Pork Merchandiser's **Profit Maximizer**

- Foodservice Edition

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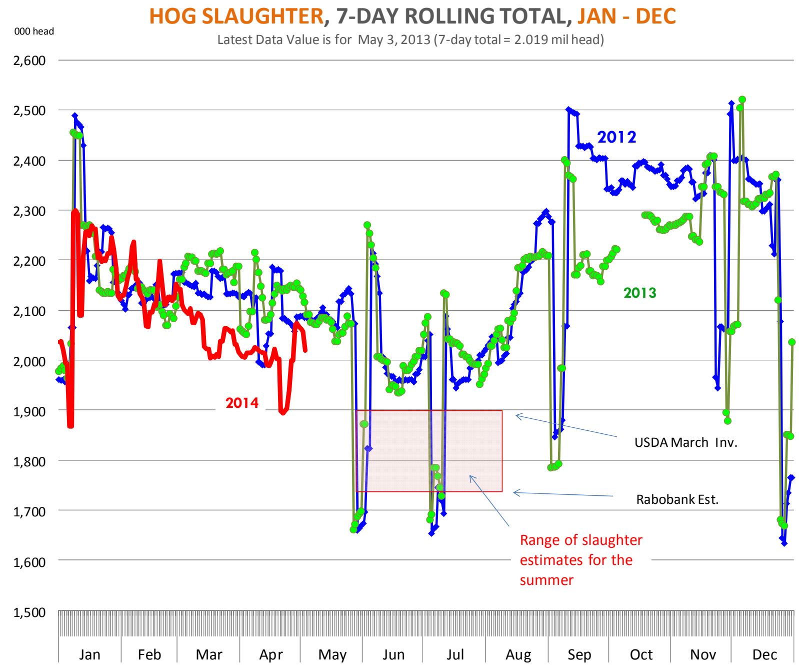
May 5, 2014

After panic buying, spot pork market is better supplied...but for how long?

Pork prices rose sharply in March and early April as short spot supplies and speculation of dramatic cutbacks during the summer months caused a frenzy in pork product markets. The spike in pork prices also should be seen in the context of record high beef prices, especially in the price of retail staples such as ground beef and round cuts. As expected, however, the spike in prices came too quickly and clearly was vastly overvalued given the actually supply conditions in the market place. Yes, hog slaughter declined in March and early April but a good portion of the decline was offset by heavier hog carcass weights. Significant forward premiums for hogs also had the effect of causing producers to further slow down marketings, which for the moment amplified the effect of supply shortages. Eventually, however, the hogs need to come to market and based on the real time weight data reported by USDA, hog producers are well behind in their marketings, with producer owned hogs now some 5% heavier than a year ago. These kind of weight increases are unheard of.

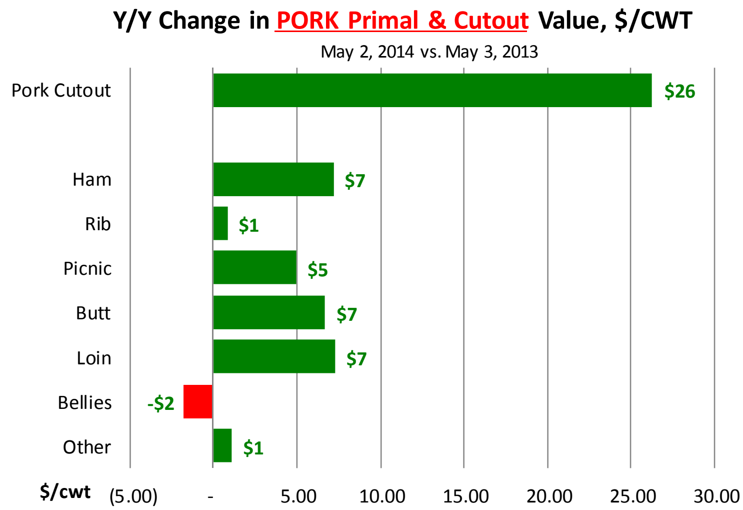
So where do we go from here? Is all the talk about pig losses due to PEDv just a hype or should market participants still remain concerned about pork supplies going into the

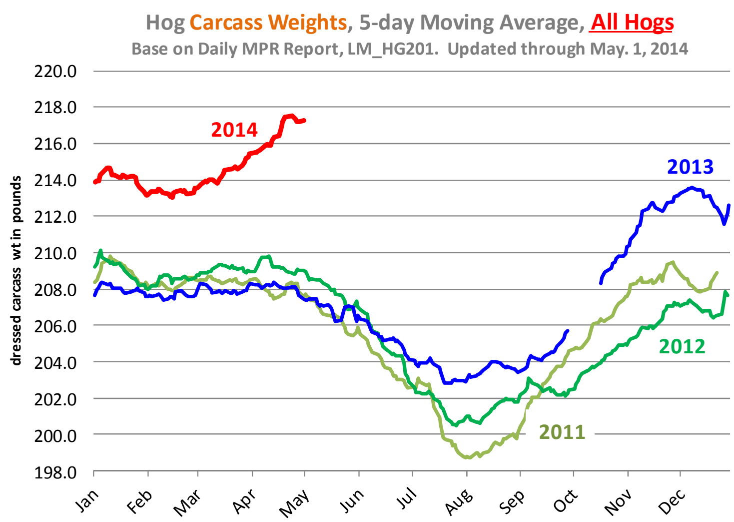


summer? What is the price outlook for pork prices and what items have the most upside risk in the next three months? Let's answer briefly each one of those questions:

- **<u>Is talk of PEDv just hype</u>**? We don't think so. While the market may have overreacted and ran up prices too high in March, we still think PEDv remains a significant concern in the short term. The issue in March was that short term quantity demanded was very inelastic and therefore led to prices that simply were not sustainable. Now that retailers and processors are pushing the highest costs through to the consumer, we are seeing the market slowly return to balance. The surge in hog weights also has helped bolster total pork supplies. Consider that in the last four weeks, hog slaughter has been down about 5% compared to a year ago while hog carcass weights have been somewhere around 4.5-5% above last year's levels. So for the past month, pork producers have been bringing to market about the same amount of pork as a year ago even as pork prices were indicating a dramatic rationing needed to take place (price of trim was up 185% for instance).

