Pork Merchandiser's Profit Maximizer

- Foodservice Edition -

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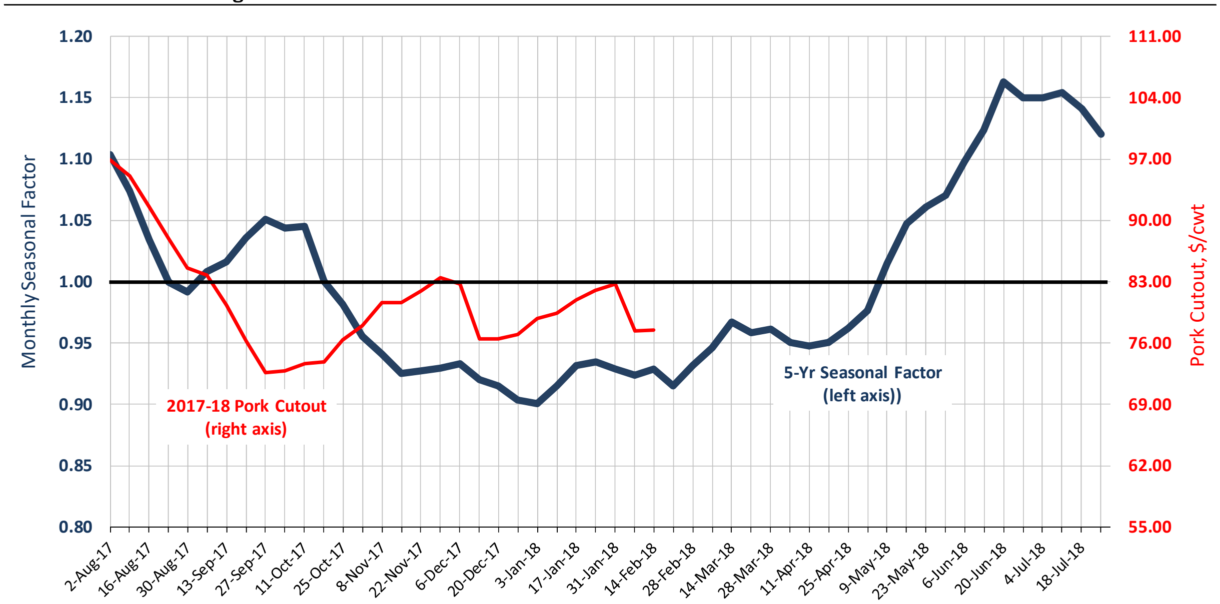
February 19, 2018

1. Pullback in hog prices brings a much needed correction to the market and should bolster wholesale pork demand going into spring.

The drop in lean hog futures this week was swift as market participants reacted to a deterioration in pork product prices and the resulting negative impact this had on packer margins. On Friday the April Lean Hog futures contract settled at $68.15/cwt, down 12% compared to where it was at the start of the year. The pork cutout in late January was quoted as high as $83/cwt (Jan 23), 2% higher than the previous year despite a net increase in pork supplies. On Friday the cutout was quoted at $77.34/cwt. **The surge in pork prices during January was due to higher**

PORK CUTOUT AND 5-Yr SEASONAL PRICE TENDENCY

Based on a 52-wk Period Aug - Jul. Price data source: USDA

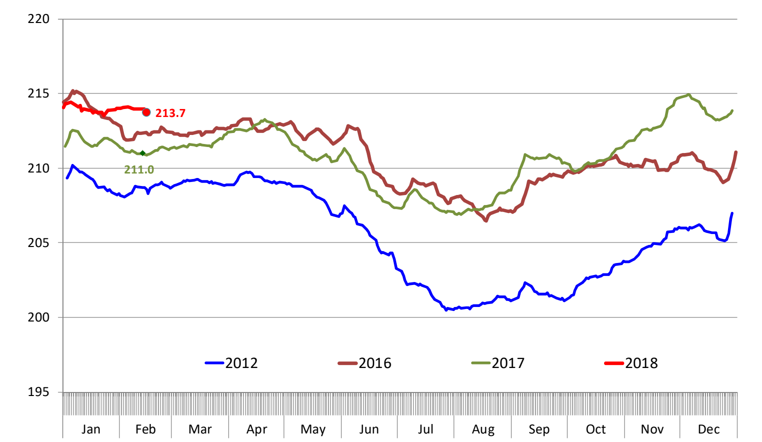


<u>prices for pork shoulders (butt/picnic) and hams</u>. Higher ham prices were not a surprise given that Easter this year is two weeks earlier than a year ago. Strong export orders from Asia also helped support prices for pork butts. Strong demand for pork during the holidays, including demand from exports, supported prices above the 5-yr seasonal trend line (see chart on page 1). It can be argued, however, that January prices were not sustainable and a much needed correction was in order. Hog slaughter in March and April is expected to run between 2.35 and 2.4 million hogs, numbers that in the past we used to see in the fall. Despite talk of PEDv winter losses, we don't think there is a shortage of hogs on the ground. Hog weights are now running significantly above year ago levels, an indication that producers are probably less current than they would like to be. When packers were making money back in January this was not that big of a concern. However, the meat margin (difference between cutout and hog price) has declined from near $40/head at the start of the year to around $6/cwt currently. In this situation, packer bids have softened considerably.

There is broad agreement among producers and analysts that pork supplies will continue to expand this year, the debate is only about "how much". In its last forecast report USDA analysts indicated they expect pork production in 2018 to increase by 5% compared to a year ago. We are not quite as aggressive in our projections and currently forecast pork production to increase by 3.5% this year. **<u>In this environment of plentiful pork supplies, the recent decline in hog prices should be seen as beneficial for the spring market</u>**. Lower prices are critical in helping push more pork through retail and export channels. The low price of pork loins appears to have bolstered retail features (see chart to the right) and we expect to see more of this

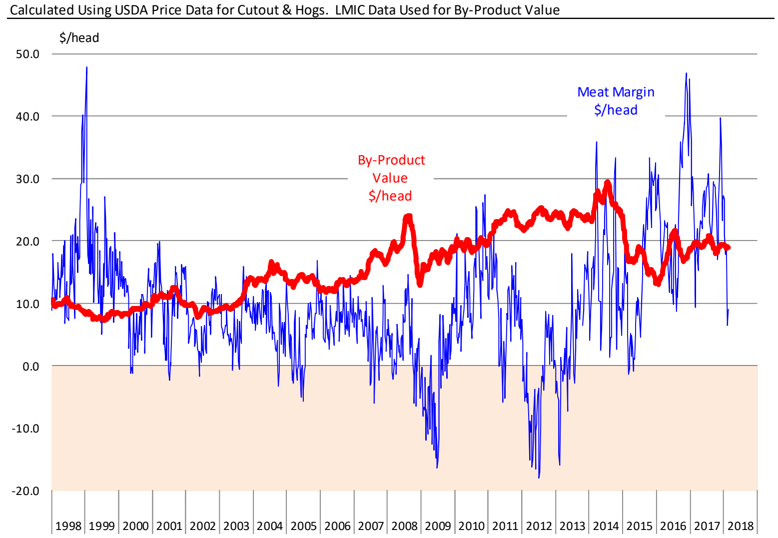
Barrow/Gilt Dressed Carcass Weights, 5-day Moving Avg. - Producer Hogs

