Pork Merchandiser's **Profit Maximizer**

- Foodservice Edition -

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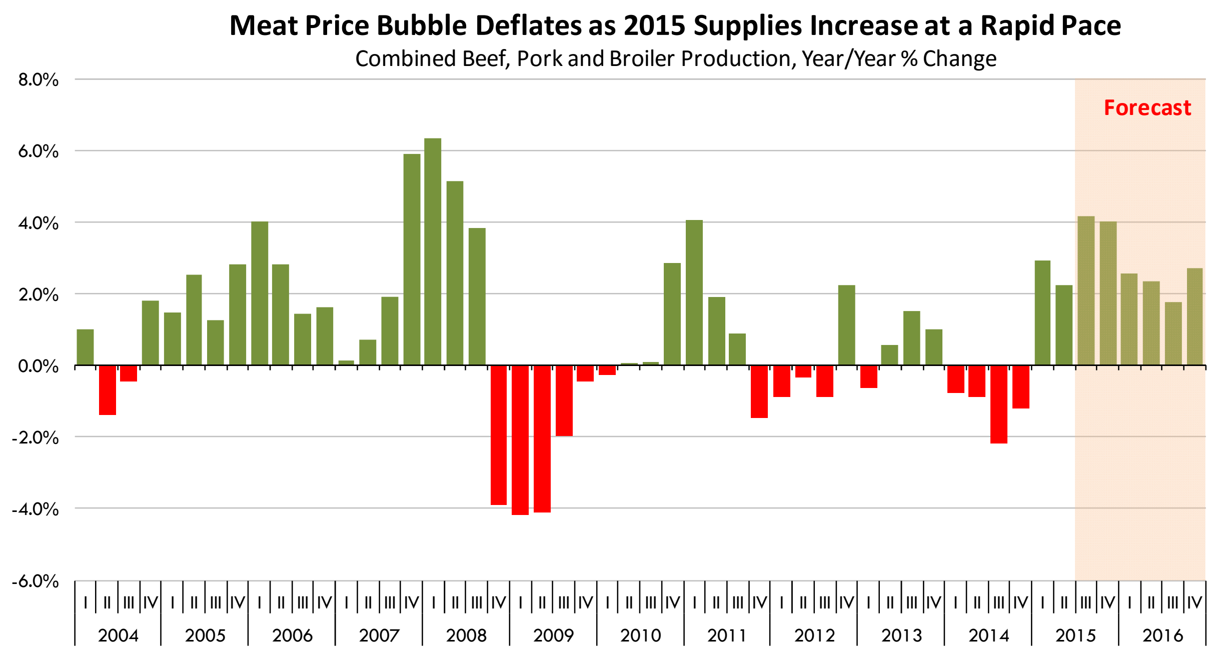
August 24, 2015

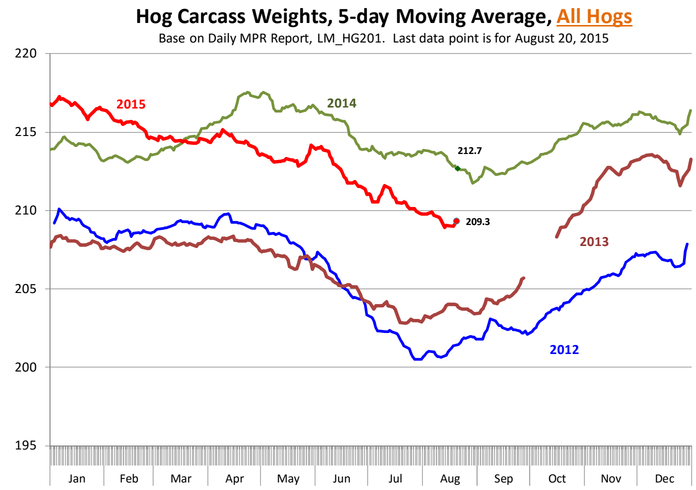
<u>Pork Market Situation and Outlook for Fall Supplies and Prices</u>

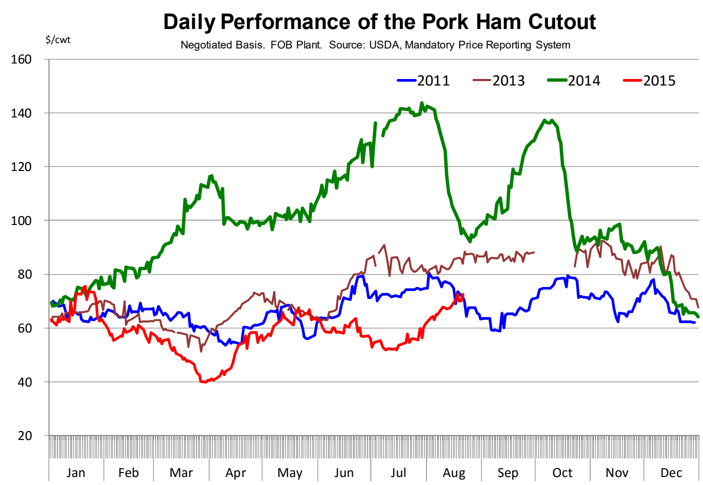
Livestock futures have been even more volatile than usual this August as market participants struggle to balance reports of weakening global economic growth (a key demand driver) while meat supplies continue to expand and are expected to be even higher in 2016. Hog futures have been dramatically lower so far this year but recently fed cattle and feeder cattle also have been sold quite aggressively as market participants turn increasingly bearish. Below we will look to recap the situation in the red meat complex. As for broilers, the situation is no less bearish as evidenced in the surge of cold storage inventories and negative export data.



While hog futures have rallied a few times since June, they have proved to be short lived as market participants continue to confront the reality of expanding supplies this fall and, at least so far, lackluster export business. There are some positive signs in the pork market that indicate demand is in relatively good shape. The pork cutout has managed to stay around $90/cwt despite hog slaughter now over 2.2 million head (+11.2% vs last year but just 1.0% larger than in 2013). It is not terribly unusual for the pork cutout to hold together in the weeks leading to Labor Day. Retailers are finishing up with their holiday weekend orders and successful promotions (bellies have been the latest case) often lead to late minute fill in orders. The pork cutout and hog prices also have benefited from the steady decline in hog carcass weights—again not that unusual for this time of year but the decline in weights has offset some of the increases from higher slaughter numbers. Total hog weights, as reported in the USDA MPR daily reports, currently are running around 209 pounds per carcass. This is the average for the last five days ending August 20. Last year weights were around 213.2 pounds, so the decline in weights has subtracted about 2% from the increase in slaughter.

