



Be inspiredSM

Pork Merchandiser's Profit Maximizer

- Foodservice Edition -

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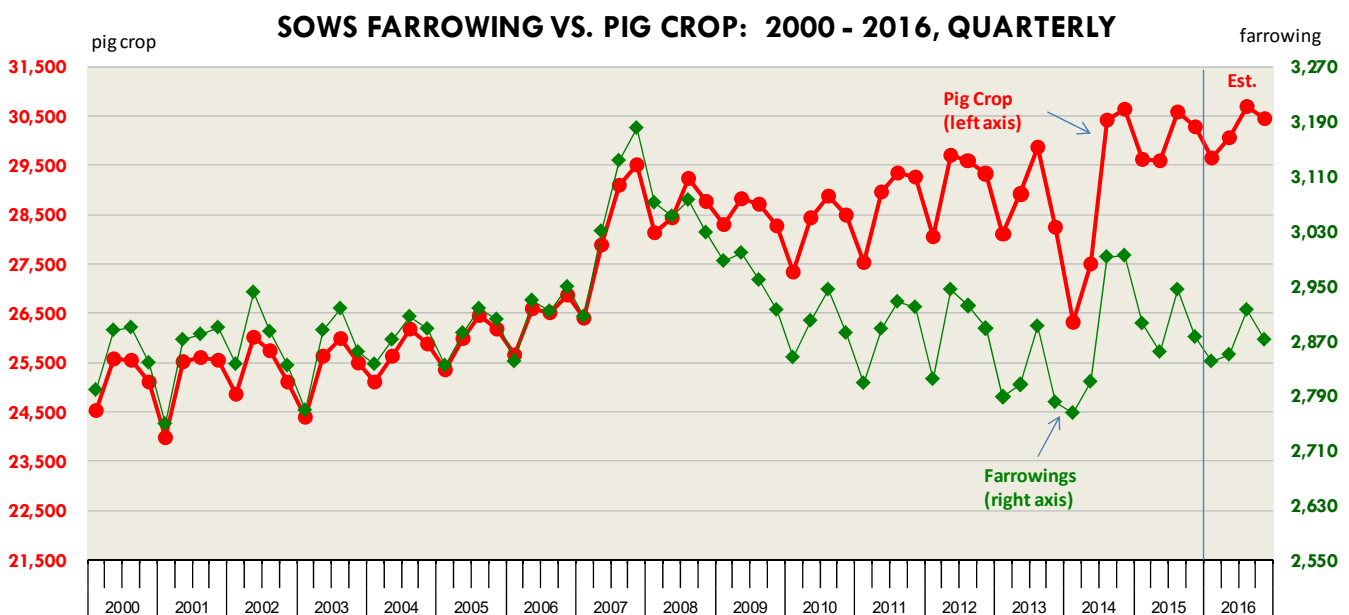
December 28, 2015

1. Hogs and Pigs Highlights

- Smaller hog supply vs. projections for spring and summer
- Breeding herd numbers continue to expand
- Pigs per litter at record high
- Hog numbers will be plentiful by fall of 2016 and risk bumping against capacity constraints

The data from the latest USDA “Hogs and Pigs” report was for the most part close to analyst estimates but most numbers were on the low end of the range and futures have been trading higher following the release of this report

The total inventory of hogs and pigs was 68.299 million head, 0.8% higher than a year ago. Analysts on average expected the total in-

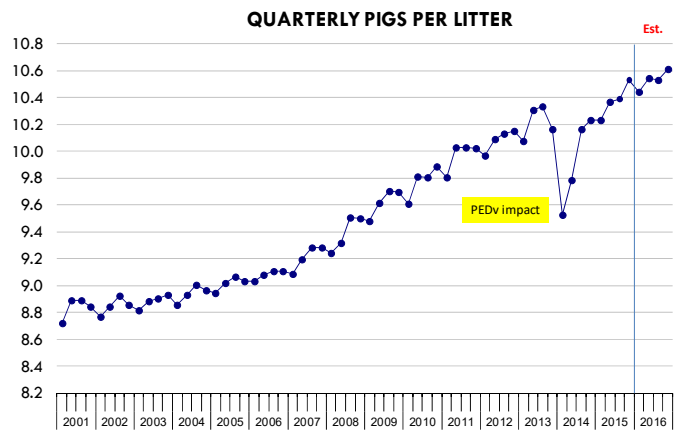
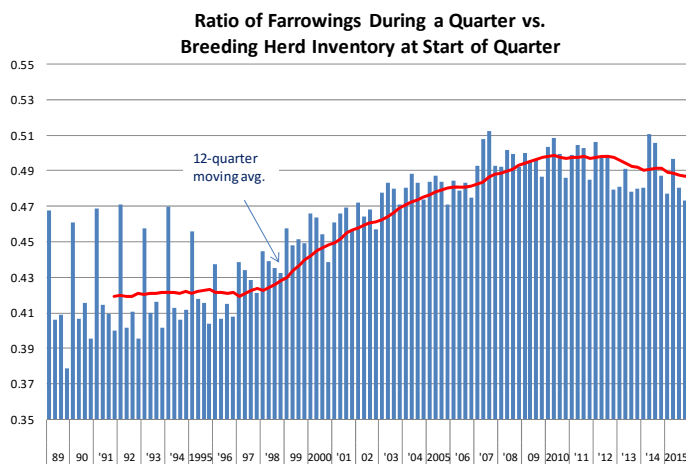
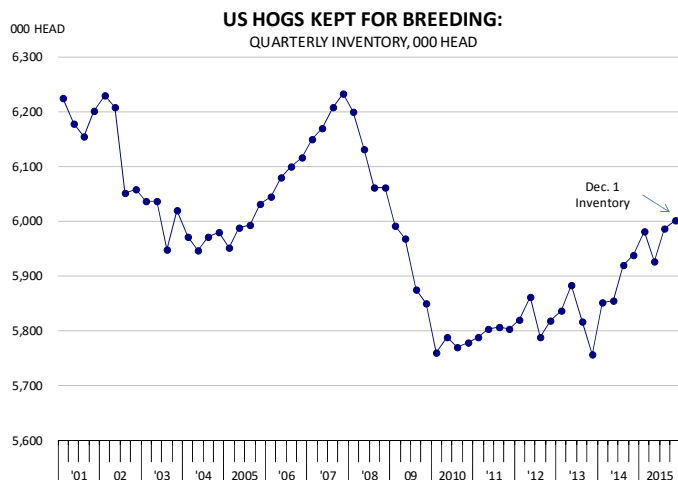


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ventory to be up 1.4%. The USDA inventory number was lower than expected largely because the USDA survey confirmed a smaller inventory of light hogs. Hogs weighing under 50 pounds (these are hogs that will come to market in late April and May) were 19.508 million head, 1.5% lower than a year ago. Pre report estimates were looking for a 0.4% decline. Hogs between 50 and 120 pounds were estimated at 17.282 million head, 0.5% lower compared to pre-report estimates of a 0.4% increase.

