Pork Merchandiser's Profit Maximizer

- Foodservice Edition -

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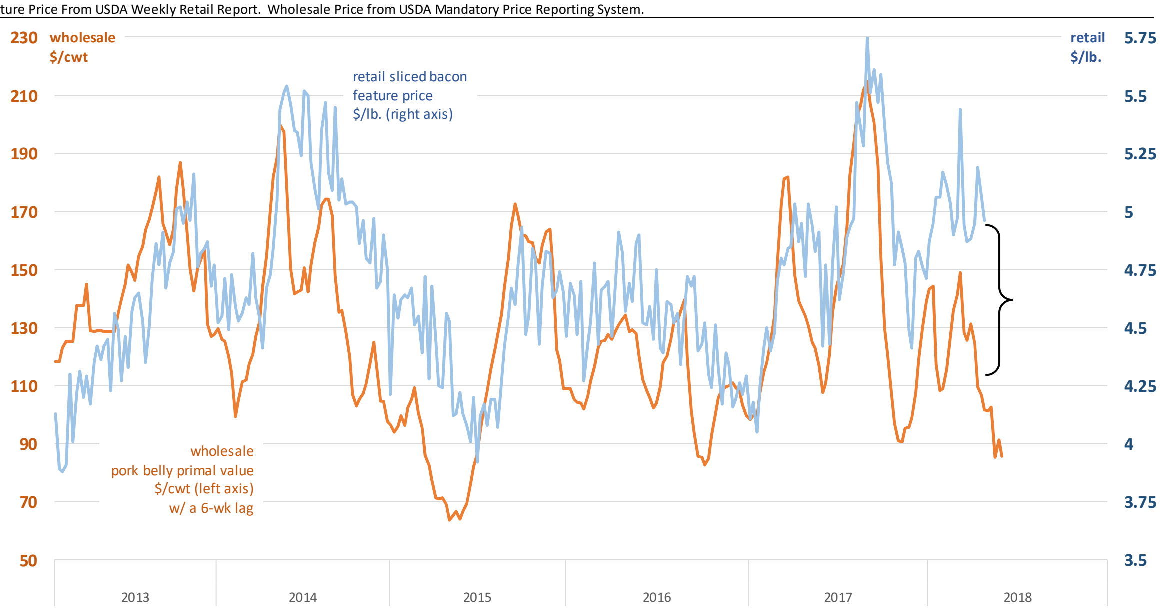
April 30, 2018

1. Ample supplies and still high retail bacon prices continue to pressure wholesale belly values, overall cutout

We have presented the chart below two weeks ago but thought it was appropriate to update and show again. It illustrates, in our opinion, part of what's wrong with the market for pork bellies. Supplies are historically large fort his time of year given the combination of +2.4 million slaughter hogs in the last four weeks and near record hog carcass weights. Retail prices tend to be sticky, i.e. retailers do not adjust them as quickly as one would hope. There are real operational issues at play as well as problems with timing promotions/bacon sales during times when

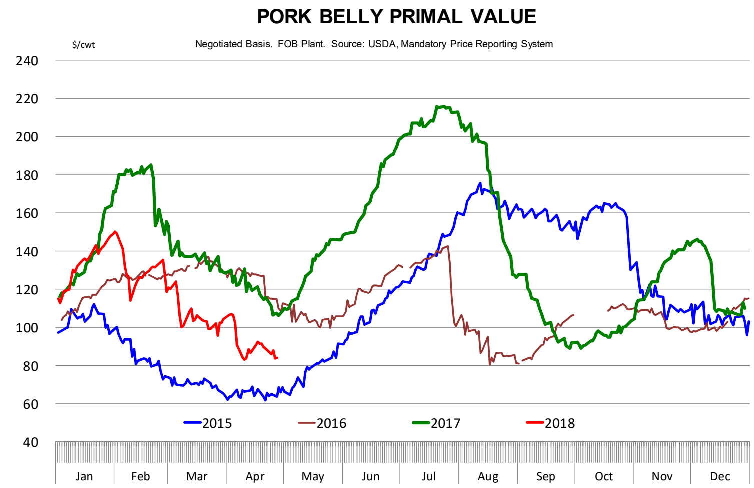
RETAIL BACON AVERAGE FEATURE PRICE VS. WHOLESALE PORK BELLY PRIMAL (6-WK LAG)

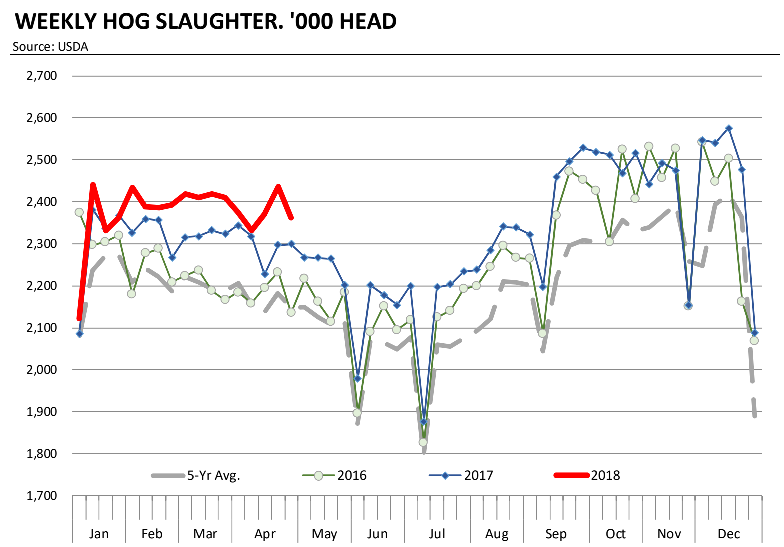
Feature Price From USDA Weekly Retail Report. Wholesale Price from USDA Mandatory Price Reporting System.



consumers are more likely to increase their bacon purchases. The benchmark retail bacon prices are reported by ERS on a monthly basis but we have found the weekly USDA retail feature report to be a very useful gauge. The weekly price series also matches up well with the official monthly statistics. For the week ending April 27, the average retail feature price for a pound of bacon was $4.96/lb. This is a national price although the regional differences were not as large as we would have thought. The average price in the Midwest region was $4.87/lb. while the average price in the Southeast was $5.12/lb. The average national price of $4.96/lb. corresponds to a wholesale pork belly price six weeks ago of $101.79/cwt. The ratio of the retail price to the wholesale value six weeks ago is 4.87 (divide retail price by wholesale price). While this is high, it is not unprecedented. Indeed, in early May 8, 2015 the ratio was as high as 7.09. Back then, the retail price was $4.53 per pound and corresponded to a wholesale price of 63.85 cents per pound. Low spring prices slowly started to filter through at the retail level, eventually spurring more sales in June and July. Retail bacon prices declined 13.5% between early May and early July in 2015. Wholesale prices, on the other hand, continued to rally all the way into August, gaining 152%.

