# bork Be inspired

# Pork Merchandiser's Profit Maximizer

- Foodservice Edition

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July 15, 2013

### 1. <u>PEDv virus and outlook for pork supplies</u> <u>later this year and early 2014.</u>

There has been some media coverage of the PEDv virus and the potential impact this could have on pork supplies. Market participants also are worried that if the virus spreads, it could indeed create a marketing hole later this year. Based on the information available to this point,

Implied Number of Pig Losses Based on the Sow Premises with Positive Tests for PEDv

	Sow Premises	@2500 sows/farm	25/pigs/year	4-wks prod	5-wks prod
4/15/2013	0	-	-	-	-
4/22/2013	0	-	-	-	-
4/29/2013	1	2,500	62,500	4,808	6,010
5/6/2013	4	10,000	250,000	19,231	24,038
5/13/2013	5	12,500	312,500	24,038	30,048
5/20/2013	7	17,500	437,500	33,654	42,067
5/27/2013	6	15,000	375,000	28,846	36,058
6/3/2013	13	32,500	812,500	62,500	78,125
6/10/2013	11	27,500	687,500	52,885	66,106
6/16/2013	11	27,500	687,500	52,885	66,106
6/23/2013	1	2,500	62,500	4,808	6,010
6/30/2013	1	2,500	62,500	4,808	6,010
	60			288,462	360,577

we think the supply impact will be limited. This is based on the premise, however, that the data collected by USDA and NAHLN laboratories truly reflects the conditions on the ground. While there has been plenty of conversation about the total number of premises that have been found to have positive tests for PEDv, we think it is important to focus on sow premises, since they will be the most affected by the virus. The table

below shows the impact so far. This is based on the number of SOW farms that have been affected. The virus does not cause mortality among pigs over 4 weeks old although it may affect growth and feed conversion. So far about 60 sow farms have been affected since mid April. There is no indication how big the farms are so we are making a guess of an average 2500 sow operation. We are also assuming that a sow produces about 25 pigs per year. It is our understanding that the farms affected lose about all their pig production for 4-5 weeks. would imply that so far the farms affected have lost about 288-360k

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pigs. The pigs are spread out over a 3 month period. At this point we are talking about pig losses of at most 15k head per week out of a weekly kill of over 2 million. So less than 1% reduction in kill from what could have come to market. At this point, we think the impact will not be as significant as feared unless the disease spreads. The number of farms affected in the last two weeks has dropped off, which is a good sign. There is also talk that a vaccine is in the works and could come to market in the fall.

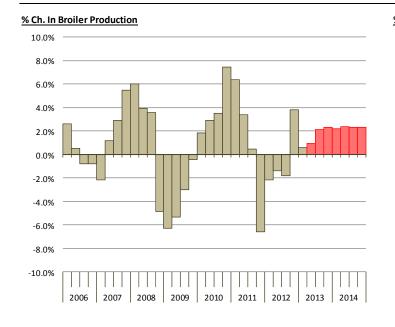
## 2. Lower feed costs should increase poultry supplies coming to market, but timing will differ for broilers and turkeys.

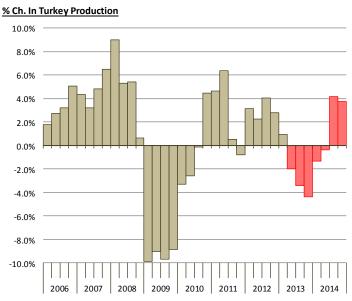
Grain futures continue to point to lower feed costs for US poultry producers for the next 12 months. Weather remains a key concern and market participants remain unconvinced that farmers indeed planted a record number of corn acres. And yet, despite these risks, corn supplies could quickly turn burdensome should yields approach normal trend levels. With feed costs heading lower, many in the market expect an almost immediate impact on the supplies (and prices) of poultry products coming to market. After all, feed costs make up almost two thirds of the input costs in live poultry production and improved margins should encourage expansion.

