Pork Merchandiser's **Profit Maximizer**

- Foodservice Edition

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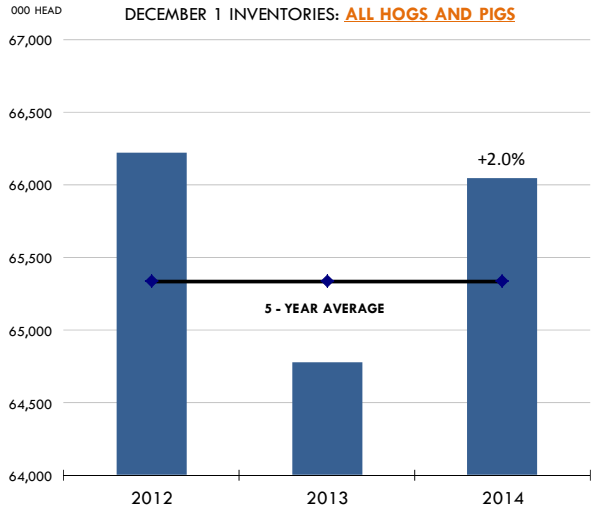
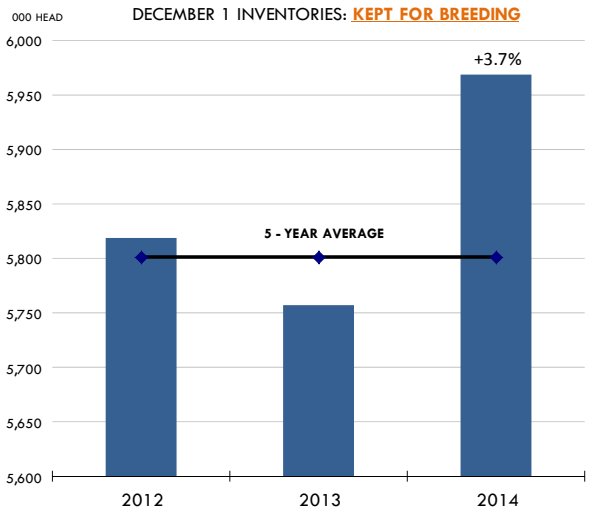
December 29, 2014

Hogs and Pigs Survey Shows Adequate Supplies this Spring, more Hogs in 2016

The results of the latest USDA Hogs and Pigs report confirmed what many in the trade already suspected—hog supplies have recovered following the devastating impact of PEDv. What is more, the producer response to high death losses and lower feed costs has been to increase the size of the breeding herd. It makes sense to have more breeding stock in case PEDv becomes endemic and permanently





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changes the size of pig litters over the winter months. However, if the number of pigs per litter starts to return to the longer term trend, then the recent jump in the breeding herd may quickly lead to an oversupply of pigs in late 2015 and first half of 2016. Futures had minimal reaction to the report, likely because markets already have priced in the supply increases.

Below are a few highlights from this report:

- **The supply of market hogs under 120 pounds was 3.5% higher than the previous year**. The pig crop during Sep-Nov also was up 4%. This implies Q2 slaughter will be up about 3.5-4% compared to a year ago. Keep in mind, however, that supplies were especially tight last year and market participants may find some relief that the increase is not even more significant. We think this kind of supply increase already has been priced in the market.
- The breeding herd as of December 1 was 5.969 million head, 3.7% higher than a year ago and higher than pre-report estimates looking for a 3% increase. To us this number is particularly bearish for the fall and winter of 2015. And if breeding herd numbers increase in the next three months, which normally happens, it would imply further downward price pressures for hog prices in 2016. Based on this breeding herd and conservative estimates regarding the number of pigs saved per litter, we could see the pig crop during Dec-Feb and Mar-May up about 10% from a year ago and 3.5% higher than during that period in 2013. The main concern is if hog slaughter during certain weeks in September and October of 2015 moves up above 2.4 million head per week. In the past the industry has been able to deal with that kind of increase, it just took significant price declines to absorb that supply.
- The number of pigs saved per litter during the Sep-Nov period was 10.23, 0.7% higher than the previous year. The increase follows two quarters during which the number of pigs saved per litter declined dramatically due to the impact of PEDv. The report suggests that PEDv impact is starting to wane but also note that much of the impact last year happened over the winter so this report only gives us limited information. Still, it appears pigs per litter are returning to trend and with higher farrowings, this implies a significant increase in the pig crop in the next few quarters.

Bottom line: Pork supplies are normalizing. Demand, especially export demand, remains a big wild card in the pork market at this point. With strong export demand, current supply increases can be easily absorbed. If exports remain weak (Russia, EU problems, strong US$ etc.), then supplies could quickly turn burdensome. Summer weather remains a big wild card as well. Industry has been able to offset some of the reduction in slaughter by feeding hogs to heavier weights. Will they be able to do that again in 2015? If feed remains cheap, it is a possibility, helping bolster overall pork production.

Currency markets also are going to be an important driver for the pork market in 2015. The US dollar has gained significantly against the Mexican peso and Japanese yen, two of the top markets for US pork. And with Russia purchasing less pork in the global market, there will be increased competition and lower prices may be required to maintain export volume growth.

Upcoming holidays:

2015 New Year's Day (Thursday January 1); Martin Luther King Day (Monday January 19); Super Bowl XLIX (Sunday February 1, in Glendale, Arizona); Valentine's Day (Saturday February 14); President's Day (Monday February 16); Ash Wednesday (Wednesday February 18); Chinese New Year (Thursday February 19); Daylight Savings Time Begins in US (Sunday March 8); St. Patrick's Day (Tuesday March 17); Passover (Saturday April 4); Easter (Sunday April 5); Cinco de Mayo (Tuesday May 5); Mother's Day (Sunday May 10); Victoria Day [Canada] (Monday May 18); Memorial Day (Monday May 25); Father's Day [US and Canada] (Sunday June 21); Canada Day [Canada] (Wednesday July 1); Independence Day (Saturday July 4); Labor Day [US and Canada] (Monday September 7); Rosh Hashanah (Monday September 14); Yom Kippur (Wednesday September 23); Columbus Day (Monday October 12; Canadian Thanksgiving Day (Monday October 12); Daylight Savings Time Ends [US and Canada] (Sunday November 1); Veterans Day (Wednesday November 11); Remembrance Day [Canada] (Wednesday November 11); Thanksgiving (Thursday November 26); Hanukkah (Monday December 7); Christmas Day (Friday December 25); Boxing Day [Canada] (Saturday 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 December 20 slaughter was 2.298 million head, down 2.8% from a year ago. In the last two weeks hog slaughter is down 2.9% vs. year ago levels.

