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Pork Merchandiser's Profit Maximizer

- Retail Edition -

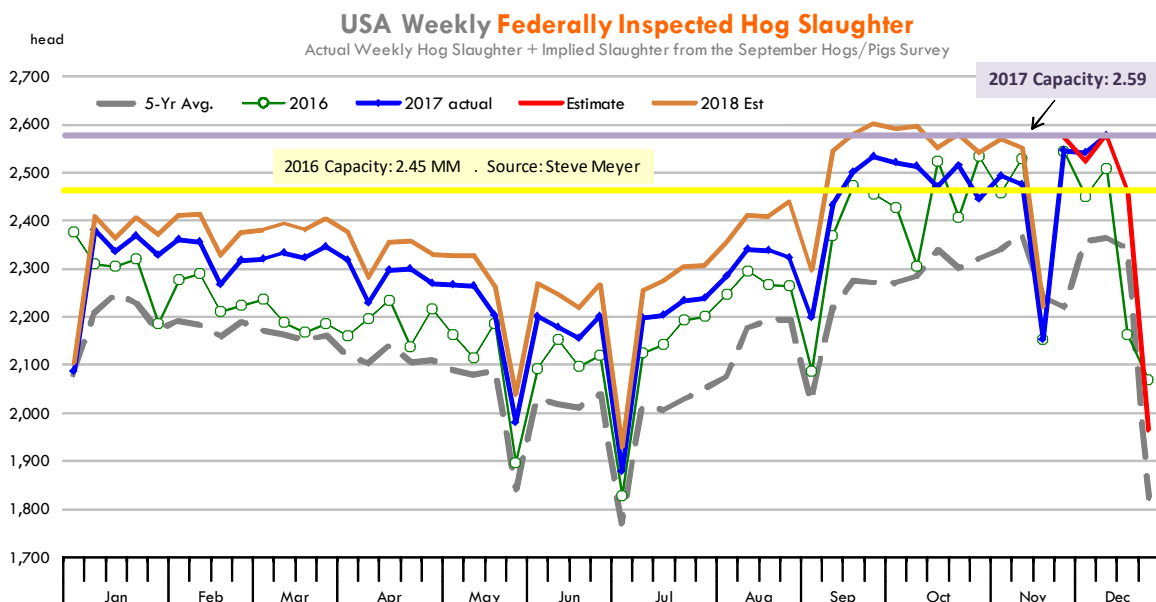
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Prepared by Steiner and Company, Manchester, NH 800-526-4612.

December 26, 2017

1. Latest hog inventory data points to ample pork supplies in 2018. Demand, especially export demand, remains a key wild card for pork prices.

The US hog industry has been expanding since 2013 and, based on the latest inventory survey results, expansion is expected to continue

through much of 2018. The US pork market has been well supplied for much of this year but the timing of retail promotions and excellent export demand created a significant amount of volatility. While we expect pork prices to be modestly lower compared to 2017 levels, the pork market will likely remain quite volatile and managing volatility should continue to be a major focus of your purchasing and merchandising efforts. The chart

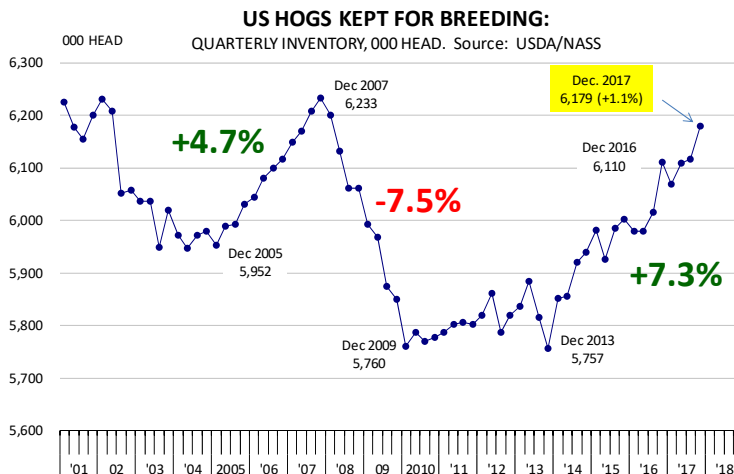


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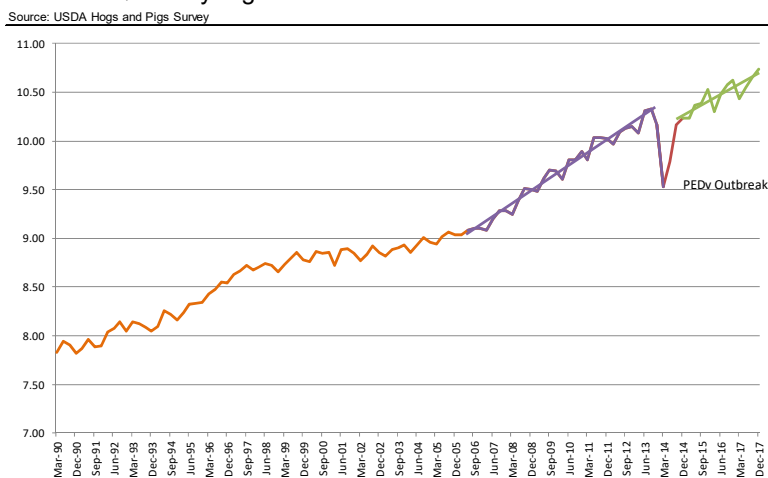
below shows the implied weekly hog slaughter based on the latest inventory data. Some of the highlights and implications follow:

- **The total inventory of hogs and pigs on December 1, 2017 was estimated at 73.230 million hogs, 2.4% higher than a year ago.** Prior to the report analysts were looking for a 2% increase in the total inventory. The total inventory is made up of market hogs, which are hogs that will come to slaughter in the next few months, as well as animals that are kept for breeding purposes. We discuss the breeding herd in the next bullet point. The inventory of market hogs was estimated at 67.051 million, 2.5% higher than last year and 0.4 pct points higher than estimates. Looking at the breakdown of market hog inventories, we note that the USDA survey implies more hog this coming spring than analysts were expecting. The inventory of hogs weighing between 50 and 119 pounds was 18.546 million head, 2.5% higher than last year and 0.6 points higher than estimates. These are hogs that will likely come to market between late February and early April. The inventory of pigs under 50 pounds, which should come to market in Apr and May was 21.447 million head, 2.7% higher than a year ago. This increase in the number of hogs scheduled to be marketed during Mar-May is somewhat lower than the numbers implied by the Sep-Nov pig crop, which was up 3.2% from year ago levels.

