

# Pork Merchandiser's Profit Maximizer



# Be inspired<sup>SM</sup>

- Foodservice Edition -

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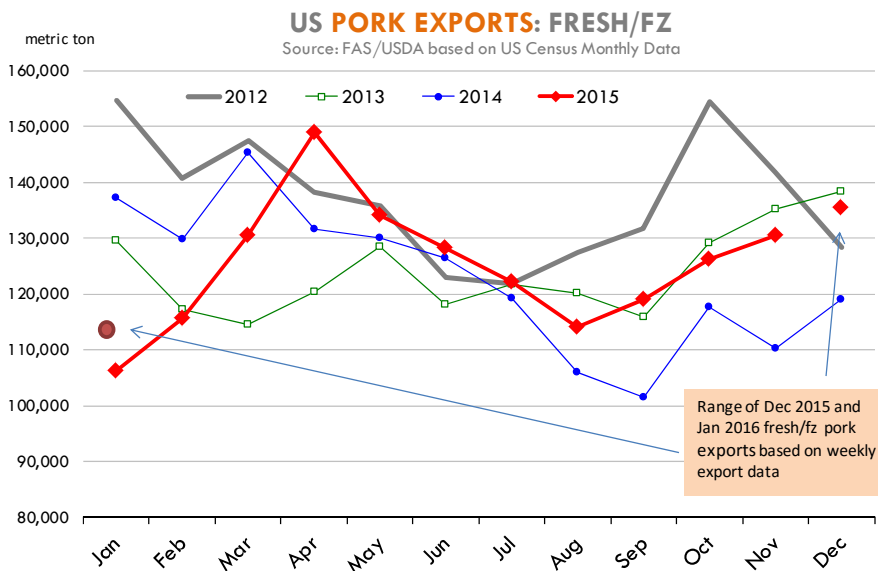
January 25, 2016

**1. Hog slaughter expected to be heavy through early March. Higher prices for pork and hogs expected by spring.**

Extreme volatility appears to have become the order of the day in livestock trading as market participants struggle with price risk. While market participants have a fairly good handle on beef, pork or chicken supply conditions and outlook, quantifying the impact on demand from another potential global recession is exceedingly difficult and may prove to be a fool's er-

rand. Do we use 1997 (Asian financial crisis) or 2007 as a template? Are global financial institutions in much better shape today or are we about to relearn the lessons of the past? Is this the third leg of the debt supercycle as a Harvard economist recently noted? Central Banks took some extreme measures in order to fight the last recession and stave off deflation. Those measures may work when modelled on paper but they have not been tested in the real world and we may get to see their unintended consequences. And what happens with China? The second largest economy in the world has embraced capitalism but not its political institutions. There is more to the current market than just what are retailers featuring this week or if burger sales are holding up. The purpose of futures is to manage price risk and that has become an extremely difficult job these days.

The latest weekly export numbers showed that pork exports are slowly improving while beef trade continues to track under year ago levels. It is always a good idea to



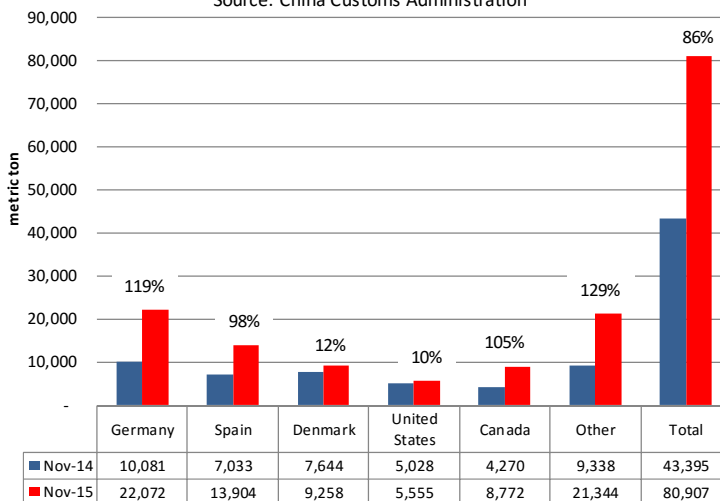
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keep an eye on exports given that they make up a significant portion of demand for US meat products. In the current environment, staying attuned with export trends is indispensable. As we noted in the previous section, chicken exports remain vulnerable to new outbreaks of bird flu. USDA has worked hard with trading partners to adopt regionalized rules, whereby countries only stop buying from affected areas rather than the entire nation. This does not mean that countries will agree to adopt these rules. Just as producer groups here fight hard to ban imports whenever there are disease outbreaks in other countries, so do other countries have to contend with their producer groups that want to ban US products. So far the bird flu in Indiana appears to have been quickly contained but it highlights the risk for the poultry industry going forward.

Between 20 to 25 percent of the pork produced in the US is exported. Thus small changes in export demand can have significant implications for pork availability in the US. Last fall there was a lot of speculation about the outlook for US pork exports to China, with both packers and analysts insisting that the big spread between US and China pork prices would translate in a big surge of US shipments there. China did in fact buy a lot of pork last fall. According to their statistics November imports were up about 86% from a year ago. Unfortunately, they bought much of this pork from the EU. Imports from Canada more than doubled in November while imports from the US were up about 10%. Which highlights the effect that the strong dollar is having on our ability to stay competitive in global markets. The latest WASDE report shows US pork exports in 2016 are expected to be up just 3.6% compared to 2015 levels. This means we will ship an additional 180 million pounds of pork (carcass wt basis) at a time that we are expected to produce about 470 million pounds more. The USDA forecast is certainly conservative but also appropriate given current conditions in global markets. Based on the weekly export data reported for December we project exports last month were

