Pork Merchandiser's **Profit Maximizer**

- Retail Edition -

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

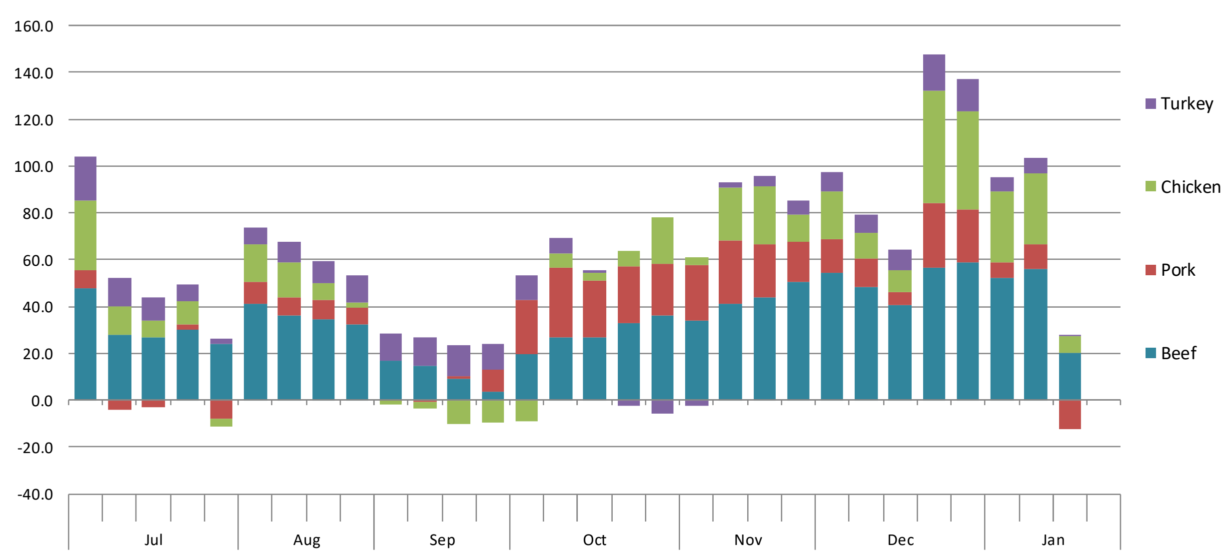
January 23, 2017

Excellent demand and a modest recent slowdown in growth help firm meat prices at the outset of the new year.

Meat protein supplies have increased rapidly in recent months as lower feed costs have fueled expansion both in the red meat and poultry industry. In the last six reported weeks, red meat and poultry production has averaged almost 95 million pounds (+6.4%) higher than the same six week period a year ago. One has to go back to the start of 2011 to find a comparable growth rate in meat protein supplies. But while the increase in protein supplies does have an effect on the overall food inflation trends (they are down), it also paints with quite a broad brush. Below is a brief recap of some of the key points we see impacting pork and other species:

- **Demand for pork continues to drive the market in the short term**. Hog supplies in the last few weeks

Weekly Increase in Beef, Pork, Chicken and Turkey Production vs. Year Ago.
Million Pounds. 4-wk MA. Carcass Wt. Basis. Source: USDA Weekly Production Reports

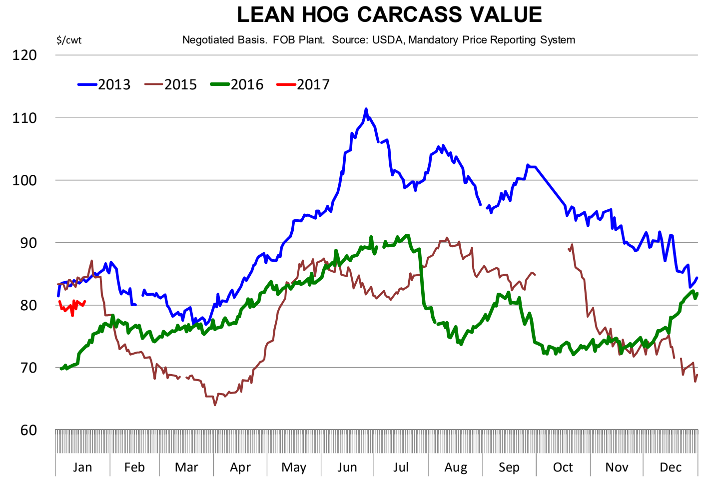


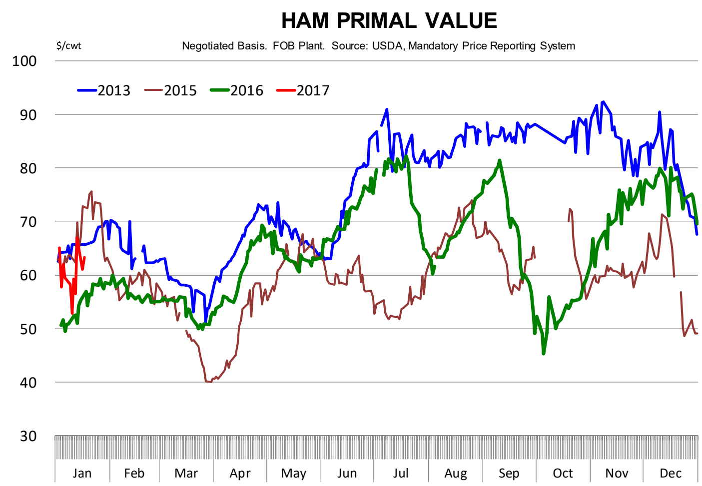
have increased at a bit faster rate than suggested by the last 'Hogs and Pigs' report but the differences are not consequential. Consider that during the seven weeks (December 2 - January 21) hog slaughter was a total 15.986 million head, 2.1% higher than the same period a year ago. The inventory of hogs +180 pounds in the latest survey was up 2.5%, suggesting that so far the slaughter numbers are fairly close with the survey numbers. And while hog supplies are up compared to a year ago, hog prices during the last seven weeks have averaged 8% above last year's levels. Futures are projecting double digit price inflation for hogs going into the spring, betting that this robust demand will be sustained in the short term.

- **Despite the increase in hog slaughter, the amount of pork coming to market is only slightly higher than it was last year**. And when adjusting for the larger exports and trend growth in population, per capita availability in the domestic market actually is down compared to last year's levels. The main reason for pork production increasing at a slower pace than slaughter are lower weights. Current weights are running about 1% under last year's levels.

