



# Pork Merchandiser's Profit Maximizer

# Be inspired<sup>SM</sup>

## - Foodservice Edition

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Prepared by Steiner and Company, Manchester, NH 800-526-4612.

February 24, 2013

### 1. Fear reigns supreme - Beware the volatility

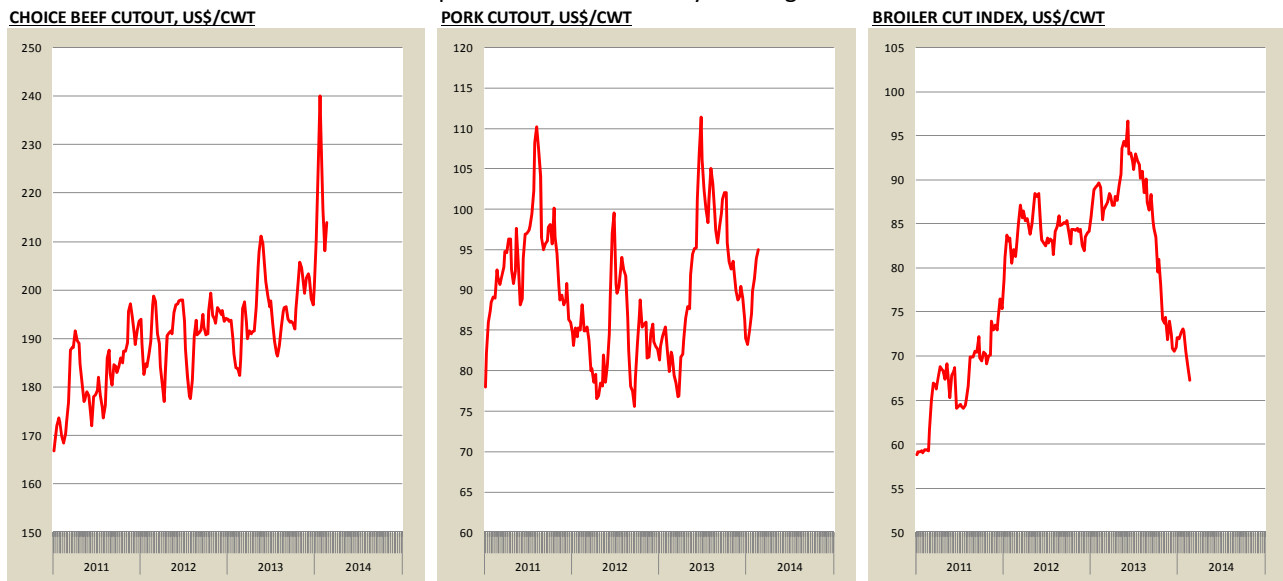
Volatility is the name of the game in the meat protein markets at the moment. Wholesale prices for a number of beef items reached all-time record highs in January only to pull back sharply just as quickly. Pork prices are also trending higher and currently hog futures, sitting at all-time record levels for the summer months, imply significantly higher prices for a number of

items, particularly bellies, hams and trimmings. And while beef and pork prices have moved up, in many cases with prices 20-30% higher than a year ago, chicken values are slumping and are currently sharply lower than a year ago. Since last summer, the chicken part index (a weighted average of breast, leg and wing prices) is down as much as 30% from the levels established last summer.

What is driving the current volatility and how will meat markets develop going into the

### Beef, Pork and Broiler Price Volatility

Wholesale values for main proteins as measured by tracking wholesale value indexes

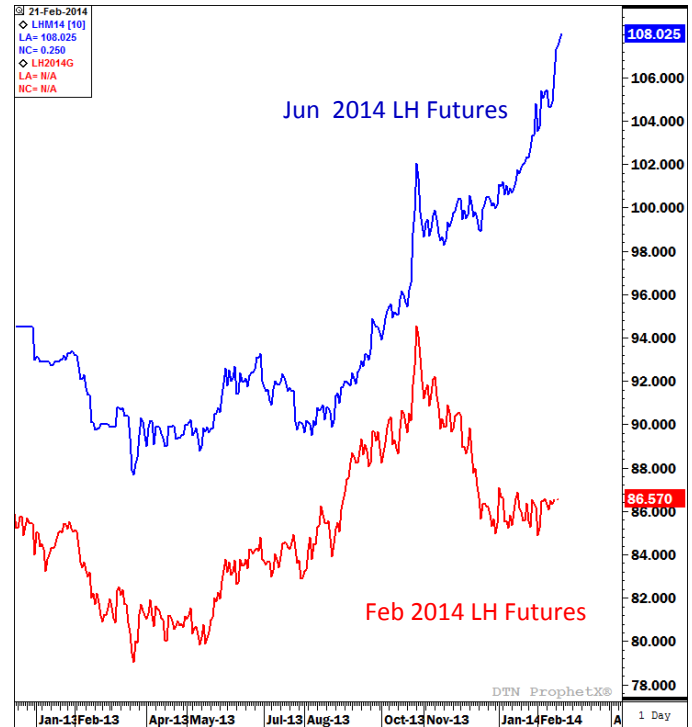


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summer? It's a difficult question to answer. Over the weekend we revised up some of our pork forecasts after recent data showed that PEDv disease continues to spread and it is now posing a significant threat for pork supplies going into the summer months. Futures markets have certainly built significant premiums into those summer contracts, premiums that can only be justified if we a) have a dramatic reduction in pork supplies and b) pork demand, both domestic and export, is sustained as prices for competing products remain high. At this point we have to account for the potential impact of PEDv, especially as the expanding nature of the disease will coincide with the time of year when pork supplies normally decline. Still, the impact of PEDv on pork supplies is far from clear and the market continues to struggle with this. The chart to the right shows lean hog futures contracts for February 2014 and June 2014. For a while, both contracts moved together on speculation of tighter supplies due to PEDv. However, the February contract started moving lower in December as it became clear that supplies were not as short as earlier feared. At this point futures continue to price significant upside price risk and a significant net decline in per capita pork availability in the summer. By April, we should start getting a better picture of the true impact of PEDv on pork supplies.

