



Pork Merchandiser's Profit Maximizer

Be inspiredSM

- Foodservice Edition

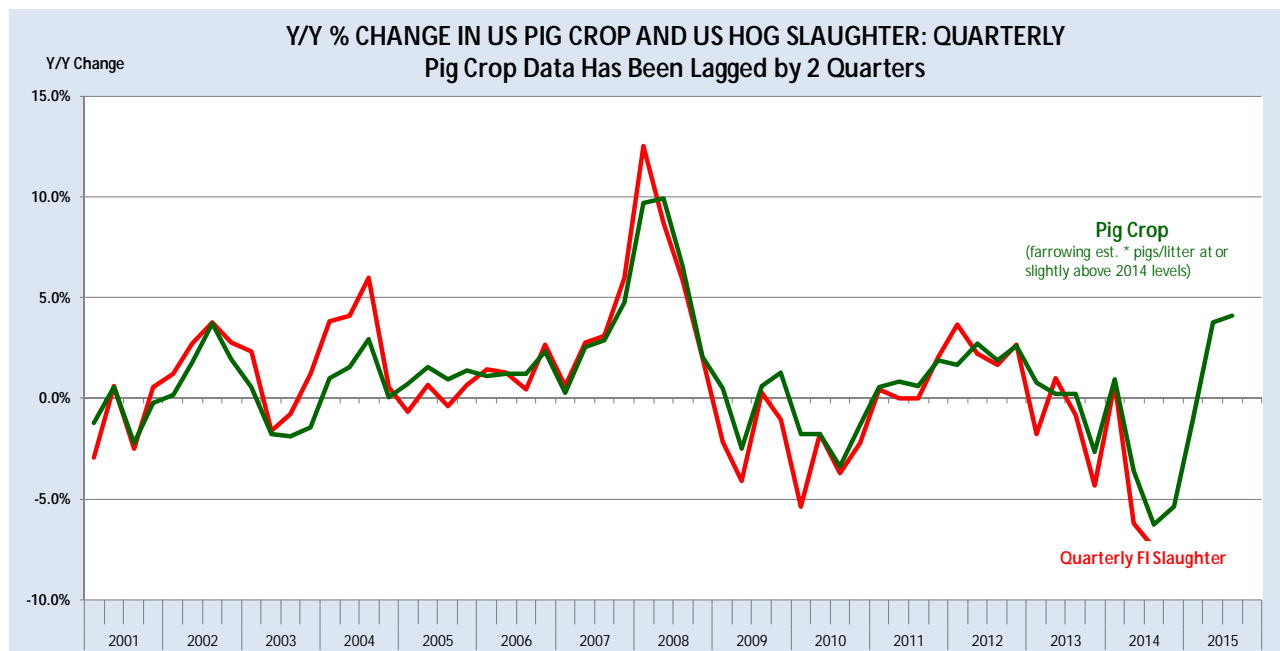
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Prepared by Steiner and Company, Manchester, NH 800-526-4612.

October 6, 2014

1. More hogs are on the way but don't expect a market crash anytime soon

On Friday, September 26, 2014 USDA issued the results of its quarterly survey of US Hogs and Pigs operations. The survey measures inventory levels as of September 1 as well as producer expectations of hog supplies in the next two quarters. USDA also revised some of its earlier estimates so that they match the slaughter

data for the Jun-Aug quarter. After a brief decline, hog futures markets recovered and seemed to shrug off the clearly bearish implications of this report. What explains the market's response? First, futures had declined in the previous two sessions ahead of the report and one could argue some of the bearishness already was factored in the futures prices. April 2015 hog futures currently are priced at \$91.3/cwt compared to near \$98/cwt in early June and some 23% below April 2014 levels. Market participants



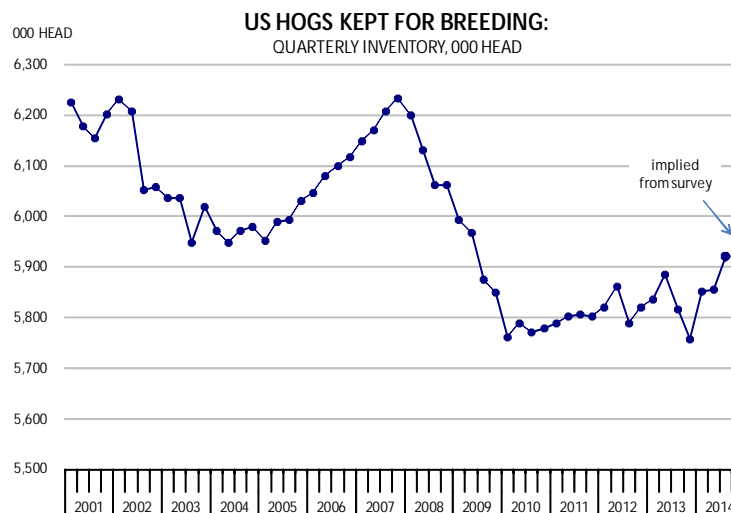
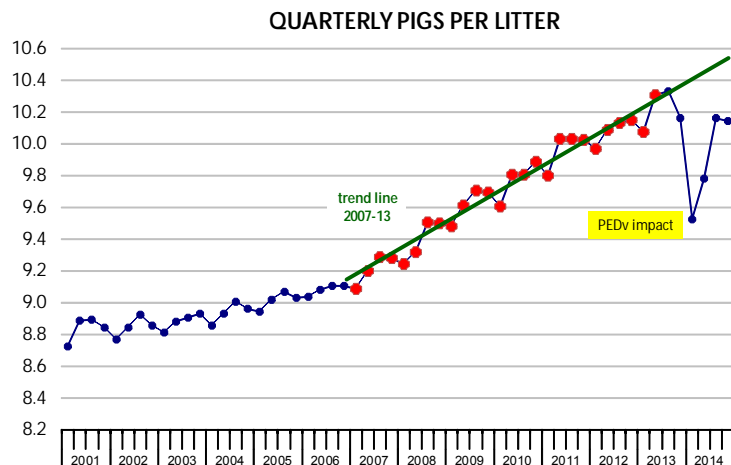
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recognize that pork prices next year are set to decline compared with the PEDv shortened supply situation this year. Pricing a 23% decline in prices while supplies are expected to be down at most 2-3% next spring appears to be bearish enough at this point. In addition, the rally in the cattle market in the past two weeks certainly has provided support to the hog market as well. Recently we have noted a sharp increase in pork retail cuts and market participants recognize that record high beef prices will remain supportive of pork retail demand in 2015. Below are some of the highlights from the latest hogs and pigs report and implications for pork supplies in 2015:

