



Pork Merchandiser's Profit Maximizer

- Foodservice Edition -

© 2018 The National Pork Board, Des Moines, IA 515-223-2600;
Prepared by Steiner and Company, Manchester, NH 800-526-4612.

June 25, 2018

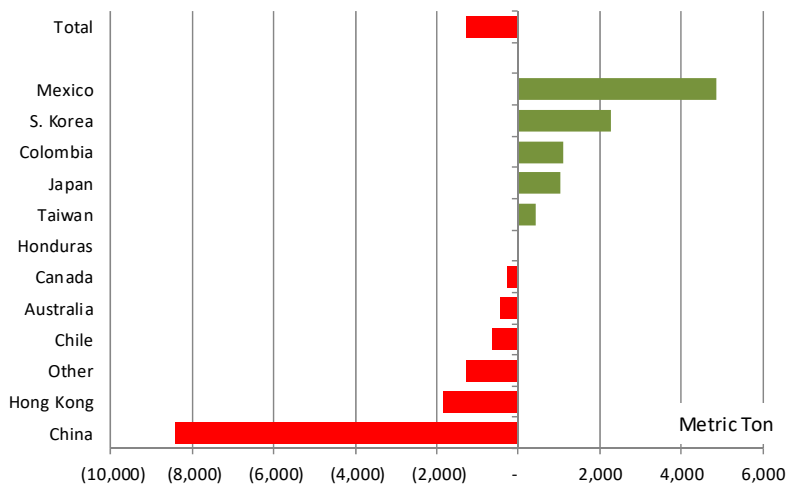
1. Spring hog price rally cut short by trade uncertainty and poor packer margins

The nearby July hog futures contract declined almost 5% in the last four trading sessions. The decline has come even as the cash hog index continues to push higher. July futures closed on Friday under \$80/cwt even as the cash hog index

is currently above \$86/cwt. The positive basis is a little unusual at this time of year although not unprecedented. Last year the one day cash hog index on June 22 was around \$90.5/cwt even as the July contract on that day was trading at \$86. Last year futures traded somewhat soft through the end of the month but then the contract expired at \$92.4. There are a number of factors

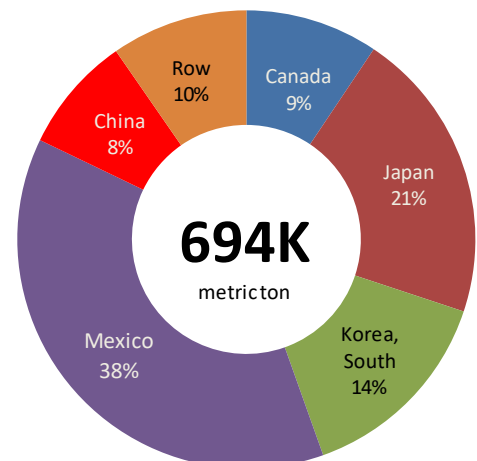
Change in Weekly Pork Exports. 4-wk Total through June 14

Based on USDA Weekly Export of Pork Muscle Cuts. Source: USDA-FAS



TOP MARKETS FOR US PORK IN 2018

Total Volume and Country Shares for Period Jan - Apr 2018, MT



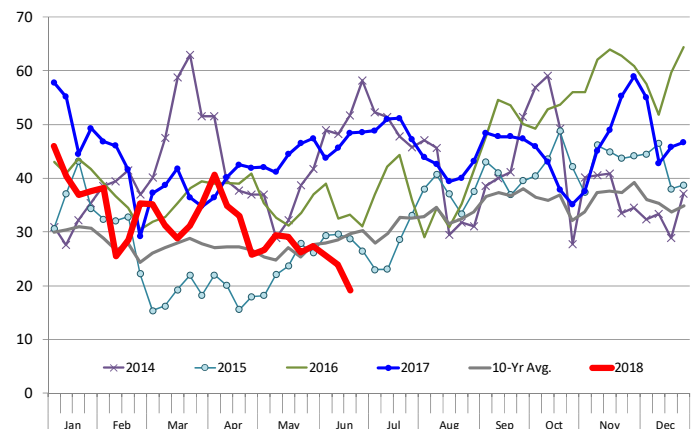
Steiner and Company produces the National Pork Board Newsletter based on information we believe is accurate and reliable. However neither NPB nor Steiner and Company warrants or guarantees the accuracy of or accepts any liability for the data, opinions or recommendations expressed.

that have made for some nervous trading in the hog complex. We can still point to some positive factors. Hog carcass weights continue to decline and the weight of producer owned barrows and gilts is about the same as a year ago. Pork belly prices continue to push higher, as they normally do during this time of year and the pork cutout on Friday afternoon closed at \$85.64/cwt, up \$9.3 (+12%) since the start of the month. Hog supplies seasonally decline during this time of year and the slow rate of gain for hogs will tend to limit the supply of pork coming to market. Retailers are likely working on filling up the meat case for July 4th needs, with ribs and hot dogs a regular staple. The price of pork trimmings, which languished for much of the spring, has finally started to push higher and it is now around 85 cents per pound compared to the mid 60s back in May. Higher trim values are important as they tend to improve the grinding value for hams and shoulders. Indeed, we think the only reason why more hams are not going into the trim packages may be because of the labor needed to bone hams.

