

Industry Update

Food and Agribusiness



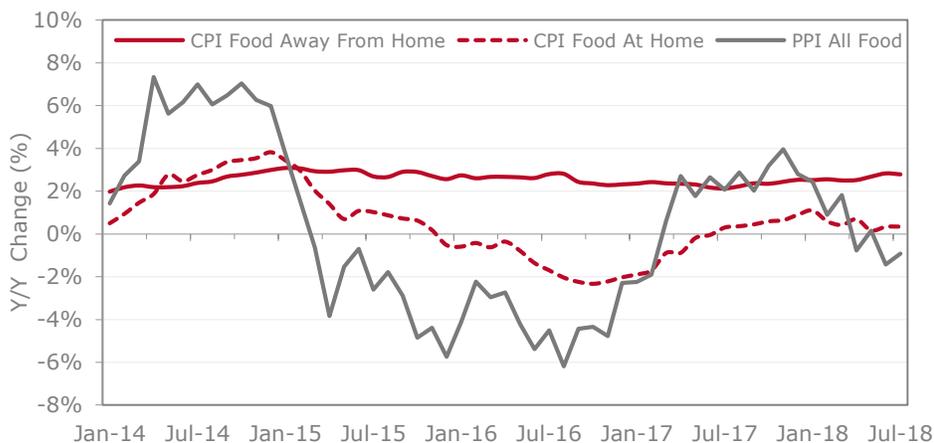
Key Demand Developments

- Real GDP grew at a strong 4.1% pace during the second quarter. The economic data not only showed the economy growing solidly, but that income growth has been much stronger over the past few years. Further, the second quarter's strength came from manufacturing's efforts to produce and ship products ahead of retaliatory tariffs. The resulting inventory draw-down pulled production forward and left inventories exceptionally lean throughout the supply chain. With the economy clearly showing strong momentum going into the second half of the year, estimates are that the GDP should be around a 3.0% pace for the next two quarters.
- Employment growth slowed in July, with employers adding only 157,000 new jobs. July's gain was below consensus, but came on the heels of a net upward revision of 59,000 to May and June. While healthcare, leisure and hospitality, and temporary employment posted notable gains, manufacturing stood out with 37,000 jobs added—the largest monthly increase this year. Non-farm payrolls have risen by an average of 215,000 per month through the first seven months of 2018, up from 185,000 Y/Y. Although July's growth was down, it was still strong enough to put downward pressure on the unemployment rate, which fell back to 3.9 percent in July.
- Stronger economic growth will likely keep the Fed on its current course of gradually nudging the federal funds rate higher. The Fed elected to remain on hold at its August meeting. Trade tensions continue to lurk in the background, but with inflation more or less at target and economic growth proving robust, current estimates are the Fed will hike twice more this year, in September and December.

Food Retail Sales

According to Nielsen, US Food Retail growth posted a slight increase in volume by dollars of .8% Y/Y while unit sales decreased -2.1 % Y/Y. While Nielsen reports scanner data covering food, convenience, discount, club, supercenters and drug stores, unit sales are not being measured from key players such as Costco and a rapidly evolving e-commerce channel. This may be contributing to downward pressure on movement and what appears to be static sales volume. Be alert to how sales channel transformation may not be presenting itself in the reported numbers.

Consumer and Producer Price Indices



Source: U.S. Bureau of Labor Statistics

Price and Food Inflation Developments

- The Producer Price Index (PPI All Food) continues to be steady, posting smallish growth of .9% Y/Y for July 2018. The spread between restaurant and food retail pricing is steady to slightly lower for the year, decreasing 5bps M/M for July 2018, yet still 102 bps higher than the Jan 2018 low. Over the 3-5 year period, these trends appear to be demonstrating less volatility in macroeconomic indicators as CPI and PPI are moving in a smaller channel.
- Restaurant pricing, measured by the CPI Food Away from Home index (CPI-FAFH), grew 2.8% Y/Y in July 2018, which is outpacing the CPI Food At Home index with .3% growth Y/Y. Both of these measurements remain steady over the last several months.

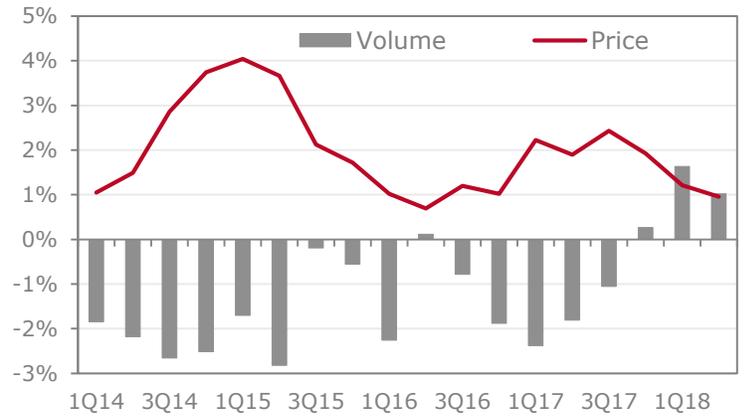
Grocery Department Trends: Frozen Food, Deli and Fresh Produce volumes showed Y/Y increases in 2Q'18. Dry Grocery, Dairy and Bakery volumes were below year-ago levels.

Dry Grocery



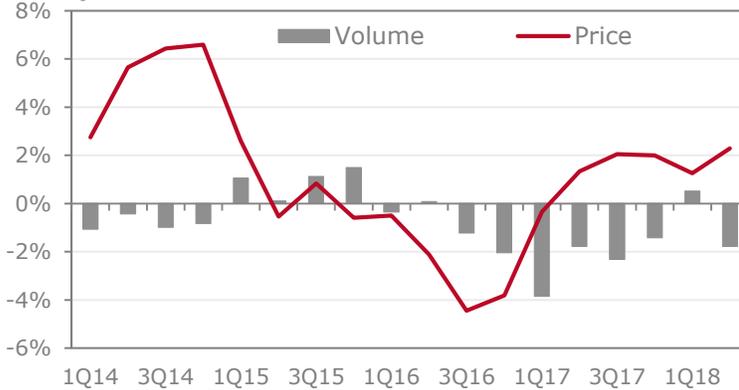
Source: Nielsen AOC+C

Frozen Foods



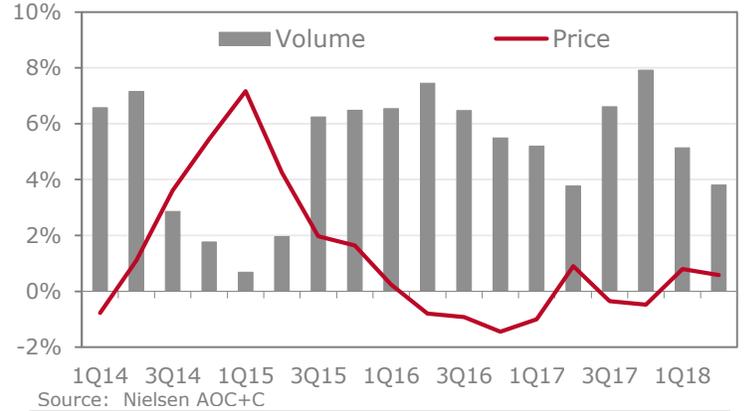
Source: Nielsen AOC+C

Dairy



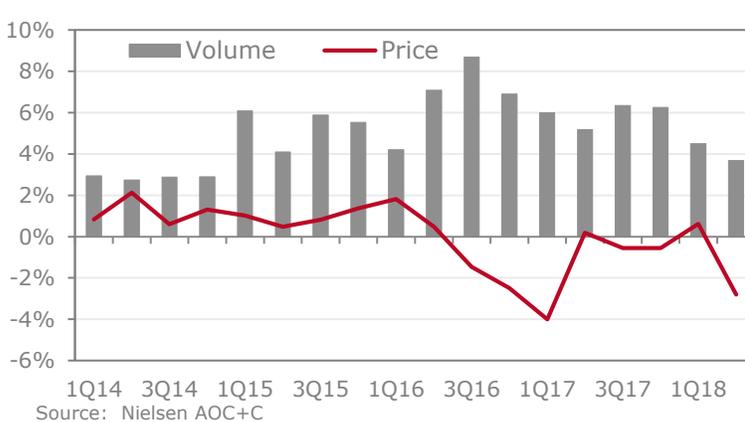
Source: Nielsen AOC+C

Deli



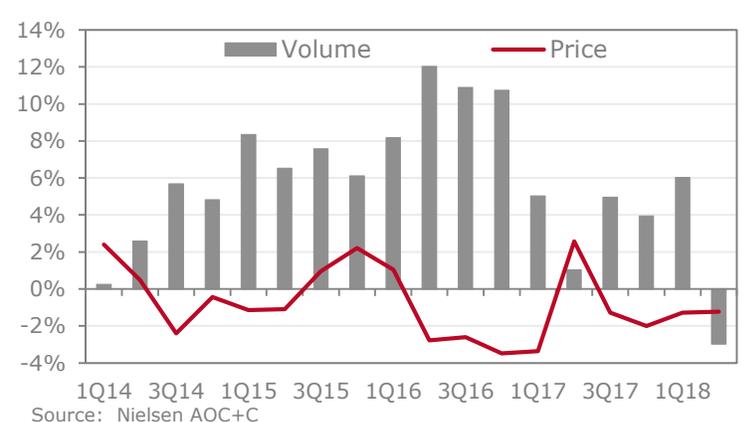
Source: Nielsen AOC+C

Fresh Produce



Source: Nielsen AOC+C

Bakery



Source: Nielsen AOC+C

- Dry Grocery 2Q'18 price/mix increased 1.5% Y/Y while Dry Grocery volumes decreased 1% Y/Y.
- Dairy 2Q'18 price/mix increased 2.3% Y/Y, while Dairy unit sales volume decreased 1.8% Y/Y.
- Fresh Produce 2Q'18 price/mix decreased 2.8% Y/Y. Fresh Produce volumes increased 3.7% Y/Y.

- Frozen Food 2Q'18 price/mix increased 1% Y/Y. Frozen Food volumes increased 1% Y/Y.
- Deli 2Q'18 price/mix increased 0.6% Y/Y, while Deli volumes increased 3.8% Y/Y.
- Bakery 2Q'18 price/mix decreased 1.2% Y/Y. Bakery volumes decreased 3% Y/Y.

Food Company Margin Heat Map Y/Y

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

Food Company Input Cost Summary: As we end 2Q'18 a large portion of commodities have shown moderate deflation vs. Q2'17 levels.

- **Economic Backdrop:** Economic activity continues to improve with Real GDP coming in at 4.1% for the second quarter. Although the economy only added 157,000 jobs in July, the jobless rate fell to 3.8% percent and wages rose 3.0% Y/Y on a nominal basis.
- **Corn, Wheat & Soybeans:** Grain prices saw support in July from wheat yield concerns and optimism about trade talks with Europe and China, but monthly average prices were below those from June due to low starting points.
- **Chicken:** National composite pricing continues higher YoY, however, most chicken parts prices have moved lower due to deflating prices of competing meats.
- **Beef:** Cattle prices seem to have bottomed out sooner than they did the previous 2 years and prices could move lower as large slaughter numbers are expected in the second half of 2018 which will likely cap any strong upward price momentum.
- **Pork:** New plants that opened in late 2017 are operating near capacity, continuing to increase pork supply and pressure prices.
- **Packer Margin Environment:** Packers have seen wide margins the past several years, however, expanding production will likely outpace demand.
- **Seafood:** Overall, 2018 Alaskan Pink Salmon landings are coming in significantly lower than the expected 50% normal. It will take time to fully understand the impacts of the new Chinese tariffs, but some species such as lobster are already seeing declines in shipments to China.
- **Dairy:** After seeing sharp price losses following the tariff announcements with Canada, Mexico, China, dairy markets began a partially price rebound this month.
- **Forest Products:** Framing lumber and structural panel prices dropped in July as high prices during the first half of the year and increasing interest rates appear to be slowing construction activity.
- **Crop Inputs:** Fertilizer prices increased narrowly in July, staying well above year-ago levels as supplies remain relatively tight. Fuel prices eased slightly in July, but still are 20-30% above last year.
- **Energy and Labor:** Current consensus as we head into the fall season is for oil prices to remain around \$68-\$70 per barrel.

