



Pork Merchandiser's Profit Maximizer

Be inspiredSM

- Foodservice Edition

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

August 25, 2014

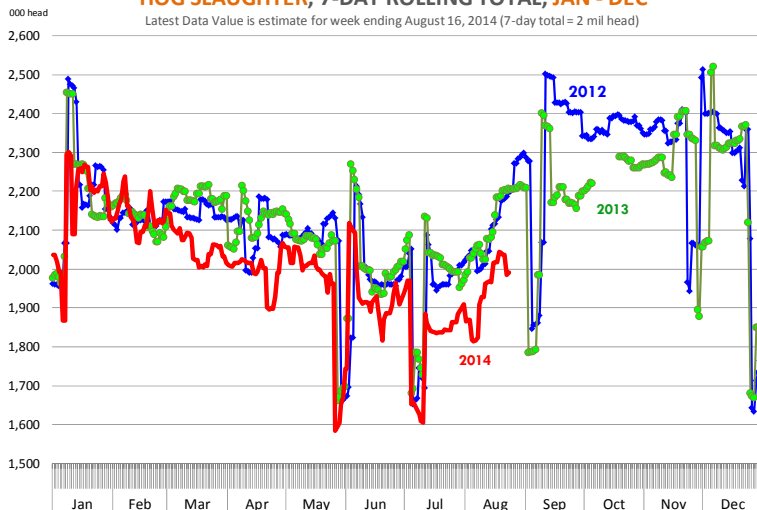
1. Hog prices drop on softer demand and expectations of increasing hog numbers in fall and winter months

Lean hog futures have declined sharply since hitting an all-time record high in early July. The decline has accelerated in recent days, as sharp declines in cash hog prices have caused market participants to unwind long positions across the board. The nearby October contract is currently down about \$25/cwt (-21%) from its peak on July 7 while the December contract, which hit a

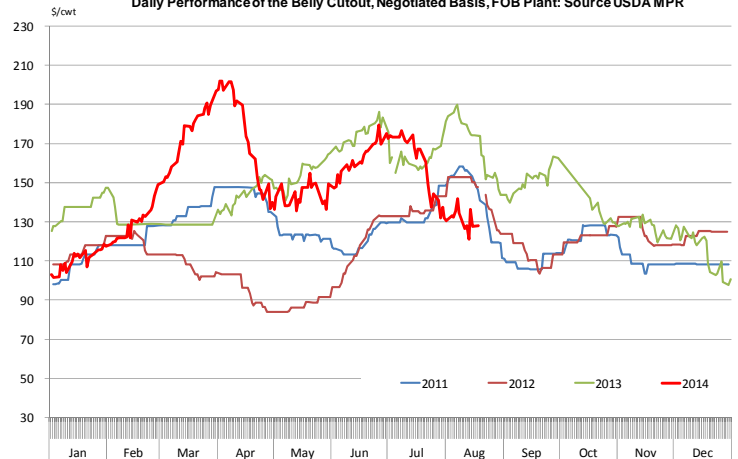
contract high of \$105.45 on July 9 closed on Friday at \$87.15, down \$18 (-17%) from the July peak. It is hard to point a finger at a single factor, be this the Russian decision to stop buying US pork, China ban on imports from some US pork plants, expected higher slaughter numbers, heavy hog weights or weaker consumer demand. All of those factors appear to have played a role. Ultimately, however, there seems to have been a change in perception among market participant and producers appear to now be much more aggressive in their offerings. The IA/MN lean hog carcass price on Friday was quoted at \$95.30/cwt, \$8 lower than the previous week and

HOG SLAUGHTER, 7-DAY ROLLING TOTAL, JAN - DEC

Latest Data Value is estimate for week ending August 16, 2014 (7-day total = 2 mil head)

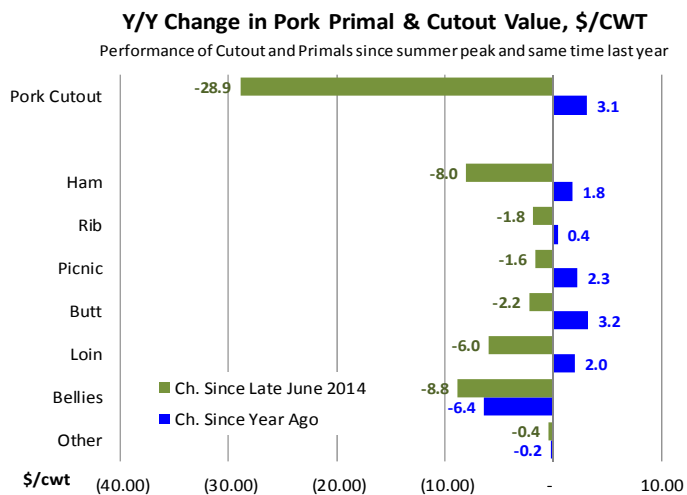
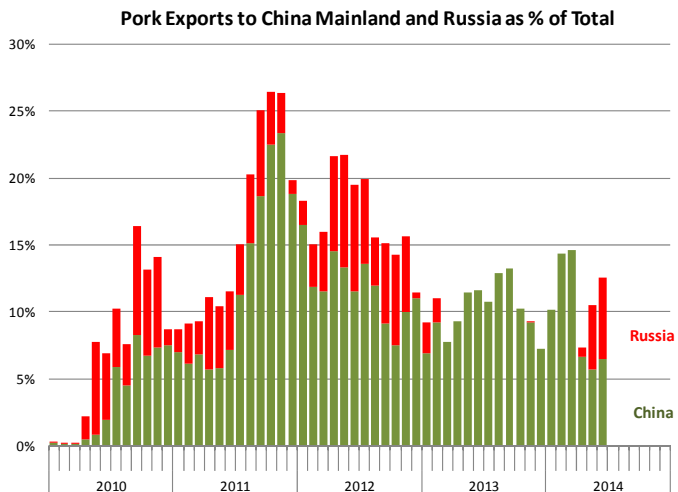


Daily Performance of the Belly Cutout, Negotiated Basis, FOB Plant: Source USDA MPR