Low pork prices in May and early June likely will mean robust pork features post July 4th. And yet futures traders remain nervous. Higher tariffs on US pork going to China have caused shipments there to go to zero. China may not be as important as Mexico for US pork, but it's still a significant buyer. In the four weeks ending June 15 last year China purchased an average of 2100 MT of pork per week. This year it has averaged 75 MT and for the last reported week shipments there were zero. Exports to Mexico have been quite robust so far. Despite a 10% tariff on US pork that went into effect in June, exports to the Mexican market in recent

PORK PACKER CALCULATED GROSS MARGIN. \$/HEAD

Calculated Using the Weekly Pork Cutout Value, Number of Head Processed, and Drop Credit Value. Data Source: USDA, Steiner & LMIC Drop Credit



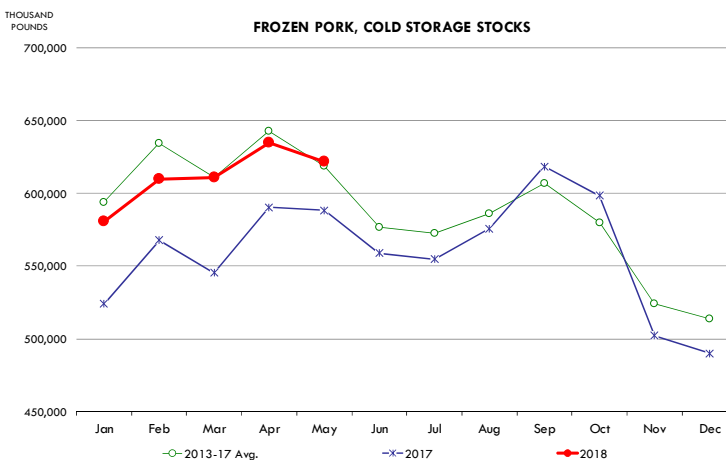
weeks are higher than a year ago (see chart on page 1). However, net sales have tumbled in the last few weeks and this likely means a notable slowdown in shipments in July and August. Net pork sales in the last three weeks have averaged a little under 11,000 MT compared to a weekly export pace of around 20,000 MT. For the last reported week net sales were just 9,562 MT. Net sales to Mexico for the week were only 919 MT compared to weekly exports of around 8,336 MT. Over 20% of all the hams produced in the US go to Mexico. At this time Mexico does not have very good options to source hams and will likely continue to come to the US for product. The 20% tariff on US pork will come into effect July 6. Additionally, Mexican buyers have to deal with the effect of the weaker peso. Since April the Mexican peso has declined by 11% vs. the USD and it is worth 15% less than it was last summer. Bone-in hams (23-27#) averaged around \$66/cwt between August and October 2017. Ham prices in the US would have to trade in the mid 40s in order to offset the additional cost of the tariffs and exchange. That will likely not be the case and we could see the additional cost be shared by both US packers and Mexican processors. The reality is that US pork produc-

tion this fall will be around 3% higher than it was last year. There will be more hams available to sell and suddenly the costs for our customers are some 35% higher than a year ago (25% tariff and 15% currency).

Pork packer margins are now in negative territory. As with cattle, we run a gross margin, which last week we think was around \$24/head. We think packers need to clear between \$25 and \$30/head to cover other costs. For this week we think the gross margin could be under \$20/head, a decidedly negative number. How do we calculate the gross margin?. Consider the estimates for this week. We think the pork cutout for the week will be around \$85/cwt, give or take a little. The one day cash index was last quoted at \$86 and we think the net average price for the week could also be around \$85, maybe even a bit higher. So the meat margin is basically zero. But packers make money on the by-products they sell and it's always a bit of a guessing game as to what number to use there. USDA calculates a drop credit for hogs, last reported at \$3.90/cwt live. On a 285 pound hog this means about \$11/head. LMIC has a bit of a different methodology, and they come up with around \$19/head. Different from cattle, there is significantly more packing capacity now than three or four years ago and so more competition. Packer margins should improve into the fall but the main risk hovering this market is the outlook for trade and where to sell all the pork now in the pipeline.

2. Cold Storage Update

The supply of US pork products in cold storage at the end of May was 621.7 million



pounds, 5.7% higher than a year ago. Pork inventories declined 2% from the previous month. In the past five years May inventories have declined an average of 4% from April levels. The supply of hams in cold storage seasonally increases between March and September. At the end of May the supply of hams in cold storage was 139.2 million pounds, increasing 24% compared to the previous month compared to a 21% average increase in the past five years. Ham inventories are in line with historical levels but it remains to be seen if disruptions to trade with Mexico will cause more hams to back up in the freezer. The inventory of pork bellies at the end of May was 61.2 million pounds, 93.7% higher than the minimal levels last year but still 3% less than the five year average. Higher prices for bellies at the end of May likely encouraged end users to start to take some bellies out of the freezer. Inventories declined 5% from the previous month compared to an average 1% drawdown in stocks the last five years. Processors expect ample supplies in the fall so we expect a rush to deplete inventories in July and August. Already the price of bacon at retail is heading higher, which may cap the seasonal rally of bellies in July.

Upcoming holidays:

2018 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 June 23 slaughter was 2.168 million head, up 0.6% 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 77.29 /cwt. on Friday were down \$4.35/cwt since Wed. June 13. Prices are down 9.97 dollars compared to year ago values.

Loin, 1/4 Trimmed Loin VAC, FOB Plant, USDA (page 8). Prices finished last week at \$0.9807, down about 4.9 cents since the Wed. June 13 quote and down about 20 cent from year ago levels.

Bnls. Strap on Pork Loins. Prices finished the week at \$1.1120 for the strap on loins, down 2.3 cent since Wed. June 13 and down about 20 cent from the year ago levels. Strap off loins at \$1.3801 are up about 4.3 cent since Wed. June 13 but down about 15 cent compared to the year ago quote.

Boneless sirloins at \$0.9670 are down one cents from the Wed. June 13 quote and down about 24.3 cents from the year ago price.

Pork tenderloin finished last week at \$2.2485, up 7 cent from the Wed. June 13 quote but down about 4.1 cents from the year ago price.

1/4 Trim Pork Butts (page 10), prices finished the week at \$1.0576, up 0.5 cent since Wed. June 13. Prices are down 14 cents from a year ago.

Spare Ribs, Trimmed - LGT, Vac (page 8). Prices finished the week at \$1.6205, up about 11 cent since Wed. June 13 but down about 4 cents from year ago levels.

Rib inventories on May 31 were 118.6 million pounds, up 3.6% percent from a year ago.

Bone-in Hams.

17/20 hams (page 9) price was \$0.6300/lb., down 0.5 cents since Wed. June 13 and down about 9 cent from a year ago.

20/23 hams finished the week at 68.50 cents, up about 1 cents since Wed. June 13 but down about 3 cent from the year ago level.

23/27 hams finished the week at 60.99 , down about 2 cents from the Wed. June 13 quote and down about 10 cents from the year ago level.

Total ham cold storage stocks on May 31 at 139.2 million pounds were down 3.1% from year ago levels.