Based on Daily MPR Report, LM_HG201. Data through Feb 15, 2018



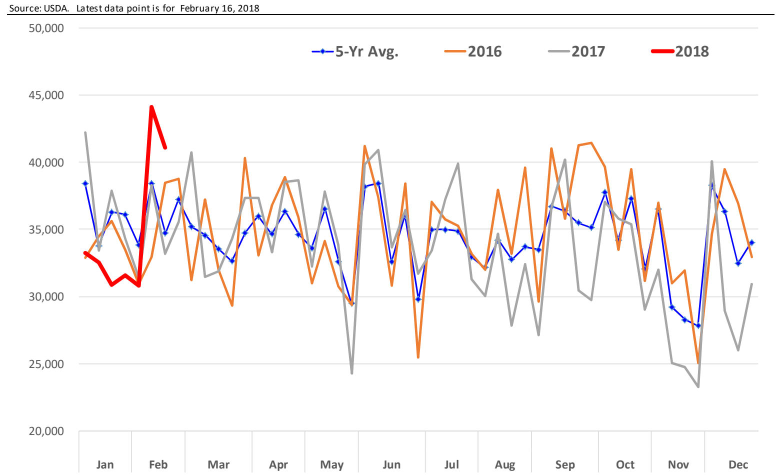
PORK PACKER MARGIN COMPONENTS. $ PER HEAD.

Calculated Using USDA Price Data for Cutout & Hogs. LMIC Data Used for By-Product Value



NATIONAL <u>RETAIL PORK FEATURES REPORT</u>: LOIN ACTIVITY INDEX

Source: USDA. Latest data point is for February 16, 2018



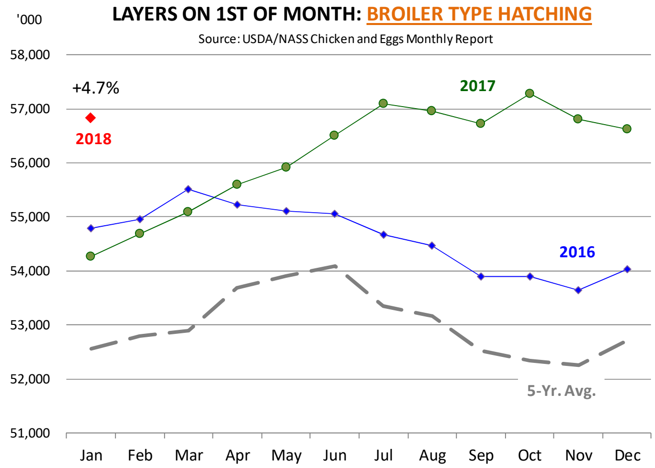
into the spring. We continue to think, and data so far appears to support this, that overall pork demand remains very good. The recent declines reflect a market that got a bit ahead of itself and ran into normal seasonal weakness (see chart on page 1). As demand seasonally improves and hog slaughter declines, we expect to see a resurgence in pork prices.

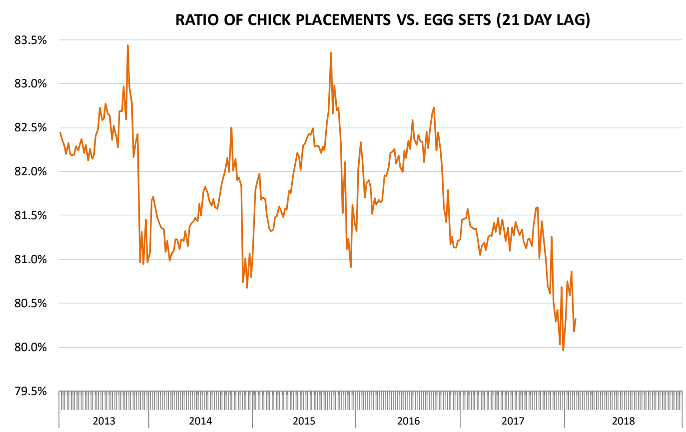
Key items to watch in Q2:

- Ham demand from Mexico should continue to provide support. Prices briefly dropped in the mid 50s last week but quickly recovered, we think because of new domestic and export orders
- Primal belly prices should be in the $130-140 range by April and higher into June/July. Higher belly stocks are expected to limit the upside and avoid another trip to the $200 area we saw in July 2017.

2. Broiler supply and pricing outlook

We are generally in agreement with USDA in terms of the outlook for broiler supplies in 2018. Our current forecast is for broiler production to increase by 2.3% in 2018 while USDA is forecasting production to increase by 2.5%. Part of the reason for the divergence may have to do with our forecasts for broiler weights, which are expected to increase only modestly in 2018. The broiler hatching flock is currently much higher than a year ago but it is expected to be only steady going into the spring. There are a number of reasons for the increase in the hatching flock but we think pri-





marily it has to do with the sharp decline in productivity. As a larger percentage of US broiler production comes from NAE flocks (no antibiotics ever), this has meant a lower egg-chick conversion. The ratio of chick placements vs. eggs set in incubators currently stands at 80% compared to 81.5% for the same period a year ago and 82% average for the years 2013—2016.

We expect dark meat prices to outperform breast meat in 2018, in part because of a shift in demand but also due to higher labor costs and strong demand from exports. Leg quarter prices are forecast to increase by 10% y/y in 2018 while breast meat prices are forecast increase by 5%. Whole bird prices expected to up 2%.

Upcoming holidays:

2018 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 hogs. For the week ending February 17 slaughter was 2.384 million head, up 1.2% from a year ago. In the last two weeks hog slaughter is up 1.2% vs. year ago levels.

Iowa/Minnesota, Base Lean Market Hog 185 lbs. Carcass Values. Lean hog carcass values at about 65.09 /cwt. on Friday were down $6.65/cwt since Wed. February 7. Prices are down 9.1 dollars compared to year ago values.

Loin, 1/4 Trimmed Loin VAC, FOB Plant, USDA (page 8). Prices finished last week at $0.8665, down about 1.6 cents since the Wed. February 7 quote and down about 4 cent from year ago levels.

Bnls. Strap on Pork Loins. Prices finished the week at $1.1623 for the strap on loins, up 4.0 cent since Wed. February 7 and up about 0.5 cent from the year ago levels. Strap off loins at $1.3160 are down about 2.2 cent since Wed. February 7 and down about 2 cent compared to the year ago quote.

Boneless sirloins at $0.9944 are down 6 cents from the Wed. February 7 quote and down about 4.5 cents from the year ago price.

Pork tenderloin finished last week at $1.9686, down 14 cent from the Wed. February 7 quote and down about 25.0 cents from the year ago price.

