



Pork Merchandiser's Profit Maximizer

Be inspiredSM

- Foodservice Edition

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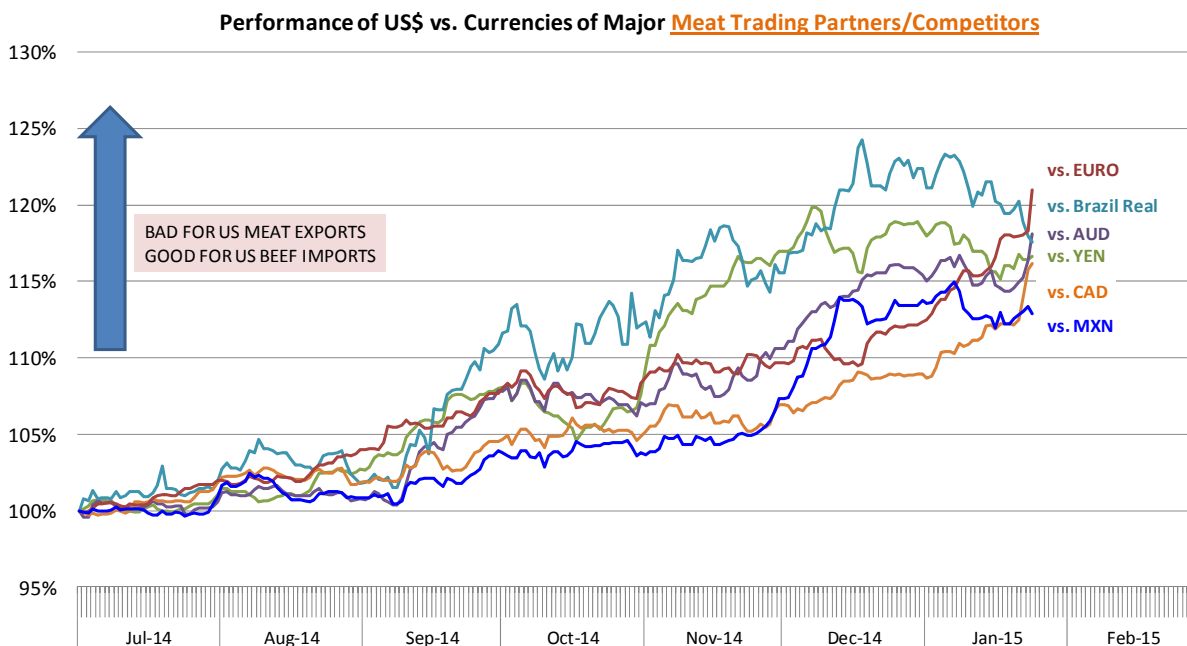
January 26, 2015

1. Outside market influence continues to impact livestock markets. Fears of demand slowdown persist

Cattle and hog futures continued to retreat last week as market participants worry that the global economic growth stagnates in the next 12 months. Mounting problems in key markets

could dramatically impact demand for meat protein at a time when producers already have begun to ramp up production. To recap some of the most important developments:

European Union: High risk of deflation forced the European Central Bank to start a \$1.2 trillion dollar bond purchasing program. No one knows if this will work but, in the short term this has



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dramatically affected the value of the Euro, down 20% vs. the US dollar in past six months. The European Union is a major producer of beef, pork and chicken and weak demand there combined with a weaker currency will tend to increase the amount of European beef, pork, chicken and dairy products traded in the world market. US producers will face increased competition and lower prices will be required to offset the currency impact.

Japan: The economy has once again slipped into recession despite a major bond purchasing program put in place last year. This has negatively impacted the value of the Japanese Yen (see chart on page 1) as well as the purchasing power of Japanese consumers. Japan is the top market for US beef and it is the second largest market for US pork. Weak growth in this market certainly is a negative for US meat demand.

Russia: The economy is on the verge of recession and it appears very likely that it will contract by 4-5% in 2015. The Russian rouble has devalued significantly, which has reduced their purchasing power in global meat markets. It is important to remember that Russia is a major world buyer of beef, pork, chicken and dairy products. Weak sales to Russia (be this from US, EU or South America) mean that more product will have to be absorbed by other markets, increasing competition and pressuring prices lower. Already EU pork prices are down 16% as exports to Russia have dried up. They are now looking to ramp up pork exports to Mexico, traditionally a market served by US.

Brazil and Argentina: The two major players in the South American continent now find themselves in recession. Lower energy prices, weak commodity demand and structural labor/industrial issues have impacted these countries. The Brazilian currency has lost +20% of its value relative to the US dollar since July of last year. Domestic consumption has slowed down in Brazil in the past year and more beef, pork and chicken is going to export.

China: China growth has slowed to around 7%,

the lowest growth rate in more than 20 years. China has emerged as a major buyer of beef, pork, chicken and dairy. In recent months, Chinese purchases of these products have declined, in part because lower feed costs have encouraged domestic production.

The US economy appears to be in the best shape at the moment. This has meant that a lot of money has been transferred in US\$ denominated assets, be this bonds or equities, looking for safety and returns, driving up the value of the US dollar. The US relies on world markets to consume 20% of its pork, 18% of its chicken and 11% of its beef. Weak export demand implies more product will need to be absorbed by the domestic market

Bottom line: While there is an element of panic in the recent selloff of livestock futures, we also think that fundamentally the market is making a bet that demand will be lower at a time when supplies for pork and chicken are on track to increase 4-5% compared to the previous year. High prices last year have for the most part been passed on at retail counter and foodservice menus. Experience has shown that retail prices do not decline immediately. The consequence is that wholesale markets are awash with product, especially chicken and pork, but the flow to the consumer remains quite slow due to high retail prices. A strong US dollar also has offset some of the decline in wholesale prices, limiting opportunities to ship more product to other markets. In the short term, markets are likely to remain under pressure, at least until retailers start to focus on the start of the grilling season and begin running seasonal promotions.

