet to expand upon and showcase their particular culinary skill set. This allows them to expand their consumer market without the added burden of following strict menu and budget guidelines. Pop-ups can also be used to test out and gauge the market for a culinary style before rolling it out on a larger scale. Steering away from the ever-increasing advertisement campaign costs, some restaurant owners are discovering that there is more value to be had by starting a case study restaurant. Not only does this serve to open up a two-way communication with consumers, but also foster a long-term relationship with the community. Owners however, aren't the only ones benefiting from this growing industry trend. The prospect of a more diverse dining menu, affordable prices, and more community involvement are all driving forces for consumers seeking out these unconventional dining locations. The appeal of pop-up restaurants draws from a unique and diverse crowd from every facet of life. Additionally, the culinary trend-setters among us may particularly enjoy the air of exclusivity that these temporary restaurants provide.

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Perhaps, fueling some of the resurgence of this niche dining trend is the use of mobile apps, concept restaurants and food truck expansions. With the success of companies like Uber and Airbnb, it is unsurprising that the restaurant industry has quickly followed suit in the app-centric market. Mobile apps such as Cookapp, Feastly and Eatwith allow chefs to create a pop-up restaurant in the comfort of their own homes. Often flying under the radar, restaurant concepts such as Krispy Krunchy Chicken can appear within convenience stores across the nation. With more than 2300 retail locations in 41 states, Krispy's no royalty fee program is designed to give operators a flexible and professional branded image with the ability to deliver quality food to their customers at a low price. Finally, many existing food truck owners who are looking to expand their brand may look to start a semi-permanent restaurant pop-up. This opens up opportunity for their chefs to draw from a different consumer market while at the same time expand upon their culinary skills.

The pop up restaurant phenomenon is nothing new, but it is an undeniably unique and growing movement within the industry. From existing chefs, to concept restaurant chains to food truck owners, this trend is far-reaching. The culmination of benefits including less overhead cost, a more diverse dining menu and greater community involvement certainly make the pop-up restaurant scene a force to be reckoned with. So next time you venture out to dine at a traditional brick-and-mortar restaurant, why not be adventurous and explore some of the hidden cuisine and innovative chefs in a city near you?

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Eggs caught in the crossfire of "retail wars" ...

How the 'Amazon effect' is affecting the egg market

The "Amazon Effect" is a term coined to describe the impact of Amazon's online shopping business on traditional brick-and-mortar stores. Since the company debuted in 1994, it has transformed the way consumers buy goods. Many icons in the retail space have already felt the pressure brought on by the instantaneous, at-home, competitive shopping experience Amazon offers. Sears, Kmart, RadioShack, Toys "R" Us, and others have shuttered stores or filed bankruptcy as a partial consequence of Amazon's success. A common thread among these chains is the focus on technology, toys and apparel—but traditional grocery stores appear to be the next target.

Last June, Amazon put the U.S. food retail industry on notice, acquiring Whole Foods for nearly 14 billion dollars. Their first order of business was to slash prices by as much as 50%, but their next move is expected to have an even bigger impact. The Whole Foods acquisition creates almost 500 food distribution centers (Whole Foods stores) which Amazon plans to leverage with their existing delivery service. In fact, Amazon Prime members could see free, two-hour grocery delivery across the U.S. by the end of this year.

Amazon is also reimagining the traditional consumer grocery experience. In its first foray into the brick-and-mortar space, Amazon Go is a high-tech, checkout-lineless store where consumers can scan their phones, grab what they need, and simply walk out the door. Their accounts are charged based on cameras and sensors that track what is in their bags. Their pilot store opened in Seattle on January 22nd of this year.

Traditional retail giants aren't lying down though. Since the Whole Foods acquisition, retailers have drawn a line in the sand, slashing prices on staple items in order to keep customers coming in. The idea is by cutting costs on commodity items, store traffic increases and consumers are more likely to purchase other, higher margin items.

This has had a big impact on the egg market over the last year. Prices at major chains have regularly been promoted below the ninety-nine cent threshold and even below fifty cents a dozen for large eggs. With the majors promoting at these levels, many regional chains have had no choice but to drop prices as well. The result is increased consumption and a market that has been holding higher lows and hitting higher highs since recovering from the avian influenza crisis. Retailers engaged in these "price wars" report upticks in sales volumes, both in the egg case and in the rest of the store.

