



# Pork Merchandiser's Profit Maximizer

## Be inspired<sup>SM</sup>

- Retail Edition -

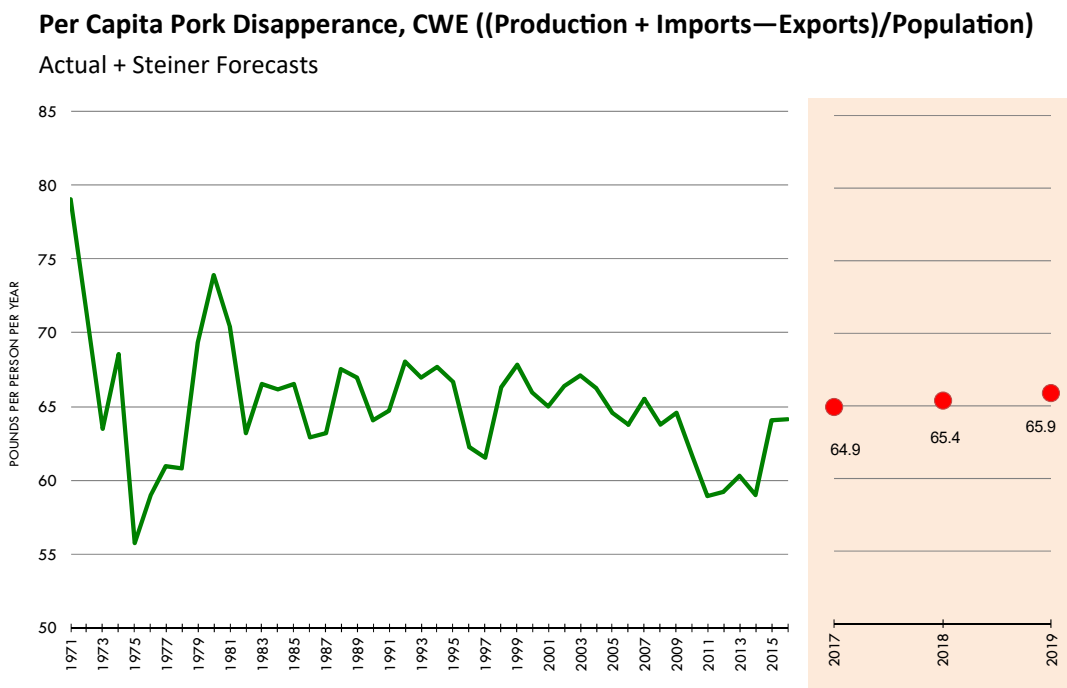
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Prepared by Steiner and Company, Manchester, NH 800-526-4612.

November 13, 2017

### 1. Outlook for 2018

Many end users are currently working on their budget plans for 2018 and we (Steiner) recently updated our outlook for all of next year and an early look at 2019. Some of our thoughts at this point differ from USDA, largely with regard to the amount of pork that will be available in the

US market. This is largely due to the fact that we expect US pork production to increase at a slower pace in 2018 relative to USDA forecasts. The latest USDA projections had US pork production in 2018 at 26.941 billion pounds, 4.6% higher than in 2017. Our forecast is for US pork production to increase by 2.7% next year. We think hog slaughter will increase at a slightly slower pace than in 2017 following the slower growth in breeding



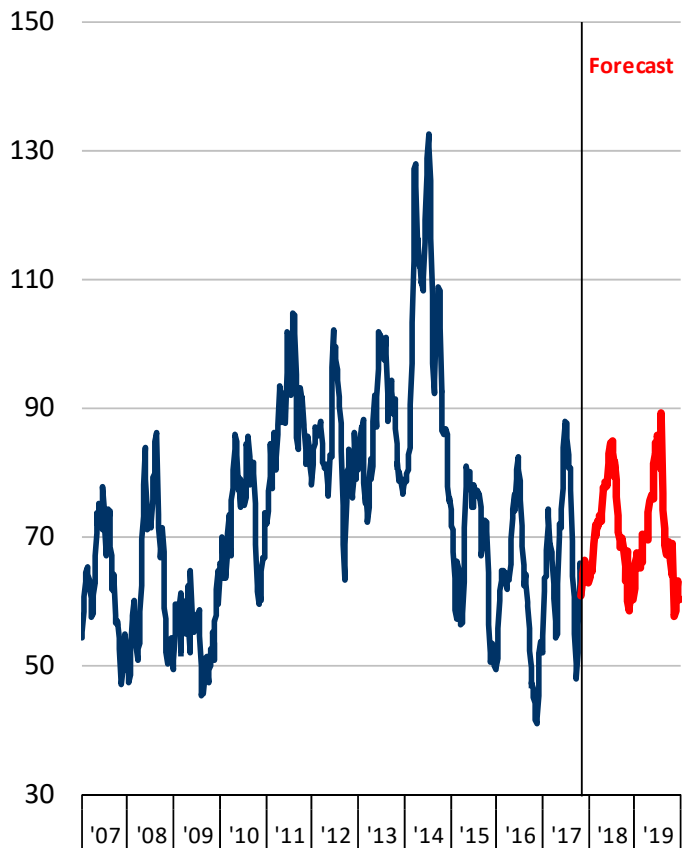
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herd numbers and also a slowdown in the number of pigs saved per litter. We also are more conservative than USDA in terms of carcass weight gains, expecting only a modest increase following this year's actual decline in carcass weights. In addition to expecting less pork pounds coming than USDA projections, we also think that US pork exports will remain on track and expand by 5% next year. The consequence of these differences is that we think per capita availability in the domestic market will be only marginally higher in 2018 and thus we expect pork prices to be only slightly lower while hog prices are expected to actually increase next year. This is significantly different than the USDA forecast, which expects hog prices next year to be down by as much as 8% compared to 2017 levels.