- **One of the key numbers we were looking for ahead of the report was the size of the breeding herd.** Our initial estimate was for the breeding herd to expand by 1.2% compared to a year ago, a bigger increase than pre-report estimates were expecting. The key factor that drove our forecast was the expectation that producer profitability remains solid and this continues to drive gilt retention. The USDA survey pegged the total breeding herd inventory at 6.179 million head, 1.1% above last year's levels. As the chart to the right illustrates, the hog breeding herd has in-



Trend in Quarterly Pigs Saved Per Litter



creased by 7.3% since December 2013 and it is now at the highest point since December 2008. Low feed costs, the ability to lock in a healthy profit for 2018 via the futures board, and the increase in processing capacity, have all contributed to the continued expansion of the breeding herd. A larger breeding herd and incremental productivity improvements have bolstered overall hog supplies and should cause pork production next year to expand by another 3%.

- **The increase in the breeding herd sets the stage for larger pig crops in Dec-Feb (summer slaughter) and Mar-May (fall slaughter).** US producer indications of the farrowing intentions have been consistently off the market for the last few quarters and we think this has caused futures markets to question this part of the report. Farrowing intentions for the Dec-Feb peri-

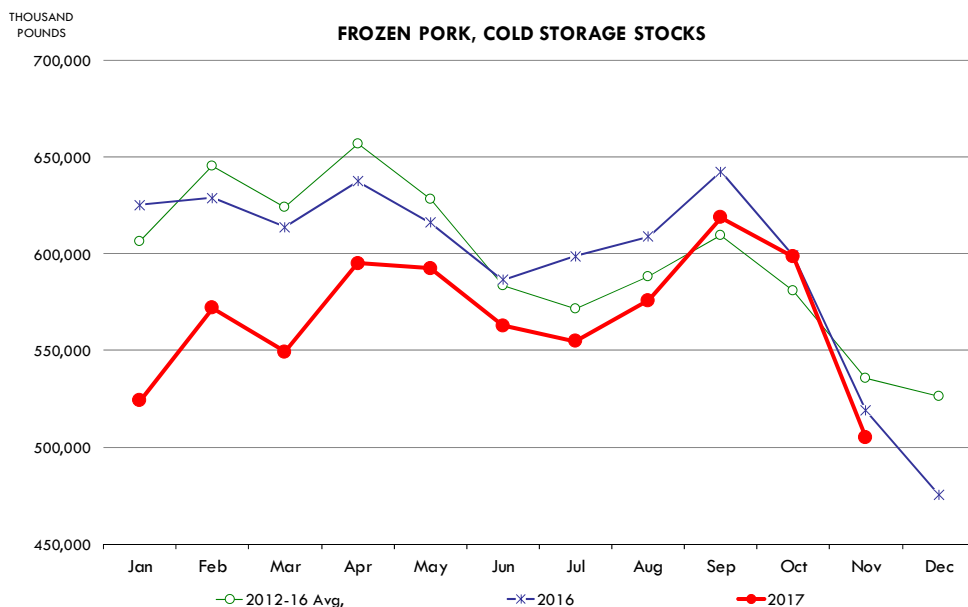
od show an increase of 2.8% compared to a year ago, which is quite significant if it does materialize. The number of pigs saved per litter in the Sep-Nov quarter was 1% above the previous year. In the last six quarters pigs saved per litter have increased by an average of 1.1%. If this trend continues, we could see anywhere between 3.5% and 4% more pigs come to market in Jun-Aug. We have not included this forecast in our supply/demand table but at this point this is a distinct possibility. Farrowing intentions for Mar-May were up 2.3% from a year ago. Combined with a 1% increase in pigs per litter, this would imply a +3% increase in slaughter during Sep-Nov, all but assuring new all time record hog supplies next fall. Hog processing capacity has been expanding and it appears that hog supplies will be adequate to support the increase in capacity.

2. Cold storage stocks at the end of November

The supply of red meat and poultry in cold storage is higher than a year ago but the drawdown in stocks during November suggests demand remains in good shape. The total supply of beef, pork, chicken and turkey in cold storage at the end of November was 2.179 billion pounds, 4.9% higher than a year ago and 10.2% higher than the five year average. However, the drawdown in stocks during November was 10.7% compared to 9.3% average of the last five years.

According to USDA, there were 505.0 million pounds of pork in cold storage at the end of last month, 2.7% less than a year ago and 5.7% less than the five year average. What is even more impressive is that in-

ventories declined 15.6% from the previous month. In the last five years the average draw-down in freezer stocks has been 7.8%. Part of the reason for the decline in inventories is the increase in hog slaughter and ample product availability. With slaughter expected to remain historically large in 2018, packers and end users continue to be very aggressive in liquidating inventories during key holiday periods. Ham inventories at the end of November were 98.2 million pounds, a 50% decline from the previous month and the biggest drawdown in stocks in almost a decade. Current ham inventories are down 7.5% from a year ago and 6.6% lower than the five year average. Ham inventories have declined sharply in the last two weeks, which is normal for this time of year. The lower inventories should help support produce accumulation for Easter needs and we see the latest cold storage report as supportive of the pork/hog market for late January and February. Pork belly inventories have almost double compared to the minimal volume in storage a years go. Lower belly prices in December will likely cause more bellies to go into the freezer and this should help prevent the sort of price appreciation we observed in Q1 of 2017.



