Pork Merchandiser's **Profit Maximizer**

- Foodservice Edition -

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

November 28, 2016

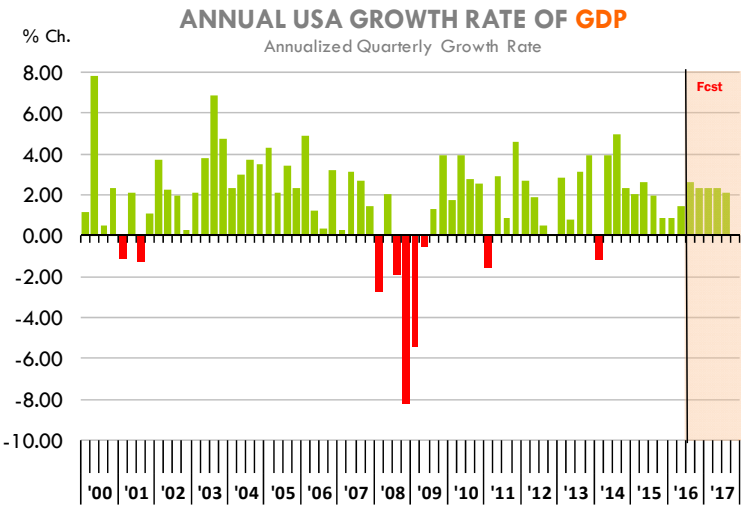
1. Five factors expected to impact the pork industry as pork supplies cyclically increase

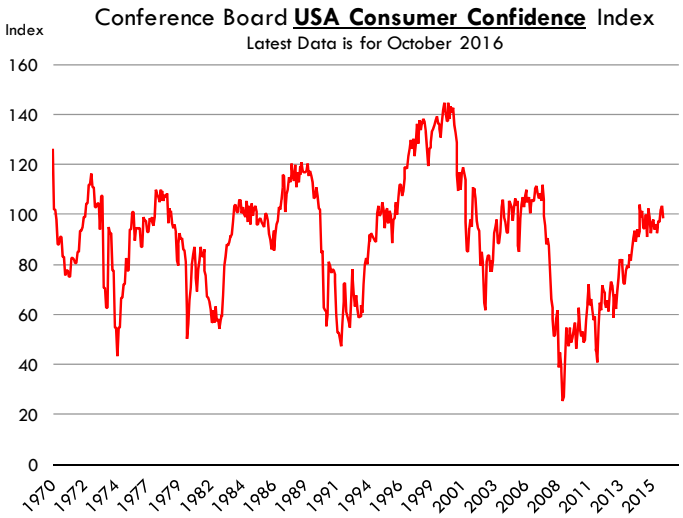
We recently took part in a broad discussion with media and industry members and highlighted five factors that we see impacting the pork market in the next 12 months.

The USA economy is growing and a growing economy is generally good for meat demand.

There are a number of economic indicators that should be positive for meat demand in general and pork demand in particular

- ◊ The stock market has hit all-time record highs in the last few weeks.
- ◊ Consumer confidence remained good during a brutal presidential election. Now that we know who the next president will be, we expect consumer confidence to further increase. The American public likes certainty and dislikes unknowns.





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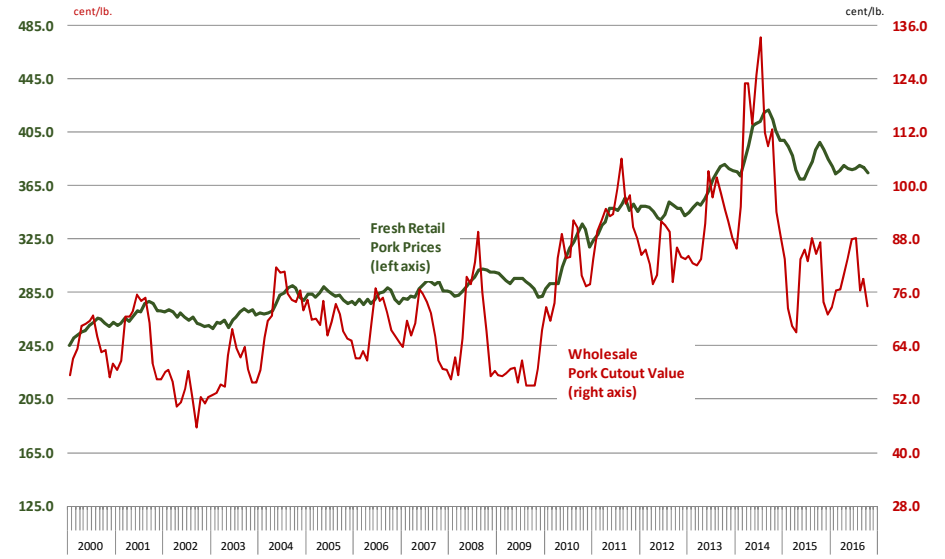
With certainty should come good meat demand.

◊ Unemployment now is at 4.9% - the USA economy is at or near full employment.

Retail Pork Prices vs. Wholesale Pork Cutout

Data Source: USDA Monthly Retail Price Series, USDA Mandatory Price Reporting System & Steiner Consulting



Increase in corn supplies means more meat available for the US consumer

◊ Corn production in 2012-13 was 10.7 billion bushels. In the three years following that years' poor harvest, corn production has averaged 13.9 billion bushels and this year it is projected to be over 15 billion bushels. Corn prices peaked at $8/bushel in 2012 and they are currently between $3 and $3.50 per bushel around the Corn Belt.

◊ You can see the impact of lower corn prices in the total meat protein output, as producers convert the mountains of corn. Total meat production in 2014 (two years following the corn price spike) was 90.9 billion pounds. By 2018, so in just four years, beef, pork and poultry output is expected to exceed 101 billion pounds. You have to go back to the mid-1990s to find a similar 4-year jump in meat production. 2016 USA pork production will set an all-time record at 24.960 billion pounds. With more pork expected to be produced again in 2017.

Sticky retail prices have impacted wholesale pork prices and hog values in the short term

◊ Much as we would like prices at retail to adjust quickly so consumers can increase their meat consumption, history tells us that those adjustments take time. The average retail pork price in October was $3.74/lb., 5.8% lower than a year ago and still some 8% higher than where it was five years ago. The value of the pork cutout, an indicator of wholesale pork prices, was down 16.5% y/y in October and 26% lower than five year ago.

◊ Why the sticky prices? Retailers have learned over the years that consumers do not make abrupt changes to their eating patterns. If they were to lower prices say by 15 to 20%, it is unlikely that consumers will immediately increase their consumption greatly. But retailer revenue would suffer. Rather retailers initially will focus on special holiday promotions and then, over time, lower the overall base price for the various items they sell in the meat case. For foodservice operators, the decline is even slower due to printed menus and fixed menu boards. It takes several months for larger foodservice operators to develop new menu items and coordinate with their marketing.