- The **calendar difference from a year ago and ice storms this past week have also contributed to a short term squeeze in pork supplies**. In the last three weeks total pork production has averaged 17 million pounds (-3.3%) under a year ago. We should see slaughter numbers normalize in the coming weeks and this should be a test for both the pork cutout and hog values. In the short term, however, we think the short production weeks have helped bolstered prices for some pork products, especially bellies.

- **Export demand so far has been excellent and has helped absorb the supply increase**. Based on weekly shipment data, pork exports in December are projected up 20% and then another 15-20% higher in January. USDA is a bit more bullish than we are about pork production prospects in 2017, with the latest WASDE forecasting pork output up 5% from 2016. New plants coming online will help with the capacity crunch that we experienced last year. Still, exports remain a key variable and could be the difference between a profitable and disastrous year for hog producers.





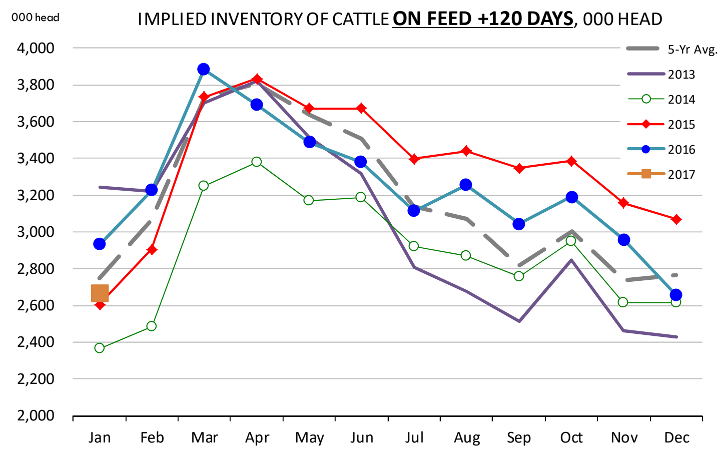
Takeaway: Pork prices have been quite firm to start the year. There is no question that pork demand is very firm as evidenced by the increase in supplies and higher prices. But the higher prices could be affecting how retailers approach features for the spring. Pork supplies will be quite large in 2017 as the industry continues to expand. Any demand hiccups could lead to significant value erosion.

Beef and Poultry

Cattle supplies more current thanks to aggressive marketings in Q4. The inventory of +120 day cattle has declined sharply in the last two months and we think on January 1 the supply of near market ready cattle was down 9% from the previous year and similar to 2015 inventory levels. The reduction has provided feedlots with a bit more leverage as they negotiate with packers, evidenced in the shrinking packer margin. The tighter margins will likely force packers to reduce slaughter in February and March, thus helping prop up values for specific beef items. While demand for beef in Q4 was quite good, in part due to retail features focused on middle meats, the demand picture in the last couple of weeks looks a bit less bullish. Chuck and round cuts have not increased as much in value as in other years and even the increase in the price of fat beef trimmings has been less robust than it was a year ago. Prices for these items may find some support if packers slow down slaughter. Middle meats remain key for the beef complex and we think that demand for these items has become more stable. This is reflected in our latest forecasts, which have become progressively more bullish in the last two months.

- In the last six weeks chicken production has averaged 6.1% above year ago levels while turkey production has averaged 6.4% above what it was a year ago. Different from beef and pork, which experienced some supply disruptions due to ice storms in the Midwest, poultry supplies have seen strong growth earlier in the year. The result is weak pricing for a number of chicken and turkey items. Chicken boneless/skinless breasts currently are priced near a $100/cwt, down about 5% from the average price a year ago and 21% lower than the five year average. The price of leg quarters has recovered from the extremely weak prices in late 2015 and early 2016. But we have recently seen the value of boneless dark meat collapse by almost 30% from levels last fall, evidence that the broiler markets continue to struggle with oversupply. The situation in the chicken market should serve as a cautionary story for the pork market.

- Chicken supply expansion is expected to persist at least through the spring. Egg sets for the last six weeks averaged 1.8% above year ago and chick placements were up 1.7%



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 hog. For the week ending January 21 slaughter was 2.324 million head, up 0.8% 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 63.70 /cwt. on Friday were up $2.3/cwt since Wed. January 11. Prices are up about 8.0 $/cwt compared to year ago values.

Loin, 1/4 Trimmed Loin VAC, FOB Plant, USDA (page 8). Prices finished last week at $0.9299, up about 0.5 cent since the Wed. January 11 quote but down about 12 cents from year ago levels.

Bnls. Strap on Pork Loins. Prices finished the week at $1.2853 for the strap on loins, down 26.1 cent since Wed. January 11 and down 8 cent from the year ago levels. Strap off loins at $1.5712 are down 9.2 cent since Wed. January 11 but up about 5 cent compared to the year ago quote.

Boneless sirloins at $1.0693 are down about 8.5 cents from the Wed. January 11 quote and down about 3.0 cents from the year ago price.

Pork tenderloin finished last week at $2.2313, up 16 cent since the Wed. January 11 quote and up about 5.3 cents from the year ago price.

1/4 Trim Pork Butts (page 10), prices finished the week at $0.8520, down 21.8 cents since Wed. January 11. Prices are down 3 cent from a year ago.

Spare Ribs, Trimmed - LGT, Vac (page 8). Prices finished the week at $1.2598, down about 5 cent since Wed. January 11 and down about 29 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 $0.6088/lb., up 7.2 cents since Wed. January 11 and up about 2 cents from a year ago.

20/23 hams finished the week at 60.60 cents, up about 7.1 cents since Wed. January 11 and up about 0.5 cents from the year ago level.

23/27 hams finished the week at 56.50 , up about 8 cents from the Wed. January 11 quote but down about 1.1 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 25.00 cents, down about 3.6 cent since Wed. January 11 but up about 6 cents from the year ago price.

72 CL Pork Trim "FOB Basis". Prices finished the week at 71.64 cents, down 3.3 cents since the Wed. January 11 quote but up about 23 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 85.13 on Friday, January 21, down about 3.1 cents from a year ago.

Broiler slaughter for the week ending January 21 was 158.23 million head, up 6.68% from a year ago. For the last two weeks broiler slaughter was up 3.7% vs. a year ago.