2. Cold Storage

Implications: The report had bearish implications for beef and chicken prices while we think it was neutral for pork. One thing to consider in terms of the December stocks situation are the ongoing challenges presented by the labor dispute in West Coast ports and the disruptions to trade with Asia. The situation has become particularly troublesome in January and we will

likely see a further increase in meat stocks in the January report as products destined for export sit in refrigerated warehouses. According to wire reports, backed up product may take as long as 45 days to clear and there appears no sign that the worker unions and the maritime association are close to resolving the situation.

Highlights: Total inventory of beef, pork and chicken in cold storage at the end of December was 1.844 billion pounds, 4.3% higher than the previous month but 4.4% lower than a year ago and 2.2% lower than the five year average. The drawdown in stocks in December was a bit slower than normal. Beef inventories increased sharply, particularly inventories of boneless beef. Total boneless beef inventories as of December 31 were 403.5 million pounds, 11.4% higher than the previous month and now 1% above year ago levels. Unfortunately USDA does not segregate imported vs. domestic product in the survey. USDA also does not tell us exactly what kind of boneless beef is in storage. Our opinion is that a big reason for the jump in boneless beef stocks is due to higher imports from Australia and New Zealand. Australian shipments to the US in November (this product entered the country in December) were up 130% from the previous year. New Zealand November exports to the US were up 87%. There appears to be a lot of imported beef inventory in warehouses, both public and private. Imported beef trade has slowed down and prices have declined as traders seek to generate sales volume. As a result, the spread between 90CL domestic and imported beef is currently as much as 40 cents per pound. Large boneless beef inventories will limit the upside in beef trim prices in March and April, when normally end users start to deplete stocks in preparation for the start of the grilling season.

Pork inventories were 497.1 million pounds, 10.3% lower than a year ago. Inventories were modestly higher from the previous month when normally we see a small drawdown in stocks. Still, the supply in cold storage at this point does not appear burdensome and we see

the results from the report as neutral for the market. Ham stocks at the end of December were 66 million pounds, 14% lower than the previous year. This should be supportive of the ham market going into Easter. Chicken inventories at the end of December were 712.6 million pounds, 2% higher than a year ago and 6% higher than the five year average. Inventories have increased sharply in recent months on larger production volume. Some of that production appears to have backed up in freezers. Breast meat in storage was 159 million pounds, 44% higher than a year ago and 25% higher than the five year average, by far the most bearish number in the report.

Upcoming holidays:

2015 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 January 24 slaughter was 2.316 million head, up 4.6% from a year ago. In the last two weeks hog slaughter is up 2.1% vs. year ago levels.

Iowa/Minnesota, Base Lean Market Hog 185 lbs. Carcass Values. Lean hog carcass values at about 69.04 /cwt. on Friday were down \$3/cwt since Wed. January 14. Prices are down about 11 dollar compared to year ago values.

Loin, 1/4 Trimmed Loin VAC, FOB Plant, USDA (page 8). Prices finished last week at \$1.0688, down about 3 cent since the Wed. January 14 quote and down about 8 cents from year ago levels.

Bnls. Strap on Pork Loins. Prices finished the week at \$1.4849 for the strap on loins, down 6 cent since Wed. January 14 and down about 21 cent from the year ago levels. Strap off loins at \$1.7094 are down about one cent since Wed. January 14 and down about 7 cents compared to the year ago quote.

Boneless sirloins at \$1.3035 are down about 5 cents from the Wed. January 14 quote but up about 2 cents from the year ago price.

Pork tenderloin finished last week at \$2.6208, down slightly since the Wed. January 14 quote but up about 20 cents from the year ago price.

5/10 Pork Butts (page 10), prices finished the week at \$1.0724, down about 8 cents since Wed. January 14.

Spare Ribs, Trimmed - LGT, Vac (page 8). Prices finished the week at \$1.6567, up about 0 cent since Wed. January 14 and up about 8 cents from year ago levels.

Rib inventories on December 31 were 82.0 million pounds, down 23.0% percent from a year ago.

Bone-in Hams.

17/20 hams (page 9) price was \$0.8236/lb., up 3.8 cents compared to prices on Wed. January 14 and up about 3 cents from a year ago.

20/23 hams finished the week at 78.80 cents, up about 5 cents since Wed. January 14 and up about 1 cents from the year ago level.

23/27 hams finished the week at 75.79 , up about 7 cents from the Wed. January 14 quote and up about 1 cents from the year ago level.

Total ham cold storage stocks on December 31 at 66.0 million pounds were down about 14.0% from year ago levels.

42 CL Pork Trim “FOB Basis”. Prices finished the week at 32.46 , down about 3.1 cent since Wed. January 14 and down about 4 cents from the year ago price.

72 CL Pork Trim “FOB Basis”. Prices finished the week at 65.99 cents, down about 0 cents since the Wed. January 14 quote and down about 8 cents from the year ago level.

Freezer stocks of all trimmings on December 31 were 50.4 million pounds, up about 28.7% 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 \$114.25 was up about 10 cents from a year ago.

The National Whole Bird price was quoted at 96.76 on Friday January 24, up about 1 cents from a year ago.

Broiler slaughter for the week ending January 24 was 155.21 million head, up 5.06% from a

year ago. For the last two weeks slaughter was up 4.0% vs. a year ago.

Breasts. Prices on boneless skinless breasts finished the week at \$1.4480, up 10 cents since Wed. January 14 and also up about 20 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 3.6 cents vs. year ago price at 40.77 . 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 \$2.0563 are up about 73 cents from year ago levels.

Turkeys

Hens finished last week at \$1.0400, unchanged since Wed. January 14 but up about 2 cents from the year ago price.

Toms finished last week at \$1.0400, unchanged since Wed. January 14 but up about 2 cent from the year ago price.

Total turkey supplies in the freezer on December 31 were down about 18.6% percent from a year ago at 193.2 million pounds. Whole birds were down 12.3% percent from year ago with an inventory of 59.6 million pounds.

Turkey slaughter was 4.4190 million head for the week ending January 17, up 12.27% 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 \$3.3500, unchanged since Wed. January 14. Prices are down about 11 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 \$6.5743 (weighted average quote) finished last week down about 3 cents since the Wed. January 14 quote but up about 71 cents vs. the year ago price.

