



Be inspiredSM

Pork Merchandiser's Profit Maximizer

- Foodservice Edition -

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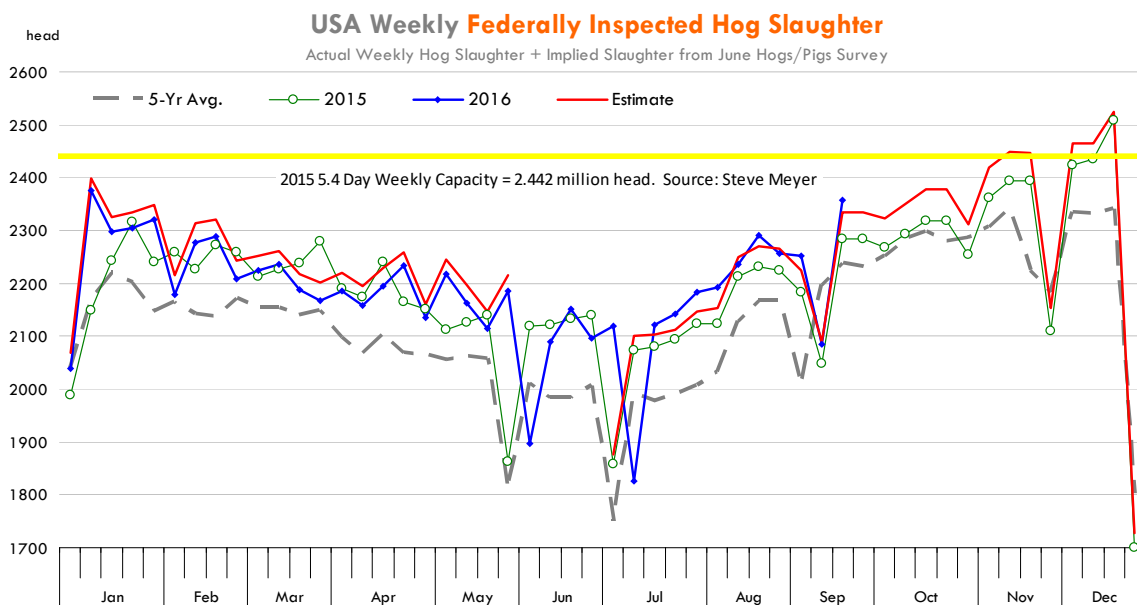
September 19, 2016

Hog value erosion persists as markets contemplate possibility of larger than expected supplies in Q4

Lean hog futures took another step down this past week and fall prices so far are some of the worst performing in the last 20 years (see

chart on page 2). It is hard to point to one single factor that would explain why market participants have wiped off 800 points (-14%) since September 1. Rather, there seems to be a confluence of factors that, at least for the moment, continues to pressure prices lower.

- Rapid increase in weights may imply supplies on the ground are bigger than many expect. The



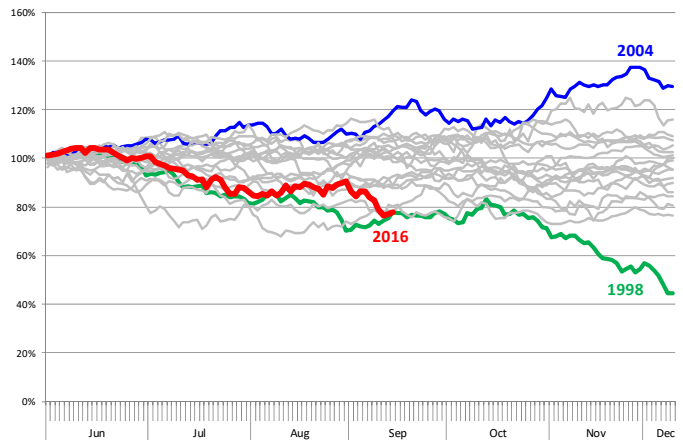
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weight of barrows and gilts marketed by producers is currently running at over 209 pounds per carcass (this is a 5-day average), above last year and 2.8 pounds (+1.3%) higher than what it was in mid August. It is not unusual for hog weights to increase into September but the pace of the increase in recent days has exceeded expectations. We think the short holiday week was the primary catalyst but also the fact that a large Smithfield plant was idle for a few days further contributed to this. Market participants are looking at the parallels of this year with last and have discounted Q4 hogs accordingly. The concern is that weights are moving up at a time when slaughter is quite large, possibly an indication that supplies on the ground are larger than earlier thought.

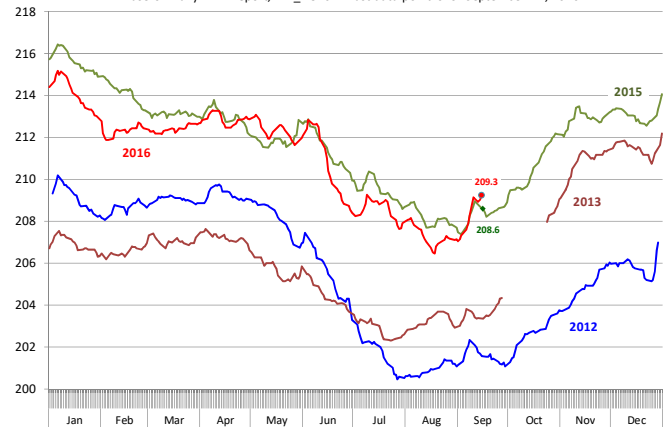
- **Hog slaughter last week jumped to 2.359 million head, 3.1% higher than a year ago** and higher than the 2.2% increase implied by the last Hogs and Pigs report. So far packers have been able to benefit from the widening spread between hog and meat values and excellent margins will likely continue to drive larger kills. It will be imperative to keep an eye on the value of the pork cutout and the ability of the market to absorb the increase in supplies.