Upcoming holidays:

2018 New Year's Day (Monday January 1); Martin Luther King Day (Monday January 15); Chinese New Year (Friday February 16); Super Bowl 52 (Sunday February 4, in Minneapolis, MN); Valentine's Day (Wednesday February 14); President's Day (Monday February 19); Ash Wednesday (Wednesday February 14); Daylight Savings Time Begins in US (Sunday March 11); St. Patrick's Day (Saturday March 17); Passover (Friday March 30, at sundown); Easter (Sunday April 1); Cinco de Mayo (Saturday May 5); Mother's Day (Sunday May 13); Victoria Day [Canada] (Monday May 21); Memorial Day (Monday May 28); Father's Day [US and Canada] (Sunday June 17); Canada Day [Canada] (Sunday July 1); Independence Day (Wednesday July 4); Labor Day [US and Canada] (Monday September 3); Rosh Hashanah (Sunday September 9, at sundown); Yom Kippur (Tuesday September 18, at sundown); Columbus Day (Monday October 8); Canadian Thanksgiving Day (Monday October 8); Daylight Savings Time Ends [US and Canada] (Sunday November 4); Veterans Day (Sunday November 11); Remembrance Day [Canada] (Sunday November 11); Thanksgiving (Thursday November 22); Hanukkah (Sunday December 2, starts at sundown); Christmas Day (Tuesday December 25); Boxing Day [Canada] (Wednesday December 26).

PORK

Live hog. For the week ending December 23 slaughter was 2.466 million head, up 14.1% from a year ago. In the last two weeks hog slaughter is up 8.0% vs. year ago levels.

Iowa/Minnesota, Base Negotiated Purchase for Barrows and Gilts. Lean hog carcass values at about 55.15 /cwt. on Friday were down \$1.6/cwt since Wed. December 13. Prices are up about 2.3 \$/cwt compared to year ago values.

Loin, 1/4 Trimmed Loin VAC, FOB Plant, USDA (page 8). Prices finished last week at

\$0.8848, up about 7.8 cent since the Wed. December 13 quote but down about one cents from year ago levels.

Bnls. Strap on Pork Loins. Prices finished the week at \$1.2676 for the strap on loins, up 7.9 cent since Wed. December 13 but down 5 cent from the year ago levels. Strap off loins at \$1.4905 are up 0.2 cent since Wed. December 13 and up about 11 cent compared to the year ago quote.

Boneless sirloins at \$1.0778 are down about one cents from the Wed. December 13 quote and down about 3.7 cents from the year ago price.

Pork tenderloin finished last week at \$2.0426, down 6 cent since the Wed. December 13 quote but up about 3.4 cents from the year ago price.

1/4 Trim Pork Butts (page 10), prices finished the week at \$1.0938, up 8.9 cents since Wed. December 13. Prices are up 18 cent from a year ago.

Spare Ribs, Trimmed - LGT, Vac (page 8). Prices finished the week at \$1.3406, up about 3.5 cent since Wed. December 13 and up about 12 cents from year ago levels.

Rib inventories on November 30 were 99.6 million pounds, down 9.0% percent from a year ago.

Bone-in Hams.

17/20 hams (page 9) price was \$0.5535/lb., down 5 cents since Wed. December 13 and down about 18 cents from a year ago.

20/23 hams finished the week at 53.58 cents, down about 8 cents since Wed. December 13 and down about 20 cents from the year ago level.

23/27 hams finished the week at 54.81 , down about 4 cent from the Wed. December 13 quote and down about 16 cents from the year ago level.

Total ham cold storage stocks on November 30 at 98.2 million pounds were down slightly from year ago levels.

42 CL Pork Trim “FOB Basis”. Prices finished the week at 22.67 cents, down about 2.3 cent since Wed. December 13 and down about 1.3 cents from the year ago price.

72 CL Pork Trim “FOB Basis”. Prices finished the week at 58.07 cents, down 7.6 cents since the Wed. December 13 quote but up about 4 cents from the year ago level.

Freezer stocks of all trimmings on November 30 were 37.4 million pounds, up 4.8% percent from the year ago levels.

72 CL Picnic Meat “FOB Basis”. Picnic 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 86.68 on Friday, December 23, up about 3 cents from a year ago.

Broiler slaughter for the week ending December 23 was 163.01 million head, up 1.74% from a year ago. For the last two weeks broiler slaughter was up 1.8% vs. a year ago.

Breasts. Prices on boneless skinless breasts finished the week at \$1.0734, up 1 cent since Wed. December 13 and still up about 8 cents from year ago levels.

Leg Quarters. This market continues to be export driven. Last week leg quarter prices were up about 2.2 cents vs. two weeks ago and at 37.38 cents per pound prices were up 7 cents from a year ago.

Wings. Prices at \$1.7174 are down about 20 cents from year ago levels.

Turkeys

Hens finished last week at \$0.8700, unchanged cent since Wed. December 13 but down about 27 cents from the year ago price.

Toms finished last week at \$0.8600, unchanged since Wed. December 13 but down about 28 cent from the year ago price.

Total turkey supplies in the freezer on November 30 were up 22.1% from a year ago at 289.3 million pounds. Whole birds were up 57.7% from a year ago with an inventory of 111.0 million pounds.

Turkey slaughter was 4.0840 million head for the week ending December 16, down -2.46% from a year ago. For the last two weeks slaughter has been down 3.8%.

Boneless Turkey Breast Meat. Boneless skinless turkey breast meat prices finished last week at \$1.5500, unchanged since Wed. December 13. Prices are down about 10 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 \$2.1306 for 90CL and \$0.5233 for 50CL product, an 81CL meat block value is now \$1.7690 and a 78CL meat block is \$1.6484. Choice 114, 3 Clods are now being priced 28.12 cents over 81CL meat block grinding values of 90s and 50s. A year ago the spread was 56.87 cents and the five year average spread for is 33.19 cents over.

Select #115 chucks also are no longer being quoted.

Choice #161 Boneless Rounds finished last week at \$2.1800, down slightly since Wed. December 13 but up about 22 cents from year ago levels.

Choice #184 Regular Heavy top butts finished at \$3.1966 (wt. avg.) up about 9 cents since Wed. December 13 and up about 101 cent from year ago levels.

Choice #184 ¼ inch trimmed Top Butts finished at \$3.3594 (wt. avg.) up about 11.5 cents since Wed. December 13 and up about 100 cents from the year ago levels.

COARSE GROUND BEEF –

73CL Coarse Ground product finished last week at \$1.3534 up about 9 cents since Wed. December 13 but down about 39 cents from year ago levels.