1/4 Trim Pork Butts (page 10), prices finished the week at $1.0009, down 1.2 cent since Wed. February 7. Prices are up 11 cents from a year ago.

Spare Ribs, Trimmed - LGT, Vac (page 8). Prices finished the week at $1.4212, down about 2 cent since Wed. February 7 but up about 6 cents from year ago levels.

Rib inventories on December 31 were 104.6 million pounds, down 9.5% percent from a year ago.

Bone-in Hams.

17/20 hams (page 9) price was $0.6610/lb., up 6 cents since Wed. February 7 and up about 4 cent from a year ago.

20/23 hams finished the week at 63.45 cents, up about 4 cents since Wed. February 7 but down about 0.5 cent from the year ago level.

23/27 hams finished the week at 59.38 , up about 4 cents from the Wed. February 7 quote but down about 0 cents from the year ago level.

Total ham cold storage stocks on December 31 at 81.1 million pounds were up 17.8% from year ago levels.

42 CL Pork Trim "FOB Basis". Prices finished the week at 27.60 cent, down about 1.7 cent since Wed. February 7 and down about 3 cents from the year ago price.

72 CL Pork Trim "FOB Basis". Prices finished the week at 63.99 cents, down about 4.4

cents since the Wed. February 7 quote but up about 3 cents from the year ago level.

Freezer stocks of all trimmings on December 31 were 43.2 million pounds, up 26.8% percent from the year ago levels.

72 CL Picnic Meat "FOB Basis". The premium of picnic meat to 72CL trim has narrowed in recent weeks, similar to what happened during this time last year. Lower trim supplies have contributed to narrowing this spread.

POULTRY

Georgia Dock Broilers. The Georgia dock price no longer is being quoted.

The National Whole Bird price was quoted at 91.24 on Friday, February 17, up about 6 cents from a year ago.

Broiler slaughter for the week ending February 17 was 162.82 million head, up 0.38% from a year ago. For the last two weeks slaughter was up 1.1% vs. a year ago.

Breasts. Prices on boneless skinless breasts finished the week at $1.0371, down 3 cents since Wed. February 7 and still down about 5 cents from year ago levels.

Leg Quarters. This item continues to be driven by export demand. Last week leg quarter prices were down about 1.7 cents vs. two weeks ago but at 38.82 cents per pound prices were up 5 cents from a year ago.

Wings. Prices at $1.6418 are down about 28 cents from year ago levels.

Turkeys

Hens finished last week at $0.8600, unchanged since Wed. February 7 but down about 20 cents from the year ago price.

Toms finished last week at $0.8600, unchanged since Wed. February 7 but down about 20 cent from the year ago price.

Total turkey supplies in the freezer on December 31 were up 11.6% from a year ago at 311.0 million pounds. Whole birds were up 46.8% from a year ago with an inventory of 109.9 million pounds.

Turkey slaughter was 4.1650 million head for the week ending February 10, up 11.30% from a year ago. For the last two weeks slaughter has been up 1.7%.

Boneless Turkey Breast Meat. Boneless skinless turkey breast meat prices finished last week at $1.5500, unchanged since Wed. February 7. Prices are down about 3 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 $7.1966 (weighted average quote) finished last week up about 36 cents since the Wed. February 7 quote and up about 127 cents vs. the year ago price.

Select 112A Heavy Lip On Rib Eyes at $6.3436 (weighted average quote) finished last week up about 5 cents since the Wed. February 7 quote but up about 64 cents vs. the year ago price.

Currently Choice 112A Rib Eyes are $0.8530 /lb. over Select. The 2015 annual average spread (wt. average price) had the Choice at a premium to the Select by $0.1111 per pound and the previous five years (2010 thru 2014) average spread was Choice at a premium to the Select by $0.0987 per pound.

Choice regular #168 insides finished last week quoted at $2.1500 up about 5 cents since Wed. February 7 and up about 9 cents from the year ago price.

Choice ¼ inch trimmed #168 insides finished last week quoted at $2.2416 up about 5 cents since Wed. February 7 and up about 18 cents from year ago levels.

Choice #170 Gooseneck Rounds finished last week at $1.9380 down about 24 cents since Wed. February 7 and down about 6 cents from the year ago levels.

Choice #180 (0x1) Bnls. Strip Loins finished last week quoted at $5.8226 (wt. avg.) up about 66 cents from the Wed. February 7 quote. Prices are up 81 cents from year ago levels.

Choice #184 Regular Heavy top butts finished at $3.3536 (wt. avg.) down about 0 cents since Wed. February 7 but up about 56 cents from year ago levels.

Choice #184 ¼ inch trimmed Top Butts finished at $3.4233 (wt. avg.) down about 9 cents since Wed. February 7 but up about 65 cents from the year ago levels.

Choice #185A Flap Meat prices finished Friday at $5.1577 (wt. avg.) up about 13 cents since Wed. February 7 and up about 102 cents from year ago values.

COARSE GROUND BEEF –

73CL Coarse Ground product finished last week at $1.4658 down about 2 cents since Wed. February 7 but up about 22 cents from year ago levels.

81CL Coarse Ground product finished last week at $1.7935 up about 3 cent since Wed. February 7 and up about 10 cents from the year ago quote.

