



Pork Merchandiser's Profit Maximizer

Be inspiredSM

- Foodservice Edition

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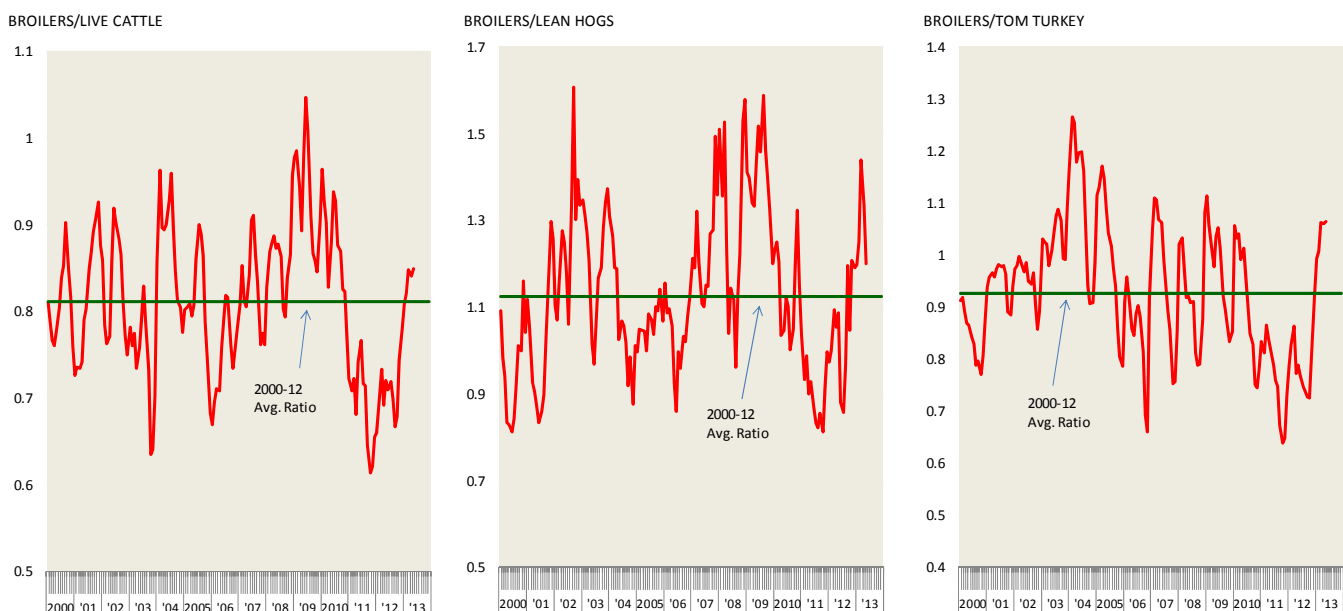
May 20, 2013

1. With Chicken No Longer a Bargain, More Balanced Promos Likely in the Second Half of 2013

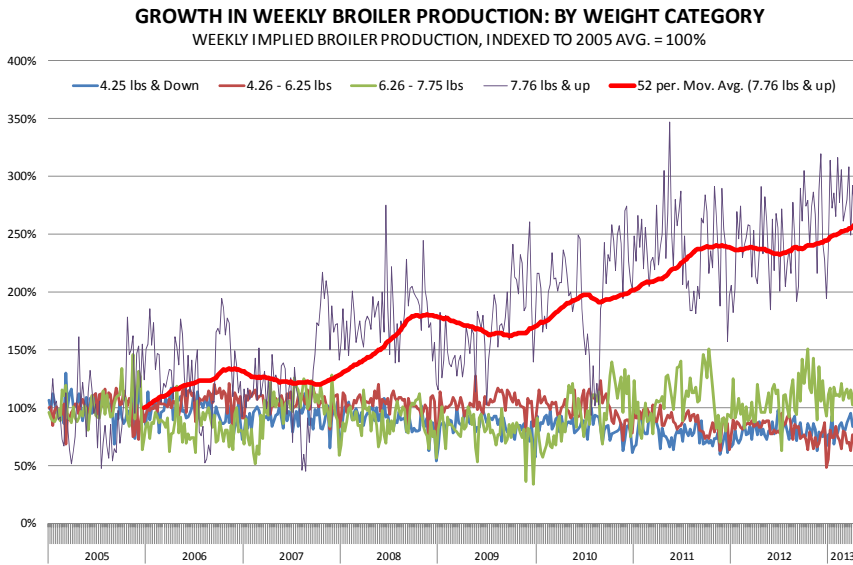
For much of 2011 and 2012, chicken prices lost significant ground compared to other main meat proteins. While the ratio of whole broiler prices to the price of live cattle averaged about 0.81 during 2000-12, the multiple declined to as

low as 0.6 in late 2011 and for much of last year it hovered below 0.7. Before the spike in corn prices in 2007, whole broilers were trading at an almost 1:1 ratio to the price of live cattle. Since then, however, we have seen a dramatic decline in the supply of cattle coming to market and the availability of beef in the US market. Similarly, the ratio of whole broiler prices to lean hogs in 2011 and 2012 was below 1, compared to the long run ratio of 1.12. The decline in the value of

RATIO OF WHOLE BROILER PRICE TO THE PRICE OF LIVE STEERS, LEAN HOGS AND TOM TURKEYS



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whole broilers compared to whole tom turkeys was similarly dramatic in the last two years, with the ratio in the last two years a full two points below the long run average. Since the beginning of the year, however, whole chicken prices and particularly the price of chicken breasts, have been moving higher. The shift reflects, in our view, a change in the quantity of chicken demanded in the marketplace. As the price of chicken became significantly less expensive vs. other proteins, it pushed a number of end users, both on the foodservice and retail end, to focus more on chicken options. The drive to promote chicken was also driven by expectations for a sharp appreciation in the price of cattle and hogs in 2013. After all, high feed costs were expected to push cattle prices to all time high record highs and also underpin hog prices at levels not seen since 2011. On the foodservice side, new products from McDonalds, KFC and others helped clean up the spot supplies of chicken breasts, pushing breast meat prices near \$2/lb., compared to around \$1.30/lb earlier in the year. Retailers also have been quite aggressive in promoting whole bird broilers since the beginning of the year, with prices for whole birds currently at the highest level on record at \$1.11/lb.

