Pork Merchandiser's **Profit Maximizer**

- Foodservice Edition

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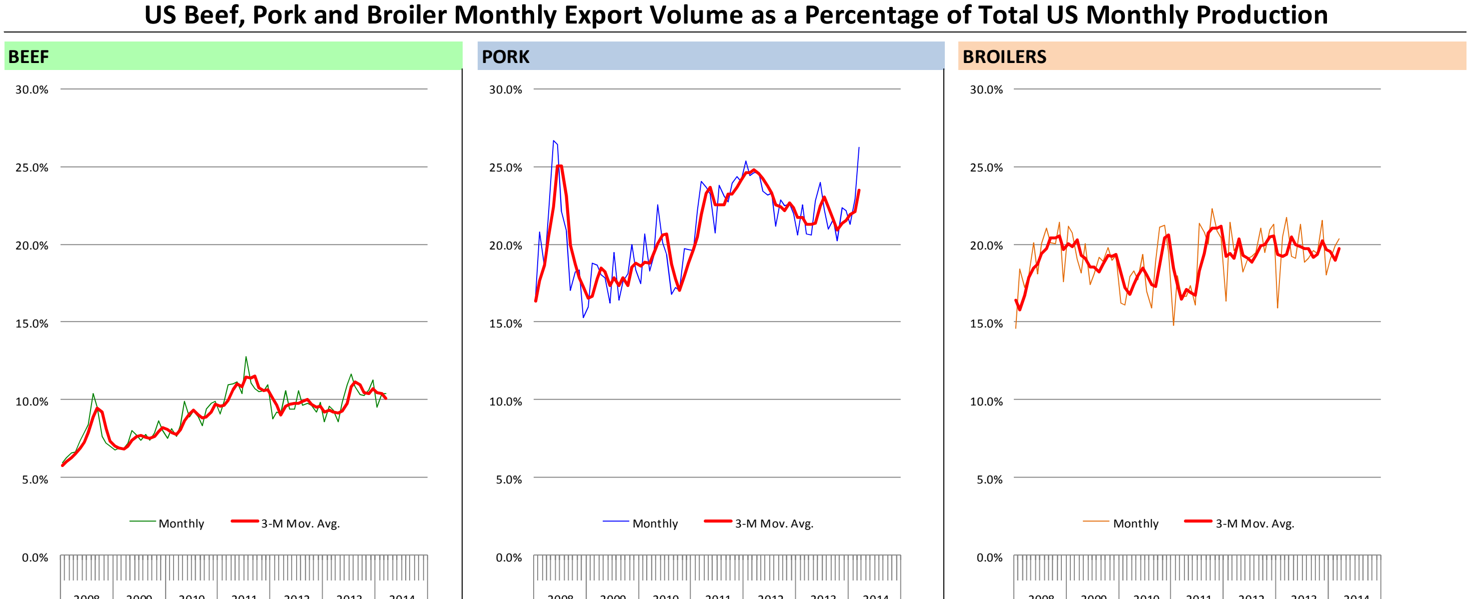
May 19, 2014

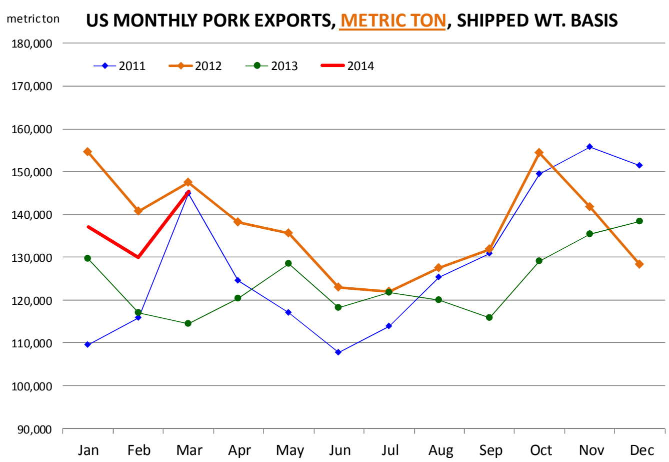
<u>Export market demand and impact on red meat and poultry prices</u>

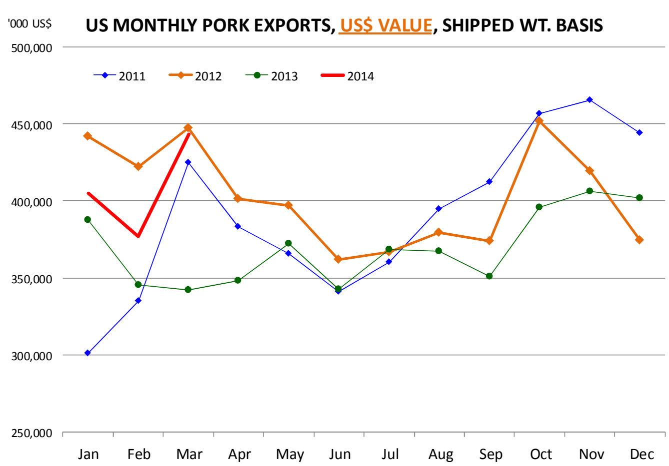
Global demand for US beef, pork and poultry products remains strong and it has been one of the factors underpinning the sharp price inflation across many meat protein items. It is no coincidence that products showing the biggest price increases so far this year (beef briskets and short plates, pork ham and trimmings) tend to be items that are big export items. The export data for March underscored the significance of this demand driver, especially in the case of pork. According to USDA, total exports of fresh/frozen and processed pork jumped some 23% compared to the previous year. While much of the talk back in February was the potential for resumption of pork exports to Russia (this was before Ukraine blew up), Russia so far has not been a factor in US pork

US Beef, Pork and Broiler Monthly Export Volume as a Percentage of Total US Monthly Production



exports. Rather, the bulk of the gains came from a sharp increase in exports to Mexico and China/Hong Kong. For the month, US pork shipments to Mexico were pegged at 40,075 MT, 11,966 MT (+43%) higher than the previous year. Fears of PEDv expanding into Mexico and speculation of short pork supplies during the summer months likely encouraged many buyers/traders/exporters to try and get ahead of the market. Big export volume to Mexico helps explain the strength in the ham market so far this year. Exports to China/Hong Kong were 26,273 MT, 11,197 MT (+74%) higher than the previous year. The gains in exports to the Mexico and China/HK market accounted for about two thirds of the total increase in US pork exports. Shipments to Japan, the second largest market for US pork, were 36,959 MT, +3% higher than a year ago. It is important to recognize that while pork prices were sharply higher in the US, prices in some other parts of the world, particularly Asia and South America, also were sharply higher. This helped support demand for US product earlier this year. Exports to South Korea, a market that experienced a sharp appreciation in pork prices due to their own problems with PEDv, rose some 70% compared to a year ago. Colombia has emerged in the last 12-18 months as an important destination, with exports to that market up some 3000 MT (+185%) compared to year ago levels. It is unlikely that the current pace of exports will be sustained into the summer. In part because seasonally US pork supplies tend to drop. Still, there is evidence that demand for US pork in world markets remains strong, which will continue to underpin pork prices going forward, especially with the forthcoming shortfall in supplies due to high piglet mortality this past winter.