42 CL Pork Trim “FOB Basis”. Prices finished the week at 68.60 cent, up about 19.6 cent since Wed. June 13 but down about 7 cents from the year ago price.

72 CL Pork Trim “FOB Basis”. Prices finished the week at 87.03 cents, up about 9.1 cents since the Wed. June 13 quote but down about 18 cents from the year ago level.

Freezer stocks of all trimmings on May 31 were 55.6 million pounds, up 49.1% 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 118.19 on Friday, June 23, up about 10 cents from a year ago.

Broiler slaughter for the week ending June 23 was 161.15 million head, down 2.35% from a year ago. For the last two weeks slaughter was down 1.5% vs. a year ago.

Breasts. Prices on boneless skinless breasts finished the week at \$1.1951, up 5 cents since Wed. June 13 but still down about 44 cents from year ago levels.

Leg Quarters. This item continues to be driven by export demand. Last week leg quarter prices were down about 3.1 cents vs. two weeks ago and at 34.53 cents per pound prices were down 6 cents from a year ago.

Wings. Prices at \$1.3801 are down about 66 cents from year ago levels.

Turkeys

Hens finished last week at \$0.8800, unchanged since Wed. June 13 but down about 19 cents from the year ago price.

Toms finished last week at \$0.8900, unchanged since Wed. June 13 but down about 18 cent from the year ago price.

Total turkey supplies in the freezer on May 31 were up 0.9% from a year ago at 534.6 million pounds. Whole birds were up 4.4% from a year ago with an inventory of 284.0 million pounds.

Turkey slaughter was 4.0070 million head for the week ending June 16, down -1.84% from a

year ago. For the last two weeks slaughter has been down 2.6%.

Boneless Turkey Breast Meat. Boneless skinless turkey breast meat prices finished last week at \$1.9000, up since Wed. June 13. Prices are up about 37 cents vs. year ago levels.

BEEF

<p>NOTE: WE ARE NOW REPORTING AND FORECASTING WEIGHTED AVERAGE BLUE SHEET PRICES FOR BEEF CUTS.</p>
--

Choice 112A Heavy Bnls. Lip On Rib Eyes at \$7.9990 (weighted average quote) finished last week down about 73 cents since the Wed. June 13 quote and down about 229 cents vs. the year ago price.

Select 112A Heavy Lip On Rib Eyes at \$6.6031 (weighted average quote) finished last week down about 19 cents since the Wed. June 13 quote but down about 63 cents vs. the year ago price.

Currently Choice 112A Rib Eyes are \$1.3959 /lb. over Select. The 2017 annual average spread (wt. average price) had the Choice at a premium to the Select by \$0.1270 per pound and the previous five years (2013 thru 2017) average spread was Choice at a premium to the Select by \$0.1019 per pound.

Choice regular #168 insides finished last week quoted at \$1.9705 down about 20 cents since Wed. June 13 and down about 58 cents from the year ago price.

Choice ¼ inch trimmed #168 insides finished last week quoted at \$2.0461 down about one cents since Wed. June 13 and down about 52 cents from year ago levels.

Choice #170 Gooseneck Rounds finished last week at \$1.9185 up about 5 cents since Wed. June

13 but down about 21 cents from the year ago levels.

Choice #180 (0x1) Bnls. Strip Loins finished last week quoted at \$7.7733 (wt. avg.) down about 42 cents from the Wed. June 13 quote. Prices are down 26 cents from year ago levels.

Choice #184 Regular Heavy top butts finished at \$3.5055 (wt. avg.) down about 13 cents since Wed. June 13 and down about 10 cents from year ago levels.

Choice #184 ¼ inch trimmed Top Butts finished at \$3.4994 (wt. avg.) down about 21 cents since Wed. June 13 and down about 27 cents from the year ago levels.

Choice #185A Flap Meat prices finished Friday at \$5.2525 (wt. avg.) down about 16 cents since Wed. June 13 and down about 128 cents from year ago values.

COARSE GROUND BEEF –

73CL Coarse Ground product finished last week at \$1.3098 down about 6 cents since Wed. June 13 and down about 77 cents from year ago levels.

81CL Coarse Ground product finished last week at \$1.5759 down about 11 cent since Wed. June 13 and down about 65 cents from the year ago quote.

90CL Bnls. Beef prices finished the week at \$2.2201 (wt. avg.) up about 1.42 cent since Wed. June 13 but down 9 cents compared to the year ago price quote.

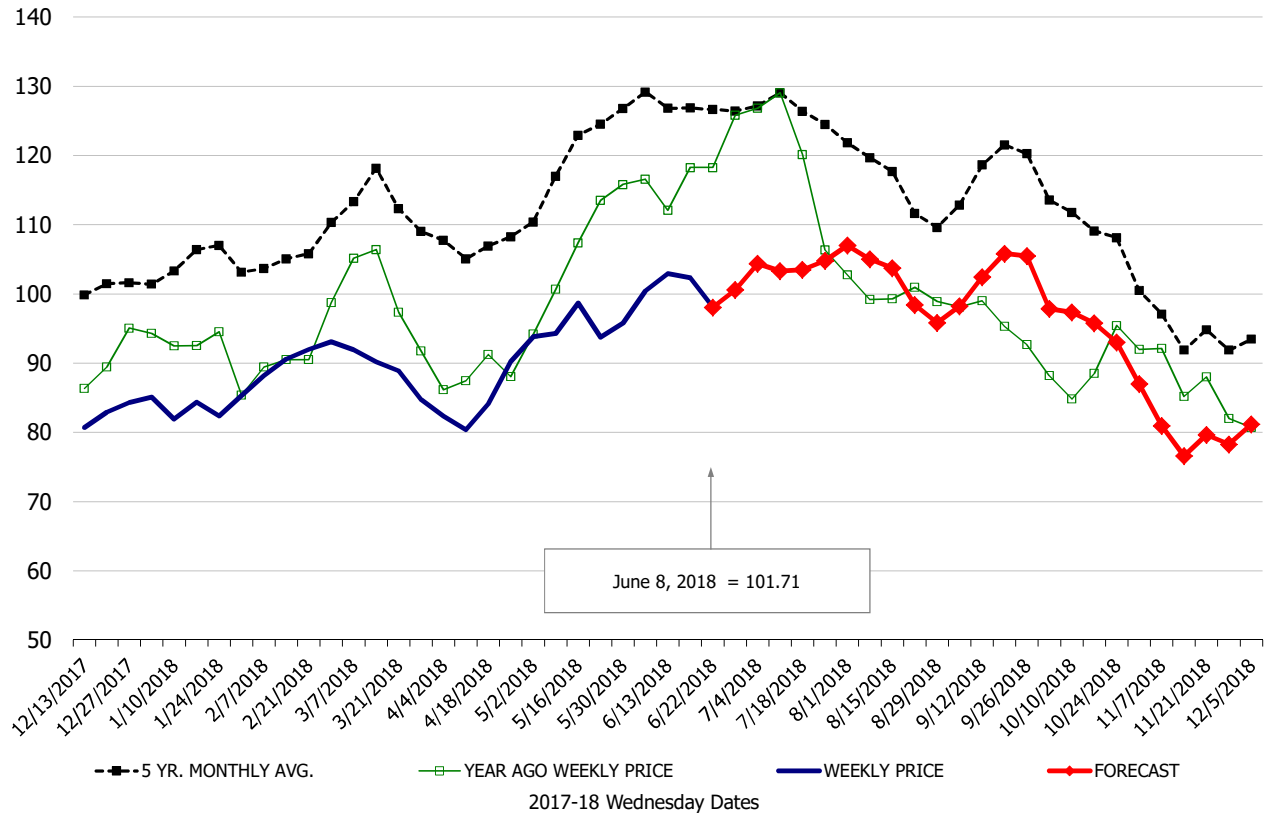
50 CL Beef Trim prices finished last week at \$0.6769, down about 2 cent since Wed. June 13 and down 53 cent compared to the year ago level.