Iowa/Minnesota, Base Lean Market Hog 185 lbs. Carcass Values. Lean hog carcass values at about 75.49 /cwt. on Friday were down $2/cwt since Wed. December 17. Prices are down about one dollar compared to year ago values.

Loin, 1/4 Trimmed Loin VAC, FOB Plant, USDA (page 8). Prices finished last week at $1.1791, up about one cent since the Wed. December 17 quote and up about 8 cents from year ago levels.

Bnls. Strap on Pork Loins. Prices finished the week at $1.6038 for the strap on loins, down one cent since Wed. December 17 and down about one cent from the year ago levels. Strap off loins at $1.7450 are down about 2.7 cent since Wed. December 17 and down about 2 cents compared to the year ago quote.

Boneless sirloins at $1.3709 are up about 2 cents from the Wed. December 17 quote and up about 20 cents from the year ago price.

Pork tenderloin finished last week at $2.5556, up slightly since the Wed. December 17 quote and up about 31 cents from the year ago price.

5/10 Pork Butts (page 10), prices finished the week at $1.2362, up about 2 cents since Wed. December 17.

Spare Ribs, Trimmed - LGT, Vac (page 8). Prices finished the week at $1.6564, down about one cent since Wed. December 17 but up about 24 cents from year ago levels.

Rib inventories on November 30 were 72.9 million pounds, down 26.3% percent from a year ago.

Bone-in Hams.

17/20 hams (page 9) price was $0.8327/lb., down 14.5 cents compared to prices on Wed. December 17 and down about 7 cents from a year ago.

20/23 hams finished the week at 70.46 cents, down about 9 cents since Wed. December 17 and down about 4 cents from the year ago level.

23/27 hams finished the week at 66.34 , down about 4 cents from the Wed. December 17 quote and down about 10 cents from the year ago level.

Total ham cold storage stocks on November 30 at 96.2 million pounds were down about 17.1% from year ago levels.

42 CL Pork Trim "FOB Basis". Prices finished the week at 22.91 , down about 2.6 cent since Wed. December 17 and down about 7 cents from the year ago price.

72 CL Pork Trim "FOB Basis". Prices finished the week at 61.89 cents, down about 0 cents since the Wed. December 17 quote but up about 2 cents from the year ago level.

Freezer stocks of all trimmings on November 30 were 41.0 million pounds, up about 6.2% 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 10 cents from a year ago.

The National Whole Bird price was quoted at 96.12 on Friday December 20, up about 2 cents from a year ago.

Broiler slaughter for the week ending December 20 was 154.62 million head, down 0.98% from a year ago. For the last two weeks slaughter was down 1.1% vs. a year ago.

Breasts. Prices on boneless skinless breasts finished the week at $1.2578, down 5 cents since Wed. December 17 and also down about 2 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 1.5 cents vs. year ago price at 43.25 . Russian ban on US chicken has been a factor. Exports to other markets should pick up some of the lost business but lower prices will be required to generate higher sales, especially with a strong US dollar.

Wings. Prices at $1.6740 are up about 48 cents from year ago levels.

Turkeys

Hens finished last week at $1.1400, unchanged since Wed. December 17 but up about 4 cents from the year ago price.

Toms finished last week at $1.1400, unchanged since Wed. December 17 but up about 9 cent from the year ago price.

Total turkey supplies in the freezer on November 30 were down about 14.0% percent from a year ago at 190.3 million pounds. Whole birds were down 9.3% percent from year ago with an inventory of 68.0 million pounds.

Turkey slaughter was 4.5890 million head for the week ending December 13, up 4.04% from a year ago. For the last two weeks slaughter has been up 4.2%.

Boneless Turkey Breast Meat. Boneless skinless turkey breast meat prices finished last week at $3.7500, unchanged since Wed. December 17. Prices are up about 7 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 $7.0468 (weighted average quote) finished last week down about 77 cents since the Wed. December 17 quote but up about 137 cents vs. the year ago price.

Select 112A Heavy Lip On Rib Eyes at $6.0526 (weighted average quote) finished last week down about 18 cents since the Wed. December 17 quote but up about 45 cents vs. the year ago price.

Currently Choice 112A Rib Eyes are $0.9942 /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 $2.8073 down about 2 cents since Wed. December 17 but up about 55 cents from the year ago price.

Choice ¼ inch trimmed #168 insides finished last week quoted at $3.0370 up about 10 cents since Wed. December 17 and up about 64 cents from year ago levels.

Choice #170 Gooseneck Rounds finished last week at $2.8357 up about 10 cents since Wed. December 17 and up about 59 cents from the year ago levels.

Choice #180 (0x1) Bnls. Strip Loins finished last week quoted at $5.7569 (wt. avg.) up about 15 cents from the Wed. December 17 quote. Prices are about 94 cents over year ago levels.

Choice #184 Regular Heavy top butts finished at $3.4257 (wt. avg.) up about 3 cents since Wed. December 17 and up about 76 cents from year ago levels.

Choice #184 ¼ inch trimmed Top Butts finished at $3.7083 (wt. avg.) up about 11 cents since Wed. December 17 and up about 99 cents from the year ago levels.

Choice #185A Flap Meat prices finished Friday at $4.2956 (wt. avg.) up about 8 cents since Wed. December 17 and up about 51 cents from year ago values.

COARSE GROUND BEEF –

73CL Coarse Ground product finished last week at $2.3175 up about 11 cents since Wed. December 17 and up about 57 cents from year ago levels.

81CL Coarse Ground product finished last week at $2.4315 down about 13 cent since Wed. December 17 but up about 51 cents from the year ago quote.

90CL Bnls. Beef prices finished the week at $2.9718 (wt. avg.) up about 3 cent since Wed. December 17 and up 88 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 $0.9254, down about 2 cent since Wed. December 17 but up 5 compared to the year ago level.

