



Pork Merchandiser's Profit Maximizer

Be inspiredSM

- Foodservice Edition -

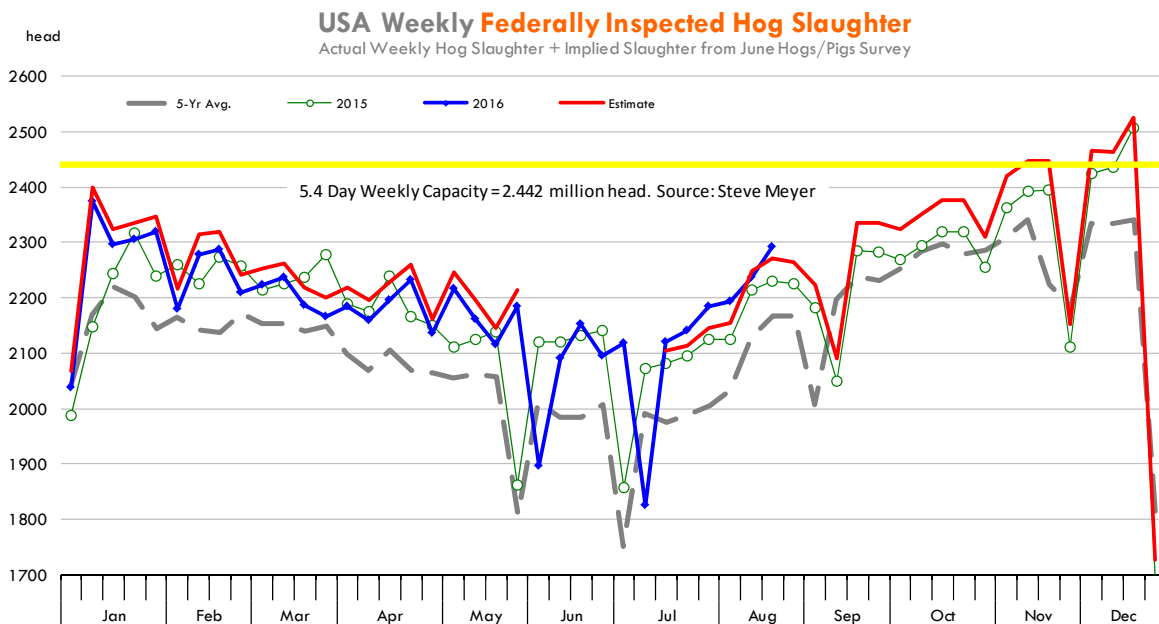
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Prepared by Steiner and Company, Manchester, NH 800-526-4612.

August 22, 2016

Large hog slaughter and slowing exports take their toll on the pork market. Will the situation get worse as we go into the fall?

Hog prices have declined sharply in the last six weeks as markets struggle to absorb the surge in hog slaughter. The situation has been

further exacerbated by two critical demand factors for this time of year. First, pork belly demand has not been as robust as many expected, causing significant erosion in the value of the cut-out and directly impacting packer bids for hogs. Indeed, despite the big break in hog prices, pork packer margins are not any better than they were in the spring. The second demand factor that



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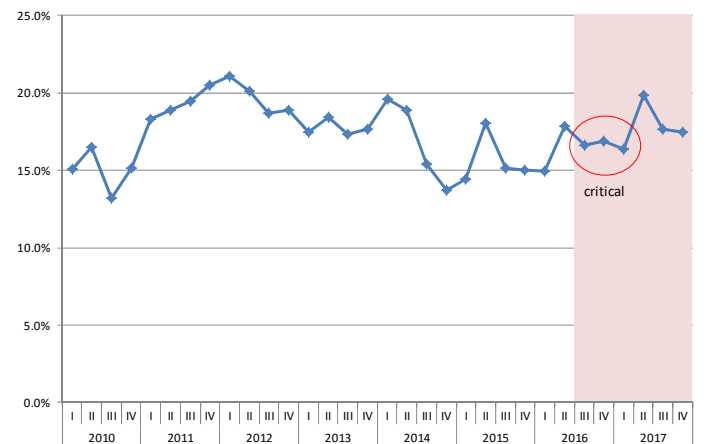
needs to be recognized are exports, which were notably lower in July. Below we outline the supply situation and implication for the critical fourth quarter. We then also consider the seasonal effects that come into play as we move into the fall, how they will tend to impact various parts of the carcass. Finally the outlook for US pork exports for the remainder of the year and in 2017. The recent price break has been a wakeup call for the industry. Futures have shown some modest improvement recently but plenty of risks remain.

Supply Conditions: Hog slaughter for the last four reported weeks has averaged 2.226 million head per week, 2.4% more than a year ago and above the levels indicated in the June Hogs and Pigs report. But as we have noted before, in our view this does not yet mean that the USDA report was off in its estimate. Rather, we think it shows that producers fell behind in marketing hogs during June and then had to ramp up slaughter in July and early August to catch up (see chart on page 1). Since June, hog slaughter has been a total of 23.448 million hogs, 1.1% higher than a year ago and very much in line with the +1.2% increase that the June report indicated. The challenge for producers going forward is that hog supplies will continue to increase and they will need to stay in front of this growing supply so as not to make a bad situation even worse as we go into the fall. Cooler temperatures and fresh corn normally improve feed conversion and push up hog weights. If producers fall behind in marketings, it could be particularly problematic for pork supplies in Q4.