Highlights: All line items in the report came in above pre-report estimates and the report continued to imply lower pork prices are in order for the spring and summer of 2015. One of the key numbers we were watching coming into the report was the breeding herd. The **USDA survey pegged the breeding herd at 5.920 million head, 1.8% higher than a year ago and above the average of analysts' estimates**, which was looking for a 1.4% increase. This is the largest breeding herd inventory since June 2008 and some 163,000 head larger than the breeding herd last December. The increase in the breeding herd implies significant gilt retention during the Jun-Aug period as producers responded to the drop in grain prices and all time record profits. The increase in the breeding herd is also significant given that the pig crop in the previous quarter was down significantly. There appeared to plenty of pent up demand to increase breeding numbers and with improving weather, producers appeared to do just that. Furthermore, looking at the farrowing intentions for Dec-Feb, we can infer that the December 1 breeding herd could increase by more than 3% compared to the previous year. At this point, producers are responding to the record profits and strong demand in product markets. The big wild card going forward will be the status of PEDv and what kind of impact it will have on the number of pigs saved per litter. As producers learn to deal with PEDv infections, we could quickly

start to see improvements in the number of pigs saved per litter but it will still take time to return to the growth trends prior to the summer of 2013.

USDA pegged the pig crop for Jun-Aug at 29.539 million head, 1.1% lower than a year ago compared to pre-report analyst estimates looking for a 2.4% reduction. While hog slaughter should continue to track below year ago levels into year end, the pig crop numbers suggest that slaughter may not decline as much as earlier expected. Two of the more bearish numbers in the report were farrowing intentions for Sep-Nov and Dec-Feb, which were respectively 4% and 3.8% larger than a year ago. The increase in farrowing numbers and an expected improvement in the number of pigs saved per litter (assuming PEDv will be less of an issue this coming year) implies a significant increase in the number of pigs coming to market during the spring and



summer of 2015. The chart on page 1 shows the relationship of quarterly slaughter and the pig crop. Keep in mind that the reason why the slaughter and pig crop follow each other so closely is because USDA goes back and revises the pig crop number to match slaughter. The larger point, however, is that if the survey numbers are correct we should expect slaughter in Q2, Q3 and Q4 of next year to be up somewhere between 3.2 and 3.9% higher than in 2014. Hog weights are expected to be about steady with 2014 levels, which implies a similar rate of increase in overall pork production.

The farrowing intentions for Dec-Feb would imply a breeding herd of around 5.94 million head as of December 1, 3.1% larger than the previous year. However, given the pace of gilt retention in Jun-Aug and strong profit outlook, we could see breeding herd growth being even higher, which would further bolster farrowings in the winter months.

Bottom line: Hog producers are responding to market signals and the drop in feed costs. Pork supplies should increase in 2015 but keep in mind that they will only be modestly higher than the supply levels we saw in 2013. While we expect prices to decline from the inflated levels of 2014, demand remains a key driver for meat protein prices and could offset some of the bearishness contained in this latest USDA report.

2. August export numbers continue to point to slowdown as record high prices and a strong US dollar take their toll

Pork: Exports of fresh/frozen and processed pork in August were 119,726 MT, 11.6% lower than a year ago. The decline in exports would have been larger if not for about 5400 MT shipped to Russia prior to the ban on US products. Exports to China/Hong Kong have declined sharply as buyers reacted to the spike in pork prices in July. Pork prices in Asia have declined and the expectation there is that US pork prices are due to be lower in Q4, hence exporters are willing to sit on the sidelines in the short term. Seasonally pork exports are lower in

the summer due to reduced supply availability and this year the decline has been much more pronounced due to the PEDv induced shortages. Exports to Japan in August were 26,726 MT, down 20% from a year ago while exports to a number of smaller markets also declined 33%. But there were some positive signs in the August data as well. Despite the record high prices, Mexican and South American buyers continued to buy US pork. Part of this may be due to a substitution effect, faced with a spike in beef and pork prices, they have opted to buy pork that has a lower price point. Pork exports to Mexico in August were 41,660 MT, 14% higher than a year ago. Exports to Colombia also rose 59% compared to a year ago.

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

<p><u>NOTE: WE ARE NOW REPORTING AND FORECASTING MANDATORY PLANT WEIGHTED AVERAGE BLUE SHEET PRICES FOR PORK CUTS.</u></p>

Live hogs. For the week ending October 4 slaughter was 2.090 million head, down 5.8% from a year ago. In the last two weeks hog slaughter is down 5.0% vs. year ago levels.

Iowa/Minnesota, Base Lean Market Hog 185 lbs. Carcass Values. Lean hog carcass values at about 108.71 /cwt. on Friday were up about \$one/cwt since Wed. September 24. Prices are up about \$19 /cwt compared to year ago values.

Loin, 1/4 Trimmed Loin VAC, FOB Plant, USDA (page 8). Prices finished last week at \$1.7122, up about 4 cent since the Wed. September 24 quote and up about 46 cents from year ago levels.

Bnls. Strap on Pork Loins. Prices finished the week at \$2.5350 for the strap on loins, up about 15 cents since Wed. September 24 and up about 71 cents from the year ago levels. Strap off loins at \$2.5832 are up about 3.6 cent since Wed. September 24 and up about 59 cents compared to the year ago quote.

Boneless sirloins at \$1.7021 are down about 9 cents from the Wed. September 24 quote but up about 41 cents from the year ago price.

Pork tenderloin finished last week at \$3.0207, up about 8 cents since the Wed. September 24 quote and up about 66 cents from the year ago price.

5/10 Pork Butts (page 10), prices finished the week at \$1.5714, down about 6 cents since Wed. September 24.

Spare Ribs, Trimmed - LGT, Vac (page 8). Prices finished the week at \$1.5986, up about 2 cent since Wed. September 24 and up about 10 cents from year ago levels.

Rib inventories on August 31 were 50.0 million pounds, down 3.5% percent from a year ago.

Bone-in Hams.

17/20 hams (page 9) price was \$1.4361/lb., up 6.7 cents compared to prices on Wed. September 24 and up about 52 cents from a year ago.

20/23 hams finished the week at 136.08 cents, up about 9 cents since Wed. September 24 and up about 45 cents from the year ago level.