Food Service Summary Table - WT. AVE

	2014 History								2014-15 FORECAST						
	Jun	Jul	Aug	Sep	Oct	Nov	12/17/2014	12/26/2014	1/7/2015	Dec	Jan	Feb	Mar	Apr	May
PORK															
Loin, 1/4 Trimmed Loin VAC, FOB Plant, USDA	1.52	1.67	1.48	1.53	1.51	1.16	1.17	1.18	1.25	1.17	1.24	1.20	1.23	1.28	1.35
Loin, 1/8 Trimmed Loin VAC, FOB Plant, USDA	1.60	1.79	1.57	1.58	1.60	1.23	1.20	1.20	1.29	1.21	1.29	1.24	1.31	1.34	1.42
Loin, Bnls CC Strap-off, FOB Plant, USDA	1.97	2.15	1.91	2.13	2.18	1.74	1.77	1.75	1.87	1.79	1.87	1.74	1.77	1.78	1.84
Loin, Tenderloin, FOB Plant, USDA	2.84	2.88	2.78	2.78	2.91	2.60	2.55	2.56	2.72	2.55	2.62	2.72	2.82	2.87	2.93
Butt, 1/4 Trim Butt Combo, FOB Plant, USDA	1.68	1.72	1.58	1.44	1.40	1.20	1.14	1.30	1.18	1.15	1.18	1.22	1.22	1.26	1.26
Sparerib, Trmd Sparerib - LGT, FOB Plant, USDA	1.73	1.88	1.73	1.57	1.64	1.68	1.66	1.66	1.71	1.68	1.72	1.71	1.71	1.76	1.76
Sparerib, St Louis Spareribs, POLY, FZN, FOB Plant, USDA	2.55	2.63	2.54	2.40	2.35	2.35	2.42	2.53	2.30	2.44	2.32	2.28	2.35	2.44	2.43
Sparerib, Trmd Sparerib - MED, FOB Plant, USDA	1.70	1.84	1.64	1.56	1.64	1.65	1.63	1.64	1.64	1.65	1.65	1.62	1.64	1.68	1.67
Loin, Backribs 2.0#/up, FOB Plant, USDA	2.77	2.70	2.53	2.35	2.28	2.29	2.26	2.28	2.29	2.28	2.29	2.31	2.36	2.49	2.55
Ham, 17-20# Trmd Selected Ham, FOB Plant, USDA	1.28	1.41	1.21	1.24	1.43	1.15	0.98	0.83	0.84	0.98	0.84	0.89	0.90	0.88	0.88
Ham, 20-23# Trmd Selected Ham, FOB Plant, USDA	1.27	1.44	1.12	1.18	1.15	1.03	0.79	0.70	0.73	0.83	0.74	0.81	0.81	0.80	0.81
Ham, 23-27# Trmd Selected Ham, FOB Plant, USDA	1.21	1.41	1.12	1.14	1.06	0.93	0.70	0.66	0.71	0.75	0.71	0.77	0.78	0.78	0.80
Ham, 5 Muscle Ham to Blue, FOB Plant, USDA	1.73	2.07	2.33	2.16	2.08		1.47	1.47	1.20	1.47	1.21	1.23	1.24	1.25	1.28
Belly, Skin-on Belly 14-16#, FOB Plant, USDA	1.66	1.61	1.27	1.13	1.05	0.95	0.97	1.01	1.04	0.97	1.07	1.06	1.07	1.14	1.20
Belly, Derind Belly 9-13#, FOB Plant, USDA	1.96	1.92	1.47	1.27	1.32	1.16	1.23	1.22	1.30	1.23	1.31	1.30	1.35	1.40	1.41
Belly, Derind Belly 13-17#, FOB Plant, USDA	1.91	1.93	1.41	1.26	1.34	1.15	1.23	1.18	1.28	1.22	1.29	1.28	1.33	1.38	1.39
Trim, 42% Trim Combo, FOB Plant, USDA	0.68	0.69	0.58	0.56	0.51	0.31	0.25	0.23	0.31	0.28	0.31	0.30	0.38	0.41	0.47
Trim, 72% Trim Combo, FOB Plant, USDA	1.32	1.40	1.10	1.00	0.98	0.75	0.62	0.62	0.64	0.68	0.65	0.67	0.69	0.72	0.75
HOG CARCASS															
IA/MN, Base Market Hog 185 lb Carcass Basis, Plant Dlv.	1.18	1.27	1.04	1.03	0.99	0.87	0.78	0.75	0.81	0.81	0.82	0.82	0.84	0.89	0.91
BROILERS															
BROILER, NATIONAL WHOLE BIRD PRICE, USDA	1.13	1.07	1.00	1.07	1.07	1.04	0.96	0.96	0.97	0.98	0.96	0.96	0.97	0.96	1.01
N.E. BROILER BREAST BONELESS-SKINLESS, USDA	2.00	2.00	1.85	1.88	1.68	1.43	1.31	1.26	1.34	1.35	1.35	1.40	1.50	1.60	1.70
N.E. BROILER BREAST LINE RUN, USDA	1.24	1.22	1.17	1.19	1.17	1.07	1.04	1.05	1.01	1.04	1.02	1.03	1.08	1.10	1.21
N.E. BROILER LEG QUARTERS, USDA	0.50	0.52	0.50	0.47	0.46	0.45	0.45	0.43	0.44	0.44	0.44	0.44	0.44	0.46	0.49
N.E. BROILER WINGS, USDA, WT.AVG.	1.45	1.45	1.43	1.66	1.87	1.78	1.73	1.67	1.81	1.72	1.81	1.89	1.76	1.59	1.44
TURKEYS															
UB HEN TURKEYS, EAST, FROZEN 10-12LBS	1.11	1.11	1.14	1.17	1.21	1.24	1.14	1.14	1.07	1.13	1.07	1.02	1.03	1.05	1.07
UB BONELESS-SKINLESS TURKEY BREAST, TOM, FRESH	3.71	4.01	4.05	4.05	3.98	3.92	3.84	3.75	3.21	3.75	3.15	2.88	2.72	2.78	2.84
LIVE STEERS															
FIVE AREA DIRECT AVERAGE LIVE STEER, USDA	1.47	1.57	1.57	1.58	1.63	1.69	1.62	1.59	1.63	1.65	1.63	1.63	1.64	1.65	1.61
BEEF															
CHOICE, 112A, 3 RIBEYE, BONELESS, HEAVY, USDA	7.94	7.34	7.03	6.96	7.07	7.79	7.82	7.05	6.78	7.82	6.71	6.84	7.24	7.39	7.63
CHOICE, 168, 3 TOP INSIDE ROUND, 1/4" MAX, USDA	2.33	2.89	3.13	2.83	2.87	2.98	2.94	3.04	3.19	2.96	3.15	2.96	3.00	2.96	2.94
CHOICE, 170, 1 BOTTOM GOOSENECK ROUND, USDA	2.25	2.57	2.61	2.66	2.88	2.84	2.73	2.84	2.87	2.80	2.87	2.81	2.69	2.58	2.55
CHOICE, 180, 3 STRIP LOIN, BONELESS, 0x1, USDA	6.44	6.66	6.40	5.25	5.10	5.29	5.61	5.76	5.90	5.64	5.87	5.97	6.38	7.27	7.75
CHOICE, 184, 3 TOP BUTT, BONELESS, USDA	4.05	4.05	3.53	3.36	3.36	3.58	3.63	3.71	3.85	3.66	3.85	3.95	4.18	4.35	4.24
CHOICE, 185A, 4 BOTTOM SIRLOIN, FLAP, USDA	5.21	4.82	4.82	4.43	4.31	4.15	4.21	4.30	4.60	4.24	4.58	4.79	5.25	5.33	5.61
COARSE GROUND 73%, USDA	1.98	2.36	2.40	2.42	2.38	2.40	2.21	2.32	2.66	2.27	2.60	2.42	2.35	2.48	2.54
COARSE GROUND 81%, USDA	2.11	2.56	2.64	2.58	2.60	2.69	2.56	2.43	2.95	2.63	2.92	2.72	2.63	2.76	2.47
90% BONELESS BEEF, CENTRAL, FRESH, USDA	2.50	2.88	2.96	2.99	2.95	2.96	2.94	2.97	3.14	2.94	3.15	3.25	3.20	3.21	3.19
50CL BEEF TRIM, FRESH, NATIONAL, USDA	1.26	1.36	1.41	1.14	1.11	1.15	0.94	0.93	1.13	0.99	1.09	1.05	1.19	1.15	1.17