**Additional thoughts about the 2018 outlook**

Annual pork price inflation is expected to remain muted but seasonal volatility for items such as bellies, hams and trimmings will likely remain very high. The timing of retail features and export sales significantly impacted the market in 2017 and this will likely continue to be a feature of the pork complex in the next two years. Low feed costs remain a driving force behind the expansion in the pork industry, more so than for any other protein. Many hog farmers are also corn farmers who are currently struggling with an increasing glut of corn in storage and basis discounts in excess of 20% (i.e. local cash price is as much as 20% lower than futures). The logical alternative has been to convert some of this corn into pork. When this has happened in the past hog/pork prices have declined dramatically in order for the market to absorb the additional supply. But as with beef, growing export and domestic demand has helped producers move more pork with minimal price impacts. Pork production for 2017 is currently estimated at 25.7 billion pounds, 3% larger than a year ago. Despite the increase pork

**IA/MN Lean Hog Price: \$/cwt**



cutout for the year is currently projected at \$83.9/cwt, 6.7% higher than a year ago. The September 1 'Hogs and Pigs' report pegged the breeding herd at almost 6.1 million head, 1.2% higher than the previous year and the largest in a decade. The combination of a larger breeding herd and continued productivity improvements should bolster pork production in 2018 and 2019. Our current forecast is for pork production to increase 2.7% in 2018 and 1.9% in 2019. Exports hold a 22% share of US pork production and have accounted for 2/3 of the overall growth in US pork production for the last two decades. Pork exports for 2017 are projected at 5.581 billion pounds, 6.5% higher than a year ago. Exports are expected to increase by 5% in 2018 and 2.7% in 2019. China is a major wild card with regard to US pork exports. A recent announcement from a Chinese company to purchase \$1billion worth of US pork over three

years has the potential to add 6% points to US pork exports in the next three years. US per capita availability next year is projected at 65.4 pounds per person (carcass wt.), 1% higher than in 2017

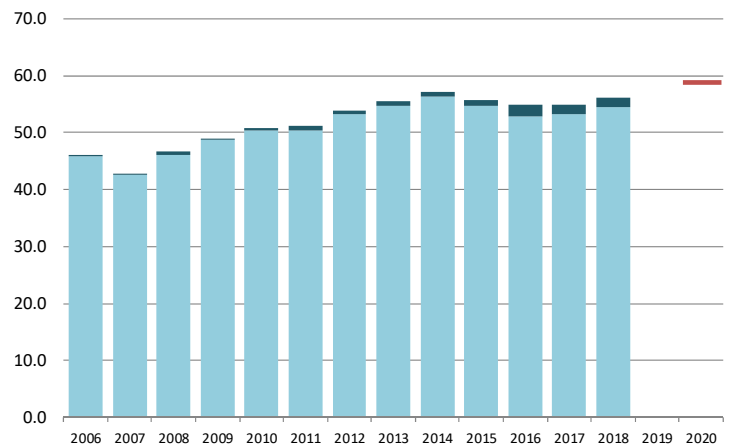
**Price Outlook:** The average 2017 hog carcass price (IA/MN base) is currently projected at \$67.4/cwt, 10.5% higher than a year ago while the pork cutout at \$83.9/cwt is up 6.7%. Processor margins have come under pressure recently as two new plants have added to competition for hogs. Another plant is scheduled to open in 2018 while another plans to run a second shift. The additional processing capacity should help accommodate the expected increase in production. Hog carcass prices next year are expected to average around \$71/cwt while the pork cutout is expected to be modestly lower (down 1.1%). We expect hog and pork prices to drift lower in 2019, largely a function of increasing supply availability. The outlook for US pork exports will remain a key risk. More exports to China are certainly bullish. However, the FTA between Japan and EU, unravelling of NAFTA and a TPP minus US could present significant headwinds for US pork.

**2. China expected to increase purchases of US pork in the next three years**

According to a number of media reports, a major Chinese e-commerce company has agreed to purchase \$1.3 billion of US beef and pork products. Based on the reporting so far, it appears that the deal involves a \$300 million deal with the Montana Stockgrowers Association, \$100 million of that amount going towards a new packing plant. While many of the headlines focused on the beef portion of the deal, we think the recent announcement is more important for the pork market. Based on the reporting we have seen so far, the Chinese purchase involves around a billion dollars worth of pork products, which is expected to go to a

**China Pork Consumption & Import Share**

Data Source: USDA Foreign Agricultural Service. Million MT. Carcass Wt. Basis



major US pork producer. Chinese authorities do not allow pork from hogs that have been treated with ractopamine but US hog producers in recent years have expanded the supply of such pork. Different from beef, where the demand will likely be for specific primals, it is likely that Chinese buyers will take most of the pork from the carcass, making it easier to justify the additional cost. The latest USDA report noted that the premium for beta agonist free pork is 80 cents per cwt (carcass wt.) or \$1.68 for a hog carcass. China has purchased an average of \$20 million worth of US fresh/frozen pork a month so far this year and an additional \$22 million/moth of US pork by-products. Total Chinese purchases of US pork and pork by products through September were \$374 million and we are on track to be at half a billion for the entire 2017. If the Chinese pork deal comes to fruition, it would represent a 60% increase in US dollar exports to China and a 6% increase in total US export dollars. China is for the most part self sufficient in pork but the sheer scale of consumption there implies that even small changes in imports can have very significant impacts in global pork trade. As US hog production continues to expand, such deals are critical to maintain this expansion on track.