The first mistake, we think, is to lump broiler and turkey production together. Even if turkey and broiler producers decided today to expand production, there is a significantly longer lag for turkey than for chicken. Furthermore, the profitability in the broiler and turkey sectors could not be any more different at this point. Despite near record feed costs, broiler producers have benefited from a shift in demand for their product and a sharp rebound in the pricing of whole birds and chicken breasts. In Q2, whole broiler prices were on average 26.5% above year ago levels, breast meat prices averaged 30.0% above a year ago while leg quarters were 3% higher than last On the other hand, turkey prices continue to struggle, in Q2, whole tom turkey price was 7.8% lower than a year ago while tom turkey breast price is down 18.5% from a year ago.

So where do we stand in terms of the supply growth trajectory for each species and what does that imply for supplies and prices down the road? In the case of <u>broilers</u>, producers have been slowly <u>increasing production capacity although not necessarily the number of chick placements</u>. The data for May showed that the broiler hatchery flock was 1.2% larger than a year ago but still around 4.5% smaller than where it was in 2011. This slow growth in the hatchery flock is the reason why we are not extremely bearish for broiler prices. It is also likely that

Year/Year Change in Broiler and Turkey Production. RTC Basis. Quarterly Actual + Forecasts





despite expectations for lower feed costs, producers have been reluctant to increase hatchery numbers until they saw evidence that the lower feed costs would materialize. After all, last spring there was a similar expectation for lower feed costs. We expect the hatchery flock to be significantly higher by the end of 2013 and in the first half of 2014. So far, the number of broiler placements has tracked closely with year ago levels. Poult placements in Q2 were on average 0.2% lower than in 2012. That will change in the second half of the year and we expect placements in Q3 to be about 1.7% higher than a year ago and a little over 2% in Q4. We expect placements to be somewhere around 2.0% to 2.5% higher in 2014. At this point we think there is a good chance that this forecast may be too conservative. Our expectation is for broiler slaughter to average 2.2% above year ago levels in the second half of the year, which should help bring broiler prices lower. Higher supplies and the end of some seasonal promotions are expected to notably impact broiler breast prices.

As for turkey supplies, we think they will get smaller before they increase. Turkey producers continue to struggle with poor margins and this has led to a sharp decline in the number of poults being placed for grow out. Turkey poult placements in May were down 13.2% from a year ago. There is a very strong relationship between the number of poults placed on feed vs. turkey production five months later (see chart on previous page). In previous years, this kind of decline in placements has implied turkey production declines of as much as 10%. At this point we are not prepared to make that kind of forecast but our current production forecasts are much more aggressive than those of the USDA and other analysts. We expect turkey production to continue to decline in Q3 and be down as much as 4.4% in Q4. Production will remain below year ago levels in Q1 and Q2 of 2014 and we do not expect any sort of increase in production until in late 2014. By that time, we think that lower feed costs and higher turkey production will bring a margin back in the business.

Bottom line: Expect broiler prices to be lower later in 2013 and drift down further in 2014. Expect turkey prices to be firm in the second half of 2013 with the risk of significant price appreciation in Q4 of 2013.

#### **Upcoming holidays:**

2013 Labor Day [US and Canada] (Monday September 2); Rosh Hashanah (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**

NOTE: WE ARE NOW REPORTING AND FORECASTING MANDATORY PLANT WEIGHTED AVERAGE BLUE SHEET PRICES FOR PORK CUTS.

**Live hog.** For week ending July 13 hog slaughter was 2.038 million head, up about 3.98% from the same week a year ago. Slaughter for the last two weeks was up 3.32% vs. a year ago.

<u>Iowa/Minnesota, Base Lean Market Hog</u> <u>185 lbs. Carcass Values.</u> Lean hog carcass values at \$100.91/cwt. on Friday were down \$0.31/cwt. since Wed. July 3.

<u>21/dn Pork Loins</u> "Total on FOB Basis" (page 8). Prices finished last week at \$1.2737 for the "Total on FOB Basis" quote, down about 12

cents since the Wed. July 3 quote but up about 8 cents from year ago levels.

