



Pork Merchandiser's Profit Maximizer

Be inspiredSM

- Foodservice Edition

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March 24, 2013

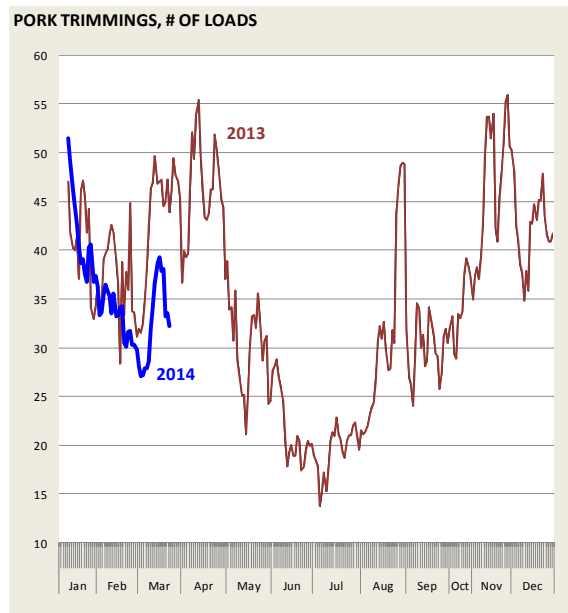
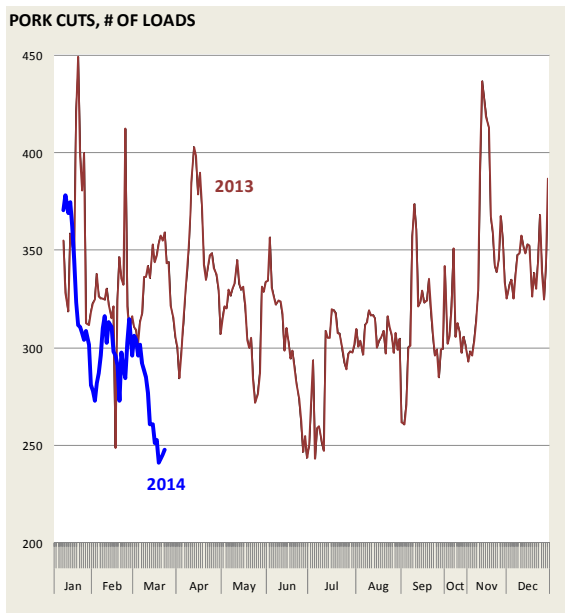
1. Sharp drop in hog slaughter and panic buying causes spot market supplies to dry up

The sharp run-up in pork and beef prices has caught a lot of market participants by surprise and they are now scrambling to catch up. As we have noted in recent reports, the current market is particularly dangerous as a) the spike in prices causes a feedback loop pushing prices to levels that may not be warranted based on fundamentals alone and b) this kind of

environment creates extreme volatility that could significantly impact company balance sheets and create short term cash flow issues.

Is the current spike in prices for real? What explains price increases that in some cases exceed 100% increase vs. year ago levels? After all, pork production in the last four reported weeks has only averaged about 4% below year ago levels. The price response so far appears to be quite disproportionate to the reduction in supplies. In the long term, the overall supply situation in the market dictates price direction and price levels

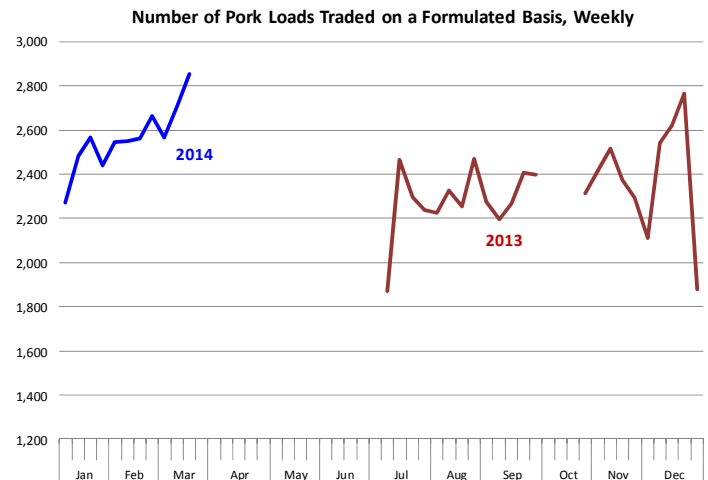
VOLUME OF PORK PRODUCT TRADED ON A NEGOTIATED BASIS IN THE SPOT MARKET



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(assuming demand is constant). In the short term, however, it is helpful to consider the impact of supply shocks on spot supplies traded in the negotiated market. In the last 10 years, we have seen a significant decline in the amount of beef and pork that is negotiated in the spot market. Both packers and end users have an incentive to price product using some sort of formula or through forward contracts. This allows packers to manage the flow of product with a smaller sales force while end users feel more confident that they are getting a fair price when their pricing is tied to a published price. Processors also have often tied their finished good prices to the published USDA prices and thus there is less of an incentive on their part to shop the market. The move to formula prices has caused the volume of pork and beef traded on a negotiated basis each week to decline. Most of the time, the system works and there is enough supply available in the spot market to allow for a smooth functioning market.

But what happens when there is a supply shock, as is the case today with the pork market. When output drops by 5%, all of the reduction is taken from spot supplies. The packer will first deliver against the sheet deals and show product in the spot market depending on availability. The charts on page 1 are quite telling. The number of loads of pork cuts traded in the spot market in the last two weeks has declined by about 26% compared to the same period a year ago. In recent days, spot trade is down by as much as 30%. Pork trim volumes are also down by a similar amount. On the other hand, the volume of product traded on a formula basis not only has not decreased, it has actually increased significantly. Unfortunately the formulated sales data only became available in July of last year so we cannot do a proper year/year comparison. However, the increase in formula sales does make sense based on reports that end users have accelerated their buys in order to build inventories given talk of very short summer supplies. As end users order more than they normally would, this further reduces the supply available in the spot market, causing prices to increase almost daily. We think this is a good