23/27 hams finished the week at 136.28 , up about 8 cents from the Wed. September 24 quote and up about 48 cents from the year ago level.

Total ham cold storage stocks on August 31 at 179.4 million pounds were down about 13.4% from year ago levels.

42 CL Pork Trim “FOB Basis”. Prices finished the week at 60.73 , up about 7.0 cent since Wed. September 24 and up about 4 cents from the year ago price.

72 CL Pork Trim “FOB Basis”. Prices finished the week at 110.72 cents, up about 9 cents since the Wed. September 24 quote and up about 35 cents from the year ago level.

Freezer stocks of all trimmings on August 31 were 40.2 million pounds, up about 9.6% 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 108.33 on Friday October 4, up about 16 cents from a year ago.

Broiler slaughter for the week ending October 4 was 160.62 million head, up 1.76% from a year ago. For the last two weeks slaughter was up 1.1% vs. a year ago.

Breasts. Prices on boneless skinless breasts finished the week at \$1.9182, down 2 cents since Wed. September 24 but also up about 49 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 0.7 cents vs. year ago price at 46.50 . Prices trend modestly higher the next few months. However, Mexico could be a significant issue any time.

Wings. Prices at \$1.8303 are up about 24 cents from year ago levels.

Turkeys

Hens finished last week at \$1.1900, unchanged since Wed. September 24 and up about 12 cents from the year ago price.

Toms finished last week at \$1.1900, unchanged since Wed. September 24 and up about 12 cent from the year ago price.

Total turkey supplies in the freezer on August 31 were down about 15.0% percent from a year ago at 492.8 million pounds. Whole birds were down 10.4% percent from year ago with an inventory of 300.6 million pounds.

Turkey slaughter was 4.6160 million head for the week ending September 27, up 18.66% from a year ago. For the last two weeks slaughter has been up 13.1%.

Boneless Turkey Breast Meat. Boneless skinless turkey breast meat prices finished last week at \$4.0500, unchanged since Wed. September 24. Prices are up about 44 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 \$6.8435 (weighted average quote) finished last week up about 9 cents since the Wed. September

24 quote and up about 22 cents vs. the year ago price.

Select 112A Heavy Lip On Rib Eyes at \$5.4525 (weighted average quote) finished last week down about 3 cents since the Wed. September 24 quote but up about 22 cents vs. the year ago price.

Currently Choice 112A Rib Eyes are \$1.3910 /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 \$2.8067 up about 4 cents since Wed. September 24 and up about 74 cents from the year ago price.

Choice ¼ inch trimmed #168 insides finished last week quoted at \$2.8325 up about 10 cents since Wed. September 24 and up about 65 cents from year ago levels.

Choice #170 Gooseneck Rounds finished last week at \$2.7952 up about 12 cents since Wed. September 24 and up about 68 cents from the year ago levels.

Choice #180 (0x1) Bnls. Strip Loins finished last week quoted at \$4.9856 (wt. avg.) up about 7 cents from the Wed. September 24 quote. Prices are about 2 cents over year ago levels.

Choice #184 Regular Heavy top butts finished at \$3.1092 (wt. avg.) up about 14 cents since Wed. September 24 and up about 21 cents from year ago levels.

Choice #184 ¼ inch trimmed Top Butts finished at \$3.2386 (wt. avg.) up about 11 cents since Wed. September 24 and up about 11 cents from the year ago levels.

Choice #185A Flap Meat prices finished Friday at \$4.2780 (wt. avg.) down about 4 cents

since Wed. September 24 but up about 50 cents from year ago values.

COARSE GROUND BEEF –

73CL Coarse Ground product finished last week at \$2.2863 down about 3 cents since Wed. September 24 but up about 78 cents from year ago levels.

81CL Coarse Ground product finished last week at \$2.4822 up about one cent since Wed. September 24 and up about 74 cents from the year ago quote.