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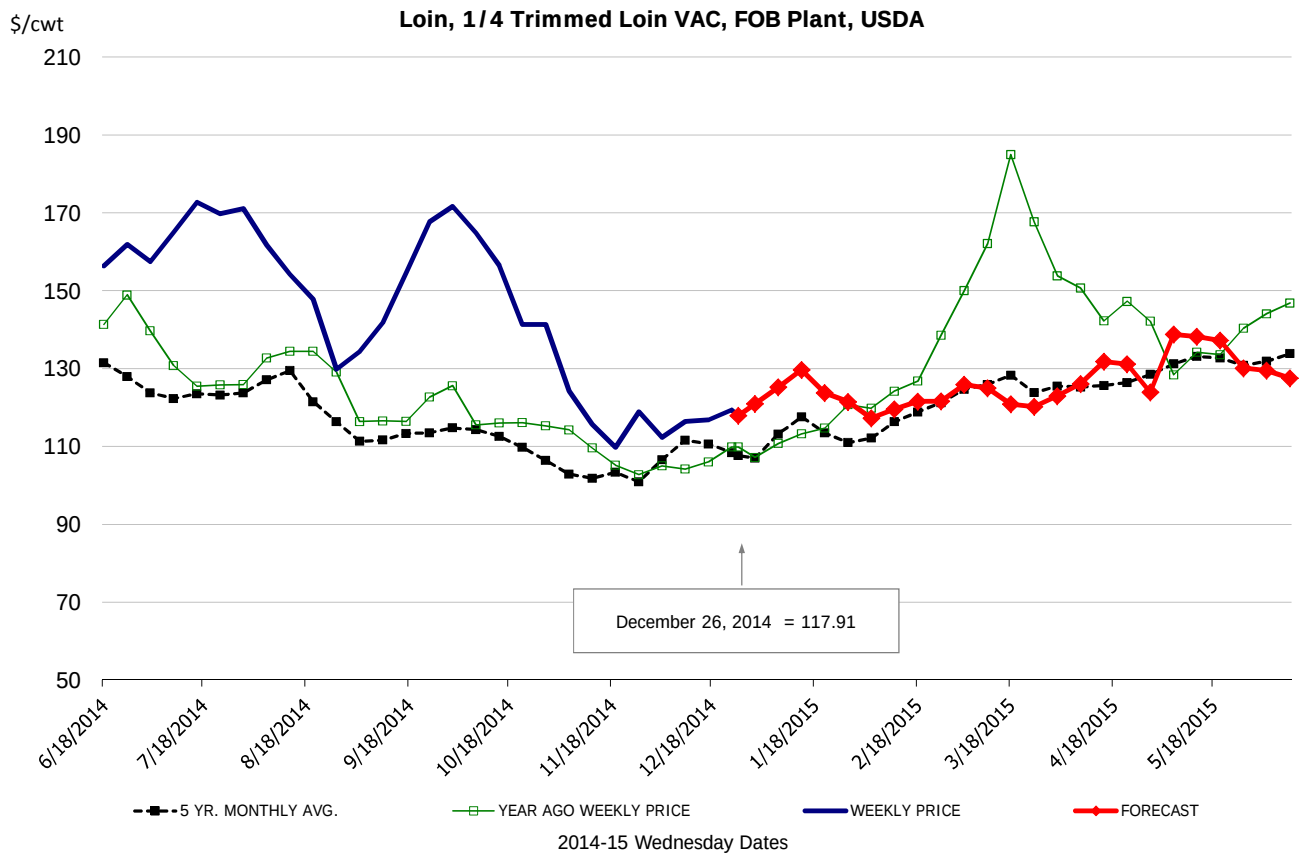
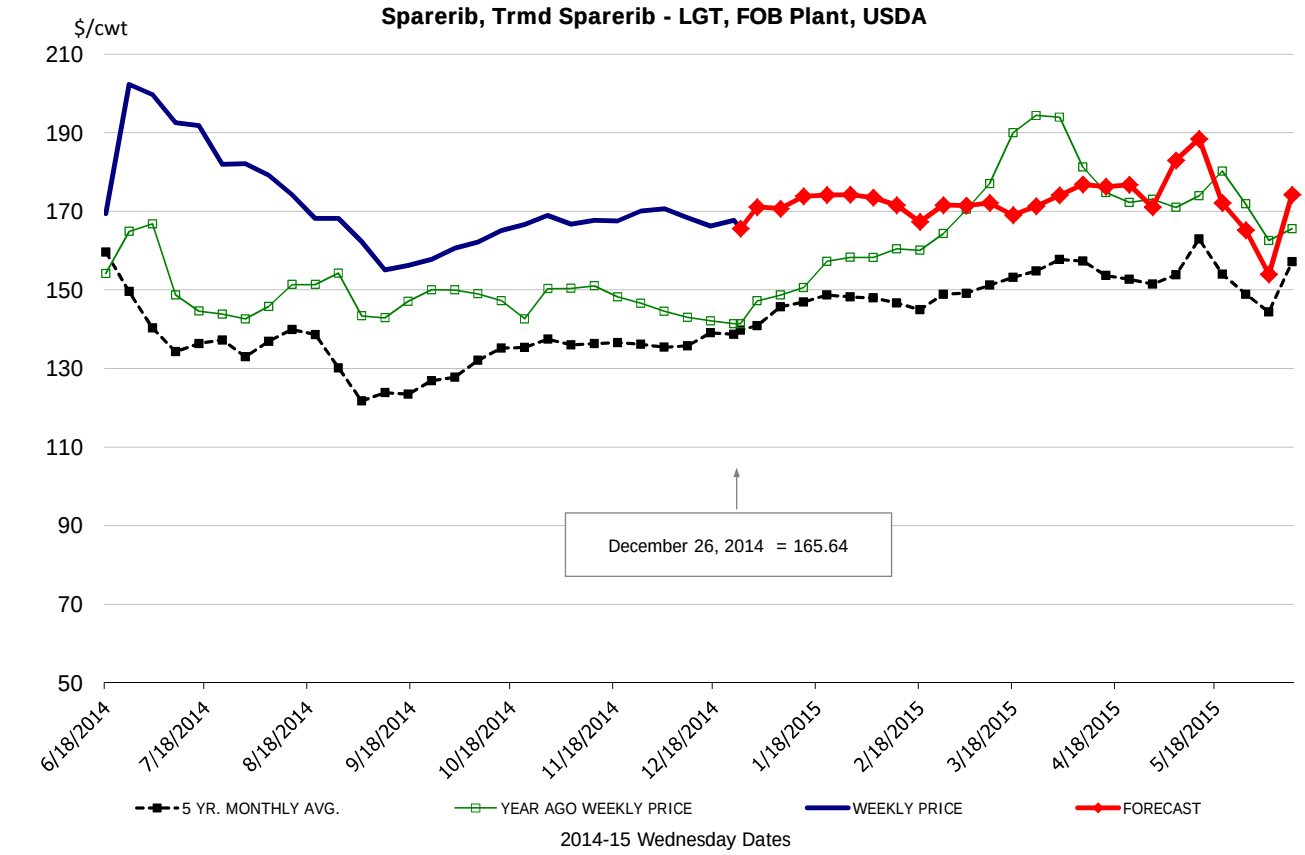
*St. Louis 2 1/4 dn rib prices are estimated at 3 1/2 dn plus $1.10





