Pork Merchandiser's **Profit Maximizer**

- Retail Edition -

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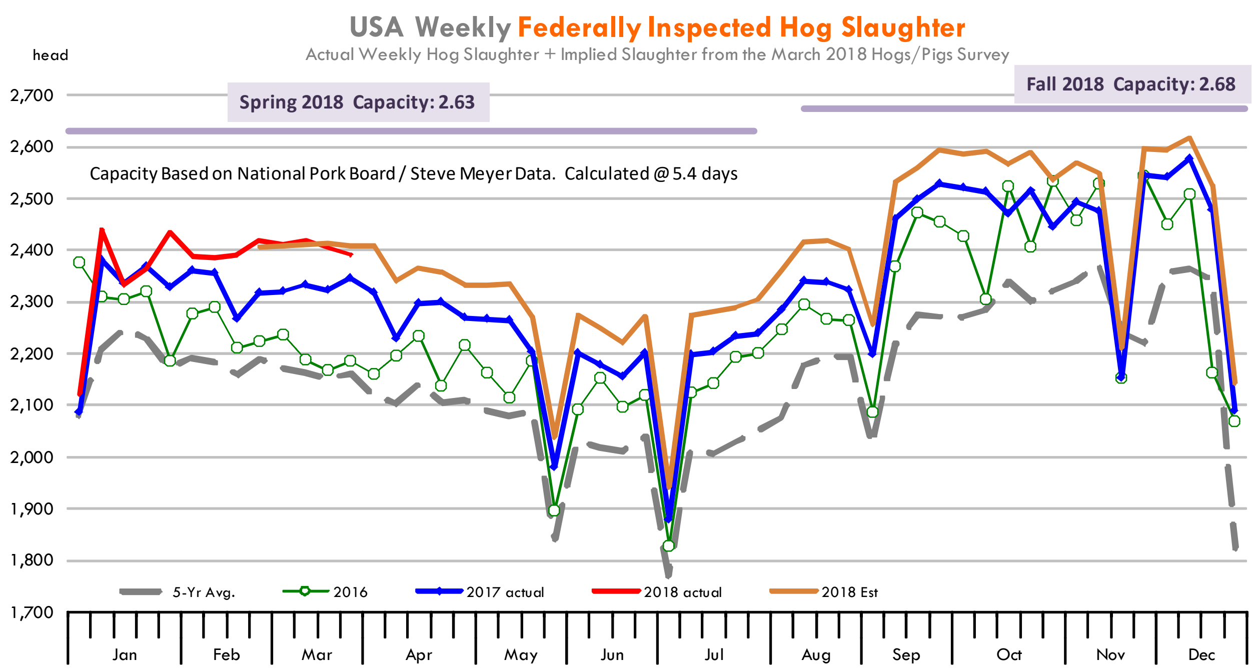
April 2, 2018

1. **Latest Hogs and Pigs report implies robust growth in pork supplies for the next 12 months, likely lower prices**

There were no major surprises in the latest USDA 'Hogs and Pigs' report. Most key numbers in the report were near or exactly the same as the average of analyst estimates, hence our view of the results as neutral for futures on Monday. Still, the report points to continued growth in US pork supplies and limited pork price inflation risk for the remainder of 2018 and early 2019. US hog producers have enjoyed stable profits in recent years and have continued to expand operations. It remains to be seen if the export market uncertainty and the potential for higher feed costs will finally put an end to this latest expansion cycle.



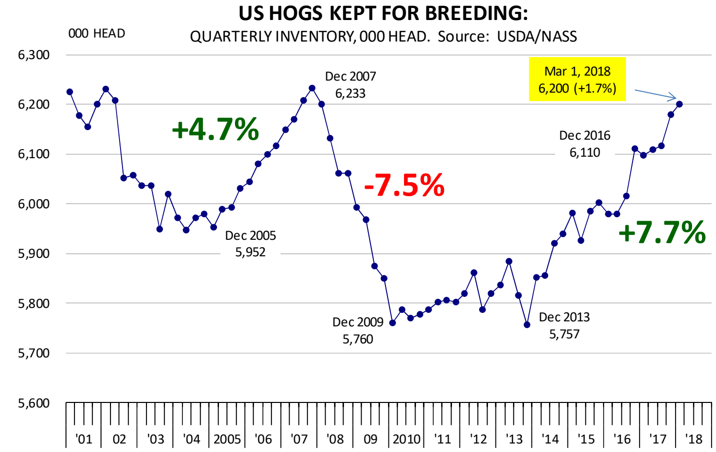
Below are some key numbers:

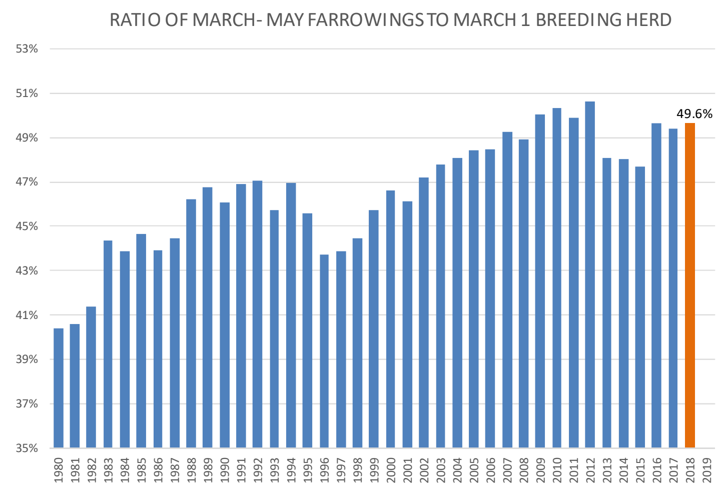
Total hog inventory on March 1 was 72.908 million head, 3.1% higher than a year ago and 7% higher than just two years ago. This was the largest March inventory on record but still below the levels we saw in September 2017 when the inventory hit 73.559 million head. We think the inventory this fall will exceed last year's levels given the growth in the breeding herd and higher farrowings expected this spring.

Breeding herd: USDA estimates the hog breeding herd at 6.2 million head, 1.7% higher than a year ago. The breeding herd is now almost back to the previous cycle peak in December 2007 (see chart below). Prior to the report analysts on average expected the breeding herd to be 1.5% higher than the previous year. The higher breeding herd should continue to bolster hog supplies for the next two quarters.