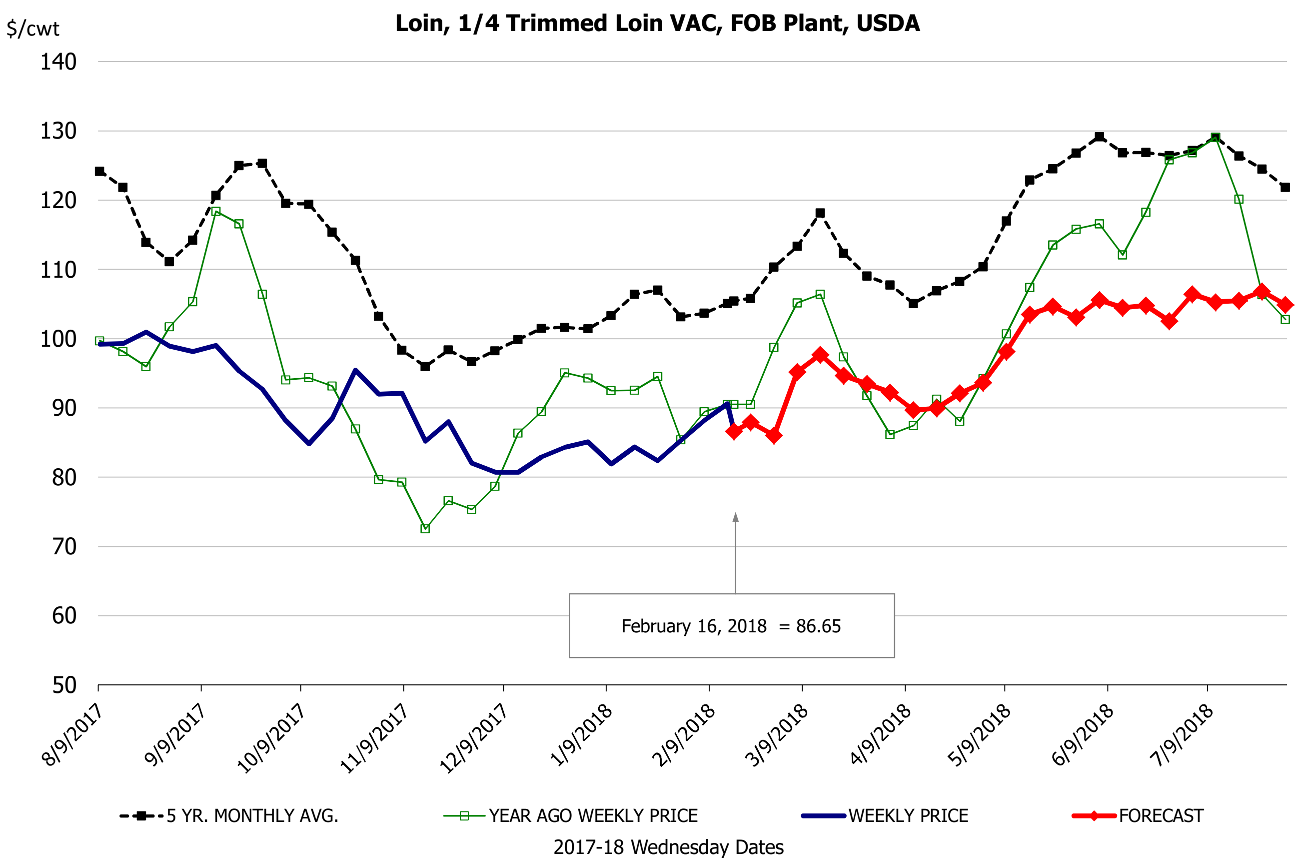
90CL Bnls. Beef prices finished the week at $2.1730 (wt. avg.) up about 3.25 cent since Wed. February 7 and up 9 cents compared to the year ago price quote.

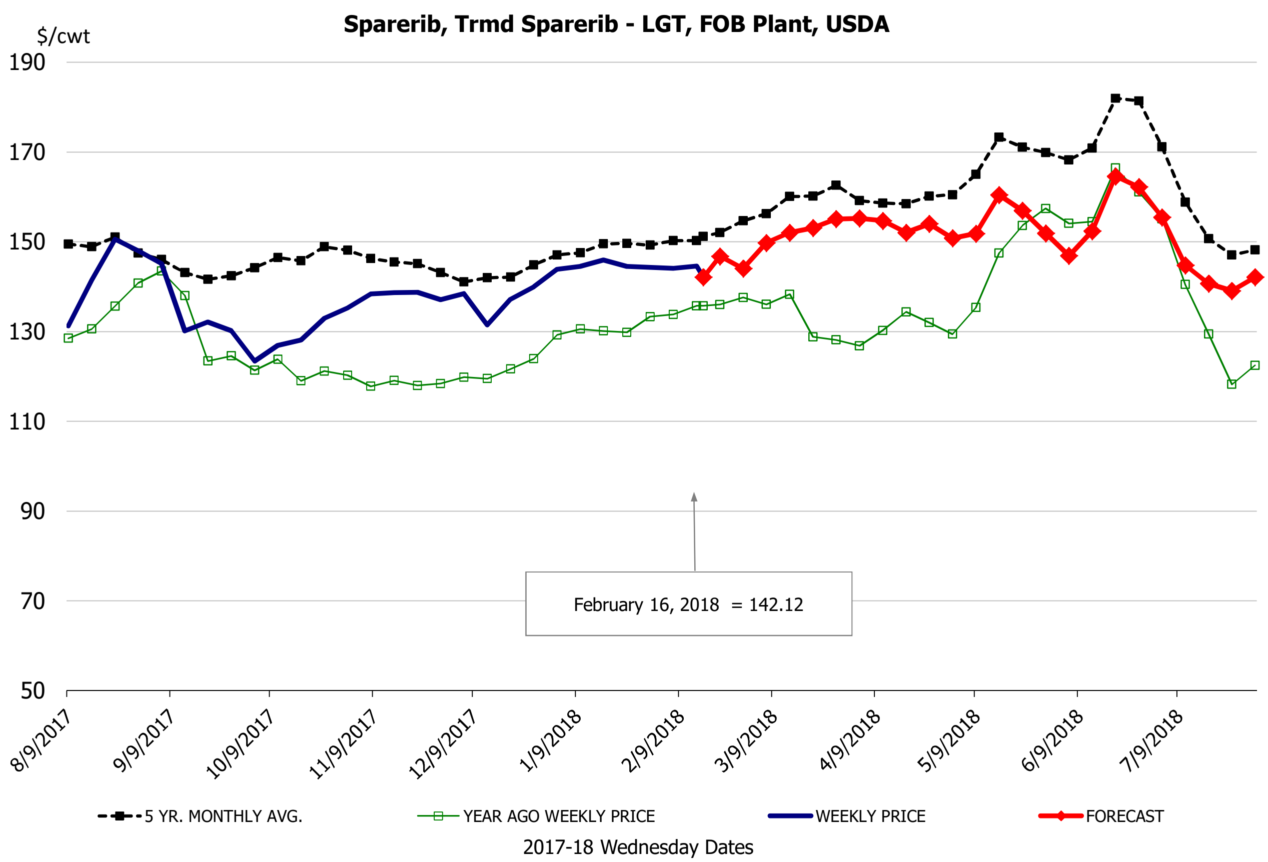
50 CL Beef Trim prices finished last week at $0.8612, down about 3 cent since Wed. February 7 but up 8 cent compared to the year ago level.