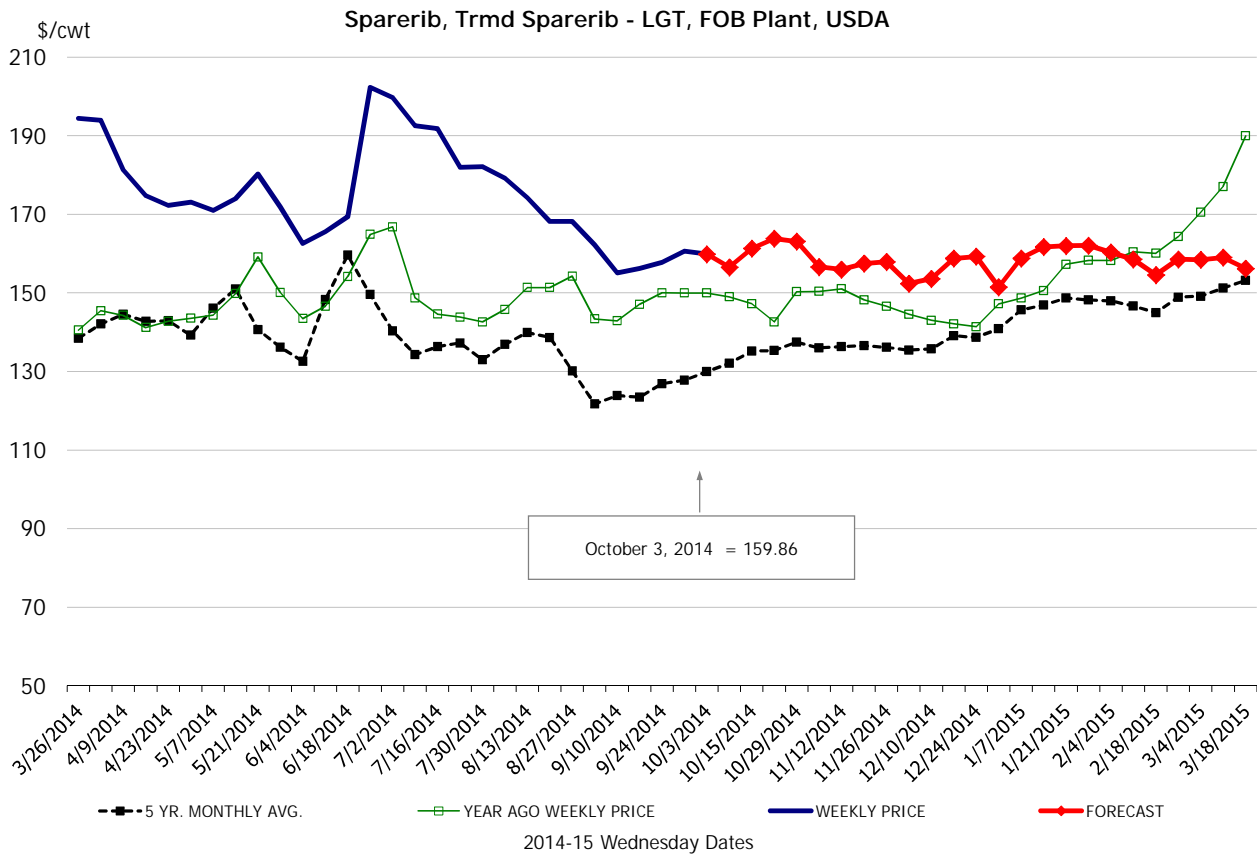
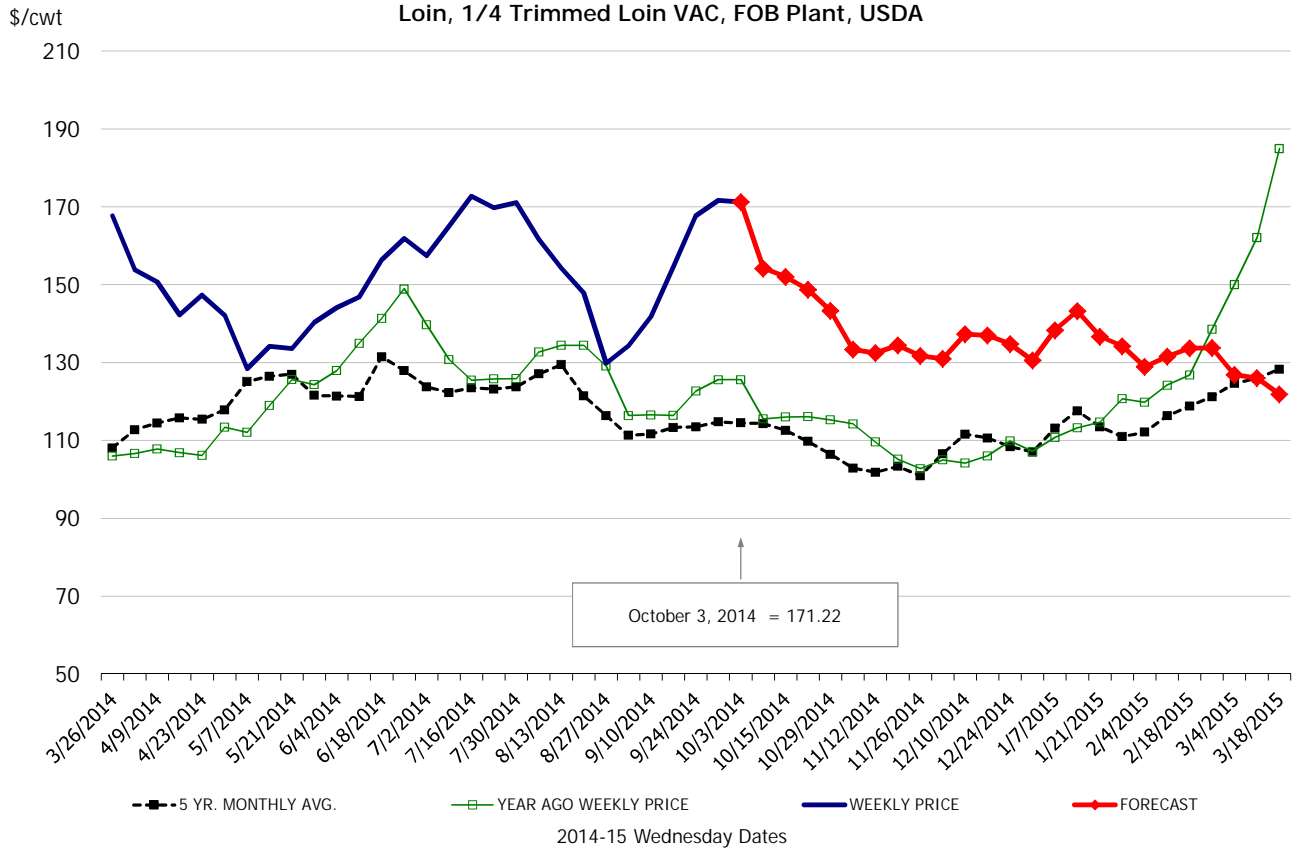
90CL Bnls. Beef prices finished the week at \$2.9415 (wt. avg.) down about one cent since Wed. September 24 but up 97 compared to the year ago price quote. Ranchers are trying to hold more beef cows and lean beef supplies remain in limited supply