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\$24 lower than where prices were on August 1. For a number of months, producers were reluctant sellers, faced with empty barns as PEDv caused significant death losses across the country. The incentive for producers was to slow everything down, add more weight to the pigs that survived to make up for the lost production. It seemed to work as hog carcass weights throughout the summer were 5% higher than the previous year. More importantly, the slowdown forced packers to bid ever higher prices in order to keep plants operating. Cash hog prices hit all-time record highs, first in late March and early April and then again in late June and early July. It sure helped that cattle/beef prices were also record high and retailers/foodservice operators were willing to pay the higher pork prices given the cost of alternatives. The dynamic in the market has shifted. Rather than expecting empty feed barns as was the case in the spring and early summer, producers are now looking at a steady improvement in hog numbers come Q4. The incentive is to try and get some of those extra heavy hogs out of the door as fast as you can and get the best price you can for them. Pricewise, things are only going to get more difficult from this point on for producers. To be sure, hog numbers are still significantly lower than a year ago. Last week, hog slaughter was once again under 2 million head, down almost 10% from a year ago. But for now, producers appear more intent on trying to go into the critical Q4 as current as they can, especially with a lot of uncertainty about the state of retail and export business. Lower cattle prices certainly have taken their toll on market psychology. Exports were part of the reason for the strong pork price performance earlier in the year but that looks to be changing. There was a lot of talk back in June that Russia had placed a big order for hams, which caused spot supplies to dry up and led to a bidding frenzy among processors and retailers that normally start building inventories for the holidays. China also recently announced it would stop imports from a number of US pork plants and cold storage warehouses. These two markets in June accounted for 12% of all US



pork exports. Two weeks ago, the gains in the ham primal accounted for more than 2/3 of the overall gains in the cutout. The ham cutout last night was quoted at \$93.91/cwt, down a dramatic \$32/cwt (-26%) compared to what it was at the end of June. Normally this is the time of year when hams support the cutout as other items, such as ribs and bellies, seasonally decline.

The weakness in hams is only part of the reason for the lower pork cutout values. Belly prices have been weak all year but they were down sharply in July and August. We think part of the reason is retail demand, as record high hog prices caused retailers to limit their belly features this year. Also, foodservice operators appear to have limited their belly promotions and use this year. Pork belly inventories as of July 31 were pegged at 64.5 million pounds, 130% higher than a year ago and 93% higher than the five year average. With ample inventories and limited

demand, pork belly prices have struggled to gain traction. Since the end of June, the pork belly cutout has declined \$56/cwt (-33%). The decline in belly value has accounted for almost a third of the overall decline in the value of the pork cutout from the summer peak. Belly prices normally remain weak into the fall and with plenty of bellies in storage, we think this will continue to pressure the overall pork cutout lower.

Bottom line: Pork prices are now much weaker than earlier this summer on softer demand and expectations of larger supplies by late fall and winter.

2. Cattle on Feed

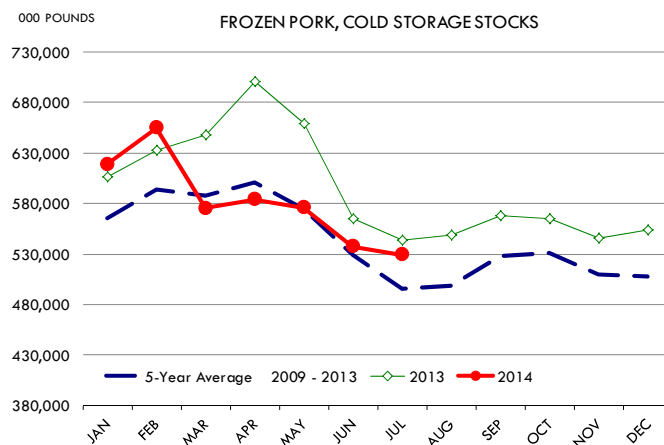
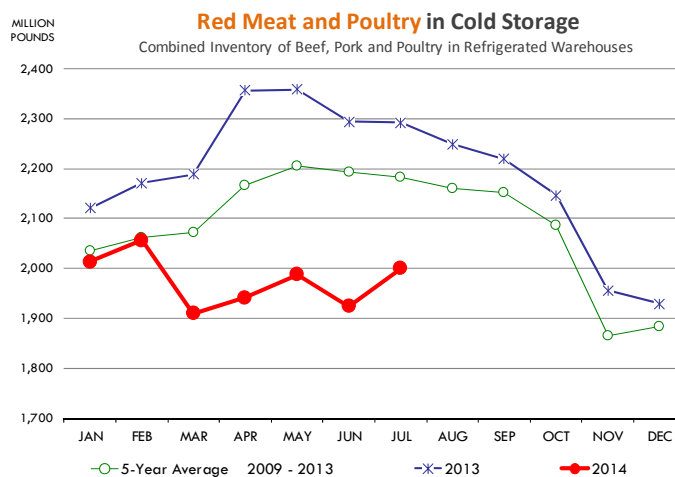
USDA pegged the total cattle on feed inventory as of August 1 at 9.837 million head, 1.9% lower than a year ago. Pre-report estimates were looking for total on feed supplies to be down 2.5% compared to a year ago. There was plenty of speculation coming into the report as to the number of cattle placed on feed. Analysts on average expected placements to be down 9.4% with some talk in the market of placements down in double digits. The USDA survey pegged placements down 7.4% in line with our estimate. While this may be viewed as somewhat bearish given analyst estimates, it is important to keep in mind the magnitude of the decline rather than the slight difference from pre-report guesses. This is the fifth consecutive month of lower placements and in the last three months alone feedlots have reduced overall placements by 363,000 head. Furthermore, looking at the placement structure, the cattle placed on feed are skewing significantly lighter than both last year and five year average placements. In addition to placing fewer cattle on feed, feedlots are placing them at lighter weights. This implies a longer marketing window and a slower flow of cattle late this year and in Q1 of 2015. Marketings in July were down 9.3% compared to the previous year, a bigger decline than analysts expected.

Takeaway: We continue think the bullish case for cattle later this year and in early part of 2015 remains intact. Cattle supplies are tight and they

will remain tight for the medium term. In the very near term (next 30-60), feedlots will have a few more cattle ready for market as the supply of +120 cattle on feed is now up about 9% from a year ago. But with limited beef in cold storage and holiday demand around the corner, we still think the conservative approach is to budget for higher beef prices next year.

3. Cold Storage

Beef inventories are extremely light as high prices this summer have caused end users to aggressively deplete inventories. End users also appear unwilling to build inventories given record prices for a number of items, opting to stay hand to mouth. In effect end users are taking a short position in a market that has a strong underlying bullish trend. While cattle markets have pulled back recently, the fact that some end users remain short bought we think remains supportive of the beef market going into the holidays. As for



pork, we had to look at the numbers a few times to decide how to read them. Ham inventories at 149.5 million pounds are down 17% from a year ago but still about 3.2% higher than the five year average. Inventories in July increased 18% from the previous month and must stronger build than normal. While we initially viewed the ham number as overall bullish for the market that bullishness fades quickly when considering that end users did build inventories at a faster than normal pace and when considering the potential impact that the lack of business with Russia and China will have on this market. Belly stocks remain extremely heavy and this remains a negative as well. Overall pork inventories at 529.2 million pounds are down 2.7% from a year ago but about 6.8% higher than the five year average. In addition, inventories declined only 1.5% in July compared to a normal depletion rate of -4 to -8%.