### China November Pork Import Volume

Source: China Customs Administration



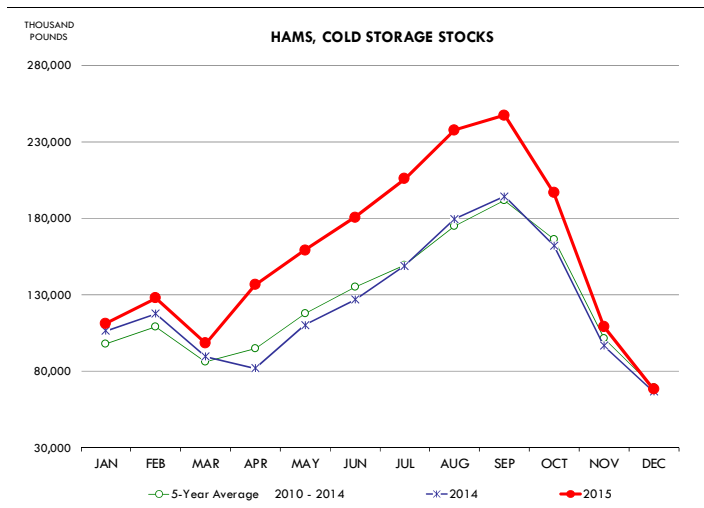
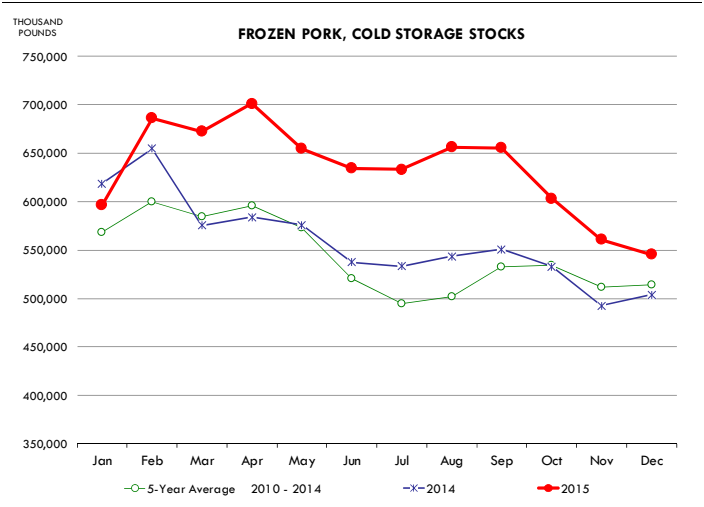
up about 13% from the previous year. For January our projection is for an 8% increase. The test for the market will come in February and March, however. Hog slaughter is still expected to be well above 2.2 million head during that time and spring demand still a couple of months away. Keeping exports moving will be a critical factor for US packers and an important price driver.

### 2. Cold Storage Update

Total supplies of beef, pork and poultry in cold storage at the end of December were 2.122 billion pounds, 14.4% higher than a year ago and 12% higher than the five year average. While supplies are still quite large, the drawdown in stocks in December was higher than normal, which is why we view the last report as neutral to bullish relative to current futures markets. Beef inventories are still heavy at 513.9 million pounds, 15.6% higher than a year. Normally beef inventories in December rise by 4-5% but this year the increase was just 1%.

Pork inventories were 545.6 million pounds, 8.3% higher than a year ago. We view this as bullish, however, given that stocks were down sharply despite near record weekly slaughter. December stocks were down 2.7% from the previous month when normally stocks are about steady with November. Ham inventories declined 37.8% from November levels and are now just 2% higher than a year ago and 2%

lower than the five year average, which should be supportive for ham prices going into Easter. Belly stocks were 53.4 million, 12.5% higher than the five year average. This number also is supportive the market in the near term. Normally belly stocks increase 50-60% in December from November levels. The fact that we had near record slaughter and belly inventories increased less than normal shows belly demand actually is in pretty good shape. Chicken inventories remain burdensome but the latest figures at least show the situation is not getting any worse. It will take some time for producers to work through the large inventories but December saw the first drawdown in stocks in several months.



**Upcoming holidays:**

**2016** 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 January 23 slaughter was 2.329 million head, up 0.5% from a year ago. In the last two weeks hog slaughter is up 1.5% vs. year ago levels.**

**Iowa/Minnesota, Base Lean Market Hog 185 lbs. Carcass Values.** Lean hog carcass values at about 56.60 /cwt. on Friday were up

\$3.3/cwt since Wed. January 13. Prices are down about 14 dollars compared to year ago values.

**Loin, 1/4 Trimmed Loin VAC, FOB Plant, USDA** (page 8). Prices finished last week at \$1.0880, up about 13.5 cent since the Wed. January 13 quote but down about 3 cents from year ago levels.

**Bnls. Strap on Pork Loins.** Prices finished the week at \$1.3288 for the strap on loins, down 6.7 cent since Wed. January 13 and down about 23 cent from the year ago levels. Strap off loins at \$1.5810 are up about 12.4 cent since Wed. January 13 but down about 14 cents compared to the year ago quote.

**Boneless sirloins** at \$1.1244 are up slightly from the Wed. January 13 quote but down about 22.2 cents from the year ago price.

**Pork tenderloin** finished last week at \$2.2488, up 19 cent from the Wed. January 13 quote but down about 42.7 cents from the year ago price.

**1/4 Trim Pork Butts** (page 10), prices finished the week at \$0.8786, up 0 cents since Wed. January 13. Prices are down 35 cents from a year ago.

**Spare Ribs, Trimmed - LGT, Vac** (page 8). Prices finished the week at \$1.5019, down about 4 cent since Wed. January 13 and down about 17 cents from year ago levels.

Rib inventories on December 31 were 134.8 million pounds, up 54.9% percent from a year ago.

**Bone-in Hams.**

17/20 hams (page 9) price was \$0.6126/lb., up 6.9 cents compared to prices on Wed. January 13 but down about 21 cents from a year ago.

20/23 hams finished the week at 62.18 cents, up about 6 cents since Wed. January 13 but down about 18 cents from the year ago level.

23/27 hams finished the week at 58.46 , up about 4 cents from the Wed. January 13 quote but down about 23 cents from the year ago level.

Total ham cold storage stocks on December 31 at 67.8 million pounds were up 2.2% from year ago levels.

**42 CL Pork Trim** “FOB Basis”. Prices finished the week at 19.81 cent, down about 1.7 cent since Wed. January 13 and down about 18 cents from the year ago price.

**72 CL Pork Trim** “FOB Basis”. Prices finished the week at 50.47 cents, up about 5 cents since the Wed. January 13 quote but down about 18 cents from the year ago level.

Freezer stocks of all trimmings on December 31 were 42.7 million pounds, up 16.3% 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.

