



# Pork Merchandiser's Profit Maximizer

# Be inspired<sup>SM</sup>

## - Foodservice Edition

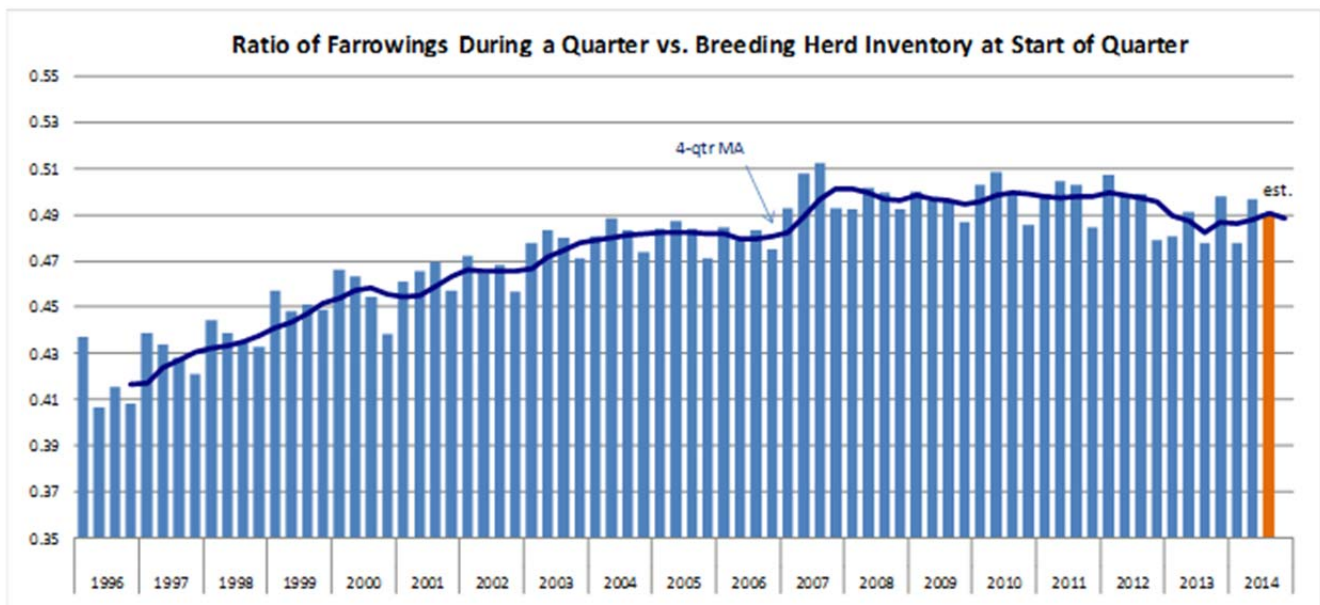
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Prepared by Steiner and Company, Manchester, NH 800-526-4612.

September 22, 2014

### Cheap corn should spur hog production ... but when?

There is plenty of anticipation ahead of the upcoming USDA Hogs and Pigs report (September 26), especially considering the dramatic supply hole that developed in the spring and summer of 2014. Corn prices are now approaching \$3 per bushel, a 60% decline from the highs established in the fall

of 2012. The number of new PEDv cases also has declined significantly over the summer months, which likely has bolstered the pig crop over the summer months. Our general expectation is that while supplies likely have recovered from the significant losses sustained during the Oct 13 - Apr 14 period, it will take some time for the industry to return to the pre-PEDv growth path. One big wild card going forward is the impact of new PEDv cases this coming fall and winter. At this point our



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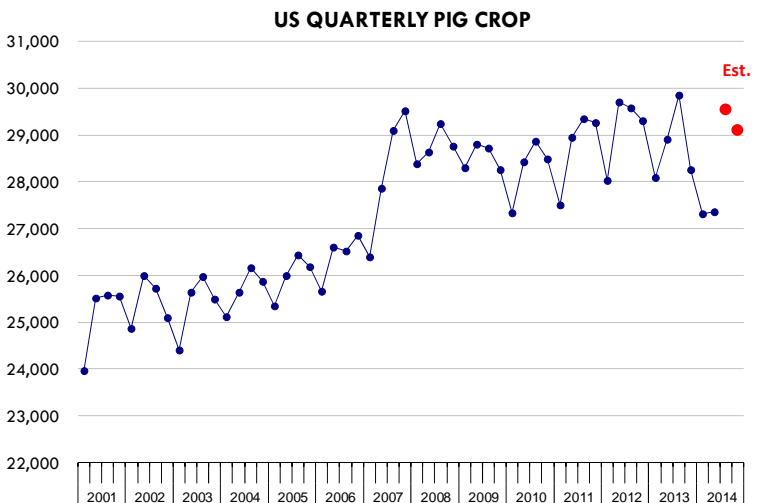
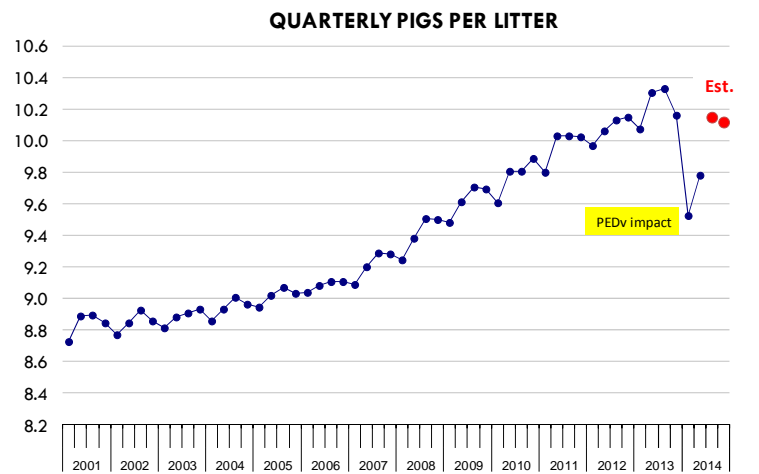
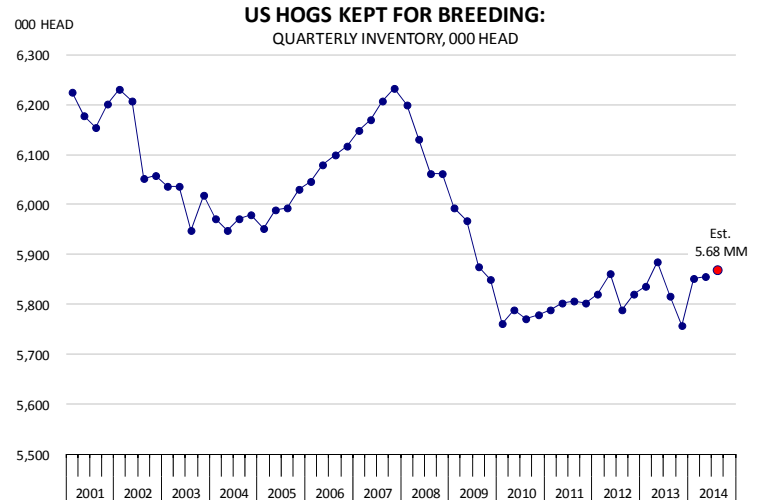
working assumption is that PEDv will be relatively limited but it is an assumption fraught with a lot of risk. Below are our expectations for the inventory numbers as of September 1 and the growth in the breeding herd (all numbers are percent of year ago):