Market hogs and summer supply outlook: The inventory of market hogs, which are hogs that will come to market in the next 5-6 months, was about 3-4% higher than a year ago. Interestingly the supply of lighter market hogs was 3.1% higher than a year ago compared to a Dec-Feb pig crop which shows a 3.8% increase y/y. We think summer hog slaughter will be somewhere between 3.5% and 4% based on the pig crop data.

Farrowings for Mar-May and fall market supply outlook: Producers told USDA that they expect farrowings for the Mar-May period to be 2.1% higher than the previous year. The ratio of Mar-May farrowings to the breeding herd on Mar 1 is 49.6%, which is fairly close to what it was a year ago (49.7%). In the year's preceeding the outbreak of PEDv the ratio of farrowings to breeding herd was running near 50% and it appears we are going back to those levels. Given current trends we think Mar-May farrowings may increase by 2.3% to 2.8% y/y. The attached chart shows the trend in pigs per litter for the Mar-May period. This is a critical number since you





need both pigs per litter and farrowings to calculate the pig crop for the quarter. In recent quarters pigs per litter have been expanding by 0.5% to 1% y/y. We expect Mar-May pigs per litter to be up 0.7%. This most recent report therefore implies the Mar-May pig crop up about 3% y/y (2.1% farrowings + 0.7% pigs per litter). However, we think there is a potential for the pig crop to be up as much as 3.5%. Mar-May pig crop corresponds to the Sep-Nov slaughter window. Last year weekly slaughter for non-holiday weeks averaged about 2.5 million hogs/week. The latest 'Hogs and Pigs' report shows that weekly slaughter for that period should be up another 75-80,000 head and it is possible that slaughter could exceed 2.6 million head for some weeks. Pork supplies will once again hit all-time record highs and robust domestic and export demand will be critical to absorb the additional supply.

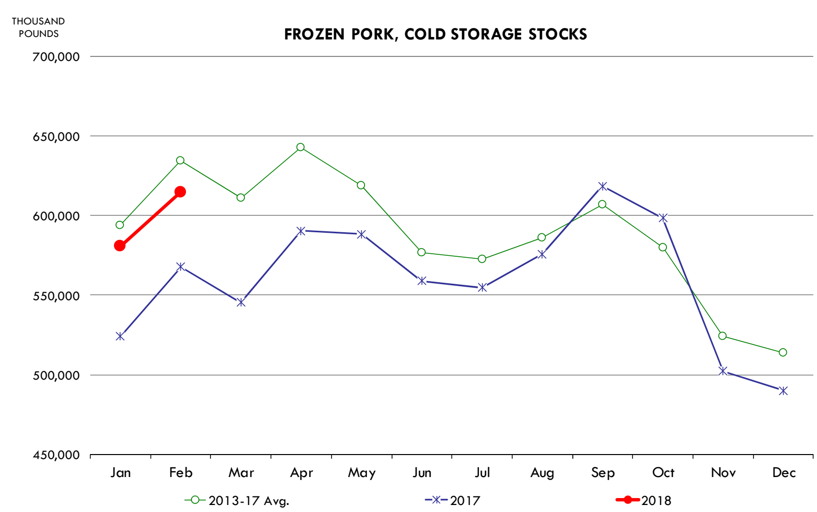
Farrowings for Jun-Aug and the winter supply outlook: Jun-Aug farrowings were estimated at 3.165 million, 1.4% higher than a year ago. We have no argument with that number as the ratio of farrowings to our breeding herd estimate is near 51%, which is on the high end of the range for this time of year. Current data implies moderate supply growth for pork slaughter during the winter of 2018-19.

Grain prices and export markets are two major wild cards for hog producers going forward. The potential for a 25% tariff on US pork in the Chinese market could significantly impact our shipments there. We could see our exports to China decline by 30% to 50% although much depends on pork values in Europe. China represented as much as 7% of US pork exports in 2017. More importantly, China purchased about a third of the pork by-products we exported. Finding a home for pork muscle cuts and by-products in the fall, when slaughter could approach 2.6 million head remains a key challenge for producers. Additionally, higher grain prices may take away one key advantage for US hog producers, low feed costs. US farmers are expected to reduce corn plantings significantly at a time that drought conditions threaten to impact corn yields this coming summer.

In the short term US pork supplies are ample and the latest inventory survey confirmed robust growth in pork production and likely lower Y/Y prices in the next 12 months.

2. Cold Storage

Pork inventories at the end of February were 614.9 million pounds, 8.3% higher than a year ago but still 3% less than the five year average. The pace of pork inventory accumulation was in line with normal levels but we were surprised by the sharp increase in the volume of pork trimmings that went into the freezer during February. This was offset in part by a lower than expected inventory of hams. At the end of February ham stocks in cold storage were 122.8 million pounds, 1.9% less than last year and just 2.9% higher than the five year average. Ham inventories in the past five years have increased by an average of 12% from January to February. This year the inventory increased by just 4%. One reason for the slower than expected inventory build is the high price of hams at the end of January, which likely caused some end users to back off the market. What is harder to ascertain is whether the high ham prices in late January negatively impacted features and export demand. Today ham prices are down as much as 24% compared to late January levels. Normally ham prices find a bottom right after Easter and with current low



Upcoming holidays:

2018 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 March 31 slaughter was 2.391 million head, up 2.0% from a year ago. In the last two weeks hog slaughter is up 2.7% vs. year ago levels.

Iowa/Minnesota, Base Negotiated Purchase for Barrows and Gilts. Lean hog carcass values at about 49.87 /cwt. on Friday were down $5.35/cwt since Wed. March 21. Prices are down about 12.8 $/cwt compared to year ago values.

Loin, 1/4 Trimmed Loin VAC, FOB Plant, USDA (page 8). Prices finished last week at $0.8549, down about 3.4 cent since the Wed. March 21 quote and down about 6 cents from year ago levels.

Bnls. Strap on Pork Loins. Prices finished the week at $1.0431 for the strap on loins, down 6.3 cent since Wed. March 21 and down 10 cent from the year ago levels. Strap off loins at $1.3031 are down 4.8 cent since Wed. March 21 and down about 0.5 cent compared to the year ago quote.

Boneless sirloins at $0.9115 are down about 4 cents from the Wed. March 21 quote and down about 15.0 cents from the year ago price.

Pork tenderloin finished last week at $1.9568, down 8 cent since the Wed. March 21 quote and down about 5.6 cents from the year ago price.