Bnls. Strap on Pork Loins. Prices finished the week at \$1.5300 for the strap on loins, down about 23 cents since Wed. July 3 but up about 8 cents from the year ago levels. Strap off loins at \$1.8043 are down about 13 cents since Wed. July 3 but up about 20 cents compared to the year ago quote.

**Boneless sirloins** at \$1.2784 are down about 2 cents from the Wed. July 3 quote but up about 4 cents from the year ago price.

**Pork tenderloin** finished last week at \$2.6660 are down about 11 cents since the Wed. July 3 quote and down about 45 cents from the year ago price.

<u>5/10 Pork Butts</u> "Total on FOB Basis" (page 10), prices finished the week at \$1.0781 down about 10 cents since Wed. July 3 but up about 2 cents from the year ago levels.

<u>4.25/dn Spare Ribs</u> "Total on FOB Basis" (page 8). Prices finished the week at \$1.4804 down about 19 cents since Wed. July 3 but up about 14 cents from year ago levels.

Rib inventories on May 21 were 91.4 million pounds, up one percent from a year ago.

#### **Bone-in Hams**.

The price of 17/20 hams (page 9) was 92.14 cents up about 5 cents since Wed. July 3 and up about 12 cents from a year ago.

20/23 hams finished the week at 87.79 cents for the Total on FOB Basis down about 2 cents since Wed. July 3 but up about 11 cents from the year ago level.

23/27 hams finished the week at 96.66 cents for the Total on FOB Basis (page 119) up about 4 cents from the Wed. July 3 quote and up about 23 cents from the year ago level.

Total ham cold storage stocks on May 31 at 156.6 million pounds were up about 21% from year ago levels.

Mandatory pricing procedures appear to be causing the ham quotes to be much more volatile, depending on what day and how many trades the USDA picks up.

**Bellies** "Total on FOB Basis". There simply is not enough trade on skin on bellies to comment on. Our future comments will be on derinded bellies.

Cold storage stocks on May 31 were 54.7 million pounds, down about 17 percent from year ago levels.

42 CL Pork Trim "FOB Basis". Prices finished the week at 60.49 up about 13 cents since Wed. July 3 and up about 2 cents from the year ago price.

<u>72 CL Pork Trim</u> "FOB Basis". Prices finished the week at 88.98 cents down about 7 cents since the Wed. July 3 quote but up about 13 cents from the year ago level.

Freezer stocks of all trimmings on May 31 were 59.7 million pounds, up about 12 percent from the year ago levels.

<u>72 CL Picnic Meat</u> "FOB Basis". Picnics prices at \$1.1331/lb. up about 6 cents since Wed. July 3 and up about 21 cents from the year ago price.

#### **POULTRY**

Georgia Dock Broilers. The Georgia dock price on Wednesday July 10 at \$1.0650 was up about 12 cents from a year ago.

The National Whole Bird price was up about 18.27 cents from the year ago levels at 101.63 on Monday July 8.

Broiler slaughter for the holiday week ending July 13 was estimated at 156.30 million, unchanged from a year ago. For the last two weeks slaughter was down 1.48% vs. a year ago.

Expect prices near current levels in late July and August.

**Breasts.** Prices on boneless skinless breasts finished the week at \$1.8404 down about 5 cents since the Wed. July 3 quote but up about 46 cents from the year ago levels.

<u>Leg Quarters</u>. 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 trading about 3 cents below year ago prices at 52.00.

<u>Wings</u>. Prices at \$1.5829 are down about 26 cents from year ago levels. Expect higher prices in August and on into the fall. Seasonal annual low prices normally occur in late May.

#### **Turkeys**

**Hens** finished last week at \$1.0300 unchanged since Wed. July 3 but down about 7 cents from the year ago price.

<u>Toms</u> finished last week at \$1.0300 unchanged since Wednesday July 3 but down about 8 cents from the year ago price.

Total turkey supplies in the freezer on May 31 were up about 4 percent from a year ago at 519.6 million pounds. Whole birds were up 12 percent from year ago with whole bird inventory at 286.5 million pounds.

Turkey slaughter was 36.19 million head for the week ending July 6, down 7.66% from a year ago, primarily due to the way the calendars line up for the 4<sup>th</sup> of July holiday. For the last two reported weeks slaughter was 3.38% below a year ago.