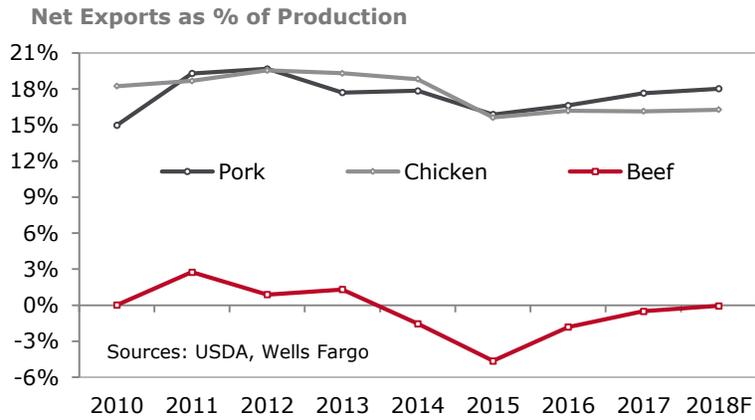
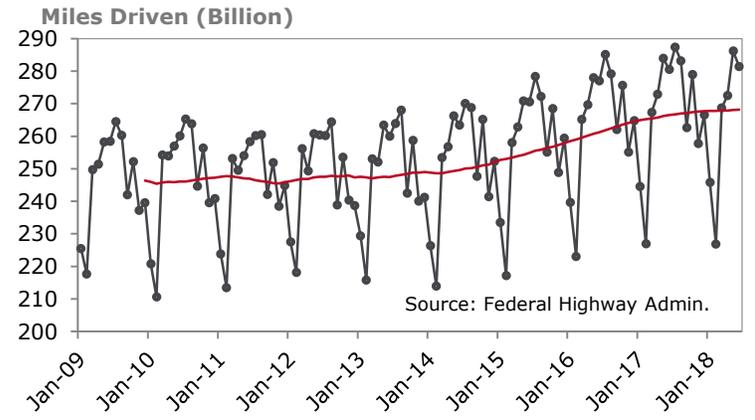
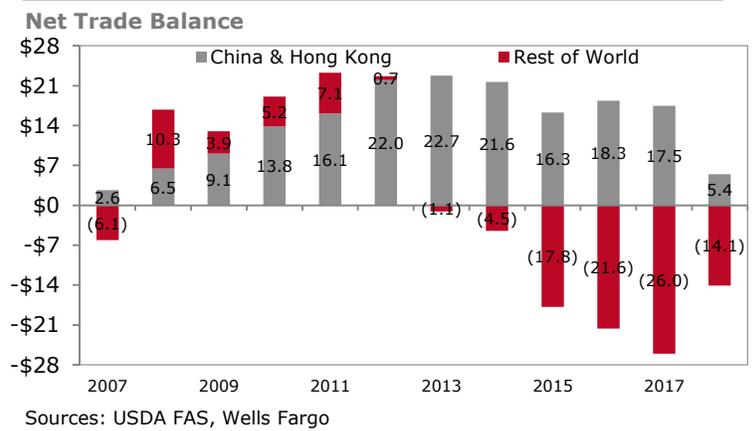
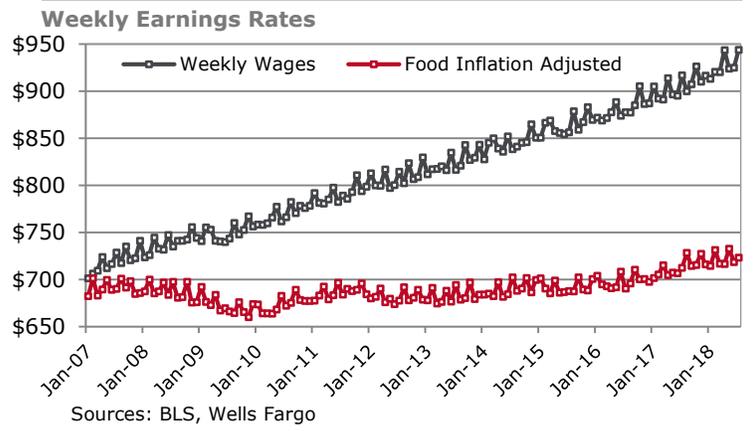
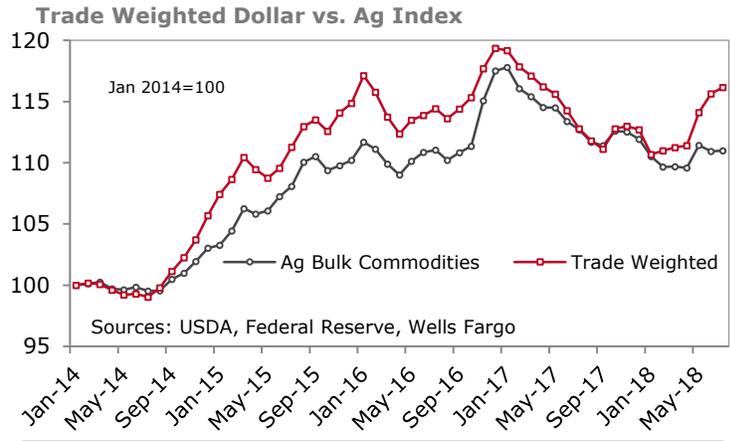
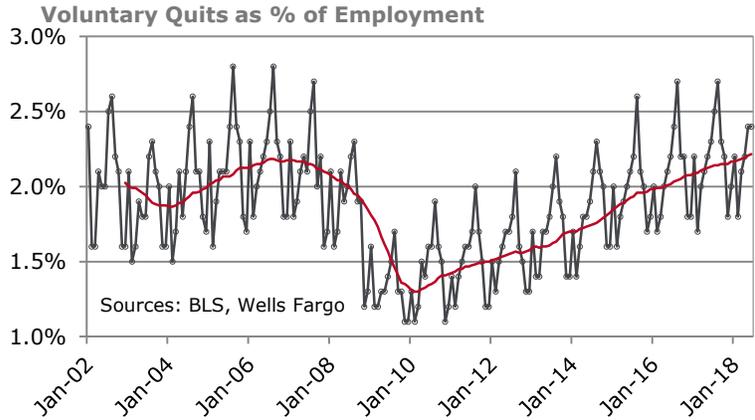
Key Commodity Heat Map			
Commodity	Price*	Y/Y	M/M
Corn	\$3.49	-8.6%	-4.7%
HRW Wheat	\$4.97	-3.6%	-2.6%
Soybeans	\$8.51	-14.3%	-8.4%
Broilers	\$1.11	+6.6%	-7.0%
Cattle	\$1.07	-7.3%	-0.5%
Hogs	\$0.74	-15.5%	-8.1%
Class III Milk	\$14.10	-8.7%	-7.3%
Shrimp	\$3.90	-16.6%	+1.4%
Salmon	\$5.55	-1.1%	-3.3%
Natural Gas	\$8.46	+1.7%	+10.3%
Electricity	\$10.44	+0.4%	-0.3%
Heating Oil	\$3.13	+37.1%	-0.0%
Restaurant Labor	\$13.87	+3.6%	+0.4%
Supermarket Labor	\$13.37	+2.6%	-0.6%
Food Labor	\$17.44	+3.4%	+0.6%

*All prices for July except natural gas (May), Electricity (April), heating oil (June) and supermarket labor (June)

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 \$/h
Sources: CBOT, USDA, Urner Barry, EIA, BLS

- **Fruit Crops:** Stone Fruit harvest wrapping up across most of the U.S. and table grape harvest moving into peak production. California farmers dealing with effects of severe heat during July, and wildfires across the state in August. Washington cherry season wrapping up this month and Apple harvest set to begin with projections for a slightly smaller crop than prior year. Supermarket shelves should begin to be less crowded as stone fruits and cherry volumes wind down. Strawberries continue to post record volumes on a weekly basis, and prices are soft due to the volume.
- **Nuts:** Almond, walnut and pistachio orchard irrigation was increased in response to the excessive high heat experienced in July. Sunburn protection was applied to some walnut groves. Almond hull split was underway, but reported to be slower than normal. South San Joaquin Valley is reporting some harvesting activities for Almonds. Pistachio nuts were progressing well in what is expected to be a high yield year (on year).
- **Wine:** Growers started experiencing veraison in July. Some growers are reporting an acceleration of ripening with the extended period of heat. Smoke taint from the Mendocino Fire has been a topic of discussion, with impact yet to be determined.

Economics: Economic activity continues to improve with Real GDP coming in at 4.1% for the second quarter. Although the economy only added 157,000 jobs in July, the jobless rate fell to 3.8% and wages rose 3.0% Y/Y on a nominal basis.

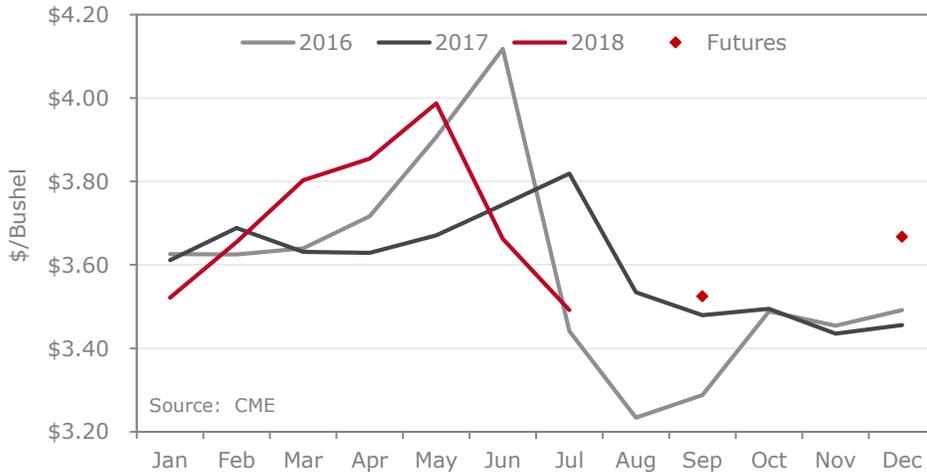


- June 2018 voluntary quits as a percentage of employment of 2.4% remained flat M/M and were up slightly from 2.2% in June 2017 due to continued strong employment gains.
- July 2018 weekly average earnings are growing 3.0% Y/Y on a nominal basis; when deflated by food and beverage CPI the July 2018 average wage of \$746/week increased 1.8% Y/Y driven primarily by continued labor shortages.
- June 2018 miles driven of 281 billion were up 0.3% Y/Y as stronger consumer spending offset significantly higher gas (shown in chart on page 16).

- The July 2018 trade weighted dollar index value of 116.16 vs. bulk commodity dollar index value of 110.98 continues to widen when compared to the June 2018 values of 115.64 and 110.95, respectively.
- The net trade balance for YTD June 2018 of -14.1 billion represents a significantly larger trade deficit vs. the -4.8 billion trade deficit for the 5-months ending May 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 6 months ending June 2018, while the U.S. was a small net importer of beef.

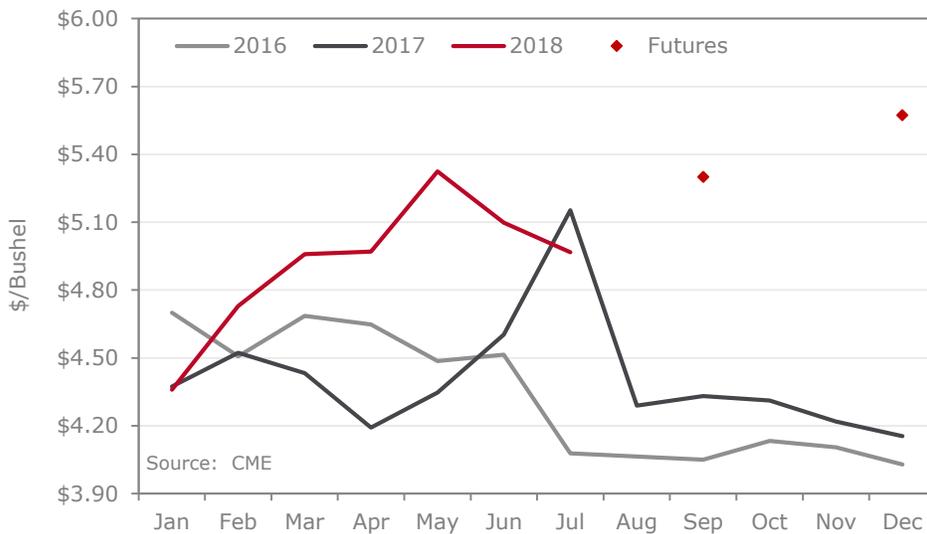
Grain Prices: Grain prices saw support in July from wheat yield concerns and optimism about trade talks with Europe and China, but monthly average prices were below June due to low starting points.