Hog weights will remain a key factor for the next few weeks—a barometer of the supply pressures facing the market as production increases in the fall. The expectation is for hog slaughter to ramp up quickly in late August and September. In 2012, hog weights bottomed out in late July and then started to climb rapidly in August and early September. The situation in 2013 was similar although the gains in weights were not as pronounced. So far it appears producers have been successful in staying current with their marketings but how long will that continue? Pork packer margins have been good and, more importantly, pork has been selling, with the belly market underpinning the entire cutout. What happens, however, when those belly retail ads run their course and the Labor





Day effect wanes? These are two key uncertainties for the hog/pork market and it is why futures traders remain unwilling/uncertain about building too much of a premium into the nearby October contract. In the past, hams have been the saving grace for the pork market. As belly prices seasonally decline and loins/ribs struggle after the end of the grilling season, ham demand generally improves as we go into the fall. There has been plenty of speculation that sky high turkey breast prices would provide some support for ham values going into this holiday season, but there is a limit to that turkey effect. After all, we are talking about two proteins that have a very different volume footprint. Ham prices were weak for much of the summer but they have been showing some sign of life, recently.

Where hams in the past have had some trouble is that period in late August and early September. It is too early for the holiday demand to really kick in and a quick ramp up in slaughter sometimes leaves the ham market vulnerable to a downward correction. This was the case in 2012 but in 2011 and 2013 ham values actually held steady through September and October. Export sales are a key driver in the ham market as well and it is worth paying attention to Mexico shipments, by far the largest buyer of US hams.

To recap: Participants in the hog market will continue to pay close attention to the supply picture, watching the combination of both hog slaughter and hog carcass weights for any signs that production is ramping up too quickly. Seasonally hams should be the item that helps underpin the cutout while bellies start to fade. Strong ham demand will be necessary to keep the hog market in the high 60s and the ham inventory number on Friday will likely be closely watched.

Upcoming Holidays:

2015 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 August 22 slaughter was 2.226 million head, up 11.2% from a year ago. In the last two weeks hog slaughter is up 10.5% vs. year ago levels.

Iowa/Minnesota, Base Lean Market Hog 185 lbs. Carcass Values. Lean hog carcass values at about 74.98 /cwt. on Friday were down $1/cwt since Wed. August 12. Prices are down about 22 dollars compared to year ago values.

Loin, 1/4 Trimmed Loin VAC, FOB Plant, USDA (page 8). Prices finished last week at $1.0390, down about 7.0 cent since the Wed. August 12 quote and down about 44 cents from year ago levels.

Bnls. Strap on Pork Loins. Prices finished the week at $1.3453 for the strap on loins, down 10.2 cent since Wed. August 12 and down about 35 cent from the year ago levels. Strap off loins at $1.5979 are down about 2.5 cent since Wed. August 12 and down about 24 cents compared to the year ago quote.

Boneless sirloins at $1.2108 are up about 3 cents from the Wed. August 12 quote but down about 50.5 cents from the year ago price.

Pork tenderloin finished last week at $2.3470, down slightly since the Wed. August 12 quote and down about 42.5 cents from the year ago price.

5/10 Pork Butts (page 10), prices finished the week at $0.8867, down about 3 cents since Wed. August 12.

Spare Ribs, Trimmed - LGT, Vac (page 8). Prices finished the week at $1.6499, down about 2 cent since Wed. August 12 and down about 3 cents from year ago levels.

Rib inventories on July 31 were 75.6 million pounds, up 37.1% percent from a year ago.

Bone-in Hams.

17/20 hams (page 9) price was $0.7787/lb., up 4.8 cents compared to prices on Wed. August 12 but down about 39 cents from a year ago.

20/23 hams finished the week at 76.46 cents, up about 5 cents since Wed. August 12 but down about 29 cents from the year ago level.

23/27 hams finished the week at 74.05 , up about 5 cents from the Wed. August 12 quote but down about 20 cents from the year ago level.

Total ham cold storage stocks on July 31 at 206.8 million pounds were up 38.9% from year ago levels.

42 CL Pork Trim "FOB Basis". Prices finished the week at 28.01 cent, down about 3.4 cent since Wed. August 12 and down about 24 cents from the year ago price.

72 CL Pork Trim "FOB Basis". Prices finished the week at 45.67 cents, down about 6 cents since the Wed. August 12 quote and down about 57 cents from the year ago level.

Freezer stocks of all trimmings on July 31 were 44.2 million pounds, up 4.2% percent from the year ago levels.

72 CL Picnic Meat "FOB Basis". Picnics prices should continue to command premiums over the price of 72CL pork trim in the spring.

POULTRY

Georgia Dock Broilers. The Georgia dock price last week at $115.50 was up about 3 cents from a year ago.

The National Whole Bird price was quoted at 82.80 on Friday August 22, down about 18 cents from a year ago.

Broiler slaughter for the week ending August 22 was 164.41 million head, up 2.54% from a year ago. For the last two weeks slaughter was up 2.4% vs. a year ago.

Breasts. Prices on boneless skinless breasts finished the week at $1.4343, up 2 cents since Wed. August 12 but also down about 39 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. Leg quarter prices were up about 1.2 cents vs. two weeks ago but at 23.82 cents per pound prices were down 25 cents from a year ago. Bird flu has been a negative factor for dark meat exports so far this year.

Wings. Prices at $1.8423 are up about 33 cents from year ago levels.

Turkeys

Hens finished last week at $1.3100, up 1 cent since Wed. August 12 and up about 17 cents from the year ago price.

Toms finished last week at $1.3100, up 1 cent since Wed. August 12 and up about 17 cent from the year ago price.

Total turkey supplies in the freezer on July 31 were up 0.9% from a year ago at 494.0 million pounds. Whole birds were up 3.0% from a year ago with an inventory of 297.3 million pounds.

Turkey slaughter was 4.0780 million head for the week ending August 15, down -10.49% from a year ago. For the last two weeks slaughter has been down 8.0%.

Boneless Turkey Breast Meat. Boneless skinless turkey breast meat prices finished last week at $5.6500, unchanged since Wed. August 12. Prices are up about 160 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 $7.9653 (weighted average quote) finished last week up about 43 cents since the Wed. August 12 quote and up about 77 cents vs. the year ago price.

Select 112A Heavy Lip On Rib Eyes at $7.0797 (weighted average quote) finished last week up about 28 cents since the Wed. August 12 quote but up about 83 cents vs. the year ago price.

Currently Choice 112A Rib Eyes are $0.8856 /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 $2.8901 down about 10 cents since Wed. August 12 and down about 22 cents from the year ago price.

Choice ¼ inch trimmed #168 insides finished last week quoted at $2.9931 down about 12 cents since Wed. August 12 and down about 12 cents from year ago levels.

Choice #170 Gooseneck Rounds finished last week at $2.4376 down about 2 cents since Wed. August 12 and down about 27 cents from the year ago levels.

Choice #180 (0x1) Bnls. Strip Loins finished last week quoted at $6.7319 (wt. avg.) up about 43 cents from the Wed. August 12 quote. Prices are about 27 cents over year ago levels.

Choice #184 Regular Heavy top butts finished at $4.3781 (wt. avg.) up about 11 cents since Wed. August 12 and up about 102 cents from year ago levels.

Choice #184 ¼ inch trimmed Top Butts finished at $4.6384 (wt. avg.) down about 11 cents since Wed. August 12 but up about 115 cents from the year ago levels.

