Pork Merchandiser's **Profit Maximizer**

- Foodservice Edition

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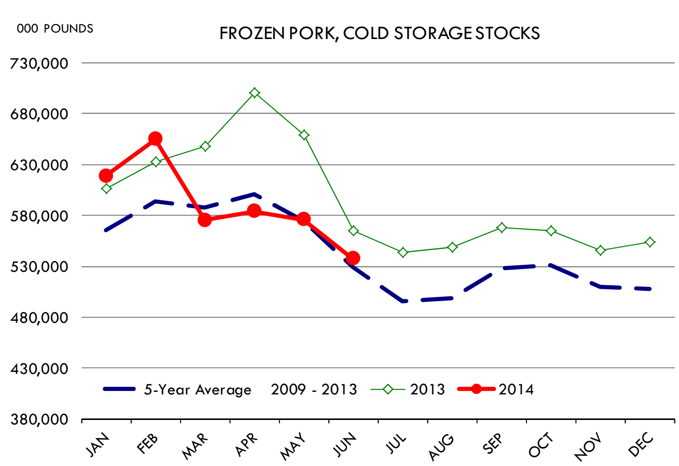
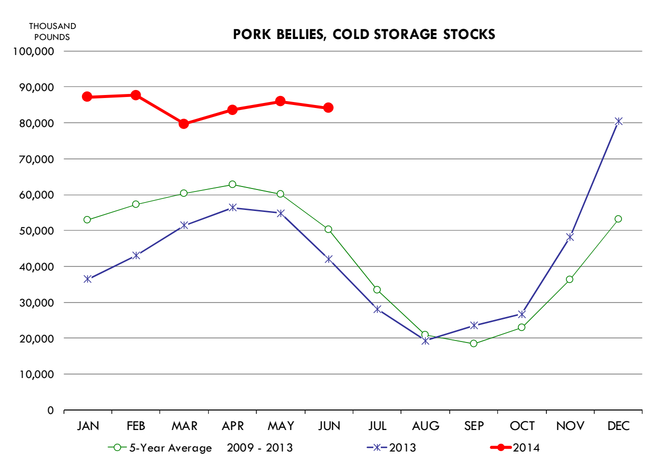
July 28, 2014

1. **<u>USDA released on Tuesday (July 22) the results of its monthly survey of about 800 public and private refrigerated warehouses and the results will viewed as bullish for cattle and, to a lesser extent, for hog futures</u>**. Below is a recap of the highlights from this latest report and implications for meat market trends in the short to medium term.

Stocks of beef, pork and poultry meat were significantly below both year ago and five year average levels, highlighting the fact that end users have very limited buffer stocks at a time when livestock and poultry supplies remain below year ago levels; and overall demand, both domestic and export, has continues to expand. The latest USDA survey confirmed what prices for a number of items already have been telling us.

<u>Pork inventories in June declined 6.6% from the previous month, in line with the normal seasonal pattern for this time of year and considering that we started from a relatively low point at the end of May</u>. Current stocks are down 4.8% from a year ago and 1.7% higher than the five year average. The one item that was decidedly bearish in the report was the stock of frozen pork bellies, which at the end of June was pegged at 84 million pounds, double what it was a year ago. Normally this is the time when end

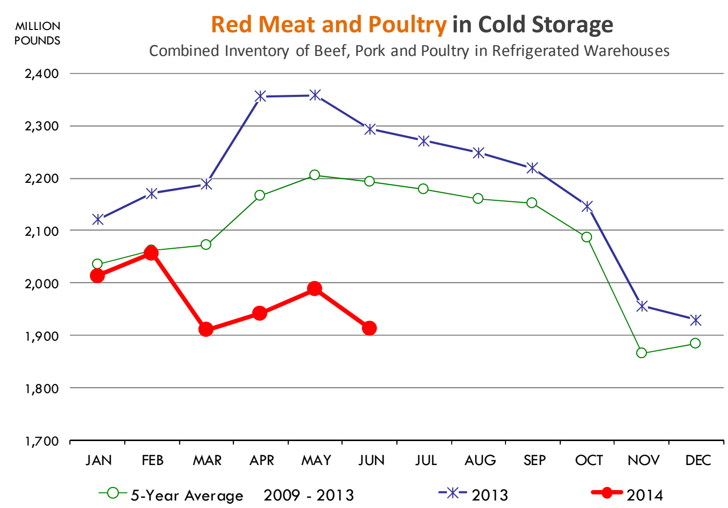


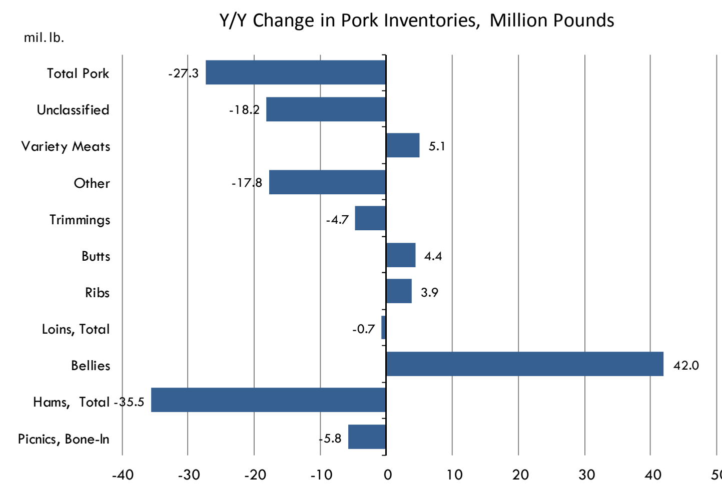


users will look to deplete inventories and ample freezer stocks will limit belly demand in August and early September. Indeed, the pork belly cutout last night was pegged at $151.4/cwt, down 7.4% from a year ago. But we still view the latest cold storage report as supportive of the pork market in the short term given that supplies of a number of items remain significantly below year ago levels. Ham inventories normally increase between April and October as processors and end users build stocks for holiday needs. So far, the inventory build of hams has lagged significantly below year ago levels, which implies there will be more of a push to try to secure supplies in the next three months. The ham cutout last night was $141.64/cwt, 72% higher than a year ago. Inventories of pork trimmings at 43.8 million pounds were down 9.6% from a year ago and 3.9% lower than the five year average. Boneless pork loin stocks were 18.7 million pounds, 30% below the previous month and a much faster drawdown than what we normally see for June.