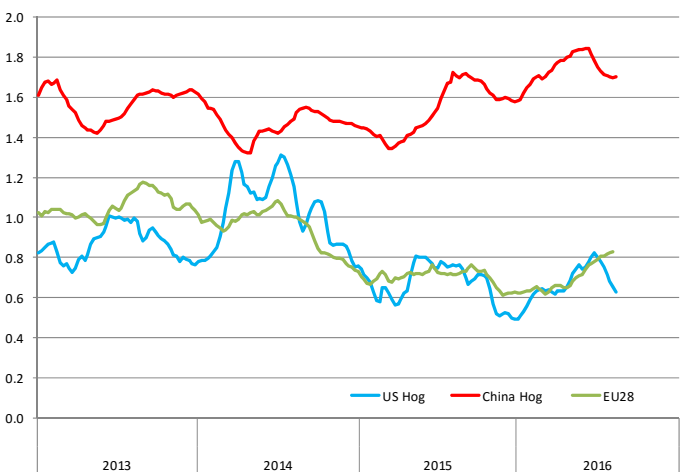
In our view producers have two very recent examples to consider and two different options. One example is 2012. During that year,

NET PORK EXPORTS AS % OF TOTAL US PORK PRODUCTION

QUARTERLY. USDA + STEINER FORECASTS. NET EXPORTS CALCULATED AS EXPORTS MINUS IMPORTS



China, US & EU Hog Carcass Price



producers were very aggressive in marketing hogs in August and September. This caused a temporary sharp break in prices but also got producers to be very current in October and November. Hog weights in the fall of 2012 were lower than what was projected, reducing the overall volume of pork coming to market. The other example is last year, 2015. In our view producers last year were fooled a bit by the high prices realized in early fall and took their time in marketing hogs. By the time November and December rolled around they had to contend with very heavy hogs on top of large weekly slaughter schedules. This pushed hog prices as low as 50 cents.

Based on the June 'Hogs and Pigs' report, slaughter in October and November will run about 2.5% above last year. And six weeks in the fourth quarter will average over 2.4 million hogs per week. We think the pork industry today is much better integrated than it was in 1998 and this will prevent a repeat of the market crash we saw back then. But the risks of running out of capacity are real and producers will need to stay very aggressive in their marketings for the next two months in order to avoid a repeat. With cheap corn and a growing breeding herd, hog supplies will continue to expand.

Demand Considerations: The increase in supplies in July and early August has been only part of the problem for the hog market. There are signs that pork demand in the US domestic channels is slowing down. The monthly pork demand index from the University of Missouri shows the index declined 0.9% in May and it was down 0.4% in June. We think July numbers will show a further decline. Also as mentioned earlier the sharp drop in the value of pork bellies indicates weaker than normal seasonal demand for this product. After all, hog supplies in the last four weeks are up around 2.4% from last year and yet pork belly prices are down by more than 50% from a year ago. One reason for the weakness in demand may be the sharp decline in beef prices in the spring, which gave retailers the opportunity to feature more beef, both steaks and ground beef, in late May, June and July. Indeed, cattle slaughter during this period has been up in double digits compared to last year and yet the price of lean grinding beef has been steady, middle meat prices have been above last year and 50CL beef trim hit 90 cents per pound

(compared to 30 cents in February).

The weakness in domestic channels was further compounded by lower exports during the month of July. We do not have official export data yet but, by our estimates, pork exports in July were down about 3.5% from a year ago. China pork demand, which was supposed to lift the market in Q2 and Q3, suddenly disappeared. Several thousand metric ton of product were straight out cancelled and weekly exports in the first two weeks of August averaged around 1250 MT compared to +5000 MT per week in April. Exports to Mexico and Japan, the two largest buyers of US pork, also were disappointing in July. It could be that international buyers decided to sit on the sidelines in July given the run-up in prices. If so, the recent demand slump may prove to be temporary. Our forecasts are for pork exports in Q3 to be up 8.3% and then increase 9.5% in Q4. Even with this rather bullish forecast for pork exports, net pork exports (exports minus imports) will account for less than 17% of US pork production. In 2011, when China's pork purchases accelerated, net pork exports accounted for about 20% of production. We still think there is a good chance that US pork exports will recover in the fall. After all, US hog/pork prices are now priced at a significant discount compared to the EU. Also, Some of the export buyers that were sitting on the sidelines may opt to jump back in the market. But without robust pork export sales into the fall, there could be further downside risk to the current hog and pork markets.

Upcoming holidays:

2016 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 August 20 slaughter was 2.291 million head, up 2.7% from a year ago. In the last two weeks hog slaughter is up 1.9% vs. year ago levels.

Iowa/Minnesota, Base Lean Market Hog 185 lbs. Carcass Values. Lean hog carcass values at about 63.50 /cwt. on Friday were up \$1/cwt since Wed. August 10. Prices are down 12.9 dollars compared to year ago values.

Loin, 1/4 Trimmed Loin VAC, FOB Plant, USDA (page 8). Prices finished last week at \$0.9585, down about 3.8 cents since the Wed. August 10 quote and down about 13 cents from year ago levels.

Bnls. Strap on Pork Loins. Prices finished the week at \$1.2264 for the strap on loins, up 0.2 cent since Wed. August 10 but down about 16 cent from the year ago levels. Strap off loins at \$1.3487 are down about 2.5 cent since Wed. August 10 and down about 14 cent compared to the year ago quote.

Boneless sirloins at \$1.0727 are down 4 cents from the Wed. August 10 quote and down about 14.7 cents from the year ago price.

Pork tenderloin finished last week at \$2.0550, down 21 cent from the Wed. August 10 quote and down about 37.2 cents from the year ago price.

1/4 Trim Pork Butts (page 10), prices finished the week at \$1.0023, down 2.9 cents since Wed. August 10. Prices are up 12 cents from a year ago.

Spare Ribs, Trimmed - LGT, Vac (page 8). Prices finished the week at \$1.3257, up about 4 cent since Wed. August 10 but down about 32 cents from year ago levels.

Rib inventories on June 30 were 85.6 million pounds, up 17.3% percent from a year ago.

Bone-in Hams.

17/20 hams (page 9) price was \$0.7391/lb., unchanged since Wed. August 10 but down about 3 cents from a year ago.

20/23 hams finished the week at 73.29 cents, up about 6.1 cents since Wed. August 10 but down about 1 cents from the year ago level.

23/27 hams finished the week at 71.52 , up about 7 cents from the Wed. August 10 quote but down about 2.6 cents from the year ago level.

Total ham cold storage stocks on June 30 at 166.6 million pounds were down 7.7% from year ago levels.

42 CL Pork Trim “FOB Basis”. Prices finished the week at 51.59 cent, down about 9.4 cent since Wed. August 10 but up about 22 cents from the year ago price.

72 CL Pork Trim “FOB Basis”. Prices finished the week at 62.14 cents, down about 10.8 cents since the Wed. August 10 quote but up about 14 cents from the year ago level.

Freezer stocks of all trimmings on June 30 were 34.9 million pounds, down 26.1% 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 \$110.75 was down 4.75 cents from a year ago.

