



Be inspiredSM

Pork Merchandiser's Profit Maximizer

- Foodservice Edition -

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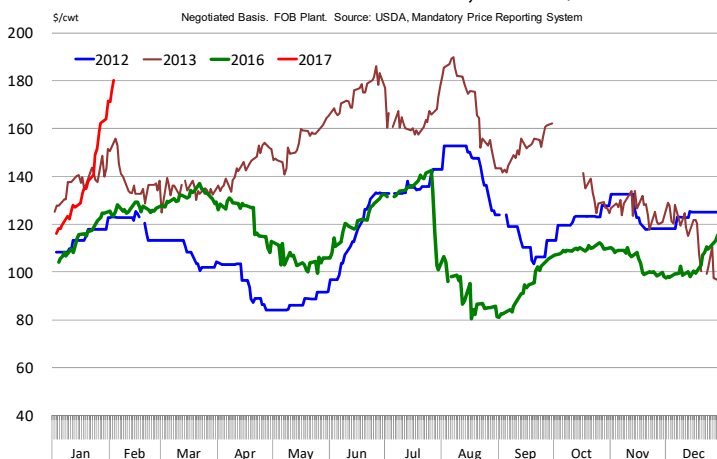
February 6, 2017

Pork belly prices spike on tight short term spot supplies, short covering and panic buying but longer term demand is far from certain

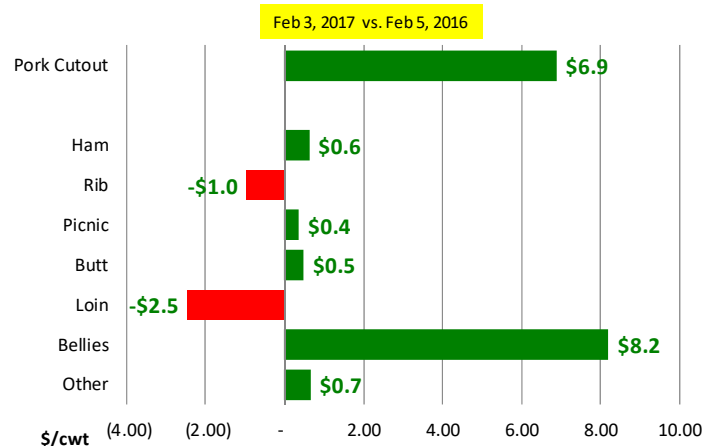
While the talk of a bacon shortage is a big silly given expectations of all time record hog slaughter (see next page), what's not in dispute is that we have never had such high pork belly prices this early in the year. Short covering and panic buying appear two key factors driving prices in our view. USDA quoted the value of the pork belly primal on Friday at a little over \$180/cwt, 40% higher than a year ago and almost double what it

was in 2015. The increase in belly prices has come even as pork production is running about 1.3% higher than it was a year ago and 11% higher than in 2013. The improvement in the value of pork bellies has helped bolster the overall pork cutout and has significantly improved producer returns. Futures were pricing February hogs at around \$54/cwt in early December but today the cash index is closing in on \$70/cwt, turning what looked to be a red Q1 into a profitable one. The hog carcass value on Friday night was quoted at \$84.46, \$6.9/cwt higher than a year ago. All this increase is due to the gains in the value of the pork belly (see chart). Indeed, the strong belly prices

PORK BELLY PRIMAL VALUE, DAILY QUOTE



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



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have been enough to even offset the losses currently experienced in the value of the loin and rib primals (those account for 30% of the carcass).

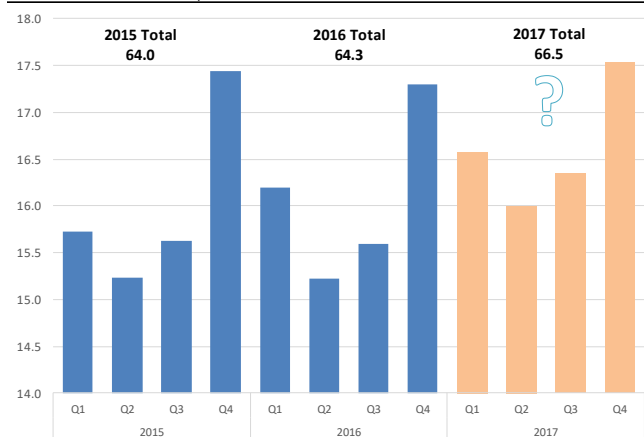
Higher cash hog and pork prices have caused futures markets to raise price expectations for the spring and summer months. But we also think market participants realize the inherent risks in a market where one item is carrying so much of the value improvement, evidenced in the negative spread between Feb and Apr contracts. But can this excellent pork belly demand be sustained into the spring? One of the risks that the industry runs at this time is that very high prices could induce end users, be this retailers or foodservice operators, to change their bacon marketing for the rest of the year. High prices in early 2013 did little to dampen demand that year and prices hit all time record highs that summer so that provides some hope that high prices do not always lead to a collapse in future months. And for now belly prices appear to be supported by robust retail and foodservice promotions that were likely booked during Q4 when pork/belly supplies were quite ample. Pork belly prices were as low as \$80 last August (see chart) and in the \$100 area all the way through November. We are a long way from Kansas at this point and the market runs the risk of rationing out demand at a time when pork supplies are expected to be +3.5 to +4.0% higher than last year through the spring. What the last few months have shown is that US consumers will eat a lot of bacon if you offer it to them at a reasonable price. The preference is there and the stigma surrounding fat consumption has faded together with the bad science that accompanied it. However, consumers do respond to price signals and the bacon package that looked such a deal at \$3.99 may not hold the same allure at \$7.99. Panic buying has helped propel prices to record levels (for this time of year) but a more stable market and somewhat lower prices may be desirable to keep this train from getting off the tracks.

2. While strong belly demand has been a very bright spot for the pork market, robust demand is key given expectations of record pork supplies in 2017.