Implications: Pork supplies are tight and prices high in a number of Asian and Central/South American countries. This will tend to support export demand during the summer months. If PEDv impact is as bad as some fear (i.e. short of 8-10%) then this could mean another spike in pork prices , especially popular export items such as hams and pork shoulders and trimmings.

Beef exports were up 7.7% in March on robust demand for US products in key markets. One market that needs to be highlighted is Hong Kong, which has emerged as the third largest destination for US beef. Chinese demand is particularly strong for briskets, short plates, and to a lesser extent chucks. March beef shipments to Hong Kong were pegged at 11,997 MT, double what they were a year ago. Chinese buyers have been able to outbid a number of other markets in the past 12 months, a trend we have seen develop not just in the US but also Brazil, Australia and Uruguay. Beef exports to Mexico at 12,590 MT were almost double year ago levels. Japan remains the top market for US beef but March exports at 14,105 MT were down 15% from a year ago. Exports to Canada also declined some 36% as the weak Canadian dollar further compounded price appreciation. Domestic production is up in Canada as are imports from other markets, especially Australia. Normally US beef exports increase into the summer as production picks up. Asia demand for US beef remains strong and there are reports that China is getting close to approving US beef imports. Also, it was reported yesterday that Mexico will lift its age requirement for US beef exports, which would lower the cost of exporting beef to this market. Overall, the export picture for red meat remains positive and the strong demand should continue to underpin prices at a time when supplies are expected to decline.

Implications: Packers at this point are struggling with poor margins and will try to put money where the demand is. At this point, strongest demand appears to be for relatively inexpensive rounds/chucks and export items such as briskets and short plates.

Upcoming holidays:

2014 Victoria Day [Canada] (Monday May 19); Memorial Day (Monday May 26); Father's Day [US and Canada] (Sunday June 15); Canada Day [Canada] (Tuesday July 1); Independence Day (Friday July 4); 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 hog. For the week ending May 17 slaughter was 1.999 million head, down 1.9% from a year ago. In the last two weeks hog slaughter is down 5.2% vs. year ago levels.

Iowa/Minnesota, Base Lean Market Hog 185 lbs. Carcass Values. Lean hog carcass values at about 108.96 /cwt. on Friday were down about $4/cwt since Wed. May 7. Prices are still up about $17 /cwt compared to year ago values.

Loin, 1/4 Trimmed Loin VAC, FOB Plant, USDA (page 8). Prices finished last week at $1.3663, up about 8 cent since the Wed. May 7 quote and up about 18 cents from year ago levels.

Bnls. Strap on Pork Loins. Prices finished the week at $1.7279 for the strap on loins, up about 4 cents since Wed. May 7 and up about 5 cents from the year ago levels. Strap off loins at $1.9336 are up about 8 cent since Wed. May 7 and up about 13 cents compared to the year ago quote.

Boneless sirloins at $1.6421 are up about 5 cents from the Wed. May 7 quote and up about 43 cents from the year ago price.

Pork tenderloin finished last week at $2.7619, down about 4 cents since the Wed. May 7 quote but up about 8 cents from the year ago price.

5/10 Pork Butts (page 10), prices finished the week at $1.5430, down about 3 cents since Wed. May 7.

Spare Ribs, Trimmed - LGT, Vac (page 8). Prices finished the week at $1.7469, up about 4 cent since Wed. May 7 and up about 25 cents from year ago levels.

Rib inventories on March 31 were 120.3 million pounds, down 2 percent from a year ago.

Bone-in Hams.

17/20 hams (page 9) price was $1.1171/lb., up about 5 cents since Wed. May 7 and up about 38 cents from a year ago.

20/23 hams finished the week at 113.49 cents, up about 3 cents since Wed. May 7 and up about 47 cents from the year ago level.

23/27 hams finished the week at 102.92 , down about 3 cents from the Wed. May 7 quote but up about 34 cents from the year ago level.

Total ham cold storage stocks on March 31 at 89.6 million pounds were up about 6 percent from year ago levels.

42 CL Pork Trim "FOB Basis". Prices finished the week at 67.23 , up about 2.6 cent since Wed. May 7 and up about 21 cents from the year ago price.

72 CL Pork Trim "FOB Basis". Prices finished the week at 108.33 cents, down about 10 cents since the Wed. May 7 quote but up about 52 cents from the year ago level.

Freezer stocks of all trimmings on March 31 were 36.9 million pounds, down about 44 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 $108.75 was up about 5 cents from a year ago.

The National Whole Bird price was quoted at 116.72 on Friday May 17, up about 6 cents from a year ago.

Broiler slaughter for the week ending May 17 was 153.79 million head, down 2.01% from a year ago. For the last two weeks slaughter was down 1.1% vs. a year ago.

Breasts. Prices on boneless skinless breasts finished the week at $1.8484, up 7 cents since Wed. May 7 but also down about 16 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 up about 0.9 cents vs. year ago price at 49.83 . Prices trend modestly higher the next few months. However, Mexico could be a significant issue any time.

Wings. Prices at $1.3808 are up about 0 cents from year ago levels.

Turkeys

Hens finished last week at $1.0900, unchanged since Wed. May 7 but up about 7 cents from the year ago price.

Toms finished last week at $1.0900, unchanged since Wed. May 7 but up about 7 cent from the year ago price.

Total turkey supplies in the freezer on March 31 were down about 16 percent from a year ago at 335.9 million pounds. Whole birds were down 14 percent from year ago with an inventory of 162.4 million pounds.

Turkey slaughter was 4.1720 million head for the week ending May 10, down -7.51% from a year ago. For the last two weeks slaughter has been down 7.4%.