Breasts. Prices on boneless skinless breasts finished the week at $1.0121, down 0 cents since Wed. January 11 and still down about 10 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 0.9 cents vs. two weeks ago and at 33.54 cents per pound prices were up 9 cents from a year ago.

Wings. Prices at $1.9302 are down about 4 cents from year ago levels.

Turkeys

Hens finished last week at $1.0600, unchanged 0.0 cent since Wed. January 11 but down about 12 cents from the year ago price.

Toms finished last week at $1.0600, unchanged 0.5 cent since Wed. January 11 but down about 12 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 4.4270 million head for the week ending January 14, up 2.88% from a year ago. For the last two weeks slaughter has been down 8.0%.

Boneless Turkey Breast Meat. Boneless skinless turkey breast meat prices finished last week at $1.6500, unchanged since Wed. January 11. Prices are down about 360 cents vs. year ago levels.

BEEF

NOTE: WE ARE NOW REPORTING AND FORECASTING WEIGHTED AVERAGE BLUE SHEET PRICES FOR BEEF CUTS.

Choice #115 Chucks finished last week at $2.4335 (weighted avg.) unchanged since Wed.

January 11 but down about 46 cents from the year ago price at this time.

With prices at $2.0884 for 90CL and $0.6065 for 50CL product, an 81CL meat block value is now $1.7550 and a 78CL meat block is $1.6438. Choice chucks are now being priced 67.85 cents over 81CL meat block grinding values of 90s and 50s. A year ago the spread was 114.98 cents and the five year average spread for is 66.90 cents over.

Select #115 chucks are no longer being quoted.

Choice #161 Boneless Rounds finished last week at $2.3000, slightly since Wed. January 11 but down about 40 cents from year ago levels.

Choice #184 Regular Heavy top butts finished at $2.3693 (wt. avg.) down about 5 cents since Wed. January 11 and down about 101 cent from year ago levels.

Choice #184 ¼ inch trimmed Top Butts finished at $2.4968 (wt. avg.) up about 14 cents since Wed. January 11 but down about 77 cents from the year ago levels.

COARSE GROUND BEEF –

73CL Coarse Ground product finished last week at $1.2688 down about 18 cents since Wed. January 11 and down about 106 cents from year ago levels.

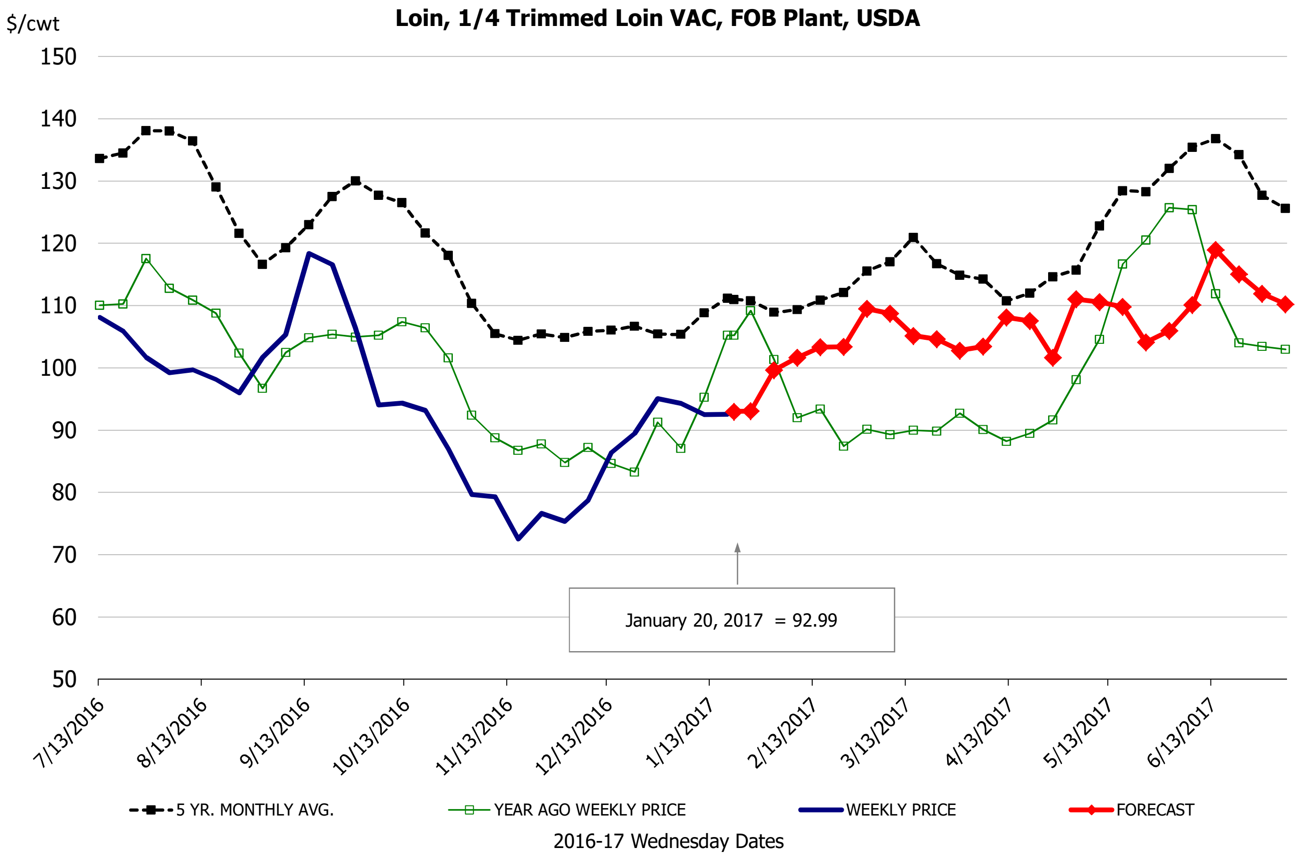
81CL Coarse Ground product finished last week at $1.7670 down about 12 cent since Wed. January 11 and down about 58 cents from the year ago quote.