Choice #185A Flap Meat prices finished Friday at $5.1313 (wt. avg.) up about 23 cents since Wed. August 12 and up about 27 cents from year ago values.

COARSE GROUND BEEF –

73CL Coarse Ground product finished last week at $2.0277 up about 8 cents since Wed. August 12 but down about 39 cents from year ago levels.

81CL Coarse Ground product finished last week at $2.3896 down about one cent since Wed. August 12 and down about 22 cents from the year ago quote.

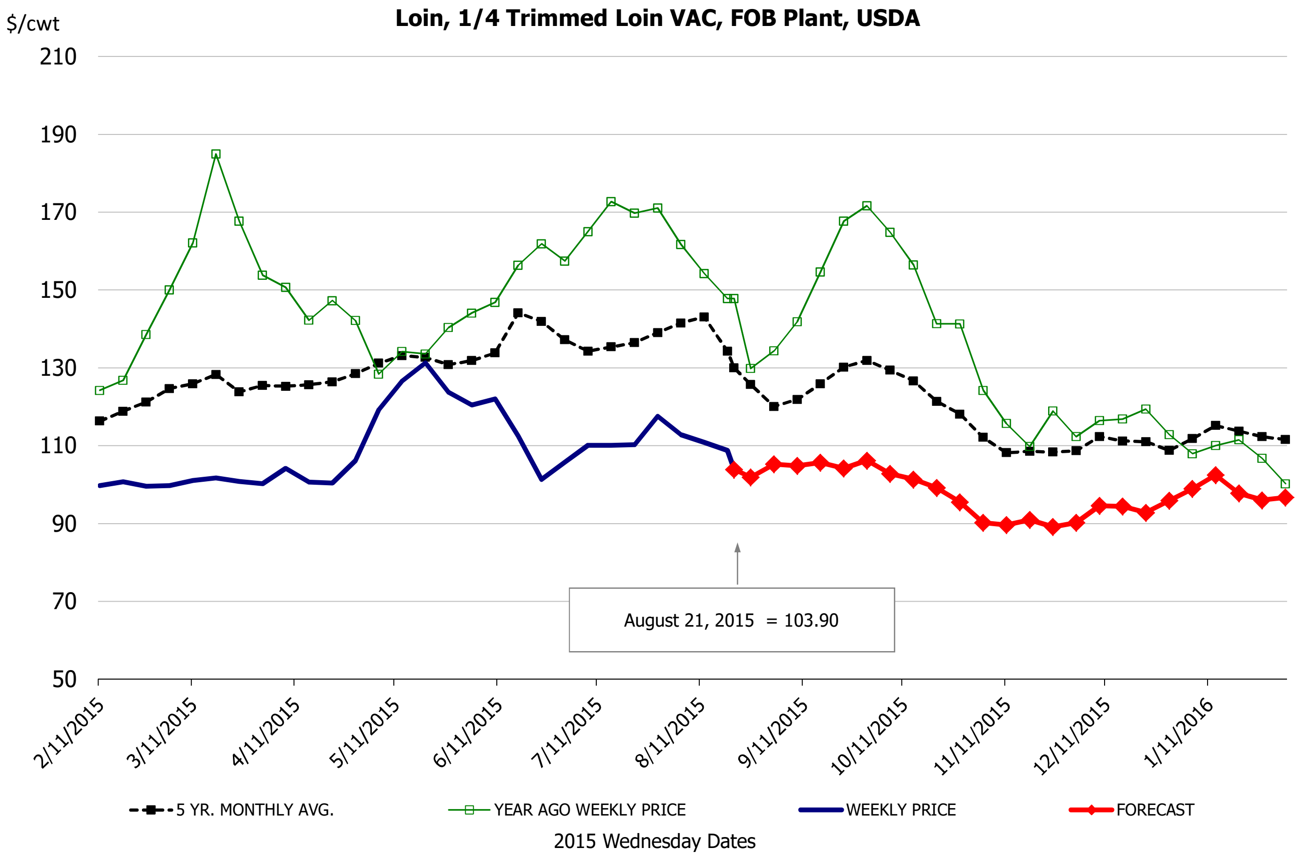
90CL Bnls. Beef prices finished the week at $2.8183 (wt. avg.) up about one cent since Wed. August 12 but down 16 compared to the year ago price quote.

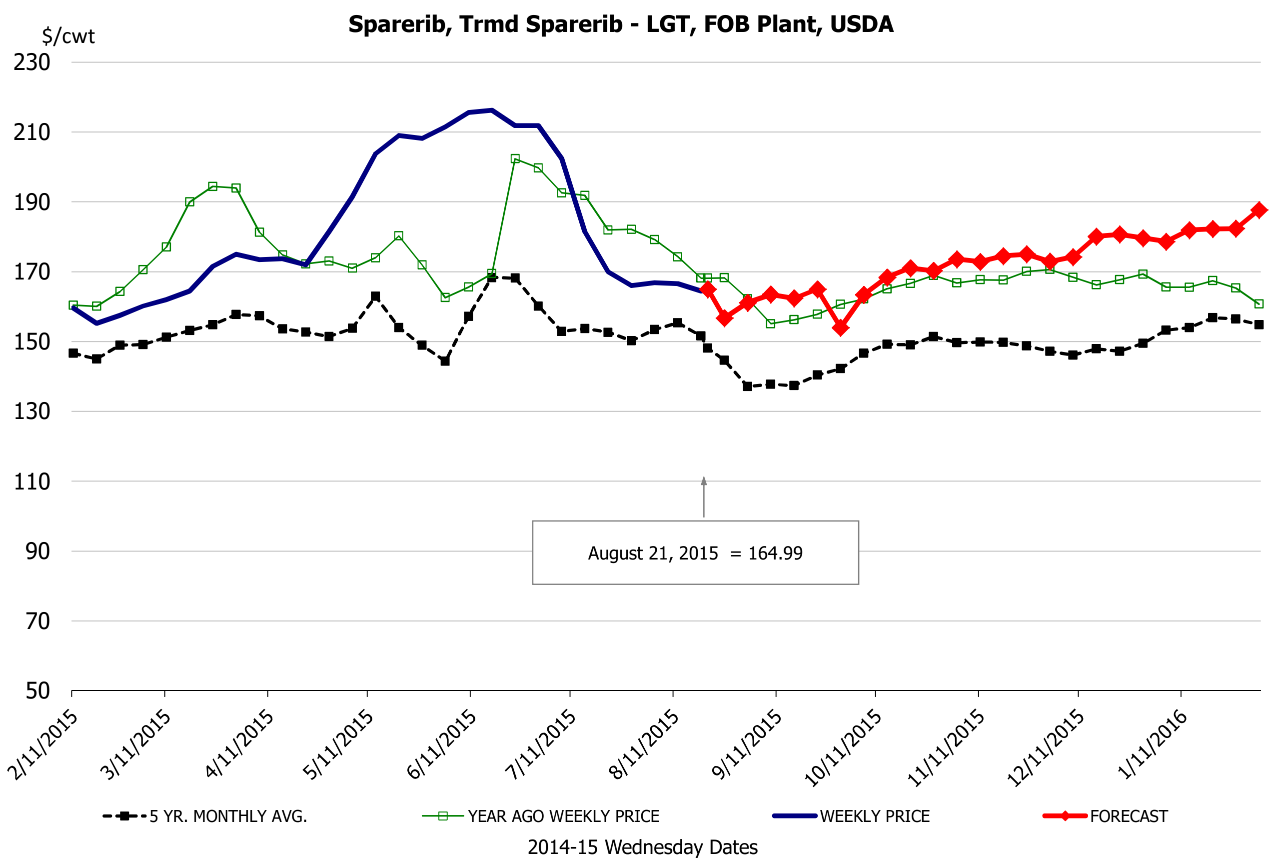
50 CL Beef Trim prices finished last week at $0.7285, down about one cent since Wed. August 12 and down 66 compared to the year ago level.