While the number of chick placements and egg sets has been declining since 2007 (high corn prices), the supply of chickens has been slowly increasing and in 2012 total broiler

production was pegged at a little over 37 billion pounds almost 1 billion pounds more than in 2007. The increase in chicken production has resulted from changes in industry structure, with producers focusing on bringing to market larger birds and yielding more breast meat. By putting more pounds on the same bird, producers have been able to reduce the marginal cost of producing an additional pound of meat (lower fixed and operating costs) The increase in chicken weights has also resulted in a disproportionate increase in the price of chicken breasts. Chicken breast

prices were trading at a multiple of 3 to whole broiler prices about 10 years ago while in 2011 and 2012 the multiple declined to below 1.5. This increase in chicken breast supplies and the resulting lower prices helped make chicken significantly more competitive vs. other protein options last year and in early 2013. Today, spot chicken supplies are much tighter than they were last year and the rationale for promoting chicken has for the most part disappeared. While the ratio of chicken to other meat proteins is still near the long run averages, it no longer is undervalued (see chart on page 1).

Bottom line: We expect retailers and foodservice operators to opt for a more balanced promotional activity in the second half of the year. The most upside risk remains in the beef market. Beef supplies will likely continue to decline, albeit at a slower pace than earlier thought. Live cattle futures for Q4 of 2013 are currently priced at around \$1.22/lb., compared to \$1.37/lb. price earlier in the year. This will likely provide incentives to schedule beef promotions going into the holidays. Pork prices will also provide opportunities going into the second half, especially if export demand remains muted. In all, the chicken party is likely over, with some beef and pork items offering good promotion opportunities in Q3 and Q4, especially pork trimmings and some beef cuts.

2. **USDA released on Friday, May 17 the results of its monthly survey of feedlots with a capacity of 1000 head** of cattle or more. As was the case with the April survey, the latest report showed feedlots placed more cattle on feed than expected and the results will likely be viewed as moderately bearish, especially for late summer and early fall cattle prices. Below are some of the highlights from this latest report:

The **total inventory of cattle on feed** as of May 1 was estimated at 10.735 million head, 375,000 head or 3.4% below year ago levels. Pre-report estimates had pegged the total on feed inventory at 3.7% below year ago levels. While cattle supplies and slaughter in the coming months will remain lower than in 2012, the most recent data shows that the number of cattle coming to market at the end of the summer and this fall will likely be higher than earlier expected.

The survey showed that feedlots placed 1.750 million head of cattle on feed during April, 15.1% more than a year ago and 3 percentage points above the average analyst estimate before the report. Keep in mind there was one extra marketing day this past April. When normalizing for the extra day, placements were up 9.8% compared to a year ago.

Cattle marketings in April were 1.855 million head, 2.2% higher than a year ago and below pre-report estimates which were looking for a 2.9% increase. Steer and heifer slaughter has been running below year ago levels for much of May and we expect May marketings will likely be down about 2% when the June 1 report is issued.

(Thursday September 5); Yom Kippur (Saturday September 14); Columbus Day (Monday October 14); Canadian Thanksgiving Day (Monday October 14); Daylight Savings Time Ends [US and Canada] (Sunday November 3); Veterans Day (Monday November 11); Remembrance Day [Canada] (Monday November 11); Hanukkah (Wednesday November 27); Thanksgiving (Thursday November 28); Christmas Day (Wednesday December 25); Boxing Day [Canada] (Thursday 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 hog. For week ending May 18 hog slaughter was 2.035 million head, down about 3.87% from the same week a year ago. Slaughter for the last two weeks was down 2.21% vs. a year ago.

Iowa/Minnesota, Base Lean Market Hog 185 lbs. Carcass Values. Lean hog carcass values at \$89.43/cwt. on Friday were down \$2.42/cwt. since Wed. May 8. Prices are now about \$7.12/cwt. above year ago values.

21/dn Pork Loins “Total on FOB Basis” (page 8). Prices finished last week at \$1.2113 for the “Total on FOB Basis” quote, up about 9 cents since the Wed. May 8 quote but down about 9 cents from year ago levels. Prices should be near current levels in June.

Bnls. Strap on Pork Loins. Prices finished the week at \$1.6540 for the strap on loins, up about 17 cents since Wed. May 8 but down about 5 cents from the year ago levels. Strap off loins at \$1.8311 are up about 17 cents since Wed. May 8 and up about 16 cents compared to the year ago quote.

Upcoming holidays:

2013 Mother's Day (Sunday May 12); Victoria Day [Canada] (Monday May 20); Memorial Day (Monday May 28); Father's Day [US and Canada] (Sunday June 16); Canada Day [Canada] (Monday July 1); Independence Day (Thursday July 4); Labor Day [US and Canada] (Monday September 2); Rosh Hashanah

Boneless sirloins at \$1.1935 are down about 3 cents from the Wed. May 8 quote and down about 5 cents from the year ago price. Expect firm prices in June.

Pork tenderloin finished last week at \$2.7008 are up about 8 cents since the Wed. May 8 quote but down about 19 cents from the year ago price. Expect prices to be higher in June.

5/10 Pork Butts “Total on FOB Basis” (page 10), prices finished the week at \$1.1165 up about 15 cents since Wed. May 8 but down about 2 cents from the year ago levels.

4.25/dn Spare Ribs “Total on FOB Basis” (page 8). Prices finished the week at \$1.5799 up about 14 cents since Wed. May 8 and up about 4 cents from year ago levels.

Rib inventories on March 31 were 121.3 million pounds, up 19 percent from a year ago.

Bone-in Hams.

The price of 17/20 hams (page 9) was 67.86 cents down about 3 cents since Wed. May 8 but up about 2 cents from a year ago.

20/23 hams finished the week at 69.33 cents for the Total on FOB Basis (page 118) up about 2 cents since Wed. May 8 and up about one cent from the year ago level.

23/27 hams finished the week at 70.04 cents for the Total on FOB Basis (page 119) down less than one cent from the Wed. May 8 quote but up about 2 cents from the year ago level.

Total ham cold storage stocks on March 31 at 95.0 million pounds were up about 19% from year ago levels.

Bellies “Total on FOB Basis”. 14/16 skin on bellies (page 9) finished Friday at \$1.6000 up about 7 cents since the Wed. May 8 quote and up about 73 cents from the year ago quote.

We will be primarily reporting skinless bellies in our work in the near future.

Cold storage stocks on March 31 were 51.5 million pounds, down about 22 percent from year ago levels.

42 CL Pork Trim “FOB Basis”. Prices finished the week at 45.89 cents down about 3 cents since Wed. May 8 but up about 8 cents from the year ago price.

72 CL Pork Trim “FOB Basis”. Prices finished the week at 63.13 cents up about 12 cents since the Wed. May 8 quote and up about one cent from the year ago level.

Freezer stocks of all trimmings on March 31 were 66.1 million pounds, down about 3 percent from the year ago levels.