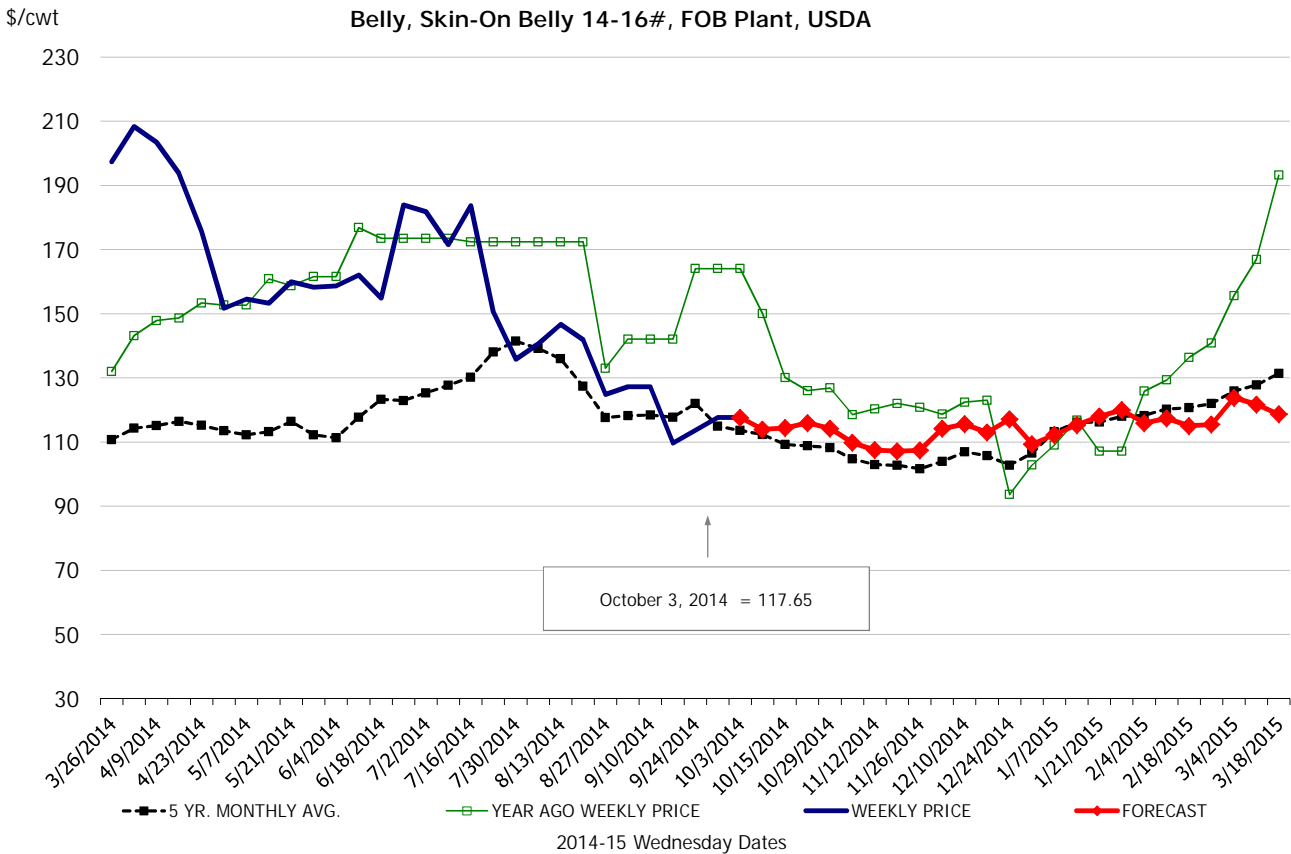
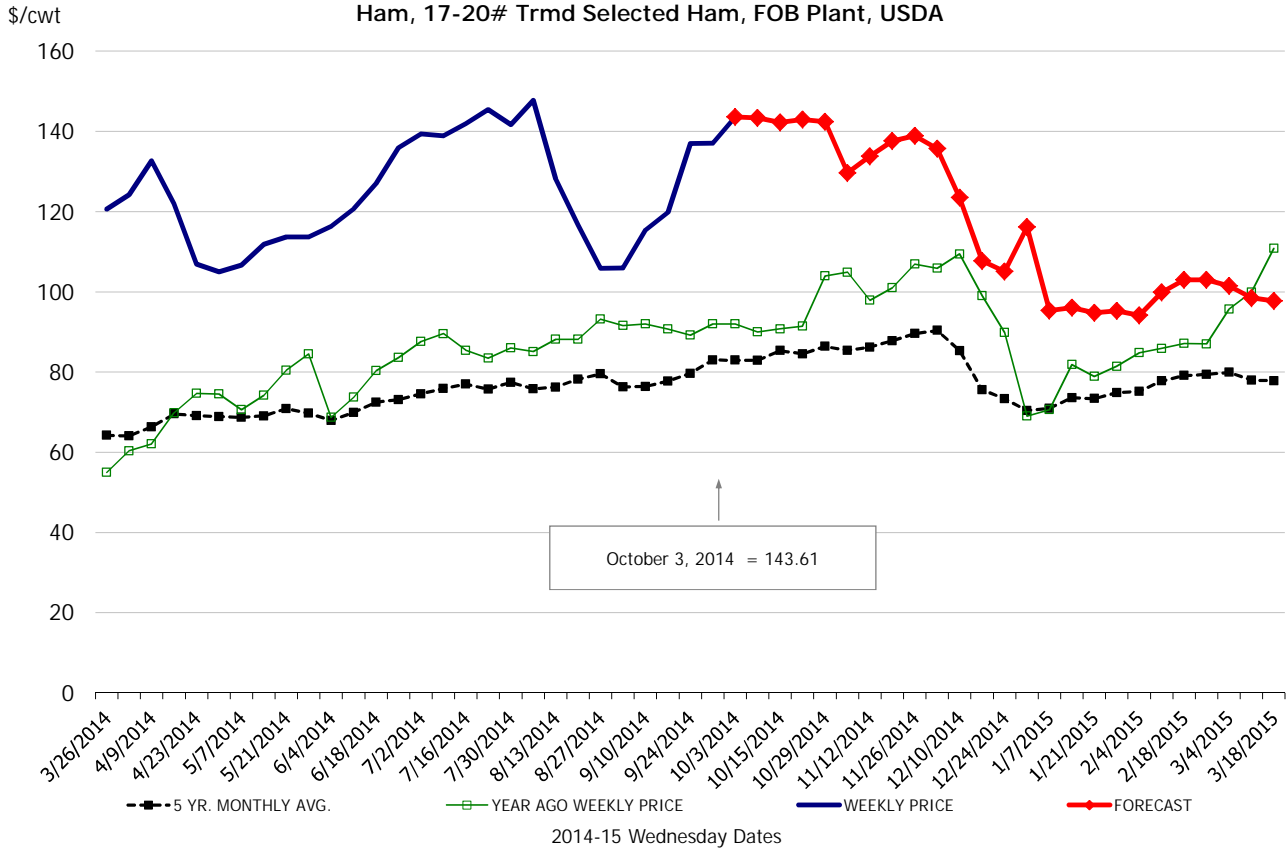
50 CL Beef Trim prices finished last week at \$1.0431, down about 3 cent since Wed. September 24 but up 14 compared to the year ago level.