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## **POULTRY**

**Georgia Dock Broilers.** The Georgia dock price last week at \$112.75 was down 1.50 cents from a year ago.

The National Whole Bird price was quoted at 87.64 on Friday, January 23, down about 9 cents from a year ago.

Broiler slaughter for the week ending January 23 was 153.35 million head, up 0.90% from a year ago. For the last two weeks slaughter was up 0.5% vs. a year ago.

**Breasts.** Prices on boneless skinless breasts finished the week at \$1.1169, up 8 cents since Wed. January 13 but still down about 33 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 24.70 cents per pound prices were down 16 cents from a year

ago. Bird flu has been a negative factor for dark meat exports so far this year.

**Wings.** Prices at \$1.9751 are down about 8 cents from year ago levels.

## **Turkeys**

**Hens** finished last week at \$1.1800, down 0.5 cent since Wed. January 13 but up about 14 cents from the year ago price.

**Toms** finished last week at \$1.1800, down 0.5 cents since Wed. January 13 but up about 14 cent from the year ago price.

Total turkey supplies in the freezer on December 31 were up 3.4% from a year ago at 200.1 million pounds. Whole birds were up 10.0% from a year ago with an inventory of 53.6 million pounds.

Turkey slaughter was 4.3030 million head for the week ending January 16, down -2.63% from a year ago. For the last two weeks slaughter has been down 1.7%.

**Boneless Turkey Breast Meat.** Boneless skinless turkey breast meat prices finished last week at \$5.0500, down 35 cents since Wed. January 13. 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 \$6.9326 (weighted average quote) finished last week down about 42 cents since the Wed. January 13 quote but up about 45 cents vs. the year ago price.

**Select 112A Heavy Lip On Rib Eyes** at \$7.0060 (weighted average quote) finished last

week down about 18 cents since the Wed. January 13 quote but up about 90 cents vs. the year ago price.

Currently Choice 112A Rib Eyes are \$(0.0734)/lb. over Select. The 2015 annual average spread (wt. average price) had the Choice at a premium to the Select by \$0.0738 per pound and the previous five years (2010 thru 2014) average spread was Choice at a premium to the Select by \$0.0882 per pound.

**Choice regular #168 insides** finished last week quoted at \$2.4601 down about 23 cents since Wed. January 13 and down about 21 cents from the year ago price.

**Choice ¼ inch trimmed #168 insides** finished last week quoted at \$2.3966 down about 36 cents since Wed. January 13 and down about 33 cents from year ago levels.

**Choice #170 Gooseneck Rounds** finished last week at \$2.4275 down about 24 cents since Wed. January 13 and down about 36 cents from the year ago levels.

**Choice #180 (0x1) Bnls. Strip Loins** finished last week quoted at \$5.5920 (wt. avg.) down about 43 cents from the Wed. January 13 quote. Prices are about 77 cents over year ago levels.

**Choice #184 Regular Heavy top butts** finished at \$3.1319 (wt. avg.) down about 29 cents since Wed. January 13 and down about 69 cents from year ago levels.

**Choice #184 ¼ inch trimmed Top Butts** finished at \$3.2686 (wt. avg.) down about 11 cents since Wed. January 13 and down about 68 cents from the year ago levels.

**Choice #185A Flap Meat** prices finished Friday at \$5.1947 (wt. avg.) up about 4 cents since Wed. January 13 and up about 17 cents from year ago values.

### **COARSE GROUND BEEF –**

**73CL Coarse Ground** product finished last week at \$2.1847 down about 5 cents since Wed. January 13 and down about 34 cents from year ago levels.

**81CL Coarse Ground** product finished last week at \$2.3395 down about 2 cent since Wed. January 13 and down about 45 cents from the year ago quote.

**90CL Bnls. Beef** prices finished the week at \$2.0598 (wt. avg.) up about 4 cent since Wed. January 13 but down 99 compared to the year ago price quote.

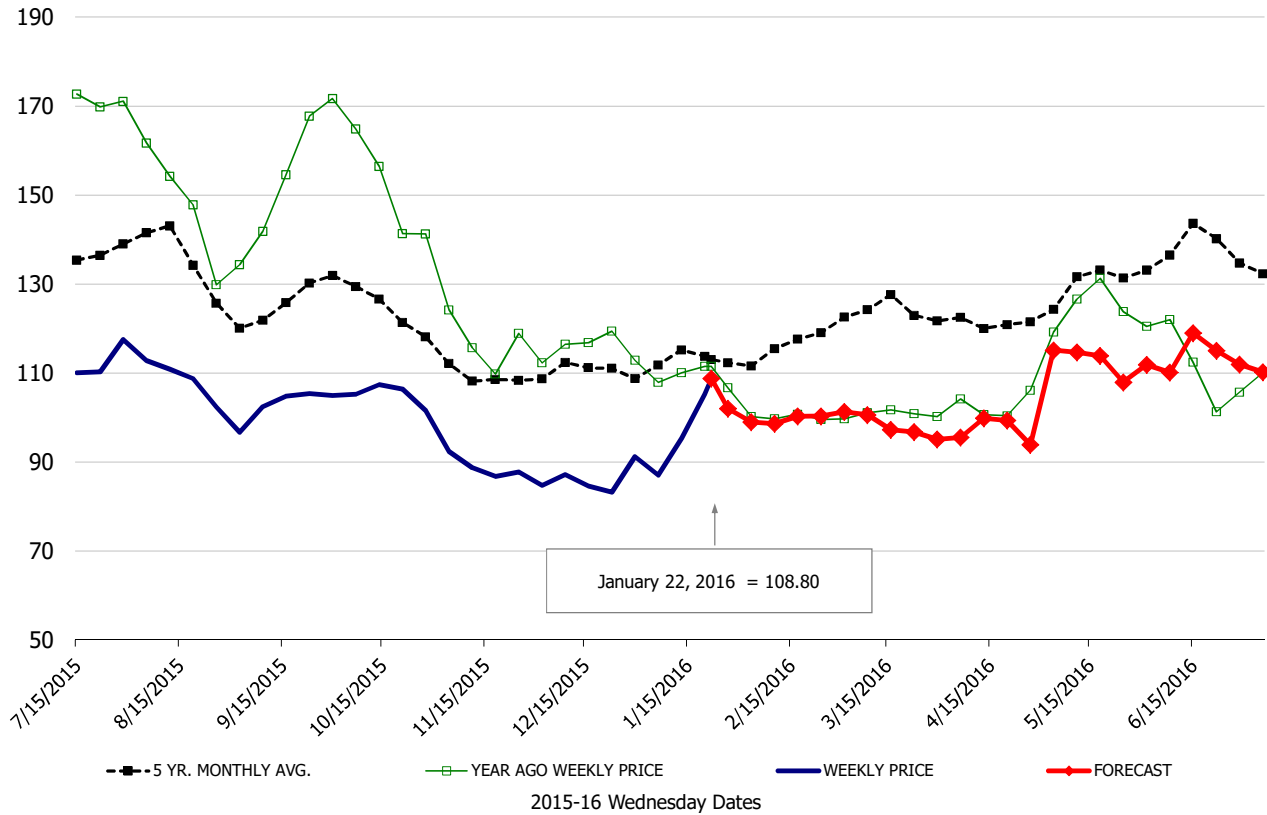
**50 CL Beef Trim** prices finished last week at \$0.5977, down about 19 cent since Wed. January 13 and down 84 compared to the year ago level.