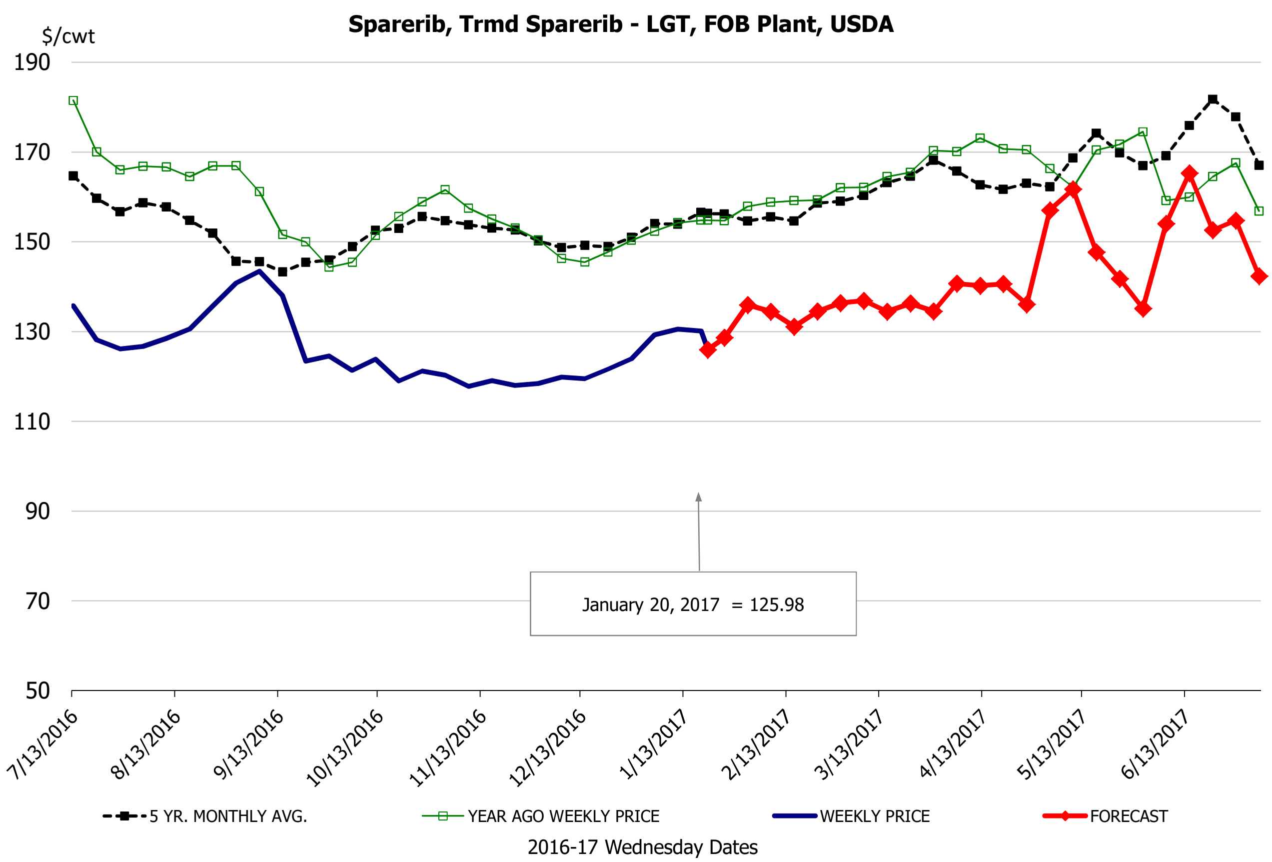
90CL Bnls. Beef prices finished the week at $2.0884 (wt. avg.) up 7.39 cent since Wed. January 11 and up 6 cents compared to the year ago price quote.

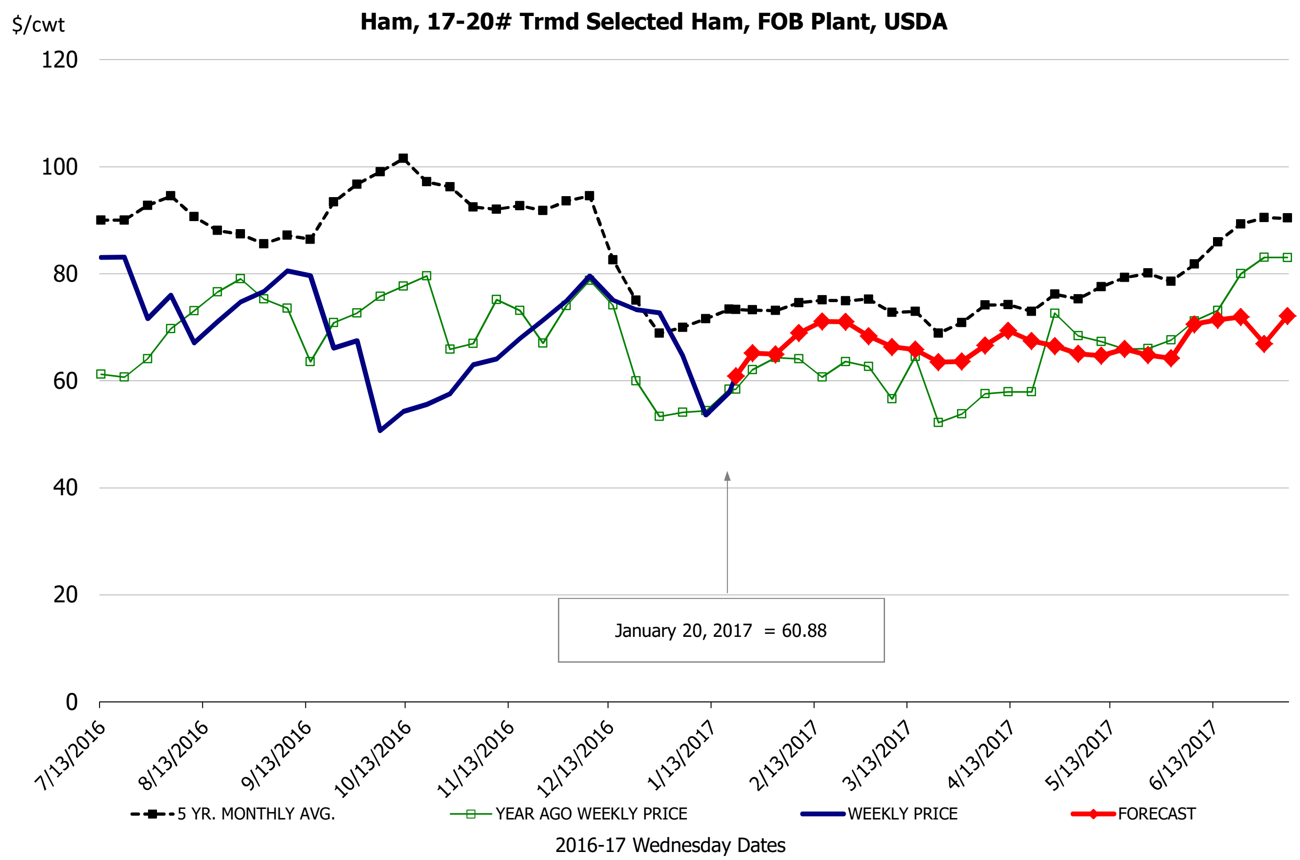
50 CL Beef Trim prices finished last week at $0.6065, up about 61 cent since Wed. January 11 but down 13 cents compared to the year ago level.