Food Service Summary Table - WT. AVE

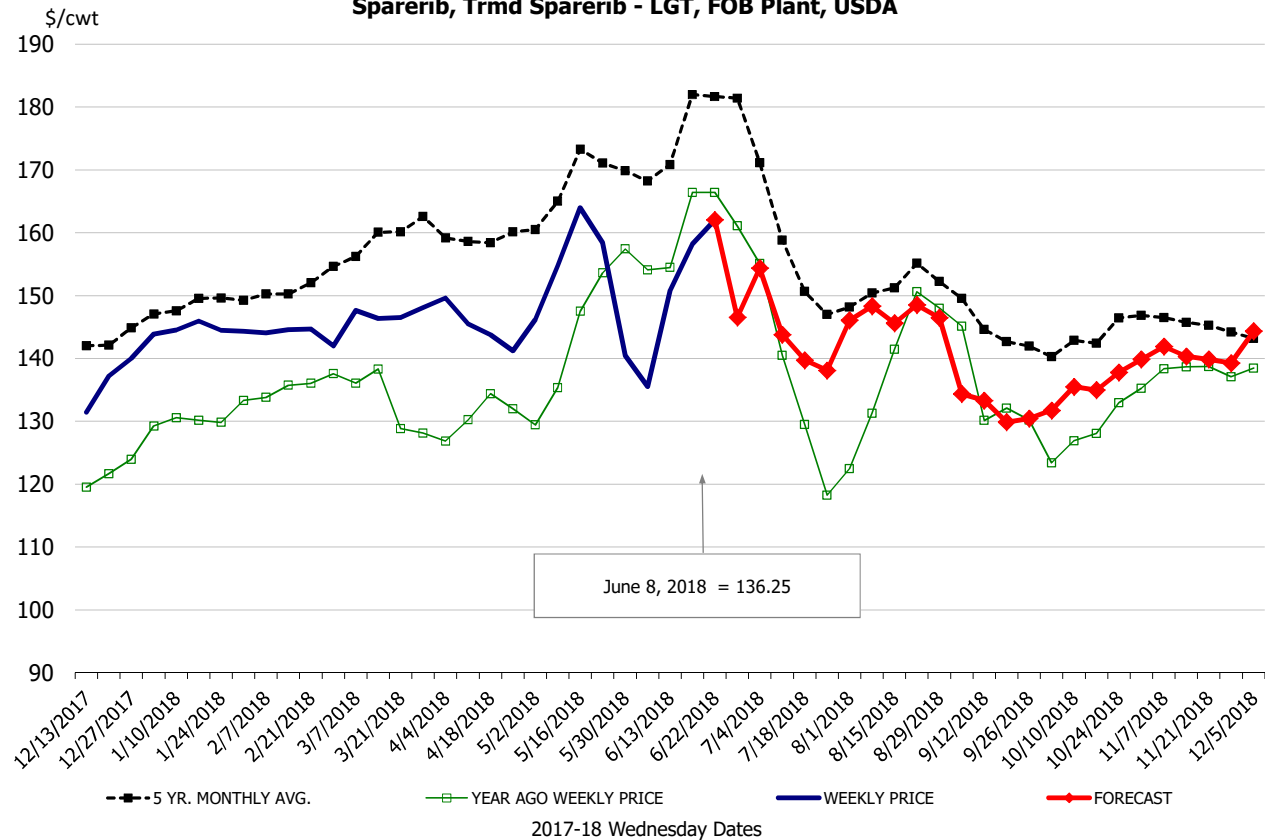
	HISTORY								FORECAST						
	Dec	Jan	Feb	Mar	Apr	May	6/13/2018	6/22/2018	7/4/2018	Jun	Jul	Aug	Sep	Oct	Nov
PORK															
Loin, 1/4 Trimmed Loin VAC, FOB Plant, USDA	0.82	0.84	0.89	0.89	0.83	0.96	1.03	0.98	1.04	1.02	1.04	1.02	1.03	0.96	0.80
Loin, 1/8 Trimmed Loin VAC, FOB Plant, USDA	0.88	0.88	0.91	0.96	0.90	1.01	1.04	1.10	1.14	1.10	1.12	1.07	1.08	1.00	0.85
Loin, Bnls CC Strap-off, FOB Plant, USDA	1.46	1.37	1.34	1.32	1.25	1.34	1.34	1.38	1.45	1.39	1.44	1.40	1.43	1.39	1.31
Loin, Tenderloin, FOB Plant, USDA	2.07	2.07	2.07	2.03	1.93	2.01	2.18	2.25	2.29	2.15	2.22	2.23	2.18	2.12	2.00
Butt, 1/4 Trim Butt Combo, FOB Plant, USDA	0.95	1.06	0.95	0.94	0.93	1.21	1.01	1.01	1.14	1.01	1.09	1.06	1.03	0.93	0.92
Sparerib, Trmd Sparerib - LGT, FOB Plant, USDA	1.36	1.44	1.43	1.47	1.44	1.49	1.51	1.62	1.54	1.40	1.44	1.47	1.32	1.35	1.41
Sparerib, St Louis Spareribs, POLY, FZN, FOB Plant, USDA	2.07	2.08	2.14	2.04	2.14	2.23	2.28	2.29	2.17	2.18	2.12	2.15	1.94	1.98	2.06
Sparerib, Trmd Sparerib - MED, FOB Plant, USDA	1.35	1.42	1.44	1.42	1.36	1.50	1.52	1.60	1.48	1.45	1.41	1.44	1.29	1.32	1.38
Loin, Backribs 2.0#/up, FOB Plant, USDA	2.04	2.10	2.17	2.20	2.24	2.37	2.43	2.46	2.27	2.45	2.22	2.13	1.99	1.93	2.03
Ham, 17-20# Trmd Selected Ham, FOB Plant, USDA	0.64	0.66	0.64	0.63	0.57	0.56	0.63	0.63	0.69	0.65	0.68	0.69	0.69	0.70	0.74
Ham, 20-23# Trmd Selected Ham, FOB Plant, USDA	0.63	0.67	0.66	0.60	0.58	0.55	0.68	0.69	0.68	0.66	0.69	0.69	0.71	0.68	0.70
Ham, 23-27# Trmd Selected Ham, FOB Plant, USDA	0.60	0.62	0.60	0.56	0.54	0.51	0.63	0.61	0.69	0.62	0.69	0.68	0.66	0.63	0.64
Belly Cutout, FOB Plant, USDA	1.21	1.33	1.30	1.06	0.91	1.01	1.37	1.50	1.59	1.34	1.58	1.53	1.32	1.18	1.15
Belly, Derind Belly 9-13#, FOB Plant, USDA	1.44	1.61	1.62	1.34	1.07	1.25	1.68	1.82	1.99	1.65	1.95	1.89	1.63	1.46	1.43
Belly, Derind Belly 13-17#, FOB Plant, USDA	1.44	1.55	1.54	1.25	1.10	1.21	1.66	1.81	1.97	1.65	1.94	1.88	1.62	1.45	1.42
Trim, 42% Trim Combo, FOB Plant, USDA	0.25	0.27	0.28	0.37	0.35	0.27	0.49	0.69	0.47	0.68	0.54	0.51	0.35	0.30	0.23
Trim, 72% Trim Combo, FOB Plant, USDA	0.63	0.72	0.65	0.63	0.58	0.63	0.78	0.87	0.83	0.79	0.84	0.77	0.68	0.65	0.60
HOG CARCASS															
