Dork Be inspired

Pork Merchandiser's Profit Maximizer

- Foodservice Edition

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November 18, 2013

1. <u>Hog market and PEDv Disease:</u> <u>Implications for hog prices in the spring</u>

Cash hog prices and nearby futures have declined sharply in recent days. The IA/MN weighted average cash hog prices was quoted on Friday at \$79.58/cwt, down almost \$15/cwt compared to early October. In the short term, market participants continue to focus on seasonal factors: heavy carcass weights and increased

Diagnostic Case Submissions Testing Positive for PEDv. Source: AASV.org

90 Grower/Finisher

80 Sow Ops, Nursery, Etc

70

40

20

10

Total Number of Swine Accessions/

supply of hogs available for marketing. Hog weights have exploded since mid-October, coincident with the availability of fresh corn and cool fall temperatures. The latest MPR data (report LM_HG201) pegs average hog weights at almost 213 pounds. This includes both producer and packer owned hogs. The average weight of producer sold hogs was pegged at 211.62 pounds. For the last five days, producer sold hogs have averaged a little over 211 pounds and all hogs

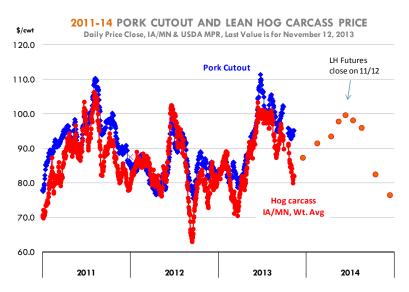
have averaged 212.6 pounds. So we are looking at a 3.1% increase in hog weights and the seasonal tendency is for weights to continue to climb through the end of November. There is some pressure producers on accelerate marketings to bring weights under control but one needs to also recognize the incentives at play. Lower feed costs have reduced significantly the marginal cost of adding weight on hogs. Also, some producers are faced with fewer pigs than they would normally have due to the losses associated with PEDv. This has given them

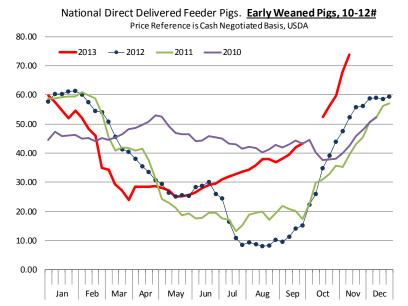
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the space necessary to plump up their hogs a bit more in recent weeks. Hog slaughter normally increases at this time of year and hog slaughter this week was a little over 2.3 million head. It is likely we will have another 2.3 million head slaughter week next week, as well.

Normally this is the time of year when packer margins are very strong and the latest USDA numbers show that. Packers also have benefited from a notable improvement in consumer demand for pork. Hog supplies are steady to slightly lower than a year ago and yet pork prices are significantly higher than last year. The pork cutout has drifted a bit lower in the last two days but it still remains above \$90/cwt, well above year ago levels. Some of the year/year increase is due to the change in how the cutout is calculated with MPR data. That new calculation methodology adds about \$4/cwt to the current cutout. Even when we adjust for that, the cutout is about 9% higher than a year While prices for loins and buts are up compared to last year, packers have benefited the most from sharply higher prices for hams. The ham primal value is currently up 32% compared to last year. About half of the increase in the value of the cutout has come from the improvement in ham pricing. Normally ham prices are a bit softer in the last two weeks of November before spiking higher ahead of Christmas. So far, however, there has been little weakness, helping underpin the overall cutout.

But even as the day to day seasonal pressures have negatively impacted the nearby market, out front the main concern, and biggest risk, remains the impact of PEDv disease on the flow of hogs coming to market. The chart on the previous page shows that the number of diagnostic cases testing positive for PEDv increased sharply in October. The first week of November had about double the number of cases we saw in May and June. It would appear that the worst impact of the disease is ahead of us. And given the 5-6 month lag, spiking PEDv cases in the winter could constrain supplies in late spring and summer, a time of year when hog numbers seasonally decline. One indicator pointing to the shortage of feeder pigs on the





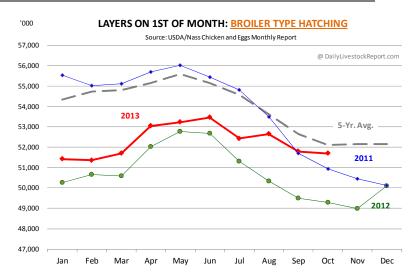
ground (as well as improving forward margins) is the spike in the price of <u>feeder pigs</u>, <u>which are currently at all time record highs</u>. The uncertainty comes from the fact that despite reports from AASV, it is unclear how many hogs have indeed been infected and what is the survival rate. At this point, the market is left guessing and the guess is that despite \$4 corn, we could still see \$100 hogs this summer, promising excellent margins for those with hogs to sell.