Boneless Turkey Breast Meat. Boneless skinless turkey breast meat prices finished last week at $3.6000, up 10 since Wed. May 7. Prices are up about 53 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 $7.2338 (weighted average quote) finished last week up about 6 cents since the Wed. May 7 quote and up about 36 cents vs. the year ago price.

Select 112A Heavy Lip On Rib Eyes at $6.5911 (weighted average quote) finished last week up about 45 cents since the Wed. May 7 quote but up about 95 cents vs. the year ago price.

Currently Choice 112A Rib Eyes are $0.6427 /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 $2.2201 down about 5 cents since Wed. May 7 but up about 16 cents from the year ago price.

Choice ¼ inch trimmed #168 insides finished last week quoted at $2.3789 down about 6 cents since Wed. May 7 and up about 18 cents from year ago levels.

Choice #170 Gooseneck Rounds finished last week at $2.1511 up about 2 cents since Wed. May 7 and up about 25 cents from the year ago levels.

Choice #180 (0x1) Bnls. Strip Loins finished last week quoted at $5.6368 (wt. avg.) down about 37 cents from the Wed. May 7 quote. Prices are about 220 cents over year ago levels.

Choice #184 Regular Heavy top butts finished at $3.4950 (wt. avg.) down about 11 cents since Wed. May 7 but up about 19 cents from year ago levels.

Choice #184 ¼ inch trimmed Top Butts finished at $3.7942 (wt. avg.) up about 11 cents since Wed. May 7 and up about 20 cents from the year ago levels.

Choice #185A Flap Meat prices finished Friday at $5.0280 (wt. avg.) down about 25 cents since Wed. May 7 and down about 6 cents from year ago values.

COARSE GROUND BEEF –

73CL Coarse Ground product finished last week at $1.8966 up about 2 cents since

Wed. May 7 and up about 14 cents from year ago levels.

81CL Coarse Ground product finished last week at $2.0478 up about 14 cent since Wed. May 7 and up about 8 cents from the year ago quote.

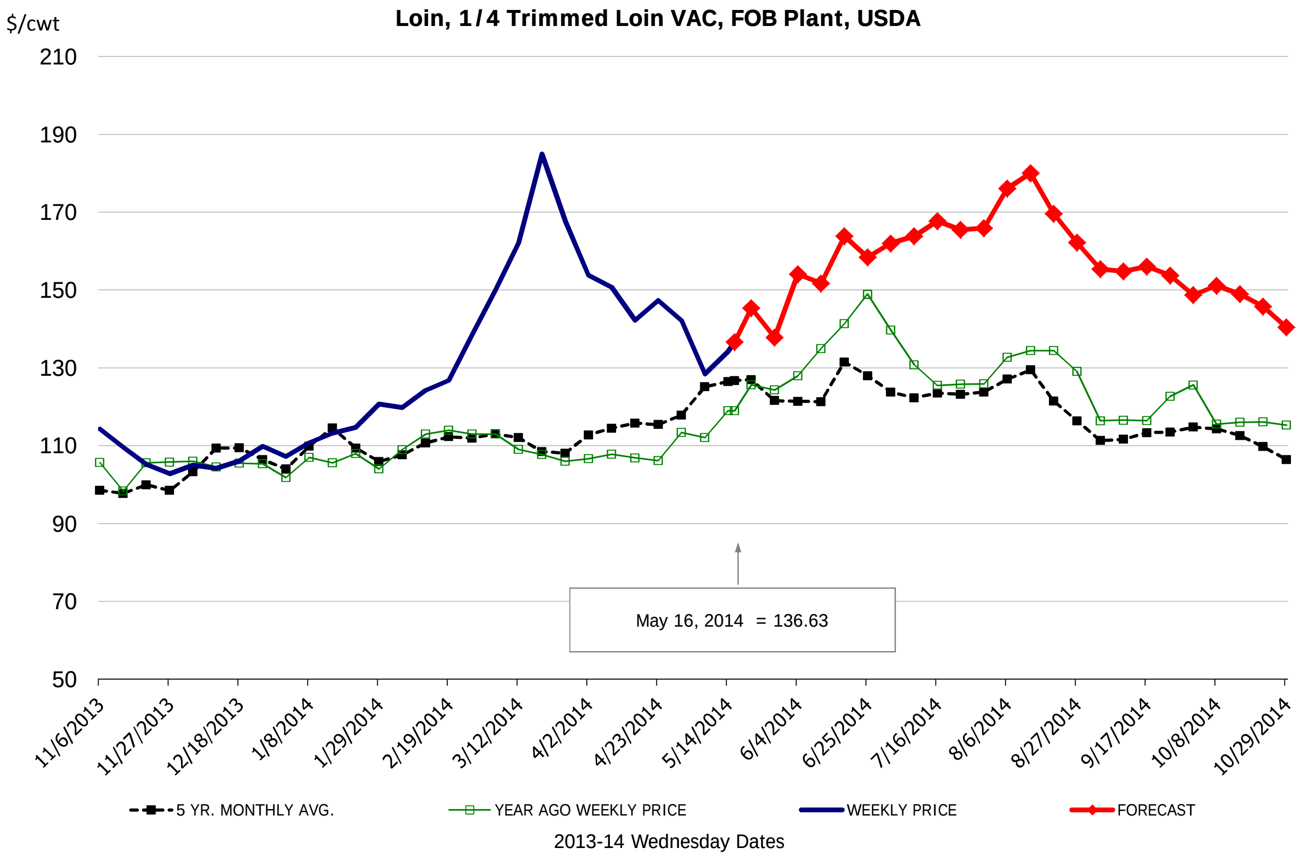
90CL Bnls. Beef prices finished the week at $2.4372 (wt. avg.) up about one cent since Wed. May 7 and up 43 compared to the year ago price quote. Ranchers are trying to hold more beef cows and lean beef supplies remain in limited supply

50 CL Beef Trim prices finished last week at $1.3258, up about 8 cent since Wed. May 7 and up 39 compared to the year ago level.