Boneless beef stocks at the end of June were 26.4% lower than a year ago and 15.8% lower than the five year average. The rate of depletion in June far outpaced the seasonal drawdown in stocks for this time of year. High prices have forced end users to rely on inventories but with tight supplies in the pipeline, this has in some cases further exacerbated end user short positions. The price of lean boneless beef is currently up 40% from a year ago and prices have rallied counter-seasonally in July. Bone in beef inventories at 38.1 million pounds remain 19.2% lower than last year and 35% lower than the five year average. Total beef stocks at the end of June were 357.8 million pounds, 25.7% lower than a year ago and 18.4% lower than the five year average.

Broiler stocks also are very tight at this moment. Particularly bullish in our view was a sharp drop in stocks of leg quarters, which





dropped almost 30% from the previous month and are now 46.5% lower than year ago levels. Inventories of wings are down 25.7% compared to last year while breast meat stocks were down 8.9% from the previous month, outpacing the normal drawdown in inventories for June. Total turkey inventories at 460.4 million pounds were down 18.7% compared to a year ago, with turkey breast stocks at 52 million pounds, down 37.8%.

Upcoming holidays:

2014 Labor Day [US and Canada] (Monday September 1); Rosh Hashanah (Thursday September 25); Yom Kippur (Saturday October 4); Columbus Day (Monday October 13; Canadian Thanksgiving Day (Monday October 13); Daylight Savings Time Ends [US and Canada] (Sunday November 2); Veterans Day (Tuesday November 11); Remembrance Day [Canada] (Tuesday November 11); Thanksgiving (Thursday November 27); Hanukkah (Wednesday December 17); Christmas Day (Thursday December 25); Boxing Day [Canada] (Friday December 26).

PORK

NOTE: WE ARE NOW REPORTING AND FORECASTING MANDATORY PLANT WEIGHTED AVERAGE BLUE SHEET PRICES FOR PORK CUTS.

Live hogs. For the week ending July 26 slaughter was 1.862 million head, down 6.5% from a year ago. In the last two weeks hog slaughter is down 7.7% vs. year ago levels.

Iowa/Minnesota, Base Lean Market Hog 185 lbs. Carcass Values. Lean hog carcass values at about 125.56 /cwt. on Friday were down about $5/cwt since Wed. July 16. Prices are up about $27 /cwt compared to year ago values.

Loin, 1/4 Trimmed Loin VAC, FOB Plant, USDA (page 8). Prices finished last week at $1.7092, down about 2 cent since the Wed. July 16 quote but up about 45 cents from year ago levels.

Bnls. Strap on Pork Loins. Prices finished the week at $1.8891 for the strap on loins, down about 11 cents since Wed. July 16 but up about 43 cents from the year ago levels. Strap off loins at $2.1184 are down about 6 cent since Wed. July 16 but up about 40 cents compared to the year ago quote.

Boneless sirloins at $1.9553 are up about 5 cents from the Wed. July 16 quote and up about 70 cents from the year ago price.

Pork tenderloin finished last week at $2.9084, up about 0 cents since the Wed. July 16 quote and up about 40 cents from the year ago price.

5/10 Pork Butts (page 10), prices finished the week at $1.7327, down about 3 cents since Wed. July 16.

Spare Ribs, Trimmed - LGT, Vac (page 8). Prices finished the week at $1.8225, down about 10 cent since Wed. July 16 but up about 38 cents from year ago levels.

Rib inventories on June 30 were 60.5 million pounds, down 6.8% percent from a year ago.

Bone-in Hams.

17/20 hams (page 9) price was $1.4120/lb., down 1 cents compared to prices on Wed. July 16 but up about 58 cents from a year ago.

20/23 hams finished the week at 141.20 cents, up about 6 cents since Wed. July 16 but up about 53 cents from the year ago level.

23/27 hams finished the week at 144.11 , up about 3 cents from the Wed. July 16 quote and up about 61 cents from the year ago level.

Total ham cold storage stocks on June 30 at 126.1 million pounds were down about 22.0% from year ago levels.

42 CL Pork Trim "FOB Basis". Prices finished the week at 81.67 , up about 14.0 cent since Wed. July 16 and up about 12 cents from the year ago price.

72 CL Pork Trim "FOB Basis". Prices finished the week at 152.76 cents, up about 5 cents since the Wed. July 16 quote and up about 59 cents from the year ago level.

Freezer stocks of all trimmings on June 30 were 43.8 million pounds, down about 9.6% percent from the year ago levels.

72 CL Picnic Meat "FOB Basis". Picnics prices should continue to command significant premiums over the price of 72CL pork trim in the spring.

POULTRY

Georgia Dock Broilers. The Georgia dock price last week at $112.75 was up about 6 cents from a year ago.

The National Whole Bird price was quoted at 103.89 on Friday July 26, up about 7 cents from a year ago.

Broiler slaughter for the week ending July 26 was 157.24 million head, down 0.34% from a year ago. For the last two weeks slaughter was up 0.2% vs. a year ago.

Breasts. Prices on boneless skinless breasts finished the week at $1.9769, down 5 cents since Wed. July 16 but also up about 20 cents from year ago levels.

Leg Quarters. The value of this item and the timing of price moves are completely dependent on the timing of export purchases and export business, which seems ok at this time. Leg quarter prices are now down about 0.6 cents vs. year ago price at 51.91 . Prices trend modestly higher the next few months. However, Mexico could be a significant issue any time.

Wings. Prices at $1.4895 are down about 14 cents from year ago levels.

Turkeys

Hens finished last week at $1.1100, unchanged since Wed. July 16 but up about 7 cents from the year ago price.

Toms finished last week at $1.1200, unchanged since Wed. July 16 but up about 8 cent from the year ago price.

Total turkey supplies in the freezer on June 30 were down about 18.7% percent from a year ago at 460.4 million pounds. Whole birds were down 14.4% percent from year ago with an inventory of 266.4 million pounds.

Turkey slaughter was 4.2410 million head for the week ending July 19, up 0.40% from a year ago. For the last two weeks slaughter has been up 1.2%.

Boneless Turkey Breast Meat. Boneless skinless turkey breast meat prices finished last week at $4.0500, unchanged since Wed. July 16. Prices are up about 58 cents vs. year ago prices.

BEEF

NOTE: WE ARE NOW REPORTING AND FORECASTING WEIGHTED AVERAGE BLUE SHEET PRICES FOR BEEF CUTS.

Choice 112A Heavy Bnls. Lip On Rib Eyes at $7.0987 (weighted average quote) finished last week down about 75 cents since the Wed. July 16 quote but up about 127 cents vs. the year ago price.

Select 112A Heavy Lip On Rib Eyes at $6.5122 (weighted average quote) finished last week down about 94 cents since the Wed. July 16 quote but up about 71 cents vs. the year ago price.