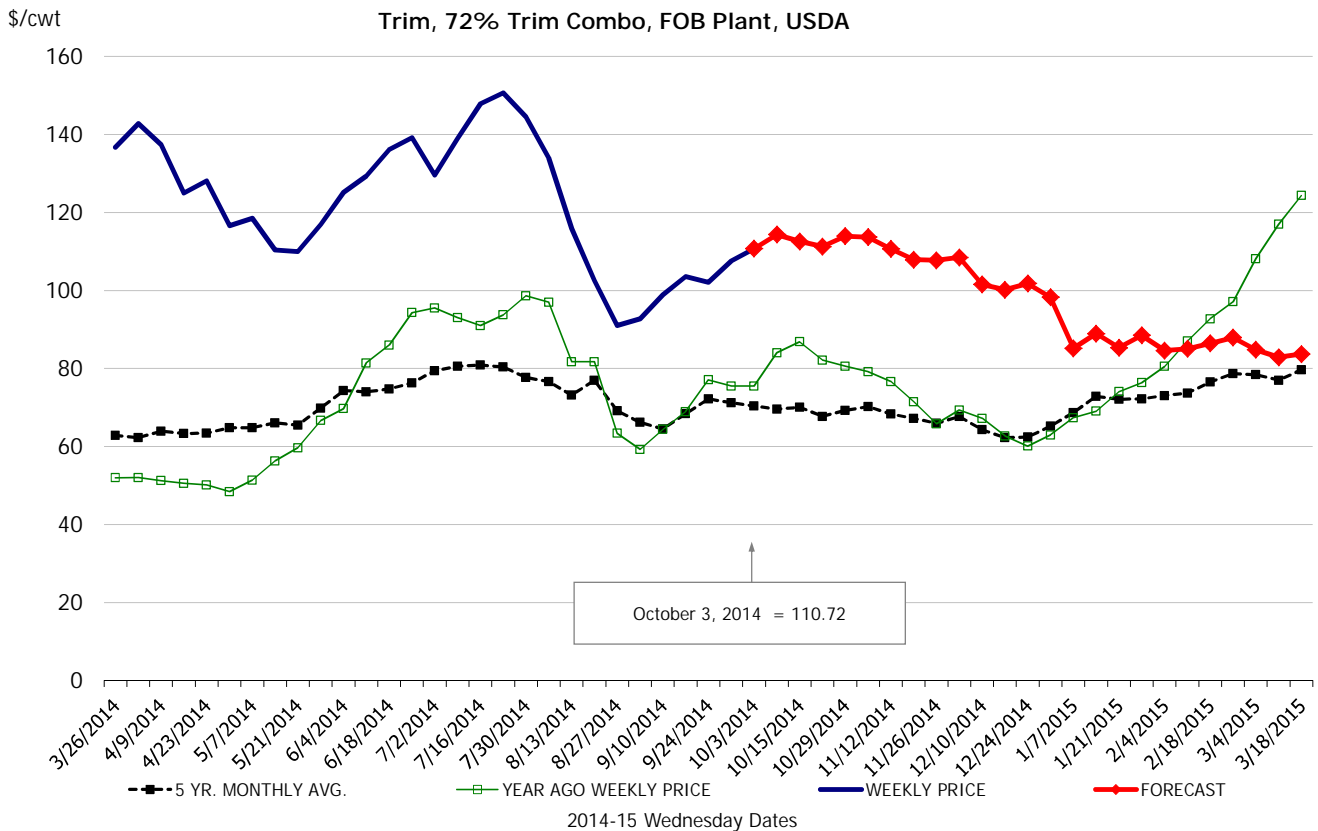
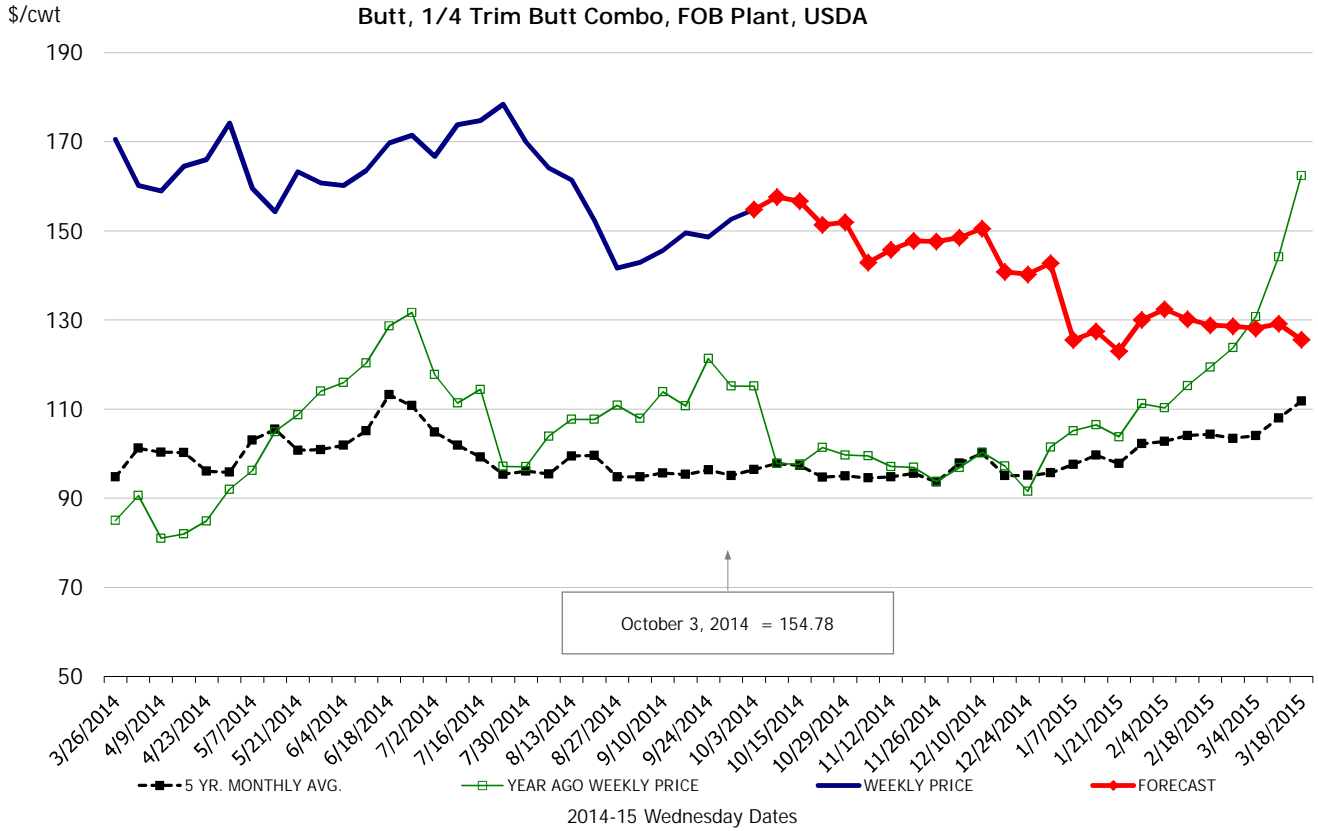
Food Service Summary Table - WT. AVE