- ? We have yet to see the full impact of the PEDv outbreak. There was a significant increase in the number of PEDv cases during the Dec– Mar period, which should correspond roughly to the May - Aug slaughter. The decline in slaughter during March and early April reflected the outbreak of PEDv in North Carolina in October. The number of cases and losses in Iowa and surrounding states during the winter months were much more significant. On page 1 we have shown the latest hog slaughter numbers and have highlighted the range of the potential shortfall in hog marketings during summer. As for May slaughter, our expectation is for weekly slaughter of around





1.96-1.97 million hogs, which would represent a 6% decline compared to a year ago. The next two weeks will be a good test of the numbers from the USDA Hogs and Pigs report (so far it has been off by about 1%). We think there will be some effort on part of pork producers to get a bit more current in their marketings. As we go into June, there is a wide range of opinions as far a hog slaughter. Our expectation is for slaughter to be down 7-8% from a year ago, with weights up about 3-4%. Summer heat remains a key wild card and rising feed costs also are a concern for hog producers. Some of the more bullish estimates have weekly hog slaughter at around 1.75 million head in June and July, which would represent a 12-13% reduction.

Note the normal seasonal increase in supplies in Q4, however. Even with PEDv, the pork supply outlook should be much different, which is reflected in our forecasts for later in 2014 and in 2015.

- Price Outlook. We still expect significant price appreciation for the summer months. While prices for some items, especially loins, will tend to be weaker after June, other items (bellies) are currently undervalued and likely will rebound once slaughter numbers start running light. Trim prices also should stay high in June and July, supported by the decline in slaughter and seasonal demand. High trim values will set a floor under ham prices.

Bottom line: The pork market will likely remain extremely volatile in the next few months. There is still significant risk that the spread of PEDv during the winter months will constrain pork prices this summer. We urge you to look at the recent dip in prices as an opportunity to get additional protection, if possible, for the Jun - Aug period.

Upcoming holidays:

2014 Passover (Tuesday April 15); Easter (Sunday April 20); Cinco de Mayo (Monday May 5); Mother's Day (Sunday May 11); 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 3 slaughter was 2.019 million head, down 3.4% 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 112.33 /cwt. on Friday were down about $4/cwt since Wed. April 23.

Prices are still up about $25 /cwt compared to year ago values.

Loin, 1/4 Trimmed Loin VAC, FOB Plant, USDA (page 8). Prices finished last week at $1.3885, down about 8 cent since the Wed. April 23 quote but up about 25 cents from year ago levels.

Bnls. Strap on Pork Loins. Prices finished the week at $1.6653 for the strap on loins, down about 25 cents since Wed. April 23 but up about 24 cents from the year ago levels. Strap off loins at $1.9637 are down about 24 cent since Wed. April 23 but up about 34 cents compared to the year ago quote.

Boneless sirloins at $1.6356 are down about 9 cents from the Wed. April 23 quote but up about 42 cents from the year ago price.

Pork tenderloin finished last week at $2.7052, down about 14 cents since the Wed. April 23 quote but up about 12 cents from the year ago price.

5/10 Pork Butts (page 10), prices finished the week at $1.6712, up about one cents since Wed. April 23.

Spare Ribs, Trimmed - LGT, Vac (page 8). Prices finished the week at $1.6528, down about 7 cent since Wed. April 23 but up about 22 cents from year ago levels.

Rib inventories on February 28 were 122.6 million pounds, up 3 percent from a year ago.

Bone-in Hams.

17/20 hams (page 9) price was $1.0532/lb., down about 2 cents since Wed. April 23 but up about 31 cents from a year ago.

20/23 hams finished the week at 106.29 cents, up about 1 cents since Wed. April 23 and up about 30 cents from the year ago level.

23/27 hams finished the week at 101.93 , down about 3 cents from the Wed. April 23 quote but up about 28 cents from the year ago level.

Total ham cold storage stocks on February 28 at 117.2 million pounds were up about 6 percent from year ago levels.

42 CL Pork Trim "FOB Basis". Prices finished the week at 61.33 , down about 7.6 cent since Wed. April 23 but up about 23 cents from the year ago price.

72 CL Pork Trim "FOB Basis". Prices finished the week at 118.80 cents, down about 9 cents since the Wed. April 23 quote but up about 70 cents from the year ago level.

Freezer stocks of all trimmings on March 31 were 36.9 million pounds, down about 41 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 $108.25 was up about 5 cents from a year ago.

The National Whole Bird price was quoted at 110.30 on Friday, April 26, up about 3 cents from a year ago.

Broiler slaughter for the week ending May 3 was 155.70 million head, up 0.05% from a year ago. For the last two weeks slaughter was down 1.2% vs. a year ago.

Breasts. Prices on boneless skinless breasts finished the week at $1.7714, up 1 cents since Wed. April 23 but also down about 7 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 1.0 cents vs. year ago price at 50.51 . Prices trend modestly higher the next few months. However, Mexico could be a significant issue any time.

Wings. Prices at $1.4138 are up about 3 cents from year ago levels.

Turkeys

Hens finished last week at $1.0900, unchanged since Wed. April 23 but up about 7 cents from the year ago price.