Food Service Summary Table - WT. AVE

	2013-14 History								2014 FORECAST						
	Nov	Dec	Jan	Feb	Mar	Apr	5/7/2014	5/16/2014	5/28/2014	May	Jun	Jul	Aug	Sep	Oct
PORK															
Loin, 1/4 Trimmed Loin VAC, FOB Plant, USDA	1.07	1.06	1.14	1.27	1.65	1.47	1.28	1.37	1.38	1.43	1.57	1.65	1.72	1.55	1.47
Loin, 1/8 Trimmed Loin VAC, FOB Plant, USDA	1.17	1.12	1.20	1.34	1.73	1.58	1.43	1.45	1.48	1.52	1.60	1.69	1.74	1.57	1.48
Loin, Bnls CC Strap-off, FOB Plant, USDA	1.73	1.71	1.78	1.84	2.35	2.12	1.86	1.93	1.94	1.99	2.07	2.34	2.47	2.35	2.29
Loin, Tenderloin, FOB Plant, USDA	2.29	2.32	2.41	2.54	2.76	2.78	2.80	2.76	2.76	2.78	2.97	2.97	2.93	2.81	2.72
Butt, 1/4 Trim Butt Combo, FOB Plant, USDA	0.99	0.99	1.06	1.16	1.61	1.60	1.60	1.57	1.57	1.58	1.56	1.50	1.49	1.44	1.38
Sparerib, Trmd Sparerib - LGT, FOB Plant, USDA	1.47	1.42	1.52	1.61	1.82	1.76	1.71	1.75	1.64	1.75	1.84	1.81	1.86	1.62	1.65
Sparerib, St Louis Spareribs, POLY, FZN, FOB Plant, USDA	2.28	2.21	2.20	2.29	2.45	2.54	2.67	2.51	2.58	2.75	2.76	2.58	2.64	2.34	2.36
Sparerib, Trmd Sparerib - MED, FOB Plant, USDA	1.38	1.36	1.46	1.53	1.74	1.64	1.57	1.67	1.59	1.69	1.79	1.80	1.85	1.63	1.62
Loin, Backribs 2.0#/up, FOB Plant, USDA	2.05	2.03	2.16	2.33	2.71	2.63	2.65	2.67	2.80	2.87	2.89	2.81	2.80	2.52	2.43
Ham, 17-20# Trmd Selected Ham, FOB Plant, USDA	1.01	0.98	0.78	0.86	1.06	1.19	1.07	1.12	1.11	1.11	1.12	1.14	1.19	1.17	1.22
Ham, 20-23# Trmd Selected Ham, FOB Plant, USDA	0.93	0.81	0.74	0.85	1.12	1.14	1.11	1.13	1.09	1.11	1.11	1.13	1.16	1.15	1.16
Ham, 23-27# Trmd Selected Ham, FOB Plant, USDA	0.87	0.80	0.74	0.84	0.99	1.02	1.06	1.03	1.02	1.03	1.07	1.12	1.16	1.12	1.10
Ham, 5 Muscle Ham to Blue, FOB Plant, USDA	1.43	1.40	1.21	1.30	1.49	1.48	1.46	1.50	1.35	1.34	1.31	1.33	1.34	1.31	1.31
Belly, Skin-on Belly 14-16#, FOB Plant, USDA	1.21	1.14	1.07	1.34	1.77	1.85	1.55	1.58	1.59	1.63	1.79	2.10	2.18	1.96	1.71
Belly, Derind Belly 9-13#, FOB Plant, USDA	1.63	1.53	1.44	1.65	2.15	2.08	1.87	1.84	1.92	1.84	2.15	2.40	2.32	2.25	2.08
Belly, Derind Belly 13-17#, FOB Plant, USDA	1.58	1.48	1.38	1.58	2.14	1.94	1.64	1.70	1.90	1.82	2.13	2.38	2.30	2.23	2.06
Trim, 42% Trim Combo, FOB Plant, USDA	0.38	0.32	0.35	0.43	0.71	0.71	0.65	0.67	0.67	0.66	0.79	0.91	0.90	0.76	0.66
Trim, 72% Trim Combo, FOB Plant, USDA	0.73	0.64	0.70	0.91	1.23	1.30	1.18	1.08	1.17	1.13	1.30	1.35	1.30	1.04	1.04
HOG CARCASS															
IA/MN, Base Market Hog 185 lb Carcass Basis, Plant Dlv.	0.80	0.78	0.79	0.89	1.17	1.19	1.13	1.09	1.09	1.11	1.19	1.23	1.21	1.09	1.04
BROILERS															
BROILER, NATIONAL WHOLE BIRD PRICE, USDA	0.94	0.95	0.96	0.92	1.06	1.10	1.12	1.17	1.16	1.15	1.12	1.07	1.05	1.04	1.02
N.E. BROILER BREAST BONELESS-SKINLESS, USDA	1.26	1.26	1.25	1.27	1.48	1.73	1.78	1.85	1.99	2.03	1.96	1.87	1.85	1.80	1.60
N.E. BROILER BREAST LINE RUN, USDA	0.98	0.94	0.93	0.85	0.91	1.06	1.15	1.19	1.29	1.28	1.28	1.29	1.33	1.26	1.10
N.E. BROILER LEG QUARTERS, USDA	0.44	0.43	0.43	0.42	0.44	0.48	0.49	0.50	0.50	0.50	0.51	0.51	0.53	0.53	0.51
N.E. BROILER WINGS, USDA, WT.AVG.	1.21	1.21	1.30	1.27	1.38	1.42	1.36	1.38	1.41	1.42	1.44	1.46	1.48	1.51	1.55
TURKEYS															
UB HEN TURKEYS, EAST, FROZEN 10-12LBS	1.10	1.10	1.03	1.03	1.06	1.08	1.09	1.09	1.12	1.10	1.14	1.17	1.18	1.19	1.20
UB BONELESS-SKINLESS TURKEY BREAST, TOM, FRESH	2.19	2.16	2.16	2.16	2.42	3.26	3.50	3.60	3.66	3.60	3.60	3.60	3.68	3.82	3.79
LIVE STEERS															
FIVE AREA DIRECT AVERAGE LIVE STEER, USDA	1.31	1.31	1.40	1.43	1.50	1.49	1.48	1.48	1.42	1.44	1.38	1.36	1.38	1.41	1.43
BEEF															
CHOICE, 112A, 3 RIBEYE, BONELESS, HEAVY, USDA	7.41	6.45	5.77	5.61	6.32	6.68	7.18	7.23	7.24	7.24	7.49	6.88	6.78	7.05	7.44
CHOICE, 168, 3 TOP INSIDE ROUND, 1/4" MAX, USDA	2.27	2.30	2.67	2.55	3.04	2.68	2.44	2.38	2.39	2.40	2.42	2.38	2.53	2.57	2.57
CHOICE, 170, 1 BOTTOM GOOSENECK ROUND, USDA	2.11	2.09	2.57	2.53	2.51	2.18	2.13	2.15	2.18	2.18	2.18	2.18	2.26	2.34	2.44
CHOICE, 180, 3 STRIP LOIN, BONELESS, 0x1, USDA	4.70	4.75	5.00	5.00	6.76	6.30	6.01	5.64	5.98	6.00	6.45	5.86	5.66	5.60	5.31
CHOICE, 184, 3 TOP BUTT, BONELESS, USDA	2.79	2.78	2.95	2.96	3.50	3.51	3.73	3.79	3.58	3.79	3.35	3.33	3.46	3.38	3.04
CHOICE, 185A, 4 BOTTOM SIRLOIN, FLAP, USDA	3.60	3.66	4.21	3.99	4.72	5.04	5.28	5.03	5.20	5.19	5.34	5.07	4.51	4.09	3.93
COARSE GROUND 73%, USDA	1.66	1.71	2.29	2.06	2.24	1.89	1.88	1.90	1.99	2.06	1.85	1.82	1.86	1.86	1.78
COARSE GROUND 81%, USDA	1.82	1.86	2.45	2.28	2.51	2.03	1.91	2.05	2.21	2.25	2.10	1.99	2.04	2.09	1.98
90% BONELESS BEEF, CENTRAL, FRESH, USDA	1.91	2.02	2.19	2.38	2.61	2.49	2.43	2.44	2.43	2.45	2.38	2.36	2.32	2.27	2.16
50CL BEEF TRIM, FRESH, NATIONAL, USDA	1.11	0.95	1.05	1.10	1.47	1.22	1.24	1.33	1.23	1.32	1.18	1.17	1.18	1.10	1.15

