



Pork Merchandiser's Profit Maximizer

Be inspiredSM

- Foodservice Edition -

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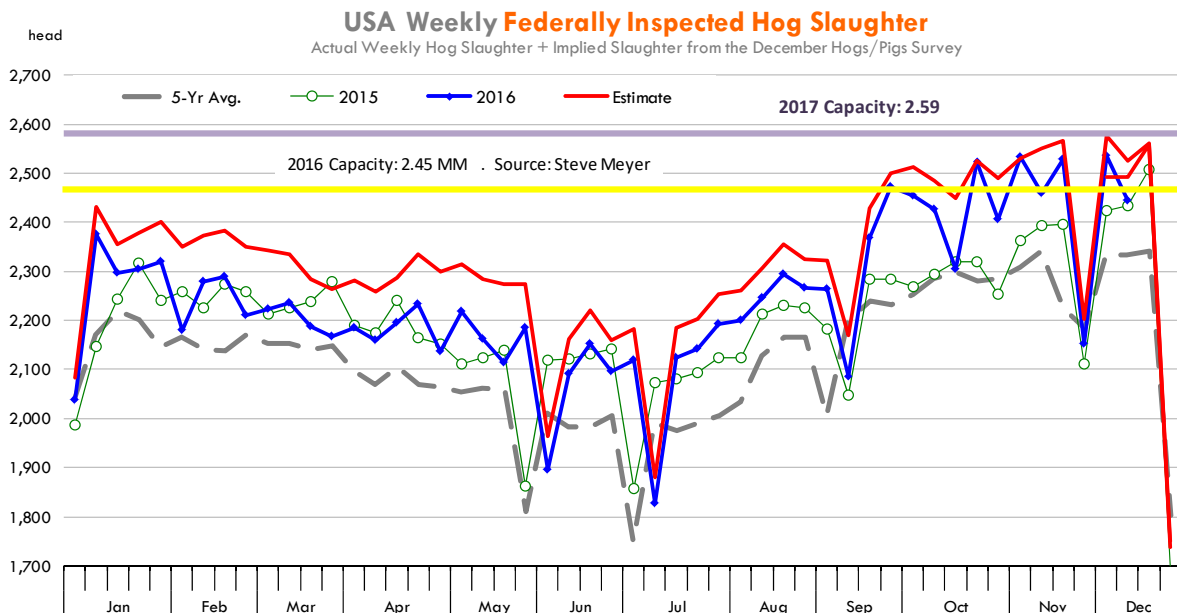
December 26, 2016



The staff of Steiner Consulting Group and National Pork Board wishes you and your family
A Happy, Healthy and Prosperous New Year !

1. USDA Quarterly 'Hogs and Pigs' Report points to continued industry expansion, significantly more hogs in 2017

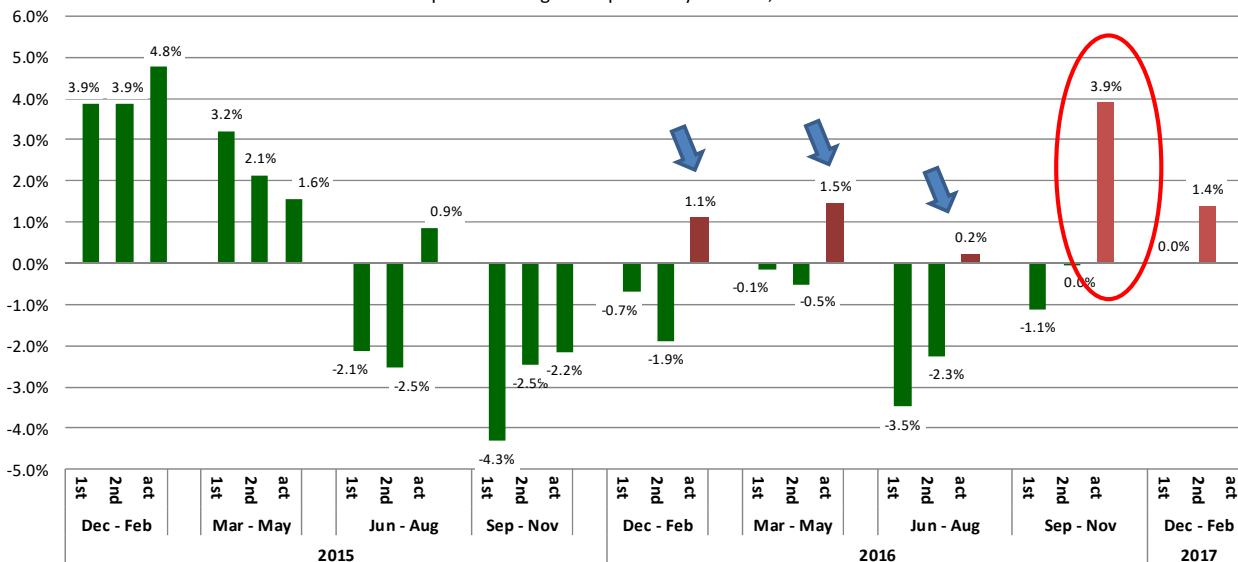
Analysts polled ahead of the quarterly USDA Hogs and Pigs report for the most part expected modest supply expansion in 2017. This was evidenced in their expectation that the breeding herd on December 1 would be just 0.2% from a year ago and only mod-



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USDA Quarterly Survey: Farrowing Estimates

Data Reflects percent change from previous year in 1st, 2nd and final estimate



estly higher from the September levels. It was also reflected in the forecasts for farrowing intentions, which were about flat compared to year ago levels. Analysts were expecting the inventory of market hogs to be up about 1.5-2.8% for the period Jan-May, in line with the projections for modest increases in both farrowings and pigs per litter during the Jun-Aug and Sep-Nov quarters. The report, however, blew way past even the most bearish estimates. If the USDA report is correct, we should see significantly more pork come to market in all of 2017. Pork exports have always been a critical component and this will be especially the case this coming year given prospects for a strong US dollar and the potential for trade disruptions once the new administration is sworn in. There is some speculation that part of the reason for the very robust export sales in Q4 of this year was due to Mexican buyers rushing to place orders ahead of the change in US administration in January. As this report shows, US hog producers can ill afford any disruptions to pork trade. But let's look at the numbers and their implications in more detail.