Boneless Turkey Breast Meat. Boneless skinless turkey breast meat prices finished last week at \$1.6200, unchanged since Wed. July 3. Prices are about 18 cents below year ago prices at this time.

#### **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 \$6.2324 (weighted average quote) finished last week down about 78 cents since the Wed. July 3 quote and down about 46 cents vs. the year ago price.

Select 112A Heavy Lip On Rib Eyes at \$5.9403 (weighted average quote) finished last week down about 2 cents since the Wed. July 3 quote but up about 49 cents vs. the year ago price.

<u>Choice regular #168 insides</u> finished last week quoted at \$2.0289 about unchanged since Wed. July 3 but up about 7 cents from the year ago price.

Choice ¼ inch trimmed #168 insides finished last week quoted at \$2.1002 down about 3 cents since Wed. July 3 but up about 9 cents from year ago levels.

<u>Choice #170 Gooseneck Rounds</u> finished last week at \$1.9300 up about 3 cents since Wed. July 3 but down about 12 cents from the year ago levels.

<u>Choice #180 (0x1) Bnls. Strip Loins</u> finished last week quoted at \$5.1879 (wt. avg.) down about one cent from the Wed. July 3 quote. Prices are about \$1.30/lb. below year ago levels.

<u>Choice</u> #184 <u>Regular Heavy top butts</u> finished at \$3.0447 (wt. avg.) up about one cent since Wed. July 3 but down about 31 cents from year ago levels.

<u>Choice</u> #184 ½ inch trimmed Top Butts finished at \$3.2164 (wt. avg.) down about one cent since Wed. July 3 and down about 31 cents from the year ago levels.

<u>Choice #185A Flap Meat</u> prices finished Friday at \$4.1318 (wt. avg.) down about 48 cents since Wed. July 3 and down about 56 cents from year ago values.

#### **COARSE GROUND BEEF –**

**73CL Coarse Ground** product finished last week at \$1.6290 down about 13 cents since Wed. July 3 but up about 24 cents from year ago levels. Current prices are \$0.0117 per pound over the price of a 73CL meat block formulated from 90CL and 50CL trim. A year ago the margin was NEGATIVE \$0.0776 per pound and the five years average for July is a NEGATIVE margin of \$0.0248 per pound.

**81CL Coarse Ground** product finished last week at \$1.7839 down about 9 cents since Wed. July 3 but up about 4 cents from the year ago quote. Currently 81CL Coarse Ground is trading for \$0.0109 per pound UNDER a meat block made up of 90CL and 50CL trim. A year ago the spread was NEGATIVE \$0.0619 and the five year average spread for July is a NEGATIVE margin of \$0.0387.

#### **MANUFACTURING BEEF AND TRIM –**

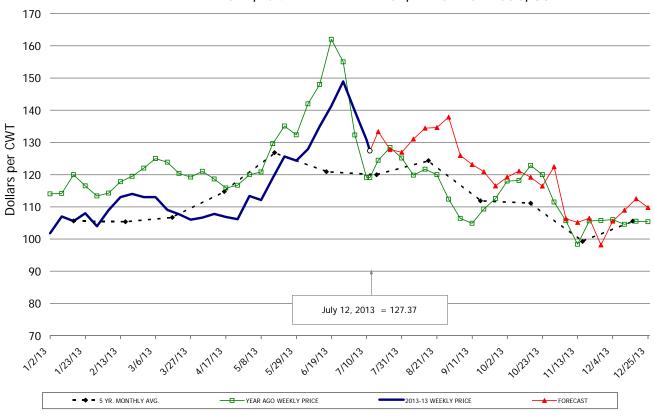
Domestic cow meat supplies the last four reported weeks ran above the year ago numbers. The dairy herd slaughter is now running above a year ago. The beef cow slaughter is also running above a year ago. For the last four reported weeks the **total cow slaughter** (the last week being the week ending June 29) was 1.34% above a year ago. **Dairy cow** slaughter was up 1.87% vs. a year ago. The **beef cow** kill was up 0.91% compared to year ago.