**Upcoming holidays:**

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 November 11 slaughter was 2.495 million head, up 1.5% from a year ago. In the last two weeks hog slaughter is down 1.0% vs. year ago levels.**

**Iowa/Minnesota, Base Negotiated Purchase for Barrows and Gilts.** Lean hog carcass values at about 65.69 /cwt. on Friday were up \$2.2/cwt since Wed. November 1. Prices are up about 24.3 \$/cwt compared to year ago values.

**Loin, 1/4 Trimmed Loin VAC, FOB Plant, USDA** (page 8). Prices finished last week at \$0.9213, up about 0.1 cent since the Wed. November 1 quote and up about 13 cents from year ago levels.

**Bnls. Strap on Pork Loins.** Prices finished the week at \$1.1527 for the strap on loins, down 2.4 cent since Wed. November 1 but up one cent from the year ago levels. Strap off loins at \$1.3999 are up 4.9 cent since Wed. November 1 and up about 11 cent compared to the year ago quote.

**Boneless sirloins** at \$1.1691 are down about 3 cents from the Wed. November 1 quote and down about 1.3 cents from the year ago price.

**Pork tenderloin** finished last week at \$2.0479, down 6 cent since the Wed. November 1 quote but up about 11.7 cents from the year ago price.

**1/4 Trim Pork Butts** (page 10), prices finished the week at \$1.0124, up 2.9 cents since

Wed. November 1. Prices are up 5 cent from a year ago.

**Spare Ribs, Trimmed - LGT, Vac** (page 8). Prices finished the week at \$1.3836, up about 3 cent since Wed. November 1 and up about 21 cents from year ago levels.

Rib inventories on September 30 were 86.6 million pounds, up 3.4% percent from a year ago.

**Bone-in Hams.**

17/20 hams (page 9) price was \$0.7664/lb., up 1 cents since Wed. November 1 and up about 13 cents from a year ago.

20/23 hams finished the week at 76.03 cents, up about 0.5 cents since Wed. November 1 and up about 11 cents from the year ago level.

23/27 hams finished the week at 73.45 , up about 1 cent from the Wed. November 1 quote and up about 11 cents from the year ago level.

Total ham cold storage stocks on September 30 at 232.0 million pounds were down slightly from year ago levels.

**42 CL Pork Trim** “FOB Basis”. Prices finished the week at 27.33 cents, up about 1.3 cent since Wed. November 1 and up about 4.3 cents from the year ago price.

**72 CL Pork Trim** “FOB Basis”. Prices finished the week at 62.02 cents, up 1.1 cents since the Wed. November 1 quote and up about 17 cents from the year ago level.

Freezer stocks of all trimmings on September 30 were 34.8 million pounds, down 2.7% 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 84.41 on Friday, November 11, up about 6 cents from a year ago.

Broiler slaughter for the week ending November 11 was 165.37 million head, up 3.62% from a year ago. For the last two weeks broiler slaughter was up 3.3% vs. a year ago.

**Breasts.** Prices on boneless skinless breasts finished the week at \$1.1512, up 8 cents since Wed. November 1 and still up about 14 cents from year ago levels.

**Leg Quarters.** This market continues to be export driven. Last week leg quarter prices were up about 1.65 cents vs. two weeks ago and at 40.01 cents per pound prices were up 8 cents from a year ago.

**Wings.** Prices at \$1.9879 are up about 16 cents from year ago levels.

## **Turkeys**

**Hens** finished last week at \$1.0700, unchanged cent since Wed. November 1 but down about 23 cents from the year ago price.

**Toms** finished last week at \$1.0700, unchanged since Wed. November 1 but down about 22 cent from the year ago price.

Total turkey supplies in the freezer on September 30 were up 11.2% from a year ago at 568.2 million pounds. Whole birds were up 22.7% from a year ago with an inventory of 330.3 million pounds.

Turkey slaughter was 5.2810 million head for the week ending November 4, down -2.67% from a year ago. For the last two weeks slaughter has been down 1.7%.

**Boneless Turkey Breast Meat.** Boneless skinless turkey breast meat prices finished last week at \$1.5500, unchanged since Wed.

November 1. Prices are down about 58 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 \$2.1609 for 90CL and \$0.7081 for 50CL product, an 81CL meat block value is now \$1.8340 and a 78CL meat block is \$1.7251. Choice 114, 3 Clods are now being priced 26.07 cents over 81CL meat block grinding values of 90s and 50s. A year ago the spread was 16.09 cents and the five year average spread for is 41.35 cents over.

**Select #115 chucks** also are no longer being quoted.

**Choice #161 Boneless Rounds** finished last week at \$2.2400, up slightly since Wed. November 1 and up about 9 cents from year ago levels.

**Choice #184 Regular Heavy top butts** finished at \$2.6890 (wt. avg.) up about 22 cents since Wed. November 1 and up about 48 cent from year ago levels.

**Choice #184 ¼ inch trimmed Top Butts** finished at \$2.8584 (wt. avg.) up about 12.5 cents since Wed. November 1 and up about 63 cents from the year ago levels.

### **COARSE GROUND BEEF –**

**73CL Coarse Ground** product finished last week at \$1.5977 up about 7 cents since Wed. November 1 and up about 39 cents from year ago levels.