Corn



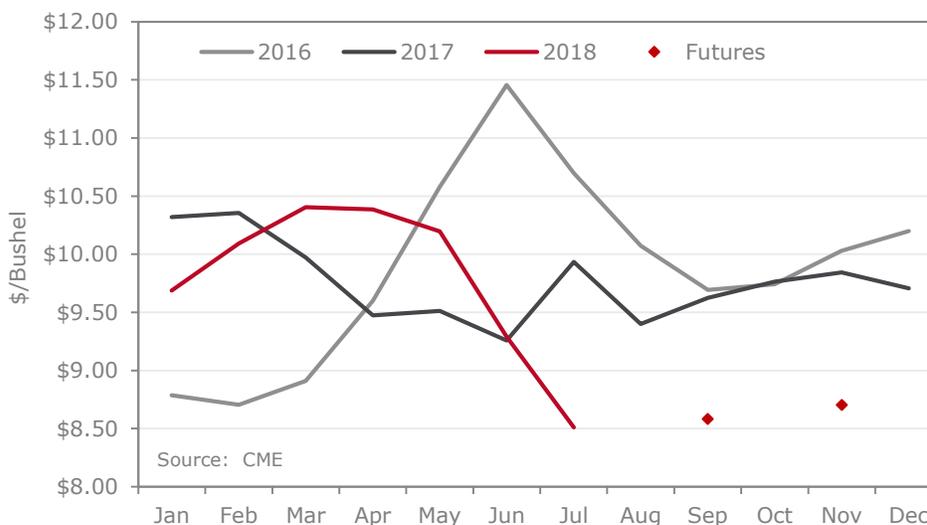
- Nearby corn futures averaged \$3.49 per bushel in July, down 17 cents from June and 33 cents from July 2017.
- Weakness in soybean prices resulting from the trade war continued to weigh on corn futures in early July. However, gains in wheat and soybean prices helped the corn market turn higher during the second half of the month.
- USDA forecasts world corn production to rise 3% in 2018/19 on increases for South America, China and Ukraine, but world stocks are forecast to drop 20% to the lowest level in six years with usage exceeding production.

Wheat



- Nearby Kansas City wheat futures averaged \$4.97 per bushel in July. This was down 13 cents from June, and down 19 cents from July 2017.
- Though the July average price was down from June due to a low starting point, futures moved higher for most of the month on declining yield expectations in Europe, Russia and Ukraine, and low yield estimates on the U.S. spring wheat tour.
- USDA projects global wheat production to fall 4% in 2018/19 with large declines in Russia and the EU more than offsetting small increases in Canada and the U.S. Global stocks are forecast to decline 5% after increasing five straight years to a record level.

Soybeans



- Nearby soybean futures averaged \$8.51 in July, down 78 cents from June and the lowest in 11 years.
- Weakness ahead of the July 6 increase in China's tariff on U.S. soybeans was followed by firmer prices on thoughts that the market was oversold, indications Europe will import more U.S. soybeans, and thoughts that trade talks with China may resume.
- USDA is forecasting world soybean production to rise 9% in 2018/19 on an assumed rebound in Argentina's crop and an increase in the U.S. World ending stocks are projected to increase 11% to a new record.

Grain Fundamentals: USDA projects U.S. corn and wheat ending stocks to decline in 2018/19 from large levels in 2017/18. Soybean stocks are seen rising to a record level on a record crop and smaller exports.

Corn

	2016/17	2017/18F	2018/19F	2018/19F	M/M Change	Y/Y Change
		August	July	August	18/19 Forecast	18/19 Forecast
Area Planted (mm)	94.0	90.2	89.1	89.1	0.0	-1.1
Area Harvested	86.7	82.7	81.8	81.8	0.0	-0.9
Yield per Harvested Acre (bu)	174.6	176.6	174.0	178.4	4.4	1.8
Beginning Stocks (mm bu)	1,737	2,293	2,027	2,027	0	-266
Production	15,148	14,604	14,230	14,586	356	-18
Imports	57	40	50	50	0	10
Total Supply	16,942	16,937	16,307	16,664	357	-273
Feed and Residual	5,470	5,450	5,425	5,525	100	75
Food, Seed & Industrial	6,885	7,060	7,105	7,105	0	45
Ethanol	5,432	5,600	5,625	5,625	0	25
Total Domestic	12,355	12,510	12,530	12,630	100	120
Exports	2,294	2,400	2,225	2,350	125	-50
Total Use	14,649	14,910	14,755	14,980	225	70
Ending Stocks	2,293	2,027	1,552	1,684	132	-343
Stocks to Use (%)	15.7%	13.6%	10.5%	11.2%	0.7%	-2.4%
Average Farm Price (\$/bu)	\$3.36	\$3.40	\$3.80	\$3.60	-\$0.20	\$0.20

Source: USDA WASDE

Wheat

	2016/17	2017/18F	2018/19F	2018/19F	M/M Change	Y/Y Change
		August	July	August	18/19 Forecast	18/19 Forecast
Area Planted (mm)	50.1	46.0	47.8	47.8	0.0	1.8
Area Harvested	43.9	37.6	39.6	39.6	0.0	2.0
Yield per Harvested Acre (bu)	52.7	46.3	47.5	47.4	-0.1	1.1
Beginning Stocks (mm bu)	976	1,181	1,100	1,100	0	-81
Production	2,309	1,741	1,881	1,877	-4	136
Imports	118	157	135	135	0	-22
Total Supply	3,402	3,079	3,117	3,112	-5	33
Food	949	964	965	970	5	6
Seed	61	64	62	62	0	-2
Feed and Residual	161	48	130	120	-10	72
Total Domestic	1,171	1,077	1,157	1,152	-5	75
Exports	1,051	901	975	1,025	50	124
Total Use	2,222	1,978	2,132	2,177	45	199
Ending Stocks	1,181	1,100	985	935	-50	-165
Stocks to Use (%)	53.2%	55.6%	46.2%	42.9%	-3.3%	-12.7%
Average Farm Price (\$/bu)	\$3.89	\$4.73	\$5.00	\$5.10	\$0.10	\$0.37

Source: USDA WASDE

Soybeans

	2016/17	2017/18F	2018/19F	2018/19F	M/M Change	Y/Y Change
		August	July	August	18/19 Forecast	18/19 Forecast
Area Planted (mm)	83.4	90.1	89.6	89.6	0.0	-0.5
Area Harvested	82.7	89.5	88.9	88.9	0.0	-0.6
Yield per Harvested Acre (bu)	52.0	49.1	48.5	51.6	3.1	2.5
Beginning Stocks (mm bu)	197	302	465	430	-35	128
Production	4,296	4,392	4,310	4,586	276	194
Imports	22	22	25	25	0	3
Total Supply	4,515	4,715	4,800	5,040	240	325
Crushings	1,899	2,040	2,045	2,060	15	20
Exports	2,174	2,110	2,040	2,060	20	-50
Seed	105	104	103	103	0	-1
Residual	35	32	32	33	1	1
Total Use	4,213	4,286	4,220	4,256	36	-30
Ending Stocks	302	430	580	785	205	355
Stocks to Use (%)	7.2%	10.0%	13.7%	18.4%	4.7%	8.4%
Average Farm Price (\$/bu)	\$9.47	\$9.35	\$9.25	\$8.90	-\$0.35	-\$0.45

Source: USDA WASDE

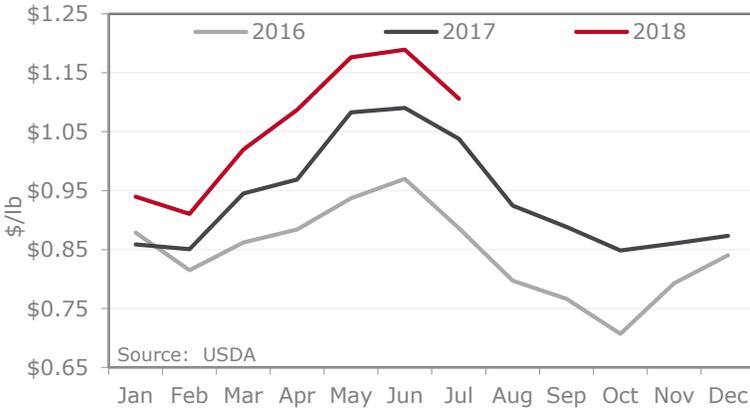
- In its first survey-based forecast of 2018 U.S. corn production, USDA pegged the crop at 14.6 billion bushels. This is essentially unchanged from 2017 with a record yield of 178.4 bushels per acre offsetting smaller acreage. However, this is up 356 million bushels from USDA's July forecast.
- USDA's 2018/19 carryout projection was raised 132 million bushels to 1,684 million as the larger crop was partly offset with increases of 100 million bushels in feed and residual usage, and 125 million in exports.
- The implied stocks-to-use ratio of 11.2% would be the lowest in five years.

- USDA estimated the 2018 U.S. wheat crop at 1,877 million bushels in August. This was down slightly from its July estimate, but up 136 million bushels from 2017 with increases in spring wheat and durum more than offsetting a decline in hard red winter wheat.
- USDA's 2018/19 carryout projection was cut 50 million bushels, mainly due to a larger export forecast prompted by a smaller production estimate for the EU.
- The implied stocks-to-use ratio of 43% still reflects ample supplies.
- USDA raised its 2018/19 farm price forecast \$0.10 to \$5.10.

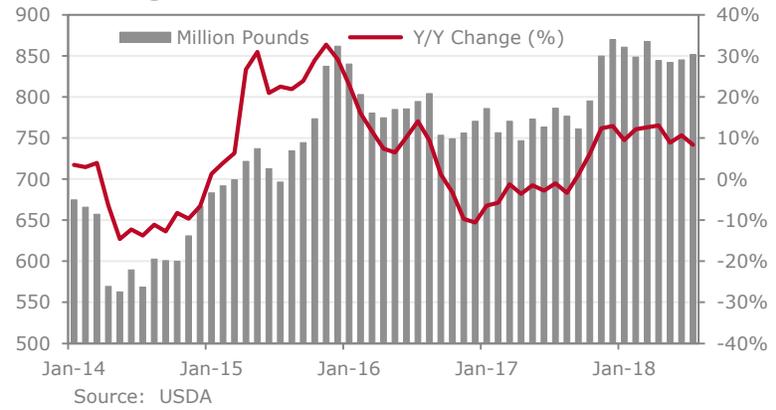
- USDA cut its 2017/18 soybean carryout 35 million bushels in August on further increases to exports and the crush.
- USDA forecast the soybean yield at 51.6 bushels per acre for record-large crop of 4,586 million bushels.
- Projected 2018/19 ending stocks jumped to 785 million bushels with the larger crop dwarfing the smaller carry-in and moderate increases in usage. This would be a record by more than 200 million bushels, while the stocks-to-use ratio would be the second largest in 32 years.
- USDA lowered its 2018/19 average farm price forecast \$0.35 from July to \$8.90.

Chicken: National composite pricing continues higher YoY, however, most chicken parts prices have moved lower due to deflating prices of competing meats.