## Food Service Summary Table - WT. AVE

	2015-16 History							2016 FORECAST							
	Jul	Aug	Sep	Oct	Nov	Dec	1/13/2016	1/22/2016	2/3/2016	Jan	Feb	Mar	Apr	May	Jun
<b><u>PORK</u></b>															
Loin, 1/4 Trimmed Loin VAC, FOB Plant, USDA	1.11	1.07	1.02	1.04	0.89	0.86	0.95	1.09	0.99	0.98	0.99	0.99	0.97	1.12	1.14
Loin, 1/8 Trimmed Loin VAC, FOB Plant, USDA	1.17	1.14	1.07	1.08	0.96	0.92	1.00	1.06	1.03	1.05	1.05	1.06	1.03	1.19	1.22
Loin, Bnls CC Strap-off, FOB Plant, USDA	1.55	1.58	1.52	1.70	1.46	1.42	1.46	1.58	1.52	1.51	1.54	1.56	1.52	1.64	1.66
Loin, Tenderloin, FOB Plant, USDA	2.61	2.42	2.19	2.11	1.95	1.83	2.06	2.25	2.19	2.11	2.20	2.18	2.15	2.45	2.55
Butt, 1/4 Trim Butt Combo, FOB Plant, USDA	0.83	0.85	0.84	0.78	0.73	0.80	0.81	0.75	0.80	0.80	0.79	0.84	0.86	0.97	1.00
Sparerib, Trmd Sparerib - LGT, FOB Plant, USDA	1.79	1.64	1.52	1.51	1.55	1.48	1.54	1.50	1.57	1.54	1.55	1.57	1.57	1.71	1.70
Sparerib, St Louis Spareribs, POLY, FZN, FOB Plant, USDA	2.71	2.58	2.52	2.43	2.47	2.48	2.53	2.57	2.46	2.55	2.42	2.52	2.49	2.63	2.66
Sparerib, Trmd Sparerib - MED, FOB Plant, USDA	1.75	1.65	1.49	1.50	1.50	1.39	1.41	1.45	1.49	1.43	1.47	1.52	1.49	1.63	1.67
Loin, Backribs 2.0#/up, FOB Plant, USDA	2.61	2.43	2.26	2.23	2.37	2.43	2.42	2.51	2.46	2.46	2.47	2.47	2.47	2.70	2.61
Ham, 17-20# Trmd Selected Ham, FOB Plant, USDA	0.63	0.73	0.70	0.75	0.68	0.68	0.54	0.61	0.61	0.57	0.65	0.64	0.62	0.67	0.72
Ham, 20-23# Trmd Selected Ham, FOB Plant, USDA	0.58	0.72	0.67	0.72	0.66	0.64	0.56	0.62	0.60	0.58	0.63	0.62	0.59	0.66	0.69
Ham, 23-27# Trmd Selected Ham, FOB Plant, USDA	0.56	0.72	0.62	0.66	0.61	0.59	0.54	0.58	0.56	0.56	0.58	0.57	0.54	0.62	0.65
Ham, 5 Muscle Ham to Blue, FOB Plant, USDA	0.93	0.96	0.96	0.96			1.03	1.03	1.01	1.00	1.01	1.01	1.00	1.12	1.17
Belly, Skin-on Belly 14-16#, FOB Plant, USDA	1.28	1.79	1.57	1.61	1.36	1.11	1.09	1.08	1.23	1.16	1.23	1.31	1.32	1.36	1.44
Belly, Derind Belly 9-13#, FOB Plant, USDA	1.71	2.08	1.92	1.97	1.41	1.34	1.38	1.48	1.54	1.41	1.54	1.64	1.66	1.71	1.81
Belly, Derind Belly 13-17#, FOB Plant, USDA	1.64	2.05	1.94	1.95	1.44	1.29	1.40	1.47	1.53	1.40	1.53	1.62	1.64	1.69	1.79
Trim, 42% Trim Combo, FOB Plant, USDA	0.35	0.29	0.32	0.30	0.24	0.18	0.22	0.20	0.26	0.22	0.28	0.36	0.38	0.41	0.45
Trim, 72% Trim Combo, FOB Plant, USDA	0.64	0.49	0.52	0.60	0.50	0.37	0.45	0.50	0.52	0.47	0.53	0.55	0.57	0.59	0.68
<b><u>HOG CARCASS</u></b>															
IA/MN, Base Market Hog 185 lb Carcass Basis, Plant Div.	0.76	0.75	0.69	0.69	0.53	0.51	0.53	0.57	0.61	0.56	0.61	0.65	0.66	0.74	0.78
<b><u>BROILERS</u></b>															
BROILER, NATIONAL WHOLE BIRD PRICE, USDA	0.91	0.83	0.77	0.74	0.75	0.82	0.90	0.88	0.85	0.87	0.87	0.87	0.87	0.90	0.89
N.E. BROILER BREAST BONELESS-SKINLESS, USDA	1.40	1.40	1.29	1.11	1.06	1.02	1.03	1.12	1.16	1.12	1.17	1.27	1.38	1.50	1.48
N.E. BROILER BREAST LINE RUN, USDA	1.01	0.91	0.83	0.77	0.77	0.77	0.82	0.86	0.84	0.86	0.86	0.87	0.96	1.02	1.02
N.E. BROILER LEG QUARTERS, USDA	0.26	0.24	0.24	0.23	0.23	0.24	0.24	0.25	0.27	0.25	0.27	0.28	0.28	0.29	0.30
N.E. BROILER WINGS, USDA, WT.AVG.	1.84	1.77	1.67	1.71	1.63	1.63	1.88	1.98	2.00	1.92	1.89	1.75	1.67	1.59	1.68
<b><u>TURKEYS</u></b>															
UB HEN TURKEYS, EAST, FROZEN 10-12LBS	1.24	1.30	1.37	1.40	1.39	1.27	1.18	1.18	1.13	1.16	1.10	1.05	1.05	1.05	1.07
UB BONELESS-SKINLESS TURKEY BREAST, TOM, FRESH	5.20	5.64	5.72	5.81	5.85	5.73	5.40	5.05	4.83	5.25	4.60	4.10	3.60	3.30	3.30
<b><u>LIVE STEERS</u></b>															
FIVE AREA DIRECT AVERAGE LIVE STEER, USDA	1.49	1.49	1.37	1.28	1.29	1.22	1.32	1.29	1.32	1.32	1.34	1.38	1.39	1.33	1.27
<b><u>BEEF</u></b>															
CHOICE, 112A, 3 RIBEYE, BONELESS, HEAVY, USDA	7.10	7.64	6.96	6.98	8.11	7.91	7.35	6.93	6.34	7.15	6.47	6.85	7.00	7.12	7.41
CHOICE, 168, 3 TOP INSIDE ROUND, 1/4" MAX, USDA	2.86	2.99	2.51	2.25	2.13	2.00	2.76	2.40	2.44	2.59	2.46	2.62	2.55	2.42	2.28
CHOICE, 170, 1 BOTTOM GOOSENECK ROUND, USDA	2.46	2.45	2.38	2.17	2.05	2.13	2.67	2.43	2.35	2.47	2.35	2.30	2.17	2.15	2.09
CHOICE, 180, 3 STRIP LOIN, BONELESS, 0x1, USDA	5.91	6.39	5.85	5.50	5.49	5.23	6.02	5.59	5.82	5.96	5.96	6.51	7.02	7.11	7.05
CHOICE, 184, 3 TOP BUTT, BONELESS, USDA	4.06	4.45	4.35	3.37	3.07	3.01	3.37	3.27	3.57	3.32	3.60	3.84	3.95	3.89	3.68
CHOICE, 185A, 4 BOTTOM SIRLOIN, FLAP, USDA	4.83	4.99	4.67	4.30	4.09	4.11	5.15	5.19	4.89	5.17	5.15	5.17	5.17	5.32	5.39
COARSE GROUND 73%, USDA	1.79	1.97	1.80	1.62	1.46	1.33	2.23	2.18	1.97	2.18	1.80	1.82	1.81	1.80	1.63
COARSE GROUND 81%, USDA	2.31	2.35	2.04	1.91	1.71	1.54	2.35	2.34	2.21	2.27	2.14	2.09	2.02	2.07	1.89
90% BONELESS BEEF, CENTRAL, FRESH, USDA	2.90	2.82	2.72	2.33	2.13	1.97	2.02	2.06	2.17	2.02	2.18	2.29	2.29	2.22	2.13
50CL BEEF TRIM, FRESH, NATIONAL, USDA	0.66	0.68	0.49	0.48	0.51	0.38	0.79	0.60	0.58	0.70	0.62	0.76	0.80	0.80	0.71

