



Be inspiredSM

Pork Merchandiser's Profit Maximizer

- Foodservice Edition -

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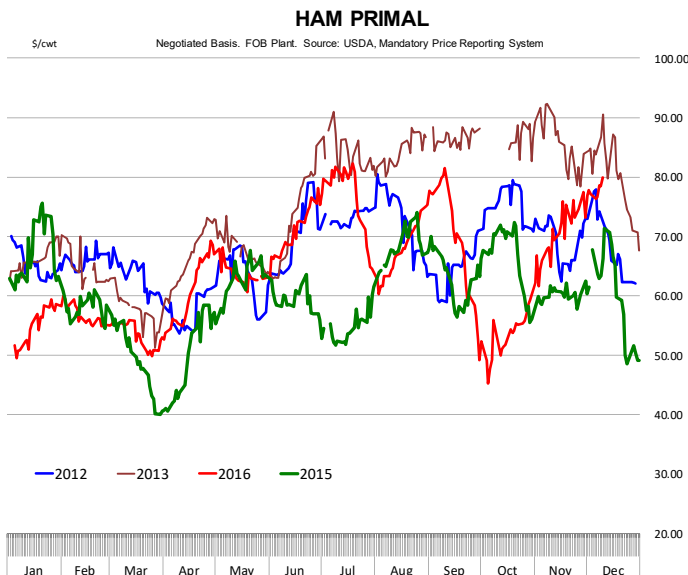
December 12, 2016

Hog prices jump on robust ham demand but also due to aggressive marketings earlier in the fall. Exports remain key for prices in Q1.

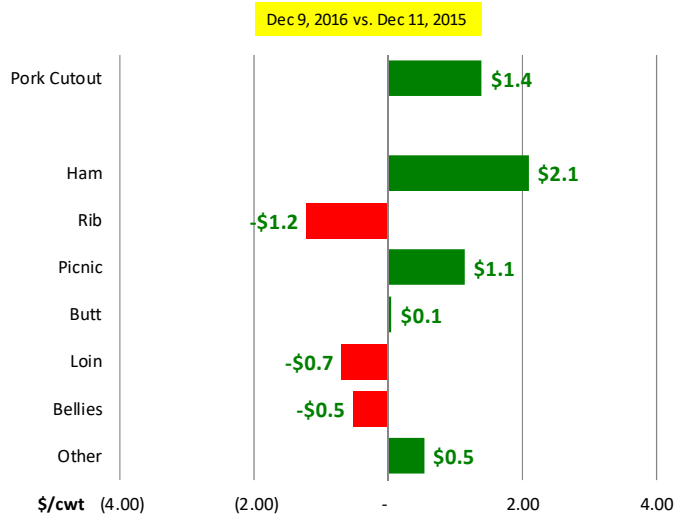
The pork cutout has outperformed year ago levels despite notably more pork available on a daily basis. Hog slaughter in the last four weeks has averaged 2.414 million head, 3.1% higher than a year ago. Keep in mind that this includes

one holiday shortened week and during the three full slaughter weeks slaughter has been over 2.5 million head. Hog producers had a fairly difficult job to accomplish this fall as increasing supplies looked to overwhelm available processing capacity. Packers often manage to accommodate short term increases by running on Saturday, and sometimes Sunday, but that also means that they can gain significant leverage and it was uncertain how much they would be able/

Surge in Ham Values Underpins the Pork Cutout and Helps Support Overall Hog Values Despite Large Kills



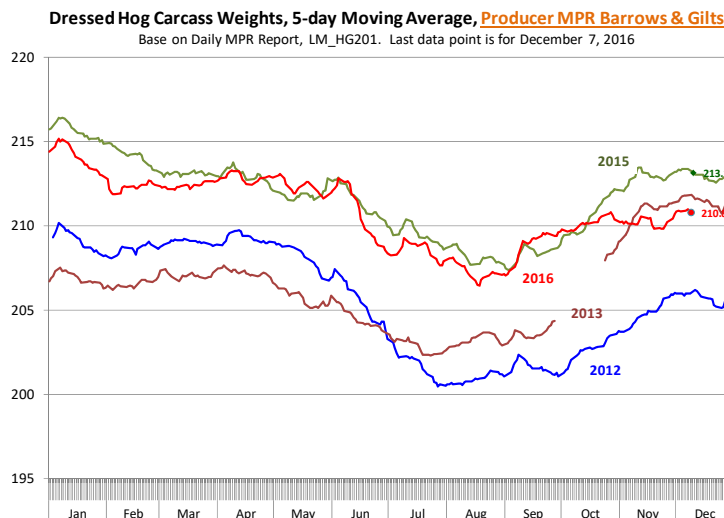
Contribution of Each Primal to the Y/Y Change in the Value of Pork Cutout



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willing to pressure spot prices. Faced with this obvious loss of leverage, producers did what they had to, they were very aggressive in marketing hogs and by doing this they bought themselves a bit more breathing room in late November and December, when weekly slaughter tends to peak. During the full four weeks in October and the first two weeks of November hog slaughter averaged +5.1% above year ago compared to the +3.9% increase implied by the September 'Hogs and Pigs' report. That difference could be because the USDA survey missed the total supply but, more likely, we think it reflects the early marketing of hogs to avoid the year-end crunch. The difference between the survey and actual numbers was around 28,000 head per week. The big jump in slaughter in October performed two functions. First, it allowed producers to keep weights under control and thus limit the total supply of pork coming to market. Slaughter in the last four weeks has averaged +3.1% but pork production has averaged +2.1% compared to last year. Second, it likely "bought" some ample feature space and export demand going into the holidays. Robust export volumes have helped clean up the market for hams, with shipments to Mexico running in double digit increases compared to last year. Ham exports in September rose 17% from the previous year and they were up 20% in October. Shipments to Mexico accounted for about 86% of overall US ham exports during these two months and increases in exports to this market were responsible for most of the gain. We will not get the official November data until early January but weekly shipments show exports to Mexico are running +30-35% compared to a year ago and help explain part of the surge in the value of the ham primal. And if packers are shipping more bone-in product, not just to Mexico but other markets as well, this also helps explain why pork trim suddenly has increased in value even as slaughter remains well above year ago levels.