<b>Sep 1 Hogs/Pigs Inv.</b>	<b>-3.2%</b>
<b>Breeding Herd</b>	<b>+0.9%</b>
<b>Marketing Hogs</b>	<b>-3.1%</b>

<b>Sep - Nov Farrowings</b>	<b>+3.4%</b>
<b>Sep - Nov Pigs/Litter</b>	<b>-0.4%</b>
<b>Sep - Nov Pig Crop</b>	<b>+3.0%</b>

What are the implications of the estimates above?

**A. Breeding herd.** We think this is one of the key numbers to watch in the upcoming report. Market participants were surprised that the breeding herd numbers as of June 1 posted a 0.5% decline compared to the previous year. But in a way it was understandable that producers held off on any kind of herd rebuilding activity during the Mar - May quarter as PEDv was a problem for many producers in March and April. Also, producers had to contend with a dramatic decline in overall hog numbers during that period as a result of a shortfall in the pig crop during the Sep-Nov quarter. Finally it is important to consider the rally in the corn market in early spring. Dec 2014 corn futures rose from the mid \$4 per bushel in early February to over \$5 per bushel in early May. At the time the crop was just getting in the ground and there was still plenty of uncertainty about corn supplies in the new marketing year. All of these issues that may have limited an increase in the breeding herd during Mar-May were likely alleviated in the Jun-Aug quarter. As a result, we expect gilt retention ratios to show significant improvement during the quarter. Sow slaughter is projected to be down 4.5% for the Jun-Aug period, which should also help bolster the overall inventory numbers. There is still plenty of uncertainty about the breeding inventory levels, however.



Lingering concerns about PEDv will make some producers extremely cautious. Also, with the pig crop severely limited during the Dec-Feb period, producers were likely faced with a much smaller number of gilts to retain.

**B. Farrowings and pig crop.** We expect the farrowings (births) for the Sep-Nov period to show a significant improvement (+3.4%) compared to a year ago. In part this is due to our expectation for a larger breeding herd as of September 1. Also, the strong profit outlook for 2015 will give producers plenty of incentives to maximize their farrowings. The chart on page 1 shows the ratio of farrowings in a given quarter relative to the size of the breeding herd at the start of the quarter. The ratio has been trending lower in 2011-2013 period, coincident with the increase in feed costs and poor forward margins. The ratio rebounded in the previous quarter and we expect it to be at trend levels again for the Sep-Nov quarter. Lingering issues with PEDv will keep the pigs saved per litter slightly below year ago levels but still we expect the pig crop for the Sep-Nov period to be about 3% higher than a year ago and the pig crop for the Dec-Feb quarter is likely to be even higher based on expectations for further increases in the breeding herd and a significant improvement in the number of pigs saved per litter.

Bottom line: Hog slaughter should recover in late winter and early spring. We have not changed our supply/demand tables until we get the official USDA inventory estimates. If we are correct and the pig crop for the Sep-Nov period indeed stands at about 3%, then we would have to revise higher our current forecast for Q1 (+0.5%) and Q2 (+1.5%) slaughter growth. Hog weights next year will likely be at or even below 2014 levels as producers will be forced to accelerate marketings with more hogs in the pipeline. Based on our current estimates, the discount of futures to current prices appears warranted. If the breeding herd fails to increase, however, market participants may be forced to once again add premiums to 2015 summer contracts.

### **Upcoming holidays:**

**2014** 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**

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

**Live hogs. For the week ending September 20 slaughter was 2.050 million head, down 5.9% from a year ago. In the last two weeks hog slaughter is down 5.7% vs. year ago levels.**

**Iowa/Minnesota, Base Lean Market Hog 185 lbs. Carcass Values.** Lean hog carcass values at about 105.82 /cwt. on Friday were up about \$3/cwt since Wed. September 10. Prices are up about \$12 /cwt compared to year ago values.

**Loin, 1/4 Trimmed Loin VAC, FOB Plant, USDA** (page 8). Prices finished last week at \$1.5825, up about 16 cent since the Wed. September 10 quote and up about 42 cents from year ago levels.

**Bnls. Strap on Pork Loins.** Prices finished the week at \$2.2172 for the strap on loins, up about 35 cents since Wed. September 10 and up about 45 cents from the year ago levels. Strap off loins at \$2.2866 are up about 35.1 cent since Wed. September 10 and up about 47 cents compared to the year ago quote.

**Boneless sirloins** at \$1.7393 are up about 18 cents from the Wed. September 10 quote and up about 46 cents from the year ago price.

**Pork tenderloin** finished last week at \$2.8537, up about 9 cents since the Wed. September 10 quote and up about 42 cents from the year ago price.

**5/10 Pork Butts** (page 10), prices finished the week at \$1.5939, up about 13 cents since Wed. September 10.

**Spare Ribs, Trimmed - LGT, Vac** (page 8). Prices finished the week at \$1.5427, down about one cent since Wed. September 10 but up about 7 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 \$1.3042/lb., up 15.1 cents compared to prices on Wed. September 10 and up about 40 cents from a year ago.

20/23 hams finished the week at 123.72 cents, up about 12 cents since Wed. September 10 and up about 33 cents from the year ago level.

