Pork Merchandiser's Profit Maximizer

- Retail Edition -

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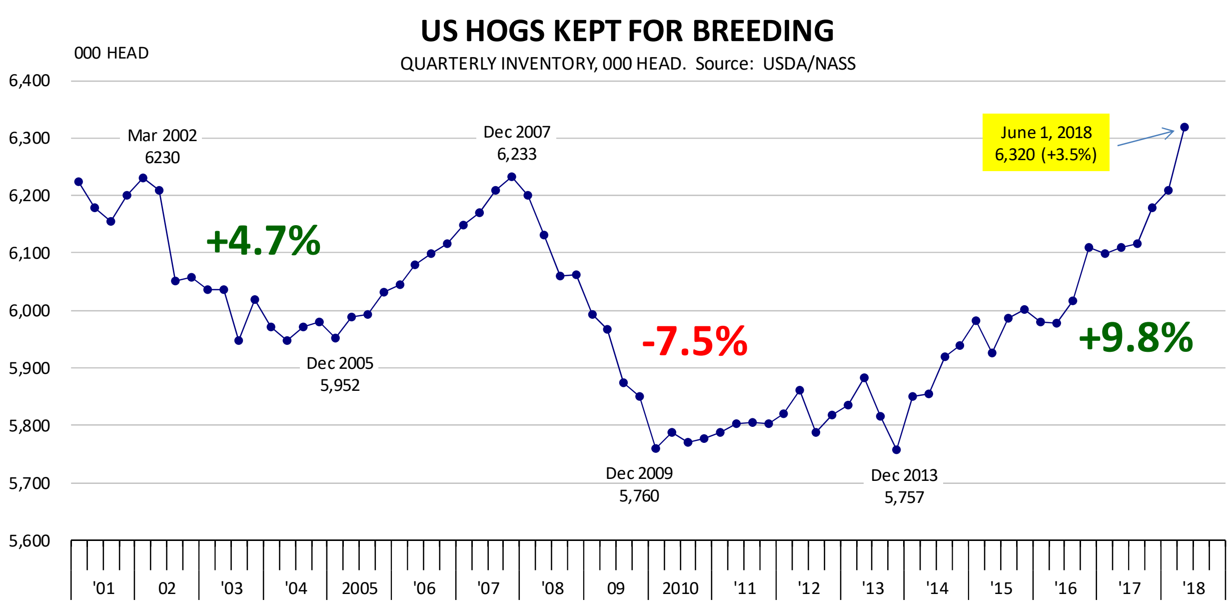
July 9, 2018

1. Implications of the June 1 USDA 'Hogs and Pigs' inventory report.

US hog producers have been expanding rapidly in the last three years thanks to low feed costs and robust meat protein demand in domestic and export markets. Hog slaughter last fall was at all time record levels and significant new processing capacity has been added to accommodate the increase in hog numbers. Coming into the June report there was some speculation that low spring hog prices and a trade war with China and Mexico might induce producers to ratchet back expansion. Some of this was reflected in the **analyst estimates of the breeding herd prior to the report, on average expecting a 1.7% increase**



in the breeding herd. But producers appear unwilling to scale back until and unless they start to feel some real pain in their pocketbook. The June USDA survey pegged the total breeding herd at 6.320 million head, 3.5% higher than the previous year. The magnitude of the increase in the breeding herd caught futures participants by surprise and fall/winter hog prices were down sharply. At this point we have a two tiered hog market. Prices for the summer are expected to hold firm due to the seasonal decline in hog numbers and lighter carcass weights. Fall and winter supplies are expected to be plentiful, however, and potentially lower export demand could push more product into domestic channels further depressing prices.

Key points from the report:

- Total inventory of hogs and pigs on June 1 was estimated at 73.451 million head, 3.4% higher than a year ago and on the high end of pre-report estimates. This was the highest June hog inventory since USDA started its hog inventory survey.

- The total inventory number is made up of market hogs, up 3.4% from last year and breeding hogs, up 3.5% from a year ago. The breakdown of market hogs by weight category implies that hog supplies should start to increase rapidly by late July. The inventory of hogs weighing 120-179 pounds was 4% higher than a year ago. These are hogs should come to market between mid July and mid August. Last year hog slaughter during this period averaged 2.240 million head/wk. A 4% increase in slaughter implies hog numbers surpassing 2.3 million hogs by the end of July and near 2.375 million head by mid August. This contrasts with slaughter in the last three weeks that has averaged around 2.13 million head. The inventory of under 120 pound hogs was 3.5% higher than the previous year. These are hogs that should come to market in late August, September and October.

- **The breeding herd on June 1 was estimated at 6.320 million head, 3.5% higher than last year and the largest hog breeding herd since September 1999**. Additionally, the report showed that producers continue to save more baby pigs per litter. The average number of pigs saved per litter in the Mar-May quarter was 10.63, 0.8% higher than last year.

Hogs and Pigs Farrowing Estimates

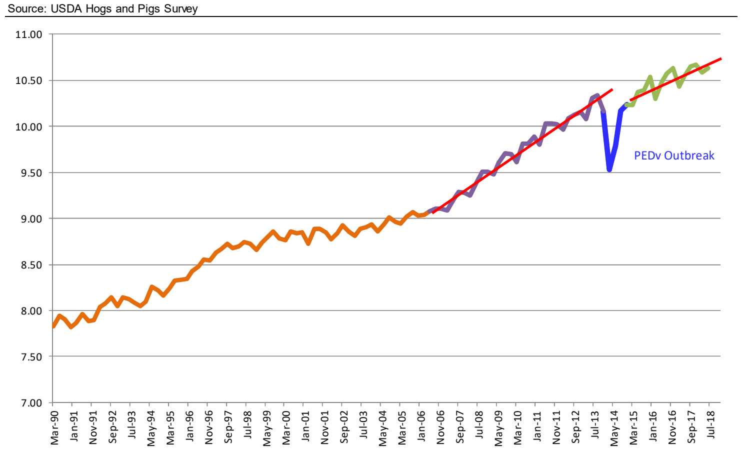
Source: USDA 'Hogs and Pigs' Report & Steiner Consulting

