

Industry Update

Food and Agribusiness



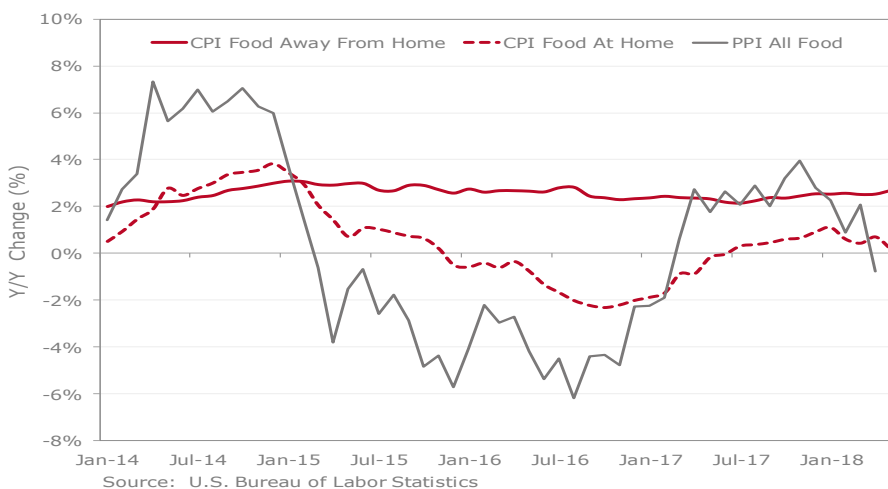
Key Demand Developments

- Economic activity continues to improve this spring, with Real GDP looking on pace to rise at a 4.2% annual rate during the second quarter. Growth was bolstered by a rebound in consumer spending coupled with a narrowing of the nation's trade deficit. However, there is less optimism that trade will continue to add growth given the current administration's recent string of tariff announcements.
- Per latest jobs report, the economy added 223,000 jobs in May while the jobless rate fell to 3.8 percent and wages rose 0.3%. The strength is broadening, with a rising share of industries adding jobs. Tax reform may be behind some of the improvement in employment growth.
- Stronger economic gains and a tightening labor market are raising fears that the Fed may tighten monetary policy more aggressively to head off higher inflation. However, although the labor market has tightened, wages are still rising modestly and consensus is inflation should remain close to the Fed's 2% target. Other current economic releases appear to support continued growth as the year progresses, and the Federal Reserve should continue to raise interest rates. The last rate increase was in June, and consensus is the Fed will have two – three more rate increases by the end of the year.

Food Retail Sales

According to Nielsen, US Food Retail by volume in dollars increased improved slightly this quarter to .6% Y/Y, while unit declines persist posting -1.3% Y/Y (52 weeks ending 06/02/18). Price growth is slowly slightly from last edition to 2.0% Y/Y, although still up from .8% Y/Y (2017) and 1.6% Y/Y(2016).

Consumer and Producer Price Indices

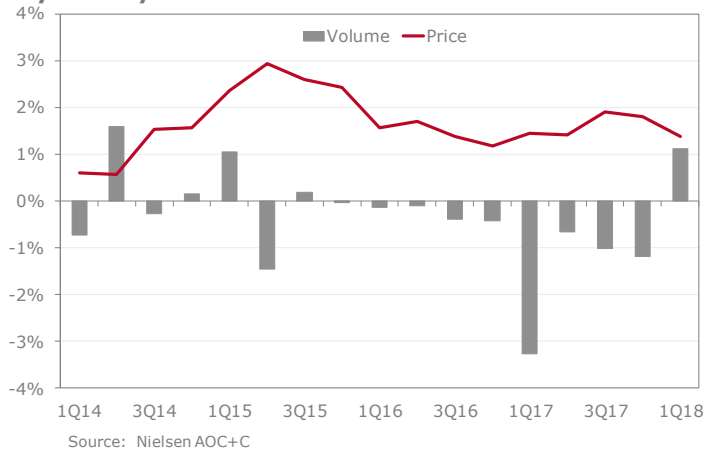


Price and Food Inflation Developments

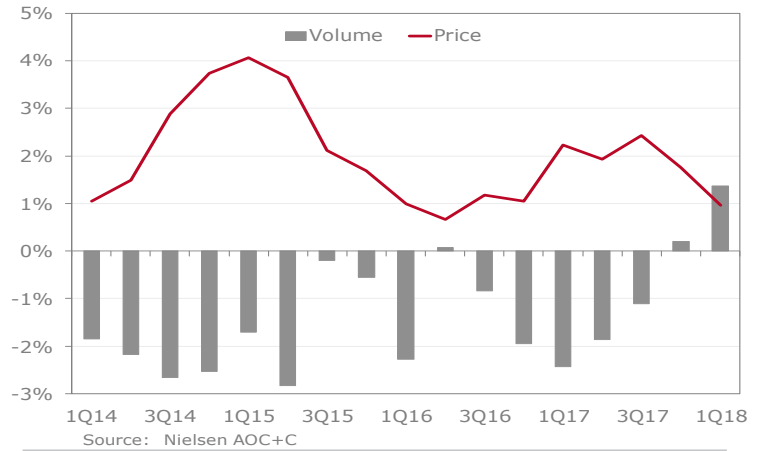
- We maintain a constructive outlook for volumes as the PPI All Food pricing level dropped into negative territory in May. The PPI All Food dropped 0.1% in May Y/Y, and was down 0.9% vs. the prior month.
- Restaurant pricing, measured by the CPI Food Away From Home index (CPI-FAFH), increased 2.7% in May Y/Y, and is up 33 bp vs. the prior month.
- Food Retail pricing measured by the CPI Food at Home index, increased 16 bp in May Y/Y, and is down 41 bp vs. the prior month.
- The spread between restaurant and food retail pricing was down 68 bp M/M for May and has narrowed 233 bp from the August 2016 highs.

Grocery Department Trends: Dry Grocery, Dairy, and Frozen Food volumes increased in 1Q'18 from low levels the prior year. Deli, Fresh Produce, and Bakery volumes continued to show growth.

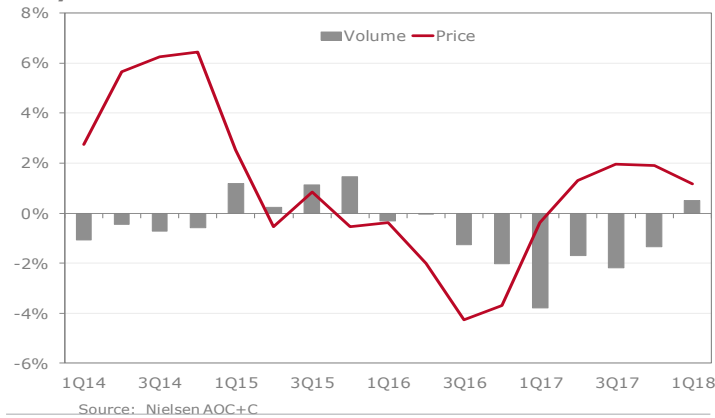
Dry Grocery



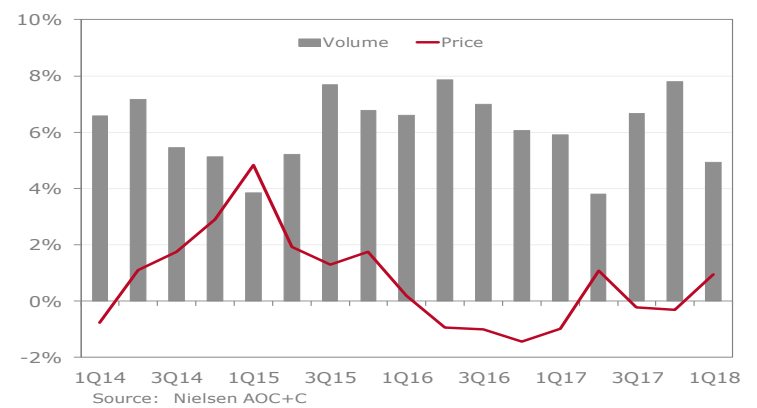
Frozen Foods



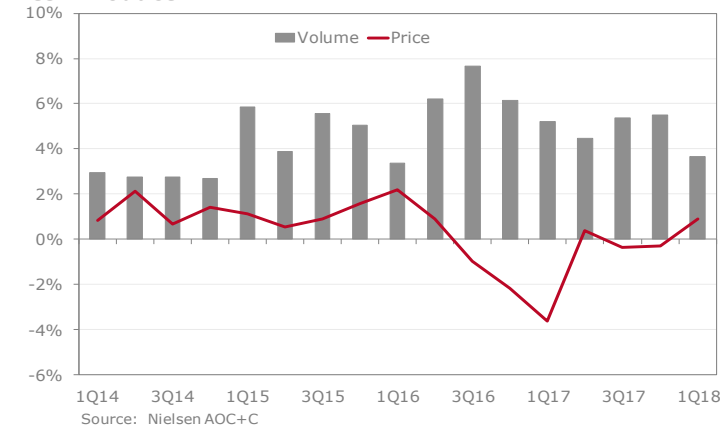
Dairy



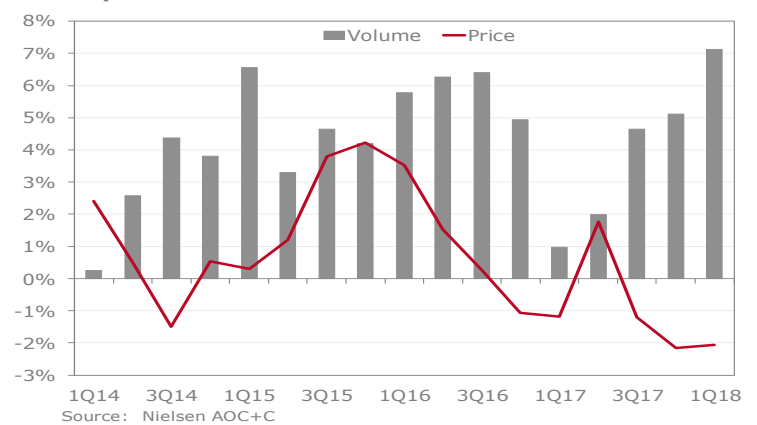
Deli



Fresh Produce



Bakery



- Dry Grocery 1Q'18 price/mix decreased 1.39% Y/Y while Dry Grocery volumes increased 1.12% Y/Y.
- Dairy 1Q'18 price/mix increased 1.18% Y/Y, but this increase is less than prior 3 quarters as it trends downward. Dairy unit sales volume increased 0.5% Y/Y.
- Fresh Produce 1Q'18 price/mix increased 0.91% Y/Y. Fresh Produce volumes increased 3.65% Y/Y.

- Frozen Food 1Q'18 price/mix increased 0.96% Y/Y. Frozen Food volumes increased 1.37% Y/Y.
- Deli 1Q'18 price/mix increased 0.95% Y/Y, while Deli volumes increased 4.93% Y/Y.
- Bakery 1Q'18 price/mix decreased 2.06% Y/Y. Bakery volumes increased 7.12% Y/Y.

Food Company Margin Heat Map YoY

Price vs. Volume	Grain	Protein	Labor	Energy
Constructive	Inflationary	Mixed	Inflationary	Inflationary

Food Company Input Cost Summary: As we end 1Q'18 a large portion of commodities have shown moderate inflation vs. Q1'17 levels.

- **Economic Backdrop:** Economic activity continues to improve this spring, with Real GDP looking on pace to rise at a 4.2% annual rate during the second quarter. The economy added 223,000 jobs in May while the jobless rate fell to 3.8 percent and wages rose 0.3%.
- **Corn, Wheat & Soybeans:** Corn and soybean futures above 2017 on solid demand after shortfall in South American crops. Wheat futures higher on concern about 2018 yields in the US and overseas.
- **Chicken:** Mixed broiler prices persist into May. Whole bird prices surged 8% higher on strong rotisserie demand, while breast, thigh, and wing prices continue price softness due to lower prices in competing meats.
- **Beef:** Larger cattle supplies caused live cattle prices in May to drop 16% below prior year; Supplies expected to continue growing into 2019. Demand remains strong with higher export growth.
- **Pork:** Tariff woes loom over pork industry, but impacts yet to be determined. Lean hog prices begin seasonal rebound, but remain below prior year levels as large production weighs on prices.
- **Packer Margin Environment:** The beef packer ratio surged higher in May to record levels. Chicken and pork packer ratios slump lower.
- **Seafood:** YTD U.S. shrimp imports up 14% over PY on lowest pricing since 2012. YTD Atlantic salmon imports up 8.5% over PY despite 10-year price high. Pollock prices advance on global surimi shortfall and lower whitefish volumes. Cod prices up 32% over PY on 9% global supply reduction. Alaskan salmon harvest forecast down 34%.
- **Dairy:** Producer margins were squeezed due to increased feed costs in May, but are seeing improvement in June with higher milk prices. A slowing milk supply is reflected in the latest USDA production forecast. Export growth continues to be a bright spot within the industry with stronger than expected YTD export volume.
- **Specialty Crops:** Stone fruit orchards are heading into production with early peaches and nectarines starting harvest. Apricot and cherry harvest also continued. Pomegranates were blooming and forming fruit. Strawberries are also in full production as the market readies for summer. In the California central valley, summer vegetables were being prepped for harvest.