The charts on page 1 show how each primal has contributed to the overall gains in the value of the cutout. The pork cutout closed on Friday afternoon at \$75.81/cwt, \$1.4/cwt (+1.9%) higher than a year ago. Loins, bellies and ribs are under last year and subtracted \$1.2/cwt, \$0.7/cwt and \$0.5/cwt, respectively, from the overall cutout value. These losses, however, were more than offset by the gains in the ham primal, which was up \$2.1/cwt compared



to last year. Part of the reason for the gains in the value of the ham primal have to do with the changes that USDA put in place in October, with boneless ham prices now rolled into the value of the primal. Because boneless hams currently hold a big premium to bone-in hams, this means they are contributing more value to the primal when we compare to a year ago. But clearly ham demand has been quite strong this holiday season and that is the primary reason for the gain in price. After all, both bone-in and boneless ham prices are up compared to last year. The main question in our minds at this point is whether the current gains in both the cutout and hog prices are sustainable into Q1.

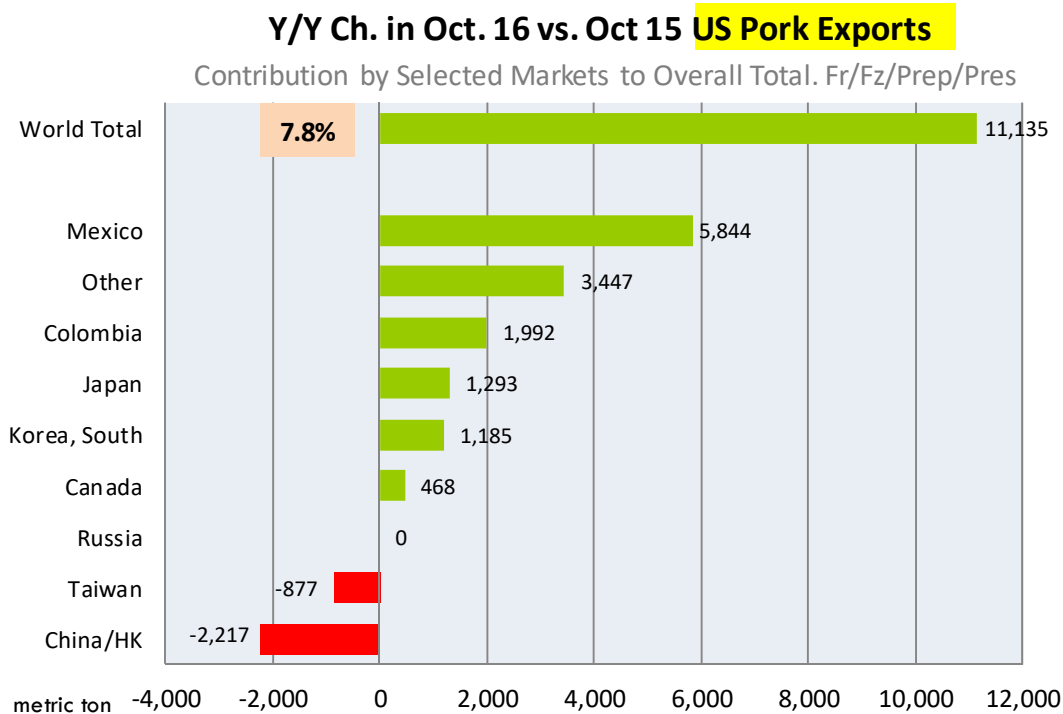
Clearly the main risk (but also reward) remains export demand. Some market participants are speculating that Mexican buyers are rushing to build ham inventories before the new administration is sworn in office in January, afraid of an impending trade war. If that is indeed the case, then what will happen to ham demand if a) a trade war does indeed happen and it negatively impacts shipments to Mexico or b) if it does not happen and importers there are left with large inventories they need to work through. Hog slaughter should move substantially lower into January and February but so does seasonal demand. Normally pork packers face a steep drop in the price end users are willing to pay for hams after Christmas and they look to put more value on retail items. How the loin primal fares in January will speak volumes about retail demand. There are two additional items that also bear watching. First, keep an eye on cold storage inventories for pork trimming,

bellies and hams. If end users sought to take advantage of low prices in November to build trim inventories, this could soften demand into January. Second, it is important to keep noting weekly shipments. So far exports to Mexico have been excellent but a softening trend also could put more meat in domestic markets during Q1. Higher ham prices also may affect Easter promotions (April 16 vs. March 27 last year) and create more downside risk for prices in March/April.

Pork Export Update

Total exports of fresh/frozen and cooked pork in October were 153,054 MT, 7.8% higher than a year ago. Exports of fresh/frozen pork 138,357 MT, 9.6% higher than last year and far surpassing our earlier estimates that were calling for a 3-4% increase (based on weekly shipments). Given the pace of exports so far and reported weekly volume, we could see pork exports in November up 10-12% compared to the already large levels a year ago. We think this helps explain the firm prices for a number of pork prices in

the US despite record large slaughter and production. Mexico is by far the largest market for US pork. Shipments to that market in October were 53,639 MT, 12.2% higher than a year ago. By comparison exports to Japan, the second largest market, were 29,995 MT, +4.5% higher than last year. Exports to Canada at 16,250 MT were up 3% while exports to South Korea at 11,470 MT were up 11.5%. Earlier this year there was a lot of speculation that China would emerge as a major pork market for the US and that was indeed the case last spring. However October export shipments to the Chinese market were 9,402 MT, down from the previous month and just 3% higher than a year ago. Back in April and May shipments to China were averaging over 20,000 MT per month. Exports to Hong Kong, which often serves as a gateway to China, also were down 39% in October.



Upcoming holidays:

2016 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 December 10 slaughter was 2.443 million head, up 0.3%

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 52.01 /cwt. on Friday were up \$6.8/cwt since Wed. November 30. Prices are down 0.4 dollars compared to year ago values.

Loins, 1/4 Trimmed Loins VAC, FOB Plant, USDA (page 8). Prices finished last week at \$0.8030, up about 5.0 cents since the Wed. November 30 quote but down about 7 cents from year ago levels.

Bnls. Strap on Pork Loins. Prices finished the week at \$1.1855 for the strap on loins, up 6.8 cent since Wed. November 30 but down about 6 cent from the year ago levels. Strap off loins at \$1.2912 are up about 1.7 cent since Wed. November 30 but down about 11 cent compared to the year ago quote.