	2014 History								2014-15 FORECAST						
	Apr	May	Jun	Jul	Aug	Sep	9/24/2014	10/3/2014	10/15/2014	Oct	Nov	Dec	Jan	Feb	Mar
<u>PORK</u>															
Loin, 1/4 Trimmed Loin VAC, FOB Plant, USDA	1.47	1.35	1.52	1.67	1.48	1.53	1.68	1.71	1.52	1.50	1.33	1.35	1.37	1.32	1.24
Loin, 1/8 Trimmed Loin VAC, FOB Plant, USDA	1.58	1.45	1.60	1.79	1.57	1.58	1.76	1.82	1.61	1.59	1.40	1.47	1.48	1.41	1.35
Loin, Bnls CC Strap-off, FOB Plant, USDA	2.12	1.91	1.97	2.15	1.91	2.13	2.55	2.58	2.31	2.27	1.98	2.15	2.11	1.93	1.76
Loin, Tenderloin, FOB Plant, USDA	2.78	2.77	2.84	2.88	2.78	2.78	2.94	3.02	2.82	2.75	2.58	2.57	2.74	2.74	2.56
Butt, 1/4 Trim Butt Combo, FOB Plant, USDA	1.60	1.60	1.68	1.72	1.58	1.44	1.49	1.55	1.57	1.53	1.46	1.45	1.26	1.30	1.28
Sparerib, Trmd Sparerib - LGT, FOB Plant, USDA	1.76	1.70	1.73	1.88	1.73	1.57	1.58	1.60	1.61	1.59	1.57	1.56	1.60	1.58	1.58
Sparerib, St Louis Spareribs, POLY, FZN, FOB Plant, USDA	2.54	2.59	2.55	2.63	2.54	2.40	2.23	2.51	2.33	2.30	2.26	2.25	2.25	2.23	2.25
Sparerib, Trmd Sparerib - MED, FOB Plant, USDA	1.64	1.61	1.70	1.84	1.64	1.56	1.60	1.60	1.56	1.54	1.51	1.49	1.50	1.47	1.49
Loin, Backribs 2.0#/up, FOB Plant, USDA	2.63	2.65	2.77	2.70	2.53	2.35	2.31	2.37	2.37	2.34	2.33	2.45	2.48	2.54	
Ham, 17-20# Trmd Selected Ham, FOB Plant, USDA	1.19	1.08	1.28	1.41	1.21	1.24	1.37	1.44	1.42	1.43	1.35	1.18	0.95	1.00	0.98
Ham, 20-23# Trmd Selected Ham, FOB Plant, USDA	1.14	1.13	1.27	1.44	1.12	1.18	1.27	1.36	1.34	1.35	1.34	1.24	0.96	0.97	0.95
Ham, 23-27# Trmd Selected Ham, FOB Plant, USDA	1.02	1.05	1.21	1.41	1.12	1.14	1.28	1.36	1.28	1.33	1.24	1.18	0.97	0.97	0.96
Ham, 5 Muscle Ham to Blue, FOB Plant, USDA	1.48	1.48	1.73	2.07	2.33	2.16	2.16	2.16	1.92	2.00	1.86	1.76	1.49	1.48	1.38
Belly, Skin-on Belly 14-16#, FOB Plant, USDA	1.85	1.54	1.66	1.61	1.27	1.13	1.14	1.18	1.14	1.15	1.08	1.15	1.15	1.16	1.21
Belly, Derind Belly 9-13#, FOB Plant, USDA	2.08	1.76	1.96	1.92	1.47	1.27	1.29	1.47	1.38	1.40	1.35	1.43	1.44	1.46	1.52
Belly, Derind Belly 13-17#, FOB Plant, USDA	1.94	1.69	1.91	1.93	1.41	1.26	1.25	1.42	1.33	1.35	1.31	1.39	1.42	1.44	1.50
Trim, 42% Trim Combo, FOB Plant, USDA	0.71	0.66	0.68	0.69	0.58	0.56	0.54	0.61	0.53	0.55	0.46	0.36	0.42	0.38	0.40
Trim, 72% Trim Combo, FOB Plant, USDA	1.30	1.14	1.32	1.40	1.10	1.00	1.02	1.11	1.13	1.15	1.10	1.03	0.86	0.86	0.83
<u>HOG CARCASS</u>															
IA/MN, Base Market Hog 185 lb Carcass Basis, Plant Div.	1.19	1.10	1.18	1.27	1.04	1.03	1.08	1.09	1.05	1.06	0.96	0.95	0.93	0.91	0.90
<u>BROILERS</u>															
BROILER, NATIONAL WHOLE BIRD PRICE, USDA	1.10	1.18	1.13	1.07	1.00	1.07	1.09	1.08	1.06	1.06	1.02	1.00	0.98	0.95	0.97
N.E. BROILER BREAST BONELESS-SKINLESS, USDA	1.73	1.87	2.00	2.00	1.85	1.88	1.94	1.92	1.79	1.80	1.52	1.40	1.40	1.43	1.51
N.E. BROILER BREAST LINE RUN, USDA	1.06	1.20	1.24	1.22	1.17	1.19	1.19	1.19	1.19	1.19	1.02	0.98	0.98	0.99	1.02
N.E. BROILER LEG QUARTERS, USDA	0.48	0.50	0.50	0.52	0.50	0.47	0.47	0.47	0.48	0.47	0.47	0.46	0.46	0.46	0.47
N.E. BROILER WINGS, USDA, WT.AVG.	1.42	1.38	1.45	1.45	1.43	1.66	1.76	1.83	1.85	1.83	1.80	1.85	1.87	1.92	1.76
<u>TURKEYS</u>															
UB HEN TURKEYS, EAST, FROZEN 10-12LBS	1.08	1.09	1.11	1.11	1.14	1.17	1.18	1.19	1.19	1.19	1.20	1.05	0.99	0.99	1.00
UB BONELESS-SKINLESS TURKEY BREAST, TOM, FRESH	3.26	3.57	3.71	4.01	4.05	4.05	4.05	4.05	4.00	4.00	3.85	3.60	3.05	2.78	2.73
<u>LIVE STEERS</u>															
FIVE AREA DIRECT AVERAGE LIVE STEER, USDA	1.49	1.47	1.47	1.57	1.57	1.58	1.57	1.57	1.59	1.60	1.64	1.63	1.64	1.64	1.65
<u>BEEF</u>															
CHOICE, 112A, 3 RIBEYE, BONELESS, HEAVY, USDA	6.68	7.24	7.94	7.34	7.03	6.96	6.76	6.84	7.83	7.80	8.58	7.79	6.92	7.05	7.47
CHOICE, 168, 3 TOP INSIDE ROUND, 1/4" MAX, USDA	2.68	2.33	2.33	2.89	3.13	2.83	2.73	2.83	2.96	2.94	2.89	2.97	3.16	2.98	3.03
CHOICE, 170, 1 BOTTOM GOOSENECK ROUND, USDA	2.18	2.14	2.25	2.57	2.61	2.66	2.68	2.80	2.79	2.79	2.72	2.68	2.90	2.85	2.72
CHOICE, 180, 3 STRIP LOIN, BONELESS, 0x1, USDA	6.30	6.02	6.44	6.66	6.40	5.25	4.92	4.99	5.36	5.37	5.33	5.27	6.00	6.11	6.53
CHOICE, 184, 3 TOP BUTT, BONELESS, USDA	3.51	3.82	4.05	4.05	3.53	3.36	3.23	3.24	3.37	3.37	3.37	3.45	3.80	3.91	4.14
CHOICE, 185A, 4 BOTTOM SIRLOIN, FLAP, USDA	5.04	5.15	5.21	4.82	4.82	4.43	4.31	4.28	4.10	4.15	4.07	4.11	4.40	4.60	5.07
COARSE GROUND 73%, USDA	1.89	1.98	1.98	2.36	2.40	2.42	2.32	2.29	2.36	2.33	2.41	2.48	2.85	2.68	2.61
COARSE GROUND 81%, USDA	2.03	2.07	2.11	2.56	2.64	2.58	2.48	2.48	2.49	2.50	2.59	2.65	3.12	2.92	2.81
90% BONELESS BEEF, CENTRAL, FRESH, USDA	2.51	2.44	2.50	2.88	2.96	2.99	2.95	2.94	2.91	2.93	2.95	3.09	3.16	3.26	3.21
50CL BEEF TRIM, FRESH, NATIONAL, USDA	1.21	1.26	1.26	1.36	1.41	1.14	1.07	1.04	1.21	1.19	1.39	1.41	1.42	1.38	1.53