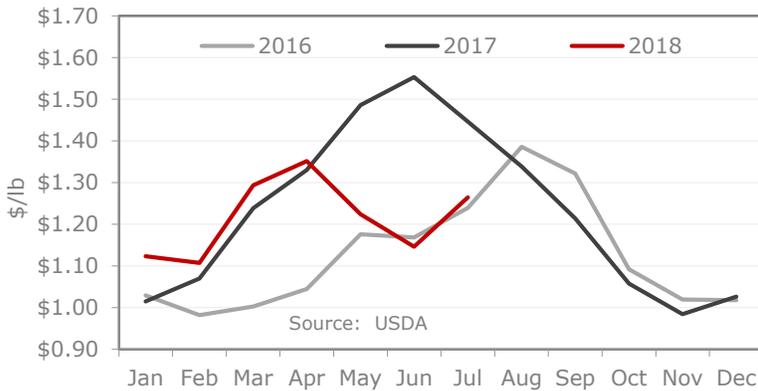
Whole Broiler Prices



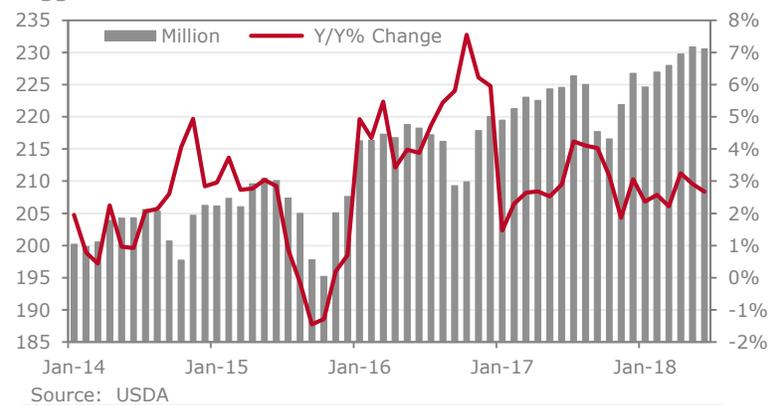
Cold Storage Inventories



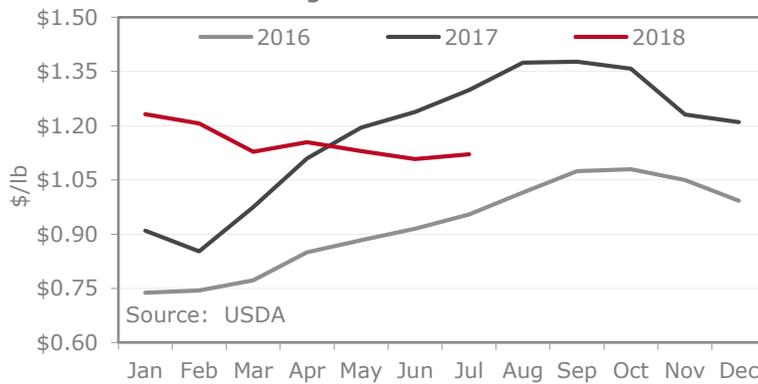
Boneless Skinless Breast Prices



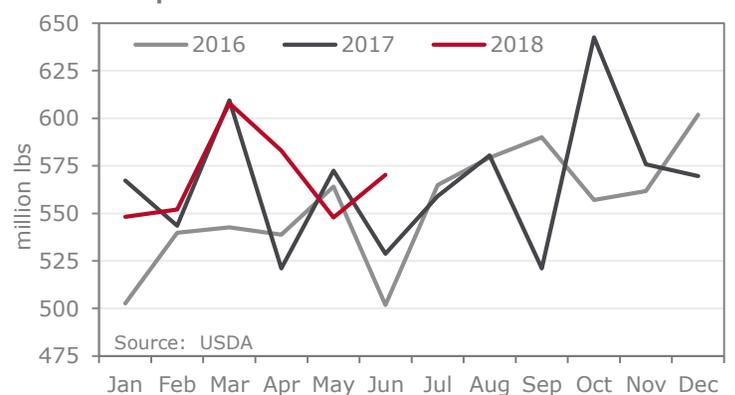
Egg Sets



Boneless Skinless Thigh Prices



Broiler Exports

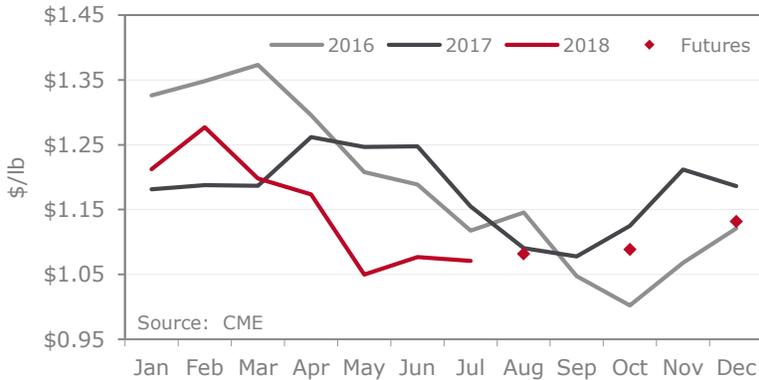


- The July USDA broiler price of \$1.11/lb. decreased 7% vs. the prior month and increased 7% vs. July 2017. Seasonality resulted in the decrease over the previous month, while stronger demand for smaller whole chickens resulted in the increase in pricing last year.
- The July average breast price of \$1.26/lb. increased 10% vs. the prior month and decreased 13% vs. July 2017. This increase over the previous month could have been due to an increase in demand due to low pricing.
- The July average thigh price of \$1.12/lb. increased 1% vs. the prior month and decreased 14% vs. July 2017.

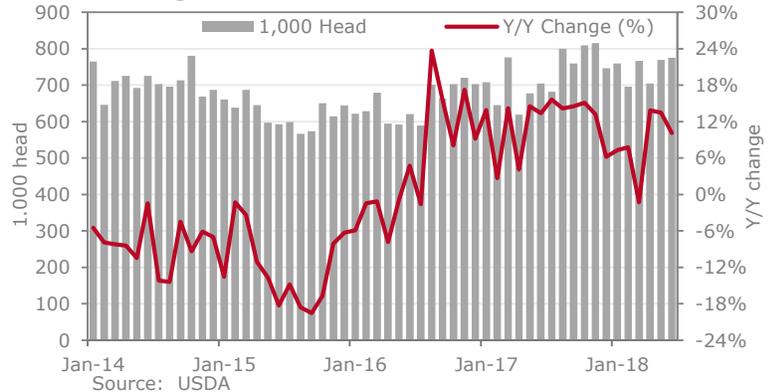
- Most individual wholesale cuts are continuing to see lower pricing YoY, but the National Composite Weighted Average continues to be higher YoY due to the price strength in whole birds.
- The broiler industry is likely benefiting from lower hatchability rates, continuing to keep margins profitable.
- Chicken processing plants currently under construction will start-up throughout 2019 and could decrease chicken prices significantly during the second half of 2019.

Beef: Cattle prices seem to have bottomed out sooner than they did the previous 2 years and prices could move lower as large slaughter numbers are expected in the second half of 2018 which will likely cap any strong upward price momentum.