- Recent reports indicate that markets now place a 70% probability that the US Federal Reserve will raise rates before December, bolstering the value of the US dollar. A stronger US dollar is negative for US meat exports and it tends to impact hogs more than others since we export a larger share of pork production than of any other protein. The outlook for exports is particularly important in Q4 when US hog supplies will hit annual highs and the market will need all the help it can get to absorb the additional supply.

Performance of the December Lean Hog Futures Contract. June 1 Close = 100%
Futures Closing Prices (Jun - Dec) for the period 1998 - 2016

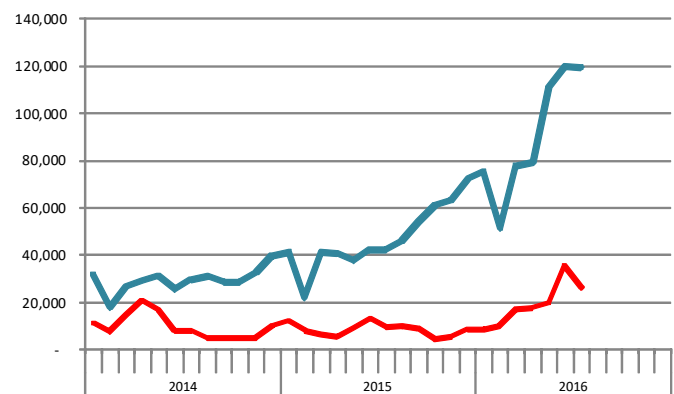


Dressed Hog Carcass Weights, 5-day Moving Average, **Producer MPR Barrows & Gilts**
Base on Daily MPR Report, LM_HG201. Last data point is for September 14, 2016



China Imports of Fresh/Frozen Pork from EU and USA**

EU Imports are for Selected Countries. Metric Ton. Product Wt. Basis



** EU reported imports from (Germany, Spain, Denmark, UK, Ireland, France, Netherlands, Belgium)

Chinese imports of fresh/frozen pork so far this year have averaged 135,100 MT per month compared to 48,700 MT per month two years ago. China is indeed importing a lot more pork, as many analysts expected last year. The problem

is that German, Danish and Spanish producers have benefited the most from that increase in demand. The value of the US dollar relative to the Euro as well as relative cash hog prices will be critical factors for the pork market this fall. At this point, market participants appear to have discounted expectations for double digit export growth in Q3 and Q4.

- **The sharp decline in cattle prices also appears to have taken a toll on the outlook for pork prices this fall and winter.** As we noted yesterday, the supplies of all proteins have expanded but the growth in beef production (+5.2% in 2016) has outpaced growth in other proteins.

Retailers at this point are struggling to hit their revenue targets while trying to sell more pounds. In this environment, beef has an advantage. The decline in sales price has increased its perceived value in the eyes of the consumer and beef sales have more of an impact on the revenue targets than pork or chicken. More beef features going into the holidays are welcome news for cattle producers but they also make for a far more challenging environment for pork.

Upcoming holidays:

2016 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 September 17 slaughter was 2.359 million head, up 3.2% from a year ago. In the last two weeks hog slaughter is up 2.5% vs. year ago levels.

Iowa/Minnesota, Base Lean Market Hog 185 lbs. Carcass Values. Lean hog carcass values at about 54.28 /cwt. on Friday were down \$4.8/cwt since Wed. September 7. Prices are down 14.3 dollars compared to year ago values.

Loin, 1/4 Trimmed Loin VAC, FOB Plant, USDA (page 8). Prices finished last week at \$1.1812, up about 5.4 cents since the Wed. September 7 quote and up about 13 cents from year ago levels.

Bnls. Strap on Pork Loins. Prices finished the week at \$1.5836 for the strap on loins, up 8.5 cent since Wed. September 7 and up about 24 cent from the year ago levels. Strap off loins at \$1.6580 are up about 2.8 cent since Wed. September 7 and up about 22 cent compared to the year ago quote.

Boneless sirloins at \$1.1599 are up 4 cents from the Wed. September 7 quote and up about 14.6 cents from the year ago price.

Pork tenderloin finished last week at \$2.1671, up 2 cent from the Wed. September 7 quote but down about 10.7 cents from the year ago price.

1/4 Trim Pork Butts (page 10), prices finished the week at \$1.2136, up 4.2 cents since Wed. September 7. Prices are up 19 cents from a year ago.

Spare Ribs, Trimmed - LGT, Vac (page 8). Prices finished the week at \$1.3032, down about 9 cent since Wed. September 7 and down about 21 cents from year ago levels.

Rib inventories on July 31 were 90.0 million pounds, up 19.1% percent from a year ago.

Bone-in Hams.

17/20 hams (page 9) price was \$0.7960/lb., unchanged since Wed. September 7 but up about 16 cents from a year ago.

20/23 hams finished the week at 79.67 cents, down about 3.5 cents since Wed. September 7 but up about 15 cents from the year ago level.

23/27 hams finished the week at 67.04 , down about 14 cents from the Wed. September 7 quote but up about 11.6 cents from the year ago level.

Total ham cold storage stocks on July 31 at 188.6 million pounds were down 8.2% from year ago levels.

42 CL Pork Trim “FOB Basis”. Prices finished the week at 32.36 cent, down about 4.5 cent since Wed. September 7 and down about 2 cents from the year ago price.

72 CL Pork Trim “FOB Basis”. Prices finished the week at 52.29 cents, up about 0.8 cents since the Wed. September 7 quote but down about 1 cents from the year ago level.