Takeaway: Pork numbers should seasonally increase in the next three months. The cold storage numbers for pork showed that supplies are building at a faster pace than normal, possibly an indication of slowing demand.

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

<p><u>NOTE: WE ARE NOW REPORTING AND FORECASTING MANDATORY PLANT WEIGHTED AVERAGE BLUE SHEET PRICES FOR PORK CUTS.</u></p>

Live hogs. For the week ending August 23 slaughter was 1.991 million head, down 9.7% from a year ago. In the last two weeks hog slaughter is down 8.7% vs. year ago levels.

Iowa/Minnesota, Base Lean Market Hog 185 lbs. Carcass Values. Lean hog carcass values at about 95.30 /cwt. on Friday were down about \$12/cwt since Wed. August 13. Prices are up about \$3 /cwt compared to year ago values.

Loin, 1/4 Trimmed Loin VAC, FOB Plant, USDA (page 8). Prices finished last week at \$1.3842, down about 16 cent since the Wed. August 13 quote but up about 4 cents from year ago levels.

Bnls. Strap on Pork Loins. Prices finished the week at \$1.6205 for the strap on loins, down about 12 cents since Wed. August 13 and down about 8 cents from the year ago levels. Strap off loins at \$1.7886 are down about 11 cent since Wed. August 13 but up about 6 cents compared to the year ago quote.

Boneless sirloins at \$1.6617 are down about 22 cents from the Wed. August 13 quote but up about 40 cents from the year ago price.

Pork tenderloin finished last week at \$2.6966, down about 14 cents since the Wed. August 13 quote but up about 41 cents from the year ago price.

5/10 Pork Butts (page 10), prices finished the week at \$1.4761, down about 12 cents since Wed. August 13.

Spare Ribs, Trimmed - LGT, Vac (page 8). Prices finished the week at \$1.6813, down about 6

cent since Wed. August 13 but up about 17 cents from year ago levels.

Rib inventories on July 31 were 54.3 million pounds, down 5.8% percent from a year ago.

Bone-in Hams.

17/20 hams (page 9) price was \$1.1122/lb., down 17 cents compared to prices on Wed. August 13 but up about 23 cents from a year ago.

20/23 hams finished the week at 102.13 cents, up about 7 cents since Wed. August 13 but up about 14 cents from the year ago level.

23/27 hams finished the week at 95.78 , down about 15 cents from the Wed. August 13 quote but up about 10 cents from the year ago level.

Total ham cold storage stocks on July 31 at 149.5 million pounds were down about 17.2% from year ago levels.

42 CL Pork Trim “FOB Basis”. Prices finished the week at 41.88 , down about 32.8 cent since Wed. August 13 and down about 34 cents from the year ago price.

72 CL Pork Trim “FOB Basis”. Prices finished the week at 93.38 cents, down about 23 cents since the Wed. August 13 quote but up about 12 cents from the year ago level.

Freezer stocks of all trimmings on July 31 were 42.4 million pounds, up about 14.9% 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 100.44 on Friday August 23, up about 9 cents from a year ago.

Broiler slaughter for the week ending August 23 was 160.04 million head, down 0.89% from a

year ago. For the last two weeks slaughter was down 0.5% vs. a year ago.

Breasts. Prices on boneless skinless breasts finished the week at \$1.8214, up 0 cents since Wed. August 13 and also up about 4 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 3.5 cents vs. year ago price at 49.14 . Prices trend modestly higher the next few months. However, Mexico could be a significant issue any time.

Wings. Prices at \$1.5168 are down about 6 cents from year ago levels.

Turkeys

Hens finished last week at \$1.1400, unchanged since Wed. August 13 and up about 9 cents from the year ago price.

Toms finished last week at \$1.1400, unchanged since Wed. August 13 and up about 10 cent from the year ago price.

Total turkey supplies in the freezer on July 31 were down about 15.5% percent from a year ago at 491.1 million pounds. Whole birds were down 10.8% percent from year ago with an inventory of 292.8 million pounds.

Turkey slaughter was 4.5560 million head for the week ending August 16, up 1.90% from a year ago. For the last two weeks slaughter has been up 2.3%.

Boneless Turkey Breast Meat. Boneless skinless turkey breast meat prices finished last week at \$4.0500, unchanged since Wed. August 13. Prices are up about 55 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 \$7.0656 (weighted average quote) finished last week down about 6 cents since the Wed. August 13 quote but up about 59 cents vs. the year ago price.

Select 112A Heavy Lip On Rib Eyes at \$5.8695 (weighted average quote) finished last week down about 29 cents since the Wed. August 13 quote but up about 11 cents vs. the year ago price.

Currently Choice 112A Rib Eyes are \$1.1961 /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 \$2.9606 down about 48 cents since Wed. August 13 but up about 92 cents from the year ago price.

Choice ¼ inch trimmed #168 insides finished last week quoted at \$3.0053 down about 33 cents since Wed. August 13 and up about 87 cents from year ago levels.

Choice #170 Gooseneck Rounds finished last week at \$2.6411 down about 6 cents since Wed. August 13 but up about 63 cents from the year ago levels.

Choice #180 (0x1) Bnls. Strip Loins finished last week quoted at \$6.3624 (wt. avg.) down about 24 cents from the Wed. August 13 quote. Prices are about 115 cents over year ago levels.

Choice #184 Regular Heavy top butts finished at \$3.3114 (wt. avg.) down about 18

cents since Wed. August 13 but up about 29 cents from year ago levels.

Choice #184 ¼ inch trimmed Top Butts finished at \$3.5974 (wt. avg.) up about 11 cents since Wed. August 13 and up about 32 cents from the year ago levels.

Choice #185A Flap Meat prices finished Friday at \$4.7778 (wt. avg.) up about one cents since Wed. August 13 and up about 133 cents from year ago values.

COARSE GROUND BEEF –

73CL Coarse Ground product finished last week at \$2.4728 up about 13 cents since Wed. August 13 and up about 69 cents from year ago levels.

81CL Coarse Ground product finished last week at \$2.5949 down about 7 cent since Wed. August 13 but up about 68 cents from the year ago quote.

