



Be inspiredSM

Pork Merchandiser's Profit Maximizer

- Retail Edition -

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

September 5, 2017

1. Sharp correction in pork belly prices pressures cut-out/hog prices lower. Despite an increase in production, prices for other primals remain above year ago levels.

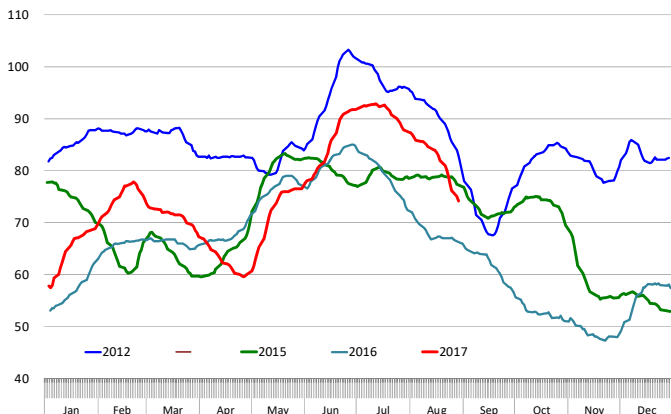
Cash hog prices have come under significant pressure in the last couple of weeks due to a combination of seasonally higher hog numbers and a changing retail picture for pork bellies. In a previous report we noted the dramatic increase in retail bacon prices and the decline in pork retail features. Since then packers

have had to significantly lower belly prices in order to keep the product flow moving. How much has the decline in bellies impacted this market? Consider that at the end of July the pork belly primal was valued at \$212/cwt, more than double what it was the previous year. Last night USDA quoted the belly primal value at \$126/cwt, a whopping \$87/cwt (-41%) decline in a matter of 4 weeks. Most of the decline has happened in the last 10 days. The decline in the value of bellies has accounted for almost all the decline in the pork cutout. The pork cutout was quoted last night at

Cash Hog Prices and the Meat Spread - Implications for Hog/Pork Values in Q4

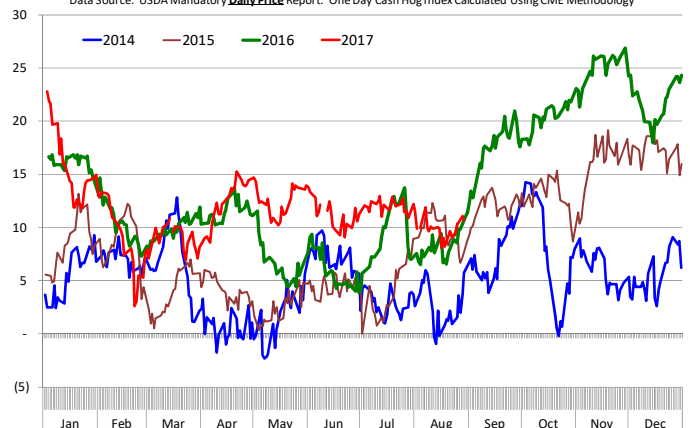
CALCULATED 1 DAY CASH HOG INDEX

Based on Daily USDA MPR Data... Wt. Avg. Price of Negotiated Cash Hog Price and Swine or Pork Market Formula (SPMF). See LM_HG201



SPREAD BETWEEN PORK CARCASS VALUE MINUS NET LEAN HOG CARCASS PRICE

Data Source: USDA Mandatory Daily Price Report. One Day Cash Hog Index Calculated Using CME Methodology



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\$83.58/cwt, \$16/cwt less than a month ago, and lower belly prices account for \$13.7 out of that \$16 decline. Lower loin and ham prices accounted for the rest of the decline (see chart on page 2)

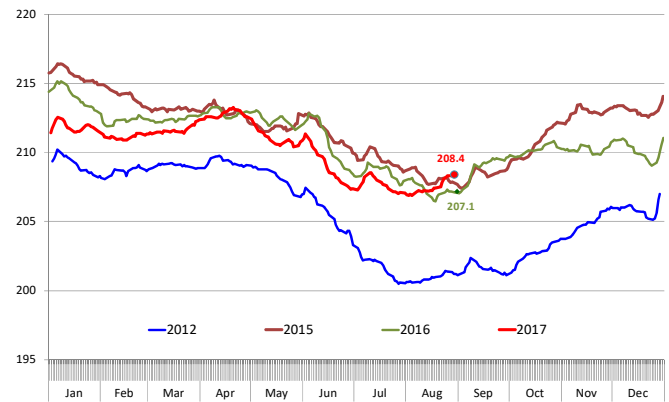
While hog slaughter is running under the levels projected by the USDA June hog inventory report, the number of hogs coming through at this time is significantly higher than it was back in July, and it is expected to be even larger still in September and October. For week ending July 29, hog slaughter was 2.234 million hogs while last week slaughter was 2.344 million and we expect slaughter will likely be just as large this week as well. These are all time record supplies for this time of year. Pork demand has been quite good so far this year but there is no escaping the fact that there are plenty of hogs on the ground and they will all compete for shackle space in the next few months.

Hog slaughter normally declines during Labor Day week as packers are not able to make up the lost Monday production on the weekend. Last year in the four weeks following the Labor Day weekend hog slaughter averaged 2.430 million hogs and this year we will surely surpass those numbers. It's a bit of a puzzle as to what kind of increase we will get in September. Based on recent trends (last four weeks), we could see slaughter up at least 2.5% from a year ago, which would put average weekly kill at around 2.490 million. However, if slaughter starts to approach the levels indicated in the June survey, then we could see average weekly slaughter in the 2.525 million area. To be sure these kinds of numbers are not a surprise, market participants have been throwing around these calculations since spring. Higher than expected increase in pork prices during June and July seemed to put the fall supply pressures on the backburner. The sharp deflation in belly prices was a reminder that strong as demand may be, both producers and packers still have to contend with all time record pork supplies. It's a challenge that becomes even more daunting when there is more beef, pork and chicken competing for the consumer dollar.