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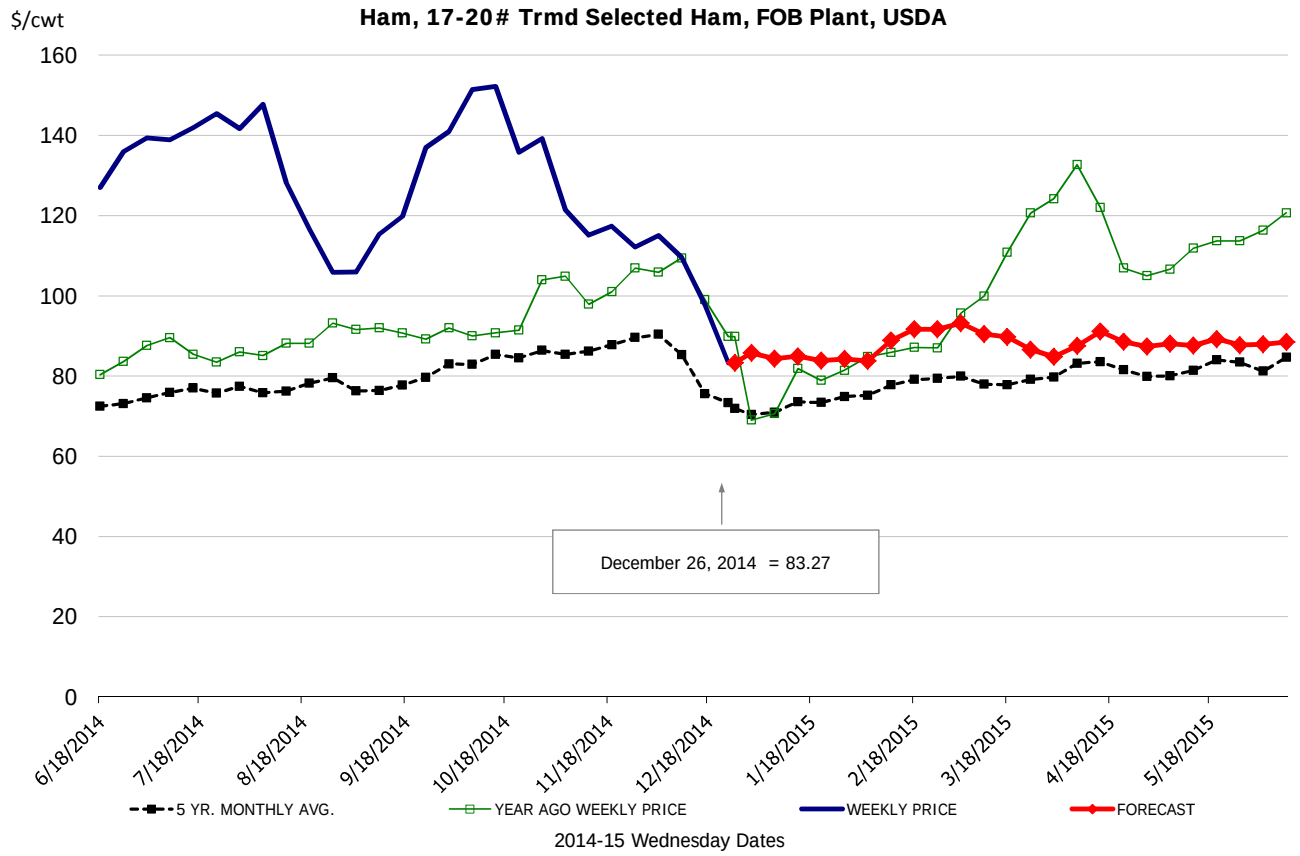