IA/MN, Base Market Hog 185 lb Carcass Basis, Plant Div.	0.57	0.68	0.67	0.57	0.52	0.63	0.82	0.77	0.82	0.79	0.79	0.71	0.60	0.56	0.54
BROILERS															
BROILER, NATIONAL WHOLE BIRD PRICE, USDA	0.87	0.94	0.91	1.02	1.09	1.18	1.20	1.18	1.13	1.18	1.11	1.01	0.96	0.89	0.91
N.E. BROILER BREAST BONELESS-SKINLESS, USDA	1.06	1.07	1.05	1.31	1.36	1.27	1.15	1.20	1.30	1.20	1.27	1.28	1.25	1.08	0.99
N.E. BROILER BREAST LINE RUN, USDA	0.83	0.97	0.98	1.03	1.06	1.12	1.16	1.15	1.18	1.16	1.15	1.12	1.04	0.92	0.90
N.E. BROILER LEG QUARTERS, USDA	0.37	0.38	0.40	0.40	0.41	0.40	0.38	0.35	0.37	0.35	0.36	0.37	0.36	0.33	0.33
N.E. BROILER WINGS, USDA, WT.AVG.	1.70	1.71	1.58	1.52	1.44	1.39	1.36	1.38	1.44	1.38	1.45	1.55	1.75	1.71	1.63
TURKEYS															
UB HEN TURKEYS, EAST, FROZEN 10-12LBS	0.87	0.86	0.86	0.86	0.87	0.88	0.88	0.88	0.90	0.89	0.91	0.95	0.97	0.99	1.01
UB BONELESS-SKINLESS TURKEY BREAST, TOM, FRESH	1.55	1.55	1.55	1.58	1.76	1.84	1.86	1.90	1.89	1.90	1.93	2.13	2.23	2.33	2.37
LIVE STEERS															
FIVE AREA DIRECT AVERAGE LIVE STEER, USDA	1.19	1.22	1.27	1.26	1.19	1.18	1.15	1.12	1.09	1.11	1.08	1.07	1.09	1.13	1.17
BEEF															
CHOICE, 112A, 3 RIBEYE, BONELESS, HEAVY, USDA	6.71	6.43	7.14	8.07	7.59	8.55	8.72	8.00	7.63	8.00	7.04	7.16	7.30	7.85	8.60
CHOICE, 168, 3 TOP INSIDE ROUND, 1/4" MAX, USDA	2.06	2.13	2.22	2.23	2.17	2.33	2.06	2.05	2.03	2.05	2.07	2.13	2.15	2.21	2.15
CHOICE, 170, 1 BOTTOM GOOSENECK ROUND, USDA	2.06	2.13	2.01	1.91	1.87	1.97	1.87	1.92	1.89	1.87	1.91	1.93	2.09	2.19	2.08
CHOICE, 180, 3 STRIP LOIN, BONELESS, 0x1, USDA	4.98	5.17	5.44	6.60	6.48	8.26	8.20	7.77	7.14	7.90	6.75	6.16	5.78	5.50	5.09
CHOICE, 184, 3 TOP BUTT, BONELESS, USDA	3.21	3.50	3.45	3.40	3.33	3.63	3.71	3.50	3.65	3.60	3.50	3.40	3.35	3.05	2.95
CHOICE, 185A, 4 BOTTOM SIRLOIN, FLAP, USDA	4.88	4.66	4.98	5.75	5.64	5.75	5.41	5.25	5.14	5.30	4.90	4.75	4.75	4.70	4.60
COARSE GROUND 73%, USDA	1.31	1.64	1.47	1.55	1.52	1.59	1.37	1.31	1.55	1.40	1.50	1.55	1.53	1.52	1.43
COARSE GROUND 81%, USDA	1.59	1.97	1.76	1.86	1.76	1.88	1.69	1.58	1.81	1.73	1.75	1.80	1.79	1.82	1.74
90% BONELESS BEEF, CENTRAL, FRESH, USDA	2.11	2.13	2.15	2.17	2.17	2.20	2.21	2.22	2.25	2.20	2.23	2.23	2.24	2.24	2.14
50CL BEEF TRIM, FRESH, NATIONAL, USDA	0.55	0.79	0.84	0.84	0.93	0.85	0.70	0.68	0.69	0.72	0.71	0.65	0.59	0.63	0.70