72 CL Picnic Meat “FOB Basis”. Picnics prices at 78.64 cents up about 5 cents since Wed. May 8 and up about one cent from the year ago price.

POULTRY

Georgia Dock Broilers. The Georgia dock price on Wednesday May 15 at \$1.0425 was up about 10 cents from a year ago.

The National Whole Bird price was up about 21.23 cents from the year ago levels at 111.12 on Monday May 13.

Broiler slaughter for the week ending May 18 was estimated at 157.85 million, down about 0.09% from a year ago. For the last two weeks slaughter was up 0.25% vs. a year ago. Expect a bit lower prices in June.

Breasts. Prices on boneless skinless breasts finished the week at \$2.0121 up about 11 cents since the Wed. May 8 quote and up about 51 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 a bit better at this time. Leg quarter prices are now trading less than one cent above year ago prices at 53.43.

Wings. Prices at \$1.3790 are down about 44 cents from year ago levels. Expect a weak tone to this market through May but prices should hit a bottom shortly.

Turkeys

Hens finished last week at \$1.0200 unchanged since Wed. May 8 but down about 8 cents from the year ago price.

Toms finished last week at \$1.0200 unchanged since Wednesday April 24 but down about 8 cents from the year ago price.

Total turkey supplies in the freezer on March 31 were up about 7 percent from a year ago at 401.6 million pounds. Whole birds were up 20 percent from year ago with whole bird inventory at 190.1 million pounds.

Turkey slaughter was 45.11 million head for the week ending May 11, down 4.59% from a year ago. For the last two reported weeks slaughter was 2.79% below a year ago.

Boneless Turkey Breast Meat. Boneless skinless turkey breast meat prices finished last week at \$1.5500, unchanged since Wed. May 8. Prices are about 38 cents below year ago prices at this time.

since Wed. May 8 and up about 3 cents from year ago levels.

Choice #170 Gooseneck Rounds finished last week at \$1.9560 down about 4 cents since Wed. May 8 but up about 8 cents from the year ago levels.

Choice #180 (0x1) Bnls. Strip Loins finished last week quoted at \$7.9837 (wt. avg.) up about 28 cents from the Wed. May 8 quote. Prices are about \$1.86/lb. over year ago levels.

Choice #184 Regular Heavy top butts finished at \$3.4158 (wt. avg.) up about 14 cents since Wed. May 8 and up about 18 cents from year ago levels.

Choice #184 ¼ inch trimmed Top Butts finished at \$3.6198 (wt. avg.) up about 10 cents since Wed. May 8 and up about 29 cents from the year ago levels.

Choice #185A Flap Meat prices finished Friday at \$5.2231 (wt. avg.) up about 37 cents since Wed. May 8 and up about 98 cents from year ago values.

COARSE GROUND BEEF –

73CL Coarse Ground product finished last week at \$1.6955 down about 4 cents since Wed. May 8 and down about one cent from year ago levels. Current prices are \$0.1309 per pound over the price of a 73CL meat block formulated from 90CL and 50CL trim. A year ago the margin was positive \$0.1674 per pound and the five years average for May is a positive margin of \$0.1045 per pound.

81CL Coarse Ground product finished last week at \$1.9264 up about 2 cents since Wed. May 8 but down about 28 cents from the year ago quote. Currently 81CL Coarse Ground is trading for \$0.1504 per pound over a meat block made up of 90CL and 50CL trim. A year ago the spread was \$0.3242 and the five year average spread for May is a positive margin of \$0.0859.

MANUFACTURING BEEF AND TRIM –

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 \$6.9569 (weighted average quote) finished last week up about 36 cents since the Wed. May 8 quote and up about 83 cents vs. the year ago price. **Select 112A Heavy Lip On Rib Eyes** at \$5.8106 (weighted average quote) finished last week up about 27 cents since the Wed. May 8 quote and up about 28 cents vs. the year ago price.

Choice regular #168 insides finished last week quoted at \$2.1095 up about 4 cents since Wed. May 8 and up about 7 cents from the year ago price.

Choice ¼ inch trimmed #168 insides finished last week quoted at \$2.2024 up about 3 cents

General Comments. Domestic cow meat supplies the last four weeks ran above the year ago numbers. The dairy herd slaughter is running above a year ago, as has been the case for a relatively long time, however now the beef cow slaughter is also running over a year ago. For the last four reported weeks the **total cow slaughter** (the last week being the week ending May 4) was 12.17% above a year ago. The **dairy cow** slaughter was up 7.77% vs. a year ago. The **beef cow** kill was up 16.56% compared to year ago.

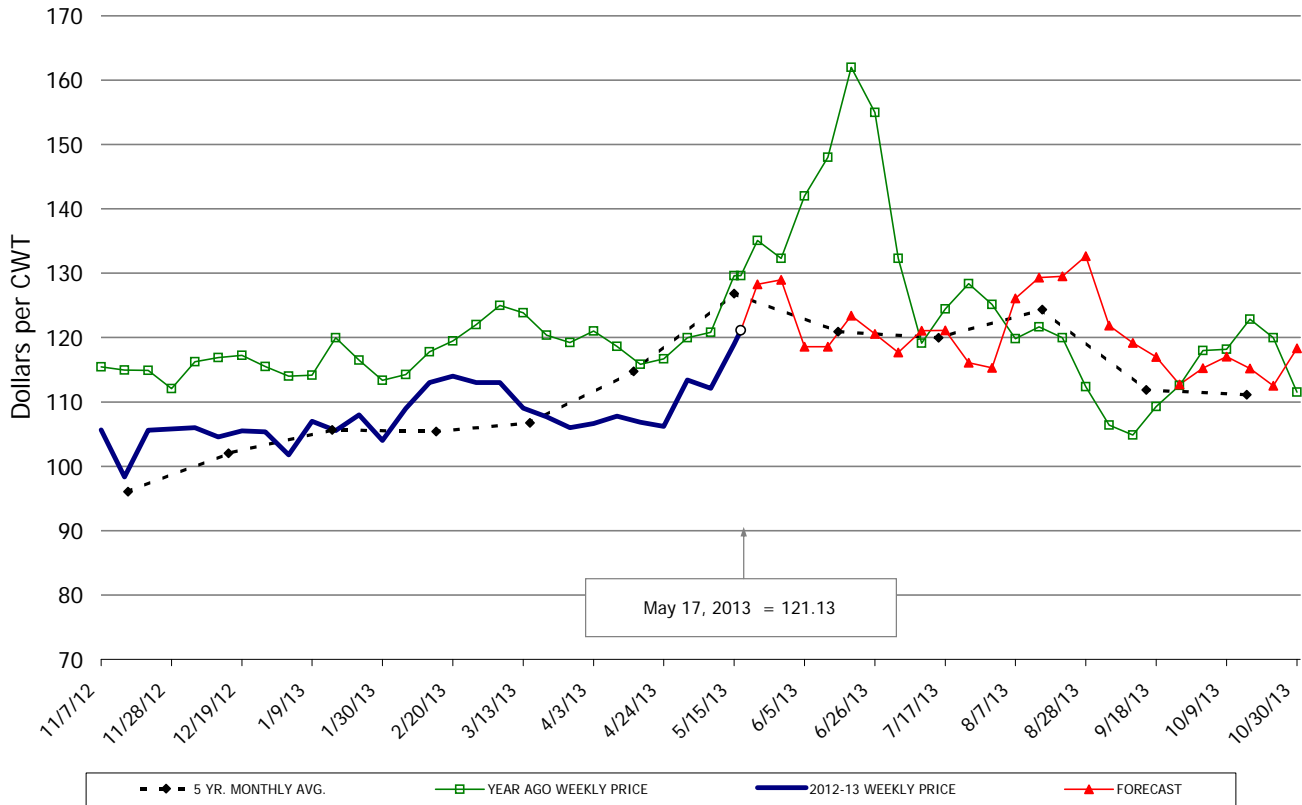
90CL Bnls. Beef prices finished the week at \$2.0139 (wt. avg.) up about one cent since Wed. May 8 but about 26 cents under the year ago price quote. Ranchers have decided to liquidate more beef cows the last few weeks. Our expectations for higher prices are based on farmers holding cows but that assumption has not matched reality the last few weeks.