One of the survey numbers that we are paying close attention to was the size of the breeding herd. Analysts expected the breeding herd to be up 0.9% while the USDA survey pegged it at 1.1% higher than a year ago. The difference is relatively small, however and we think it has very little material impact on supply projections for the second half of 2016. However, it is important to note that this is the largest breeding herd since the last quarter of 2008. Producers have responded to lower feed costs (and PEDv losses) by expanding their herds and this sets the stage for continued increases in hog numbers and pork production for the next 12-18 months.

A couple of things that seemed a bit odd in the report. Farrowings for Dec-Feb were smaller than expected and the ratio of farrowings to the breeding herd was quite low at 47.3%. The Dec-Feb farrowing intentions are one on the inputs for projecting summer hog supplies. The survey number was 1.9% lower than a year ago compared to analyst estimates that were projecting just a 0.4% decline. This is why futures viewed the report as bullish for the summer months. It remains to be seen if this number holds up given the size of the breeding



herd. But maybe after several years of steady gains in sow utilization, productivity gains have lost ground. The ratio implied by this report is what we used to get 10 years ago. It could also be that this is a short term issue relating to a larger than normal turnover in the sow herd. It

is a key issue, nonetheless as an improvement in sow utilization (higher farrowings) and more pigs per litter could create an explosive supply growth this spring and summer.

This leads us to the second interesting point in the report, namely the dramatic improvement in the number of pigs saved per litter. Sep-Nov pigs per litter were 10.53, 2.9% higher than a year ago and an all-time record high. The improvement in pigs per litter could blunt some of the impact of lower farrowings.

Bottom line: The overall tone of the report was friendly to hog futures and all 2016 contracts are up compared to pre-report levels. However, ongoing expansion of the breeding herd implies that hog supplies in the US market will remain plentiful and we should see only very modest pork price inflation in 2016. Indeed, given the size of the breeding herd, gains in pigs per litter and near record high hog carcass weights, the expectation is for supplies next year to match 2016 levels and potentially surpass some of the record weekly slaughter weeks we saw this year.

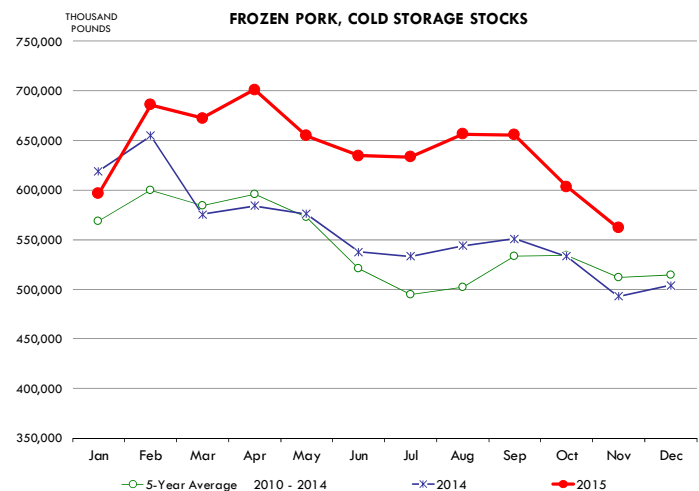
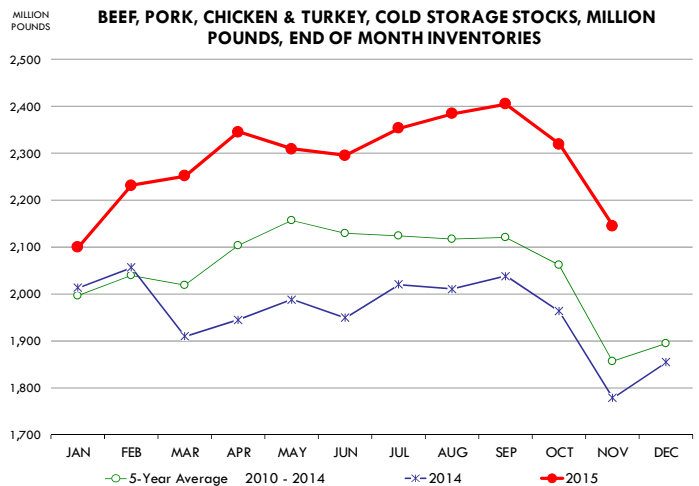
2. Pork in Cold Storage

Pork inventories at the end of November were 561.9 million pounds, 14% higher than a year ago and 9.7% higher than the five year average. Still we view the latest report as positive as it appears drawdown was much higher than normal for this time of year, especially considering we have had several weeks of slaughter at or above 2.4 million head. Pork inventories normally decline by around 4% in November from the previous month. This year the drawdown was 6.9%. This follows a 7.9% m/m decline in October. Ham stocks declined 44.5% from the previous month and they are now just 7.8% higher than the five year average. Bringing ham inventories down in

November was critical in order to avoid a prolonged slump in ham values during January and February.

Chicken supplies remain quite burdensome and this will likely continue to be a drag for overall meat prices. Total chicken in cold storage was 882.3 million pounds, 26.6% higher than a year ago and 27.9% higher than the five year average.

Takeaway: The drawdown in pork inventories was certainly positive as the fear was that pork supplies would explode higher given near record hog slaughter. Low prices certainly have helped clean up the market. Still, overall meat protein in cold storage remains significantly higher than in previous years and this will tend to keep overall meat prices in check.



Upcoming holidays:

2016 New Year's Day (Friday January 1); Martin Luther King Day (Monday January 18); Super Bowl 50 (Sunday February 7, in Santa Clara (near San Francisco)); Chinese New Year (Monday February 8); Ash Wednesday (Wednesday February 10); Valentine's Day (Sunday February 14); President's Day (Monday February 15); Daylight Savings Time Begins in US (Sunday March 13); St. Patrick's Day (Thursday March 17); Easter (Sunday March 27); Passover (Saturday April 23); Cinco de Mayo (Thursday May 5); Mother's Day (Sunday May 8); Victoria Day [Canada] (Monday May 23); Memorial Day (Monday May 30); Father's Day [US and Canada] (Sunday June 19); Canada Day [Canada] (Friday July 1); Independence Day (Monday July 4); Labor Day [US and Canada] (Monday September 5); Rosh Hashanah (Monday October 3); Yom Kippur (Wednesday October 12); Columbus Day (Monday October 10); Canadian Thanksgiving Day (Monday October 10); Daylight Savings Time Ends [US and Canada] (Sunday November 6); Veterans Day (Friday November 11); Remembrance Day [Canada] (Friday November 11); Thanksgiving (Thursday November 24); Hanukkah (Sunday December 25); Christmas Day (Sunday December 25); Boxing Day [Canada] (Monday 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 19 slaughter was 2.493 million head, up 7.7% from a year ago. In the last two weeks hog slaughter is up 7.5% vs. year ago levels.