1/4 Trim Pork Butts (page 10), prices finished the week at $0.9842, down 1.3 cents since Wed. March 21. Prices are down 4 cent from a year ago.

Spare Ribs, Trimmed - LGT, Vac (page 8). Prices finished the week at $1.4451, down about 2 cent since Wed. March 21 but up about 16 cents from year ago levels.

Rib inventories on February 28 were 128.1 million pounds, down 8.2% percent from a year ago.

Bone-in Hams.

17/20 hams (page 9) price was $0.6000/lb., down 0 cents since Wed. March 21 but up about 2 cents from a year ago.

20/23 hams finished the week at 56.77 cents, down about 2 cents since Wed. March 21 and down about 3.5 cents from the year ago level.

23/27 hams finished the week at 52.73 , up about 1 cent from the Wed. March 21 quote but down about 3 cents from the year ago level.

Total ham cold storage stocks on **February 28** at 122.8 million pounds were down slightly from year ago levels.

42 CL Pork Trim "FOB Basis". Prices finished the week at 38.60 cents, down about 4.8 cent since Wed. March 21 but up about 1 cents from the year ago price.

72 CL Pork Trim "FOB Basis". Prices finished the week at 59.39 cents, down 4.0 cents since the Wed. March 21 quote and down about 7 cents from the year ago level.

Freezer stocks of all trimmings on February 28 were 59.4 million pounds, up 59.2% 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 108.59 on Friday, March 31, up about 10 cents from a year ago.

Broiler slaughter for the week ending March 31 was 157.47 million head, down 0.59% from a year ago. For the last two weeks broiler slaughter was down 1.2% vs. a year ago.

Breasts. Prices on boneless skinless breasts finished the week at $1.4916, up 9 cents since Wed. March 21 and still up about 21 cents from year ago levels.

Leg Quarters. This market continues to be export driven. Last week leg quarter prices were down about 0.1 cents vs. two weeks ago but at 41.21 cents per pound prices were up 3 cents from a year ago.

Wings. Prices at $1.4567 are down about 43 cents from year ago levels.

Turkeys

Hens finished last week at $0.8600, unchanged cent since Wed. March 21 but down about 21 cents from the year ago price.

Toms finished last week at $0.8600, unchanged since Wed. March 21 but down about 21 cent from the year ago price.

Total turkey supplies in the freezer on February 28 were up 12.8% from a year ago at 426.8 million pounds. Whole birds were up 20.2% from a year ago with an inventory of 186.6 million pounds.

Turkey slaughter was 4.0480 million head for the week ending March 24, down -1.20% from a year ago. For the last two weeks slaughter has been down 4.7%.

Boneless Turkey Breast Meat. Boneless skinless turkey breast meat prices finished last week at $1.6300, up since Wed. March 21. Prices are up about 8 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 $2.1580 for 90CL and $0.8305 for 50CL product, an 81CL meat block value is now $1.8593 and a 78CL meat block is $1.7598. Choice 114, 3 Clods are now being priced 25.81 cents over 81CL meat block grinding values of 90s and 50s. A year ago the spread was 12.68 cents and the five year average spread for is 20.10 cents over.

Select #115 chucks also are no longer being quoted.

Choice #161 Boneless Rounds finished last week at $2.3100, down slightly since Wed. March 21 and down about 3 cents from year ago levels.

Choice #184 Regular Heavy top butts finished at $3.3144 (wt. avg.) down about 0.5

cents since Wed. March 21 and down about 64 cent from year ago levels.

Choice #184 ¼ inch trimmed Top Butts finished at $3.2843 (wt. avg.) down about 28.5 cents since Wed. March 21 and down about 84 cents from the year ago levels.

COARSE GROUND BEEF –

73CL Coarse Ground product finished last week at $1.4618 down about 11 cents since Wed. March 21 and down about 15 cents from year ago levels.

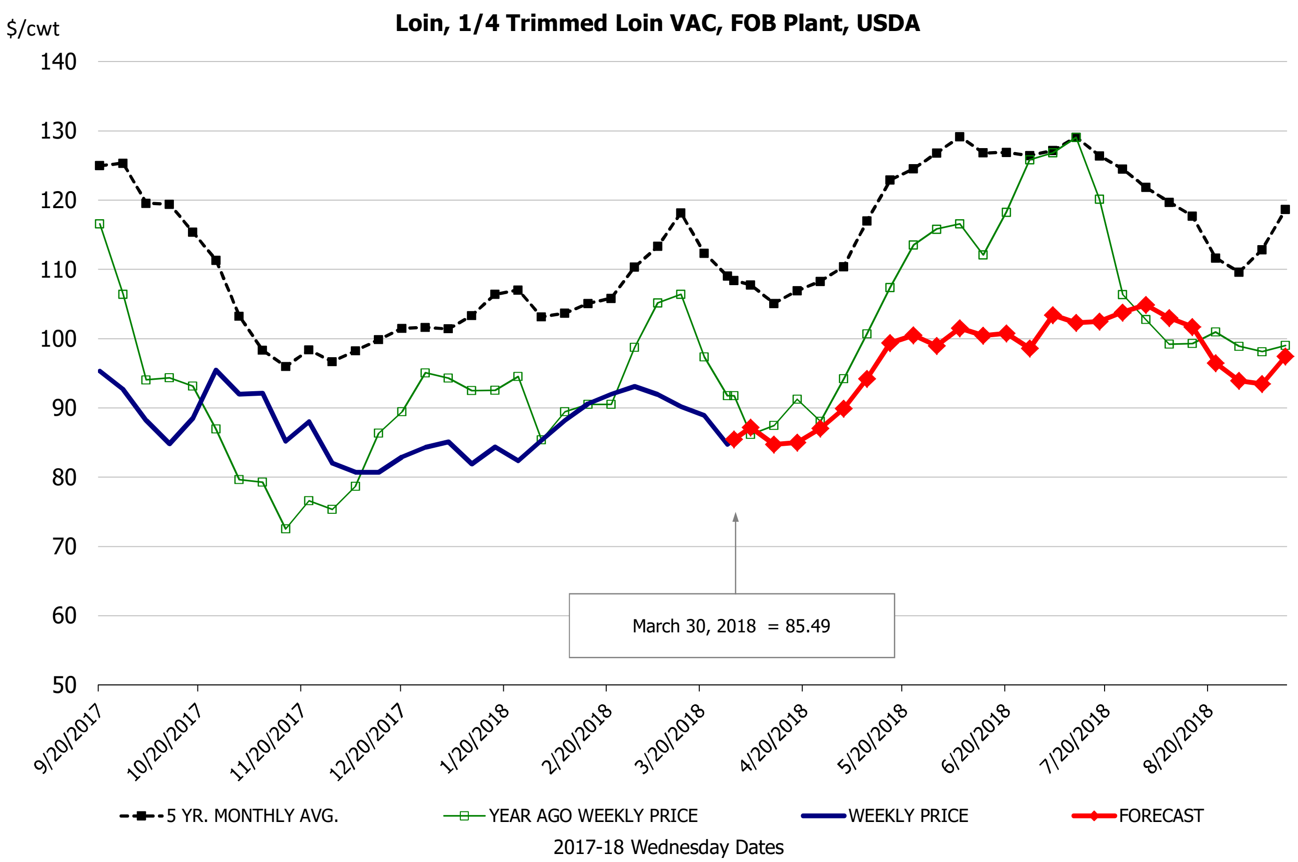
81CL Coarse Ground product finished last week at $1.8702 up about 0.5 cent since Wed. March 21 and up about 10 cents from the year ago quote.