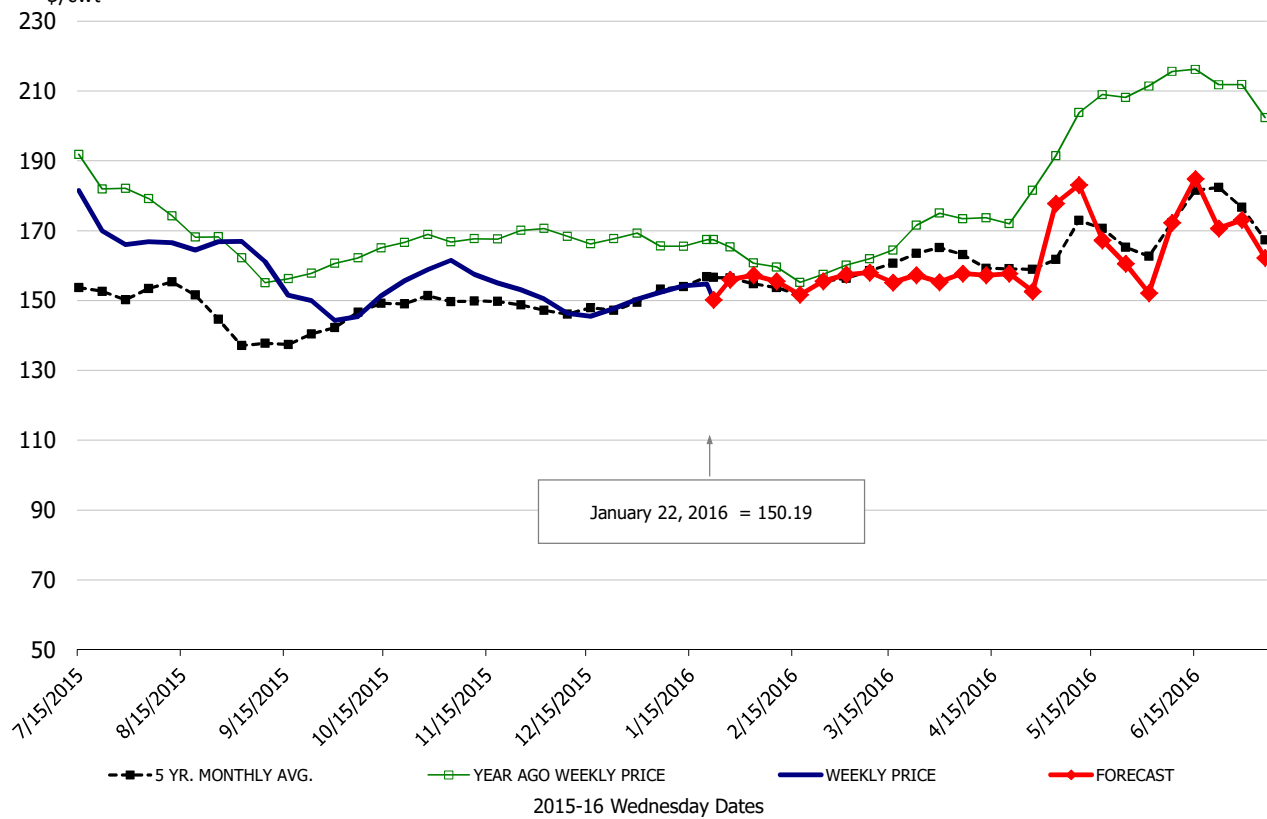
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### Loin, 1/4 Trimmed Loin VAC, FOB Plant, USDA