In the last WASDE report, USDA raised its 2017 pork production estimate by 400 million pounds (+1.5%)

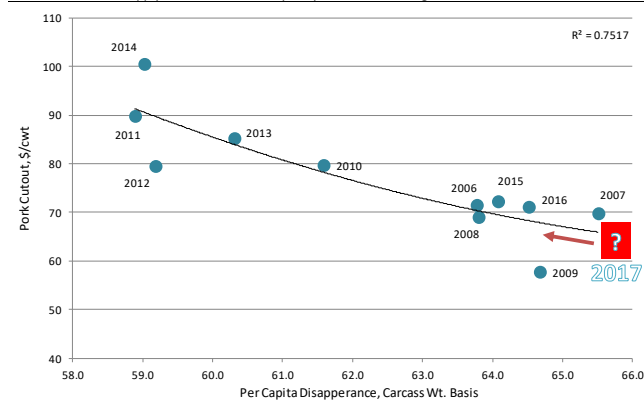
Quarterly Supply of Pork Available/Consumed in the Domestic Market

Data from USDA Actual and Expectations from WASDE.



RELATIONSHIP OF THE PORK SUPPLY CONSUMED DOMESTICALLY (PER CAPITA) VS. PORK CUTOFF (PCE deflated)

Data Source: USDA Supply and Price Data. Analysis by Steiner Consulting



from the December estimate. This followed a ‘Hogs and Pigs’ survey showing quite a bit more hogs were in the pipeline than previously thought. On a quarterly basis, USDA pegged Q1 pork production up 3.6%, Q2 at +6.8% and Q3 at +5.2% and Q4 at +4.9%. At this point USDA analysts think that total production in 2017 will exceed last year’s all time record by another 1.27 billion pounds (cwe). It would seem to us that USDA is counting on a trend increase in hog weights, probably to the tune of +1% compared to a year ago. A couple of things may work against it this year. As producers work through a significantly larger supply of hogs, the tendency will be to push them through the door as soon as possible and, in the past, that has tended to keep weights below trend. In the first few weeks of this year weights are down about 1 pound or so from a year ago. Also new feeding rules may also impact productivity in the short term. But even with an adjustment on weights, the overall pork supply should easily exceed last year’s levels. As mentioned earlier, what matters for prices is how much you are asking the domestic consumer to buy.

You can sell everything at the right price but with larger supplies lower prices are required to make that product disappear. Will we ask the domestic consumer to eat 5% more pork than a year ago? Not really since we are counting on export markets to take some of that pork. Again going back to the USDA WASDE report, their analysts expect pork exports in 2017 to be around 231 million pounds (+4.4%) higher than in 2016. Is USDA being too conservative in this estimate? Maybe although there are some very significant risks for those that hold a more bullish view. Exports have started the year on a very strong pace, we think January shipments are up around 15% from last year. China demand is showing some signs of improvement but remains to be seen if they will be as active in the spring as they were a year ago. Then there is all the uncertainty surrounding our trade with Mexico, which last year bought almost a third of all our pork.

The second chart on page 2 shows the relationship of per capita domestic supply use

(disappearance) relative to pork prices as represented by the cutout. Keep in mind we have deflated pork prices to remove price inflation effects. If USDA is correct in their assessment and per capita supply use will exceed 66 pounds, then this would imply pork cutout prices under \$70/cwt for the year in 2017. Hence the reluctance of hog futures to put more of a premium on spring as summer prices, despite very robust spot prices for both pork and hogs.

Upcoming holidays:

2017 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 February 4 slaughter was 2.327 million head, up 6.8% from a year ago. In the last two weeks hog slaughter is up 4.3% vs. year ago levels.

Iowa/Minnesota, Base Lean Market Hog 185 lbs. Carcass Values. Lean hog carcass values at about 67.87 /cwt. on Friday were up \$4.0/cwt since Wed. January 25. Prices are up 6.4 dollars compared to year ago values.

Loin, 1/4 Trimmed Loin VAC, FOB Plant, USDA (page 8). Prices finished last week at \$0.8818, down about 6.3 cents since the Wed. January 25 quote and down about 13 cents from year ago levels.

Bnls. Strap on Pork Loins. Prices finished the week at \$1.1139 for the strap on loins, down 11.7 cent since Wed. January 25 and down about 23 cent from the year ago levels. Strap off loins at \$1.3528 are down about 2.5 cent since Wed. January 25 and down about 17 cent compared to the year ago quote.

Boneless sirloins at \$1.0581 are down 10 cents from the Wed. January 25 quote and down about 9.6 cents from the year ago price.

Pork tenderloin finished last week at \$2.1687, down 9.5 cent from the Wed. January 25 quote and down about 18.5 cents from the year ago price.

1/4 Trim Pork Butts (page 10), prices finished the week at \$0.8664, up one cent since Wed. January 25. Prices are up 5 cents from a year ago.

Spare Ribs, Trimmed - LGT, Vac (page 8). Prices finished the week at \$1.3396, up about 4 cent since Wed. January 25 but down about 24 cents from year ago levels.

Rib inventories on December 31 were 115.9 million pounds, down 14.0% percent from a year ago.

Bone-in Hams.

17/20 hams (page 9) price was \$0.6211/lb., unchanged since Wed. January 25 and down about 2 cents from a year ago.

20/23 hams finished the week at 60.93 cents, down about 3.3 cents since Wed. January 25 and down about 3.5 cents from the year ago level.

23/27 hams finished the week at 59.32 , down about 3 cents from the Wed. January 25 quote and down about 0.5 cents from the year ago level.

Total ham cold storage stocks on December 31 at 69.7 million pounds were up 2.8% from year ago levels.

42 CL Pork Trim “FOB Basis”. Prices finished the week at 33.58 cent, up about 9.5 cent since Wed. January 25 and up about 13 cents from the year ago price.

72 CL Pork Trim “FOB Basis”. Prices finished the week at 60.26 cents, down about 9.3 cents since the Wed. January 25 quote and down about 0 cents from the year ago level.

Freezer stocks of all trimmings on December 31 were 34.0 million pounds, down 20.3% 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 83.36 on Friday, February 4, up about 3 cents from a year ago.

Broiler slaughter for the week ending February 4 was 164.76 million head, up 4.00% from a year ago. For the last two weeks slaughter was up 1.7% vs. a year ago.