Arguably one of the biggest surprises in the report was the number of hogs that are expected to come to market between December and May. The inventory of hogs over 180 pounds, which are hogs that should come to market by the third week of January, were 12.580 million head, 2.5% higher than a year ago and in line with pre-report estimates. However, the inventory of hogs between 120-179 pounds was

pegged at +4% above year ago levels. These are hogs that should come to market between late January and late February. Hogs in the 50-119 category, basically late February and mid April timeframe, were also expected to be up 4.5% from last year and feeder pigs under 50 pounds (late April thru May) were up 4.4%. The latest inventory numbers reflect a significant upward revision in the pig crop for the Sep-Nov time period and thus more hogs available for marketing this coming spring. This was the first pig crop estimate from USDA but needless to say it caught the market a bit by surprise. USDA had indicated that the farrowings for Sep-Nov were expected to be unchanged from the previous year. This meant that with pigs per litter increasing by around 1.5% the overall growth in supplies would be a modest sub 2%, a number reflected in the analyst estimates as well. The December survey, however, showed the pig crop for Sep-Nov up 4.8%, the result of a 3.9% jump in farrowings and 0.9% growth in pigs per litter. Why such a dramatic shift in farrowing numbers from earlier intentions? Weather may have played a role, with a mild fall possibly impacting sow performance. But it also should be noted that for several quarters producers have been understating the size of the pig crop, offering very low intention numbers that are then belied by follow up surveys and ultimately the slaughter levels.

Summer and fall supplies also are projected to be up by 2.5-3% compared to last year. Farrowing intentions do not have a good track record (see chart above) but for now those are the only numbers avail-

able to market participants. We will set aside any efforts to handicap the farrowing intention numbers and judge them at face value. Producers expect farrowings during Dec-Feb to be 1.4% higher than a year ago and Mar-May farrowings are forecast to be up 1%. At minimum this implies a 2.4% increase in supplies for the summer and 2% increase in supplies for the fall. However, we think the pigs per litter number should increase by more than 1.4% in these two quarters, setting the stage for +3% supply growth through next fall. Keep in mind that this is on top of the all time record high levels we saw in the fall of 2016.

The size of the breeding herd is critical in setting the stage for both short term and medium term supply growth. The hog breeding herd as of December 1 was 6.090 million head, 1.5% higher than a year ago. The increase in the breeding herd indicates that the farrowing numbers presented for Dec-Feb and Mar-May are more realistic than those in previous report. There has been plenty of speculation that sharp losses this fall may have induced producers to hold the

breeding herd in check. Indeed, one of the analysts polled ahead of the report indicated he expected the breeding herd to actually decline. However, it appears that market participants and analysts continue to underestimate the strong incentives for continuing to expand pork production. Feed supplies are plentiful and so far hog futures have offered producers plenty of opportunities to lock in a margin. While futures were sharply lower following the report, for much of the past week hog futures were trading at levels that offered a profit for producers during most of 2017.

Bottom line: Based on this report we have bumped up our pork production estimates for 2017. We now expect overall pork production next year to be 25.757 billion pounds, 3.4% higher than a year ago. This pork supply represents an almost 850 million pound increase from the record levels in 2016 and an almost 3 billion pound increase from just three years ago. It is imperative that export trade continue unimpeded in order to help absorb some of this increase in supply. We have been quite aggressive in our pork export forecasts for 2017 but at this point even those projections appear inadequate. Any disruption to pork exports in 2017 could be disastrous for pork producers and lead to significant value erosion.

Upcoming holidays:

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 24 slaughter was 2.154 million head, up 26.8% from a year ago. In the last two weeks hog slaughter is up 10.7% vs. year ago levels.

Iowa/Minnesota, Base Lean Market Hog 185 lbs. Carcass Values. Lean hog carcass values at about 52.87 /cwt. on Friday were down \$0.8/cwt since Wed. December 14. Prices are up 3.7 dollars compared to year ago values.

Loin, 1/4 Trimmed Loin VAC, FOB Plant, USDA (page 8). Prices finished last week at \$0.9293, up about 6.6 cents since the Wed. December 14 quote and up about 10 cents from year ago levels.

Bnls. Strap on Pork Loins. Prices finished the week at \$1.3409 for the strap on loins, up 11.2 cent since Wed. December 14 and up about 2 cent from the year ago levels. Strap off loins at \$1.4622 are up about 16.1 cent since Wed. December 14 but down about one cent compared to the year ago quote.

Boneless sirloins at \$1.0790 are down 4 cents from the Wed. December 14 quote but up about 14.6 cents from the year ago price.

Pork tenderloin finished last week at \$2.0660, up 10.5 cent from the Wed. December 14 quote and up about 17.0 cents from the year ago price.

1/4 Trim Pork Butts (page 10), prices finished the week at \$1.0178, up 8.3 cents since Wed. December 14. Prices are up 9 cents from a year ago.

Spare Ribs, Trimmed - LGT, Vac (page 8). Prices finished the week at \$1.2241, up about 3 cent since Wed. December 14 but down about 25 cents from year ago levels.