Key Commodity Heat Map

Commodity	Price	Y/Y	M/M
Corn	\$3.99	+8.6%	+3.4%
HRW Wheat	\$5.32	+22.5%	+7.1%
Soybeans	\$10.20	+7.2%	-1.8%
Broilers	\$1.18	+8.6%	+8.1%
Cattle	\$1.05	-15.8%	-10.5%
Hogs	\$0.71	-5.9%	+16.9%
Class III Milk	\$15.18	-2.5%	+4.9%
Shrimp	\$3.94	-16.7%	-4.7%
Salmon	\$6.68	+10.8%	+7.8%
Natural Gas	\$8.21	-1.3%	+5.9%
Electricity	\$10.65	+0.7%	+1.9%
Heating Oil	\$2.98	+25.3%	+3.5%
Restaurant Labor	\$13.78	+3.1%	+0.4%
Supermarket Labor	\$13.43	+2.4%	+0.1%
Food Labor	\$17.34	+2.7%	-0.7%

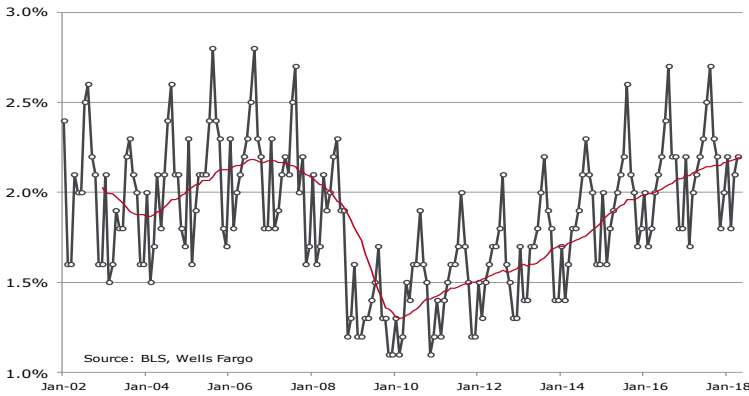
Monthly avg. corn, wheat, soybeans in \$/bu; broilers, shrimp in \$/lb; cattle, hogs, milk in \$/cwt; salmon in \$/kg; gas in \$/Mct; oil in \$/gal; electricity in \$/kWh; labor in \$/hr

Sources: CBOT, USDA, Urner Barry, EIA, BLS

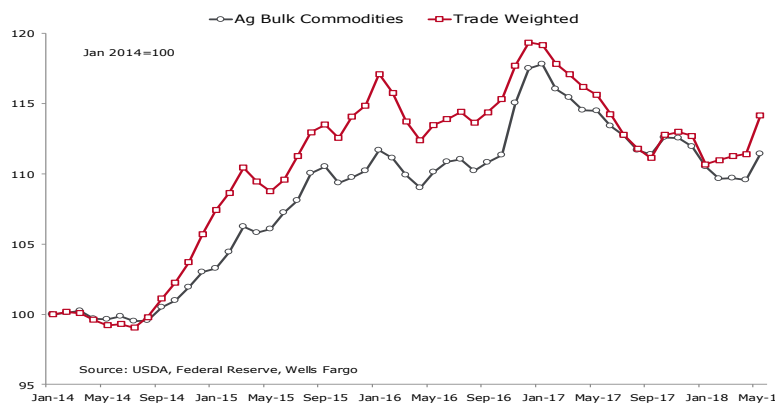
- **Forest Products:** U.S. housing starts slightly dropped from March, while repair & remodeling continue to trend upward. As a result, framing lumber and structural panel prices are well above last year's.
- **Crop Inputs:** Ammonia prices declined in May with demand seasonally slowing. DAP prices rose for the 10th straight month and are 20% above last year. Diesel prices up 27% from 2017.
- **Energy and Labor:** Current consensus as we head into the summer season is for oil prices to remain around \$68-\$70 a barrel.
- **Wine:** In general, weather in California's grape growing regions has been good. The frost risk has now passed. The North Coast may be behind schedule with intermittent rain and cooler temperatures at the beginning of spring. Cluster counts appear to be fairly normal with early estimates that the crop is at least average in size; however, it's too early for a confident prediction of the yield.

Economics: Economic activity continues to improve this spring, with Real GDP looking on pace to rise at a 4.2% annual rate during the second quarter. The economy added 223,000 jobs in May while the jobless rate fell to 3.8 percent and wages rose 0.3%.

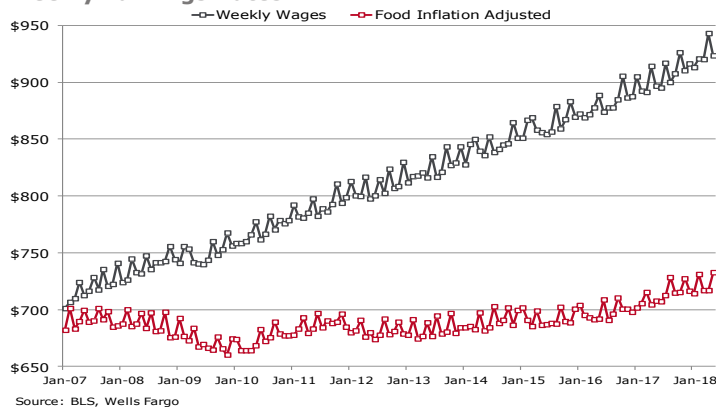
Voluntary Quits as % of Employment



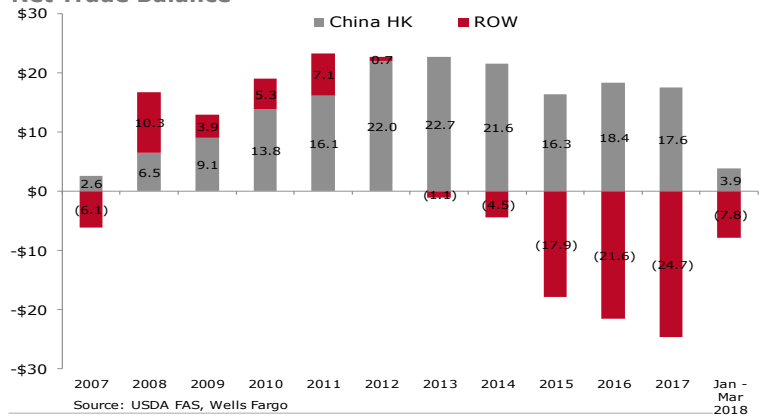
Trade Weighted Dollar vs. Ag Index



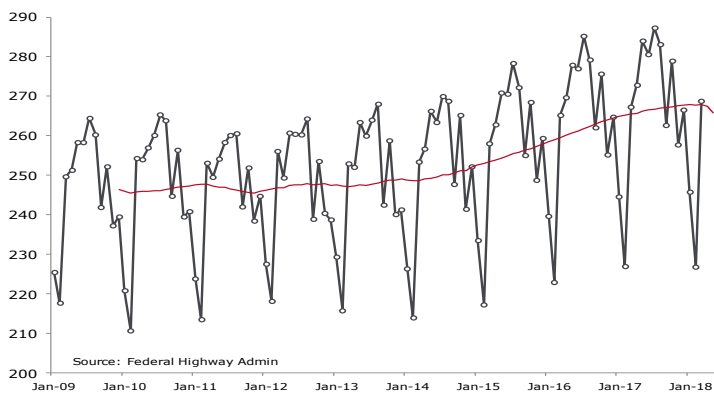
Weekly Earnings Rates



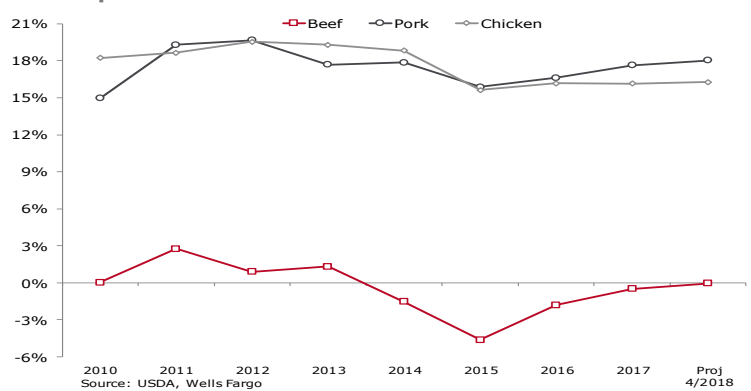
Net Trade Balance



Billions of Miles Driven



Net Export as % of Production

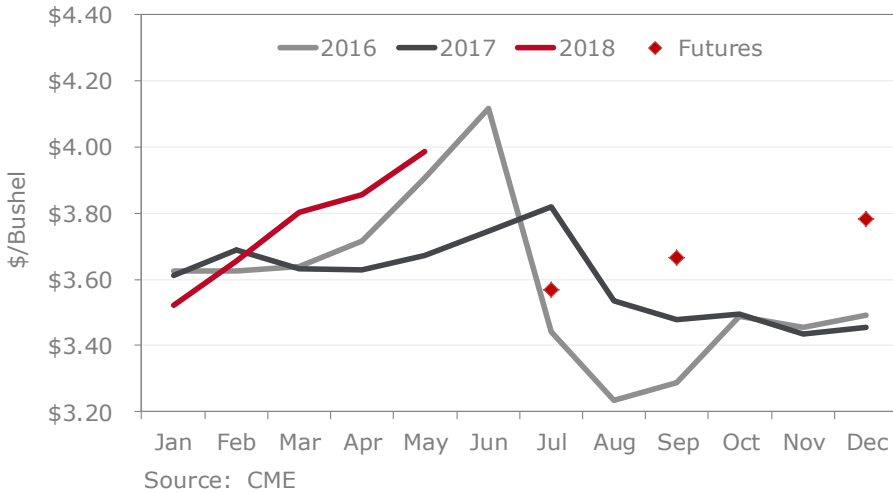


- April 2018 voluntary quits as a percentage of employment of 2.2% is slightly above the April 2017 level of 2.1%. The 12-month rolling average is near pre-recession levels.
- May 2018 weekly average earnings are growing 3.0% Y/Y on a nominal basis; when deflated by food and beverage CPI the May 2018 average wage of \$731/week also increased 3.0% Y/Y driven primarily by continued labor shortages.
- March 2018 miles driven of 269 billion was up 0.5% Y/Y as stronger employment offset higher gas prices.

- The May 2018 trade weighted dollar index value of 114.16 vs. bulk commodity dollar index value of 111.44 continues to widen when compared to the April 2018 values of 111.29 and 109.7, respectively.
- The net trade balance for YTD April 2018 of -1.7 billion represents a significantly larger trade deficit compared to the 4.5 billion trade surplus for the 4-months ending April 2017.
- Currency relationships have a greater influence on the U.S. pork and broiler markets as net exports comprised 18.0% and 16.3%, respectively, of total production for the 4 months ending April 2018, while the U.S. was a small net importer of beef.

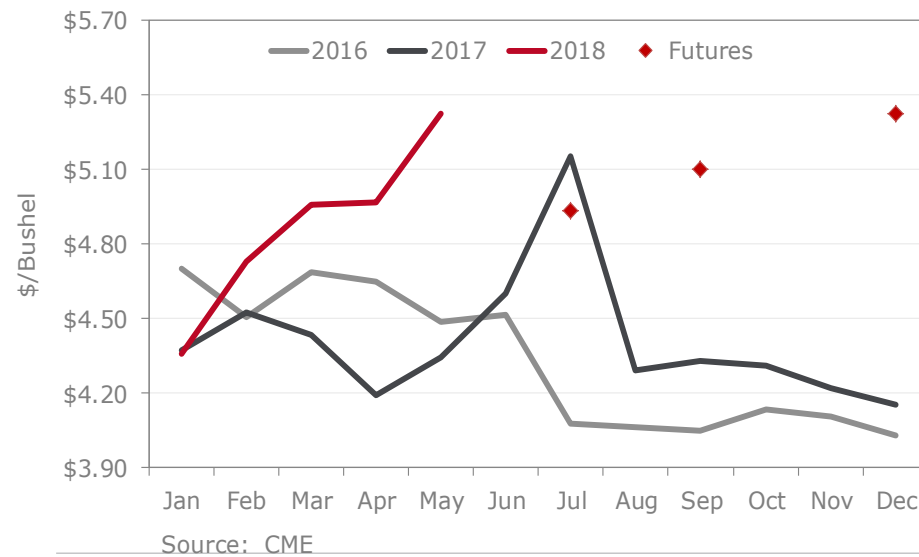
Grain Prices: Corn and soybean futures above 2017 on solid demand after shortfall in South American crops. Wheat futures higher on concern about 2018 yields in the US and overseas.

Corn



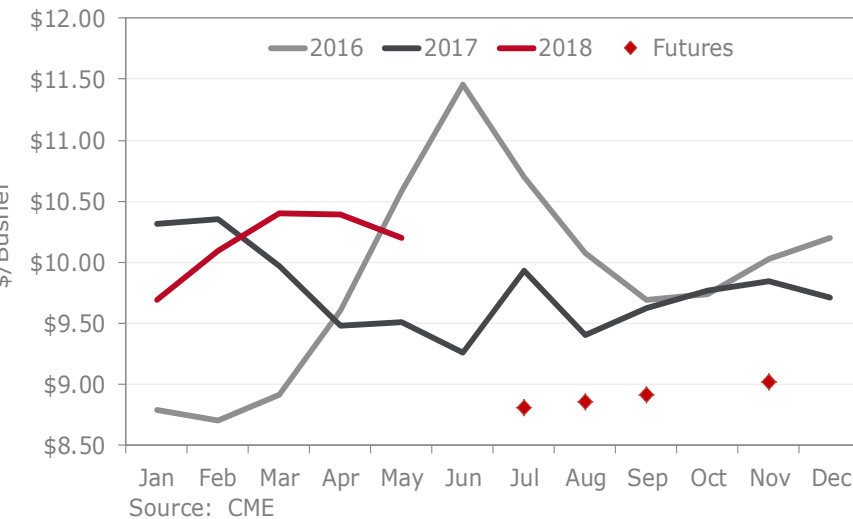
- Nearby corn futures averaged \$3.99 per bushel during May, which was up 13 cents from April and the highest in almost two years.
- Support came from strong US exports and USDA’s forecast for US and world ending stocks to decline in 2018/19.
- USDA forecasts world corn production to rise 2% in 2018/19 with a rebound in South America more than offsetting a decline in the US. However, world stocks are forecast to drop 20% to the lowest in six years, mainly on declines in China and the US.