**81CL Coarse Ground** product finished last week at \$1.8262 up about 3 cent since Wed. November 1 and up about 19 cents from the year ago quote.

**90CL Bnls. Beef** prices finished the week at \$2.1609 (wt. avg.) up 3.88 cent since Wed. November 1 and up 21 cents compared to the year ago price quote.

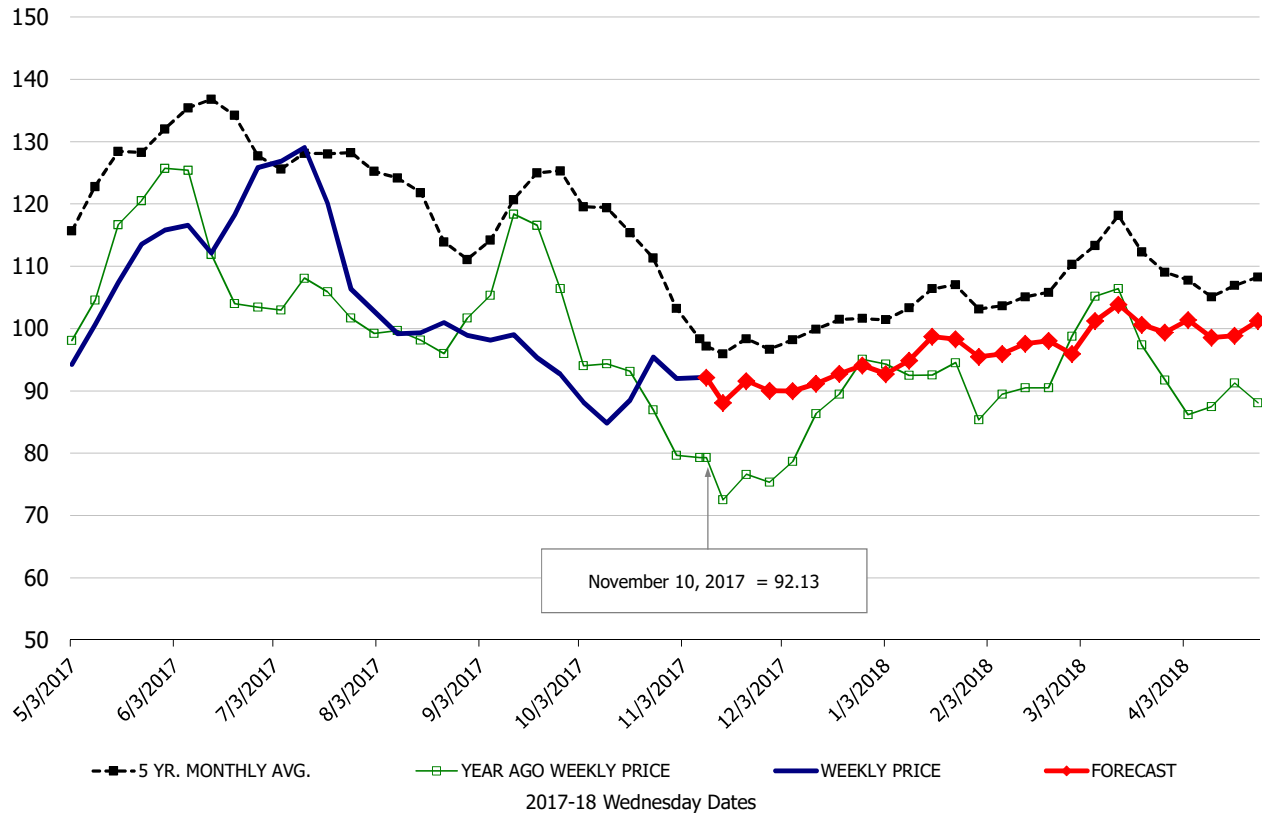
**50 CL Beef Trim** prices finished last week at \$0.7081, down about 4 cent since Wed. November 1 but up 17 cents compared to the year ago level.