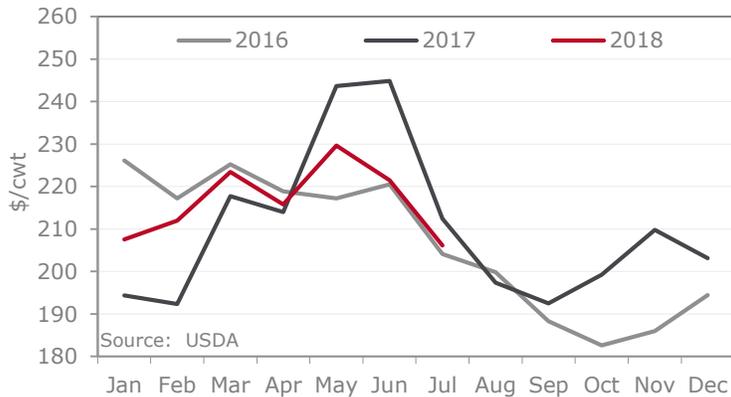
Live Cattle Prices



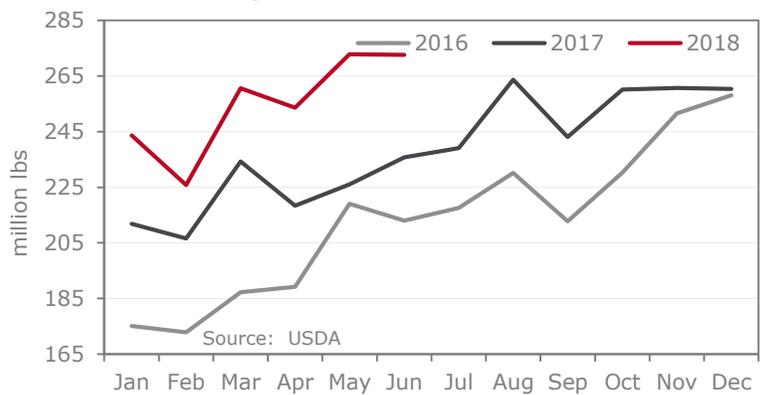
Heifer Slaughter



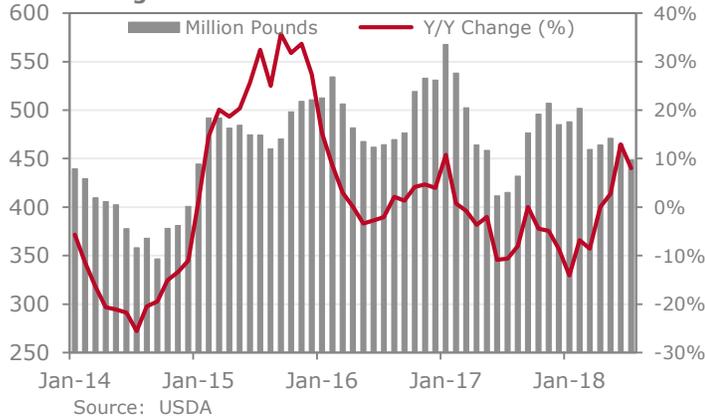
Cut Out Values



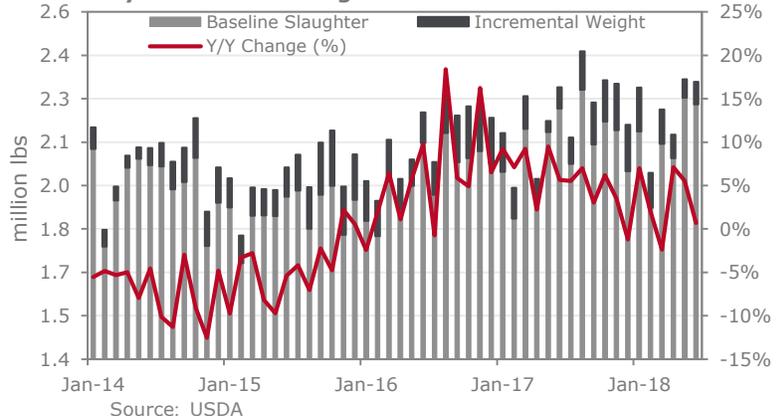
Beef and Veal Exports



Cold Storage Inventories



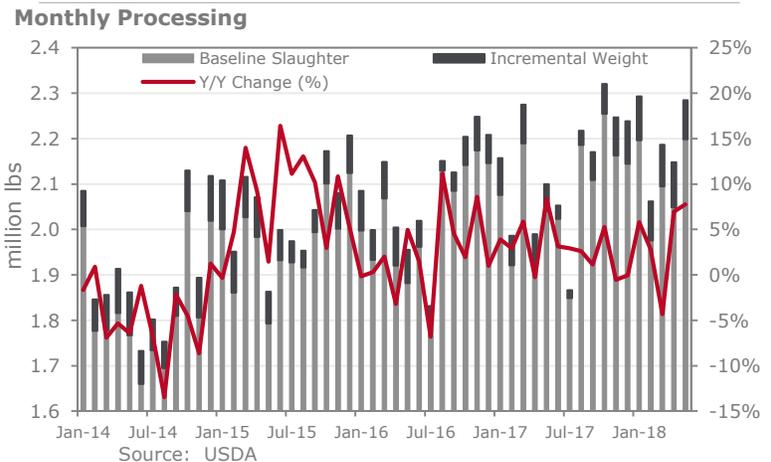
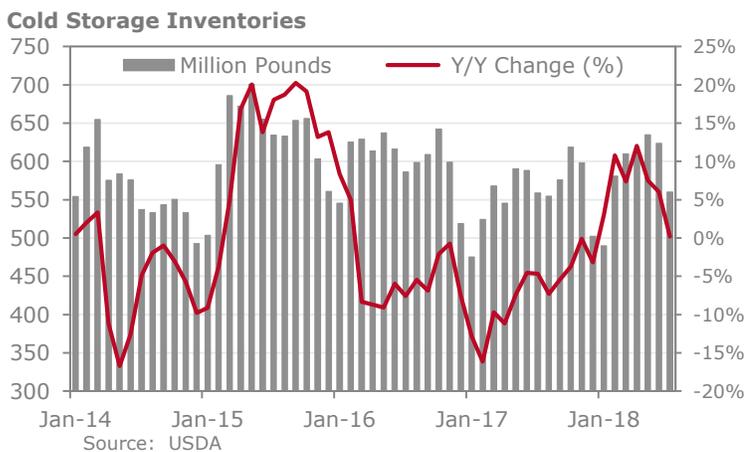
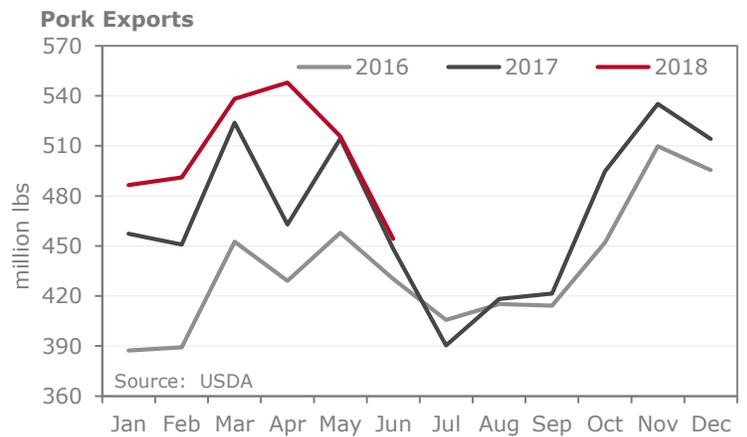
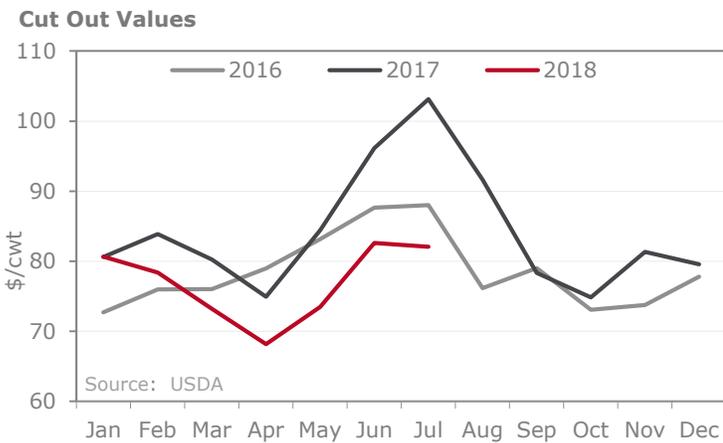
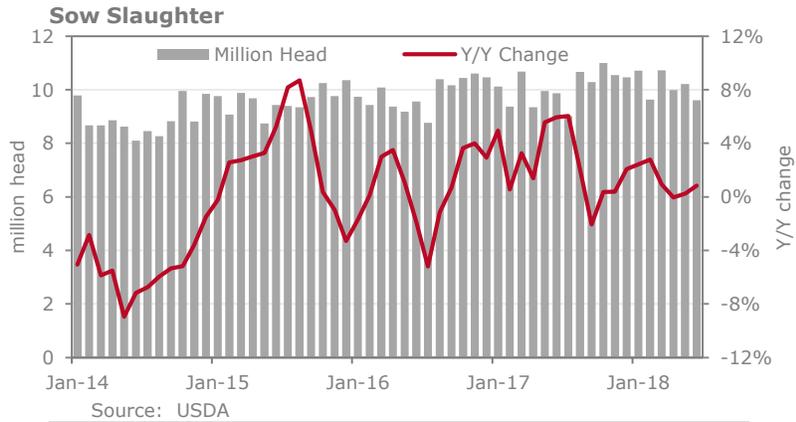
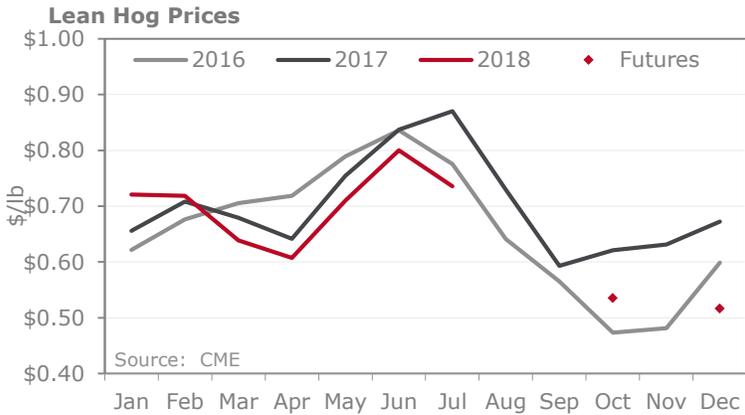
Monthly Cattle Processing



- Nearby live cattle futures prices averaged \$1.07/lb. in July. This was down 1% from June, but was down 7% from July 2017. Limited slaughter space is giving packers even more leverage due to high cattle supplies.
- The July average beef cut-out value decreased 7% vs. the prior month and was down 3% from July 2017.
- It is possible we will see even lower cattle prices in the second half of 2018 due to slow cattle slaughter expansions and higher cattle marketing rates.

- Beef pricing appears to be benefiting from an increase in retail promotional activity. Strong exports are also helping to keep the cutout from decreasing even further.
- Beef prices are being impacted by high seafood pricing. Without promotional activity and high seafood pricing, beef prices would be even lower.
- Wholesale beef prices have decreased minimally Y/Y, considering the overall 3% increase in beef production thus far in 2018.

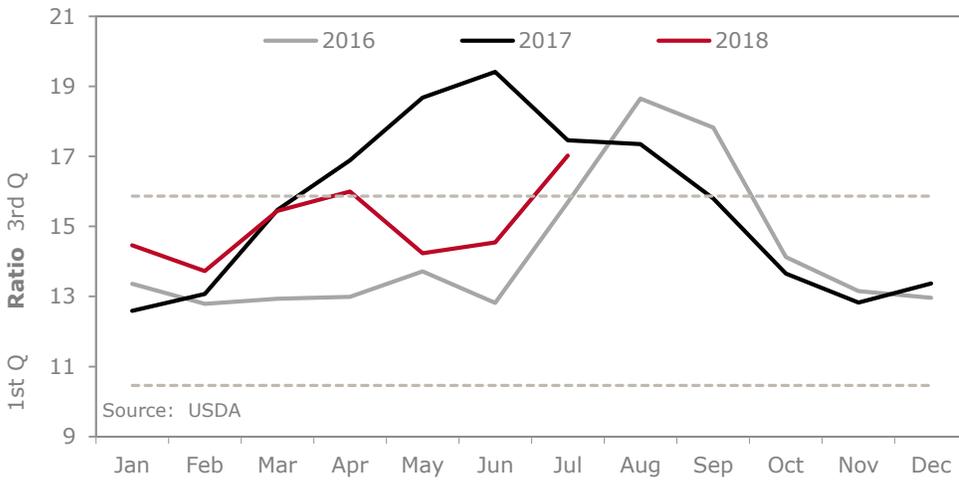
Pork: New plants that opened in late 2017 are operating near capacity, continuing to increase pork supply and pressure prices.



- Nearby lean hog futures averaged \$0.74/lb. in July. This is down 8% from June, and down 15% Y/Y. Lower pork prices and slow ramp-ups at new pork packing plants are pushing hog prices down further.
- The average cut-out value decreased 1% in July, and was down 20% Y/Y. Exports are beginning to feel impacts from growing pork supplies in China and retaliatory tariffs from Mexico and China.
- Barrows gilts and wholesale pork prices have seen increased volatility and pressure from potential trade changes with China and Mexico.
- Hog futures are trading much lower through end of 2018, but early 2019 see a lift, likely from an expected opening of the new Prestage plant in Eagle Grove, IA, which the market anticipates will cause packers to pay more for hogs in order to fill excess capacity.
- Several large slaughter plants are ramping up in the Midwest which is creating even more challenging labor conditions in the region.

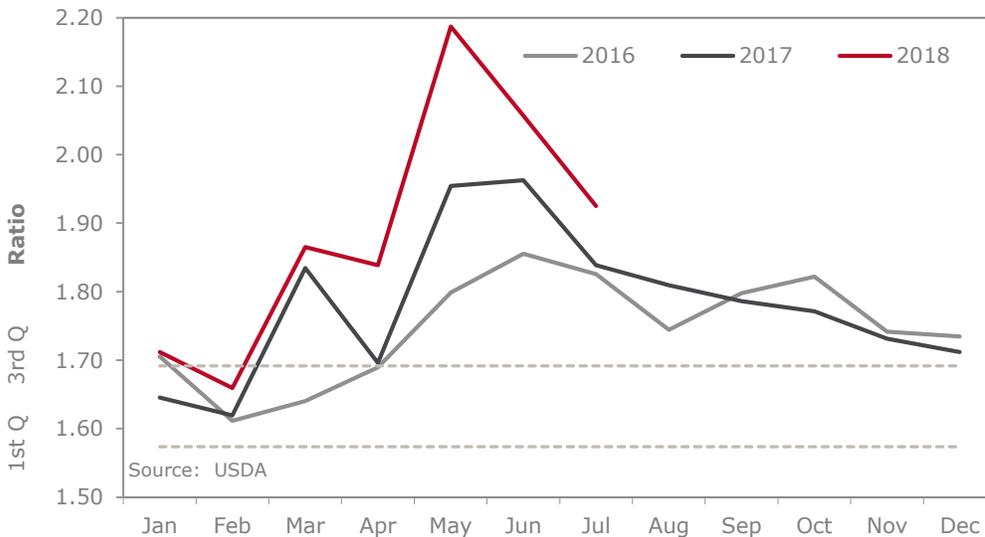
Packer Margin Environment: Packers have seen wide margins the past several years, however, expanding production will likely outpace demand.

Chicken



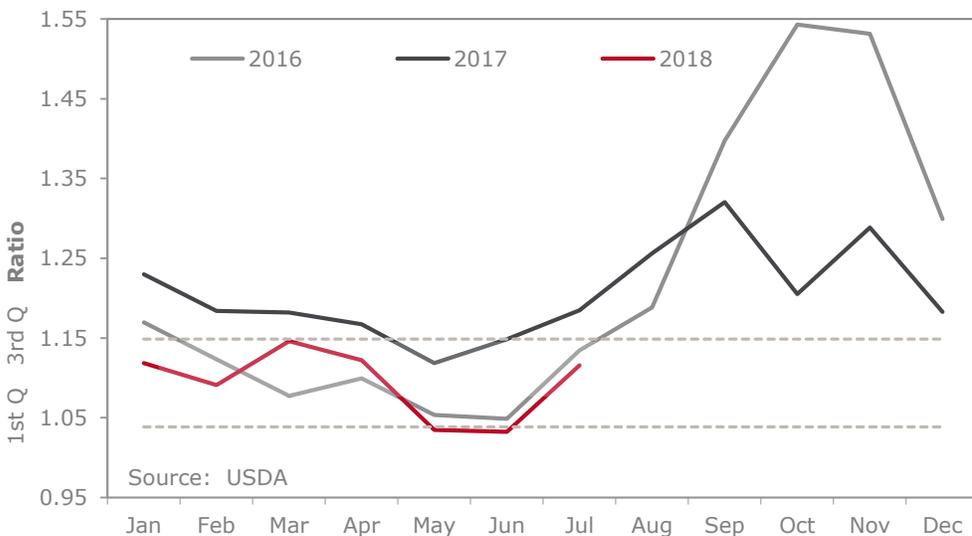
- Chicken margins are getting squeezed by higher labor and trucking costs.
- The chicken industry will likely see lower margins the next several years due to expanding slaughter space in the industry.
- Turkey, the 4th largest meat industry, continues to see low pricing, which is likely adding price pressure on chicken.

Beef



- Beef margins remain high, partially due to very little expansion in the fed-beef slaughter industry.
- Though it is building slower than the last several years, the cattle herd is still increasing in numbers and providing ample supplies for beef packers.

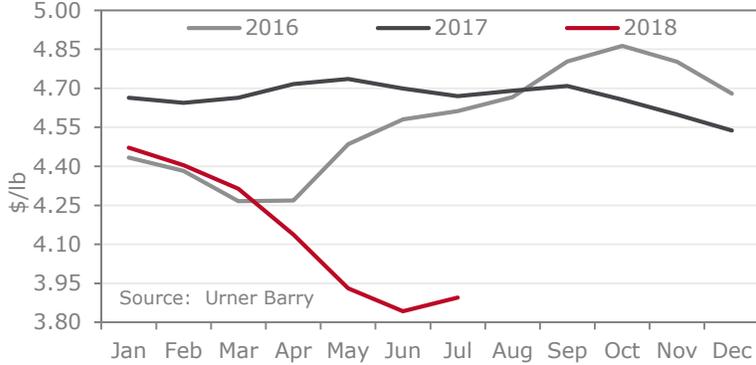
Pork



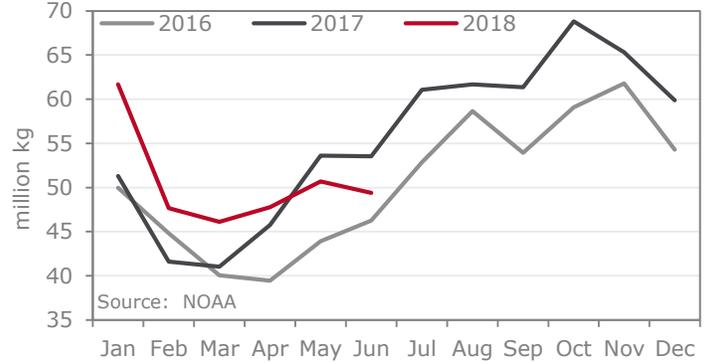
- Pork margins are getting squeezed by higher labor and trucking costs.
- Turkey is likely adding price pressure on pork.
- The pork packing industry is already seeing tighter margins due to expanding slaughter space in the industry.