2. <u>Lower Feed Costs Point to Broiler</u> <u>Expansion and Lower Broiler Prices</u>

Corn prices are currently approaching \$4 per bushel as record corn supplies imply significantly

lower prices will be required to clear the market. While the lower prices should push more corn into export markets, they will do little to expand ethanol demand, which is constrained by the 10% blending limit. At this time, we are for the most part blending all the ethanol we can in the gasoline supply, hence the EPA announcement on Friday, November 15, to lower mandated ethanol production level. According to USDA, about a quarter of the additional supply of corn produced this year (+3 billion bushels will be absorbed by the livestock and poultry industry. The problem is that in 2014 we will likely see fewer cattle available for marketing and limited growth in hog supplies due to the outbreak of PEDv disease. This leaves the broiler industry as the main industry that has the ability to quickly ramp up production and absorb the surge in grain supplies.

In its November WASDE report, USDA pegged broiler production for 2014 at 38.484 billion pounds, 2.9% higher than its 2013 estimate. We think this is too low and expect broiler production to expand by over 4% in 2014. Assuming a 1% increase in broiler weights, which is in line with long term trends and the shift to marketing heavier birds, the USDA production increase implies that the number of broilers coming to market in 2014 will increase by less than 2% compared to 2013. It is true that the growth in broiler supplies cannot be instantaneous but it certainly is a lot faster than for cattle and hogs. We estimate that it takes about 6-8 months to ramp up production, including the time needed to expand the hatching The expansion process has been underway for the past three months (see chart). Producers have responded to the sharp drop in forward feed costs and the size of the hatching flock has been expanding. According to the monthly USDA 'Chicken and Eggs' report, the supply of broiler type hatching layers as of October 1 was 51.695 million head, 4.9% more than the same period a year ago. Since August, the hatching flock has averaged about 4.7% above year ago levels. This would imply that the industry is gearing up for a notable increase in the number of birds coming to market in 2014.



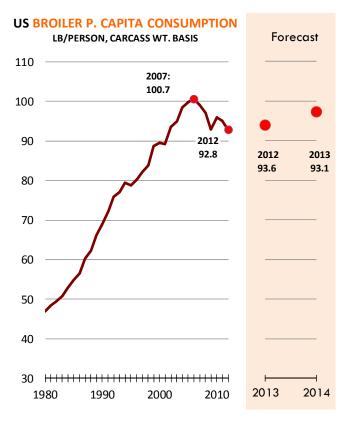
Y/Y % Change in Weekly Broiler Slaughter and in Weekly Chick Placements
6-week moving average, 6-wk lag. Source: USDA/Nass Weekly Hatchery Report



In the short term, the supply of broilers coming to market will likely be up about 2.5-3% over year ago levels. Broiler egg sets in the last four weeks have averaged 3.5% above year ago levels while chick placements (note there is a 3-4 week lag here) are up 1.9% vs. last year. The number of poult placements today correlates very strongly with the number of broilers coming to market 5-6 weeks down the road (see chart). And with a larger hatching flock, the expectation is that broiler supplies will only trend higher from current levels. But it is not all blue skies for broiler producers and they will likely try to walk a fine line between trying to preserve their margins (which have been very strong this year) and expand their sales both versus their competitors within the broiler industry and in the beef and The rapid price erosion this fall pork complex. for a number of broiler products caught many by

surprise. It also remains a major concern for both cattle and pork producers who will find a much more competitive landscape next year. Boneless/skinless chicken breasts were trading near \$2/lb earlier in the year, thanks to some successful fast food promotions but it has dropped to about \$1.27 today. Part of this is seasonal but also reflects the impact of expanding supplies. Wing prices also have declined sharply at a time when prices are seasonally higher (they are down 28% vs. yr ago). Leg quarters are also down 16% vs. last year.