Breasts. Prices on boneless skinless breasts finished the week at \$1.0447, up 0 cents since Wed. January 25 but still down about 6 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 0.4 cents vs. two weeks ago but at 32.52 cents per pound prices were up 6 cents from a year ago.

Wings. Prices at \$1.9647 are down about 1 cents from year ago levels.

Turkeys

Hens finished last week at \$1.0600, unchanged since Wed. January 25 but down about 12 cents from the year ago price.

Toms finished last week at \$1.0600, unchanged since Wed. January 25 but down about 12 cent from the year ago price.

Total turkey supplies in the freezer on December 31 were up 38.9% from a year ago at 279.2 million pounds. Whole birds were up 39.6% from a year ago with an inventory of 74.6 million pounds.

Turkey slaughter was 4.3140 million head for the week ending January 28, up 0.42% from a year ago. For the last two weeks slaughter has been down 3.5%.

Boneless Turkey Breast Meat. Boneless skinless turkey breast meat prices finished last week at \$1.6300, down since Wed. January 25. Prices are down about 282 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 \$6.1849 (weighted average quote) finished last week up about 15 cents since the Wed. January 25 quote but down about 116 cents vs. the year ago price.

Select 112A Heavy Lip On Rib Eyes at \$6.0638 (weighted average quote) finished last week up about 30 cents since the Wed. January 25 quote but down about 117 cents vs. the year ago price.

Currently Choice 112A Rib Eyes are \$0.1211 /lb. over Select. The 2015 annual average spread (wt. average price) had the Choice at a premium to the Select by \$0.0747 per pound and the previous five years (2010 thru 2014) average spread was Choice at a premium to the Select by \$0.0884 per pound.

Choice regular #168 insides finished last week quoted at \$1.9935 down about 7 cents since Wed. January 25 and down about 42 cents from the year ago price.

Choice ¼ inch trimmed #168 insides finished last week quoted at \$2.0372 down about 7 cents since Wed. January 25 and down about 55 cents from year ago levels.

Choice #170 Gooseneck Rounds finished last week at \$2.0340 up about 7 cents since Wed. January 25 but down about 35 cents from the year ago levels.

Choice #180 (0x1) Bnls. Strip Loins finished last week quoted at \$5.3599 (wt. avg.) down about 40 cents from the Wed. January 25 quote. Prices are about 29 cents over year ago levels.

Choice #184 Regular Heavy top butts finished at \$2.6574 (wt. avg.) up about 32 cents since Wed. January 25 but down about 50 cents from year ago levels.

Choice #184 ¼ inch trimmed Top Butts finished at \$2.9383 (wt. avg.) up about 38 cents since Wed. January 25 but down about 27 cents from the year ago levels.

Choice #185A Flap Meat prices finished Friday at \$4.1799 (wt. avg.) down about 20 cents since Wed. January 25 and down about 131 cents from year ago values.

COARSE GROUND BEEF –

73CL Coarse Ground product finished last week at \$1.2161 down about 18 cents since Wed. January 25 and down about 79 cents from year ago levels.

81CL Coarse Ground product finished last week at \$1.6185 down about 28 cent since Wed. January 25 and down about 60 cents from the year ago quote.

90CL Bnls. Beef prices finished the week at \$2.0849 (wt. avg.) up about 3.09 cent since Wed. January 25 but down 2 compared to the year ago price quote.

50 CL Beef Trim prices finished last week at \$0.7845, up about 14 cent since Wed. January 25 and up 26 cent compared to the year ago level.