		1st Est.	2nd Est.	Final	Final vs. 1st
2015	Dec-Feb	2,870	2,870	2,895	0.9%
	Mar-May	2,900	2,870	2,854	-1.6%
	Jun-Aug	2,927	2,915	3,017	3.1%
	Sep-Nov	2,865	2,920	2,929	2.2%
2016	Dec-Feb	2,875	2,840	2,927	1.8%
	Mar-May	2,850	2,839	2,968	4.1%
	Jun-Aug	2,912	2,949	3,057	5.0%
	Sep-Nov	2,896	2,928	3,046	5.2%
2017	Dec-Feb	2,927	2,968	2,986	2.0%
	Mar-May	2,997	3,010	3,014	0.6%
	Jun-Aug	3,045	3,064	3,103	1.9%
	Sep-Nov	3,046	3,070	3,109	2.1%
2018	Dec-Feb	3,025	3,070	3,057	1.1%
	Mar-May	3,083	3,078	3,121	1.2%
	Jun-Aug	3,165	3,170	3,197	1.0%
	Sep-Nov	3,180		3,212	1.0%

Note: Dark shading shows progression from low to high

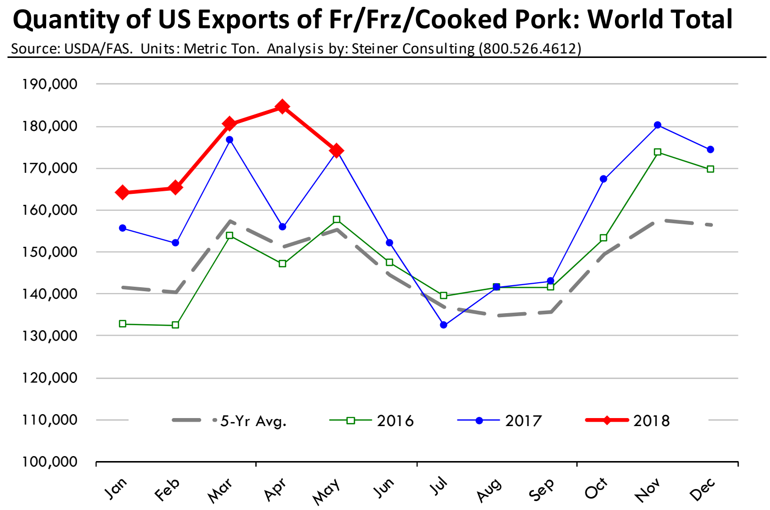
Trend in Quarterly Pigs Saved Per Litter

Source: USDA Hogs and Pigs Survey



- The pig crop for the Mar-May quarter was 4.3% higher than the previous year compared to a 3.4% increase that analysts were expecting. The pig crop number also is higher than what's implied by the inventory of market hogs. At this point we think there is a good chance that hog supplies during the Sep-Nov quarter may be as much as 4% above year ago levels. Last year weekly slaughter between mid September and late November averaged almost 2.5 million head/wk. The 4% increase in the pig crop implies average weekly slaughter near 2.6 million head, with some weeks likely above that level. The additional capacity clearly helps but pork supplies will be heavy. Hog carcass weights will be critical. Producers will need to be aggressive in marketing hogs and likely will look to keep weights near year ago levels. Futures currently show a sharp discount for October hogs for precisely that reason, offering producers an incentive to market hogs as early as possible.

- Farrowing intentions for the Jun-Aug and Sep-Nov period do not seem to match up well with the June 1 breeding herd numbers. The table above shows how USDA has had to consistently revise up the farrowing numbers in previous reports and we think they will end up doing the same going forward. There are two intention estimates that are published before USDA reports the actual number. Since 2015, only one quarter has seen the final estimate come in under the initial estimate. On average the final estimate has been 2% higher than the initial one. In the last four quarters, the final farrowing estimate has been 1.6% higher than the initial estimate. Another way to see if the farrowing estimates make sense is to look at the ratio of farrowings in a quarter relative to the breeding herd. Given the size of the June 1 hog breeding herd, we would expect Jun-Aug farrowings to be a little over 3% higher than the previous year (vs. 1.6% USDA reported). With a trend increase in the number of pigs per litter this would imply +4% increase in Jun-Aug pig crop / Dec—Feb slaughter.



Bottom line: Pork exports in 1999 accounted for 6.6% of total US pork production. By 2007 pork exports had increased to a 14.3% share of US pork production and by 2017 they accounted for 22% of all US pork production. Much of the increase in US pork production in the last 20 years has come as a result of exports. Higher tariffs on US pork to China have reduced shipments to that market to almost zero. Exports to Mexico may also be affected although in the short term Mexico has few good options to replace all the US pork they buy. Record pork production this fall and the 25% tariff on hams going to Mexico could significantly pressure prices this fall. Ham prices during Sep-Dec of last year averaged 59 cents per pound. Packers would need to sell under 45 cents in order to offset the tariff impact. That is the downside risk that futures are currently trying to quantify and with big pipeline supplies the risk is clearly to the downside.

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

Hog Market. For the week ending July 7 hog slaughter was 1.988 million head, up 5.9% from a year ago. In the last two weeks hog slaughter is up 3.7% vs. year ago levels.

Iowa/Minnesota, Base Negotiated Purchase for Barrows and Gilts. Lean hog carcass values at about 77.29 /cwt. on Friday were up $0.2/cwt since Wed. June 27. Prices are down about 10.41 $/cwt compared to year ago values.

Loin, 1/4 Trimmed Loin VAC, FOB Plant, USDA (page 8). Prices finished last week at $0.9980, down about 1.3 cent since the Wed. June 27 quote and down about 27 cents from year ago levels.

Bnls. Strap on Pork Loins. Prices finished the week at $1.1295 for the strap on loins, down 5.3 cent since Wed. June 27 and down 27 cent from the year ago levels. Strap off loins at $1.3570 are down 2.0 cent since Wed. June 27 and down about 16 cent compared to the year ago quote.

Boneless sirloins at $1.0056 are up about one cents from the Wed. June 27 quote but down about 17.7 cents from the year ago price.

Pork tenderloin finished last week at $2.2188, down 0.5 cent since the Wed. June 27 quote and down about 9.4 cents from the year ago price.

1/4 Trim Pork Butts (page 10), prices finished the week at $1.0132, down 8.9 cents since Wed. June 27. Prices are down 24 cent from a year ago.