◊ The good news is that both retailers and foodservice operators feel more secure about the supply prospects in the medium term. This means continued declines for meat prices at retail and broad promotion activity. For a number of years the decline in meat supply availability (in part because of high feed costs) forced end users to steadily increase prices to ration out demand. Consider the following: Domestic red meat and poultry per capita disappearance (or consumption) was around 275 pounds per person in 2007. Then the recession hit, feed costs skyrocketed due to ethanol demand and drought and producers culled their herds. Domestic meat consumption by 2014 had declined by a little over 10% to 246 pounds per person. In 2016, however, the per capita disappearance of the four species is projected at 259 pounds per person, 5% higher than two years ago. And we expect per capita

meat consumption of these four major species to be up again in 2017 and then up again in 2018.

◊ Pork per capita disappearance has been in a sideways band between 59 lbs./person/year and 68 lbs. since 2082. In 2016 it is expected to be 63.2 lbs. So we have plenty of room to move up to the higher end of the 34 year range in the next few years.

Challenges for producers in the short term as processing capacity has not kept pace with supply growth

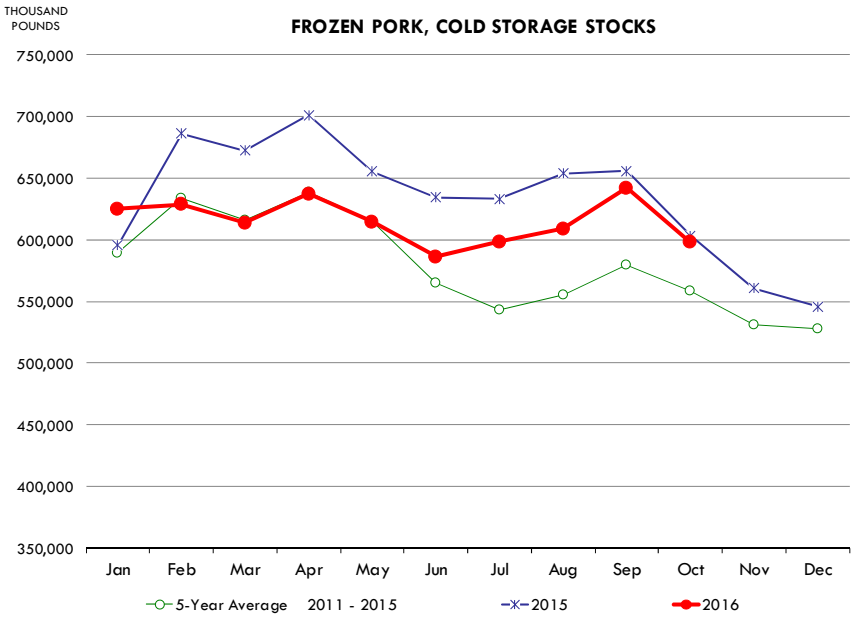
US pork producers have overcome a number of challenges in recent years, from record high feed costs to the outbreak of PEDv outbreak to the loss of some key export markets. Last year, and we expect again this year, pork production will exceed beef production. As supplies have expanded, processing capacity has lagged a bit behind. In the short term this has put some pressure on hog prices. But new plants are scheduled to be opened in the next 18 months, which should alleviate some of the pressure and help narrow the gap between hog prices and the price of pork at wholesale and retail.

Exports remain key

In 2016, more than 20% of the pork produced in the US goes to export markets. This compares to 16% for chicken and 10% for beef and turkey. As the pork industry expands, robust exports remain key for a healthy and profitable pork industry. While there are certainly headwinds for US exports, the strong dollar, weaker demand in emerging markets, increased competition, the reality is that US hog producers are some of the most efficient and low cost in the world and should be able to successfully compete in the global marketplace.

2. Cold Storage Update

We view the supplies of pork cold storage as generally friendly to the market in the very near term. It is quite impressive that packers have been able to keep the flow of product moving even as total production/slaughter hits all-time record highs. Total pork inventories at the end of October were 598.0 million pounds, 6.9% lower than the previous month. The average depletion rate in October has been 3.6% in the last five years. Cold storage stocks were down 1% compared to a year ago despite the big slaughter/production, an indication of robust demand both in domestic channels and exports. Ham stocks decline in October and the drawdown this year was 23.2% compared to 16% average for the last five years. High ham prices have been quite firm, in part due to strong export orders and this should allow for strong depletion of those hefty inventories in November as well. Belly stocks at the end of October were 20.8 million pounds, 17.1% lower than the previous month but still about 16.5% higher than a year ago. The depletion in belly stocks also should be viewed as positive given the large slaughter levels and the seasonally softer bacon demand in October. The key for the belly market is the level of inventories on January 1 and the current depletion rate is positive for belly prices going into next spring.



Upcoming holidays:

2016 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).

2017 New Year's Day (Sunday January 1); Martin Luther King Day (Monday January 16); Chinese New Year (Saturday January 28); Super Bowl 51 (Sunday February 5, in Houston, TX); Valentine's Day (Tuesday February 14); President's Day (Monday February 20); Ash Wednesday (Wednesday March 1; Daylight Savings Time Begins in US (Sunday March 12); St. Patrick's Day (Friday March 17); Passover (Monday April 10, at sundown); Easter (Sunday April 16); Cinco de Mayo (Friday May 5); Mother's Day (Sunday May 14); Victoria Day [Canada] (Monday May 22); Memorial Day (Monday May 29); Father's Day [US and Canada] (Sunday June 18); Canada Day [Canada] (Friday July 1); Independence Day (Tuesday July 4); Labor Day [US and Canada] (Monday September 4); Rosh Hashanah (Monday September 20); Yom Kippur (Friday September 29, at sundown); Columbus Day (Monday October 9; Canadian Thanksgiving Day (Monday October 9); Daylight Savings Time Ends [US and Canada] (Sunday October 29); Veterans Day (Saturday November 11); Remembrance Day [Canada] (Saturday November 11); Thanksgiving (Thursday November 23); Hanukkah (Tuesday December 12, starts at sundown); Christmas Day (Monday December 25); Boxing Day [Canada] (Tuesday 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 November 26 slaughter was 2.152 million head, up 2.0% from a year ago. In the last two weeks hog slaughter is up 4.0% vs. year ago levels.

Iowa/Minnesota, Base Lean Market Hog 185 lbs. Carcass Values. Lean hog carcass values at about 42.31 /cwt. on Friday were up $1.5/cwt since Wed. November 16. Prices are down 9.6 dollars compared to year ago values.

Loin, 1/4 Trimmed Loin VAC, FOB Plant, USDA (page 8). Prices finished last week at $0.7590, up about 3.4 cents since the Wed. November 16 quote but down about 12 cents from year ago levels.

Bnls. Strap on Pork Loins. Prices finished the week at $1.1400 for the strap on loins, up 2.4 cent since Wed. November 16 but down about 10 cent from the year ago levels. Strap off loins at $1.3516 are up about 13.9 cent since Wed. November 16 but down about 4 cent compared to the year ago quote.

Boneless sirloins at $1.0749 are down 6 cents from the Wed. November 16 quote but up about 18.5 cents from the year ago price.

Pork tenderloin finished last week at $1.8892, down 12 cent from the Wed. November 16 quote and down about 9.2 cents from the year ago price.

1/4 Trim Pork Butts (page 10), prices finished the week at $0.8459, down 3.1 cents since Wed. November 16. Prices are up 6 cents from a year ago.