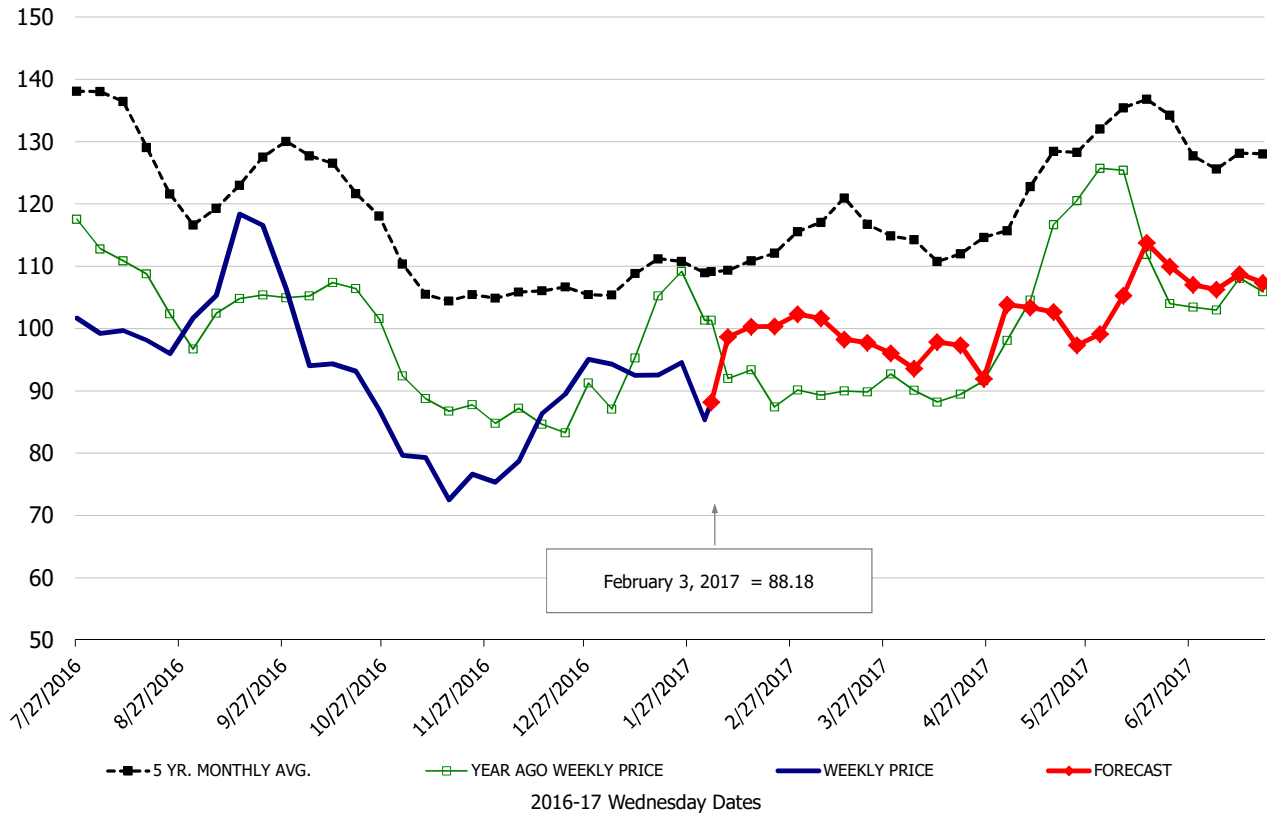
Food Service Summary Table - WT. AVE

	HISTORY							FORECAST							
	Aug	Sep	Oct	Nov	Dec	Jan	1/25/2017	2/3/2017	2/15/2017	Feb	Mar	Apr	May	Jun	Jul
PORK															
Loin, 1/4 Trimmed Loin VAC, FOB Plant, USDA	0.98	1.10	0.91	0.77	0.83	0.92	0.95	0.88	1.00	0.99	1.00	0.95	1.01	1.09	1.07
Loin, 1/8 Trimmed Loin VAC, FOB Plant, USDA	1.04	1.16	0.97	0.86	0.90	0.98	0.98	0.91	1.08	1.07	1.08	1.03	1.08	1.18	1.15
Loin, Bnls CC Strap-off, FOB Plant, USDA	1.37	1.60	1.46	1.28	1.34	1.47	1.38	1.35	1.51	1.52	1.52	1.45	1.47	1.54	1.49
Loin, Tenderloin, FOB Plant, USDA	2.22	2.16	2.10	2.00	2.01	2.13	2.26	2.17	2.35	2.36	2.20	2.16	2.23	2.52	2.49
Butt, 1/4 Trim Butt Combo, FOB Plant, USDA	0.99	1.11	0.86	0.81	0.85	0.92	0.78	0.80	0.86	0.87	0.95	0.96	1.05	1.11	1.04
Sparerib, Trmd Sparerib - LGT, FOB Plant, USDA	1.30	1.31	1.20	1.18	1.20	1.29	1.30	1.34	1.36	1.39	1.37	1.35	1.36	1.41	1.30
Sparerib, St Louis Spareribs, POLY, FZN, FOB Plant, USDA	2.42	2.36	2.39	2.28	2.28	2.22	2.05	1.71	2.30	2.35	2.45	2.45	2.28	2.34	2.25
Sparerib, Trmd Sparerib - MED, FOB Plant, USDA	1.31	1.29	1.21	1.15	1.19	1.28	1.36	1.32	1.34	1.34	1.32	1.30	1.34	1.40	1.30
Loin, Backribs 2.0#/up, FOB Plant, USDA	2.22	2.18	2.17	2.15	2.15	2.26	2.30	2.27	2.32	2.30	2.37	2.46	2.59	2.57	2.37
Ham, 17-20# Trmd Selected Ham, FOB Plant, USDA	0.71	0.70	0.55	0.68	0.74	0.58	0.64	0.62	0.69	0.67	0.61	0.62	0.62	0.70	0.74
Ham, 20-23# Trmd Selected Ham, FOB Plant, USDA	0.71	0.72	0.54	0.67	0.75	0.59	0.64	0.61	0.66	0.66	0.62	0.62	0.65	0.70	0.76
Ham, 23-27# Trmd Selected Ham, FOB Plant, USDA	0.67	0.64	0.50	0.67	0.72	0.54	0.62	0.59	0.64	0.64	0.58	0.59	0.63	0.68	0.74
Belly, Derind Belly 9-13#, FOB Plant, USDA	1.08	1.15	1.38	1.30	1.26	1.75	1.87	2.21	2.26	2.23	2.10	1.91	1.68	1.83	1.84
Belly, Derind Belly 13-17#, FOB Plant, USDA	1.04	1.15	1.35	1.28	1.30	1.65	1.88	2.21	2.26	2.23	2.10	1.91	1.68	1.83	1.84
Trim, 42% Trim Combo, FOB Plant, USDA	0.49	0.32	0.24	0.23	0.25	0.25	0.24	0.34	0.30	0.29	0.32	0.34	0.37	0.41	0.45
Trim, 72% Trim Combo, FOB Plant, USDA	0.66	0.51	0.42	0.44	0.53	0.70	0.70	0.60	0.64	0.64	0.61	0.63	0.66	0.78	0.81
HOG CARCASS															
IA/MN, Base Market Hog 185 lb Carcass Basis, Plant Div.	0.63	0.55	0.46	0.42	0.52	0.61	0.64	0.68	0.68	0.69	0.69	0.70	0.74	0.80	0.81
BROILERS															
BROILER, NATIONAL WHOLE BIRD PRICE, USDA	0.80	0.77	0.71	0.79	0.84	0.85	0.83	0.83	0.86	0.85	0.87	0.88	0.92	0.90	0.85
N.E. BROILER BREAST BONELESS-SKINLESS, USDA	1.43	1.32	1.15	0.99	0.98	1.02	1.04	1.04	1.06	1.07	1.09	1.19	1.31	1.27	1.29
N.E. BROILER BREAST LINE RUN, USDA	0.89	0.94	0.88	0.87	0.89	0.87	0.87	0.88	0.89	0.89	0.88	0.93	1.02	1.01	0.99
N.E. BROILER LEG QUARTERS, USDA	0.32	0.34	0.32	0.32	0.31	0.32	0.33	0.33	0.35	0.35	0.35	0.36	0.36	0.35	0.35
N.E. BROILER WINGS, USDA, WT.AVG.	1.57	1.79	1.80	1.84	1.87	1.93	1.97	1.96	1.86	1.92	1.78	1.71	1.65	1.68	1.74
TURKEYS															
UB HEN TURKEYS, EAST, FROZEN 10-12LBS	1.26	1.28	1.30	1.28	1.14	1.06	1.06	1.06	1.07	1.06	1.07	1.08	1.10	1.12	1.13
UB BONELESS-SKINLESS TURKEY BREAST, TOM, FRESH	2.15	2.15	2.15	2.01	1.68	1.65	1.65	1.63	1.62	1.63	1.60	1.65	1.70	1.85	1.99
LIVE STEERS															
FIVE AREA DIRECT AVERAGE LIVE STEER, USDA	1.17	1.07	1.00	1.06	1.13	1.19	1.22	1.19	1.19	1.18	1.19	1.18	1.12	1.08	1.07
BEEF															
CHOICE, 112A, 3 RIBEYE, BONELESS, HEAVY, USDA	7.37	6.80	6.68	8.05	7.17	6.10	6.04	6.18	6.37	6.40	6.92	6.95	7.03	7.33	6.50
CHOICE, 168, 3 TOP INSIDE ROUND, 1/4" MAX, USDA	2.17	1.98	1.88	1.85	2.03	2.06	2.10	2.04	2.10	2.08	2.10	2.02	1.91	1.84	1.94
CHOICE, 170, 1 BOTTOM GOOSENECK ROUND, USDA	1.85	1.91	2.00	1.89	1.92	2.07	1.96	2.03	2.06	2.05	1.91	1.80	1.73	1.71	1.77
CHOICE, 180, 3 STRIP LOIN, BONELESS, 0x1, USDA	5.51	4.76	4.42	4.32	4.88	5.50	5.76	5.36	5.53	5.45	6.18	6.51	7.03	6.95	5.77
CHOICE, 184, 3 TOP BUTT, BONELESS, USDA	3.61	3.27	2.70	2.30	2.31	2.49	2.56	2.94	2.77	2.81	3.18	3.32	3.29	3.11	3.00
CHOICE, 185A, 4 BOTTOM SIRLOIN, FLAP, USDA	5.20	4.66	3.72	3.61	3.99	4.22	4.38	4.18	4.57	4.45	4.79	5.21	5.32	4.98	4.55
COARSE GROUND 73%, USDA	1.52	1.27	1.23	1.13	1.04	1.43	1.39	1.22	1.36	1.38	1.38	1.34	1.31	1.26	1.24
COARSE GROUND 81%, USDA	1.74	1.56	1.55	1.54	1.43	1.86	1.90	1.62	1.71	1.71	1.68	1.62	1.64	1.54	1.58
90% BONELESS BEEF, CENTRAL, FRESH, USDA	2.14	2.05	1.93	1.93	1.92	2.03	2.05	2.08	2.10	2.09	2.13	2.11	2.02	1.99	2.03
50CL BEEF TRIM, FRESH, NATIONAL, USDA	0.56	0.38	0.33	0.49	0.38	0.56	0.64	0.78	0.77	0.74	0.78	0.77	0.68	0.62	0.64

