



Be inspiredSM

Pork Merchandiser's Profit Maximizer

- Foodservice Edition -

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May 16, 2016

1. Hog futures rally even as cutout gains have been slower than expected. Strong exports expected to support higher prices into the summer months.

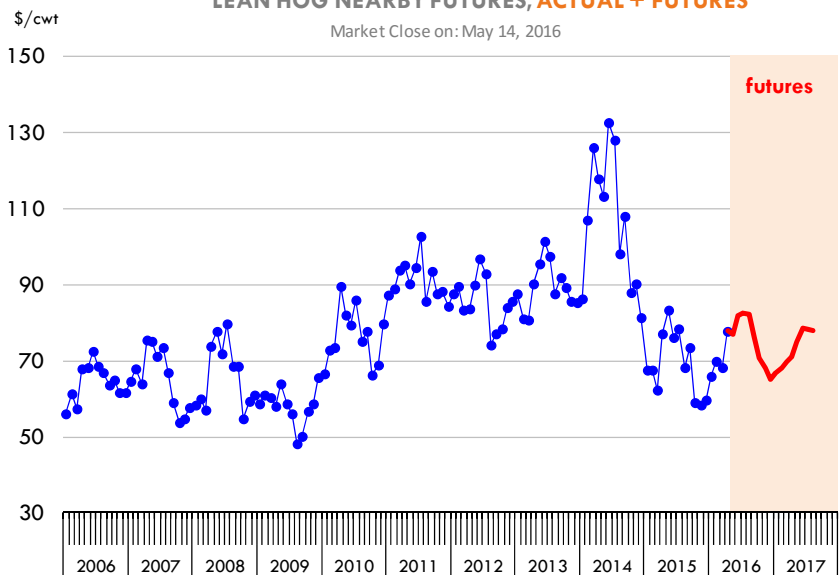
Lean hog futures have rallied in the last two weeks on expectations that strong export demand and current hog supplies will help support cash hog values into the summer months. The export story continues to percolate in the markets and we view it as one of the key drivers for the market this summer.

Memories are still fresh of the big surge in exports to China in 2011, which helped underpin hog values that year. The official USDA export numbers are only through March, showing total shipments to China for that month at 19,003 MT, 160% higher than a year ago. For the first quarter exports to China were up 409% (keep in mind last year exports were minimal in Jan and Feb). But these export numbers are for March. How about April and May? The USDA weekly export numbers have become increas-

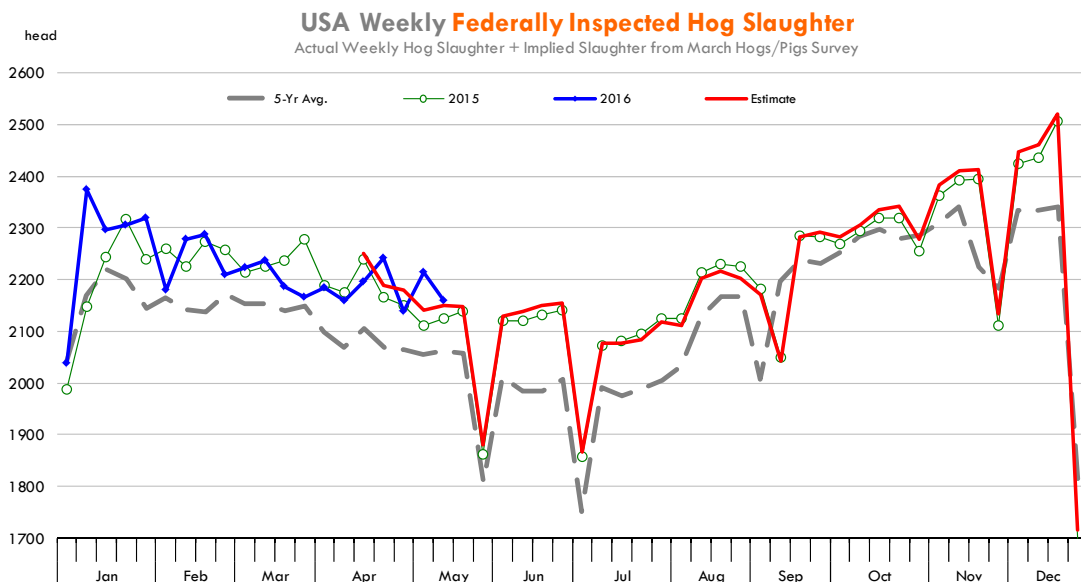
ingly more reliable although there is still a lot of variability week to week. Based on the recent relationship of the weekly and monthly export data, we would project April exports to China at around 26,000 MT and May exports could be even higher. Data for week ending May 5, showed exports to China at 5,275 MT. Exports to Hong Kong also have taken off and combined shipments to these two markets are now dramatically higher than a year ago. Will this be enough

LEAN HOG NEARBY FUTURES, ACTUAL + FUTURES

Market Close on: May 14, 2016



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to support the market through the summer. It is possible although we still need other markets, particularly Mexico, to show improvement. Keep in mind that last year US pork exports were as high as 162,000 MT in April but then dropped to 137,000 by July. The reason why market participants view current China purchases as bullish is that they do not see a slowdown in exports in the short term. Pork prices in China are extremely high, with the recent loose credit policies fueling price inflation. US pork producers are now able to ship 30,000 MT to China on top of bigger exports to Hong Kong. This shows us the US pork industry has been able to expand the supply of ractopamine free pork and thus successfully compete in these markets. At this point the expectation is for hog numbers to be quite large into the fall, hence the spread between Jun and Dec futures. Still, as the summer market heats up, it has helped pull up fall and winter contracts, in the process offering hog producers more attractive opportunities to hedge themselves.

But a quick look at June hog futures chart tells you that market participants were bullish about summer hog price prospects before only to become disappointed, leading to the huge \$7 break in late March and early April. The pork cutout so far has been increasing at a slower pace than usual. Pork

belly prices, which for a while helped underpin the value of the cutout, have pulled back. It is not usual for bellies to be weaker in May but will they help sustain futures in the summer? Retail promotions often are the key for bacon in the summer and the recent break in prices may set the stage once again this year. Ham prices rallied in late April and May but have eased lower in the last couple of weeks. Last year ham prices were quite soft through July, contributing to the weakness of the overall cutout. If exports to Mexico improve in Q2 and Q3, that could quickly fix the problems in the ham market. But again, it is a big if given cheaper poultry prices and a strong US dollar.