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


$/cwt
Loin, 1/4 Trimmed Loin VAC, FOB Plant, USDA
210
190
170
150
130
110
90
70
50
May 16, 2014 = 136.63
11/6/2013
11/27/2013
12/18/2013
1/8/2014
1/29/2014
2/19/2014
3/12/2014
4/2/2014
4/23/2014
5/14/2014
6/4/2014
6/25/2014
7/16/2014
8/6/2014
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9/17/2014
10/8/2014
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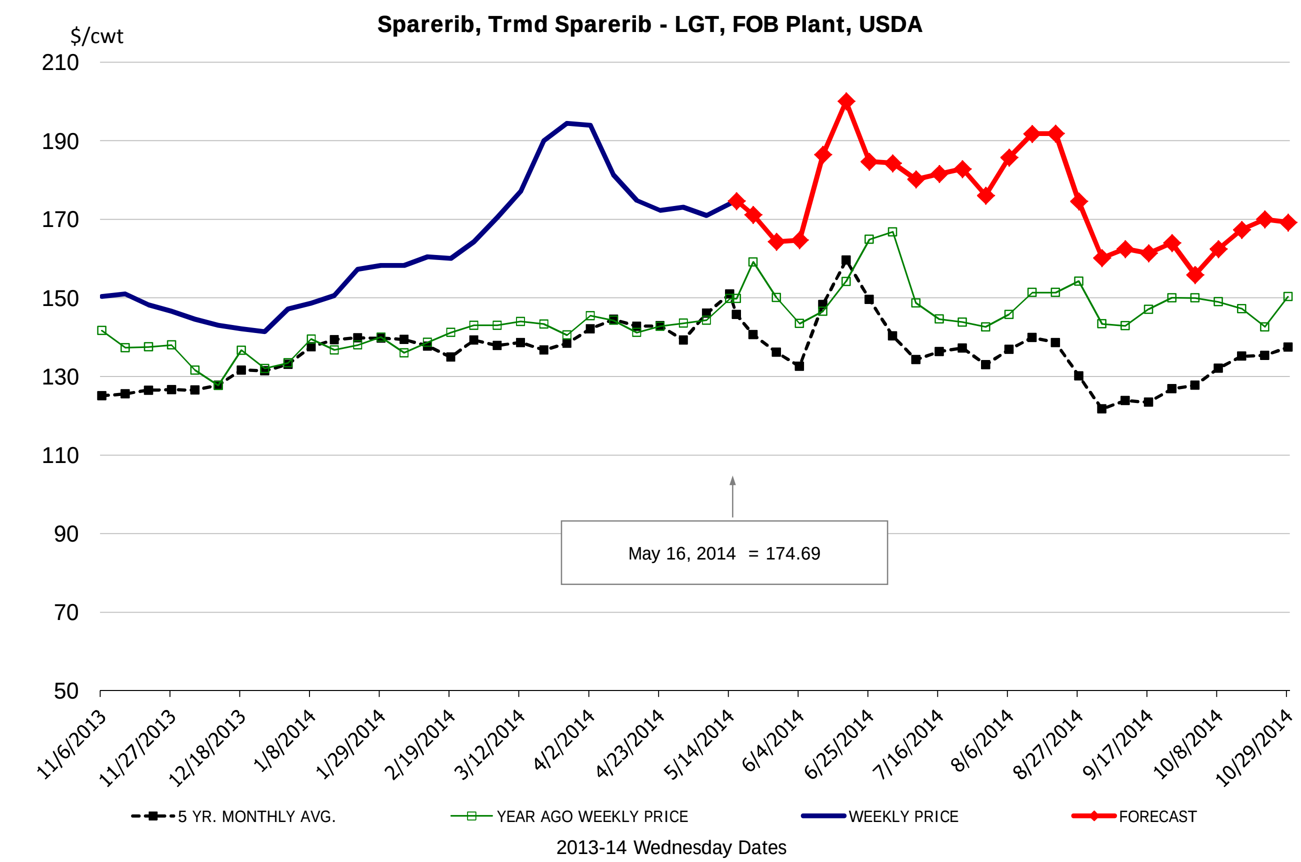
5 YR. MONTHLY AVG.
YEAR AGO WEEKLY PRICE
WEEKLY PRICE
FORECAST
2013-14 Wednesday Dates