Toms finished last week at $1.0900, unchanged since Wed. April 23 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 4.2190 million head for the week ending April 26, down -3.48% from a year ago. For the last two weeks slaughter has been down 10.0%.

Boneless Turkey Breast Meat. Boneless skinless turkey breast meat prices finished last week at $3.5000, up 15 since Wed. April 23. Prices are up about 52 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 $6.9111 (weighted average quote) finished last week down about 4 cents since the Wed. April 23 quote but up about 72 cents vs. the year ago price.

Select 112A Heavy Lip On Rib Eyes at $6.5178 (weighted average quote) finished last week up about 13 cents since the Wed. April 23 quote but up about 108 cents vs. the year ago price.

Prices should benefit in the next few weeks from a seasonal improvement in foodservice demand. A colder than normal winter has created plenty of pent up demand and we expect prices to move up in May

Currently Choice 112A Rib Eyes are $0.3933 /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 $2.4452 down about 5 cents since Wed. April 23 but up about 43 cents from the year ago price.

Choice ¼ inch trimmed #168 insides finished last week quoted at $2.5733 down about 15 cents since Wed. April 23 and up about 45 cents from year ago levels.

Choice #170 Gooseneck Rounds finished last week at $2.1850 down about 4 cents since Wed. April 23 but up about 26 cents from the year ago levels.

Choice #180 (0x1) Bnls. Strip Loins finished last week quoted at $6.3710 (wt. avg.) down about 4 cents from the Wed. April 23 quote. Prices are about 51 cents over year ago levels.

Choice #184 Regular Heavy top butts finished at $3.5017 (wt. avg.) down about one cents since Wed. April 23 but up about 27 cents from year ago levels.

Choice #184 ¼ inch trimmed Top Butts finished at $3.7252 (wt. avg.) down about 11 cents since Wed. April 23 but up about 26 cents from the year ago levels.

Choice #185A Flap Meat prices finished Friday at $5.2410 (wt. avg.) down about one cents since Wed. April 23 but up about 74 cents from year ago values.

COARSE GROUND BEEF –

73CL Coarse Ground product finished last week at $1.9042 down about 8 cents since Wed. April 23 but up about 13 cents from year ago levels.

81CL Coarse Ground product finished last week at $1.8852 down about 20 cent since Wed. April 23 and down about 5 cents from the year ago quote.

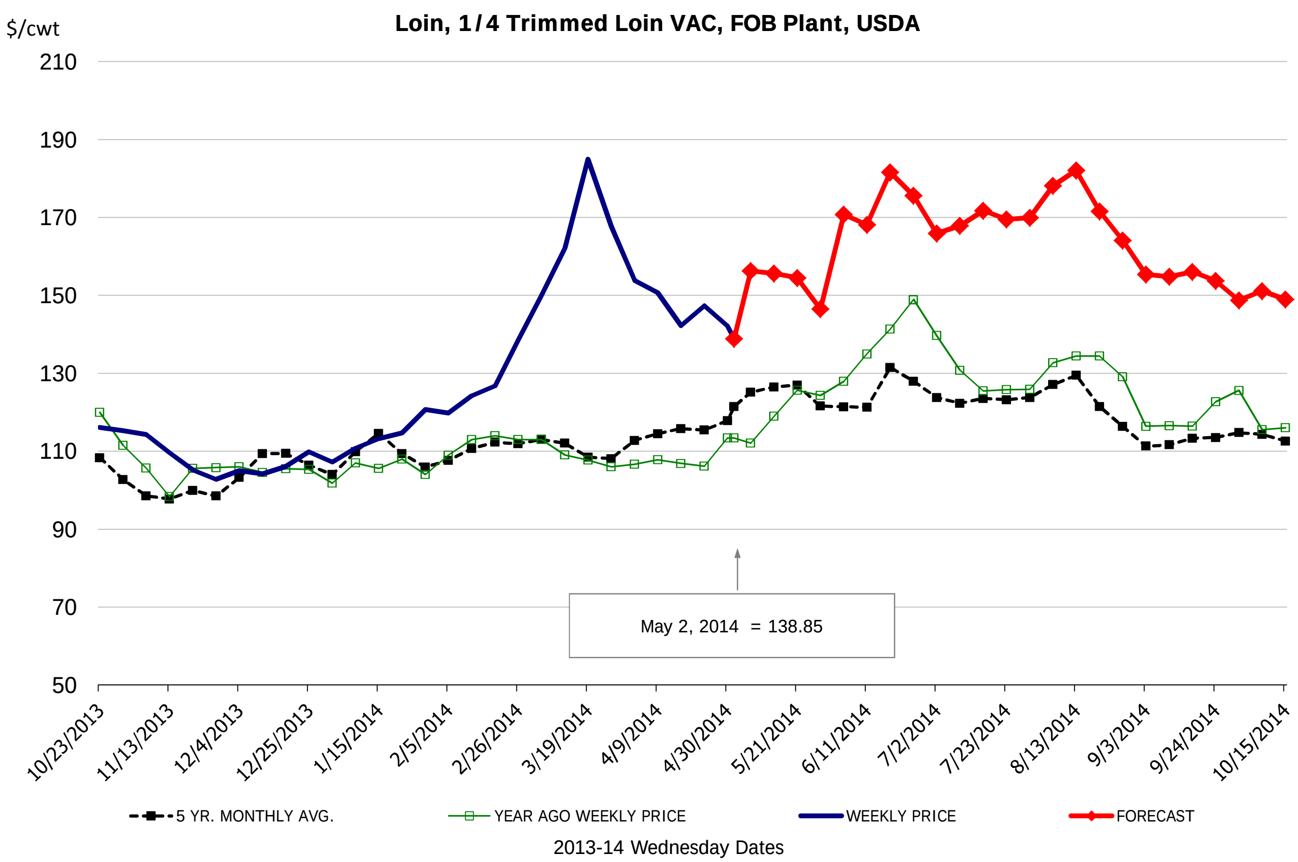
90CL Bnls. Beef prices finished the week at $2.4520 (wt. avg.) down about one cent since Wed. April 23 but up 41 compared to the year ago price quote. Ranchers are trying to hold more beef cows and lean beef supplies remain in limited supply

50 CL Beef Trim prices finished last week at $1.2375, down about 10 cent since Wed. April 23 but up 25 compared to the year ago level.