Wheat



- Nearby Kansas City wheat futures averaged \$5.32 per bushel in May. This was up 35 cents from April and the highest in nearly three years.
- Concern about yields in the US and overseas helped trigger the rally.
- USDA projects global wheat production to fall 2% in 2018/19 with increases in Australia, Canada and the US more than offset by declines in Russia and the EU.
- Global wheat stocks are forecast to decline 2% after increasing five consecutive years to a record level.

Soybeans



- Nearby soybean futures averaged \$10.20 per bushel during May. This was down 19 cents from April, but up 68 cents from a year earlier.
- Expectations for US ending stocks to be the largest in 11 years have weighed on prices in recent weeks.
- USDA projects world soybean production to increase 6% in 2018/19 on an assumed rebound in Argentina, where yields were severely hurt by drought this year. However, world ending stocks are forecast to decline 6% with demand expected to exceed production.

Grain Fundamentals: USDA projects US corn, soybean and wheat ending stocks to decline in 2018/19 from large levels in 2017/18. The smaller stocks are forecast to be supportive to prices.

Corn

	2016/17	2017/18F	2018/19F	2018/19F	M/M Change	Y/Y Change
		June	May	June	18/19 Forecast	18/19 Forecast
Area Planted (mm)	94.0	90.2	88.0	88.0	0.0	-2.2
Area Harvested	86.7	82.7	80.7	80.7	0.0	-2.0
Yield per Harvested Acre (bu)	174.6	176.6	174.0	174.0	0.0	-2.6
Beginning Stocks (mm bu)	1,737	2,293	2,182	2,102	-80	-191
Production	15,148	14,604	14,040	14,040	0	-564
Imports	57	45	50	50	0	5
Total Supply	16,942	16,942	16,272	16,192	-80	-750
Feed and Residual	5,467	5,500	5,375	5,350	-25	-150
Food, Seed & Industrial	6,889	7,040	7,115	7,165	50	125
Ethanol	5,439	5,575	5,625	5,675	50	100
Total Domestic	12,356	12,540	12,490	12,515	25	-25
Exports	2,293	2,300	2,100	2,100	0	-200
Total Use	14,649	14,840	14,590	14,615	25	-225
Ending Stocks	2,293	2,102	1,682	1,577	-105	-525
Stocks to Use (%)	15.7%	14.2%	11.5%	10.8%	-0.7%	-3.4%
Average Farm Price (\$/bu)	\$3.36	\$3.40	\$3.80	\$3.90	\$0.10	\$0.50

Source: USDA WASDE

- USDA cut its 2017/18 corn carryout forecast 80 million bushels in June as exports were raised another 75 million.
- Projected ending stocks for 2018/19 were lowered 105 million bushels on the smaller carryin and an increase of 25 million bushels in total usage.
- USDA's carryout forecast of 1,577 million bushels and the implied stocks-to-use ratio of 10.8% both would be the smallest in five years.
- USDA raised its 2018/19 US average farm price forecast \$0.10 per bushel to \$3.90, which would be up \$0.50 from 2017/18 and the highest in five years.

Wheat

	2016/17	2017/18F	2018/19F	2018/19F	M/M Change	Y/Y Change
		June	May	June	18/19 Forecast	18/19 Forecast
Area Planted (mm)	50.1	46.0	47.3	47.3	0.0	1.3
Area Harvested	43.9	37.6	38.9	38.9	0.0	1.3
Yield per Harvested Acre (bu)	52.7	46.3	46.8	46.9	0.1	0.6
Beginning Stocks (mm bu)	976	1,181	1,070	1,080	10	-101
Production	2,309	1,741	1,821	1,827	6	86
Imports	118	155	135	135	0	-20
Total Supply	3,402	3,076	3,027	3,043	16	-33
Food	949	963	965	965	0	2
Seed	61	63	62	62	0	-1
Feed and Residual	156	70	120	120	0	50
Total Domestic	1,167	1,096	1,147	1,147	0	51
Exports	1,055	900	925	950	25	50
Total Use	2,222	1,996	2,072	2,097	25	101
Ending Stocks	1,181	1,080	955	946	-9	-134
Stocks to Use (%)	53.2%	54.1%	46.1%	45.1%	-1.0%	-9.0%
Average Farm Price (\$/bu)	\$3.89	\$4.75	\$5.00	\$5.10	\$0.10	\$0.35

Source: USDA WASDE

- USDA raised its 2017/18 wheat carryout estimate 10 million bushels to 1,080 million in June on a small cut in exports.
- USDA's 2018 yield and production forecasts were raised slightly.
- The 2018/19 carryout forecast was trimmed to 946 million bushels as the larger carryin and small increase in production were more than offset by an increase of 25 million bushels in exports due to smaller exports for Russia.
- The projected stocks-to-use ratio of 45.1% still reflects ample supplies.
- USDA projected the 2018/19 farm price at \$5.10, up \$0.35 from 2017/18.

Soybeans

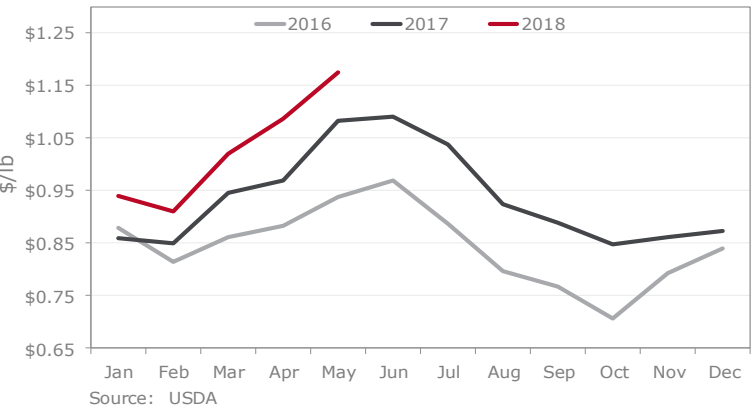
	2016/17	2017/18F	2018/19F	2018/19F	M/M Change	Y/Y Change
		June	May	June	18/19 Forecast	18/19 Forecast
Area Planted (mm)	83.4	90.1	89.0	89.0	0.0	-1.1
Area Harvested	82.7	89.5	88.2	88.2	0.0	-1.3
Yield per Harvested Acre (bu)	52.0	49.1	48.5	48.5	0.0	-0.6
Beginning Stocks (mm bu)	197	302	530	505	-25	203
Production	4,296	4,392	4,280	4,280	0	-112
Imports	22	25	25	25	0	0
Total Supply	4,515	4,718	4,835	4,835	0	117
Crushings	1,899	2,015	1,995	2,000	5	-15
Exports	2,174	2,065	2,290	2,290	0	225
Seed	105	103	103	103	0	0
Residual	35	30	32	32	0	2
Total Use	4,213	4,213	4,420	4,425	5	212
Ending Stocks	302	505	415	385	-30	-120
Stocks to Use (%)	7.2%	12.0%	9.4%	8.7%	-0.7%	-3.3%
Average Farm Price (\$/bu)	\$9.47	\$9.40	\$10.00	\$10.00	\$0.00	\$0.60

Source: USDA WASDE

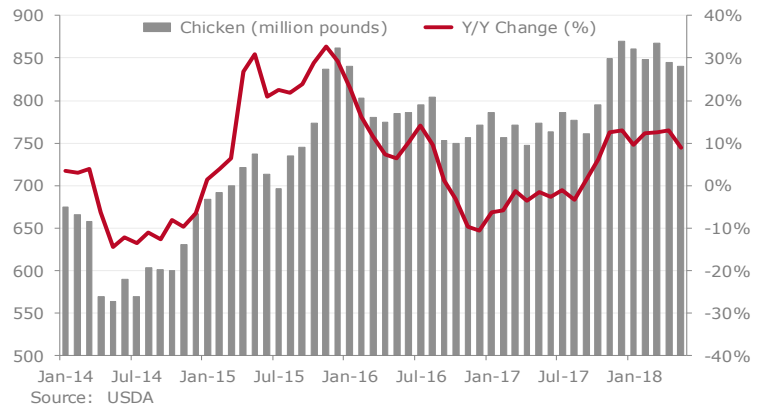
- USDA raised its 2017/18 soybean crush forecast another 25 million bushels in June as the US crush continues to be strong amid a shortfall in Argentina's supplies. This lowered USDA's old-crop carryout to 505 million bushels.
- USDA's new-crop carryout was cut 30 million bushels to 385 million on the smaller carryin and a slight increase in the 2018/19 crush. While the stocks-to-use ratio of 8.7% would be down from 2017/18, it would be above the 10 years prior to that.
- USDA forecast the farm price at \$9.40 for 2017/18 and \$10.00 for 2018/19.

Chicken: Mixed broiler prices persist into May. Whole bird prices surged 8% higher on strong rotisserie demand, while breast, thigh, and wing prices continue price softness due to lower prices in competing meats.