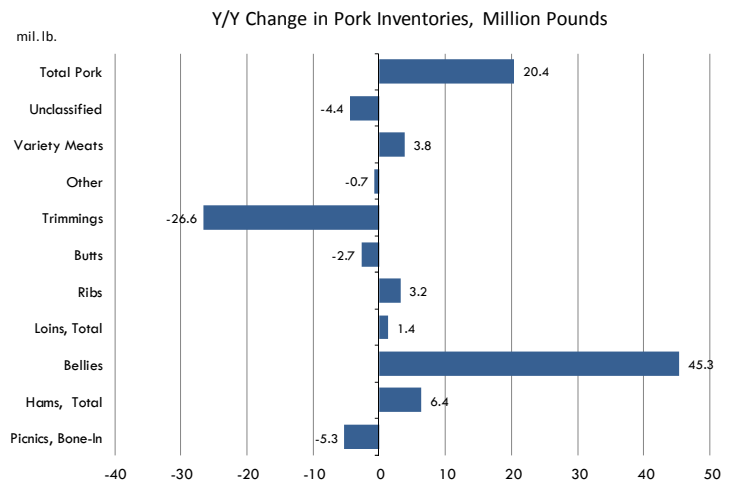
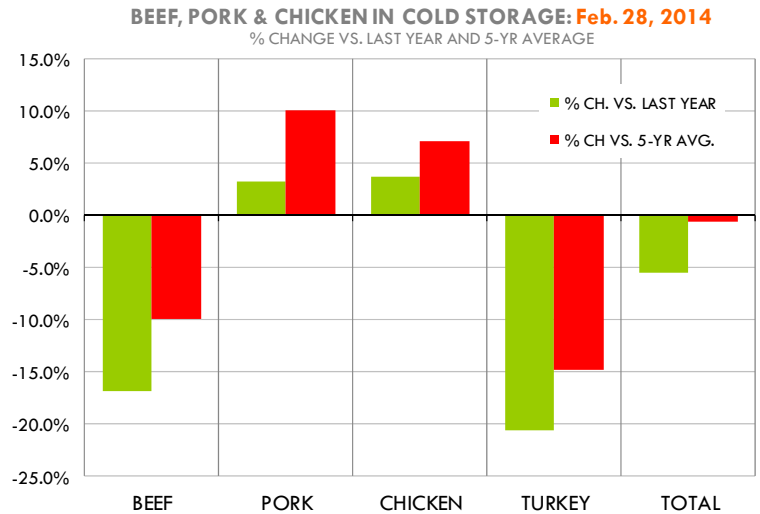
part of the reason why the pork cutout that was valued at \$95/cwt in mid-February now stands at \$131.05/cwt, a 35% jump in price in a matter of four weeks.

Where do we go from here? We have yet to turn bearish in the pork market. There is ongoing uncertainty about pork supplies and until we get a better idea of what supplies will look like, it is best to be conservative and budget for record high prices in June and July. Having said that, we continue to urge caution in this environment. At some point, the spike in prices will show up in the foodservice menus and retail prices. Retailers, who traditionally buy more products on a negotiated basis, will be stung by the price spike and try to pass those prices along. Suddenly, quantity demanded will decline significantly, commensurate with the current record price levels. What happens then will largely depend on the supply of pork on the ground. If slaughter numbers drop by 15%, which are what futures are currently pricing, then current price levels will be sustained. However, if supplies do not decline as much, then packers will have more product available which they will try to clear in the spot market. And if that happens, we could see a significant correction.

2. Cold Storage Stocks as of February 28

There was a lot of speculation that end users and packers were stockpiling pork given forecasts for higher prices in the summer. Keep in mind, however, that much of that speculation took place in March. June hog futures in early February were \$105 and by the end of February they were \$110/cwt. Today they are \$130/cwt. Much of the stockpiling we think took place in the last three weeks. Total pork inventories at the end of February were 653.8 million pounds, 3.2% higher than a year ago. Inventories of some pork products are in better shape than others going into the spring. Ham stocks at the end of February were 117.2 million pounds, 5.8% higher than a year ago. Inventories in February increased by 10.4% in line with historical patterns. Last year inventories increased sharply in the second half of the year and given expectations of tight supplies we think inventory building has begun earlier than normal. Pork belly stocks at the end of February were 88.3 million pounds, 105% higher than a year ago. With belly prices hitting record highs last year, end users continue to aggressively maintain big belly inventories. While the forecast is for belly prices to appreciate into the summer, the additional supply in storage could weigh on the market this spring, especially if the expected reduction in supply is not as large as expected. Freezer stocks of picnics at 11.5 million pounds were 31.2% lower than a year ago and 6.1% lower than the five year average. Inventories of pork trimmings also remain inadequate, which helps explain the sharp price appreciation in recent weeks. Total trim inventories were 37.8 million pounds, down 41% from a year ago and 34% lower than the five year average.

Beef inventories at 407 million pounds were 16.9% lower than a year ago. Record high beef prices have caused end users to liquidate inventories, hoping that beef prices in May and June will be lower. The key risk is that in the short term, especially going into Memorial Day, good demand for grinding beef and smaller inventory supplies will put upward pressure on trim prices.



Upcoming holidays:

2014 Daylight Savings Time Begins in US (Sunday March 9); St. Patrick's Day (Monday March 17); 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. Live hog. For the week ending March 22 slaughter was 2.042 million head, down 5.20% from a year ago. In the last two weeks hog slaughter is down 5.88% vs. year ago levels.

Iowa/Minnesota, Base Lean Market Hog 185 lbs. Carcass Values. Lean hog carcass values at about 128.36 /cwt. on Friday were up about \$16/cwt since Wed. March 12. Prices are now up about \$56 /cwt compared to year ago values.

Loin, 1/4 Trimmed Loin VAC, FOB Plant, USDA (page 8). Prices finished last week at \$1.8042, up about 18 cent since the Wed. March 12 quote and up about 73 cents from year ago levels.

Bnls. Strap on Pork Loins. Prices finished the week at \$2.4598 for the strap on loins, up about 18 cents since Wed. March 12 and up about 110 cents from the year ago levels. Strap off loins at \$2.6635 are up about 24 cent since Wed. March 12 and up about 99 cents compared to the year ago quote.

Boneless sirloins at \$1.8329 are up about 18 cents from the Wed. March 12 quote and up about 67 cents from the year ago price.

Pork tenderloin finished last week at \$2.8854, up about 18 cents since the Wed. March 12 quote and up about 22 cents from the year ago price.

5/10 Pork Butts (page 10), prices finished the week at \$1.7533, up about 21 cents since Wed. March 12.