Rib inventories on November 30 were 109.3 million pounds, down 6.7% percent from a year ago.

Bone-in Hams.

17/20 hams (page 9) price was \$0.6906/lb., unchanged since Wed. December 14 but up about 9 cents from a year ago.

20/23 hams finished the week at 71.93 cents, down about 4.8 cents since Wed. December 14 but up about 12 cents from the year ago level.

23/27 hams finished the week at 69.05 , down about 8 cents from the Wed. December 14 quote but up about 19.6 cents from the year ago level.

Total ham cold storage stocks on November 30 at 105.6 million pounds were down 3.1% from year ago levels.

42 CL Pork Trim “FOB Basis”. Prices finished the week at 22.40 cent, down about 3.8 cent since Wed. December 14 but up about 8 cents from the year ago price.

72 CL Pork Trim “FOB Basis”. Prices finished the week at 60.72 cents, up about 7.4 cents since the Wed. December 14 quote and up about 27 cents from the year ago level.

Freezer stocks of all trimmings on November 30 were 35.1 million pounds, down 4.9% 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 82.65 on Friday, December 24, up about 0.2 cents from a year ago.

Broiler slaughter for the week ending December 24 was 153.28 million head, up 32.74% from a year ago. For the last two weeks slaughter was up 13.9% vs. a year ago.

Breasts. Prices on boneless skinless breasts finished the week at \$0.9961, up 2 cents since Wed. December 14 but still down about 3 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

30.86 cents per pound prices were up 7 cents from a year ago.

Wings. Prices at \$1.9150 are up about 25 cents from year ago levels.

Turkeys

Hens finished last week at \$1.1400, down since Wed. December 14 and down about 10 cents from the year ago price.

Toms finished last week at \$1.1400, down since Wed. December 14 and down about 10 cent from the year ago price.

Total turkey supplies in the freezer on November 30 were up 25.4% from a year ago at 238.7 million pounds. Whole birds were up 19.9% from a year ago with an inventory of 70.4 million pounds.

Turkey slaughter was 4.1870 million head for the week ending December 17, down -0.31% from a year ago. For the last two weeks slaughter has been up 4.9%.

Boneless Turkey Breast Meat. Boneless skinless turkey breast meat prices finished last week at \$1.6500, down since Wed. December 14. Prices are down about 400 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 \$7.7803 (weighted average quote) finished last week down about 123 cents since the Wed. December 14 quote and down about 3 cents vs. the year ago price.

Select 112A Heavy Lip On Rib Eyes at \$6.2524 (weighted average quote) finished last week down about 17 cents since the Wed.

December 14 quote but down about 68 cents vs. the year ago price.

Currently Choice 112A Rib Eyes are \$1.5279 /lb. over Select. The 2015 annual average spread (wt. average price) had the Choice at a premium to the Select by \$0.1057 per pound and the previous five years (2010 thru 2014) average spread was Choice at a premium to the Select by \$0.0934 per pound.

Choice regular #168 insides finished last week quoted at \$2.1513 up about 25 cents since Wed. December 14 and up about 27 cents from the year ago price.

Choice ¼ inch trimmed #168 insides finished last week quoted at \$2.2419 up about 25 cents since Wed. December 14 and up about 25 cents from year ago levels.

Choice #170 Gooseneck Rounds finished last week at \$2.0507 up about 27 cents since Wed. December 14 but down about 2 cents from the year ago levels.

Choice #180 (0x1) Bnls. Strip Loins finished last week quoted at \$5.3303 (wt. avg.) up about 36 cents from the Wed. December 14 quote. Prices are about 6 cents over year ago levels.

Choice #184 Regular Heavy top butts finished at \$2.1713 (wt. avg.) up about 9 cents since Wed. December 14 but down about 73 cents from year ago levels.

Choice #184 ¼ inch trimmed Top Butts finished at \$2.4324 (wt. avg.) up about 14 cents since Wed. December 14 but down about 75 cents from the year ago levels.

Choice #185A Flap Meat prices finished Friday at \$4.1319 (wt. avg.) up about 5 cents since Wed. December 14 and up about 12 cents from year ago values.

COARSE GROUND BEEF –

73CL Coarse Ground product finished last week at \$1.7188 up about 39 cents since Wed. December 14 and up about 35 cents from year ago levels.

