



Pork Merchandiser's Profit Maximizer

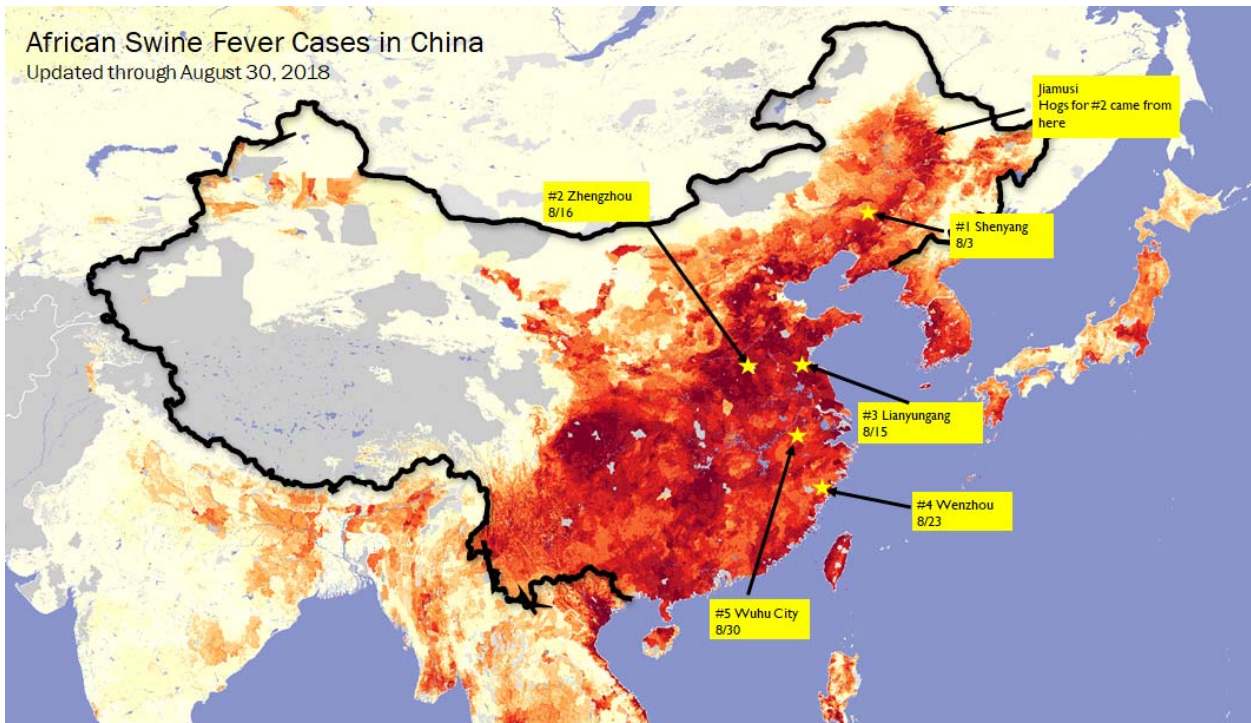
- Foodservice Edition -

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Prepared by Steiner and Company, Manchester, NH 800-526-4612.

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Spread of African Swine Fever in China presents significant upside risk for pork prices in 2019.

US domestic pork availability is burdensome in the near term and hog prices have collapsed as packers struggle to balance the seasonally softer pork demand in late summer with the



Distribution of Hogs In China. Source: Roberts et. al.