50 CL Beef Trim prices finished last week at \$0.9567 down about one cent since Wed. May 8 but about 43 cents over the year ago level.

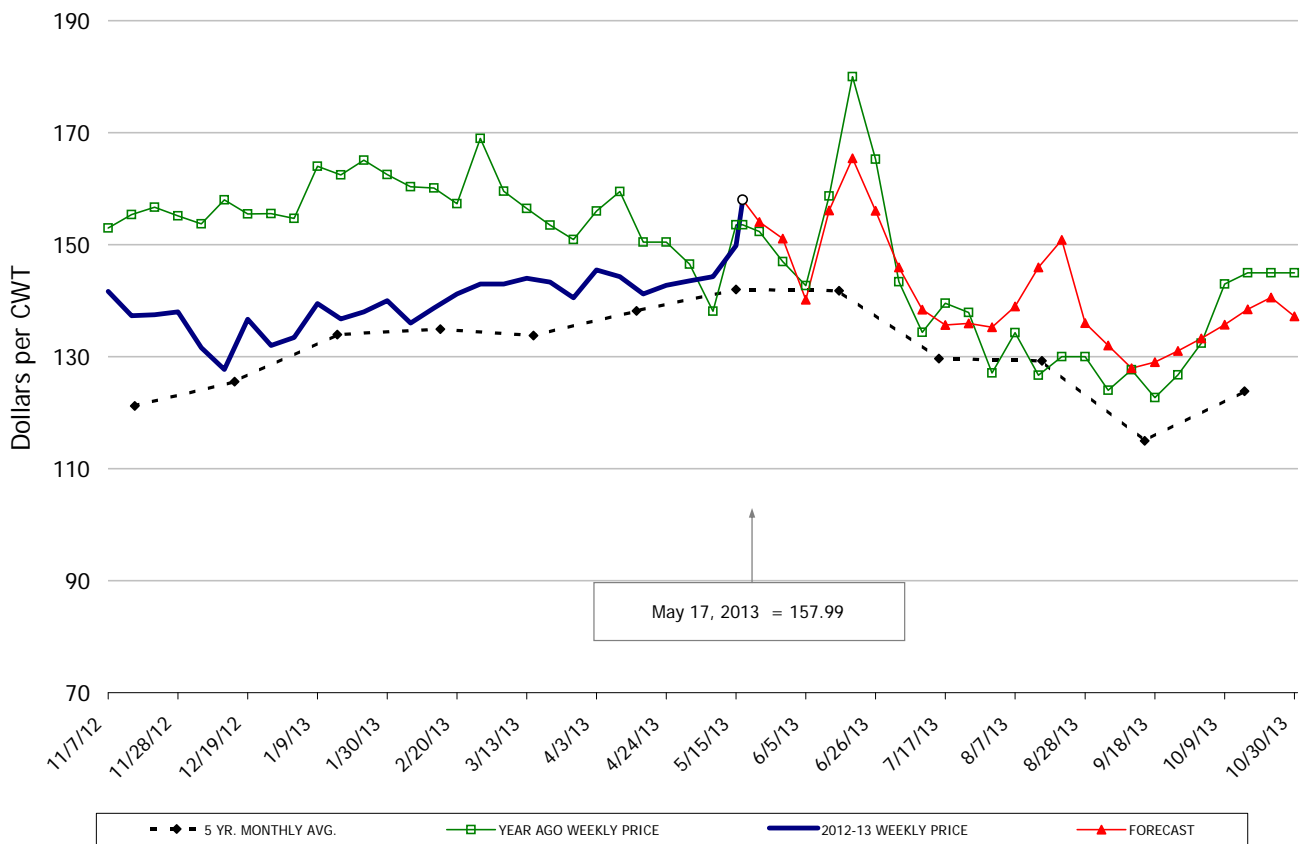
Food Service Summary Table - WT. AVE

	2012-13 History								2013 FORECAST						
	Nov	Dec	Jan	Feb	Mar	Apr	5/8/2013	5/17/2013	5/29/2013	May	Jun	Jul	Aug	Sep	Oct
<u>PORK</u>															
TRIM LOIN, 1/4" Trim 21#DN-LGT, TTL on FOB Basis, USDA	1.04	1.05	1.05	1.12	1.09	1.07	1.12	1.21	1.29	1.26	1.21	1.19	1.27	1.19	1.15
TRIM LOIN, 1/8" TRM/less 21#DN-LGT, TTL on FOB Basis, USDA	1.14	1.18	1.19	1.25	1.21	1.12	1.19	1.24	1.33	1.30	1.32	1.29	1.37	1.27	1.21
LOINS, CNTRCUT, BNLS STRAP-OFF 5-11#, USDA	1.65	1.71	1.68	1.70	1.64	1.60	1.66	1.83	1.81	1.83	1.80	1.68	1.89	1.78	1.74
PORK TENDERLOIN 1.25/DN#, USDA	2.13	2.11	2.40	2.62	2.66	2.59	2.62	2.70	2.68	2.70	2.89	2.89	2.90	2.87	2.57
TRIMMED BUTT, 1/4" TRM 5-10#, TTL on FOB Basis, USDA	0.98	0.97	0.94	0.87	0.84	0.85	0.96	1.12	1.06	1.11	1.04	0.98	1.00	0.94	1.02
SPARERIBS, 3 BAG/3 PCVAC 4.25#/DN-LG, TTL on FOB Basis, U	1.39	1.32	1.38	1.40	1.43	1.43	1.44	1.58	1.51	1.57	1.53	1.39	1.42	1.30	1.37
ST LOUIS STYLE RIBS 2 1/4 DN	2.39	2.32	2.38	2.40	2.43	2.43	2.44	2.58	2.51	2.57	2.53	2.39	2.42	2.30	2.37
SPARERIBS, 2 BAG/3 PCVAC 4.25#/UP-M, USDA	1.39	1.28	1.30	1.36	1.35	1.31	1.40	1.49	1.41	1.48	1.44	1.32	1.39	1.25	1.28
LOIN BACKRIB (BOXED), FRSH/FRZN, 1.75-2.00, USDA	2.34	2.34	2.34	2.34	2.34	2.34	2.34	2.34	0.00	0.00	0.00	0.00	0.00	0.00	0.00
LOIN BACKRIB (BOXED), FRSH/FRZN, 2.00/UP, USDA	2.02	1.99	2.02	2.02	2.10	2.10	2.39	2.47	2.48	2.47	2.43	2.33	2.37	2.24	2.12
SKINNED HAM, BONE-IN, 17-20#, TTL on FOB Basis, USDA	0.82	0.75	0.70	0.74	0.60	0.67	0.71	0.68	0.68	0.71	0.75	0.78	0.81	0.82	0.84
SKINNED HAM, BONE-IN, 20-23#, TTL on FOB Basis, USDA	0.79	0.75	0.72	0.74	0.60	0.67	0.67	0.69	0.69	0.73	0.77	0.81	0.85	0.84	0.83
SKINNED HAM, BONE-IN, 23-27#, TTL on FOB Basis, USDA	0.79	0.74	0.72	0.73	0.60	0.67	0.70	0.70	0.71	0.75	0.78	0.82	0.86	0.85	0.80
SELECT, BNLS 5 MUSCLE HAMS 94-96%, TTL on FOB Basis, USDA	1.25	1.20	1.20	1.16	1.11	1.19	1.35	1.35	1.27	1.35	1.39	1.43	1.47	1.48	1.44
BELLY, SKIN-ON, TRIM 12-14#, TTL on FOB Basis,	1.26	1.28	1.34	1.30	1.30	1.52	1.54	1.55	1.63	1.55	1.55	1.66	1.72	1.60	1.47
BELLY, SKIN-ON, TRIM 14-16#, TTL on FOB Basis,	1.25	1.29	1.41	1.32	1.32	1.48	1.53	1.60	1.67	1.60	1.60	1.64	1.74	1.62	1.49
BELLY, SKIN-ON, TRIM 16-18#, TTL on FOB Basis,	1.28	1.25	1.41	1.30	1.30	1.36	1.60	1.62	1.64	1.60	1.60	1.64	1.74	1.62	1.49
42CL PORK TRIM, FRESH, COMBO, USDA	0.42	0.38	0.41	0.42	0.38	0.41	0.47	0.46	0.44	0.47	0.50	0.58	0.63	0.53	0.44