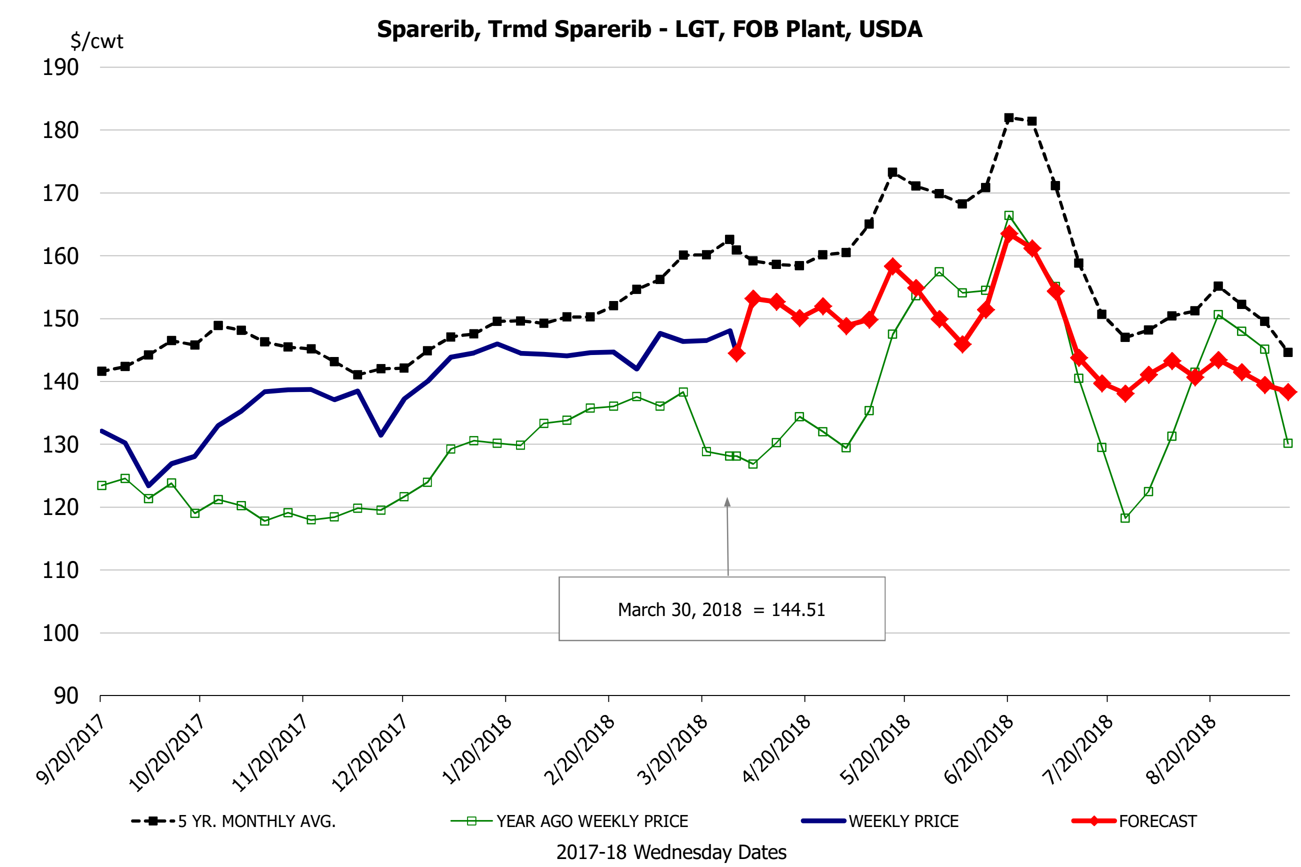
90CL Bnls. Beef prices finished the week at $2.1580 (wt. avg.) down 1.68 cent since Wed. March 21 and down one cents compared to the year ago price quote.

50 CL Beef Trim prices finished last week at $0.8305, down about one cent since Wed. March 21 and down 19 cents compared to the year ago level.

Retail Summary Table - WT. AVE.