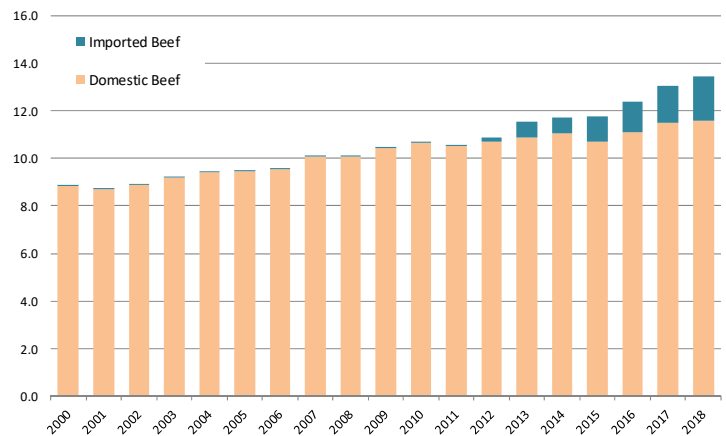
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rapid ramp up in hog slaughter. Expectations of higher supplies in the fall may have encouraged processors and other end users to deplete inventories. Pork supplies in cold storage at the end of July were 2.5% lower than the previous month compared to a 5-year average drawdown of less than 1%. Last week total US pork production was estimated at 510.2 million pounds, 5.3% higher than a year ago. During the period July 29 - September 1 pork production was a total of 2.516 billion pounds, 124 million pounds or 5.2% higher than the comparable period a year ago. The surge in production is far higher than the +2.5% to +3.0% expected from the June 1 hog inventory survey. Moving this additional supply of pork at a time when end users are looking to deplete inventories and exports to Mexico face a 20% tariff has proved disastrous for hog prices. Hog prices have declined by more than 20% from their early summer peak and are expected to remain well below year ago levels through the end of the year.

But even as the supply of pork/hogs in the spot market has caused prices to crater, futures hold a significant premium for 2019 and prices could potentially be even higher. Two factors are affecting the ever widening spread between current cash and next spring/summer: spread of African Swine Fever (ASF) in China and removal of export tariffs on US pork. No one knows how the ASF situation will play out in China but its potential impact is hard to overstate. Total Chinese pork production in 2018 is forecast to be 120.5 billion pounds on a carcass wt. basis. This compares to the 26.6 billion pounds that are expected to be produced in the US this year. In 2007, Chinese pork production declined by almost 8 billion pounds or 8% when blue ear pig disease quickly spread throughout the country and caused significant losses to the industry. Pork imports at the time increased by only 400

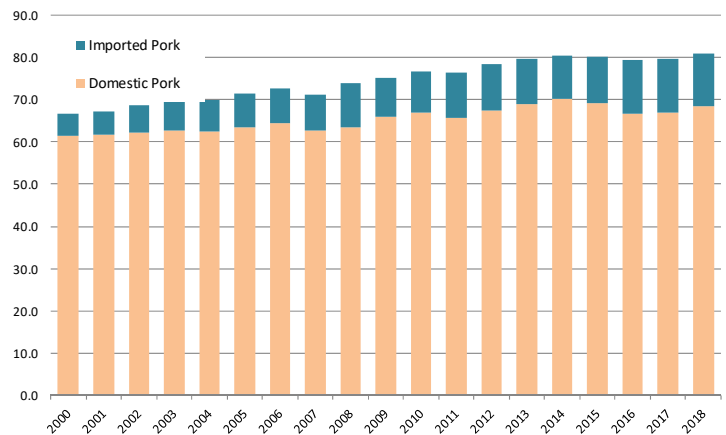
China Beef Consumption: Domestic Source + Imports

Source: USDA-FAS. Pounds per Person in Carcass Wt. Equivalent



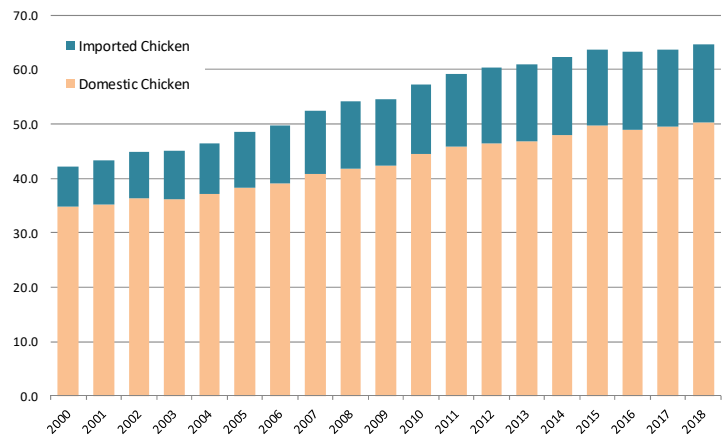
China Pork Consumption: Domestic Source + Imports