Select 112A Heavy Lip On Rib Eyes at \$6.0561 (weighted average quote) finished last week up about 3 cents since the Wed. January 14 quote but up about 28 cents vs. the year ago price.

Currently Choice 112A Rib Eyes are \$0.5182 /lb. over Select. The 2013 annual average spread (wt. average price) had the Choice at a premium to the Select by \$0.7477 per pound and the previous five years (2009 thru 2013) average spread was Choice at a premium to the Select by \$0.7950 per pound.

Choice regular #168 insides finished last week quoted at \$2.6580 down about 27 cents since Wed. January 14 and down about 9 cents from the year ago price.

Choice ¼ inch trimmed #168 insides finished last week quoted at \$2.7412 down about 29 cents since Wed. January 14 and down about 14 cents from year ago levels.

Choice #170 Gooseneck Rounds finished last week at \$2.7888 down about 15 cents since Wed. January 14 and down about 4 cents from the year ago levels.

Choice #180 (0x1) Bnls. Strip Loins finished last week quoted at \$6.0369 (wt. avg.) down about 42 cents from the Wed. January 14 quote. Prices are about 91 cents over year ago levels.

Choice #184 Regular Heavy top butts finished at \$3.7699 (wt. avg.) up about 10 cents since Wed. January 14 and up about 92 cents from year ago levels.

Choice #184 ¼ inch trimmed Top Butts finished at \$3.9028 (wt. avg.) up about 11 cents since Wed. January 14 and up about 89 cents from the year ago levels.

Choice #185A Flap Meat prices finished Friday at \$5.0826 (wt. avg.) up about 27 cents since Wed. January 14 and up about 70 cents from year ago values.

COARSE GROUND BEEF –

73CL Coarse Ground product finished last week at \$2.4975 down about 14 cents since Wed. January 14 and down about 32 cents from year ago levels.

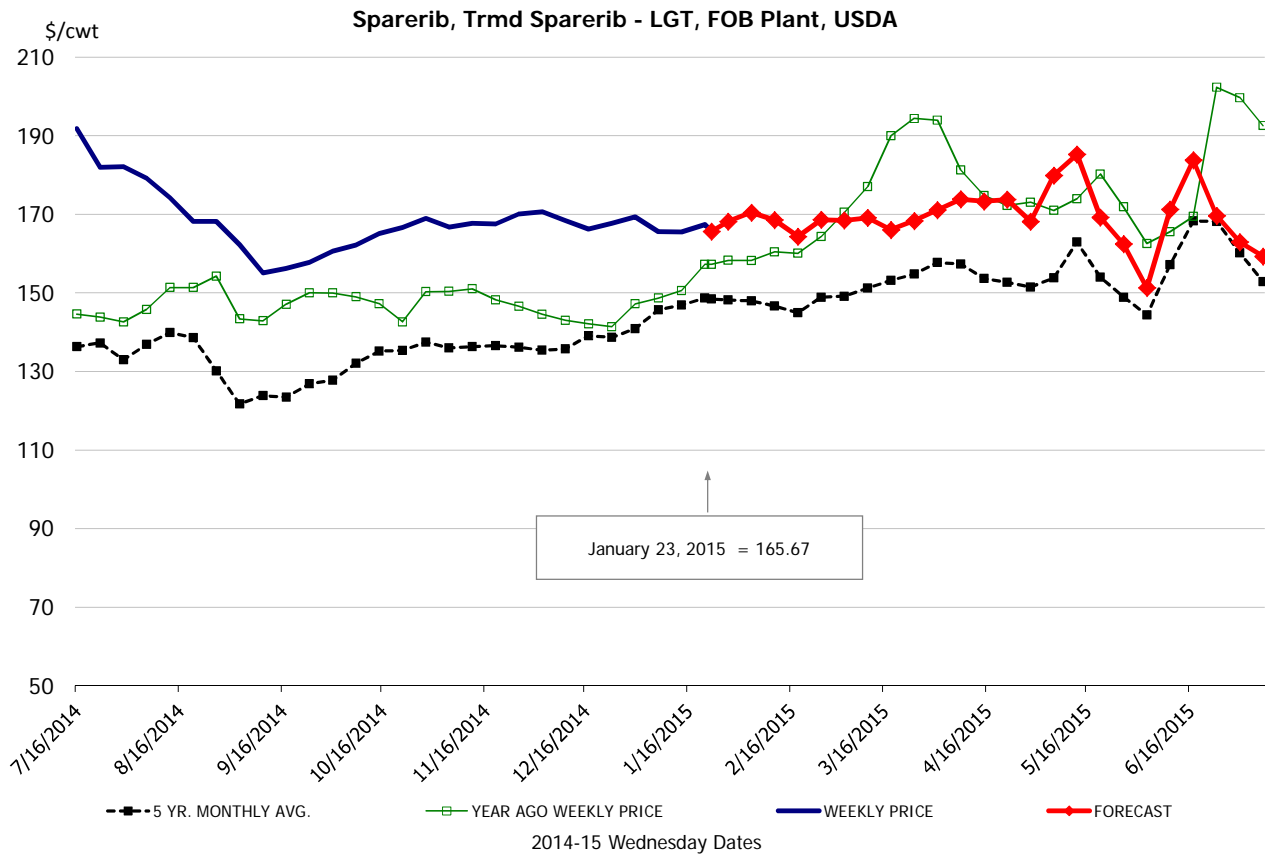
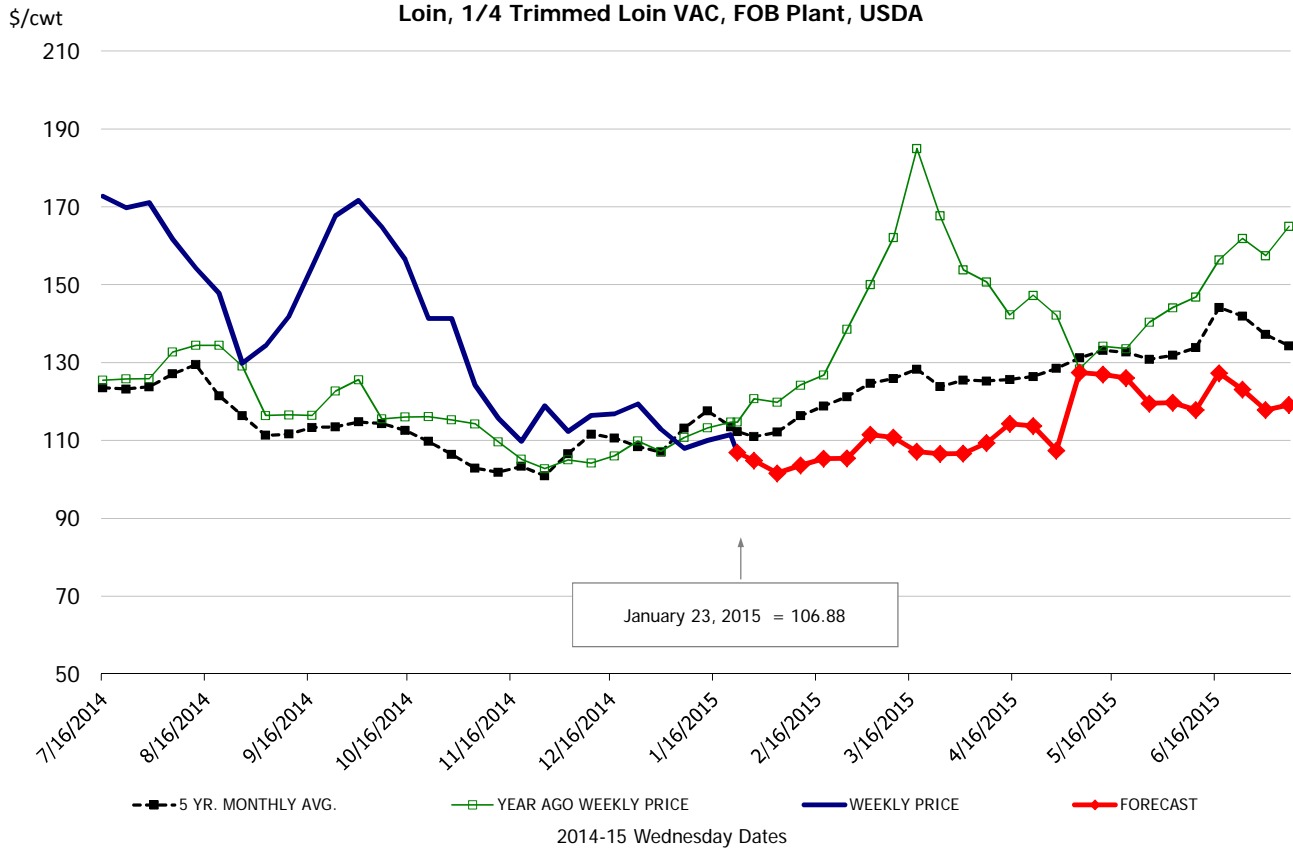
81CL Coarse Ground product finished last week at \$3.0932 up about 24 cent since Wed. January 14 and up about 5 cents from the year ago quote.