Spare Ribs, Trimmed - LGT, Vac (page 8). Prices finished the week at \$1.9016, up about 13 cent since Wed. March 12 and up about 47 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 \$1.1395/lb., up about 14 cents since Wed. March 12 and up about 59 cents from a year ago.

20/23 hams finished the week at 114.10 cents, up about 4 cents since Wed. March 12 and up about 59 cents from the year ago level.

23/27 hams finished the week at 106.56 , up about 11 cents from the Wed. March 12 quote and up about 52 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 76.72 , up about 6.4 cent since Wed. March 12 and up about 40 cents from the year ago price.

72 CL Pork Trim “FOB Basis”. Prices finished the week at 131.06 cents, up about 14 cents since the Wed. March 12 quote and up about 78 cents from the year ago level.

Freezer stocks of all trimmings on February 28 were 37.8 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 on January 8 at \$105.50 was up about 4 cents from a year ago.

The National Whole Bird price was quoted at 109.50 on Friday January 10, up about 3 cents from a year ago.

Broiler slaughter for the week ending March 10 was 146.45 million head, down 4.5% from a year ago. For the last two weeks slaughter has been down 2.6% vs. a year ago.

Breasts. Prices on boneless skinless breasts finished the week at \$1.5195, up 8 cents since Wed. March 12 and still up about 1 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 0.3 cents vs. year ago price at 44.16 . Prices trend modestly higher the next few months. However, Mexico could be a significant issue any time.

Wings. Prices at \$1.4083 are down about 35 cents from year ago levels.

Turkeys

Hens finished last week at \$1.0600, up 0 cent since Wed. March 12 but up about 5 cents from the year ago price.

Toms finished last week at \$1.0600, up 0 cent since Wed. March 12 but up about 5 cent from the year ago price.

Total turkey supplies in the freezer on January 31 were down about 24 percent from a year ago at 275.1 million pounds. Whole birds were down 27 percent from year ago with an inventory of 106.6 million pounds.

Turkey slaughter was 4.244 million head for the week ending March 15, up 2.27% from a year ago. For the last two weeks slaughter has been down 3.66%.

Boneless Turkey Breast Meat. Boneless skinless turkey breast meat prices finished last week at \$2.5300, unchanged since Wed. March 12. Prices are up about 40 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 \$6.6259 (weighted average quote) finished last week up about 6 cents since the Wed. March 12 quote and up about 53 cents vs. the year ago price.

Select 112A Heavy Lip On Rib Eyes at \$6.1067 (weighted average quote) finished last week up about 17 cents since the Wed. March 12 quote but down about 2 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 April.

Currently Choice #112A Rib Eyes are \$0.5192 /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 \$3.0743 up about 5 cents since Wed. March 12 and up about 106 cents from the year ago price.

Choice ¼ inch trimmed #168 insides finished last week quoted at \$3.0545 down about 11 cents since Wed. March 12 and up about 98 cents from year ago levels.

Choice #170 Gooseneck Rounds finished last week at \$2.6844 up about 4 cents since Wed. March 12 and up about 60 cents from the year ago levels.

Choice #180 (0x1) Bnls. Strip Loins finished last week quoted at \$7.2377 (wt. avg.) up about 55 cents from the Wed. March 12 quote. Prices are about 208 cents over year ago levels.

Choice #184 Regular Heavy top butts finished at \$3.3166 (wt. avg.) up about 2 cents since Wed. March 12 and up about 29 cents from year ago levels.

Choice #184 ¼ inch trimmed Top Butts finished at \$3.6198 (wt. avg.) up about 11 cents since Wed. March 12 and up about 39 cents from the year ago levels.

Choice #185A Flap Meat prices finished Friday at \$4.8598 (wt. avg.) up about 20 cents since Wed. March 12 and up about 82 cents from year ago values.

COARSE GROUND BEEF –

73CL Coarse Ground product finished last week at \$2.1729 down about 15 cents since Wed. March 12 but up about 36 cents from year ago levels.

81CL Coarse Ground product finished last week at \$2.2824 down about 26 cent since Wed. March 12 but up about 23 cents from the year ago quote.

90CL Bnls. Beef prices finished the week at \$2.6259 (wt. avg.) up about 2 cent since Wed. March 12 and up 45 compared to the year ago price quote. Ranchers are trying to hold more beef cows and lean beef supplies remain in limited supply

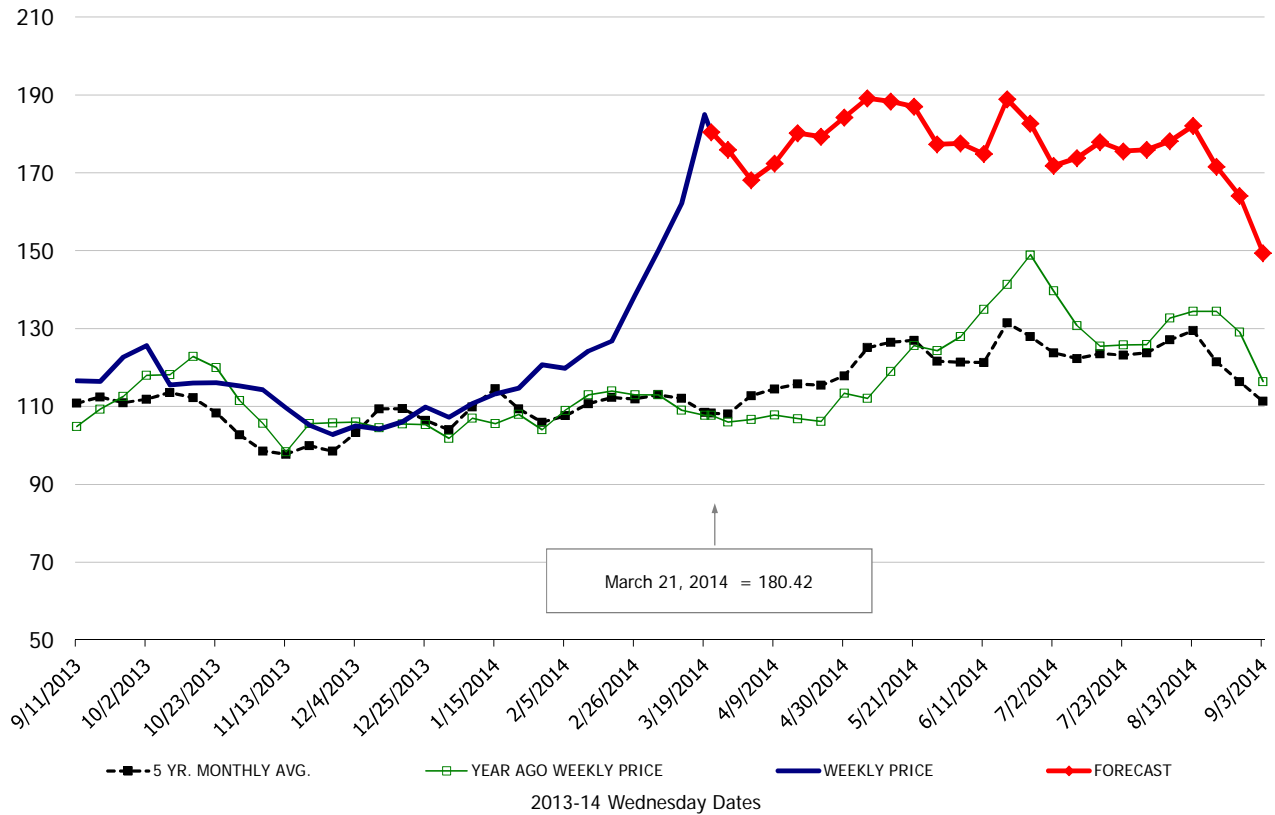
50 CL Beef Trim prices finished last week at \$1.5010, down about 9 cent since Wed. March 12 but up 58 compared to the year ago level.