90CL Bnls. Beef prices finished the week at \$1.9945 (wt. avg.) up about one cent since Wed. July 3 but about 19 cents under the year ago price quote. Ranchers have decided to liquidate more beef cows, but their rate of liquidation seems to be slowing 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, mostly because of dry conditions in the west and southwest.

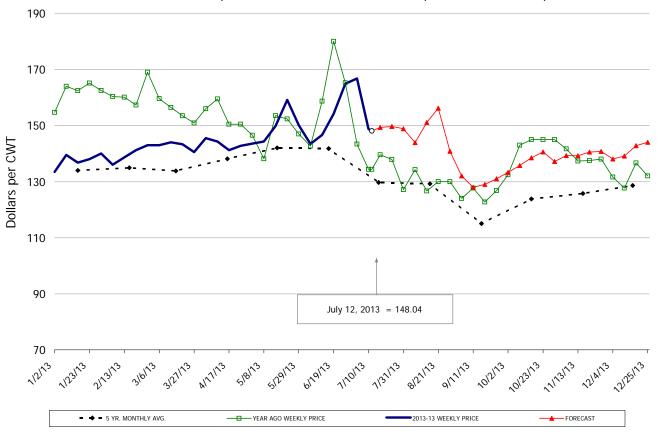
**50 CL Beef Trim** prices finished last week at \$1.1070 up about 10 cents since Wed. July 3 and about 62 cents over the year ago level.