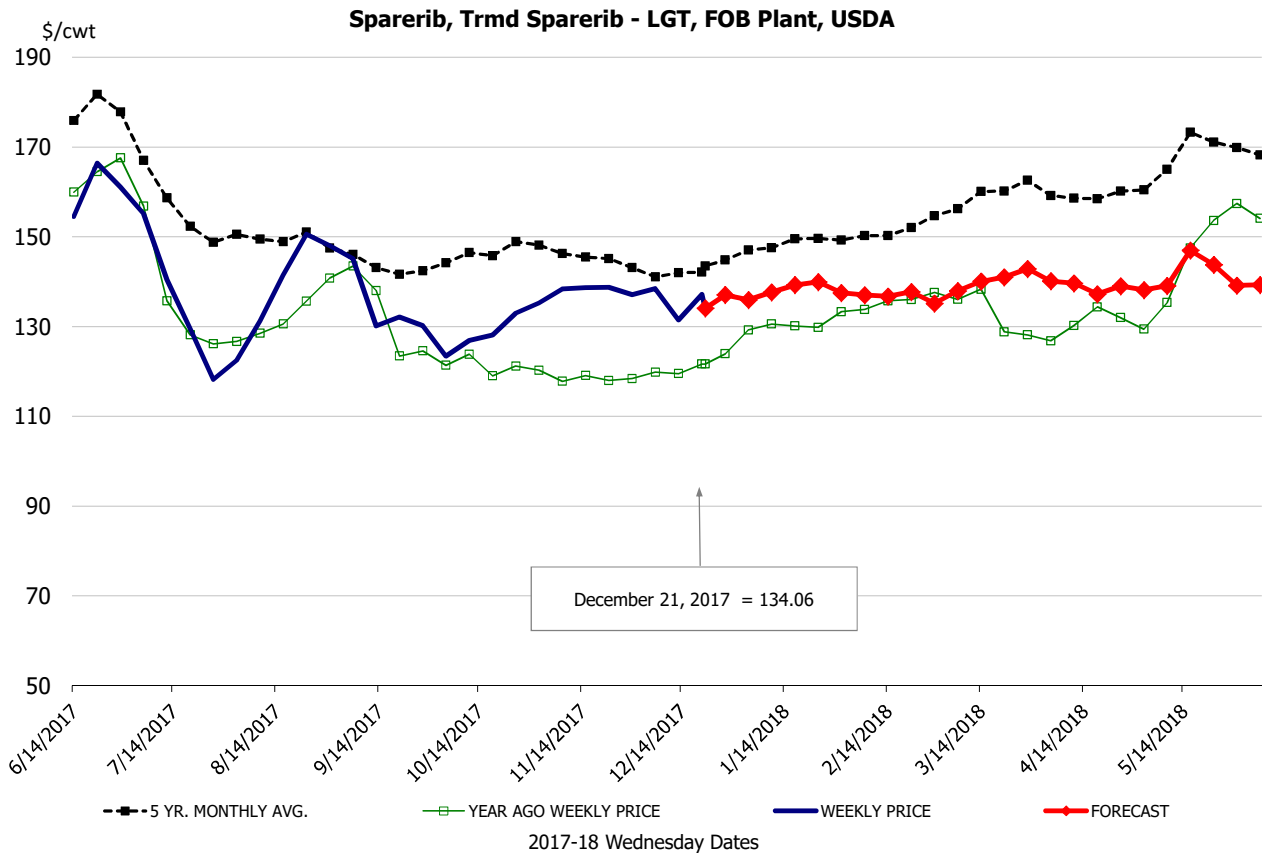
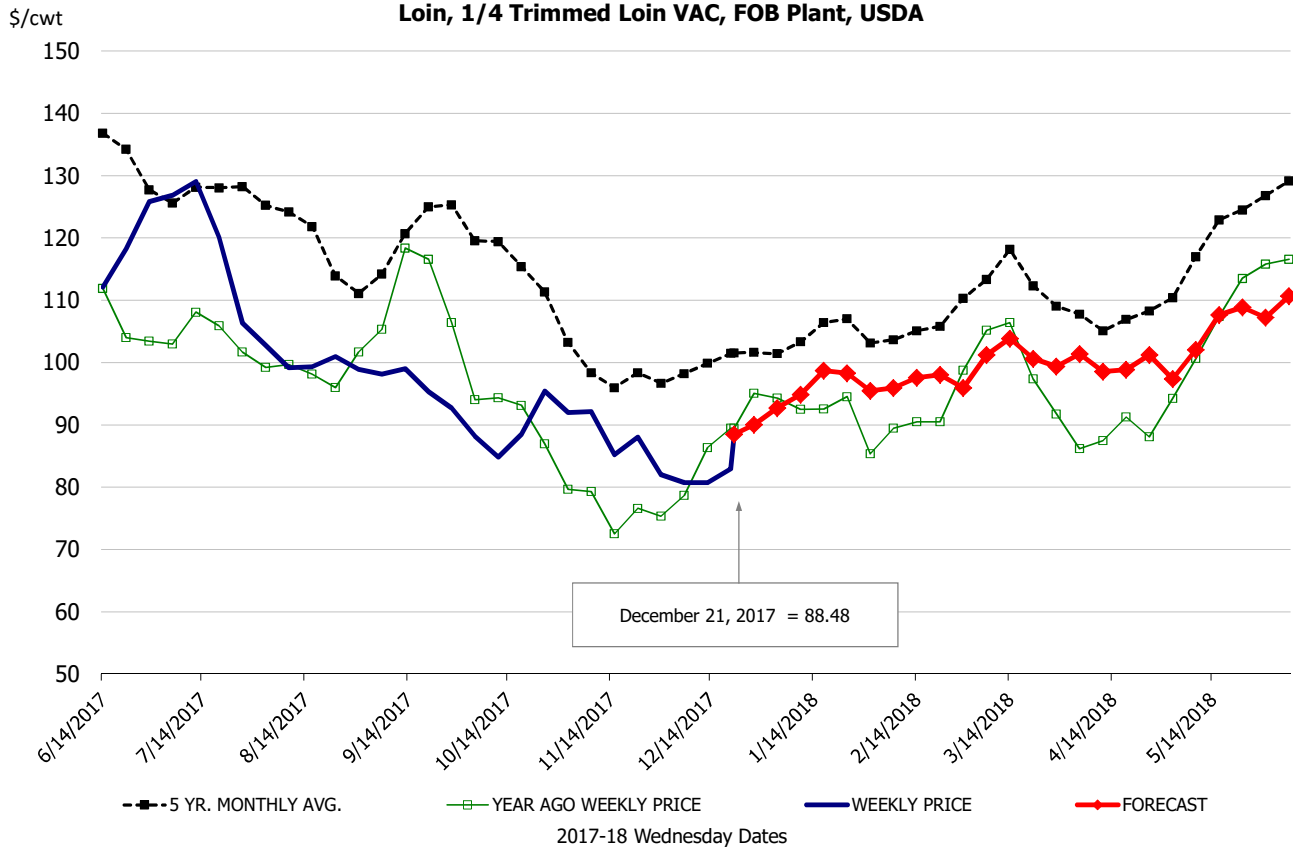
81CL Coarse Ground product finished last week at \$1.7422 up about 15 cent since Wed. December 13 but down about 26 cents from the year ago quote.