Beef prices were pushed sharply higher in January as retailers were squeezed by a sudden lack of market ready cattle. Cattle supplies in the short term remain tight but supplies will tend to increase as we go into the summer months. There is a significant discount between April and June live cattle futures at this point, a discount that reflects the normal seasonal as well as uncertainty about beef demand past May. Market participants recognize that the start of the grilling season will push up some beef prices. It happens every year and it's a fair bet to think it will happen again this year. After a cold winter, there is plenty of pent up demand and consumers have shown that they are still willing to pay up for beef once their grills are out of hibernation, at least initially. As we saw last year, the worry is

Feb 2014 and Jun 2014 Lean Hog Futures



not so much with beef prices in May but rather the pullback that eventually happens when summer heat takes its toll and consumers balk at continuing to pay premium prices for beef and instead opt for less expensive proteins. Cattle slaughter should be higher in June - Aug, a function of the seasonality in cattle placements on feed. At \$132/cwt, current cattle futures maintain a 10% premium over last year's levels, a reasonable assumption given estimates of 6% less beef coming to market - with demand a big wild card.

**Bottom line:** Expect market volatility to continue as tight cattle supplies and PEDv in the hog herd limit supplies. Retail prices will likely continue to climb and the consumer demand response this spring and summer remains a key wild card.

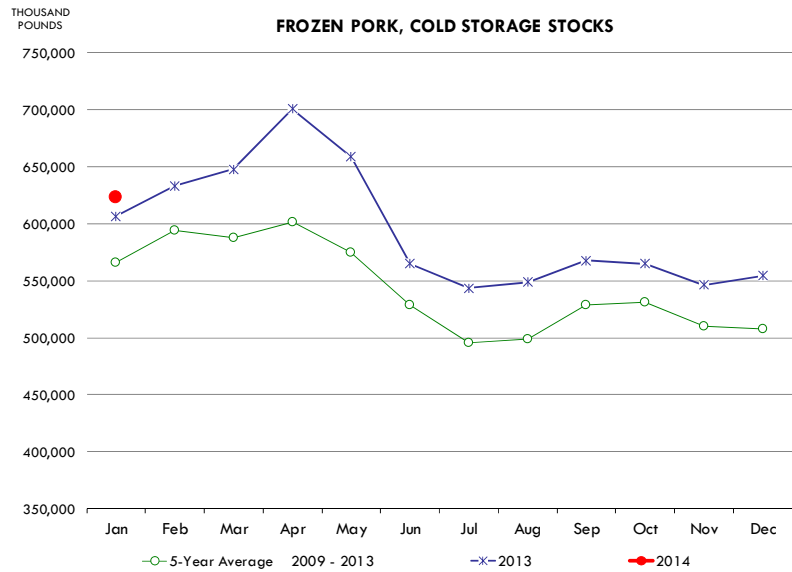
2. Cold storage inventories are now well below year ago levels and slightly below the five year average. Below are the highlights:

**Pork: Total pork inventories at the end of January were 623.7 million pounds, 2.9% higher than a year ago and 10.2% higher than the five year average.**

Seasonally inventories increase into the spring. Also, increasing exports tend to add to the supply of pork going into cold storage as it is staged for shipment. Pork belly inventories remain particularly heavy, with total stocks at the end of January pegged at 86.4 million pounds, 137.2% higher than a year ago and 63.5% higher than the five year average. Packers have been putting product in storage aggressively as they expect supplies to be significantly tighter in the spring and summer, a time of year when belly demand improves. Inventories of pork ribs at 113.0 million pounds were 1.2% lower than a year ago but 19.4% higher than the five year average. Picnic inventories were 9.9 million pounds, down 19% from a year ago while pork trimmings at 40.7 million pounds were 29.5% lower than a year ago. Ham inventories were 107.7 million pounds, 0.7% lower than a year ago but still 14.6% higher than the five year average. The latest pork inventory numbers will likely be viewed as supportive for the trim market but was generally neutral for hams.

**Beef: Total beef inventories as of January 31 were 429.3 million pounds, 11.4% lower than a year ago and 7.5% lower than the five year average.**

Inventories of beef cuts in storage are down sharply, in part because end users have been reluctant to put beef away given relatively high prices recently. For a processor or end user, reducing inventories in a way means taking a short position in the market. And part of the reason why cattle and beef prices have rallied so much in recent weeks is because end users have been caught short and are now looking to cover those shorts in a very tight cattle market. Inventories of beef cuts in January were 40.4 million pounds, 36.7% lower than a year ago and 36.6% lower than the five year average. Boneless beef inventories at the end of January were 388.9 million pounds, 7.6% lower than a year ago and 2.8% lower than the five year



average. The decline in fed slaughter numbers will continue to limit the supply of fat beef trimmings coming to market and we expect overall beef inventories to remain light going into the spring. This remains a bullish driver for the beef market going into the spring.

**Poultry:** Total chicken inventories at the end of January were 692.5 million pounds, up 3.4% from the previous month and now 5.3% higher than the five year average. Chicken inventories have increased in the last two months but supplies are seasonally lower into the spring. Leg quarter inventories at 159.3 million pounds are up 24.2% from a year ago and 52% higher than the five year average. Stocks are burdensome and this is reflected in the price of leg quarters which is currently well below year ago levels. Export demand appears to have slowed down, in part due to the stronger US currency but also because other markets have increased domestic production. Breast meat inventories were 114.0 million pounds, 12% lower than a year ago and 12.8% lower than the five year average.

The latest inventory numbers were generally supportive of the breast meat market going into the spring but bearish for leg quarters and wings.

**Upcoming holidays:**

**2014** Valentine's Day (Friday February 14); President's Day (Monday February 17); Ash Wednesday (Wednesday March 5); 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**

<p><b><u>NOTE: WE ARE NOW REPORTING AND FORECASTING MANDATORY PLANT WEIGHTED AVERAGE BLUE SHEET PRICES FOR PORK CUTS.</u></b></p>
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**Live hog. For the week ending February 22 slaughter was 2.134 million head, up 3.14% from a year ago. In the last two weeks hog slaughter is up 0.93% vs. year ago levels.**

**Iowa/Minnesota, Base Lean Market Hog 185 lbs. Carcass Values.** Lean hog carcass values at about 90.42 /cwt. on Friday were up about \$0.77/cwt since Wed. February 12. Prices are still up about \$12 /cwt compared to year ago values.

**21/dn Pork Loins** (page 8). Prices finished last week at \$1.3313 for the "Total on FOB Basis" quote, up about 9 cent since the Wed. February 12 quote and up about 19 cents from year ago levels.

**Bnls. Strap on Pork Loins.** Prices finished the week at \$1.7169 for the strap on loins, up about 6 cents since Wed. February 12 and up about 14 cents from the year ago levels. Strap off loins at \$1.7943 are up about one cent since Wed. February 12 and up about 4 cents compared to the year ago quote.