Food Service Summary Table - WT. AVE

	2013-14 History							2014 FORECAST							
	Sep	Oct	Nov	Dec	Jan	Feb	3/12/2014	3/21/2014	4/2/2014	Mar	Apr	May	Jun	Jul	Aug
<u>PORK</u>															
Loin, 1/4 Trimmed Loin VAC, FOB Plant, USDA	1.18	1.16	1.07	1.06	1.14	1.27	1.62	1.80	1.68	1.80	1.75	1.84	1.81	1.75	1.74
Loin, 1/8 Trimmed Loin VAC, FOB Plant, USDA	1.26	1.23	1.17	1.12	1.20	1.34	1.73	1.89	1.80	1.89	1.83	1.91	1.92	1.85	1.91
Loin, Bnls CC Strap-off, FOB Plant, USDA	1.83	1.81	1.73	1.71	1.78	1.84	2.43	2.66	2.64	2.66	2.67	2.74	2.73	2.60	2.73
Loin, Tenderloin, FOB Plant, USDA	2.36	2.33	2.29	2.32	2.41	2.54	2.71	2.89	3.17	2.88	3.21	3.47	3.61	3.56	3.39
Butt, 1/4 Trim Butt Combo, FOB Plant, USDA	1.13	1.01	0.99	0.99	1.06	1.16	1.44	1.72	1.70	1.71	1.63	1.62	1.66	1.53	1.43
Sparerib, Trmd Sparerib - LGT, FOB Plant, USDA	1.45	1.46	1.47	1.42	1.52	1.61	1.77	1.90	1.97	1.85	2.14	2.11	2.11	1.94	2.00
Sparerib, St Louis Spareribs, POLY, FZN, FOB Plant, USDA	2.31	2.26	2.28	2.21	2.20	2.29	2.39	2.49	2.75	2.63	2.78	2.75	2.76	2.58	2.64
Sparerib, Trmd Sparerib - MED, FOB Plant, USDA	1.48	1.43	1.38	1.36	1.46	1.53	1.76	1.82	1.93	1.80	2.11	2.08	2.08	1.91	1.97
Loin, Backribs 2.0#/up, FOB Plant, USDA	2.12	2.08	2.05	2.03	2.16	2.33	2.68	2.82	2.87	2.81	2.93	3.11	3.04	2.87	2.83
Ham, 17-20# Trmd Selected Ham, FOB Plant, USDA	0.92	0.95	1.01	0.98	0.78	0.86	1.00	1.14	1.10	1.14	1.14	1.11	1.11	1.14	1.18
Ham, 20-23# Trmd Selected Ham, FOB Plant, USDA	0.90	0.91	0.93	0.81	0.74	0.85	1.10	1.14	1.09	1.14	1.11	1.10	1.09	1.15	1.18
Ham, 23-27# Trmd Selected Ham, FOB Plant, USDA	0.87	0.89	0.87	0.80	0.74	0.84	0.95	1.07	1.06	1.06	1.11	1.10	1.08	1.15	1.18
Ham, 5 Muscle Ham to Blue, FOB Plant, USDA	1.52	1.40	1.43	1.40	1.21	1.30	1.54	1.48	1.25	1.29	1.31	1.34	1.31	1.33	1.34
Belly, Skin-on Belly 14-16#, FOB Plant, USDA	1.61	1.26	1.21	1.14	1.07	1.34	1.67	1.88	1.99	1.87	2.07	2.04	2.06	2.20	2.18
Belly, Derind Belly 9-13#, FOB Plant, USDA	1.87	1.72	1.63	1.53	1.44	1.65	2.11	2.21	2.36	2.25	2.54	2.50	2.53	2.70	2.67
Belly, Derind Belly 13-17#, FOB Plant, USDA	1.85	1.67	1.58	1.48	1.38	1.58	2.08	2.25	2.34	2.23	2.52	2.48	2.51	2.68	2.65
Trim, 42% Trim Combo, FOB Plant, USDA	0.52	0.47	0.38	0.32	0.35	0.43	0.70	0.77	0.76	0.76	0.79	0.79	0.82	0.96	0.93
Trim, 72% Trim Combo, FOB Plant, USDA	0.67	0.83	0.73	0.64	0.70	0.91	1.17	1.31	1.27	1.31	1.30	1.31	1.40	1.44	1.26
<u>HOG CARCASS</u>															
IA/MN, Base Market Hog 185 lb Carcass Basis, Plant Div.	0.93	0.86	0.80	0.78	0.79	0.89	1.13	1.28	1.25	1.24	1.26	1.28	1.32	1.30	1.27
<u>BROILERS</u>															
BROILER, NATIONAL WHOLE BIRD PRICE, USDA	0.91	0.91	0.94	0.95	0.96	0.92	1.07	1.10	1.09	1.08	1.09	1.09	1.08	1.09	1.09
N.E. BROILER BREAST BONELESS-SKINLESS, USDA	1.50	1.35	1.26	1.26	1.25	1.27	1.44	1.52	1.85	1.52	1.86	2.03	1.88	1.95	2.05
N.E. BROILER BREAST LINE RUN, USDA	1.06	1.01	0.98	0.94	0.93	0.85	0.89	0.90	1.13	0.90	1.15	1.28	1.25	1.29	1.33
N.E. BROILER LEG QUARTERS, USDA	0.53	0.47	0.44	0.43	0.43	0.42	0.44	0.44	0.47	0.44	0.48	0.51	0.51	0.53	0.53
N.E. BROILER WINGS, USDA, WT.AVG.	1.62	1.49	1.21	1.21	1.30	1.27	1.37	1.41	1.44	1.40	1.40	1.32	1.36	1.48	1.56
<u>TURKEYS</u>															
UB HEN TURKEYS, EAST, FROZEN 10-12LBS	1.06	1.08	1.10	1.10	1.03	1.03	1.06	1.06	1.07	1.06	1.08	1.11	1.14	1.17	1.18
UB BONELESS-SKINLESS TURKEY BREAST, TOM, FRESH	2.14	2.20	2.19	2.16	2.16	2.16	2.28	2.53	2.54	2.53	2.55	2.60	2.69	2.77	2.91
<u>LIVE STEERS</u>															
FIVE AREA DIRECT AVERAGE LIVE STEER, USDA	1.23	1.29	1.31	1.31	1.40	1.43	1.49	1.51	1.45	1.47	1.45	1.42	1.37	1.34	1.35
<u>BEEF</u>															
CHOICE, 112A, 3 RIBEYE, BONELESS, HEAVY, USDA	6.60	6.92	7.41	6.45	5.76	5.61	6.21	6.63	6.82	6.64	7.04	7.24	7.49	7.04	6.98
CHOICE, 168, 3 TOP INSIDE ROUND, 1/4" MAX, USDA	2.10	2.28	2.27	2.30	2.64	2.55	3.16	3.05	2.80	3.05	2.62	2.59	2.48	2.42	2.45
CHOICE, 170, 1 BOTTOM GOOSENECK ROUND, USDA	2.01	2.18	2.11	2.09	2.54	2.53	2.65	2.68	2.50	2.68	2.39	2.37	2.22	2.20	2.26
CHOICE, 180, 3 STRIP LOIN, BONELESS, 0x1, USDA	4.98	4.88	4.70	4.75	4.99	5.00	6.69	7.24	7.35	7.23	7.28	7.38	7.25	6.18	5.97
CHOICE, 184, 3 TOP BUTT, BONELESS, USDA	3.15	2.94	2.79	2.78	2.92	2.96	3.49	3.62	3.81	3.61	3.93	3.84	3.55	3.51	3.63
CHOICE, 185A, 4 BOTTOM SIRLOIN, FLAP, USDA	3.48	3.73	3.60	3.66	4.15	3.99	4.66	4.86	4.79	4.91	4.89	5.16	5.38	5.11	4.54
COARSE GROUND 73%, USDA	1.68	1.62	1.66	1.71	2.29	2.06	2.32	2.17	2.20	2.18	2.21	2.27	2.03	1.91	1.97
COARSE GROUND 81%, USDA	1.88	1.79	1.82	1.86	2.45	2.28	2.54	2.28	2.30	2.29	2.35	2.48	2.24	2.12	2.16
90% BONELESS BEEF, CENTRAL, FRESH, USDA	2.04	1.93	1.91	2.02	2.19	2.38	2.61	2.63	2.61	2.62	2.65	2.64	2.53	2.49	2.43
50CL BEEF TRIM, FRESH, NATIONAL, USDA	0.97	1.00	1.11	0.95	1.05	1.10	1.59	1.50	1.57	1.54	1.69	1.72	1.52	1.46	1.49