Boneless sirloins at \$1.0288 are down 7 cents from the Wed. November 30 quote but up about 13.8 cents from the year ago price.

Pork tenderloin finished last week at \$2.0028, down 0.5 cent from the Wed. November 30 quote but up about 22.6 cents from the year ago price.

1/4 Trim Pork Butts (page 10), prices finished the week at \$0.8733, up 3.8 cents since Wed. November 30. Prices are up 6 cents from a year ago.

Spare Ribs, Trimmed - LGT, Vac (page 8). Prices finished the week at \$1.1876, up about 0 cent since Wed. November 30 but down about 28 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 \$0.7641/lb., unchanged since Wed. November 30 but down about 2 cents from a year ago.

20/23 hams finished the week at 76.69 cents, up about 4.3 cents since Wed. November 30 and up about 7 cents from the year ago level.

23/27 hams finished the week at 77.97 , up about 5 cents from the Wed. November 30 quote and up about 7.5 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 28.25 cent, up about 3.8 cent since Wed. November 30 and up about 10 cents from the year ago price.

72 CL Pork Trim “FOB Basis”. Prices finished the week at 52.14 cents, up about 5.6 cents since the Wed. November 30 quote and up about 12 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 no longer is being quoted.

The National Whole Bird price was quoted at 84.49 on Friday, December 10, up about 4 cents from a year ago.

Broiler slaughter for the week ending December 10 was 162.40 million head, up 2.67% 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 \$0.9781, up 1 cents since Wed. November 30 but still down about 2 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 0.5 cents vs. two weeks ago but at 31.42 cents per pound prices were up 5 cents from a year ago.

Wings. Prices at \$1.8706 are up about 28 cents from year ago levels.

Turkeys

Hens finished last week at \$1.1500, down since Wed. November 30 and down about 15 cents from the year ago price.

Toms finished last week at \$1.1500, down since Wed. November 30 and down about 15 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 4.6590 million head for the week ending December 3, up 13.11% from a year ago. For the last two weeks slaughter has been up 10.0%.

Boneless Turkey Breast Meat. Boneless skinless turkey breast meat prices finished last week at \$1.7000, down since Wed. November 30. Prices are down about 415 cents vs. year ago levels.

BEEF

<p>NOTE: WE ARE NOW REPORTING AND FORECASTING WEIGHTED AVERAGE BLUE SHEET PRICES FOR BEEF CUTS.</p>
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Choice 112A Heavy Bnls. Lip On Rib Eyes at \$8.8420 (weighted average quote) finished last week up about 4 cents since the Wed. November 30 quote and up about one cents vs. the year ago price.

Select 112A Heavy Lip On Rib Eyes at \$6.5819 (weighted average quote) finished last week down about 3 cents since the Wed. November 30 quote but down about 117 cents vs. the year ago price.

Currently Choice 112A Rib Eyes are \$2.2601 /lb. over Select. The 2015 annual average spread (wt. average price) had the Choice at a premium to the Select by \$0.1082 per pound and the previous five years (2010 thru 2014) average spread was Choice at a premium to the Select by \$0.0939 per pound.

Choice regular #168 insides finished last week quoted at \$1.8253 down about 4 cents since Wed. November 30 and down about 9 cents from the year ago price.

Choice ¼ inch trimmed #168 insides finished last week quoted at \$1.9403 down about 4 cents since Wed. November 30 and down about one cents from year ago levels.

Choice #170 Gooseneck Rounds finished last week at \$1.8936 down about one cents since Wed. November 30 and down about 19 cents from the year ago levels.

Choice #180 (0x1) Bnls. Strip Loins finished last week quoted at \$4.7087 (wt. avg.) up about 28 cents from the Wed. November 30 quote. Prices are about 64 cents over year ago levels.

Choice #184 Regular Heavy top butts finished at \$2.1010 (wt. avg.) down about 2 cents since Wed. November 30 and down about 78 cents from year ago levels.

Choice #184 ¼ inch trimmed Top Butts finished at \$2.1670 (wt. avg.) down about 11 cents since Wed. November 30 and down about 99 cents from the year ago levels.

Choice #185A Flap Meat prices finished Friday at \$3.9566 (wt. avg.) up about 16 cents since Wed. November 30 but down about 6 cents from year ago values.

COARSE GROUND BEEF –

73CL Coarse Ground product finished last week at \$1.1490 up about 9 cents since Wed. November 30 but down about 11 cents from year ago levels.