Bottom line for pork: Further improvements in the cutout, a smaller slaughter and lighter weights are needed to justify the lofty hog price projections for the summer and fall market.

Monthly Export Update

US meat exports were mixed in the first quarter. Beef shipments have performed a bit better than previously forecast, pork presents good growth potential for the spring and summer while chicken so far has underperformed. Below are some of the highlights from the latest export update and the

charts to the right illustrate changes in export flows for the first quarter of the year:

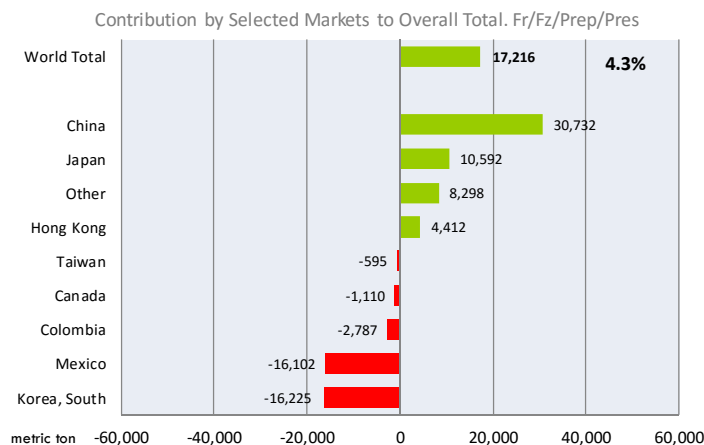
Beef: Total exports of fresh/frozen and cooked beef in March were 62,336 MT, 1.3% higher than the previous year. In the first three months of the year, US beef exports were up 1.4% compared to the previous year. Lower beef prices have stimulated sales and we expect the sharp price correction in cattle values in April to help support exports in Q2. The biggest driver behind US exports in Q1 was South Korea. Shipments to that market in Q1 increased by 4,759 MT (+18%). Exports to Japan were up 7% and exports to Hong Kong increased 9%. Combined exports to these three markets in Q1 were up almost 10,000 MT in the first quarter. The challenge for the beef market continues to be demand in North American markets. Exports to Mexico remain particularly weak due to lower prices for competing proteins and also a weak Mexican Peso. Exports to Mexico in the first quarter were 24,439 MT, down 4,067 MT (-14%). Exports to Canada were down 2,523 MT (-10%). Normally exports to Asia improve in Q2 and Q3 and this is expected to further bolster US beef trade numbers. At this point we expect Mexico purchases to remain weak but a shift in exchange rates could significantly alter that outlook.

Pork: Total US shipments of fresh/frozen and cooked pork in March were 153,902 MT, 2.1% higher than a year ago. Overall shipments in the first three months of the year were 416,532 MT, 4.3% higher than the previous year. There is both good and bad news in US pork export numbers so far. The good news is that exports to China and Hong Kong are following the very bullish trajectory we outlined at the start of the year. Total exports to these two markets in Q1 were 54,684 MT, up 35,144 MT (+180%) compared to a year ago. The bad news is that the growth in these two markets has been offset to a certain extent by very weak exports to Mexico and South Korea. Mexico is the top market for US pork and shipments there in Q1 were 126,856 MT, down 11.2% from a year ago. Exports to China and Hong

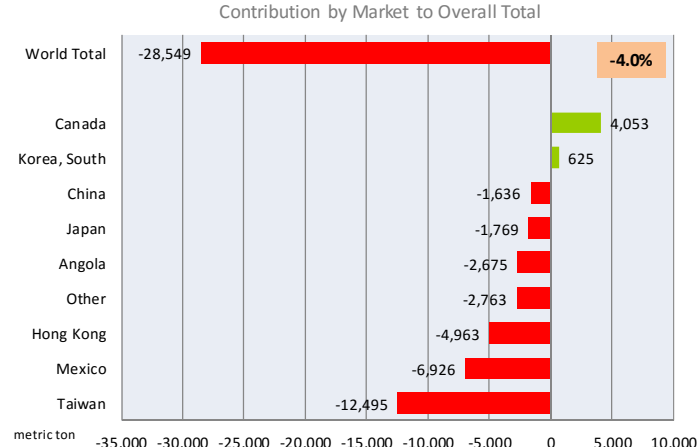
Kong are expected to be sustained through the summer and fall. The value of the US dollar remains critical for US shipments to Mexico and this market remains critical, especially for the US ham market.

Poultry: Total US broiler exports in March were 240,259 MT, 10.3% lower than the previous year. For the entire first quarter US broiler exports were down 4%. Exports were down for almost all markets. The AI induced bans that were put in place last year are slowly being lifted but, in the short term, they continue to negatively impact US chicken exports. In addition, production growth in other areas of the world (EU, Thailand, Brazil) as well as the strong US dollar have impacted US export potential. Turkey exports in the first quarter were down 25%. Mexico accounts for about 60% of all US turkey exports and shipments there are down about 30%.

Y/Y CH. IN US PORK EXPORTS. Q1 2016 vs. Q1 2015. MT, PROD. WT.



Y/Y Change in Q1 2016 vs Q1 2015 US Broiler Exports



Upcoming holidays:

2016 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 May 14 slaughter was 2,160 million head, up 1.6% from a year ago. In the last two weeks hog slaughter is up 3.3% vs. year ago levels.

Iowa/Minnesota, Base Lean Market Hog 185 lbs. Carcass Values. Lean hog carcass values at about 75.72 /cwt. on Friday were up \$2.9/cwt since Wed. May 4. Prices are down about 5 dollars compared to year ago values.

Loin, 1/4 Trimmed Loin VAC, FOB Plant, USDA (page 8). Prices finished last week at \$1.1039, up about 12.3 cent since the Wed. May 4 quote but down about 16 cents from year ago levels.

Bnls. Strap on Pork Loins. Prices finished the week at \$1.3832 for the strap on loins, up 7.2 cent since Wed. May 4 but down about 26 cent from the year ago levels. Strap off loins at \$1.4733 are up about 5.1 cent since Wed. May 4 but down about 30 cent compared to the year ago quote.

Boneless sirloins at \$1.1736 are up 6 cents from the Wed. May 4 quote but down about 6.5 cents from the year ago price.

Pork tenderloin finished last week at \$2.5087, up 16 cent from the Wed. May 4 quote and up about 35.6 cents from the year ago price.

1/4 Trim Pork Butts (page 10), prices finished the week at \$1.2087, up 2.0 cents since Wed. May 4. Prices are up 3 cents from a year ago.