Food Service Summary Table - WT. AVE

	2013-14 History								2014 FORECAST						
	Nov	Dec	Jan	Feb	Mar	Apr	4/23/2014	5/2/2014	5/14/2014	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	1.47	1.39	1.56	1.52	1.74	1.69	1.74	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	1.61	1.49	1.68	1.62	1.73	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	2.20	1.96	2.43	2.34	2.52	2.42	2.55	2.35	2.29
Loin, Tenderloin, FOB Plant, USDA	2.29	2.32	2.41	2.54	2.76	2.78	2.84	2.71	2.91	2.85	3.02	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	1.66	1.64	1.64	1.58	1.61	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	1.72	1.65	1.98	1.85	1.94	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	2.62	2.56	2.94	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	1.59	1.56	1.91	1.79	1.89	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	2.55	2.61	2.97	2.91	2.99	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	1.05	1.06	1.06	1.09	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	1.05	1.06	1.05	1.04	1.04	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	1.05	1.02	1.03	1.02	1.03	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	1.48	1.48	1.34	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	1.76	1.55	1.92	1.94	2.06	2.20	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	1.83	1.69	2.17	2.17	2.35	2.52	2.52	2.36	2.08
Belly, Derind Belly 13-17#, FOB Plant, USDA	1.58	1.48	1.38	1.58	2.14	1.94	1.73	1.73	2.16	2.16	2.34	2.51	2.51	2.35	2.07
Trim, 42% Trim Combo, FOB Plant, USDA	0.38	0.32	0.35	0.43	0.71	0.71	0.69	0.61	0.66	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	1.28	1.19	1.23	1.23	1.40	1.45	1.40	1.09	1.09
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	1.16	1.12	1.20	1.16	1.24	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	1.11	1.10	1.12	1.11	1.09	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	1.76	1.77	2.05	2.03	1.90	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	1.10	1.11	1.29	1.28	1.25	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	0.50	0.51	0.52	0.51	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	1.46	1.41	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	1.11	1.11	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	3.35	3.50	3.51	3.50	3.50	3.56	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	1.47	1.47	1.45	1.44	1.37	1.34	1.35	1.39	1.41
BEEF															
CHOICE, 112A, 3 RIBEYE, BONELESS, HEAVY, USDA	7.41	6.45	5.77	5.61	6.32	6.68	6.95	6.91	7.16	7.24	7.49	6.88	6.72	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	2.72	2.57	2.63	2.59	2.42	2.36	2.48	2.53	2.54
CHOICE, 170, 1 BOTTOM GOOSENECK ROUND, USDA	2.11	2.09	2.57	2.53	2.51	2.18	2.22	2.19	2.20	2.20	2.18	2.15	2.21	2.31	2.41
CHOICE, 180, 3 STRIP LOIN, BONELESS, 0x1, USDA	4.70	4.75	5.00	5.00	6.76	6.30	6.41	6.37	7.10	7.12	6.85	5.86	5.66	5.60	5.23
CHOICE, 184, 3 TOP BUTT, BONELESS, USDA	2.79	2.78	2.95	2.96	3.50	3.51	3.73	3.73	3.73	3.75	3.31	3.28	3.39	3.34	3.01
CHOICE, 185A, 4 BOTTOM SIRLOIN, FLAP, USDA	3.60	3.66	4.21	3.99	4.72	5.04	5.25	5.24	5.16	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	1.99	1.90	2.20	2.16	1.92	1.80	1.86	1.86	1.78
COARSE GROUND 81%, USDA	1.82	1.86	2.45	2.28	2.51	2.03	2.09	1.89	2.38	2.35	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	2.46	2.45	2.55	2.54	2.38	2.34	2.29	2.26	2.16
50CL BEEF TRIM, FRESH, NATIONAL, USDA	1.11	0.95	1.05	1.10	1.47	1.22	1.34	1.24	1.38	1.40	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