Seafood: Overall, 2018 Alaskan Pink Salmon landings are coming in significantly lower than the expected 50% normal. It will take time to fully understand the impacts of the new Chinese tariffs, but some species such as lobster are already seeing declines in shipments to China.

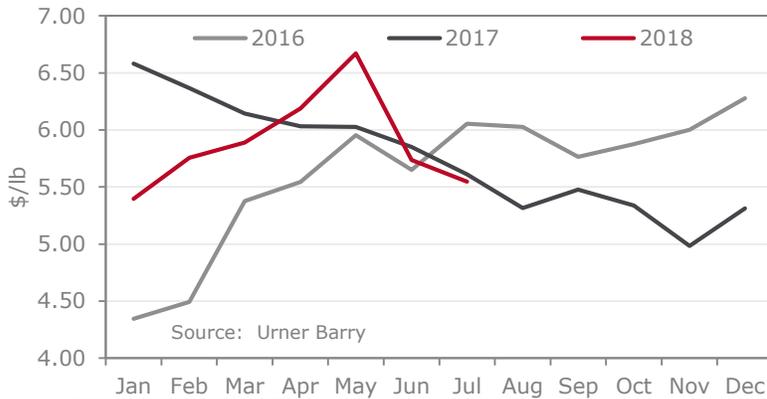
Urner Barry Farm-Raised White Shrimp Index



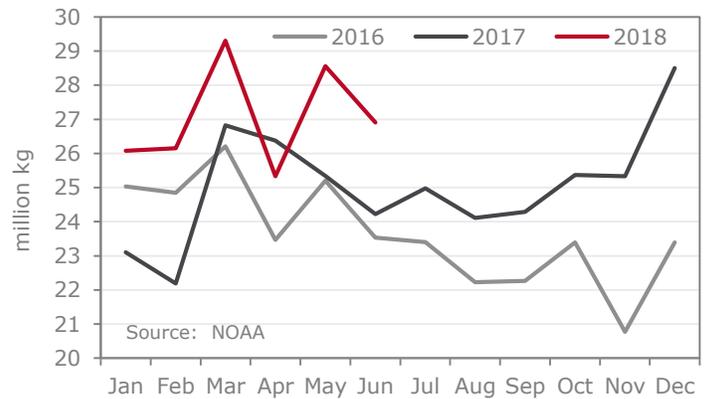
Shrimp Import Volume



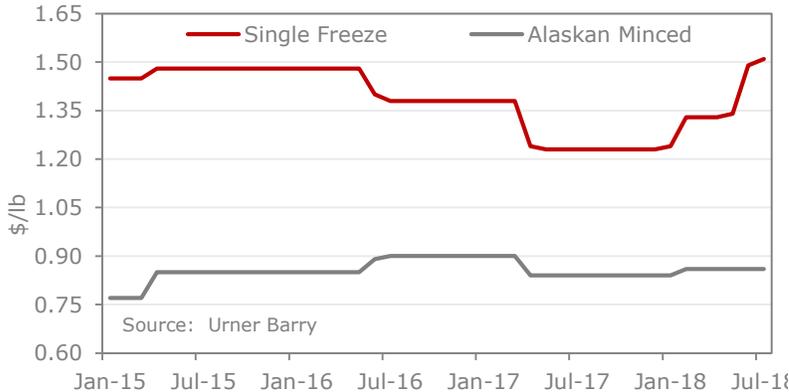
Urner Barry Fresh Farmed Salmon Index



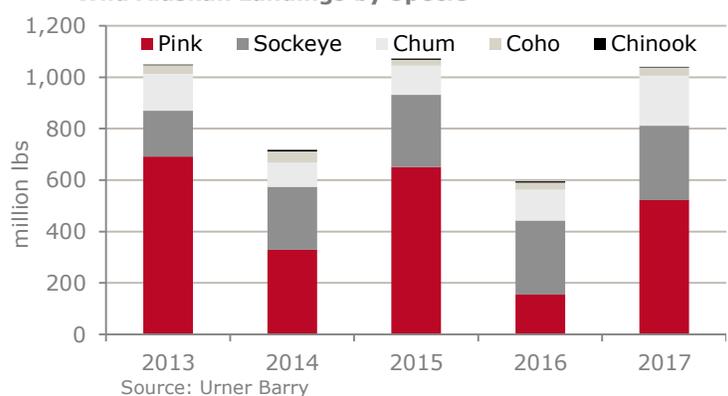
Atlantic Salmon Import Volume



Alaskan Pollock



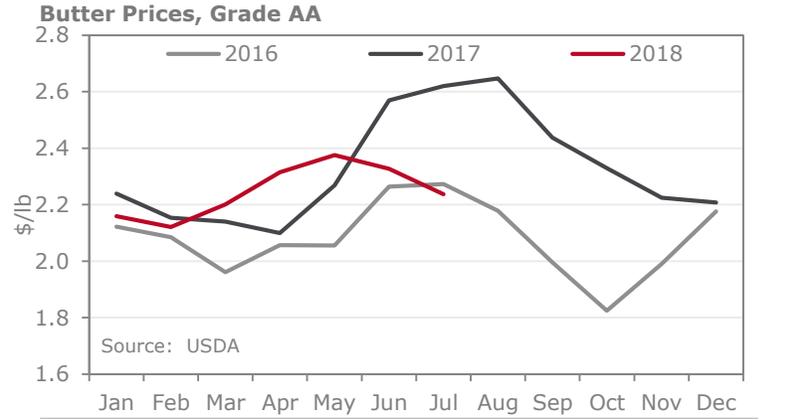
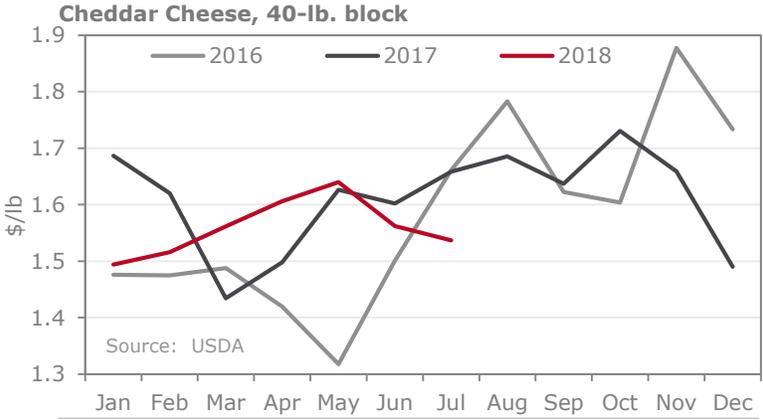
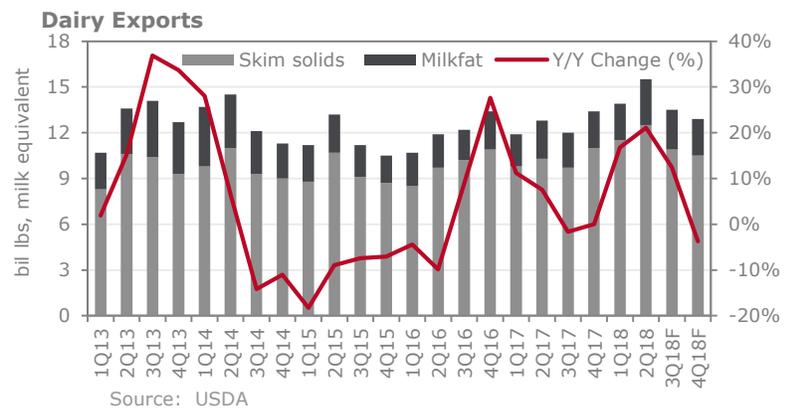
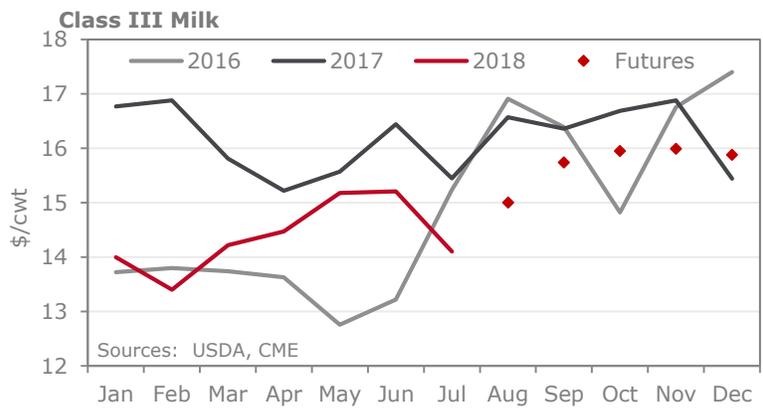
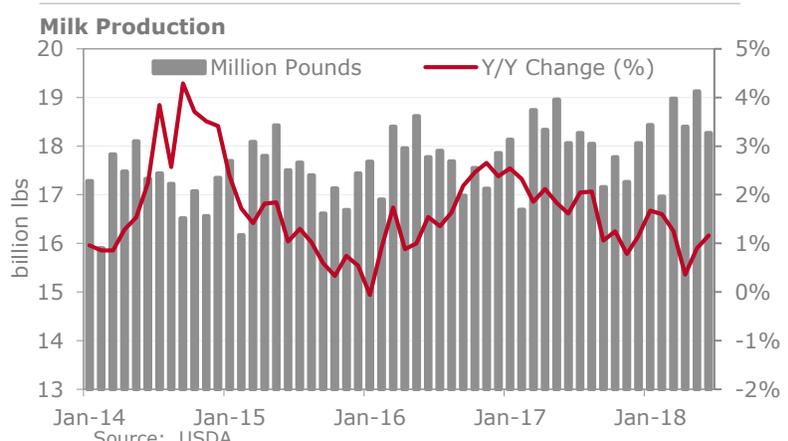
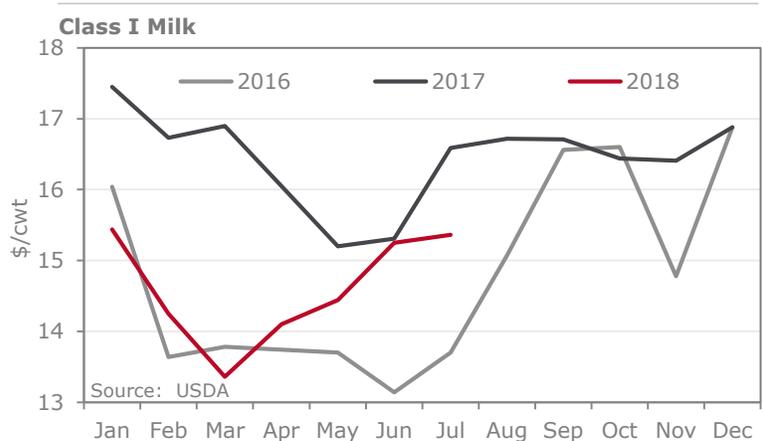
Wild Alaskan Landings by Specie



- The UB farm-raised white shrimp index in July was \$3.90/lb., down 17% Y/Y. YTD '18 shrimp imports are 669MM lbs.
- The UB fresh-farmed salmon index dropped 3% in July to \$5.55/lb., which is down 1% Y/Y. YTD Atlantic salmon imports through May totaled 358MM lbs.
- Single Freeze Alaskan Pollock prices jumped to \$1.51/lb. in July. Alaskan Minced Pollock prices stayed flat at \$0.86/lb.
- June shrimp imports of 49.4 million kg were down 3% from May, and down 8% from June 2017. Atlantic salmon imports of 26.9 million kg were down 6% M/M and up 11% Y/Y.

- Although a couple of areas, such as Bristol Bay have experienced great Alaskan salmon landings, most areas have been disappointing. Overall, Alaska's fleets have logged less than half of the 2018 estimated harvest during the on-going season.
- The overall impacts of the US/China tariff war will take time to develop and fully understand. Salmon, cod, and pollock are the largest seafood sectors that ship product to China for reprocessing for export back to the US. China is an important consumer of US lobster and pacific squid.
- Pollock, cod prices remain strong on demand, but could be hurt by the US/China trade battle, especially if the US moves forward with the proposed 25% tariff on seafood imported from China.