**Boneless sirloins** at \$1.3758 are up about 7 cents from the Wed. February 12 quote and up about 19 cents from the year ago price.

**Pork tenderloin** finished last week at \$2.4995, down about 3 cents since the Wed. February 12 quote and down about 12 cents from the year ago price.

**5/10 Pork Butts** (page 10), prices finished the week at \$1.2401, up about 4 cents since Wed. February 12.

**Spare Ribs, Trimmed - LGT, Vac** (page 8). Prices finished the week at \$1.6076, up about 0 cent since Wed. February 12 and up about 20 cents from year ago levels.

Rib inventories on January 31 were 113.0 million pounds, down one percent from a year ago.

**Bone-in Hams.**

17/20 hams (page 9) price was \$0.8710/lb. were up about 1 cents since Wed. February 12 and up about 12 cents from a year ago.

20/23 hams finished the week at 87.27 cents were up about 2 cents since Wed. February 12 and up about 11 cents from the year ago level.

23/27 hams finished the week at 86.14 up about 3 cents from the Wed. February 12 quote and up about 12 cents from the year ago level.

Total ham cold storage stocks on December 31 at 78.7 million pounds were down about one percent from year ago levels.

**42 CL Pork Trim** “FOB Basis”. Prices finished the week at 51.28 , up about 8.6 cent since Wed. February 12 and up about 5 cents from the year ago price.

**72 CL Pork Trim** “FOB Basis”. Prices finished the week at 96.80 cents, up about 10 cents since the Wed. February 12 quote and up about 35 cents from the year ago level.

Freezer stocks of all trimmings on January 31 were 40.8 million pounds, down about 30 percent from the year ago levels.

**72 CL Picnic Meat** “FOB Basis”. Picnics prices should be higher by April.

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## **POULTRY**

**Georgia Dock Broilers.** The Georgia dock price on January 8 at \$104.50 was up about 4 cents from a year ago.

The National Whole Bird price was quoted at 91.62 on Friday January 10, down about 10 cents from a year ago.

Broiler slaughter for the week ending February 22 was 159.76 million head, up 5.39% from a year ago. For the last two weeks slaughter was up 2.70% vs. a year ago.

**Breasts.** Prices on boneless skinless breasts finished the week at \$1.2820, up less than one cent since the Wed. February 12 quote but down about 12 cents from the 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 2.8 cents vs. year ago price at 40.68 . Prices trend modestly

higher the next few months. However, Mexico could be a significant issue any time.

**Wings.** Prices at \$1.2784 are down about 48 cents from year ago levels.

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## **Turkeys**

**Hens** finished last week at \$1.0400, unchanged since Wed. February 12 and up about 3 cents from the year ago price.

**Toms** finished last week at \$1.0400 unchanged since Wed. February 12 and up about 3 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 3.953 million head for the week ending February 15, down 9.63% from a year ago. For the last two weeks slaughter has been down 9.75%..

**Boneless Turkey Breast Meat.** Boneless skinless turkey breast meat prices finished last week at \$2.1600, unchanged since Wed. February 12. Prices are up about 27 cents vs. year ago prices.

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## **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 \$5.6020 (weighted average quote) finished last week up about 6 cents since the Wed. February 12 quote but down about 12 cents vs. the year ago price.

**Select 112A Heavy Lip On Rib Eyes** at \$5.5837 (weighted average quote) finished last

week down about 8 cents since the Wed. February 12 quote but down about one cents vs. the year ago price.

Choice prices are at their post-holiday season lows at this time. Select rib eyes also are near their post-holiday season lows at this time.

Currently Choice 112A Rib Eyes are \$0.0183 /lb. BELOW 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 \$2.5078 up about 17 cents since Wed. February 12 and up about 64 cents from the year ago price.

**Choice ¼ inch trimmed #168 insides** finished last week quoted at \$2.6129 up about 20 cents since Wed. February 12 and up about 67 cents from year ago levels.

**Choice #170 Gooseneck Rounds** finished last week at \$2.5532 up about 13 cents since Wed. February 12 but up about 51 cents from the year ago levels.

**Choice #180 (0x1) Bnls. Strip Loins** finished last week quoted at \$5.0483 (wt. avg.) up about 40 cents from the Wed. February 12 quote. Prices are about 41 cents over year ago levels.

**Choice #184 Regular Heavy top butts** finished at \$2.8837 (wt. avg.) up about 19 cents since Wed. February 12 but down about 20 cents from year ago levels.

**Choice #184 ¼ inch trimmed Top Butts** finished at \$3.0382 (wt. avg.) up about 11 cents since Wed. February 12 but down about 18 cents from the year ago levels.

**Choice #185A Flap Meat** prices finished Friday at \$3.9947 (wt. avg.) up about 11 cents since Wed. February 12 and up about 33 cents from year ago values.

## **COARSE GROUND BEEF –**

**73CL Coarse Ground** product finished last week at \$2.0640 up about 5 cents since Wed. February 12 and up about 53 cents from year ago levels.

**81CL Coarse Ground** product finished last week at \$2.3776 up about 12 cent since Wed. February 12 and up about 46 cents from the year ago quote.

**90CL Bnls. Beef** prices finished the week at \$2.5068 (wt. avg.) up about 18 cent since Wed. February 12 and up 36 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 \$1.1314, up about 7 cent since Wed. February 12 and up 47 compared to the year ago level.