Bottom line: Low grain prices are positive for cattle and hog producer margins but they also will make for a more competitive market. Chicken parts prices have declined sharply in recent weeks. In some cases this is temporary (leg quarters and wings) but the trend is for year over year declines in chicken prices in 2014. This will tend to moderate the price inflation for beef and pork.



Upcoming holidays:

2013 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 Rosh September 1); Hashanah (Thursday September 25); Yom Kippur (Saturday October 4); Columbus Day (Monday October 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 Christmas December 17): Dav (Thursday December 25); Boxing Day [Canada] (Friday December 26).

PORK

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

<u>Live hog</u>. For the week ending November 16 hog slaughter was 2.347 million head, down 1.14 percent from a year ago. For the last two weeks slaughter is down 1.97%.

Iowa/Minnesota, Base Lean Market Hog 185 lbs. Carcass Values. Lean hog carcass values at about 79.58/cwt. on Friday were down about \$1.35/cwt. since Wed. November 6. Prices are now about \$3.70/cwt. above year ago values.

21/dn Pork Loins "**Total on FOB Basis**" (page 8). Prices finished last week at \$1.0700 for the "Total on FOB Basis" quote, down about 7 cents since the Wed. November 6 quote but up about 9 cents from year ago levels.

Bnls. Strap on Pork Loins. Prices finished the week at \$1.5083 for the strap on loins, down about 5 cents since Wed. November 6 but up about 8 cents from the year ago levels. Strap off loins at \$1.7330 are up about 2 cents since Wed. November 6 and up about 12 cents compared to the year ago quote.

<u>Boneless sirloins</u> at \$1.2372 are down about 5 cents from the Wed. November 6 quote but up about 13 cents from the year ago price.

<u>Pork tenderloin</u> finished last week at \$2.1979 are down about 13 cents since the Wed. November 6 quote but up about 12 cents from the year ago price.

<u>5/10 Pork Butts</u> "Total on FOB Basis" (page 10), prices finished the week at \$0.9738 down about 2 cents since Wed. November 6 but up about one cent from the year ago levels.

4.25/dn Spare Ribs "Total on FOB Basis" (page 8). Prices finished the week at \$1.4632 down about 4 cents since Wed. November 6 but up about 9 cents from year ago levels.

Rib inventories on September 30 were 56.0 million pounds, down 15 percent from a year ago.

Bone-in Hams.

The price of 17/20 hams (page 9) was \$1.0114/lb. down about 4 cents since Wed. November 6 but up about 19 cents from a year ago.

20/23 hams finished the week at 95.45 cents for the Total on FOB Basis almost unchanged since Wed. November 6 but up about 20 cents from the year ago level.

23/27 hams finished the week at 86.28 cents for the Total on FOB Basis down about 8 cents from the Wed. November 6 quote but up about 11 cents from the year ago level.

Total ham cold storage stocks on September 30 at 221.2 million pounds were up about 3% from year ago levels.

42 CL Pork Trim "FOB Basis". Prices finished the week at 43.70 up about 2 cents since Wed. November 6 and up about 5 cents from the year ago price.

72 CL Pork Trim "FOB Basis". Prices finished the week at 75.50 cents down about 4 cents since the Wed. November 6 quote but up about 15 cents from the year ago level.

Freezer stocks of all trimmings on September 30 were 38.2 million pounds, down about 21 percent from the year ago levels.

<u>72 CL Picnic Meat</u> "FOB Basis". Picnics prices should be lower by January.

POULTRY

<u>Georgia Dock Broilers</u>. The Georgia dock price on Wednesday November 13 at \$1.0450 was up about 8 cents from a year ago.

The National Whole Bird price was quoted at 94.80 on Friday.

Breasts. Prices on boneless skinless breasts finished the week at \$1.2695 up less than one cent since the Wed. November 6 quote but down about one cent 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 5 cents below the year ago price at 45.69. Prices should find a bottom near today's quote.

However, Mexico could be a significant issue any time.

<u>Wings</u>. Prices at \$1.1947 are down about 69 cents from year ago levels.

Turkeys

<u>Hens</u> finished last week at \$1.1000 unchanged since Wed. November 6 but down about 6 cents from the year ago price.

<u>Toms</u> finished last week at \$1.0700 unchanged since Wed. November 6 but down about 11 cents from the year ago price.