90CL Bnls. Beef prices finished the week at \$2.1306 (wt. avg.) up 1.62 cent since Wed. December 13 and up 22 cents compared to the year ago price quote.

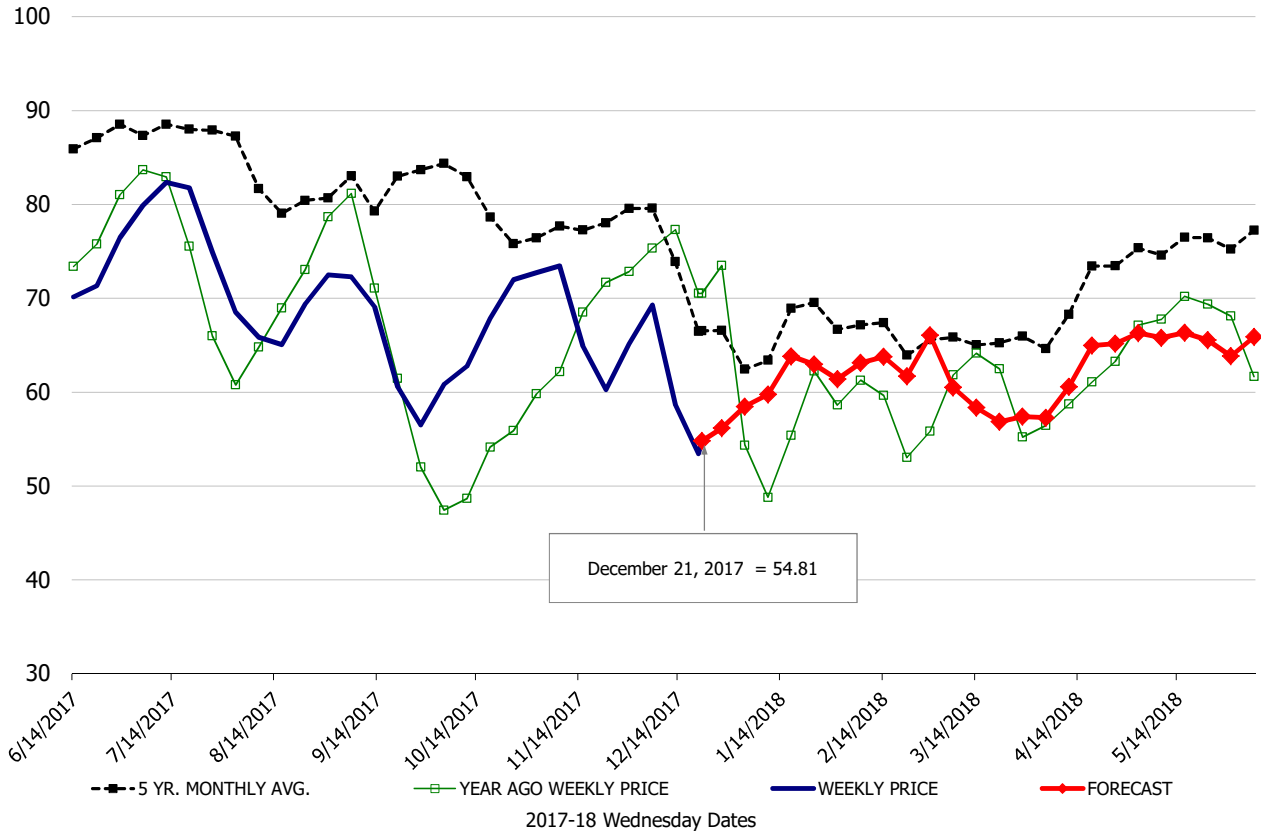
50 CL Beef Trim prices finished last week at \$0.5233, up about 2 cent since Wed. December 13 and up 19 cents compared to the year ago level.

Retail Summary Table - WT. AVE.