Spare Ribs, Trimmed - LGT, Vac (page 8). Prices finished the week at \$1.6249, down about 4 cent since Wed. May 4 and down about 41 cents from year ago levels.

Rib inventories on March 31 were 146.5 million pounds, up 26.9% percent from a year ago.

Bone-in Hams.

17/20 hams (page 9) price was \$0.6533/lb., down 3.1 cents compared to prices on Wed. May 4 and down about 3 cents from a year ago.

20/23 hams finished the week at 65.54 cents, down about 3.7 cents since Wed. May 4 and down about 3 cents from the year ago level.

23/27 hams finished the week at 64.42 , down about 6 cents from the Wed. May 4 quote and down about 1.2 cents from the year ago level.

Total ham cold storage stocks on March 31 at 96.5 million pounds were up 1.5% from year ago levels.

42 CL Pork Trim "FOB Basis". Prices finished the week at 49.34 cent, down about 1.5 cent since Wed. May 4 but up about 10 cents from the year ago price.

72 CL Pork Trim “FOB Basis”. Prices finished the week at 69.07 cents, down about 9 cents since the Wed. May 4 quote and down about 6 cents from the year ago level.

Freezer stocks of all trimmings on March 31 were 44.8 million pounds, up 35.3% 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.

POULTRY

Georgia Dock Broilers. The Georgia dock price last week at \$112.00 was down 4.00 cents from a year ago.

The National Whole Bird price was quoted at 90.95 on Friday, May 14, down about 16 cents from a year ago.

Broiler slaughter for the week ending May 14 was 162.93 million head, up 2.68% from a year ago. For the last two weeks slaughter was up 1.2% vs. a year ago.

Breasts. Prices on boneless skinless breasts finished the week at \$1.2337, down 1 cents since Wed. May 4 and still down about 43 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 1.8 cents vs. two weeks ago but at 37.18 cents per pound prices were up 4 cents from a year ago. Bird flu has been a negative factor for dark meat exports so far this year.

Wings. Prices at \$1.6722 are down about 17 cents from year ago levels.

Turkeys

Hens finished last week at \$1.2300, up 1.0 cent since Wed. May 4 and up about 10 cents from the year ago price.

Toms finished last week at \$1.2300, up 1.0 cent since Wed. May 4 and up about 10 cent from the year ago price.

Total turkey supplies in the freezer on March 31 were up 6.5% from a year ago at 368.0 million pounds. Whole birds were up 10.5% from a year ago with an inventory of 160.4 million pounds.

Turkey slaughter was 4.1250 million head for the week ending May 7, up 3.41% from a year ago. For the last two weeks slaughter has been up 4.5%.

Boneless Turkey Breast Meat. Boneless skinless turkey breast meat prices finished last week at \$2.1500, down 10 cents since Wed. May 4. Prices are down about 155 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 \$7.6333 (weighted average quote) finished last week up about 67 cents since the Wed. May 4 quote but down about 123 cents vs. the year ago price.

Select 112A Heavy Lip On Rib Eyes at \$6.9625 (weighted average quote) finished last week up about 9 cents since the Wed. May 4 quote but down about 83 cents vs. the year ago price.

Currently Choice 112A Rib Eyes are \$0.6708 /lb. over Select. The 2015 annual average spread (wt. average price) had the Choice at a premium to the Select by \$0.0927 per pound and the previous five years (2010 thru 2014) average

spread was Choice at a premium to the Select by \$0.0909 per pound.

Choice regular #168 insides finished last week quoted at \$2.0734 up about 4 cents since Wed. May 4 but down about 75 cents from the year ago price.

Choice ¼ inch trimmed #168 insides finished last week quoted at \$2.2912 up about 33 cents since Wed. May 4 and down about 68 cents from year ago levels.

Choice #170 Gooseneck Rounds finished last week at \$1.9696 up about 8 cents since Wed. May 4 but down about 43 cents from the year ago levels.

Choice #180 (0x1) Bnls. Strip Loins finished last week quoted at \$7.4886 (wt. avg.) up about 87 cents from the Wed. May 4 quote. Prices are about 196 cents over year ago levels.

Choice #184 Regular Heavy top butts finished at \$4.4261 (wt. avg.) up about 4 cents since Wed. May 4 but down about 14 cents from year ago levels.

Choice #184 ¼ inch trimmed Top Butts finished at \$4.5059 (wt. avg.) down about 5 cents since Wed. May 4 and down about 0 cents from the year ago levels.

Choice #185A Flap Meat prices finished Friday at \$5.8149 (wt. avg.) up about 73 cents since Wed. May 4 but down about 203 cents from year ago values.

COARSE GROUND BEEF –

73CL Coarse Ground product finished last week at \$1.6172 up about 11 cents since Wed. May 4 but down about 42 cents from year ago levels.