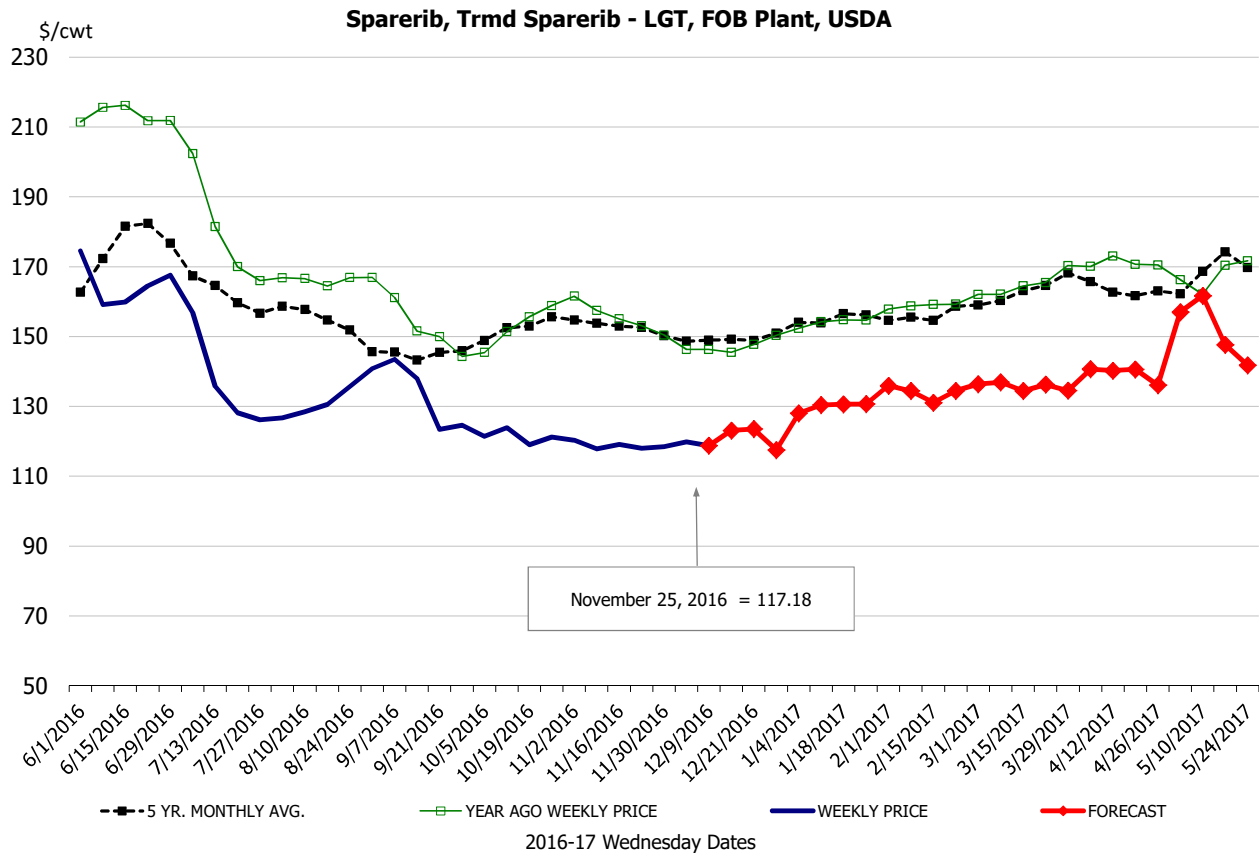
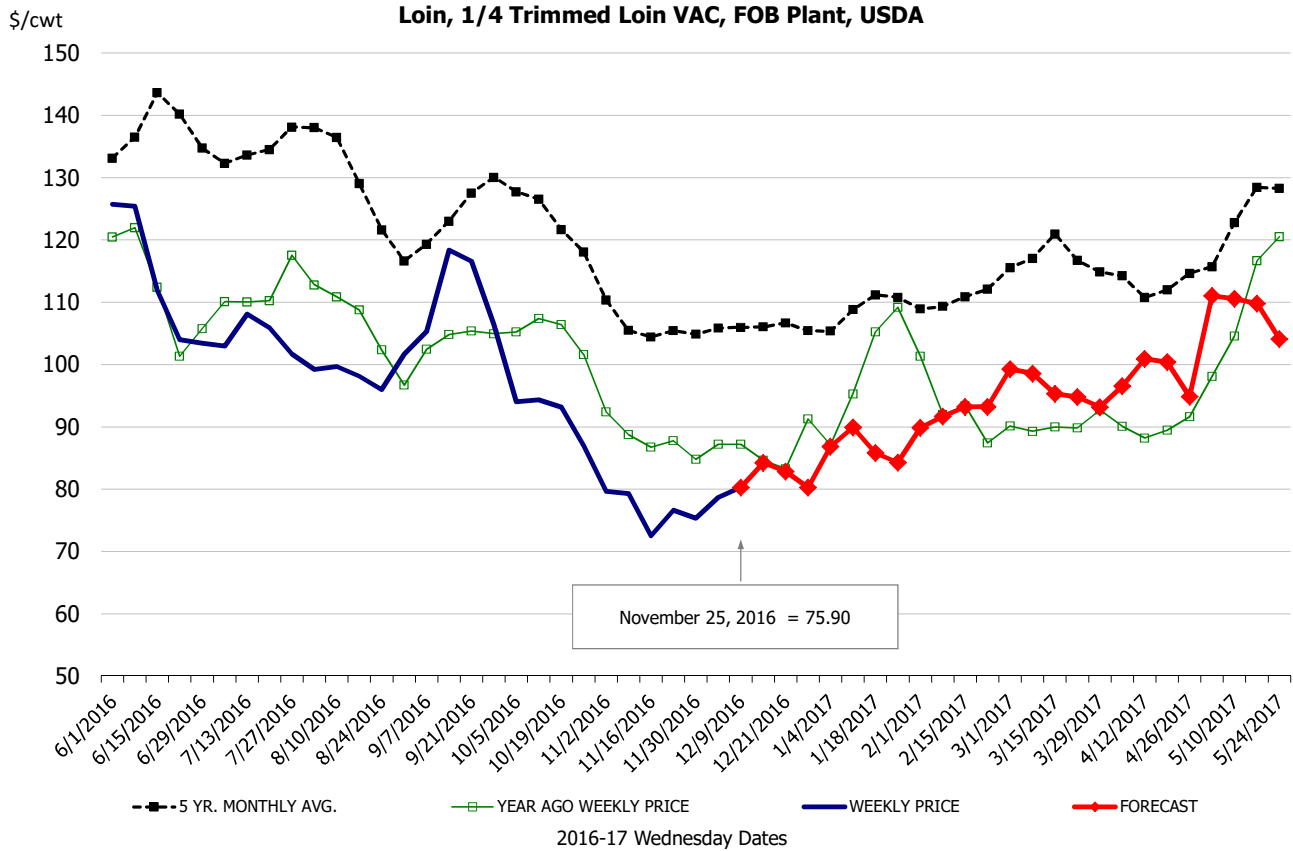
81CL Coarse Ground product finished last week at \$1.4346 down about 11 cent since Wed. November 30 and down about 15 cents from the year ago quote.

90CL Bnls. Beef prices finished the week at \$1.9146 (wt. avg.) up about 1.98 cent since Wed. November 30 and up one compared to the year ago price quote.

50 CL Beef Trim prices finished last week at \$0.3575, down about 11 cent since Wed. November 30 and down 3 cent compared to the year ago level.