Retail Summary Table - WT. AVE.

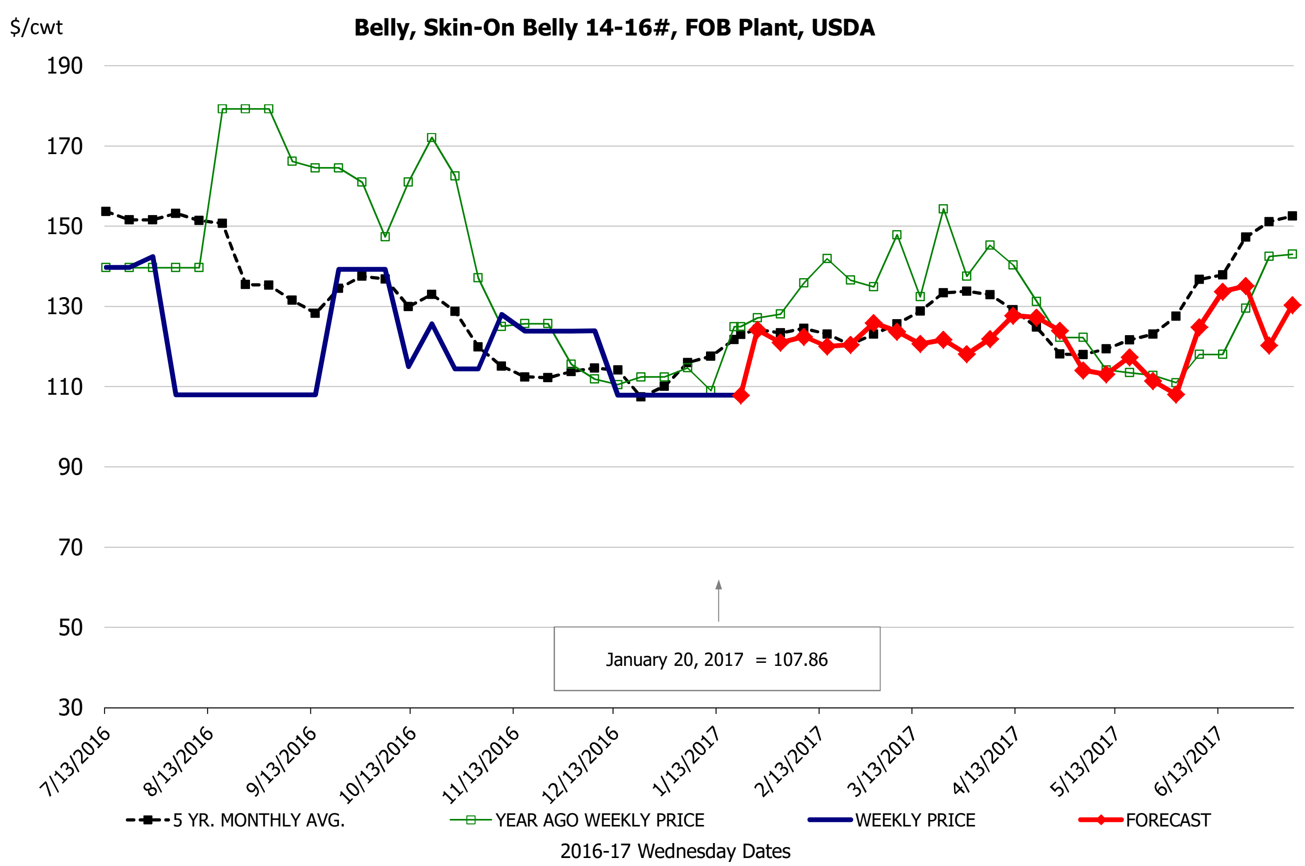
	HISTORY								FORECAST						
	Jul	Aug	Sep	Oct	Nov	Dec	1/11/2017	1/20/2017	2/1/2017	Jan	Feb	Mar	Apr	May	Jun
PORK															
Loin, 1/4 Trimmed Loin VAC, FOB Plant, USDA	104.75	97.92	109.68	90.51	77.15	83.33	92.49	92.99	100	95	102	107	105	108	114
Loin, 1/8 Trimmed Loin VAC, FOB Plant, USDA	111.98	104.44	115.57	97.44	85.73	90.24	93.97	101.36	107	104	109	114	112	115	122
Loin, Bnls CC Strap-off, FOB Plant, USDA	139.79	137.23	159.50	146.32	128.34	134.43	166.34	157.12	152	158	154	160	157	154	159
Butt, 1/4 Trim Butt Combo, FOB Plant, USDA	114.82	98.95	110.69	85.90	80.74	84.50	97.07	77.80	101	93	99	103	103	107	112
Sparerib, Trmd Sparerib - LGT, FOB Plant, USDA	133.44	130.20	130.94	120.47	118.47	120.38	130.58	125.98	136	127	134	136	140	151	152
Sparerib, Trmd Sparerib - MED, FOB Plant, USDA	131.10	130.77	129.05	120.54	114.64	118.82	129.45	129.08	130	125	129	130	134	145	148
Ham, 17-20# Trmd Selected Ham, FOB Plant, USDA	79.25	70.84	69.87	54.58	67.81	73.69	53.64	60.88	65	65	69	66	67	65	71
Ham, 20-23# Trmd Selected Ham, FOB Plant, USDA	80.36	70.81	71.70	54.25	66.94	75.36	53.51	60.60	64	65	67	65	65	66	69
Ham, 23-27# Trmd Selected Ham, FOB Plant, USDA	74.86	67.08	63.56	50.47	67.02	72.33	48.79	56.50	62	61	64	58	60	64	67
Belly, Skin-on Belly 14-16#, FOB Plant, USDA	141.70	108.00	139.24	120.26	122.60	110.96	107.85	107.86	121	119	121	123	124	114	129
Belly, Derind Belly 9-13#, FOB Plant, USDA	154.27	108.00	114.69	137.54	129.52	126.12	155.09	170.65	176	171	176	180	181	168	181
Belly, Derind Belly 13-17#, FOB Plant, USDA	159.53	104.12	114.71	134.96	128.35	129.95	155.36	170.67	174	169	174	178	179	166	179
Trim, 42% Trim Combo, FOB Plant, USDA	42.37	49.02	32.05	24.14	23.33	25.33	28.62	25.00	28	27	31	35	35	37	42
Trim, 72% Trim Combo, FOB Plant, USDA	80.01	65.88	50.63	42.44	43.84	52.98	74.99	71.64	64	72	65	63	66	71	77
Trim, Picnic Meat Combo Cushion Out, FOB Plant, USDA	90.26	80.02	68.35	77.78	74.75	77.24	77.66	72.70	78	75	77	76	79	82	90
Carcass Cutout, FOB Plant, USDA	88.24	76.46	79.13	72.90	73.44	78.28	80.68	79.71	79	79	80	82	83	83	89
HOG CARCASS															