Spare Ribs, Trimmed - LGT, Vac (page 8). Prices finished the week at $1.1718, down about 2 cent since Wed. November 16 and down about 36 cents from year ago levels.

Rib inventories on October 31 were 98.7 million pounds, down 0.1% percent from a year ago.

Bone-in Hams.

17/20 hams (page 9) price was $0.7159/lb., unchanged since Wed. November 16 and up about 5 cents from a year ago.

20/23 hams finished the week at 71.64 cents, up about 2.4 cents since Wed. November 16 and up about 4 cents from the year ago level.

23/27 hams finished the week at 70.99 , up about 2 cents from the Wed. November 16 quote and up about 9.0 cents from the year ago level.

Total ham cold storage stocks on October 31 at 191.2 million pounds were down 2.7% from year ago levels.

42 CL Pork Trim "FOB Basis". Prices finished the week at 22.47 cent, up about 0.2 cent since Wed. November 16 and up about 3 cents from the year ago price.

72 CL Pork Trim "FOB Basis". Prices finished the week at 42.79 cents, up about 0.7 cents since the Wed. November 16 quote and up about 4 cents from the year ago level.

Freezer stocks of all trimmings on October 31 were 31.8 million pounds, down 13.3% 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 $109.75 was down 3.50 cents from a year ago.

The National Whole Bird price was quoted at 81.62 on Friday, November 26, up about 2 cents from a year ago.

Broiler slaughter for the week ending November 26 was 126.94 million head, up 3.50% from a year ago. For the last two weeks slaughter was up 2.3% vs. a year ago.

Breasts. Prices on boneless skinless breasts finished the week at $0.9841, down 1 cents since Wed. November 16 and still down about 7 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 up about 1.5 cents vs. two weeks ago and at 33.52 cents per pound prices were up 12 cents from a year ago.

Wings. Prices at $1.8575 are up about 24 cents from year ago levels.

Turkeys

Hens finished last week at $1.2800, down since Wed. November 16 and down about 8 cents from the year ago price.

Toms finished last week at $1.2600, down since Wed. November 16 and down about 10 cent from the year ago price.

Total turkey supplies in the freezer on October 31 were up 12.6% from a year ago at 396.3 million pounds. Whole birds were up 2.6% from a year ago with an inventory of 196.6 million pounds.

Turkey slaughter was 4.4570 million head for the week ending November 19, up 2.20% from a year ago. For the last two weeks slaughter has been up 3.6%.

Boneless Turkey Breast Meat. Boneless skinless turkey breast meat prices finished last week at $1.9200, down since Wed. November 16. Prices are down about 393 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 $8.5309 (weighted average quote) finished last

week up about 58 cents since the Wed. November 16 quote and up about 12 cents vs. the year ago price.

Select 112A Heavy Lip On Rib Eyes at $6.5010 (weighted average quote) finished last week up about 26 cents since the Wed. November 16 quote but down about 73 cents vs. the year ago price.

Currently Choice 112A Rib Eyes are $2.0299 /lb. over Select. The 2015 annual average spread (wt. average price) had the Choice at a premium to the Select by $0.1087 per pound and the previous five years (2010 thru 2014) average spread was Choice at a premium to the Select by $0.0940 per pound.

Choice regular #168 insides finished last week quoted at $1.8141 up about 9 cents since Wed. November 16 but down about 12 cents from the year ago price.

Choice ¼ inch trimmed #168 insides finished last week quoted at $1.9684 up about 16 cents since Wed. November 16 and down about 6 cents from year ago levels.

Choice #170 Gooseneck Rounds finished last week at $1.9736 up about 16 cents since Wed. November 16 but down about 8 cents from the year ago levels.

Choice #180 (0x1) Bnls. Strip Loins finished last week quoted at $4.3086 (wt. avg.) up about 8 cents from the Wed. November 16 quote. Prices are about 89 cents over year ago levels.

Choice #184 Regular Heavy top butts finished at $2.0302 (wt. avg.) down about 2 cents since Wed. November 16 and down about 97 cents from year ago levels.

Choice #184 ¼ inch trimmed Top Butts finished at $2.3160 (wt. avg.) up about 15 cents since Wed. November 16 but down about 68 cents from the year ago levels.

Choice #185A Flap Meat prices finished Friday at $3.6177 (wt. avg.) up about 7 cents since Wed. November 16 but down about 41 cents from year ago values.

COARSE GROUND BEEF –

73CL Coarse Ground product finished last week at $1.0142 down about 14 cents since Wed. November 16 and down about 32 cents from year ago levels.

81CL Coarse Ground product finished last week at $1.5482 up about 9 cent since Wed. November 16 and up about one cents from the year ago quote.

90CL Bnls. Beef prices finished the week at $1.9346 (wt. avg.) down about 0.19 cent since Wed. November 16 and down 15 compared to the year ago price quote.

50 CL Beef Trim prices finished last week at $0.4268, down about 12 cent since Wed. November 16 but up 0.5 cent compared to the year ago level.