Why eggs? Well, they have an extremely high penetration in the American household. They can be used in breakfast, lunch, dinner, and even dessert. They also hit core consumer trends being a source of high quality, natural protein.

Production issues, rebounding exports, and egg product demand recovery are all factors, but we could still potentially be seeing some of the highest domestic egg consumption ever recorded in the U.S. According to Nielsen figures provided by the American Egg Board, retail sales of fresh eggs increased nearly 6% in volume over the last two years from 2015 levels and were up 7% through February of 2018. Based on our calculation of per capita consumption, U.S. consumers ate 276.5 eggs in 2017. That total is up 5 eggs per capita from the year prior, with a 6.5 egg increase in a shell and a 1.6 egg reduction in the form of egg product. This is likely due to retail shell egg promotion and an increased volume of egg product heading overseas.

This new dynamic has made the market more volatile of late. The constant promotion has created an elevated baseline for egg movement and we have seen quick shifts between upward and downward trends. This is likely due to price thresholds hit on either side by smaller chains, distributors, and processors who are being directly impacted by the demand from the majors.

How long retailers will continue to use eggs as a marketing tool will depend on market factors and how long they continue to benefit overall store traffic and the bottom line.

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Beef gains some efficiency,

Article contributed by **Miranda Reiman**, Certified Angus Beef LLC

You win some, you lose some. Applied to the beef business, that means there have been improvements and setbacks in the three decades since the first audits of efficiency and quality.

The beef industry still forfeits 22% of the money it could pull in each year, says meat scientist Gary Smith, Texas A&M and Colorado State University professor, due to inefficiency from ranch to retail.

That's an improvement from the original 27% loss calculated in a 1990 National Cattlemen's Association paper, "Lost opportunities in beef production." It designated a shortfall of $12 billion annually in gross revenue in 11 areas ranging from reproductive performance to retail shrink.

Dustin Pendell, Kansas State University economist, worked with Smith to update the research. He says, "Moving up 5 percentage points represents a win for the beef industry, but the good news is there's still a lot of potential gain available."

The beef community has pushed and achieved higher quality grades, Smith says, "primarily because of the development of upper-two-thirds

but billions more ‘available’

Choice programs like CAB [*Certified Angus Beef*®],” but has not improved the yield grade in 40 years.

“We have shifted toward taste appeal and away from lean,” Smith says. “Get rid of the excess external fat if you can, but absolutely make certain that you keep all the taste fat, which is marbling.”

One goal was to increase the weaning weight of calves by 50 pounds. The beef industry has moved 5 pounds beyond that.

“About 70% of our progress is genetic and 30% management,” Smith says. “In the Angus breed, there’s 50 pounds of weaning weight that came from genetics.”

The industry gained $426 million per year by reducing the number of outlier cattle—dark cutters, lower than Select grade, yield grade 4 or 5 and “out of the norm in terms of weight.” The 12.4% of carcasses weighing more than 1,000 pounds represents an opportunity “we have not capitalized upon,” Smith says.

Worse, he says National Beef Quality Audits show we have “actually regressed in retaining value from excess fat, death loss and retail shrink,” the latter at a cost of nearly $1 billion and fat trimmings still more than $4 billion per year.

That issue came top of mind again in 2016 when USDA required grinding logs at retail. Hardly workable in practice, the rule forced more inedible fat sales to renderers at 20% of value, Smith says.

“If we can incorporate it, it’s coming from the packer level,” he adds. “We can take something that’s going to be worth a few cents to a renderer up to a few dollars because we can blend it and sell it in these products, ground beef, which is 52% of all beef we sell.”

Overall, economist Pendell says gaining 5 percentage points in 30 years is “not bad,” as it came despite many changes no one anticipated. Since that’s likely to continue, “another 5-point efficiency gain in the next 30 years may not be a bad goal,” he says. UB

“Get rid of the excess external fat if you can, but absolutely make certain that you keep all the taste fat, which is marbling.”

The incredible egg is on a roll

By Anne L. Alonzo, President and CEO
The American Egg Board

I'm eggcited to report that, through a combination of compelling nutritional science, high-impact consumer marketing and enterprising market development, The Incredible Egg is on a terrific roll!