IA/MN, Base Market Hog 185 lb Carcass Basis, Plant Dlv.	73.09	63.31	54.89	46.37	42.25	51.92	61.43	63.70	64	63	64	64	66	73	77
BROILERS															
N.E. BROILER BREAST BONELESS-SKINLESS, USDA	128.78	142.99	131.63	115.26	99.24	97.93	101.61	101.21	102	102	103	104	112	124	121
N.E. BROILER BREAST LINE RUN, USDA	91.84	88.69	93.76	88.23	87.26	89.36	86.95	87.16	86	88	88	88	88	94	90
N.E. BROILER LEG QUARTERS, USDA	35.16	32.01	34.05	32.16	32.27	31.34	32.60	33.54	35	33	35	35	36	36	35
TURKEYS															
UB HEN TURKEYS, EAST, FROZEN 10-12LBS	125.25	126.20	128.00	129.50	127.80	113.50	106.00	106.00	105	106	106	107	110	111	111
UB TOM TURKEYS, EAST, FROZEN 16-22LBS	125.25	126.20	128.00	129.00	126.60	113.50	106.00	106.00	105	106	106	107	110	111	111
LIVE STEERS															
FIVE AREA DIRECT AVERAGE LIVE STEER, USDA	118.46	116.84	107.06	99.94	106.14	112.57	117.73	118.90	118	118	120	119	119	112	108
BEEF															
CHOICE, 115, 1 CHUCK, 2-PIECE, BONELESS, USDA	249.35	243.35	243.35	243.35	243.35	243.35	243.35	243.35	244	253	245	247	236	218	223
CHOICE, 161, 1 ROUND, BONELESS, USDA	218.34	214.94	210.89	209.49	213.80	208.43	230.00	230.00	227	230	226	227	220	200	195
CHOICE, 168, 3 TOP INSIDE ROUND, 1/4" MAX, USDA	210.22	216.92	197.84	188.47	184.56	202.66	195.25	212.65	216	217	218	217	198	182	176
CHOICE, 170, 1 BOTTOM GOOSENECK ROUND, USDA	185.21	184.83	191.02	200.38	188.65	191.57	211.05	212.35	215	215	215	198	181	166	165
CHOICE, 184, 3 TOP BUTT, BONELESS, USDA	367.63	361.05	327.08	270.49	230.13	230.77	235.52	249.68	311	260	314	327	365	335	306
CHOICE, 185A, 4 BOTTOM SIRLOIN, FLAP, USDA	504.72	520.21	466.20	371.77	361.38	399.36	407.77	428.96	431	431	454	480	496	494	468
COARSE GROUND 73%, USDA	133.88	151.96	127.49	122.75	112.51	103.69	144.84	126.88	148	150	146	146	142	133	124
COARSE GROUND 81%, USDA	165.70	174.25	156.18	154.63	154.48	142.62	188.34	176.70	173	185	171	168	160	154	144
90% BONELESS BEEF, CENTRAL, FRESH, USDA	216.59	213.73	204.70	193.09	192.67	191.62	201.45	208.84	212	209	213	215	212	196	191
50CL BEEF TRIM, FRESH, NATIONAL, USDA	89.98	56.40	38.06	33.41	48.78	37.94	0.00	60.65	51	60	55	68	77	68	62