## Retail Summary Table - WT. AVE.

	HISTORY								FORECAST						
	May	Jun	Jul	Aug	Sep	Oct	11/1/2017	11/10/2017	11/22/2017	Nov	Dec	Jan	Feb	Mar	Apr
<b><u>PORK</u></b>															
Loin, 1/4 Trimmed Loin VAC, FOB Plant, USDA	104.30	117.69	119.37	100.76	95.20	89.14	92.00	92.13	92	92	92	96	97	101	100
Loin, 1/8 Trimmed Loin VAC, FOB Plant, USDA	109.57	122.80	125.82	107.19	100.66	93.27	95.14	94.30	92	94	95	102	105	108	107
Loin, Bnls CC Strap-off, FOB Plant, USDA	144.19	151.43	152.69	143.52	144.51	136.60	135.12	139.99	140	140	142	145	144	147	144
Butt, 1/4 Trim Butt Combo, FOB Plant, USDA	105.42	113.80	108.49	99.23	92.77	87.23	91.05	86.09	101	101	95	91	89	96	100
Sparerib, Trmd Sparerib - LGT, FOB Plant, USDA	142.24	157.60	130.01	136.49	135.05	128.71	135.24	138.36	137	138	137	137	136	140	139
Sparerib, Trmd Sparerib - MED, FOB Plant, USDA	145.15	161.18	139.03	142.61	133.22	128.54	130.58	135.84	135	135	132	132	132	133	133
Ham, 17-20# Trmd Selected Ham, FOB Plant, USDA	68.11	70.39	80.26	73.22	63.32	68.97	75.29	76.64	80	80	74	64	65	62	64
Ham, 20-23# Trmd Selected Ham, FOB Plant, USDA	68.97	70.30	79.25	70.55	66.18	68.74	75.99	76.03	77	77	73	64	64	62	64
Ham, 23-27# Trmd Selected Ham, FOB Plant, USDA	67.94	66.60	78.59	67.33	63.74	66.19	72.74	73.45	74	74	70	62	63	59	62
Belly Cutout, FOB Plant, USDA	129.45	170.83	209.41	175.73	104.37	95.20	104.63	118.37	114	118	121	121	127	130	129
Belly, Derind Belly 9-13#, FOB Plant, USDA	160.70	219.23	256.47	193.19	135.34	117.03	133.87	147.75	138	147	148	149	156	160	159
Belly, Derind Belly 13-17#, FOB Plant, USDA	153.58	205.72	254.70	210.81	124.93	116.95	127.85	145.17	143	145	147	150	157	160	158
Trim, 42% Trim Combo, FOB Plant, USDA	38.73	62.20	68.68	49.73	33.37	25.89	25.99	27.33	24	27	25	31	32	36	38
Trim, 72% Trim Combo, FOB Plant, USDA	79.86	93.78	90.99	66.34	59.76	62.05	60.95	62.02	56	62	60	62	63	62	67
Trim, Picnic Meat Combo Cushion Out, FOB Plant, USDA	82.92	97.01	103.80	80.15	86.68	85.45	81.94	79.62	76	80	78	74	73	72	77
Carcass Cutout, FOB Plant, USDA	84.06	96.53	103.25	91.64	77.94	74.50	78.03	80.67	79	80	79	78	81	81	82
<b><u>HOG CARCASS</u></b>															
IA/MN, Base Market Hog 185 lb Carcass Basis, Plant Div.	68.99	82.57	85.48	74.10	54.07	58.75	63.54	65.69	64	65	64	64	70	72	74
<b><u>BROILERS</u></b>															
N.E. BROILER BREAST BONELESS-SKINLESS, USDA	153.28	163.75	157.63	145.75	131.91	115.16	106.93	115.12	111	112	112	121	123	129	142
N.E. BROILER BREAST LINE RUN, USDA	119.53	125.43	125.01	117.18	98.82	82.01	83.05	82.74	83	83	88	99	103	104	109
N.E. BROILER LEG QUARTERS, USDA	41.08	41.38	43.31	43.75	42.28	39.99	38.37	40.01	40	40	40	41	43	44	45
<b><u>TURKEYS</u></b>															
UB HEN TURKEYS, EAST, FROZEN 10-12LBS	107.00	107.00	107.00	107.00	107.00	107.00	107.00	107.00	107	107	105	104	104	106	109
UB TOM TURKEYS, EAST, FROZEN 16-22LBS	107.00	107.00	107.00	107.00	107.00	107.00	107.00	107.00	107	107	105	104	104	106	109
<b><u>LIVE STEERS</u></b>															
FIVE AREA DIRECT AVERAGE LIVE STEER, USDA	136.40	129.82	118.76	113.13	105.98	109.79	116.81	123.42	125	125	124	127	129	130	129
<b><u>BEEF</u></b>															
CHOICE, 161, 1 ROUND, BONELESS, USDA	236.28	242.43	236.67	228.59	221.60	226.21	222.19	224.00	231	232	237	246	247	245	236
CHOICE, 168, 3 TOP INSIDE ROUND, 1/4" MAX, USDA	231.79	250.42	232.10	210.80	204.34	215.92	221.82	236.62	236	236	233	242	239	241	232
CHOICE, 170, 1 BOTTOM GOOSENECK ROUND, USDA	209.70	210.32	203.80	205.36	212.05	207.88	207.00	218.50	219	219	219	238	235	218	206
CHOICE, 184, 3 TOP BUTT, BONELESS, USDA	365.43	367.27	378.05	333.81	271.78	254.23	273.86	285.84	286	285	286	309	321	356	371
CHOICE, 185A, 4 BOTTOM SIRLOIN, FLAP, USDA	684.46	624.82	445.05	400.43	388.69	412.17	451.97	481.06	485	481	475	496	499	527	570
COARSE GROUND 73%, USDA	192.80	197.90	175.69	157.29	148.80	135.06	152.66	159.77	156	160	157	196	174	174	169
COARSE GROUND 81%, USDA	214.24	222.10	195.21	179.15	175.23	164.86	179.23	182.62	174	183	185	223	199	196	189
90% BONELESS BEEF, CENTRAL, FRESH, USDA	223.35	230.02	232.75	232.05	224.34	215.51	212.21	216.09	216	216	220	225	236	244	242
50CL BEEF TRIM, FRESH, NATIONAL, USDA	176.71	131.93	92.86	68.58	45.07	56.49	74.62	70.81	70	74	74	79	79	94	88