Iowa/Minnesota, Base Lean Market Hog 185 lbs. Carcass Values. Lean hog carcass values at about 48.70 /cwt. on Friday were down \$1.2/cwt since Wed. December 16. Prices are down about 27 dollars compared to year ago values.

Loin, 1/4 Trimmed Loin VAC, FOB Plant, USDA (page 8). Prices finished last week at \$0.8466, up about 0.02 cent since the Wed. December 16 quote but down about 35 cents from year ago levels.

Bnls. Strap on Pork Loins. Prices finished the week at \$1.3297 for the strap on loins, up 7.0 cent since Wed. December 16 but down about 31 cent from the year ago levels. Strap off loins at \$1.4446 are up about 6.1 cent since Wed. December 16 but down about 39 cents compared to the year ago quote.

Boneless sirloins at \$0.9413 are up slightly from the Wed. December 16 quote but down about 43.8 cents from the year ago price.

Pork tenderloin finished last week at \$1.9113, up 7 cent from the Wed. December 16 quote but down about 64.5 cents from the year ago price.

1/4 Trim Pork Butts (page 10), prices finished the week at \$0.9353, up slightly since Wed. December 16.

Spare Ribs, Trimmed - LGT, Vac (page 8). Prices finished the week at \$1.4806, up about 3 cent since Wed. December 16 but down about 20 cents from year ago levels.

Rib inventories on November 30 were 116.8 million pounds, up 51.8% percent from a year ago.

Bone-in Hams.

17/20 hams (page 9) price was \$0.5998/lb., down 14.2 cents compared to prices on Wed. December 16 and down about 23 cents from a year ago.

20/23 hams finished the week at 48.82 cents, down about 24 cents since Wed. December 16 and down about 22 cents from the year ago level.

23/27 hams finished the week at 49.43 , down about 18 cents from the Wed. December 16 quote and down about 19 cents from the year ago level.

Total ham cold storage stocks on November 30 at 109.0 million pounds were up 13.1% from year ago levels.

42 CL Pork Trim “FOB Basis”. Prices finished the week at 17.81 cent, down about 0.6 cent since Wed. December 16 and down about 4 cents from the year ago price.

72 CL Pork Trim “FOB Basis”. Prices finished the week at 33.02 cents, down about 0.2 cents since the Wed. December 16 quote and down about 28 cents from the year ago level.

Freezer stocks of all trimmings on November 30 were 37.7 million pounds, up 8.2% 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 \$113.00 was down 0.75 cents from a year ago.

The National Whole Bird price was quoted at 82.29 on Friday, December 19, down about 14 cents from a year ago.

Broiler slaughter for the week ending December 19 was 159.73 million head, up 3.31% from a year ago. For the last two weeks slaughter was up 2.1% vs. a year ago.

Breasts. Prices on boneless skinless breasts finished the week at \$1.0245, up 1 cents since Wed. December 16 but still down about 23 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 0.6 cents vs. two weeks ago but at 23.75 cents per pound prices were down 20 cents from a year ago. Bird flu has been a negative factor for dark meat exports so far this year.

Wings. Prices at \$1.6621 are down about 1 cents from year ago levels.

Turkeys

Hens finished last week at \$1.2400, down 5 cent since Wed. December 16 but up about 10 cents from the year ago price.

Toms finished last week at \$1.2400, down 5 cents since Wed. December 16 but up about 10 cent from the year ago price.

Total turkey supplies in the freezer on November 30 were up 1.4% from a year ago at 190.2 million pounds. Whole birds were up 13.6% from a year ago with an inventory of 58.6 million pounds.

Turkey slaughter was 4.1590 million head for the week ending December 12, down -9.37% from a year ago. For the last two weeks slaughter has been down 8.3%.

Boneless Turkey Breast Meat. Boneless skinless turkey breast meat prices finished last week at \$5.6500, down 5 cents since Wed. December 16. Prices are up about 190 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 \$7.4301 (weighted average quote) finished last week down about 102 cents since the Wed. December 16 quote but up about 26 cents vs. the year ago price.

Select 112A Heavy Lip On Rib Eyes at \$7.0998 (weighted average quote) finished last week down about 12 cents since the Wed. December 16 quote but up about 70 cents vs. the year ago price.

Currently Choice 112A Rib Eyes are \$0.3303 /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 \$1.8955 down about 0 cents since Wed. December 16 and down about 101 cents from the year ago price.

Choice ¼ inch trimmed #168 insides finished last week quoted at \$2.0357 up about 16 cents since Wed. December 16 and down about 92 cents from year ago levels.

Choice #170 Gooseneck Rounds finished last week at \$2.1776 up about 15 cents since Wed. December 16 but down about 66 cents from the year ago levels.

Choice #180 (0x1) Bnls. Strip Loins finished last week quoted at \$5.3577 (wt. avg.) up about 32 cents from the Wed. December 16 quote. Prices are about 44 cents over year ago levels.

Choice #184 Regular Heavy top butts finished at \$3.0187 (wt. avg.) up about 14 cents since Wed. December 16 but down about 48 cents from year ago levels.

Choice #184 ¼ inch trimmed Top Butts finished at \$3.0689 (wt. avg.) up about 11 cents since Wed. December 16 but down about 55 cents from the year ago levels.

Choice #185A Flap Meat prices finished Friday at \$4.1913 (wt. avg.) up about 5 cents since Wed. December 16 but down about 10 cents from year ago values.

COARSE GROUND BEEF –

73CL Coarse Ground product finished last week at \$1.4226 up about 5 cents since Wed. December 16 but down about 87 cents from year ago levels.

81CL Coarse Ground product finished last week at \$1.7382 up about 23 cent since Wed. December 16 but down about 86 cents from the year ago quote.

90CL Bnls. Beef prices finished the week at \$1.9626 (wt. avg.) up about one cent since Wed. December 16 but down 101 compared to the year ago price quote.