Source: USDA-FAS. Pounds per Person in Carcass Wt. Equivalent



China Chicken Consumption: Domestic Source + Imports

Source: USDA-FAS. Pounds per Person in Carcass Wt. Equivalent



million pounds or 4%. The disease simply caused Chinese pork consumption to decline. However, the Chinese consumer is far wealthier today than even 10 years ago. Additionally, it is

highly uncertain as to how able Chinese industry will be in containing the disease. A decade ago China was able to develop a vaccine to contain the spread of blue ear disease. So far there is no vaccine for ASF. Countries like Russia have been fighting this disease for over a decade, with no success. A possible scenario would be for Chinese pork production to decline between 10% and 15% in the next 12-18 months. This would represent a shortfall of 12 to 15 billion pounds (carcass wt. basis) in the Chinese market. To put this in context, total US pork exports in 2018 are forecast to be 5.9 billion pounds and total pork exports from the EU-28 are forecast to be 6.4 billion pounds.

Will China look to substitute the lost supply? That is unlikely, in part because it would be very difficult to “buy away” that additional supply from current demand. Rather, we think the higher prices for pork as well as consumer apprehension about the disease will cause some substitution effects. We think the disease will encourage higher beef and chicken consumption. In the case of beef, consumption has been increasing rapidly in recent years and the bulk of the increase has been supported by higher imports. We expect that to continue in 2019 and 2020. Chicken consumption has been flat but imports have continued to grow and that may accelerate if ASF continues to spread.

China pork imports are likely to increase, in part because imports will be viewed as safer. Total pork imports in 2018 are forecast to be 17.5 billion pounds. If Chinese pork imports increase by 15%, this would represent an additional 2.6 billion pounds of demand in the world market. With a 70% tariff currently on US pork it is likely that much of the additional demand will be filled by EU, Brazil and Canada. Exports from these three countries in 2018 are forecast to be 10.8 billion pounds. Combined produc-

tion in these three countries is forecast to be 65.6 billion pounds, 816 million pounds higher than the previous year. Natural supply growth is unlikely to support this additional demand. As a result, pork that currently goes to other markets will be diverted to China, opening the door for higher US pork exports. Keep in mind that the above analysis simply assumes that imports will fill 15-20% of the shortfall, with the remainder either filled by higher consumption of other proteins or a decline in domestic consumption.

Bottom line: US pork production next year is expected to increase by 656 million pounds. If all this supply goes to support higher export demand, we will likely see a net reduction in per capita availability in the domestic market and higher pork prices. The decline in per capita availability will depend greatly on a) how quickly ASF spreads in China and b) the elasticity of pork demand there. If US pork demand increases by 600 million pounds, 23% of the increase in global demand, it would imply a 10% increase in US pork exports next year. US per capita pork disappearance would decline 0.7% rather than increase 1.3% as currently forecast. The price response to changes in per capita disappearance is not linear. In 2014 per capita disappearance declined 2.1% and the cutout jumped 20.4%. We are currently expecting the pork cutout next year to increase 8% as supply growth slows down and Mexico drops tariffs on US pork. The additional export demand could cause cutout prices to increase an additional 10%. This would imply an average cutout next year of \$87/cwt, with summer prices likely to be well above \$100/cwt.

Upcoming holidays:

2018 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 September 1 slaughter was 2.455 million head, up 5.7% from a year ago. In the last two weeks hog slaughter is up 6.9% vs. year ago levels.

Iowa/Minnesota, Base Lean Market Hog 185 lbs. Carcass Values. Lean hog carcass values at about 40.13 /cwt. on Friday were up \$2.0/cwt since Wed. August 22. Prices are down 23.78 dollars compared to year ago values.

Loin, 1/4 Trimmed Loin VAC, FOB Plant, USDA (page 8). Prices finished last week at \$0.9730, up about 0.7 cents since the Wed. August 22 quote but down about 2 cent from year ago levels.

Bnls. Strap on Pork Loins. Prices finished the week at \$1.1465 for the strap on loins, up 3.3 cent since Wed. August 22 but down about 18 cent from the year ago levels. Strap off loins at \$1.3111 are up about 4.5 cent since Wed. August 22 but down about 19 cent compared to the year ago quote.