In 2017, demand for eggs and egg products increased across every AEB touchpoint. Building on that momentum, according to Nielsen scanner data at the end of April, retails sales of shell eggs for this year are up 4.7 percent (and at a 21.9 percent higher price!) over the previous year. These numbers are particularly affirming because they surpass an already high bar for consumer demand set last year on the heels of ongoing annual growth. It is worth underscoring that this sales growth involves a product that already enjoys more than 90 percent household penetration.

AEB'S ROI = 9:1

The AEB's contribution toward increasing consumer demand is also quantifiable. Every five years, as required by the USDA, the AEB commissions an independent study to determine the return on investment (ROI) for its assessment-paying producers on its consumer marketing efforts. Realistically, the ROI would be even higher if our market development activities including exports and eggs in schools, and AEB's nutritional science efforts, were part of the measurement. The latest ROI study completed in late 2017 determined a return of more than nine dollars for every one dollar (9:1) invested by America's egg farmers—a continuation of steadily increasing ROI over the years and up by approximately a dollar over the previous study.

AEB'S ROI TRAJECTORY

2006	$6.00	2000-2005
2011	$8.11	2007-2011
2017	$9.04	2012-2016

AEB PROGRAMS DELIVER DRAMATIC RESULTS

The AEB has been executing activities that have delivered measurable, often dramatic results, across a wide array of programs. Below are several highlights:

- On the nutritional front, spearheaded by AEB's Egg Nutrition Center, key research studies were supported across the country at top-tier colleges and universities, leveraging a Scientific Advisory Panel to ensure top-quality science without industry bias. These findings were, in turn, communicated to health and nutrition experts. As a result, eggs are now positioned as a brain food, a first food for infants and a growth agent for at-risk kids.

- On the market development front, egg servings in foodservice have increased by 39 million, and the AEB launched a series of popular hands-on workshops with major consumer packaged goods companies to encourage the use of REAL eggs and egg products.

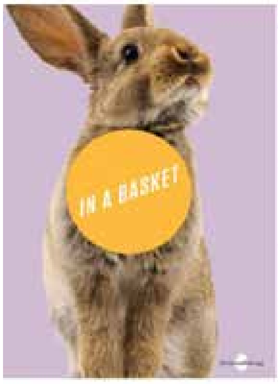
- Exports are up. Thanks to a proactive exports strategic plan, in partnership with the USA Poultry & Egg Export Council (USAPEEC), 62 percent more U.S. egg and egg product exports reached users across the world.

- AEB's Eggs in Schools program helped drive a 16.2 percent increase in eggs served in schools.

- Finally, AEB's new "How Do You Like Your Eggs?" campaign and brand platform made this question top of mind for consumers, earning record-level engagement and increasing retail sales during the critical winter holidays.

EASTER SETS A NEW BAR

Easter is a particularly important time of year where a spike in egg demand is expected. In fact, during Easter 2017, there were 230 million dozen eggs sold. That's 2.7 billion eggs! With this key time frame in mind, AEB redoubles its efforts with a comprehensive strategic consumer and media engagement program.



For Easter 2018, AEB generated 333 placements and more than 121 MILLION media impressions—spanning significant coverage across top-tier national outlets with strong consumer reach—and accompanied by an impressive social media footprint.

Coverage includes mentions of the AEB, our role in the White House Easter Egg Roll (WHEER) and presentation to the First Lady of the 41st Annual Commemorative Egg. AP photography, from the South Lawn at WHEER, also achieved substantial coverage. For the first time, we also arranged bylined op-eds in local markets for several producers attending the event.

Importantly, to align with SEO best practices, we are thrilled to share that the revised IncredibleEgg.org/Easter outperformed Easter 2017. Easter-specific content pages earned more than 126,000 pageviews—an amazing 606 percent increase over last year. In total, the section earned 1.2 million visits.

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Incredible egg

Continued from page 69

UP NEXT: DISNEY-PIXAR "INCREDIBLES 2"

Last year, we announced that AEB would be partnering on Disney-Pixar's upcoming animated feature film "Incredibles 2"—*with that name, how could we not?*—the highly-anticipated sequel to the 2004 smash hit. With a June 15 theatrical release coming up fast, the AEB has been hard at work preparing for our joint marketing launch.

Prior to Easter, with special permission from Disney-Pixar, the AEB became the first and only partner to launch marketing for the film by featuring a new recipe—Mr. Incredible's Clobbered Eggs—which was deployed on AEB's social channels.