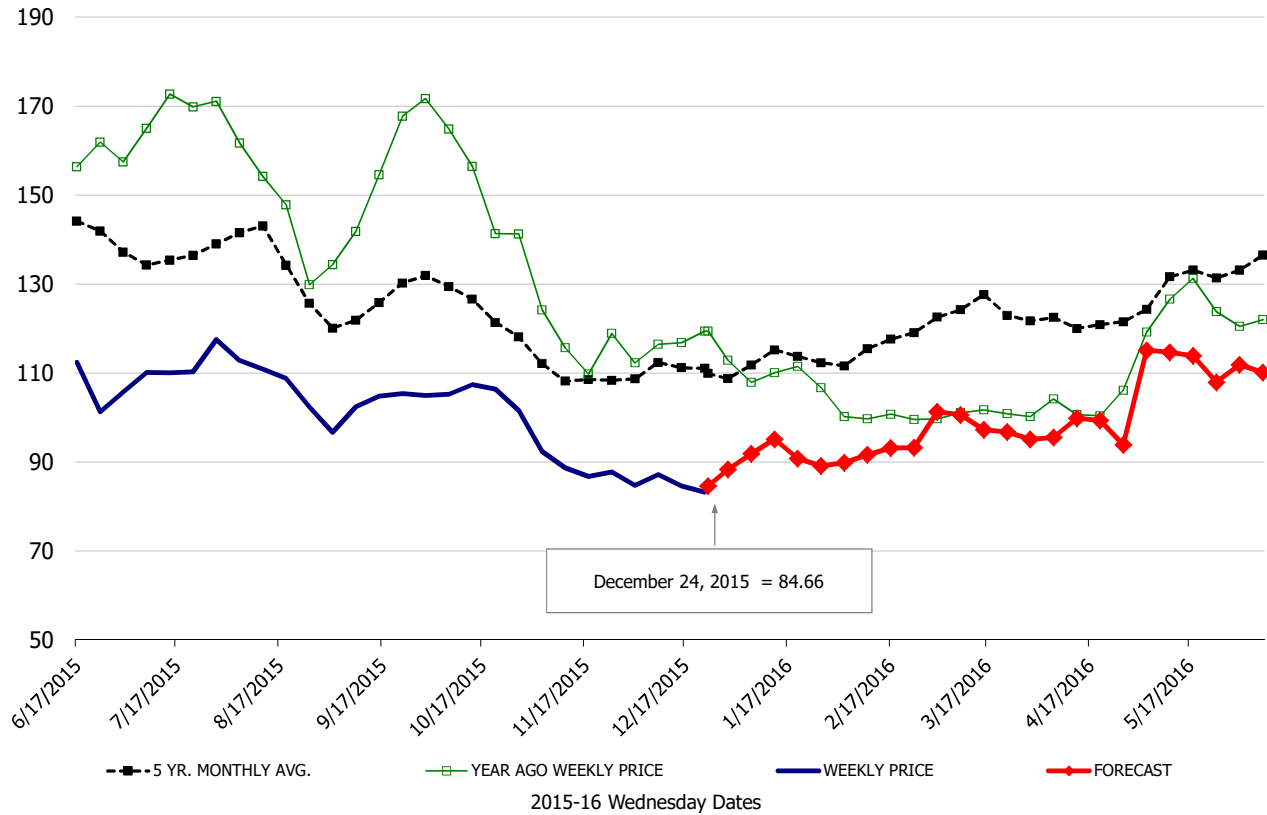
50 CL Beef Trim prices finished last week at \$0.3501, down about 2 cent since Wed. December 16 and down 58 compared to the year ago level.