But one does not have to go back that far to recognize the impact that lower retail prices and increased promotions have on pork belly values. For the week ending November 3 the ratio of the retail bacon price to wholesale belly prices (6-wk lag) was 5.39. Lower bacon prices at retail (down 5% in two months) and lower supplies after the holidays set the stage for a rapid increase in pork belly prices, which gained





64% between October and early February. The point here is that while prices for pork bellies are very soft at the moment, history has shown that a combination of seasonally lower supplies (less slaughter) and retail promotions can cause rapid wholesale price inflation. Futures already reflect some of that, with July and August holding a premium to June.

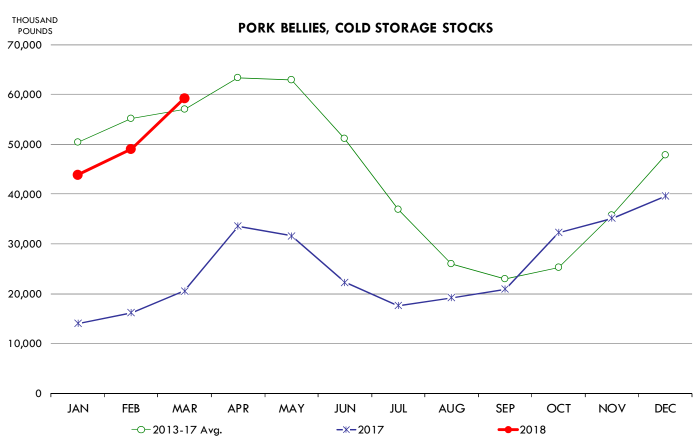
<u>Bottom line</u>: Short term supplies of pork bellies, and pork, are heavy and this has pressured prices lower. However, grilling season is around the corner and ho supplies will not be 2.4 million in June.

2. Cold Storage Update

USDA released its monthly 'Cold Storage' survey results on April 23. **The total supply of beef, pork, chicken and turkey in cold storage at the end of March was 2.409 billion pounds, 9.4% higher than a year ago and 11.5% higher than the five year average**. On average in the past five years March inventories have declined 1% from February levels. This year the March inventory was 0.5% higher, largely due to more whole turkeys going into storage.

The inventory of all pork products in cold storage at the end of March was 611.0 million pounds, 12% higher than a year ago and at the same level as the five year average. In the last five years, the average drawdown of pork cold storage supplies in March was 3.7%. This year March inventories increased slightly from February levels. The drawdown in ham stocks in March was 22% compared to a 21% average for the last five years. Lower belly prices appear to have pushed more bellies cold storage. We don't know exactly where these bellies are accumulated since USDA does not provide a breakdown by region due to confidentiality issues. Total belly stocks at the end of March were 59.2 million pounds, 187% higher than a year ago and now 3.8% higher than the five year average. Inventories increased 21% in March vs. February, compared to a 3% average gain in the last five years. The last time we saw Feb/Mar inventories increase by a similar amount was in 2013. That year the pork belly primal was flat through March but then rose 40% between April and early August. Large slaughter has increased the amount of pork trim, pressuring prices. Seasonally pork trim prices increase in the spring and this likely caused packers and traders to push more trim into the freezer. Total pork trim inventories at the end of March were 56.4 million pounds, 41% higher than a year ago and 9.7% higher than the five year average. Inventories rose 10% m/m compared to an average 4% increase in the last five years.

Total beef inventories at the end of February were 464.0 million pounds, unchanged from a year ago and still 1% less than the five year average. Boneless beef inventories were surprisingly higher in March despite a relatively modest increase in slaughter and sharply discounted futures. The increase is not helpful for a beef market that will likely see a significant increase in available supplies in May and June. If exports were the reason for the higher inventories we would expect larger stocks in the Pacific region. However, the biggest increase in inventories from February to March was in the Middle Atlantic. We think slow demand, possibly due to inclement weather, caused product to back up in freezers along the East Coast.



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 hogs. For the week ending April 28 slaughter was 2.363 million head, up 2.8% from a year ago. In the last two weeks hog slaughter is up 4.4% vs. year ago levels.

Iowa/Minnesota, Base Lean Market Hog 185 lbs. Carcass Values. Lean hog carcass values at about 58.31 /cwt. on Friday were up $0.05/cwt since Wed. April 18. Prices are up 3.5 dollars compared to year ago values.

Loin, 1/4 Trimmed Loin VAC, FOB Plant, USDA (page 8). Prices finished last week at $0.8951, up about 5.4 cents since the Wed. April 18 quote and up about one cent from year ago levels.

Bnls. Strap on Pork Loins. Prices finished the week at $1.1084 for the strap on loins, up 4.3 cent since Wed. April 18 but down about 7 cent from the year ago levels. Strap off loins at $1.2891 are up about one cent since Wed. April 18 but down about 5 cent compared to the year ago quote.

Boneless sirloins at $0.9458 are up 3 cents from the Wed. April 18 quote but down about 6.0 cents from the year ago price.

Pork tenderloin finished last week at $1.9537, up 7 cent from the Wed. April 18 quote but down about 11.4 cents from the year ago price.

1/4 Trim Pork Butts (page 10), prices finished the week at $1.1478, up 14.0 cent since Wed. April 18. Prices are up 8 cents from a year ago.

Spare Ribs, Trimmed - LGT, Vac (page 8). Prices finished the week at $1.3990, down about 4 cent since Wed. April 18 but up about 8 cents from year ago levels.

Rib inventories on March 31 were 144.0 million pounds, up 2.4% percent from a year ago.

Bone-in Hams.

17/20 hams (page 9) price was $0.5700/lb., down 0.5 cents since Wed. April 18 and down about 7 cent from a year ago.

20/23 hams finished the week at 58.00 cents, down about 0 cents since Wed. April 18 and down about 6.5 cent from the year ago level.

23/27 hams finished the week at 52.11 , down about 4 cents from the Wed. April 18 quote and down about 11 cents from the year ago level.

Total ham cold storage stocks on March 31 at 96.3 million pounds were up 6.8% from year ago levels.