23/27 hams finished the week at 121.74 , up about 12 cents from the Wed. September 10 quote and up about 36 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 58.91 , up about 0.5 cent since Wed. September 10 but down about 1 cents from the year ago price.

**72 CL Pork Trim** “FOB Basis”. Prices finished the week at 104.00 cents, up about 5 cents since the Wed. September 10 quote and up about 35 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 \$113.75 was up about 8 cents from a year ago.

The National Whole Bird price was quoted at 108.15 on Friday September 20, up about 15 cents from a year ago.

Broiler slaughter for the week ending September 20 was 160.13 million head, down 0.37% from a year ago. For the last two weeks slaughter was up 0.3% vs. a year ago.

**Breasts.** Prices on boneless skinless breasts finished the week at \$1.8971, up 5 cents since Wed. September 10 and also up about 42 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 0.4 cents vs. year ago price at 46.63 . Prices trend modestly higher the next few months. However, Mexico could be a significant issue any time.

**Wings.** Prices at \$1.7227 are up about 9 cents from year ago levels.

## **Turkeys**

**Hens** finished last week at \$1.1700, unchanged since Wed. September 10 and up about 11 cents from the year ago price.

**Toms** finished last week at \$1.1700, unchanged since Wed. September 10 and up about 11 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 4.5290 million head for the week ending September 13, up 4.31% from a year ago. For the last two weeks slaughter has been up 4.1%.

**Boneless Turkey Breast Meat.** Boneless skinless turkey breast meat prices finished last week at \$4.0500, unchanged since Wed. September 10. Prices are up about 50 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 \$6.9468 (weighted average quote) finished last week down about 18 cents since the Wed. September 10 quote but up about 28 cents vs. the year ago price.

**Select 112A Heavy Lip On Rib Eyes** at \$5.4671 (weighted average quote) finished last week down about 14 cents since the Wed. September 10 quote but up about 36 cents vs. the year ago price.

Currently Choice 112A Rib Eyes are \$1.4797 /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 \$2.7574 down about one cents

since Wed. September 10 but up about 79 cents from the year ago price.

**Choice ¼ inch trimmed #168 insides** finished last week quoted at \$2.9180 down about 5 cents since Wed. September 10 and up about 84 cents from year ago levels.

**Choice #170 Gooseneck Rounds** finished last week at \$2.8629 up about 18 cents since Wed. September 10 and up about 84 cents from the year ago levels.

**Choice #180 (0x1) Bnls. Strip Loins** finished last week quoted at \$5.0953 (wt. avg.) down about 57 cents from the Wed. September 10 quote. Prices are about 18 cents over year ago levels.

**Choice #184 Regular Heavy top butts** finished at \$3.2773 (wt. avg.) down about 5 cents since Wed. September 10 but up about 27 cents from year ago levels.

**Choice #184 ¼ inch trimmed Top Butts** finished at \$3.4448 (wt. avg.) up about 11 cents since Wed. September 10 and up about 21 cents from the year ago levels.

**Choice #185A Flap Meat** prices finished Friday at \$4.3760 (wt. avg.) down about 31 cents since Wed. September 10 but up about 82 cents from year ago values.

### **COARSE GROUND BEEF –**

**73CL Coarse Ground** product finished last week at \$2.3613 down about 15 cents since Wed. September 10 but up about 69 cents from year ago levels.

**81CL Coarse Ground** product finished last week at \$2.3009 down about 36 cent since Wed. September 10 but up about 43 cents from the year ago quote.