Food Service Summary Table - WT. AVE

	2015 History							2015-16 FORECAST							
	Jun	Jul	Aug	Sep	Oct	Nov	12/16/2015	12/24/2015	1/6/2016	Dec	Jan	Feb	Mar	Apr	May
<u>PORK</u>															
Loin, 1/4 Trimmed Loin VAC, FOB Plant, USDA	1.12	1.11	1.07	1.02	1.04	0.89	0.85	0.85	0.92	0.85	0.91	0.92	0.99	0.97	1.12
Loin, 1/8 Trimmed Loin VAC, FOB Plant, USDA	1.20	1.17	1.14	1.07	1.08	0.96	0.88	0.90	0.98	0.93	0.98	0.98	1.06	1.03	1.19
Loin, Bnls CC Strap-off, FOB Plant, USDA	1.56	1.55	1.58	1.52	1.70	1.46	1.38	1.44	1.46	1.43	1.46	1.40	1.53	1.47	1.64
Loin, Tenderloin, FOB Plant, USDA	2.48	2.61	2.42	2.19	2.11	1.95	1.84	1.91	2.03	1.83	1.96	2.08	2.14	2.11	2.45
Butt, 1/4 Trim Butt Combo, FOB Plant, USDA	1.07	0.83	0.85	0.84	0.78	0.73	0.76	0.75	0.79	0.77	0.79	0.79	0.84	0.86	0.97
Sparerib, Trmd Sparerib - LGT, FOB Plant, USDA	2.11	1.79	1.64	1.52	1.51	1.55	1.45	1.48	1.47	1.48	1.48	1.54	1.57	1.57	1.71
Sparerib, St Louis Spareribs, POLY, FZN, FOB Plant, USDA	2.63	2.71	2.58	2.52	2.43	2.47	2.54	2.64	2.34	2.31	2.36	2.46	2.51	2.48	2.62
Sparerib, Trmd Sparerib - MED, FOB Plant, USDA	2.05	1.75	1.65	1.49	1.50	1.50	1.36	1.38	1.46	1.40	1.47	1.47	1.52	1.49	1.63
Loin, Backribs 2.0#/up, FOB Plant, USDA	2.93	2.61	2.43	2.26	2.23	2.37	2.44	2.44	2.40	2.44	2.40	2.40	2.40	2.41	2.70
Ham, 17-20# Trmd Selected Ham, FOB Plant, USDA	0.68	0.63	0.73	0.70	0.75	0.68	0.74	0.60	0.57	0.69	0.57	0.62	0.62	0.62	0.67
Ham, 20-23# Trmd Selected Ham, FOB Plant, USDA	0.64	0.58	0.72	0.67	0.72	0.66	0.72	0.49	0.54	0.66	0.55	0.59	0.60	0.59	0.66
Ham, 23-27# Trmd Selected Ham, FOB Plant, USDA	0.61	0.56	0.72	0.62	0.66	0.61	0.67	0.49	0.52	0.60	0.52	0.54	0.55	0.54	0.62
Ham, 5 Muscle Ham to Blue, FOB Plant, USDA	0.98	0.93	0.96	0.96	0.96		0.96	0.96	0.98	0.96	0.99	0.99	1.00	1.00	1.12
Belly, Skin-on Belly 14-16#, FOB Plant, USDA	1.03	1.28	1.79	1.57	1.61	1.36	1.11	1.12	1.13	1.13	1.16	1.22	1.31	1.32	1.36
Belly, Derind Belly 9-13#, FOB Plant, USDA	1.28	1.71	2.08	1.92	1.97	1.41	1.32	1.33	1.44	1.35	1.45	1.54	1.64	1.66	1.71
Belly, Derind Belly 13-17#, FOB Plant, USDA	1.27	1.64	2.05	1.94	1.95	1.44	1.26	1.22	1.42	1.24	1.43	1.52	1.62	1.64	1.69
Trim, 42% Trim Combo, FOB Plant, USDA	0.45	0.35	0.29	0.32	0.30	0.24	0.18	0.18	0.27	0.22	0.27	0.33	0.36	0.38	0.41
Trim, 72% Trim Combo, FOB Plant, USDA	0.77	0.64	0.49	0.52	0.60	0.50	0.33	0.33	0.37	0.36	0.37	0.51	0.54	0.53	0.59
<u>HOG CARCASS</u>															
IA/MN, Base Market Hog 185 lb Carcass Basis, Plant Div.	0.77	0.76	0.75	0.69	0.69	0.53	0.50	0.49	0.58	0.51	0.59	0.61	0.65	0.66	0.74
<u>BROILERS</u>															
BROILER, NATIONAL WHOLE BIRD PRICE, USDA	1.01	0.91	0.83	0.77	0.74	0.75	0.79	0.82	0.81	0.81	0.80	0.80	0.81	0.82	0.86
N.E. BROILER BREAST BONELESS-SKINLESS, USDA	1.48	1.40	1.40	1.29	1.11	1.06	1.02	1.02	1.07	1.02	1.08	1.15	1.20	1.32	1.44
N.E. BROILER BREAST LINE RUN, USDA	1.07	1.01	0.91	0.83	0.77	0.77	0.77	0.77	0.78	0.77	0.79	0.80	0.81	0.89	0.97
N.E. BROILER LEG QUARTERS, USDA	0.28	0.26	0.24	0.24	0.23	0.23	0.23	0.24	0.25	0.24	0.25	0.26	0.27	0.27	0.28
N.E. BROILER WINGS, USDA, WT.AVG.	1.84	1.84	1.77	1.67	1.71	1.63	1.61	1.66	1.79	1.62	1.79	1.81	1.68	1.67	1.59
<u>TURKEYS</u>															
UB HEN TURKEYS, EAST, FROZEN 10-12LBS	1.18	1.24	1.30	1.37	1.40	1.39	1.29	1.24	1.18	1.28	1.18	1.10	1.05	1.05	1.05
UB BONELESS-SKINLESS TURKEY BREAST, TOM, FRESH	4.44	5.20	5.64	5.72	5.81	5.85	5.70	5.65	5.09	5.76	5.00	4.50	4.10	3.60	3.30
<u>LIVE STEERS</u>															
FIVE AREA DIRECT AVERAGE LIVE STEER, USDA	1.55	1.49	1.49	1.37	1.28	1.29	1.18	1.19	1.33	1.23	1.33	1.36	1.37	1.37	1.33
<u>BEEF</u>															
CHOICE, 112A, 3 RIBEYE, BONELESS, HEAVY, USDA	7.79	7.10	7.64	6.96	6.98	8.11	8.45	7.43	6.07	8.29	6.01	6.17	6.50	6.60	6.87
CHOICE, 168, 3 TOP INSIDE ROUND, 1/4" MAX, USDA	2.96	2.86	2.99	2.51	2.25	2.13	1.88	2.04	2.45	2.19	2.42	2.30	2.44	2.39	2.32
CHOICE, 170, 1 BOTTOM GOOSENECK ROUND, USDA	2.48	2.46	2.45	2.38	2.17	2.05	2.03	2.18	2.35	2.04	2.35	2.35	2.28	2.17	2.15
CHOICE, 180, 3 STRIP LOIN, BONELESS, 0x1, USDA	7.32	5.91	6.39	5.85	5.50	5.49	5.04	5.36	5.44	5.26	5.42	5.60	6.27	6.74	6.96
CHOICE, 184, 3 TOP BUTT, BONELESS, USDA	3.99	4.06	4.45	4.35	3.37	3.07	3.03	3.07	3.43	3.10	3.43	3.54	3.71	3.79	3.78
CHOICE, 185A, 4 BOTTOM SIRLOIN, FLAP, USDA	5.45	4.83	4.99	4.67	4.30	4.09	4.15	4.19	4.19	4.04	4.17	4.38	4.83	4.86	5.10
COARSE GROUND 73%, USDA	1.96	1.79	1.97	1.80	1.62	1.46	1.37	1.42	1.86	1.35	1.82	1.70	1.70	1.68	1.79
COARSE GROUND 81%, USDA	2.30	2.31	2.35	2.04	1.91	1.71	1.50	1.74	2.17	1.58	2.15	2.03	1.97	1.89	2.07
90% BONELESS BEEF, CENTRAL, FRESH, USDA	2.94	2.90	2.82	2.72	2.33	2.14	1.96	1.96	2.14	1.97	2.15	2.28	2.29	2.29	2.26
50CL BEEF TRIM, FRESH, NATIONAL, USDA	0.81	0.66	0.68	0.49	0.48	0.51	0.37	0.35	0.46	0.38	0.44	0.52	0.64	0.59	0.60