The National Whole Bird price was quoted at 79.44 on Friday, August 6, down about 3 cents from a year ago.

Broiler slaughter for the week ending August 20 was 167.59 million head, up 3.24% from a year ago. For the last two weeks slaughter was up 2.0% vs. a year ago.

Breasts. Prices on boneless skinless breasts finished the week at \$1.5330, up 15 cents since Wed. August 10 and still up about 10 cents from year ago levels.

Leg Quarters. Improvements in export demand have provided support and prices are now well above levels we saw in late 2015 and early 2016. Last week leg quarter prices were down about 1.9 cents vs. two weeks ago but at 30.41 cents per pound prices were up 7 cents from a year ago.

Wings. Prices at \$1.5578 are down about 28 cents from year ago levels.

Turkeys

Hens finished last week at \$1.2600, unchanged since Wed. August 10 but down about 4 cents from the year ago price.

Toms finished last week at \$1.2600, unchanged since Wed. August 10 but down about 4 cent from the year ago price.

Total turkey supplies in the freezer on June 30 were up 9.3% from a year ago at 505.0 million pounds. Whole birds were down 8.5% from a

year ago with an inventory of 250.4 million pounds.

Turkey slaughter was 4.1400 million head for the week ending July 30, up 4.10% from a year ago. For the last two weeks slaughter has been up 2.0%.

Boneless Turkey Breast Meat. Boneless skinless turkey breast meat prices finished last week at \$2.1500, unchanged since Wed. August 10. Prices are down about 350 cents vs. year ago levels.

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 \$7.5659 (weighted average quote) finished last week up about 17 cents since the Wed. August 10 quote but down about 41 cents vs. the year ago price.

Select 112A Heavy Lip On Rib Eyes at \$6.8078 (weighted average quote) finished last week up about 6 cents since the Wed. August 10 quote but down about 14 cents vs. the year ago price.

Currently Choice 112A Rib Eyes are \$0.7581 /lb. over Select. The 2015 annual average spread (wt. average price) had the Choice at a premium to the Select by \$0.1178 per pound and the previous five years (2010 thru 2014) average spread was Choice at a premium to the Select by \$0.0959 per pound.

Choice regular #168 insides finished last week quoted at \$2.1275 down about 2 cents since Wed. August 10 and down about 90 cents from the year ago price.

Choice ¼ inch trimmed #168 insides finished last week quoted at \$2.2073 down about one cents

since Wed. August 10 and down about 83 cents from year ago levels.

Choice #170 Gooseneck Rounds finished last week at \$1.8362 down about 7 cents since Wed. August 10 and down about 64 cents from the year ago levels.

Choice #180 (0x1) Bnls. Strip Loins finished last week quoted at \$5.5271 (wt. avg.) down about 60 cents from the Wed. August 10 quote. Prices are about 122 cents over year ago levels.

Choice #184 Regular Heavy top butts finished at \$3.5427 (wt. avg.) up about 11 cents since Wed. August 10 but down about 102 cents from year ago levels.

Choice #184 ¼ inch trimmed Top Butts finished at \$3.6450 (wt. avg.) down about 6 cents since Wed. August 10 and down about 99 cents from the year ago levels.

Choice #185A Flap Meat prices finished Friday at \$5.2867 (wt. avg.) down about 33 cents since Wed. August 10 but up about 17 cents from year ago values.

COARSE GROUND BEEF –

73CL Coarse Ground product finished last week at \$1.6674 up about 20 cents since Wed. August 10 but down about 42 cents from year ago levels.