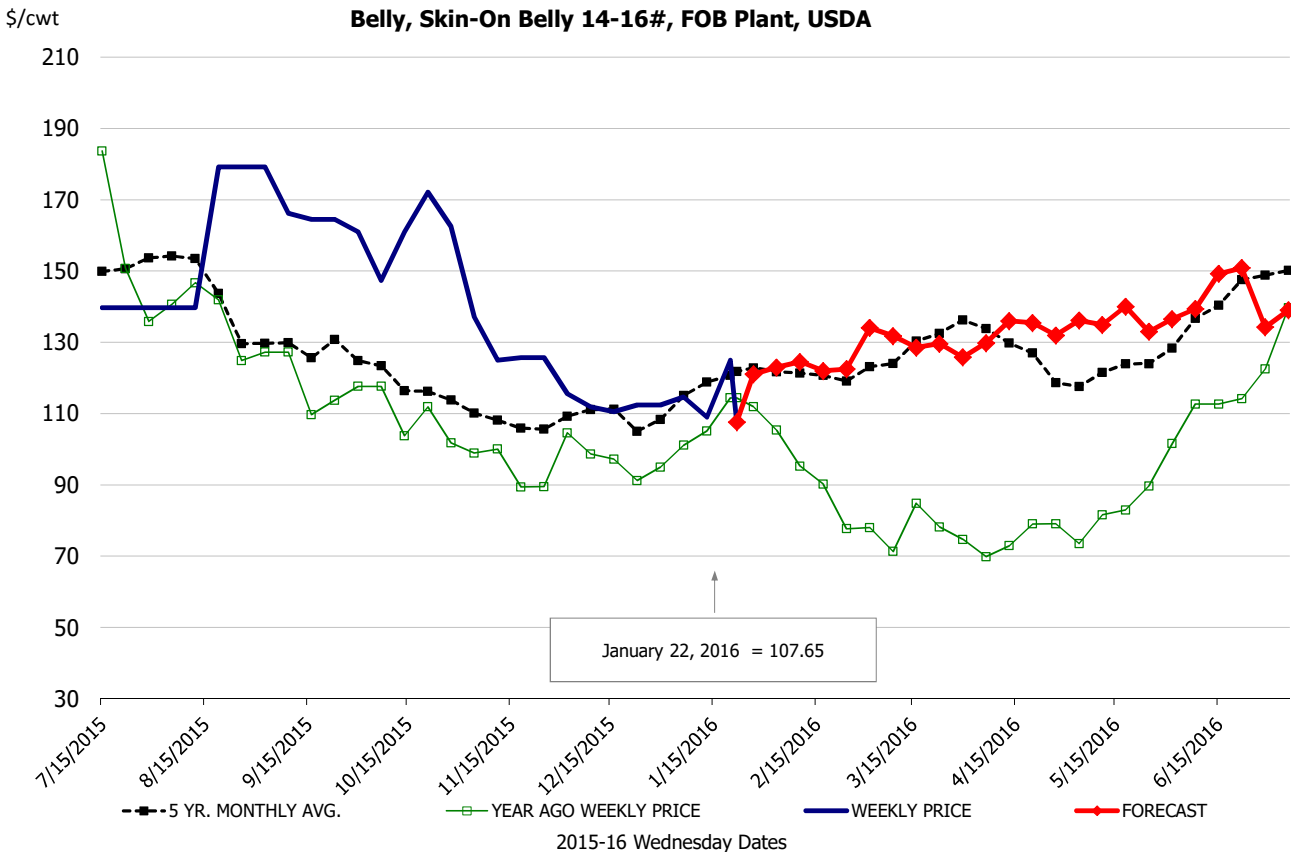
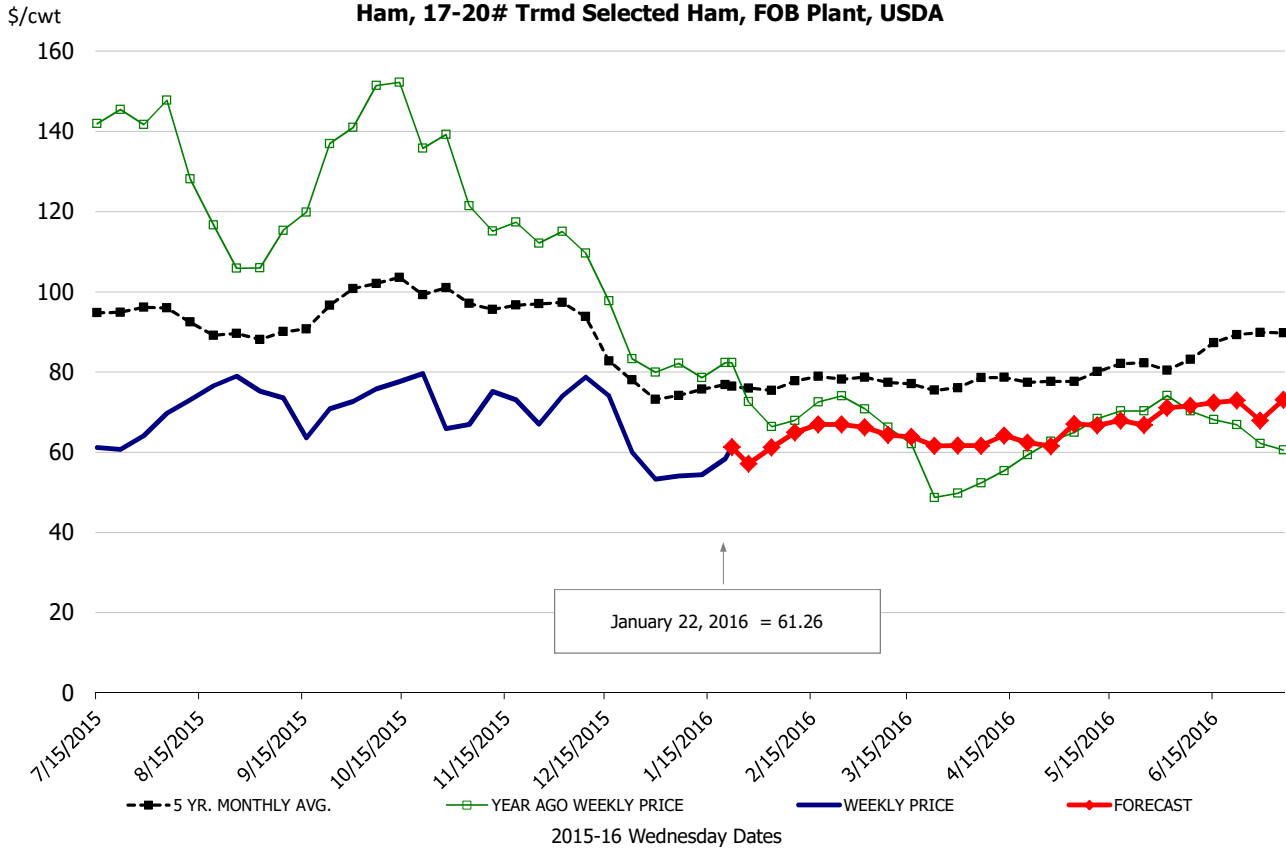