Currently Choice 112A Rib Eyes are $0.5865 /lb. over Select. The 2013 annual average spread (wt. average price) had the Choice at a premium to the Select by $0.8910 per pound and the previous five years (2009 thru 2013) average spread was Choice at a premium to the Select by $0.7074 per pound.

Choice regular #168 insides finished last week quoted at $3.1441 up about 49 cents since Wed. July 16 and up about 117 cents from the year ago price.

Choice ¼ inch trimmed #168 insides finished last week quoted at $3.4766 up about 71 cents since Wed. July 16 and up about 143 cents from year ago levels.

Choice #170 Gooseneck Rounds finished last week at $2.9119 up about 35 cents since Wed. July 16 and up about 106 cents from the year ago levels.

Choice #180 (0x1) Bnls. Strip Loins finished last week quoted at $6.5419 (wt. avg.) down about 10 cents from the Wed. July 16 quote. Prices are about 148 cents over year ago levels.

Choice #184 Regular Heavy top butts finished at $3.3646 (wt. avg.) down about 66 cents since Wed. July 16 but up about 38 cents from year ago levels.

Choice #184 ¼ inch trimmed Top Butts finished at $4.0464 (wt. avg.) down about 11 cents since Wed. July 16 but up about 87 cents from the year ago levels.

Choice #185A Flap Meat prices finished Friday at $4.7316 (wt. avg.) up about 5 cents since Wed. July 16 and up about 89 cents from year ago values.

COARSE GROUND BEEF –

73CL Coarse Ground product finished last week at $2.2484 down about 17 cents since Wed. July 16 but up about 61 cents from year ago levels.

81CL Coarse Ground product finished last week at $2.6556 up about 4 cent since Wed. July 16 and up about 87 cents from the year ago quote.

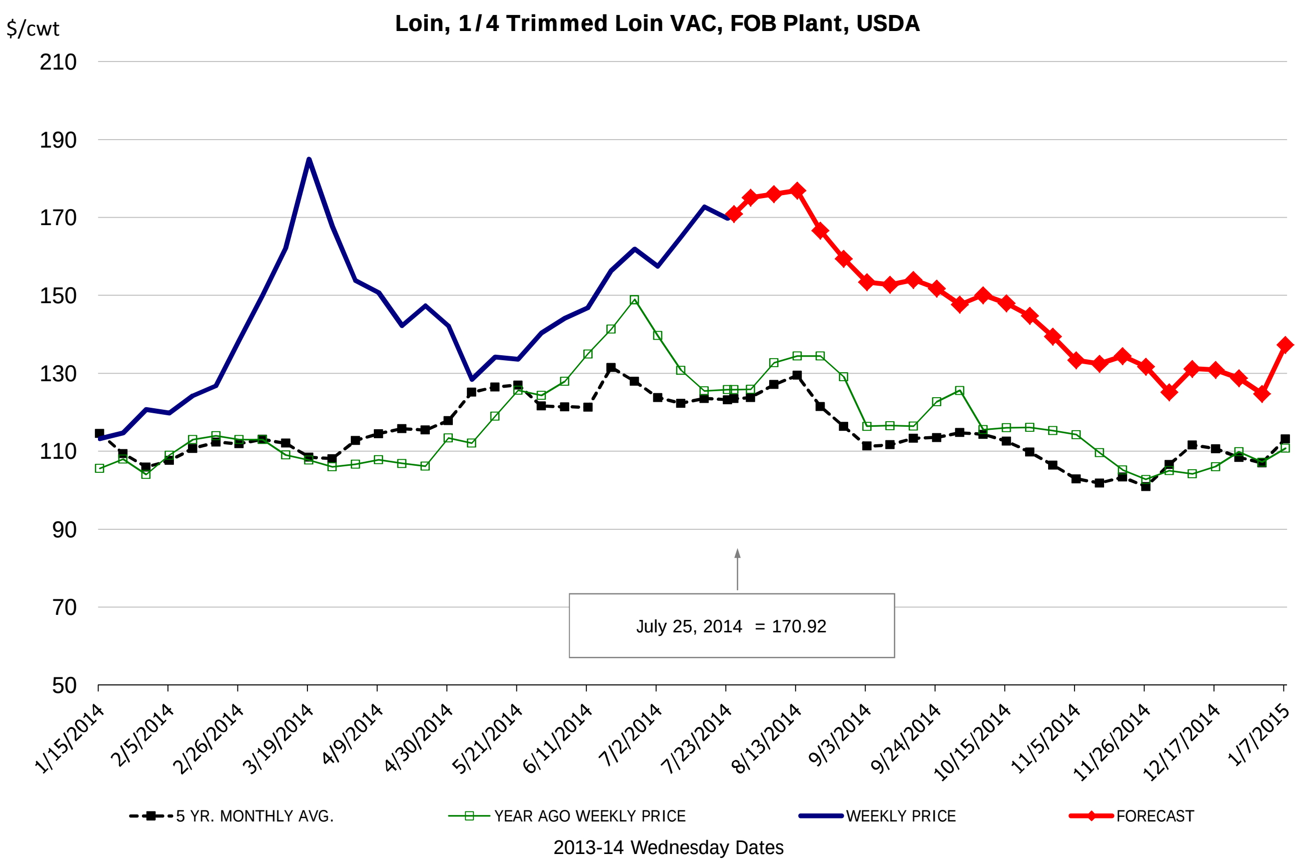
90CL Bnls. Beef prices finished the week at $2.9060 (wt. avg.) down about one cent since Wed. July 16 but up 91 compared to the year ago price quote. Ranchers are trying to hold more beef cows and lean beef supplies remain in limited supply

50 CL Beef Trim prices finished last week at $1.4710, up about 8 cent since Wed. July 16 and up 39 compared to the year ago level.