Food Service Summary Table - WT. AVE

	HISTORY								FORECAST						
	Aug	Sep	Oct	Nov	Dec	Jan	2/7/2018	2/16/2018	2/28/2018	Feb	Mar	Apr	May	Jun	Jul
PORK															
Loin, 1/4 Trimmed Loin VAC, FOB Plant, USDA	1.01	0.95	0.89	0.86	0.82	0.84	0.88	0.87	0.86	0.87	0.95	0.91	1.00	1.04	1.06
Loin, 1/8 Trimmed Loin VAC, FOB Plant, USDA	1.07	1.01	0.93	0.90	0.88	0.88	0.89	0.95	0.94	0.95	1.01	0.97	1.05	1.10	1.12
Loin, Bnls CC Strap-off, FOB Plant, USDA	1.44	1.45	1.37	1.38	1.46	1.37	1.34	1.32	1.32	1.36	1.46	1.42	1.46	1.44	1.45
Loin, Tenderloin, FOB Plant, USDA	2.44	2.32	2.18	2.05	2.07	2.07	2.10	1.97	2.12	2.10	2.16	2.17	2.25	2.36	2.38
Butt, 1/4 Trim Butt Combo, FOB Plant, USDA	0.99	0.93	0.87	0.92	0.95	1.06	0.89	0.94	0.89	0.95	1.02	1.05	1.17	1.19	1.14
Sparerib, Trmd Sparerib - LGT, FOB Plant, USDA	1.36	1.35	1.29	1.38	1.36	1.44	1.44	1.42	1.44	1.46	1.52	1.54	1.55	1.55	1.45
Sparerib, St Louis Spareribs, POLY, FZN, FOB Plant, USDA	2.16	2.08	2.13	2.08	2.07	2.08	2.21	2.16	2.22	2.28	2.39	2.40	2.47	2.49	2.39
Sparerib, Trmd Sparerib - MED, FOB Plant, USDA	1.43	1.33	1.29	1.35	1.35	1.42	1.46	1.43	1.41	1.45	1.50	1.51	1.57	1.59	1.49
Loin, Backribs 2.0#/up, FOB Plant, USDA	2.29	2.20	2.07	2.06	2.04	2.10	2.18	2.21	2.15	2.21	2.27	2.38	2.41	2.36	2.25
Ham, 17-20# Trmd Selected Ham, FOB Plant, USDA	0.73	0.63	0.69	0.73	0.64	0.66	0.60	0.66	0.73	0.69	0.69	0.70	0.70	0.74	0.80
Ham, 20-23# Trmd Selected Ham, FOB Plant, USDA	0.71	0.66	0.69	0.70	0.63	0.67	0.59	0.63	0.71	0.68	0.68	0.70	0.73	0.75	0.83
Ham, 23-27# Trmd Selected Ham, FOB Plant, USDA	0.67	0.64	0.66	0.66	0.60	0.62	0.55	0.59	0.68	0.65	0.64	0.68	0.71	0.72	0.81
Belly Cutout, FOB Plant, USDA	1.76	1.04	0.96	1.29	1.21	1.33	1.28	1.28	1.37	1.39	1.42	1.42	1.35	1.57	1.72
Belly, Derind Belly 9-13#, FOB Plant, USDA	1.93	1.35	1.17	1.61	1.44	1.61	1.65	1.56	1.73	1.79	1.79	1.79	1.70	1.98	2.17
Belly, Derind Belly 13-17#, FOB Plant, USDA	2.11	1.25	1.17	1.61	1.44	1.55	1.54	1.58	1.73	1.77	1.78	1.78	1.69	1.97	2.16
Trim, 42% Trim Combo, FOB Plant, USDA	0.50	0.33	0.26	0.27	0.25	0.27	0.29	0.28	0.29	0.29	0.37	0.40	0.44	0.49	0.52
Trim, 72% Trim Combo, FOB Plant, USDA	0.66	0.60	0.62	0.62	0.63	0.72	0.68	0.64	0.68	0.68	0.72	0.83	0.85	0.96	1.00
HOG CARCASS															
IA/MN, Base Market Hog 185 lb Carcass Basis, Plant Dlv.	0.74	0.53	0.59	0.59	0.57	0.68	0.72	0.65	0.67	0.67	0.69	0.73	0.80	0.83	0.86
BROILERS															
BROILER, NATIONAL WHOLE BIRD PRICE, USDA	0.93	0.89	0.85	0.86	0.87	0.94	0.91	0.91	0.96	0.92	0.97	1.00	1.07	1.06	1.00
N.E. BROILER BREAST BONELESS-SKINLESS, USDA	1.46	1.32	1.15	1.06	1.06	1.07	1.07	1.04	1.14	1.10	1.24	1.42	1.60	1.58	1.59
N.E. BROILER BREAST LINE RUN, USDA	1.17	0.99	0.82	0.81	0.83	0.97	0.93	1.01	1.02	1.01	1.04	1.09	1.22	1.21	1.19
N.E. BROILER LEG QUARTERS, USDA	0.44	0.42	0.40	0.38	0.37	0.38	0.41	0.39	0.40	0.39	0.42	0.45	0.47	0.46	0.46
N.E. BROILER WINGS, USDA, WT.AVG.	2.10	2.13	2.02	1.79	1.70	1.71	1.74	1.64	1.62	1.65	1.65	1.65	1.65	1.76	1.87
TURKEYS															
UB HEN TURKEYS, EAST, FROZEN 10-12LBS	1.07	1.07	1.07	1.00	0.87	0.86	0.86	0.86	0.87	0.86	0.88	0.91	0.97	1.02	1.06
UB BONELESS-SKINLESS TURKEY BREAST, TOM, FRESH	1.53	1.53	1.55	1.55	1.55	1.55	1.55	1.55	1.52	1.55	1.56	1.59	1.66	1.90	2.15
LIVE STEERS															
FIVE AREA DIRECT AVERAGE LIVE STEER, USDA	1.13	1.06	1.10	1.20	1.19	1.22	1.26	1.26	1.27	1.27	1.28	1.27	1.23	1.18	1.16
BEEF															
CHOICE, 112A, 3 RIBEYE, BONELESS, HEAVY, USDA	6.74	6.33	7.46	7.99	6.71	6.43	6.84	7.20	7.03	7.20	7.40	7.51	7.90	8.10	6.95
CHOICE, 168, 3 TOP INSIDE ROUND, 1/4" MAX, USDA	2.11	2.04	2.16	2.17	2.06	2.13	2.19	2.24	2.36	2.27	2.36	2.20	2.11	2.09	2.17
CHOICE, 170, 1 BOTTOM GOOSENECK ROUND, USDA	2.05	2.12	2.08	2.09	2.06	2.13	2.18	1.94	2.12	2.05	2.13	2.01	1.93	1.92	1.97
CHOICE, 180, 3 STRIP LOIN, BONELESS, 0x1, USDA	4.94	5.05	5.10	4.99	4.98	5.17	5.16	5.82	5.96	5.82	5.85	5.90	6.15	6.08	5.07
CHOICE, 184, 3 TOP BUTT, BONELESS, USDA	3.34	2.72	2.54	2.95	3.21	3.50	3.51	3.42	3.78	3.51	3.85	3.92	3.88	3.66	3.64
CHOICE, 185A, 4 BOTTOM SIRLOIN, FLAP, USDA	4.00	3.89	4.12	4.94	4.88	4.66	5.02	5.16	5.22	5.15	5.28	5.81	6.15	5.62	4.81
COARSE GROUND 73%, USDA	1.57	1.49	1.36	1.36	1.31	1.64	1.48	1.47	1.58	1.53	1.60	1.54	1.57	1.50	1.51
COARSE GROUND 81%, USDA	1.79	1.75	1.66	1.65	1.59	1.97	1.77	1.79	1.91	1.88	1.88	1.78	1.82	1.78	1.82
90% BONELESS BEEF, CENTRAL, FRESH, USDA	2.32	2.24	2.16	2.12	2.11	2.13	2.14	2.17	2.19	2.20	2.28	2.25	2.17	2.15	2.23
50CL BEEF TRIM, FRESH, NATIONAL, USDA	0.69	0.45	0.56	0.69	0.55	0.79	0.89	0.86	0.94	0.83	0.97	0.97	1.00	0.94	0.89