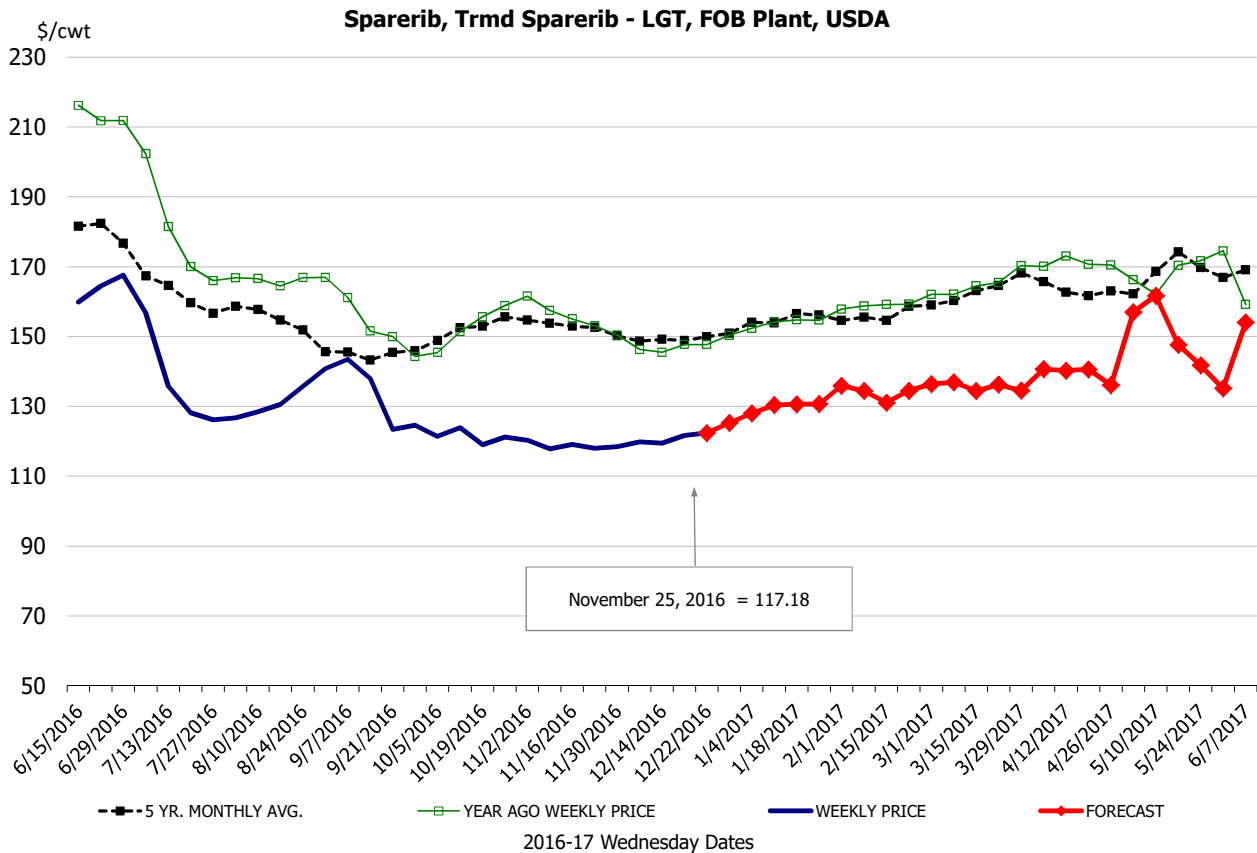
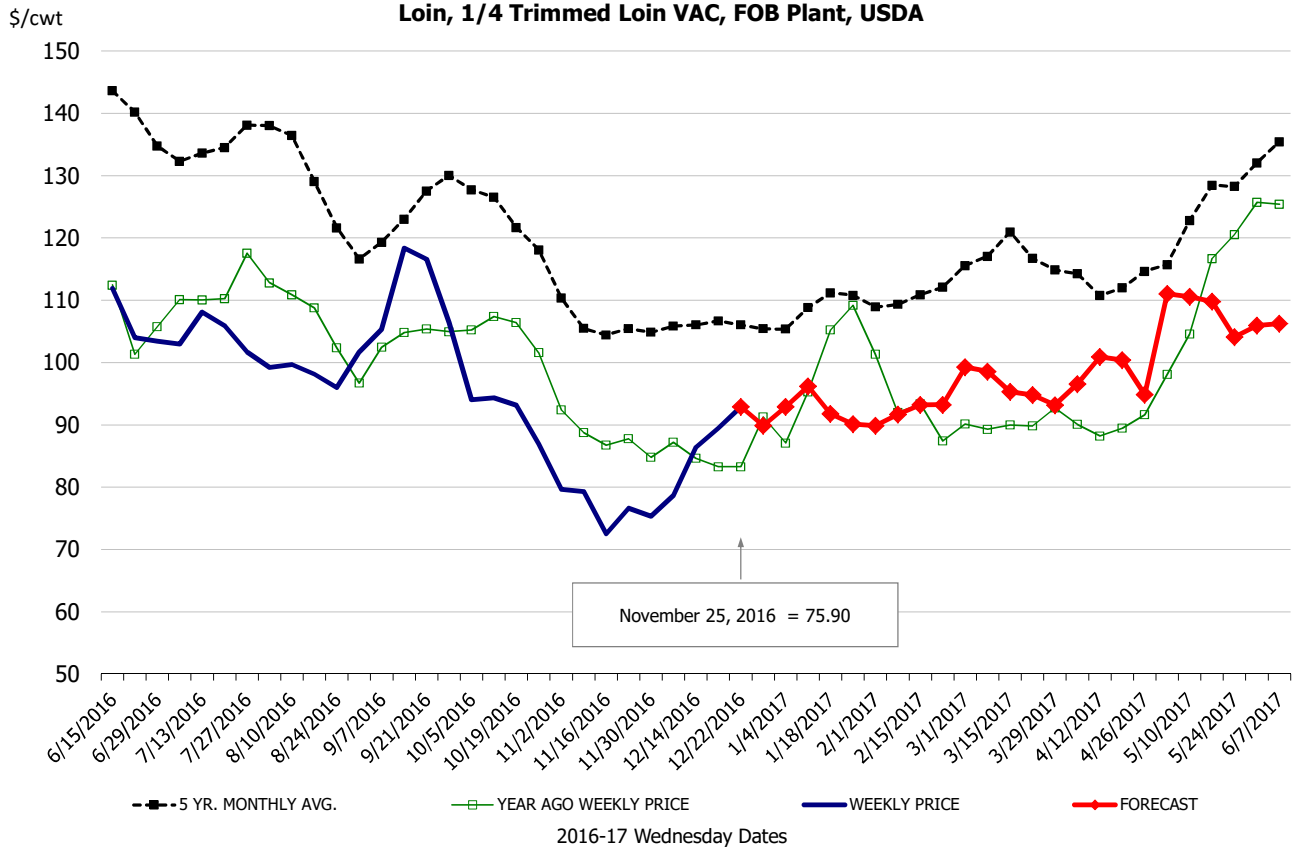
81CL Coarse Ground product finished last week at \$1.9361 up about 31 cent since Wed. December 14 and up about 34 cents from the year ago quote.