Boneless sirloins at \$0.9944 are up 4 cents from the Wed. August 22 quote but down about 9.1 cents from the year ago price.

Pork tenderloin finished last week at \$2.1490, up 14.5 cent from the Wed. August 22 quote but down about 30.2 cents from the year ago price.

1/4 Trim Pork Butts (page 10), prices finished the week at \$1.0571, up 3.0 cent since Wed. August 22. Prices are up 4 cents from a year ago.

Spare Ribs, Trimmed - LGT, Vac (page 8). Prices finished the week at \$1.2623, down about 3 cent since Wed. August 22 and down about 22 cents from year ago levels.

Rib inventories on July 31 were 83.7 million pounds, up 8.4% percent from a year ago.

Bone-in Hams.

17/20 hams (page 9) price was \$0.5634/lb., down 8 cents since Wed. August 22 and down about 18 cent from a year ago.

20/23 hams finished the week at 56.52 cents, down about 3 cents since Wed. August 22 and down about 17 cent from the year ago level.

23/27 hams finished the week at 52.27 , down about 3 cents from the Wed. August 22 quote and down about 20 cents from the year ago level.

Total ham cold storage stocks on July 31 at 166.4 million pounds were down 14.6% from year ago levels.

42 CL Pork Trim “FOB Basis”. Prices finished the week at 26.35 cent, down about 2.6 cent since Wed. August 22 and down about 8 cents from the year ago price.

72 CL Pork Trim “FOB Basis”. Prices finished the week at 43.78 cents, down about 0.2 cents since the Wed. August 22 quote and down about 12 cents from the year ago level.

Freezer stocks of all trimmings on July 31 were 39.7 million pounds, up 32.9% 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 82.57 on Friday, September 1, down about 7 cents from a year ago.

Broiler slaughter for the week ending September 1 was 166.54 million head, up 1.75% from a year ago. For the last two weeks slaughter was up 2.2% vs. a year ago.

Breasts. Prices on boneless skinless breasts finished the week at \$1.0303, down 11 cents since Wed. August 22 and still down about 41 cents from year ago levels.

Leg Quarters. This item continues to be driven by export demand. Last week leg quarter prices were down about 0.5 cents vs. two weeks ago and at 32.07 cents per pound prices were down 10 cents from a year ago.

Wings. Prices at \$1.4238 are down about 73 cents from year ago levels.

Turkeys

Hens finished last week at \$0.8900, unchanged since Wed. August 22 but down about 18 cents from the year ago price.

Toms finished last week at \$0.8900, unchanged since Wed. August 22 but down about 18 cent from the year ago price.

Total turkey supplies in the freezer on July 31 were down 1.1% from a year ago at 589.1 million pounds. Whole birds were down 4.9% from a year ago with an inventory of 329.3 million pounds.

Turkey slaughter was 4.2860 million head for the week ending August 25, up 0.02% from a

year ago. For the last two weeks slaughter has been down 1.8%.

Boneless Turkey Breast Meat. Boneless skinless turkey breast meat prices finished last week at \$1.9800, unchanged since Wed. August 22. Prices are up about 45 cents vs. year ago levels.

BEEF

<p>NOTE: WE ARE NOW REPORTING AND FORECASTING WEIGHTED AVERAGE BLUE SHEET PRICES FOR BEEF CUTS.</p>
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Choice 112A Heavy Bnls. Lip On Rib Eyes at \$7.6474 (weighted average quote) finished last week down about 3 cents since the Wed. August 22 quote but up about 116 cents vs. the year ago price.

Select 112A Heavy Lip On Rib Eyes at \$6.8984 (weighted average quote) finished last week up about 15 cents since the Wed. August 22 quote but up about 77 cents vs. the year ago price.

Currently Choice 112A Rib Eyes are \$0.7490 /lb. over Select. The 2017 annual average spread (wt. average price) had the Choice at a premium to the Select by \$0.1070 per pound and the previous five years (2013 thru 2017) average spread was Choice at a premium to the Select by \$0.0979 per pound.

Choice regular #168 insides finished last week quoted at \$2.0989 up about 2 cents since Wed. August 22 and up about 10 cents from the year ago price.