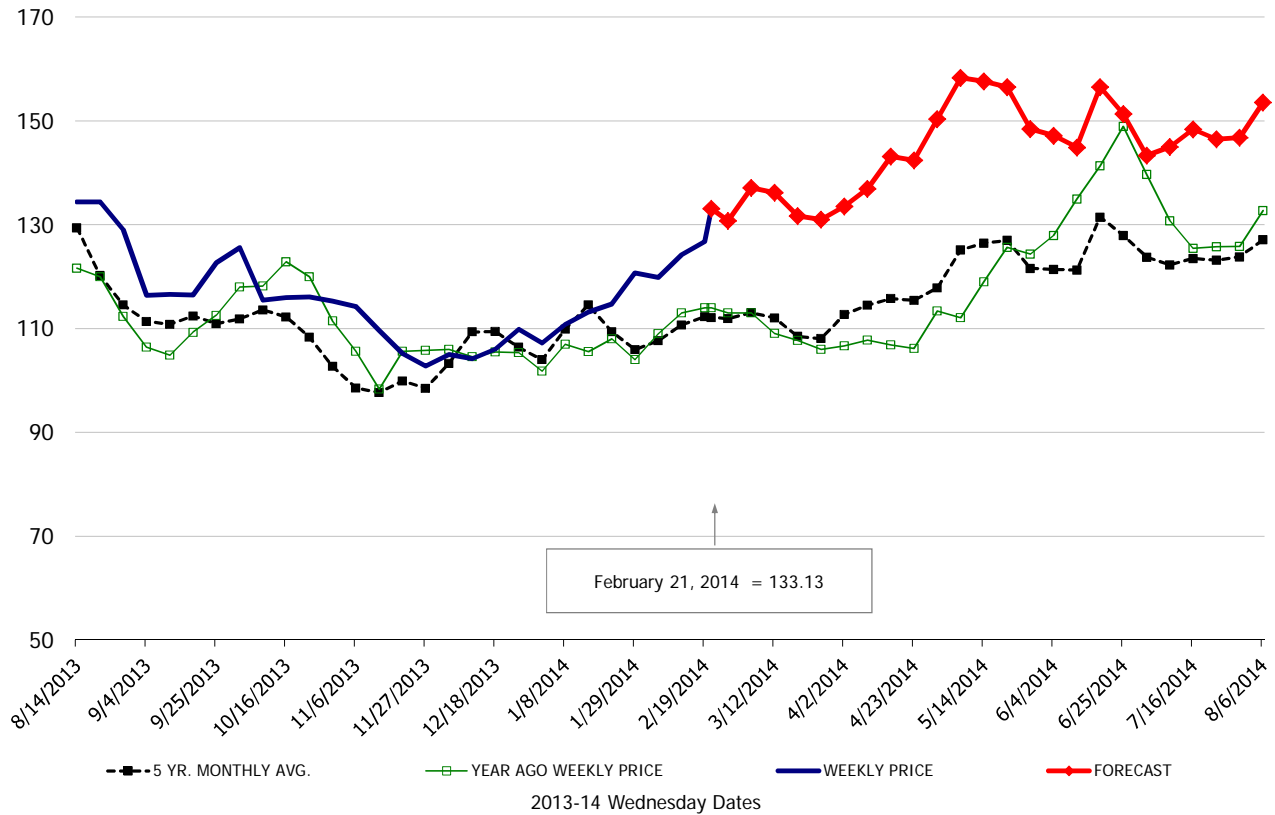
# Food Service Summary Table - WT. AVE

	2013-14 History							2014 FORECAST							
	Aug	Sep	Oct	Nov	Dec	Jan	2/12/2014	2/21/2014	3/5/2014	Feb	Mar	Apr	May	Jun	Jul
<b><u>PORK</u></b>															
Loin, 1/4 Trimmed Loin VAC, FOB Plant, USDA	1.29	1.18	1.16	1.07	1.06	1.14	1.24	1.33	1.37	1.29	1.34	1.39	1.54	1.50	1.46
Loin, 1/8 Trimmed Loin VAC, FOB Plant, USDA	1.35	1.26	1.23	1.17	1.12	1.20	1.32	1.37	1.47	1.39	1.47	1.49	1.66	1.65	1.59
Loin, Bnls CC Strap-off, FOB Plant, USDA	1.80	1.83	1.81	1.73	1.71	1.78	1.78	1.79	1.96	1.89	1.97	2.03	2.24	2.20	2.11
Loin, Tenderloin, FOB Plant, USDA	2.38	2.36	2.33	2.29	2.32	2.41	2.53	2.50	2.91	2.60	2.91	2.99	3.34	3.45	3.40
Butt, 1/4 Trim Butt Combo, FOB Plant, USDA	1.05	1.13	1.01	0.99	0.99	1.06	1.15	1.21	1.20	1.19	1.20	1.22	1.26	1.29	1.19
Sparerib, Trmd Sparerib - LGT, FOB Plant, USDA	1.50	1.45	1.46	1.47	1.42	1.52	1.60	1.61	1.59	1.44	1.59	1.73	1.82	1.81	1.67
Sparerib, St Louis Spareribs, POLY, FZN, FOB Plant, USDA	2.33	2.31	2.26	2.28	2.21	2.20	2.32	2.39	2.56	2.52	2.55	2.58	2.66	2.69	2.31
Sparerib, Trmd Sparerib - MED, FOB Plant, USDA	1.53	1.48	1.43	1.38	1.36	1.46	1.53	1.55	1.56	1.37	1.56	1.70	1.79	1.78	1.64
Loin, Backribs 2.0#/up, FOB Plant, USDA	2.25	2.12	2.08	2.05	2.03	2.16	2.27	2.49	2.51	2.49	2.52	2.68	2.96	2.88	2.72
Ham, 17-20# Trmd Selected Ham, FOB Plant, USDA	0.89	0.92	0.95	1.01	0.98	0.78	0.86	0.87	1.04	0.87	1.00	0.95	1.00	0.99	1.02
Ham, 20-23# Trmd Selected Ham, FOB Plant, USDA	0.87	0.90	0.91	0.93	0.81	0.74	0.85	0.87	0.97	0.87	0.95	0.93	0.98	0.96	1.02
Ham, 23-27# Trmd Selected Ham, FOB Plant, USDA	0.87	0.87	0.89	0.87	0.80	0.74	0.83	0.86	0.96	0.87	0.94	0.93	0.99	0.96	1.02
Ham, 5 Muscle Ham to Blue, FOB Plant, USDA	1.23	1.52	1.40	1.43	1.40	1.21	1.21	1.21	1.30	1.31	1.29	1.31	1.34	1.31	1.33
Belly, Skin-on Belly 14-16#, FOB Plant, USDA	1.33	1.61	1.26	1.21	1.14	1.07	1.29	1.36	1.46	1.37	1.43	1.48	1.57	1.58	1.70
Belly, Derind Belly 9-13#, FOB Plant, USDA	2.02	1.87	1.72	1.63	1.53	1.44	1.62	1.67	1.80	1.67	1.75	1.82	1.92	1.94	2.08
Belly, Derind Belly 13-17#, FOB Plant, USDA	2.06	1.85	1.67	1.58	1.48	1.38	1.52	1.65	1.79	1.66	1.74	1.81	1.91	1.93	2.07
Trim, 42% Trim Combo, FOB Plant, USDA	0.63	0.52	0.47	0.38	0.32	0.35	0.43	0.51	0.56	0.51	0.55	0.62	0.67	0.72	0.84
Trim, 72% Trim Combo, FOB Plant, USDA	0.69	0.67	0.83	0.73	0.64	0.70	0.87	0.97	0.99	0.96	0.97	0.92	0.97	1.03	1.06
<b><u>HOG CARCASS</u></b>															