Total turkey supplies in the freezer on September 30 were up about 4 percent from a year ago at 541.5 million pounds. Whole birds were up 7 percent from year ago with an inventory of 325.6 million pounds.

<u>Boneless Turkey Breast Meat.</u> Boneless skinless turkey breast meat prices finished last week at \$2.2000, unchanged since Wed. November 6.

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 \$7.4419 (weighted average quote) finished last week up about 18 cents since the Wed. November 6 quote and up about 18 cents vs. the year ago price.

<u>Select 112A Heavy Lip On Rib Eyes</u> at \$5.3712 (weighted average quote) finished last week down about 14 cents since the Wed. November 6 quote but up about 24 cents vs. the year ago price.

<u>Choice regular #168 insides</u> finished last week quoted at \$2.1502 down about 10 cents since Wed. November 6 but up about 10 cents from the year ago price.

Choice ¼ inch trimmed #168 insides finished last week quoted at \$2.2011 down about 12 cents since Wed. November 6 but up about 7 cents from year ago levels.

<u>Choice #170 Gooseneck Rounds</u> finished last week at \$2.1252 down about 8 cents since Wed.

November 6 but up about 6 cents from the year ago levels.

<u>Choice #180 (0x1) Bnls. Strip Loins</u> finished last week quoted at \$4.7376 (wt. avg.) up about 13 cents from the Wed. November 6 quote. Prices are about 27 cents under year ago levels.

<u>Choice #184 Regular Heavy top butts</u> finished at \$2.5955 (wt. avg.) down about 12 cents since Wed. November 6 and down about 61 cents from year ago levels.

Choice #184 ¼ inch trimmed Top Butts finished at \$2.7844 (wt. avg.) down about one cent since Wed. November 6 and down about 35 cents from the year ago levels.

<u>Choice #185A Flap Meat</u> prices finished Friday at \$3.5561 (wt. avg.) down about 9 cents since Wed. November 6 but up about 8 cents from year ago values.

COARSE GROUND BEEF -

73CL Coarse Ground product finished last week at \$1.6535 down about 7 cents since Wed. November 6 but up about 11 cents from year ago levels. Current prices are \$0.0602 per pound over the price of a 73CL meat block formulated from 90CL and 50CL trim. A year ago the margin was \$0.0474 per pound and the five years average for November is a margin of \$0.0868 per pound.

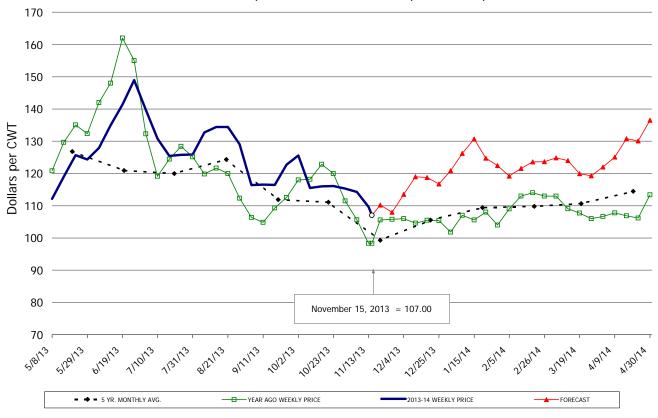
81CL Coarse Ground product finished last week at \$1.8265 down about one cent since Wed. November 6 and down about 8 cents from the year ago quote. Currently 81CL Coarse Ground is trading for \$0.0789 per pound over a meat block made up of 90CL and 50CL trim. A year ago the spread was \$0.1518 and the five year average spread for November is a margin of \$0.1020.

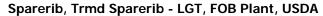
90CL Bnls. Beef prices finished the week at \$1.9211 (wt. avg.) up about one cent since Wed. November 6 but about 12 cents below the year ago price quote. Ranchers are trying to hold more beef cows. Corn prices are significantly under year ago levels at this time. Our expectations for higher prices in 2014 are based on farmers holding cows. Cheaper feed is going to encourage rebuilding everywhere there is grass.