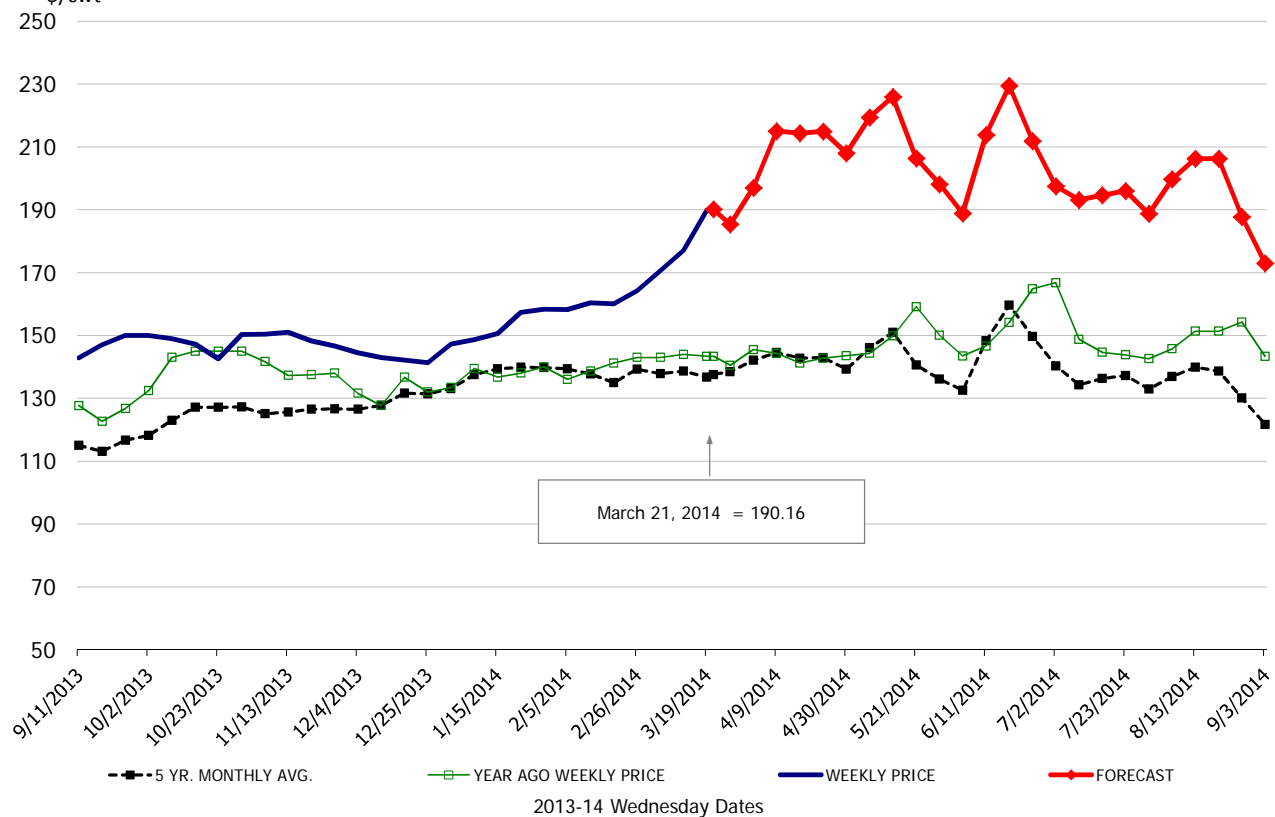
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Loin, 1/4 Trimmed Loin VAC, FOB Plant, USDA