IA/MN, Base Market Hog 185 lb Carcass Basis, Plant Div.	0.95	0.93	0.86	0.80	0.78	0.79	0.84	0.90	0.96	0.90	0.93	0.99	1.08	1.11	1.10
<b><u>BROILERS</u></b>															
BROILER, NATIONAL WHOLE BIRD PRICE, USDA	0.91	0.91	0.91	0.94	0.95	0.96	0.92	0.92	0.94	0.94	0.95	0.94	0.98	0.99	0.98
N.E. BROILER BREAST BONELESS-SKINLESS, USDA	1.78	1.50	1.35	1.26	1.26	1.25	1.26	1.28	1.39	1.35	1.42	1.49	1.61	1.55	1.58
N.E. BROILER BREAST LINE RUN, USDA	1.17	1.06	1.01	0.98	0.94	0.93	0.86	0.84	1.00	0.98	1.02	1.07	1.15	1.15	1.16
N.E. BROILER LEG QUARTERS, USDA	0.52	0.53	0.47	0.44	0.43	0.43	0.43	0.41	0.44	0.42	0.44	0.47	0.51	0.51	0.51
N.E. BROILER WINGS, USDA, WT.AVG.	1.58	1.62	1.49	1.21	1.21	1.30	1.22	1.28	1.29	1.28	1.25	1.20	1.18	1.25	1.33
<b><u>TURKEYS</u></b>															
UB HEN TURKEYS, EAST, FROZEN 10-12LBS	1.05	1.06	1.08	1.10	1.10	1.03	1.03	1.04	1.04	1.04	1.05	1.07	1.10	1.12	1.14
UB BONELESS-SKINLESS TURKEY BREAST, TOM, FRESH	1.96	2.14	2.20	2.19	2.16	2.16	2.16	2.16	2.14	2.16	2.16	2.16	2.22	2.27	2.32
<b><u>LIVE STEERS</u></b>															
FIVE AREA DIRECT AVERAGE LIVE STEER, USDA	1.23	1.23	1.29	1.31	1.31	1.40	1.41	1.42	1.42	1.44	1.42	1.42	1.36	1.33	1.31
<b><u>BEEF</u></b>															
CHOICE, 112A, 3 RIBEYE, BONELESS, HEAVY, USDA	6.33	6.60	6.92	7.41	6.45	5.73	5.53	5.60	6.13	5.72	6.20	6.30	6.23	6.44	6.24
CHOICE, 168, 3 TOP INSIDE ROUND, 1/4" MAX, USDA	2.12	2.10	2.28	2.27	2.30	2.53	2.41	2.61	2.44	2.57	2.46	2.42	2.33	2.24	2.20
CHOICE, 170, 1 BOTTOM GOOSENECK ROUND, USDA	1.94	2.01	2.18	2.11	2.09	2.40	2.42	2.55	2.38	2.53	2.32	2.22	2.13	2.09	2.08
CHOICE, 180, 3 STRIP LOIN, BONELESS, 0x1, USDA	4.98	4.98	4.88	4.70	4.75	4.98	4.65	5.05	5.19	5.11	5.39	6.05	6.37	6.25	5.40
CHOICE, 184, 3 TOP BUTT, BONELESS, USDA	3.26	3.15	2.94	2.79	2.78	2.82	2.97	3.04	3.34	3.16	3.41	3.51	3.38	3.14	3.13
CHOICE, 185A, 4 BOTTOM SIRLOIN, FLAP, USDA	3.36	3.48	3.73	3.60	3.66	3.99	3.89	3.99	4.21	4.05	4.38	4.38	4.55	4.78	4.57
COARSE GROUND 73%, USDA	1.76	1.68	1.62	1.66	1.71	2.29	2.01	2.06	1.90	2.01	1.92	1.96	1.99	1.75	1.66
COARSE GROUND 81%, USDA	1.88	1.88	1.79	1.82	1.86	2.45	2.25	2.38	2.12	2.35	2.13	2.13	2.20	1.96	1.86
90% BONELESS BEEF, CENTRAL, FRESH, USDA	2.03	2.04	1.93	1.91	2.02	2.19	2.32	2.51	2.37	2.48	2.39	2.37	2.35	2.26	2.24
50CL BEEF TRIM, FRESH, NATIONAL, USDA	1.08	0.97	1.00	1.11	0.95	1.05	1.07	1.13	1.25	1.13	1.24	1.19	1.19	1.04	1.02

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

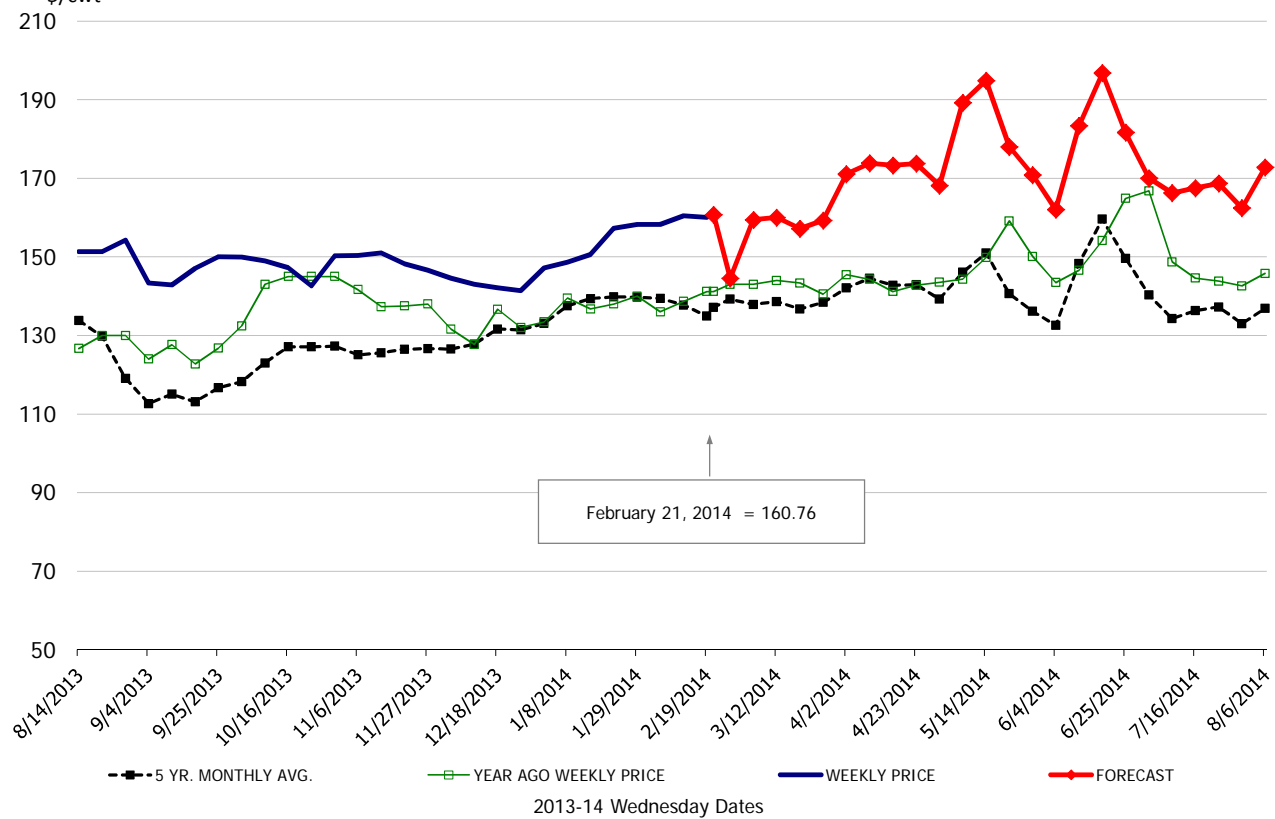
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### Loin, 1/4 Trimmed Loin VAC, FOB Plant, USDA