Loin, 1/4 Trimmed Loin VAC, FOB Plant, USDA
$/cwt
210
190
170
150
130
110
90
70
50
May 2, 2014 = 138.85
10/23/2013
11/13/2013
12/4/2013
12/25/2013
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
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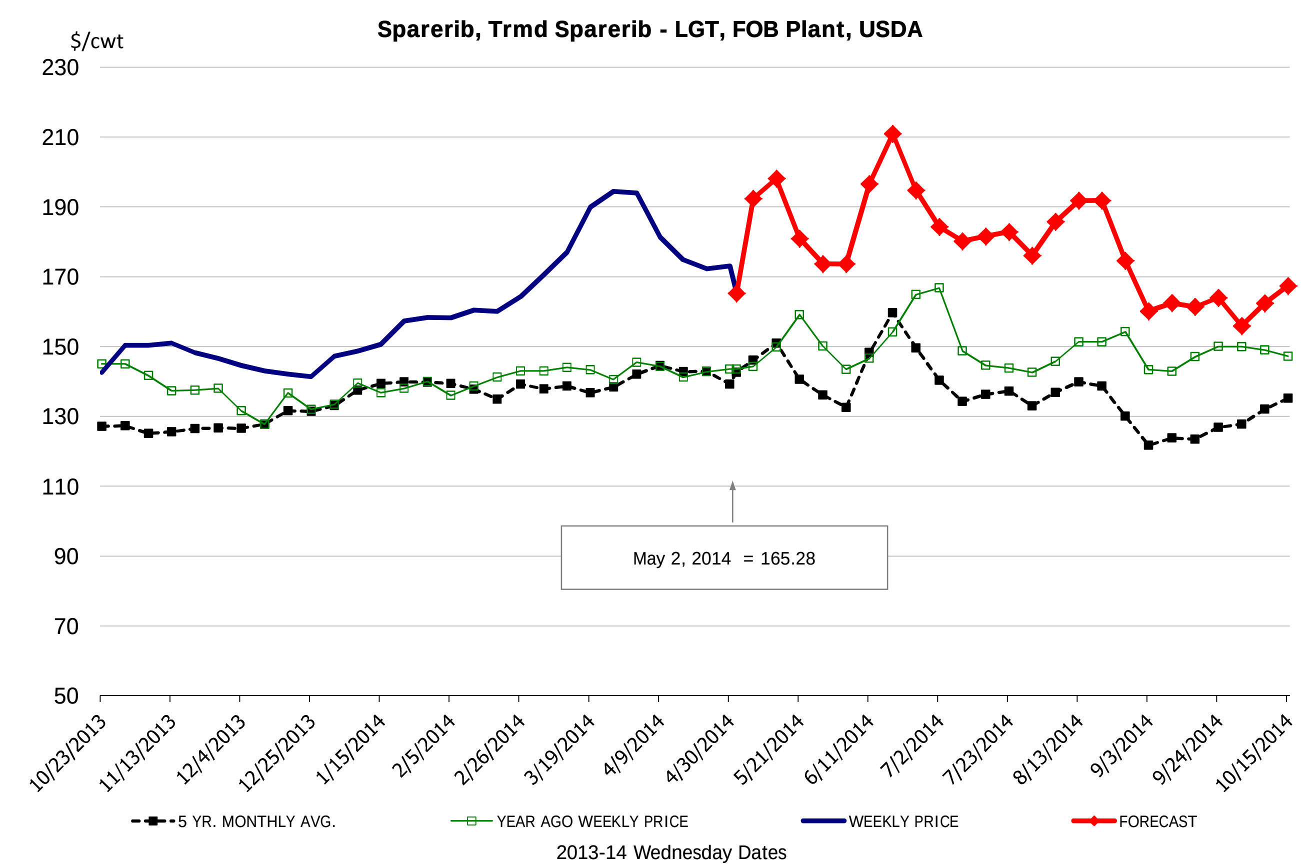
10/15/2014
5 YR. MONTHLY AVG.
YEAR AGO WEEKLY PRICE
WEEKLY PRICE
FORECAST
2013-14 Wednesday Dates