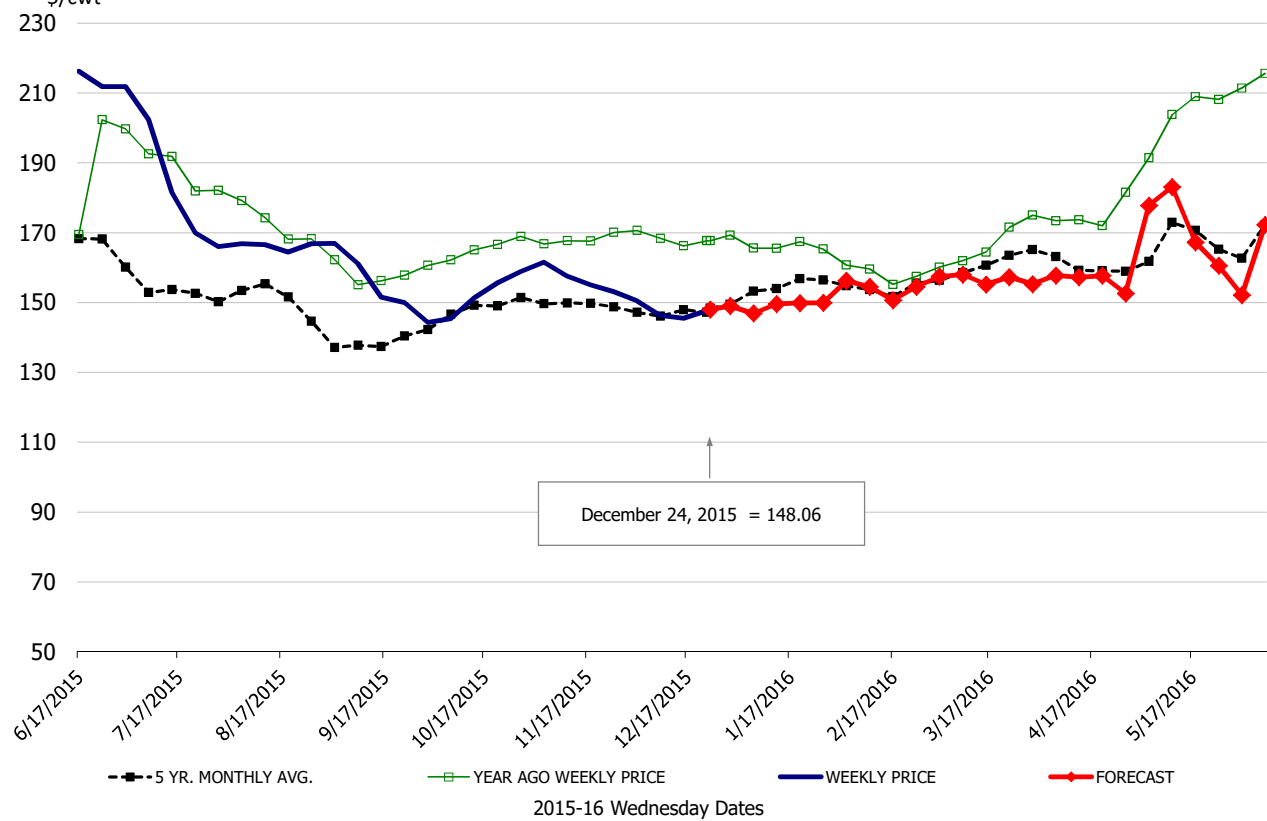
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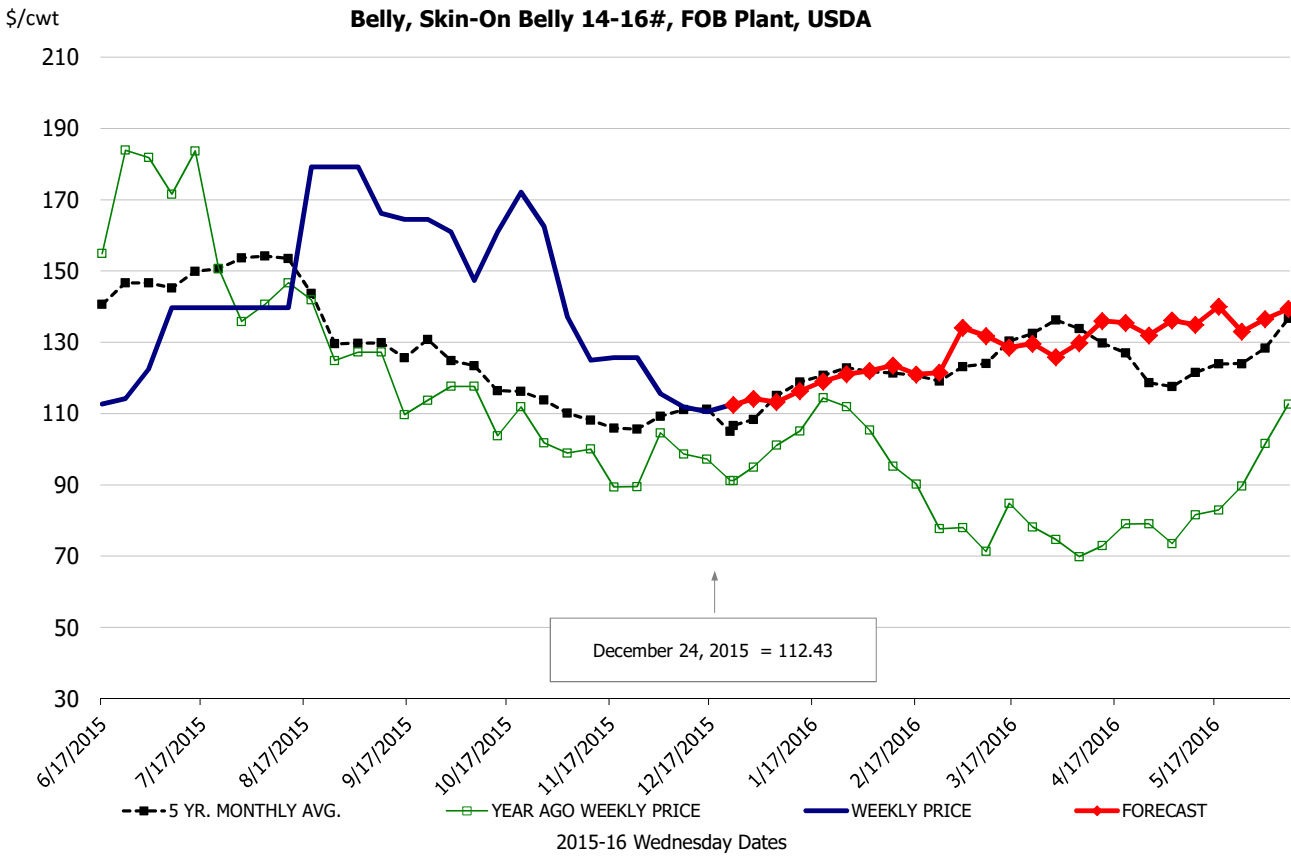
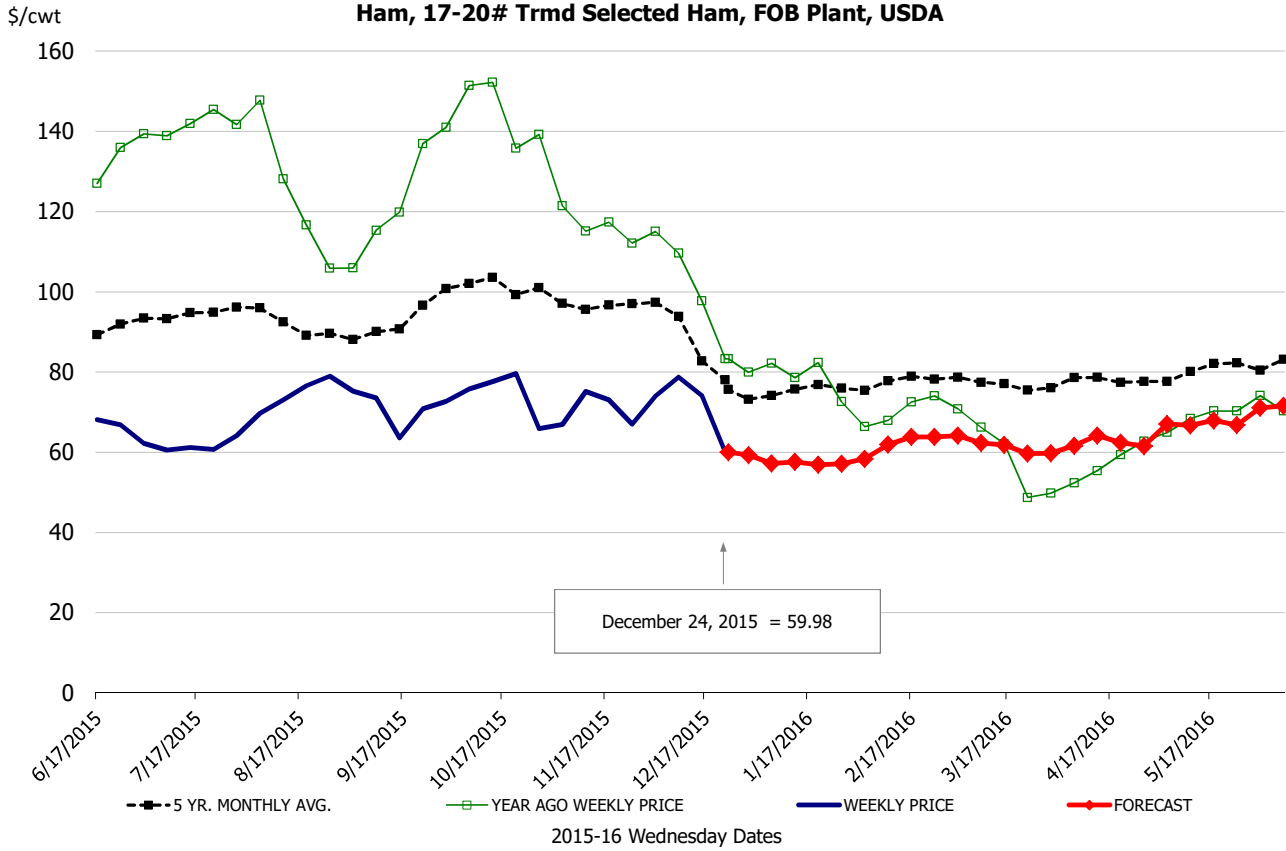
Loin, 1/4 Trimmed Loin VAC, FOB Plant, USDA