\$/cwt

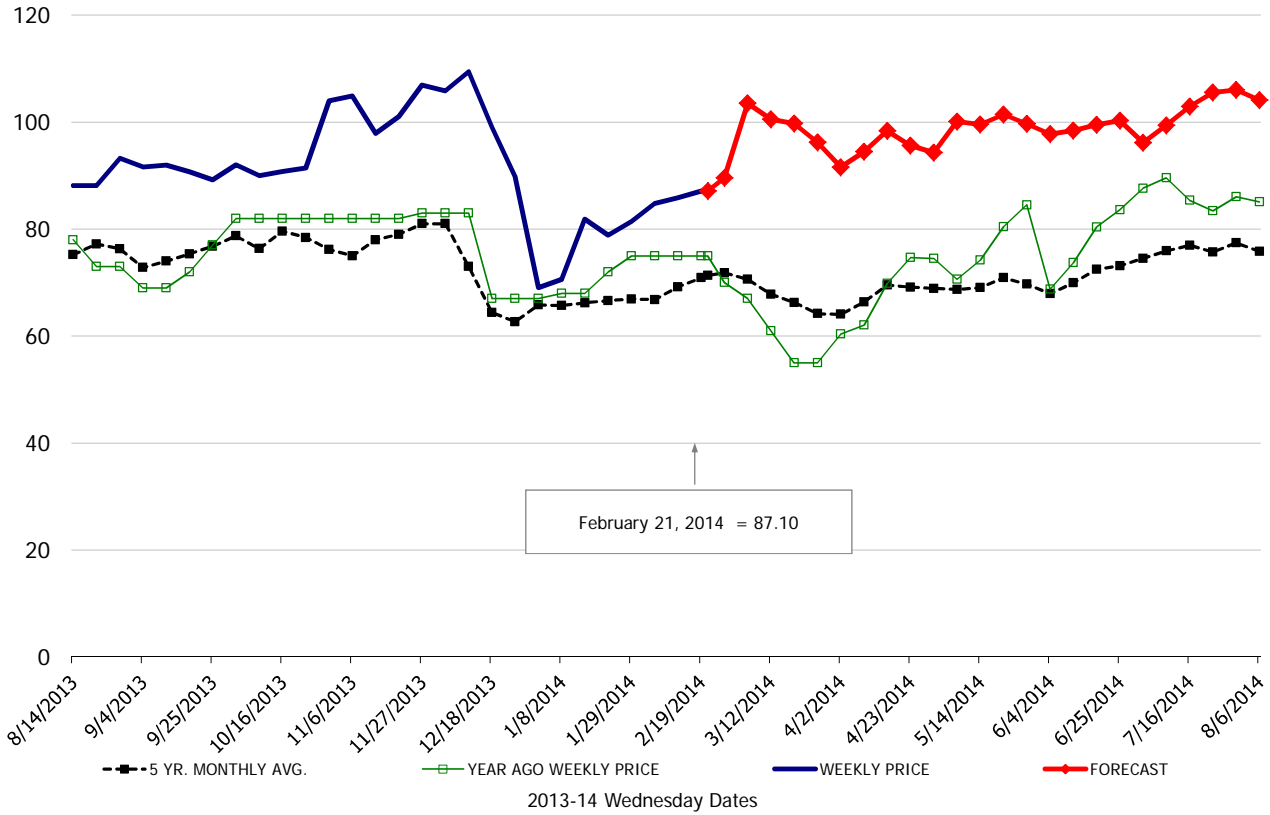
### Sparerib, Trmd Sparerib - LGT, FOB Plant, USDA