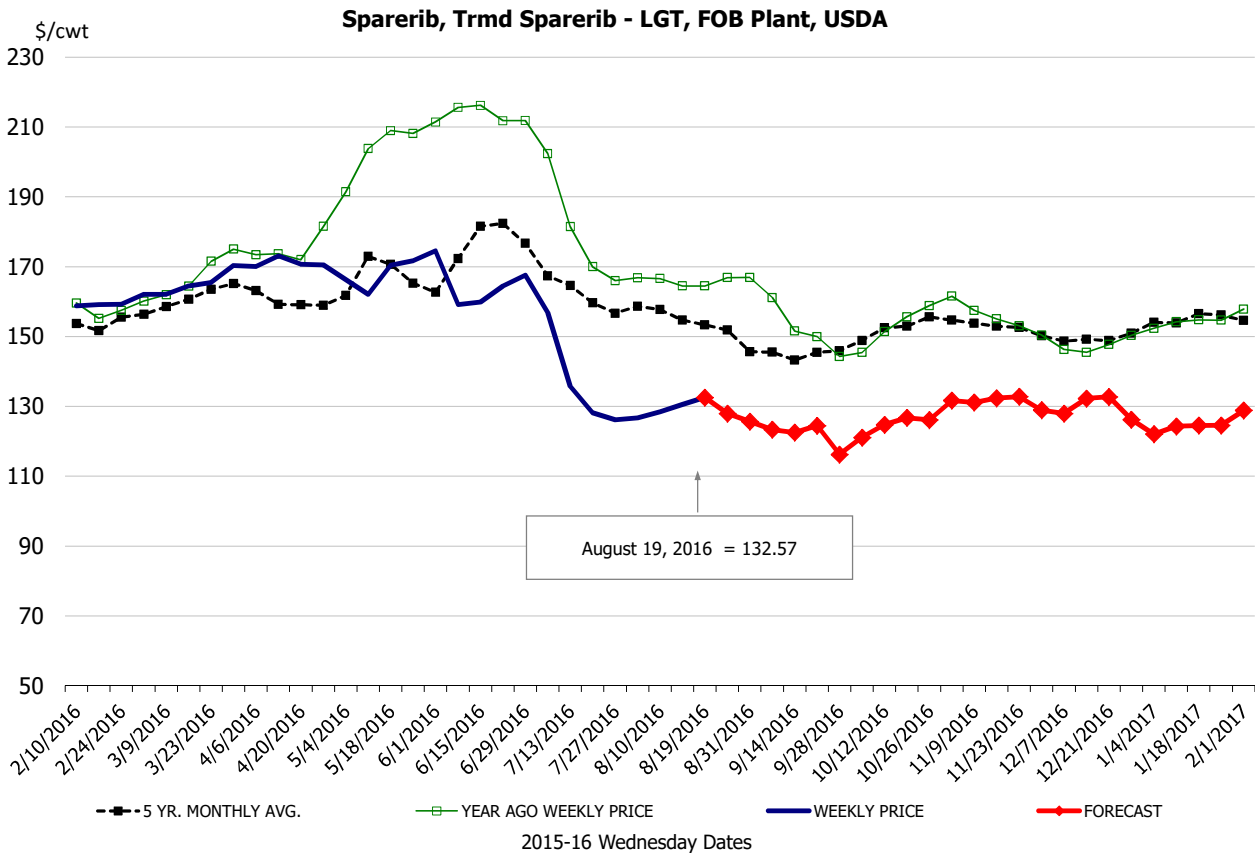
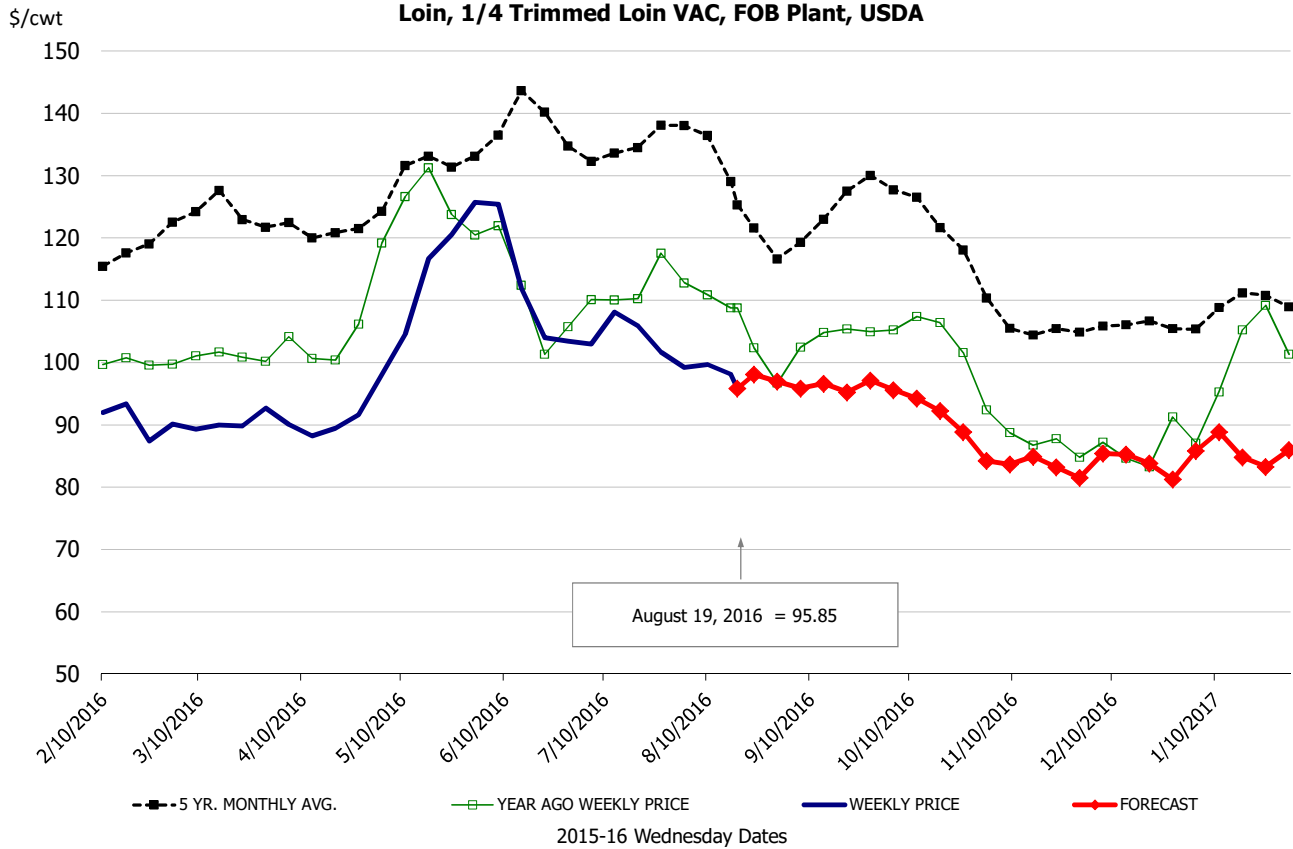
81CL Coarse Ground product finished last week at \$1.8863 up about 18 cent since Wed. August 10 but down about 57 cents from the year ago quote.

90CL Bnls. Beef prices finished the week at \$2.1183 (wt. avg.) down about 0.35 cent since Wed. August 10 and down 70 compared to the year ago price quote.

50 CL Beef Trim prices finished last week at \$0.5223, down about 11 cent since Wed. August 10 and down 23 cent compared to the year ago level.