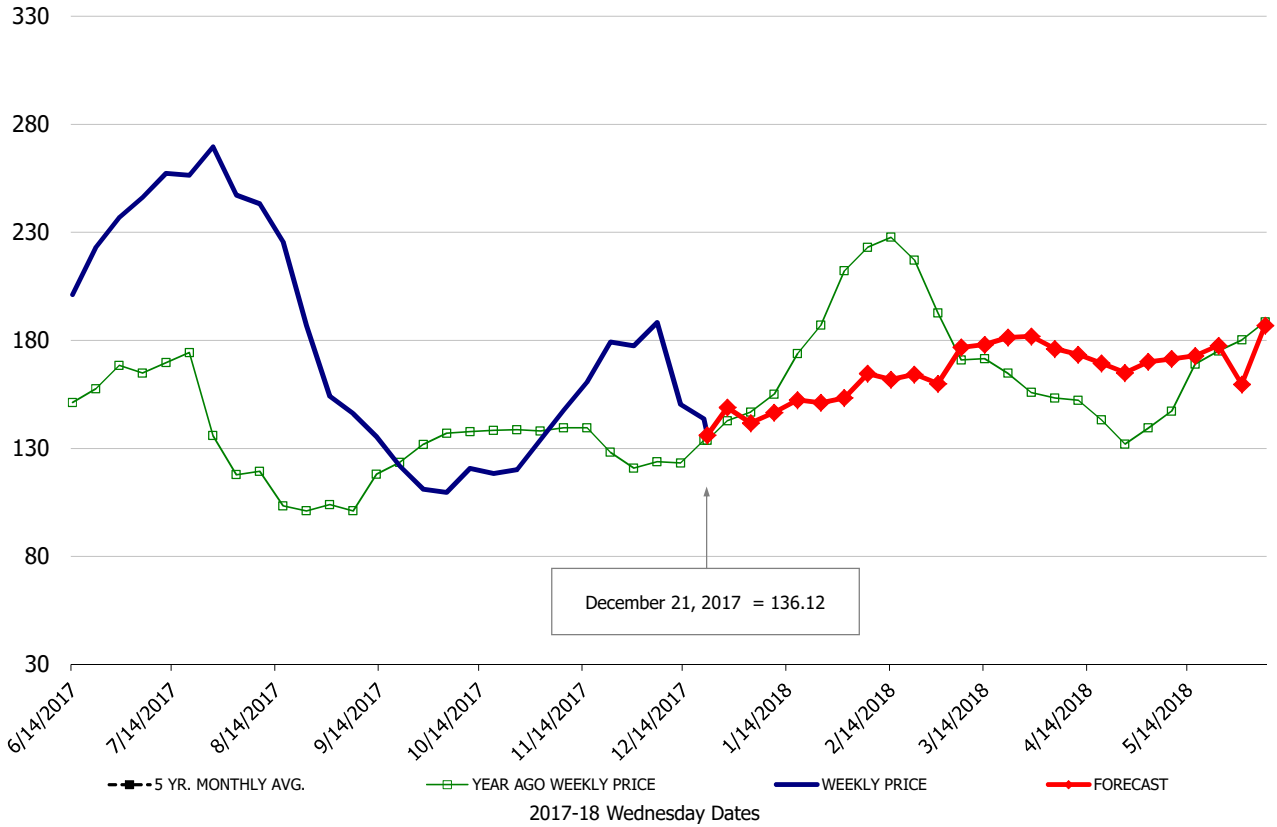
	HISTORY								FORECAST						
	Jun	Jul	Aug	Sep	Oct	Nov	12/13/2017	12/21/2017	1/3/2018	Dec	Jan	Feb	Mar	Apr	May
<u>PORK</u>															
Loin, 1/4 Trimmed Loin VAC, FOB Plant, USDA	117.69	119.37	100.76	95.20	89.14	85.71	80.73	88.48	93	88	96	97	101	100	104
Loin, 1/8 Trimmed Loin VAC, FOB Plant, USDA	122.80	125.82	107.19	100.66	93.27	89.85	81.91	94.82	99	95	102	105	108	107	111
Loin, Bnls CC Strap-off, FOB Plant, USDA	151.43	152.69	143.52	144.51	136.60	138.00	148.85	149.05	153	149	152	151	151	144	146
Butt, 1/4 Trim Butt Combo, FOB Plant, USDA	113.80	108.49	99.23	92.77	87.23	92.42	95.40	104.39	95	104	94	89	96	100	108
Sparerib, Trmd Sparerib - LGT, FOB Plant, USDA	157.60	130.01	136.49	135.05	128.71	137.76	131.45	134.06	136	135	138	137	140	139	142
Sparerib, Trmd Sparerib - MED, FOB Plant, USDA	161.18	139.03	142.61	133.22	128.54	134.77	131.44	140.76	134	140	136	136	136	136	139
Ham, 17-20# Trmd Selected Ham, FOB Plant, USDA	70.39	80.26	73.22	63.32	68.97	73.25	60.20	55.35	60	66	62	65	62	64	65
Ham, 20-23# Trmd Selected Ham, FOB Plant, USDA	70.30	79.25	70.55	66.18	68.74	70.26	61.39	53.58	59	64	62	64	62	64	68
Ham, 23-27# Trmd Selected Ham, FOB Plant, USDA	66.60	78.59	67.33	63.74	66.19	66.48	58.66	54.81	58	61	61	63	59	62	66
Belly Cutout, FOB Plant, USDA	170.83	209.41	175.73	104.37	95.96	128.70	109.77	107.27	117	123	122	135	145	135	141
Belly, Derind Belly 9-13#, FOB Plant, USDA	219.23	256.47	193.19	135.34	117.03	161.13	150.34	136.12	142	150	148	166	178	171	173
Belly, Derind Belly 13-17#, FOB Plant, USDA	205.72	254.70	210.81	124.93	116.95	161.26	134.25	131.70	139	149	147	165	177	170	172
Trim, 42% Trim Combo, FOB Plant, USDA	62.20	68.68	49.73	33.37	25.89	27.04	24.97	22.67	24	24	25	31	36	38	42
Trim, 72% Trim Combo, FOB Plant, USDA	93.78	90.99	66.34	59.76	62.05	62.29	65.70	58.07	58	63	61	63	64	69	72
Trim, Picnic Meat Combo Cushion Out, FOB Plant, USDA	97.01	103.80	80.15	86.68	85.45	81.12	87.95	89.47	80	87	81	80	79	79	86
Carcass Cutout, FOB Plant, USDA	96.53	103.25	91.64	77.94	74.87	81.29	76.51	77.25	80	79	81	81	81	82	84
<u>HOG CARCASS</u>															
IA/MN, Base Market Hog 185 lb Carcass Basis, Plant Div.	82.57	85.48	74.10	53.46	59.48	59.22	56.73	55.15	60	57	61	67	71	74	78
<u>BROILERS</u>															
N.E. BROILER BREAST BONELESS-SKINLESS, USDA	163.75	157.63	145.75	131.91	115.16	106.01	106.36	107.34	107	108	110	116	124	142	160
N.E. BROILER BREAST LINE RUN, USDA	125.43	125.01	117.18	98.82	82.01	81.44	81.53	82.78	91	85	94	98	104	109	122
N.E. BROILER LEG QUARTERS, USDA	41.38	43.31	43.75	42.28	39.99	37.83	35.23	37.38	39	38	39	41	44	45	47
<u>TURKEYS</u>															
UB HEN TURKEYS, EAST, FROZEN 10-12LBS	107.00	107.00	107.00	107.00	107.00	99.60	87.00	87.00	87	86	86	86	90	99	106
UB TOM TURKEYS, EAST, FROZEN 16-22LBS	107.00	107.00	107.00	107.00	107.00	99.60	86.00	86.00	87	86	86	86	90	99	106
<u>LIVE STEERS</u>															
FIVE AREA DIRECT AVERAGE LIVE STEER, USDA	129.82	118.76	113.13	105.98	109.79	120.07	117.38	119.83	122	120	122	124	127	126	121
<u>BEEF</u>															
CHOICE, 161, 1 ROUND, BONELESS, USDA	242.43	236.67	228.59	221.60	226.21	232.29	218.96	218.00	242	225	240	238	240	231	220
CHOICE, 168, 3 TOP INSIDE ROUND, 1/4" MAX, USDA	250.42	232.10	210.80	204.34	215.92	217.04	207.90	204.06	239	206	232	230	235	226	216
CHOICE, 170, 1 BOTTOM GOOSENECK ROUND, USDA	210.32	203.80	205.36	212.05	207.88	209.20	205.70	202.49	223	207	228	225	213	201	195
CHOICE, 184, 3 TOP BUTT, BONELESS, USDA	367.27	378.05	333.81	271.78	254.23	294.73	324.87	335.94	309	315	309	321	356	371	360
CHOICE, 185A, 4 BOTTOM SIRLOIN, FLAP, USDA	624.82	445.05	400.43	388.69	412.17	494.48	476.61	501.04	475	500	496	499	527	570	581
COARSE GROUND 73%, USDA	197.90	175.69	157.29	148.80	136.42	135.97	126.59	135.34	170	131	180	165	167	162	161
COARSE GROUND 81%, USDA	222.10	195.21	179.15	175.23	165.55	164.74	159.51	174.22	200	163	210	191	190	184	189
90% BONELESS BEEF, CENTRAL, FRESH, USDA	230.02	232.75	232.05	224.34	215.51	211.89	211.44	213.06	219	215	222	223	232	230	223
50CL BEEF TRIM, FRESH, NATIONAL, USDA	131.93	92.86	68.58	45.07	56.49	69.13	50.34	52.33	65	53	67	67	87	81	71