Choice ¼ inch trimmed #168 insides finished last week quoted at \$2.1118 down about 2 cents since Wed. August 22 and up about 11 cents from year ago levels.

Choice #170 Gooseneck Rounds finished last week at \$2.0025 up about 13 cents since Wed.

August 22 but down about 18 cents from the year ago levels.

Choice #180 (0x1) Bnls. Strip Loins finished last week quoted at \$5.6665 (wt. avg.) up about 7 cents from the Wed. August 22 quote. Prices are up 67 cents from year ago levels.

Choice #184 Regular Heavy top butts finished at \$2.9773 (wt. avg.) down about 4 cents since Wed. August 22 but up about 17 cents from year ago levels.

Choice #184 ¼ inch trimmed Top Butts finished at \$3.0124 (wt. avg.) down about 7 cents since Wed. August 22 but up about 21 cents from the year ago levels.

Choice #185A Flap Meat prices finished Friday at \$5.6742 (wt. avg.) up about one cents since Wed. August 22 and up about 168 cents from year ago values.

COARSE GROUND BEEF –

73CL Coarse Ground product finished last week at \$1.4956 down about 21 cents since Wed. August 22 and down about 21 cents from year ago levels.

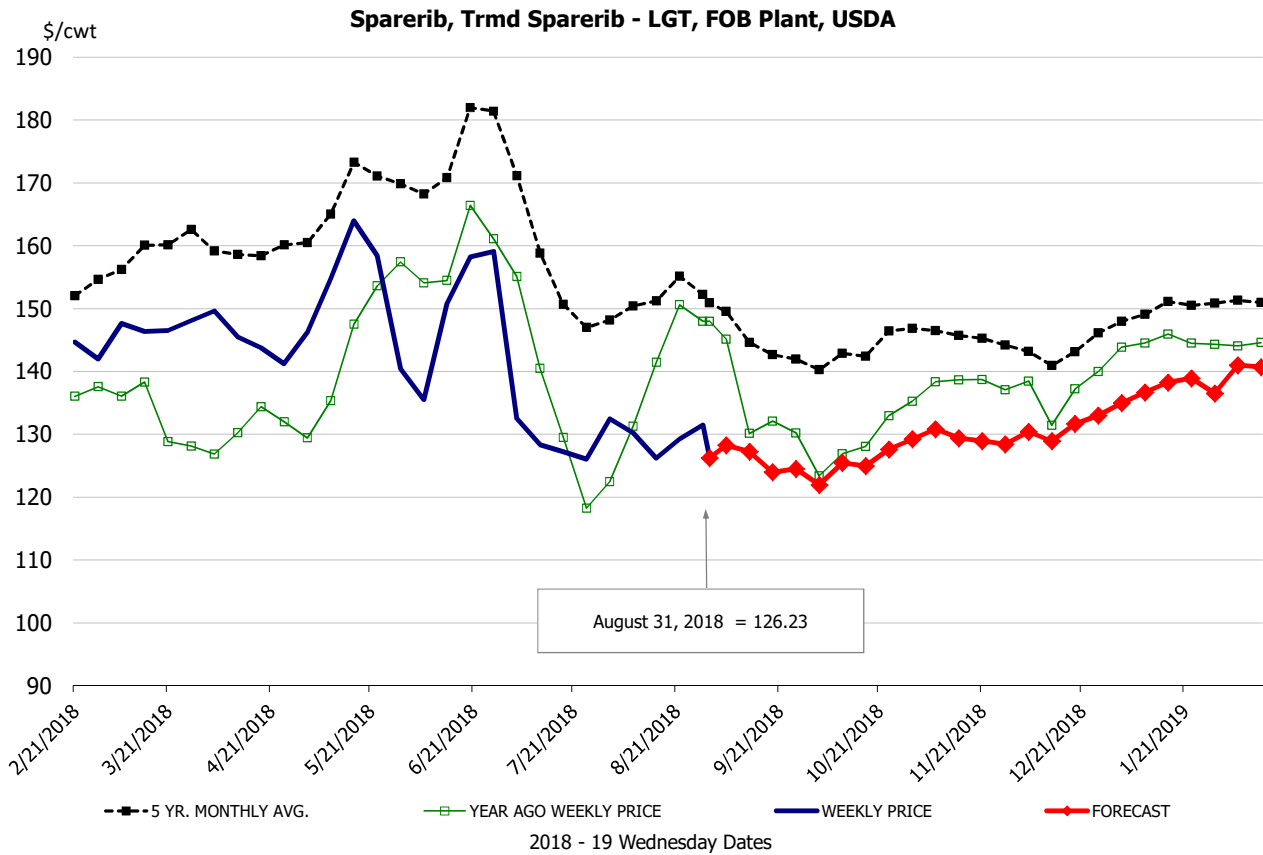
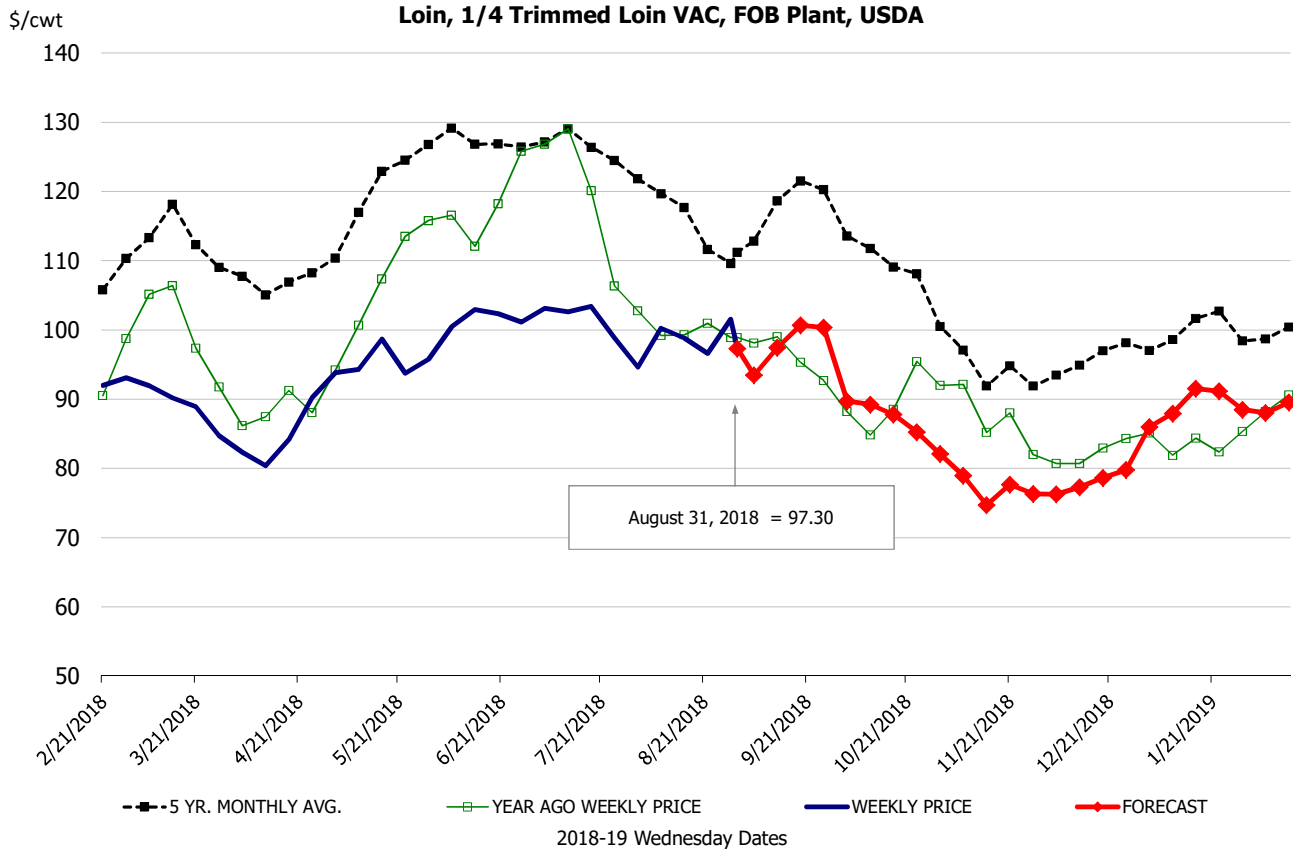
81CL Coarse Ground product finished last week at \$1.8462 down about 3 cent since Wed. August 22 and down about 3 cents from the year ago quote.