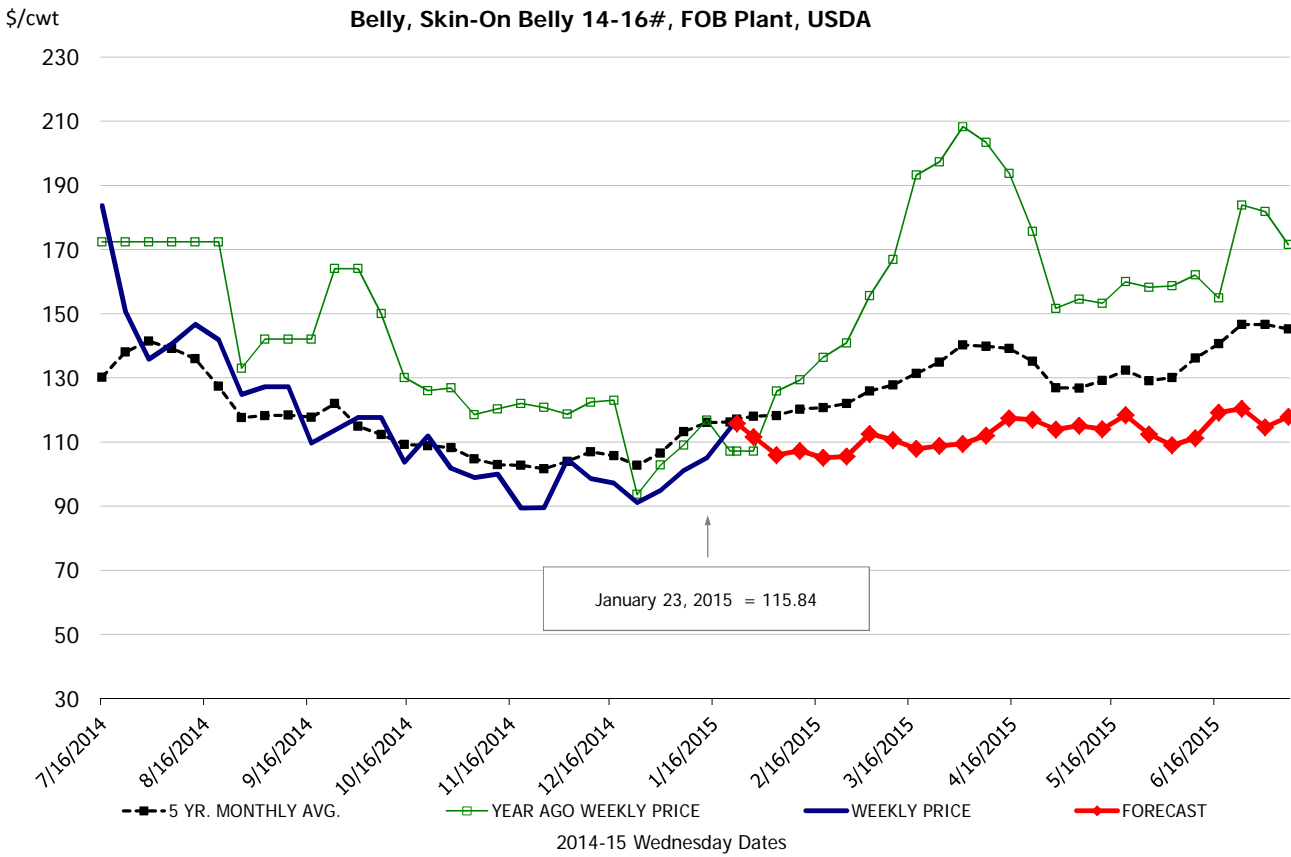
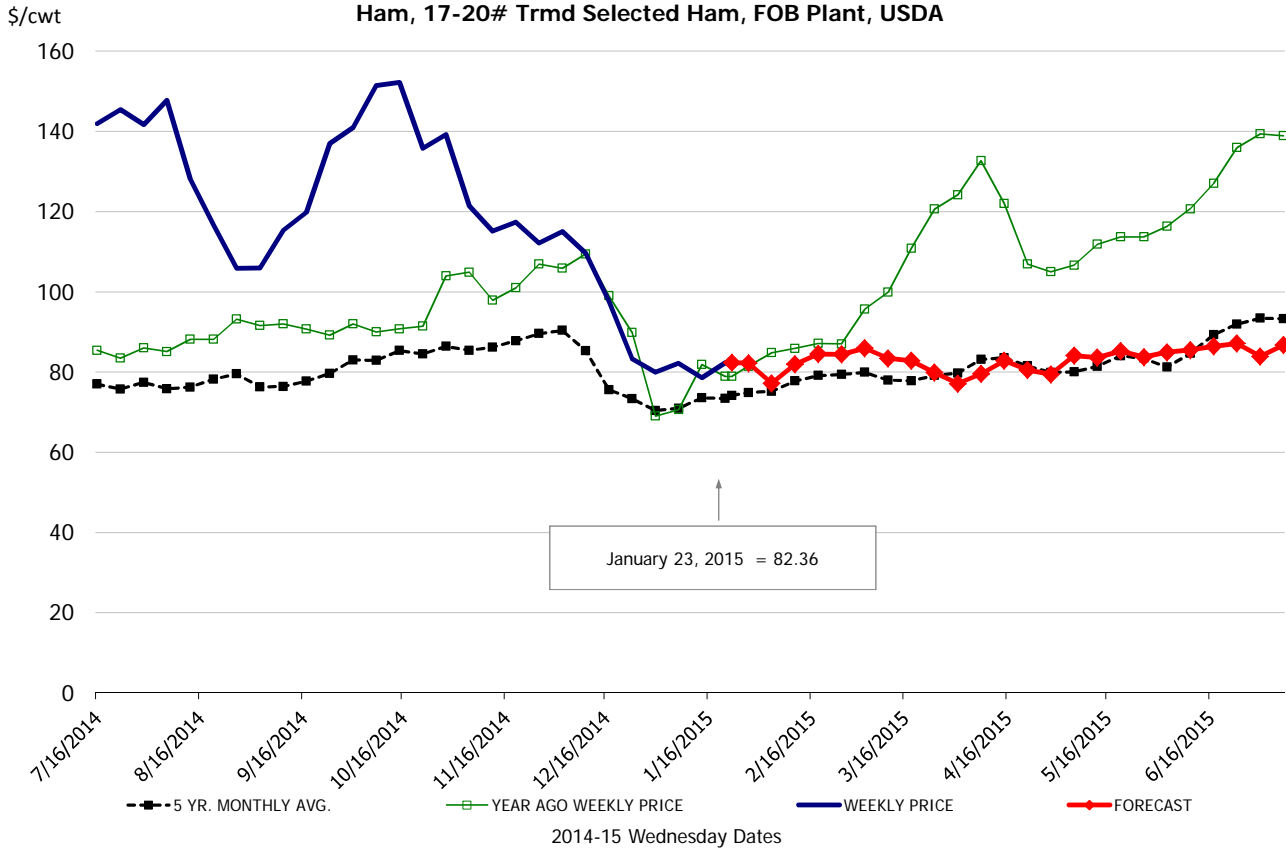
90CL Bnls. Beef prices finished the week at \$3.0339 (wt. avg.) up about 3 cent since Wed. January 14 and up 82 compared to the year ago price quote. Fat grinding beef prices have been higher in the last two weeks on tight slaughter supplies but the drop in ground beef prices should help cool off that market.