Food Service Summary Table - WT. AVE

	2016 History								2016-17 FORECAST						
	May	Jun	Jul	Aug	Sep	Oct	11/16/2016	11/25/2016	12/7/2016	Nov	Dec	Jan	Feb	Mar	Apr
PORK															
Loin, 1/4 Trimmed Loin VAC, FOB Plant, USDA	1.08	1.13	1.05	0.98	1.10	0.91	0.73	0.76	0.84	0.75	0.83	0.86	0.92	0.97	0.98
Loin, 1/8 Trimmed Loin VAC, FOB Plant, USDA	1.13	1.22	1.12	1.04	1.16	0.98	0.90	0.79	0.93	0.85	0.91	0.95	0.98	1.04	1.05
Loin, Bnls CC Strap-off, FOB Plant, USDA	1.49	1.51	1.40	1.37	1.60	1.47	1.21	1.35	1.42	1.32	1.41	1.36	1.38	1.45	1.45
Loin, Tenderloin, FOB Plant, USDA	2.52	2.91	2.66	2.22	2.16	2.10	2.00	1.89	2.04	1.95	2.00	2.10	2.15	2.25	2.25
Butt, 1/4 Trim Butt Combo, FOB Plant, USDA	1.12	1.12	1.15	0.99	1.11	0.86	0.80	0.80	0.90	0.82	0.86	0.84	0.88	0.92	0.95
Sparerib, Trmd Sparerib - LGT, FOB Plant, USDA	1.66	1.62	1.33	1.30	1.31	1.20	1.19	1.17	1.19	1.17	1.21	1.29	1.34	1.36	1.40
Sparerib, St Louis Spareribs, POLY, FZN, FOB Plant, USDA	2.61	2.61	2.44	2.42	2.36	2.39	2.29	2.26	2.25	2.29	2.29	2.30	2.34	2.30	2.34
Sparerib, Trmd Sparerib - MED, FOB Plant, USDA	1.65	1.60	1.31	1.31	1.29	1.21	1.12	1.12	1.15	1.12	1.15	1.25	1.29	1.30	1.34
Loin, Backribs 2.0#/up, FOB Plant, USDA	2.98	2.86	2.56	2.22	2.18	2.17	2.15	2.14	2.19	2.17	2.20	2.20	2.30	2.35	2.46
Ham, 17-20# Trmd Selected Ham, FOB Plant, USDA	0.67	0.75	0.79	0.71	0.70	0.54	0.68	0.72	0.68	0.72	0.65	0.57	0.62	0.60	0.62
Ham, 20-23# Trmd Selected Ham, FOB Plant, USDA	0.67	0.74	0.80	0.71	0.72	0.53	0.69	0.72	0.68	0.67	0.64	0.56	0.60	0.59	0.60
Ham, 23-27# Trmd Selected Ham, FOB Plant, USDA	0.66	0.72	0.75	0.67	0.64	0.50	0.69	0.71	0.66	0.65	0.62	0.53	0.57	0.55	0.57
Ham, 5 Muscle Ham to Blue, FOB Plant, USDA	1.03	1.14	1.14	1.14	1.14	1.14	1.14	1.14	1.19	1.23	1.18	1.05	1.11	1.07	1.10
Belly, Skin-on Belly 14-16#, FOB Plant, USDA	1.13	1.27	1.42	1.08	1.39	1.20	1.24	1.09	1.09	1.06	1.08	1.04	1.08	1.12	1.15
Belly, Derind Belly 9-13#, FOB Plant, USDA	1.33	1.52	1.54	1.08	1.15	1.38	1.40	1.24	1.36	1.34	1.35	1.29	1.36	1.41	1.45
Belly, Derind Belly 13-17#, FOB Plant, USDA	1.24	1.50	1.60	1.04	1.15	1.35	1.34	1.21	1.34	1.32	1.33	1.27	1.34	1.39	1.43
Trim, 42% Trim Combo, FOB Plant, USDA	0.46	0.36	0.42	0.49	0.32	0.24	0.22	0.22	0.22	0.24	0.22	0.27	0.29	0.32	0.32
Trim, 72% Trim Combo, FOB Plant, USDA	0.69	0.73	0.80	0.66	0.51	0.42	0.42	0.43	0.47	0.45	0.48	0.51	0.55	0.55	0.56
HOG CARCASS															
IA/MN, Base Market Hog 185 lb Carcass Basis, Plant Dlv.	0.74	0.80	0.73	0.63	0.55	0.47	0.41	0.42	0.45	0.42	0.45	0.51	0.55	0.57	0.63
BROILERS															
BROILER, NATIONAL WHOLE BIRD PRICE, USDA	0.94	0.97	0.88	0.80	0.77	0.71	0.80	0.82	0.78	0.78	0.79	0.80	0.81	0.80	0.80
N.E. BROILER BREAST BONELESS-SKINLESS, USDA	1.23	1.20	1.29	1.43	1.32	1.15	1.00	0.98	1.01	1.00	1.02	1.02	1.03	1.04	1.12
N.E. BROILER BREAST LINE RUN, USDA	0.97	0.97	0.92	0.89	0.94	0.88	0.89	0.89	0.87	0.89	0.87	0.86	0.86	0.86	0.86
N.E. BROILER LEG QUARTERS, USDA	0.37	0.36	0.35	0.32	0.34	0.32	0.32	0.34	0.34	0.33	0.34	0.35	0.35	0.35	0.36
N.E. BROILER WINGS, USDA, WT.AVG.	1.61	1.54	1.56	1.57	1.79	1.80	1.86	1.86	1.89	1.85	1.92	1.95	1.74	1.63	1.55
TURKEYS															
UB HEN TURKEYS, EAST, FROZEN 10-12LBS	1.23	1.24	1.25	1.26	1.28	1.30	1.30	1.28	1.16	1.30	1.14	1.03	1.04	1.04	1.06
UB BONELESS-SKINLESS TURKEY BREAST, TOM, FRESH	2.18	2.15	2.15	2.15	2.15	2.15	2.03	1.92	1.94	1.97	1.92	1.92	1.98	2.05	2.20
LIVE STEERS															
FIVE AREA DIRECT AVERAGE LIVE STEER, USDA	1.28	1.23	1.18	1.17	1.07	1.00	1.04	1.11	1.10	1.05	1.11	1.11	1.12	1.13	1.14
BEEF															
CHOICE, 112A, 3 RIBEYE, BONELESS, HEAVY, USDA	7.32	8.29	6.86	7.37	6.80	6.67	7.95	8.53	7.84	7.73	7.42	5.54	5.68	6.13	6.36
CHOICE, 168, 3 TOP INSIDE ROUND, 1/4" MAX, USDA	2.10	1.99	2.10	2.17	1.98	1.88	1.81	1.97	1.91	1.95	1.96	2.02	1.93	2.03	1.96
CHOICE, 170, 1 BOTTOM GOOSENECK ROUND, USDA	1.92	1.83	1.85	1.85	1.91	2.00	1.82	1.97	1.98	1.85	2.04	1.94	1.90	1.85	1.74
CHOICE, 180, 3 STRIP LOIN, BONELESS, 0x1, USDA	7.33	8.05	6.51	5.51	4.76	4.42	4.22	4.31	4.61	4.30	4.66	5.15	5.18	5.72	6.19
CHOICE, 184, 3 TOP BUTT, BONELESS, USDA	4.40	3.86	3.68	3.61	3.27	2.72	2.17	2.32	2.62	2.25	2.65	2.99	3.06	3.21	3.30
CHOICE, 185A, 4 BOTTOM SIRLOIN, FLAP, USDA	5.17	5.20	5.05	5.20	4.66	3.72	3.54	3.62	3.88	3.65	3.90	4.00	4.12	4.40	4.79
COARSE GROUND 73%, USDA	1.55	1.48	1.34	1.52	1.27	1.22	1.16	1.01	1.20	1.16	1.25	1.55	1.43	1.43	1.41
COARSE GROUND 81%, USDA	1.89	1.83	1.66	1.74	1.56	1.54	1.46	1.55	1.47	1.47	1.53	1.80	1.67	1.65	1.59
90% BONELESS BEEF, CENTRAL, FRESH, USDA	2.18	2.17	2.17	2.14	2.05	1.93	1.94	1.93	1.98	1.97	2.00	2.02	2.03	2.06	2.05
50CL BEEF TRIM, FRESH, NATIONAL, USDA	0.51	0.85	0.90	0.56	0.38	0.33	0.54	0.43	0.45	0.51	0.47	0.61	0.60	0.72	0.74