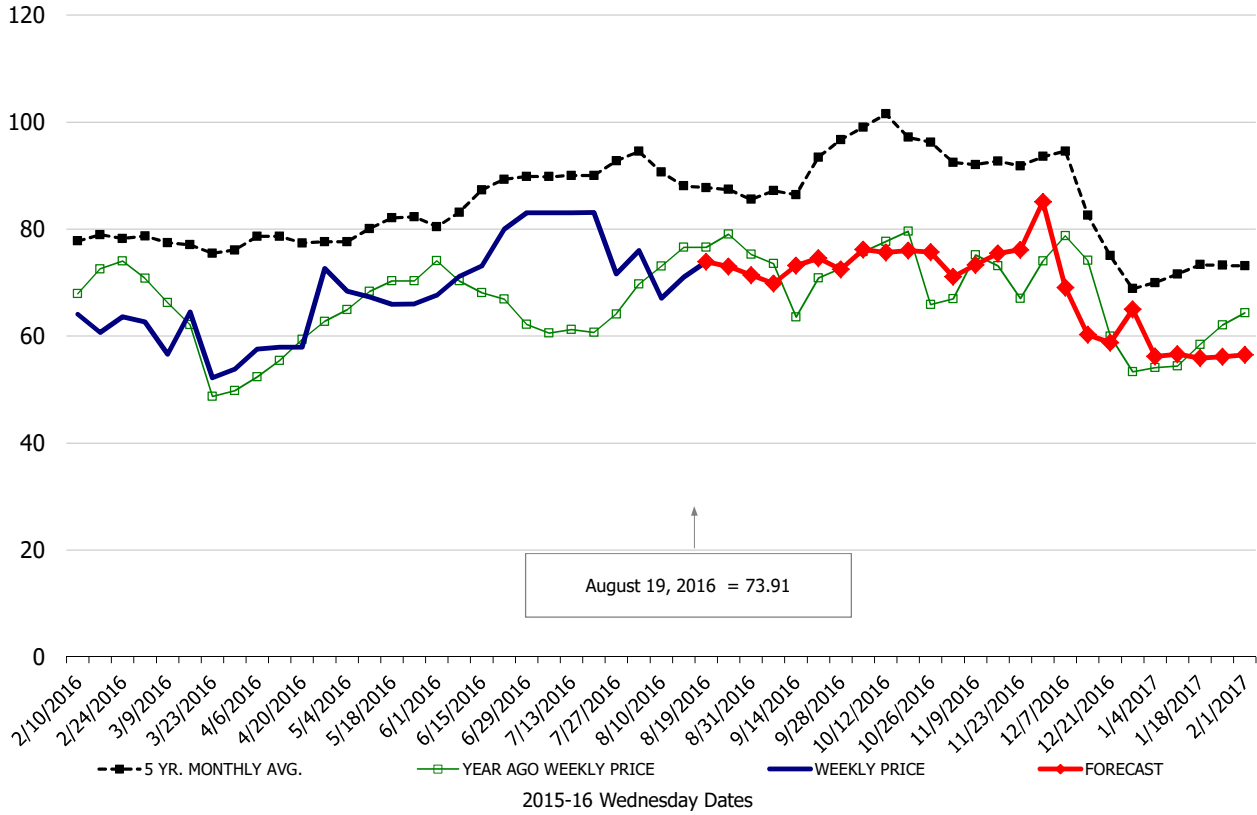
Food Service Summary Table - WT. AVE

	2016 History								2016 FORECAST						
	Feb	Mar	Apr	May	Jun	Jul	8/10/2016	8/19/2016	8/31/2016	Aug	Sep	Oct	Nov	Dec	Jan
<u>PORK</u>															
Loin, 1/4 Trimmed Loin VAC, FOB Plant, USDA	0.94	0.90	0.89	1.08	1.13	1.05	1.00	0.96	0.97	1.04	0.96	0.93	0.84	0.84	0.85
Loin, 1/8 Trimmed Loin VAC, FOB Plant, USDA	1.04	0.97	0.97	1.13	1.22	1.12	1.02	1.04	1.04	1.12	1.02	0.98	0.91	0.91	0.92
Loin, Bnls CC Strap-off, FOB Plant, USDA	1.47	1.42	1.38	1.49	1.51	1.40	1.37	1.35	1.38	1.45	1.40	1.40	1.29	1.30	1.32
Loin, Tenderloin, FOB Plant, USDA	2.41	2.15	2.21	2.52	2.91	2.66	2.27	2.06	2.19	2.20	2.14	2.09	2.07	2.05	2.08
Butt, 1/4 Trim Butt Combo, FOB Plant, USDA	0.75	0.84	0.96	1.12	1.12	1.15	1.00	0.94	0.94	1.05	0.93	0.86	0.85	0.87	0.84
Sparerib, Trmd Sparerib - LGT, FOB Plant, USDA	1.59	1.64	1.67	1.66	1.62	1.33	1.28	1.33	1.26	1.27	1.23	1.23	1.32	1.30	1.23
Sparerib, St Louis Spareribs, POLY, FZN, FOB Plant, USDA	2.57	2.61	2.56	2.61	2.61	2.44	2.51	2.29	2.17	2.20	2.12	2.10	2.17	2.14	2.08
Sparerib, Trmd Sparerib - MED, FOB Plant, USDA	1.50	1.55	1.54	1.65	1.60	1.31	1.30	1.29	1.24	1.34	1.22	1.20	1.27	1.24	1.18
Loin, Backribs 2.0#/up, FOB Plant, USDA	2.59	2.73	2.90	2.98	2.86	2.56	2.17	2.19	2.26	2.35	2.21	2.04	2.13	2.14	2.00
Ham, 17-20# Trmd Selected Ham, FOB Plant, USDA	0.62	0.56	0.64	0.67	0.75	0.79	0.67	0.74	0.71	0.70	0.72	0.76	0.74	0.66	0.56
Ham, 20-23# Trmd Selected Ham, FOB Plant, USDA	0.61	0.55	0.63	0.67	0.74	0.80	0.67	0.73	0.71	0.69	0.72	0.72	0.71	0.65	0.54
Ham, 23-27# Trmd Selected Ham, FOB Plant, USDA	0.58	0.55	0.64	0.66	0.72	0.75	0.65	0.72	0.70	0.67	0.70	0.68	0.66	0.61	0.52
Ham, 5 Muscle Ham to Blue, FOB Plant, USDA	1.03	1.03	1.03	1.03	1.14		1.14	1.14	1.25	1.27	1.27	1.24	1.22	1.14	0.00
Belly, Skin-on Belly 14-16#, FOB Plant, USDA	1.35	1.40	1.32	1.13	1.27	1.42	1.08	1.08	0.90	0.91	0.95	0.92	0.83	0.86	0.90
Belly, Derind Belly 9-13#, FOB Plant, USDA	1.59	1.65	1.51	1.33	1.52	1.54	1.19	1.06	1.17	1.14	1.13	1.13	1.02	1.06	1.13
Belly, Derind Belly 13-17#, FOB Plant, USDA	1.57	1.64	1.50	1.24	1.50	1.60	1.04	1.03	1.16	1.13	1.12	1.12	1.01	1.05	1.12
Trim, 42% Trim Combo, FOB Plant, USDA	0.18	0.25	0.38	0.46	0.36	0.42	0.61	0.52	0.47	0.54	0.48	0.44	0.39	0.36	0.40
Trim, 72% Trim Combo, FOB Plant, USDA	0.58	0.55	0.69	0.69	0.73	0.80	0.73	0.62	0.62	0.69	0.63	0.63	0.63	0.62	0.60
<u>HOG CARCASS</u>															