50 CL Beef Trim prices finished last week at \$1.4096, down about 2 cent since Wed. January 14 but up 38 compared to the year ago level.

Food Service Summary Table - WT. AVE

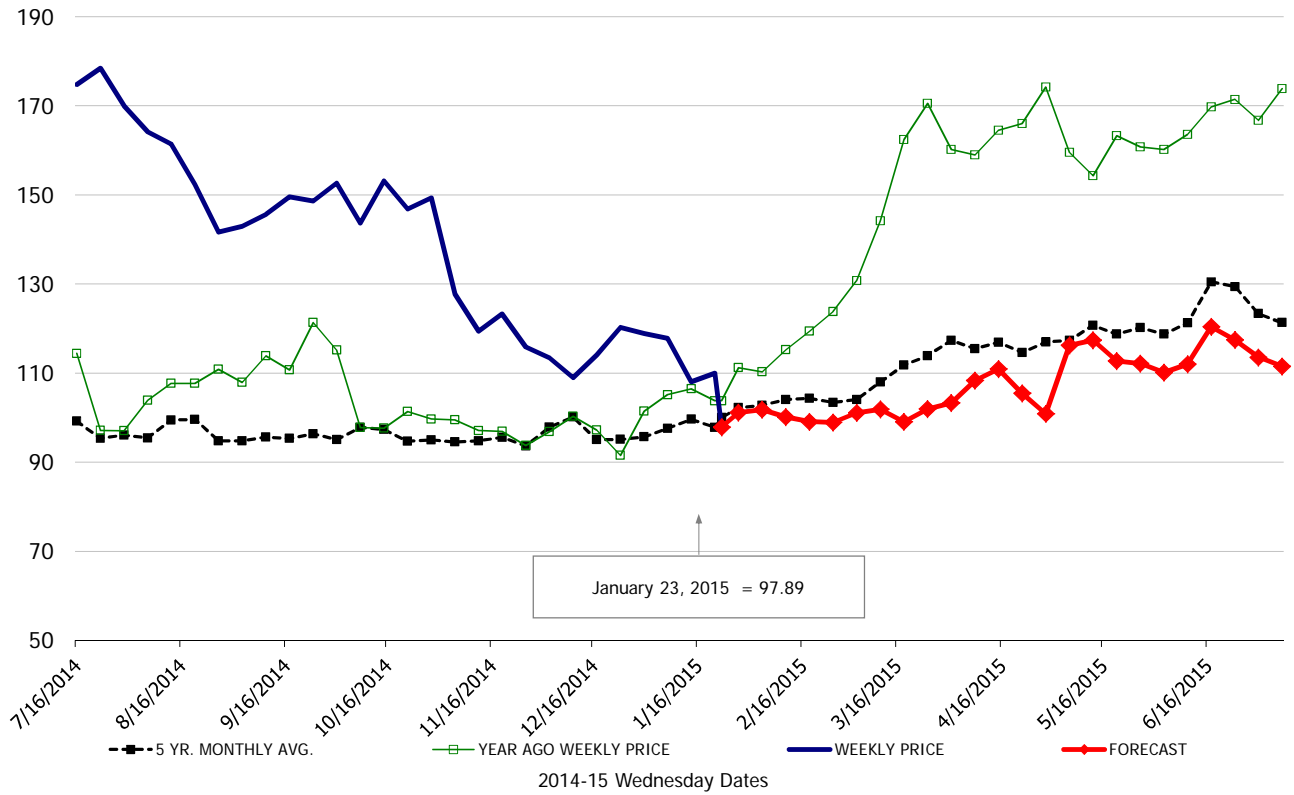
	2014-15 History							2015 FORECAST							
	Jul	Aug	Sep	Oct	Nov	Dec	1/14/2015	1/23/2015	2/4/2015	Jan	Feb	Mar	Apr	May	Jun
<u>PORK</u>															
Loin, 1/4 Trimmed Loin VAC, FOB Plant, USDA	1.67	1.48	1.53	1.51	1.16	1.15	1.10	1.07	1.02	1.07	1.04	1.09	1.11	1.24	1.22
Loin, 1/8 Trimmed Loin VAC, FOB Plant, USDA	1.79	1.57	1.58	1.60	1.23	1.23	1.18	1.16	1.09	1.16	1.11	1.17	1.18	1.31	1.31
Loin, Bnls CC Strap-off, FOB Plant, USDA	2.15	1.91	2.13	2.18	1.74	1.78	1.72	1.71	1.53	1.71	1.55	1.62	1.64	1.78	1.76
Loin, Tenderloin, FOB Plant, USDA	2.88	2.78	2.78	2.91	2.60	2.58	2.64	2.62	2.70	2.62	2.72	2.82	2.82	2.90	2.98
Butt, 1/4 Trim Butt Combo, FOB Plant, USDA	1.72	1.58	1.44	1.40	1.20	1.14	1.08	0.98	1.02	0.98	1.00	1.01	1.07	1.13	1.15
Sparerib, Trmd Sparerib - LGT, FOB Plant, USDA	1.88	1.73	1.57	1.64	1.68	1.67	1.66	1.66	1.70	1.66	1.68	1.68	1.73	1.73	1.69
Sparerib, St Louis Spareribs, POLY, FZN, FOB Plant, USDA	2.63	2.54	2.40	2.35	2.35	2.39	2.42	2.45	2.26	2.28	2.23	2.30	2.39	2.38	2.39
Sparerib, Trmd Sparerib - MED, FOB Plant, USDA	1.84	1.64	1.56	1.64	1.65	1.65	1.60	1.58	1.59	1.58	1.57	1.59	1.63	1.62	1.63
Loin, Backribs 2.0#/up, FOB Plant, USDA	2.70	2.53	2.35	2.28	2.29	2.27	2.35	2.38	2.37	2.38	2.38	2.38	2.49	2.55	2.46
Ham, 17-20# Trmd Selected Ham, FOB Plant, USDA	1.41	1.21	1.24	1.43	1.15	0.96	0.79	0.82	0.77	0.82	0.82	0.83	0.80	0.84	0.86
Ham, 20-23# Trmd Selected Ham, FOB Plant, USDA	1.44	1.12	1.18	1.15	1.03	0.82	0.73	0.79	0.72	0.78	0.75	0.75	0.73	0.78	0.79
Ham, 23-27# Trmd Selected Ham, FOB Plant, USDA	1.41	1.12	1.14	1.06	0.93	0.75	0.69	0.76	0.69	0.75	0.72	0.73	0.72	0.78	0.77
Ham, 5 Muscle Ham to Blue, FOB Plant, USDA	2.07	2.33	2.16	2.08		1.47	1.47	1.47	1.16	1.23	1.16	1.17	1.16	1.24	1.24
Belly, Skin-on Belly 14-16#, FOB Plant, USDA	1.61	1.27	1.13	1.05	0.95	0.98	1.05	1.16	1.06	1.07	1.06	1.10	1.14	1.15	1.15
Belly, Derind Belly 9-13#, FOB Plant, USDA	1.92	1.47	1.27	1.32	1.16	1.21	1.31	1.33	1.44	1.33	1.44	1.48	1.49	1.53	1.54
Belly, Derind Belly 13-17#, FOB Plant, USDA	1.93	1.41	1.26	1.34	1.15	1.20	1.28	1.30	1.42	1.30	1.42	1.46	1.47	1.51	1.52
Trim, 42% Trim Combo, FOB Plant, USDA	0.69	0.58	0.56	0.51	0.31	0.26	0.36	0.32	0.32	0.33	0.35	0.38	0.40	0.43	0.46