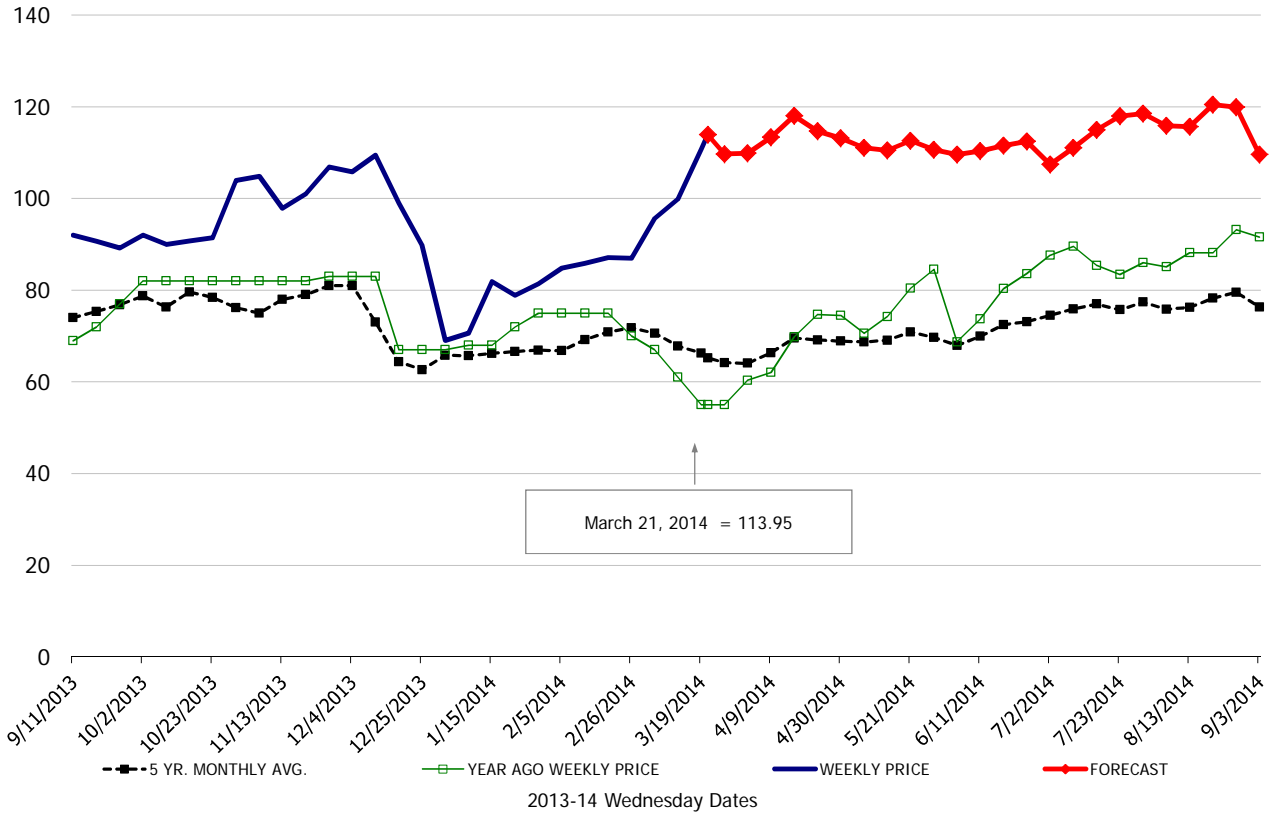
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Sparerib, Trmd Sparerib - LGT, FOB Plant, USDA