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

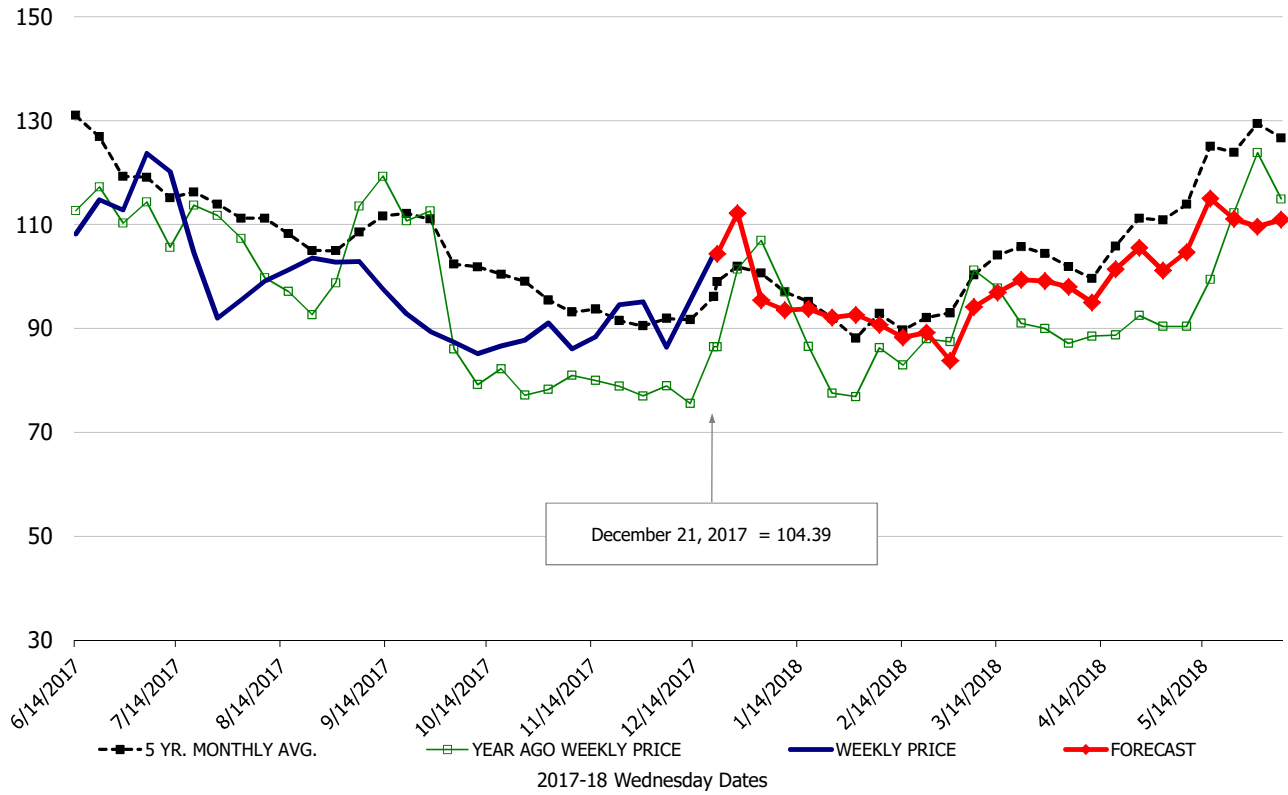


Belly, Derind Belly 9-13#, FOB Plant, USDA



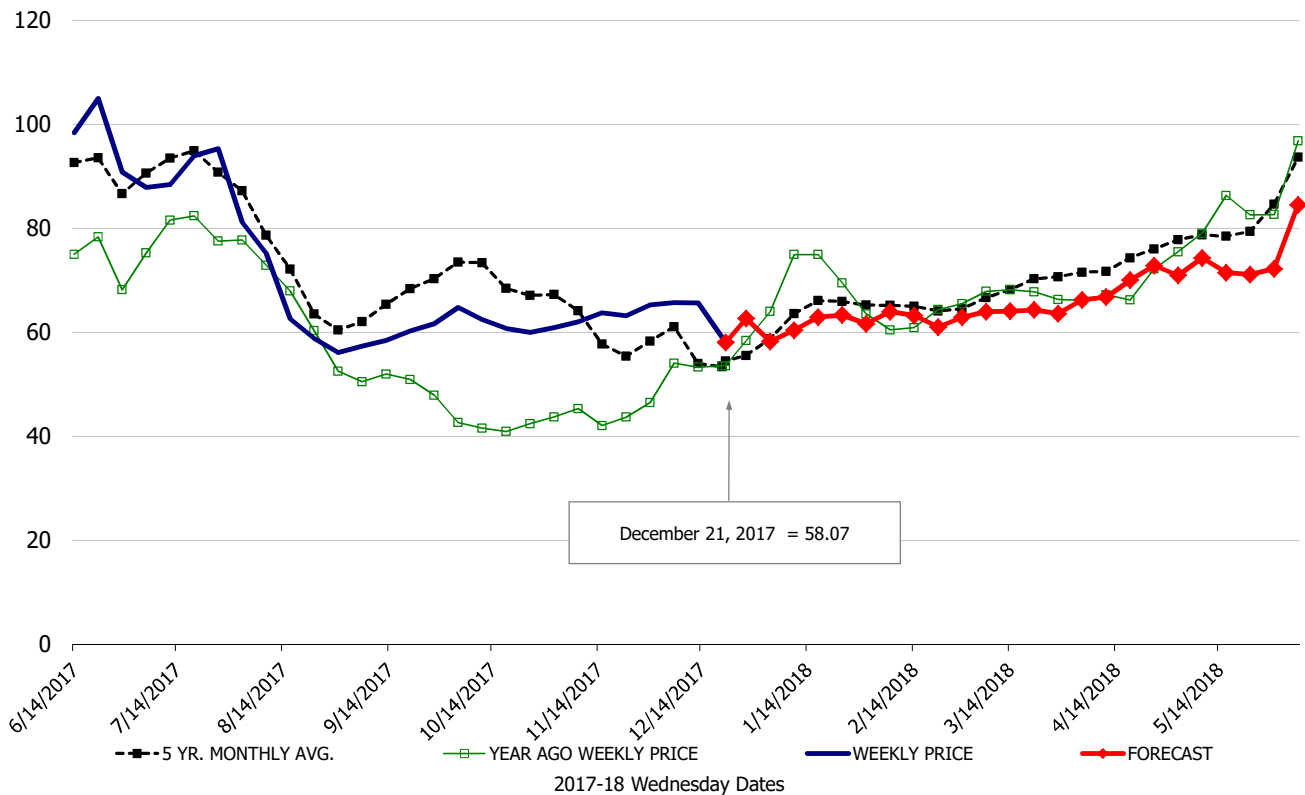