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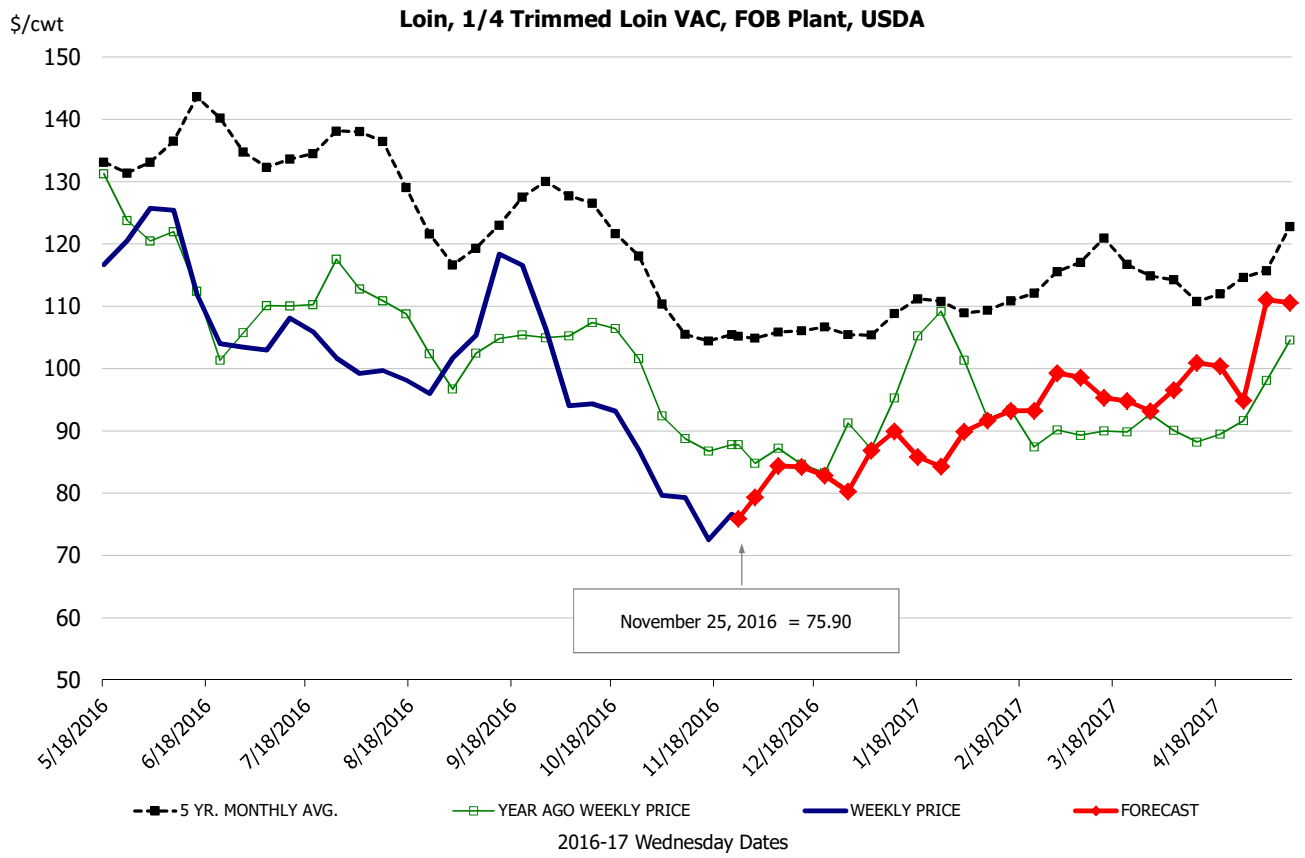
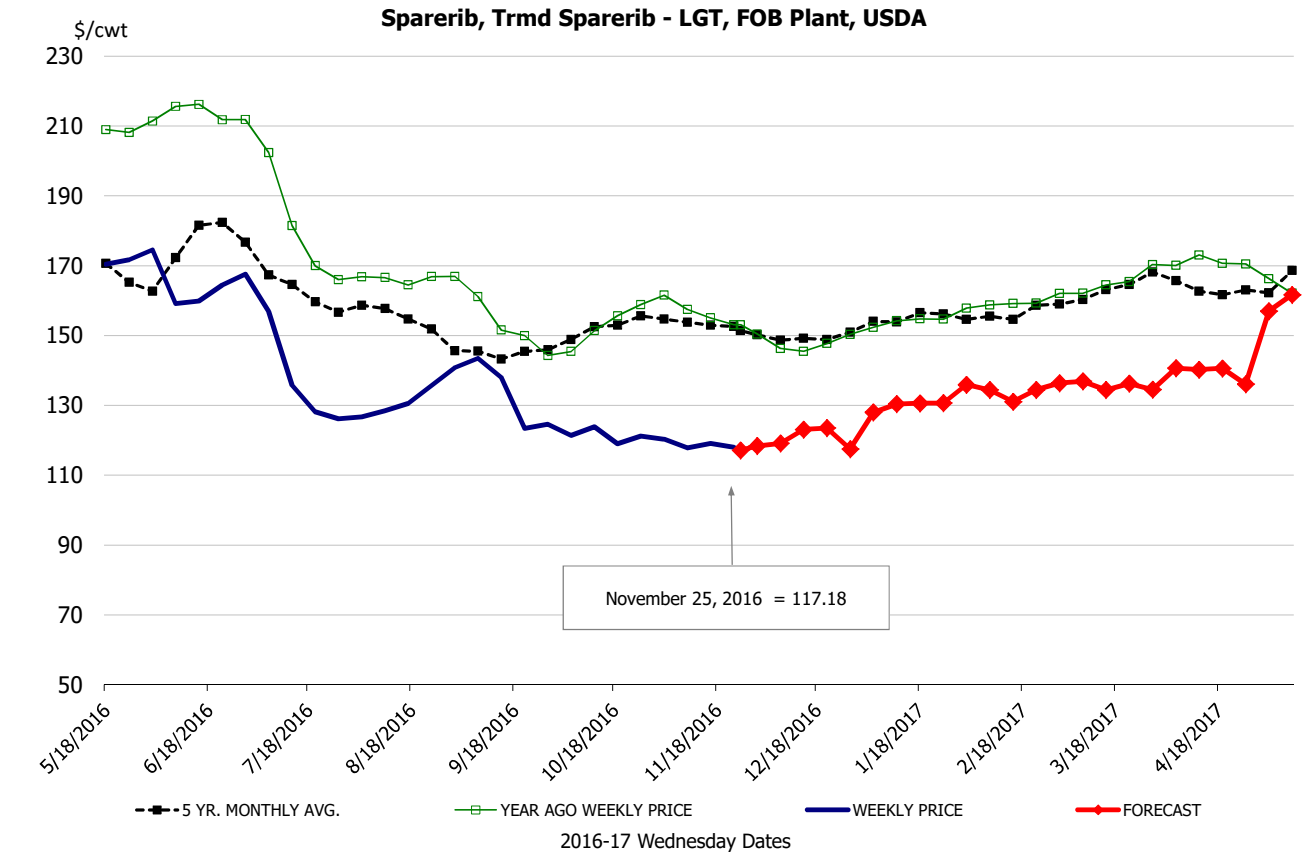
*St. Louis 2 1/4 dn rib prices are estimated at 3 1/2 dn plus $1.10