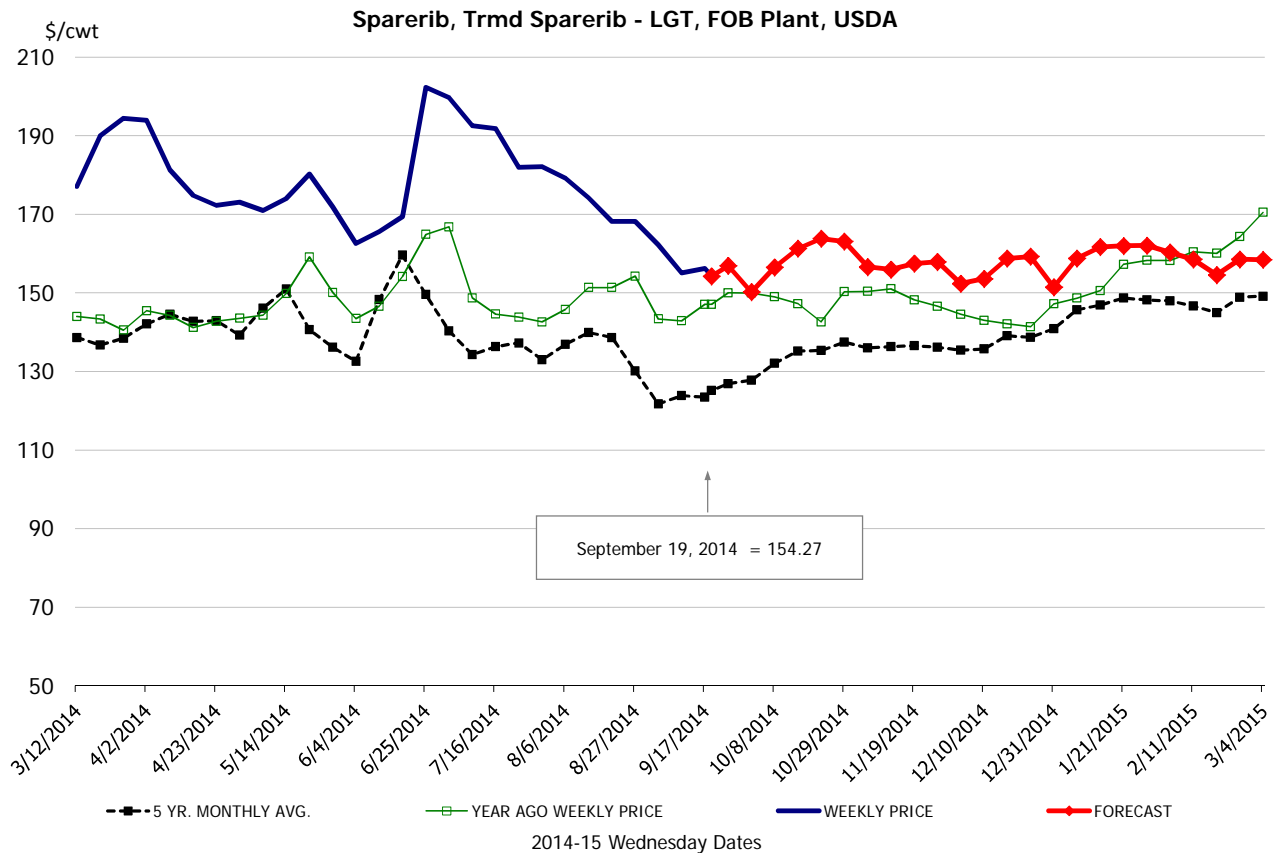
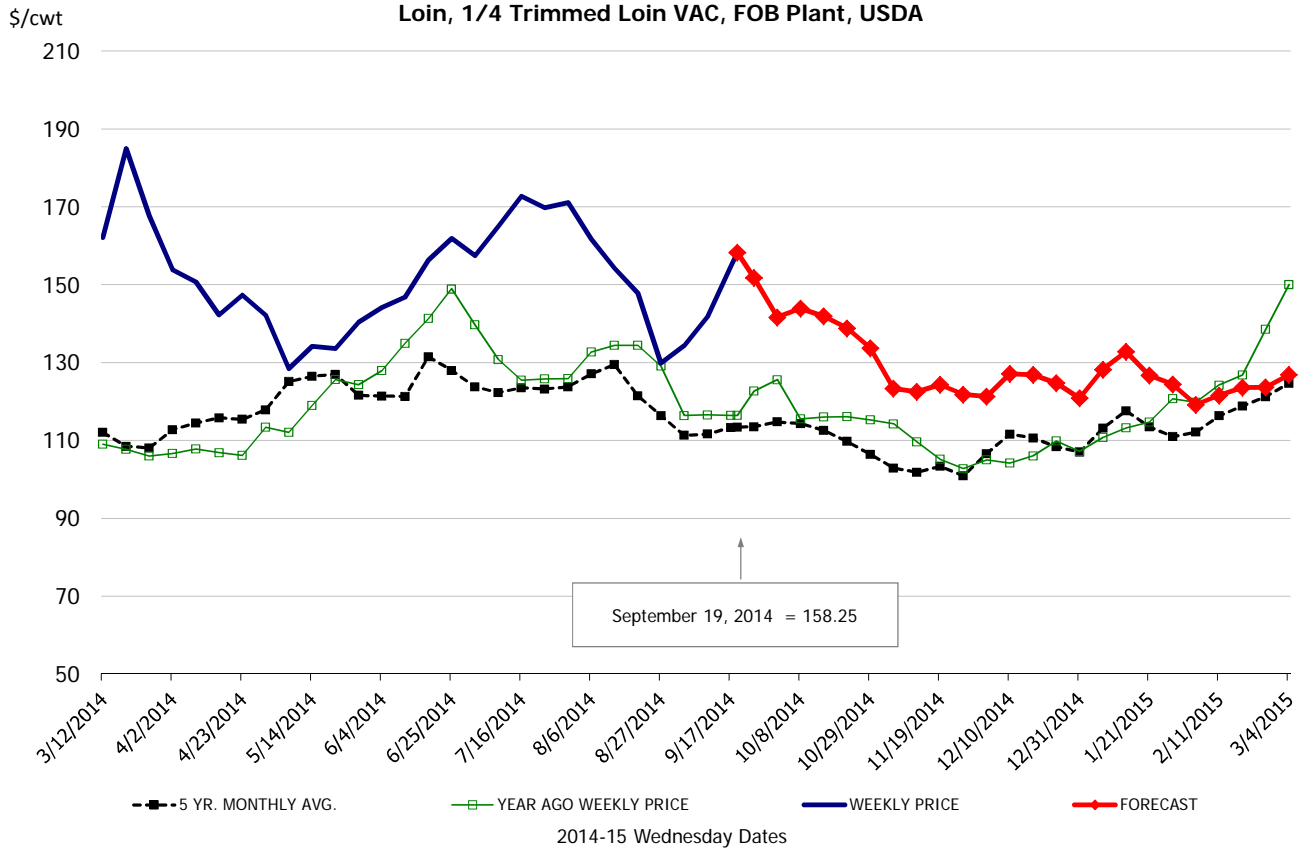
**90CL Bnls. Beef** prices finished the week at \$3.0132 (wt. avg.) up about one cent since Wed. September 10 and up 99 compared to the year ago

price quote. Ranchers are trying to hold more beef cows and lean beef supplies remain in limited supply