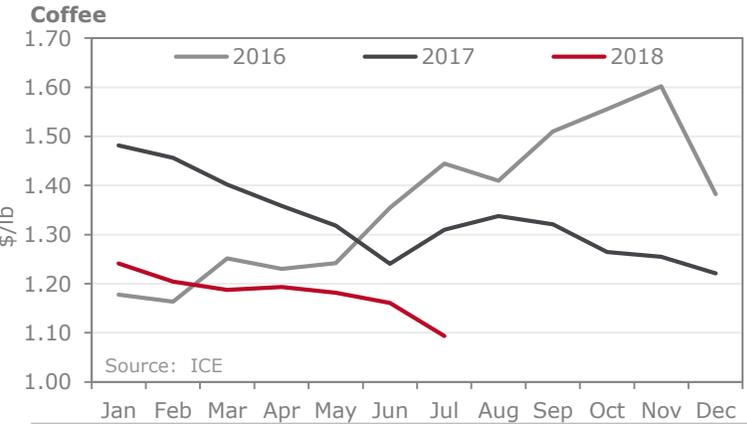
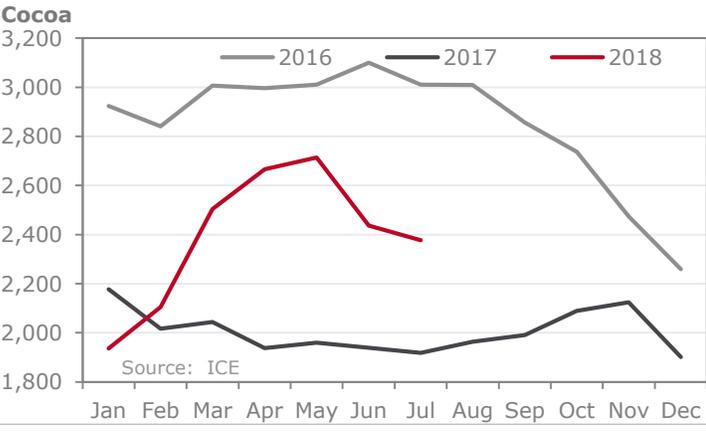
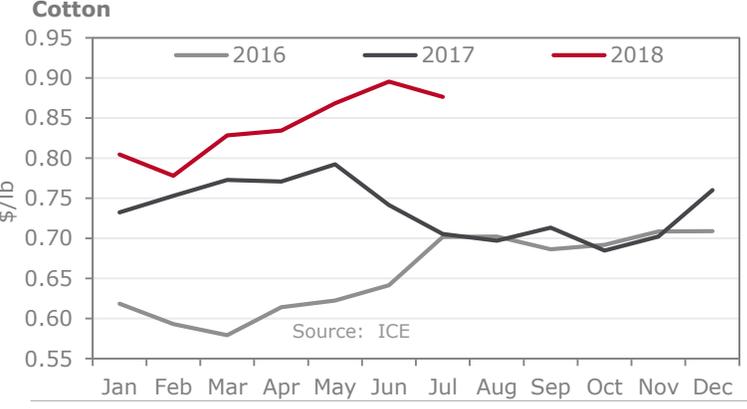
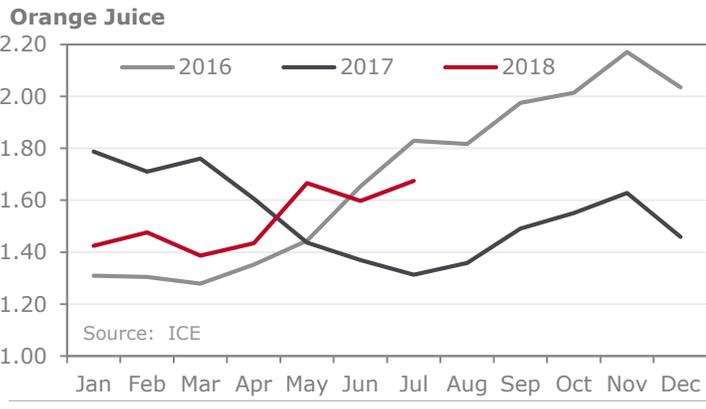
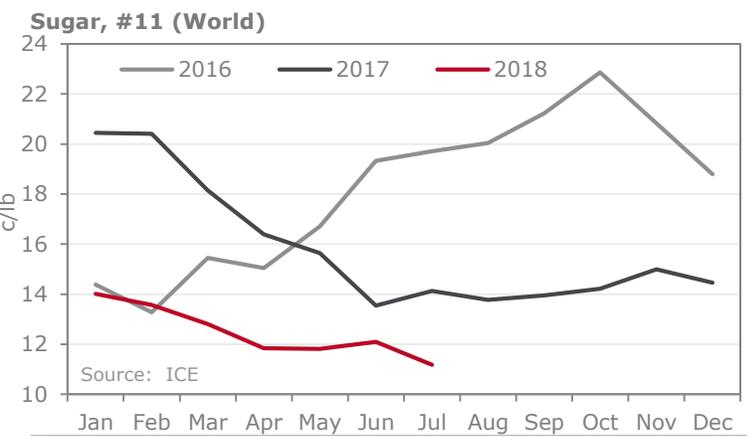
Dairy: After seeing sharp price losses following the tariff announcements with Canada, Mexico and China, dairy markets began a partially price rebound this month.



- The July USDA Class I milk price of \$15.36/cwt increased 1% vs. the prior month and decreased 7% vs. July 2017. The July average Class III milk price of \$14.10/cwt decreased 7% vs. the prior month and decreased 9% vs. July 2017.
- Class III milk futures gained about \$1.00/cwt in the past month regaining some of the losses triggered by tariffs announced by top three dairy export markets: Mexico, Canada, and China.
- The July USDA average cheddar cheese price of \$1.54/lb. decreased 2% vs. the prior month and decreased 7% Y/Y.

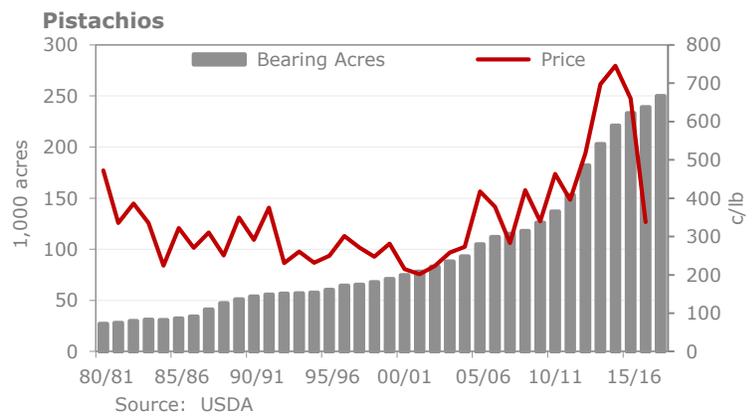
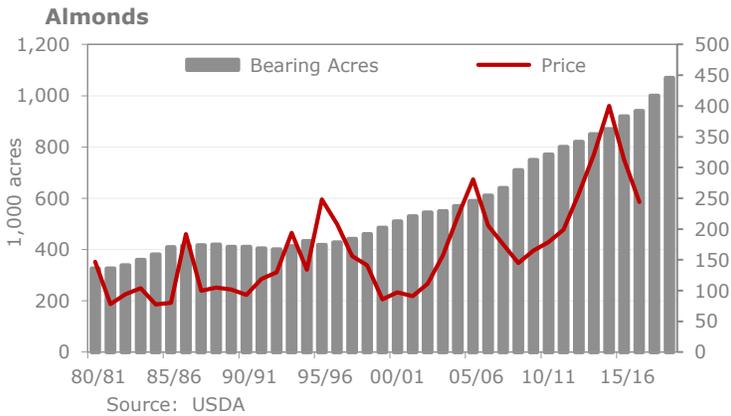
- U.S. milk production in June was up 1.2% Y/Y. The milk cow herd size remained flat vs. the prior year.
- Breaking trend of the past few years, butter prices have been declining while nonfat dry milk (NDM) prices have been increasing. Butter prices have sagged to the \$2.25 range in conjunction with a steep decline in EU butter markets. After bottoming out at around \$0.65/lb in March, spot NDM shipments are trading in the mid 80-cent range.
- July average USDA Grade AA butter prices of \$2.24/lb. decreased 4% vs. the prior month and decreased 15% vs. July 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 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 which continues to drive world raw prices down. 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, which has helped push domestic prices up slightly.
- The July average cotton price of \$0.88/lb. decreased 2% vs. the prior month and increased 24% vs. the prior year period.
- The July average coffee price of \$1.09/lb. decreased 6% vs. the prior month and decreased 17% vs. the prior year period.
- The July USDA forecast for the Florida orange juice crop for the 2017/18 season remains unchanged at 45 million boxes, the lowest in the last 75 years. The negative effects of hurricanes and citrus greening disease were the main reasons for this decline. July prices rose due to the reluctance of Brazil’s farmers to begin harvesting the 2018/19 crop due to dry weather.

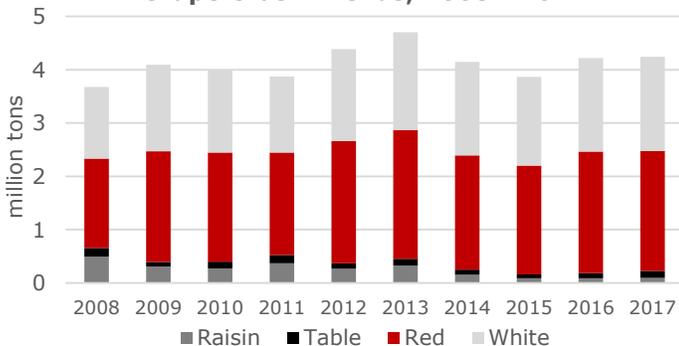
Specialty Crops: Harvest is coming fast for both Tree Nuts and Grapes.



- Harvest has begun for 2018 crop. Initial weights showing lower than anticipated yields. Prices reflect volatility based on low carryover inventory and tariff announcement.
- Walnut prices drop due to large crop in Chile, tariff pressure, and 2017 carryover inventory levels.

- Pistachio crop set indicates large crop, with growers blanks. Prices stable on low carryover inventory.
- Pecan prices are down on tariff news and concern that alternative markets (Mexico/Africa) will supply traditional U.S. channels

Grape Crush Trends, 2008 - 2017



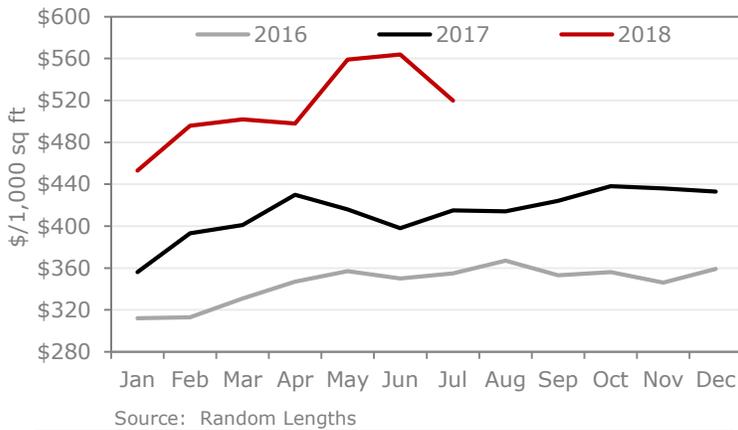
Source: Gomberg Fredrikson and Wine Institute

2017 Grape Crush Results

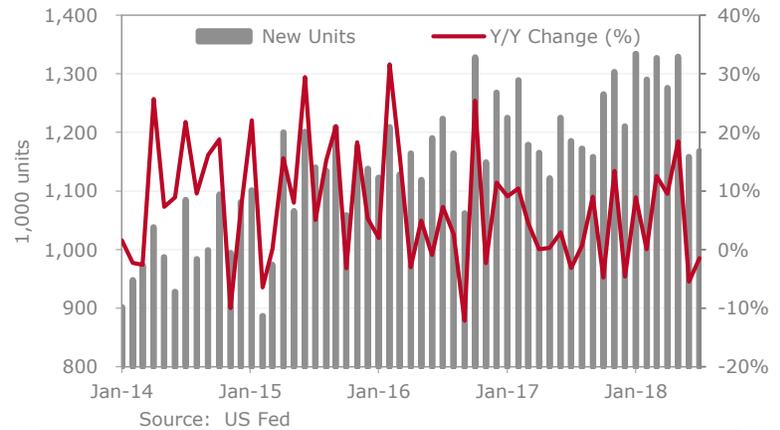
- Harvest is on-track for an average year with California Allied Grape Growers providing an initial estimate of the 2018 crop at 4.25 million tons.
- California's bulk wine market is quiet ahead of harvest. Producers are looking to clear tank space with the upcoming harvest, creating opportunity for active buyers.
- Heat and fire conditions throughout California may impact ripening and quality of harvest.