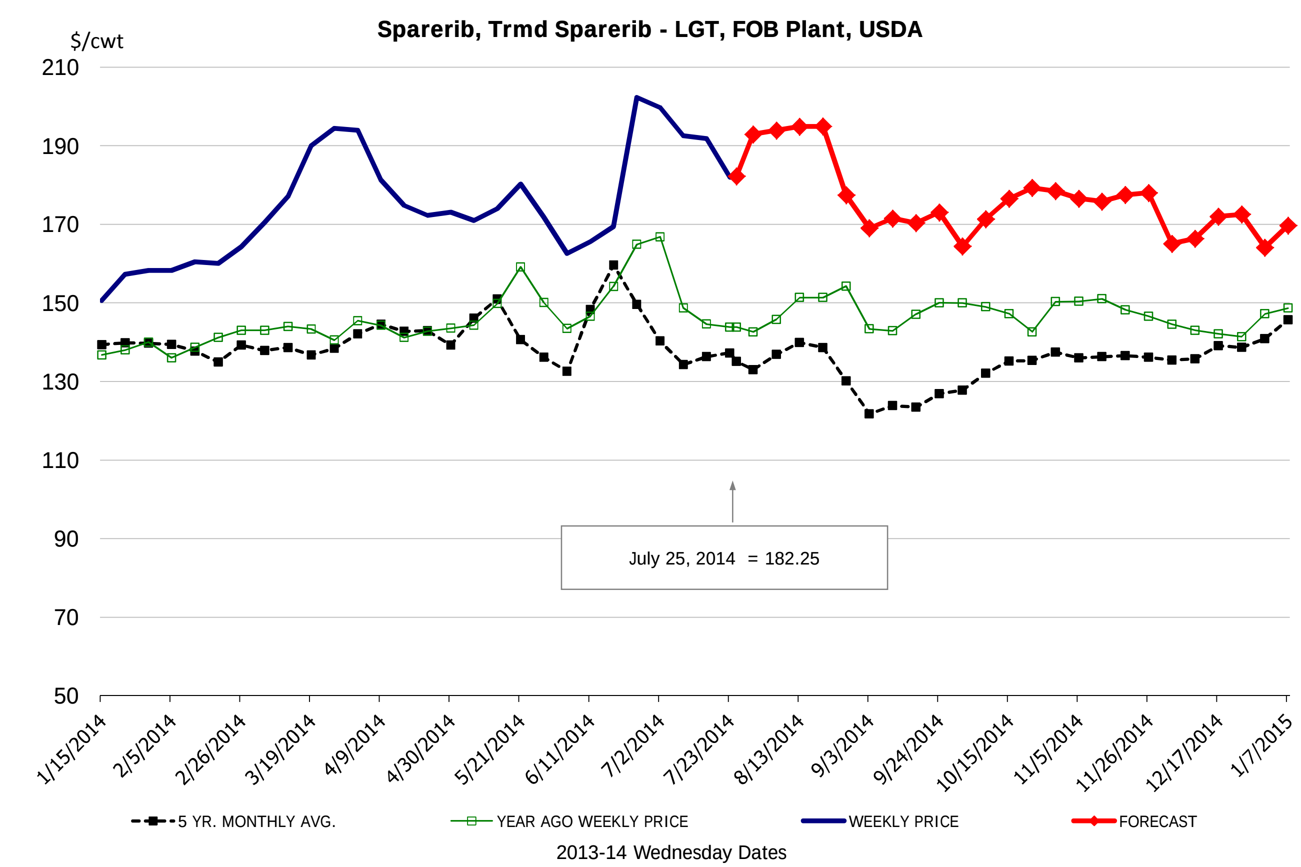
Food Service Summary Table - WT. AVE

	2013-14 History								2014 FORECAST						
	Feb	Mar	Apr	May	Jun	Jul	7/16/2014	7/25/2014	8/6/2014	Aug	Sep	Oct	Nov	Dec	Jan
PORK															
Loin, 1/4 Trimmed Loin VAC, FOB Plant, USDA	1.27	1.65	1.47	1.35	1.52	1.66	1.73	1.71	1.76	1.69	1.53	1.46	1.33	1.29	1.36
Loin, 1/8 Trimmed Loin VAC, FOB Plant, USDA	1.34	1.73	1.58	1.45	1.60	1.79	1.84	1.77	1.87	1.82	1.66	1.56	1.44	1.43	1.48
Loin, Bnls CC Strap-off, FOB Plant, USDA	1.84	2.35	2.12	1.91	1.97	2.18	2.18	2.12	2.44	2.32	2.19	2.15	2.00	2.00	2.04
Loin, Tenderloin, FOB Plant, USDA	2.54	2.76	2.78	2.77	2.84	2.89	2.91	2.91	2.90	3.01	2.81	2.66	2.53	2.38	2.63
Butt, 1/4 Trim Butt Combo, FOB Plant, USDA	1.16	1.61	1.60	1.60	1.68	1.71	1.75	1.80	1.74	1.70	1.64	1.58	1.56	1.51	1.31
Sparerib, Trmd Sparerib - LGT, FOB Plant, USDA	1.61	1.82	1.76	1.70	1.73	1.91	1.92	1.82	1.94	1.89	1.71	1.74	1.77	1.69	1.71
Sparerib, St Louis Spareribs, POLY, FZN, FOB Plant, USDA	2.29	2.45	2.54	2.59	2.55	2.64	2.67	2.69	2.62	2.62	2.45	2.45	2.45	2.38	2.39
Sparerib, Trmd Sparerib - MED, FOB Plant, USDA	1.53	1.74	1.64	1.61	1.70	1.85	1.79	1.83	1.92	1.86	1.69	1.68	1.69	1.62	1.63
Loin, Backribs 2.0#/up, FOB Plant, USDA	2.33	2.71	2.63	2.65	2.77	2.72	2.64	2.67	2.79	2.78	2.60	2.42	2.34	2.22	2.57
Ham, 17-20# Trmd Selected Ham, FOB Plant, USDA	0.86	1.06	1.19	1.08	1.28	1.41	1.42	1.41	1.41	1.45	1.47	1.48	1.50	1.27	1.02
Ham, 20-23# Trmd Selected Ham, FOB Plant, USDA	0.85	1.12	1.14	1.13	1.27	1.44	1.47	1.41	1.40	1.42	1.44	1.46	1.43	1.28	1.02
Ham, 23-27# Trmd Selected Ham, FOB Plant, USDA	0.84	0.99	1.02	1.05	1.21	1.40	1.41	1.44	1.40	1.43	1.42	1.39	1.34	1.19	0.98
Ham, 5 Muscle Ham to Blue, FOB Plant, USDA	1.30	1.49	1.48	1.48	1.73	2.07	2.33	0.00	2.17	2.21	2.20	2.17	2.08	1.91	1.53
Belly, Skin-on Belly 14-16#, FOB Plant, USDA	1.34	1.77	1.85	1.54	1.66	1.61	1.84	1.51	1.79	1.73	1.73	1.52	1.43	1.37	1.43
Belly, Derind Belly 9-13#, FOB Plant, USDA	1.65	2.15	2.08	1.76	1.96	2.00	1.93	1.70	1.92	1.93	2.13	1.86	1.75	1.61	1.69
Belly, Derind Belly 13-17#, FOB Plant, USDA	1.58	2.14	1.94	1.69	1.91	2.03	2.04	1.65	2.28	2.29	2.11	1.84	1.73	1.59	1.67
Trim, 42% Trim Combo, FOB Plant, USDA	0.43	0.71	0.71	0.66	0.68	0.62	0.68	0.82	0.85	0.80	0.69	0.55	0.47	0.40	0.48
Trim, 72% Trim Combo, FOB Plant, USDA	0.91	1.23	1.30	1.14	1.32	1.37	1.48	1.53	1.51	1.47	1.38	1.38	1.22	1.11	1.02
HOG CARCASS															
IA/MN, Base Market Hog 185 lb Carcass Basis, Plant Dlv.	0.89	1.17	1.19	1.10	1.18	1.29	1.30	1.26	1.28	1.24	1.15	1.10	1.03	1.01	0.97
BROILERS															