72CL PORK TRIM, FRESH, COMBO, USDA	0.62	0.61	0.62	0.62	0.53	0.51	0.51	0.63	0.62	0.63	0.64	0.68	0.70	0.65	0.58
<u>HOG CARCASS</u>															
250-270# HOGS, US 1-3, INTERIOR IOWA DIRECT HOG MARKET	0.78	0.82	0.85	0.81	0.74	0.80	0.92	0.89	0.88	0.89	0.92	0.92	0.93	0.86	0.83
<u>BROILERS</u>															
12 CITY BROILER COMPOSITE WEIGHTED AVG.	0.94	0.98	1.02	1.02	1.07	1.07	1.07	1.11	1.11	1.10	1.08	1.05	1.02	1.01	0.96
N.E. BROILER BREAST BONELESS-SKINLESS, USDA	1.30	1.30	1.37	1.40	1.48	1.61	1.90	2.01	2.02	2.00	1.83	1.82	1.83	1.78	1.38
N.E. BROILER BREAST LINE RUN, USDA	0.95	0.94	1.01	1.06	1.08	1.13	1.26	1.32	1.33	1.32	1.27	1.23	1.22	1.19	1.01
N.E. BROILER LEG QUARTERS, USDA	0.51	0.51	0.51	0.50	0.52	0.54	0.55	0.53	0.54	0.54	0.56	0.56	0.57	0.58	0.55
N.E. BROILER WINGS, USDA	1.88	1.90	2.07	1.90	1.75	1.49	1.30	1.38	1.36	1.38	1.42	1.54	1.57	1.67	1.73
<u>TURKEYS</u>															
HEN TURKEYS, EAST, FROZEN 10-12LBS, , TOP HEN TURKEYS, E/	1.15	1.06	1.02	1.01	1.01	1.01	1.02	1.02	1.00	1.02	1.05	1.09	1.11	1.13	1.15
UB BONELESS-SKINLESS TURKEY BREAST, TOM, FRESH,	2.10	2.05	1.96	1.67	1.59	1.56	1.55	1.55	1.51	1.55	1.65	1.74	1.86	1.96	1.99
<u>LIVE STEERS</u>															
FIVE AREA DIRECT AVERAGE LIVE STEER, USDA	1.26	1.25	1.26	1.24	1.26	1.27	1.29	1.25	1.27	1.25	1.22	1.20	1.22	1.25	1.26
<u>BEEF</u>															
CHOICE, 112A, 3 RIBEYE, BONELESS, HEAVY, USDA	7.44	7.29	5.86	5.73	6.10	5.84	6.59	6.96	6.64	6.68	6.48	6.40	6.36	6.54	6.98
CHOICE, 168, 3 TOP INSIDE ROUND, 1/4" MAX, USDA	2.19	2.23	2.16	1.99	2.10	2.06	2.17	2.20	2.21	2.15	1.98	1.92	2.04	2.06	2.02
CHOICE, 170, 1 BOTTOM GOOSENECK ROUND, USDA	2.10	2.08	2.18	2.09	2.09	1.98	2.00	1.96	1.96	1.95	1.95	1.97	2.03	2.09	2.16
CHOICE, 180, 3 STRIP LOIN, BONELESS, 0x1, USDA	5.00	5.02	5.00	4.65	5.15	5.88	7.70	7.98	7.50	7.76	6.86	5.66	5.34	5.22	4.83
CHOICE, 184, 3 TOP BUTT, BONELESS, USDA	3.13	3.17	3.31	3.21	3.23	3.30	3.52	3.62	3.42	3.58	3.32	3.37	3.44	3.30	3.02
CHOICE, 185A, 4 BOTTOM SIRLOIN, FLAP, USDA	3.57	3.73	3.76	3.69	4.03	4.09	4.85	5.22	4.87	5.01	4.89	4.54	4.18	3.65	3.45
COARSE GROUND 73%, USDA	1.52	1.47	1.63	1.55	1.79	1.70	1.74	1.70	1.77	1.70	1.61	1.49	1.54	1.56	1.50
COARSE GROUND 81%, USDA	1.85	1.79	2.15	1.92	2.07	1.84	1.90	1.93	2.01	1.93	1.91	1.82	1.88	1.93	1.85
90% BONELESS BEEF, CENTRAL, FRESH, USDA	2.05	2.07	2.12	2.14	2.19	2.13	2.00	2.01	2.08	2.02	2.02	2.13	2.07	2.02	1.97
50CL BEEF TRIM, FRESH, NATIONAL, USDA	0.76	0.74	0.70	0.68	0.88	0.97	0.97	0.96	0.89	0.93	0.82	0.77	0.82	0.76	0.78