There are a couple of wild cards that will significantly impact hog values in the last three months of the year. First, how quickly the new pork plants are able to ramp up production. Last year the meat margin was dramatically higher in the fall as packers needed to run extra shifts on weekends and had to be compensated accordingly. This year producers

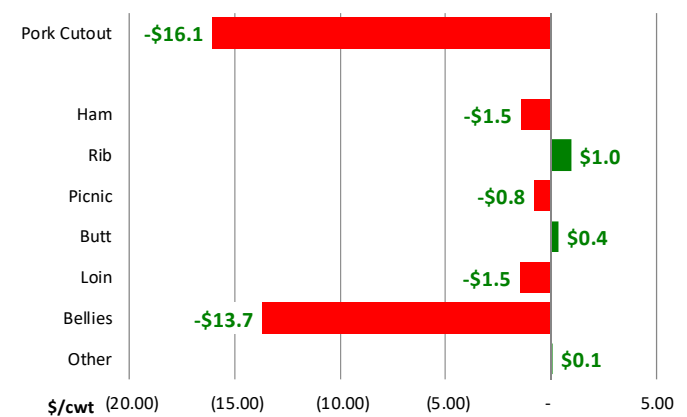
Barrow/Gilt Dressed Carcass Weights, 5-day Moving Avg. - Producer Hogs

Based on Daily MPR Report, LM_HG201. Data through Aug. 29, 2017



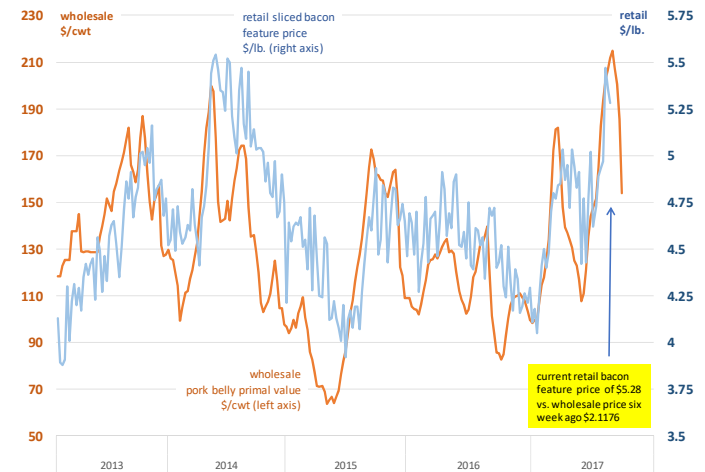
Contribution of Each Primal to the Change in the Value of Pork Cutout

August 31, 2017 vs. July 31, 2017



RETAIL BACON AVERAGE FEATURE PRICE VS. WHOLESALE PORK BELLY PRIMAL (6-WK LAG)

Feature Price From USDA Weekly Retail Report. Wholesale Price from USDA Mandatory Price Reporting System.



are counting on those two new plants to absorb the additional hogs in the pipeline. While strong demand may keep the cutout in the mid 70s maybe even 80 cents, availability of shackle space will determine how big the meat margin needs to be to get hogs processed in a timely fashion. Second, weights

are moving higher. It will be imperative for producers to continue to market hogs in a timely fashion. It will make a big difference if carcass weights climb over 215 pounds in November vs. bringing hogs a couple of pounds lighter. The trajectory in hog weights and prices in 2015 and 2016 outlines two different scenarios in that regard.

Cold Storage Stocks

Total supplies of beef, pork, chicken and turkey in cold storage at the end of July were 2.372 billion pounds, 2.1% less than a year ago but still as much as 5% above the five year average. The combined meat protein inventories increased by 0.9% from the previous month, which is slower than then normal inventory build of the last three years.

Pork supplies in cold storage were estimated at 556.2 million pounds, 7.1% less than a year ago and 2.7% lower than the five year average. Stocks declined 1.2% from the previous month, in line with the normal drawdown in stocks for the month. Pork exports slowed down in July according to our data while weekly pork production averaged 2% above a year ago. There were both positives and negatives when reviewing the numbers for specific products. Ham inventories were 195.1 million pounds, 3.6% higher than a year ago and 10.7% higher than the five year average. Ham export sales to Asian markets have increased in recent weeks and we think some of the increase in inventories is due to that. Belly stocks have been minimal for much of the spring and summer and the latest report confirmed that trend once again. Keep in mind that the inventory survey only covers raw material in public and semi-public cold storage warehouses, it does not account for finished goods that end users may have put away. We have seen a notable decline in pork rib inventories, which may be behind the price recovery recently. At the end of July the supply of ribs in cold storage was 77.1 million pounds, 14.5% less than a year ago but still 12.9% higher than the five year average. Stocks declined 10% in July, a much larger than normal depletion rate. In the last five years July inventories declined on average 2% from the previous month. Inventories of boneless pork loins declined 10% from the previous month but remain 7.3% above last year and 25.2% higher than the five year average. Pork

production is expected to exceed last year's record levels this fall and the increase in loin inventories is probably the most negative indicator in the report for pork. The larger loin and ham stocks are offset to a certain degree by the lower inventories of other pork products.

Inventories of boneless beef in cold storage at the end of July were 396.7 million pounds, 8.4% lower than a year ago but about the same as the five year average. Boneless beef inventories rose 3.4% compared to the previous month when in the last five years July inventories on average have declined vs. June. Weekly beef production rose an average of 4% in July compared to a year ago and currently project beef exports for the month up 4.9% vs. a year ago. This is the primary reason we view the beef numbers as moderately bearish for beef prices in the short term.