Spare Ribs, Trimmed - LGT, Vac (page 8). Prices finished the week at $1.2890, down about 30 cent since Wed. June 27 and down about 26 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 $0.5851/lb., down 7 cents since Wed. June 27 and down about 20 cents from a year ago.

20/23 hams finished the week at 57.35 cents, down about 6 cents since Wed. June 27 and down about 20 cents from the year ago level.

23/27 hams finished the week at 52.84 , down about 9 cent from the Wed. June 27 quote and down about 27 cents from the year ago level.

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

42 CL Pork Trim "FOB Basis". Prices finished the week at 86.27 cents, up about 10.6 cent since Wed. June 27 and up about 22 cents from the year ago price.

72 CL Pork Trim "FOB Basis". Prices finished the week at 82.56 cents, down 6.7 cents since the Wed. June 27 quote and down about 5 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 114.31 on Friday, July 7, up about 6 cents from a year ago.

Broiler slaughter for the week ending July 7 was 171.89 million head, up 2.03% from a year ago. For the last two weeks broiler slaughter was up 1.5% vs. a year ago.

Breasts. Prices on boneless skinless breasts finished the week at $1.3552, up 12 cents since Wed. June 27 but still down about 28 cents from year ago levels.

Leg Quarters. This market continues to be export driven. Last week leg quarter prices were down about 0.6 cents vs. two weeks ago and at 34.05 cents per pound prices were down 9 cent from a year ago.

Wings. Prices at $1.4045 are down about 64 cents from year ago levels.

Turkeys

Hens finished last week at $0.8800, unchanged cent since Wed. June 27 but down about 19 cents from the year ago price.

Toms finished last week at $0.8900, unchanged since Wed. June 27 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 4.0570 million head for the week ending June 30, down -4.54% from a year ago. For the last two weeks slaughter has been down 4.2%.

Boneless Turkey Breast Meat. Boneless skinless turkey breast meat prices finished last week at $1.9200, up since Wed. June 27. Prices are up about 39 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 $2.2038 for 90CL and $0.6255 for 50CL product, an 81CL meat block value is now $1.8487 and a 78CL meat block is $1.7303. Choice 114, 3 Clods are now being priced 23.80 cents over 81CL meat block grinding values of 90s and 50s. A year ago the spread was 23.34 cents and the five year average spread for is 25.06 cents over.

Select #115 chucks also are no longer being quoted.

Choice #161 Boneless Rounds finished last week at $2.0200, down slightly since Wed. June 27 and down about 41 cents from year ago levels.

Choice #184 Regular Heavy top butts finished at $3.5239 (wt. avg.) down about 7 cents since Wed. June 27 and down about 13 cent from year ago levels.

Choice #184 ¼ inch trimmed Top Butts finished at $3.5132 (wt. avg.) down about 6 cents since Wed. June 27 and down about 27 cents from the year ago levels.

COARSE GROUND BEEF –

73CL Coarse Ground product finished last week at $1.2933 down about 18 cents since Wed. June 27 and down about 70 cents from year ago levels.

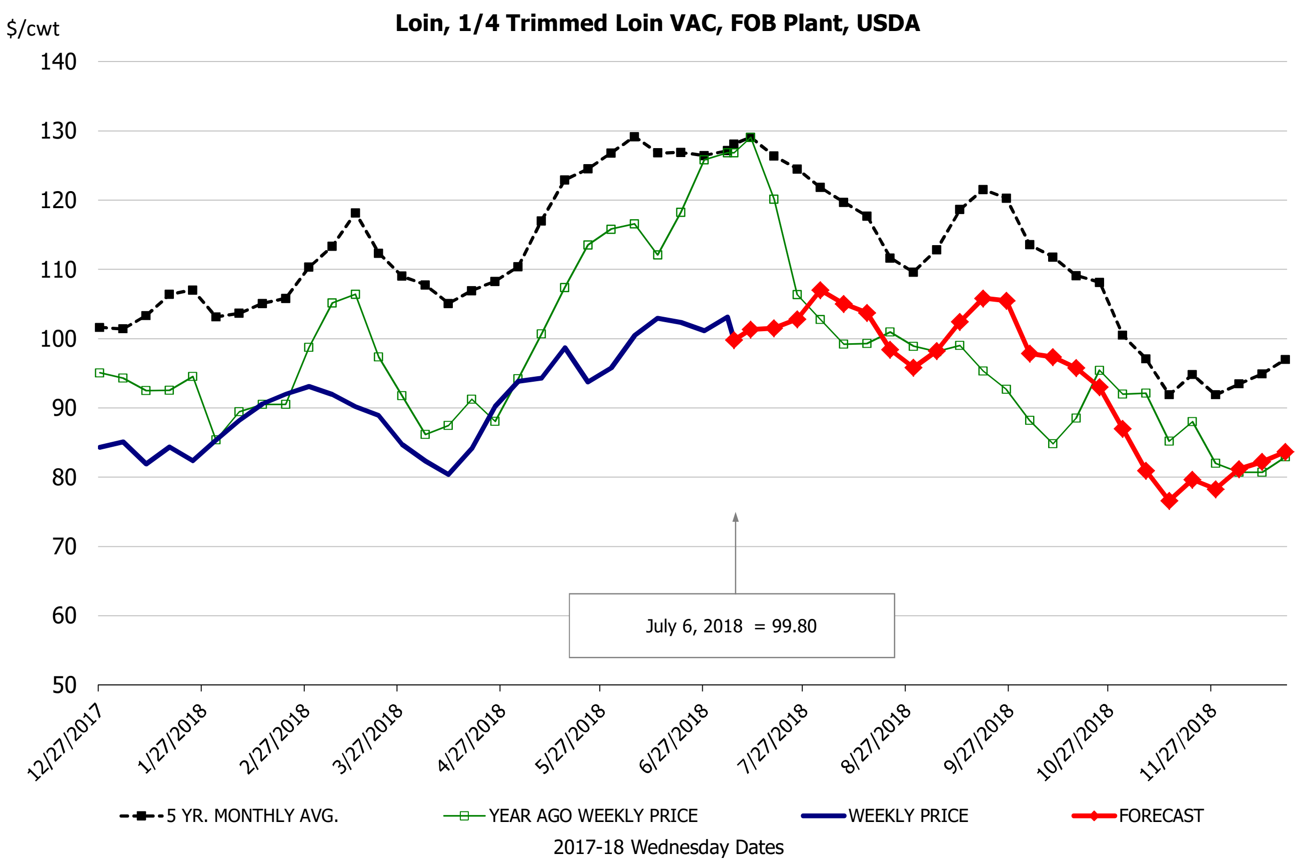
81CL Coarse Ground product finished last week at $1.5105 down about 12 cent since Wed. June 27 and down about 67 cents from the year ago quote.