$/cwt
Sparerib, Trmd Sparerib - LGT, FOB Plant, USDA
210
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150
130
110
90
70
50
May 16, 2014 = 174.69
11/6/2013
11/27/2013
12/18/2013
1/8/2014
1/29/2014
2/19/2014
3/12/2014
4/2/2014
4/23/2014
5/14/2014
6/4/2014
6/25/2014
7/16/2014
8/6/2014
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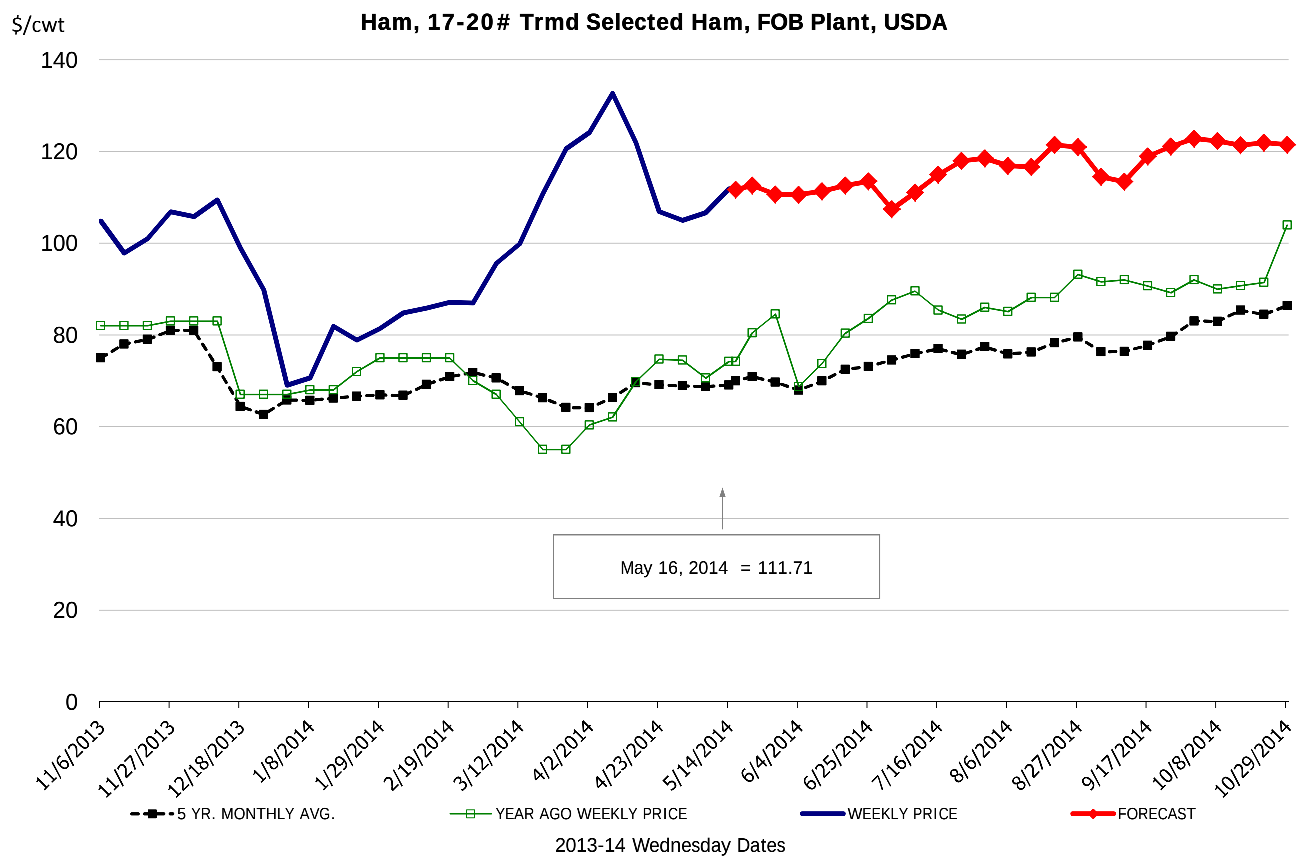
$/cwt
Ham, 17-20# Trmd Selected Ham, FOB Plant, USDA
140
120
100
80
60
40
20
0
May 16, 2014 = 111.71
11/6/2013
11/27/2013
12/18/2013
1/8/2014
1/29/2014
2/19/2014
3/12/2014
4/2/2014
4/23/2014
5/14/2014
6/4/2014
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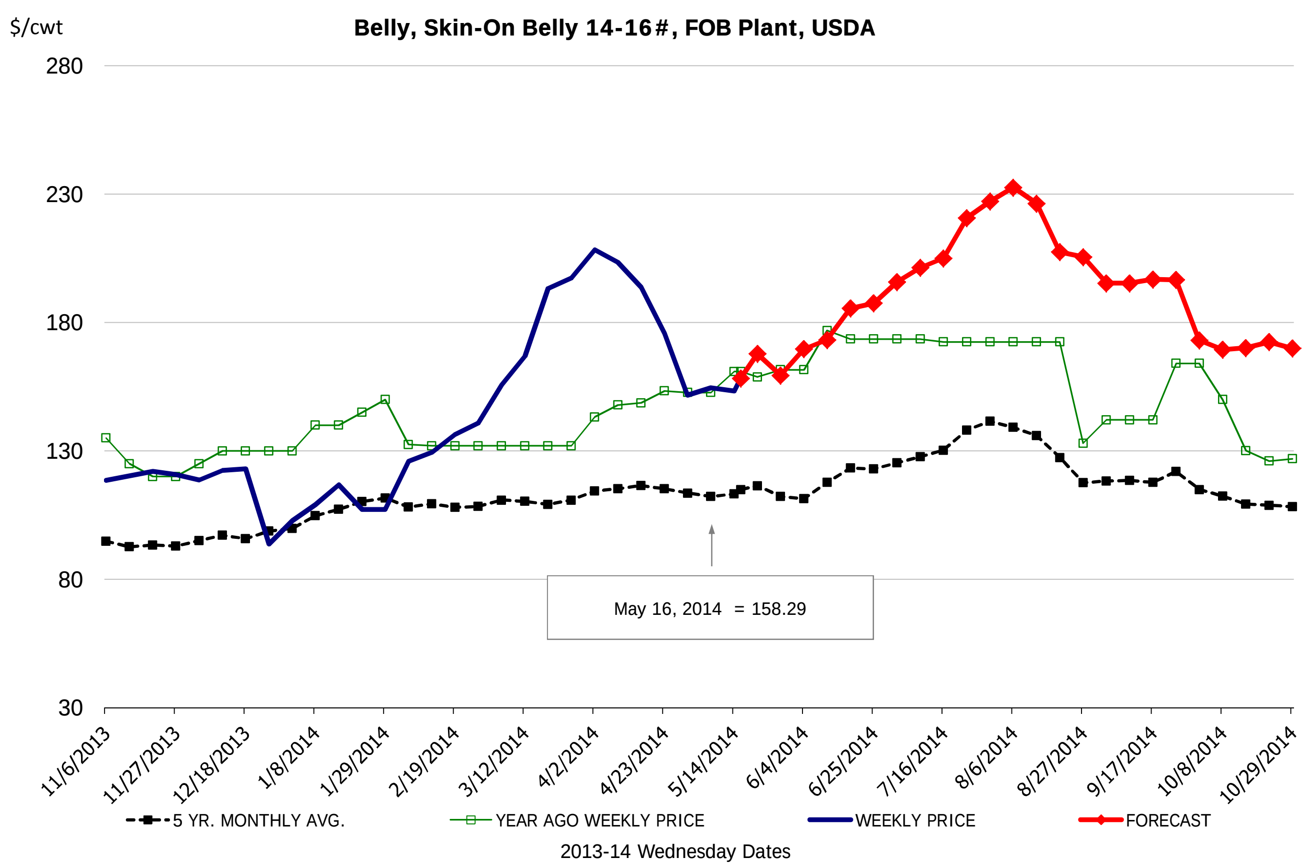