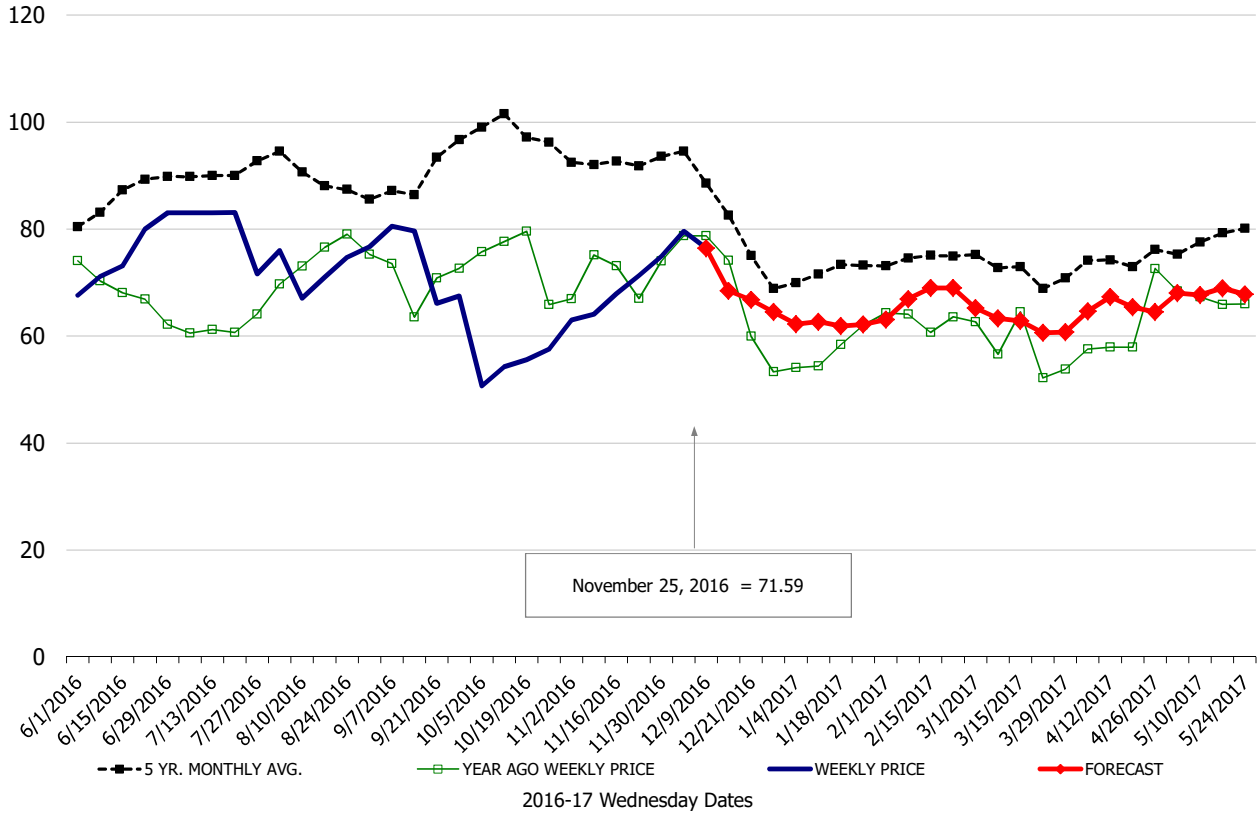
Food Service Summary Table - WT. AVE

	HISTORY								FORECAST						
	Jun	Jul	Aug	Sep	Oct	Nov	11/30/2016	12/9/2016	12/21/2016	Dec	Jan	Feb	Mar	Apr	May
<u>PORK</u>															
Loin, 1/4 Trimmed Loin VAC, FOB Plant, USDA	1.13	1.05	0.98	1.10	0.91	0.77	0.75	0.80	0.83	0.83	0.86	0.92	0.97	0.98	1.08
Loin, 1/8 Trimmed Loin VAC, FOB Plant, USDA	1.22	1.12	1.04	1.16	0.97	0.86	0.79	0.84	0.88	0.88	0.95	0.98	1.04	1.05	1.15
Loin, Bnls CC Strap-off, FOB Plant, USDA	1.51	1.40	1.37	1.60	1.46	1.28	1.27	1.29	1.43	1.38	1.36	1.38	1.45	1.45	1.53
Loin, Tenderloin, FOB Plant, USDA	2.91	2.66	2.22	2.16	2.10	2.00	2.01	2.00	2.00	2.01	2.10	2.15	2.25	2.25	2.43
Butt, 1/4 Trim Butt Combo, FOB Plant, USDA	1.12	1.15	0.99	1.11	0.86	0.81	0.77	0.82	0.83	0.86	0.84	0.88	0.92	0.95	1.05
Sparerib, Trmd Sparerib - LGT, FOB Plant, USDA	1.62	1.33	1.30	1.31	1.20	1.18	1.18	1.19	1.24	1.21	1.29	1.34	1.36	1.40	1.51
Sparerib, St Louis Spareribs, POLY, FZN, FOB Plant, USDA	2.61	2.44	2.42	2.36	2.39	2.28	2.37	2.33	2.34	2.29	2.30	2.34	2.30	2.34	2.40
Sparerib, Trmd Sparerib - MED, FOB Plant, USDA	1.60	1.31	1.31	1.29	1.21	1.15	1.15	1.15	1.16	1.15	1.25	1.29	1.30	1.34	1.45
Loin, Backribs 2.0#/up, FOB Plant, USDA	2.86	2.56	2.22	2.18	2.17	2.15	1.86	2.15	2.21	2.20	2.20	2.30	2.35	2.46	2.70
Ham, 17-20# Trmd Selected Ham, FOB Plant, USDA	0.75	0.79	0.71	0.70	0.55	0.68	0.75	0.76	0.67	0.75	0.62	0.67	0.63	0.65	0.68
Ham, 20-23# Trmd Selected Ham, FOB Plant, USDA	0.74	0.80	0.71	0.72	0.54	0.67	0.72	0.77	0.64	0.74	0.61	0.65	0.62	0.63	0.68
Ham, 23-27# Trmd Selected Ham, FOB Plant, USDA	0.72	0.75	0.67	0.64	0.50	0.67	0.73	0.78	0.65	0.72	0.58	0.62	0.58	0.60	0.66
Ham, 5 Muscle Ham to Blue, FOB Plant, USDA	1.14	1.14	1.14	1.14	1.14	1.14	1.14	1.14	1.66	1.71	1.34	1.40	1.36	1.39	1.50
Belly, Skin-on Belly 14-16#, FOB Plant, USDA	1.27	1.42	1.08	1.39	1.20	1.23	1.24	1.24	1.07	1.05	1.04	1.08	1.12	1.15	1.13
Belly, Derind Belly 9-13#, FOB Plant, USDA	1.52	1.54	1.08	1.15	1.38	1.30	1.21	1.21	1.37	1.35	1.29	1.36	1.41	1.45	1.42
Belly, Derind Belly 13-17#, FOB Plant, USDA	1.50	1.60	1.04	1.15	1.35	1.28	1.21	1.30	1.35	1.33	1.27	1.34	1.39	1.43	1.40
Trim, 42% Trim Combo, FOB Plant, USDA	0.36	0.42	0.49	0.32	0.24	0.23	0.24	0.28	0.26	0.28	0.29	0.31	0.33	0.33	0.38
Trim, 72% Trim Combo, FOB Plant, USDA	0.73	0.80	0.66	0.51	0.42	0.44	0.47	0.52	0.51	0.52	0.53	0.57	0.57	0.58	0.65