90CL Bnls. Beef prices finished the week at \$1.9598 (wt. avg.) up about 5.93 cent since Wed. December 14 and up one compared to the year ago price quote.

50 CL Beef Trim prices finished last week at \$0.3562, up about 2 cent since Wed. December 14 and up one cent compared to the year ago level.

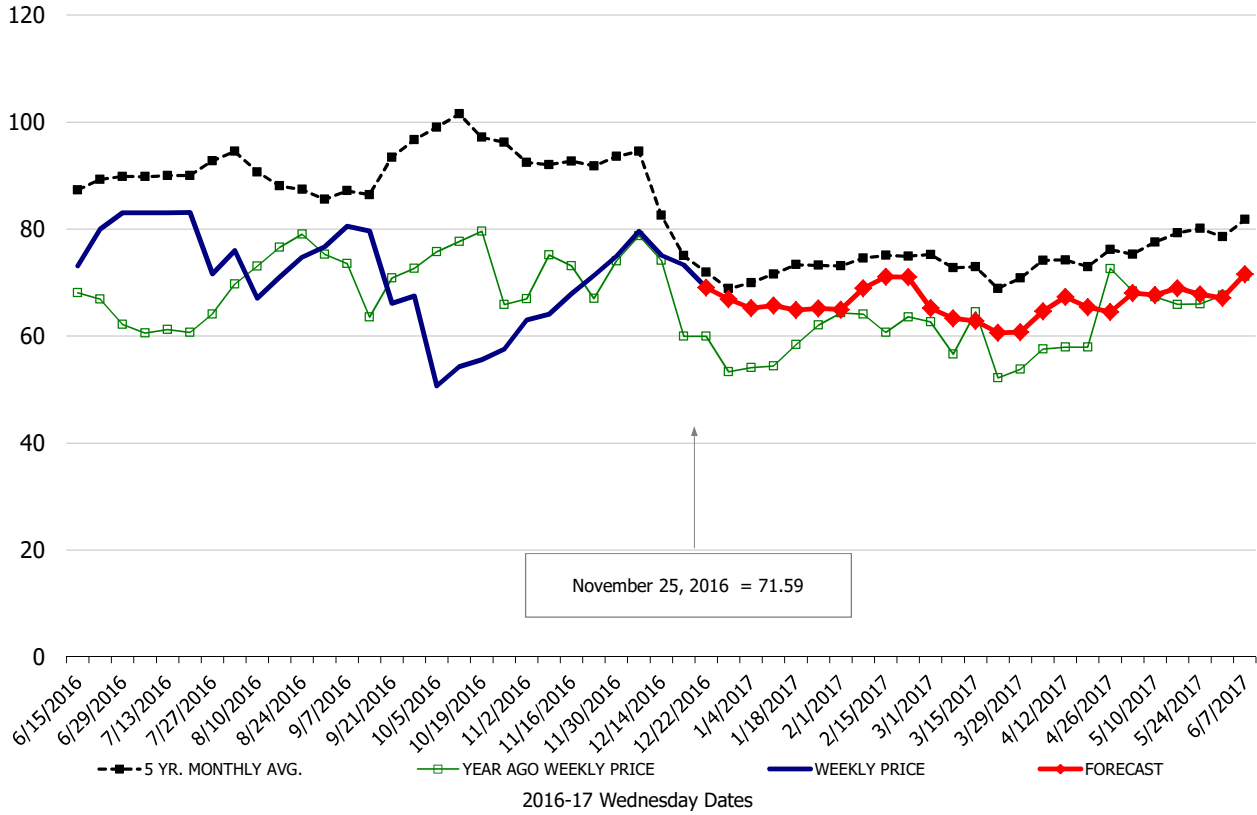
Food Service Summary Table - WT. AVE

	HISTORY								FORECAST						
	Jun	Jul	Aug	Sep	Oct	Nov	12/14/2016	12/23/2016	1/4/2017	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	0.86	0.93	0.93	0.87	0.92	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	0.91	1.01	1.01	0.95	1.01	1.01	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	1.30	1.46	1.46	1.40	1.46	1.48	1.45	1.45	1.53
Loin, Tenderloin, FOB Plant, USDA	2.91	2.66	2.22	2.16	2.10	2.00	1.97	2.07	2.23	2.05	2.15	2.20	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	0.76	0.90	0.88	0.87	0.88	0.90	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	1.20	1.22	1.28	1.20	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	2.29	2.43	2.33	2.40	2.35	2.35	2.45	2.45	2.40
Sparerib, Trmd Sparerib - MED, FOB Plant, USDA	1.60	1.31	1.31	1.29	1.21	1.15	1.22	1.20	1.24	1.18	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	2.11	2.16	2.20	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	0.69	0.65	0.77	0.65	0.69	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	0.77	0.72	0.63	0.75	0.64	0.67	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	0.77	0.69	0.61	0.73	0.61	0.64	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	1.42	1.42	1.44	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	1.08	1.08	1.07	1.10	1.10	1.12	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	1.23	1.34	1.34	1.35	1.35	1.40	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	1.27	1.37	1.32	1.37	1.33	1.38	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	0.26	0.22	0.29	0.24	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	0.53	0.61	0.58	0.60	0.59	0.61	0.61	0.62	