IA/MN, Base Market Hog 185 lb Carcass Basis, Plant Div.	0.63	0.63	0.65	0.74	0.80	0.73	0.62	0.64	0.65	0.68	0.65	0.63	0.57	0.56	0.57
<u>BROILERS</u>															
BROILER, NATIONAL WHOLE BIRD PRICE, USDA	0.82	0.85	0.88	0.94	0.97	0.88	0.80	0.79	0.81	0.80	0.81	0.80	0.80	0.81	0.82
N.E. BROILER BREAST BONELESS-SKINLESS, USDA	1.07	1.11	1.16	1.23	1.20	1.29	1.38	1.53	1.49	1.44	1.46	1.22	1.08	1.05	1.04
N.E. BROILER BREAST LINE RUN, USDA	0.86	0.89	0.93	0.97	0.97	0.92	0.83	0.90	0.91	0.89	0.90	0.86	0.81	0.80	0.81
N.E. BROILER LEG QUARTERS, USDA	0.27	0.31	0.35	0.37	0.36	0.35	0.32	0.30	0.33	0.32	0.31	0.30	0.28	0.28	0.32
N.E. BROILER WINGS, USDA, WT.AVG.	1.94	1.79	1.79	1.61	1.54	1.56	1.48	1.56	1.53	1.60	1.64	1.68	1.55	1.58	1.60
<u>TURKEYS</u>															
UB HEN TURKEYS, EAST, FROZEN 10-12LBS	1.19	1.21	1.22	1.23	1.24	1.25	1.26	1.26	1.25	1.26	1.26	1.27	1.27	1.14	1.03
UB BONELESS-SKINLESS TURKEY BREAST, TOM, FRESH	3.83	3.24	2.59	2.18	2.15	2.15	2.15	2.15	2.17	2.20	2.25	2.30	2.35	2.25	2.20
<u>LIVE STEERS</u>															
FIVE AREA DIRECT AVERAGE LIVE STEER, USDA	1.34	1.37	1.32	1.28	1.23	1.18	1.19	1.18	1.16	1.17	1.17	1.17	1.19	1.17	1.17
<u>BEEF</u>															
CHOICE, 112A, 3 RIBEYE, BONELESS, HEAVY, USDA	7.54	7.95	7.52	7.32	8.29	6.86	7.39	7.57	7.49	7.50	7.60	7.79	8.50	7.62	5.85
CHOICE, 168, 3 TOP INSIDE ROUND, 1/4" MAX, USDA	2.54	2.36	2.19	2.10	1.99	2.10	2.22	2.21	2.23	2.23	2.16	2.16	2.12	2.09	2.13
CHOICE, 170, 1 BOTTOM GOOSENECK ROUND, USDA	2.40	1.98	1.96	1.92	1.83	1.85	1.91	1.84	1.83	1.85	1.94	2.00	1.93	1.91	2.02
CHOICE, 180, 3 STRIP LOIN, BONELESS, 0x1, USDA	5.69	7.20	7.23	7.33	8.05	6.51	6.12	5.53	5.76	6.00	5.50	5.40	5.44	5.46	5.33
CHOICE, 184, 3 TOP BUTT, BONELESS, USDA	3.34	4.18	4.48	4.40	3.86	3.68	3.70	3.65	3.71	3.69	3.54	3.20	3.16	3.20	3.19
CHOICE, 185A, 4 BOTTOM SIRLOIN, FLAP, USDA	4.97	5.72	5.59	5.17	5.20	5.05	5.62	5.29	4.81	5.04	4.68	4.36	4.09	4.20	4.16
COARSE GROUND 73%, USDA	1.58	1.42	1.50	1.55	1.48	1.34	1.47	1.67	1.54	1.52	1.51	1.46	1.45	1.44	1.63
COARSE GROUND 81%, USDA	1.78	1.65	1.74	1.89	1.83	1.66	1.70	1.89	1.81	1.79	1.75	1.71	1.70	1.67	1.90
90% BONELESS BEEF, CENTRAL, FRESH, USDA	2.10	2.18	2.18	2.18	2.17	2.17	2.12	2.12	2.18	2.12	2.08	2.00	1.98	2.00	2.01
50CL BEEF TRIM, FRESH, NATIONAL, USDA	0.52	0.94	0.72	0.51	0.85	0.90	0.64	0.52	0.53	0.60	0.55	0.57	0.75	0.65	0.80



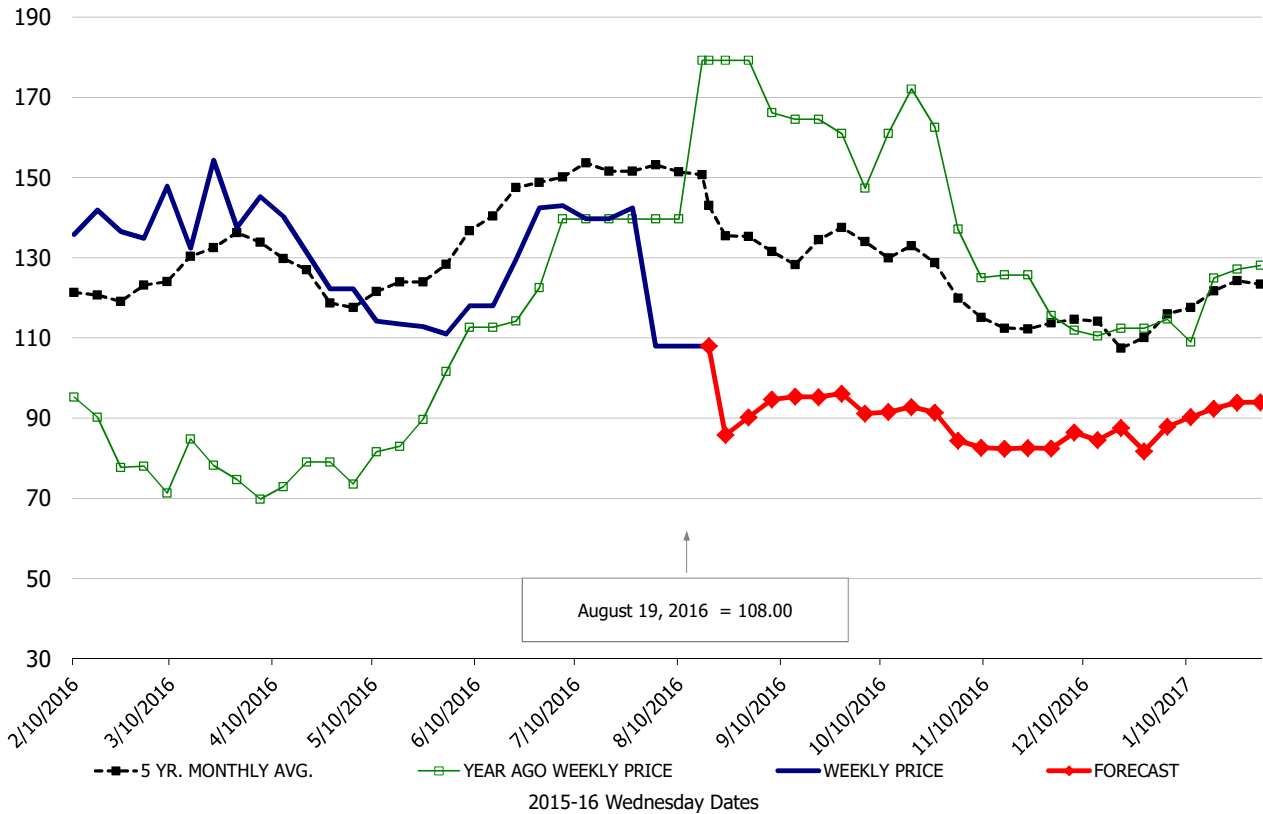
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Ham, 17-20# Trmd Selected Ham, FOB Plant, USDA



