



Pork Merchandiser's Profit Maximizer

Be inspiredSM

- Foodservice Edition

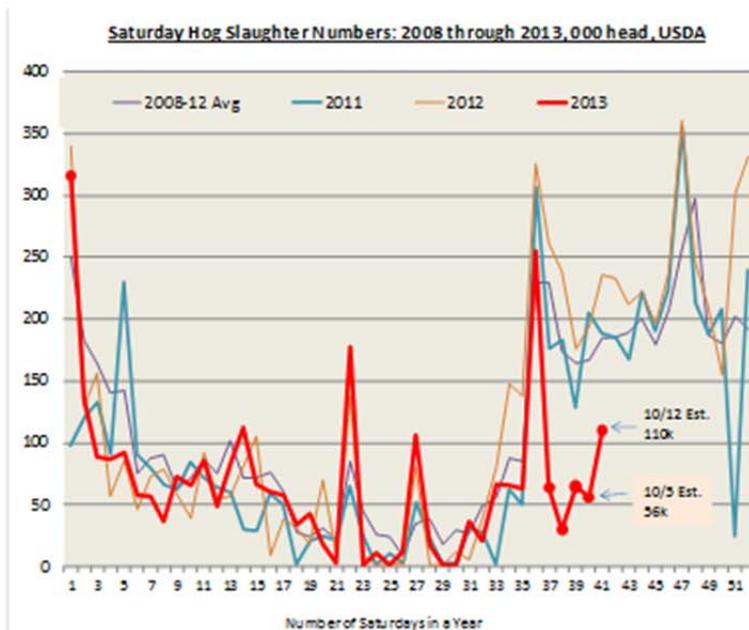
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Prepared by Steiner and Company, Manchester, NH 800-526-4612.

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1. Hogs and Pigs Report Implies Year/Year Increase in Slaughter - But For Now Slaughter Continues to Run Behind Expectations

The latest Hogs and Pigs report defied all expectations and there are plenty of market participants that are taking the results with a healthy dose of scepticisms. Coming into the report, there was broad expectation that: a) the inventory numbers would be lower than a year ago; b) the

breeding herd would show some form of expansion with lower feed costs expected in the next 12 months; c) the PEDv impacted the number of pigs saved per litter and reduced productivity during the Jun - Aug quarter; and d) the farrowings for the Dec—Feb quarter would show solid growth above 1%, implying a little over 2.5% growth in pigs coming to market in late spring and early summer of 2014. USDA survey results contradicted market expectations on all those counts (see table). The



USDA Sep. 1 Hogs and Pigs Results vs. Analyst Estimates
Percent of Year Ago. Source: USDA & Dow Jones Newswire

	USDA Actual	Analyst Avg. Estimates	Analyst Range of Estimates
All hogs and pigs on Sept 1	100.3	98.6	96.4 - 100.3
Kept for breeding	100.4	101.5	100.6 - 102.0
Kept for marketing	100.3	98.3	95.9 - 100.2
Jun-Aug pig crop	101.9	99.6	98.4 - 101.7
Jun-Aug pigs per litter	102.0	100.0	98.5 - 101.8
Jun-Aug farrowings	98.6	99.8	98.2 - 100.9
Sep-Nov farrowing intentions	100.4	101.0	100.0 - 101.8
Dec-Feb farrowing intentions	100.9	101.1	99.9 - 102.1
Hogs weighing under 50 lbs	100.9	98.8	97.0 - 101.6
Hogs weighing 50 to 119 lbs	101.1	98.9	96.1 - 100.0
Hogs weighing 120-179 lbs	101.5	98.3	95.9 - 101.1
Hogs weighing 180 and over	96.5	96.2	94.0 - 99.3

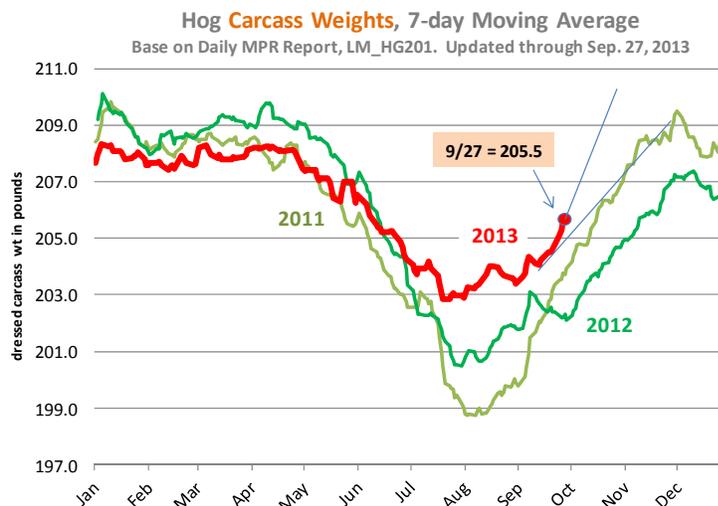
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discussion on page 2 is a recap of the results and the implications for pork supplies going forward.