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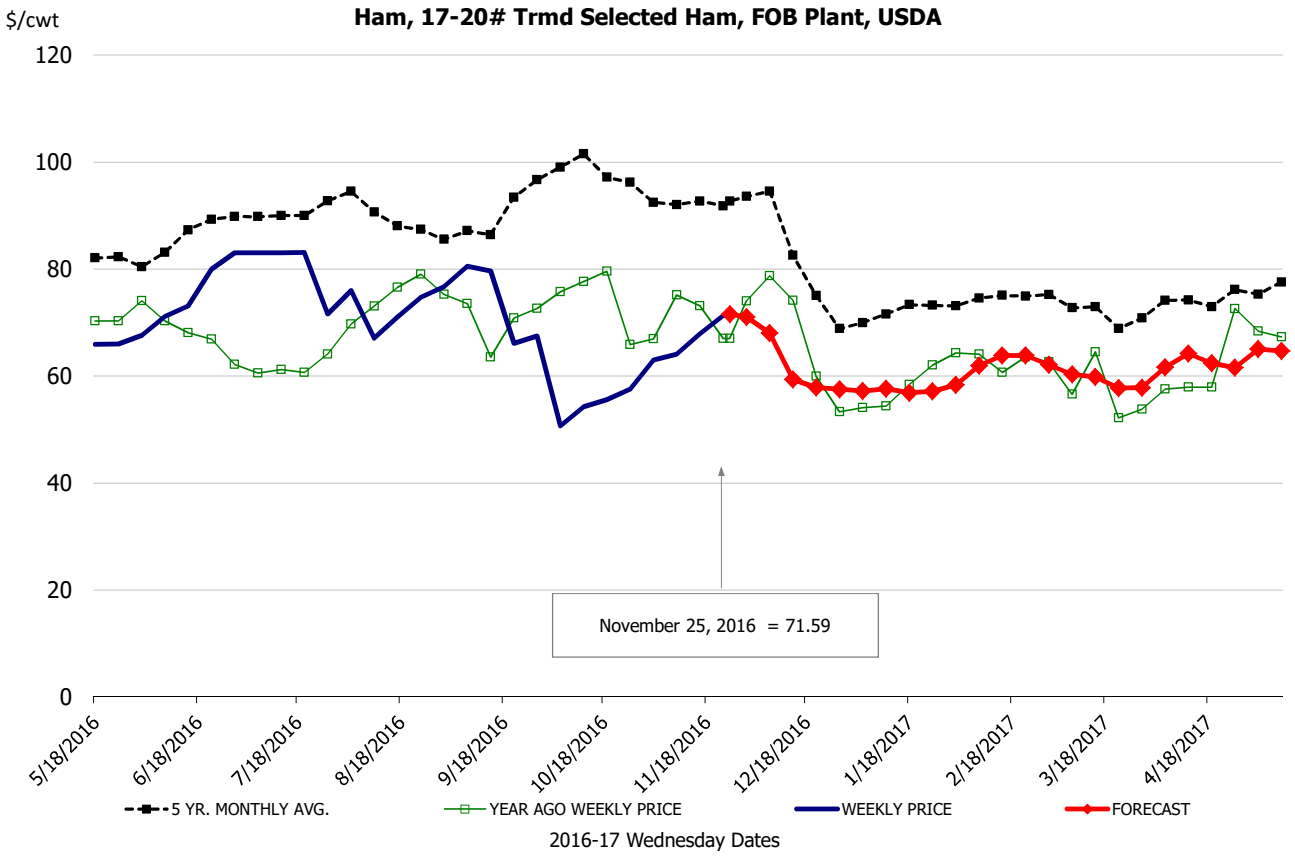