42 CL Pork Trim "FOB Basis". Prices finished the week at 32.26 cent, down about 8.4 cent since Wed. April 18 and down about 0.5 cents from the year ago price.

72 CL Pork Trim "FOB Basis". Prices finished the week at 63.43 cents, up about 6.1 cents since the Wed. April 18 quote but down about 9 cents from the year ago level.

Freezer stocks of all trimmings on March 31 were 56.4 million pounds, up 40.7% 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 109.06 on Friday, April 28, up about 12 cents from a year ago.

Broiler slaughter for the week ending April 28 was 161.71 million head, up 1.76% from a year ago. For the last two weeks slaughter was up 0.6% vs. a year ago.

Breasts. Prices on boneless skinless breasts finished the week at $1.3524, up 5 cents since Wed. April 18 and still up about 1 cents from year ago levels.

Leg Quarters. This item continues to be driven by export demand. Last week leg quarter prices were down about 0.6 cents vs. two weeks ago but at 40.62 cents per pound prices were up 2 cents from a year ago.

Wings. Prices at $1.4364 are down about 48 cents from year ago levels.

Turkeys

Hens finished last week at $0.8800, up since Wed. April 18 but down about 19 cents from the year ago price.

Toms finished last week at $0.8800, up since Wed. April 18 but down about 19 cent from the year ago price.

Total turkey supplies in the freezer on March 31 were up 8.0% from a year ago at 462.9 million pounds. Whole birds were up 20.7% from a year ago with an inventory of 218.8 million pounds.

Turkey slaughter was 4.0460 million head for the week ending April 21, up 0.05% from a year ago. For the last two weeks slaughter has been up 6.8%.

Boneless Turkey Breast Meat. Boneless skinless turkey breast meat prices finished last week at $1.8400, up since Wed. April 18. Prices are up about 31 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 $8.0032 (weighted average quote) finished last week up about 51 cents since the Wed. April 18 quote and up about 25 cents vs. the year ago price.

Select 112A Heavy Lip On Rib Eyes at $6.8289 (weighted average quote) finished last week up about 17 cents since the Wed. April 18 quote but up about 58 cents vs. the year ago price.

Currently Choice 112A Rib Eyes are $1.1743 /lb. over Select. The 2017 annual average spread (wt. average price) had the Choice at a premium to the Select by $0.1072 per pound and the previous five years (2013 thru 2017) average spread was Choice at a premium to the Select by $0.0980 per pound.

Choice regular #168 insides finished last week quoted at $2.2005 up about 7 cents since Wed. April 18 but down about one.5 cents from the year ago price.

Choice ¼ inch trimmed #168 insides finished last week quoted at $2.2443 up about 9 cents since Wed. April 18 and up about 2 cents from year ago levels.

Choice #170 Gooseneck Rounds finished last week at $1.9742 up about 14 cents since Wed. April 18 but down about 8 cents from the year ago levels.

Choice #180 (0x1) Bnls. Strip Loins finished last week quoted at $7.3032 (wt. avg.) up about 83 cents from the Wed. April 18 quote. Prices are down 18 cents from year ago levels.

Choice #184 Regular Heavy top butts finished at $3.1107 (wt. avg.) down about 13 cents since Wed. April 18 and down about 31 cents from year ago levels.

Choice #184 ¼ inch trimmed Top Butts finished at $3.4351 (wt. avg.) up about 18 cents since Wed. April 18 but down about 2 cents from the year ago levels.

Choice #185A Flap Meat prices finished Friday at $5.9867 (wt. avg.) up about 51 cents since Wed. April 18 but down about 5 cents from year ago values.

COARSE GROUND BEEF –

73CL Coarse Ground product finished last week at $1.5749 up about 3 cents since Wed. April 18 and up about 0.5 cents from year ago levels.

81CL Coarse Ground product finished last week at $1.8855 up about 15.5 cent since Wed. April 18 but down about 3 cents from the year ago quote.

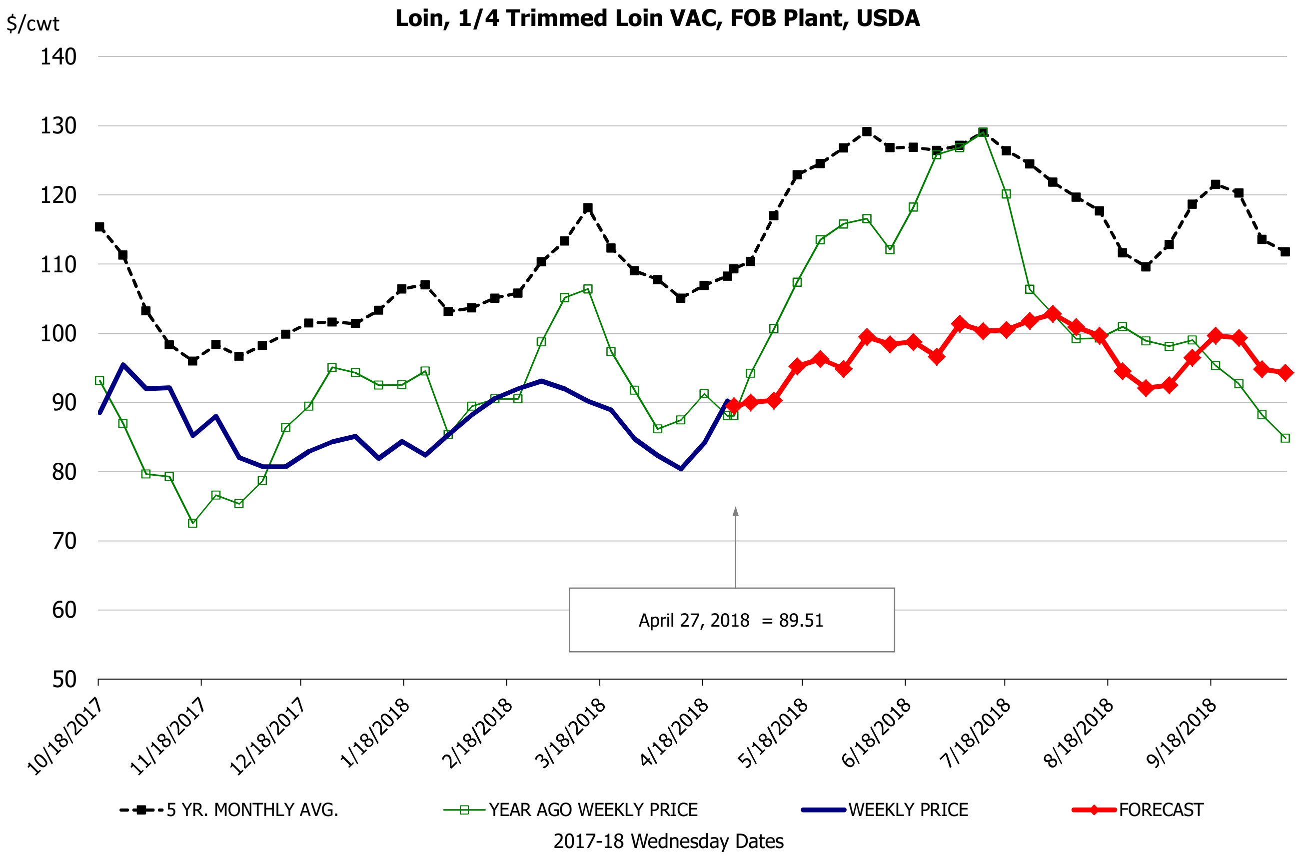
90CL Bnls. Beef prices finished the week at $2.1842 (wt. avg.) up about 0.97 cent since Wed. April 18 but down 0 cents compared to the year ago price quote.