Freezer stocks of all trimmings on July 31 were 36.1 million pounds, down 18.3% 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 \$110.00 was down 5.00 cents from a year ago.

The National Whole Bird price was quoted at 77.78 on Friday, September 17, down about 1 cent from a year ago.

Broiler slaughter for the week ending September 17 was 164.91 million head, up 0.98% from a year ago. For the last two weeks slaughter was up 0.9% vs. a year ago.

Breasts. Prices on boneless skinless breasts finished the week at \$1.3167, down 6 cents since Wed. September 7 but still up about 1 cent 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 up about 3.5 cents vs. two weeks ago and at 36.74 cents per pound prices were up 13 cents from a year ago.

Wings. Prices at \$1.7675 are up about 12 cents from year ago levels.

Turkeys

Hens finished last week at \$1.2800, unchanged since Wed. September 7 but down about 9 cents from the year ago price.

Toms finished last week at \$1.2800, unchanged since Wed. September 7 but down about 9 cent from the year ago price.

Total turkey supplies in the freezer on July 31 were up 7.4% from a year ago at 530.5 million pounds. Whole birds were down 7.5% from a

year ago with an inventory of 275.0 million pounds.

Turkey slaughter was 3.5950 million head for the week ending September 10, up 4.84% from a year ago. For the last two weeks slaughter has been up 5.7%.

Boneless Turkey Breast Meat. Boneless skinless turkey breast meat prices finished last week at \$2.1500, unchanged since Wed. September 7. Prices are down about 355 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 \$6.6874 (weighted average quote) finished last week down about 51 cents since the Wed. September 7 quote and down about 45 cents vs. the year ago price.

Select 112A Heavy Lip On Rib Eyes at \$6.0739 (weighted average quote) finished last week down about 44 cents since the Wed. September 7 quote but down about 89 cents vs. the year ago price.

Currently Choice 112A Rib Eyes are \$0.6135 /lb. over Select. The 2015 annual average spread (wt. average price) had the Choice at a premium to the Select by \$0.0723 per pound and the previous five years (2010 thru 2014) average spread was Choice at a premium to the Select by \$0.0868 per pound.

Choice regular #168 insides finished last week quoted at \$1.9968 up about 7 cents since Wed. September 7 but down about 53 cents from the year ago price.

Choice ¼ inch trimmed #168 insides finished last week quoted at \$1.9738 up about 8 cents

since Wed. September 7 and down about 62 cents from year ago levels.

Choice #170 Gooseneck Rounds finished last week at \$1.9175 down about 2 cents since Wed. September 7 and down about 49 cents from the year ago levels.

Choice #180 (0x1) Bnls. Strip Loins finished last week quoted at \$4.7421 (wt. avg.) up about one cents from the Wed. September 7 quote. Prices are about 106 cents over year ago levels.

Choice #184 Regular Heavy top butts finished at \$3.2215 (wt. avg.) down about 2 cents since Wed. September 7 and down about 121 cents from year ago levels.

Choice #184 ¼ inch trimmed Top Butts finished at \$3.3613 (wt. avg.) down about 6 cents since Wed. September 7 and down about 121 cents from the year ago levels.

Choice #185A Flap Meat prices finished Friday at \$4.6646 (wt. avg.) down about 25 cents since Wed. September 7 but up about 7 cents from year ago values.

COARSE GROUND BEEF –

73CL Coarse Ground product finished last week at \$1.3222 down about 10 cents since Wed. September 7 and down about 55 cents from year ago levels.