Poultry inventories paint a mixed picture. Chicken breast inventories at 171.4 million pounds are still 2.2% higher than last year and 37.5% higher than the five year average. However, the reason why we see the chicken numbers as positive is because stocks declined 6.5% from the previous month. In the last five years the average m/m decline has been 2%. More importantly, the inventory of leg quarters at 125.1 million pounds is now 14% less than last year and 7.4% under the five year average. The decline will continue to underpin chicken dark meat prices in the short term. Very high wing prices during the summer have prevented users from building inventories during the summer. At the end of July the inventory of chicken wings was 60.2 million pounds, 35% less than a year ago and 16.3% less than the five year average. Wing inventories declined 1% in July when normally they increase by about 8% during this time. Wing prices are very firm and the latest data implies that we should continue to see more upside to prices as the football season gets underway.

Turkey cold storage stocks remain burdensome. Whole bird inventories at the end of July were 341.2 million pounds, 24% higher than a year ago and 14.1% higher than the five year average. Stocks increased 10.8% from the previous month. In the last five years the inventory build for July has averaged 8%.

Upcoming holidays:

2017 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

Live hog. For the week ending August 26 slaughter was 2.338 million head, up 3.2% from a year ago. In the last two weeks hog slaughter is up 2.4% vs. year ago levels.

Iowa/Minnesota, Base Negotiated Purchase for Barrows and Gilts. Lean hog carcass values at about 63.91 /cwt. on Friday were down \$5.4/cwt since Wed. August 23. Prices are up about 4.1 \$/cwt compared to year ago values.

Loin, 1/4 Trimmed Loin VAC, FOB Plant, USDA (page 8). Prices finished last week at \$0.9827, down about 2.7 cent since the Wed. August 23 quote and down about 3 cents from year ago levels.

Bnls. Strap on Pork Loins. Prices finished the week at \$1.3128 for the strap on loins, up 2.8 cent since Wed. August 23 but down 7 cent from the year ago levels. Strap off loins at \$1.4979 are up 10.6 cent since Wed. August 23 and up about 2 cent compared to the year ago quote.

Boneless sirloins at \$1.0778 are down about one cents from the Wed. August 23 quote and down about 3.0 cents from the year ago price.

Pork tenderloin finished last week at \$2.4346, down 0 cent since the Wed. August 23 quote but up about 30.1 cents from the year ago price.

1/4 Trim Pork Butts (page 10), prices finished the week at \$1.0391, down 2.5 cents since Wed. August 23. Prices are up 4 cent from a year ago.

Spare Ribs, Trimmed - LGT, Vac (page 8). Prices finished the week at \$1.4706, down about 4 cent since Wed. August 23 but up about 6.5 cents from year ago levels.

Rib inventories on July 31 were 77.1 million pounds, down 14.5% percent from a year ago.

Bone-in Hams.

17/20 hams (page 9) price was \$0.7475/lb., up 2.5 cents since Wed. August 23 but down about 2 cents from a year ago.

20/23 hams finished the week at 75.43 cents, up about 3 cents since Wed. August 23 but down about 3 cents from the year ago level.

23/27 hams finished the week at 72.34 , up about 3 cent from the Wed. August 23 quote but down about 6 cents from the year ago level.

Total ham cold storage stocks on July 31 at 195.1 million pounds were up slightly from year ago levels.

42 CL Pork Trim “FOB Basis”. Prices finished the week at 33.49 cents, down about 13.4 cent since Wed. August 23 and down about 3 cents from the year ago price.

72 CL Pork Trim “FOB Basis”. Prices finished the week at 55.38 cents, down 3.5 cents since the Wed. August 23 quote but up about 3 cents from the year ago level.

Freezer stocks of all trimmings on July 31 were 29.9 million pounds, down 17.4% 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 92.15 on Friday, August 26, up about 13 cents from a year ago.

Broiler slaughter for the week ending August 26 was 164.53 million head, up 0.38% from a year ago. For the last two weeks broiler slaughter was up 0.5% vs. a year ago.

Breasts. Prices on boneless skinless breasts finished the week at \$1.4386, up 1 cents since Wed. August 23 but still down about 2 cents from year ago levels.

Leg Quarters. This market continues to be export driven. Last week leg quarter prices were down about 1.95 cents vs. two weeks ago but at 41.84 cents per pound prices were up 10 cents from a year ago.

Wings. Prices at \$2.1550 are up about 52 cents from year ago levels.

Turkeys

Hens finished last week at \$1.0700, unchanged cent since Wed. August 23 but down about 20 cents from the year ago price.

Toms finished last week at \$1.0700, unchanged since Wed. August 23 but down about 20 cent from the year ago price.

Total turkey supplies in the freezer on July 31 were up 11.3% from a year ago at 590.4 million pounds. Whole birds were up 24.1% from a year ago with an inventory of 341.2 million pounds.

Turkey slaughter was 4.5540 million head for the week ending August 19, up 2.25% from a year ago. For the last two weeks slaughter has been down 1.2%.

Boneless Turkey Breast Meat. Boneless skinless turkey breast meat prices finished last week at \$1.5300, unchanged since Wed. August 23. Prices are down about 62 cents vs. year ago levels.

BEEF

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

Choice #115 Chucks are no longer being quoted. We suggest that those participants still benchmarking pricing off the 115 Chuck market switch to 114 clods.

With prices at \$2.2999 for 90CL and \$0.5457 for 50CL product, an 81CL meat block value is now \$1.9052 and a 78CL meat block is \$1.7736. Choice 114, 3 Clods are now being priced 25.18 cents over 81CL meat block grinding values of 90s and 50s. A year ago the spread was 16.72 cents and the five year average spread for is 20.46 cents over.