BROILER, NATIONAL WHOLE BIRD PRICE, USDA	0.92	1.06	1.10	1.18	1.13	1.09	1.09	1.04	1.04	1.05	1.04	1.03	1.00	0.98	0.98
N.E. BROILER BREAST BONELESS-SKINLESS, USDA	1.27	1.48	1.73	1.87	2.00	2.01	2.02	1.98	1.91	1.97	1.90	1.65	1.46	1.35	1.41
N.E. BROILER BREAST LINE RUN, USDA	0.85	0.91	1.06	1.20	1.24	1.23	1.23	1.22	1.21	1.22	1.20	1.12	1.04	0.96	0.97
N.E. BROILER LEG QUARTERS, USDA	0.42	0.44	0.48	0.50	0.50	0.52	0.52	0.52	0.51	0.52	0.52	0.51	0.47	0.46	0.46
N.E. BROILER WINGS, USDA, WT.AVG.	1.27	1.38	1.42	1.38	1.45	1.44	1.48	1.49	1.49	1.50	1.53	1.57	1.50	1.53	1.64
TURKEYS															
UB HEN TURKEYS, EAST, FROZEN 10-12LBS	1.03	1.06	1.08	1.09	1.11	1.11	1.11	1.11	1.13	1.14	1.15	1.17	1.19	1.08	1.01
UB BONELESS-SKINLESS TURKEY BREAST, TOM, FRESH	2.16	2.42	3.26	3.57	3.71	4.00	4.05	4.05	3.94	4.05	4.05	3.94	3.75	3.50	3.05
LIVE STEERS															
FIVE AREA DIRECT AVERAGE LIVE STEER, USDA	1.43	1.50	1.49	1.47	1.47	1.56	1.56	1.61	1.58	1.58	1.60	1.62	1.63	1.63	1.64
BEEF															
CHOICE, 112A, 3 RIBEYE, BONELESS, HEAVY, USDA	5.61	6.32	6.68	7.24	7.94	7.43	7.85	7.10	6.97	6.91	7.68	8.20	8.77	7.95	7.10
CHOICE, 168, 3 TOP INSIDE ROUND, 1/4" MAX, USDA	2.55	3.04	2.68	2.33	2.33	2.77	2.77	3.48	3.25	3.20	3.01	3.01	2.91	3.01	3.19
CHOICE, 170, 1 BOTTOM GOOSENECK ROUND, USDA	2.53	2.51	2.18	2.14	2.25	2.54	2.56	2.91	2.70	2.68	2.75	2.86	2.76	2.74	2.97
CHOICE, 180, 3 STRIP LOIN, BONELESS, 0x1, USDA	5.00	6.76	6.30	6.02	6.44	6.70	6.64	6.54	6.60	6.52	6.18	5.69	5.57	5.55	6.16
CHOICE, 184, 3 TOP BUTT, BONELESS, USDA	2.96	3.50	3.51	3.82	4.05	4.16	4.22	4.05	4.19	4.19	4.06	3.66	3.62	3.73	3.98
CHOICE, 185A, 4 BOTTOM SIRLOIN, FLAP, USDA	3.99	4.72	5.04	5.15	5.21	4.83	4.68	4.73	4.72	4.78	4.24	4.06	4.05	4.12	4.50
COARSE GROUND 73%, USDA	2.06	2.24	1.89	1.98	1.98	2.36	2.42	2.25	2.46	2.45	2.30	2.19	2.25	2.34	2.68
COARSE GROUND 81%, USDA	2.28	2.51	2.03	2.07	2.11	2.54	2.62	2.66	2.58	2.61	2.53	2.39	2.41	2.49	2.94
90% BONELESS BEEF, CENTRAL, FRESH, USDA	2.38	2.61	2.49	2.43	2.52	2.86	2.91	2.91	2.87	2.90	2.75	2.62	2.62	2.78	2.93
50CL BEEF TRIM, FRESH, NATIONAL, USDA	1.10	1.47	1.22	1.26	1.27	1.32	1.39	1.47	1.50	1.48	1.38	1.43	1.52	1.54	1.50

*St. Louis 2 1/4 dn rib prices are estimated at 3 1/2 dn plus $1.10



Loin, 1/4 Trimmed Loin VAC, FOB Plant, USDA
$/cwt
210
190
170
150
130
110
90
70
50
July 25, 2014 = 170.92
1/15/2014
2/5/2014
2/26/2014
3/19/2014
4/9/2014
4/30/2014
5/21/2014
6/11/2014
7/2/2014
7/23/2014
8/13/2014
9/3/2014
9/24/2014
10/15/2014
11/5/2014
11/26/2014
12/17/2014
1/7/2015
5 YR. MONTHLY AVG.
YEAR AGO WEEKLY PRICE
WEEKLY PRICE
FORECAST
2013-14 Wednesday Dates