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	0.54	0.53	0.58	0.54	0.59	0.61	0.62	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	0.83	0.83	0.83	0.83	0.82	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	0.97	1.00	1.01	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	0.90	0.87	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	0.31	0.31	0.32	0.31	0.32	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	1.82	1.92	1.96	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	1.15	1.14	1.03	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	1.70	1.65	1.78	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	1.09	1.11	1.14	1.11	1.14	1.15	1.15	1.15	1.06
<u>BEEF</u>															
CHOICE, 112A, 3 RIBEYE, BONELESS, HEAVY, USDA	8.29	6.86	7.37	6.80	6.68	8.05	9.01	7.78	6.12	8.34	6.06	5.83	6.24	6.42	6.26
CHOICE, 168, 3 TOP INSIDE ROUND, 1/4" MAX, USDA	1.99	2.10	2.17	1.98	1.88	1.85	1.99	2.24	2.20	2.24	2.17	2.08	2.17	1.98	1.82
CHOICE, 170, 1 BOTTOM GOOSENECK ROUND, USDA	1.83	1.85	1.85	1.91	2.00	1.89	1.78	2.05	2.04	2.05	2.04	2.00	1.93	1.76	1.63
CHOICE, 180, 3 STRIP LOIN, BONELESS, 0x1, USDA	8.05	6.51	5.51	4.76	4.42	4.32	4.97	5.33	5.61	5.33	5.59	5.62	6.12	6.24	6.37
CHOICE, 184, 3 TOP BUTT, BONELESS, USDA	3.86	3.68	3.61	3.27	2.70	2.30	2.29	2.43	2.85	2.40	2.85	3.14	3.27	3.65	3.35
CHOICE, 185A, 4 BOTTOM SIRLOIN, FLAP, USDA	5.20	5.05	5.20	4.66	3.72	3.61	4.08	4.13	4.33	4.13	4.31	4.43	4.68	4.83	4.85
COARSE GROUND 73%, USDA	1.48	1.34	1.52	1.27	1.23	1.13	1.33	1.72	1.79	1.52	1.75	1.50	1.46	1.42	1.33
COARSE GROUND 81%, USDA	1.83	1.66	1.74	1.56	1.55	1.54	1.63	1.94	1.97	1.80	1.95	1.71	1.68	1.60	1.54
90% BONELESS BEEF, CENTRAL, FRESH, USDA	2.17	2.17	2.14	2.05	1.93	1.93	1.90	1.96	2.06	1.95	2.07	2.08	2.10	2.07	1.92
50CL BEEF TRIM, FRESH, NATIONAL, USDA	0.85	0.90	0.56	0.38	0.33	0.49	0.34	0.36	0.59	0.37	0.57	0.50	0.66	0.75	0.67



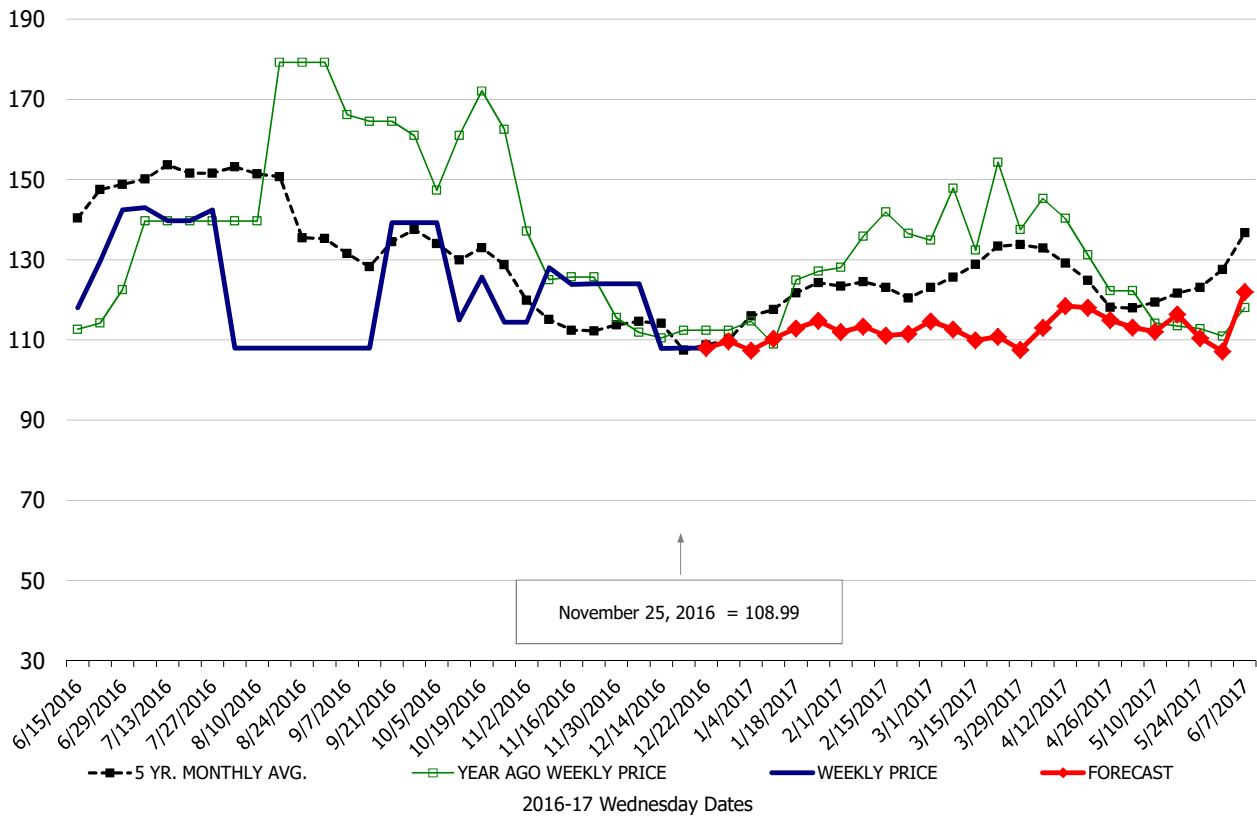
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Ham, 17-20# Trm'd Selected Ham, FOB Plant, USDA