$/cwt
Belly, Skin-On Belly 14-16#, FOB Plant, USDA
280
230
180
130
80
30
May 16, 2014 = 158.29
11/6/2013
11/27/2013
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1/29/2014
2/19/2014
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4/2/2014
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5/14/2014
6/4/2014
6/25/2014
7/16/2014
8/6/2014
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10/8/2014
10/29/2014
5 YR. MONTHLY AVG.
YEAR AGO WEEKLY PRICE
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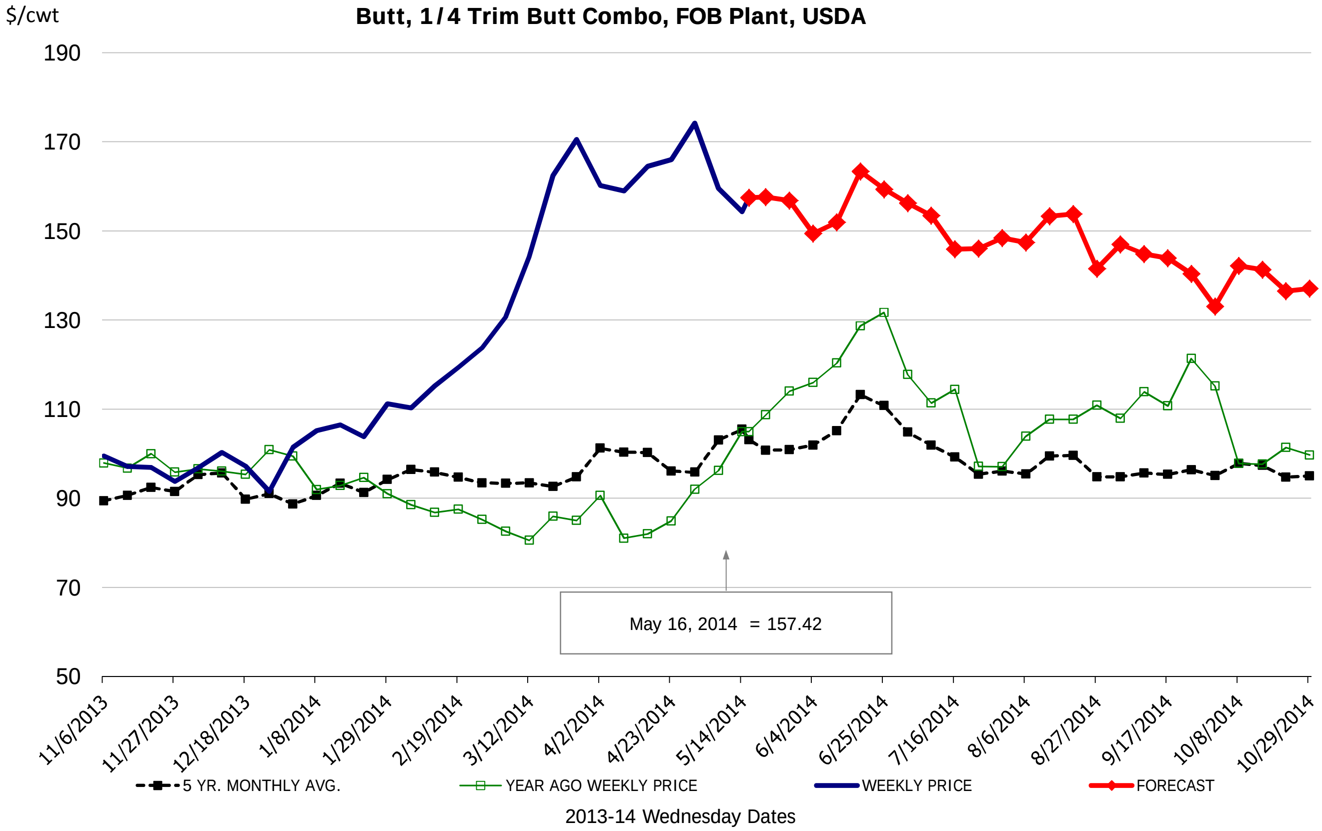
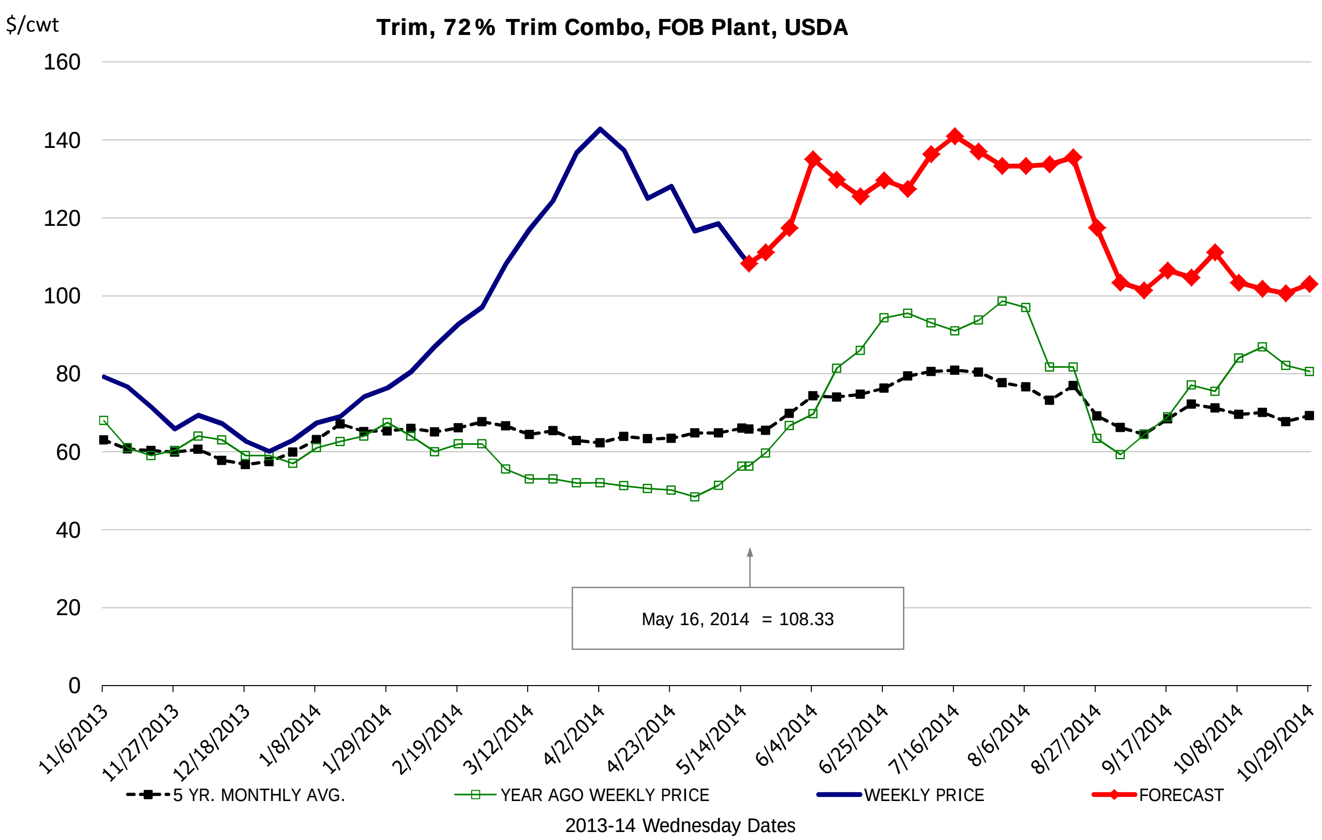
FORECAST
2013-14 Wednesday Dates