<u>HOG CARCASS</u>															
IA/MN, Base Market Hog 185 lb Carcass Basis, Plant Div.	0.80	0.73	0.63	0.55	0.46	0.42	0.45	0.52	0.54	0.54	0.58	0.60	0.61	0.66	0.73
<u>BROILERS</u>															
BROILER, NATIONAL WHOLE BIRD PRICE, USDA	0.97	0.88	0.80	0.77	0.71	0.79	0.84	0.84	0.84	0.83	0.81	0.81	0.80	0.80	0.85
N.E. BROILER BREAST BONELESS-SKINLESS, USDA	1.20	1.29	1.43	1.32	1.15	0.99	0.96	0.98	1.00	1.00	1.02	1.03	1.04	1.12	1.24
N.E. BROILER BREAST LINE RUN, USDA	0.97	0.92	0.89	0.94	0.88	0.87	0.89	0.89	0.89	0.89	0.88	0.88	0.88	0.88	0.94
N.E. BROILER LEG QUARTERS, USDA	0.36	0.35	0.32	0.34	0.32	0.32	0.32	0.31	0.34	0.33	0.34	0.35	0.35	0.36	0.36
N.E. BROILER WINGS, USDA, WT.AVG.	1.54	1.56	1.57	1.79	1.80	1.84	1.83	1.87	1.98	1.92	1.95	1.74	1.63	1.55	1.54
<u>TURKEYS</u>															
UB HEN TURKEYS, EAST, FROZEN 10-12LBS	1.24	1.25	1.26	1.28	1.30	1.28	1.21	1.15	1.10	1.14	1.03	1.04	1.04	1.06	1.07
UB BONELESS-SKINLESS TURKEY BREAST, TOM, FRESH	2.15	2.15	2.15	2.15	2.15	2.01	1.85	1.70	1.71	1.75	1.75	1.75	1.85	1.95	2.15
<u>LIVE STEERS</u>															
FIVE AREA DIRECT AVERAGE LIVE STEER, USDA	1.23	1.18	1.17	1.07	1.00	1.06	1.11	1.12	1.12	1.11	1.11	1.12	1.13	1.14	1.05
<u>BEEF</u>															
CHOICE, 112A, 3 RIBEYE, BONELESS, HEAVY, USDA	8.29	6.86	7.37	6.80	6.68	8.05	8.80	8.84	7.35	8.34	5.90	5.68	6.13	6.36	6.20
CHOICE, 168, 3 TOP INSIDE ROUND, 1/4" MAX, USDA	1.99	2.10	2.17	1.98	1.88	1.85	1.98	1.94	2.06	1.96	2.02	1.93	2.03	1.96	1.80
CHOICE, 170, 1 BOTTOM GOOSENECK ROUND, USDA	1.83	1.85	1.85	1.91	2.00	1.89	1.91	1.89	1.99	1.94	1.94	1.90	1.85	1.74	1.61
CHOICE, 180, 3 STRIP LOIN, BONELESS, 0x1, USDA	8.05	6.51	5.51	4.76	4.42	4.32	4.43	4.71	4.79	4.71	5.15	5.18	5.72	6.19	6.31
CHOICE, 184, 3 TOP BUTT, BONELESS, USDA	3.86	3.68	3.61	3.27	2.70	2.30	2.28	2.17	2.45	2.45	2.99	3.06	3.21	3.30	3.12
CHOICE, 185A, 4 BOTTOM SIRLOIN, FLAP, USDA	5.20	5.05	5.20	4.66	3.72	3.61	3.80	3.96	4.03	3.95	4.00	4.12	4.40	4.79	4.80
COARSE GROUND 73%, USDA	1.48	1.34	1.52	1.27	1.23	1.13	1.06	1.15	1.27	1.20	1.55	1.43	1.43	1.41	1.32
COARSE GROUND 81%, USDA	1.83	1.66	1.74	1.56	1.55	1.54	1.54	1.43	1.61	1.50	1.80	1.67	1.65	1.59	1.53
90% BONELESS BEEF, CENTRAL, FRESH, USDA	2.17	2.17	2.14	2.05	1.93	1.93	1.89	1.91	2.00	1.95	2.02	2.03	2.06	2.05	1.90
50CL BEEF TRIM, FRESH, NATIONAL, USDA	0.85	0.90	0.56	0.38	0.33	0.49	0.47	0.36	0.39	0.39	0.57	0.50	0.65	0.74	0.66