Food Service Summary Table - WT. AVE

							2015 History					2015-16 FORECAST				
	Feb	Mar	Apr	May	Jun	Jul	8/12/2015	8/21/2015	9/2/2015	Aug	Sep	Oct	Nov	Dec	Jan
PORK															
Loin, 1/4 Trimmed Loin VAC, FOB Plant, USDA	1.00	1.00	1.02	1.24	1.12	1.11	1.11	1.04	1.05	1.08	1.05	1.00	0.90	0.93	0.98
Loin, 1/8 Trimmed Loin VAC, FOB Plant, USDA	1.07	1.08	1.08	1.30	1.20	1.17	1.16	1.14	1.09	1.15	1.10	1.04	0.96	1.01	1.06
Loin, Bnls CC Strap-off, FOB Plant, USDA	1.55	1.57	1.62	1.75	1.56	1.55	1.62	1.60	1.56	1.62	1.59	1.56	1.44	1.51	1.51
Loin, Tenderloin, FOB Plant, USDA	2.51	2.25	2.07	2.23	2.48	2.61	2.38	2.35	2.32	2.40	2.30	2.16	2.09	2.13	2.17
Butt, 1/4 Trim Butt Combo, FOB Plant, USDA	0.85	0.89	0.90	1.11	1.07	0.83	0.84	0.78	0.96	0.91	0.94	0.89	0.87	0.90	0.82
Sparerib, Trmd Sparerib - LGT, FOB Plant, USDA	1.59	1.66	1.75	2.00	2.11	1.79	1.67	1.65	1.61	1.67	1.63	1.66	1.74	1.77	1.80
Sparerib, St Louis Spareribs, POLY, FZN, FOB Plant, USDA	2.36	2.40	2.46	2.60	2.63	2.71	2.54	2.44	2.47	2.70	2.50	2.47	2.53	2.56	2.61
Sparerib, Trmd Sparerib - MED, FOB Plant, USDA	1.53	1.56	1.71	1.97	2.05	1.75	1.63	1.64	1.63	1.68	1.62	1.60	1.66	1.68	1.72
Loin, Backribs 2.0#/up, FOB Plant, USDA	2.44	2.53	2.62	2.92	2.93	2.61	2.39	2.41	2.31	2.48	2.26	2.12	2.13	2.19	2.15
Ham, 17-20# Trmd Selected Ham, FOB Plant, USDA	0.70	0.58	0.56	0.68	0.68	0.63	0.73	0.78	0.78	0.77	0.80	0.84	0.82	0.71	0.65
Ham, 20-23# Trmd Selected Ham, FOB Plant, USDA	0.64	0.53	0.54	0.68	0.64	0.58	0.71	0.76	0.75	0.75	0.76	0.75	0.73	0.65	0.62
Ham, 23-27# Trmd Selected Ham, FOB Plant, USDA	0.59	0.48	0.50	0.67	0.61	0.56	0.69	0.74	0.71	0.74	0.72	0.69	0.66	0.63	0.61
Ham, 5 Muscle Ham to Blue, FOB Plant, USDA	1.19	1.19	1.19	1.11	0.98	0.93	0.96	0.96	1.07	1.11	1.08	1.03	0.97	0.93	0.90
Belly, Skin-on Belly 14-16#, FOB Plant, USDA	0.86	0.76	0.72	0.85	1.03	1.28	1.40	1.79	1.47	1.67	1.48	1.38	1.34	1.36	1.36
Belly, Derind Belly 9-13#, FOB Plant, USDA	1.01	0.87	0.81	0.97	1.28	1.71	2.17	1.97	1.86	2.01	1.81	1.74	1.69	1.71	1.64
Belly, Derind Belly 13-17#, FOB Plant, USDA	1.05	0.83	0.79	0.90	1.27	1.64	2.09	2.07	1.88	2.00	1.83	1.72	1.67	1.69	1.62
Trim, 42% Trim Combo, FOB Plant, USDA	0.27	0.24	0.22	0.36	0.45	0.35	0.31	0.28	0.33	0.33	0.33	0.29	0.23	0.21	0.28
Trim, 72% Trim Combo, FOB Plant, USDA	0.48	0.39	0.46	0.67	0.77	0.64	0.52	0.46	0.52	0.49	0.52	0.52	0.51	0.49	0.53
HOG CARCASS															
IA/MN, Base Market Hog 185 lb Carcass Basis, Plant Dlv.	0.61	0.60	0.62	0.79	0.77	0.76	0.76	0.75	0.68	0.75	0.68	0.64	0.60	0.62	0.63
BROILERS															
BROILER, NATIONAL WHOLE BIRD PRICE, USDA	0.92	0.99	1.05	1.07	1.01	0.91	0.83	0.83	0.88	0.83	0.87	0.87	0.87	0.87	0.88
N.E. BROILER BREAST BONELESS-SKINLESS, USDA	1.38	1.41	1.54	1.62	1.48	1.40	1.42	1.43	1.46	1.43	1.41	1.26	1.15	1.13	1.21
N.E. BROILER BREAST LINE RUN, USDA	1.02	1.01	1.04	1.10	1.07	1.01	0.92	0.91	0.94	0.91	0.92	0.89	0.86	0.85	0.86
N.E. BROILER LEG QUARTERS, USDA	0.36	0.37	0.34	0.34	0.28	0.26	0.23	0.24	0.25	0.24	0.24	0.24	0.23	0.23	0.25
N.E. BROILER WINGS, USDA, WT.AVG.	1.94	1.85	1.79	1.81	1.84	1.84	1.81	1.84	1.87	1.85	1.95	2.02	1.89	1.91	2.01
TURKEYS															
UB HEN TURKEYS, EAST, FROZEN 10-12LBS	1.04	1.06	1.09	1.14	1.18	1.24	1.30	1.31	1.32	1.31	1.33	1.36	1.36	1.27	1.15
UB BONELESS-SKINLESS TURKEY BREAST, TOM, FRESH	3.10	2.94	3.08	3.74	4.44	5.20	5.65	5.65	5.62	5.60	5.70	5.80	5.55	5.25	4.70
LIVE STEERS															
FIVE AREA DIRECT AVERAGE LIVE STEER, USDA	1.60	1.61	1.64	1.61	1.55	1.49	1.51	1.48	1.48	1.48	1.49	1.50	1.52	1.51	1.51
BEEF															
CHOICE, 112A, 3 RIBEYE, BONELESS, HEAVY, USDA	6.64	7.78	8.49	8.62	7.79	7.10	7.53	7.97	7.97	7.81	7.99	8.17	8.56	7.99	7.08
CHOICE, 168, 3 TOP INSIDE ROUND, 1/4" MAX, USDA	2.89	2.84	2.86	2.94	2.96	2.86	3.12	2.99	2.90	2.99	2.91	2.92	2.92	2.99	3.00
CHOICE, 170, 1 BOTTOM GOOSENECK ROUND, USDA	2.68	2.55	2.38	2.37	2.48	2.46	2.46	2.44	2.60	2.55	2.63	2.75	2.66	2.61	2.79
CHOICE, 180, 3 STRIP LOIN, BONELESS, 0x1, USDA	5.88	6.19	7.52	9.03	7.32	5.91	6.30	6.73	5.70	6.41	5.60	5.26	5.25	5.30	5.67
CHOICE, 184, 3 TOP BUTT, BONELESS, USDA	4.06	4.40	4.71	4.54	3.99	4.06	4.68	4.64	4.33	4.60	4.38	3.88	3.91	3.98	3.98
CHOICE, 185A, 4 BOTTOM SIRLOIN, FLAP, USDA	4.88	4.98	6.92	7.33	5.45	4.83	4.90	5.13	4.83	4.90	4.66	4.37	4.29	4.38	4.65
COARSE GROUND 73%, USDA	2.12	2.11	2.06	2.07	1.96	1.79	1.95	2.03	1.91	1.88	1.89	1.79	1.81	1.83	2.20
COARSE GROUND 81%, USDA	2.40	2.42	2.37	2.32	2.30	2.31	2.40	2.39	2.33	2.35	2.27	2.19	2.22	2.24	2.61
90% BONELESS BEEF, CENTRAL, FRESH, USDA	2.93	2.95	2.96	2.97	2.94	2.90	2.81	2.82	2.89	2.83	2.82	2.70	2.71	2.78	2.74
50CL BEEF TRIM, FRESH, NATIONAL, USDA	0.90	0.89	1.15	0.95	0.81	0.66	0.74	0.73	0.74	0.75	0.69	0.72	0.81	0.72	0.83