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


Loin, 1/4 Trimmed Loin VAC, FOB Plant, USDA
$/cwt
140
130
120
110
100
90
80
70
60
50
February 16, 2018 = 86.65
8/9/2017
9/9/2017
10/9/2017
11/9/2017
12/9/2017
1/9/2018
2/9/2018
3/9/2018
4/9/2018
5/9/2018
6/9/2018
7/9/2018
5 YR. MONTHLY AVG.
YEAR AGO WEEKLY PRICE
WEEKLY PRICE
FORECAST
2017-18 Wednesday Dates


Sparerib, Trmd Sparerib - LGT, FOB Plant, USDA
$/cwt
190
170
150
130
110
90
70
50
February 16, 2018 = 142.12
8/9/2017
9/9/2017
10/9/2017
11/9/2017
12/9/2017
1/9/2018
2/9/2018
3/9/2018
4/9/2018
5/9/2018
6/9/2018
7/9/2018
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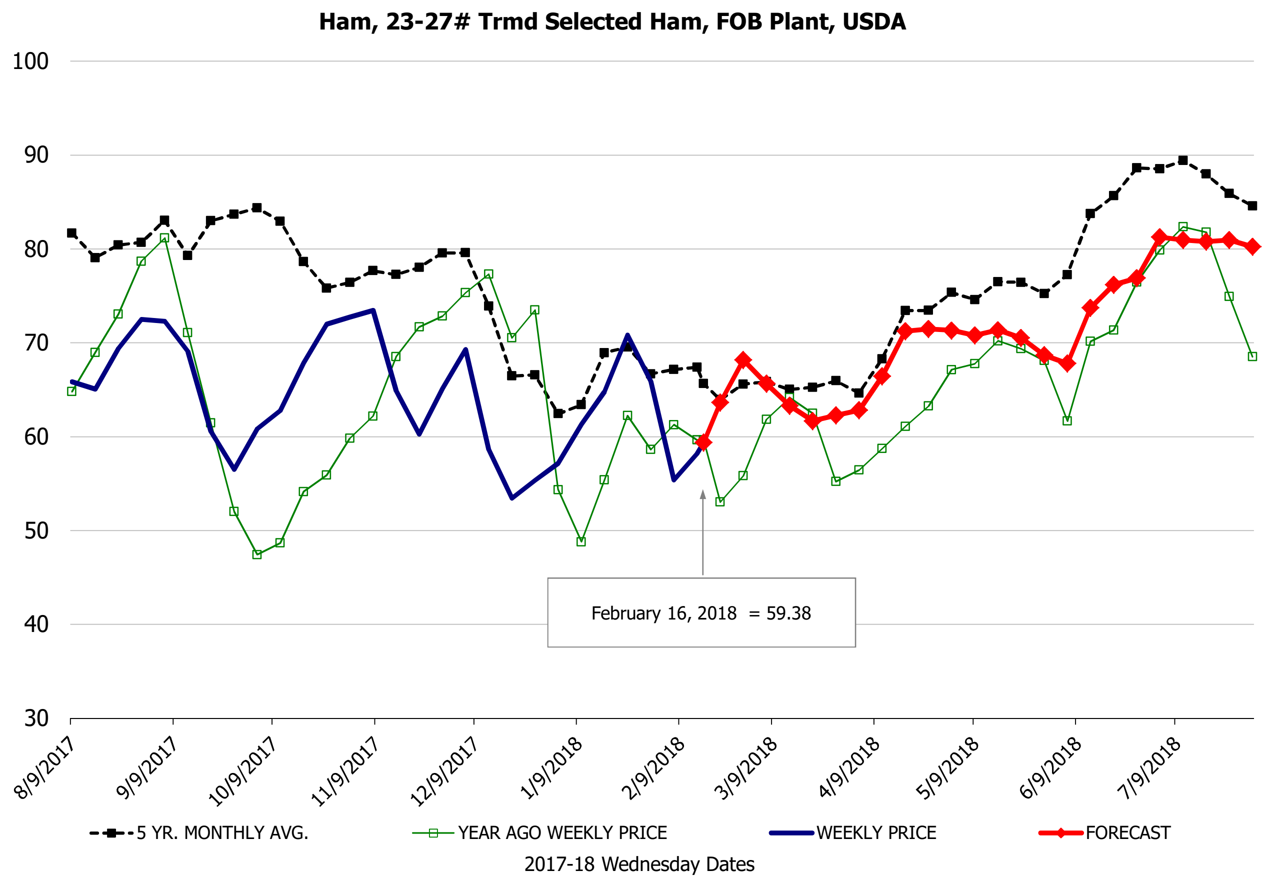
Ham, 23-27# Trmd Selected Ham, FOB Plant, USDA
100
90
80
70
60
50
40
30
February 16, 2018 = 59.38
8/9/2017
9/9/2017
10/9/2017
11/9/2017
12/9/2017
1/9/2018
2/9/2018
3/9/2018
4/9/2018
5/9/2018
6/9/2018
7/9/2018
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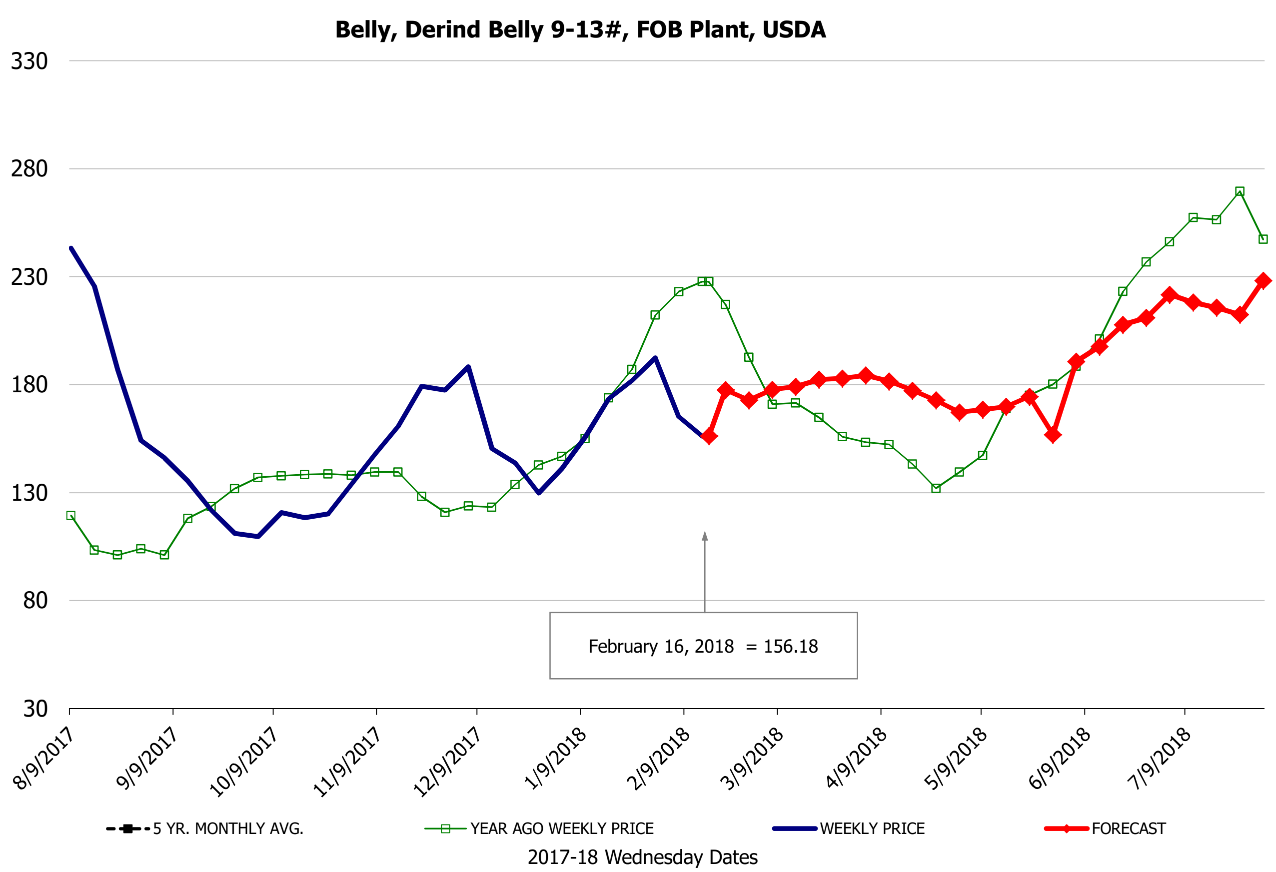
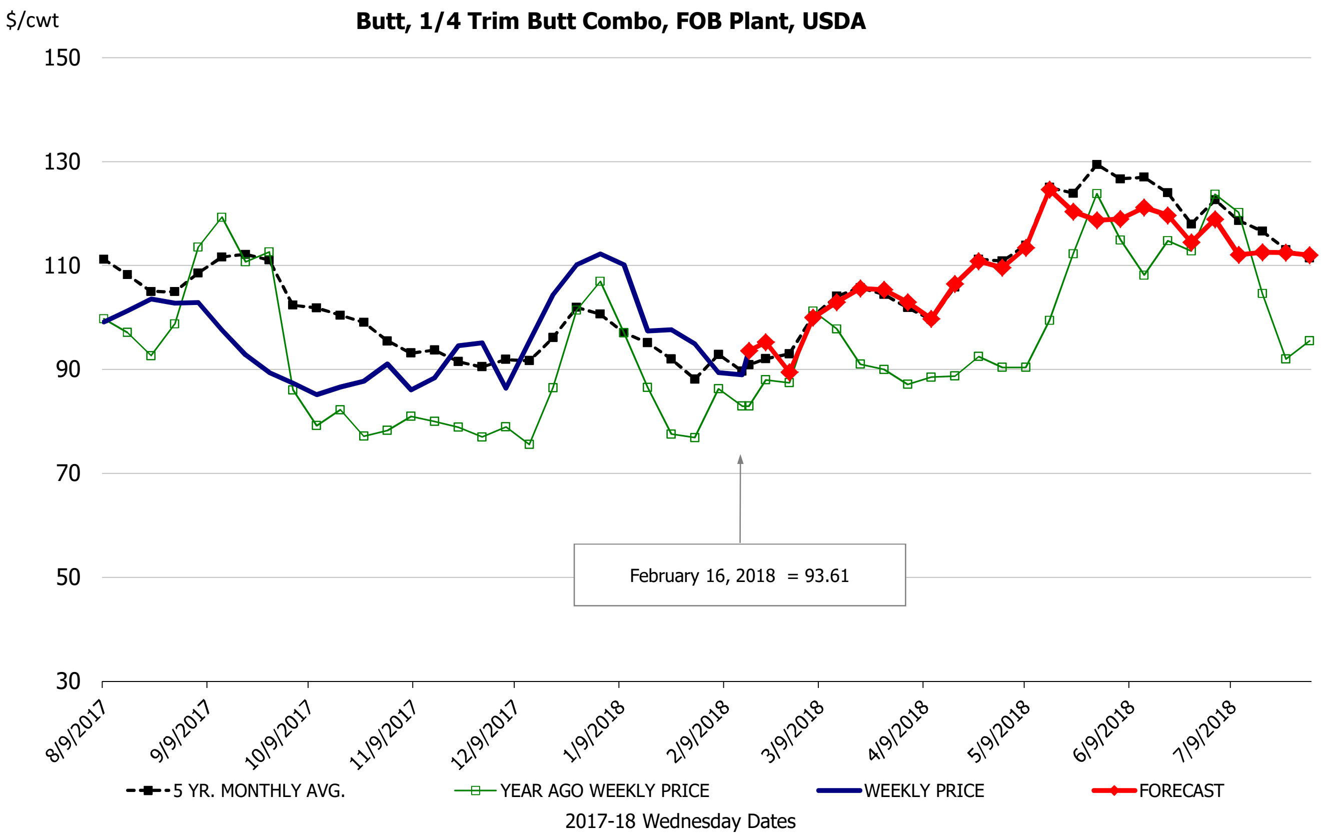
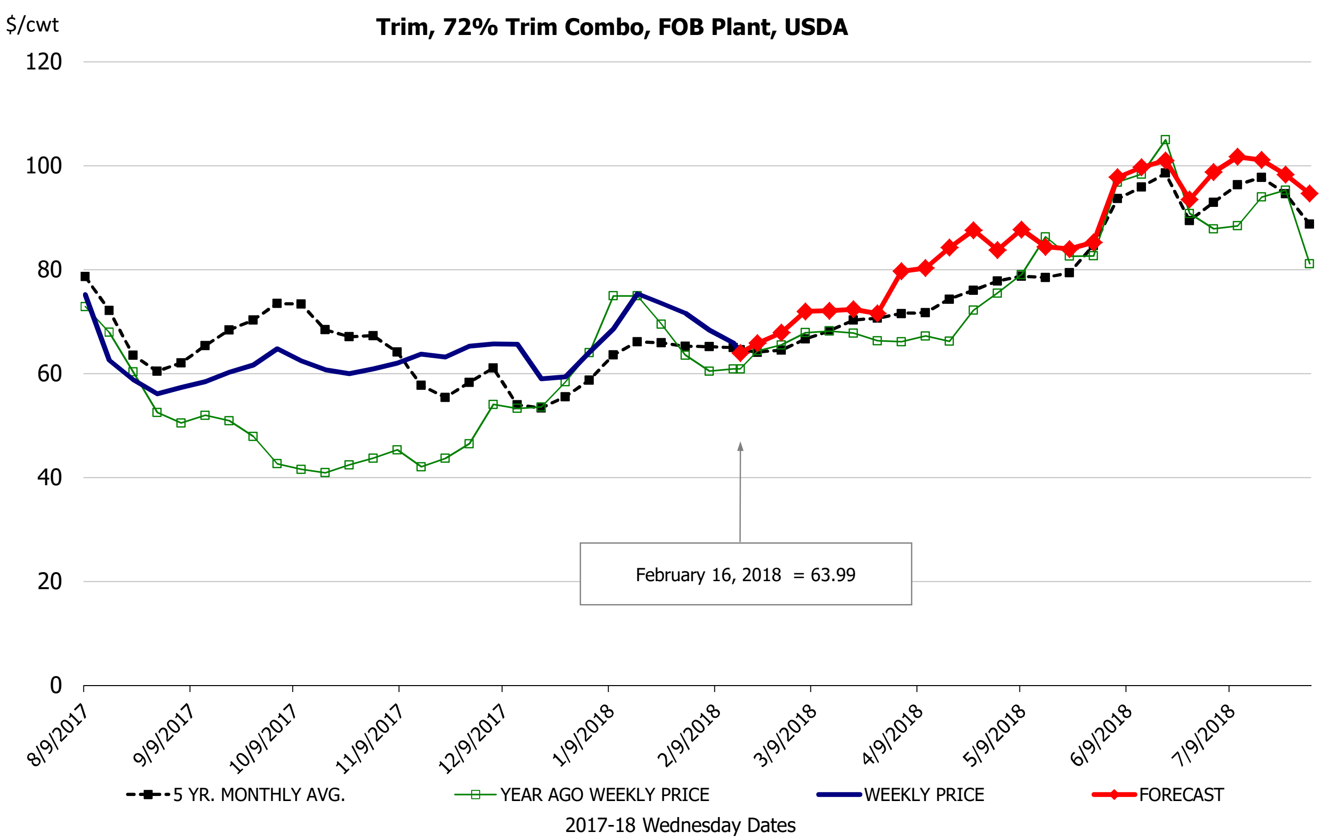
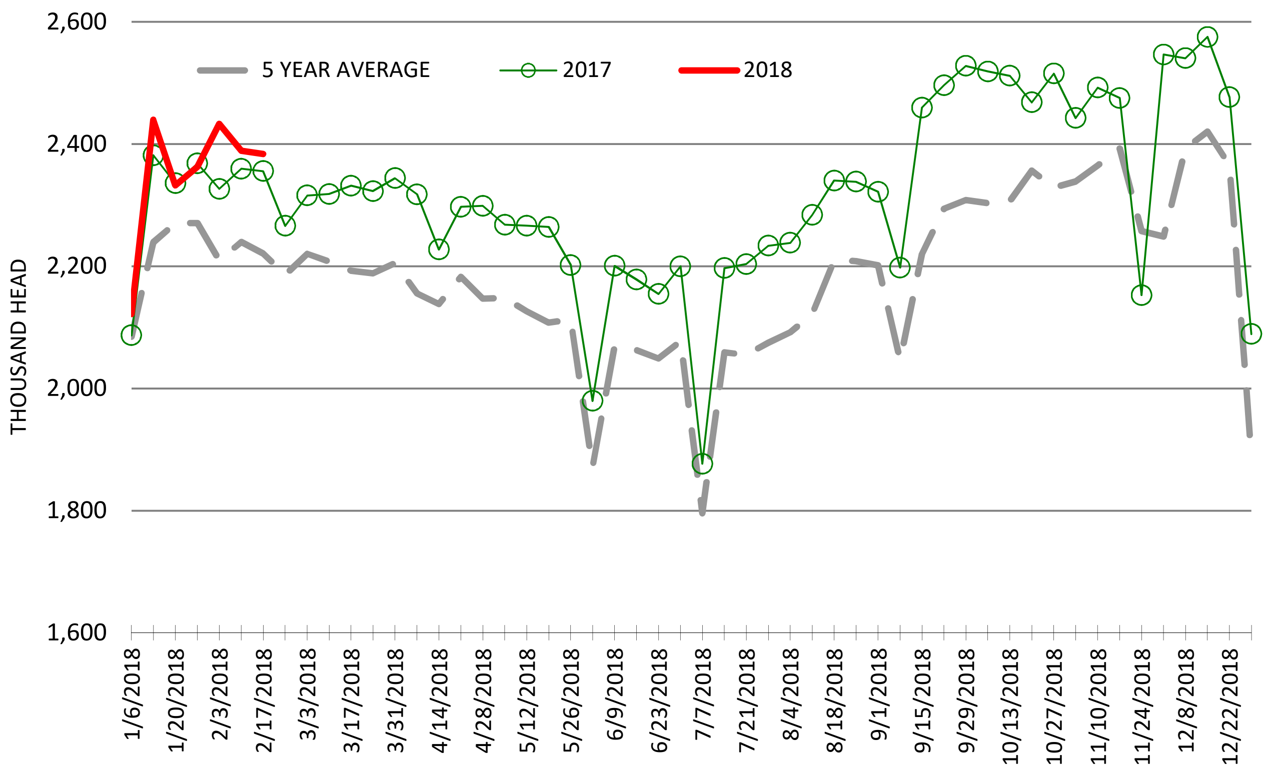