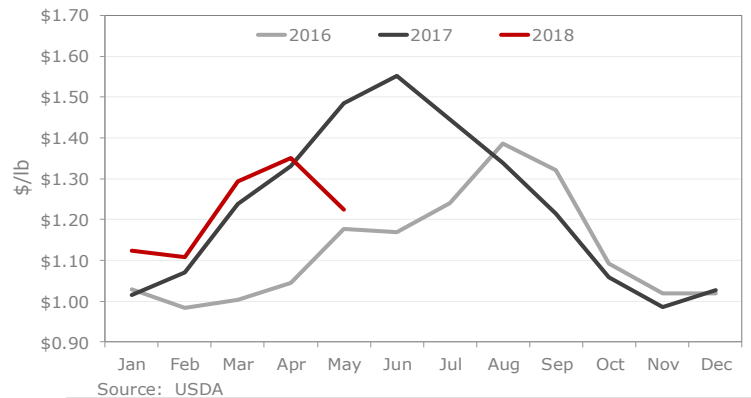
Whole Broiler Prices



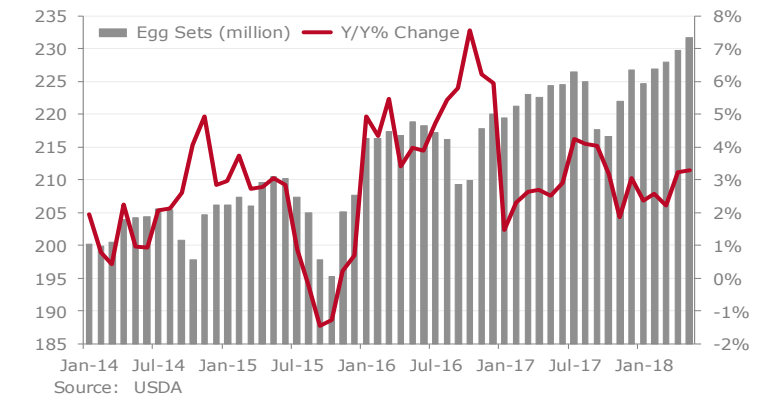
Cold Storage Inventories



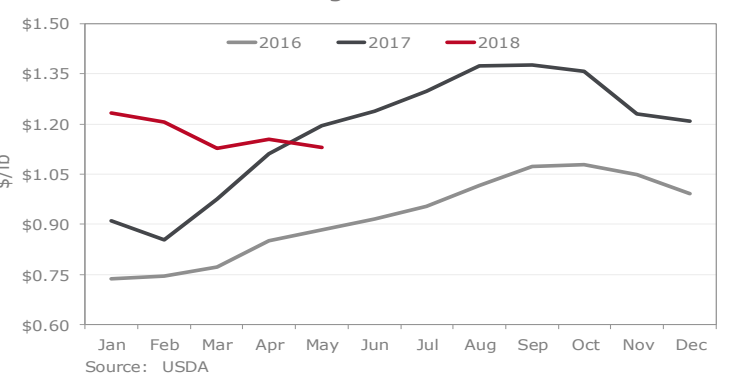
Boneless Skinless Breast Prices



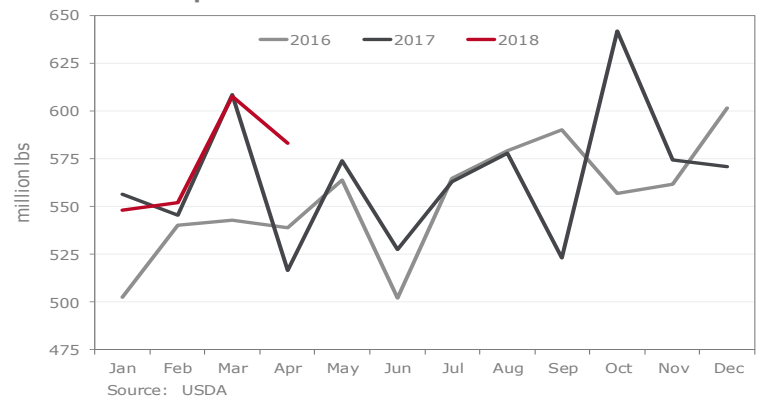
Egg Sets



Boneless Skinless Thigh Prices



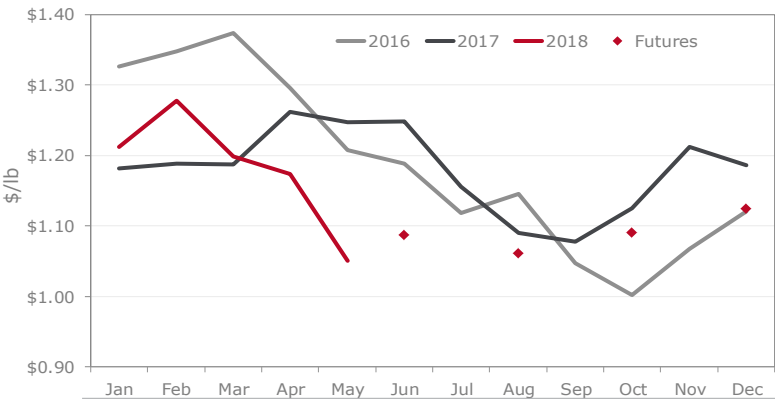
Broiler Exports



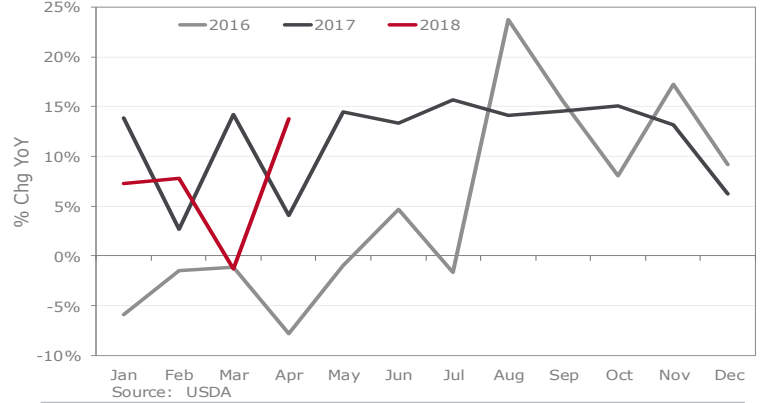
- The May USDA broiler price of \$1.18/lb. increased 8% vs. the prior month and increased 9% vs. May 2017.
- The May average breast price of \$1.22/lb. decreased 9% vs. the prior month and decreased 18% vs. May 2017.
- The May average thigh price of \$1.13/lb. decreased 2% vs. the prior month and decreased 5% vs. May 2017.
- The WASDE U.S. median average forecast for 2018 is \$1.02/lb., up 9% from \$0.935/lb. in 2017. Total 2018 production is estimated to be 42.5 billion lbs., up 1.9% vs. 2017.
- The May average combined regional large egg price of \$1.03/dozen decreased 46% vs. the prior month and increased 70% vs. May 2017.
- April broiler exports were 13% higher Y/Y. Export demand remains strong with Japan and South Korea top growth markets for U.S. broiler meat in April.
- 2019 production estimates from WASDE are 43.3 billion lbs., 2% higher than 2018.

Beef: Larger cattle supplies caused live cattle prices in May to drop 16% below prior year. Supplies expected to continue growing into 2019. Demand remains strong with higher export growth.

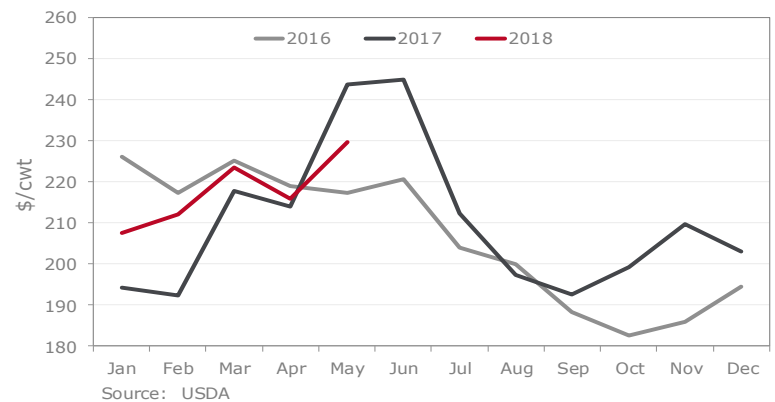
Live Cattle Prices



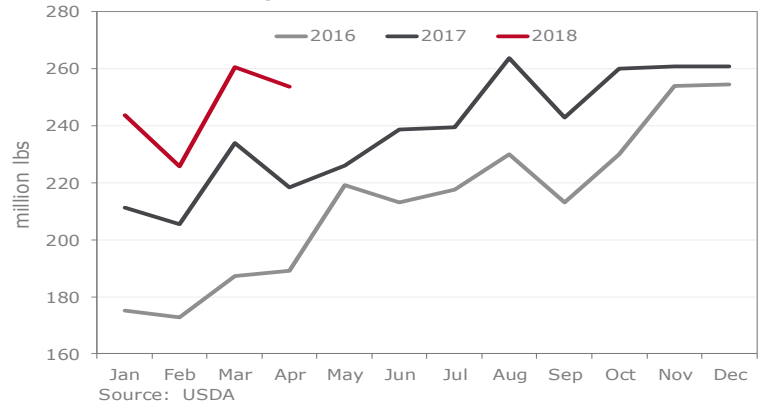
Heifer Slaughter



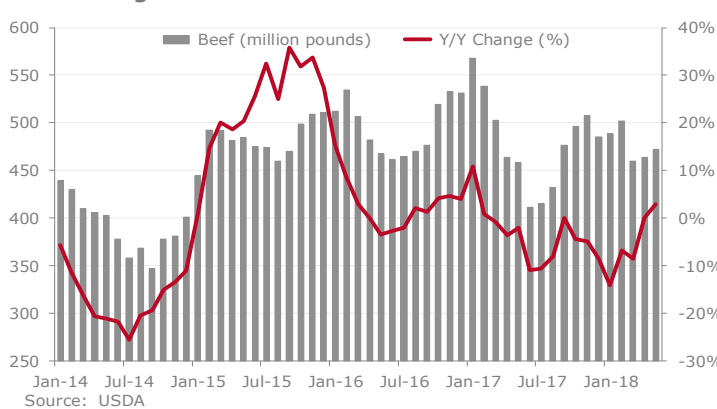
Cut Out Values



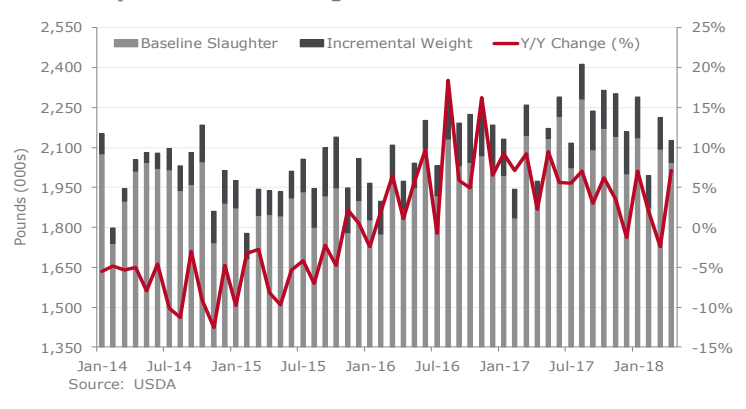
Beef and Veal Exports



Cold Storage Inventories



Monthly Cattle Processing

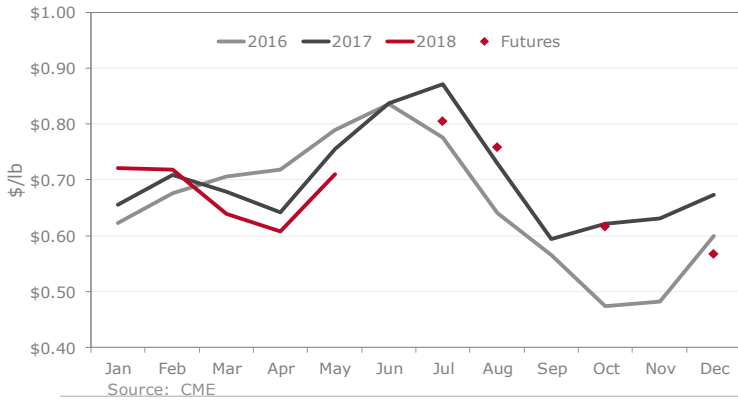


- The May cattle price of \$1.05/lb. decreased 11% vs. the prior month and decreased 16% vs. May 2017.
- The WASDE U.S. median average price forecast for 2018 is \$116/cwt, down 5% from \$121.52/cwt in 2017. Total 2018 production is estimated to be 26.1 billion lbs., up 3.6% vs. 2017.
- The May average beef cut-out value increased 6% vs. the prior month but decreased 6% vs. May 2017.
- 2019 production estimates from WASDE are 2.7 billion lbs., 2.2% higher than 2018.

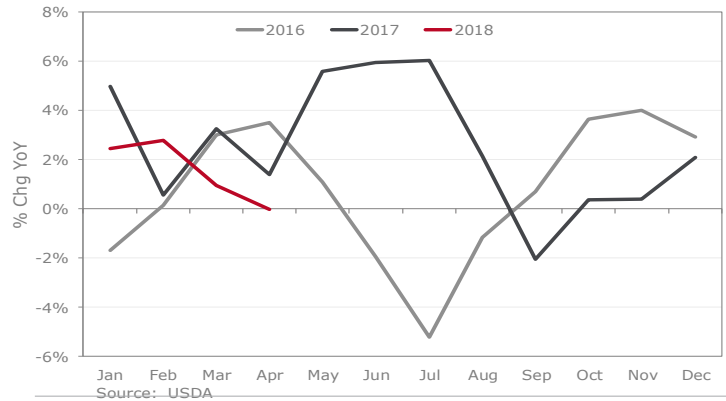
- April beef exports were 15.2% higher Y/Y. Export demand remains strong with Japan and South Korea top growth markets for U.S. beef in April.
- The market is bracing for higher slaughter levels in the second half of the year, which could lead to burdensome wholesale beef supplies.

Pork: Tariff woes loom over pork industry, but impacts yet to be determined. Lean hog prices begin seasonal rebound, but remain below prior year levels as large production weighs on prices.

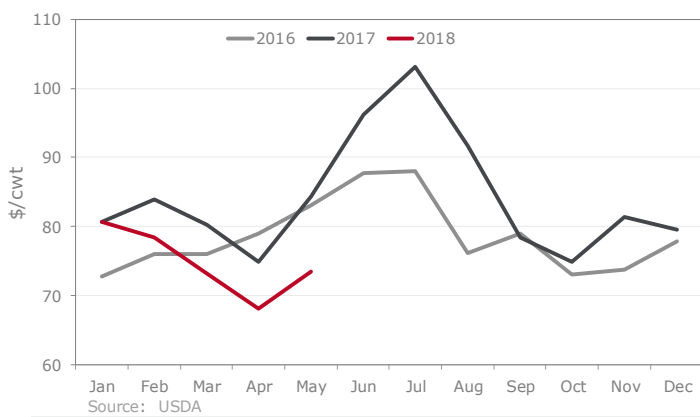
Lean Hog Prices



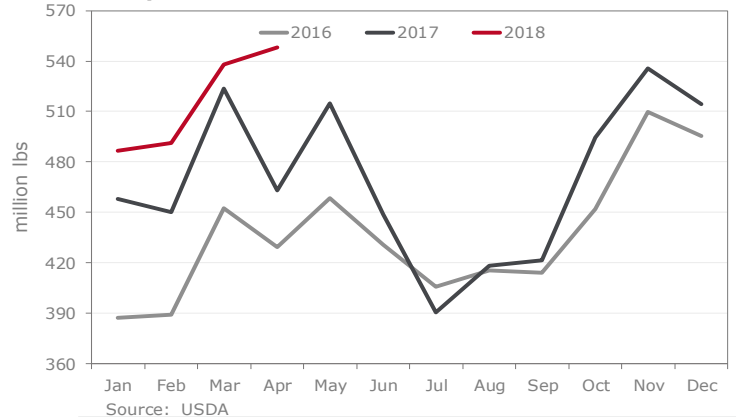
Sow Slaughter (3-Month Rolling Average)



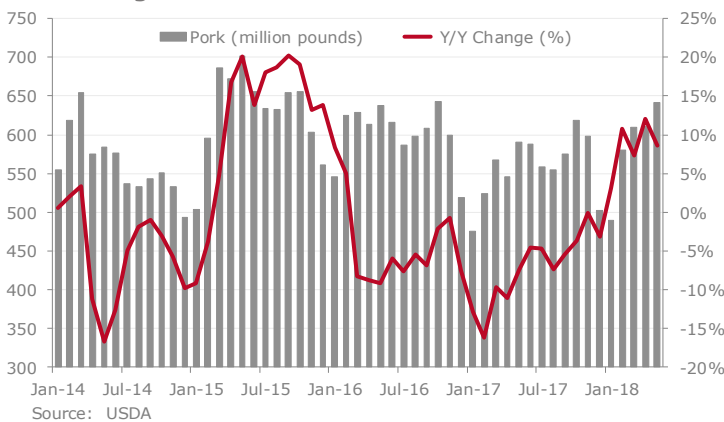
Cut Out Values



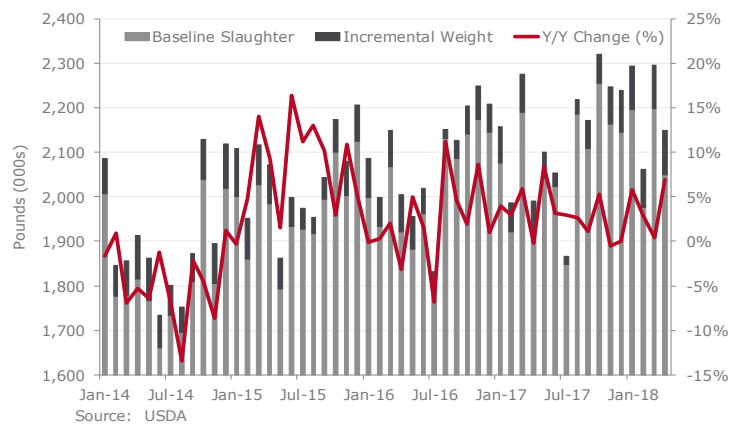
Pork Exports



Cold Storage Inventories



Monthly Processing

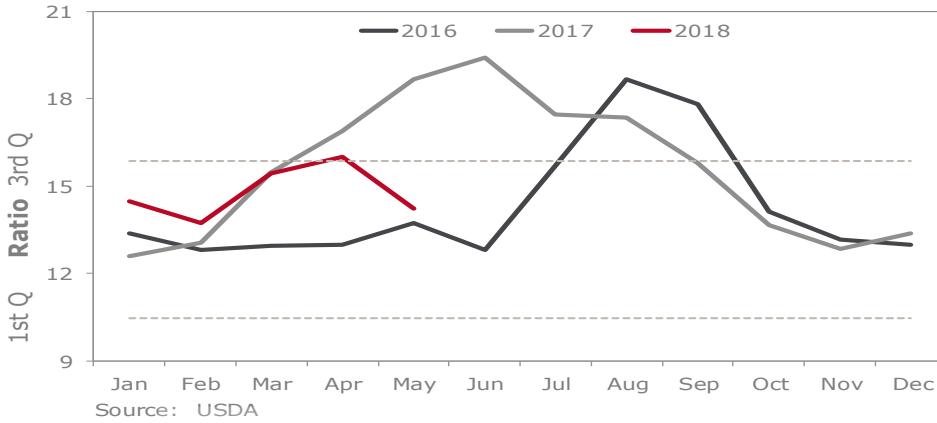


- The May average hog price of \$0.71/lb. increased 17% vs. the prior month but decreased 6% vs. May 2017.
- The WASDE U.S. median average price forecast for 2018 is \$44.50/cwt, down 12% from \$50.48/cwt in 2017. Total 2018 production is forecast to be 26.7 billion lbs., up 4.4% vs. 2017.
- 2019 production estimates from WASDE are 27.6 billion lbs., 3.4% higher than 2018.
- The May average cut-out value increased 8% vs. the prior month and decreased 13% vs. May 2017.