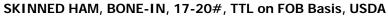
Food Service Summary Table - WT. AVE	2013 History						2013 FORECAST								
	Jan	Feb	Mar	Apr	May	Jun	7/3/2013	7/12/2013	7/24/2013	Jul	Aug	Sep	Oct	Nov	Dec
<u>PORK</u>															
TRIM LOIN, 1/4" Trim 21#DN-LGT, TTL on FOB Basis, USDA		1.12	1.09	1.07	1.19	1.38	1.40	1.27	1.28	1.31	1.32	1.23	1.19	1.07	1.07
TRIM LOIN, 1/8" TRM/less 21#DN-LGT, TTL on FOB Basis, USD!		1.25	1.21	1.12	1.24	1.46	1.47	1.29	1.33	1.35	1.37	1.26	1.20	1.10	1.13
LOINS, CNTRCUT, BNLS STRAP-OFF 5-11#, USDA		1.70	1.64	1.60	1.78	2.01	1.94	1.80	1.92	1.86	1.91	1.79	1.75	1.58	1.60
PORK TENDERLOIN 1.25/DN#, USDA		2.62	2.66	2.59	2.68	2.81	2.77	2.67	2.78	2.71	2.84	2.85	2.55	2.49	2.36
TRIMMED BUTT, 1/4" TRM 5-10#, TTL on FOB Basis, USDA		0.87	0.84	0.85	1.03	1.24	1.18	1.08	1.09	1.11	1.08	1.03	1.03	1.02	0.95
SPARERIBS, 3 BAG/3 PCVAC 4.25#/DN-LG, TTL on FOB Basis, U							1.67	1.48	1.50	1.53	1.47	1.30	1.37	1.40	1.41
ST LOUIS STYLE RIBS 2 1/4 DN					2.49		2.67	2.48	2.50	2.53	2.47	2.30	2.37	2.40	2.41
SPARERIBS, 2 BAG/3 PCVAC 4.25#/UP-M, USDA					1.43		1.72	1.70	1.66	1.67	1.42	1.25	1.28	1.33	1.31
LOIN BACKRIB (BOXED), FRSH/FRZN, 1.75-2.00, USDA		2.34													
LOIN BACKRIB (BOXED), FRSH/FRZN, 1.75-2.00, USDA					2.39	2 48	2.47	2.39	2.36	2.42	2.40	2.28	2.16	2.09	2.02
SKINNED HAM, BONE-IN, 17-20#, TTL on FOB Basis, USDA					0.77		0.88	0.92	0.95	0.90	0.84	0.82	0.82	0.84	0.79
					0.69		0.90	0.88	0.73	0.88	0.88	0.84	0.81	0.81	0.77
SKINNED HAM, BONE-IN, 20-23#, TTL on FOB Basis, USDA					0.70		0.93	0.97	0.92	0.89	0.89	0.85	0.78	0.77	0.75
SKINNED HAM, BONE-IN, 23-27#, TTL on FOB Basis, USDA SELECT, BNLS 5 MUSCLE HAMS 94-96%, TTL on FOB Basis, USD!							1.21	1.21	1.23	1.21	1.26	1.26	1.22	1.20	1.20
					1.61		1.21	1.77	1.78	1.77	1.75	1.64	1.51	1.46	1.45
BELLY, SKIN-ON, TRIM 12-14#, TTL on FOB Basis,															
BELLY, SKIN-ON, TRIM 14-16#, TTL on FOB Basis,					1.57		1.74	1.74	1.75	1.74	1.75	1.64	1.51	1.46	1.45
BELLY, SKIN-ON, TRIM 16-18#, TTL on FOB Basis,					1.60		1.62	1.62	1.64	1.62	1.72	1.61	1.48	1.43	1.42
42CL PORK TRIM, FRESH, COMBO, USDA					0.45		0.47	0.60	0.64	0.58	0.56	0.56	0.49	0.39	0.35
72CL PORK TRIM, FRESH, COMBO, USDA	0.62	0.62	0.53	0.51	0.56	0.83	0.96	0.89	0.93	0.90	0.77	0.70	0.63	0.63	0.59
HOG CARCASS 250-270# HOGS, US 1-3, INTERIOR IOWA DIRECT HOG															
MARKET	0.85	0.81	0.74	0.80	0.90	1.00	1.01	1.01	1.02	1.00	0.96	0.88	0.85	0.79	0.81
BROILERS															
12 CITY BROILER COMPOSITE WEIGHTED AVG.	1 02	1 02	1 07	1 07	1.10	1 08	1.04	1.02	1.02	1.04	1.04	1.03	0.97	0.92	0.93
					1.96		1.89	1.84	1.74	1.81	1.82	1.75	1.49	1.38	1.32
N.E. BROILER BREAST BONELESS-SKINLESS, USDA					1.29		1.07	1.26	1.74	1.25	1.25	1.73	1.47	0.98	0.96
N.E. BROILER BREAST LINE RUN, USDA					0.54		0.49	0.52	0.53	0.52	0.53	0.53	0.52	0.50	0.50
N.E. BROILER LEG QUARTERS, USDA					1.38		1.53	1.58	1.59	1.58	1.59	1.67	1.73	1.71	1.74
N.E. BROILER WINGS, USDA	2.07	1.90	1.75	1.49	1.30	1.50	1.53	1.36	1.59	1.56	1.59	1.07	1.73	1.71	1.74
TURKEYS	4.00				4 00	4.00	4.00	4.00	4.05		4.07				4.05
HEN TURKEYS, EAST, FROZEN 10-12LBS, , TOP HEN TURKEYS, EA							1.03	1.03	1.05	1.04	1.07	1.11	1.15	1.15	1.05
UB BONELESS-SKINLESS TURKEY BREAST, TOM, FRESH,	1.96	1.67	1.59	1.56	1.55	1.58	1.62	1.62	1.66	1.64	1.79	1.92	1.95	2.02	1.88
LIVE STEERS															
FIVE AREA DIRECT AVERAGE LIVE STEER, USDA	1.26	1.24	1.26	1.27	1.27	1.22	1.21	1.21	1.20	1.20	1.22	1.25	1.26	1.28	1.29
BEEF															
	E 04	E 72	4 10	E 0.4	4 70	7 11	7.01	4 22	4 22	4 55	4 21	4 E 4	4.00	0.25	7 45
CHOICE, 112A, 3 RIBEYE, BONELESS, HEAVY, USDA					6.79		7.01	6.23	6.32	6.55	6.31	6.54	6.98	8.35	7.45
CHOICE, 168, 3 TOP INSIDE ROUND, 1/4" MAX, USDA					2.15		2.13	2.10	2.06	2.10	2.04	2.08	2.05	2.09	2.15
CHOICE, 170, 1 BOTTOM GOOSENECK ROUND, USDA					1.95		1.90	1.93	1.93	1.92	2.10	2.10	2.16	2.24	2.24
CHOICE, 180, 3 STRIP LOIN, BONELESS, 0x1, USDA					7.78		5.20	5.19	4.95	5.15	5.19	5.19	4.83	4.86	4.89
CHOICE, 184, 3 TOP BUTT, BONELESS, USDA					3.57		3.23	3.22	3.23	3.25	3.36	3.30	3.02	3.05	3.20
CHOICE, 185A, 4 BOTTOM SIRLOIN, FLAP, USDA					5.03		4.61	4.13	4.15	4.31	4.14	3.65	3.45	3.59	3.74
COARSE GROUND 73%, USDA					1.73		1.76	1.63	1.64	1.66	1.59	1.62	1.57	1.68	1.69
COARSE GROUND 81%, USDA					1.94		1.87	1.78	1.79	1.82	1.88	1.95	1.87	1.97	2.02
90% BONELESS BEEF, CENTRAL, FRESH, USDA					2.01		1.99	1.99	1.98	2.00	2.05	2.02	1.97	2.04	2.11
50CL BEEF TRIM, FRESH, NATIONAL, USDA	0.70	0.68	0.88	0.97	0.93	0.92	1.00	1.11	1.03	1.04	1.00	0.88	0.89	1.00	0.96
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TRIM LOIN, 1/4" Trim 21#DN-LGT, TTL on FOB Basis, USDA