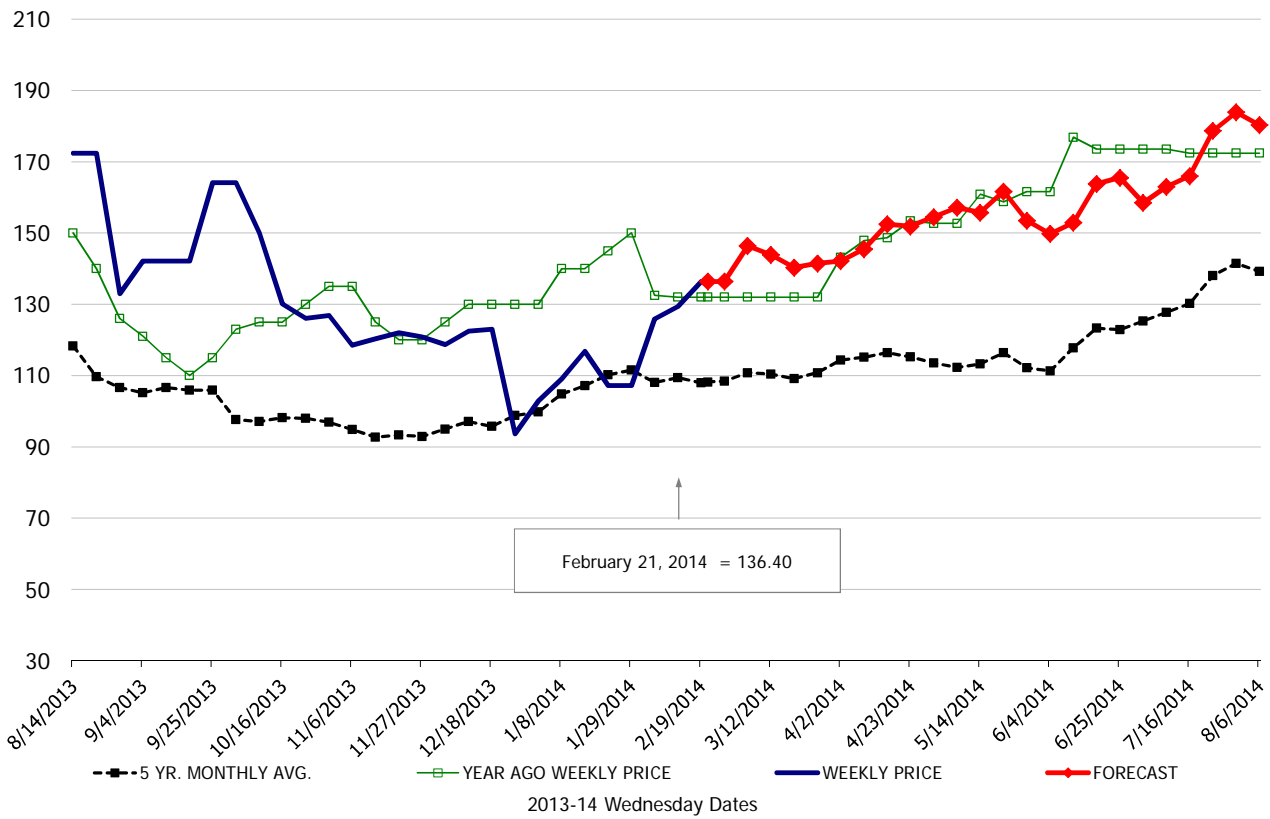
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### Ham, 17-20# Trm'd Selected Ham, FOB Plant, USDA



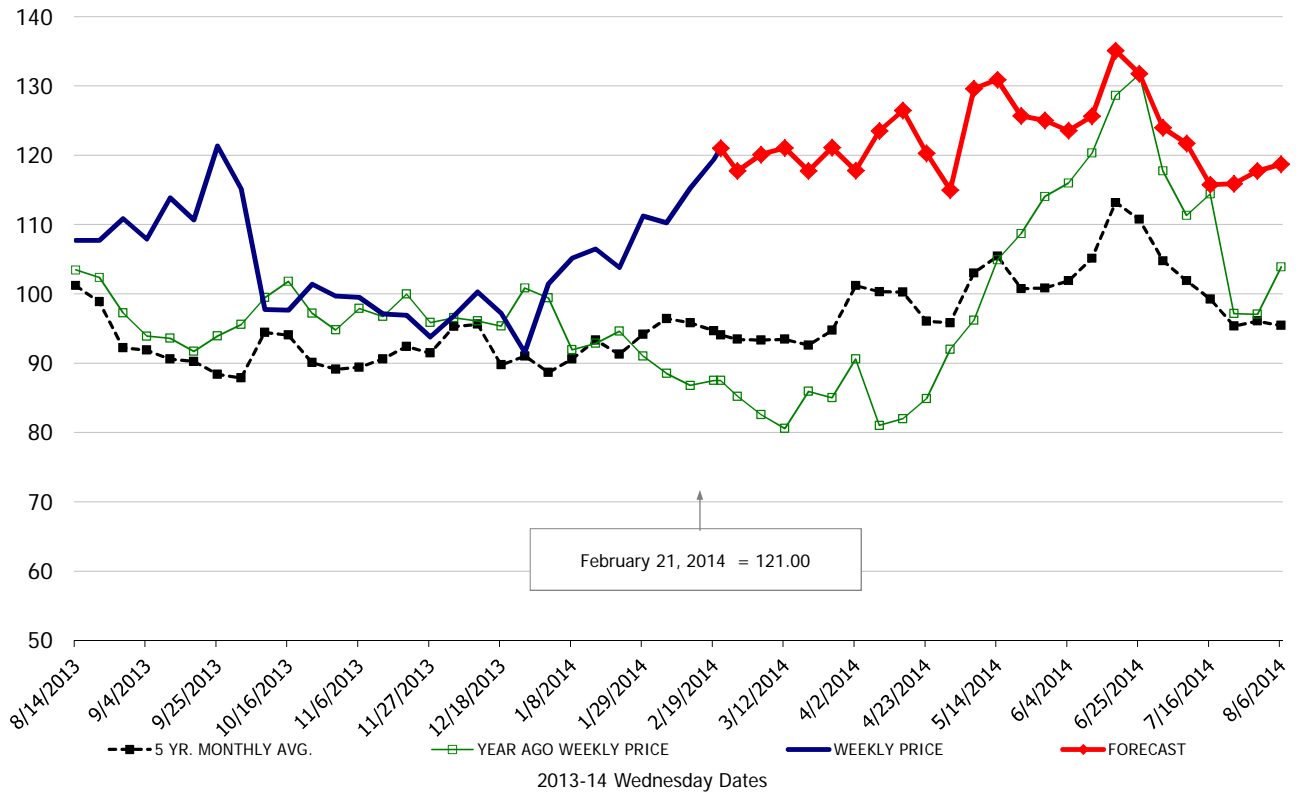
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### Belly, Skin-On Belly 14-16#, FOB Plant, USDA