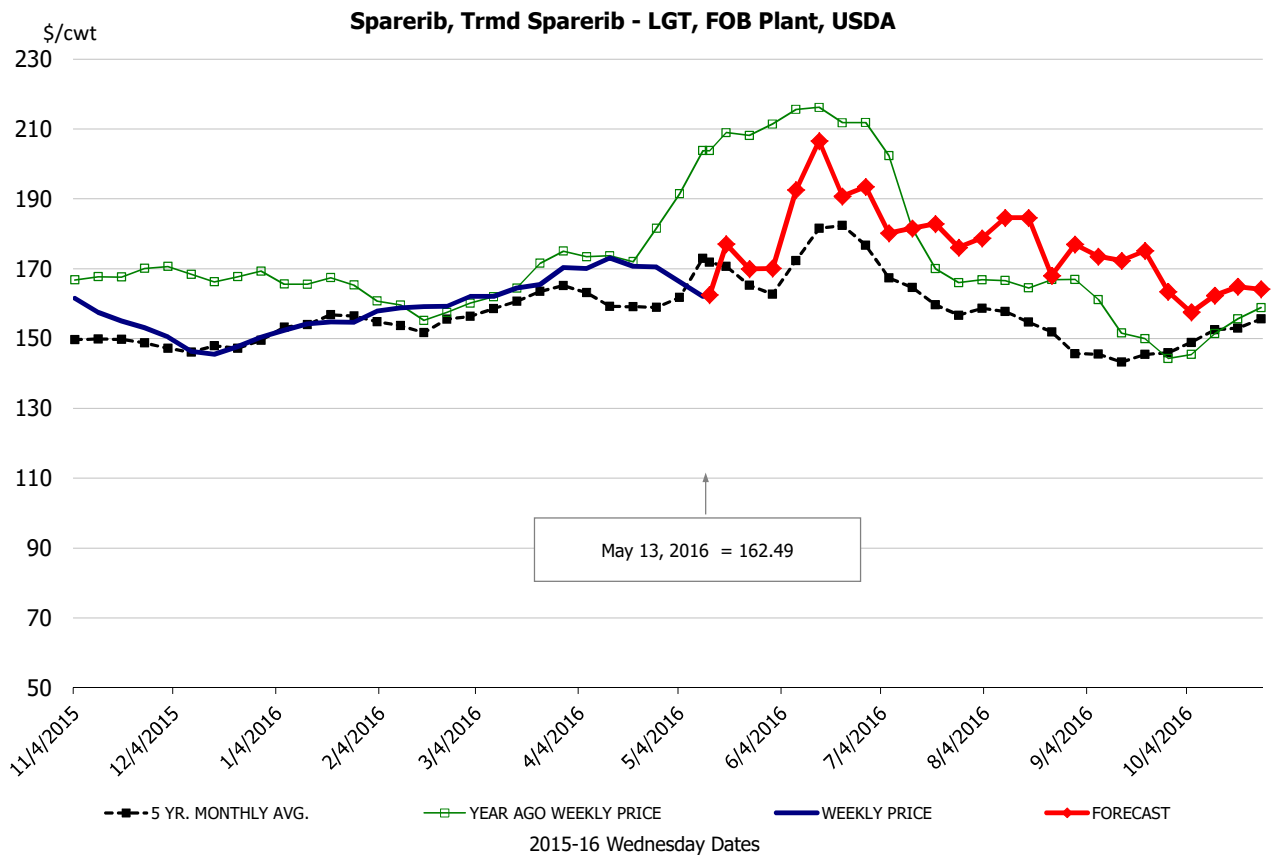
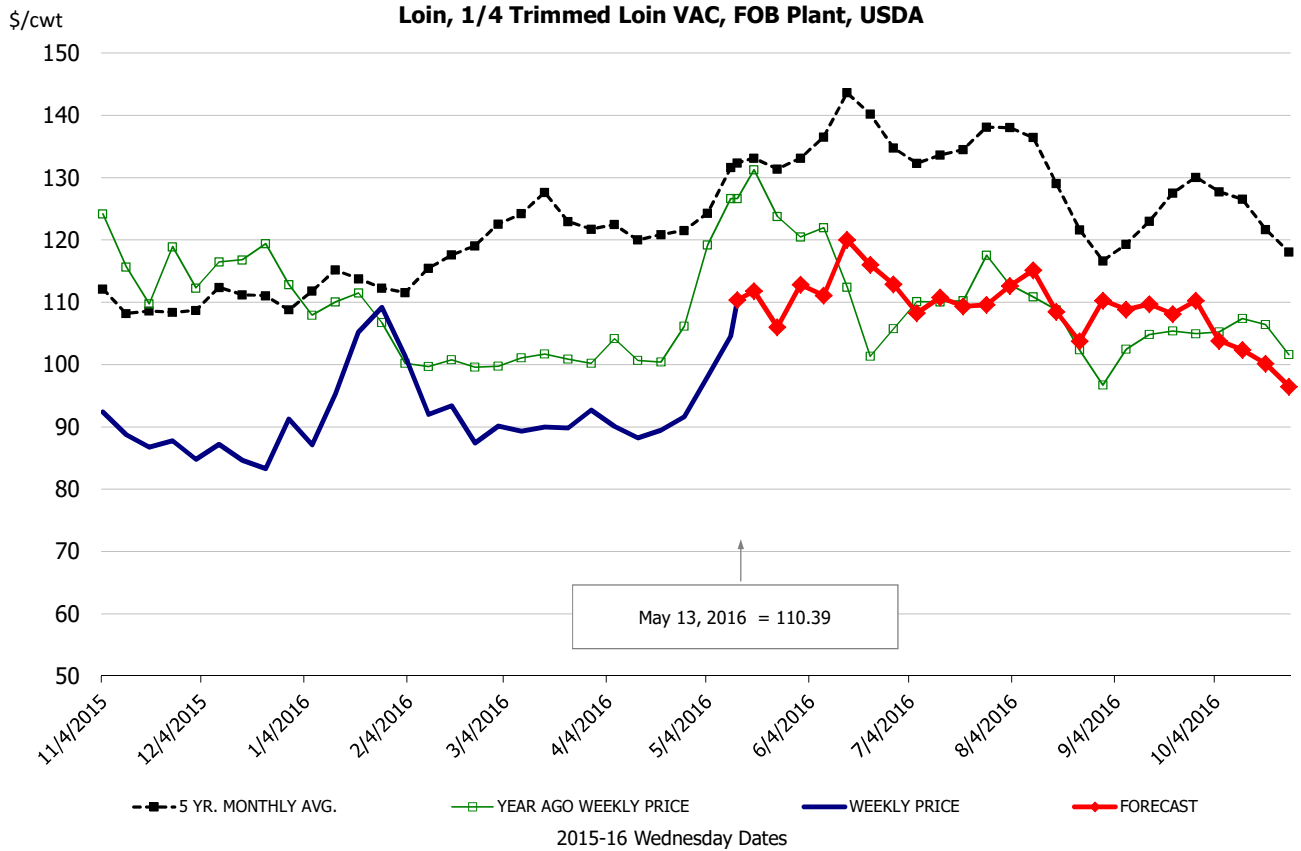
81CL Coarse Ground product finished last week at \$1.9764 up about 18 cent since Wed. May 4 but down about 44 cents from the year ago quote.

90CL Bnls. Beef prices finished the week at \$2.1703 (wt. avg.) down about 0.5 cent since Wed. May 4 and down 79 compared to the year ago price quote.

50 CL Beef Trim prices finished last week at \$0.5346, up about one cent since Wed. May 4 but down 45 compared to the year ago level.