- April pork exports were 18.4% higher Y/Y. Mexico was the top destination for U.S. pork in April with 36% of the export share.
- The announcement of tariffs from China and Mexico on U.S. pork imports will likely have a negative impact on trade. The increasing production of U.S. pork will still need to be absorbed, but it may take lower prices to move product.

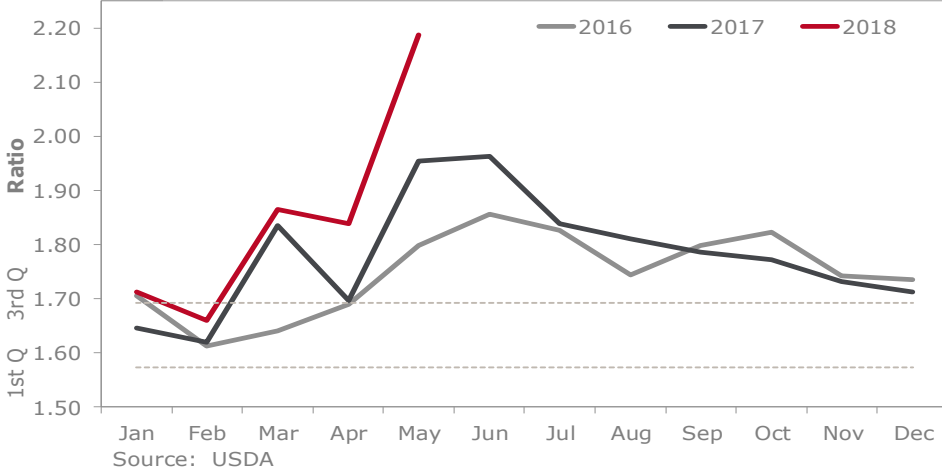
Packer Margin Environment: The beef packer ratio surged higher in May to record levels. Chicken and pork packer ratios slump lower.

Chicken



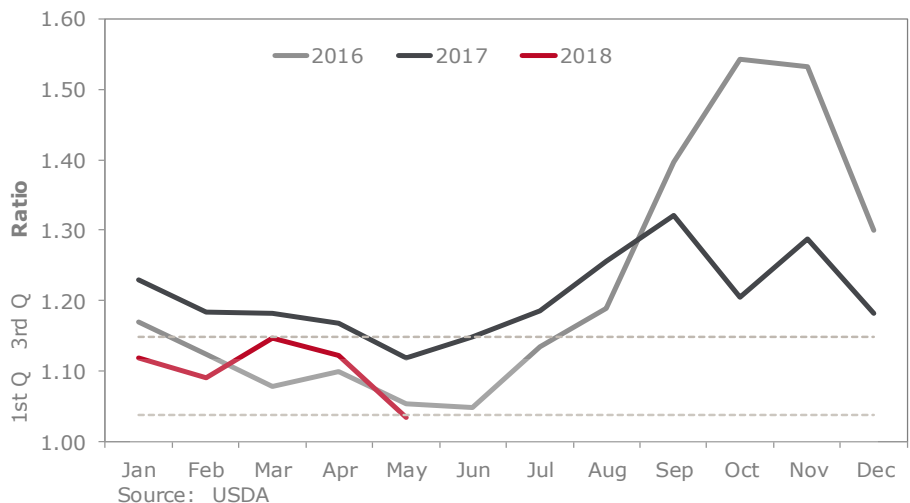
- The May USDA monthly average chicken breast price-to-feed cost ratio of 14.2 decreased 11% vs. the prior month and was down 24% vs. the prior year.
- Chicken processing margins remain quite profitable despite dropping below the ten year average price to feed ratio.
- The 10-year average ratio of 13.6 places the May 2018 result in the third quartile of the 2008-2018 monthly results.

Beef



- The April USDA monthly average beef cut-out to live cattle ratio of 2.19 was up 19% vs. the prior month and was up 12% vs. the prior year period.
- Beef packing margins have been at record highs for several months.
- The 10-year average ratio of 1.65 places the May 2018 result in the top quartile of the 2008-2018 monthly results.

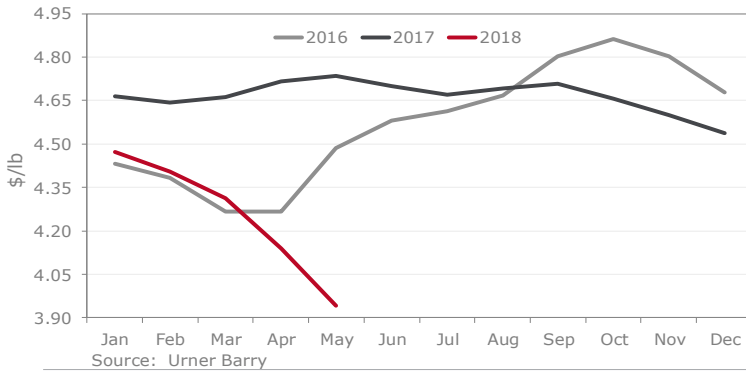
Pork



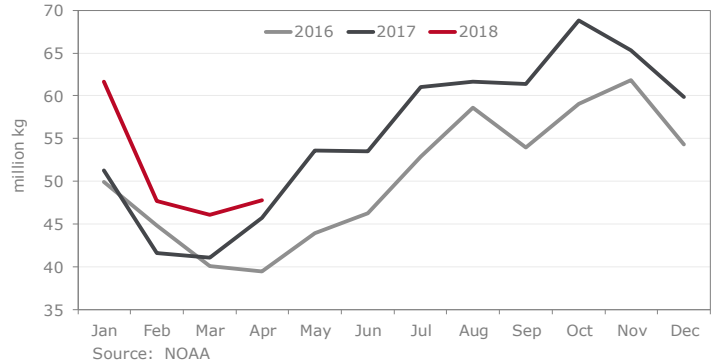
- The May USDA monthly average pork cut-out to live hog ratio of 1.03 decreased 8% vs. the prior month and decreased 7% vs. the prior year period.
- Pork packers are seeing decreasing margins due to higher hog prices and lower pork prices. Labor availability is also a challenge, delaying some expansion projects.
- The 10-year average ratio of 1.11 places the May results on the third/fourth quartile line of the 2008-2018 monthly results.

Seafood: YTD U.S. shrimp imports up 14% over PY on lowest pricing since 2012. YTD Atlantic salmon imports up 85% over PY despite 10-year price high. Pollock prices advance on global surimi shortfall and lower whitefish volumes. Cod prices up 32% over PY on 9% global supply reduction. Alaskan salmon harvest forecast down 34%.

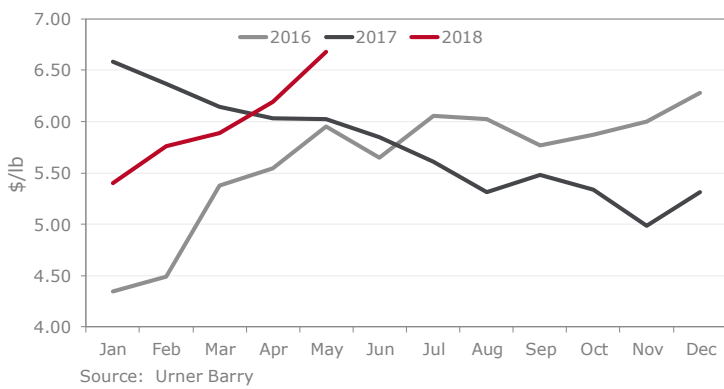
Urner Barry Farm-Raised White Shrimp Index



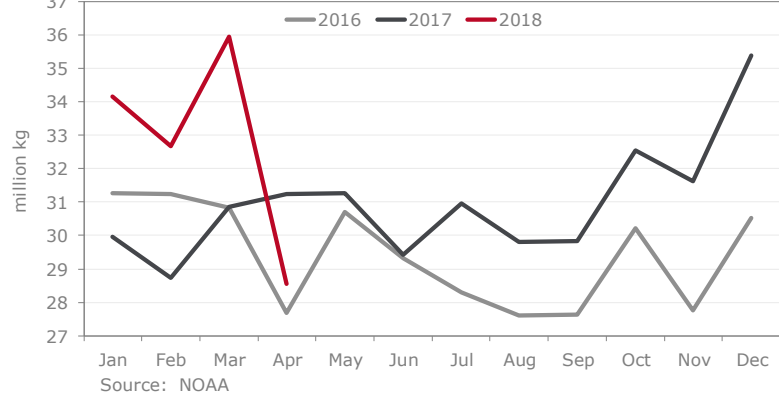
Shrimp Imports: Total Volume



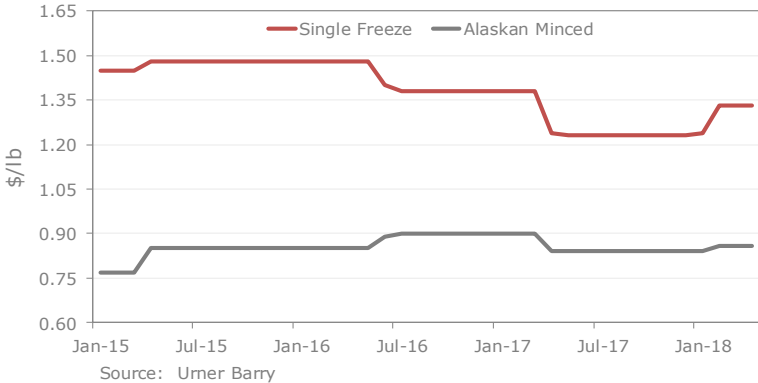
Urner Barry Fresh Farmed Salmon Index



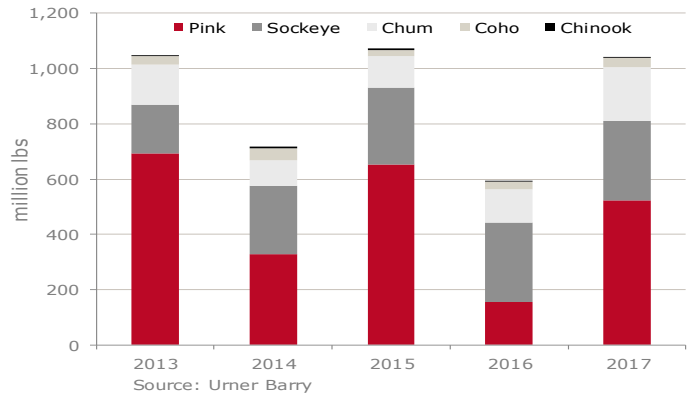
Salmon Imports: Total Volume



Alaskan Pollock



Wild Alaskan Landings by Specie

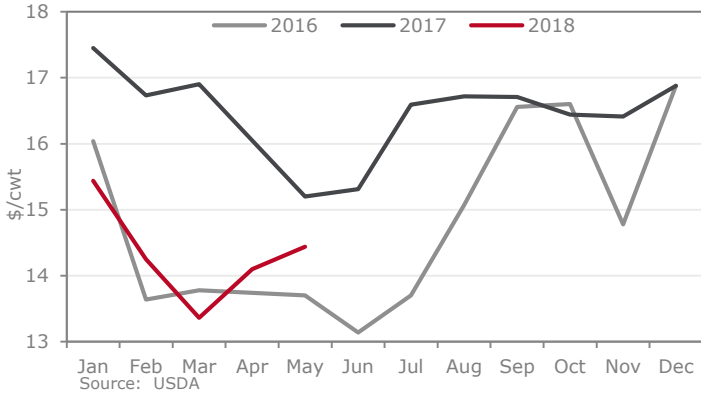


- The Urner Barry farm-raised white shrimp average price of \$3.94/lb. in May was down 5% from the prior month and was 17% below the previous year.
- The Urner Barry fresh farmed salmon price of \$6.68/lb. for May was up 8% from April and up 11% Y/Y. No significant price decline forecast until Q3 when increased production out of Norway enters the market.
- Single Freeze Alaskan Pollock prices stayed flat in May at \$1.33/lb. (or \$2900/mt). Alaskan Minced Pollock prices stayed flat at \$0.86/lb. B season price for single freeze, pbo (pin bone out) Pollock block advanced to \$1.48/lb. or \$3250/MT; highest level in four years.
- NOAA indicated CY 2017 US shrimp imports increased 10% over 2016 to 1.46 billion lbs. US Atlantic Salmon imports jumped 16% in 2017.