50 CL Beef Trim prices finished last week at $0.9583, up about 3 cent since Wed. April 18 but down 16 cent compared to the year ago level.

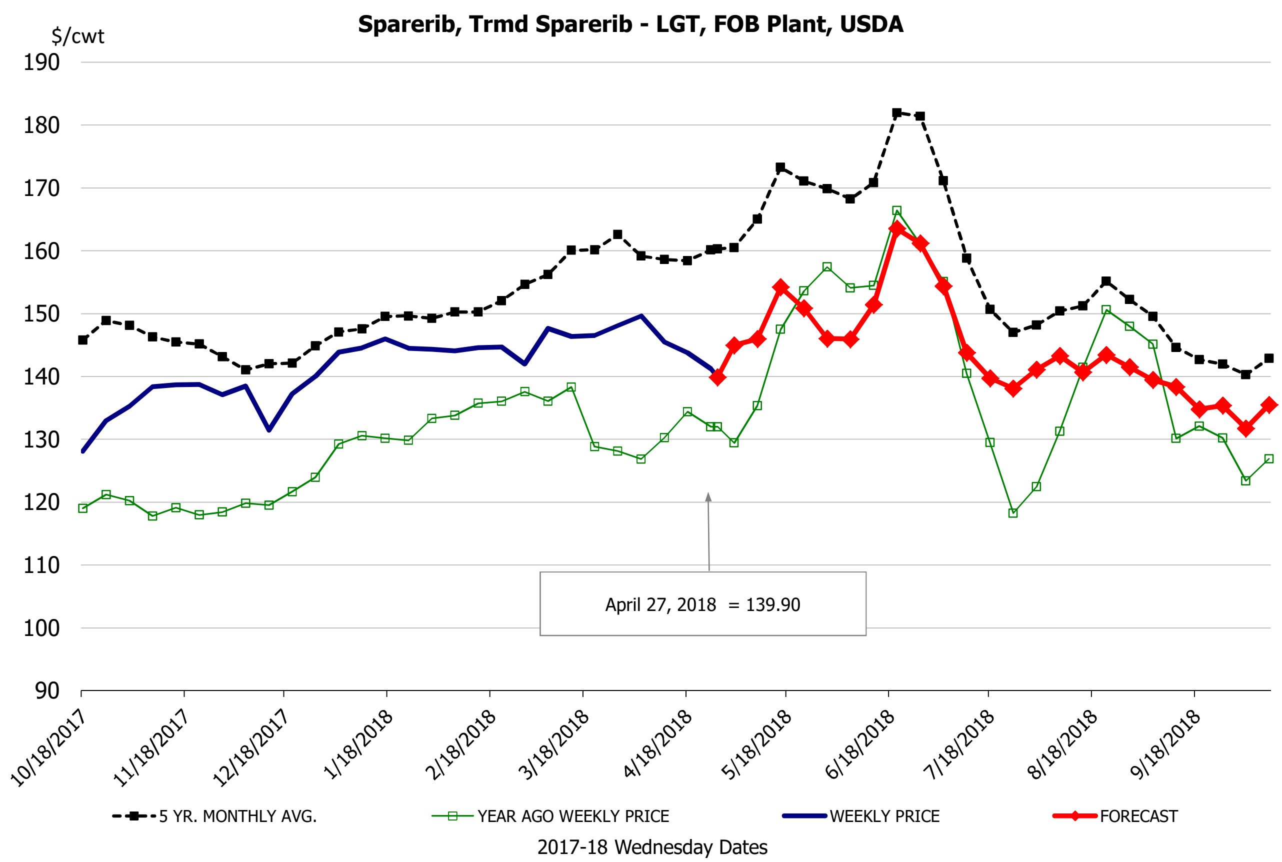
Food Service Summary Table - WT. AVE

	HISTORY								FORECAST						
	Nov	Dec	Jan	Feb	Mar	Apr	4/18/2018	4/27/2018	5/9/2018	May	Jun	Jul	Aug	Sep	Oct
PORK															
Loin, 1/4 Trimmed Loin VAC, FOB Plant, USDA	0.86	0.82	0.84	0.89	0.89	0.83	0.84	0.90	0.90	0.92	0.98	1.01	0.98	0.97	0.93
Loin, 1/8 Trimmed Loin VAC, FOB Plant, USDA	0.90	0.88	0.88	0.91	0.96	0.89	0.89	0.98	0.98	0.99	1.06	1.09	1.04	1.02	0.99
Loin, Bnls CC Strap-off, FOB Plant, USDA	1.38	1.46	1.37	1.34	1.32	1.25	1.28	1.29	1.37	1.38	1.38	1.40	1.38	1.49	1.50
Loin, Tenderloin, FOB Plant, USDA	2.05	2.07	2.07	2.07	2.03	1.93	1.89	1.95	2.03	2.05	2.30	2.32	2.22	2.17	2.15
Butt, 1/4 Trim Butt Combo, FOB Plant, USDA	0.92	0.95	1.06	0.95	0.94	0.92	0.93	1.00	1.10	1.13	1.15	1.11	1.08	1.06	0.96
Sparerib, Trmd Sparerib - LGT, FOB Plant, USDA	1.38	1.36	1.44	1.43	1.47	1.44	1.44	1.40	1.46	1.49	1.54	1.44	1.42	1.37	1.35
Sparerib, St Louis Spareribs, POLY, FZN, FOB Plant, USDA	2.08	2.07	2.08	2.14	2.04	2.14	2.01	2.21	2.38	2.41	2.48	2.38	2.36	2.30	2.28
Sparerib, Trmd Sparerib - MED, FOB Plant, USDA	1.35	1.35	1.42	1.44	1.42	1.36	1.34	1.37	1.49	1.51	1.58	1.48	1.47	1.40	1.38
Loin, Backribs 2.0#/up, FOB Plant, USDA	2.06	2.04	2.10	2.17	2.20	2.24	2.26	2.29	2.36	2.35	2.36	2.25	2.13	2.02	1.96
Ham, 17-20# Trmd Selected Ham, FOB Plant, USDA	0.73	0.64	0.66	0.64	0.63	0.57	0.57	0.57	0.60	0.60	0.67	0.73	0.75	0.74	0.78
Ham, 20-23# Trmd Selected Ham, FOB Plant, USDA	0.70	0.63	0.67	0.66	0.60	0.58	0.58	0.58	0.62	0.62	0.68	0.76	0.75	0.76	0.74
Ham, 23-27# Trmd Selected Ham, FOB Plant, USDA	0.66	0.60	0.62	0.60	0.56	0.55	0.57	0.52	0.58	0.58	0.63	0.72	0.72	0.70	0.68
Belly Cutout, FOB Plant, USDA	1.29	1.21	1.33	1.30	1.06	0.92	0.92	0.84	1.00	1.00	1.37	1.62	1.55	1.36	1.36
Belly, Derind Belly 9-13#, FOB Plant, USDA	1.61	1.44	1.61	1.62	1.34	1.07	1.11	1.02	1.21	1.22	1.68	1.98	1.90	1.67	1.68
Belly, Derind Belly 13-17#, FOB Plant, USDA	1.61	1.44	1.55	1.54	1.25	1.11	1.12	1.03	1.23	1.22	1.68	1.98	1.90	1.67	1.67
Trim, 42% Trim Combo, FOB Plant, USDA	0.27	0.25	0.27	0.28	0.37	0.35	0.41	0.32	0.39	0.37	0.44	0.47	0.42	0.34	0.29
Trim, 72% Trim Combo, FOB Plant, USDA	0.62	0.63	0.72	0.65	0.63	0.57	0.57	0.63	0.74	0.72	0.84	0.90	0.70	0.65	0.69