Select #115 chucks also are no longer being quoted.

Choice #161 Boneless Rounds finished last week at \$2.3000, down slightly since Wed. August 23 but up about 11 cents from year ago levels.

Choice #184 Regular Heavy top butts finished at \$2.8682 (wt. avg.) down about 34 cents since Wed. August 23 and down about 62 cent from year ago levels.

Choice #184 ¼ inch trimmed Top Butts finished at \$2.7265 (wt. avg.) down about 46.5 cents since Wed. August 23 and down about 81 cents from the year ago levels.

COARSE GROUND BEEF –

73CL Coarse Ground product finished last week at \$1.5995 up about 0.5 cents since Wed. August 23 and up about 4 cents from year ago levels.

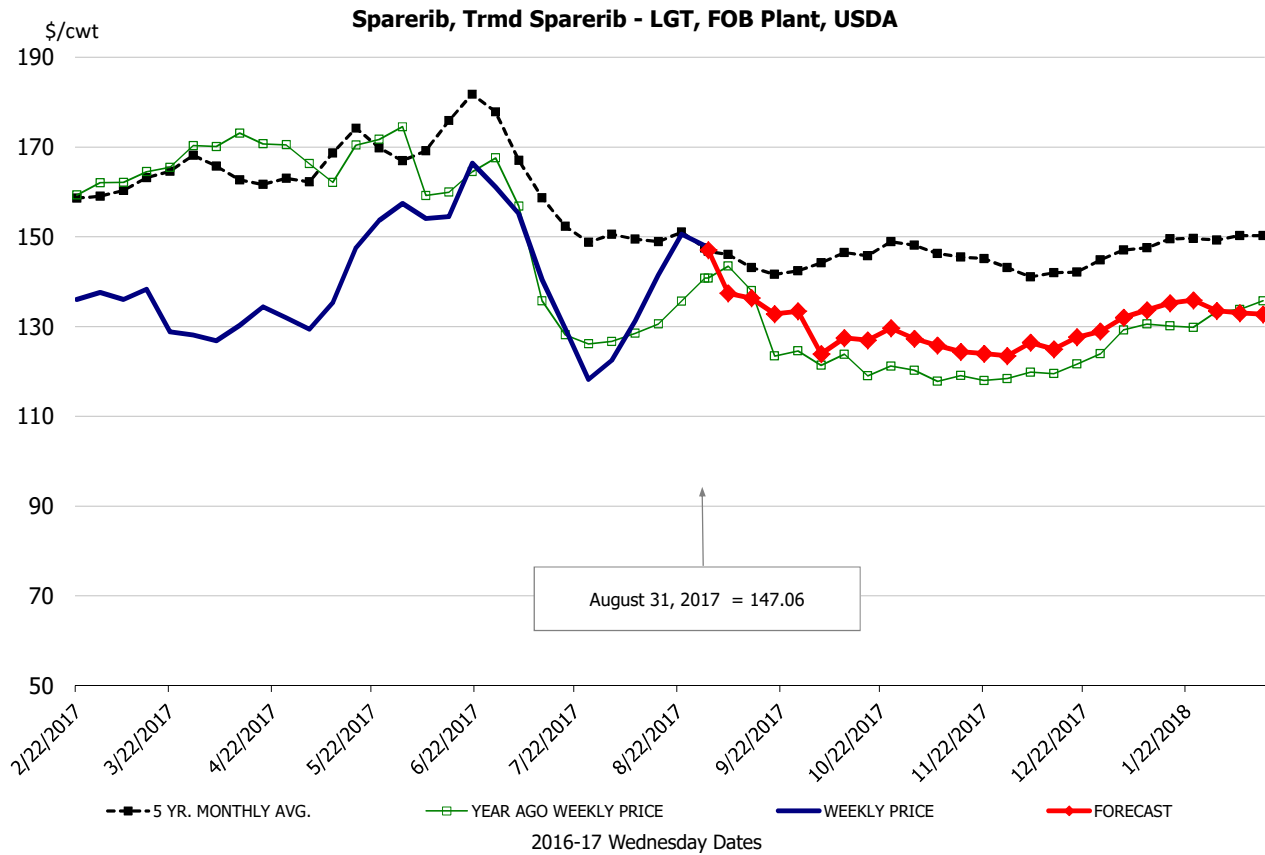
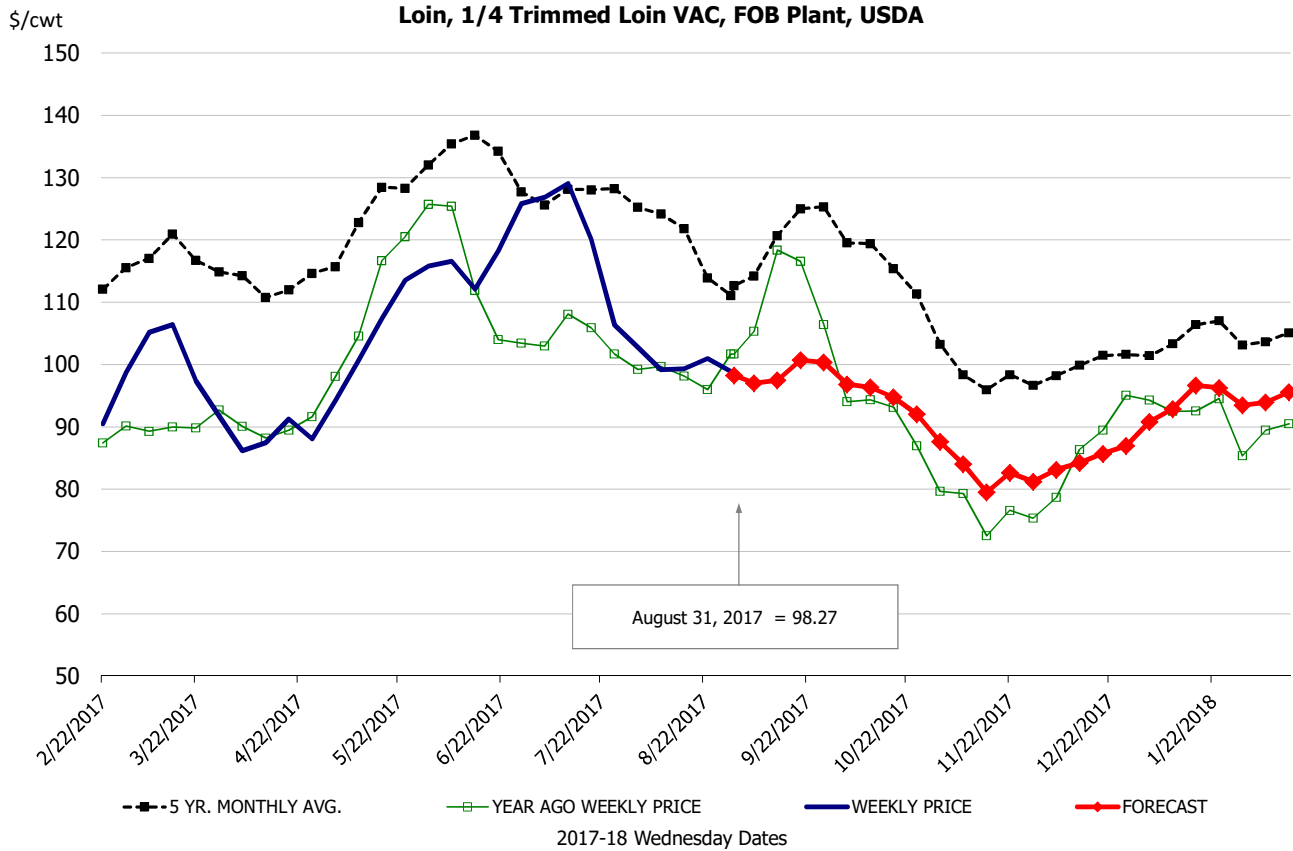
81CL Coarse Ground product finished last week at \$1.8603 up about 2 cent since Wed. August 23 but down about 5 cents from the year ago quote.