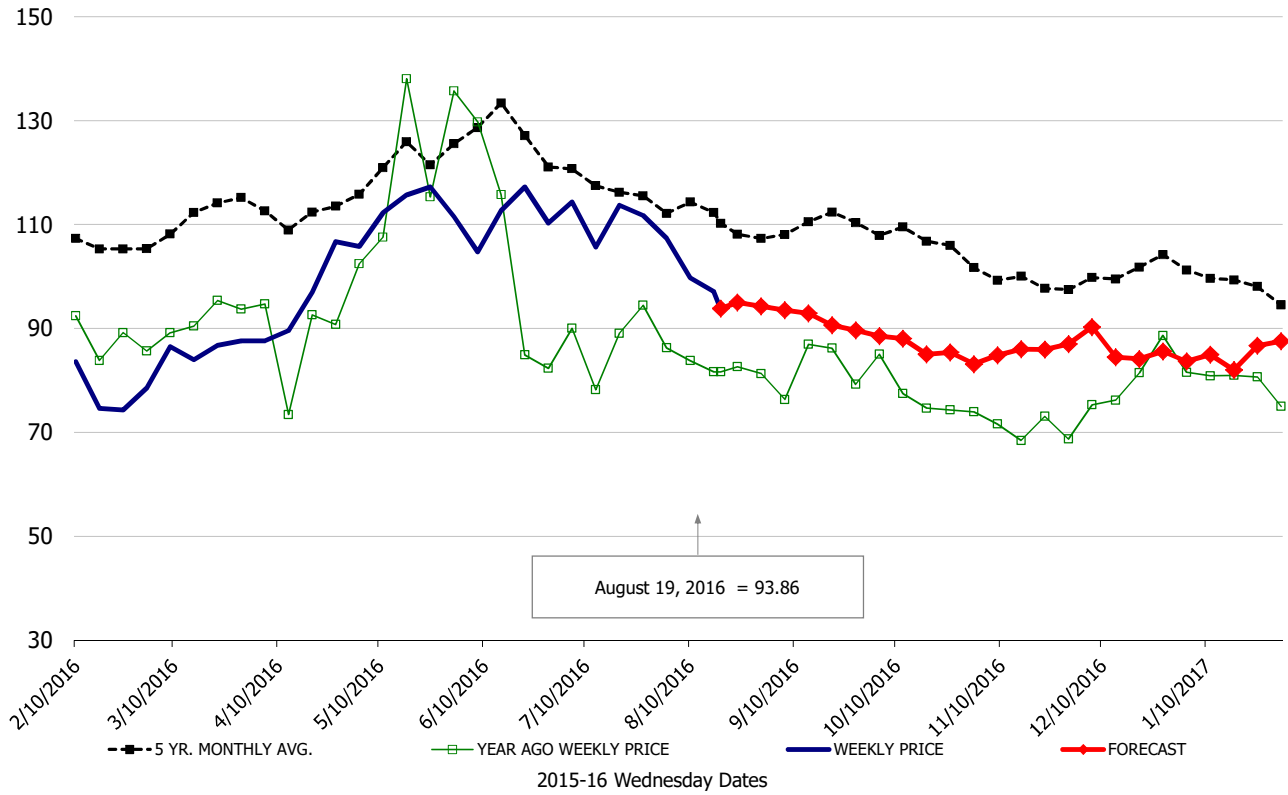
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Belly, Skin-On Belly 14-16#, FOB Plant, USDA