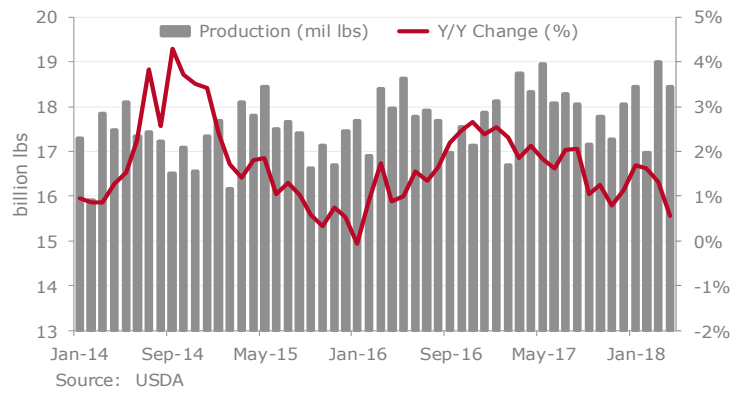
- April shrimp imports of 47.8 million kg were up 4% from March and up 4% from April 2017. Salmon imports of 28.5 million kg were down 21% from March, and were down 9% from a year earlier.
- Wild Alaskan landings increased 75% in 2017 and were down slightly from 2015. The increase was led by Pink salmon, which more than doubled from 2016's low level.
- The 2018 Bristol Bay Sockeye salmon forecast is for a chart-topping 51.3 million fish and a harvest of over 37 million. That compares with a 2017 forecast of 40 million Sockeye, though the run was 42% above forecast and the harvest of 37.7 million was the second-largest on record.

Dairy: Producer margins were squeezed due to increased feed costs in May, but are seeing improvement in June with higher milk prices. A slowing milk supply is reflected in the latest USDA production forecast. Export growth continues to be a bright spot within the industry with stronger than expected YTD export volume.

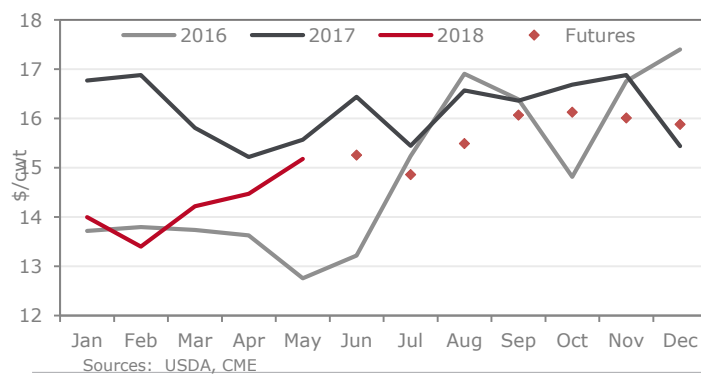
Class I Milk



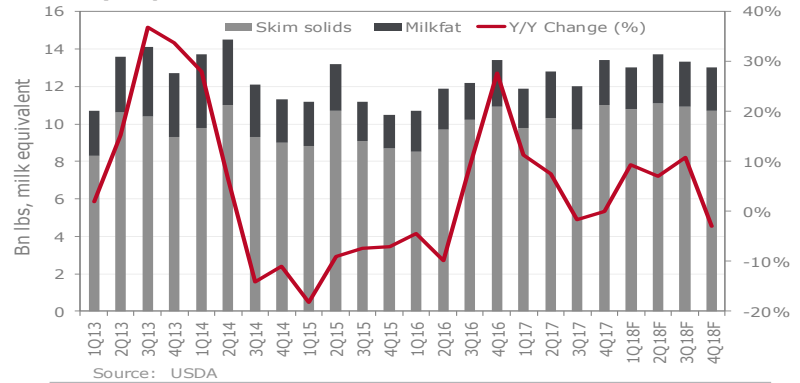
Milk Production



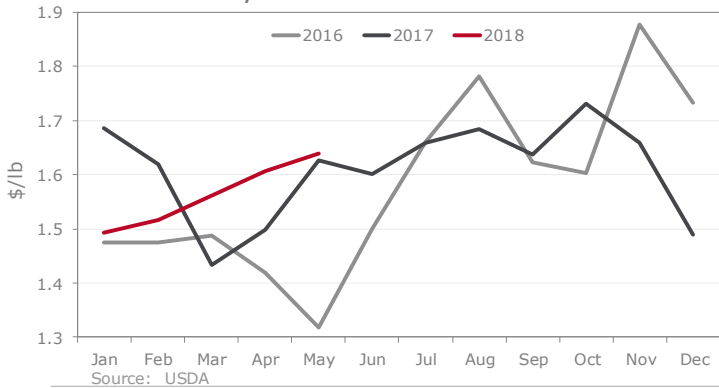
Class III Milk



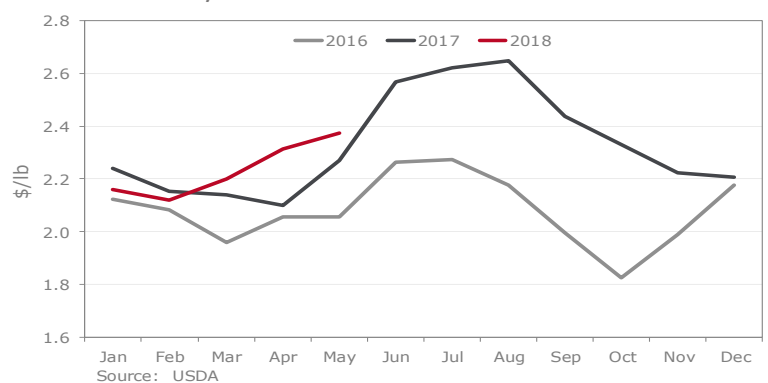
Dairy Exports



Cheddar Cheese, 40-lb. block



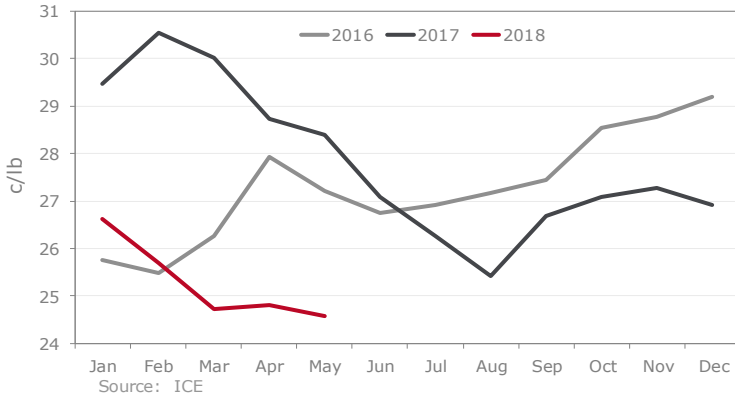
Butter Prices, Grade AA



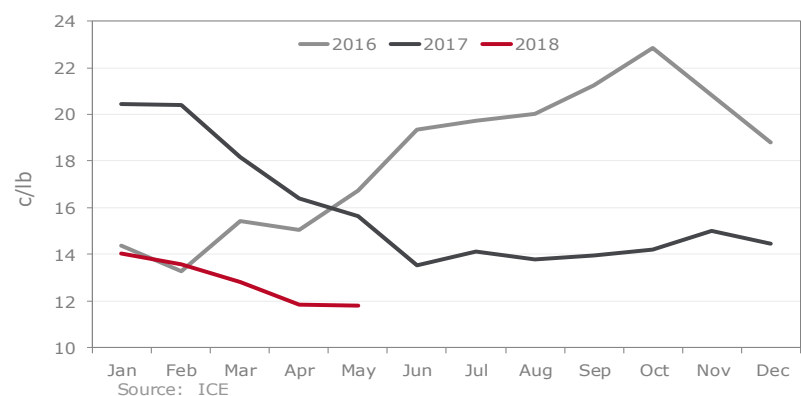
- The May USDA Class I milk price of \$14.44/cwt increased 2% vs. the prior month and decreased 5% vs. May 2017. The May average Class III milk price of \$15.81/cwt increased 5% vs. the prior month and decreased 3% vs. May 2017.
- The WASDE U.S. 2018 median average all milk price forecast as of June 2018 is \$16.80/cwt, down 5% from \$17.65/cwt in 2017. Total 2018 production is forecast to be 218.0 bn lbs., up 1.2% vs. 2017. A drop in USDA's production forecast from the previous month reflects a reduction in the milk supply growth.
- The May USDA average cheddar cheese price of \$1.64/lb. increased 2% vs. the prior month and increased 1% vs. May 2017.
- Fundamentals: US Milk production increased 0.6% in April Y/Y and down 2.9% vs. the prior month. The milk cow herd size remained flat vs. the prior year period. Total milkfat and skim solid exports are projected to increase 11% 3Q18 Y/Y.
- Stronger than expected 2018 exports through April are up 21% Y/Y on combined dairy products.
- May average USDA Grade AA butter prices of \$2.38/lb. increased 3% vs. the prior month and increased 5% vs. May 2017.

Specialty Crops: While cotton and cocoa prices continue to trend up, sugar producers struggle with the lowest trending prices in three years.

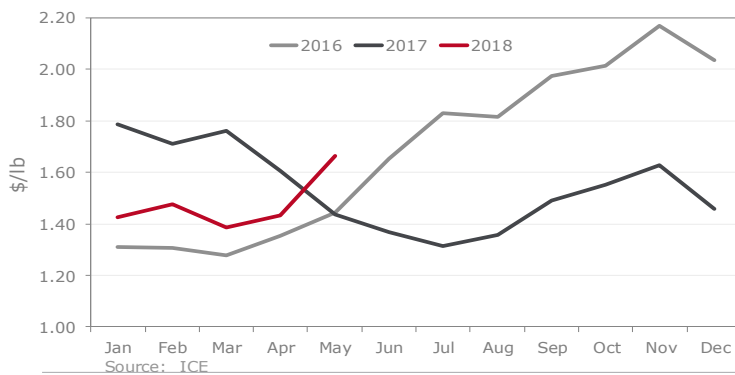
Sugar, #16 (U.S.)



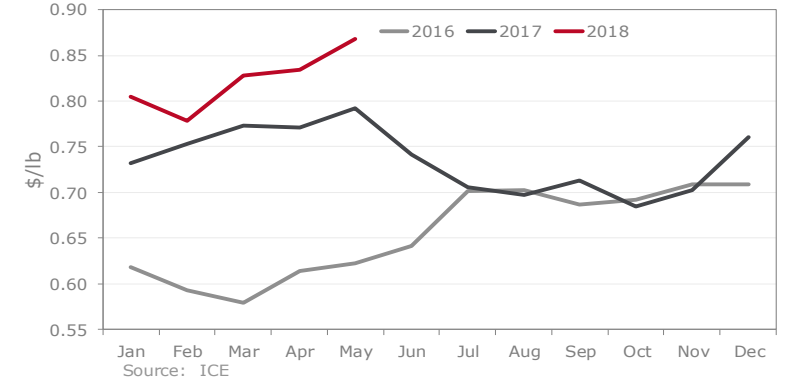
Sugar, #11 (World)