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

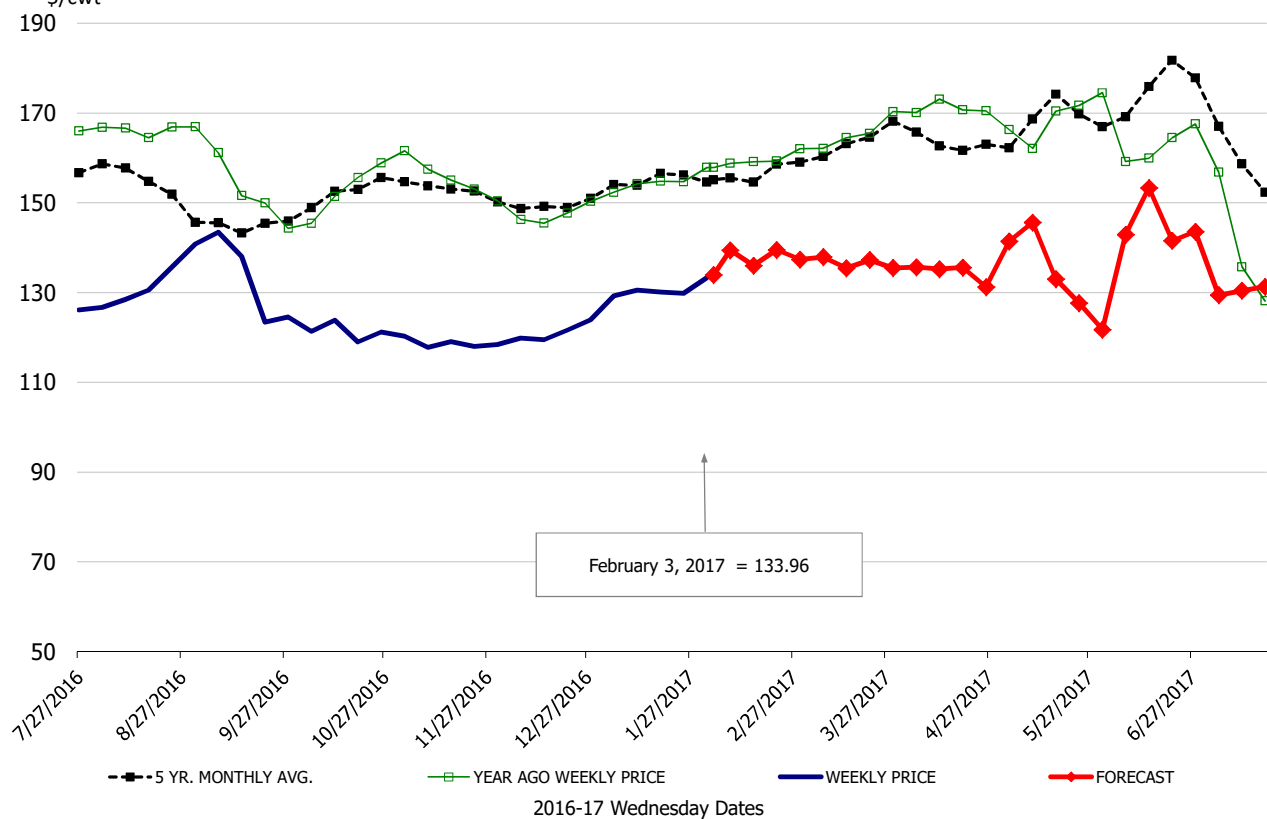
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Loin, 1/4 Trimmed Loin VAC, FOB Plant, USDA