HOG CARCASS															
IA/MN, Base Market Hog 185 lb Carcass Basis, Plant Dlv.	0.59	0.57	0.68	0.67	0.57	0.52	0.58	0.58	0.63	0.65	0.73	0.78	0.72	0.67	0.64
BROILERS															
BROILER, NATIONAL WHOLE BIRD PRICE, USDA	0.85	0.86	0.87	0.94	0.91	1.02	1.09	1.08	1.05	1.08	1.10	1.08	1.02	0.96	0.94
N.E. BROILER BREAST BONELESS-SKINLESS, USDA	1.15	1.06	1.06	1.07	1.05	1.31	1.38	1.39	1.54	1.49	1.58	1.56	1.57	1.58	1.46
N.E. BROILER BREAST LINE RUN, USDA	0.82	0.81	0.83	0.97	0.98	1.03	1.04	1.08	1.11	1.08	1.23	1.22	1.20	1.15	1.12
N.E. BROILER LEG QUARTERS, USDA	0.40	0.38	0.37	0.38	0.40	0.40	0.41	0.41	0.44	0.43	0.44	0.45	0.45	0.44	0.44
N.E. BROILER WINGS, USDA, WT.AVG.	2.02	1.79	1.70	1.71	1.58	1.52	1.49	1.43	1.41	1.45	1.45	1.50	1.55	1.65	1.85
TURKEYS															
UB HEN TURKEYS, EAST, FROZEN 10-12LBS	1.07	1.00	0.87	0.86	0.86	0.86	0.86	0.87	0.88	0.88	0.92	0.95	0.97	0.99	1.01
UB BONELESS-SKINLESS TURKEY BREAST, TOM, FRESH	1.55	1.55	1.55	1.55	1.55	1.58	1.63	1.79	1.83	1.85	1.90	1.90	2.15	2.30	2.36
LIVE STEERS															
FIVE AREA DIRECT AVERAGE LIVE STEER, USDA	1.20	1.19	1.22	1.27	1.26	1.19	1.20	1.22	1.18	1.18	1.09	1.07	1.07	1.09	1.12
BEEF															
CHOICE, 112A, 3 RIBEYE, BONELESS, HEAVY, USDA	7.99	6.71	6.43	7.14	8.07	7.57	7.50	8.00	8.05	8.16	7.76	6.71	6.87	6.98	7.64
CHOICE, 168, 3 TOP INSIDE ROUND, 1/4" MAX, USDA	2.17	2.06	2.13	2.22	2.23	2.17	2.16	2.24	2.15	2.15	2.07	2.05	2.11	2.05	2.11
CHOICE, 170, 1 BOTTOM GOOSENECK ROUND, USDA	2.09	2.06	2.13	2.01	1.91	1.86	1.83	1.97	1.93	1.95	1.83	1.83	1.86	2.01	2.12
CHOICE, 180, 3 STRIP LOIN, BONELESS, 0x1, USDA	5.10	4.99	4.98	5.17	5.44	6.60	6.61	6.40	7.09	6.80	6.92	6.37	5.36	5.10	5.02
CHOICE, 184, 3 TOP BUTT, BONELESS, USDA	2.54	2.95	3.21	3.50	3.45	3.40	3.24	3.35	3.65	3.50	3.52	3.25	3.25	3.17	3.15
CHOICE, 185A, 4 BOTTOM SIRLOIN, FLAP, USDA	4.12	4.94	4.88	4.66	4.98	5.75	5.65	5.47	5.91	5.65	5.95	5.52	4.49	4.37	4.42
COARSE GROUND 73%, USDA	1.36	1.31	1.64	1.47	1.55	1.51	1.54	1.57	1.61	1.62	1.41	1.42	1.49	1.47	1.45
COARSE GROUND 81%, USDA	1.65	1.59	1.97	1.76	1.86	1.76	1.74	1.89	1.98	1.98	1.67	1.69	1.72	1.70	1.73
90% BONELESS BEEF, CENTRAL, FRESH, USDA	2.12	2.11	2.13	2.15	2.17	2.17	2.17	2.18	2.19	2.19	2.13	2.17	2.22	2.16	2.09
50CL BEEF TRIM, FRESH, NATIONAL, USDA	0.69	0.55	0.79	0.84	0.84	0.93	0.92	0.96	1.05	1.00	0.86	0.83	0.76	0.62	0.66