90CL Bnls. Beef prices finished the week at \$2.9817 (wt. avg.) up about 2 cent since Wed. August 13 and up 93 compared to the year ago price quote. Ranchers are trying to hold more beef cows and lean beef supplies remain in limited supply

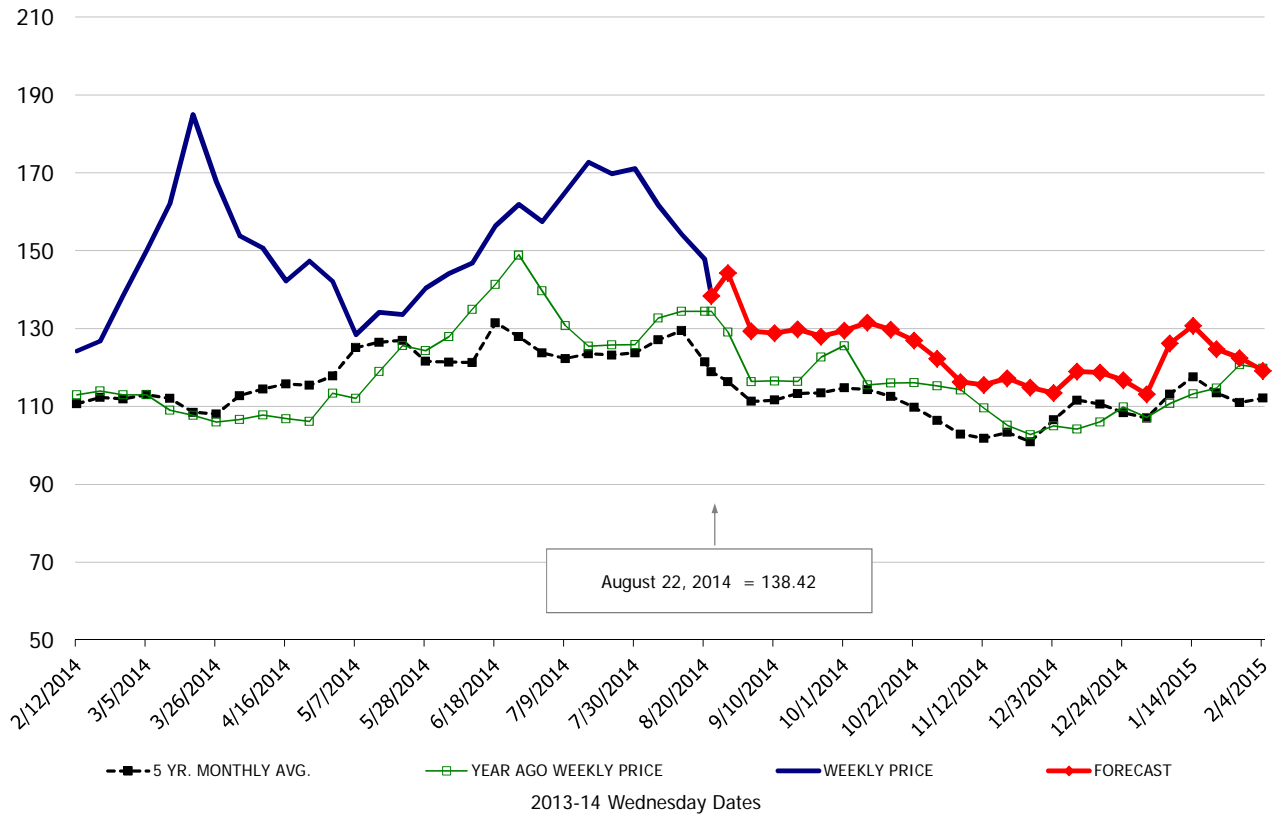
50 CL Beef Trim prices finished last week at \$1.4021, down about 5 cent since Wed. August 13 but up 30 compared to the year ago level.