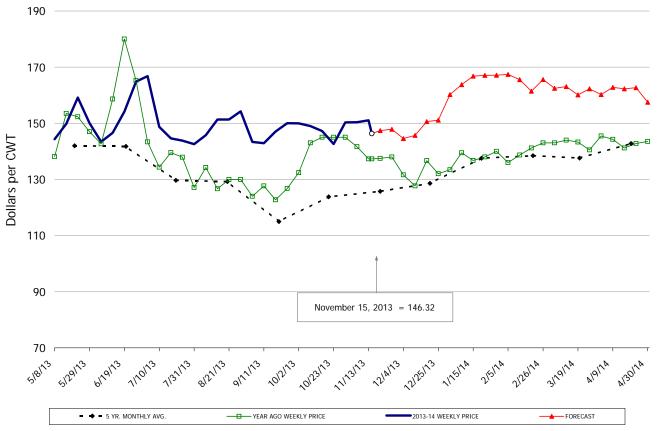
50 CL Beef Trim prices finished last week at \$1.1499 down about one cent since Wed. November 6 but about 39 cents over the year ago level.

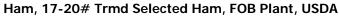
Food Service Summary Table - WT. AVE	2013 History								2013 FORECAST							
•	May	Jun	Jul	Aug	Sep	Oct	11/6/2013	11/15/2013	11/27/2013	Nov	Dec	Jan	Feb	Mar	Apr	
<u>PORK</u>																
Loin, 1/4 Trimmed Loin VAC, FOB Plant, USDA	1.19	1.38	1.30	1.33	1.18	1.18	1.14	1.07	1.08	1.09	1.17	1.25	1.22	1.22	1.27	
Loin, 1/8 Trimmed Loin VAC, FOB Plant, USDA					1.29		1.22	1.15	1.17	1.16	1.27	1.37	1.31	1.32	1.37	
Loin, Bnls CC Strap-off, FOB Plant, USDA					1.80		1.71	1.73	1.75	1.76	1.88	1.98	1.83	1.84	1.88	
Loin, Tenderloin, FOB Plant, USDA					2.39		2.33	2.20	2.27	2.29	2.29	2.55	2.66	2.62	2.61	
Butt, 1/4 Trim Butt Combo, FOB Plant, USDA					1.13		0.99	0.97	1.00	0.99	1.01	1.04	1.08	1.05	1.12	
Sparerib, Trmd Sparerib - LGT, FOB Plant, USDA					1.46		1.50	1.46	1.48	1.47	1.48	1.65	1.65	1.62	1.62	
ST LOUIS STYLE RIBS 2 1/4 DN					2.46		2.50	2.46	2.48	2.47	2.48	2.65	2.65	2.62	2.62	
Sparerib, Trmd Sparerib - MED, FOB Plant, USDA					1.49		1.41	1.34	1.42	1.41	1.42	1.56	1.58	1.55	1.55	
Loin, Backribs 2.0#/up, FOB Plant, USDA					2.14		2.10	1.96	2.00	2.01	2.09	2.20	2.32	2.41	2.55	
Ham, 17-20# Trmd Selected Ham, FOB Plant, USDA					0.91		1.05	1.01	1.04	1.01	0.93	0.78	0.80	0.80	0.76	
					0.90		0.96	0.95	1.04	0.95	0.90	0.76	0.78	0.30	0.74	
Ham, 20-23# Trmd Selected Ham, FOB Plant, USDA																
Ham, 23-27# Trmd Selected Ham, FOB Plant, USDA					0.88		0.94	0.86	0.94	0.88	0.87	0.75	0.77	0.76	0.75	
SELECT, Ham, 5 Muscle Ham to Blue, FOB Plant, USDA					1.50		1.55	1.45	1.53	1.43	1.39	1.36	1.36	1.25	1.23	
Belly, Skin-on Belly 12-14#, FOB Plant,					1.60		1.38	1.43	1.25	1.26	1.30	1.39	1.45	1.44	1.44	
Belly, Skin-on Belly 14-16#, FOB Plant,					1.48		1.19	1.28	1.27	1.28	1.32	1.41	1.47	1.46	1.46	
Belly, Skin-on Belly 16-18#, FOB Plant,					1.47		1.21	1.25	1.27	1.25	1.29	1.38	1.44	1.43	1.43	
Trim, 42% Trim Combo, FOB Plant, USDA					0.54		0.42	0.44	0.42	0.42	0.37	0.45	0.46	0.50	0.52	
Trim, 72% Trim Combo, FOB Plant, USDA	0.56	0.83	0.94	0.81	0.67	0.82	0.79	0.76	0.73	0.75	0.71	0.75	0.77	0.76	0.72	
HOG CARCASS																
250-270# HOGS, US 1-3, INTERIOR IOWA DIRECT HOG																