*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
April 27, 2018 = 89.51
10/18/2017
11/18/2017
12/18/2017
1/18/2018
2/18/2018
3/18/2018
4/18/2018
5/18/2018
6/18/2018
7/18/2018
8/18/2018
9/18/2018
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
April 27, 2018 = 139.90
10/18/2017
11/18/2017
12/18/2017
1/18/2018
2/18/2018
3/18/2018
4/18/2018
5/18/2018
6/18/2018
7/18/2018
8/18/2018
9/18/2018
5 YR. MONTHLY AVG.
YEAR AGO WEEKLY PRICE
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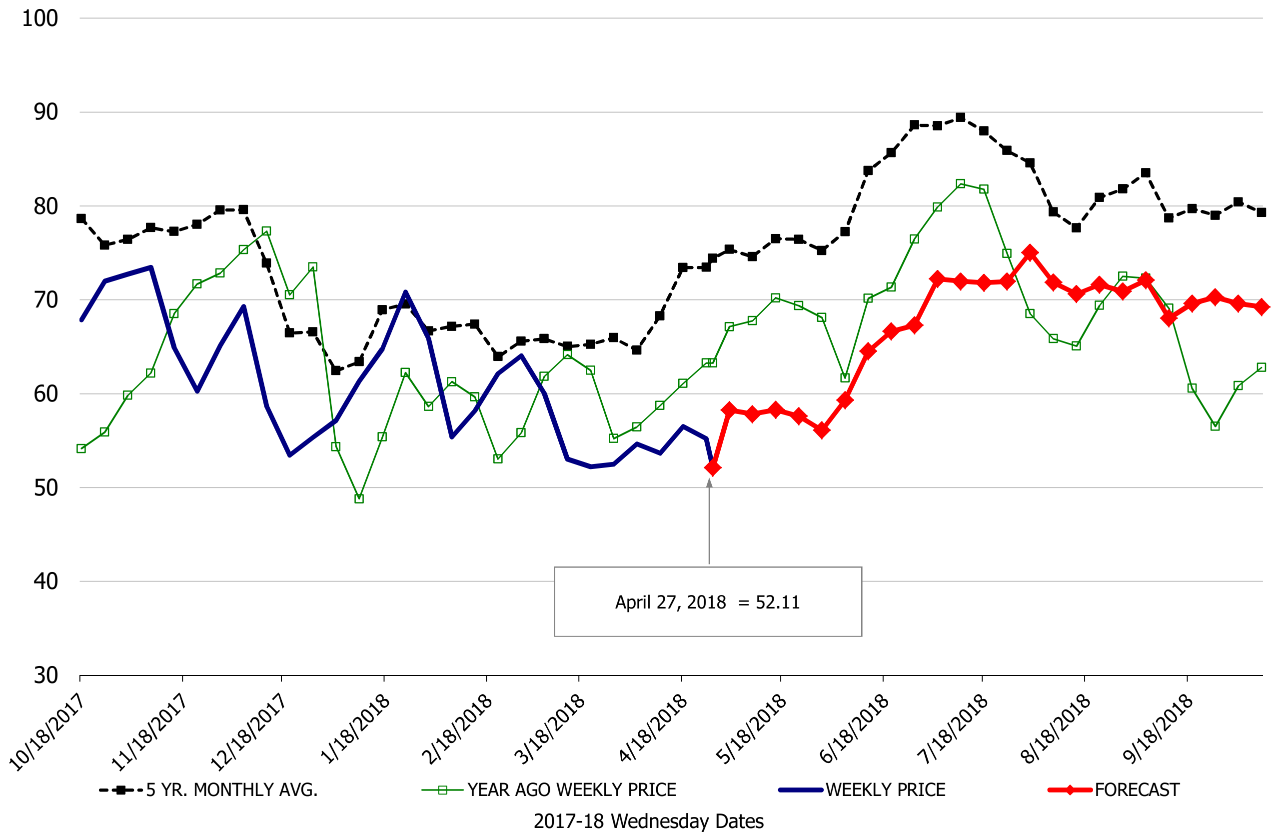
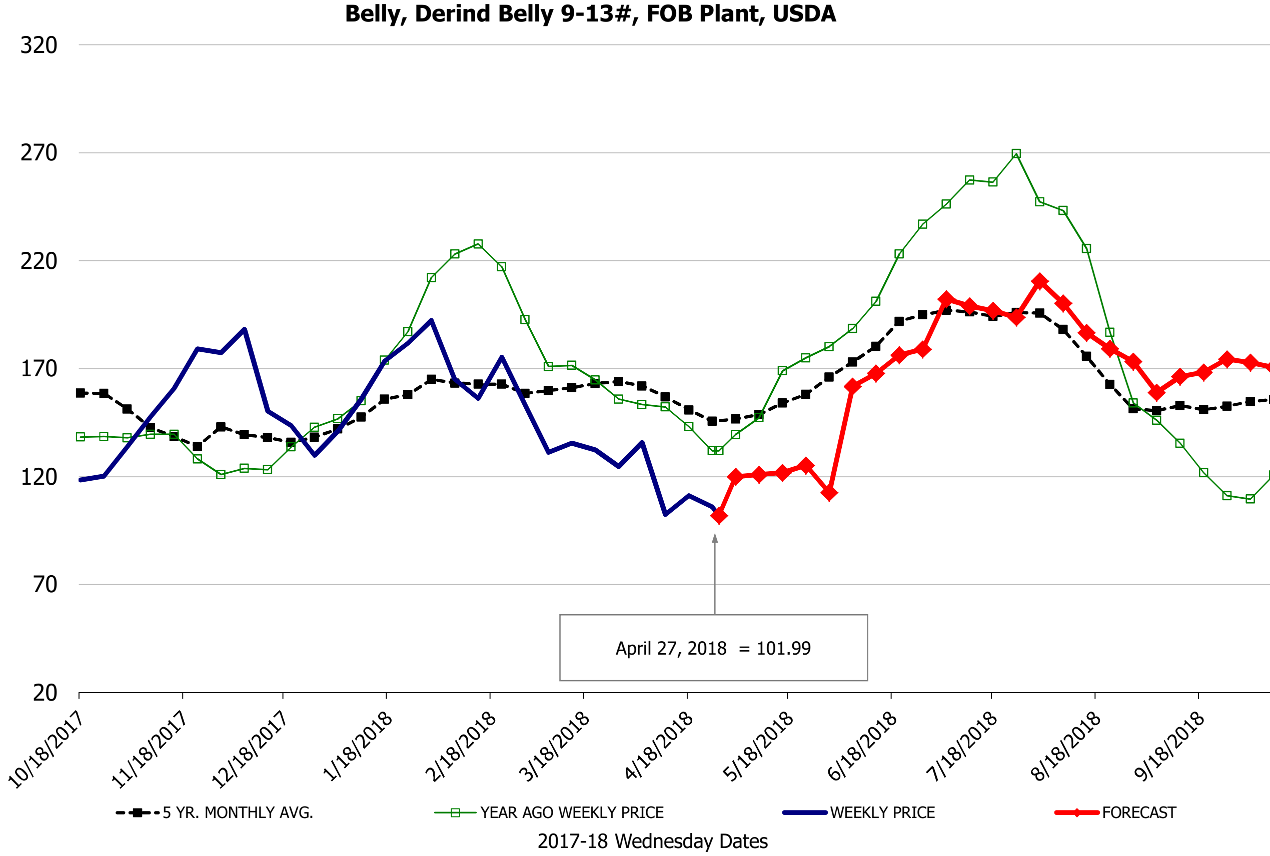
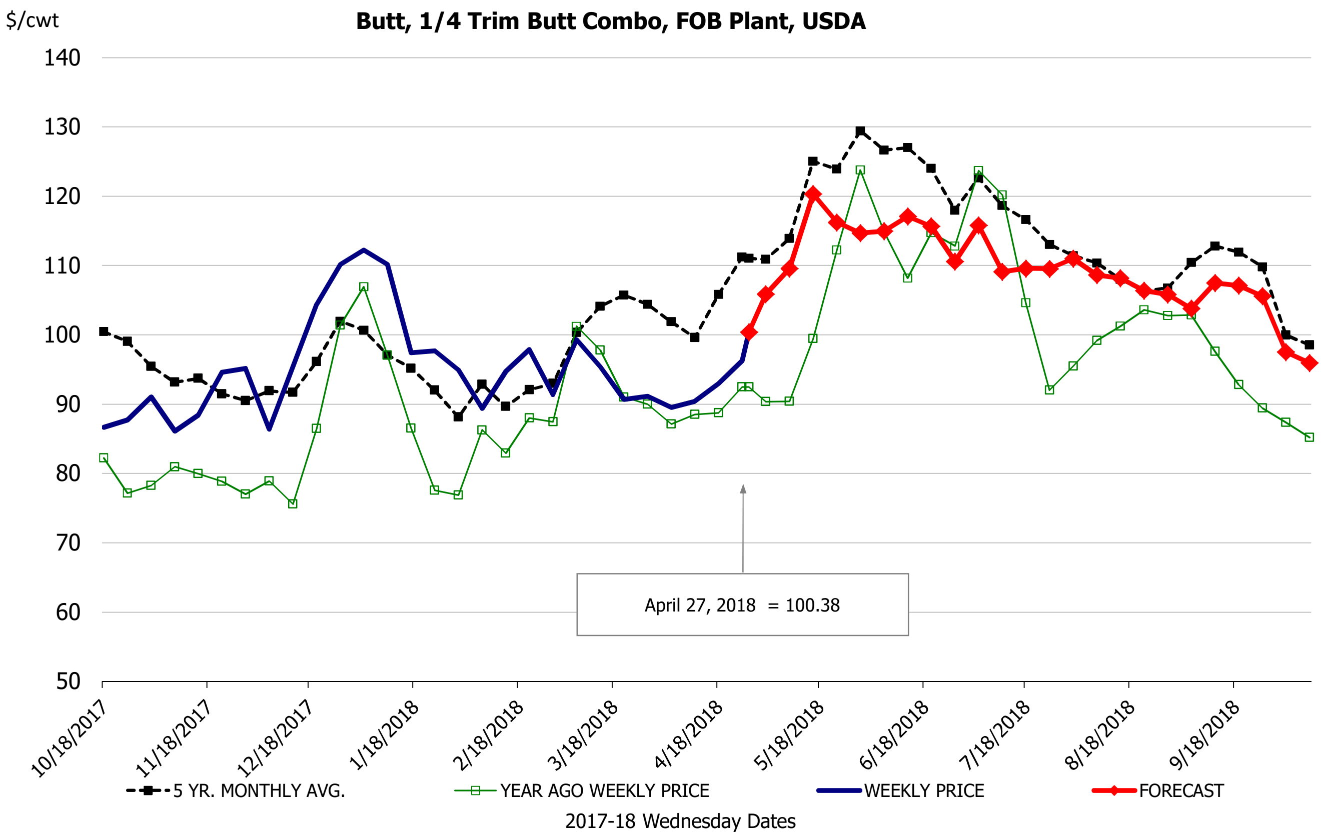
Ham, 23-27# Trmd Selected Ham, FOB Plant, USDA