Food Service Summary Table - WT. AVE

	2013-14 History							2014 FORECAST							
	Feb	Mar	Apr	May	Jun	Jul	8/13/2014	8/22/2014	9/3/2014	Aug	Sep	Oct	Nov	Dec	Jan
<u>PORK</u>															
Loin, 1/4 Trimmed Loin VAC, FOB Plant, USDA	1.27	1.65	1.47	1.35	1.52	1.66	1.54	1.38	1.29	1.53	1.29	1.28	1.16	1.17	1.25
Loin, 1/8 Trimmed Loin VAC, FOB Plant, USDA	1.34	1.73	1.58	1.45	1.60	1.79	1.65	1.47	1.39	1.62	1.40	1.36	1.25	1.28	1.36
Loin, Bnls CC Strap-off, FOB Plant, USDA	1.84	2.35	2.12	1.91	1.97	2.18	1.90	1.79	1.74	1.87	1.77	1.79	1.64	1.80	1.86
Loin, Tenderloin, FOB Plant, USDA	2.54	2.76	2.78	2.77	2.84	2.89	2.84	2.70	2.53	2.80	2.50	2.36	2.22	2.15	2.44
Butt, 1/4 Trim Butt Combo, FOB Plant, USDA	1.16	1.61	1.60	1.60	1.68	1.71	1.61	1.57	1.48	1.58	1.45	1.45	1.42	1.42	1.26
Sparerib, Trmd Sparerib - LGT, FOB Plant, USDA	1.61	1.82	1.76	1.70	1.73	1.91	1.74	1.68	1.43	1.72	1.45	1.53	1.54	1.52	1.58
Sparerib, St Louis Spareribs, POLY, FZN, FOB Plant, USDA	2.29	2.45	2.54	2.59	2.55	2.64	2.52	2.49	2.17	2.58	2.19	2.24	2.23	2.21	2.25
Sparerib, Trmd Sparerib - MED, FOB Plant, USDA	1.53	1.74	1.64	1.61	1.70	1.85	1.69	1.58	1.44	1.66	1.43	1.48	1.47	1.45	1.49
Loin, Backribs 2.0#/up, FOB Plant, USDA	2.33	2.71	2.63	2.65	2.77	2.72	2.54	2.48	2.36	2.53	2.31	2.33	2.14	2.09	2.45
Ham, 17-20# Trmd Selected Ham, FOB Plant, USDA	0.86	1.06	1.19	1.08	1.28	1.41	1.28	1.11	1.05	1.27	1.07	1.16	1.17	0.99	0.90
Ham, 20-23# Trmd Selected Ham, FOB Plant, USDA	0.85	1.12	1.14	1.13	1.27	1.44	1.09	1.02	1.07	1.16	1.09	1.14	1.10	1.00	0.90
Ham, 23-27# Trmd Selected Ham, FOB Plant, USDA	0.84	0.99	1.02	1.05	1.21	1.40	1.11	0.96	1.00	1.10	1.02	1.04	0.99	0.93	0.86
Ham, 5 Muscle Ham to Blue, FOB Plant, USDA	1.30	1.49	1.48	1.48	1.73	2.07	2.33	2.33	1.68	2.33	1.69	1.72	1.63	1.53	1.36
Belly, Skin-on Belly 14-16#, FOB Plant, USDA	1.34	1.77	1.85	1.54	1.66	1.61	1.47	1.42	1.20	1.43	1.20	1.11	1.03	1.10	1.15
Belly, Derind Belly 9-13#, FOB Plant, USDA	1.65	2.15	2.08	1.76	1.96	2.00	1.44	1.40	1.54	1.52	1.50	1.40	1.30	1.38	1.44
Belly, Derind Belly 13-17#, FOB Plant, USDA	1.58	2.14	1.94	1.69	1.91	2.03	1.44	1.35	1.52	1.50	1.48	1.38	1.28	1.36	1.42
Trim, 42% Trim Combo, FOB Plant, USDA	0.43	0.71	0.71	0.66	0.68	0.62	0.75	0.42	0.44	0.65	0.44	0.38	0.31	0.31	0.39
Trim, 72% Trim Combo, FOB Plant, USDA	0.91	1.23	1.30	1.14	1.32	1.37	1.16	0.93	0.89	1.14	0.90	0.94	0.89	0.87	0.80
<u>HOG CARCASS</u>															
IA/MN, Base Market Hog 185 lb Carcass Basis, Plant Div.	0.89	1.17	1.19	1.10	1.18	1.27	1.07	0.95	0.98	1.04	0.98	0.97	0.90	0.90	0.89
<u>BROILERS</u>															
BROILER, NATIONAL WHOLE BIRD PRICE, USDA	0.92	1.06	1.10	1.18	1.13	1.07	1.00	1.00	1.00	1.00	0.99	0.98	0.95	0.93	0.93
N.E. BROILER BREAST BONELESS-SKINLESS, USDA	1.27	1.48	1.73	1.87	2.00	2.00	1.82	1.82	1.85	1.84	1.78	1.60	1.46	1.35	1.38
N.E. BROILER BREAST LINE RUN, USDA	0.85	0.91	1.06	1.20	1.24	1.22	1.17	1.17	1.15	1.17	1.12	1.11	0.94	0.90	0.93
N.E. BROILER LEG QUARTERS, USDA	0.42	0.44	0.48	0.50	0.50	0.52	0.53	0.49	0.50	0.51	0.49	0.49	0.47	0.46	0.46
N.E. BROILER WINGS, USDA, WT.AVG.	1.27	1.38	1.42	1.38	1.45	1.45	1.48	1.52	1.46	1.49	1.53	1.57	1.55	1.58	1.64
<u>TURKEYS</u>															
UB HEN TURKEYS, EAST, FROZEN 10-12LBS	1.03	1.06	1.08	1.09	1.11	1.11	1.13	1.14	1.13	1.13	1.14	1.15	1.15	1.05	0.99
UB BONELESS-SKINLESS TURKEY BREAST, TOM, FRESH	2.16	2.42	3.26	3.57	3.71	4.01	4.05	4.05	3.99	4.05	4.05	3.94	3.75	3.50	3.05
<u>LIVE STEERS</u>															
FIVE AREA DIRECT AVERAGE LIVE STEER, USDA	1.43	1.50	1.49	1.47	1.47	1.57	1.59	1.53	1.52	1.57	1.53	1.53	1.56	1.55	1.57
<u>BEEF</u>															
CHOICE, 112A, 3 RIBEYE, BONELESS, HEAVY, USDA	5.61	6.32	6.68	7.24	7.94	7.43	7.12	7.07	7.34	7.11	7.35	7.56	8.17	7.42	6.80
CHOICE, 168, 3 TOP INSIDE ROUND, 1/4" MAX, USDA	2.55	3.04	2.68	2.33	2.33	2.77	3.33	3.01	2.96	3.28	2.97	2.94	2.89	2.97	3.16
CHOICE, 170, 1 BOTTOM GOOSENECK ROUND, USDA	2.53	2.51	2.18	2.14	2.25	2.54	2.71	2.64	2.61	2.75	2.64	2.70	2.65	2.61	2.85
CHOICE, 180, 3 STRIP LOIN, BONELESS, 0x1, USDA	5.00	6.76	6.30	6.02	6.44	6.70	6.60	6.36	6.02	6.47	5.91	5.37	5.33	5.27	5.89
CHOICE, 184, 3 TOP BUTT, BONELESS, USDA	2.96	3.50	3.51	3.82	4.05	4.16	3.47	3.60	3.95	3.59	3.79	3.37	3.37	3.45	3.73
CHOICE, 185A, 4 BOTTOM SIRLOIN, FLAP, USDA	3.99	4.72	5.04	5.15	5.21	4.83	4.77	4.78	4.40	4.87	4.25	4.03	4.07	4.11	4.40
COARSE GROUND 73%, USDA	2.06	2.24	1.89	1.98	1.98	2.36	2.34	2.47	2.27	2.41	2.24	2.12	2.19	2.26	2.60
COARSE GROUND 81%, USDA	2.28	2.51	2.03	2.07	2.11	2.56	2.66	2.59	2.64	2.64	2.57	2.42	2.44	2.40	2.96
90% BONELESS BEEF, CENTRAL, FRESH, USDA	2.38	2.61	2.49	2.43	2.52	2.87	2.96	2.98	2.85	2.97	2.78	2.64	2.65	2.78	2.94
50CL BEEF TRIM, FRESH, NATIONAL, USDA	1.10	1.47	1.22	1.26	1.27	1.36	1.46	1.40	1.43	1.44	1.34	1.39	1.47	1.39	1.41