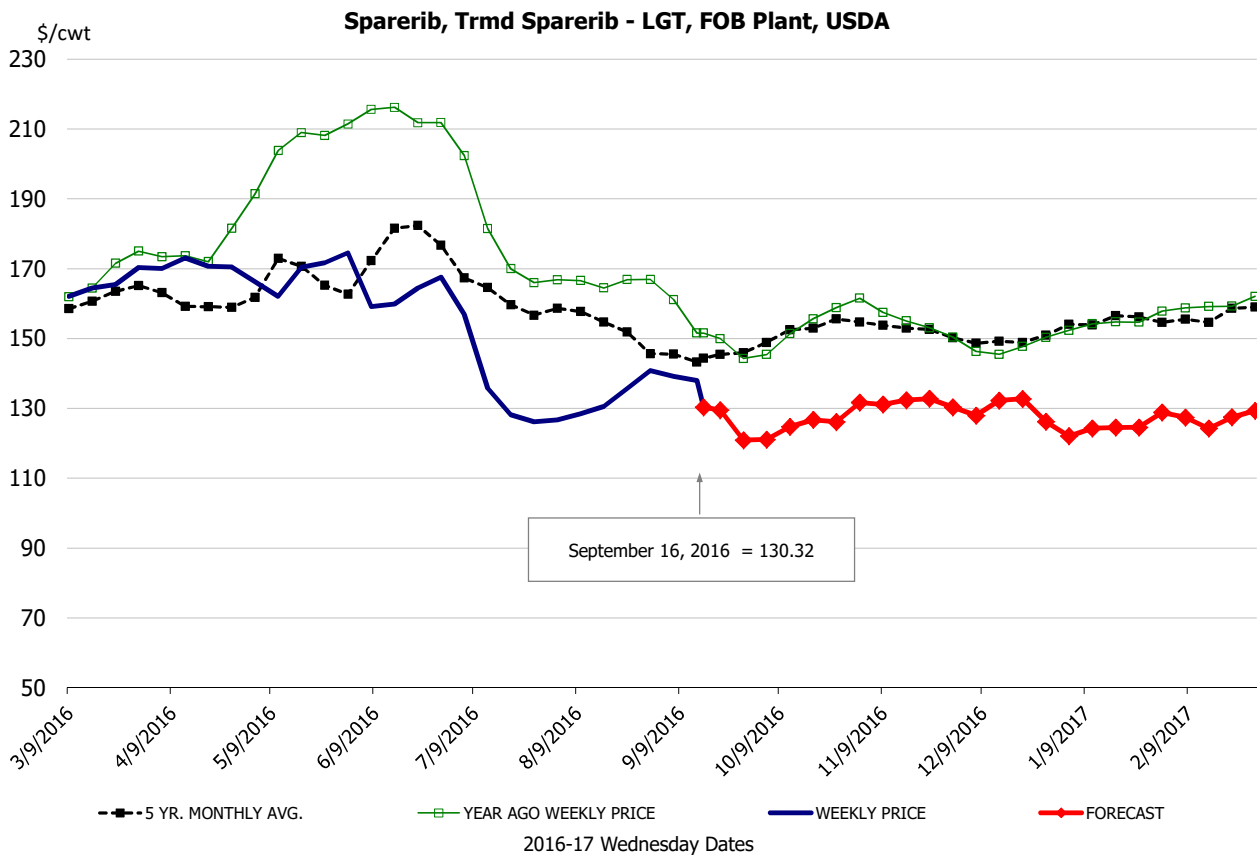
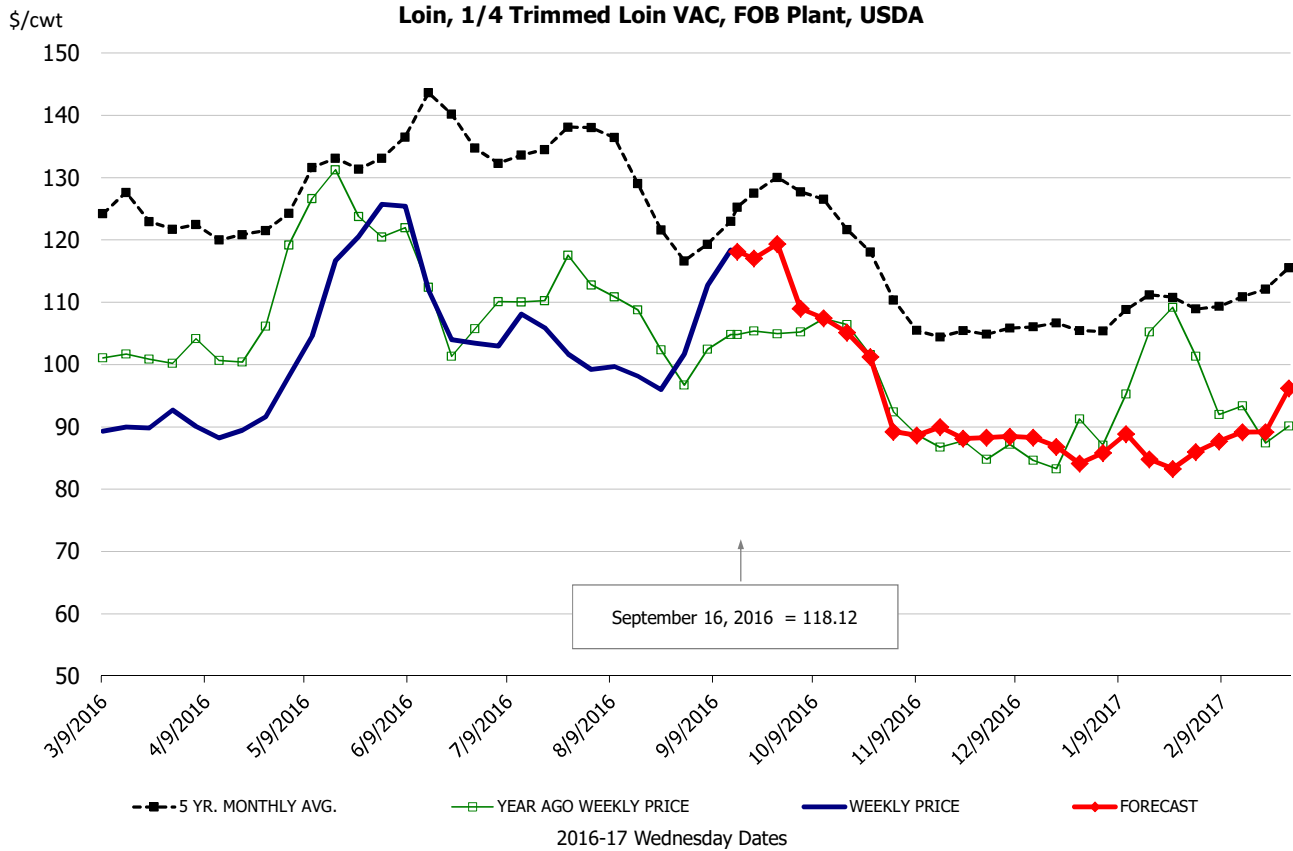
81CL Coarse Ground product finished last week at \$1.4770 down about 24 cent since Wed. September 7 and down about 82 cents from the year ago quote.

90CL Bnls. Beef prices finished the week at \$2.0699 (wt. avg.) up about 0.77 cent since Wed. September 7 but down 68 compared to the year ago price quote.

50 CL Beef Trim prices finished last week at \$0.4054, down about 2 cent since Wed. September 7 and down 14 cent compared to the year ago level.