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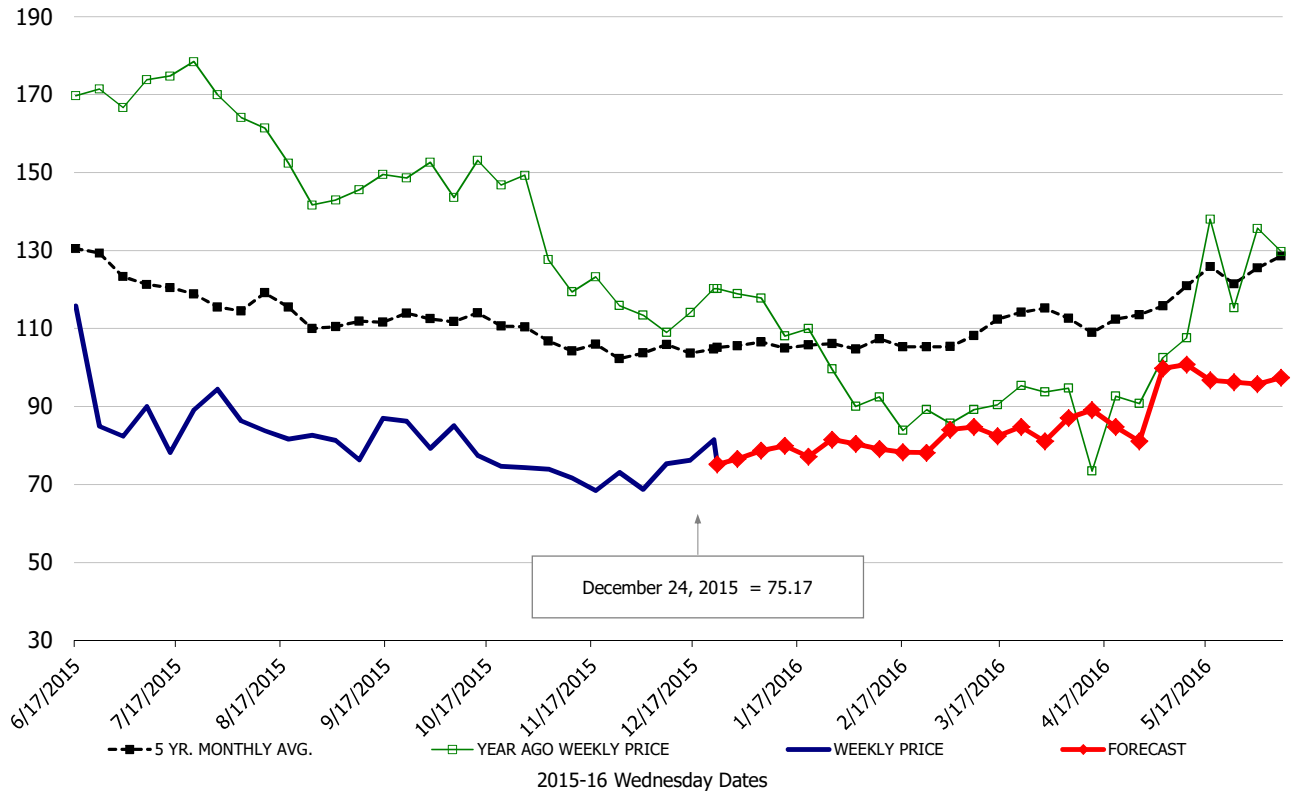
Sparerib, Trmd Sparerib - LGT, FOB Plant, USDA