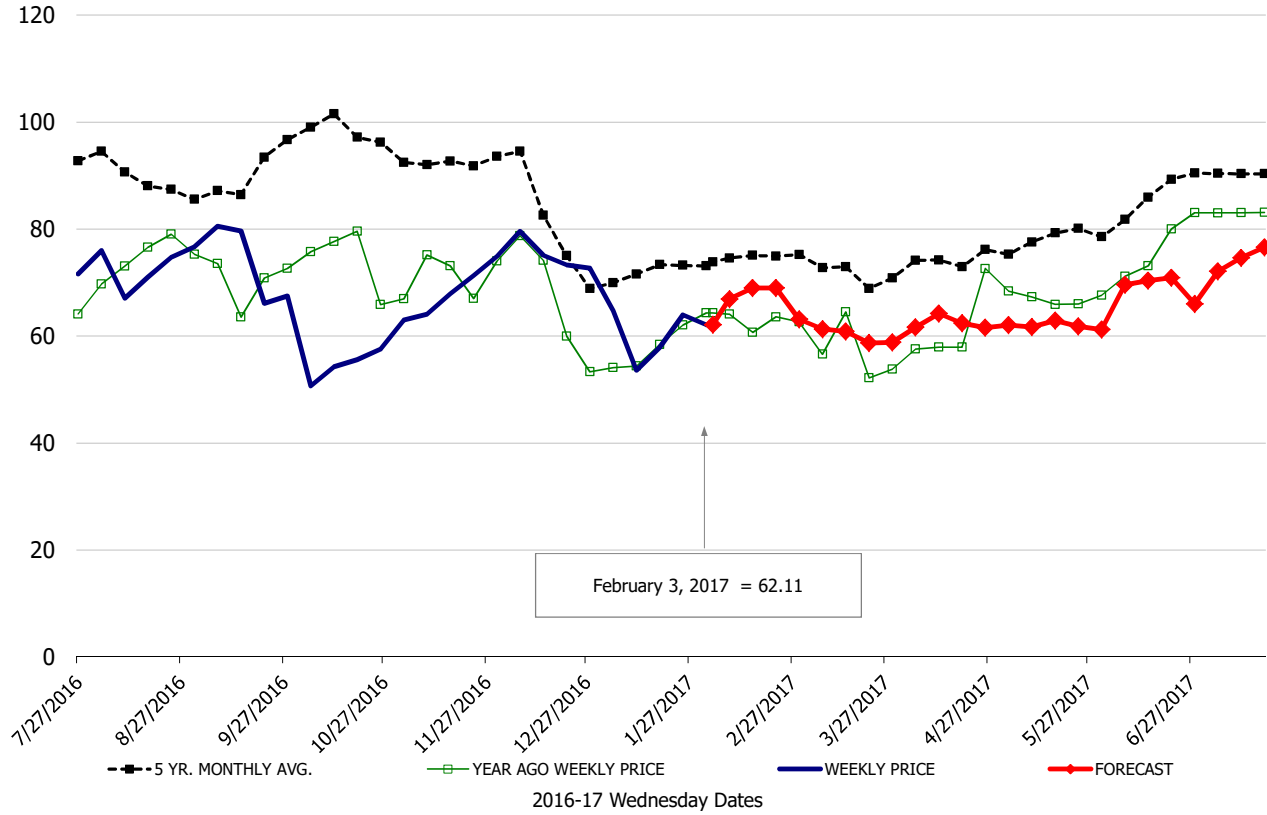
\$/cwt

Sparerib, Trmd Sparerib - LGT, FOB Plant, USDA



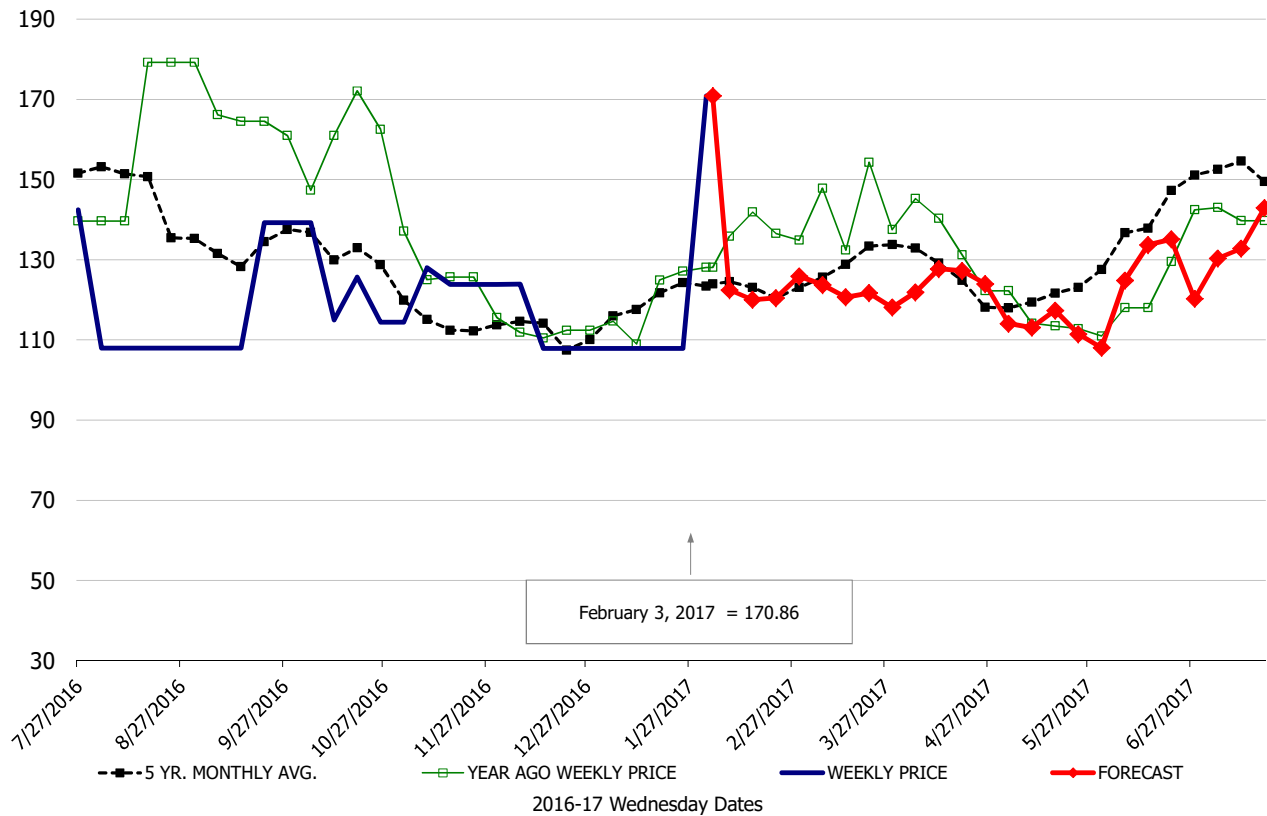
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Ham, 17-20# Trmd Selected Ham, FOB Plant, USDA