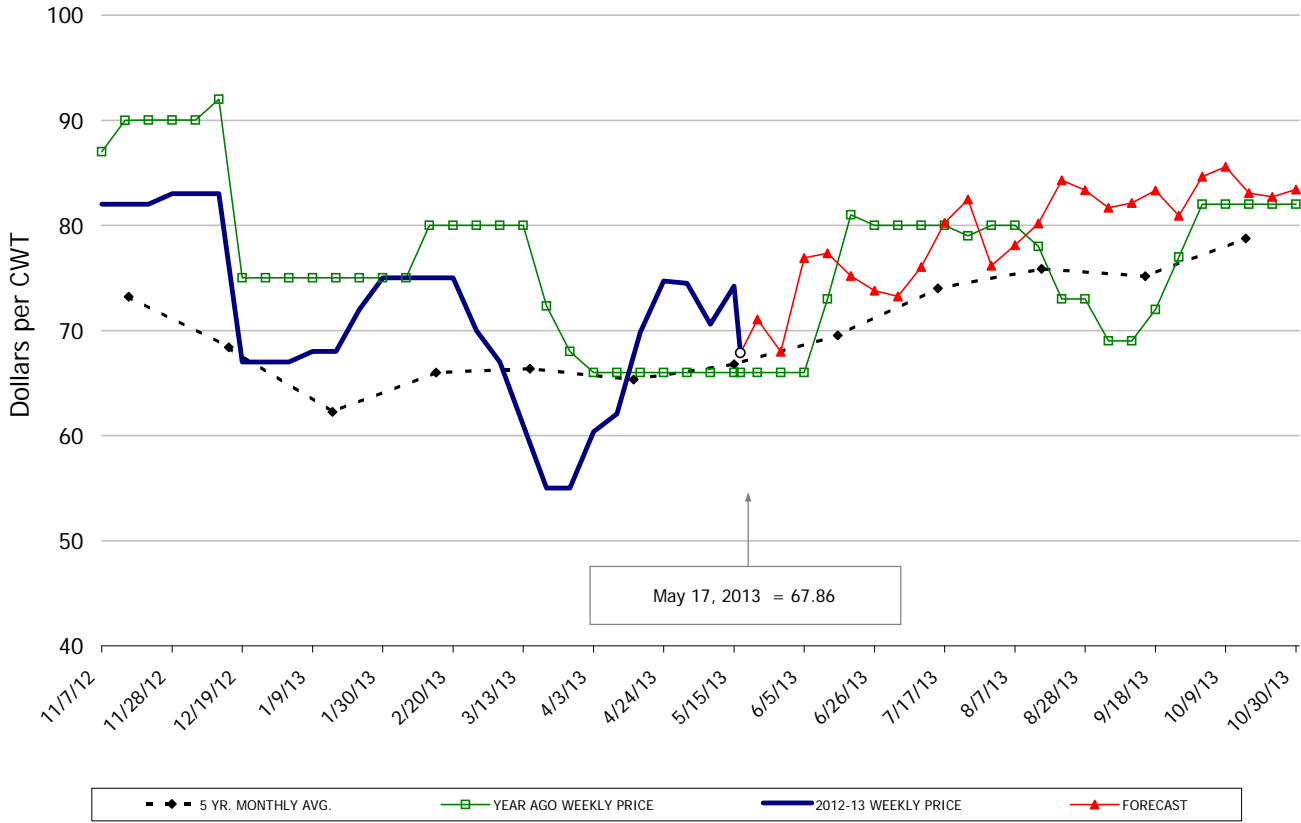
TRIM LOIN, 1/4" Trim 21#DN-LGT, TTL on FOB Basis, USDA