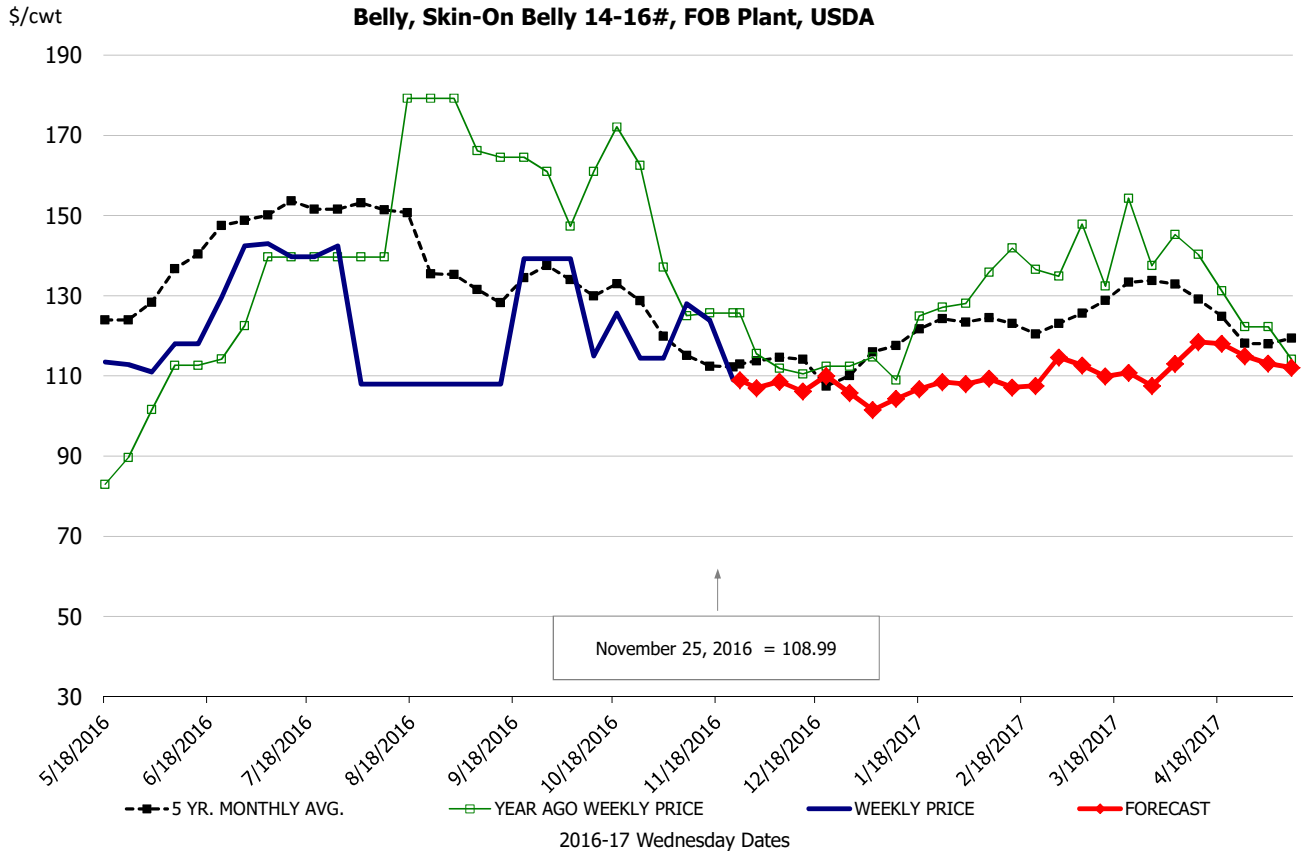

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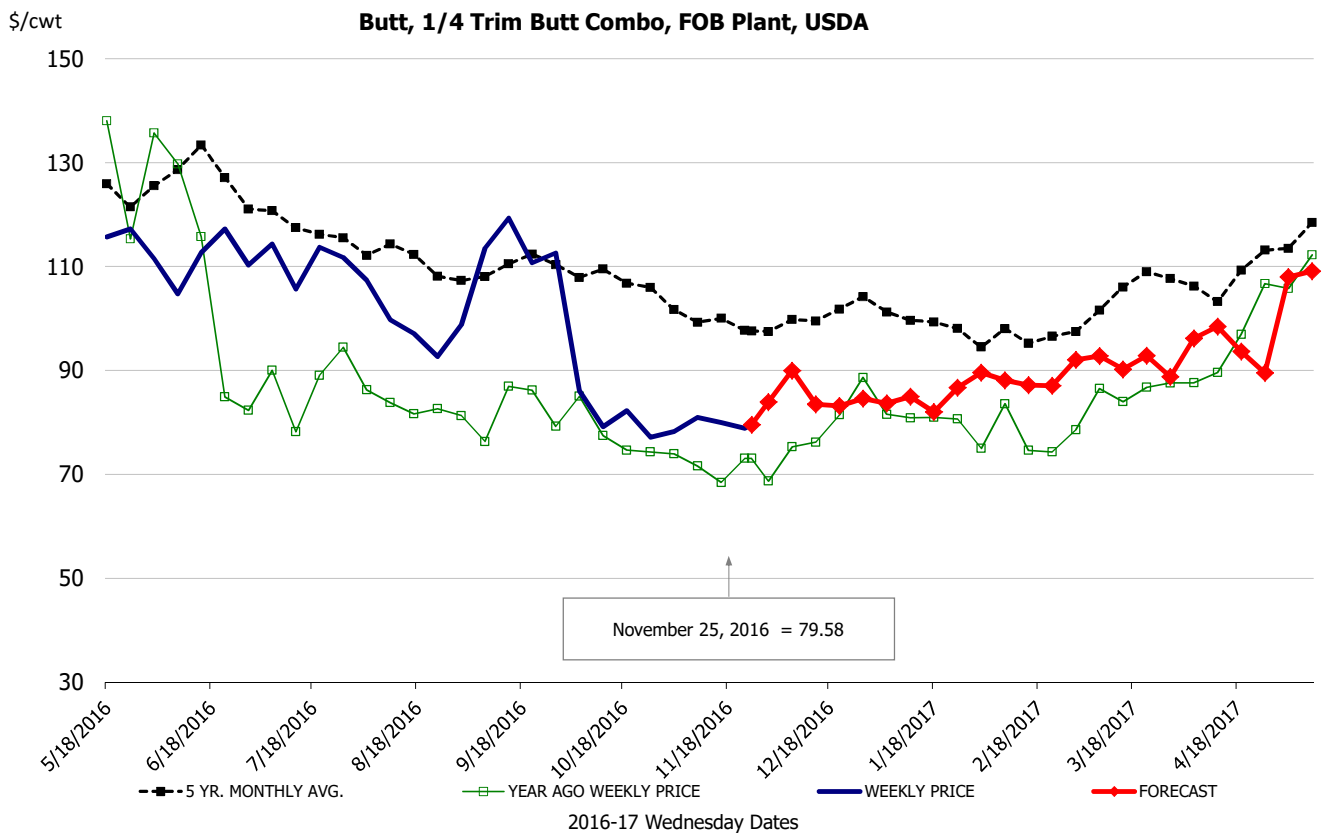