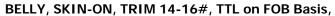


SPARERIBS, 3 BAG/3 PCVAC 4.25#/DN-LG, TTL on FOB Basis, USDA

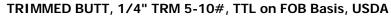






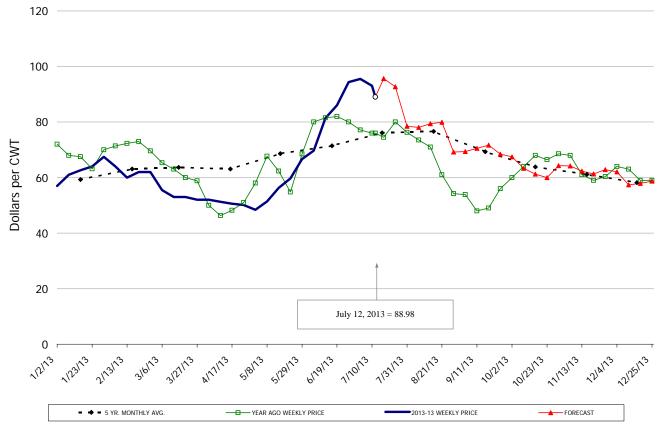




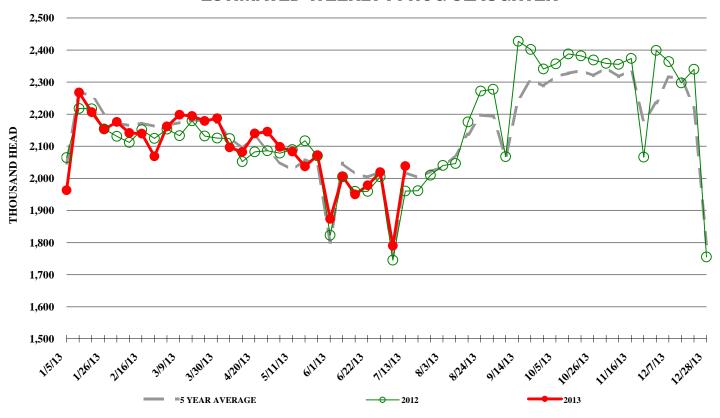




#### 72CL PORK TRIM, FRESH, COMBO, USDA



#### **ESTIMATED WEEKLY FI HOG SLAUGHTER**



#### **ESTIMATED WEEKLY FI PORK PRODUCTION**