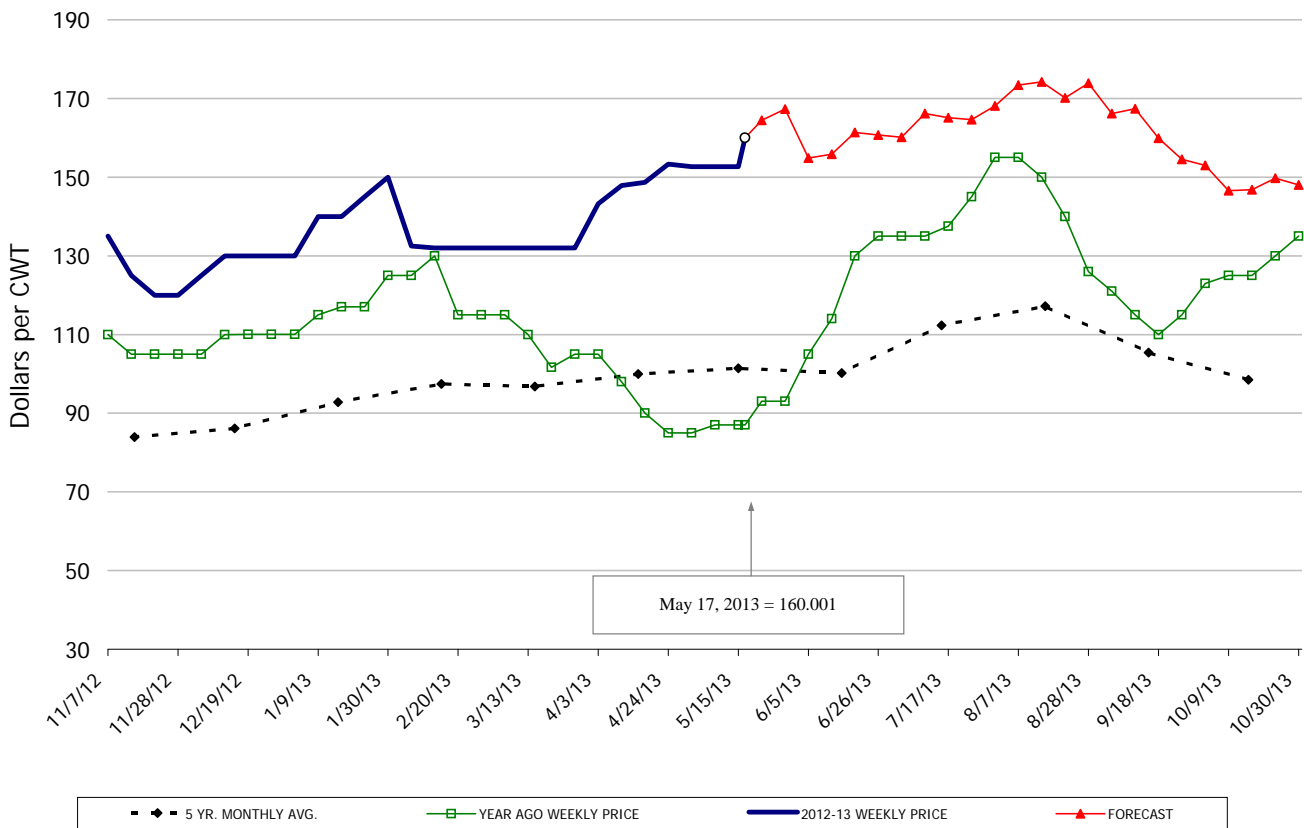
SPARERIBS, 3 BAG/3 PCVAC 4.25#/DN-LG, TTL on FOB Basis, USDA



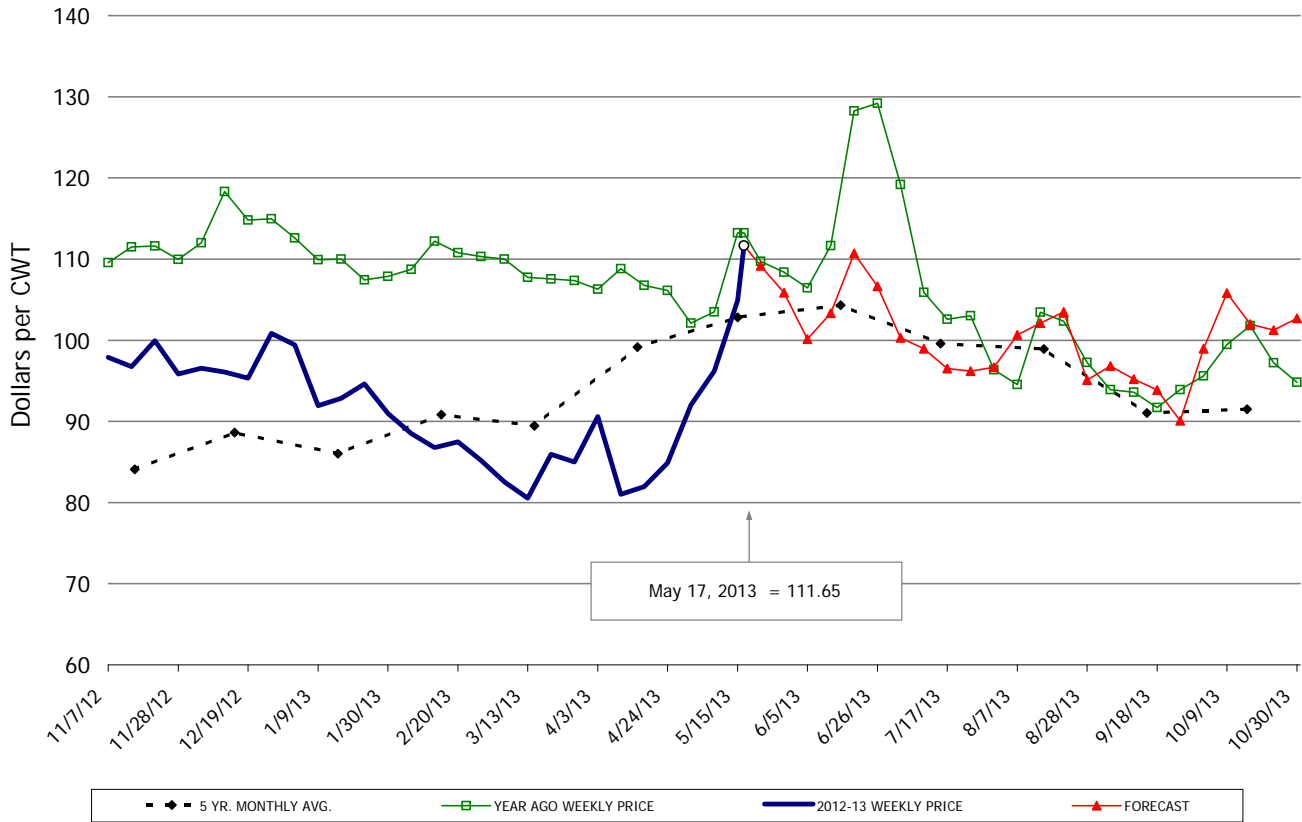
SKINNED HAM, BONE-IN, 17-20#, TTL on FOB Basis, USDA