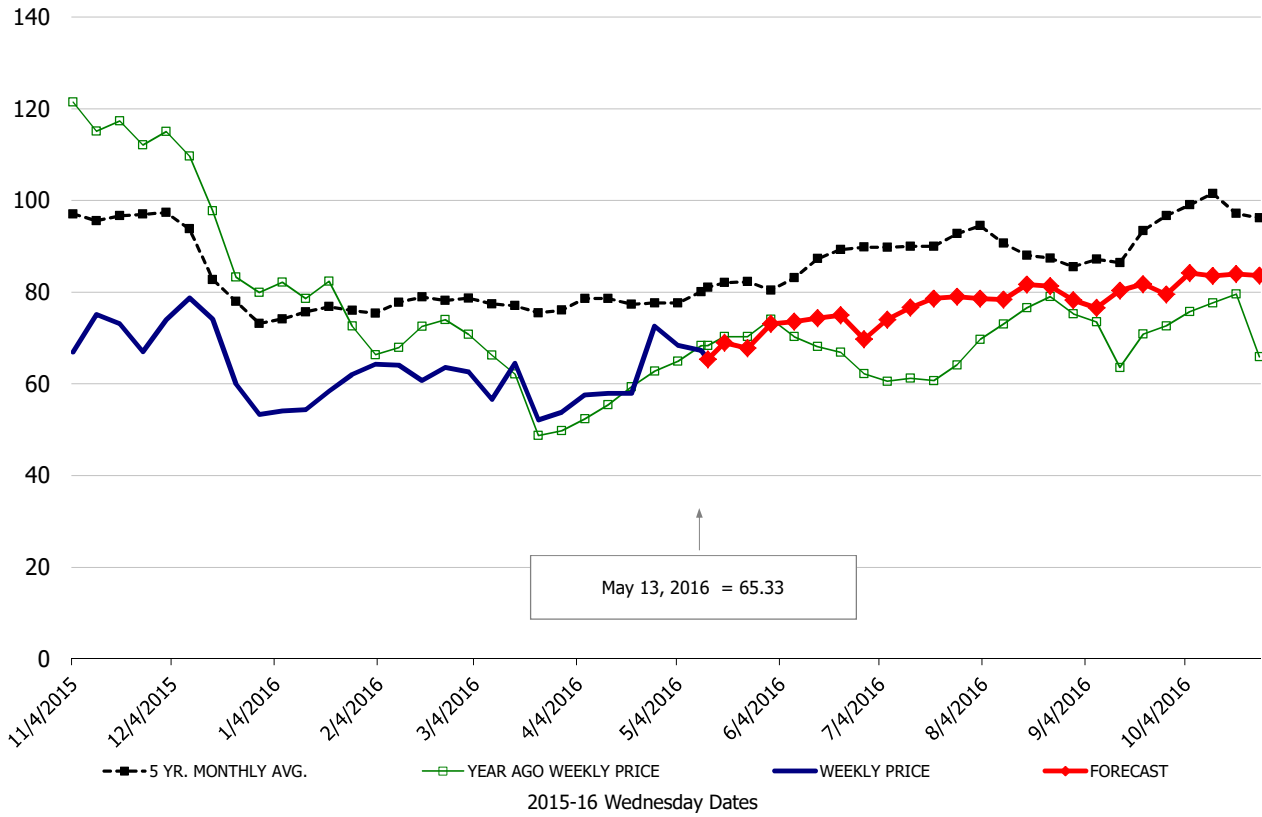
Food Service Summary Table - WT. AVE

	2015-16 History							2016 FORECAST							
	Nov	Dec	Jan	Feb	Mar	Apr	5/4/2016	5/13/2016	5/25/2016	May	Jun	Jul	Aug	Sep	Oct
<u>PORK</u>															
Loin, 1/4 Trimmed Loin VAC, FOB Plant, USDA	0.89	0.86	0.97	0.94	0.90	0.89	0.98	1.10	1.06	1.10	1.15	1.09	1.10	1.09	1.01
Loin, 1/8 Trimmed Loin VAC, FOB Plant, USDA	0.96	0.92	1.01	1.04	0.97	0.97	1.03	1.18	1.15	1.18	1.24	1.17	1.19	1.16	1.06
Loin, Bnls CC Strap-off, FOB Plant, USDA	1.46	1.42	1.49	1.47	1.42	1.38	1.42	1.47	1.47	1.51	1.62	1.59	1.63	1.69	1.55
Loin, Tenderloin, FOB Plant, USDA	1.95	1.83	2.12	2.41	2.15	2.21	2.35	2.51	2.49	2.51	2.63	2.59	2.51	2.47	2.08
Butt, 1/4 Trim Butt Combo, FOB Plant, USDA	0.73	0.80	0.80	0.75	0.84	0.96	1.06	1.11	1.10	1.11	1.12	1.10	1.03	1.05	0.91
Sparerib, Trmd Sparerib - LGT, FOB Plant, USDA	1.55	1.48	1.54	1.59	1.64	1.67	1.66	1.62	1.70	1.81	1.90	1.81	1.79	1.73	1.60
Sparerib, St Louis Spareribs, POLY, FZN, FOB Plant, USDA	2.47	2.48	2.49	2.57	2.61	2.56	2.63	2.52	2.53	2.69	2.73	2.68	2.65	2.61	2.46
Sparerib, Trmd Sparerib - MED, FOB Plant, USDA	1.50	1.39	1.41	1.50	1.55	1.54	1.60	1.62	1.62	1.72	1.83	1.77	1.75	1.71	1.56
Loin, Backribs 2.0#/up, FOB Plant, USDA	2.37	2.43	2.49	2.59	2.73	2.90	2.98	2.99	2.97	3.04	3.07	2.93	2.91	2.84	2.44
Ham, 17-20# Trmd Selected Ham, FOB Plant, USDA	0.68	0.68	0.58	0.62	0.56	0.64	0.68	0.65	0.68	0.68	0.74	0.76	0.80	0.79	0.84
Ham, 20-23# Trmd Selected Ham, FOB Plant, USDA	0.66	0.64	0.58	0.61	0.55	0.63	0.69	0.66	0.67	0.68	0.73	0.77	0.79	0.78	0.79
Ham, 23-27# Trmd Selected Ham, FOB Plant, USDA	0.61	0.59	0.56	0.58	0.55	0.64	0.70	0.64	0.67	0.68	0.72	0.74	0.76	0.76	0.76
Ham, 5 Muscle Ham to Blue, FOB Plant, USDA	0.96	0.96	1.03	1.03	1.03	1.03	1.03	1.03	1.34	1.33	1.33	1.36	1.34	1.35	1.31
Belly, Skin-on Belly 14-16#, FOB Plant, USDA	1.36	1.11	1.20	1.35	1.40	1.32	1.22	1.14	1.10	1.12	1.40	1.59	1.70	1.53	1.38
Belly, Derind Belly 9-13#, FOB Plant, USDA	1.41	1.34	1.42	1.59	1.65	1.51	1.43	1.36	1.55	1.48	1.87	2.00	2.14	1.92	1.73
Belly, Derind Belly 13-17#, FOB Plant, USDA	1.44	1.29	1.44	1.57	1.64	1.50	1.20	1.23	1.54	1.47	1.86	1.98	2.12	1.90	1.71
Trim, 42% Trim Combo, FOB Plant, USDA	0.24	0.18	0.20	0.18	0.25	0.37	0.51	0.49	0.51	0.50	0.51	0.55	0.52	0.49	0.41
Trim, 72% Trim Combo, FOB Plant, USDA	0.50	0.37	0.46	0.58	0.55	0.69	0.78	0.69	0.77	0.74	0.90	0.92	0.83	0.81	0.77