90CL Bnls. Beef prices finished the week at \$2.2999 (wt. avg.) down 1.14 cent since Wed. August 23 but up 20 cents compared to the year ago price quote.

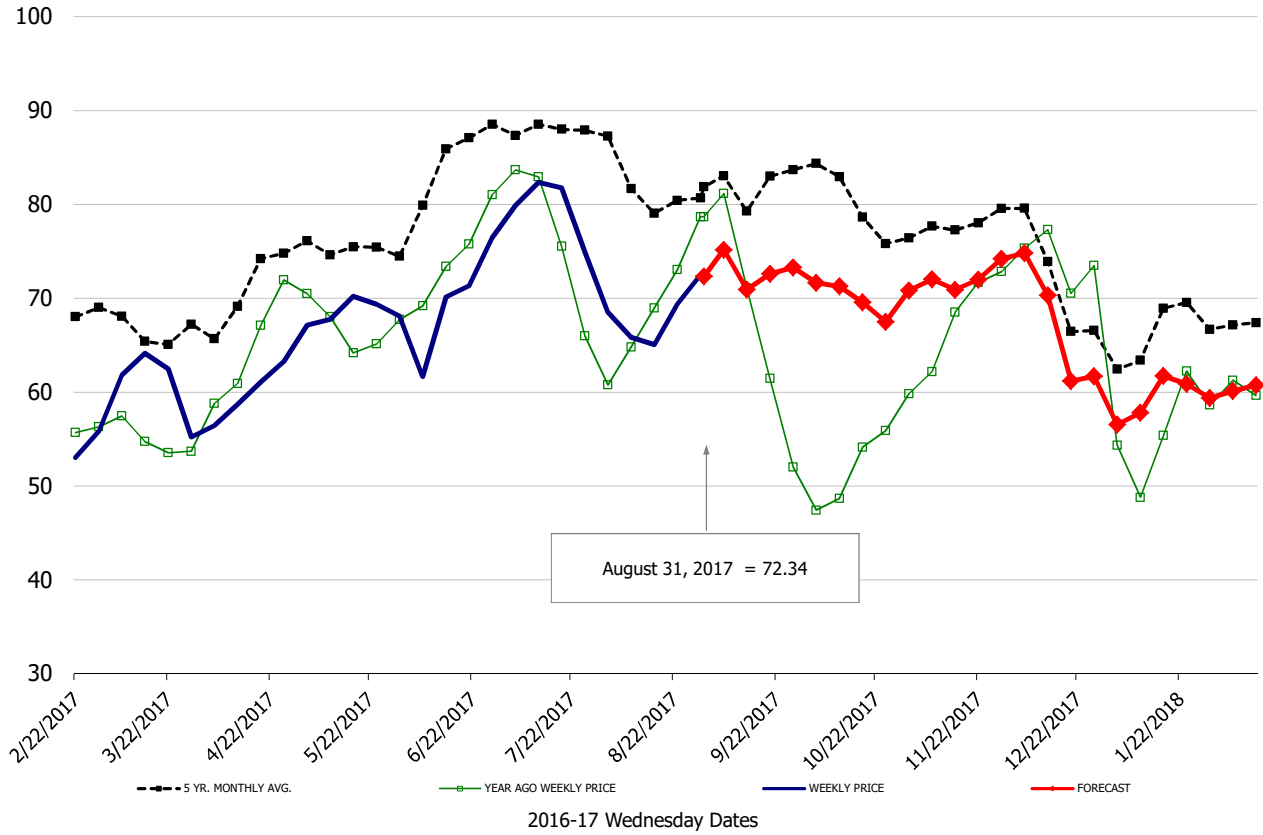
50 CL Beef Trim prices finished last week at \$0.5457, down about 3 cent since Wed. August 23 but up 15 cents compared to the year ago level.