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


Loin, 1/4 Trimmed Loin VAC, FOB Plant, USDA
$/cwt
210
190
170
150
130
110
90
70
50
August 21, 2015 = 103.90
2/11/2015
3/11/2015
4/11/2015
5/11/2015
6/11/2015
7/11/2015
8/11/2015
9/11/2015
10/11/2015
11/11/2015
12/11/2015
1/11/2016
5 YR. MONTHLY AVG.
YEAR AGO WEEKLY PRICE
WEEKLY PRICE
FORECAST
2015 Wednesday Dates


Sparerib, Trmd Sparerib - LGT, FOB Plant, USDA
$/cwt
230
210
190
170
150
130
110
90
70
50
August 21, 2015 = 164.99
2/11/2015
3/11/2015
4/11/2015
5/11/2015
6/11/2015
7/11/2015
8/11/2015
9/11/2015
10/11/2015
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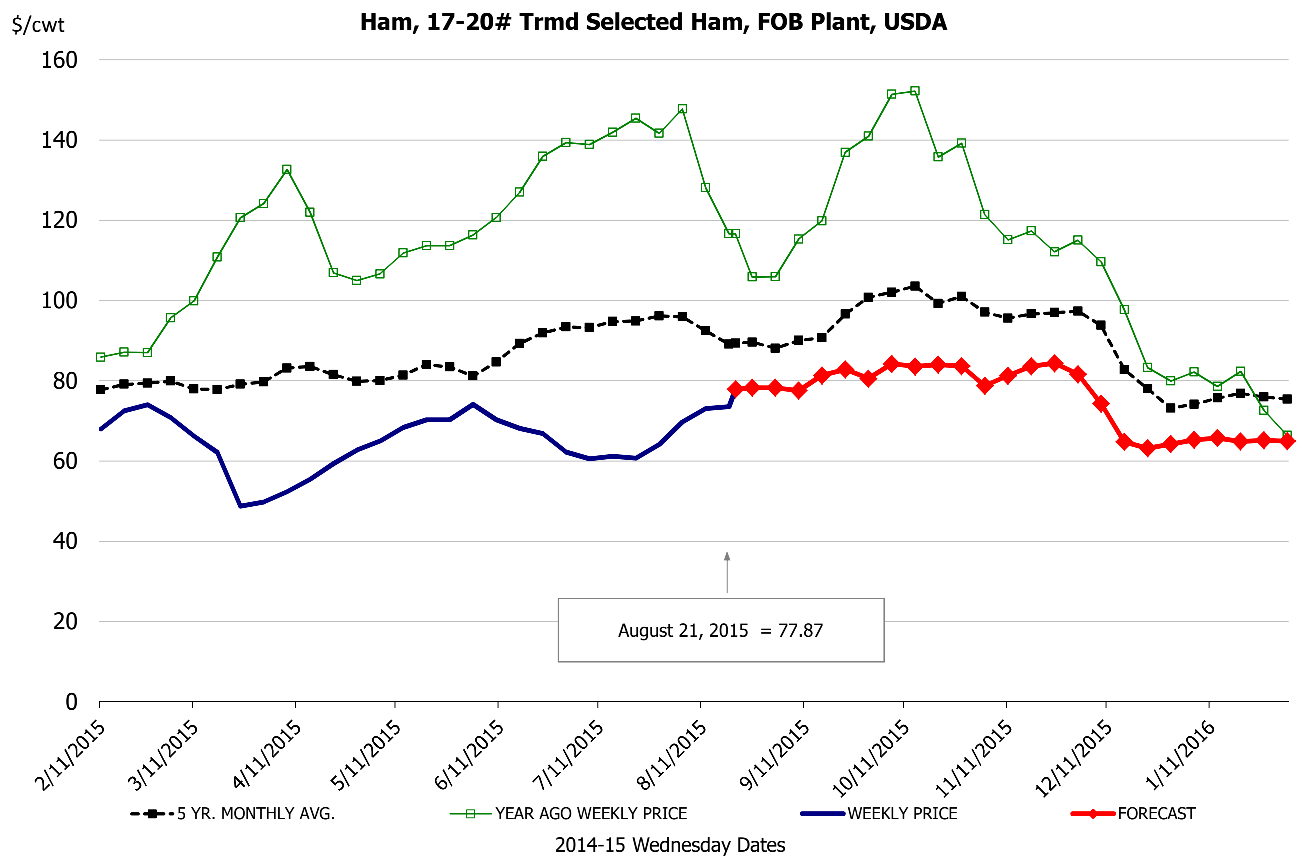