<u>HOG CARCASS</u>															
IA/MN, Base Market Hog 185 lb Carcass Basis, Plant Div.	0.53	0.51	0.55	0.63	0.63	0.64	0.73	0.76	0.77	0.78	0.82	0.84	0.80	0.76	0.68
<u>BROILERS</u>															
BROILER, NATIONAL WHOLE BIRD PRICE, USDA	0.75	0.82	0.88	0.82	0.85	0.88	0.90	0.91	0.92	0.91	0.90	0.86	0.82	0.83	0.81
N.E. BROILER BREAST BONELESS-SKINLESS, USDA	1.06	1.02	1.08	1.07	1.11	1.16	1.24	1.23	1.25	1.27	1.28	1.29	1.29	1.24	1.09
N.E. BROILER BREAST LINE RUN, USDA	0.77	0.77	0.83	0.86	0.89	0.93	0.95	0.98	1.00	1.00	1.00	1.00	0.97	0.96	0.90
N.E. BROILER LEG QUARTERS, USDA	0.23	0.24	0.25	0.27	0.31	0.35	0.35	0.37	0.37	0.37	0.37	0.37	0.38	0.39	0.37
N.E. BROILER WINGS, USDA, WT.AVG.	1.63	1.63	1.90	1.94	1.79	1.79	1.67	1.67	1.71	1.72	1.78	1.80	1.86	1.98	2.00
<u>TURKEYS</u>															
UB HEN TURKEYS, EAST, FROZEN 10-12LBS	1.39	1.27	1.18	1.19	1.21	1.22	1.22	1.23	1.25	1.23	1.23	1.24	1.25	1.25	1.25
UB BONELESS-SKINLESS TURKEY BREAST, TOM, FRESH	5.85	5.73	5.26	3.83	3.24	2.59	2.25	2.15	2.19	2.15	2.20	2.30	2.45	2.50	2.55
<u>LIVE STEERS</u>															
FIVE AREA DIRECT AVERAGE LIVE STEER, USDA	1.29	1.22	1.33	1.34	1.37	1.32	1.24	1.30	1.26	1.28	1.23	1.16	1.16	1.17	1.18
<u>BEEF</u>															
CHOICE, 112A, 3 RIBEYE, BONELESS, HEAVY, USDA	8.11	7.91	7.17	7.54	7.95	7.53	6.97	7.63	8.00	8.00	8.06	7.28	7.30	7.43	7.62
CHOICE, 168, 3 TOP INSIDE ROUND, 1/4" MAX, USDA	2.13	2.00	2.54	2.54	2.36	2.19	1.96	2.29	2.28	2.29	2.18	2.14	2.24	2.11	2.11
CHOICE, 170, 1 BOTTOM GOOSENECK ROUND, USDA	2.05	2.13	2.47	2.40	1.98	1.96	1.89	1.97	1.96	1.96	1.87	1.90	1.92	1.98	2.04
CHOICE, 180, 3 STRIP LOIN, BONELESS, 0x1, USDA	5.49	5.23	5.67	5.69	7.20	7.24	6.62	7.49	7.46	7.48	7.01	5.96	5.70	5.32	5.22
CHOICE, 184, 3 TOP BUTT, BONELESS, USDA	3.07	3.01	3.33	3.34	4.18	4.48	4.55	4.51	4.43	4.55	4.28	4.04	4.02	3.90	3.47
CHOICE, 185A, 4 BOTTOM SIRLOIN, FLAP, USDA	4.09	4.11	5.17	4.97	5.72	5.60	5.09	5.81	5.82	5.81	5.38	4.89	4.40	4.09	3.91
COARSE GROUND 73%, USDA	1.46	1.33	2.18	1.58	1.42	1.50	1.50	1.62	1.57	1.62	1.41	1.38	1.45	1.42	1.38
COARSE GROUND 81%, USDA	1.71	1.54	2.27	1.78	1.65	1.74	1.80	1.98	1.93	1.97	1.63	1.63	1.68	1.64	1.61
90% BONELESS BEEF, CENTRAL, FRESH, USDA	2.13	1.97	2.01	2.10	2.18	2.18	2.17	2.17	2.16	2.17	2.09	2.09	2.06	2.07	1.95
50CL BEEF TRIM, FRESH, NATIONAL, USDA	0.51	0.38	0.64	0.52	0.94	0.73	0.52	0.53	0.53	0.57	0.54	0.56	0.59	0.52	0.54