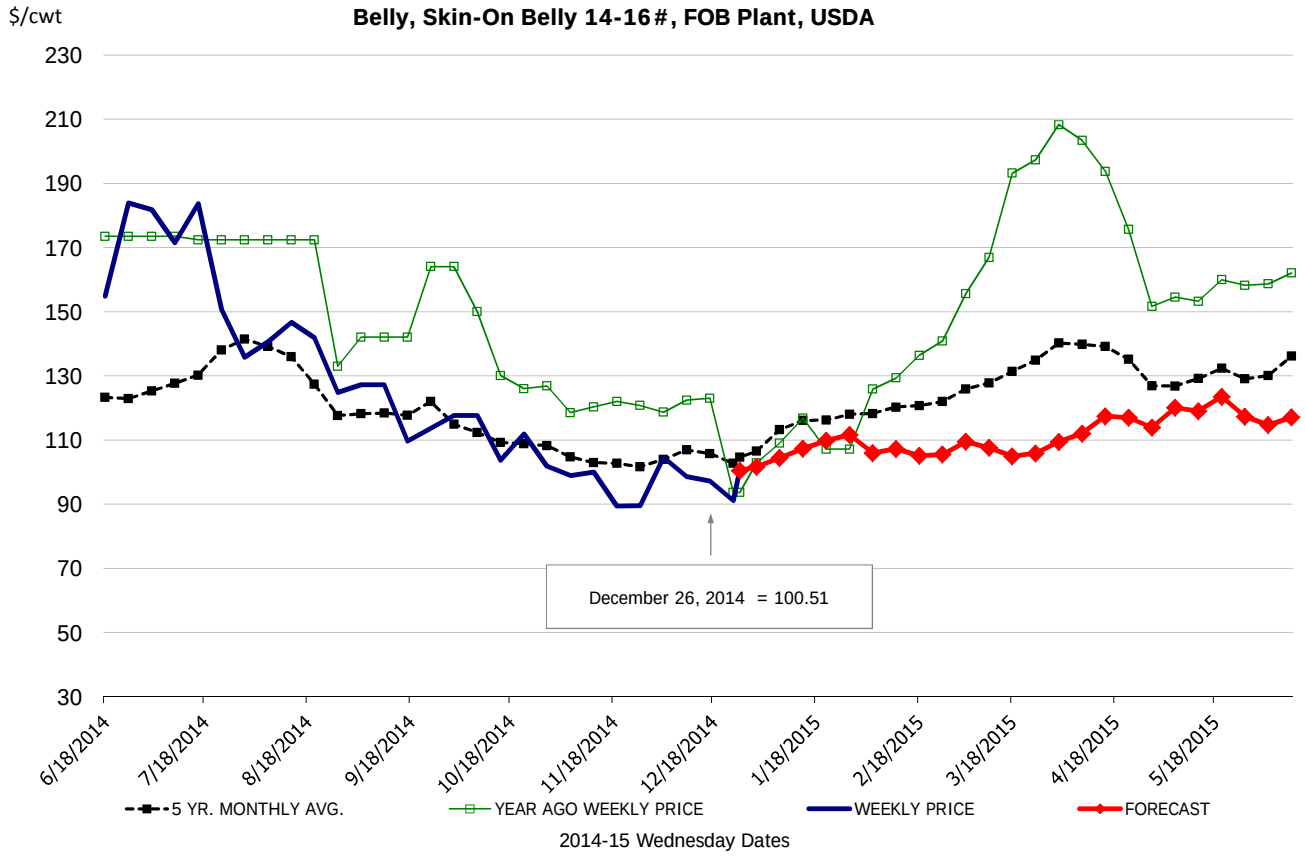

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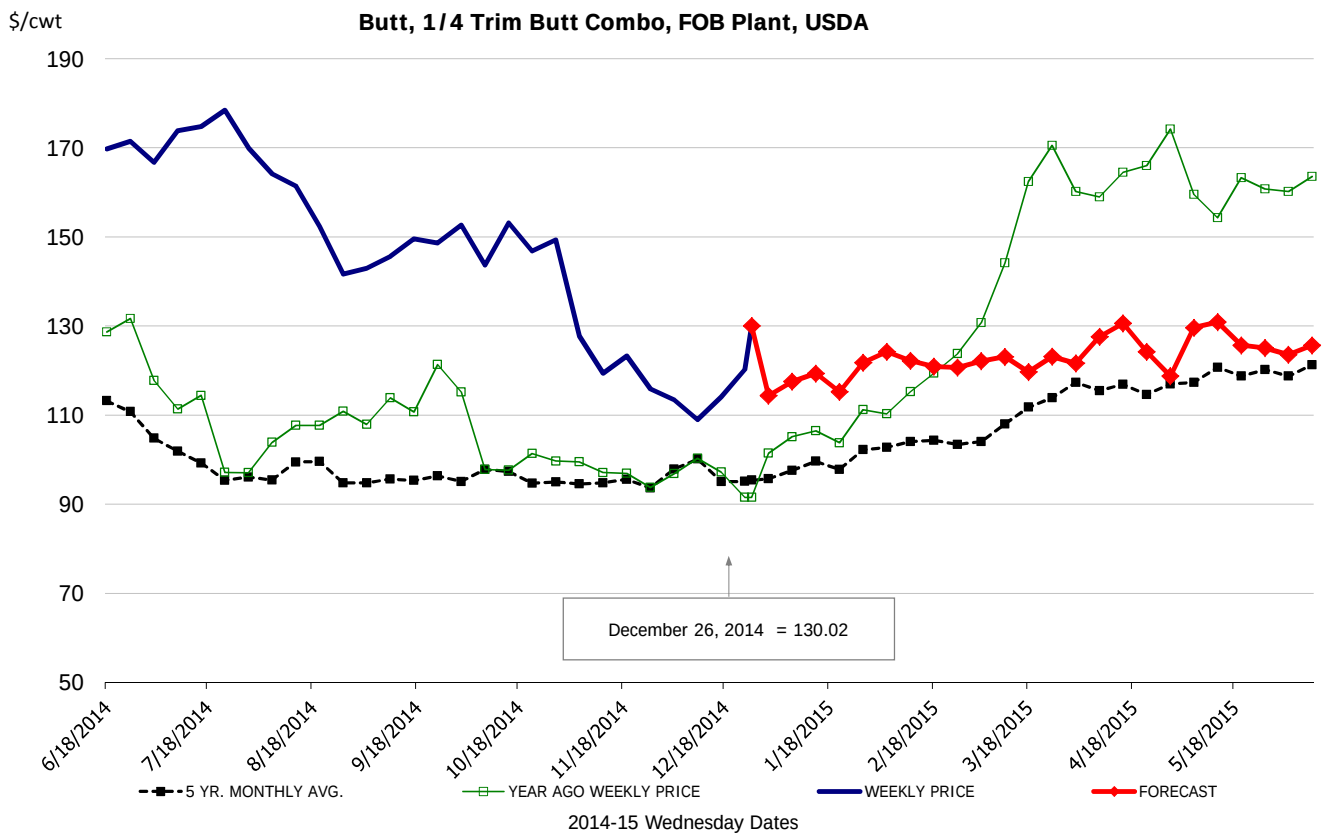