MARKET	0.90	1.00	0.99	0.95	0.93	0.88	0.81	0.80	0.86	0.83	0.87	0.88	0.90	0.89	0.92	
BROILERS																
12 CITY BROILER COMPOSITE WEIGHTED AVG.					0.91		0.91	0.95	0.93	0.91	0.91	0.91	0.92	0.93	0.92	
N.E. BROILER BREAST BONELESS-SKINLESS, USDA					1.50		1.26	1.27	1.27	1.24	1.26	1.39	1.43	1.51	1.57	
N.E. BROILER BREAST LINE RUN, USDA					1.06		0.98	0.98	0.94	0.95	0.92	0.93	0.98	1.02	1.06	
N.E. BROILER LEG QUARTERS, USDA	0.54	0.54	0.51	0.52	0.53	0.47	0.44	0.46	0.45	0.45	0.45	0.46	0.46	0.46	0.48	
N.E. BROILER WINGS, USDA	1.38	1.50	1.59	1.58	1.62	1.49	1.23	1.19	1.33	1.30	1.42	1.58	1.55	1.51	1.45	
<u>TURKEYS</u>																
HEN TURKEYS, EAST, FROZEN 10-12LBS, , TOP HEN TURKEYS, EA	1.02	1.03	1.03	1.05	1.06	1.08	1.10	1.10	1.08	1.10	1.05	0.97	0.98	1.02	1.04	
UB BONELESS-SKINLESS TURKEY BREAST, TOM, FRESH,	1.55	1.58	1.66	1.96	2.14	2.20	2.20	2.20	2.11	2.15	2.09	1.98	1.86	1.89	1.93	
LIVE STEERS																
FIVE AREA DIRECT AVERAGE LIVE STEER, USDA	1 27	1 22	1 20	1 22	1.23	1 20	1.32	1.31	1.32	1.32	1.33	1.33	1.34	1.35	1.36	
·	1.27	1.22	1.20	1.23	1.23	1.27	1.32	1.31	1.32	1.32	1.33	1.33	1.34	1.33	1.30	
<u>BEEF</u>																
CHOICE, 112A, 3 RIBEYE, BONELESS, HEAVY, USDA	6.79	7.11	6.28	6.40	6.69	6.82	7.27	7.44	8.58	8.31	7.74	6.32	6.44	6.83	7.00	
CHOICE, 168, 3 TOP INSIDE ROUND, 1/4" MAX, USDA	2.15	2.00	2.09	2.13	2.10	2.24	2.32	2.20	2.20	2.22	2.34	2.46	2.35	2.33	2.34	
CHOICE, 170, 1 BOTTOM GOOSENECK ROUND, USDA	1.95	1.85	1.90	1.98	1.98	2.14	2.21	2.13	2.17	2.17	2.19	2.27	2.27	2.18	2.11	
CHOICE, 180, 3 STRIP LOIN, BONELESS, 0x1, USDA	7.78	7.21	5.05	5.07	4.99	4.94	4.61	4.74	4.80	4.85	4.92	5.41	5.64	5.98	6.75	
CHOICE, 184, 3 TOP BUTT, BONELESS, USDA	3.57	3.43	3.23	3.29	3.20	3.05	2.79	2.78	2.88	2.85	3.07	3.30	3.44	3.66	3.82	
CHOICE, 185A, 4 BOTTOM SIRLOIN, FLAP, USDA	5.03	5.30	4.03	3.38	3.54	3.77	3.65	3.56	3.76	3.71	3.71	3.87	4.10	4.55	4.60	
COARSE GROUND 73%, USDA					1.68		1.72	1.65	1.66	1.69	1.71	2.03	1.91	1.75	1.89	
COARSE GROUND 81%, USDA					1.88		1.83	1.83	1.84	1.88	1.92	2.21	2.12	1.97	2.10	
90% BONELESS BEEF, CENTRAL, FRESH, USDA					2.04		1.91	1.92	1.94	1.95	2.06	2.21	2.31	2.26	2.30	
50CL BEEF TRIM, FRESH, NATIONAL, USDA							1.16	1.15	1.13	1.16	1.11	1.10	1.12	1.18	1.17	
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							Page 7		© 2013 Steiner Consulting Group (1-800-526-4612)							