Food Service Summary Table - WT. AVE

	2016 History							2016 FORECAST							
	Mar	Apr	May	Jun	Jul	Aug	9/7/2016	9/16/2016	9/28/2016	Sep	Oct	Nov	Dec	Jan	Feb
<u>PORK</u>															
Loin, 1/4 Trimmed Loin VAC, FOB Plant, USDA	0.90	0.89	1.08	1.13	1.05	0.98	1.13	1.18	1.19	1.18	1.06	0.89	0.87	0.85	0.88
Loin, 1/8 Trimmed Loin VAC, FOB Plant, USDA	0.97	0.97	1.13	1.22	1.12	1.04	1.15	1.20	1.22	1.20	1.11	0.96	0.93	0.92	0.94
Loin, Bnls CC Strap-off, FOB Plant, USDA	1.42	1.38	1.49	1.51	1.40	1.37	1.63	1.66	1.66	1.66	1.60	1.39	1.35	1.37	1.38
Loin, Tenderloin, FOB Plant, USDA	2.15	2.21	2.52	2.91	2.66	2.22	2.15	2.17	2.22	2.18	2.14	2.07	2.05	2.08	2.22
Butt, 1/4 Trim Butt Combo, FOB Plant, USDA	0.84	0.96	1.12	1.12	1.15	0.99	1.14	1.06	1.00	1.04	0.90	0.85	0.87	0.84	0.86
Sparerib, Trmd Sparerib - LGT, FOB Plant, USDA	1.64	1.67	1.66	1.62	1.33	1.30	1.39	1.30	1.21	1.28	1.23	1.32	1.30	1.23	1.27
Sparerib, St Louis Spareribs, POLY, FZN, FOB Plant, USDA	2.61	2.56	2.61	2.61	2.44	2.42	2.33	2.43	1.97	2.08	2.10	2.17	2.14	2.08	2.10
Sparerib, Trmd Sparerib - MED, FOB Plant, USDA	1.55	1.54	1.65	1.60	1.31	1.31	1.36	1.26	1.23	1.27	1.20	1.27	1.24	1.18	1.20
Loin, Backribs 2.0#/up, FOB Plant, USDA	2.73	2.90	2.98	2.86	2.56	2.22	2.13	2.13	2.22	2.21	2.04	2.13	2.14	2.00	2.13
Ham, 17-20# Trmd Selected Ham, FOB Plant, USDA	0.56	0.64	0.67	0.75	0.79	0.71	0.81	0.80	0.78	0.77	0.81	0.77	0.66	0.56	0.60
Ham, 20-23# Trmd Selected Ham, FOB Plant, USDA	0.55	0.63	0.67	0.74	0.80	0.71	0.83	0.80	0.76	0.75	0.79	0.74	0.65	0.54	0.58
Ham, 23-27# Trmd Selected Ham, FOB Plant, USDA	0.55	0.64	0.66	0.72	0.75	0.67	0.81	0.67	0.73	0.71	0.73	0.71	0.61	0.52	0.55
Ham, 5 Muscle Ham to Blue, FOB Plant, USDA	1.03	1.03	1.03	1.14			1.14	1.14	1.29	1.27	1.24	1.22	1.14	1.03	1.07
Belly, Skin-on Belly 14-16#, FOB Plant, USDA	1.40	1.32	1.13	1.27	1.42	1.08	1.08	1.08	0.95	0.94	0.95	0.93	0.96	0.92	0.94
Belly, Derind Belly 9-13#, FOB Plant, USDA	1.65	1.51	1.33	1.52	1.54	1.08	1.01	1.18	1.21	1.18	1.20	1.20	1.19	1.15	1.20
Belly, Derind Belly 13-17#, FOB Plant, USDA	1.64	1.50	1.24	1.50	1.60	1.04	1.04	1.16	1.20	1.17	1.17	1.17	1.18	1.19	1.21
Trim, 42% Trim Combo, FOB Plant, USDA	0.25	0.38	0.46	0.36	0.42	0.49	0.37	0.32	0.37	0.32	0.32	0.32	0.32	0.34	0.35
Trim, 72% Trim Combo, FOB Plant, USDA	0.55	0.69	0.69	0.73	0.80	0.66	0.51	0.52	0.57	0.53	0.53	0.50	0.49	0.50	0.54