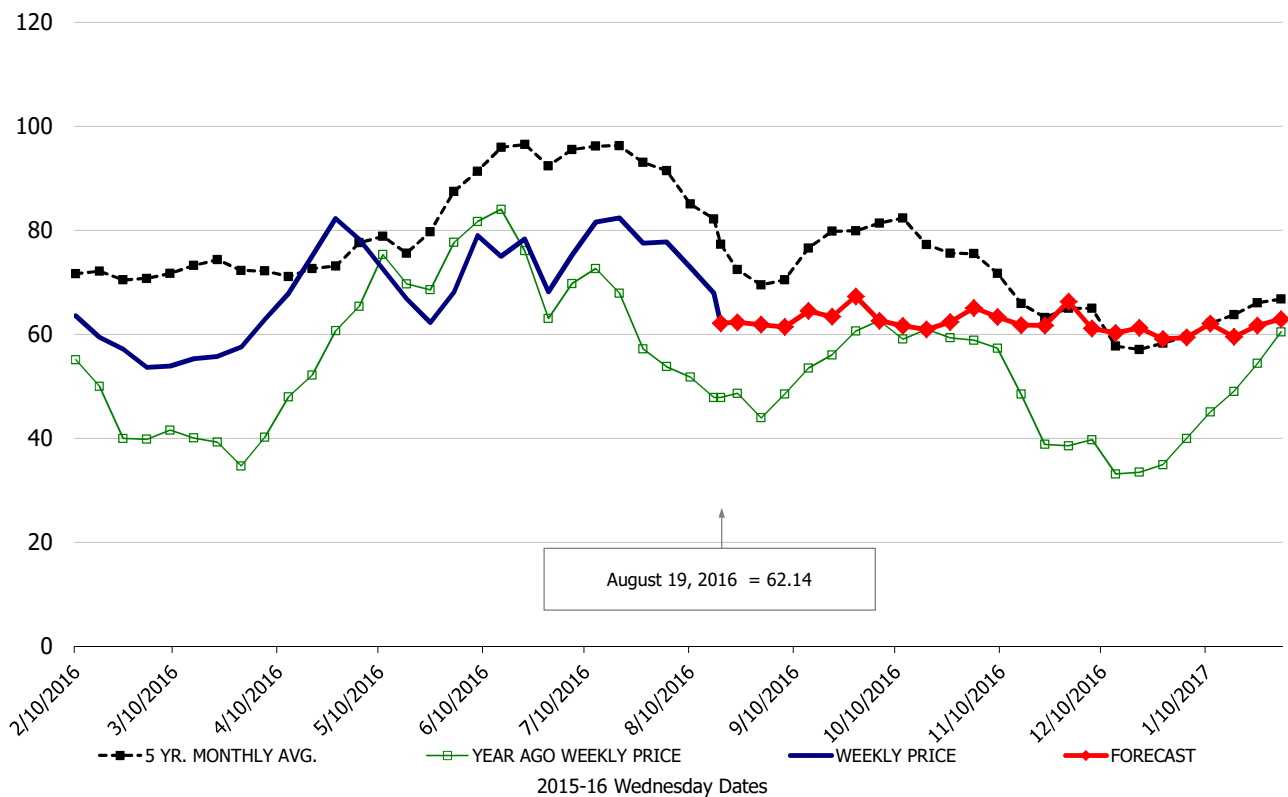
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Butt, 1/4 Trim Butt Combo, FOB Plant, USDA

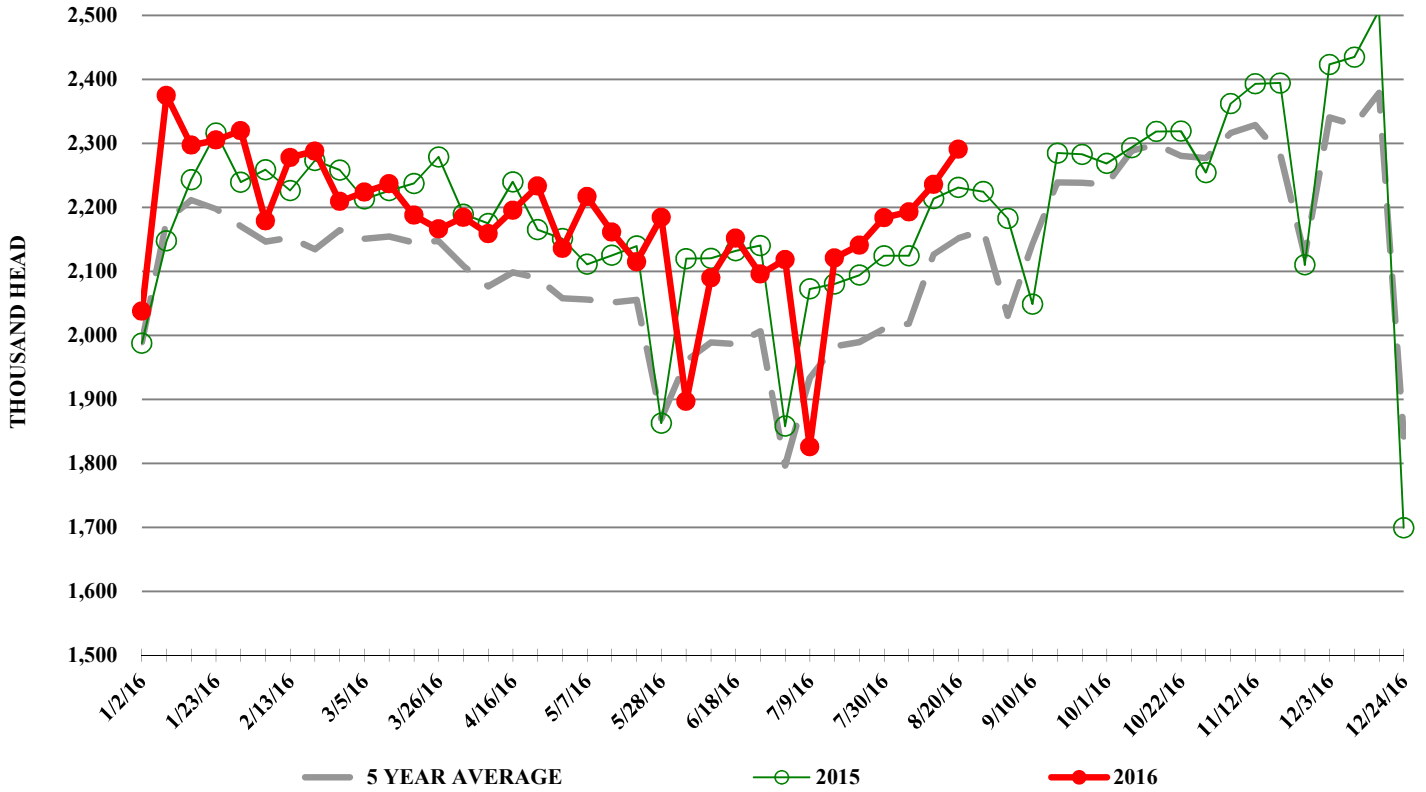


\$/cwt

Trim, 72% Trim Combo, FOB Plant, USDA



ESTIMATED WEEKLY FI HOG SLAUGHTER



ESTIMATED WEEKLY FI PORK PRODUCTION