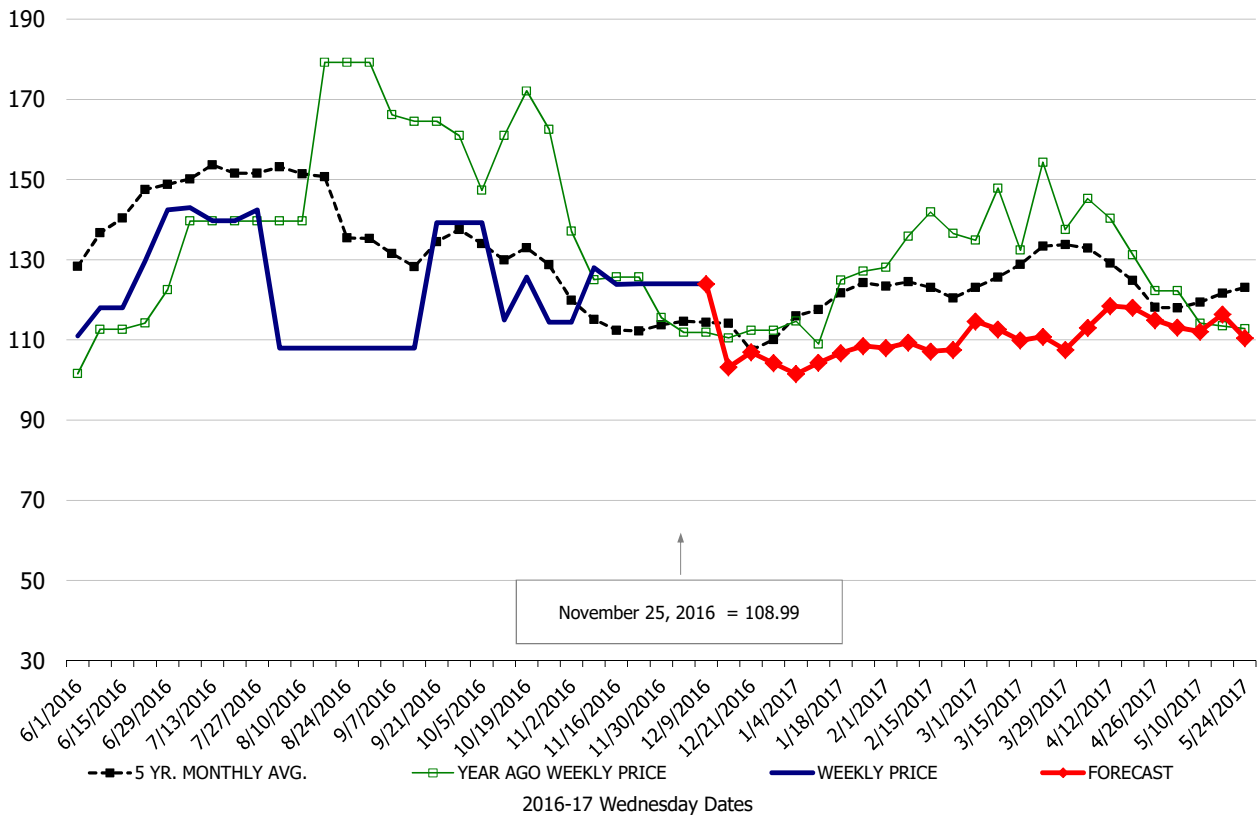
\$/cwt

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



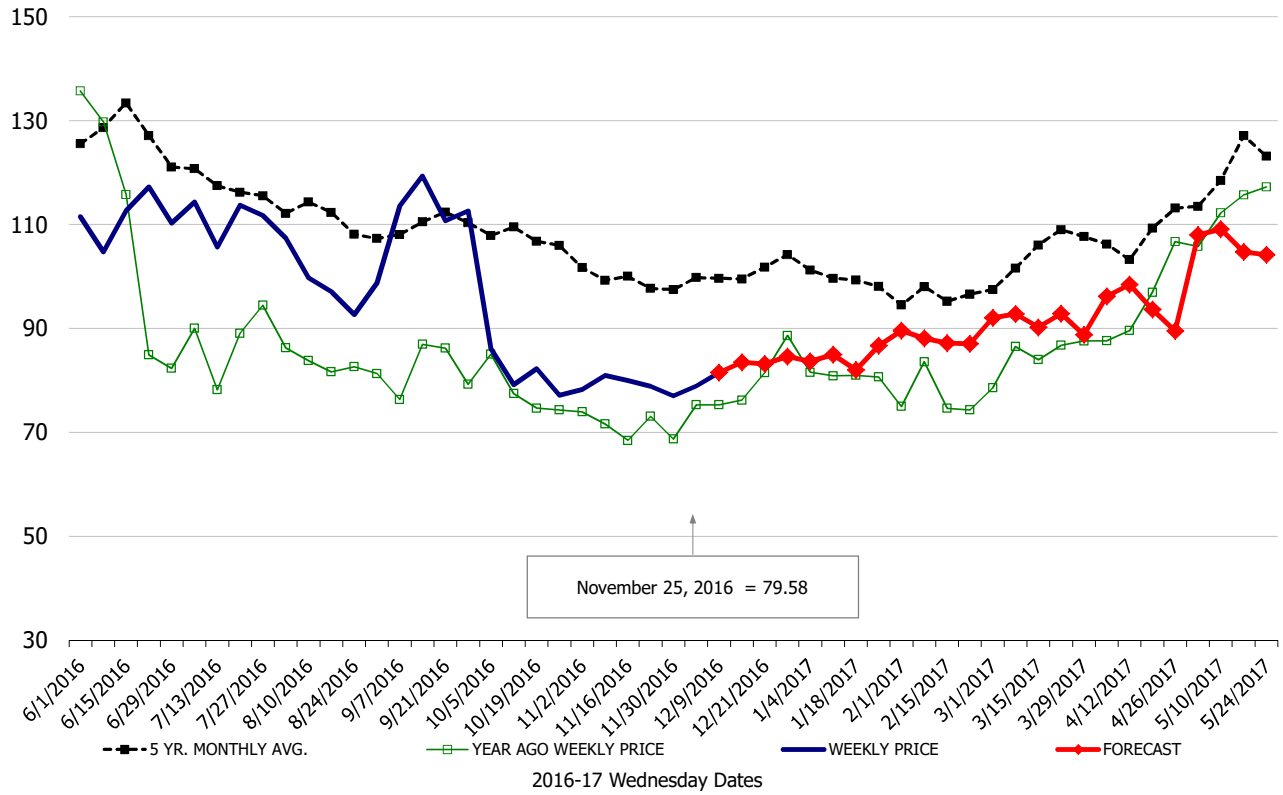
\$/cwt

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



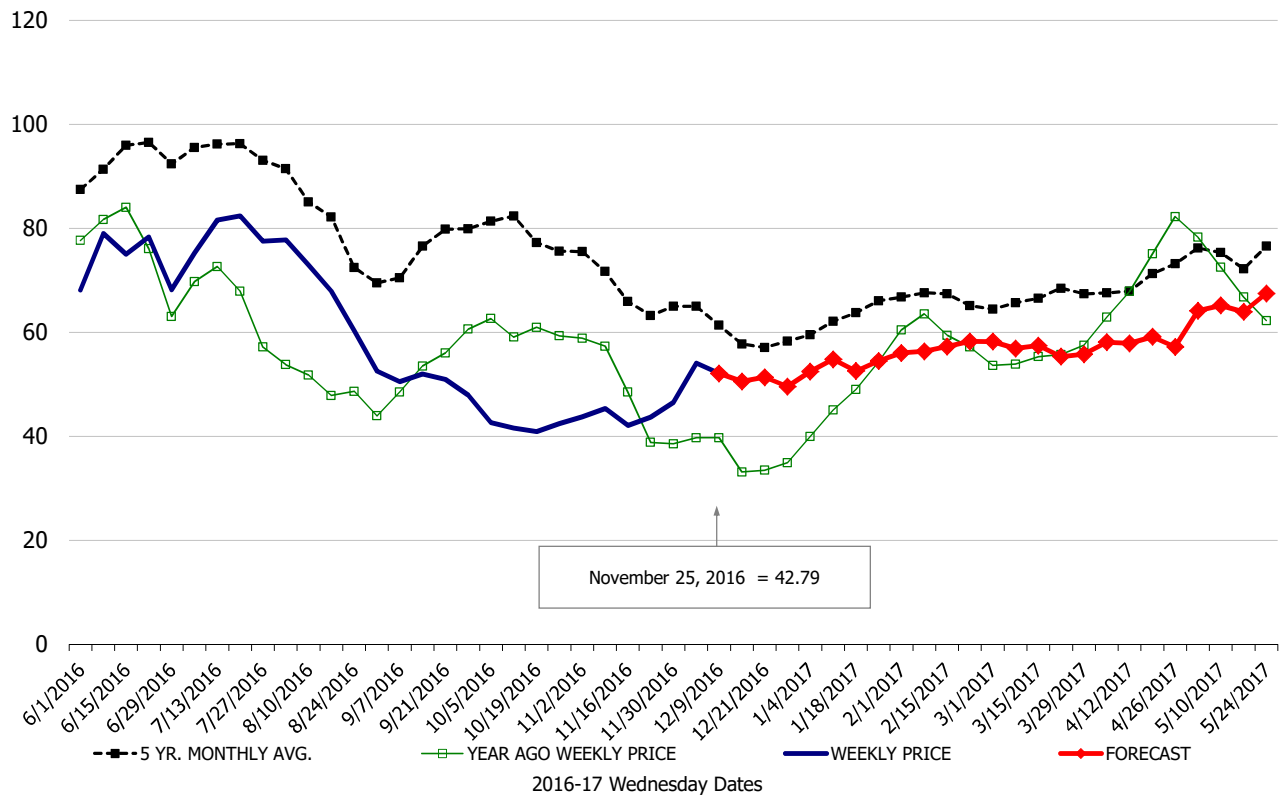