The USDA survey pegged the supply of market hogs as of September 1 at 62.546 million hogs, 0.3% larger than a year ago. This was outside the range of pre-report estimates and emphatically contradicts the view that hog supplies on the ground are lower than a year ago. The inventory of hogs and pigs over 180 pounds was estimated at 11.090 million head, 3.5% lower than a year ago. If this number is correct, then we should see a significant increase in hog slaughter in October.

Hog slaughter in the first four weeks of September (Sep. 1 - Sep. 28) was 8.524 million head down about 7.7% compared to the same four weeks last year. Weekly hog slaughter averaged about 2.13 million head in September, which is lower than 5-yr average and significantly below 2012. But if the survey results are right, then hog slaughter in the first two weeks of October would have to be close to 2.4 million head. USDA was closed for much of this week and so we do not have official weekly slaughter numbers. According to market sources, however, Saturday slaughter was a little under 60,000 head, which implies a weekly slaughter around 2.2 million head. Clearly the survey missed the first group of market hogs.

The USDA survey indicated that the inventory of hogs weighing 120-179 pounds was up 1.5% from a year ago while the inventory of hogs 50—119 pounds was up 1.1%. These are hogs expected to come to market between mid-October through mid-January and analysts were watching these categories closely for an indication of the impact from PEDv disease. According to the USDA data, however, the disease has had only a very minimal impact on overall supplies. The number of pigs saved per litter during Jun - Aug was 2% above a year ago - so no impact from PEDv. If the numbers are right, then we should see weekly hog slaughter through the end of the year average above 2.3 million head per week, with a few weeks near or above 2.4 million. This level of hog slaughter coupled with 1.5% to 2% heavier weights would dramatically contradict the price premiums built in the December futures contract. So far, futures markets have disregarded the implications of the latest USDA Hogs and Pigs survey.

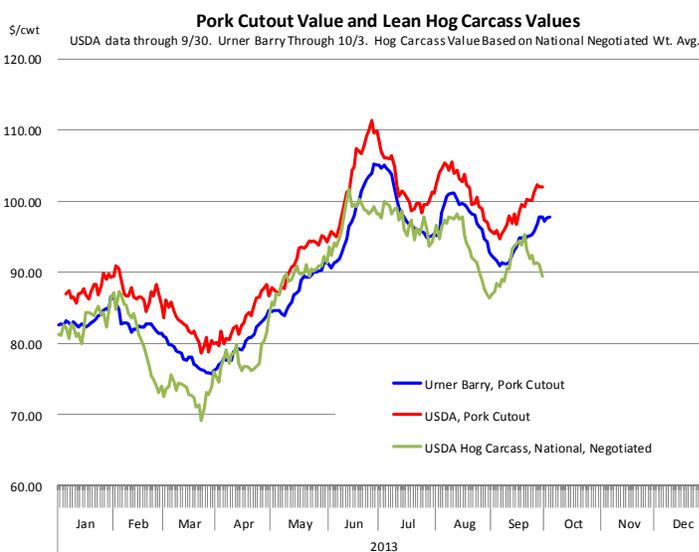
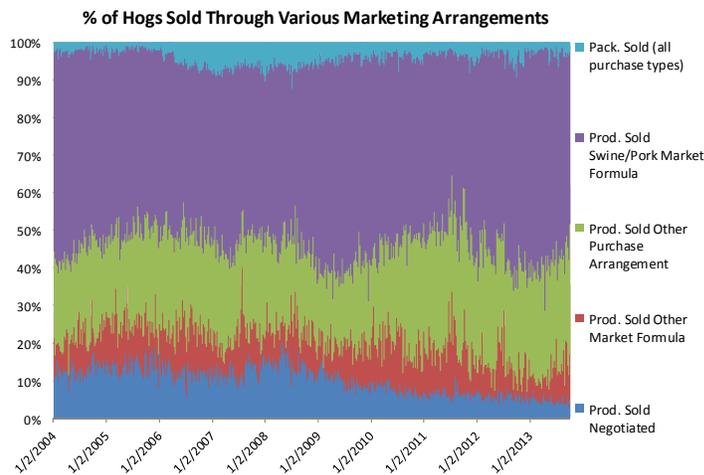