	HISTORY								FORECAST						
	Oct	Nov	Dec	Jan	Feb	Mar	3/21/2018	3/30/2018	4/11/2018	Apr	May	Jun	Jul	Aug	Sep
PORK															
Loin, 1/4 Trimmed Loin VAC, FOB Plant, USDA	89.14	85.71	82.45	83.52	89.29	89.38	88.91	85.49	85	86	96	100	103	100	98
Loin, 1/8 Trimmed Loin VAC, FOB Plant, USDA	93.27	89.85	87.86	88.20	90.86	96.09	92.27	99.61	99	100	103	108	111	106	103
Loin, Bnls CC Strap-off, FOB Plant, USDA	136.60	138.00	145.73	136.54	133.93	132.89	135.07	130.31	135	135	142	140	142	140	150
Butt, 1/4 Trim Butt Combo, FOB Plant, USDA	87.23	92.42	94.95	105.69	94.94	94.06	90.67	85.96	90	95	113	115	111	108	106
Sparerib, Trmd Sparerib - LGT, FOB Plant, USDA	128.71	137.76	135.88	143.80	142.78	147.54	146.53	144.51	153	152	153	154	144	142	137
Sparerib, Trmd Sparerib - MED, FOB Plant, USDA	128.54	134.77	134.64	142.08	143.84	142.15	140.76	139.61	150	149	155	158	148	147	140
Ham, 17-20# Trmd Selected Ham, FOB Plant, USDA	68.97	73.25	64.33	65.69	63.54	62.67	60.40	60.00	62	63	64	69	75	77	75
Ham, 20-23# Trmd Selected Ham, FOB Plant, USDA	68.74	70.26	62.61	66.86	65.71	60.95	58.44	56.77	59	61	66	70	78	77	77
Ham, 23-27# Trmd Selected Ham, FOB Plant, USDA	66.19	66.48	59.78	62.50	60.35	56.11	52.20	52.73	55	56	62	65	74	74	71
Belly Cutout, FOB Plant, USDA	95.96	128.70	121.49	133.21	130.33	106.53	103.23	104.31	114	110	120	147	166	159	138
Belly, Derind Belly 9-13#, FOB Plant, USDA	117.03	161.13	144.34	160.63	162.13	133.87	132.37	134.49	141	139	148	181	205	197	170
Belly, Derind Belly 13-17#, FOB Plant, USDA	116.95	161.26	143.64	155.03	154.20	124.54	123.66	126.57	141	137	146	179	203	195	169
Trim, 42% Trim Combo, FOB Plant, USDA	25.89	27.04	25.34	26.66	27.85	37.75	43.41	38.60	38	39	40	45	48	43	35
Trim, 72% Trim Combo, FOB Plant, USDA	62.05	62.29	63.42	72.24	64.93	63.67	63.41	59.39	63	65	82	86	92	72	66
Trim, Picnic Meat Combo Cushion Out, FOB Plant, USDA	85.45	81.12	87.11	85.06	77.69	72.66	71.95	64.55	76	78	86	95	103	92	90
Carcass Cutout, FOB Plant, USDA	74.87	81.29	79.44	80.74	78.44	73.46	71.45	70.62	74	74	80	88	91	89	84
HOG CARCASS															
IA/MN, Base Market Hog 185 lb Carcass Basis, Plant Dlv.	59.48	59.22	57.44	68.10	67.14	58.14	55.13	49.87	56	57	69	77	80	74	68
BROILERS															
N.E. BROILER BREAST BONELESS-SKINLESS, USDA	115.16	106.01	105.72	106.78	104.99	131.08	140.25	149.16	148	149	158	156	157	158	146
N.E. BROILER BREAST LINE RUN, USDA	82.01	81.44	83.22	96.74	98.20	102.90	104.78	108.22	108	108	123	122	120	115	112
N.E. BROILER LEG QUARTERS, USDA	39.99	37.83	37.17	37.74	39.60	40.13	41.27	41.21	43	43	44	45	45	44	44
TURKEYS															
UB HEN TURKEYS, EAST, FROZEN 10-12LBS	107.00	99.60	87.00	86.20	86.00	86.00	86.00	86.00	88	88	92	95	97	99	101
UB TOM TURKEYS, EAST, FROZEN 16-22LBS	107.00	99.60	86.25	86.00	86.00	86.00	86.00	86.00	88	88	92	95	97	99	101
LIVE STEERS															
FIVE AREA DIRECT AVERAGE LIVE STEER, USDA	109.79	120.07	119.39	122.49	127.34	126.42	127.30	121.03	118	118	114	107	106	106	109
BEEF															
CHOICE, 161, 1 ROUND, BONELESS, USDA	226.21	232.29	225.20	238.78	231.85	233.38	231.87	231.00	211	214	205	201	202	208	218
CHOICE, 168, 3 TOP INSIDE ROUND, 1/4" MAX, USDA	215.92	217.04	206.45	212.85	221.96	223.47	224.22	220.44	205	205	198	194	203	209	205
CHOICE, 170, 1 BOTTOM GOOSENECK ROUND, USDA	207.88	209.20	205.64	212.59	200.53	191.52	197.95	191.43	186	185	179	175	181	184	201
CHOICE, 184, 3 TOP BUTT, BONELESS, USDA	254.23	294.73	320.99	349.59	345.29	342.41	356.63	328.43	356	356	352	325	325	317	315
CHOICE, 185A, 4 BOTTOM SIRLOIN, FLAP, USDA	412.17	494.48	488.14	466.33	498.02	572.83	599.46	610.34	577	595	615	562	449	437	442
COARSE GROUND 73%, USDA	136.42	135.97	130.57	164.29	146.88	156.19	157.35	146.18	145	146	147	139	141	147	147
COARSE GROUND 81%, USDA	165.55	164.74	159.34	197.10	176.21	186.42	186.94	187.02	175	178	182	165	167	170	170
90% BONELESS BEEF, CENTRAL, FRESH, USDA	215.51	211.89	210.58	213.44	215.17	217.14	217.48	215.80	213	212	207	208	212	212	216
50CL BEEF TRIM, FRESH, NATIONAL, USDA	56.49	69.13	54.74	79.25	83.66	83.92	83.77	83.05	93	96	97	85	82	75	62


Loin, 1/4 Trimmed Loin VAC, FOB Plant, USDA
$/cwt
140
130
120
110
100
90
80
70
60
50
March 30, 2018 = 85.49
9/20/2017
10/20/2017
11/20/2017
12/20/2017
1/20/2018
2/20/2018
3/20/2018
4/20/2018
5/20/2018
6/20/2018
7/20/2018
8/20/2018
5 YR. MONTHLY AVG.
YEAR AGO WEEKLY PRICE
WEEKLY PRICE
FORECAST
2017-18 Wednesday Dates