\$/cwt

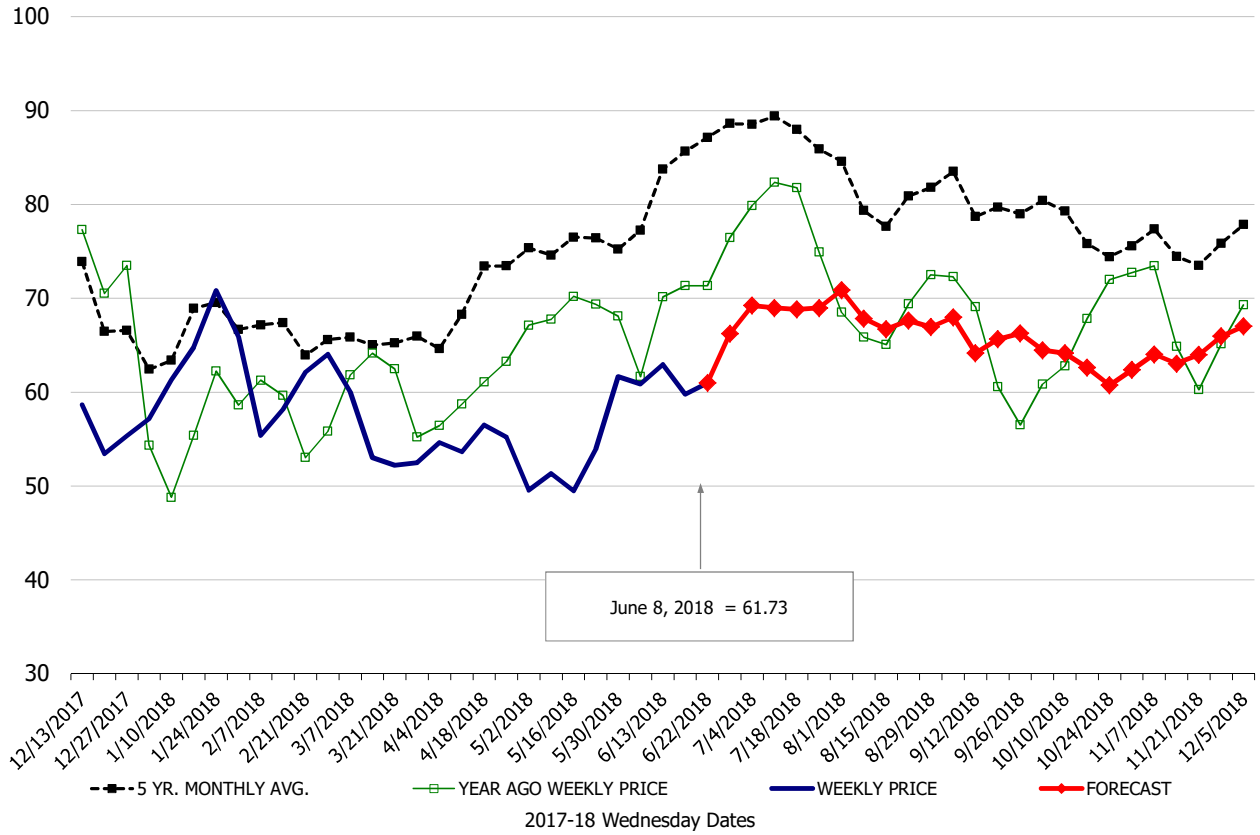
Loin, 1/4 Trimmed Loin VAC, FOB Plant, USDA