\$/cwt

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

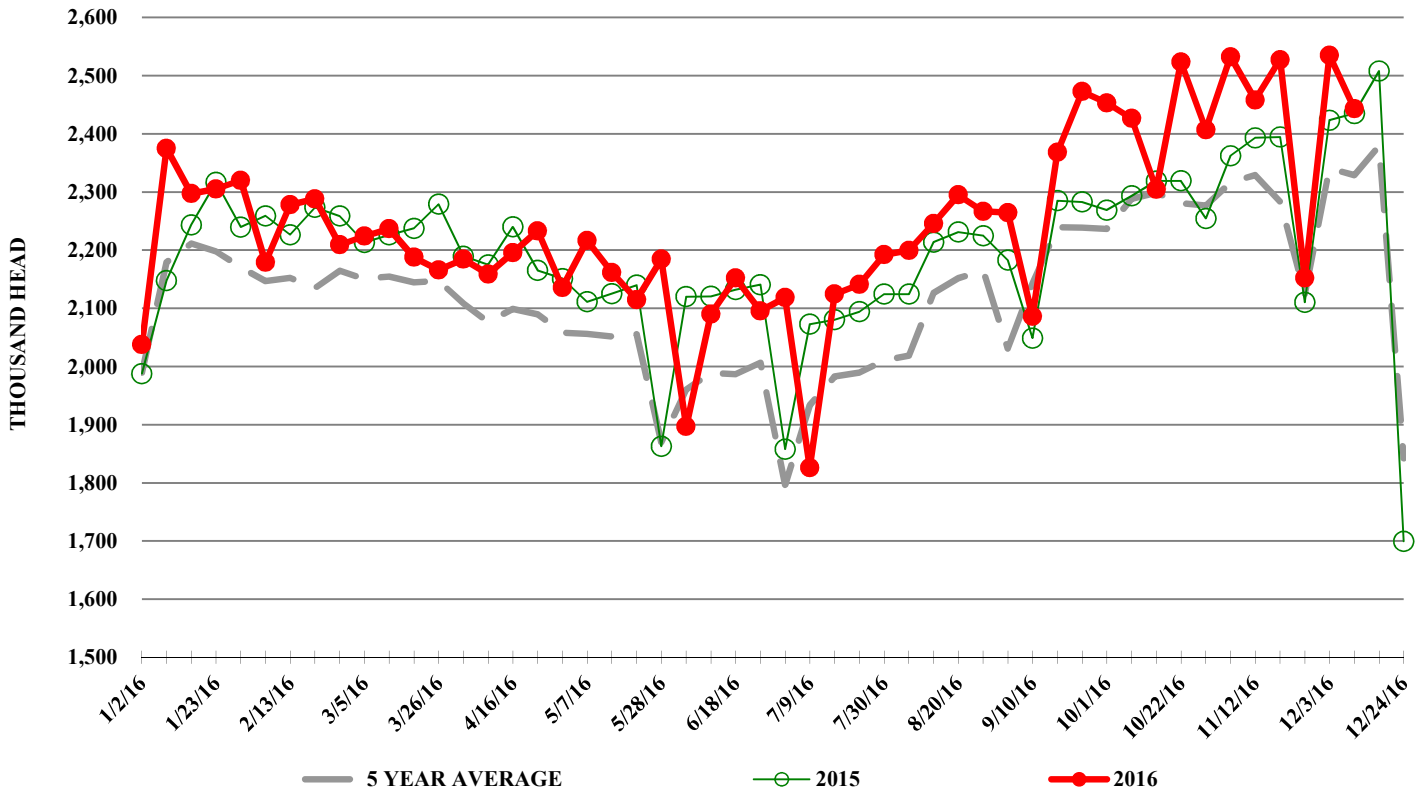


\$/cwt

Trim, 72% Trim Combo, FOB Plant, USDA



ESTIMATED WEEKLY FI HOG SLAUGHTER



ESTIMATED WEEKLY FI PORK PRODUCTION