$/cwt
Ham, 17-20# Trmd Selected Ham, FOB Plant, USDA
160
140
120
100
80
60
40
20
0
August 21, 2015 = 77.87
2/11/2015
3/11/2015
4/11/2015
5/11/2015
6/11/2015
7/11/2015
8/11/2015
9/11/2015
10/11/2015
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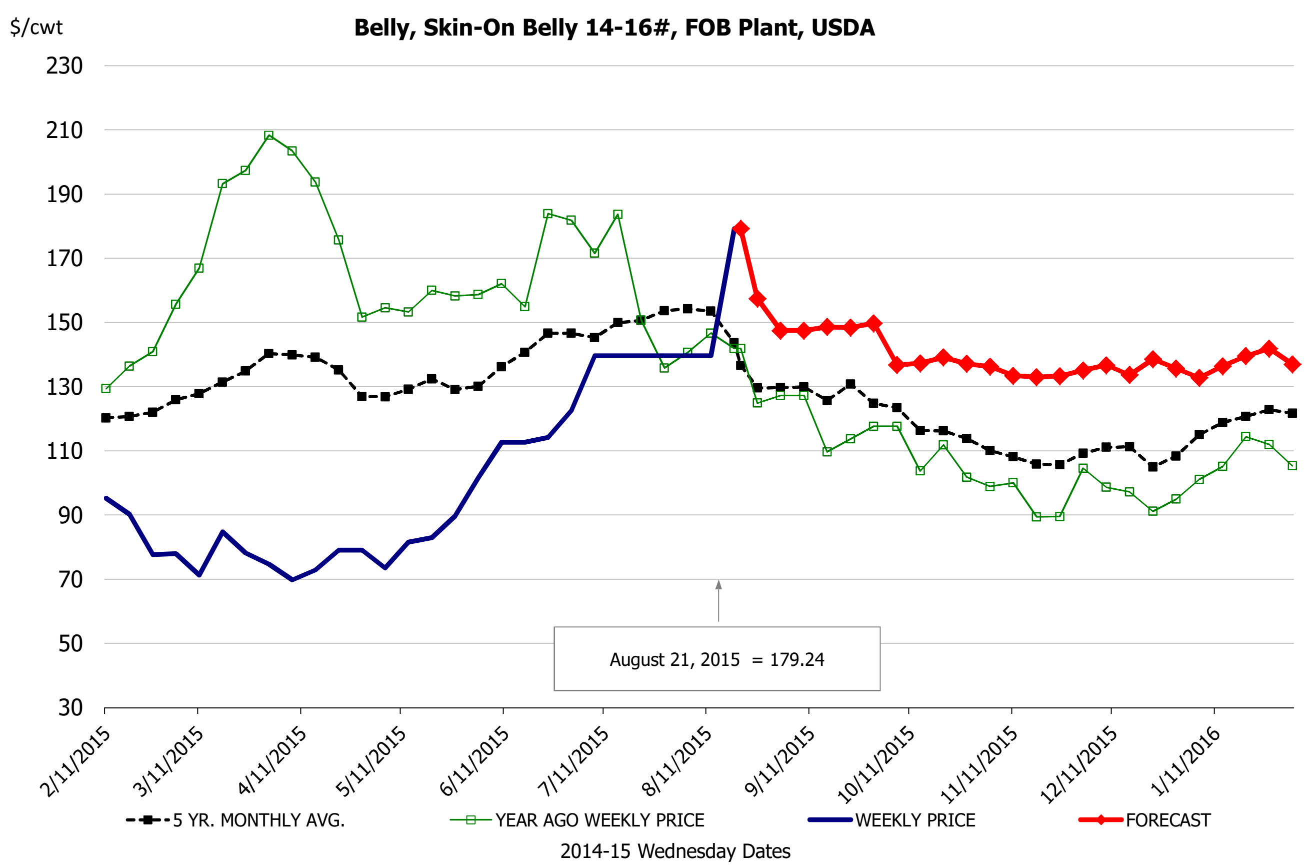