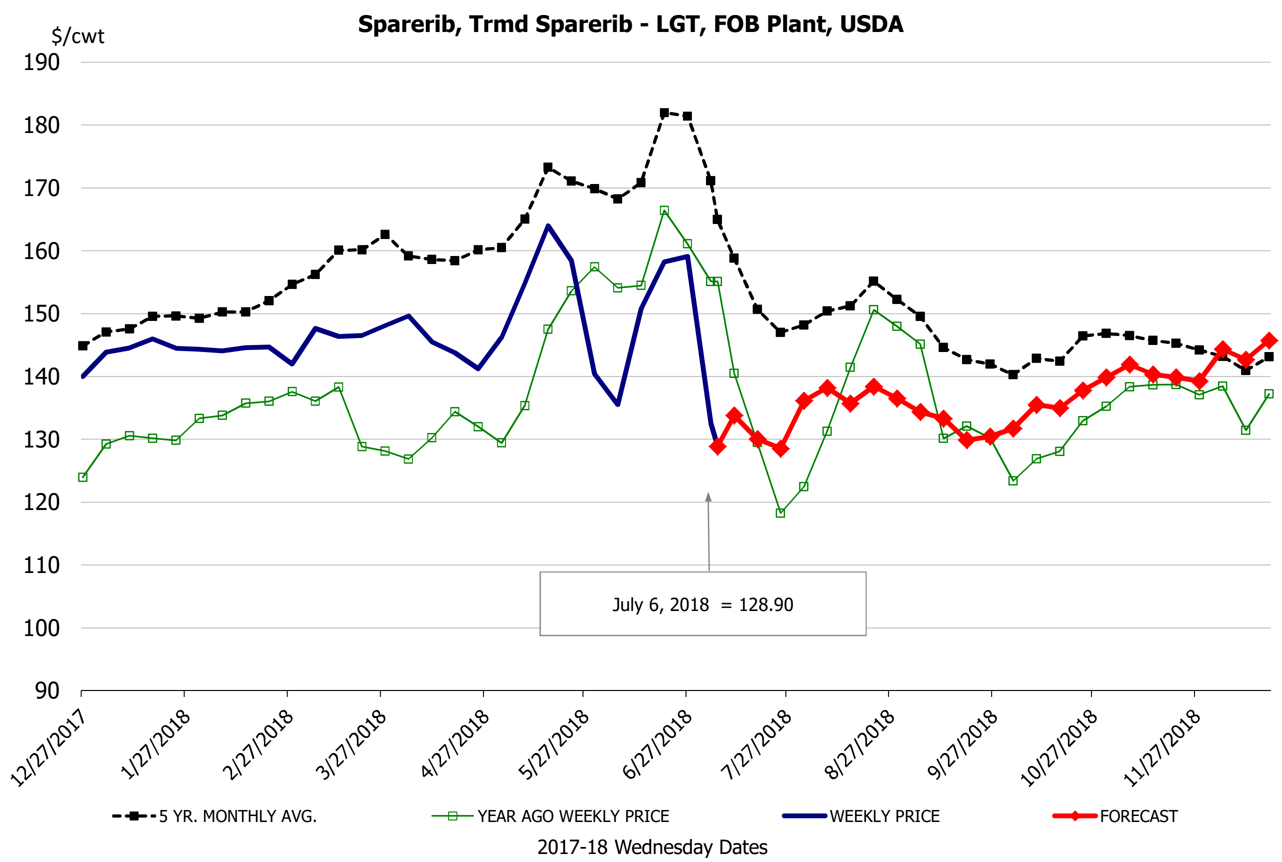
90CL Bnls. Beef prices finished the week at $2.2038 (wt. avg.) up 0.36 cent since Wed. June 27 but down 12.5 cents compared to the year ago price quote.