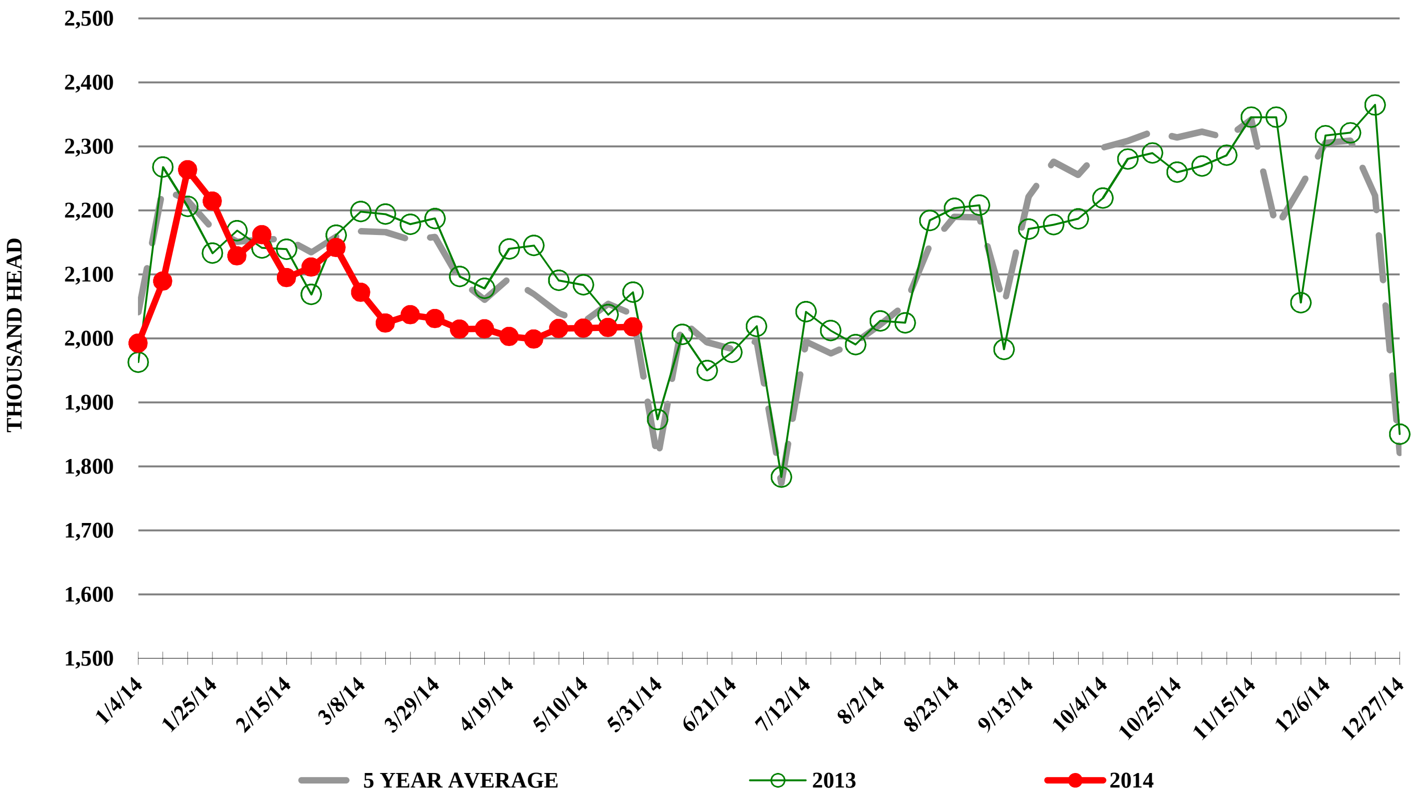
Butt, 1/4 Trim Butt Combo, FOB Plant, USDA



Trim, 72% Trim Combo, FOB Plant, USDA



ESTIMATED WEEKLY FI HOG SLAUGHTER



ESTIMATED WEEKLY FI PORK PRODUCTION