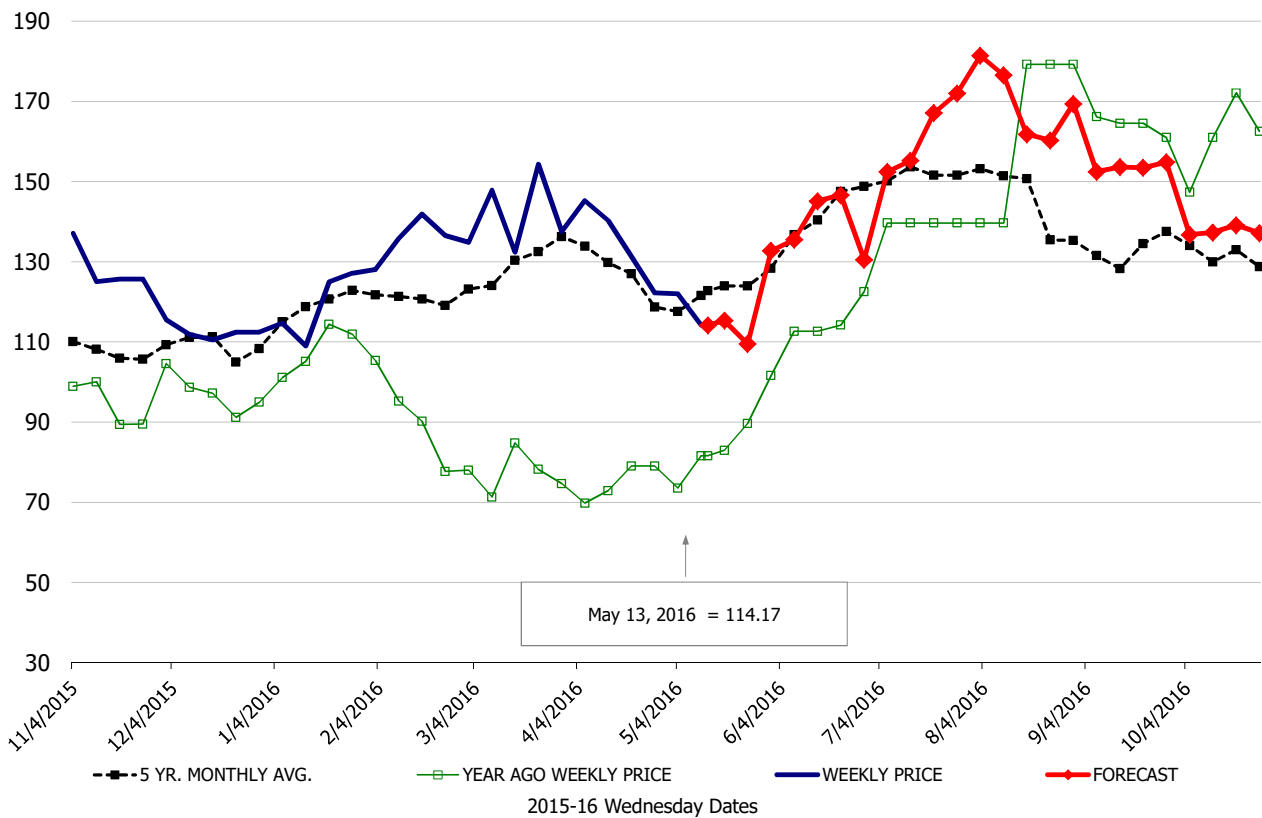
\$/cwt

Ham, 17-20# Trmd Selected Ham, FOB Plant, USDA



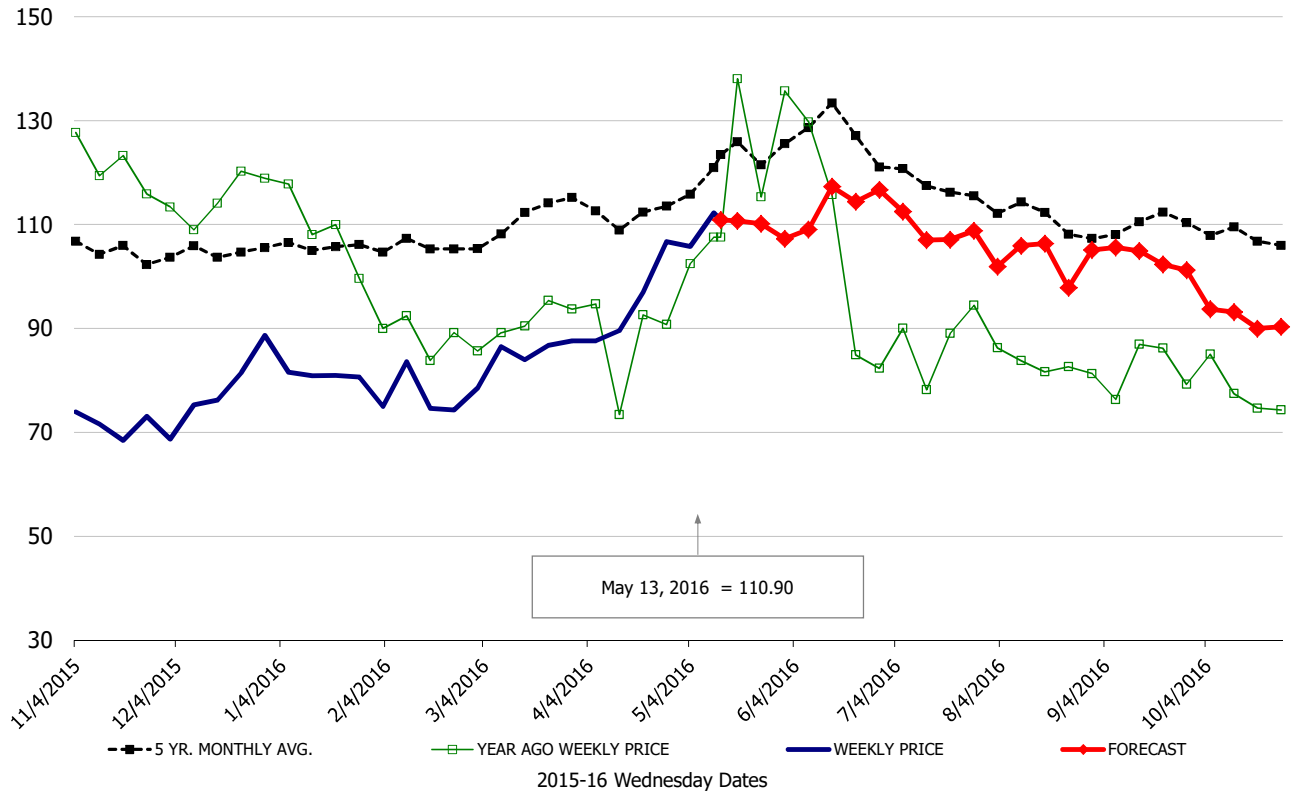
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Belly, Skin-On Belly 14-16#, FOB Plant, USDA