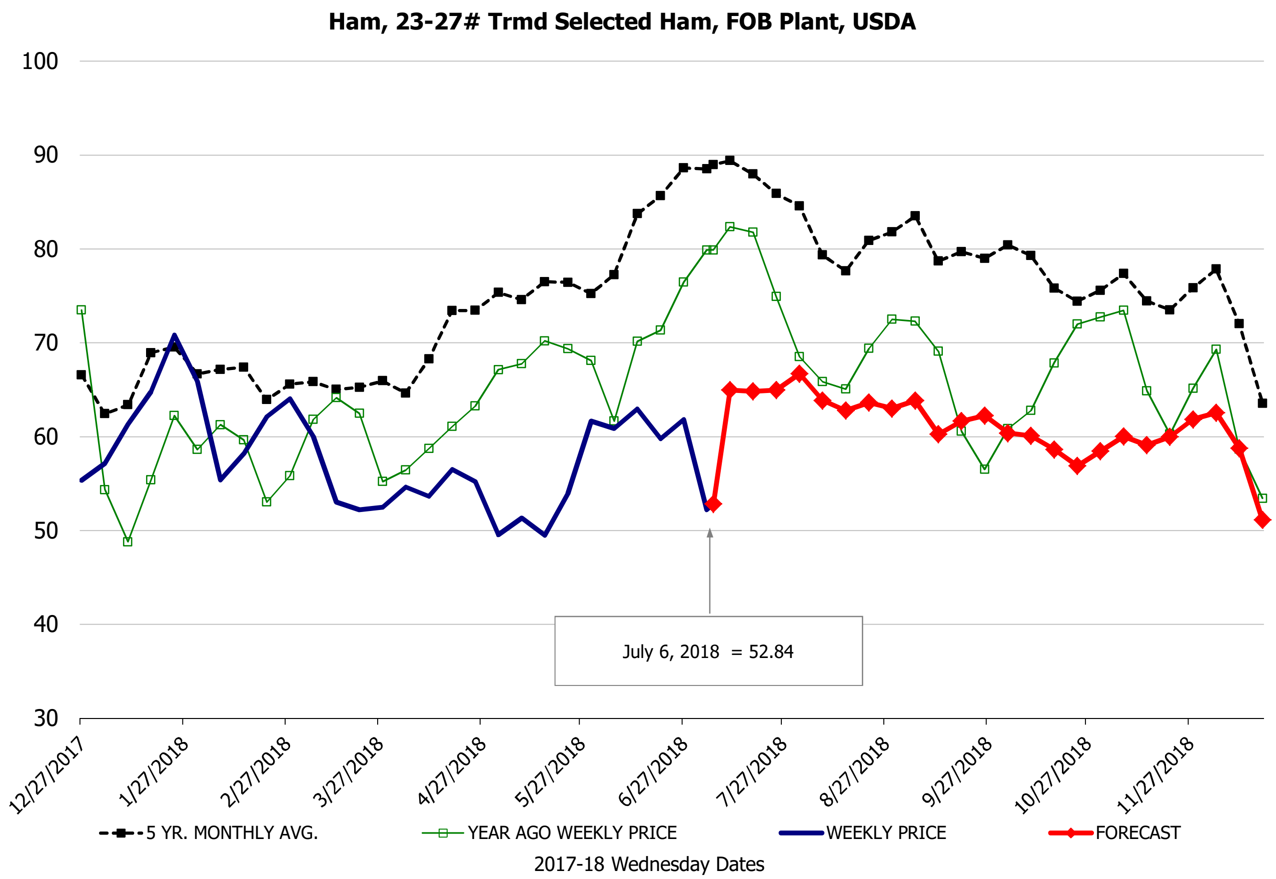
50 CL Beef Trim prices finished last week at $0.6255, down about one cent since Wed. June 27 and down 38 cents compared to the year ago level.

Retail Summary Table - WT. AVE.

	HISTORY								FORECAST						
	Jan	Feb	Mar	Apr	May	Jun	6/27/2018	7/6/2018	7/18/2018	Jul	Aug	Sep	Oct	Nov	Dec
PORK															
Loin, 1/4 Trimmed Loin VAC, FOB Plant, USDA	83.52	89.29	89.02	83.04	95.89	101.46	101.12	99.80	101	102	102	103	96	80	83
Loin, 1/8 Trimmed Loin VAC, FOB Plant, USDA	88.20	90.86	96.07	90.13	101.48	106.28	106.20	104.70	108	108	107	108	100	83	86
Loin, Bnls CC Strap-off, FOB Plant, USDA	136.54	133.93	132.22	125.13	133.77	134.19	137.65	135.70	144	144	140	143	139	127	132
Butt, 1/4 Trim Butt Combo, FOB Plant, USDA	105.69	94.94	93.87	92.84	121.41	100.04	100.94	99.71	106	107	106	103	93	92	94
Sparerib, Trmd Sparerib - LGT, FOB Plant, USDA	143.80	142.78	147.50	143.93	149.10	146.90	159.07	128.90	130	134	137	132	135	141	145
Sparerib, Trmd Sparerib - MED, FOB Plant, USDA	142.08	143.84	141.98	135.92	149.99	149.97	153.87	134.37	135	136	139	129	132	138	142
Ham, 17-20# Trmd Selected Ham, FOB Plant, USDA	65.69	63.54	62.67	57.04	56.24	63.48	65.00	58.51	64	64	65	65	66	70	64
Ham, 20-23# Trmd Selected Ham, FOB Plant, USDA	66.86	65.71	60.44	57.92	54.69	65.46	63.04	57.35	66	65	65	67	64	66	61
Ham, 23-27# Trmd Selected Ham, FOB Plant, USDA	62.50	60.35	56.02	54.48	50.79	61.42	61.84	52.84	65	65	64	62	59	60	56
Belly Cutout, FOB Plant, USDA	133.21	130.33	106.24	90.95	101.20	141.23	157.43	167.65	168	168	163	137	123	115	110
Belly, Derind Belly 9-13#, FOB Plant, USDA	160.63	162.13	133.73	106.51	124.74	171.90	191.58	201.54	206	207	201	169	152	143	136
Belly, Derind Belly 13-17#, FOB Plant, USDA	155.03	154.20	124.63	109.92	121.20	169.63	189.72	202.79	206	206	200	168	151	142	135
Trim, 42% Trim Combo, FOB Plant, USDA	26.66	27.85	37.49	34.69	26.67	51.54	75.65	86.27	87	84	55	43	39	23	20
Trim, 72% Trim Combo, FOB Plant, USDA	72.24	64.93	63.21	57.61	62.58	77.94	89.27	82.56	82	81	72	64	60	58	56
Trim, Picnic Meat Combo Cushion Out, FOB Plant, USDA	85.06	77.69	72.07	65.64	72.77	84.03	99.59	95.80	98	96	87	82	75	71	68
Carcass Cutout, FOB Plant, USDA	80.74	78.44	73.17	68.11	73.55	82.85	87.66	85.52	84	84	80	75	73	69	68
HOG CARCASS															
IA/MN, Base Market Hog 185 lb Carcass Basis, Plant Dlv.	68.10	67.14	56.82	52.35	63.33	78.48	77.07	77.29	78	79	71	60	56	54	55
BROILERS															
N.E. BROILER BREAST BONELESS-SKINLESS, USDA	106.78	104.99	131.08	135.81	126.53	118.94	123.32	135.52	132	135	133	130	113	99	97
N.E. BROILER BREAST LINE RUN, USDA	96.74	98.20	102.90	105.95	112.15	115.20	113.10	116.78	115	116	114	106	94	92	92
N.E. BROILER LEG QUARTERS, USDA	37.74	39.60	40.13	41.03	40.16	36.81	34.65	34.05	36	36	37	36	33	33	33
TURKEYS															
UB HEN TURKEYS, EAST, FROZEN 10-12LBS	86.20	86.00	86.00	86.50	88.00	88.00	88.00	88.00	91	91	95	97	99	101	96
UB TOM TURKEYS, EAST, FROZEN 16-22LBS	86.00	86.00	86.00	86.50	88.00	88.50	89.00	89.00	91	91	95	97	99	101	96
LIVE STEERS															
FIVE AREA DIRECT AVERAGE LIVE STEER, USDA	122.49	127.34	126.42	119.41	118.42	111.25	108.83	106.78	107	108	107	109	113	117	116
BEEF															
CHOICE, 161, 1 ROUND, BONELESS, USDA	238.78	231.85	231.41	212.01	219.86	207.95	202.11	202.00	203	204	210	225	234	235	231
CHOICE, 168, 3 TOP INSIDE ROUND, 1/4" MAX, USDA	212.85	221.96	223.30	217.21	232.51	205.83	201.34	206.02	207	207	213	215	221	215	214
CHOICE, 170, 1 BOTTOM GOOSENECK ROUND, USDA	212.59	200.53	191.24	186.65	197.32	187.78	198.12	185.34	193	189	193	209	219	208	207
CHOICE, 184, 3 TOP BUTT, BONELESS, USDA	349.59	345.29	339.84	332.58	363.43	364.50	357.33	351.32	345	350	340	335	305	295	300
CHOICE, 185A, 4 BOTTOM SIRLOIN, FLAP, USDA	466.33	498.02	574.98	564.09	575.36	532.85	513.52	482.50	491	490	475	475	470	460	472
COARSE GROUND 73%, USDA	164.29	146.88	154.71	151.67	159.47	138.24	147.52	129.33	139	140	145	143	142	143	142
COARSE GROUND 81%, USDA	197.10	176.21	186.05	176.47	187.98	164.23	163.28	151.05	162	165	170	169	172	174	171
90% BONELESS BEEF, CENTRAL, FRESH, USDA	213.44	215.17	217.05	217.45	219.51	220.71	220.02	220.38	220	221	220	219	219	214	213
50CL BEEF TRIM, FRESH, NATIONAL, USDA	79.25	83.66	84.23	93.37	85.49	67.99	63.19	62.55	63	62	62	59	63	70	58