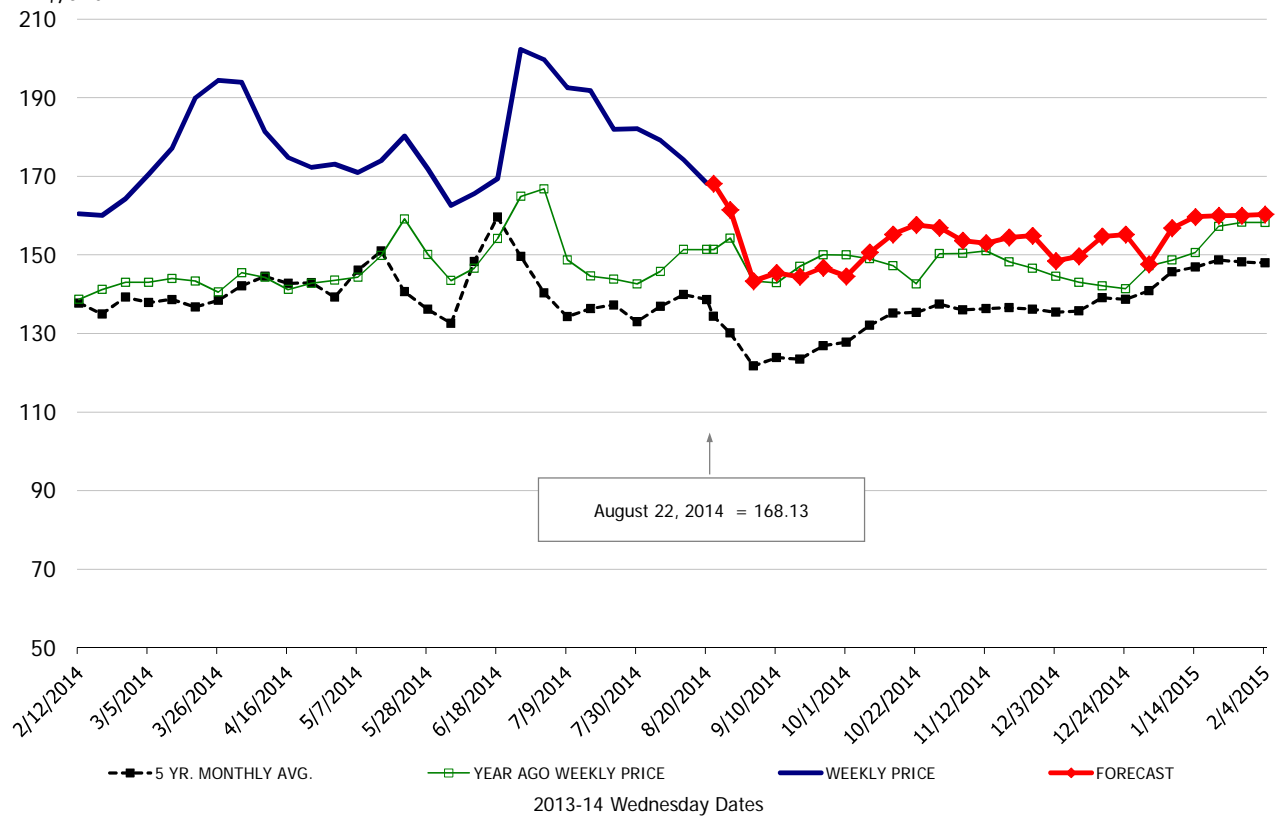
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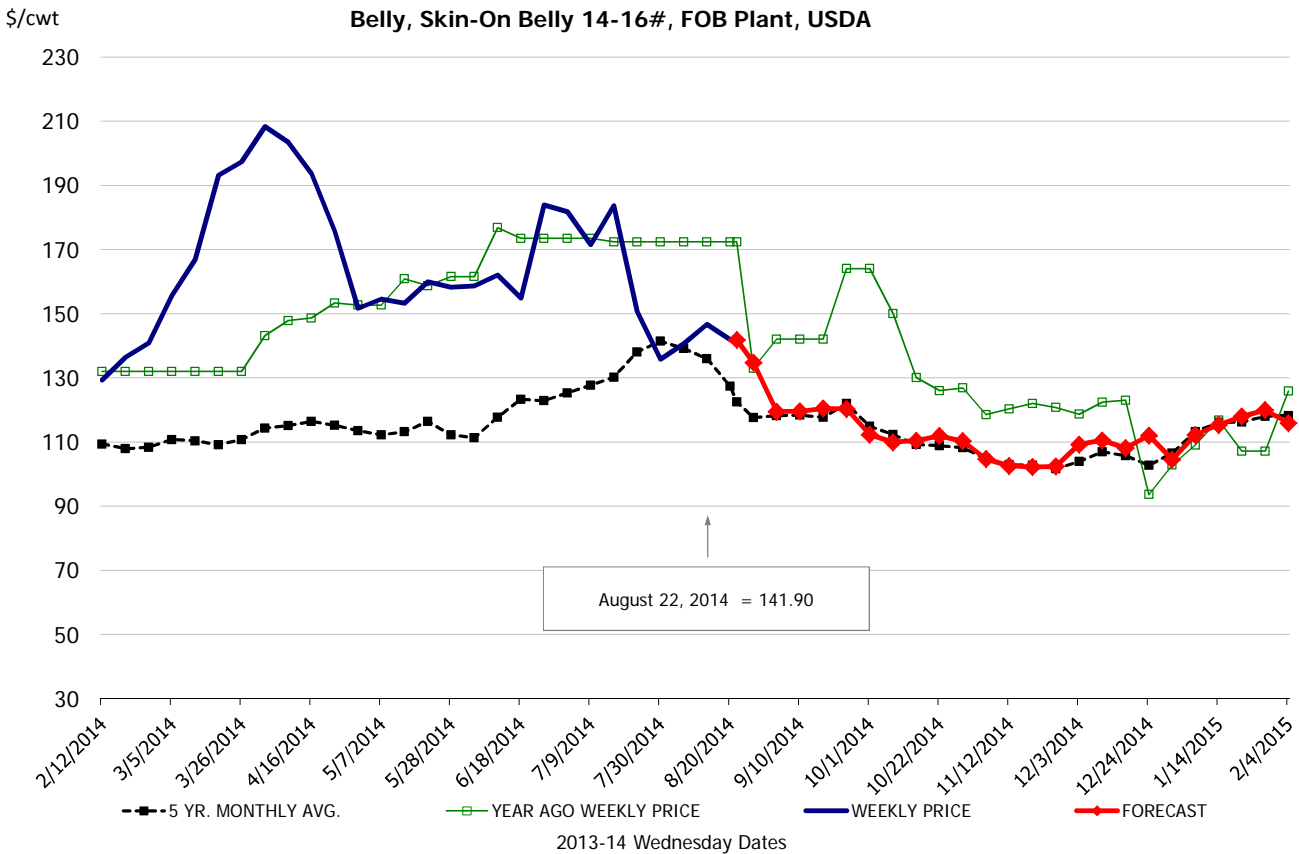
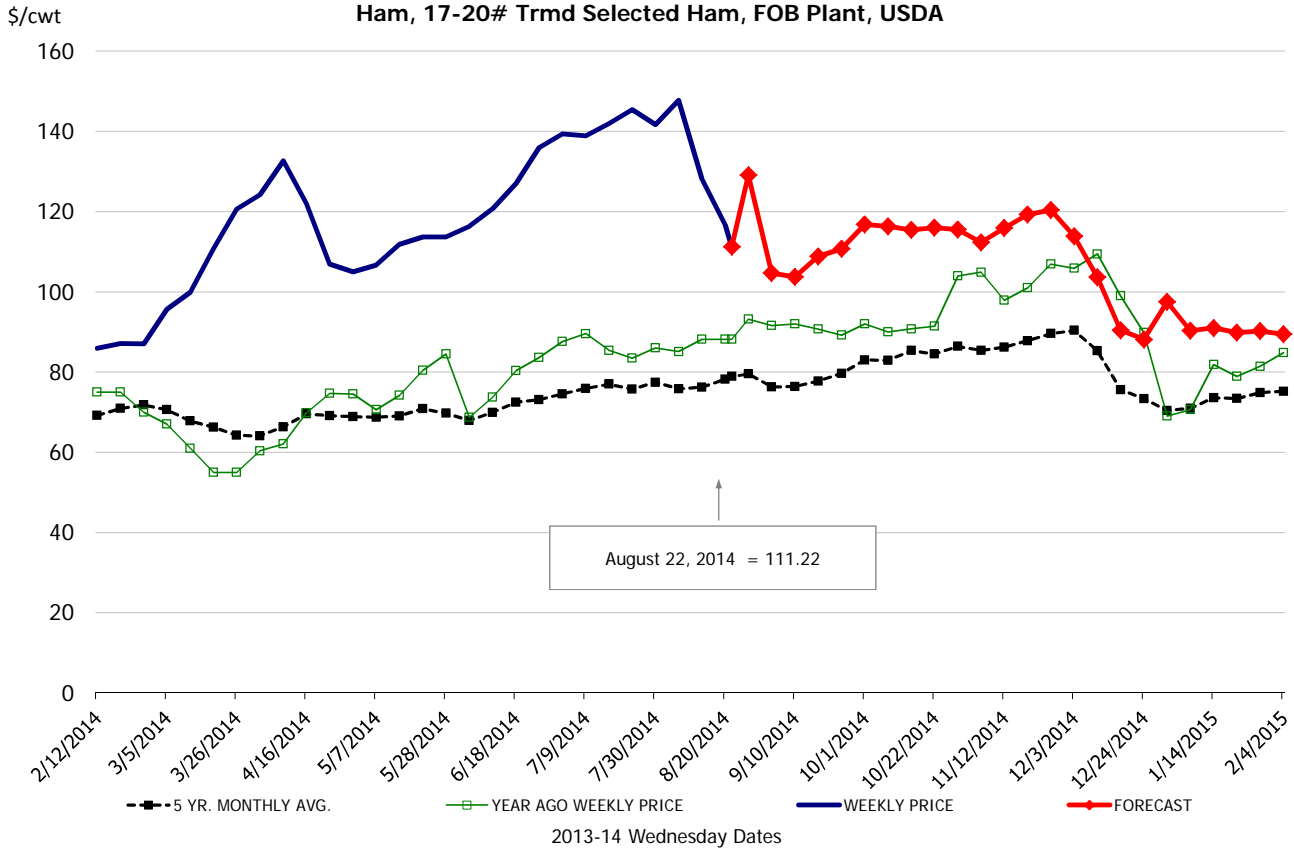
Loin, 1/4 Trimmed Loin VAC, FOB Plant, USDA