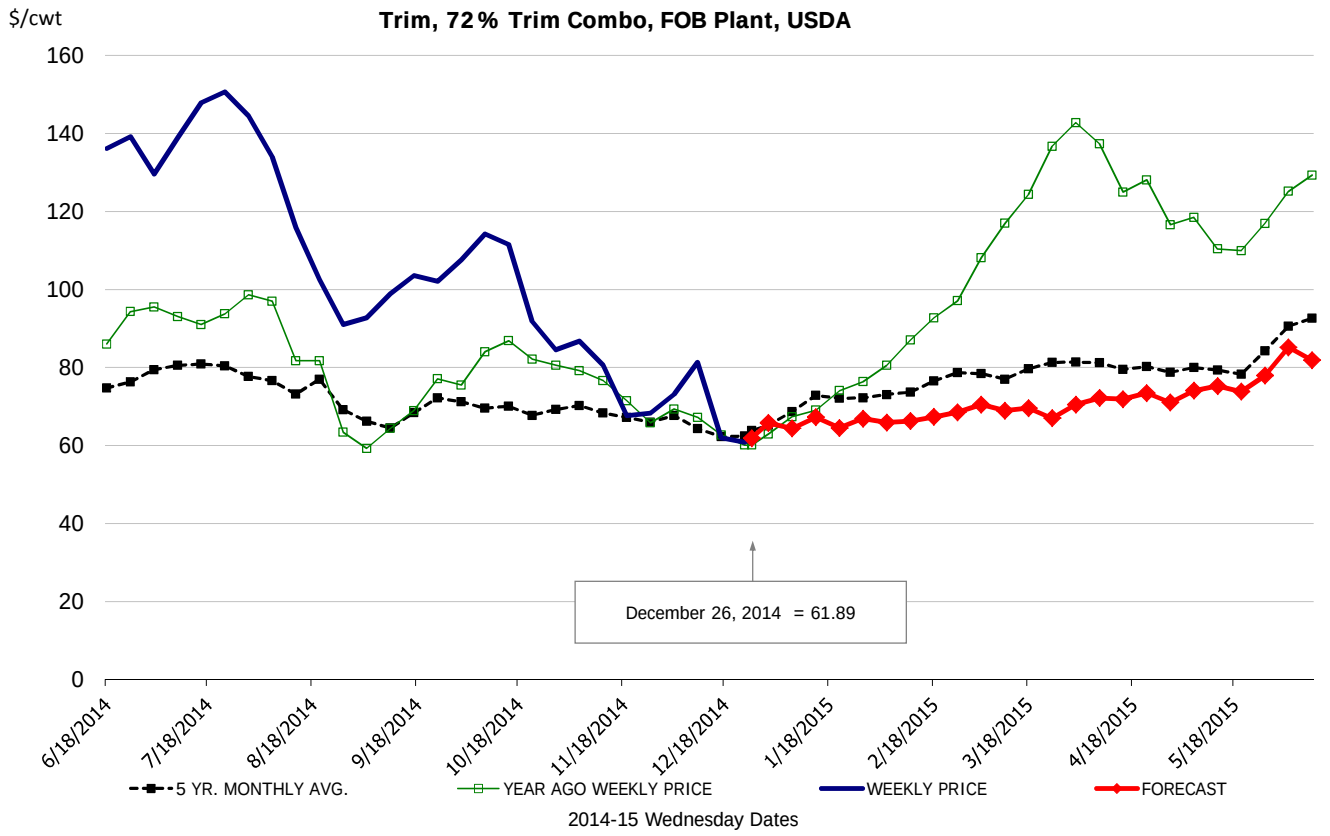

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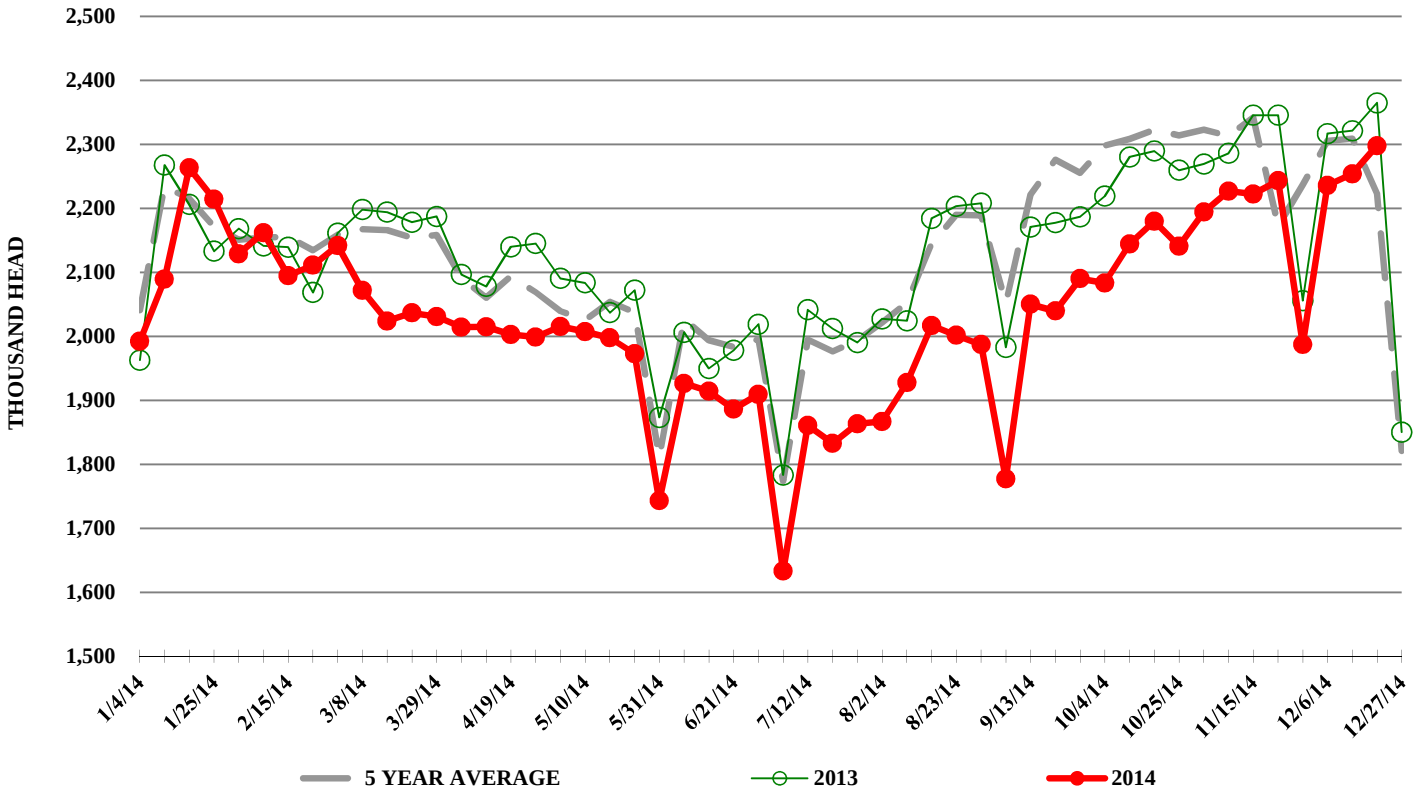