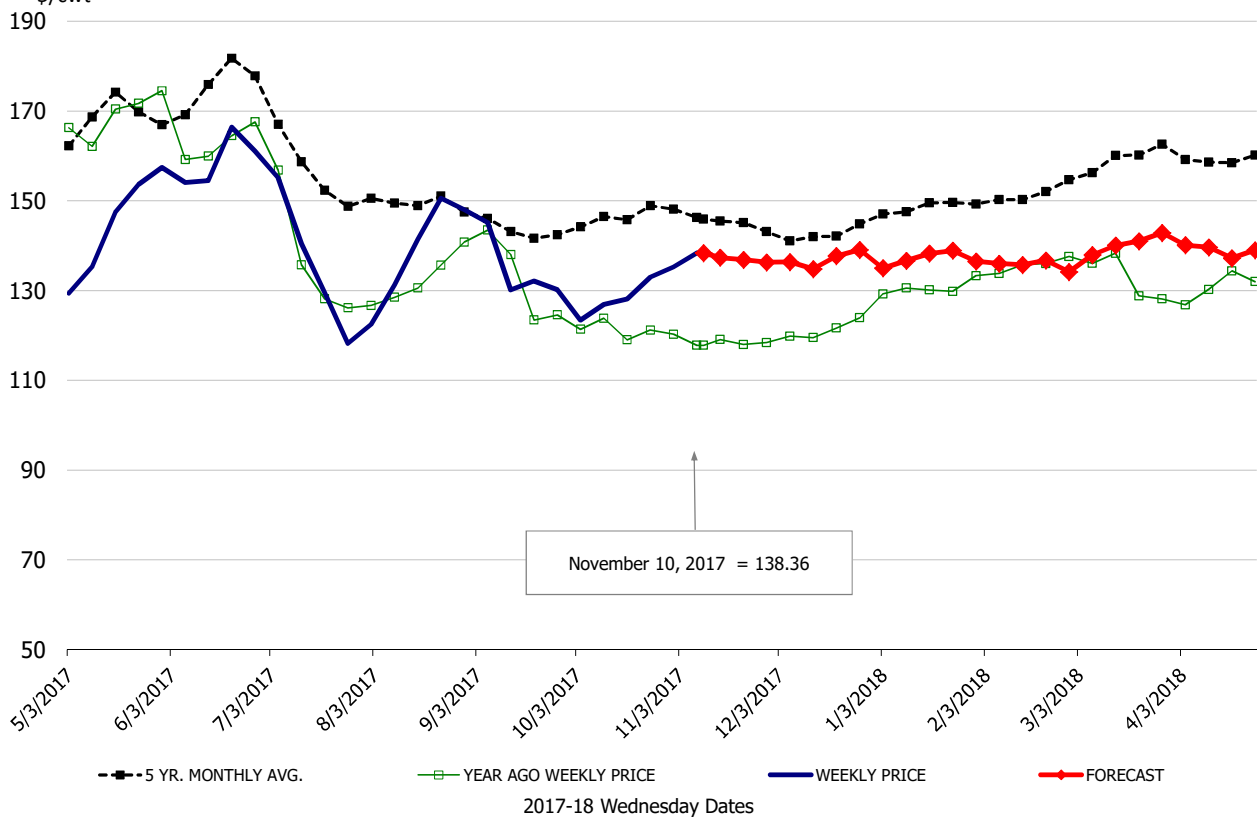
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### Loin, 1/4 Trimmed Loin VAC, FOB Plant, USDA