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### Sparerib, Trmd Sparerib - LGT, FOB Plant, USDA

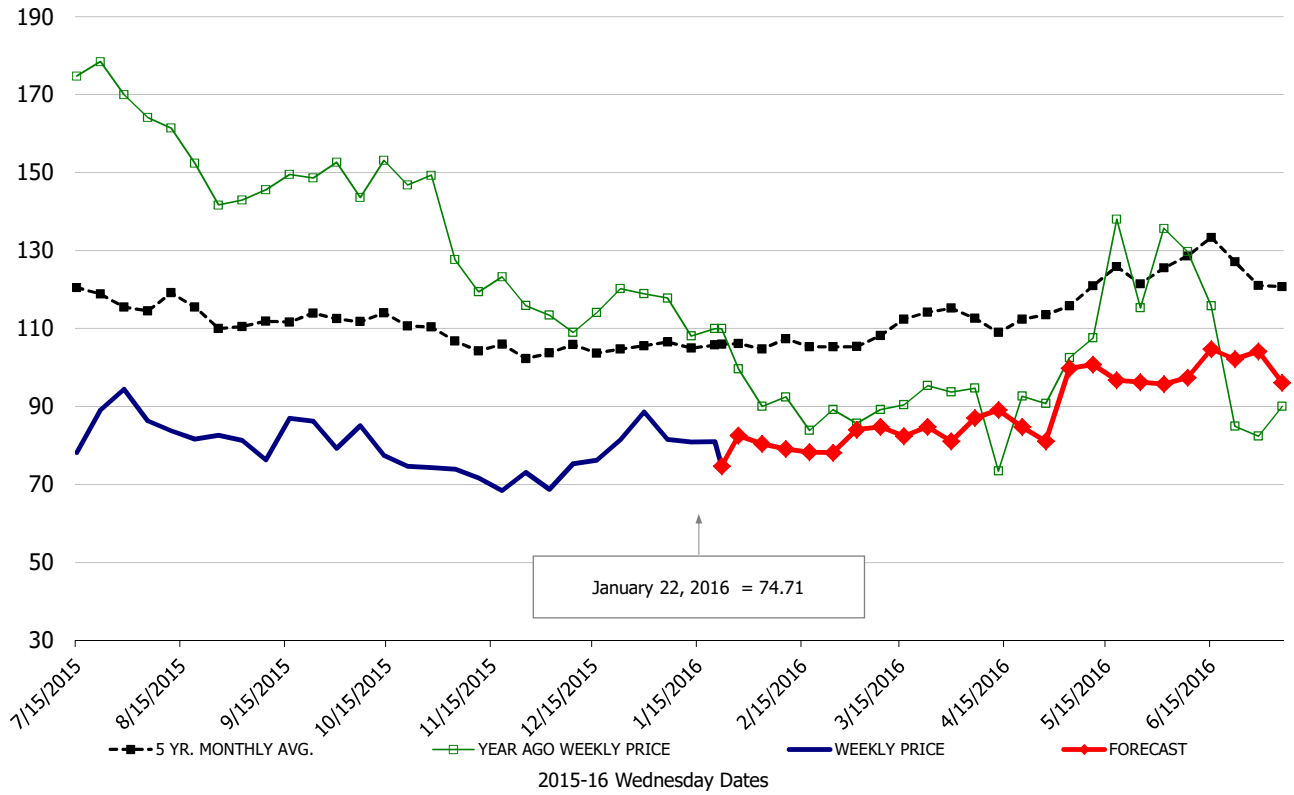






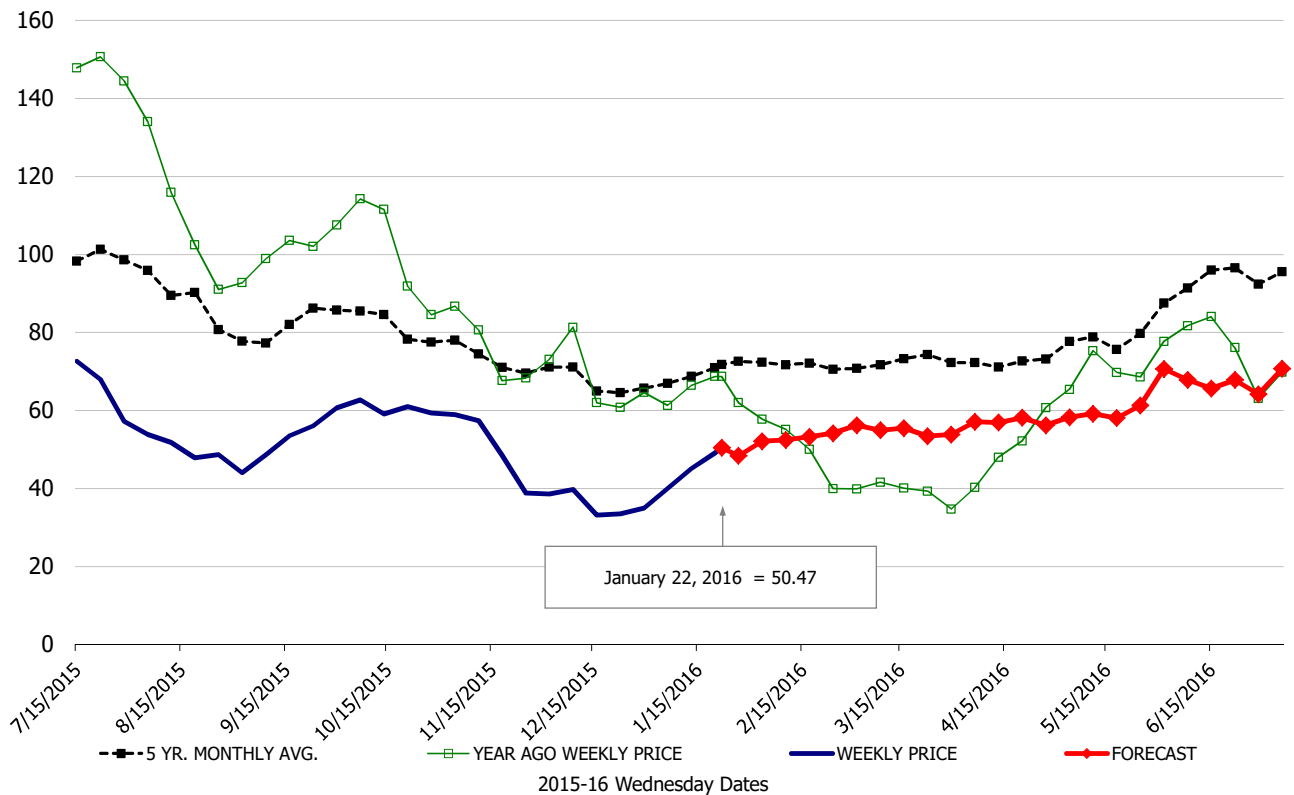
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### Butt, 