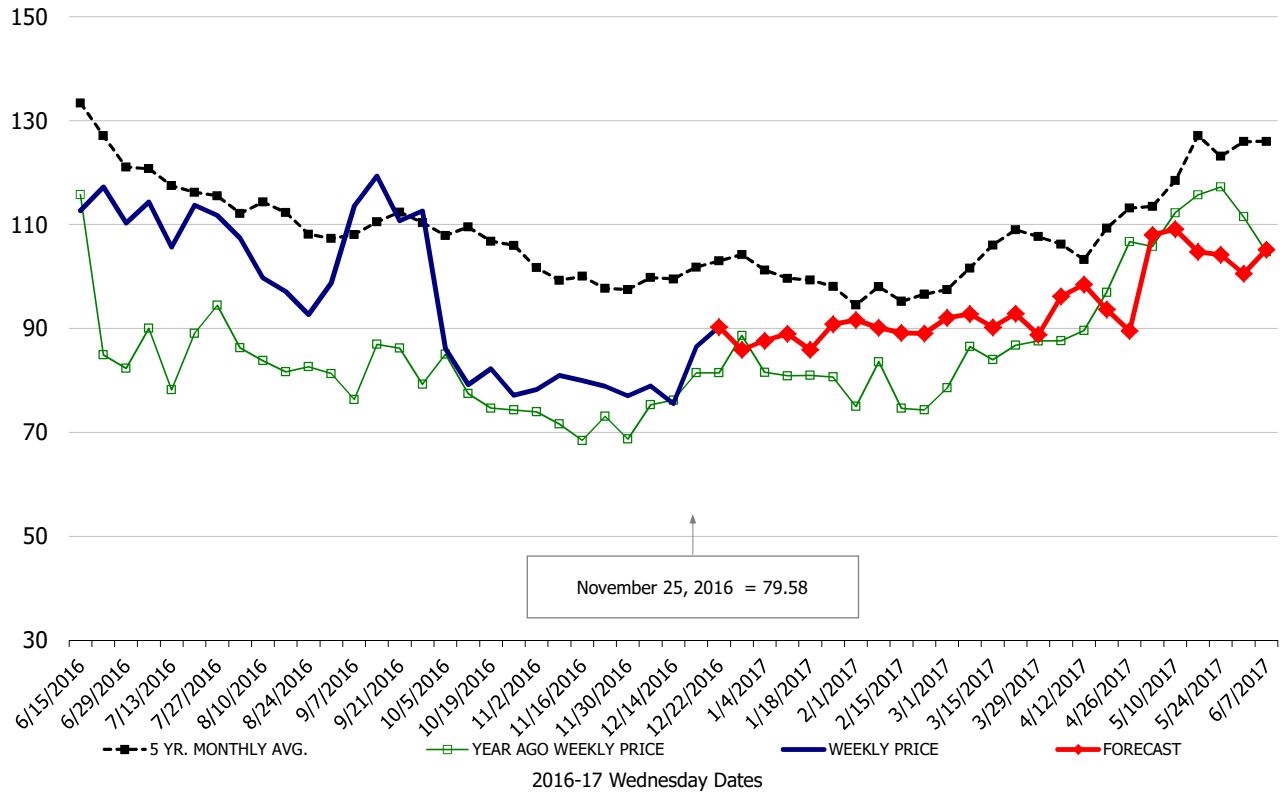
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Belly, Skin-On Belly 14-16#, FOB Plant, USDA