Forest Products: Framing lumber and structural panel prices dropped in July as high prices during the first half of the year and increasing interest rates appear to be slowing construction activity.

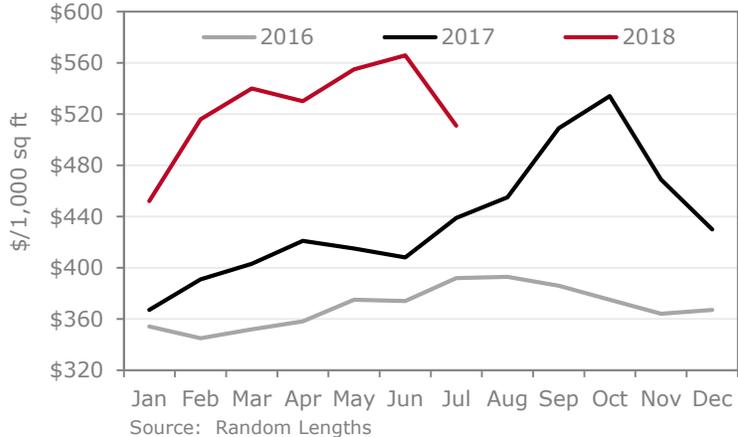
Framing Lumber Index



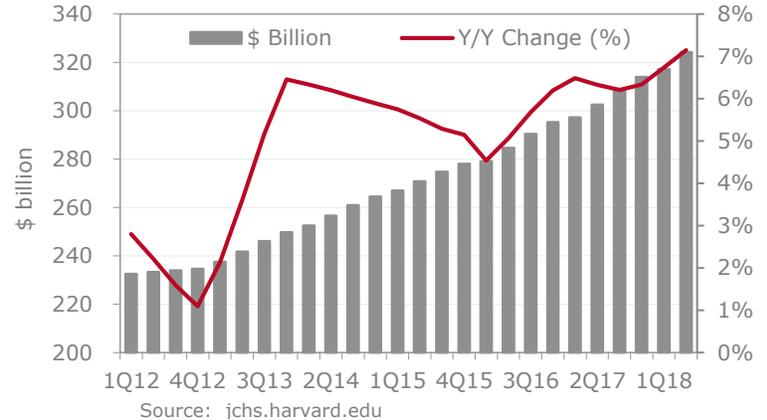
U.S. Housing Starts



Structural Panel Index



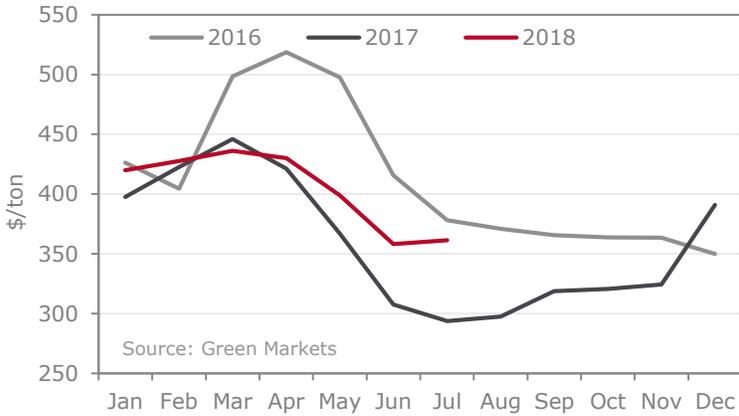
Repair & Remodel Expenditures (LTM total)



- The Framing Lumber Composite Index averaged \$520/thousand sq. ft. during July. This was down 8% from June with higher interest rates and the rise in lumber prices finally bring a slowdown in construction. Despite the recent decline, the July average was up 25% Y/Y.
- The Structural Panel Composite Index fell 10% during July to \$511/thousand sq. ft. because of the drop in lumber prices and the recent decline in housing starts. The structural panel index for July was up 16% Y/Y.
- U.S. housing starts of 1.17 million units in July were up 1% from June, but down 1% from July 2017. After increasing Y/Y for six consecutive months, housing starts have been below year-ago levels for two straight months.
- LTM repair and remodel expenditures of \$324.1 billion during 2Q'18 were up 2% from the previous quarter and up 7% from the previous year, reflecting the largest Y/Y increase since before the recession.

Crop Inputs: Fertilizer prices increased narrowly in July, staying well above year-ago levels as supplies remain relatively tight. Fuel prices eased slightly in July, but still are 20-30% above last year.

Ammonia



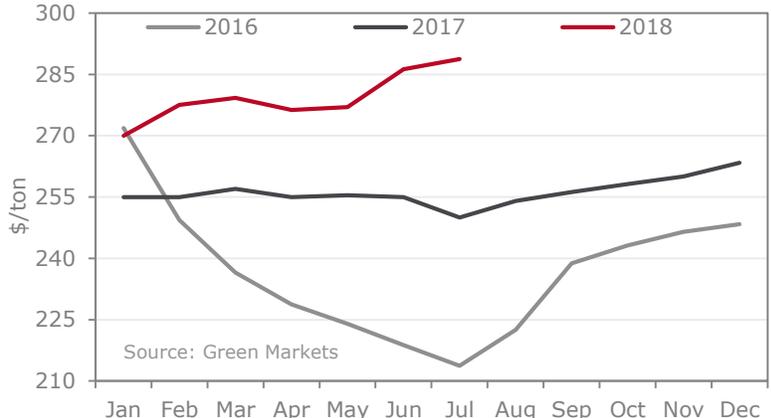
DAP



Urea



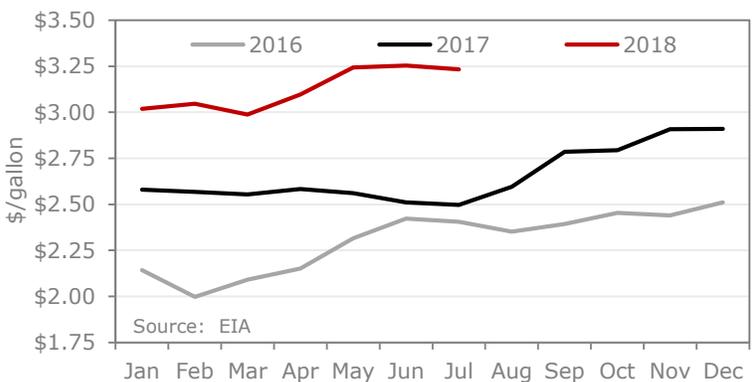
Potash



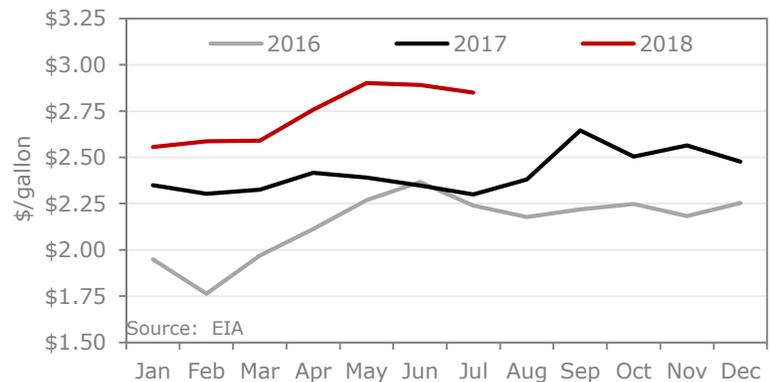
- Ammonia prices in the Corn Belt firmed 1% to an average of \$361/ton in July as producers raised fall prepay offers late in the month. This is up 23% Y/Y as supplies are tighter.
- Urea prices in the Corn Belt also increased 1% in July and were up 35% Y/Y with U.S. supplies tighter due to smaller imports and increased exports.

- DAP prices rose 1% in July and are up 25% Y/Y. Prices have risen 12 straight months with most of the increase occurring since closure of a large plant in Florida was announced.
- Potash prices in the Corn Belt rose 1% in July to \$289/ton as suppliers raised fill prices due to tight supplies. This is up 16% Y/Y and the highest monthly average since Dec. 2015.

Diesel Fuel Prices



Gasoline Prices



- The U.S. average on-highway diesel price averaged \$3.23/gallon during July, which was down 1% from June but up 29% from the July 2017 average of \$2.50.

- Retail U.S. gasoline prices averaged \$2.85 in July, down 1% from June but up 24% from the previous year's \$2.30.

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

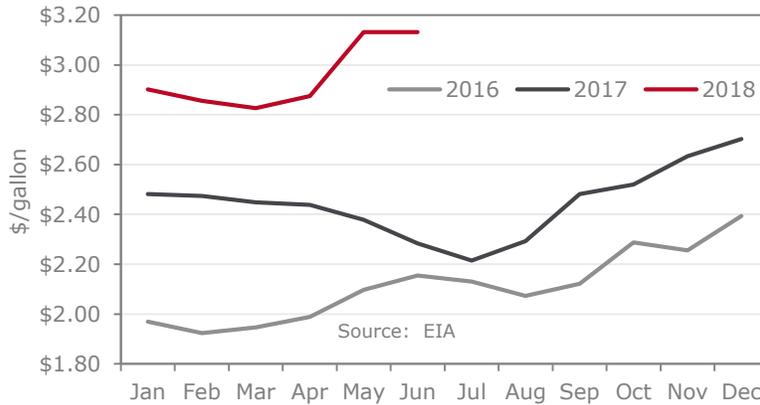
Natural Gas Retail Prices



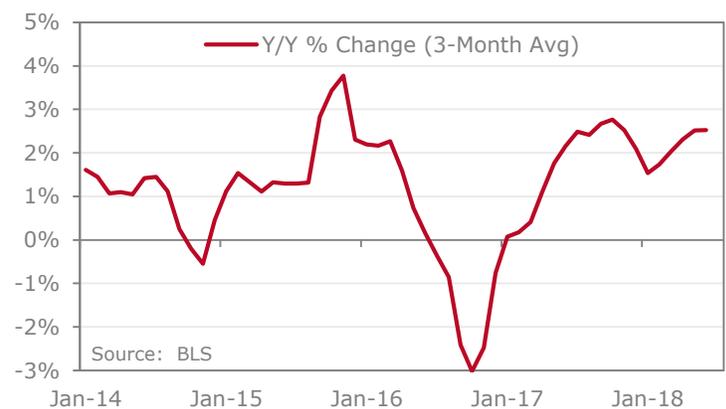
Restaurant Hourly Earnings



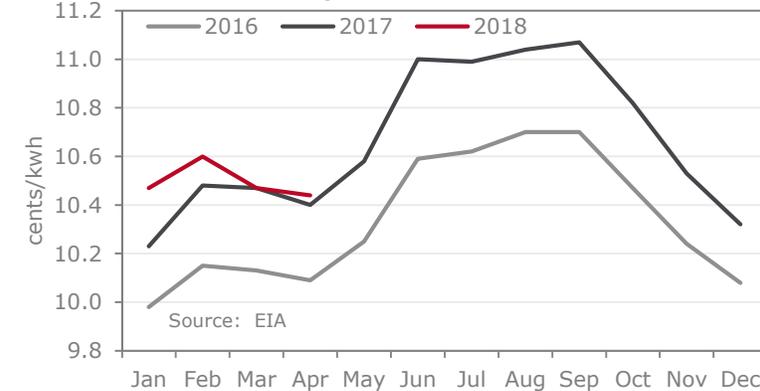
Heating Oil Retail Prices



Supermarket Hourly Earnings (3-Month Moving Avg.)



Commercial Electricity Prices



Food Manufacturing Hourly Earnings



- The natural gas price jumped 10% in May and was up 2% Y/Y.
- The average heating oil price of \$3.13/gal for June stayed flat from the prior month and up 37% vs. the prior year.
- The April average electricity price of \$10.44/kWh was essentially equal to the prior month and prior year.

- The restaurant labor index increased 3.6% Y/Y in July, and was up 0.4% vs. the prior month.
- The supermarket labor index dropped 0.6% M/M in June, but was up 2.6% Y/Y.
- The food manufacturing labor index for July increased 3.4% Y/Y and 0.6% M/M.

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