Sparerib, Trmd Sparerib - LGT, FOB Plant, USDA
$/cwt
210
190
170
150
130
110
90
70
50
July 25, 2014 = 182.25
1/15/2014
2/5/2014
2/26/2014
3/19/2014
4/9/2014
4/30/2014
5/21/2014
6/11/2014
7/2/2014
7/23/2014
8/13/2014
9/3/2014
9/24/2014
10/15/2014
11/5/2014
11/26/2014
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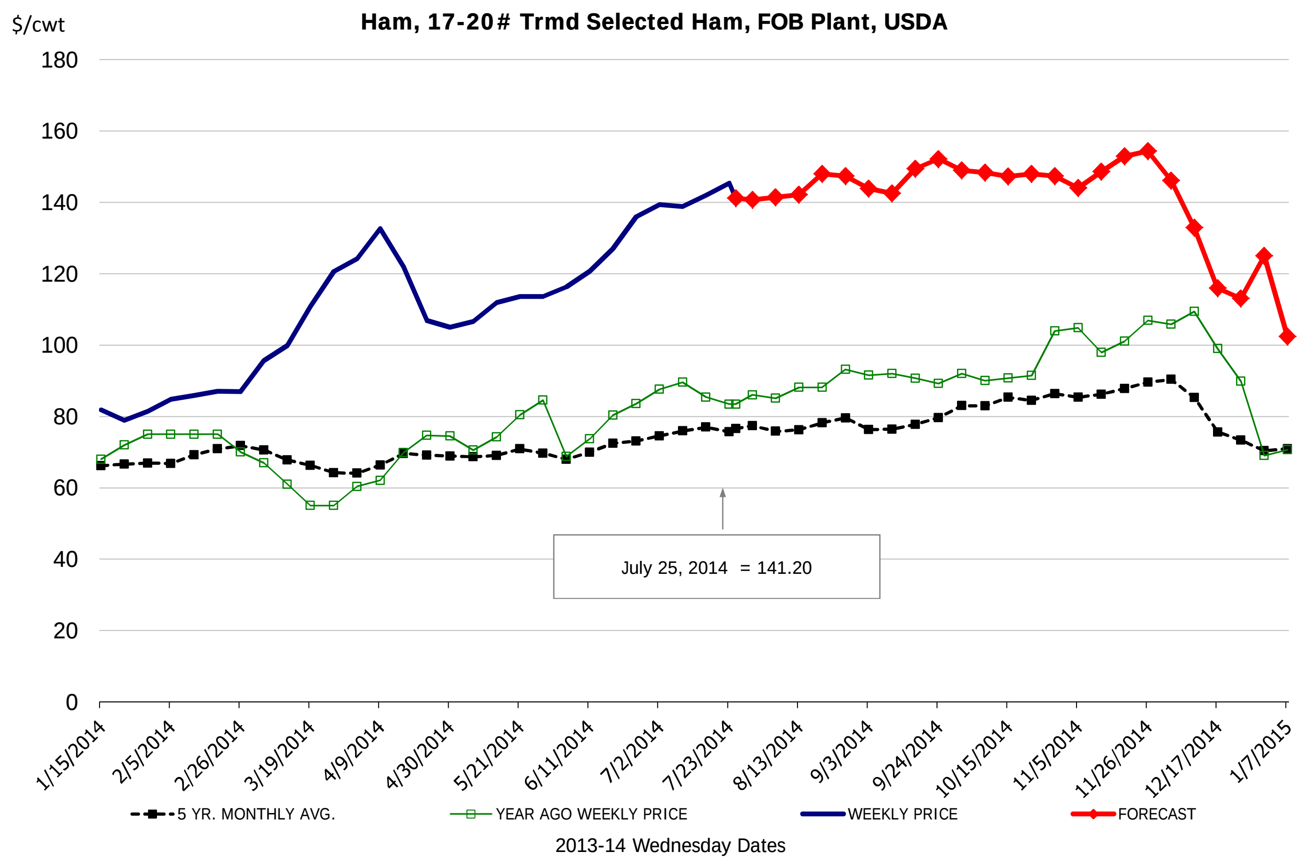
$/cwt
Ham, 17-20# Trmd Selected Ham, FOB Plant, USDA
180
160
140
120
100
80
60
40
20
0
July 25, 2014 = 141.20
1/15/2014
2/5/2014
2/26/2014
3/19/2014
4/9/2014
4/30/2014
5/21/2014
6/11/2014
7/2/2014
7/23/2014
8/13/2014
9/3/2014
9/24/2014
10/15/2014
11/5/2014
11/26/2014