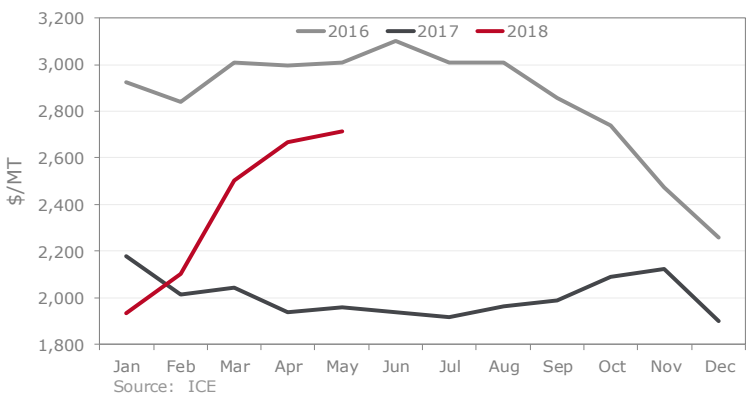
Orange Juice



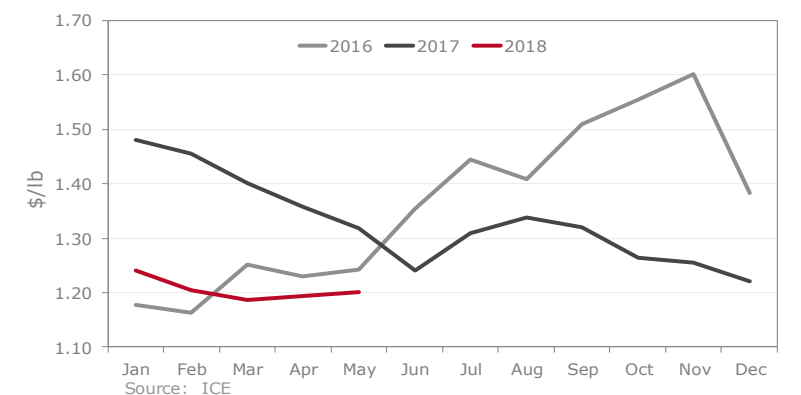
Cotton



Cocoa



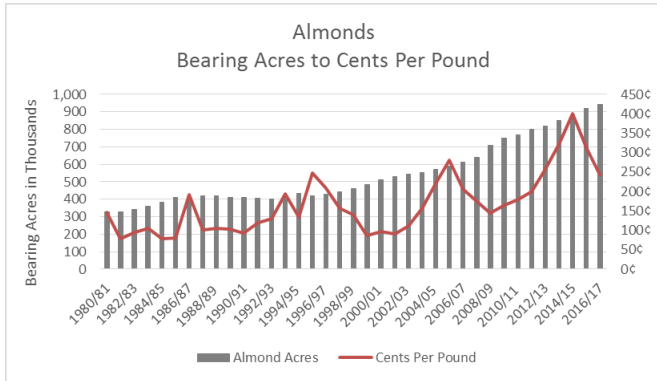
Coffee



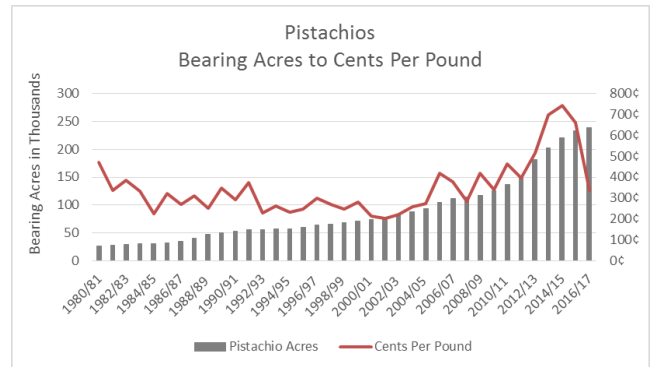
- Sugar (#16 and #11): Consensus forecast from multiple commodity traders state that the global market is in the midst of a two-year 20-million to 22-million tonne sugar surplus — the largest ever — and world raw prices may fall to 8¢ a lb., basis October. Large production increases in India and Thailand have offset lower production in Brazil. U.S. sugar production is now forecast by the USDA to decline 3.0% in 2018/19. Further, USDA projects total sugar use in the United States to be 12.705 million STRV, a 1.4% Y/Y increase.
- The May average cotton price of \$0.87/lb. increased 4% vs. the prior month and increased 10% vs. the prior year period.
- The May average coffee price of \$1.20/lb. increased 1% vs. the prior month and decreased 9% vs. the prior year period.
- USDA forecasts a Y/Y reduction in the orange juice crop in Florida by 35% for the 2017/18 season to 45 million boxes, the lowest in the last 75 years, due to Hurricane Irma and citrus greening. Before Irma, the crop forecast was 75 million boxes. Coupled with Brazil’s production forecast, which is down a whopping 15% due unfavorable weather which resulted in poor bloom and fruit set.

Specialty Crops: Subjective almond forecast is settled at 2.3B pounds. The 2018 grape crop is developing without issue. Bulk wine prices have softened.

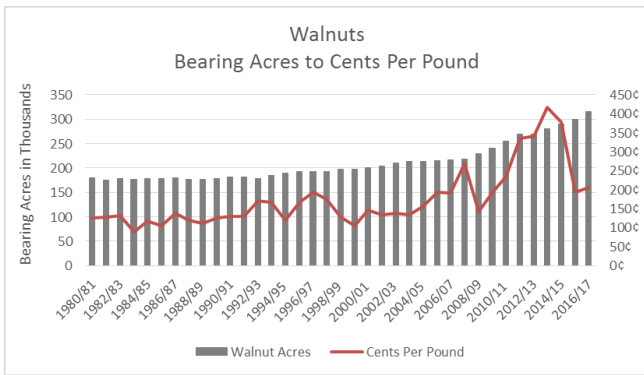
Almonds



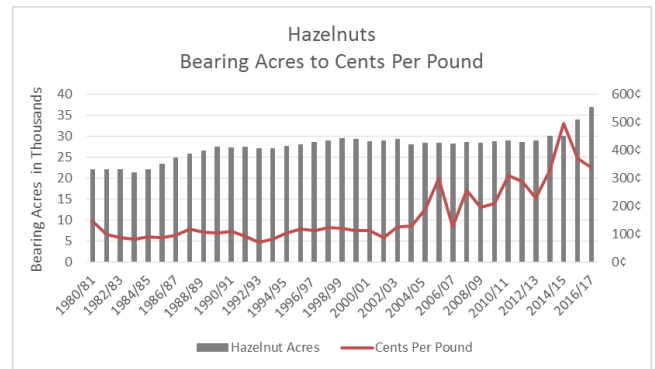
Pistachios



Walnuts



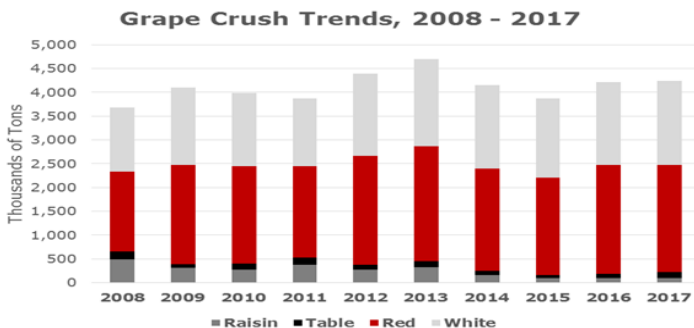
Hazelnuts



- Grower activities throughout the Central Valley were dominated by irrigation, fertilization and decisions on the best course of pest management. Weather began to warm, and outlook looks normal for most of California’s tree nut crops.
- According to the USDA NASS Pacific Regional Office, the initial subjective forecast for the 2018 California almond production is 2.30 billion pounds. Due to the February frost and variable spring weather, many growers are still unsure about their 2018 crop. As temperatures warmed up in May, nuts began to size well, and increasing acreages made up for lower yields from frost damage.

- Pistachios continue development. Pistachio yield outlook for 2018/19 continues to be forecasted at increased production based on alternate bearing crop and increasing bearing acreage.
- Walnut crop early estimates show average to above average crop set. Prices have moderated and outlook is slightly bearish on weakening export market.

2017 Grape Crush Results

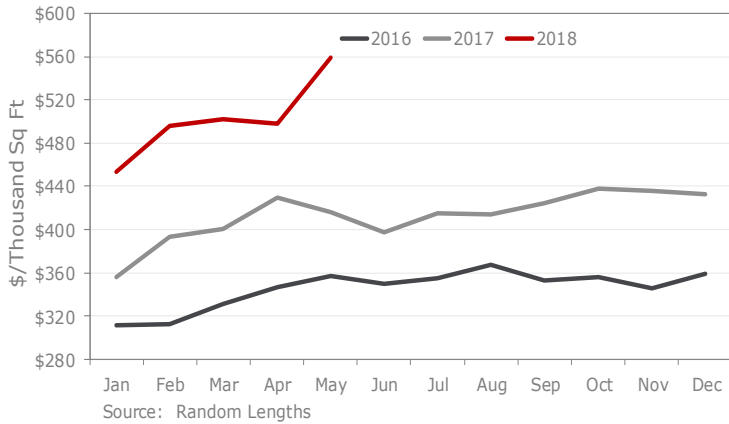


Source: Gomberg Fredrikson and Wine Institute

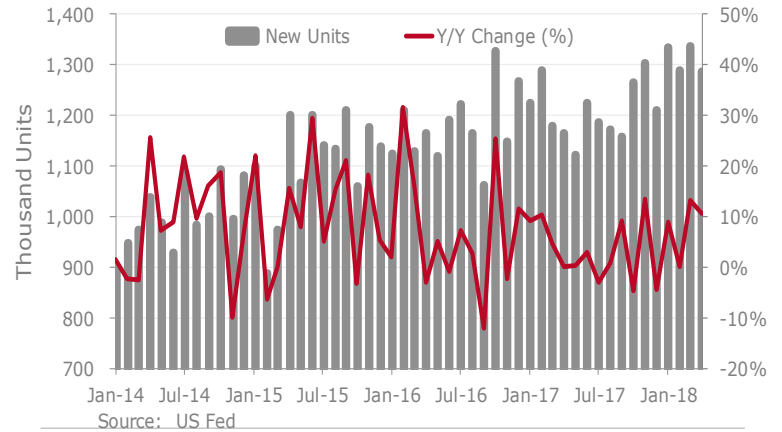
- Grapes are developing well as vineyards head into warmer weather. Vineyard leaf removal and shoot thinning continued for most vineyards.
- With the nonbearing acreage that will be coming into production over the next several years, even with “average” size crops, the crush should be close to 4MM tons annually. Vineyards in premium areas are in high demand. Wineries continue to look at the Pacific Northwest to expand wine offerings and increase production.
- Bulk wine values have slightly softened in the beginning half of 2018. With imports offering competitive prices, American bulk wine producers have seen a slight shift in the market demands where producers are more selective with their purchases.

Forest Products: U.S. housing starts slightly dropped from March, while repair & remodeling continue to trend upward. As a result, framing lumber and structural panel prices are well above last year's.

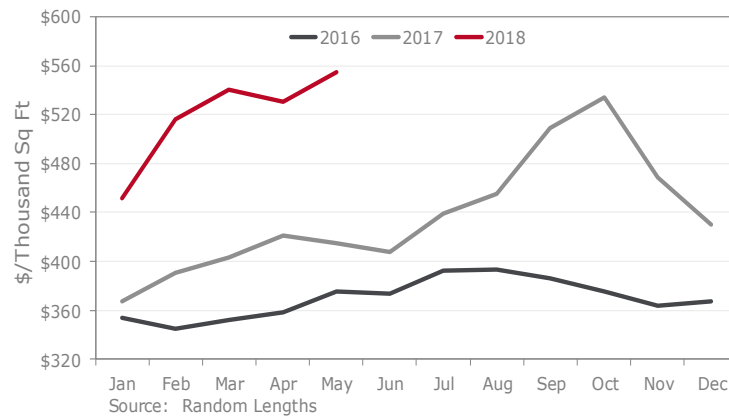
Framing Lumber Index



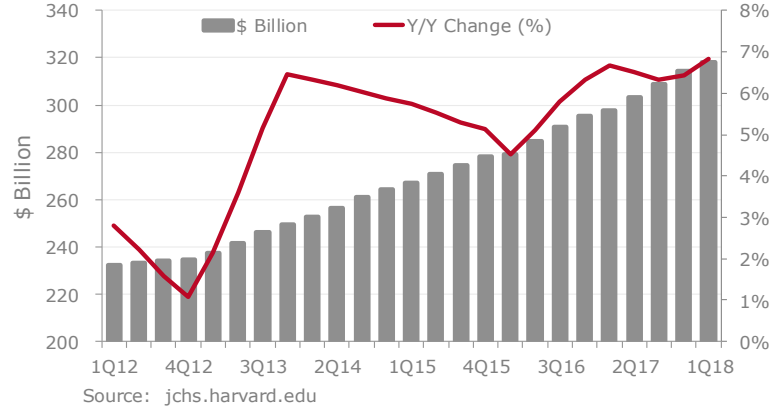
U.S. Housing Starts



Structural Panel Index



Repair & Remodel Expenditures (LTM total)

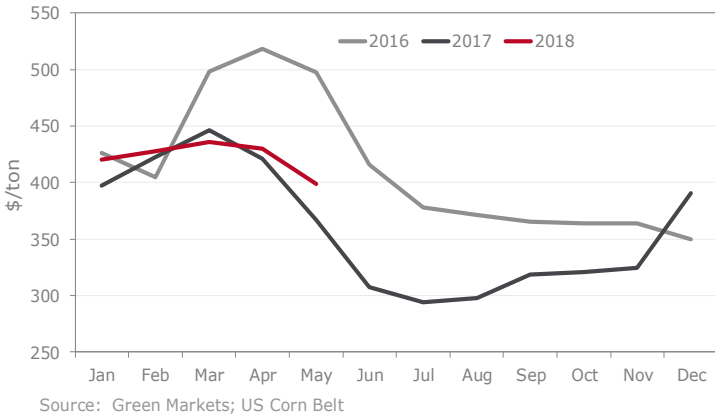


- The Framing Lumber Composite Index increased 12% in May to \$559/thousand sq. ft. However, this is up 34% from a year earlier due to a combination of demand growth and the US tariffs on softwood lumber imports from Canada.
- The Structural Panel Composite Index of \$555/thousand sq. ft. for May was up 5% from April, and up 34% Y/Y because of the high lumber prices and solid demand.

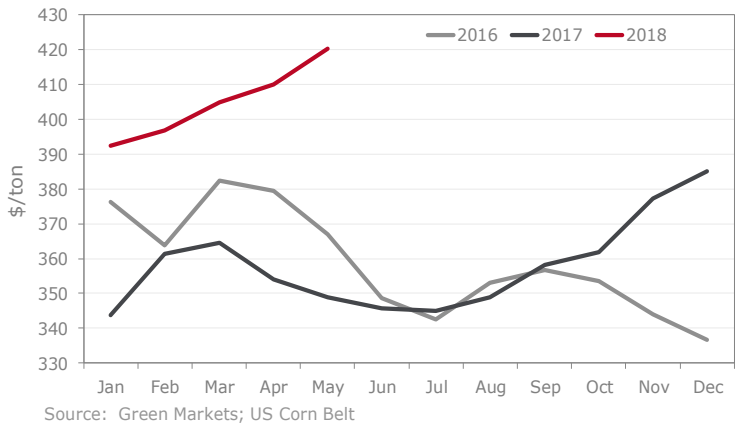
- U.S. Housing Starts of 1.29 million units for April were down 4% from the previous month and up 10% from April 2017.
- LTM repair and remodel expenditures of \$318.0 billion during 1Q'18 were up 1% from the previous quarter and up 7% from the previous year, reflecting the largest Y/Y increase since before the recession.

Crop Inputs: Ammonia prices declined in May with demand seasonally slowing. DAP prices rose for the 10th straight month and are 20% above last year. Diesel prices up 27% from 2017.