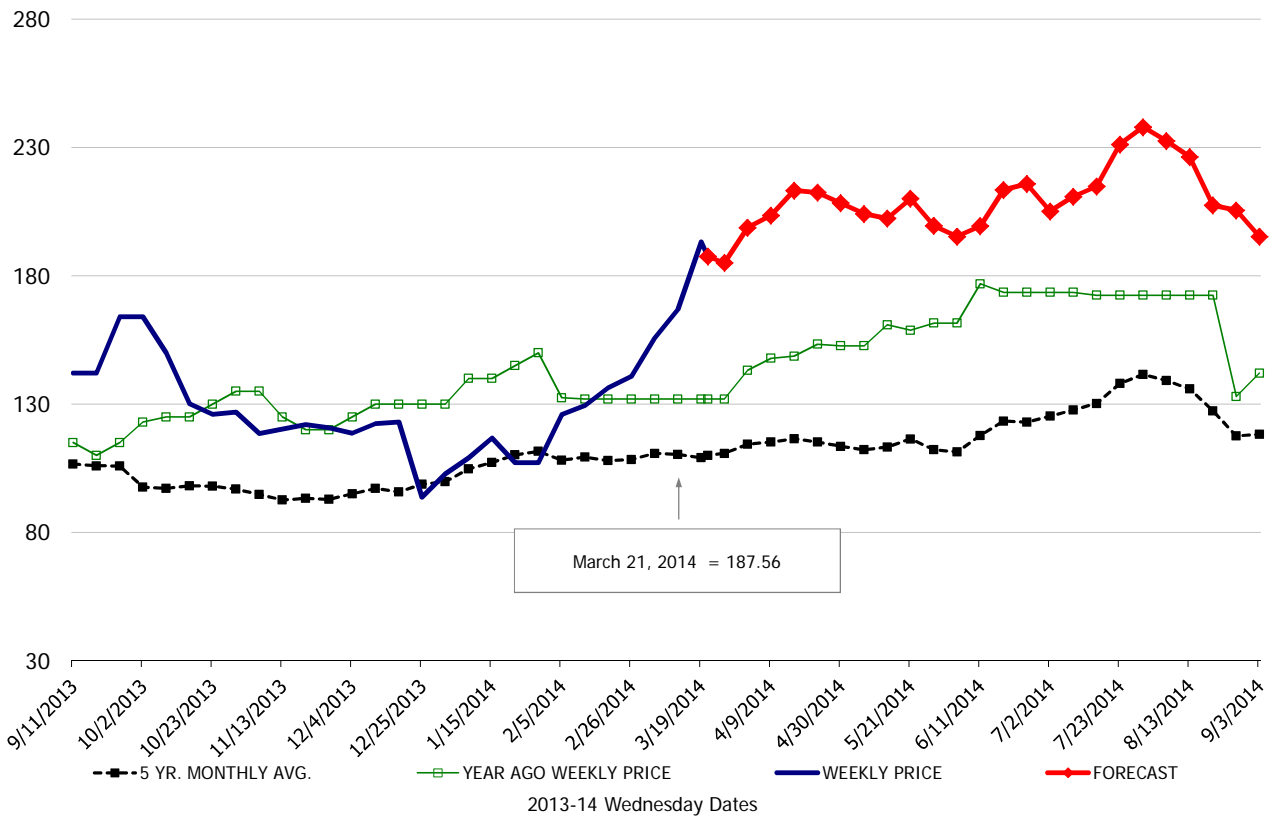
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Ham, 17-20# Trmd Selected Ham, FOB Plant, USDA



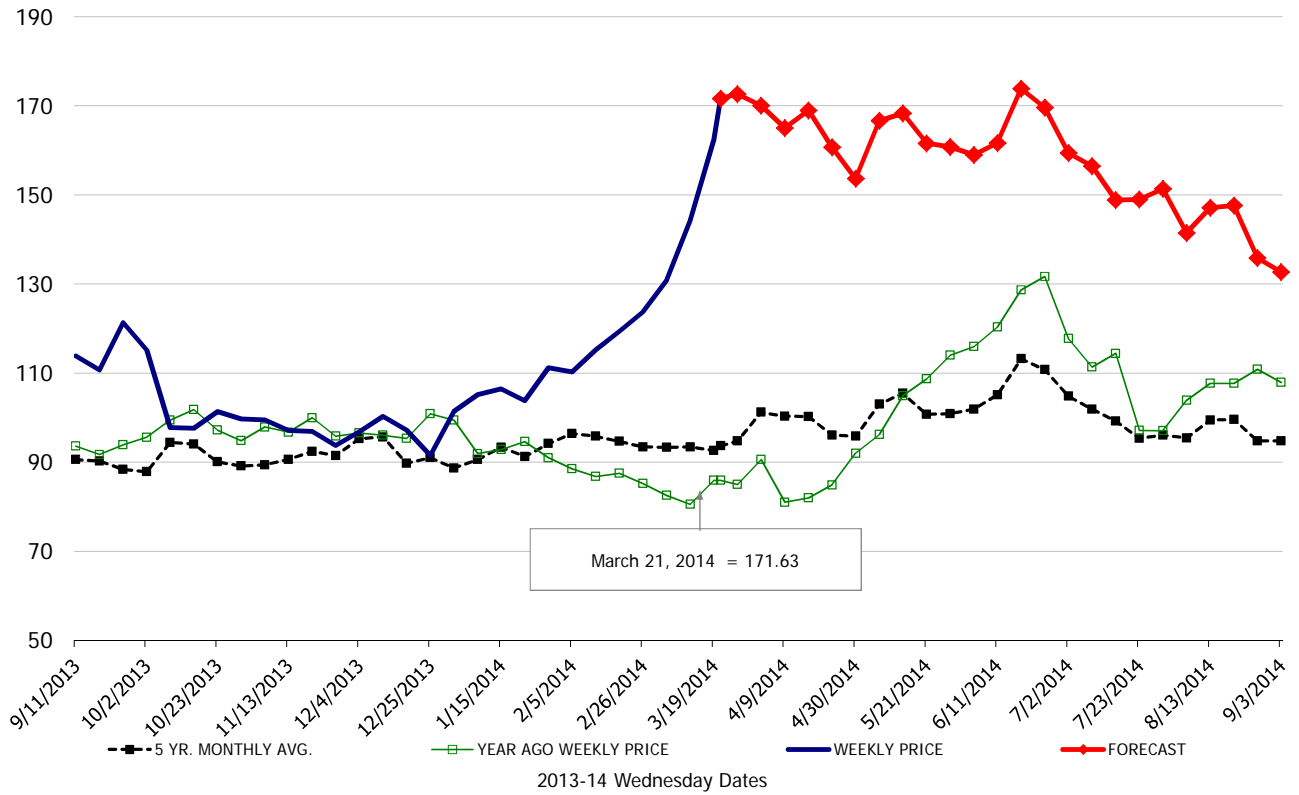
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Belly, Skin-On Belly 14-16#, FOB Plant, USDA