\$/cwt

### Sparerib, Trmd Sparerib - LGT, FOB Plant, USDA

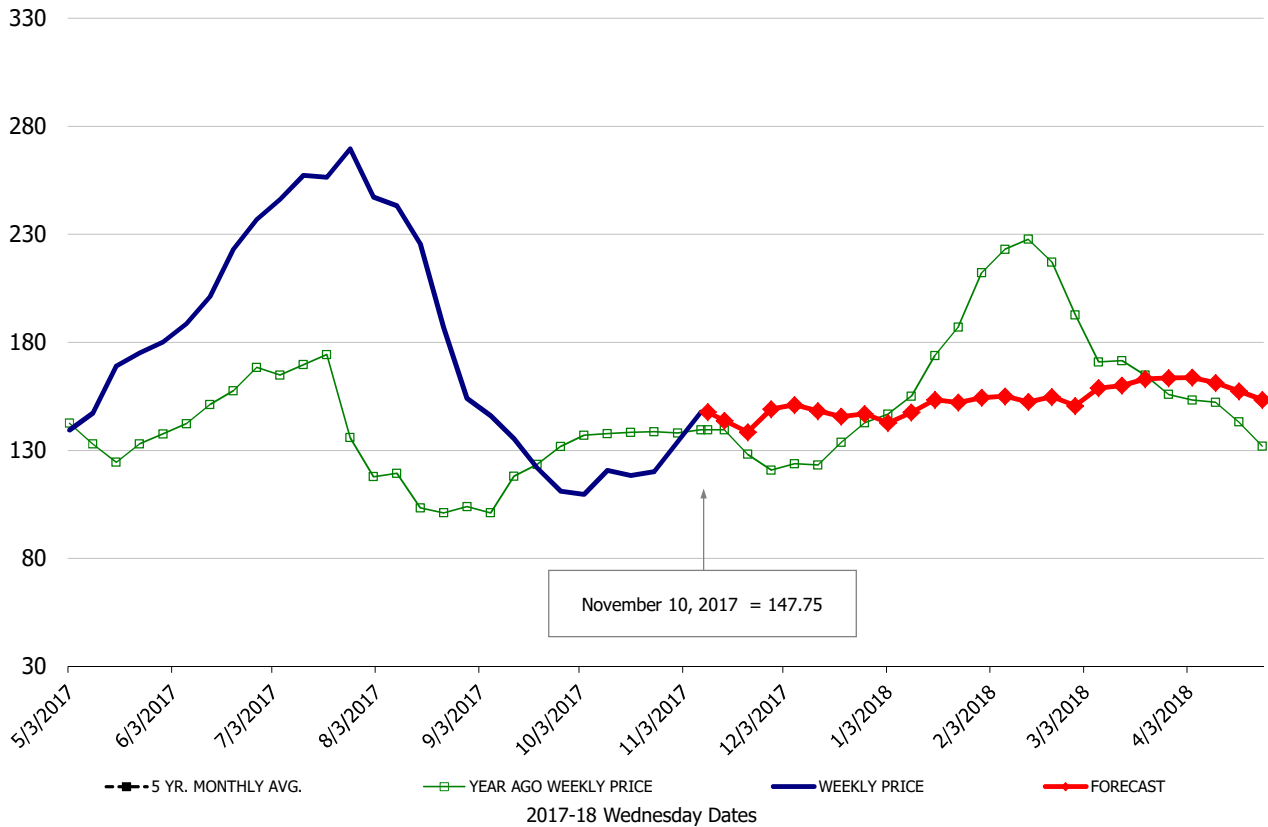




**Ham, 23-27# Trmd Selected Ham, FOB Plant, USDA**

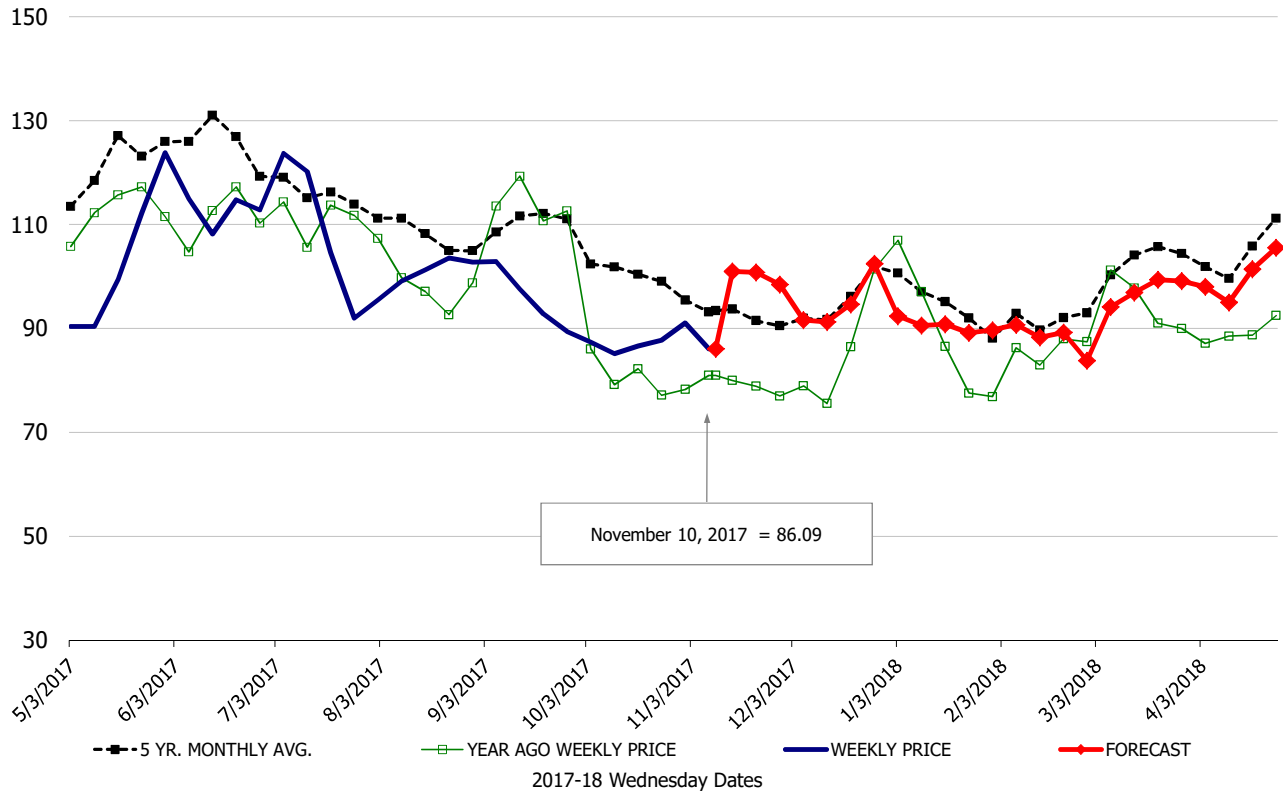