$/cwt
Belly, Skin-On Belly 14-16#, FOB Plant, USDA
230
210
190
170
150
130
110
90
70
50
30
August 21, 2015 = 179.24
2/11/2015
3/11/2015
4/11/2015
5/11/2015
6/11/2015
7/11/2015
8/11/2015
9/11/2015
10/11/2015
11/11/2015
12/11/2015
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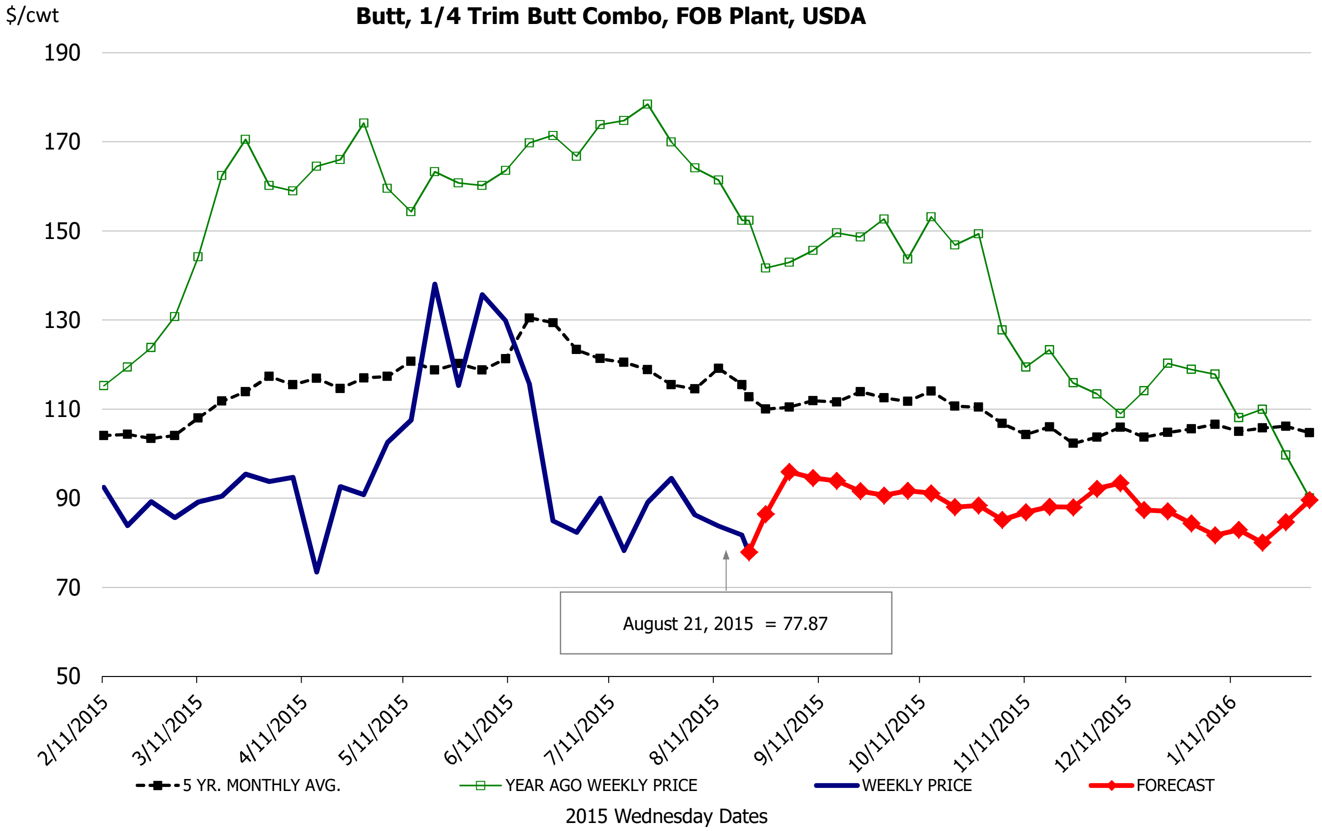
$/cwt
Butt, 1/4 Trim Butt Combo, FOB Plant, USDA
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8/11/2015
9/11/2015
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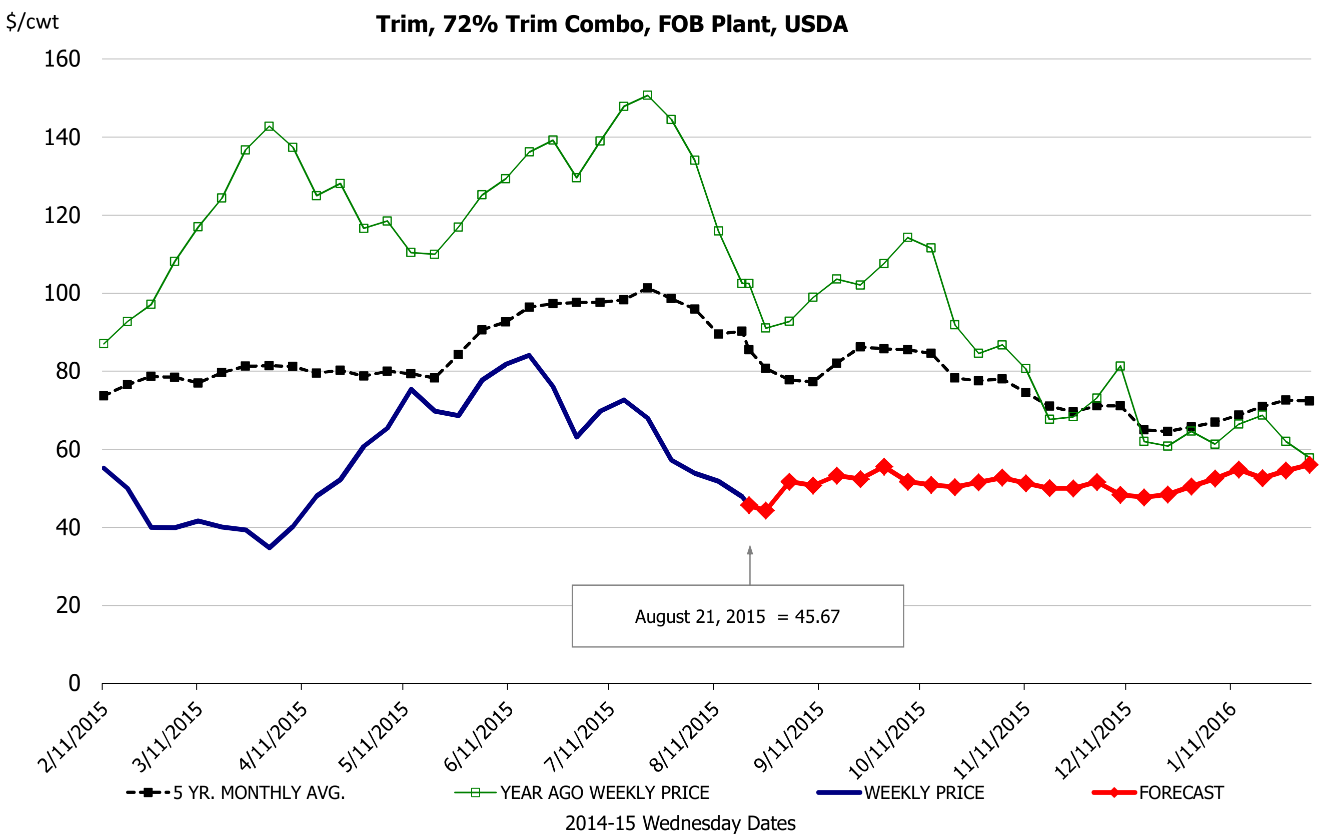
$/cwt
Trim, 72% Trim Combo, FOB Plant, USDA
160
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120
100
80
60
40
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0
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9/11/2015
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11/11/2015