<u>HOG CARCASS</u>															
IA/MN, Base Market Hog 185 lb Carcass Basis, Plant Div.	0.63	0.65	0.74	0.80	0.73	0.63	0.59	0.54	0.59	0.56	0.58	0.54	0.53	0.54	0.56
<u>BROILERS</u>															
BROILER, NATIONAL WHOLE BIRD PRICE, USDA	0.85	0.88	0.94	0.97	0.88	0.80	0.81	0.78	0.78	0.79	0.80	0.80	0.81	0.82	0.82
N.E. BROILER BREAST BONELESS-SKINLESS, USDA	1.11	1.16	1.23	1.20	1.29	1.43	1.38	1.32	1.24	1.32	1.21	1.08	1.05	1.04	1.06
N.E. BROILER BREAST LINE RUN, USDA	0.89	0.93	0.97	0.97	0.92	0.89	0.91	0.94	0.89	0.93	0.88	0.84	0.80	0.81	0.82
N.E. BROILER LEG QUARTERS, USDA	0.31	0.35	0.37	0.36	0.35	0.32	0.33	0.37	0.35	0.36	0.34	0.32	0.32	0.34	0.34
N.E. BROILER WINGS, USDA, WT.AVG.	1.79	1.79	1.61	1.54	1.56	1.57	1.74	1.77	1.81	1.77	1.78	1.65	1.68	1.70	1.64
<u>TURKEYS</u>															
UB HEN TURKEYS, EAST, FROZEN 10-12LBS	1.21	1.22	1.23	1.24	1.25	1.26	1.28	1.28	1.29	1.28	1.29	1.29	1.14	1.03	1.04
UB BONELESS-SKINLESS TURKEY BREAST, TOM, FRESH	3.24	2.59	2.18	2.15	2.15	2.15	2.15	2.15	2.20	2.18	2.20	2.25	2.25	2.20	2.20
<u>LIVE STEERS</u>															
FIVE AREA DIRECT AVERAGE LIVE STEER, USDA	1.37	1.32	1.28	1.23	1.18	1.17	1.09	1.06	1.09	1.08	1.11	1.13	1.11	1.11	1.12
<u>BEEF</u>															
CHOICE, 112A, 3 RIBEYE, BONELESS, HEAVY, USDA	7.95	7.52	7.32	8.29	6.86	7.37	7.20	6.69	7.07	6.91	7.28	7.96	7.34	5.57	5.71
CHOICE, 168, 3 TOP INSIDE ROUND, 1/4" MAX, USDA	2.36	2.19	2.10	1.99	2.10	2.17	1.90	1.97	2.00	2.03	2.01	2.01	2.02	2.06	1.99
CHOICE, 170, 1 BOTTOM GOOSENECK ROUND, USDA	1.98	1.96	1.92	1.83	1.85	1.85	1.93	1.92	1.91	1.91	1.90	1.84	1.82	1.92	1.90
CHOICE, 180, 3 STRIP LOIN, BONELESS, 0x1, USDA	7.20	7.23	7.33	8.05	6.51	5.51	4.73	4.74	4.85	4.79	5.13	5.17	5.20	5.09	5.16
CHOICE, 184, 3 TOP BUTT, BONELESS, USDA	4.18	4.48	4.40	3.86	3.68	3.61	3.42	3.36	3.21	3.36	3.02	3.01	3.04	3.04	3.14
CHOICE, 185A, 4 BOTTOM SIRLOIN, FLAP, USDA	5.72	5.59	5.17	5.20	5.05	5.20	4.92	4.66	4.41	4.68	4.36	4.09	3.99	3.96	4.12
COARSE GROUND 73%, USDA	1.42	1.50	1.55	1.48	1.34	1.52	1.42	1.32	1.38	1.41	1.40	1.29	1.27	1.58	1.43
COARSE GROUND 81%, USDA	1.65	1.74	1.89	1.83	1.66	1.74	1.72	1.48	1.59	1.61	1.62	1.52	1.49	1.80	1.69
90% BONELESS BEEF, CENTRAL, FRESH, USDA	2.18	2.18	2.18	2.17	2.17	2.14	2.06	2.07	2.05	2.05	1.87	1.84	1.85	1.95	2.00
50CL BEEF TRIM, FRESH, NATIONAL, USDA	0.94	0.72	0.51	0.85	0.90	0.56	0.42	0.41	0.38	0.42	0.53	0.70	0.62	0.78	0.71