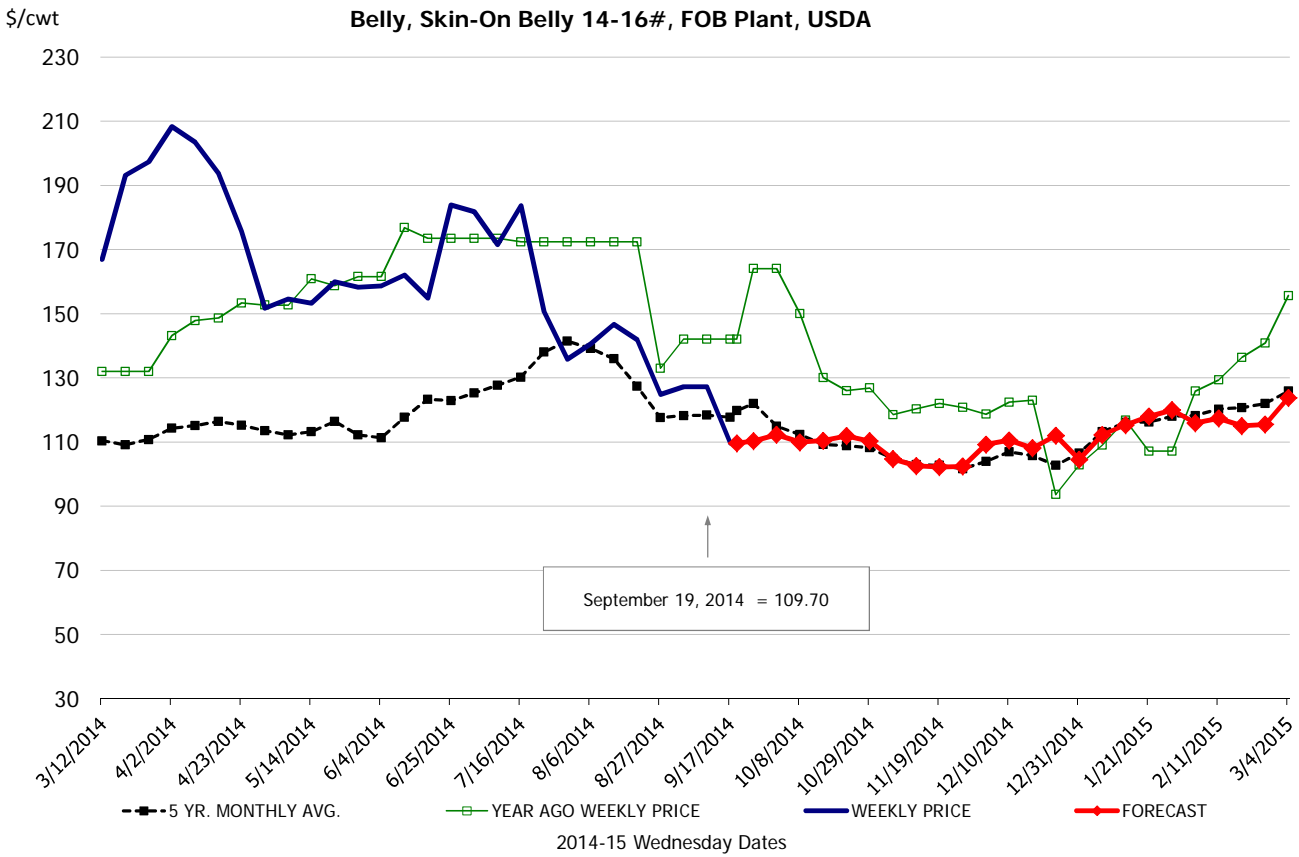
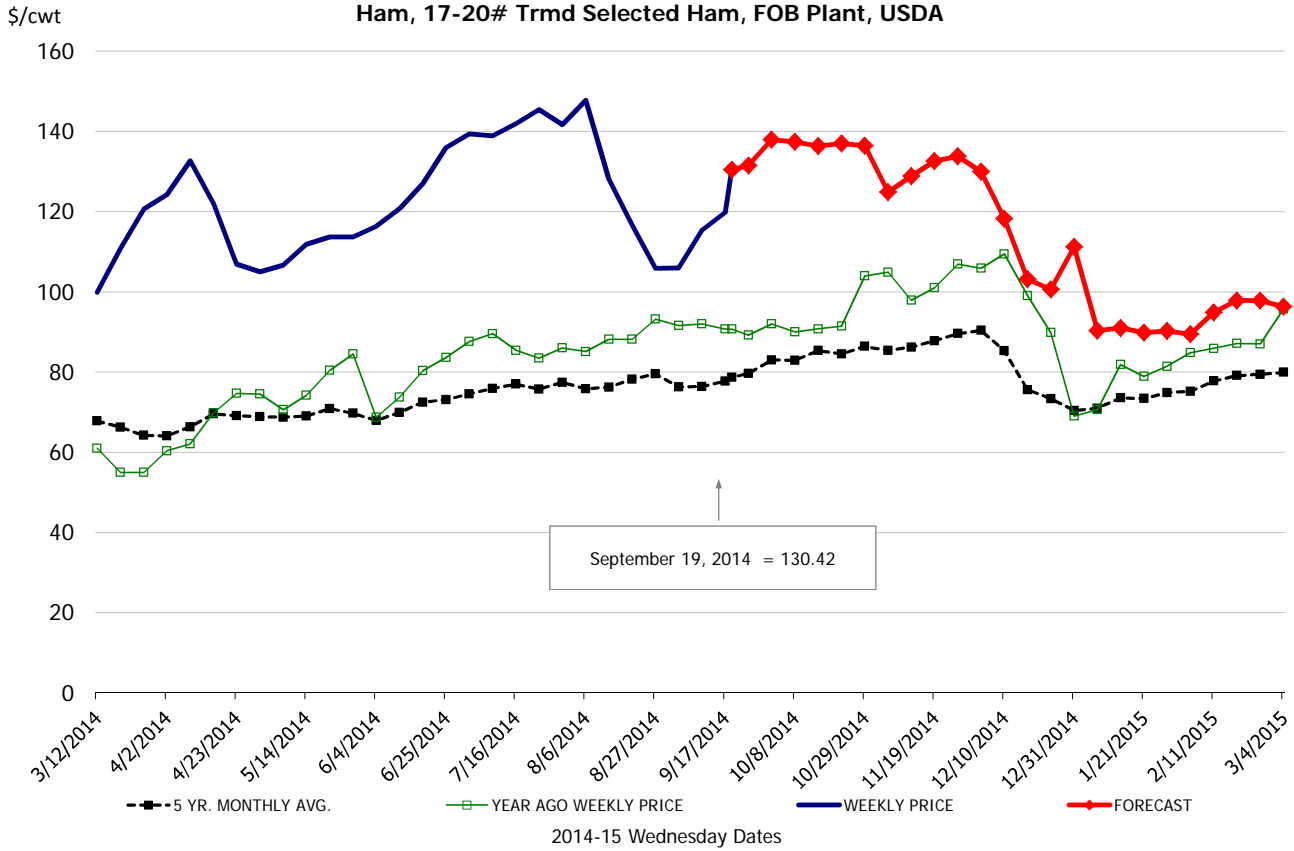
**50 CL Beef Trim** prices finished last week at \$1.1003, down about 7 cent since Wed. September 10 but up 17 compared to the year ago level.