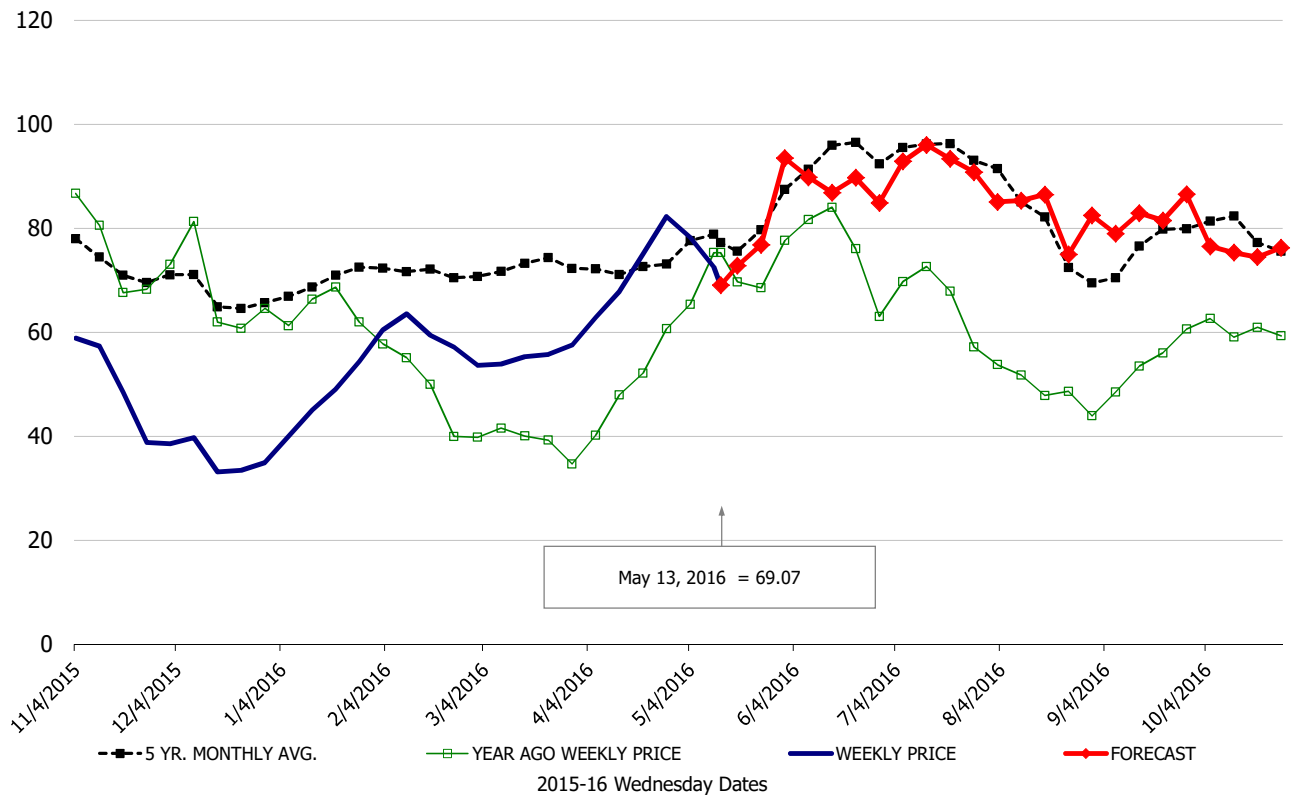
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Butt, 1/4 Trim Butt Combo, FOB Plant, USDA

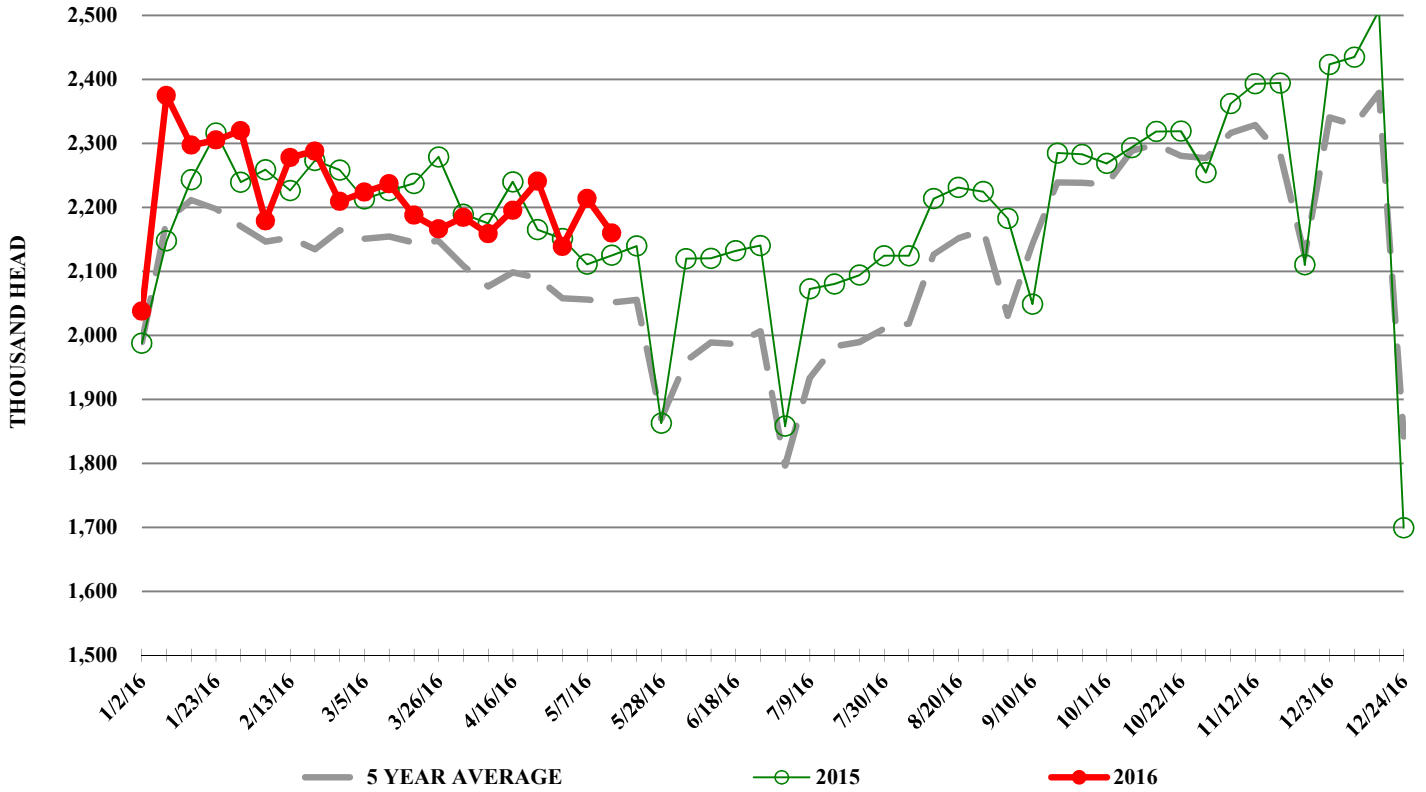


\$/cwt

Trim, 72% Trim Combo, FOB Plant, USDA



ESTIMATED WEEKLY FI HOG SLAUGHTER



ESTIMATED WEEKLY FI PORK PRODUCTION