**Belly, Derind Belly 9-13#, FOB Plant, USDA**



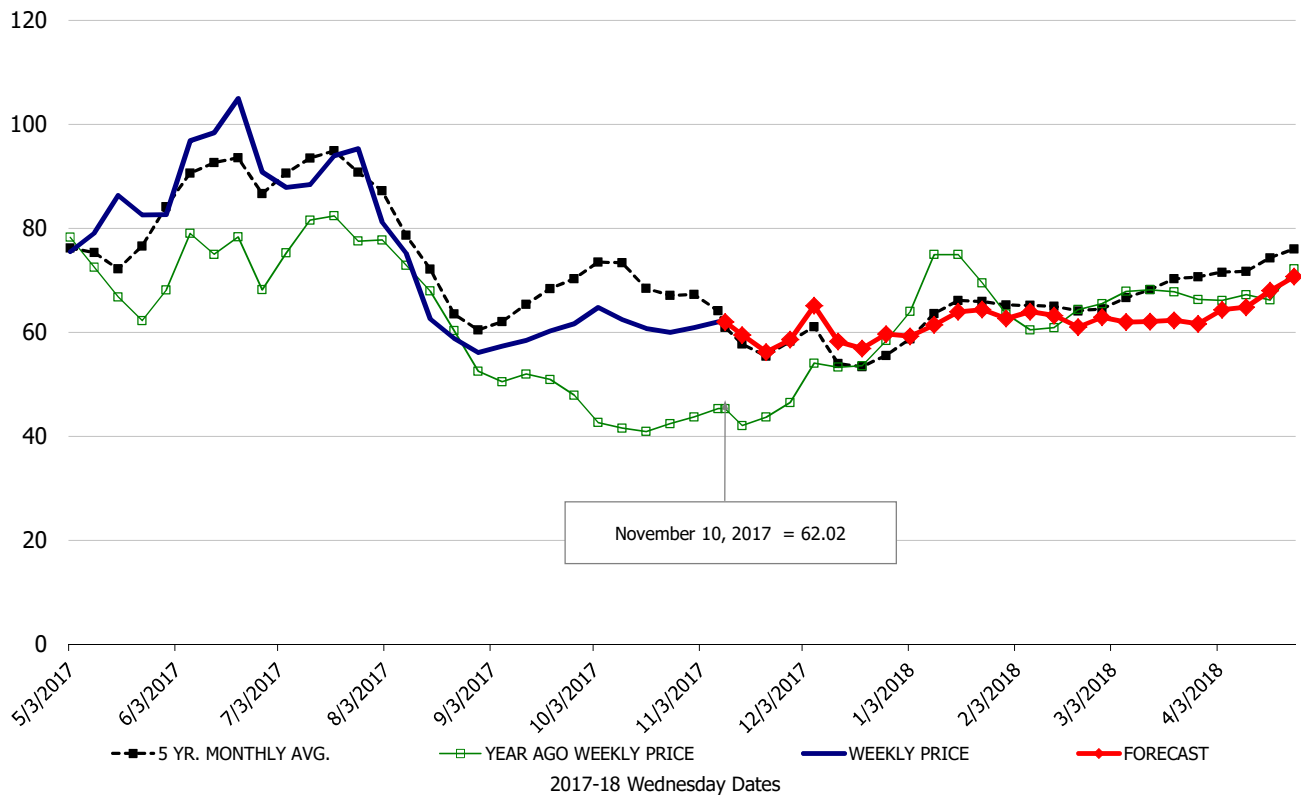
\$/cwt

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



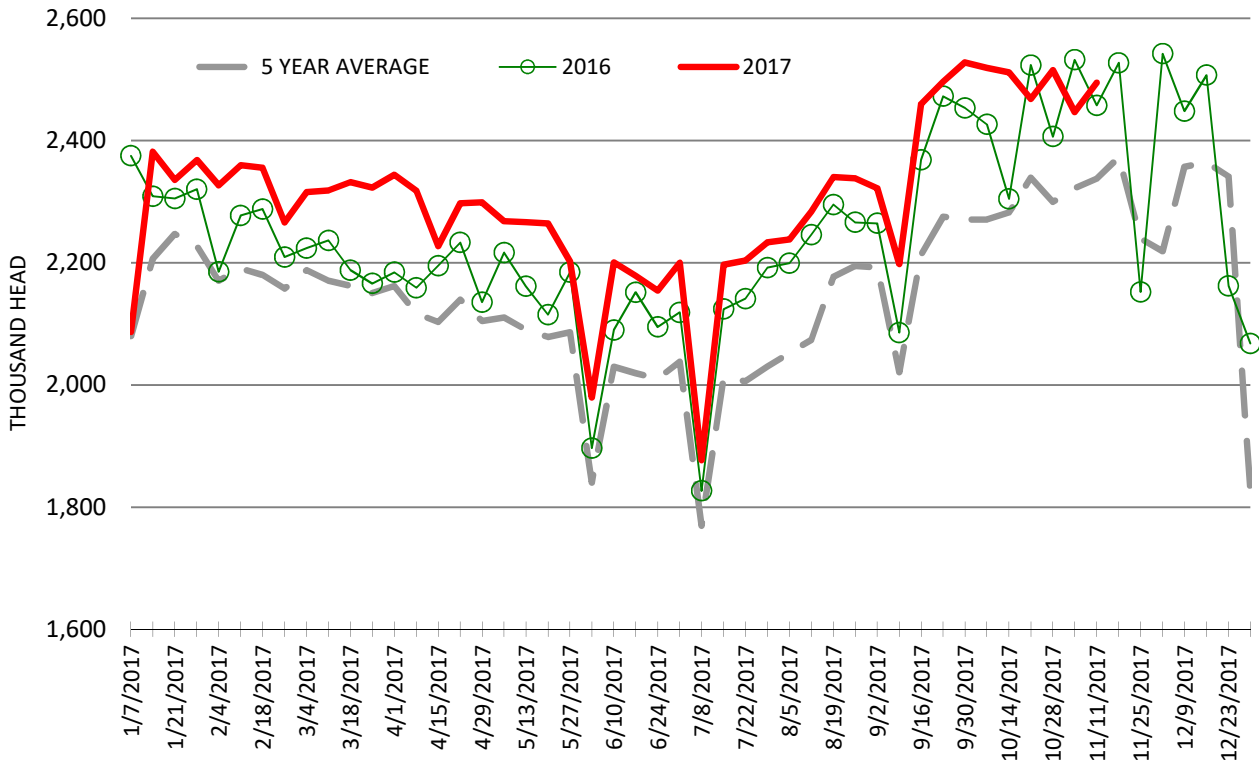
\$/cwt

### 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