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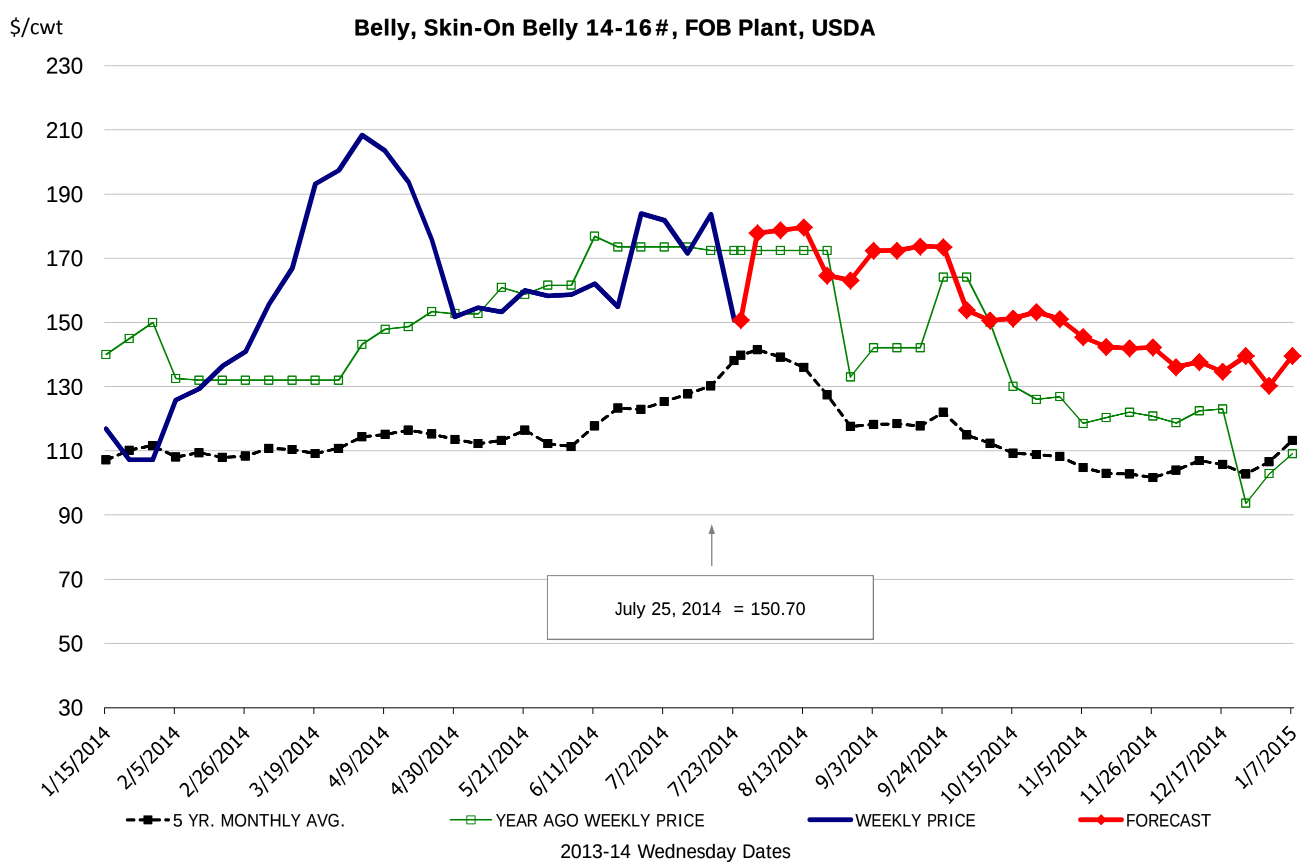
$/cwt
Belly, Skin-On Belly 14-16#, FOB Plant, USDA
230
210
190
170
150
130
110
90
70
50
30
July 25, 2014 = 150.70
1/15/2014
2/5/2014
2/26/2014
3/19/2014
4/9/2014
4/30/2014
5/21/2014
6/11/2014
7/2/2014
7/23/2014
8/13/2014
9/3/2014
9/24/2014
10/15/2014
11/5/2014
11/26/2014
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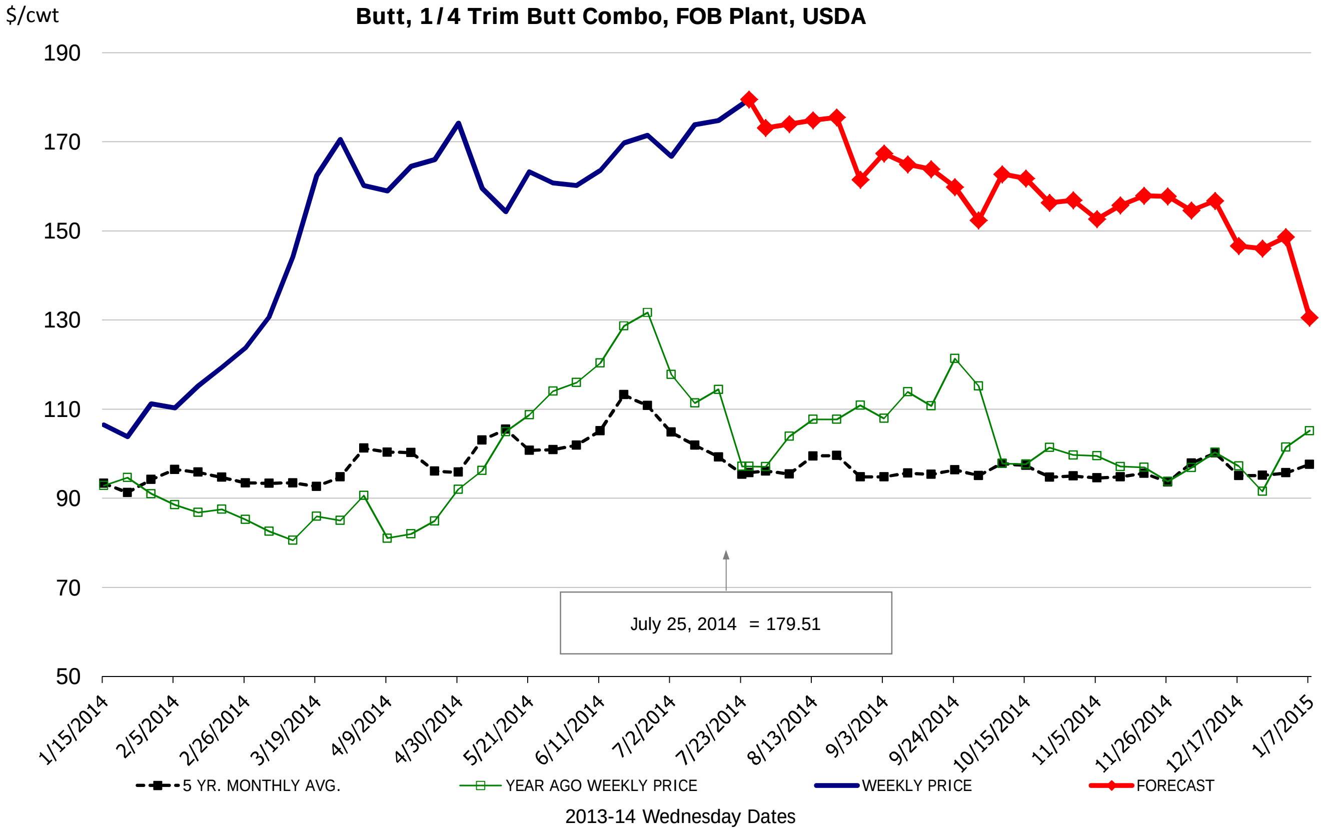
$/cwt
Butt, 1/4 Trim Butt Combo, FOB Plant, USDA
190
170
150
130
110
90
70
50
July 25, 2014 = 179.51
1/15/2014
2/5/2014
2/26/2014
3/19/2014
4/9/2014
4/30/2014
5/21/2014
6/11/2014
7/2/2014
7/23/2014
8/13/2014
9/3/2014
9/24/2014
10/15/2014