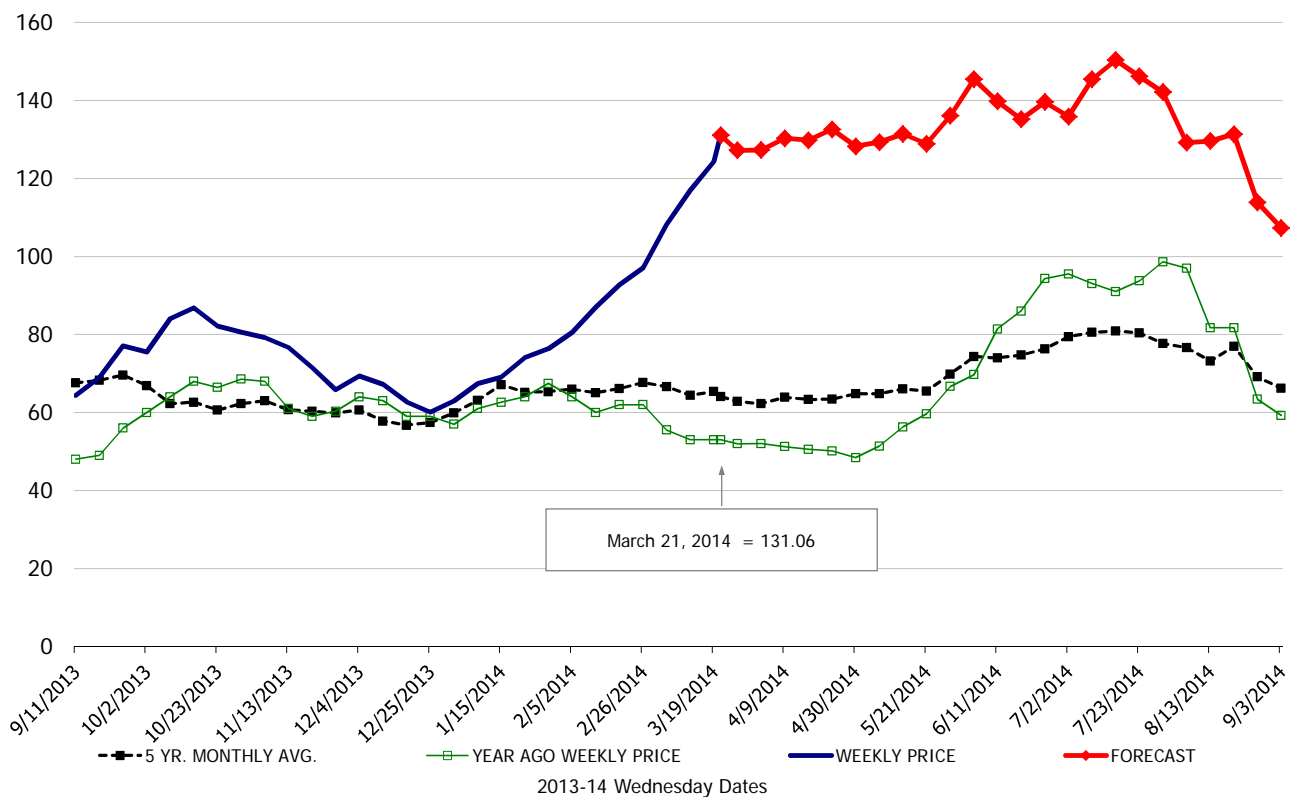
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Butt, 1/4 Trim Butt Combo, FOB Plant, USDA

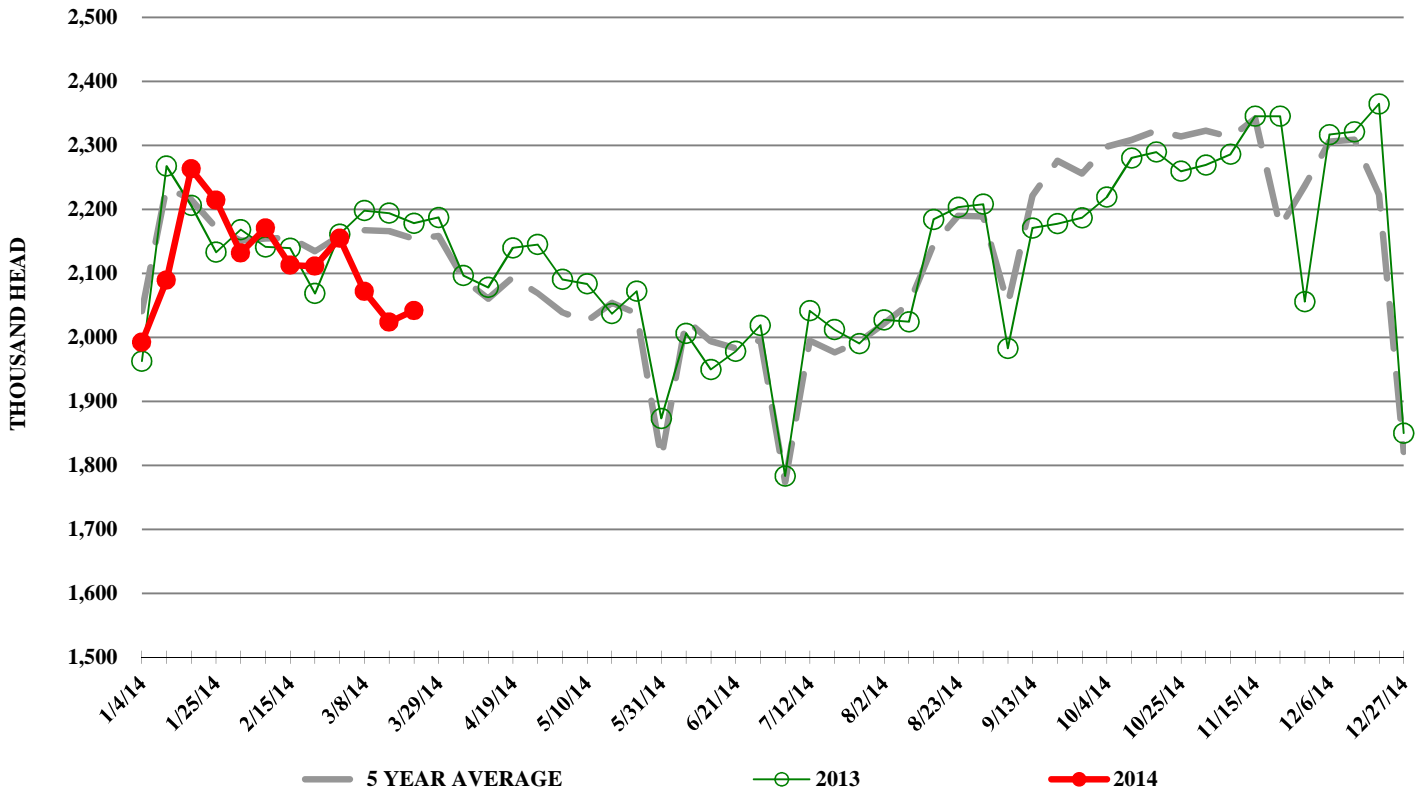


\$/cwt

Trim, 72% Trim Combo, FOB Plant, USDA



ESTIMATED WEEKLY FI HOG SLAUGHTER



ESTIMATED WEEKLY FI PORK PRODUCTION