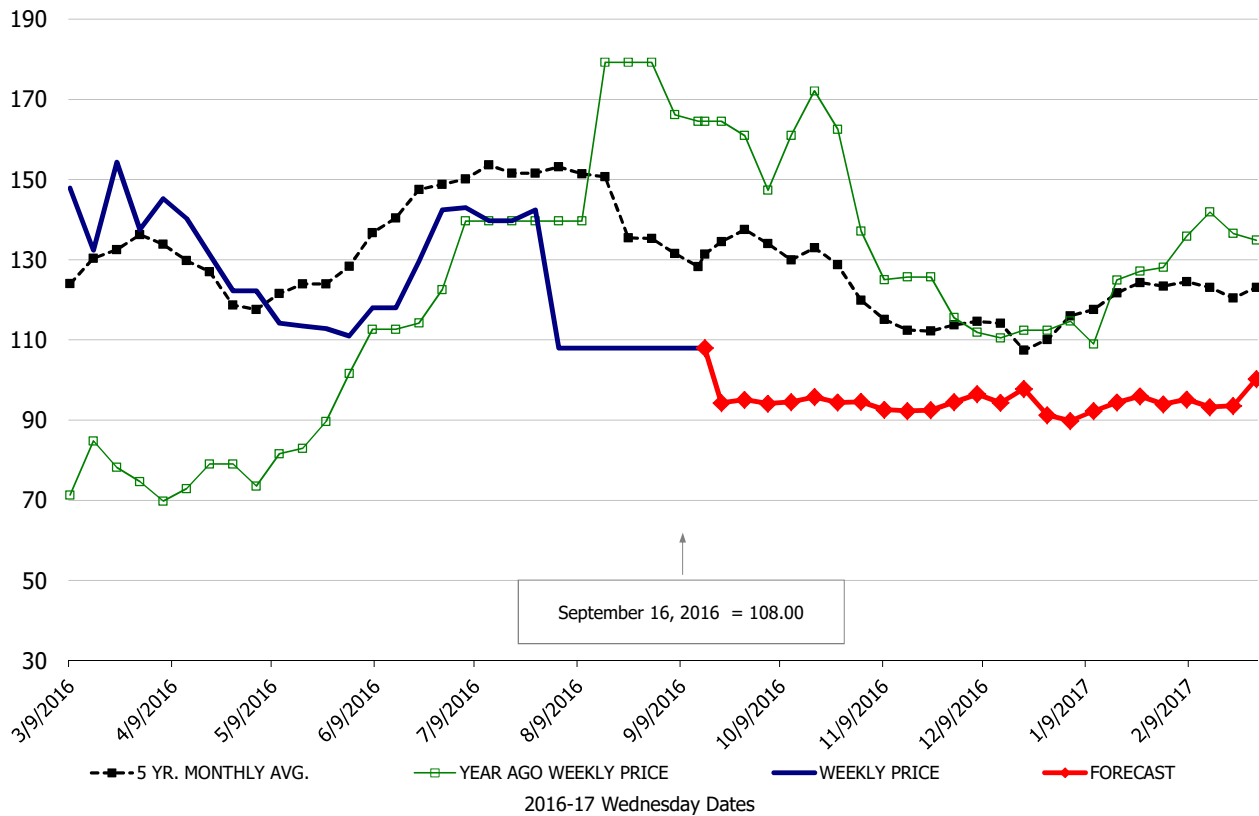
\$/cwt

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



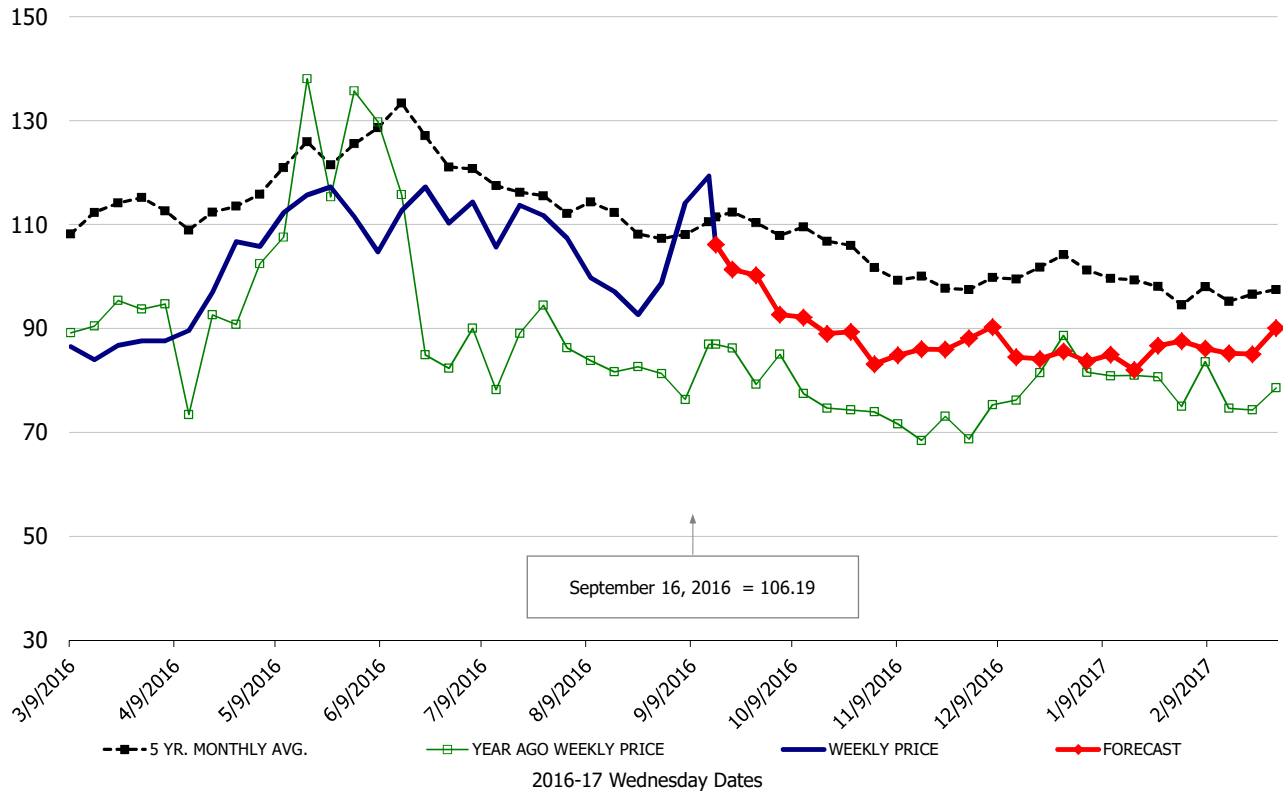
\$/cwt

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



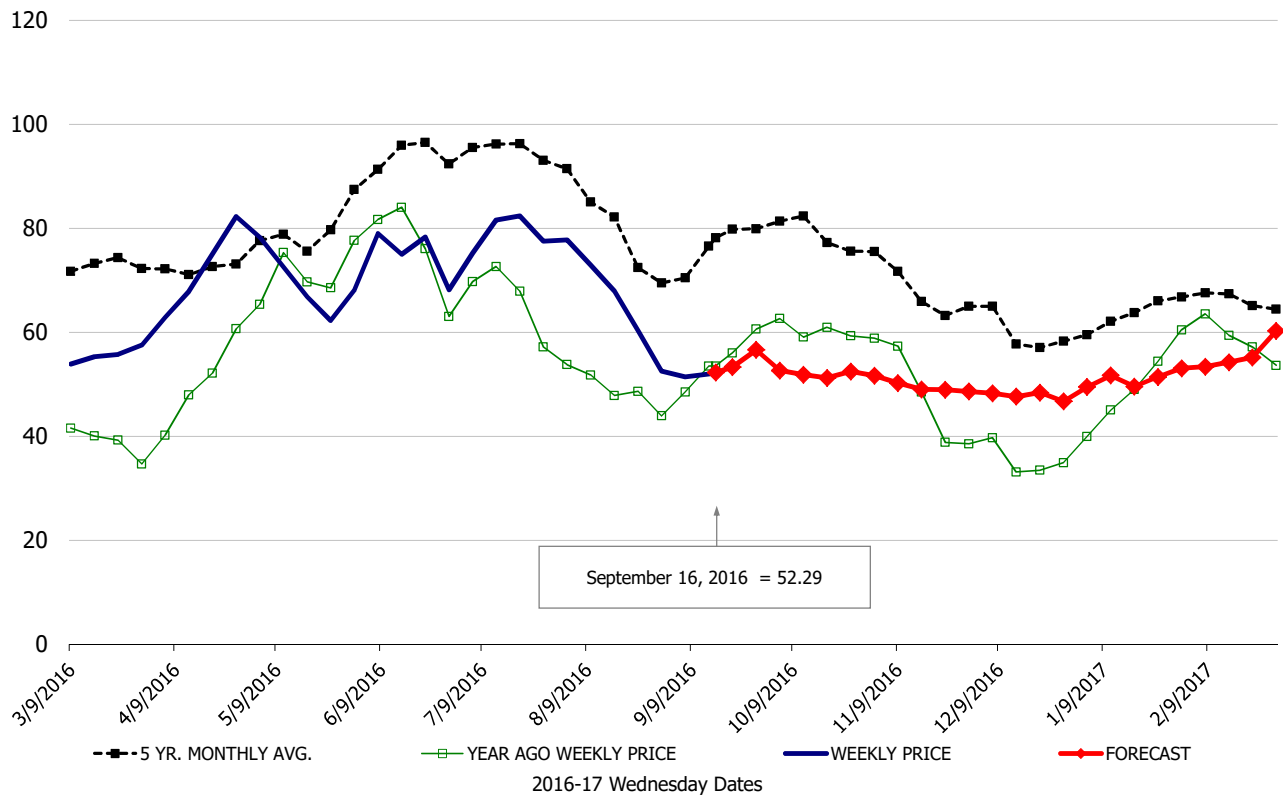