Retail Summary Table - WT. AVE.

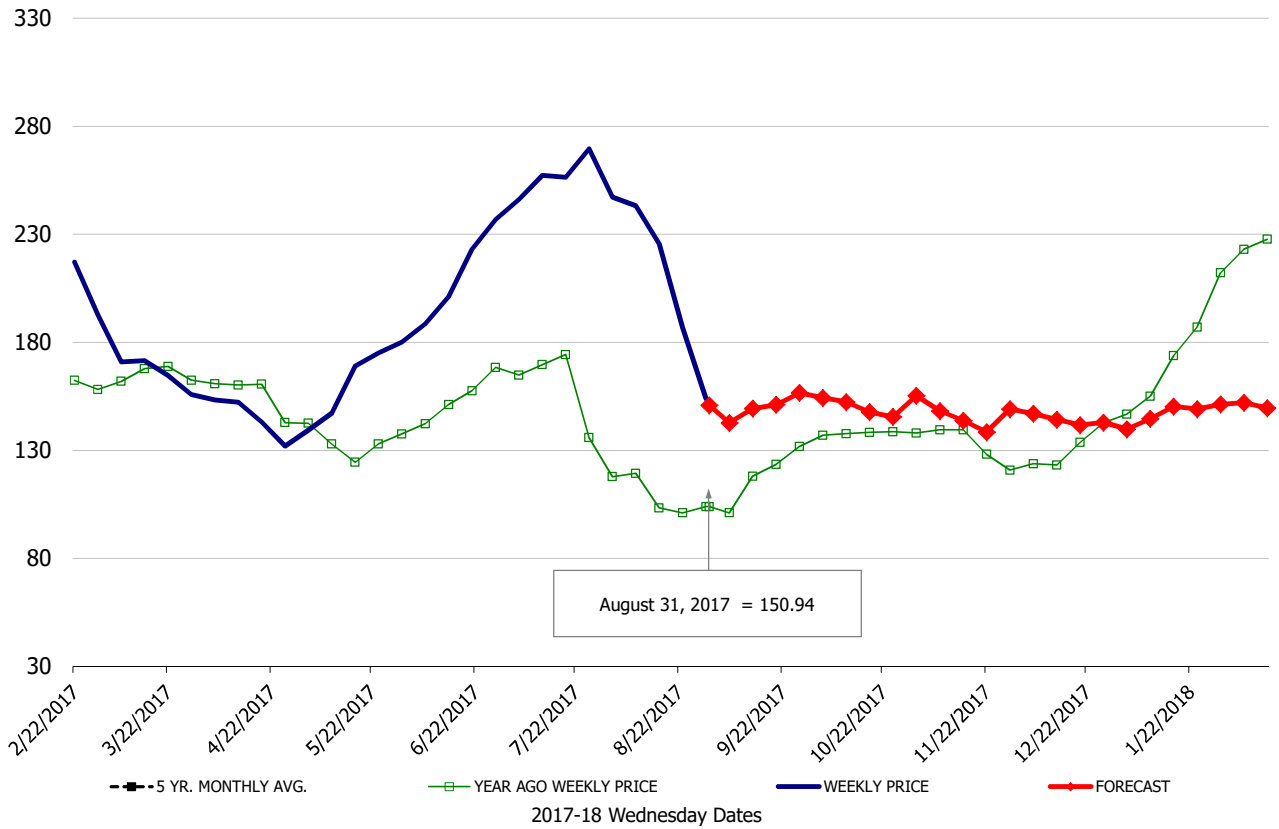
	HISTORY								FORECAST						
	Mar	Apr	May	Jun	Jul	Aug	8/23/2017	8/31/2017	9/13/2017	Sep	Oct	Nov	Dec	Jan	Feb
<u>PORK</u>															
Loin, 1/4 Trimmed Loin VAC, FOB Plant, USDA	99.46	88.05	104.30	117.69	119.37	100.91	100.97	98.27	97	98	95	83	85	94	95
Loin, 1/8 Trimmed Loin VAC, FOB Plant, USDA	107.73	97.15	109.57	122.80	125.82	107.25	103.92	106.06	106	104	99	90	92	100	103
Loin, Bnls CC Strap-off, FOB Plant, USDA	136.34	132.43	144.19	151.43	152.69	143.16	139.15	149.79	144	148	145	133	135	143	142
Butt, 1/4 Trim Butt Combo, FOB Plant, USDA	92.59	89.19	105.42	113.80	108.49	99.16	103.59	102.99	99	98	87	84	85	88	86
Sparerib, Trmd Sparerib - LGT, FOB Plant, USDA	131.76	129.47	142.24	157.60	130.01	136.21	150.61	147.06	136	135	127	125	127	134	133
Sparerib, Trmd Sparerib - MED, FOB Plant, USDA	131.43	127.02	145.15	161.18	139.03	142.58	151.15	143.16	136	133	125	124	123	126	127
Ham, 17-20# Trmd Selected Ham, FOB Plant, USDA	63.22	59.73	68.11	70.39	80.26	73.22	72.32	74.75	72	74	77	77	71	61	62
Ham, 20-23# Trmd Selected Ham, FOB Plant, USDA	61.60	59.93	68.97	70.30	79.25	70.44	72.14	75.43	75	75	73	75	70	61	61
Ham, 23-27# Trmd Selected Ham, FOB Plant, USDA	60.05	59.06	67.94	66.60	78.59	67.26	69.39	72.34	71	73	70	72	67	59	60
Belly Cutout, FOB Plant, USDA	136.45	118.16	129.45	170.83	209.41	177.98	152.01	126.28	123	123	123	120	119	119	125
Belly, Derind Belly 9-13#, FOB Plant, USDA	168.90	143.77	160.70	219.23	256.47	198.33	186.80	150.94	149	150	150	147	144	146	153
Belly, Derind Belly 13-17#, FOB Plant, USDA	166.45	141.23	153.58	205.72	254.70	213.12	184.69	161.91	146	149	149	146	143	147	152
Trim, 42% Trim Combo, FOB Plant, USDA	35.08	34.21	38.73	62.20	68.68	50.21	46.92	33.49	35	33	33	27	25	30	31
Trim, 72% Trim Combo, FOB Plant, USDA	67.74	68.32	79.86	93.78	90.99	66.80	58.87	55.38	54	55	59	55	52	56	61
Trim, Picnic Meat Combo Cushion Out, FOB Plant, USDA	71.23	74.81	82.92	97.01	103.80	80.31	75.78	76.95	72	74	77	75	73	70	69
Carcass Cutout, FOB Plant, USDA	80.11	74.86	84.06	96.53	103.25	92.01	87.93	83.58	83	83	80	75	74	73	75