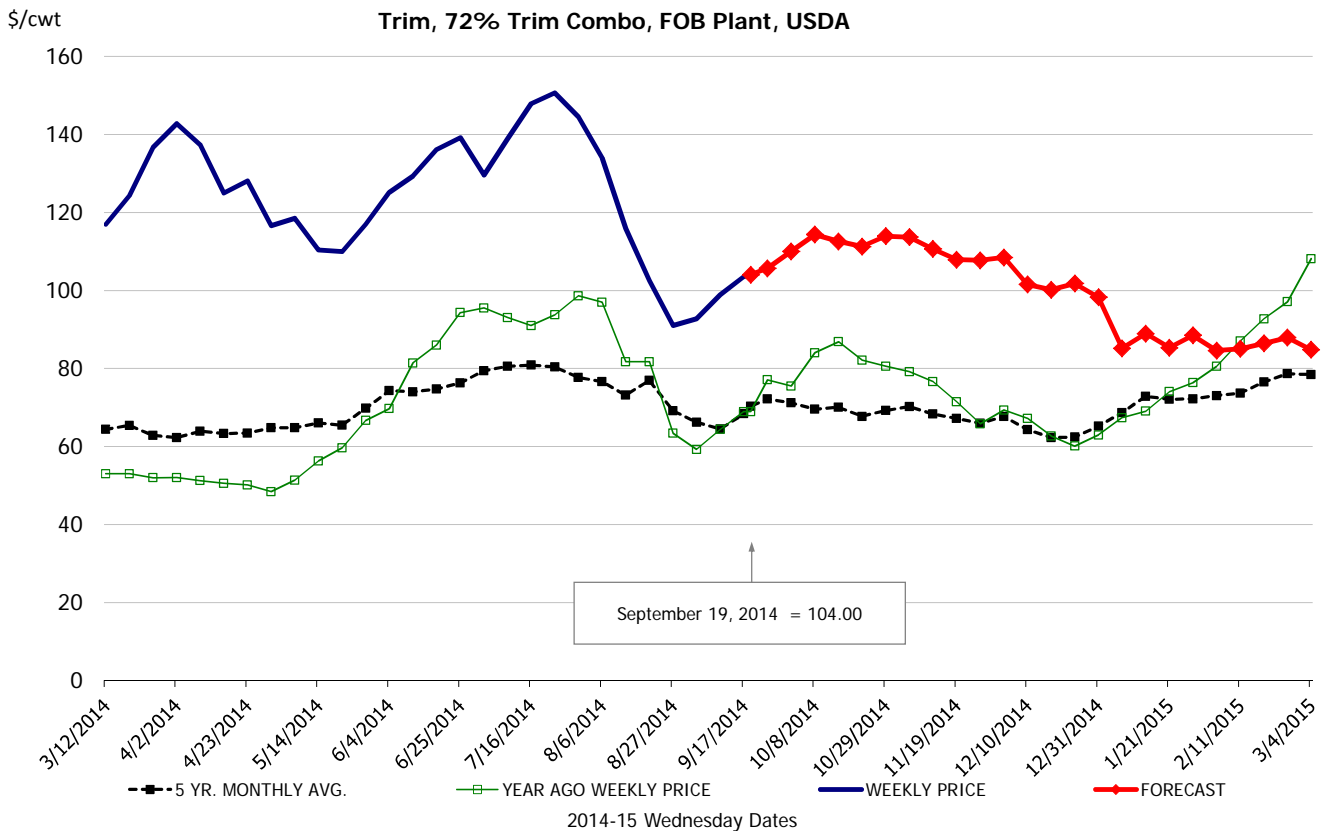
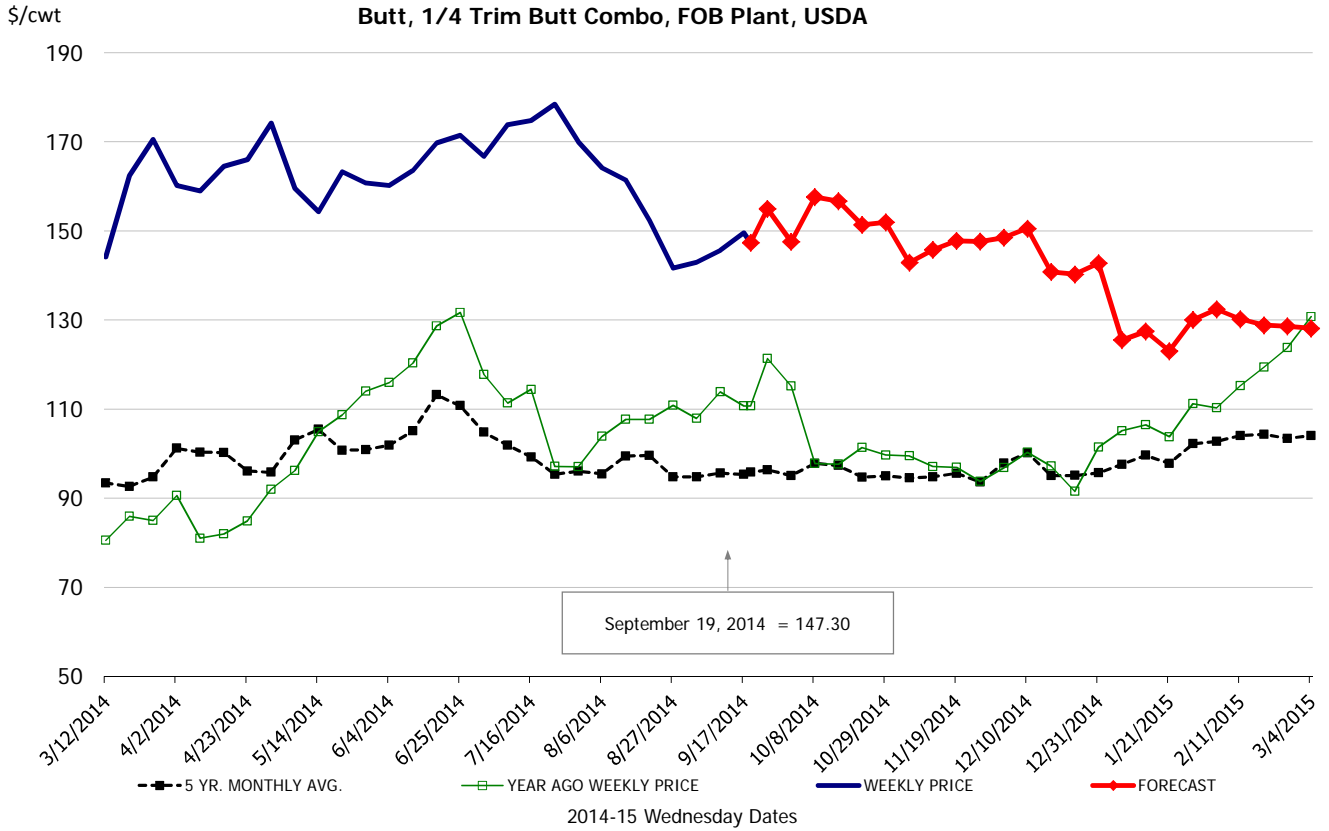
## Food Service Summary Table - WT. AVE