Sparerib, Trmd Sparerib - LGT, FOB Plant, USDA
$/cwt
190
180
170
160
150
140
130
120
110
100
90
March 30, 2018 = 144.51
9/20/2017
10/20/2017
11/20/2017
12/20/2017
1/20/2018
2/20/2018
3/20/2018
4/20/2018
5/20/2018
6/20/2018
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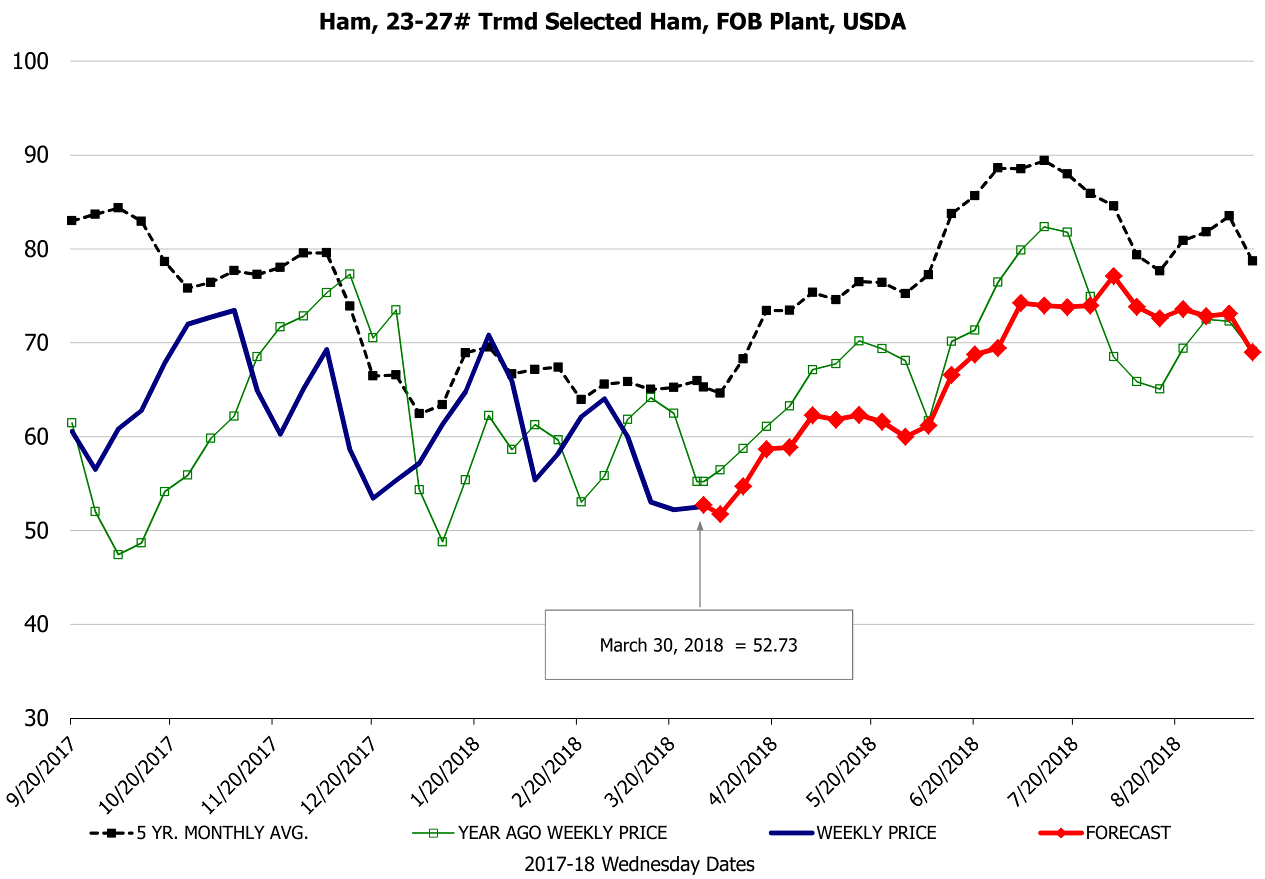
Ham, 23-27# Trmd Selected Ham, FOB Plant, USDA
100
90
80
70
60
50
40
30
March 30, 2018 = 52.73
9/20/2017
10/20/2017
11/20/2017
12/20/2017
1/20/2018
2/20/2018
3/20/2018
4/20/2018
5/20/2018
6/20/2018
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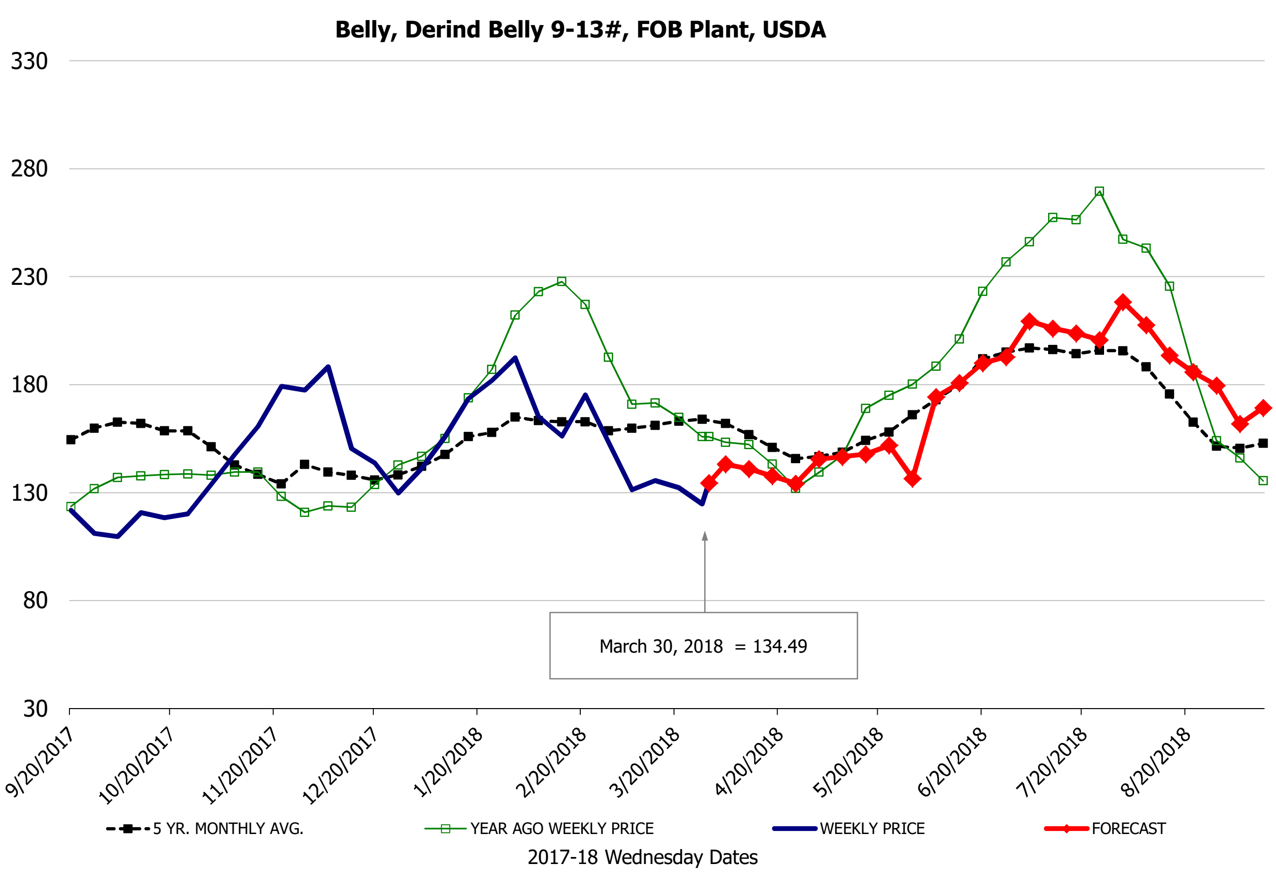
Belly, Derind Belly 9-13#, FOB Plant, USDA
330
280
230
180
130
80
30
March 30, 2018 = 134.49
9/20/2017
10/20/2017
11/20/2017
12/20/2017
1/20/2018
2/20/2018
3/20/2018
4/20/2018
5/20/2018
6/20/2018
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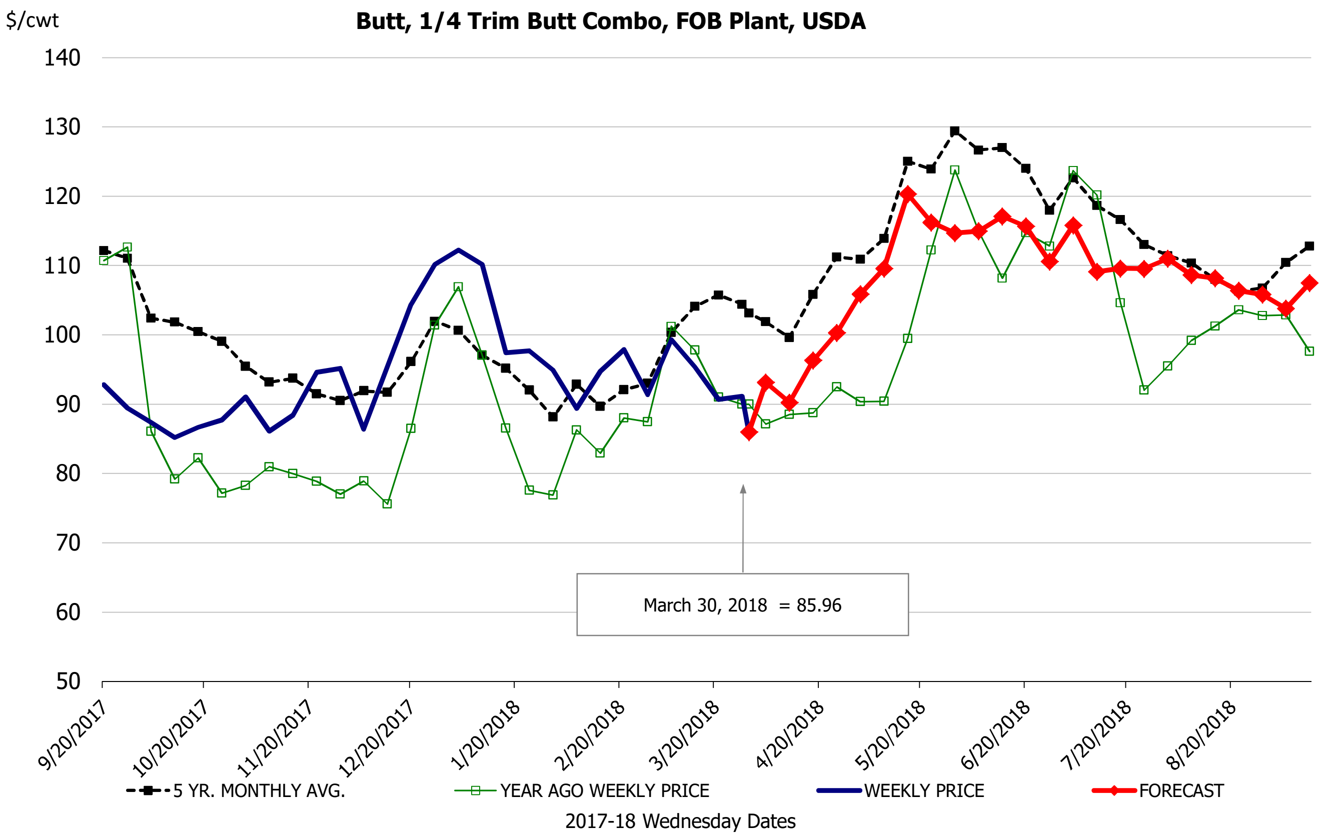