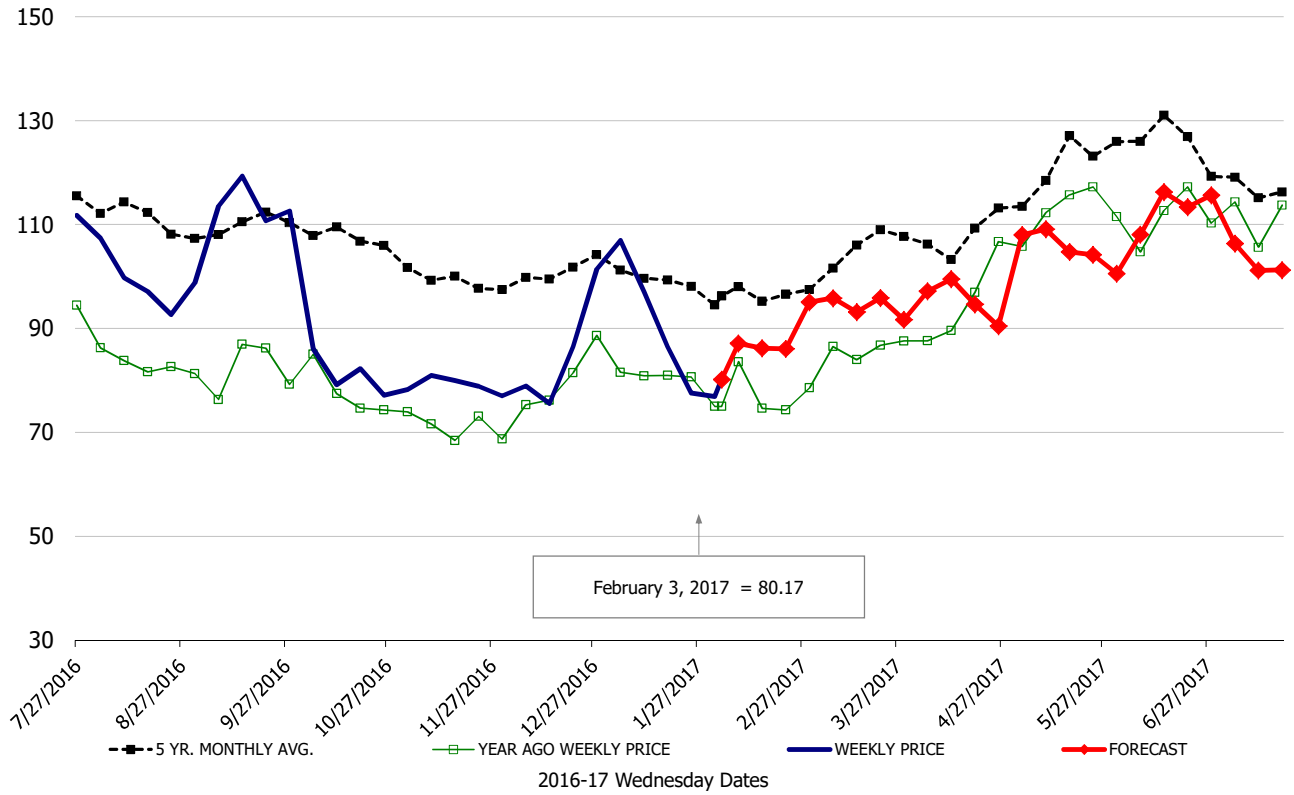
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Belly, Skin-On Belly 14-16#, FOB Plant, USDA