1/4 Trim Butt Combo, FOB Plant, USDA

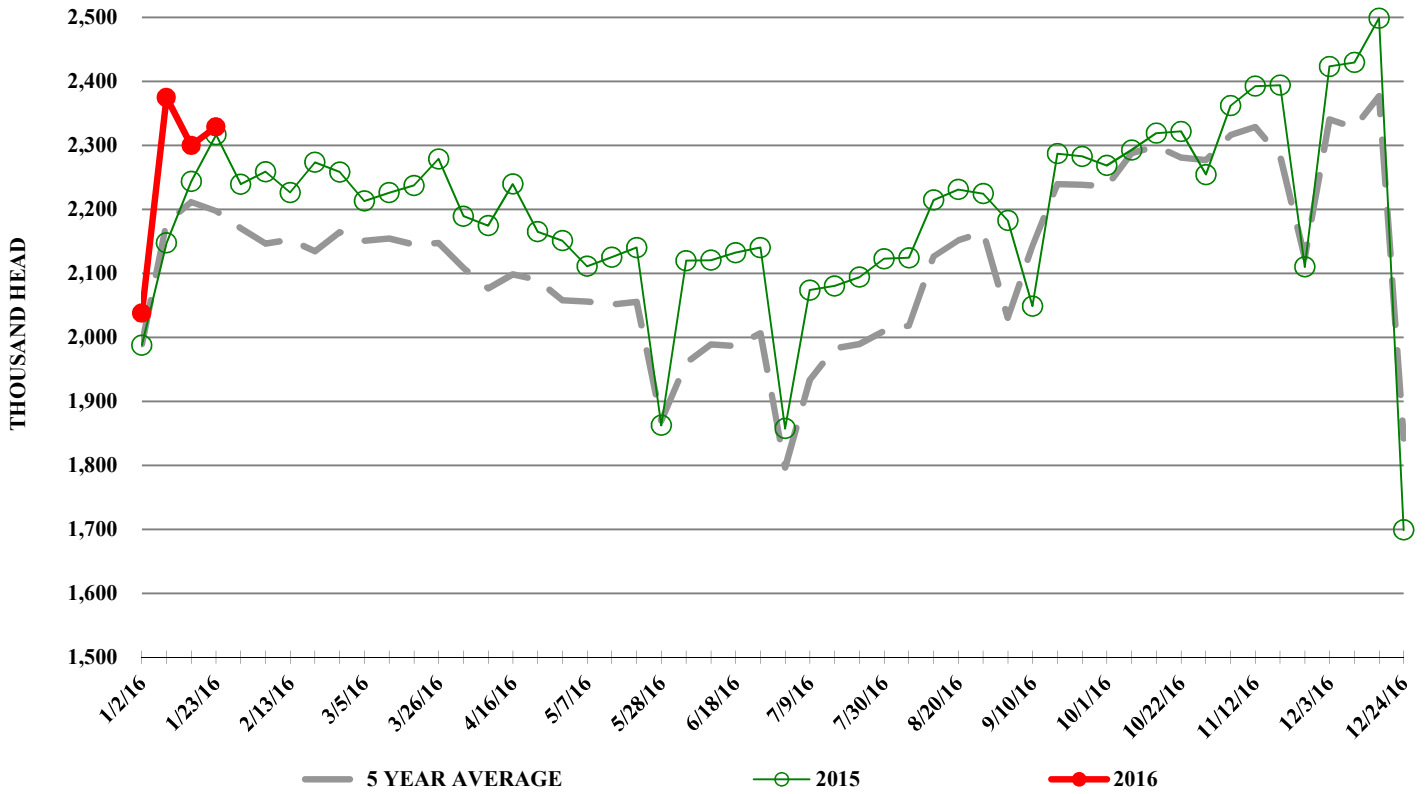


\$/cwt

### Trim, 72% Trim Combo, FOB Plant, USDA



## ESTIMATED WEEKLY FI HOG SLAUGHTER



## ESTIMATED WEEKLY FI PORK PRODUCTION