$/cwt
Butt, 1/4 Trim Butt Combo, FOB Plant, USDA
140
130
120
110
100
90
80
70
60
50
March 30, 2018 = 85.96
9/20/2017
10/20/2017
11/20/2017
12/20/2017
1/20/2018
2/20/2018
3/20/2018
4/20/2018
5/20/2018
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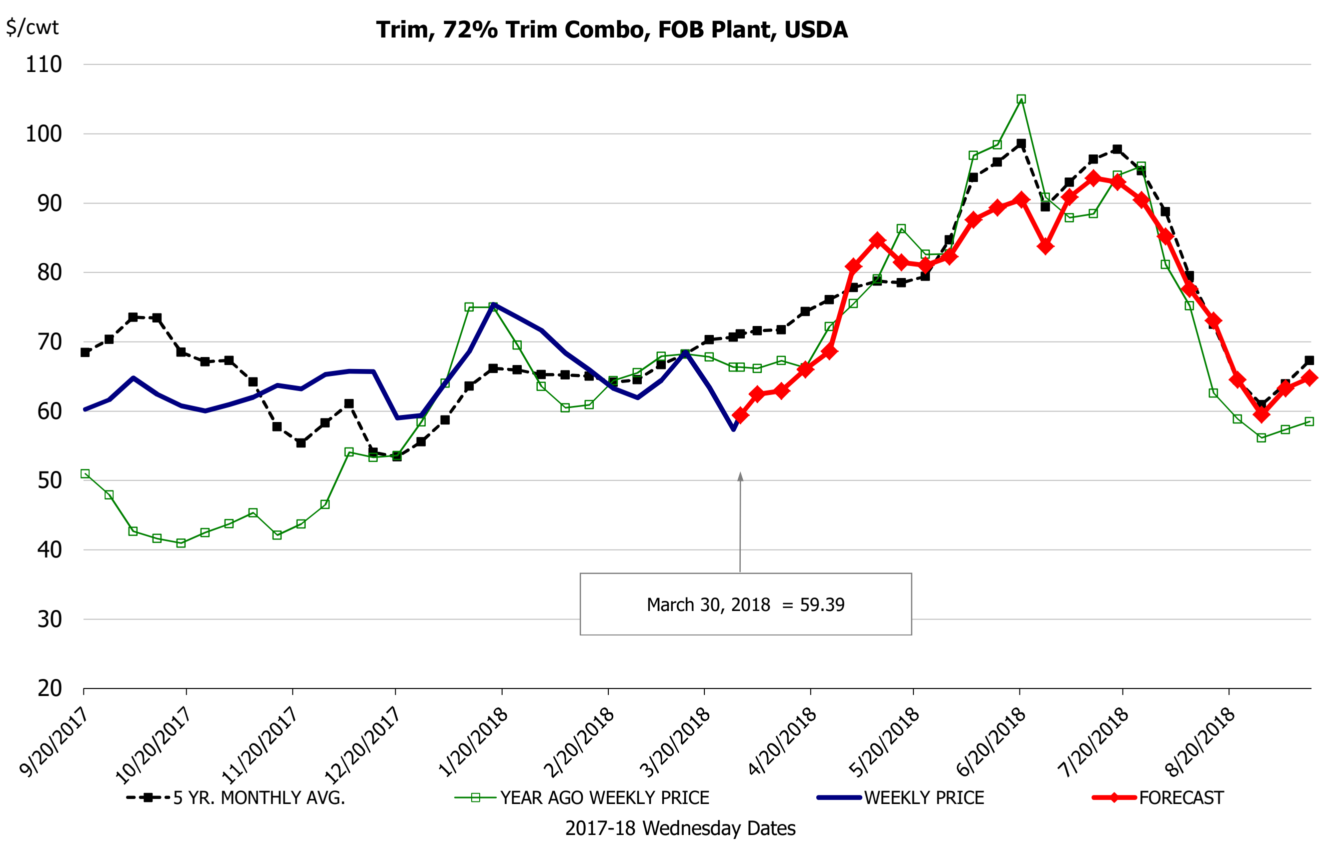