Loin, 1/4 Trimmed Loin VAC, FOB Plant, USDA
$/cwt
150
140
130
120
110
100
90
80
70
60
50
January 20, 2017 = 92.99
7/13/2016
8/13/2016
9/13/2016
10/13/2016
11/13/2016
12/13/2016
1/13/2017
2/13/2017
3/13/2017
4/13/2017
5/13/2017
6/13/2017
5 YR. MONTHLY AVG.
YEAR AGO WEEKLY PRICE
WEEKLY PRICE
FORECAST
2016-17 Wednesday Dates

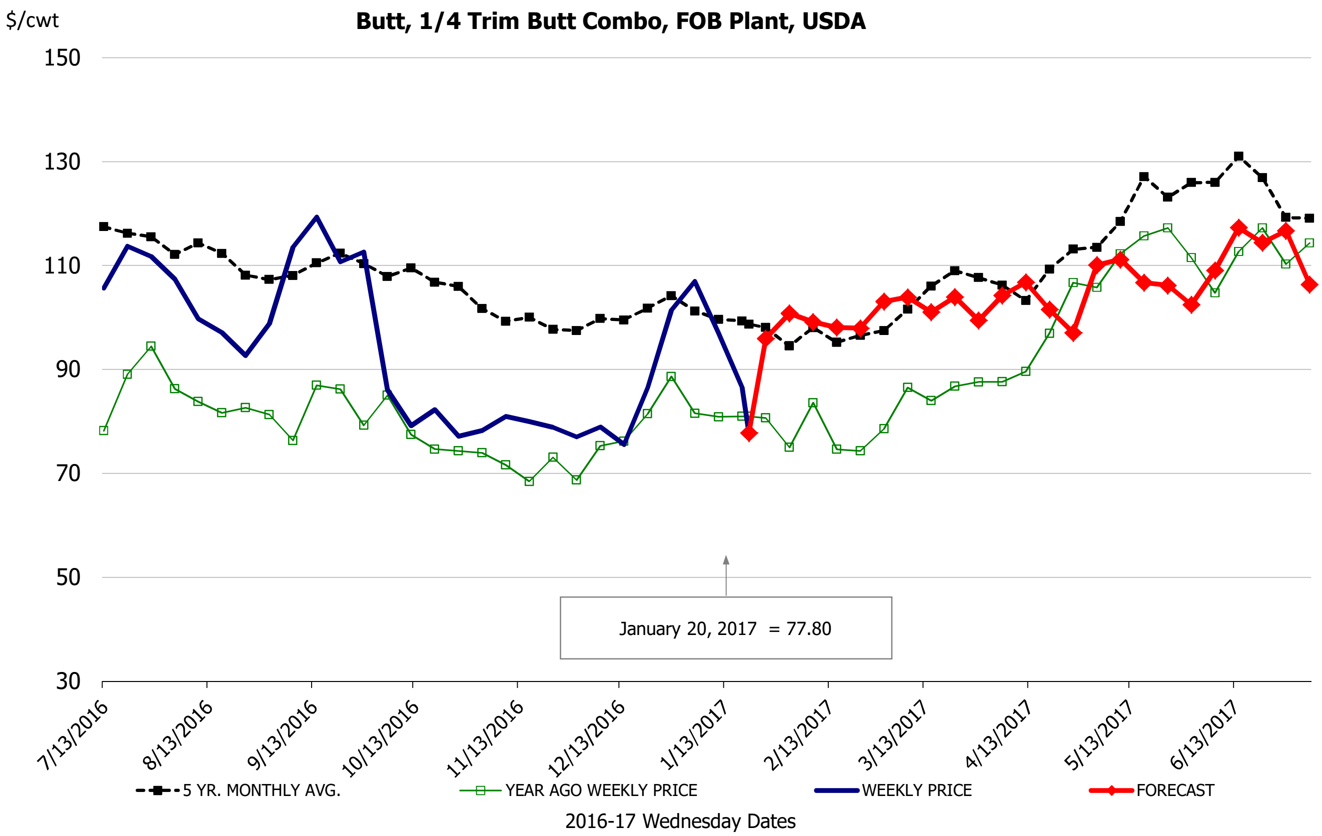

Sparerib, Trmd Sparerib - LGT, FOB Plant, USDA
$/cwt
190
170
150
130
110
90
70
50
January 20, 2017 = 125.98
7/13/2016
8/13/2016
9/13/2016
10/13/2016
11/13/2016
12/13/2016
1/13/2017
2/13/2017
3/13/2017
4/13/2017
5/13/2017
6/13/2017
5 YR. MONTHLY AVG.
YEAR AGO WEEKLY PRICE
WEEKLY PRICE
FORECAST
2016-17 Wednesday Dates