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




$/cwt
Butt, 1/4 Trim Butt Combo, FOB Plant, USDA
140
130
120
110
100
90
80
70
60
50
April 27, 2018 = 100.38
10/18/2017
11/18/2017
12/18/2017
1/18/2018
2/18/2018
3/18/2018
4/18/2018
5/18/2018
6/18/2018
7/18/2018
8/18/2018
9/18/2018
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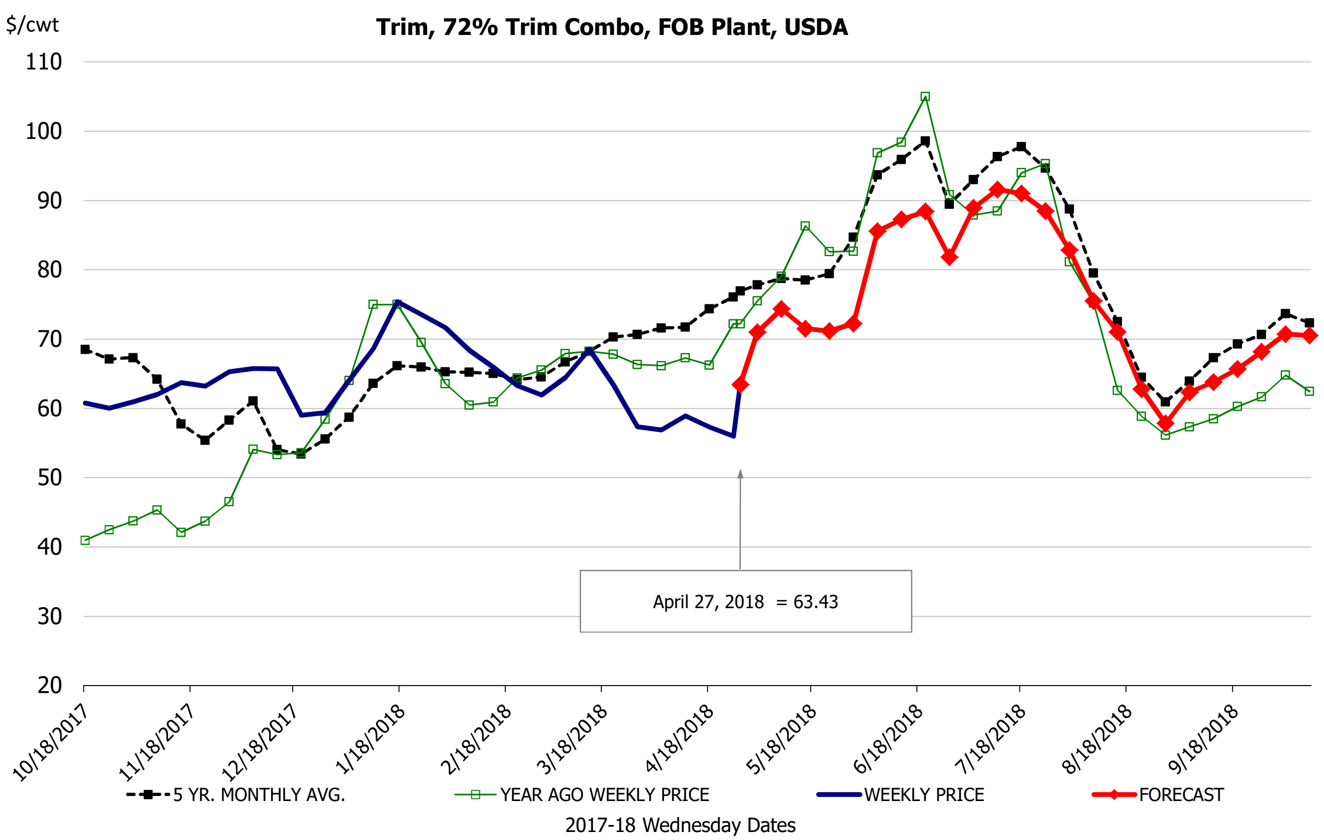
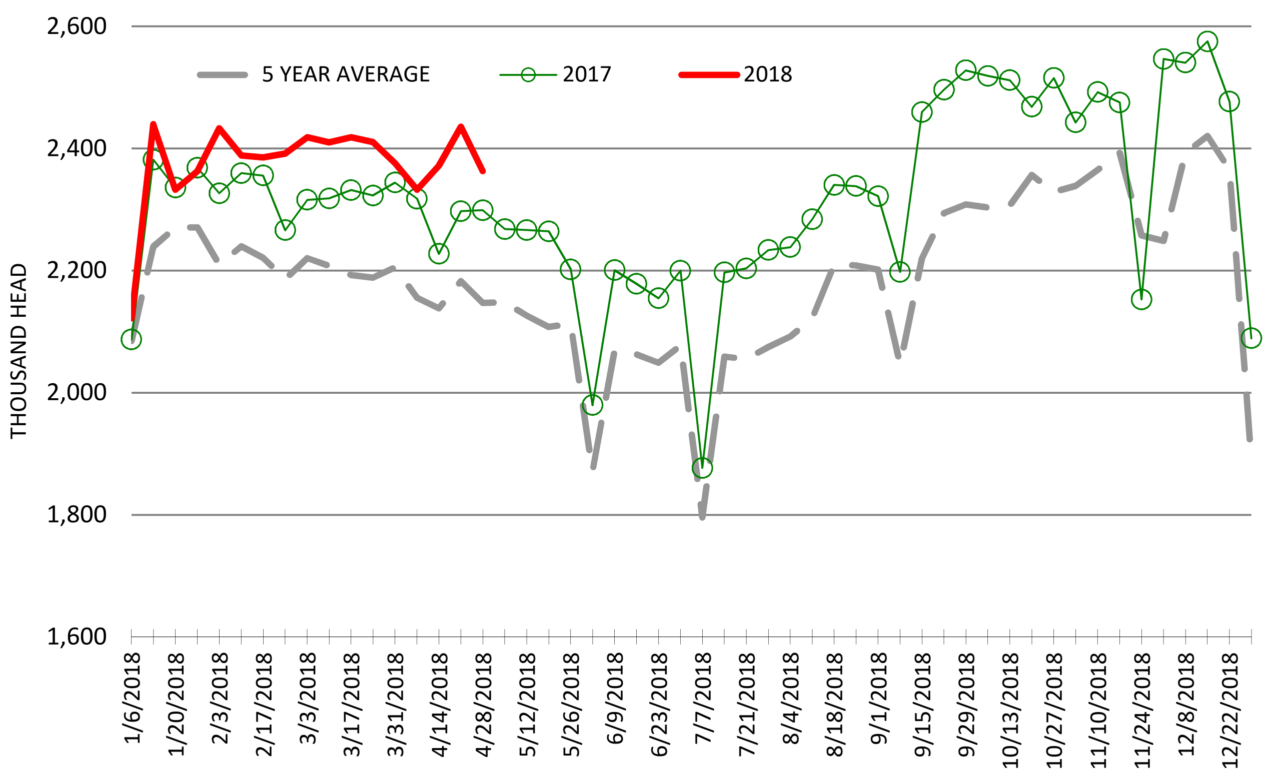

$/cwt
Trim, 72% Trim Combo, FOB Plant, USDA
110
100
90
80
70
60
50
40
30
20
April 27, 2018 = 63.43
10/18/2017
11/18/2017
12/18/2017
1/18/2018
2/18/2018
3/18/2018
4/18/2018
5/18/2018
6/18/2018
7/18/2018
8/18/2018
9/18/2018
5 YR. MONTHLY AVG.
YEAR AGO WEEKLY PRICE
WEEKLY PRICE
FORECAST
2017-18 Wednesday Dates

ESTIMATED WEEKLY FI HOG SLAUGHTER

Source: USDA, '000 head



ESTIMATED WEEKLY FI PORK PRODUCTION

Source: USDA, Mil. Pounds