\$/cwt

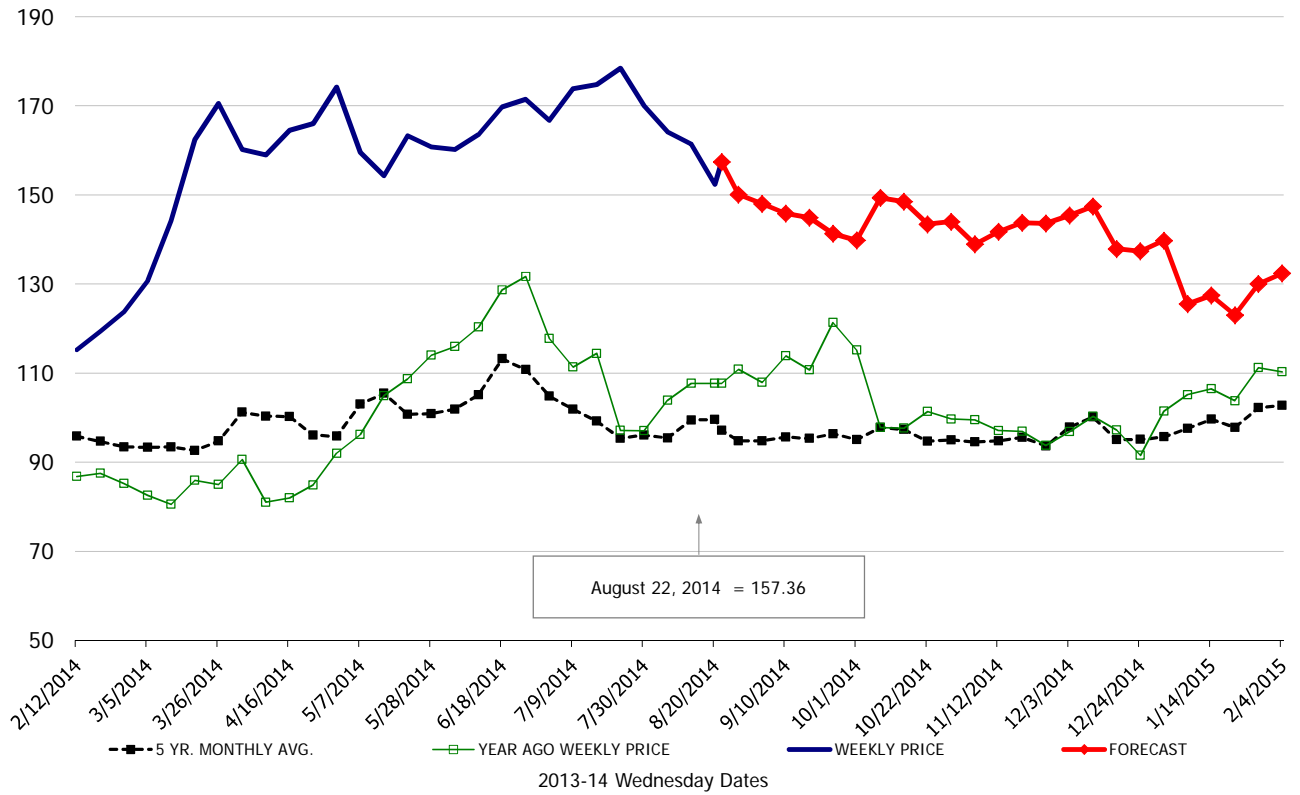
Sparerib, Trmd Sparerib - LGT, FOB Plant, USDA