Loin, 1/4 Trimmed Loin VAC, FOB Plant, USDA
$/cwt
July 6, 2018 = 99.80
5 YR. MONTHLY AVG.
YEAR AGO WEEKLY PRICE
WEEKLY PRICE
FORECAST
2017-18 Wednesday Dates


Sparerib, Trmd Sparerib - LGT, FOB Plant, USDA
$/cwt
July 6, 2018 = 128.90
5 YR. MONTHLY AVG.
YEAR AGO WEEKLY PRICE
WEEKLY PRICE
FORECAST
2017-18 Wednesday Dates


Ham, 23-27# Trmd Selected Ham, FOB Plant, USDA
100
90
80
70
60
50
40
30
July 6, 2018 = 52.84
12/27/2017
1/27/2018
2/27/2018
3/27/2018
4/27/2018
5/27/2018
6/27/2018
7/27/2018
8/27/2018
9/27/2018
10/27/2018
11/27/2018
5 YR. MONTHLY AVG.
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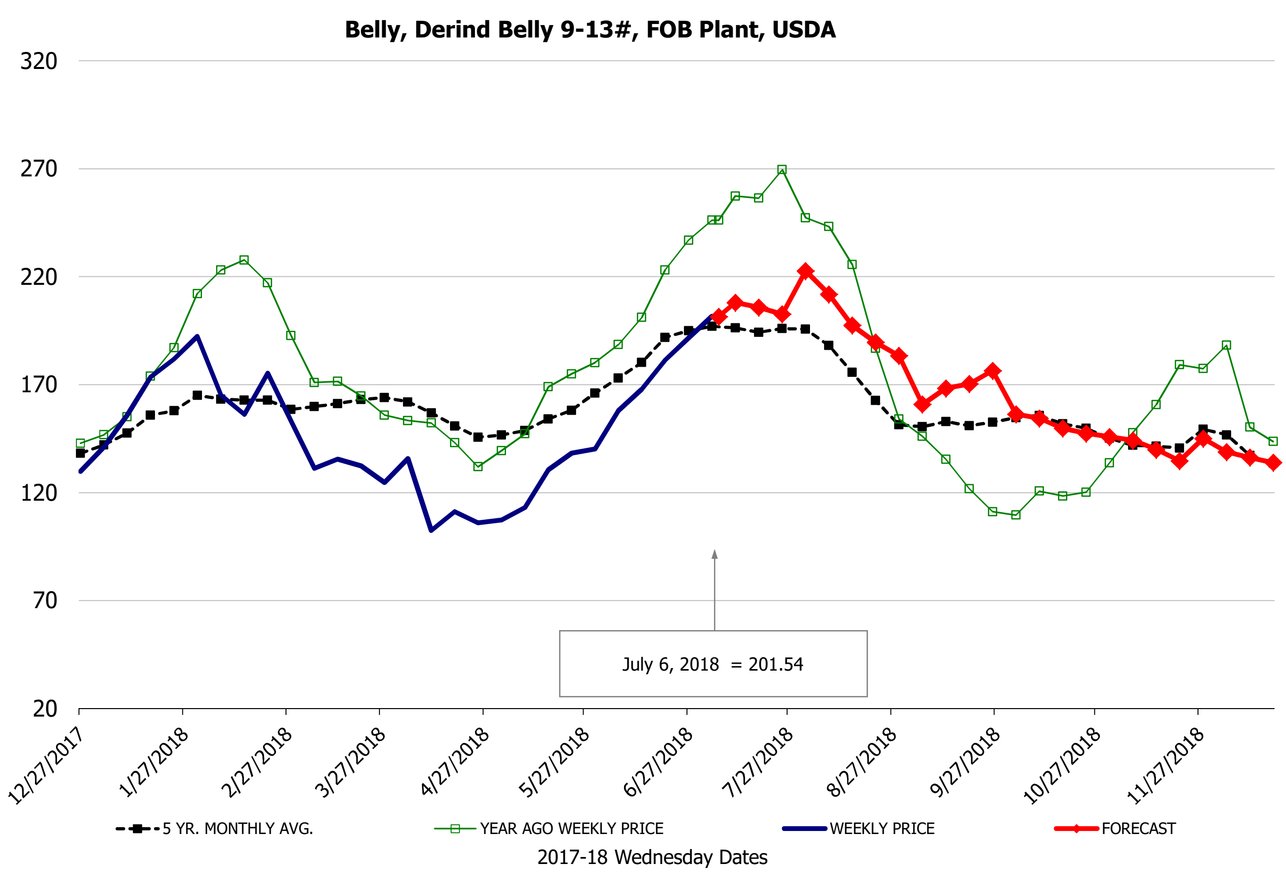
Belly, Derind Belly 9-13#, FOB Plant, USDA
320
270
220
170
120
70
20
July 6, 2018 = 201.54
12/27/2017
1/27/2018
2/27/2018
3/27/2018
4/27/2018
5/27/2018
6/27/2018
7/27/2018
8/27/2018
9/27/2018
10/27/2018
11/27/2018
5 YR. MONTHLY AVG.
YEAR AGO WEEKLY PRICE
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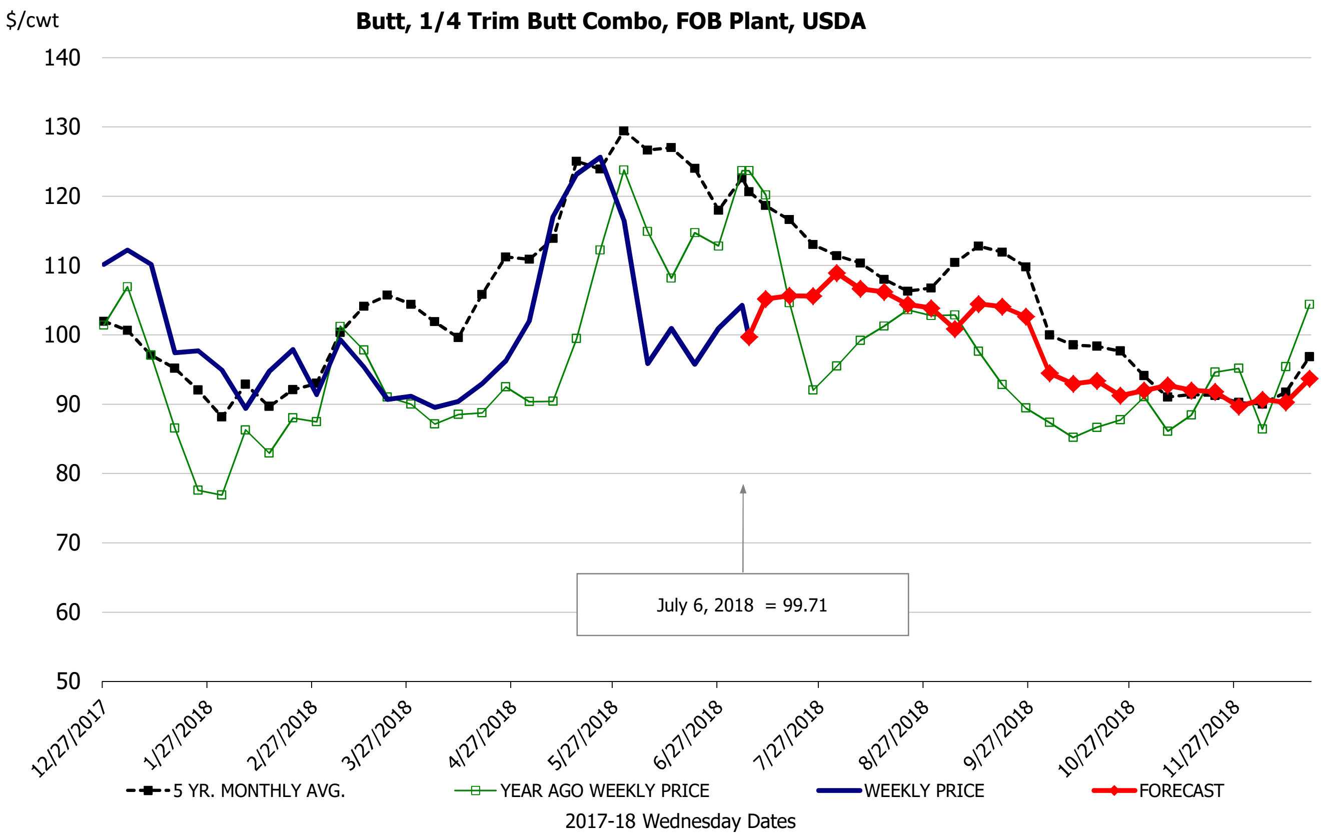
$/cwt
Butt, 1/4 Trim Butt Combo, FOB Plant, USDA
140
130
120
110
100
90
80
70
60
50
July 6, 2018 = 99.71
12/27/2017
1/27/2018
2/27/2018
3/27/2018
4/27/2018
5/27/2018
6/27/2018
7/27/2018