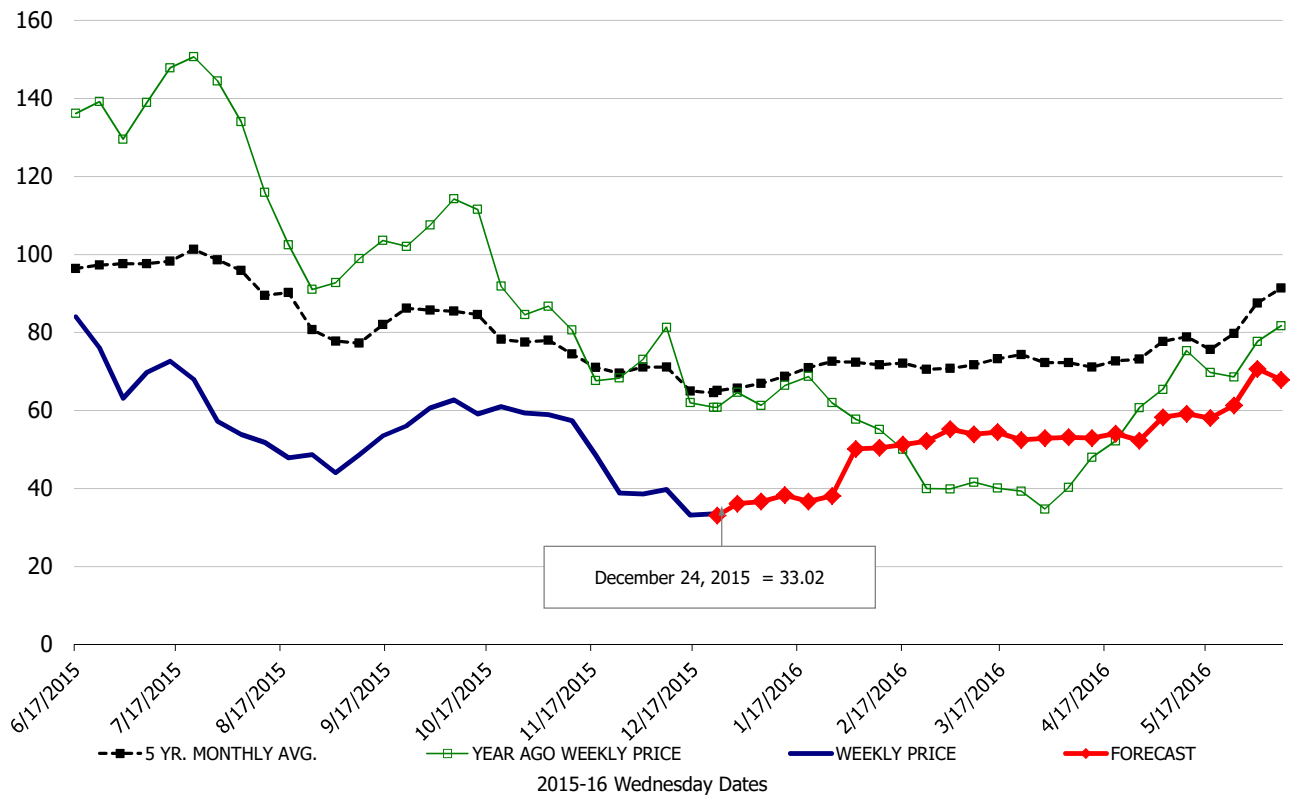
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Butt, 1/4 Trim Butt Combo, FOB Plant, USDA

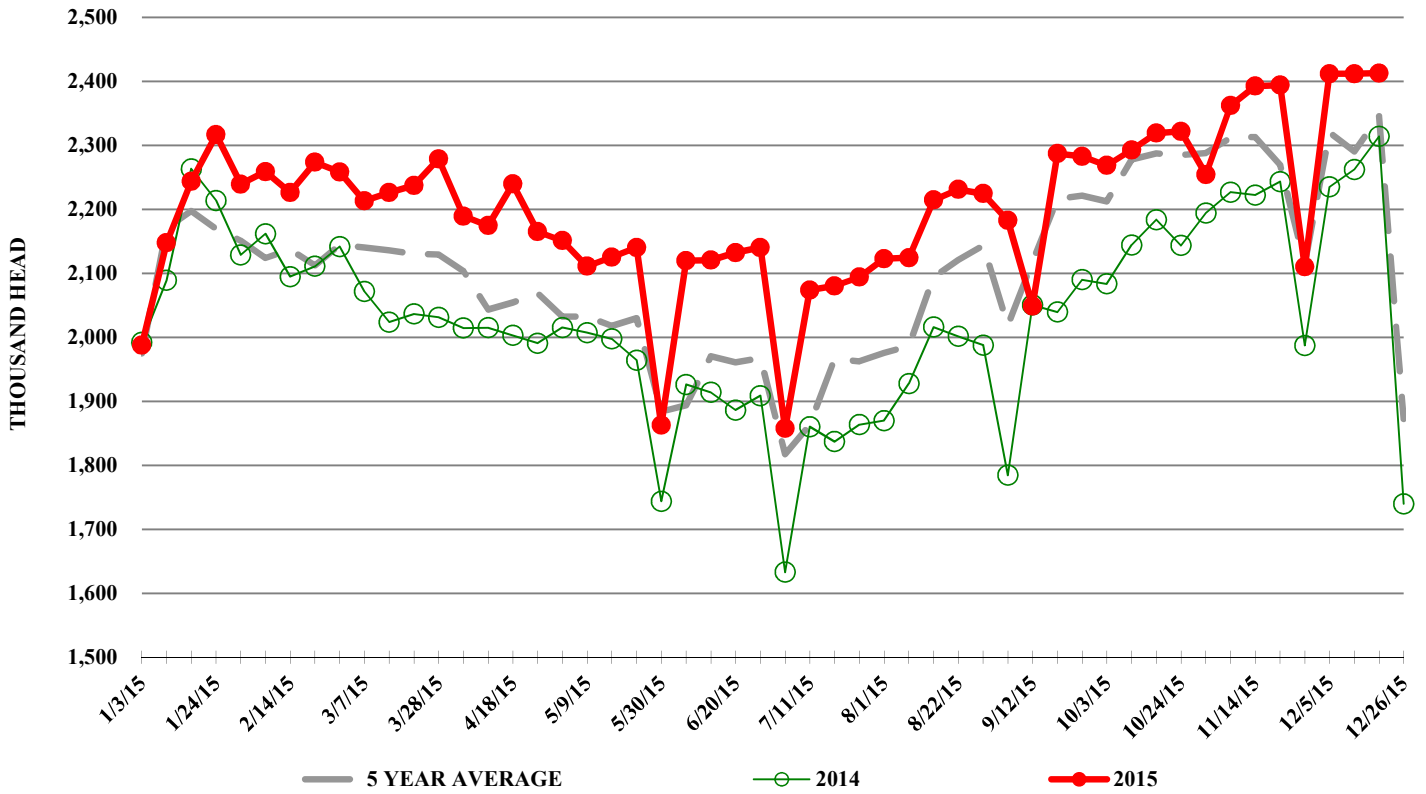


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Trim, 72% Trim Combo, FOB Plant, USDA



ESTIMATED WEEKLY FI HOG SLAUGHTER



ESTIMATED WEEKLY FI PORK PRODUCTION