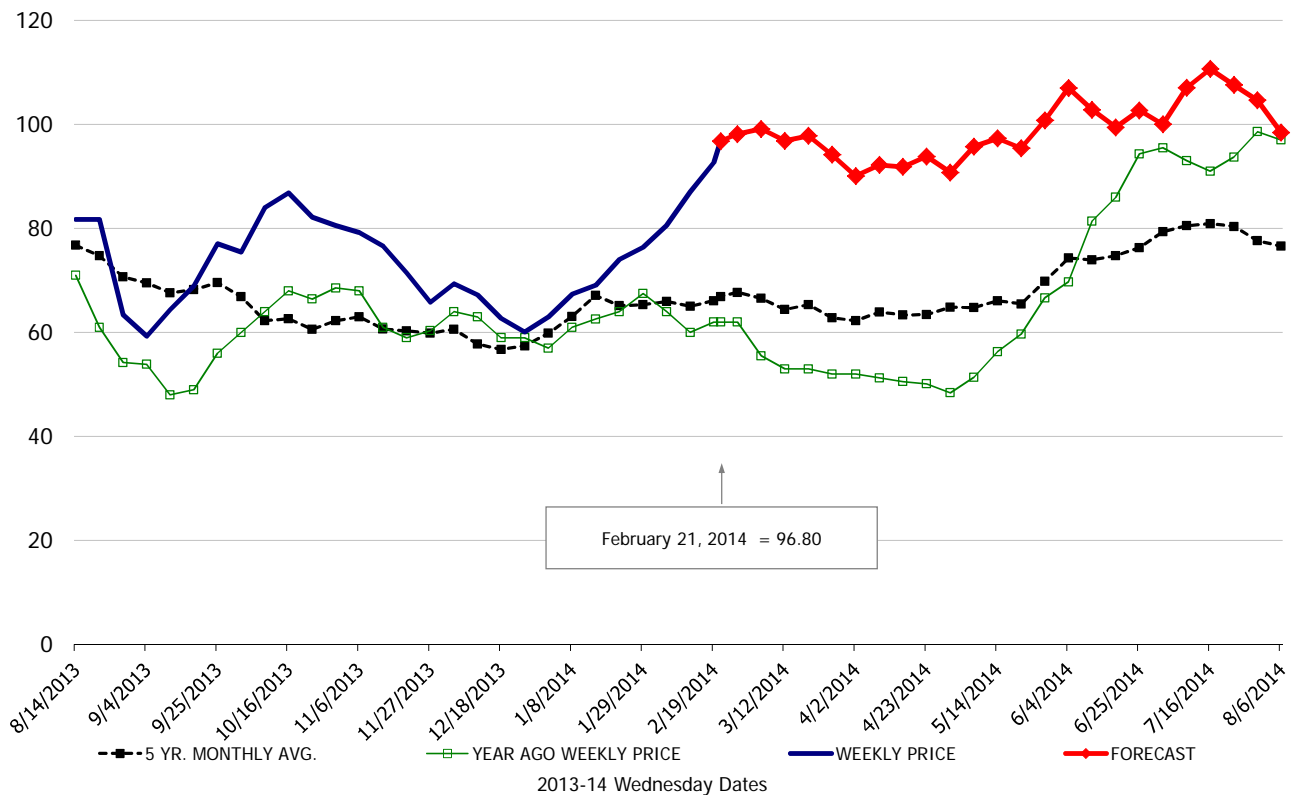
\$/cwt

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

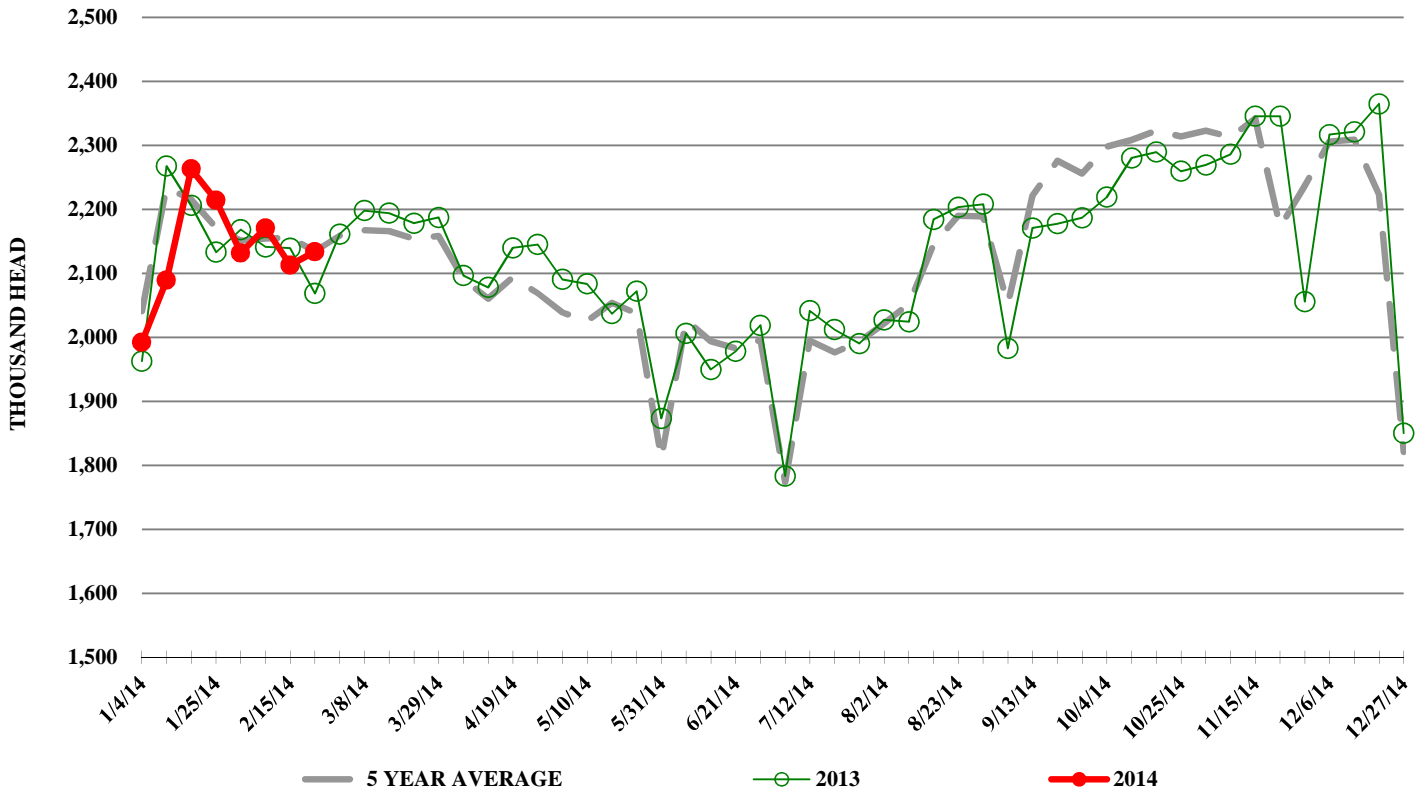


\$/cwt

### Trim, 72% Trim Combo, FOB Plant, USDA



## ESTIMATED WEEKLY FI HOG SLAUGHTER



## ESTIMATED WEEKLY FI PORK PRODUCTION