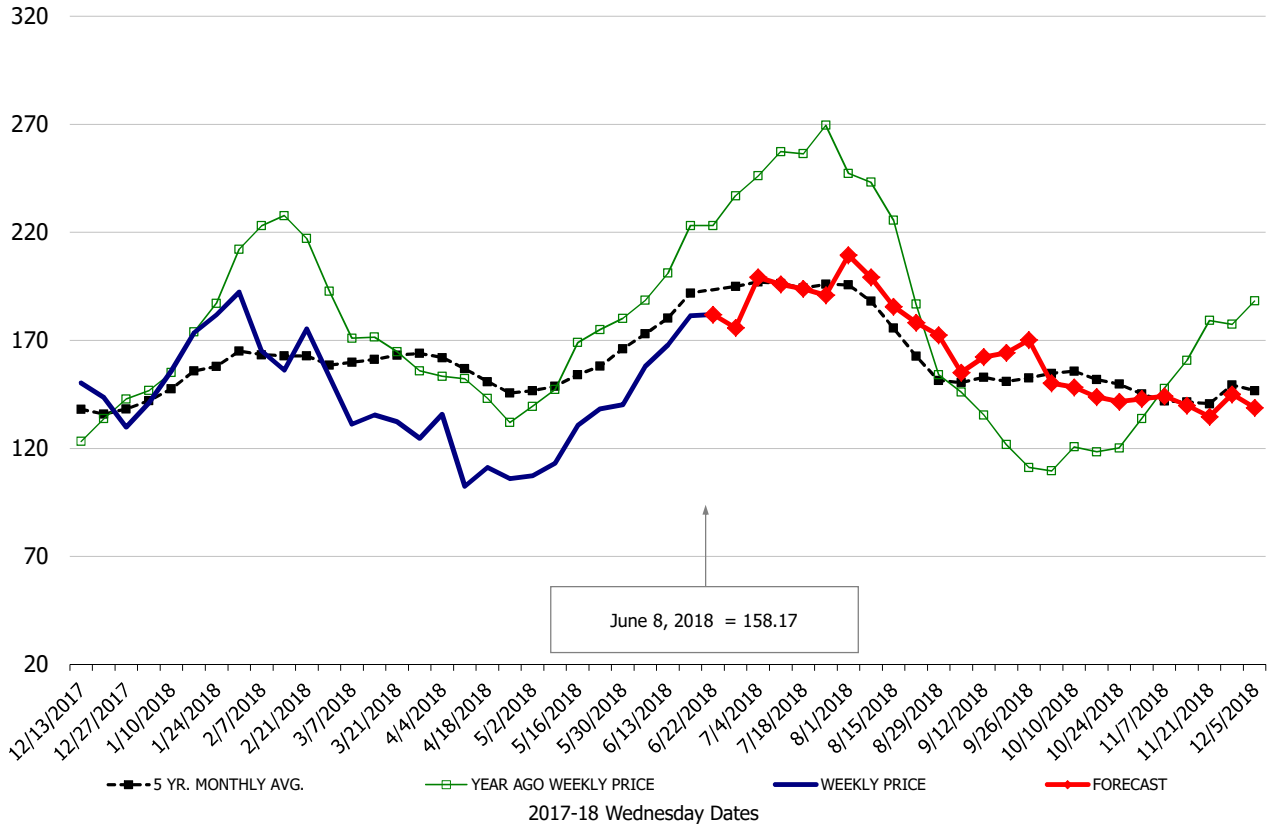
Sparerib, Trmd Sparerib - LGT, FOB Plant, USDA