Working with our agency partners and Disney-Pixar, we've queued up a blockbuster program including new "How Do You Like Your Eggs?" signature recipes for each of the main characters; a VIP release event in Chicago and World Premier in Los Angeles; a slew of digital marketing and an original, custom animated commercial from Disney-Pixar airing on MTV, Cartoon Network, Nickelodeon's TeenNick and other networks reaching our target audiences.

SECOND HALF 2018

Our "Incredibles 2" program is poised to generate a lot of eggcitement around eggs this summer—traditionally a quieter period on the marketing calendar. This effort will segue into a portfolio of ambitious campaigns for the second half of 2018: Back-to-School, a new wave of AEB's "How Do You Like Your Eggs?" brand platform, and, rounding out the year, a major marketing push during the winter holidays. With so much programming on the consumer side, along with our ongoing Market Development around schools, QSRs, manufacturing and exports, and our work on the nutritional research and communications front through our Egg Nutrition Center, we are confident that The Incredible Egg's upward trajectory will only continue!

Onward!

Shrimp market

Continued from page 39

rapid pace than prices at the wholesale level, and prices at the retail level are adjusting lower at a slower pace than prices at the U.S. wholesale level.

To put things simply, let's use the nominal price differential between segments. Both "margins" are within historical norms. However, based on the rapid pace at which prices in the wholesale market adjusted downward, many participants in that segment are nervous despite lower replacement costs and lower prices to the consumer. Additionally, many U.S. importers started to report that prices in the U.S. wholesale market are reaching levels below replacement offerings. Whether we see that in data released in the future or not remains to be seen, however, further help at the foodservice and retail levels could come in handy, whether by promoting shrimp and/or further lowering the price to the consumer.

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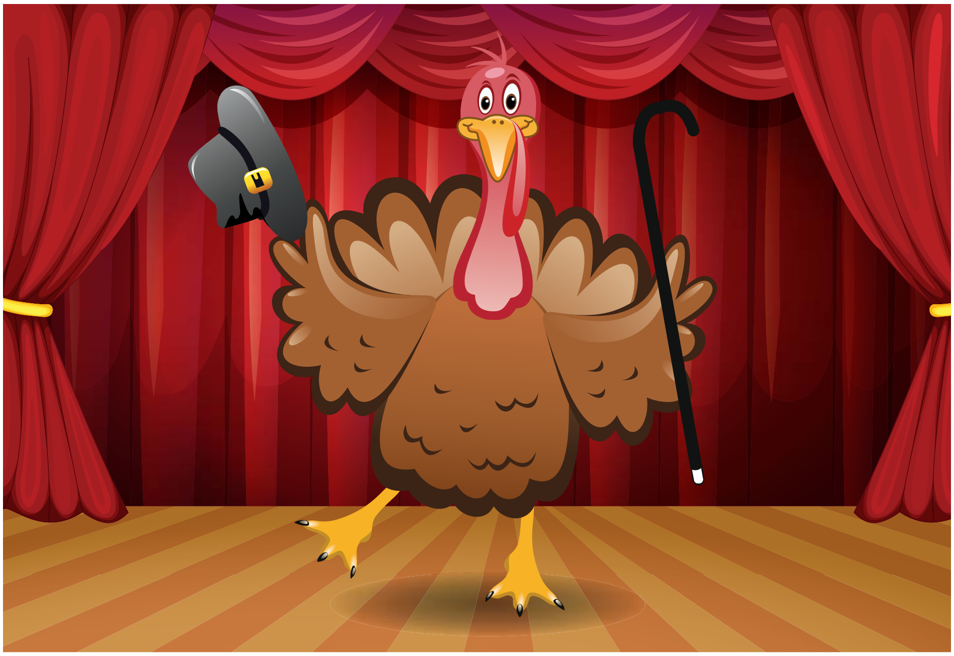
A ham by any other name