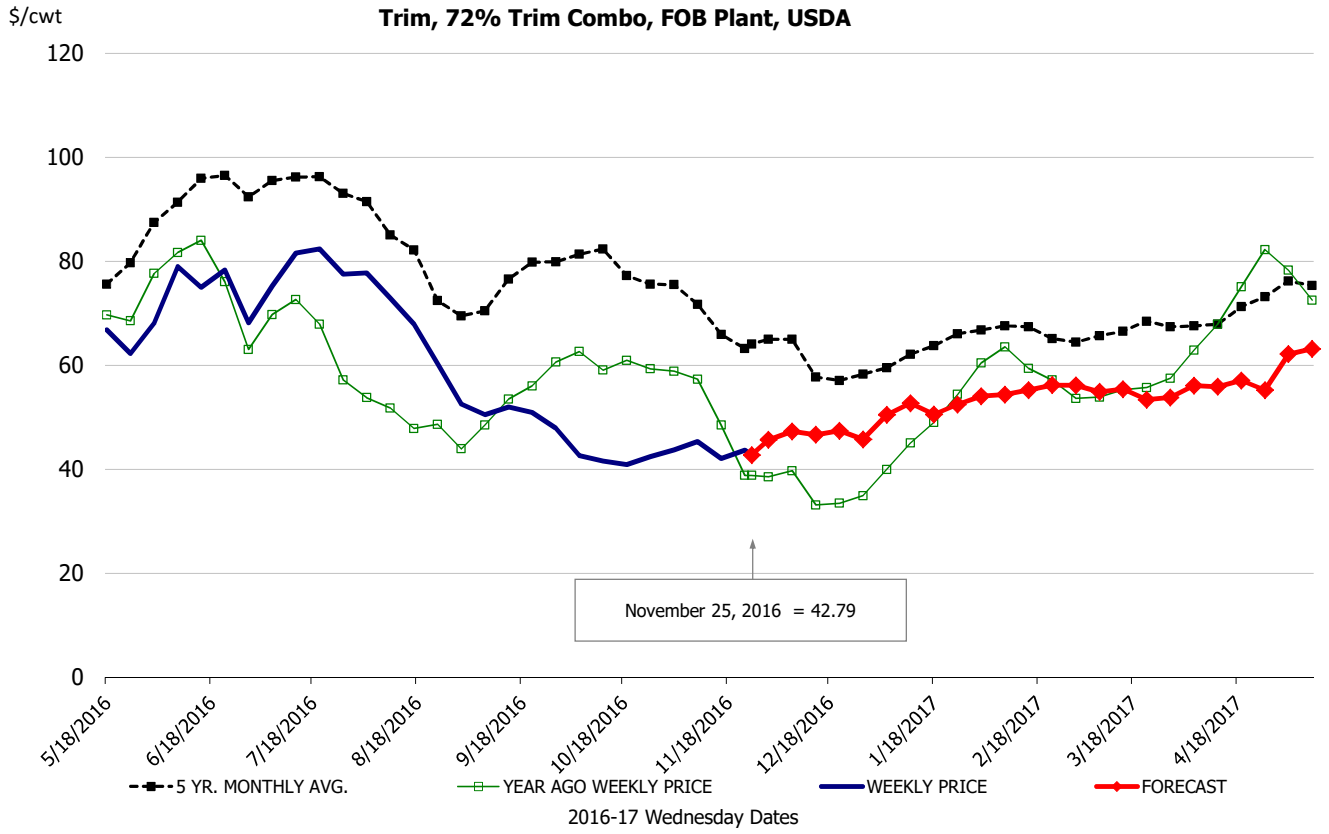

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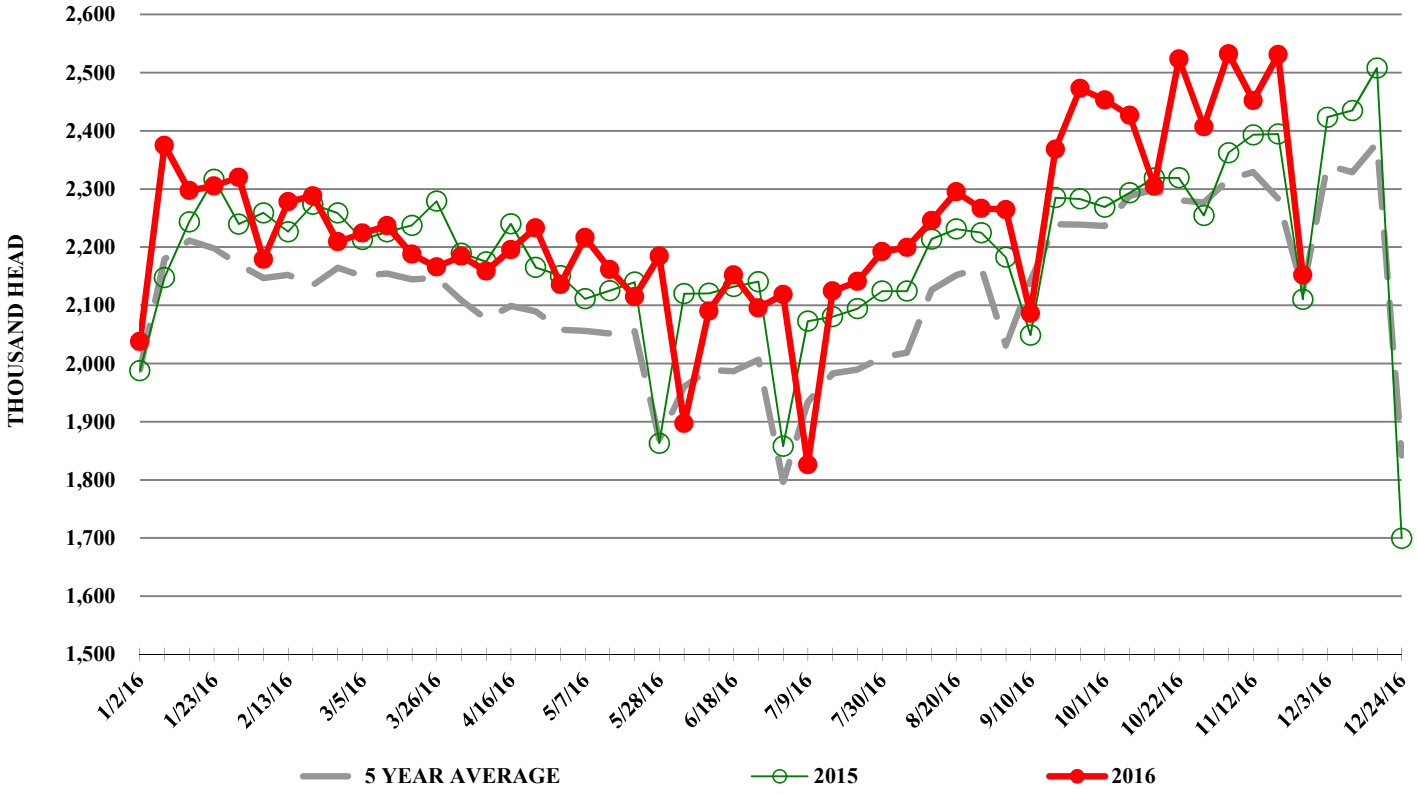
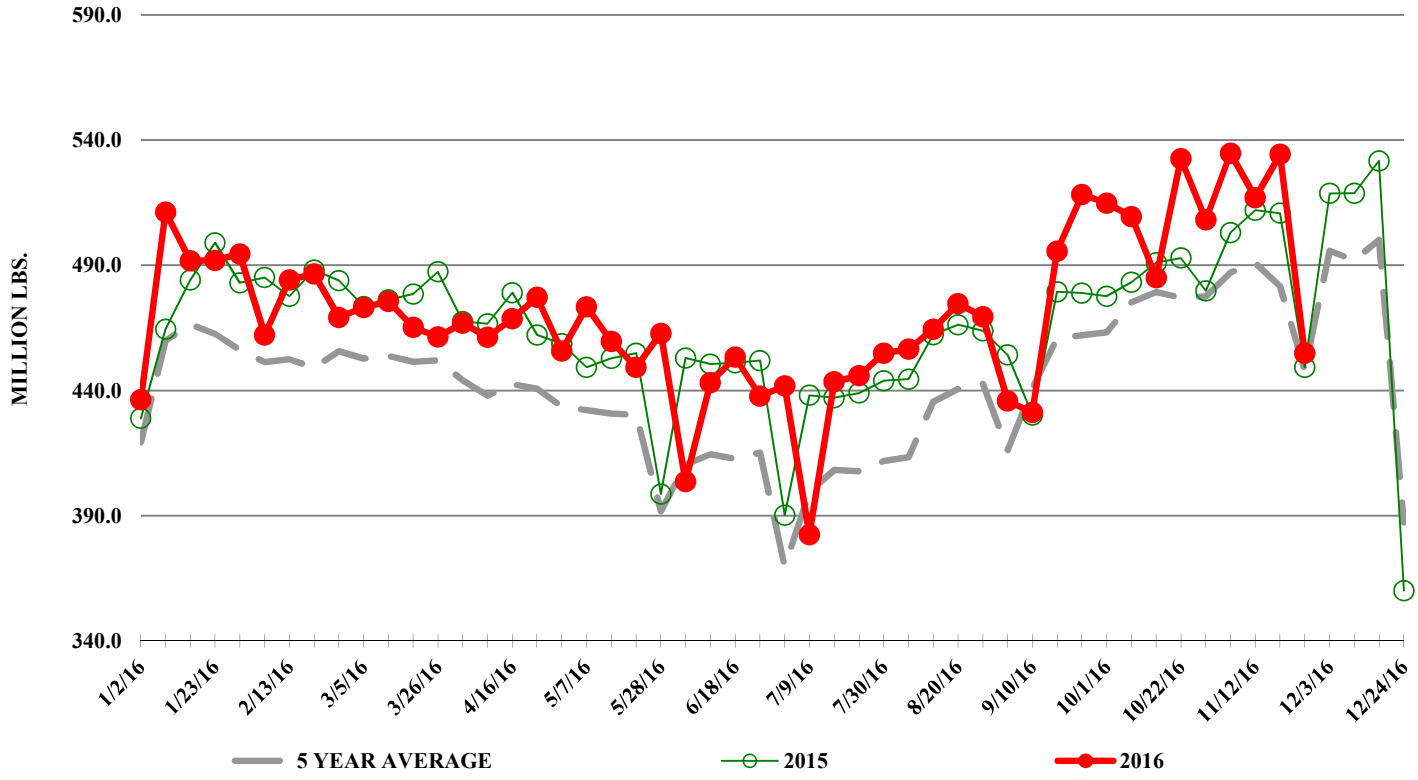
ESTIMATED WEEKLY FI HOG SLAUGHTER



ESTIMATED WEEKLY FI PORK PRODUCTION



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