	2014 History								2014-15 FORECAST							
	Mar	Apr	May	Jun	Jul	Aug	9/10/2014	9/19/2014	10/1/2014	Sep	Oct	Nov	Dec	Jan	Feb	
<b><u>PORK</u></b>																
Loin, 1/4 Trimmed Loin VAC, FOB Plant, USDA	1.65	1.47	1.35	1.52	1.67	1.48	1.42	1.58	1.42	1.53	1.40	1.23	1.25	1.27	1.22	
Loin, 1/8 Trimmed Loin VAC, FOB Plant, USDA	1.73	1.58	1.45	1.60	1.79	1.57	1.50	1.69	1.51	1.62	1.49	1.30	1.37	1.38	1.31	
Loin, Bnls CC Strap-off, FOB Plant, USDA	2.35	2.12	1.91	1.97	2.15	1.91	1.94	2.29	2.06	2.18	2.07	1.78	1.95	1.91	1.73	
Loin, Tenderloin, FOB Plant, USDA	2.76	2.78	2.77	2.84	2.88	2.78	2.76	2.85	2.60	2.85	2.55	2.38	2.37	2.54	2.54	
Butt, 1/4 Trim Butt Combo, FOB Plant, USDA	1.61	1.60	1.60	1.68	1.72	1.58	1.46	1.47	1.48	1.59	1.53	1.46	1.45	1.26	1.30	
Sparerib, Trmd Sparerib - LGT, FOB Plant, USDA	1.82	1.76	1.70	1.73	1.88	1.73	1.55	1.54	1.50	1.55	1.59	1.57	1.56	1.60	1.58	
Sparerib, St Louis Spareribs, POLY, FZN, FOB Plant, USDA	2.45	2.54	2.59	2.55	2.63	2.54	2.29	2.46	2.17	2.30	2.30	2.26	2.25	2.25	2.23	
Sparerib, Trmd Sparerib - MED, FOB Plant, USDA	1.74	1.64	1.61	1.70	1.84	1.64	1.57	1.57	1.50	1.56	1.54	1.51	1.49	1.50	1.47	
Loin, Backribs 2.0#/up, FOB Plant, USDA	2.71	2.63	2.65	2.77	2.70	2.53	2.36	2.32	2.34	2.31	2.33	2.24	2.23	2.45	2.48	
Ham, 17-20# Trmd Selected Ham, FOB Plant, USDA	1.06	1.19	1.08	1.28	1.41	1.21	1.15	1.30	1.38	1.27	1.37	1.30	1.13	0.90	0.95	
Ham, 20-23# Trmd Selected Ham, FOB Plant, USDA	1.12	1.14	1.13	1.27	1.44	1.12	1.12	1.24	1.38	1.25	1.35	1.29	1.19	0.91	0.92	
Ham, 23-27# Trmd Selected Ham, FOB Plant, USDA	0.99	1.02	1.05	1.21	1.41	1.12	1.10	1.22	1.27	1.20	1.23	1.14	1.08	0.87	0.87	
Ham, 5 Muscle Ham to Blue, FOB Plant, USDA	1.49	1.48	1.48	1.73	2.07	2.33	2.33	2.33	1.92	1.78	1.90	1.76	1.67	1.39	1.38	
Belly, Skin-on Belly 14-16#, FOB Plant, USDA	1.77	1.85	1.54	1.66	1.61	1.27	1.27	1.10	1.12	1.10	1.11	1.03	1.10	1.15	1.16	
Belly, Derind Belly 9-13#, FOB Plant, USDA	2.15	2.08	1.76	1.96	1.92	1.47	1.23	1.26	1.39	1.28	1.35	1.30	1.38	1.44	1.46	
Belly, Derind Belly 13-17#, FOB Plant, USDA	2.14	1.94	1.69	1.91	1.93	1.41	1.24	1.25	1.33	1.23	1.30	1.26	1.34	1.42	1.44	
Trim, 42% Trim Combo, FOB Plant, USDA	0.71	0.71	0.66	0.68	0.69	0.58	0.58	0.59	0.56	0.58	0.50	0.41	0.36	0.42	0.38	
Trim, 72% Trim Combo, FOB Plant, USDA	1.23	1.30	1.14	1.32	1.40	1.10	0.99	1.04	1.10	1.05	1.15	1.10	1.03	0.86	0.86	
<b><u>HOG CARCASS</u></b>																
IA/MN, Base Market Hog 185 lb Carcass Basis, Plant Div.	1.17	1.19	1.10	1.18	1.27	1.17	1.03	1.06	1.09	1.06	1.04	0.94	0.93	0.91	0.89	
<b><u>BROILERS</u></b>																
BROILER, NATIONAL WHOLE BIRD PRICE, USDA	1.06	1.10	1.18	1.13	1.07	1.00	1.07	1.08	1.02	1.08	1.03	0.95	0.93	0.93	0.94	
N.E. BROILER BREAST BONELESS-SKINLESS, USDA	1.48	1.73	1.87	2.00	2.00	1.85	1.85	1.90	1.75	1.89	1.70	1.46	1.35	1.38	1.41	
N.E. BROILER BREAST LINE RUN, USDA	0.91	1.06	1.20	1.24	1.22	1.17	1.20	1.18	1.18	1.18	1.16	0.98	0.94	0.96	0.97	
N.E. BROILER LEG QUARTERS, USDA	0.44	0.48	0.50	0.50	0.52	0.50	0.47	0.47	0.48	0.47	0.47	0.47	0.46	0.46	0.46	
N.E. BROILER WINGS, USDA, WT.AVG.	1.38	1.42	1.38	1.45	1.45	1.43	1.59	1.72	1.77	1.72	1.80	1.77	1.82	1.84	1.88	
<b><u>TURKEYS</u></b>																
UB HEN TURKEYS, EAST, FROZEN 10-12LBS	1.06	1.08	1.09	1.11	1.11	1.14	1.16	1.17	1.17	1.17	1.18	1.19	1.05	0.99	0.99	
UB BONELESS-SKINLESS TURKEY BREAST, TOM, FRESH	2.42	3.26	3.57	3.71	4.01	4.05	4.05	4.05	3.93	4.05	3.94	3.75	3.50	3.05	2.78	
<b><u>LIVE STEERS</u></b>																
FIVE AREA DIRECT AVERAGE LIVE STEER, USDA	1.50	1.49	1.47	1.47	1.57	1.57	1.61	1.61	1.58	1.56	1.58	1.60	1.59	1.60	1.60	
<b><u>BEEF</u></b>																
CHOICE, 112A, 3 RIBEYE, BONELESS, HEAVY, USDA	6.32	6.68	7.24	7.94	7.34	7.03	7.12	6.95	7.53	7.19	7.80	8.38	7.61	6.92	7.05	
CHOICE, 168, 3 TOP INSIDE ROUND, 1/4" MAX, USDA	3.04	2.68	2.33	2.33	2.89	3.13	2.97	2.92	2.95	2.93	2.94	2.89	2.97	3.16	2.98	
CHOICE, 170, 1 BOTTOM GOOSENECK ROUND, USDA	2.51	2.18	2.14	2.25	2.57	2.61	2.68	2.86	2.75	2.78	2.79	2.72	2.68	2.90	2.85	
CHOICE, 180, 3 STRIP LOIN, BONELESS, 0x1, USDA	6.76	6.30	6.02	6.44	6.66	6.40	5.66	5.10	5.50	5.40	5.37	5.33	5.27	6.00	6.11	
CHOICE, 184, 3 TOP BUTT, BONELESS, USDA	3.50	3.51	3.82	4.05	4.05	3.53	3.44	3.44	3.45	3.49	3.37	3.37	3.45	3.80	3.91	
CHOICE, 185A, 4 BOTTOM SIRLOIN, FLAP, USDA	4.72	5.04	5.15	5.21	4.82	4.82	4.69	4.38	4.15	4.40	4.15	4.07	4.11	4.40	4.60	
COARSE GROUND 73%, USDA	2.24	1.89	1.98	1.98	2.36	2.40	2.51	2.36	2.27	2.36	2.33	2.41	2.48	2.85	2.68	
COARSE GROUND 81%, USDA	2.51	2.03	2.07	2.11	2.56	2.64	2.66	2.30	2.47	2.37	2.50	2.59	2.65	3.12	2.92	
90% BONELESS BEEF, CENTRAL, FRESH, USDA	2.61	2.49	2.43	2.52	2.87	2.97	3.00	3.01	2.93	3.00	2.93	2.95	3.09	3.16	3.26	
50CL BEEF TRIM, FRESH, NATIONAL, USDA	1.47	1.22	1.26	1.27	1.36	1.41	1.17	1.10	1.16	1.24	1.29	1.49	1.41	1.42	1.38	