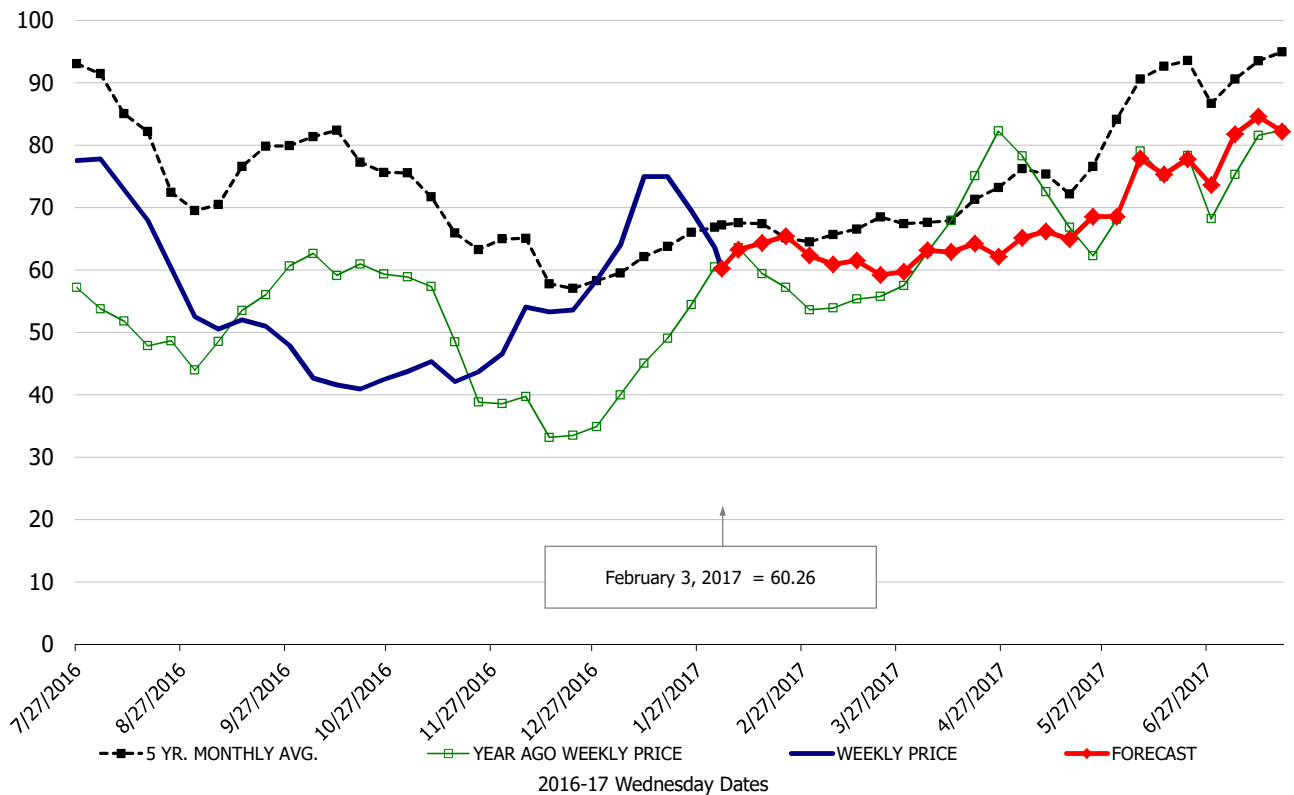
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Butt, 1/4 Trim Butt Combo, FOB Plant, USDA

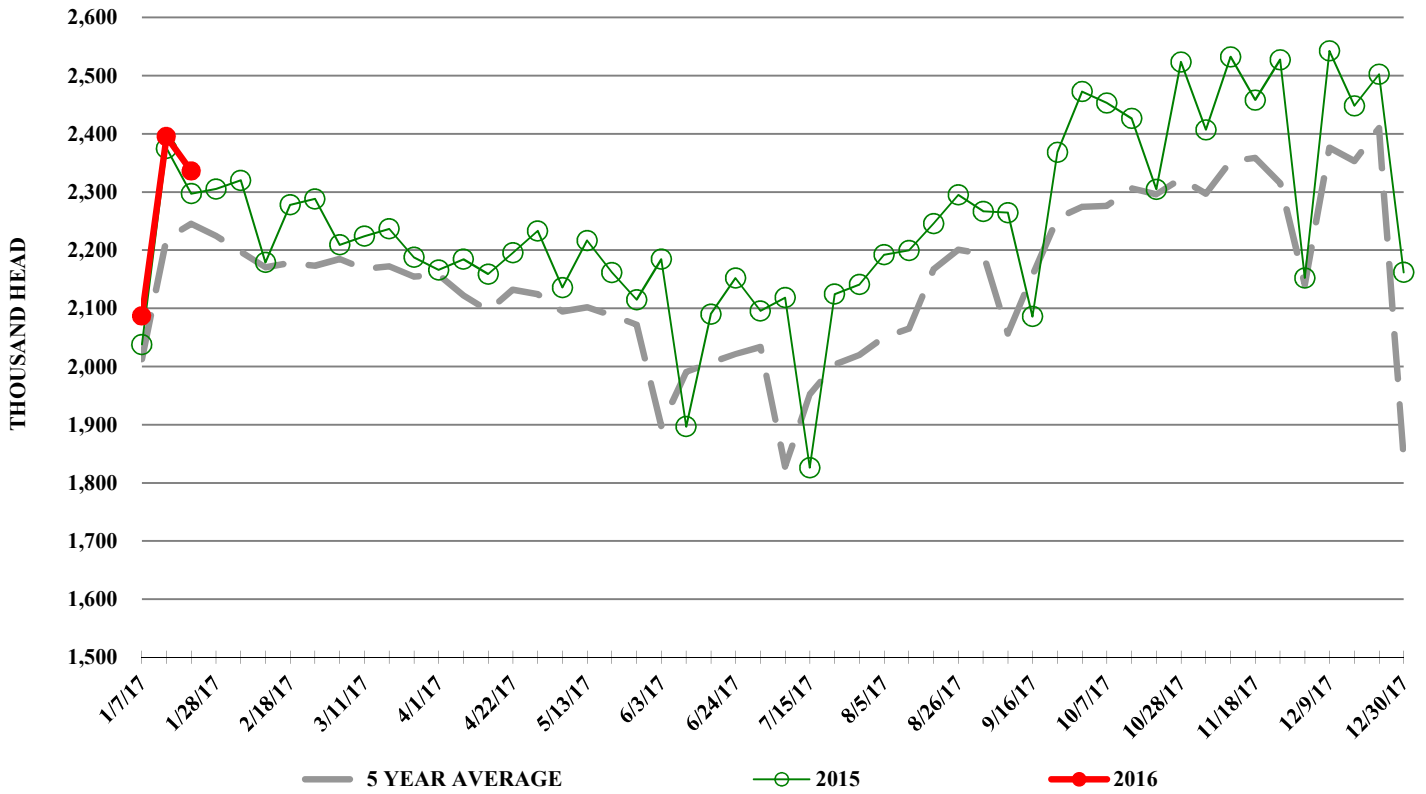


\$/cwt

Trim, 72% Trim Combo, FOB Plant, USDA



ESTIMATED WEEKLY FI HOG SLAUGHTER



ESTIMATED WEEKLY FI PORK PRODUCTION