\$/cwt

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



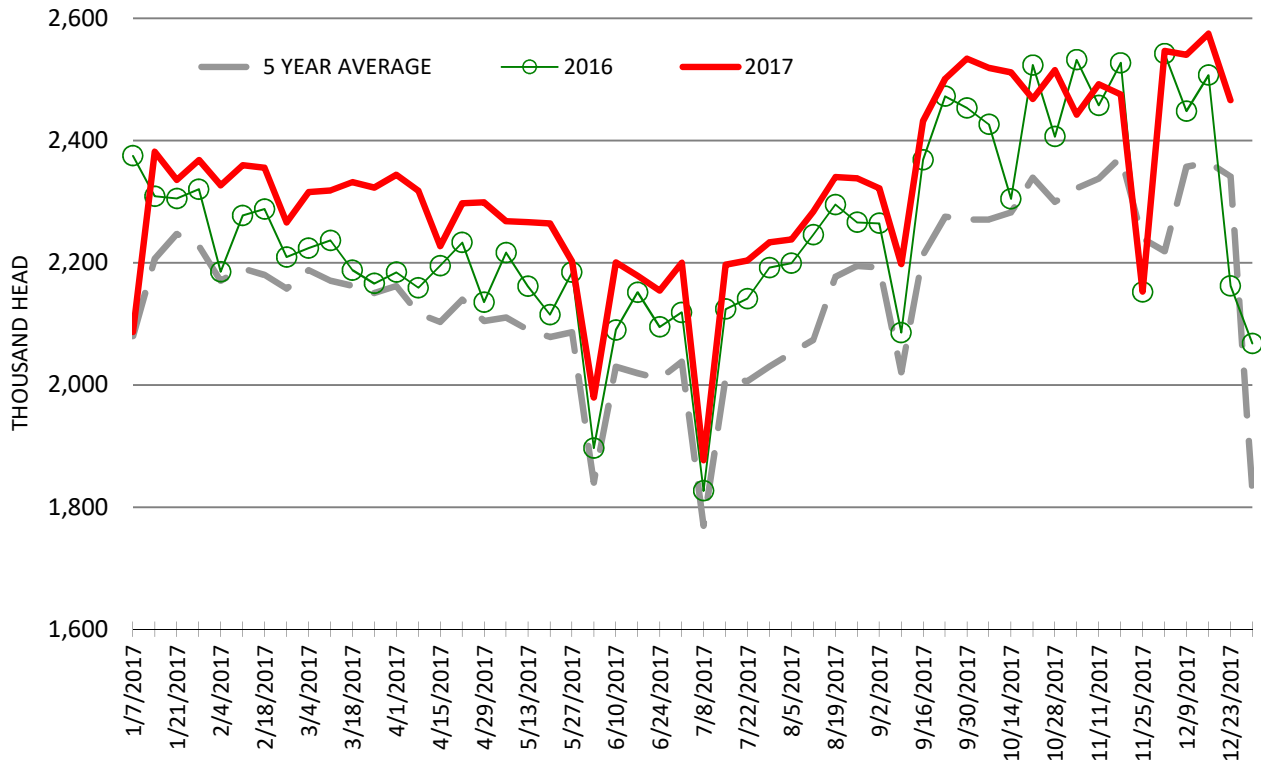
\$/cwt

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