Belly, Derind Belly 9-13#, FOB Plant, USDA
330
280
230
180
130
80
30
February 16, 2018 = 156.18
8/9/2017
9/9/2017
10/9/2017
11/9/2017
12/9/2017
1/9/2018
2/9/2018
3/9/2018
4/9/2018
5/9/2018
6/9/2018
7/9/2018
5 YR. MONTHLY AVG.
YEAR AGO WEEKLY PRICE
WEEKLY PRICE
FORECAST
2017-18 Wednesday Dates


$/cwt
Butt, 1/4 Trim Butt Combo, FOB Plant, USDA
150
130
110
90
70
50
30
February 16, 2018 = 93.61
8/9/2017
9/9/2017
10/9/2017
11/9/2017
12/9/2017
1/9/2018
2/9/2018
3/9/2018
4/9/2018
5/9/2018
6/9/2018
7/9/2018
5 YR. MONTHLY AVG.
YEAR AGO WEEKLY PRICE
WEEKLY PRICE
FORECAST
2017-18 Wednesday Dates


$/cwt
Trim, 72% Trim Combo, FOB Plant, USDA
120
100
80
60
40
20
0
February 16, 2018 = 63.99
8/9/2017
9/9/2017
10/9/2017
11/9/2017
12/9/2017
1/9/2018
2/9/2018
3/9/2018
4/9/2018
5/9/2018
6/9/2018
7/9/2018
5 YR. MONTHLY AVG.
YEAR AGO WEEKLY PRICE
WEEKLY PRICE
FORECAST
2017-18 Wednesday Dates

ESTIMATED WEEKLY FI HOG SLAUGHTER

Source: USDA, '000 head



ESTIMATED WEEKLY FI HOG SLAUGHTER

Source: USDA, '000 head