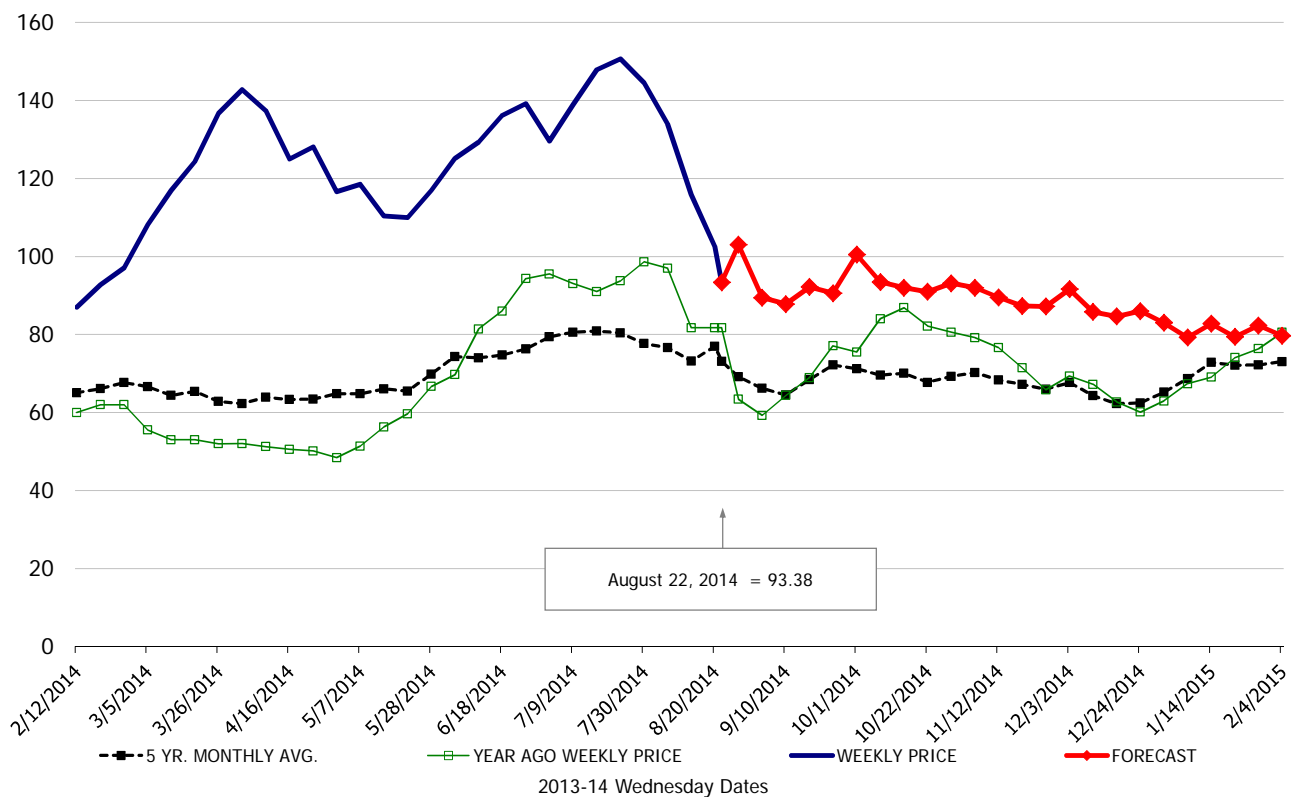
\$/cwt

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

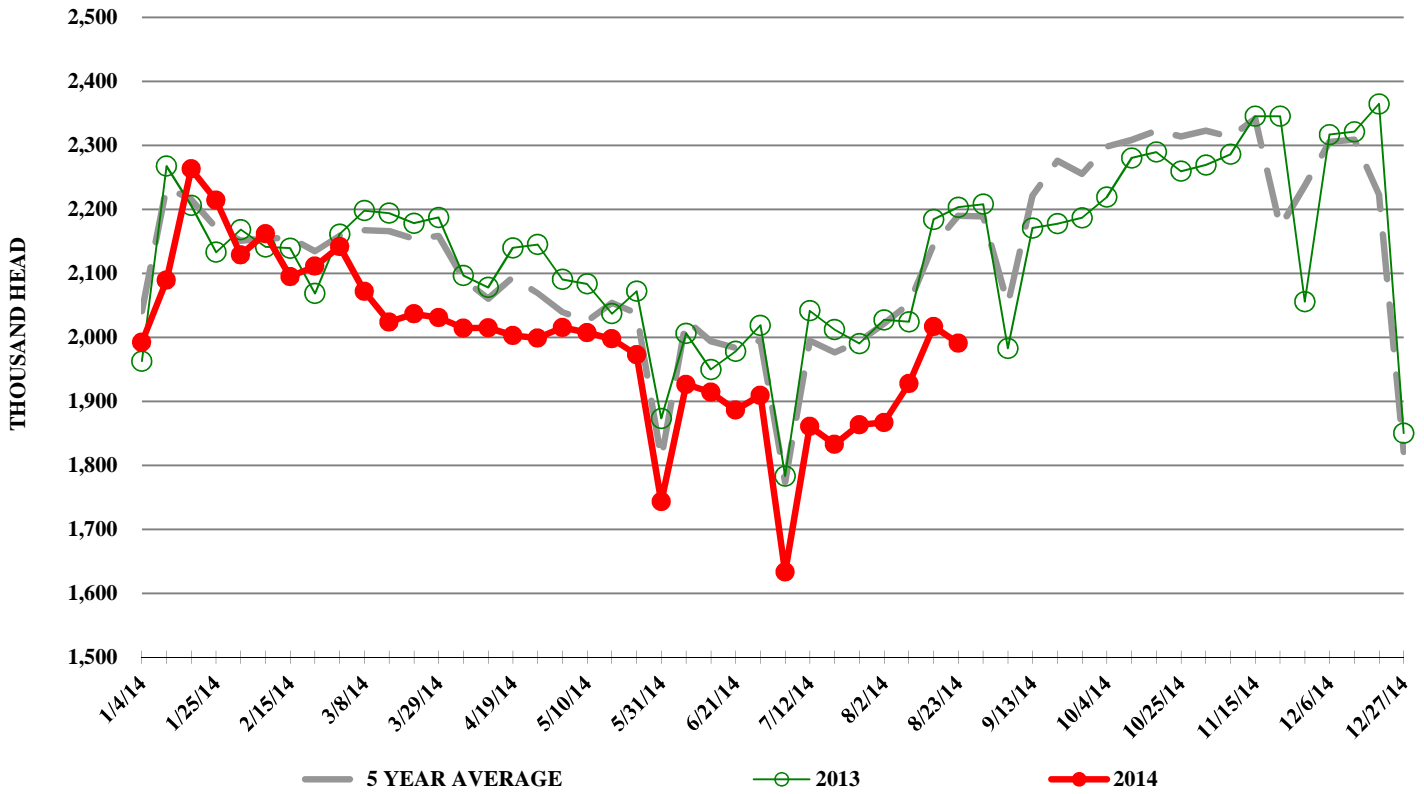


\$/cwt

Trim, 72% Trim Combo, FOB Plant, USDA



ESTIMATED WEEKLY FI HOG SLAUGHTER



ESTIMATED WEEKLY FI PORK PRODUCTION