11/5/2014
11/26/2014
12/17/2014
1/7/2015
5 YR. MONTHLY AVG.
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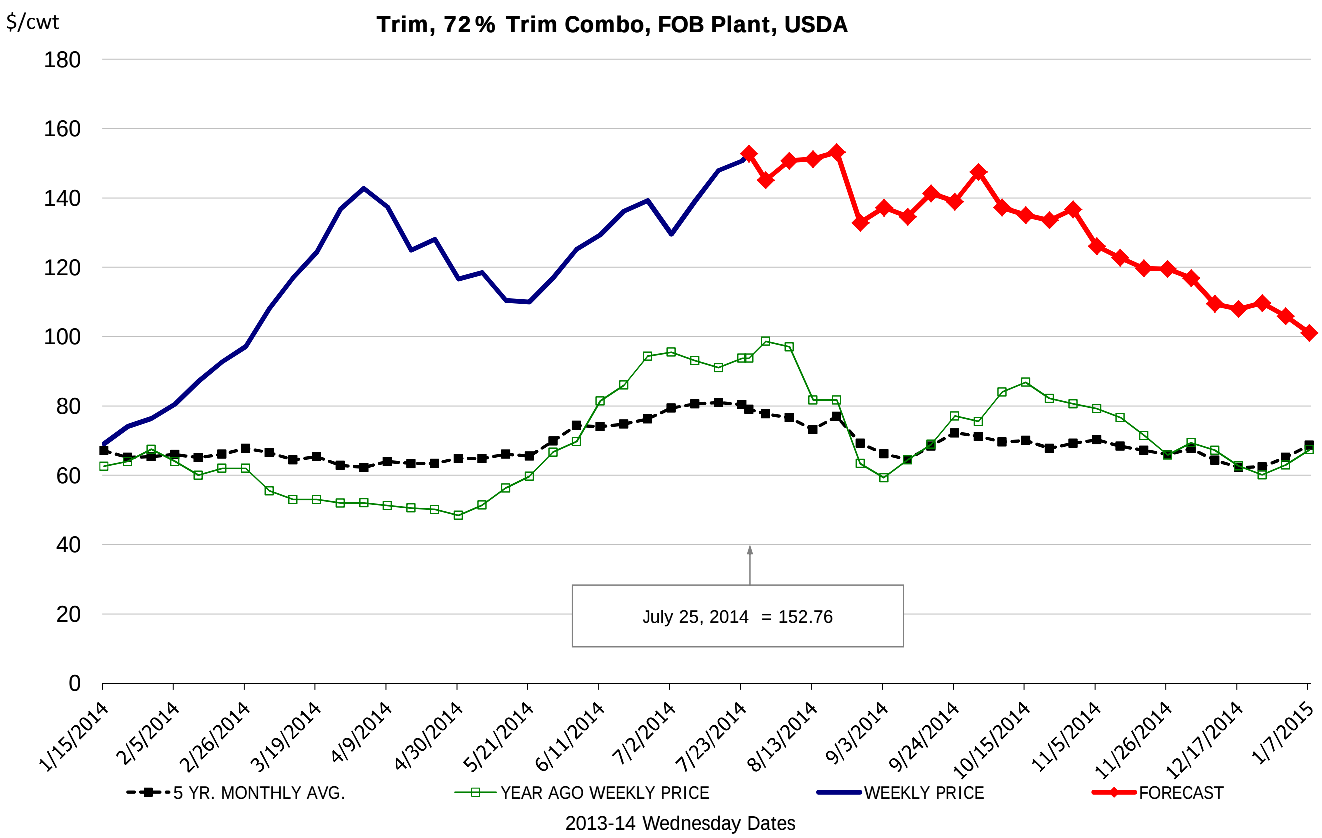
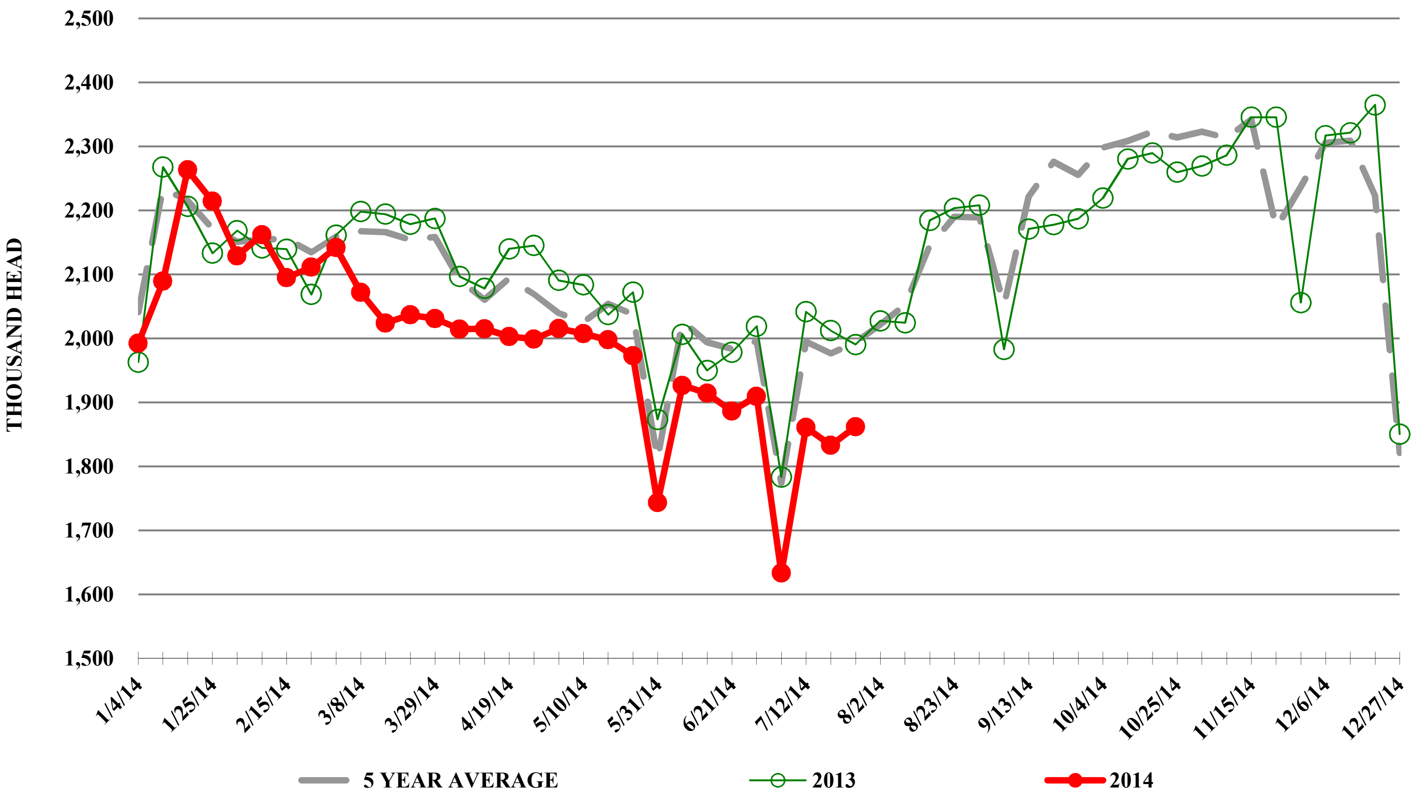
FORECAST
2013-14 Wednesday Dates


$/cwt
Trim, 72% Trim Combo, FOB Plant, USDA
180
160
140
120
100
80
60
40
20
0
July 25, 2014 = 152.76
1/15/2014
2/5/2014
2/26/2014
3/19/2014
4/9/2014
4/30/2014
5/21/2014
6/11/2014
7/2/2014
7/23/2014
8/13/2014
9/3/2014
9/24/2014
10/15/2014
11/5/2014
11/26/2014
12/17/2014
1/7/2015
5 YR. MONTHLY AVG.
YEAR AGO WEEKLY PRICE
WEEKLY PRICE
FORECAST
2013-14 Wednesday Dates

ESTIMATED WEEKLY FI HOG SLAUGHTER



ESTIMATED WEEKLY FI PORK PRODUCTION