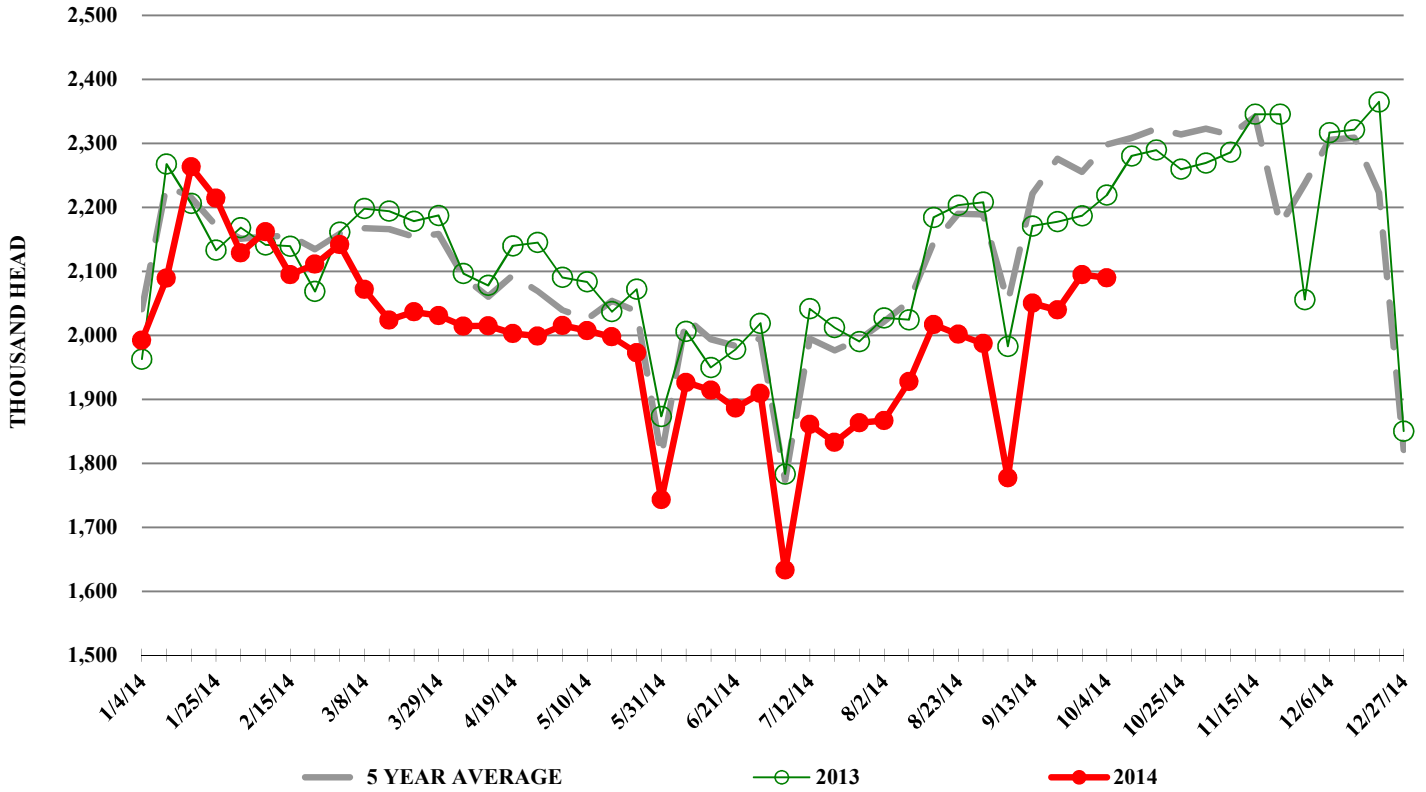
*St. Louis 2 1/4 dn rib prices are estimated at 3 1/2 dn plus \$1.10







ESTIMATED WEEKLY FI HOG SLAUGHTER



ESTIMATED WEEKLY FI PORK PRODUCTION