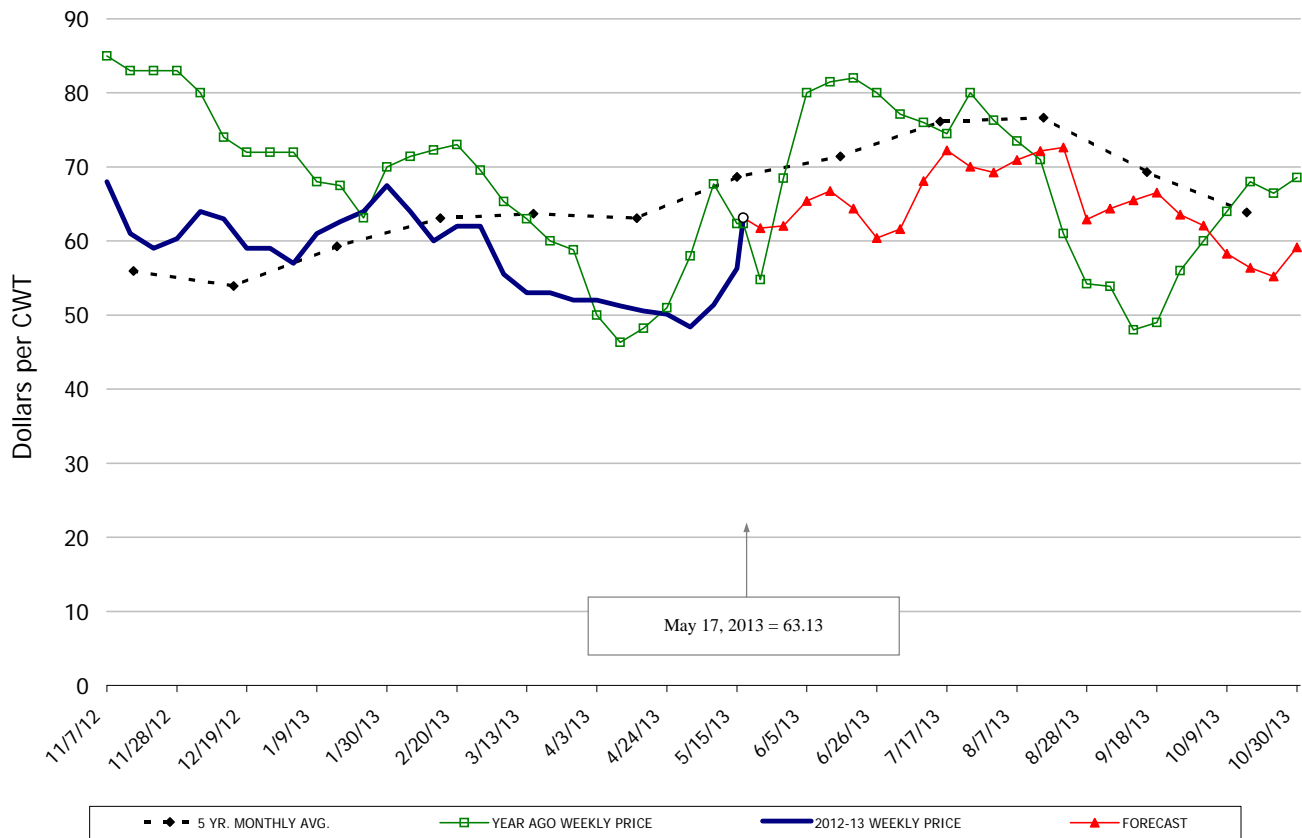
BELLY, SKIN-ON, TRIM 14-16#, TTL on FOB Basis,



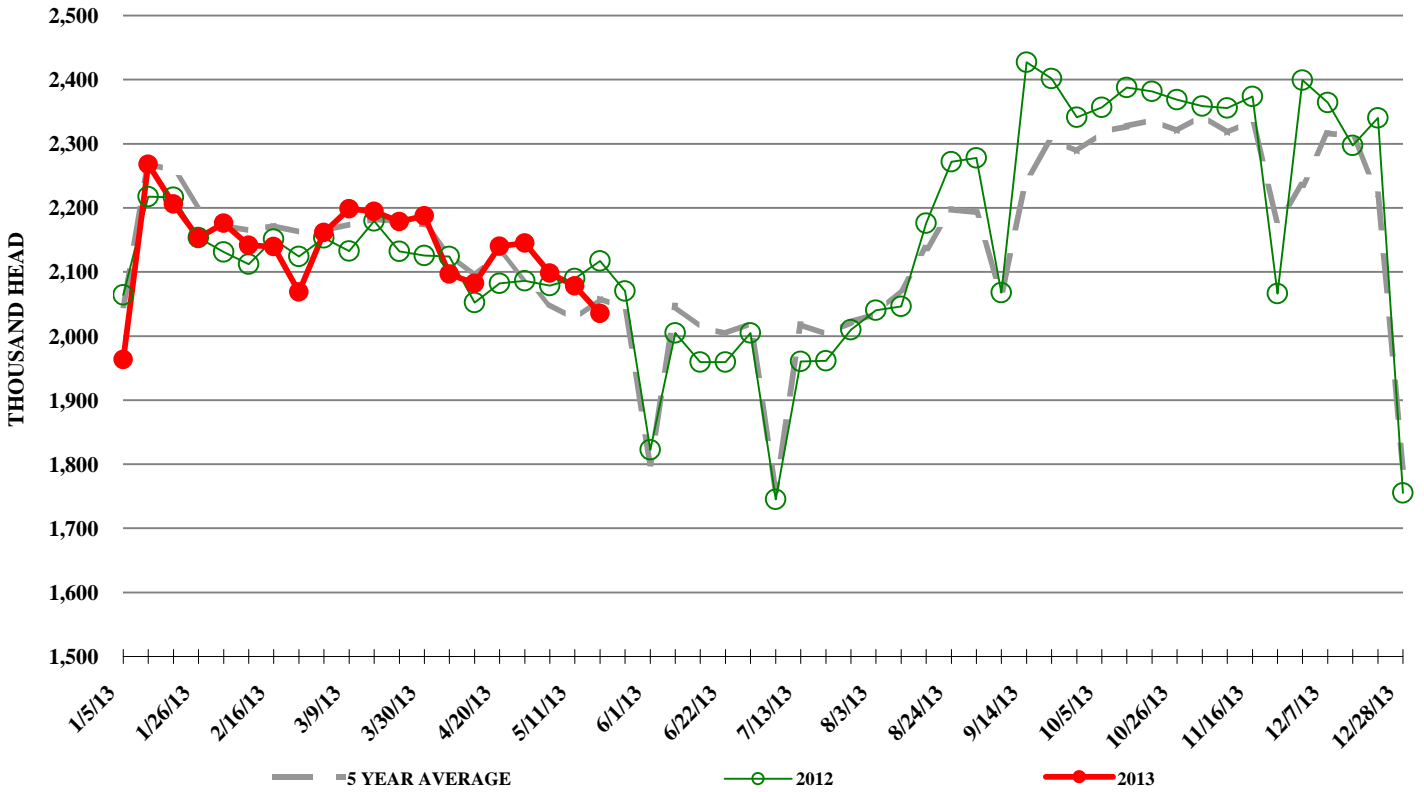
TRIMMED BUTT, 1/4" TRM 5-10#, TTL on FOB Basis, USDA



72CL PORK TRIM, FRESH, COMBO, USDA



ESTIMATED WEEKLY FI HOG SLAUGHTER



ESTIMATED WEEKLY FI PORK PRODUCTION