<u>HOG CARCASS</u>															
IA/MN, Base Market Hog 185 lb Carcass Basis, Plant Div.	66.26	56.67	68.99	82.57	85.48	75.20	69.31	63.91	63	64	62	57	58	62	65
<u>BROILERS</u>															
N.E. BROILER BREAST BONELESS-SKINLESS, USDA	112.62	129.87	153.28	163.75	157.63	145.75	143.28	143.86	141	139	123	112	107	120	119
N.E. BROILER BREAST LINE RUN, USDA	97.39	107.25	119.53	125.43	125.01	117.18	115.14	114.33	112	112	108	100	98	100	101
N.E. BROILER LEG QUARTERS, USDA	37.87	39.06	41.08	41.38	43.31	43.75	43.76	41.84	43	42	40	38	39	41	42
<u>TURKEYS</u>															
UB HEN TURKEYS, EAST, FROZEN 10-12LBS	107.00	107.00	107.00	107.00	107.00	107.00	107.00	107.00	109	109	113	113	109	104	104
UB TOM TURKEYS, EAST, FROZEN 16-22LBS	107.00	107.00	107.00	107.00	107.00	107.00	107.00	107.00	109	109	113	113	109	104	104
<u>LIVE STEERS</u>															
FIVE AREA DIRECT AVERAGE LIVE STEER, USDA	126.90	127.76	136.40	129.82	118.76	113.13	109.68	105.75	107	108	110	113	114	116	117
<u>BEEF</u>															
CHOICE, 161, 1 ROUND, BONELESS, USDA	230.37	221.41	236.28	242.43	236.67	228.31	230.43	230.00	231	227	229	228	225	228	224
CHOICE, 168, 3 TOP INSIDE ROUND, 1/4" MAX, USDA	242.49	214.51	231.79	250.42	232.10	210.95	203.20	202.80	206	205	204	203	205	218	213
CHOICE, 170, 1 BOTTOM GOOSENECK ROUND, USDA	205.71	193.53	209.70	210.32	203.80	205.32	202.02	206.46	207	208	215	203	202	210	206
CHOICE, 184, 3 TOP BUTT, BONELESS, USDA	380.54	358.69	365.43	367.27	378.05	336.83	318.94	272.65	295	290	288	265	266	291	301
CHOICE, 185A, 4 BOTTOM SIRLOIN, FLAP, USDA	503.15	540.49	684.46	624.82	445.05	402.48	465.65	381.28	416	411	405	405	419	435	465
COARSE GROUND 73%, USDA	163.23	159.70	192.80	197.90	175.69	157.19	159.79	159.95	158	155	150	145	143	184	162
COARSE GROUND 81%, USDA	183.71	181.80	214.24	222.10	195.21	178.93	183.74	186.03	183	177	177	172	169	207	184
90% BONELESS BEEF, CENTRAL, FRESH, USDA	214.90	217.24	223.35	230.02	232.75	232.08	231.13	229.99	229	226	211	206	205	204	207
50CL BEEF TRIM, FRESH, NATIONAL, USDA	98.83	105.46	176.71	131.93	92.86	69.15	57.65	54.57	57	55	62	68	65	75	75