The next big surprise from the report was the 0.4% growth in the breeding herd, 1.1 points lower than the average of pre-report estimates. Coming into the report, market participants thought that the reduction in hog slaughter, indications of higher gilt retention in spring and summer, increased sow imports from Canada and prospects of lower feed costs in 2014 would all combine to increase the number of breeding animals. The USDA survey results changes the view on hog supplies for next spring and summer. Sow farrowings for Sep - Dec were pegged at just 0.4% above last year and Dec - Feb farrowing estimates were up 0.9%. It is not unusual for farrowing estimates at inflection points in the cycle to vary dramatically from reality and market participants will likely pay less attention to those numbers. At this point, the farrowing numbers and implied pig crop is supportive of current valuations of hog prices for next summer.

Bottom line: At this point the lack of supply data from USDA has made it more difficult to closely track the hog market. The Hogs and Pigs survey said the hogs are there and the market believes they are not. One item we were watching before Congress sent most of the USDA home was carcass weight performance. Late last week we saw weight gains accelerate but with no further data, it is impossible to test the theory that producers are falling behind. Next week's hog sale numbers (informal without USDA) will tell us how motivated producers are to market hogs, however.

2. Livestock producers, packers and end users are trying to adjust now that all of the USDA market reporting they had come to depend upon has stopped. As noted in our previous reports, packers have been working closely with producers and customers to establish the parameters of pricing product that in the past was done on a formula basis. For the most part, those formulas were benchmarked off USDA reports and now alternatives are being sought. Price discovery has always been challenging. In recent years, however, thanks to congressional mandates and the expansion of USDA's ability to collect market information, price discovery for many participants became almost costless, sometimes an afterthought. After all, a buyer no longer had to work the phones, call various suppliers and keep the ear to the ground for any change in pricing sentiment. Smaller buyers that lacked purchasing power often felt they could not get the same deal as those that could be in the market for multiple truckloads a week. The daily sheet offered an easy way out and purchasing decisions that in the past would have taken hours, maybe a couple of days to conclude, now can be done in minutes. The buyer calls the order in, prices it off the sheet and then goes on to deal with other issues. It is no wonder that the bulk of beef and pork products traded each day is now priced on a formula basis rather than negotiated. In the case of beef products, USDA data shows that 10 years ago almost 70% of all beef traded in a given day was done on a negotiated basis. This year, the percentage of beef traded on a negotiated basis has dropped under 40%. We don't know what percentage of pork is traded on a formula basis since USDA only recently started the Mandatory Price Reporting for pork and the formulated sales have yet to be reported. However, we do have plenty of information on formula marketing arrangements for hogs. The percentage of hogs traded on a negotiated basis has gone from about 17% in 2004 to about 7% today. The rest of the hogs marketed were sold on some kind of market formula, using either pork or hog benchmarks tied to some USDA report.

Without the USDA market reporting mechanism, price discovery in the hog complex has been frozen. While some market reports exist, one needs to be careful and take into account the inherent structural pricing difference between them



and the USDA values. Case in point is the pork cutout calculation from Uner Barry, one of the private market reporters. As you can see in the attached chart, the UB hog carcass calculations reflect a significant discount to the USDA price. This is because the current USDA hog cutout calculation includes more items than the Uner Barry sheet. Specific pork item prices need to be examined independently. Since the beginning of the year, the UB cutout has averaged about \$4/cwt below the USDA cutout. UB pork cutout on Thursday was quoted at \$97.70/cwt, implying overall wholesale pork prices have changed little in the last few days. This makes sense since many packers have opted to price product off the last USDA quote on Monday and the ongoing uncertainty has for the most part frozen wholesale prices. Hog prices declined sharply on Monday following the Hogs and Pigs report and pork packer margins are now quite a bit better than they were for

much of September. Packers will likely get more pushback in the coming days, however, as a larger portion of their production will likely have to be negotiated. And this could impact the price packers are willing to offer for hogs. Saturday slaughter remains key.

Upcoming holidays:

2013 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).

2014 New Year's Day (Wednesday January 1); Martin Luther King Day (Monday January 20); Chinese New Year (Friday January 31); Super Bowl XLVIII Sunday (Sunday February 2, in East Rutherford, NJ); 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).

Please note that due to the lapse in federal government funding, USDA Market News is not available. As a result, we could not provide an update on pricing information for current and forward markets. We hope to include the pricing section in the next issue but it will depend on whether government funding is restored.