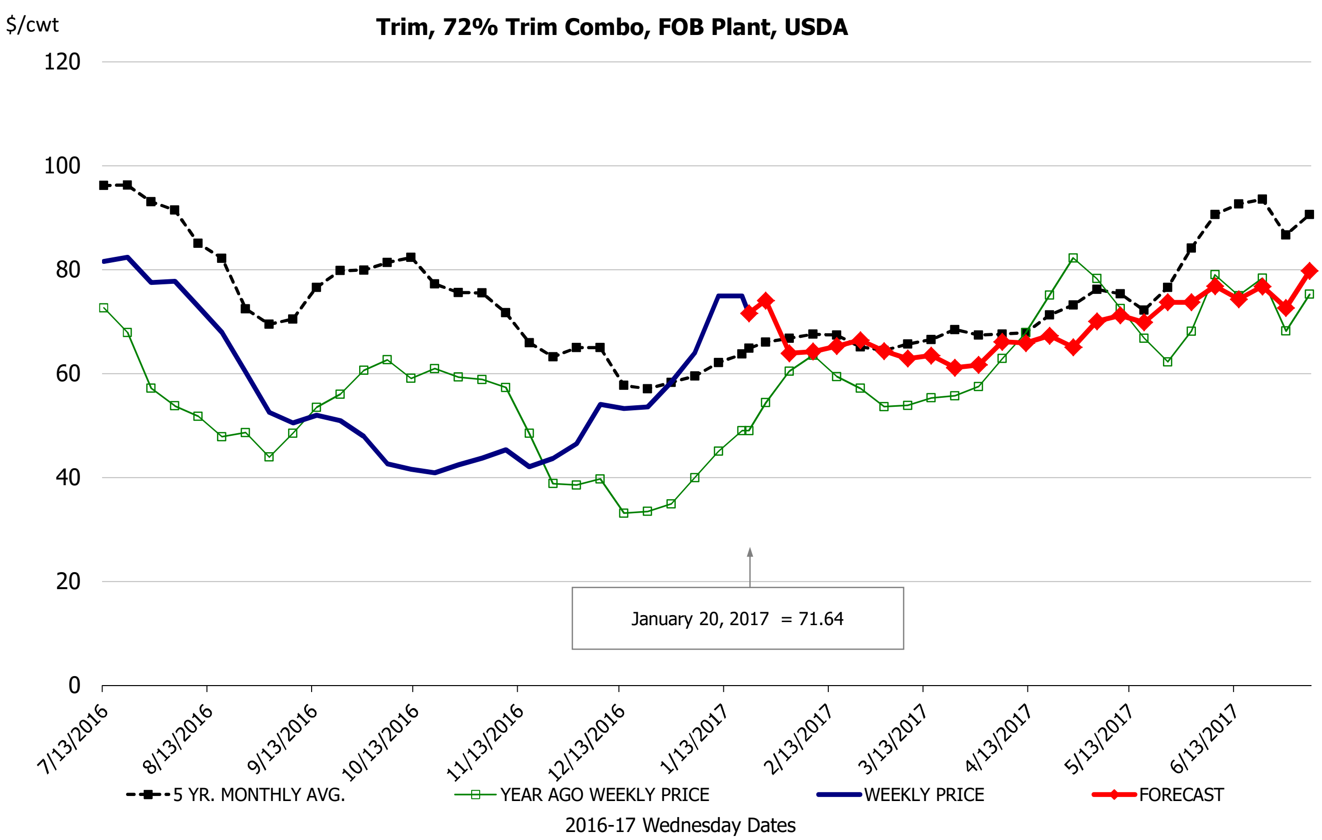


$/cwt
Ham, 17-20# Trmd Selected Ham, FOB Plant, USDA
120
100
80
60
40
20
0
January 20, 2017 = 60.88
7/13/2016
8/13/2016
9/13/2016
10/13/2016
11/13/2016
12/13/2016
1/13/2017
2/13/2017
3/13/2017
4/13/2017
5/13/2017
6/13/2017
5 YR. MONTHLY AVG.
YEAR AGO WEEKLY PRICE
WEEKLY PRICE
FORECAST
2016-17 Wednesday Dates



$/cwt
Belly, Skin-On Belly 14-16#, FOB Plant, USDA
190
170
150
130
110
90
70
50
30
January 20, 2017 = 107.86
7/13/2016
8/13/2016
9/13/2016
10/13/2016
11/13/2016
12/13/2016
1/13/2017
2/13/2017
3/13/2017
4/13/2017
5/13/2017
6/13/2017
5 YR. MONTHLY AVG.
YEAR AGO WEEKLY PRICE
WEEKLY PRICE
FORECAST
2016-17 Wednesday Dates


$/cwt
Butt, 1/4 Trim Butt Combo, FOB Plant, USDA
150
130
110
90
70
50
30
January 20, 2017 = 77.80
7/13/2016
8/13/2016
9/13/2016
10/13/2016
11/13/2016
12/13/2016
1/13/2017
2/13/2017
3/13/2017
4/13/2017
5/13/2017
6/13/2017
5 YR. MONTHLY AVG.
YEAR AGO WEEKLY PRICE
WEEKLY PRICE
FORECAST
2016-17 Wednesday Dates


$/cwt
Trim, 72% Trim Combo, FOB Plant, USDA
120
100
80
60
40
20
0
January 20, 2017 = 71.64
7/13/2016
8/13/2016
9/13/2016
10/13/2016
11/13/2016
12/13/2016
1/13/2017
2/13/2017
3/13/2017
4/13/2017
5/13/2017
6/13/2017
5 YR. MONTHLY AVG.
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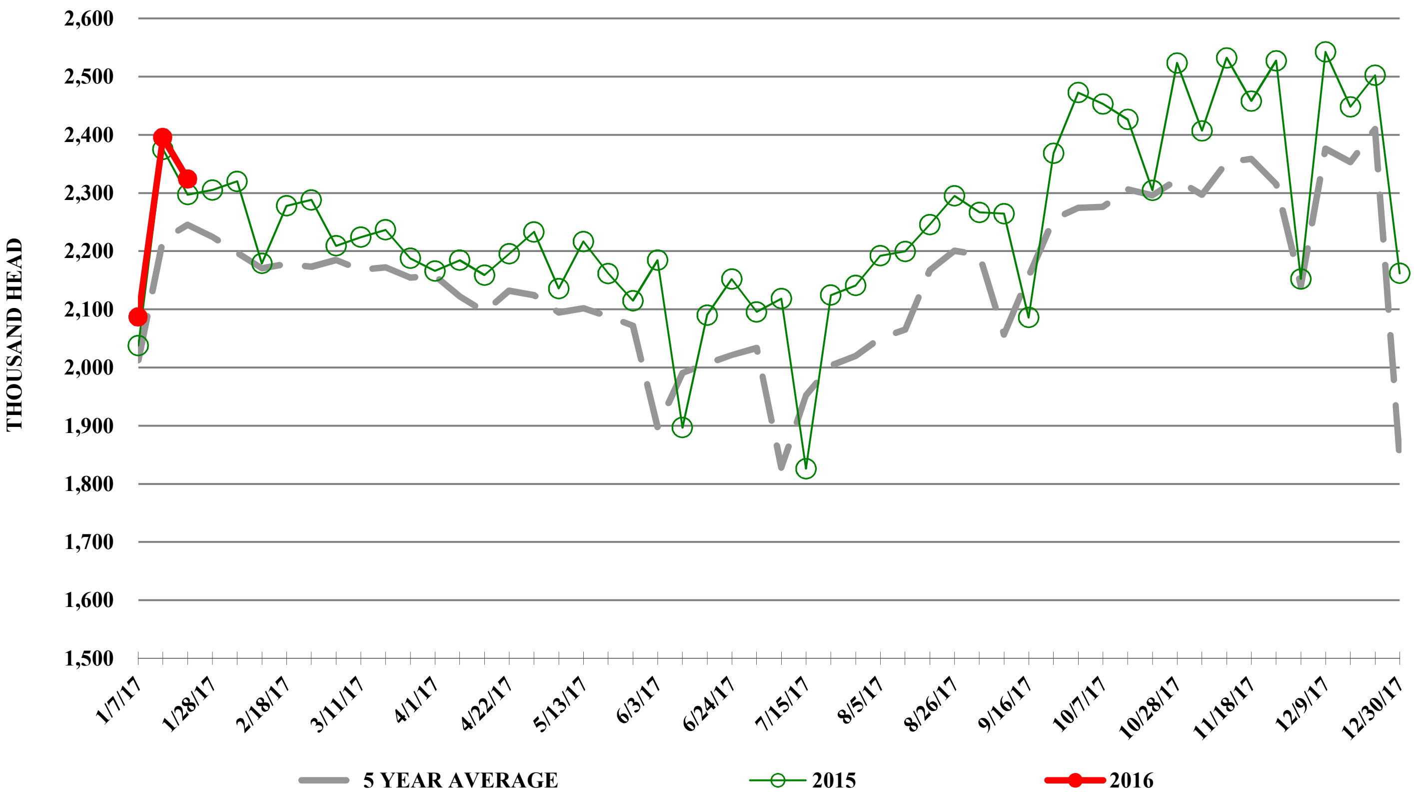
2016-17 Wednesday Dates

ESTIMATED WEEKLY FI HOG SLAUGHTER



ESTIMATED WEEKLY FI PORK PRODUCTION