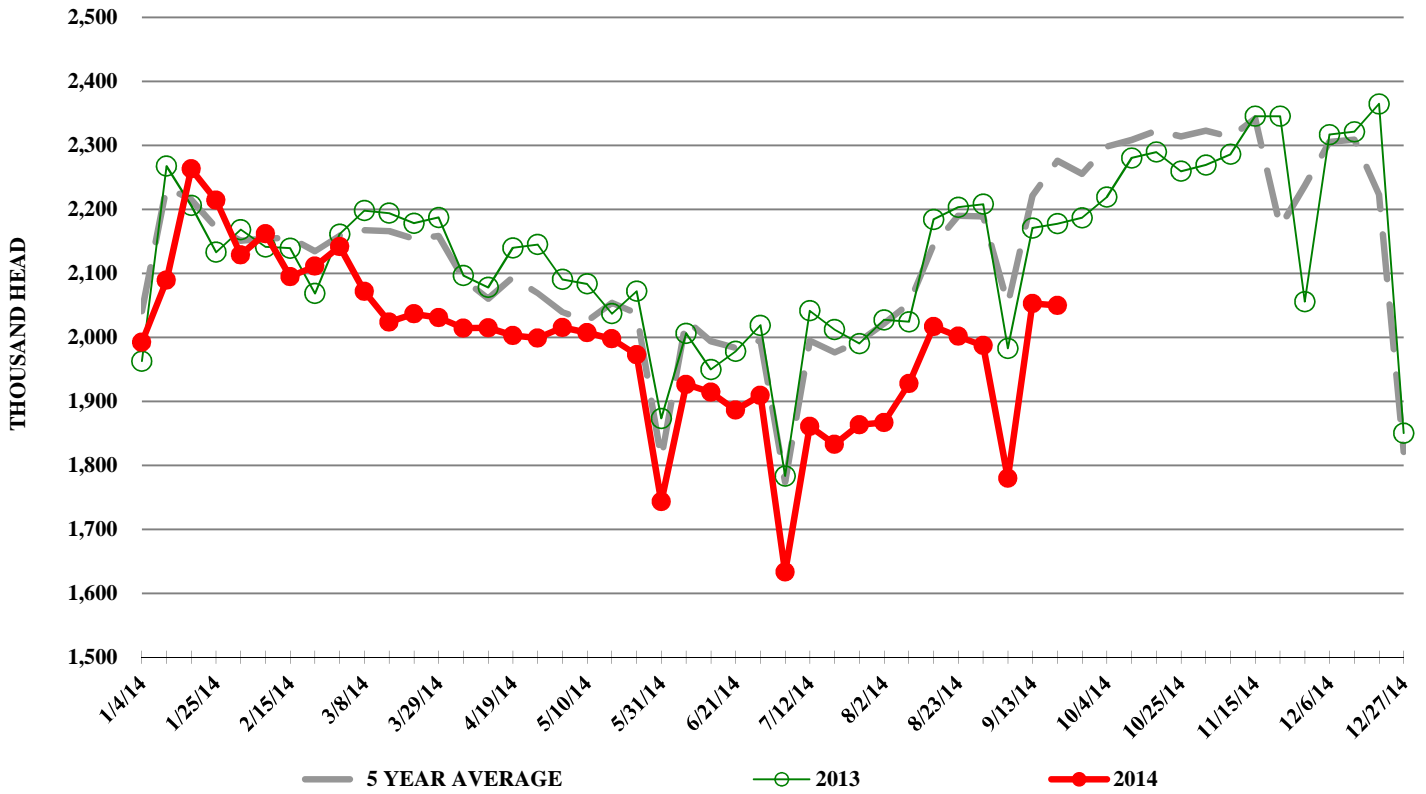








## ESTIMATED WEEKLY FI HOG SLAUGHTER



## ESTIMATED WEEKLY FI PORK PRODUCTION