Sparerib, Trmd Sparerib - LGT, FOB Plant, USDA
$/cwt
230
210
190
170
150
130
110
90
70
50
May 2, 2014 = 165.28
10/23/2013
11/13/2013
12/4/2013
12/25/2013
1/15/2014
2/5/2014
2/26/2014
3/19/2014
4/9/2014
4/30/2014
5/21/2014
6/11/2014
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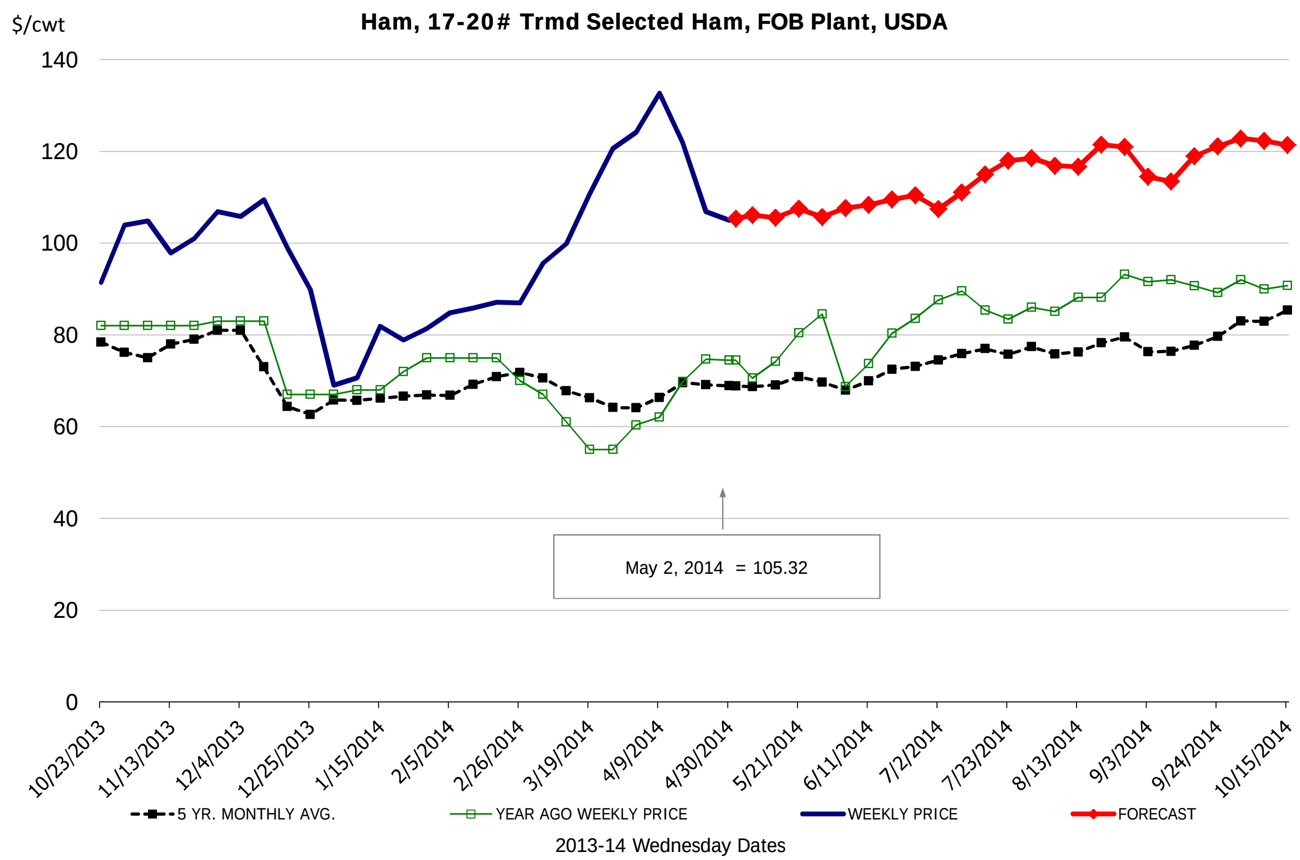
$/cwt
Ham, 17-20# Trmd Selected Ham, FOB Plant, USDA
140
120
100
80
60
40
20
0
May 2, 2014 = 105.32
10/23/2013
11/13/2013
12/4/2013
12/25/2013
1/15/2014
2/5/2014
2/26/2014
3/19/2014
4/9/2014
4/30/2014
5/21/2014
6/11/2014
7/2/2014