Trim, 72% Trim Combo, FOB Plant, USDA	1.40	1.10	1.00	0.98	0.75	0.67	0.66	0.66	0.67	0.66	0.68	0.70	0.68	0.74	0.81
<u>HOG CARCASS</u>															
IA/MN, Base Market Hog 185 lb Carcass Basis, Plant Div.	1.27	1.04	1.03	0.99	0.87	0.80	0.72	0.69	0.72	0.72	0.72	0.74	0.77	0.83	0.85
<u>BROILERS</u>															
BROILER, NATIONAL WHOLE BIRD PRICE, USDA	1.07	1.00	1.07	1.07	1.04	0.98	1.03	0.97	0.96	0.97	0.99	0.99	0.97	0.98	0.98
N.E. BROILER BREAST BONELESS-SKINLESS, USDA	2.00	1.85	1.88	1.68	1.43	1.31	1.34	1.45	1.34	1.40	1.35	1.45	1.55	1.65	1.60
N.E. BROILER BREAST LINE RUN, USDA	1.22	1.17	1.19	1.17	1.07	1.05	1.07	1.03	1.01	1.02	1.03	1.08	1.10	1.21	1.17
N.E. BROILER LEG QUARTERS, USDA	0.52	0.50	0.47	0.46	0.45	0.45	0.44	0.41	0.41	0.41	0.41	0.41	0.43	0.46	0.46
N.E. BROILER WINGS, USDA, WT.AVG.	1.45	1.43	1.66	1.87	1.78	1.73	1.92	2.06	2.00	2.05	1.89	1.76	1.59	1.44	1.48
<u>TURKEYS</u>															
UB HEN TURKEYS, EAST, FROZEN 10-12LBS	1.11	1.14	1.17	1.21	1.24	1.15	1.05	1.04	1.00	1.04	1.01	1.02	1.04	1.06	1.09
UB BONELESS-SKINLESS TURKEY BREAST, TOM, FRESH	4.01	4.05	4.05	3.98	3.92	3.83	3.55	3.35	3.04	3.45	3.00	2.75	2.78	2.84	2.95
<u>LIVE STEERS</u>															
FIVE AREA DIRECT AVERAGE LIVE STEER, USDA	1.57	1.57	1.58	1.63	1.69	1.64	1.70	1.61	1.52	1.62	1.54	1.54	1.53	1.51	1.46
<u>BEEF</u>															
CHOICE, 112A, 3 RIBEYE, BONELESS, HEAVY, USDA	7.34	7.03	6.96	7.07	7.79	7.48	6.61	6.57	6.42	6.55	6.55	6.90	6.91	7.16	7.42
CHOICE, 168, 3 TOP INSIDE ROUND, 1/4" MAX, USDA	2.89	3.13	2.83	2.87	2.98	2.95	3.03	2.74	2.68	2.83	2.70	2.72	2.65	2.66	2.55
CHOICE, 170, 1 BOTTOM GOOSENECK ROUND, USDA	2.57	2.61	2.66	2.88	2.84	2.69	2.94	2.79	2.66	2.80	2.66	2.52	2.39	2.39	2.35
CHOICE, 180, 3 STRIP LOIN, BONELESS, 0x1, USDA	6.66	6.40	5.25	5.10	5.29	5.56	6.46	6.04	5.89	6.03	6.03	6.10	6.75	7.26	7.11
CHOICE, 184, 3 TOP BUTT, BONELESS, USDA	4.05	3.53	3.36	3.36	3.58	3.57	3.89	3.90	3.80	3.90	3.84	4.03	4.14	4.08	3.79
CHOICE, 185A, 4 BOTTOM SIRLOIN, FLAP, USDA	4.82	4.82	4.43	4.31	4.15	4.25	4.81	5.08	4.82	5.08	5.08	5.25	5.26	5.46	5.50
COARSE GROUND 73%, USDA	2.36	2.40	2.42	2.38	2.40	2.28	2.64	2.50	2.38	2.50	2.34	2.26	2.30	2.38	2.13
COARSE GROUND 81%, USDA	2.56	2.64	2.58	2.60	2.69	2.64	2.85	3.09	2.70	3.09	2.67	2.56	2.54	2.69	2.34
90% BONELESS BEEF, CENTRAL, FRESH, USDA	2.88	2.96	2.99	2.95	2.96	2.97	3.01	3.03	2.97	3.03	2.98	2.91	2.89	2.90	2.78
50CL BEEF TRIM, FRESH, NATIONAL, USDA	1.36	1.41	1.14	1.11	1.15	1.01	1.43	1.41	1.19	1.38	1.28	1.41	1.35	1.38	1.21