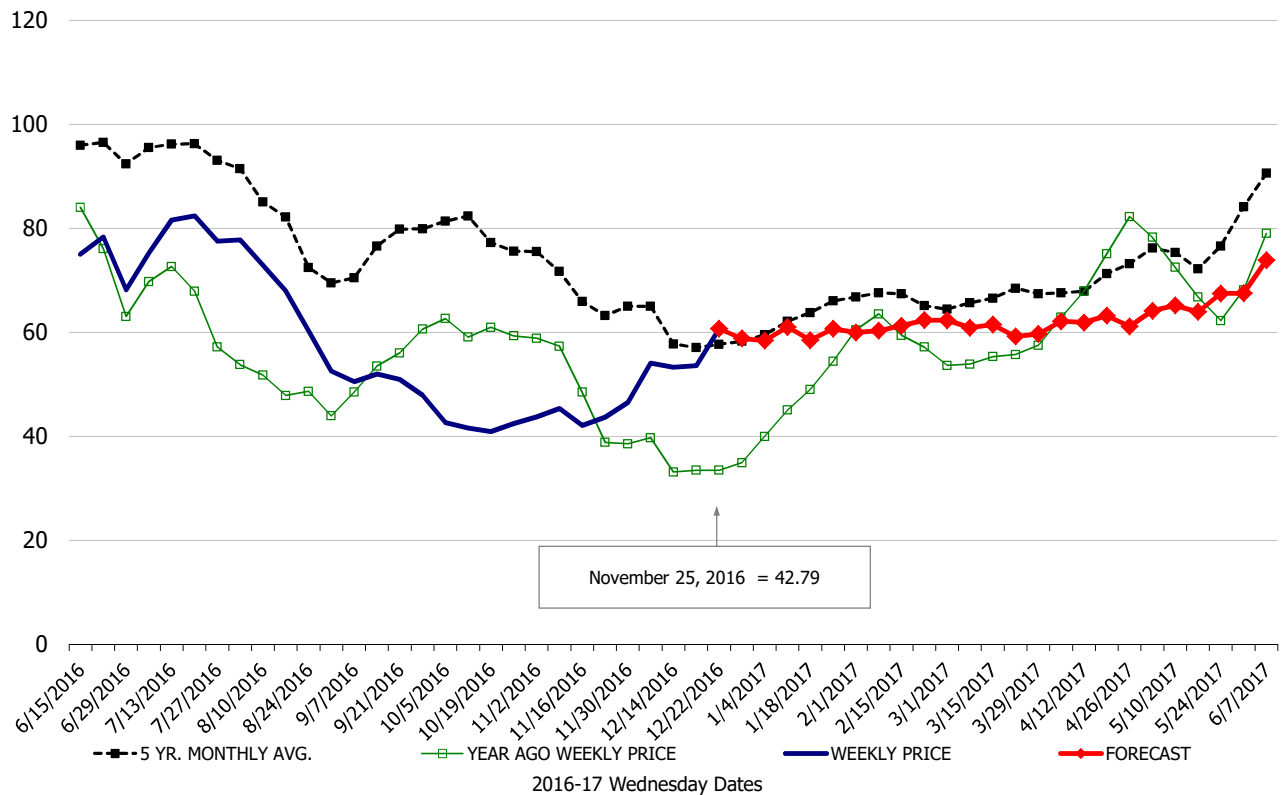
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Butt, 1/4 Trim Butt Combo, FOB Plant, USDA

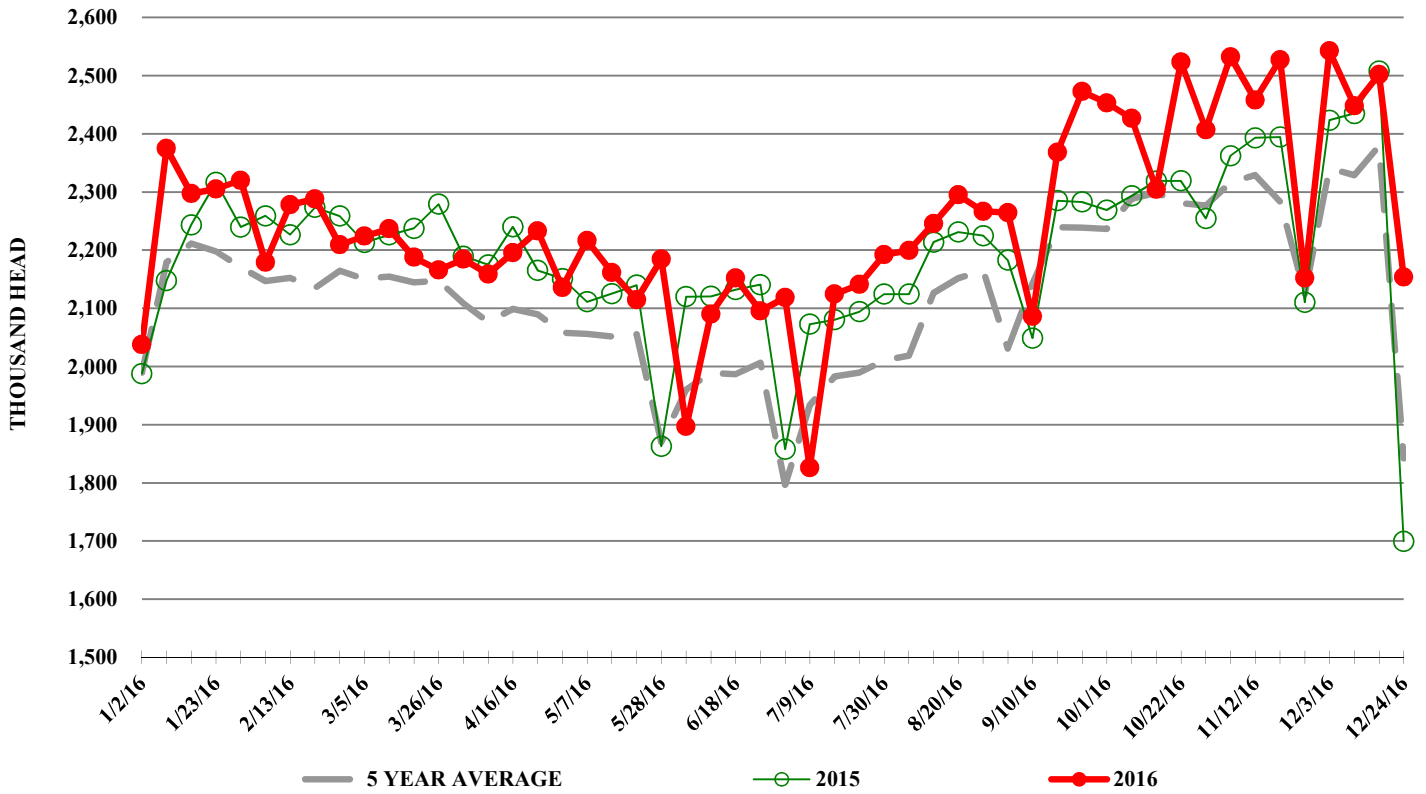


\$/cwt

Trim, 72% Trim Combo, FOB Plant, USDA



ESTIMATED WEEKLY FI HOG SLAUGHTER



ESTIMATED WEEKLY FI PORK PRODUCTION