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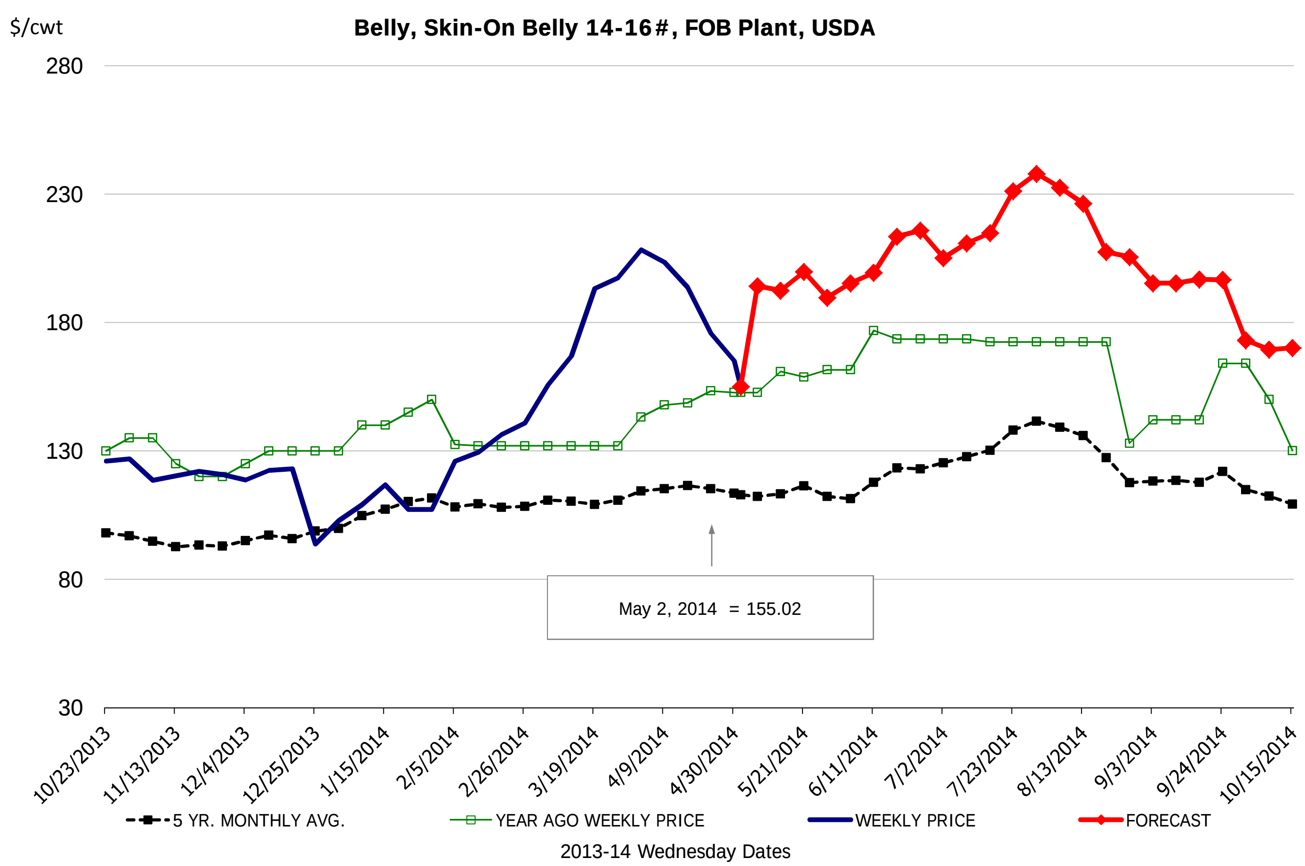
$/cwt
Belly, Skin-On Belly 14-16#, FOB Plant, USDA
280
230
180
130
80
30
May 2, 2014 = 155.02
10/23/2013
11/13/2013
12/4/2013
12/25/2013
1/15/2014
2/5/2014
2/26/2014
3/19/2014
4/9/2014
4/30/2014
5/21/2014
6/11/2014
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7/23/2014
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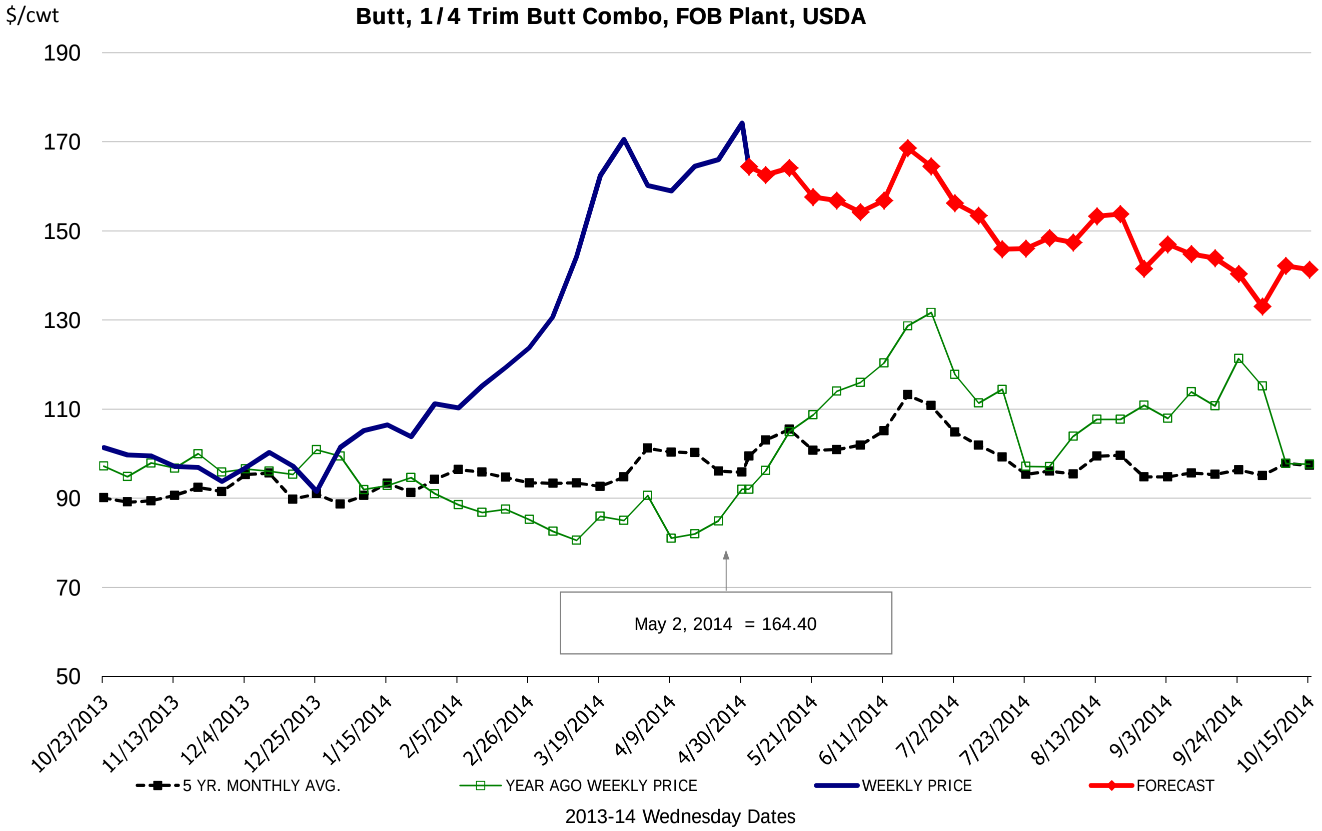
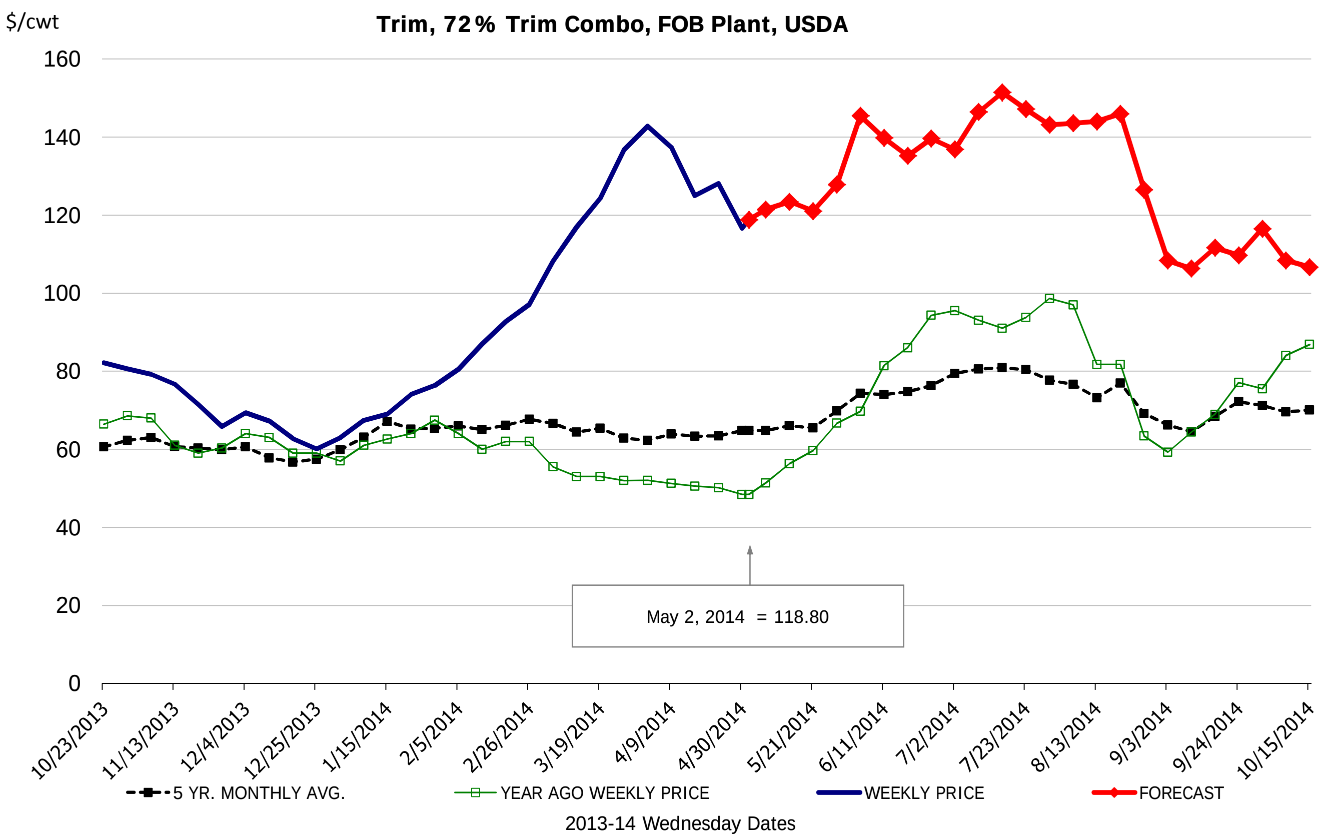
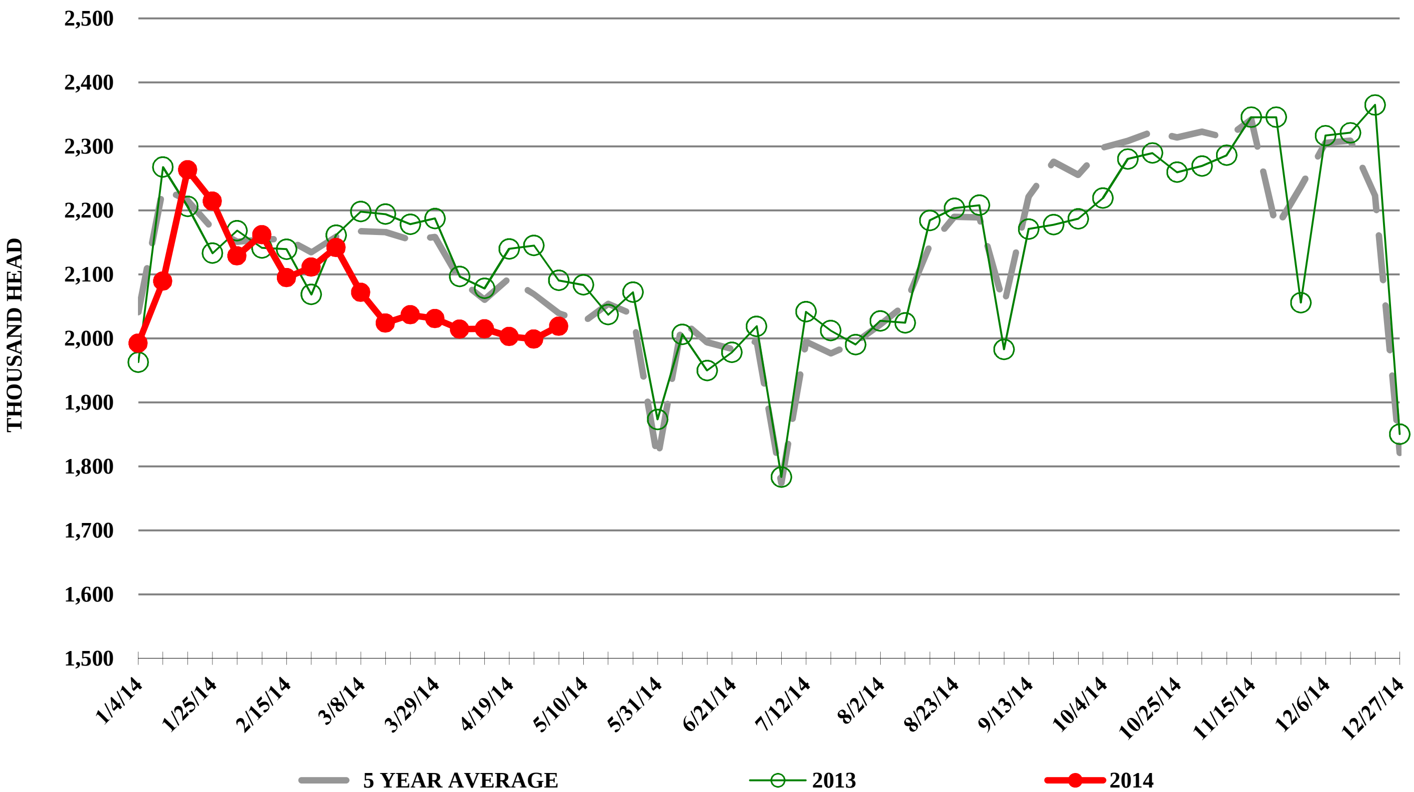

$/cwt
Butt, 1/4 Trim Butt Combo, FOB Plant, USDA
190
170
150
130
110
90
70
50
May 2, 2014 = 164.40
10/23/2013
11/13/2013
12/4/2013
12/25/2013
1/15/2014
2/5/2014
2/26/2014
3/19/2014
4/9/2014
4/30/2014
5/21/2014
6/11/2014
7/2/2014
7/23/2014
8/13/2014
9/3/2014
9/24/2014
10/15/2014
5 YR. MONTHLY AVG.
YEAR AGO WEEKLY PRICE
WEEKLY PRICE
FORECAST
2013-14 Wednesday Dates


$/cwt
Trim, 72% Trim Combo, FOB Plant, USDA
160
140
120
100
80
60
40
20
0
May 2, 2014 = 118.80
10/23/2013
11/13/2013
12/4/2013
12/25/2013
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
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