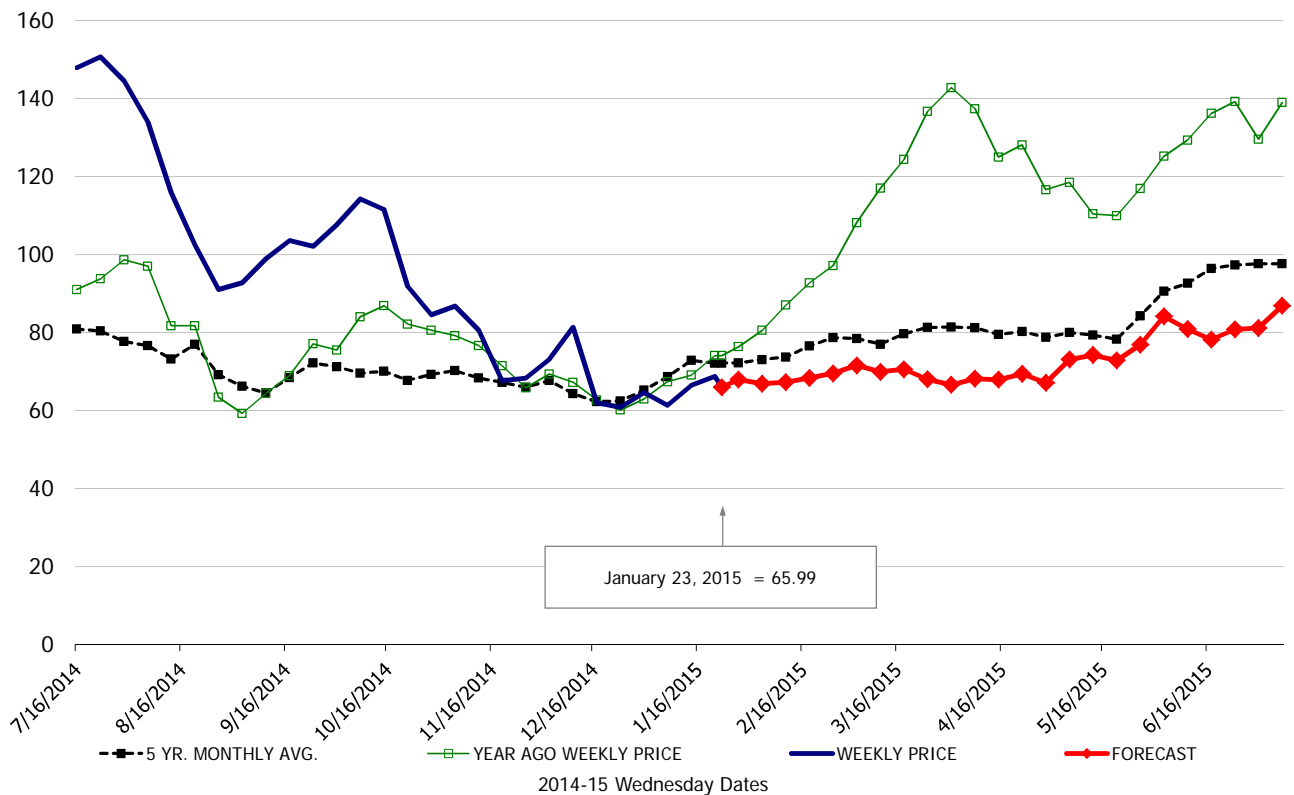
\$/cwt

Butt, 1/4 Trim Butt Combo, FOB Plant, USDA

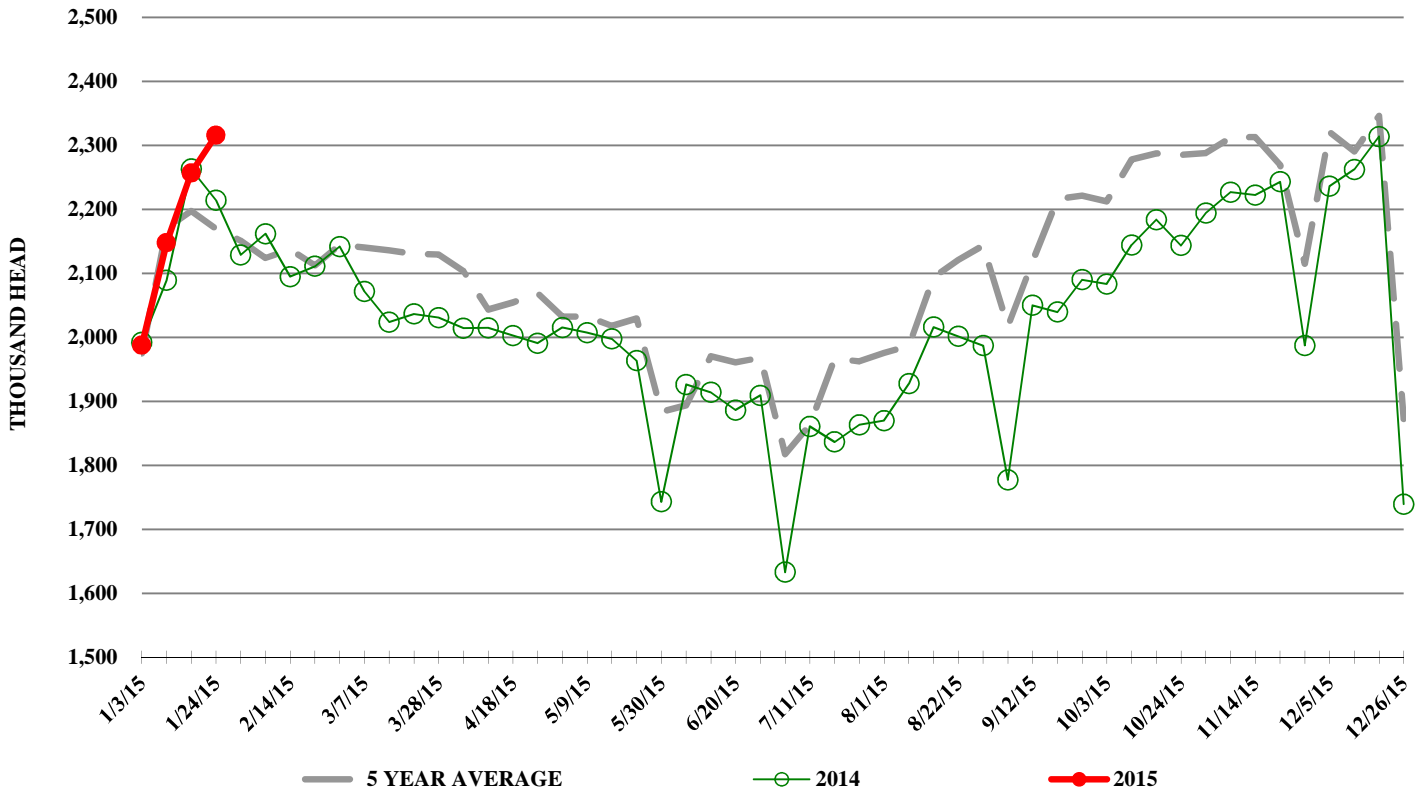


\$/cwt

Trim, 72% Trim Combo, FOB Plant, USDA



ESTIMATED WEEKLY FI HOG SLAUGHTER



ESTIMATED WEEKLY FI PORK PRODUCTION