8/27/2018
9/27/2018
10/27/2018
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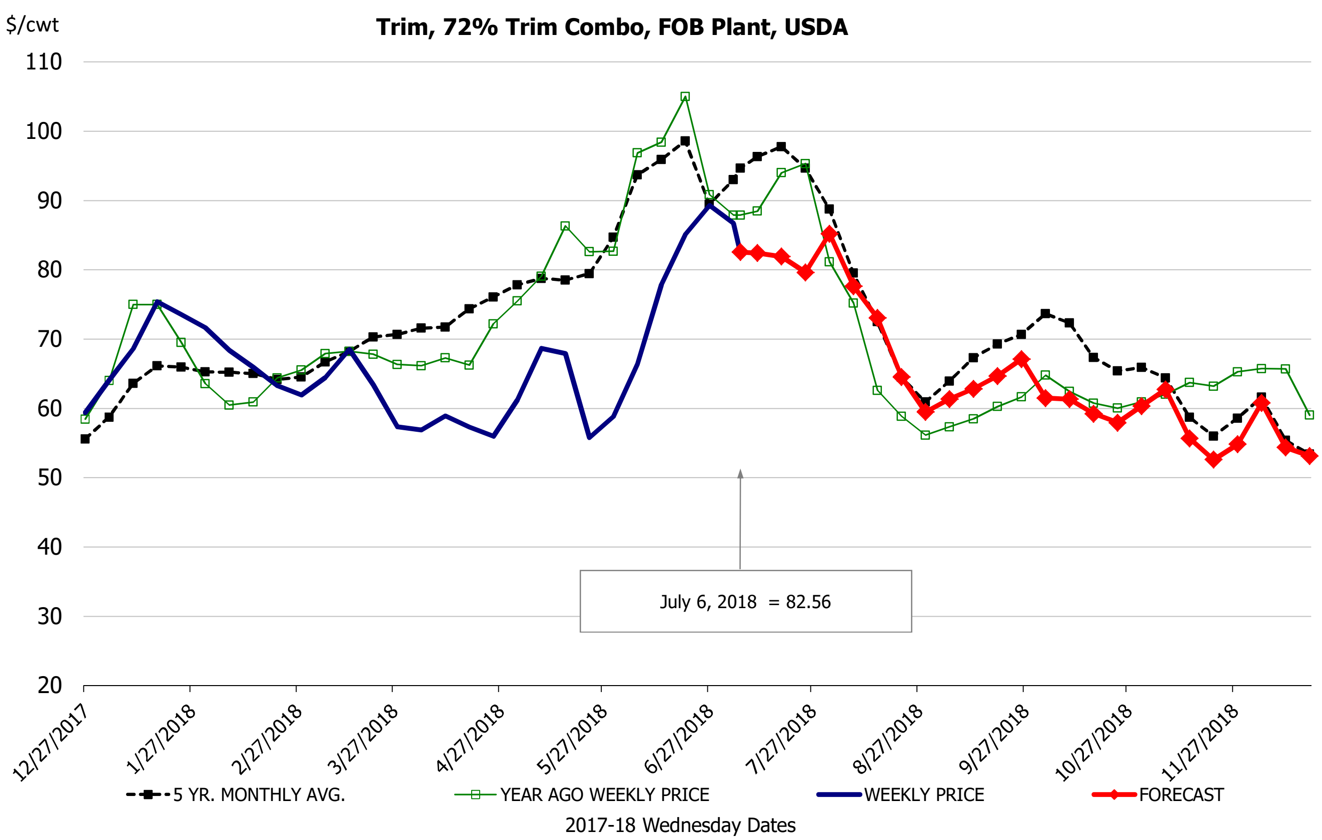
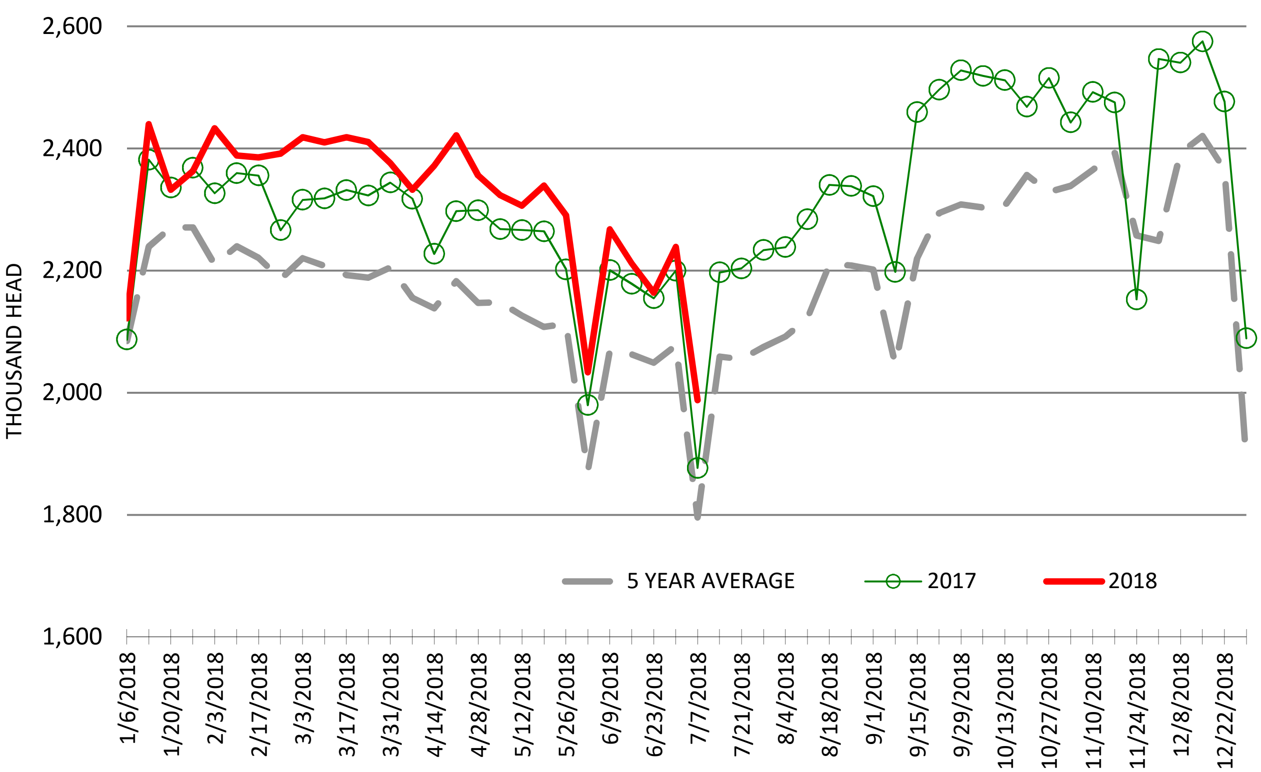

$/cwt
Trim, 72% Trim Combo, FOB Plant, USDA
110
100
90
80
70
60
50
40
30
20
July 6, 2018 = 82.56
12/27/2017
1/27/2018
2/27/2018
3/27/2018
4/27/2018
5/27/2018
6/27/2018
7/27/2018
8/27/2018
9/27/2018
10/27/2018
11/27/2018
5 YR. MONTHLY AVG.
YEAR AGO WEEKLY PRICE
WEEKLY PRICE
FORECAST
2017-18 Wednesday Dates

ESTIMATED WEEKLY FI HOG SLAUGHTER

Source: USDA, '000 head



ESTIMATED WEEKLY FI PORK PRODUCTION

Source: USDA, Mil. Pounds