Ham, 23-27# Trmd Selected Ham, FOB Plant, USDA

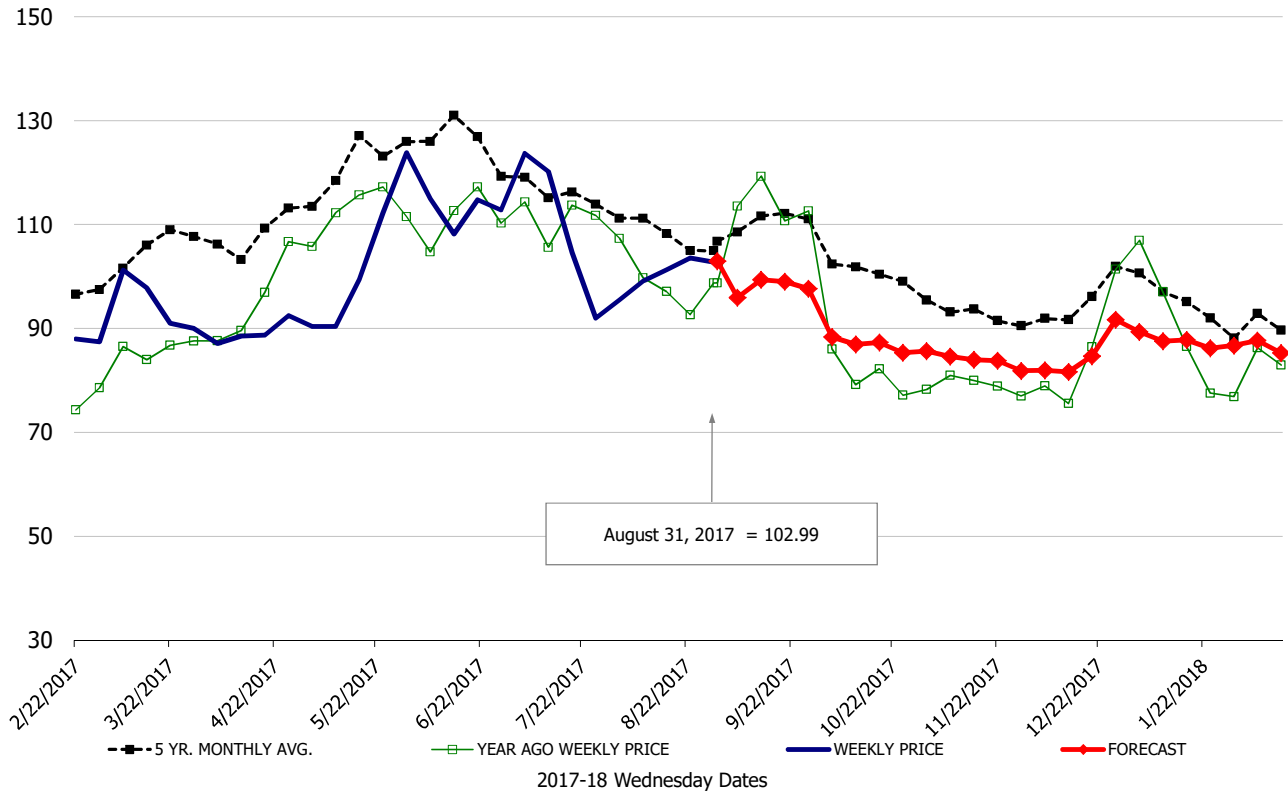


Belly, Derind Belly 9-13#, FOB Plant, USDA



\$/cwt

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



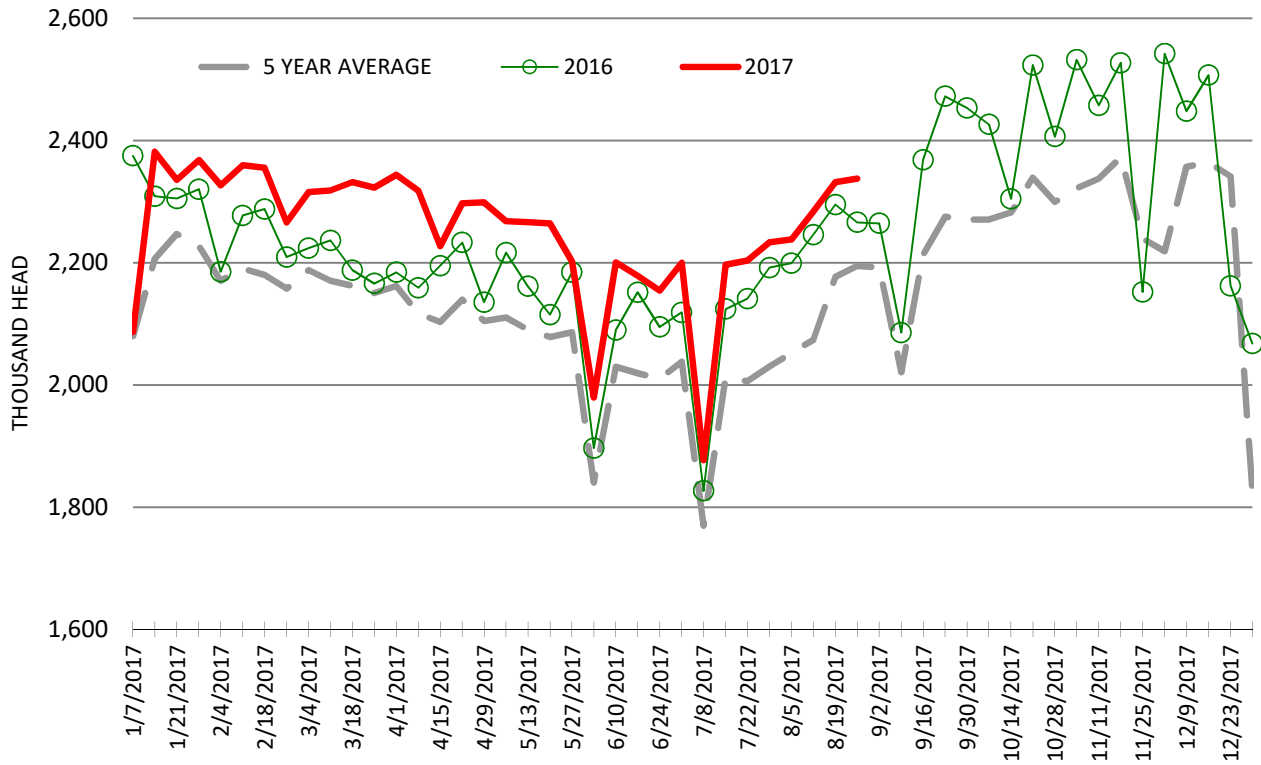
\$/cwt

Trim, 72% Trim Combo, FOB Plant, USDA



ESTIMATED WEEKLY FI HOG SLAUGHTER

Source: USDA, '000 head



ESTIMATED WEEKLY FI HOG SLAUGHTER

Source: USDA, '000 head