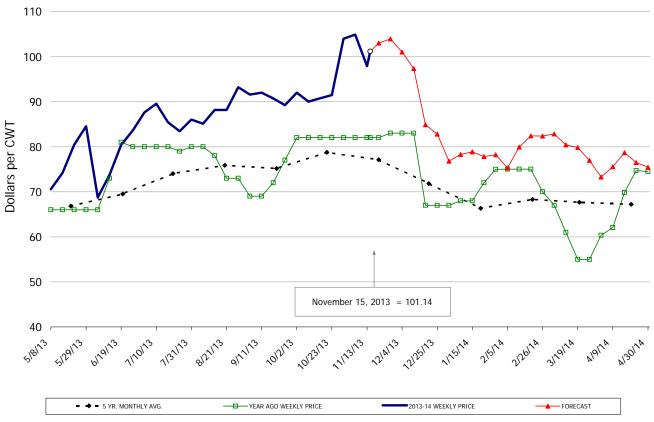
Loin, 1/4 Trimmed Loin VAC, FOB Plant, USDA

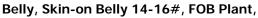


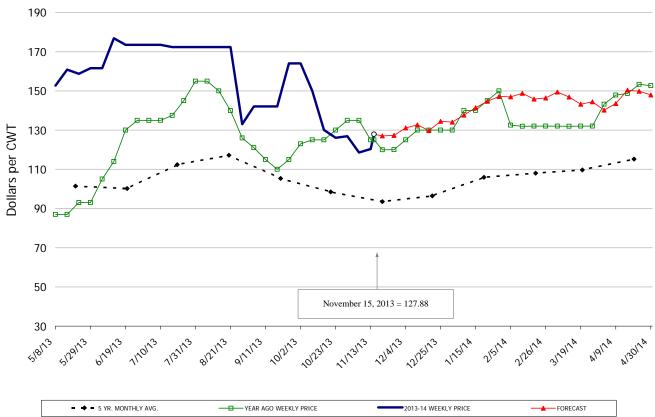




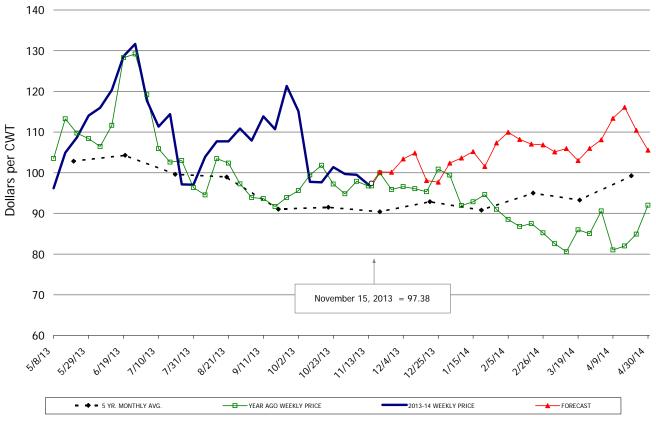








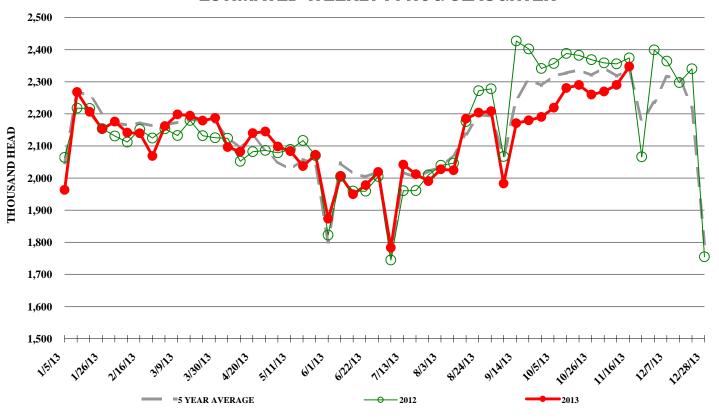




Trim, 72% Trim Combo, FOB Plant, USDA



ESTIMATED WEEKLY FI HOG SLAUGHTER



ESTIMATED WEEKLY FI PORK PRODUCTION