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

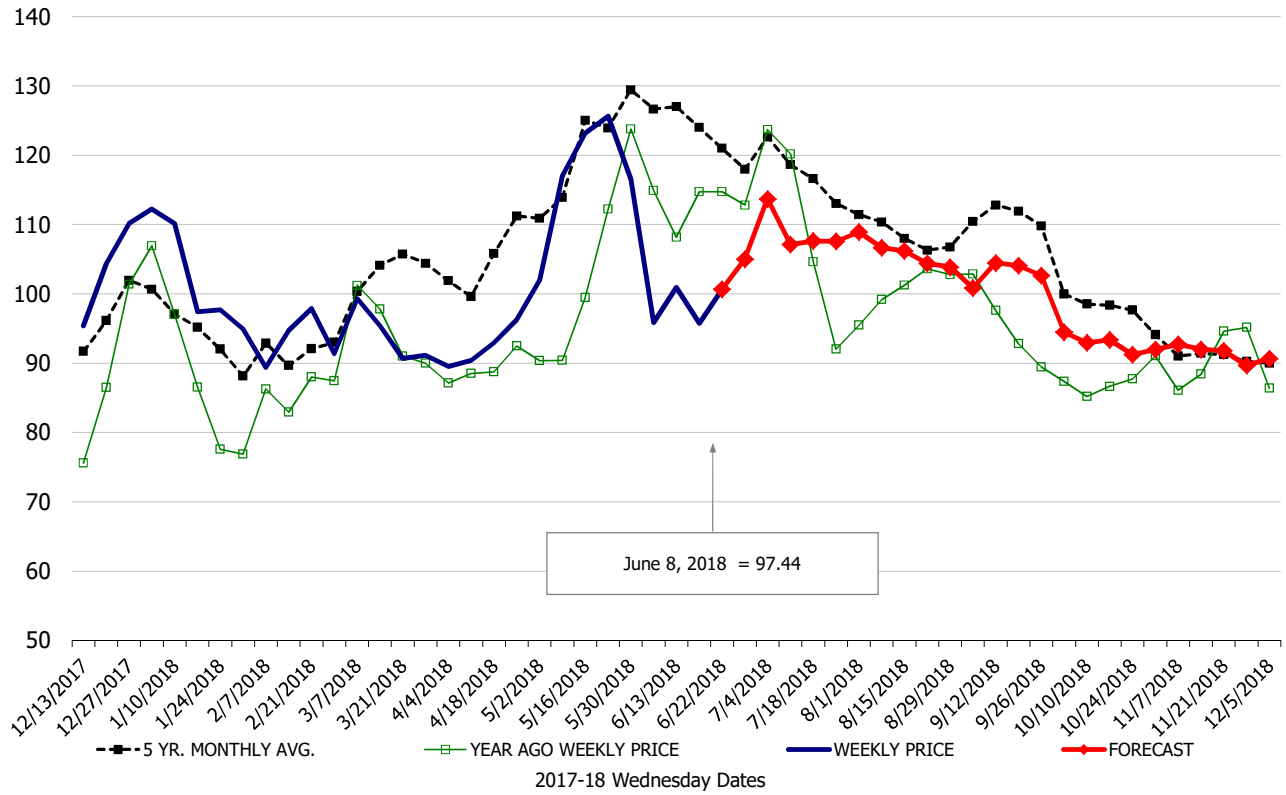


Belly, Derind Belly 9-13#, FOB Plant, USDA



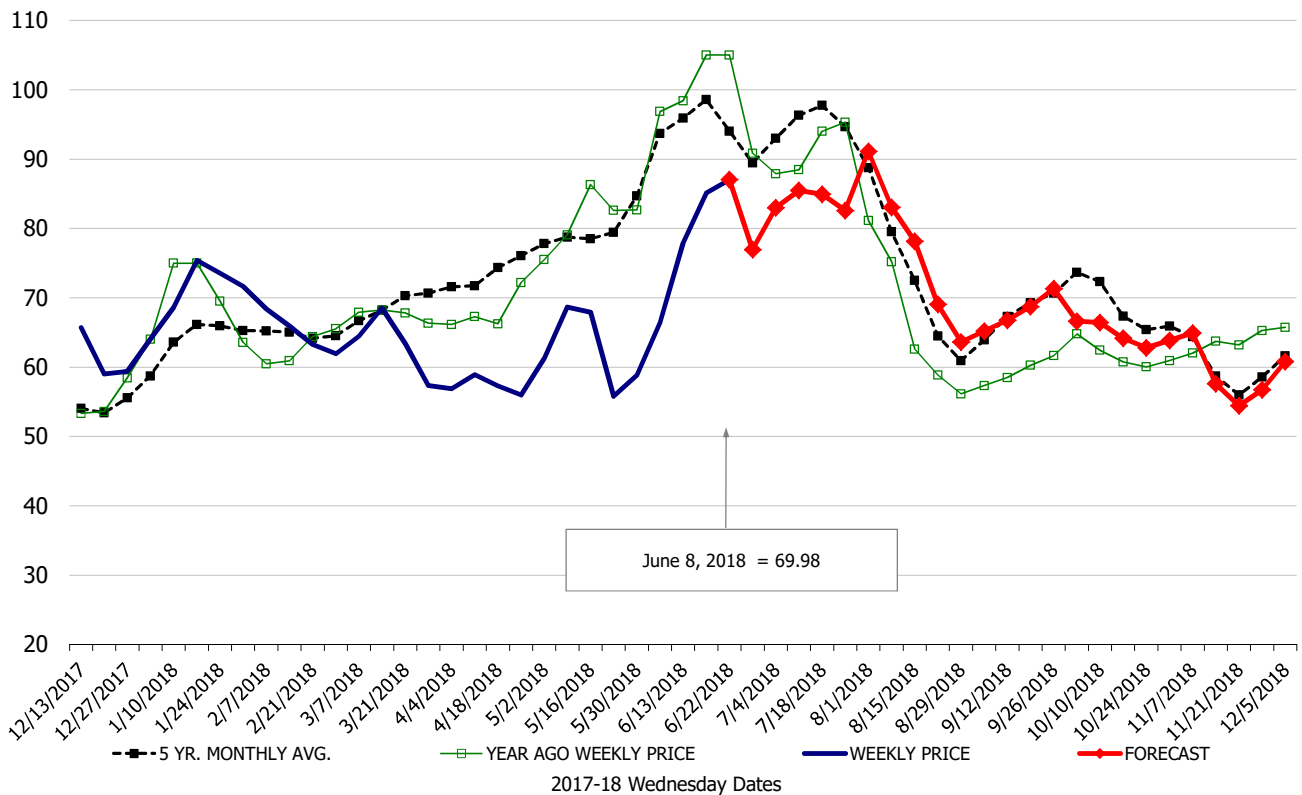
\$/cwt

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



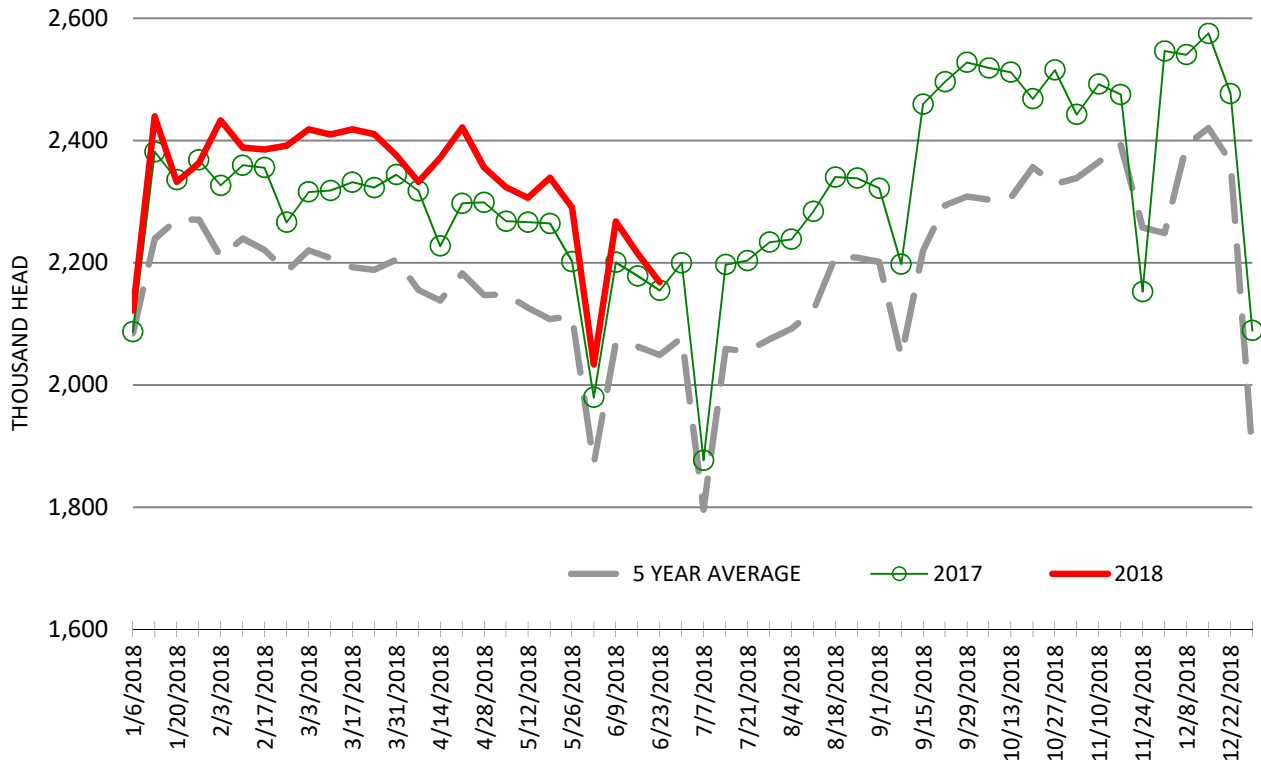
\$/cwt

Trim, 72% Trim Combo, FOB Plant, USDA



ESTIMATED WEEKLY FI HOG SLAUGHTER

Source: USDA, '000 head



ESTIMATED WEEKLY FI PORK PRODUCTION

Source: USDA, Mil. Pounds