\$/cwt

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

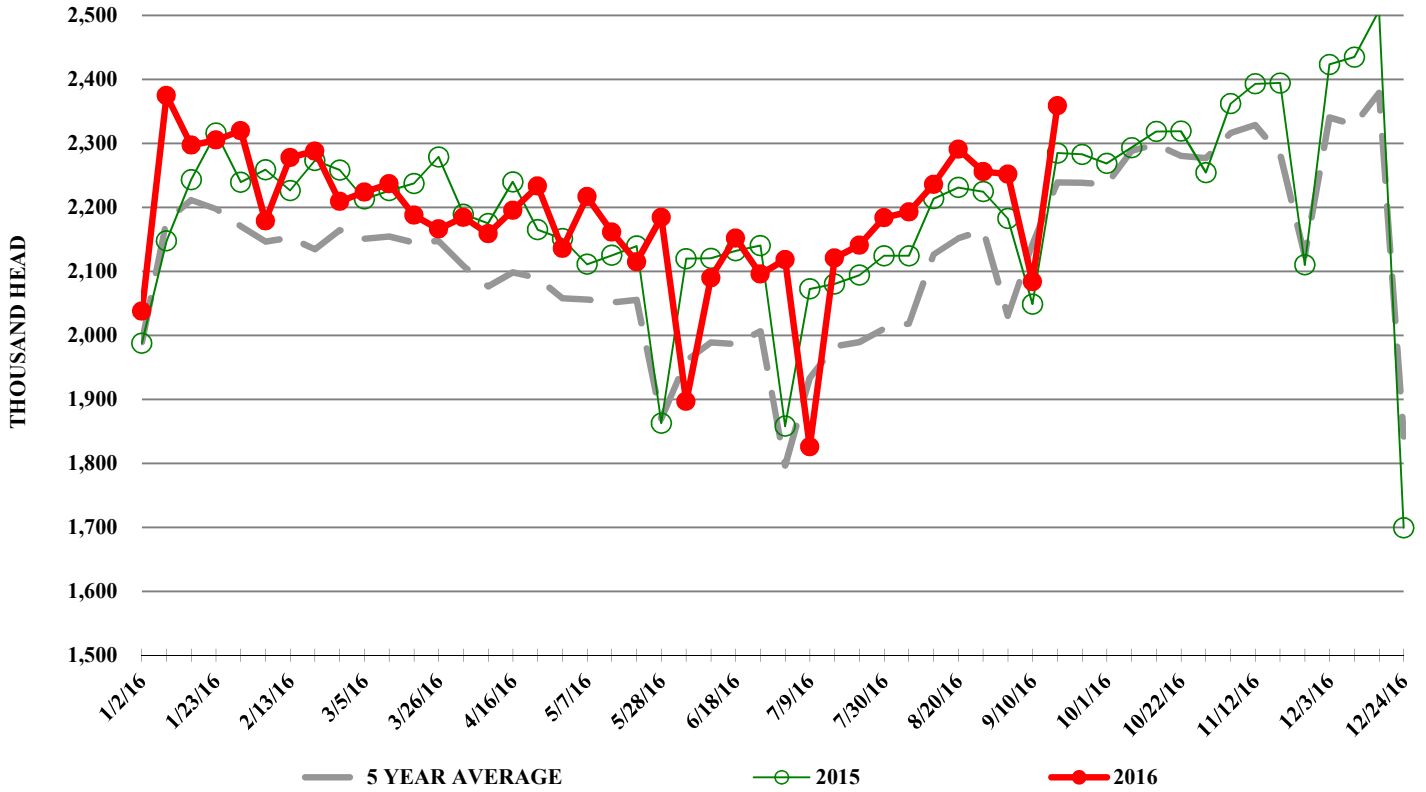


\$/cwt

Trim, 72% Trim Combo, FOB Plant, USDA



ESTIMATED WEEKLY FI HOG SLAUGHTER



ESTIMATED WEEKLY FI PORK PRODUCTION