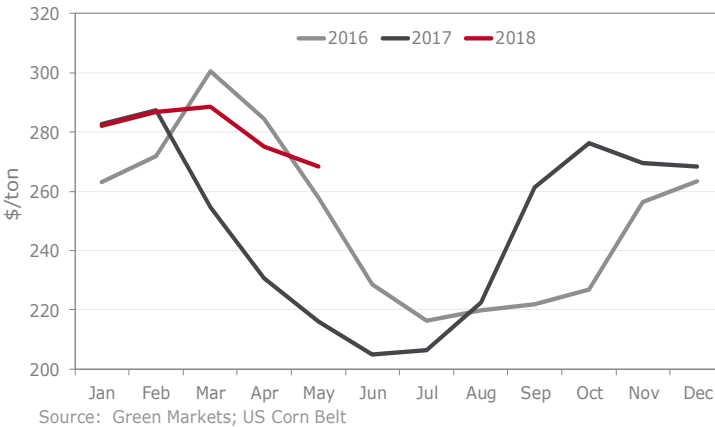
Ammonia



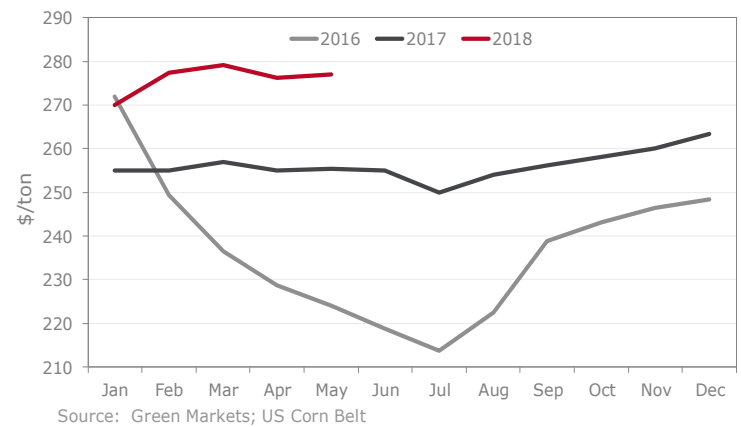
DAP



Urea



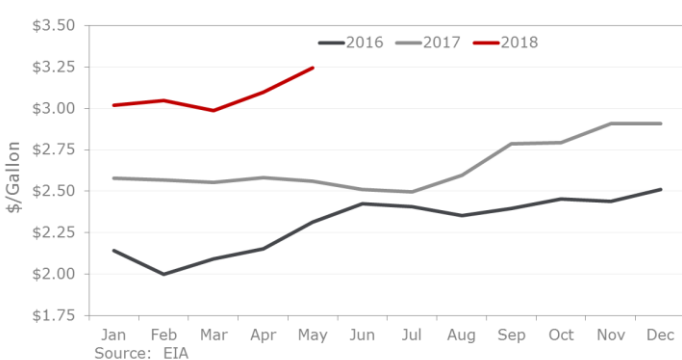
Potash



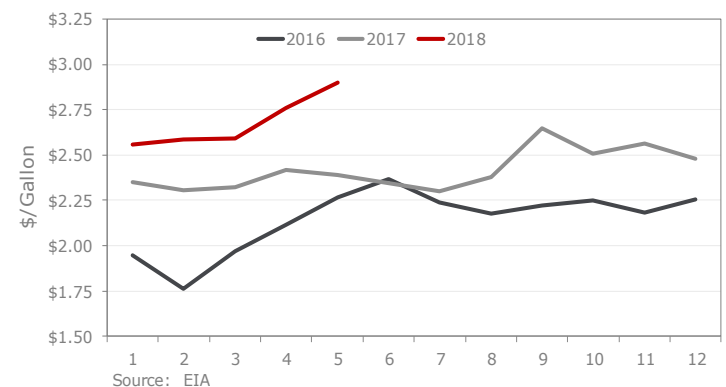
- Ammonia prices in the Corn Belt fell 7% in May with the market on the backside of the seasonal peak in demand for pre-plant application. Prices still were up 9% from last year.
- Urea prices in the Corn Belt seasonally declined 2% in May to an average of \$269/ton. This is 24% above the previous year as US imports from July to March were down 36%.

- DAP prices rose another 3% in May and are up 20% Y/Y. July through March imports were up 30% Y/Y, but this was not enough to offset the closure of a large plant in Florida.
- Potash prices in the Corn Belt showed little change in May, but were up 8% from the previous year as some production facilities have been closed in recent years due to low prices.

Diesel Fuel Prices



Gasoline Prices

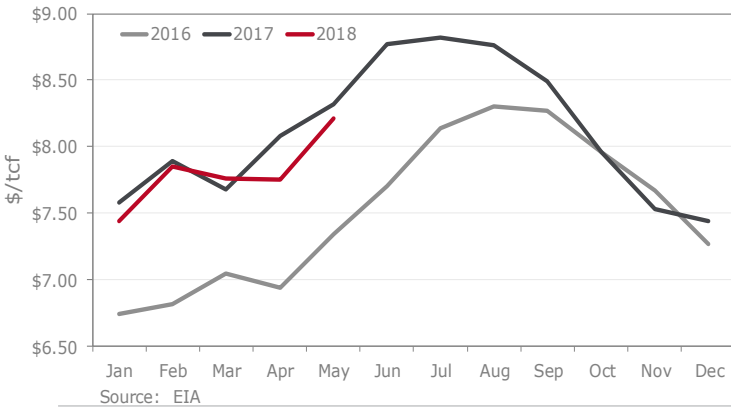


- The US average on-highway diesel price averaged \$3.24/gallon during May, up 5% from April and up 27% (\$0.68) Y/Y.

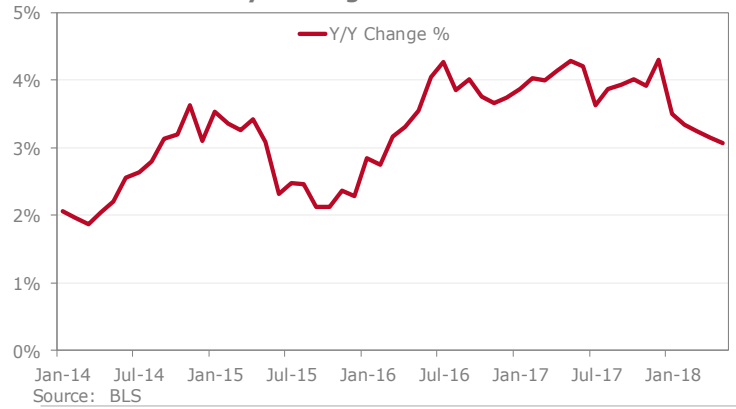
- Retail US gasoline prices averaged \$2.90 in May, which is up 5% from April and up 21% (\$0.51) from May 2017.

Energy and Labor: Current consensus as we head into the summer season is for oil prices to remain around \$68-\$70 a barrel.

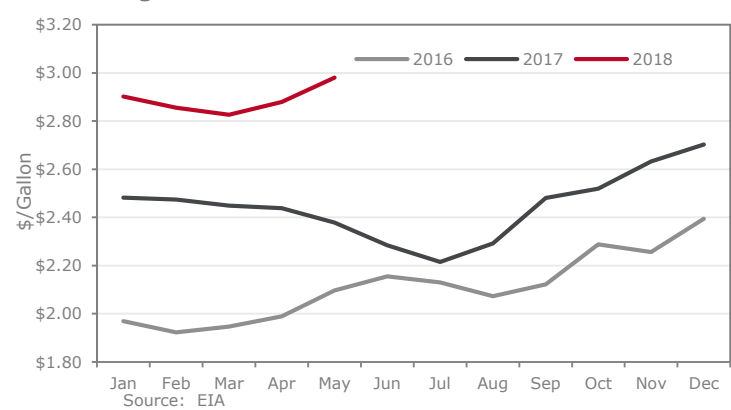
Natural Gas Retail Prices



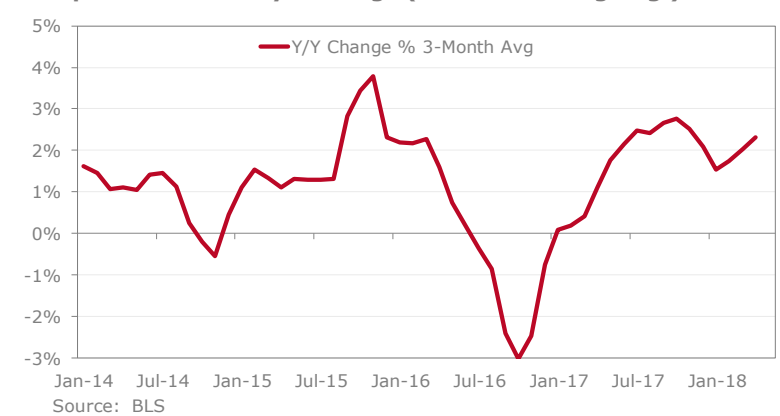
Restaurant Hourly Earnings



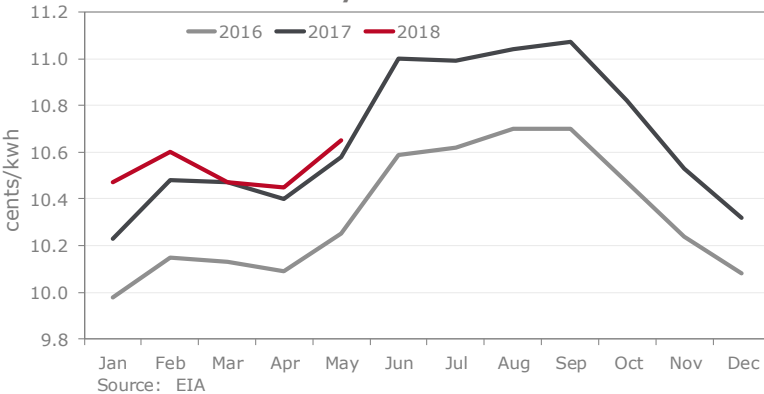
Heating Oil Retail Prices



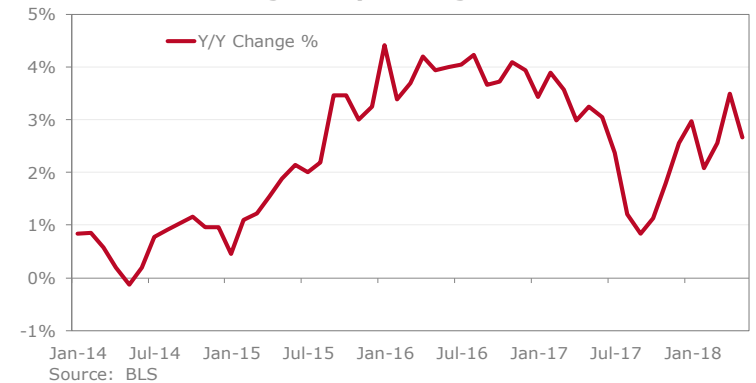
Supermarket Hourly Earnings (3-Month Rolling Avg.)



Commercial Electricity Prices



Food Manufacturing Hourly Earnings



- The May average natural gas price of \$8.21/Mcf decreased 6% vs. the prior month and decreased 1% vs. the prior year period.
- The May average heating oil price of \$2.98/gal increased 3% vs. the prior month and increased 25% vs. the prior year period.
- The May average electricity price of \$10.65/kWh increased 2% vs. the prior month and increased 1% vs. the prior year period.

- The restaurant labor index increased 3.1% Y/Y in May, and was up 0.4% vs. the prior month.
- The supermarket labor index increased 0.1% M/M in April, and up 2.4% Y/Y.
- The food manufacturing labor index increased 2.7% Y/Y in May, and was down 0.7% vs. the prior month.

Food and Agribusiness Industry Advisors

Kevin Bergquist
Forest Products Sector Manager
bergquk@wellsfargo.com
503-886-4148

David Branch
Specialty and Non-Grain Crops Sector Manager
david.e.branch@wellsfargo.com
704-410-8997

Matt Dusi
Specialty and Non-Grain Crops Sector Manager
matt.w.dusi@wellsfargo.com
559-203-2994

Scott Etzel
Protein - Seafood Sector Manager
etzel@wellsfargo.com
503-886-4164

Rob Fox
Dairy Sector Manager
robert.g.fox@wellsfargo.com
312-845-9743

Tim Luginsland
Grains and Oilseeds Sector Manager
luginstr@wellsfargo.com
913-234-2921

Lee Ann Pearce
Specialty and Non-Grain Crops Sector Manager
leeann.pearce@wellsfargo.com
559-331-0327

Matt Stommes
Protein - Poultry and Beef Sector Manager
matthew.j.stommes@wellsfargo.com
612-316-3724

Lon Swanson
Crop Inputs/Feed Sector Manager
lon.k.swanson@wellsfargo.com
913-234-2922

Ken Zuckerberg
Packaged Food and Ag/Food Tech Sector Manager
kenneth.s.zuckerberg@wellsfargo.com
551-217-2010

Karol Aure-Flynn
Specialty Crops Analyst, Analyst Team Lead
karol.aure-flynn@wellsfargo.com
559-622-3045

Chris Eggerman
Sector Analyst: Grains, Crop Inputs, Forest Products
chris.eggerman@wellsfargo.com
913-234-7702

Courtney Schmidt
Sector Analyst: Protein, Dairy
courtney.b.schmidt@wellsfargo.com
361-574-5207

Brad Rubin
Sector Analyst: Specialty and Non-Grain Crops
brad.rubin@wellsfargo.com
805-591-8316

Michael Swanson, Ph.D.
Chief Agriculture Economist
michael.j.swanson@wellsfargo.com
612-667-5136

Denise Cahill
Food and Agribusiness Industry Advisors Director
cahilldl@wellsfargo.com
559-622-3012

General disclosures

The views expressed are intended for Wells Fargo customers only. They present the opinions of the authors on prospective trends and related matters in food and agribusiness as of this date, and do not necessarily reflect the views of Wells Fargo & Co., its affiliates and subsidiaries. Opinions expressed are based on diverse sources that we believe to be reliable, though the information is not guaranteed and is subject to change without notice. This is not an offer to sell or the solicitation to buy or sell any security or foreign exchange product.