$/cwt
Trim, 72% Trim Combo, FOB Plant, USDA
110
100
90
80
70
60
50
40
30
20
March 30, 2018 = 59.39
9/20/2017
10/20/2017
11/20/2017
12/20/2017
1/20/2018
2/20/2018
3/20/2018
4/20/2018
5/20/2018
6/20/2018
7/20/2018
8/20/2018
5 YR. MONTHLY AVG.
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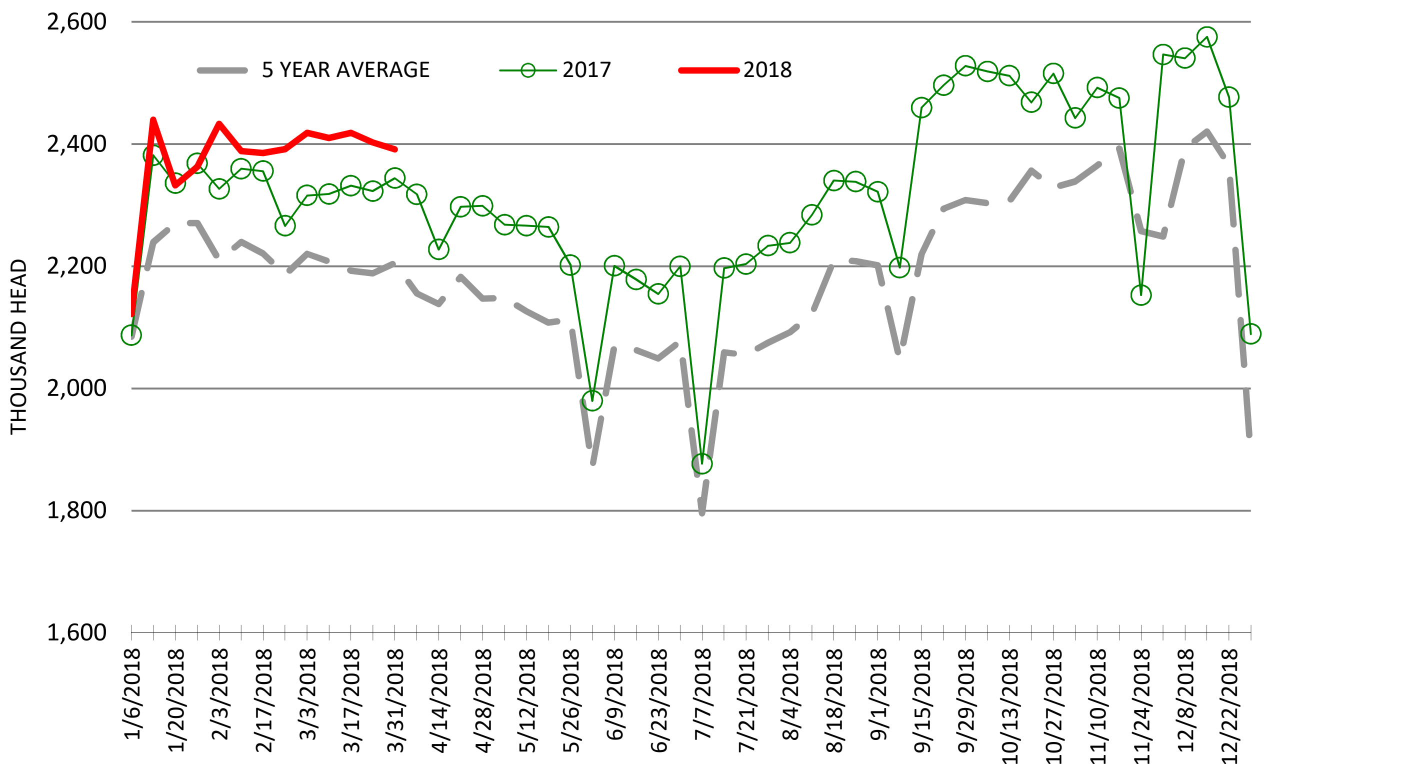
WEEKLY PRICE
FORECAST
2017-18 Wednesday Dates

ESTIMATED WEEKLY FI HOG SLAUGHTER

Source: USDA, '000 head



ESTIMATED WEEKLY FI PORK PRODUCTION

Source: USDA, Mil. Pounds