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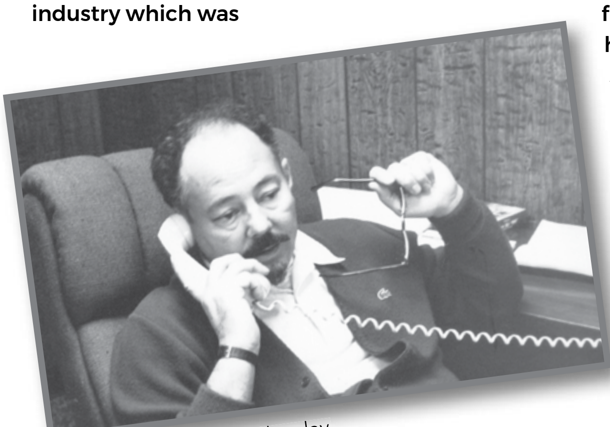
Almost 40 years ago, the National Pork Producers Council and the American Meat Institute sued the Department of Agriculture about the use of the word "ham" on products containing turkey leg or thigh meat. As a result, in 1980 a federal court ruled that qualifying language would be required to further identify what was then a brand-new food product—turkey ham. The USDA concluded in their argument that by adding the statement "cured turkey thigh meat," consumers would adequately be apprised that a "turkey ham" product does not contain any pork meat.

This did not sit well with the turkey industry which was experiencing rapid escalation of demand in the further processing category. They argued that by calling it "turkey ham," there would be little doubt as to its origin. The red meat business felt otherwise stating that the name "turkey ham" without further qualification would cause such products to be misbranded and, therefore, could not be used as the standard name for the product.



Paul B. Brown back in the day.

Paul B. Brown, Editor of the *Producers' Price-Current* at the time asked in an editorial, *How Much Ham is in Hamburger*? In it Mr. Brown wrote "The recent ruling by a federal court preventing the further labeling of turkey ham appears to us to be somewhat less than fair. We feel that a label that clearly shows the contents to be made from turkey cannot be misunderstood. Consumers are intelligent people and do read labels. Ham, by definition, comes from the hind legs of animals. He continued by saying that, "We feel that the red meat industry would be better served by promoting their products and improving quality. Money spent in lawsuits has a tendency to further the ends of attorneys, courts and judges. Litigating parties would be far better off to amicably settle their differences out of court. If this reasonable approach cannot be taken, the turkey industry should give some serious thought to asking Judge Kellam to rule on the ham in hamburger."

In 1981, the National Turkey Federation appealed the decision and it was overturned. UB

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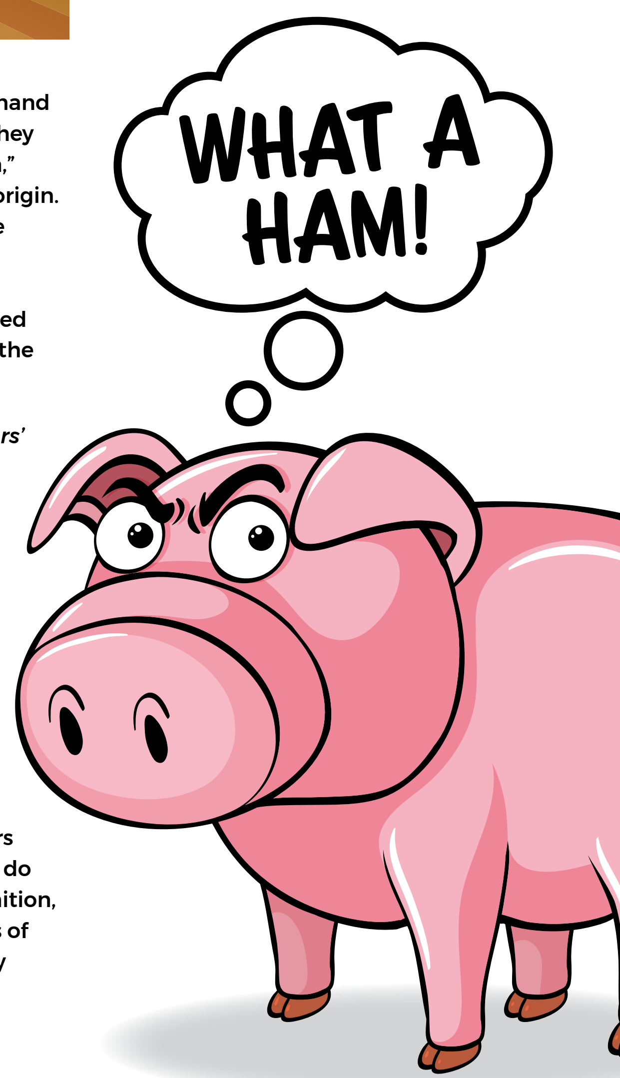

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