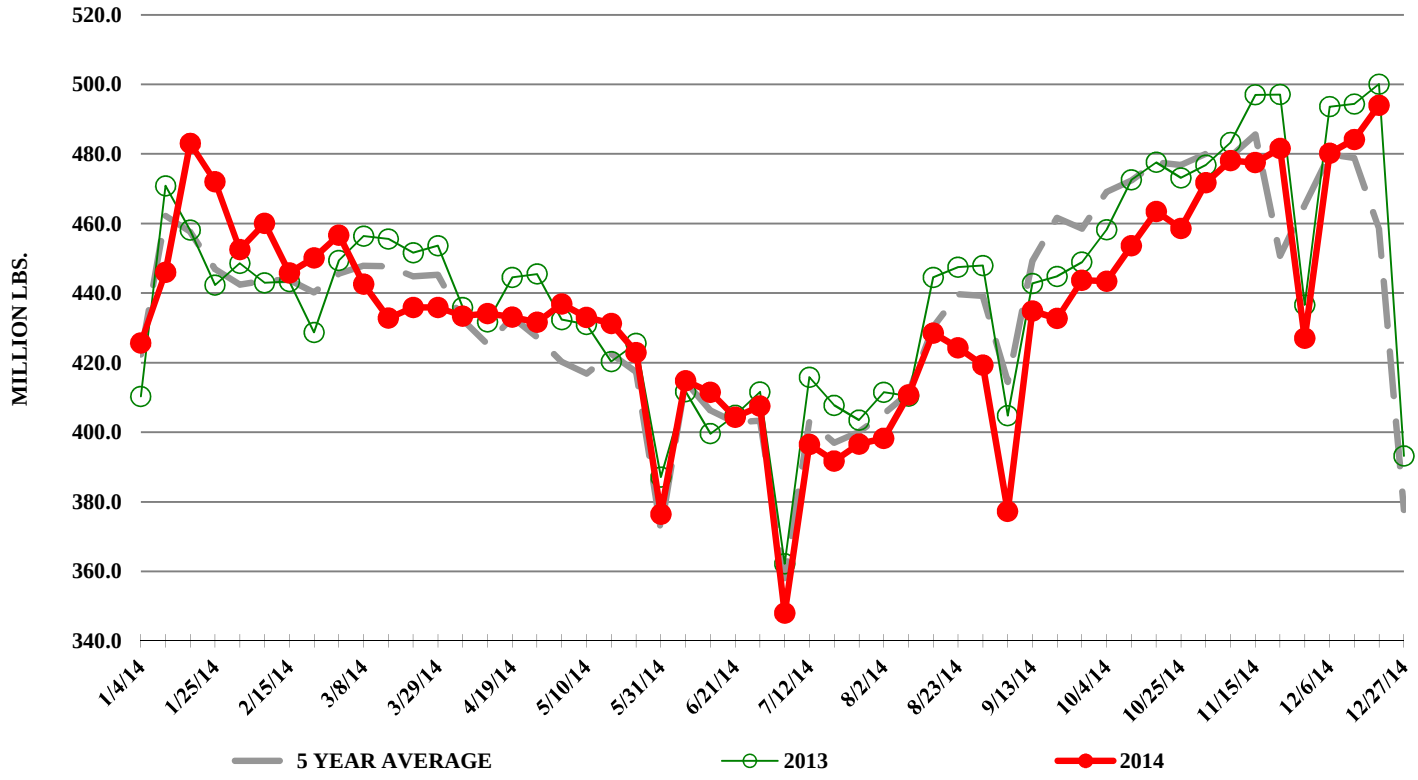
ESTIMATED WEEKLY FI HOG SLAUGHTER



ESTIMATED WEEKLY FI PORK PRODUCTION



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