12/11/2015
1/11/2016
5 YR. MONTHLY AVG.
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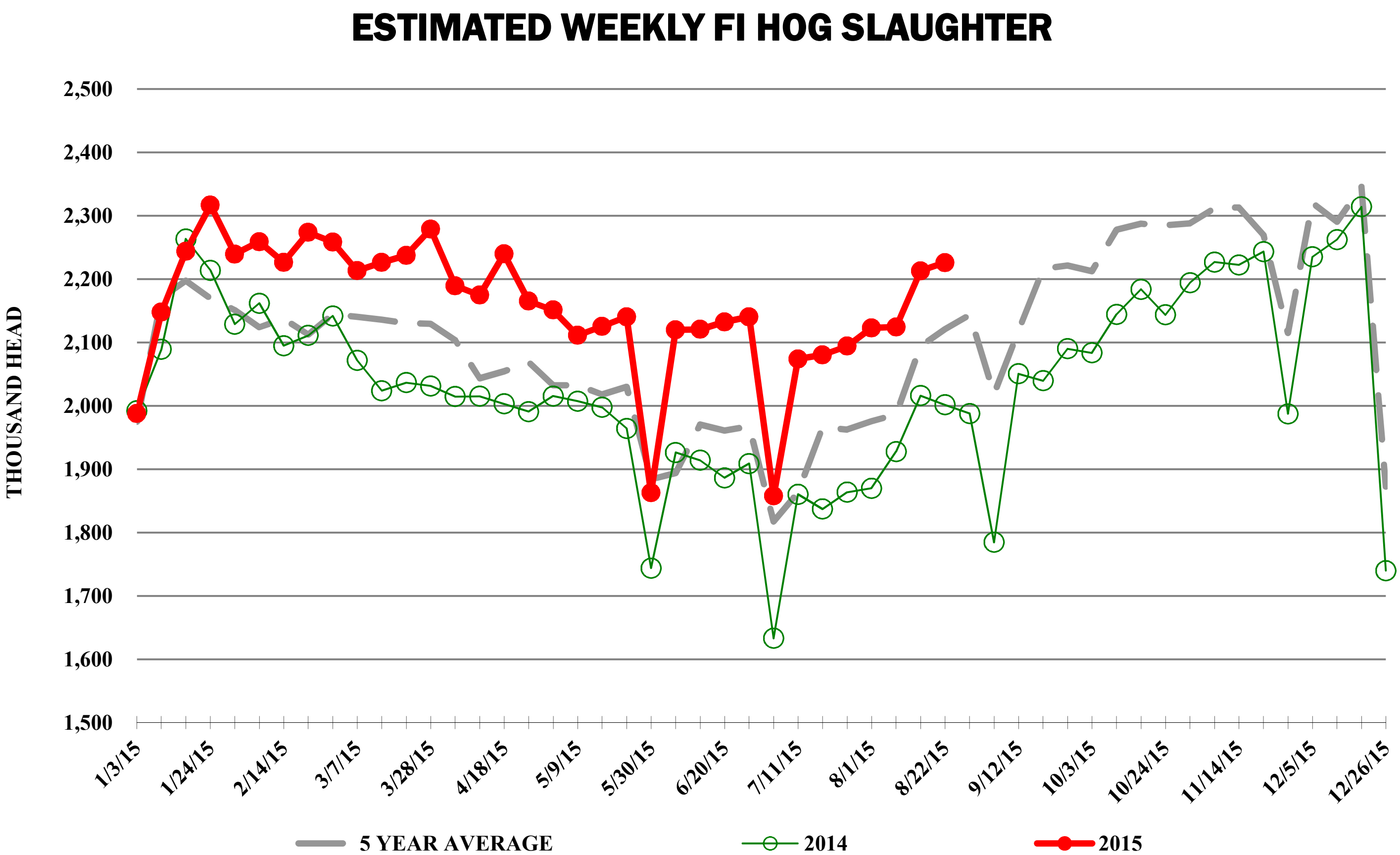
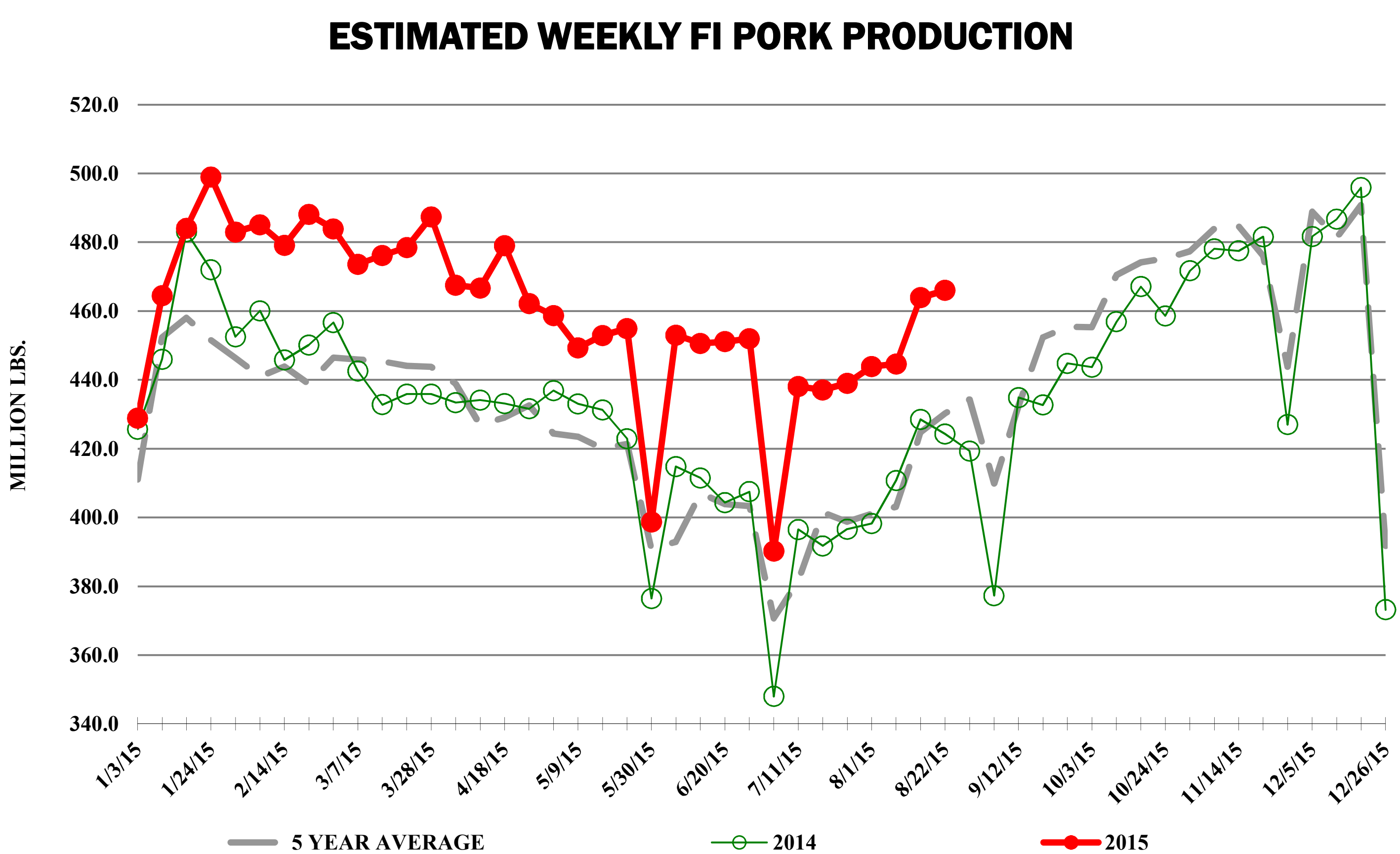
WEEKLY PRICE
FORECAST
2014-15 Wednesday Dates


ESTIMATED WEEKLY FI HOG SLAUGHTER
THOUSAND HEAD
2,500
2,400
2,300
2,200
2,100
2,000
1,900
1,800
1,700
1,600
1,500
1/3/15
1/24/15
2/14/15
3/7/15
3/28/15
4/18/15
5/9/15
5/30/15
6/20/15
7/11/15
8/1/15
8/22/15
9/12/15
10/3/15
10/24/15
11/14/15
12/5/15
12/26/15
5 YEAR AVERAGE
2014
2015


ESTIMATED WEEKLY FI PORK PRODUCTION
MILLION LBS.
520.0
500.0
480.0
460.0
440.0
420.0
400.0
380.0
360.0
340.0
1/3/15
1/24/15
2/14/15
3/7/15
3/28/15
4/18/15
5/9/15
5/30/15
6/20/15
7/11/15
8/1/15
8/22/15
9/12/15
10/3/15
10/24/15
11/14/15
12/5/15
12/26/15
5 YEAR AVERAGE
2014
2015