90CL Bnls. Beef prices finished the week at \$2.1379 (wt. avg.) up about 1.44 cent since Wed. August 22 but down 16 cents compared to the year ago price quote.

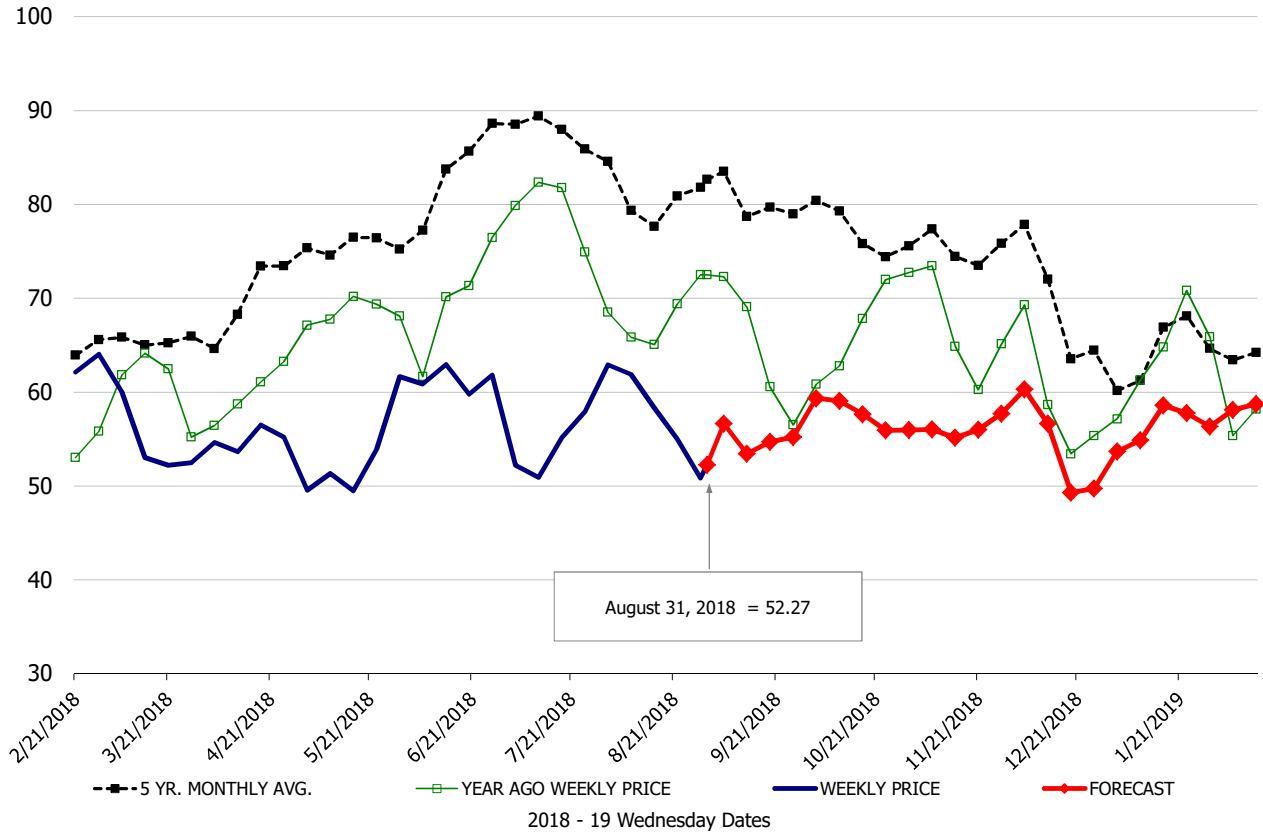
50 CL Beef Trim prices finished last week at \$0.7147, down about 19 cent since Wed. August 22 but up 19 cent compared to the year ago level.

Food Service Summary Table - WT. AVE

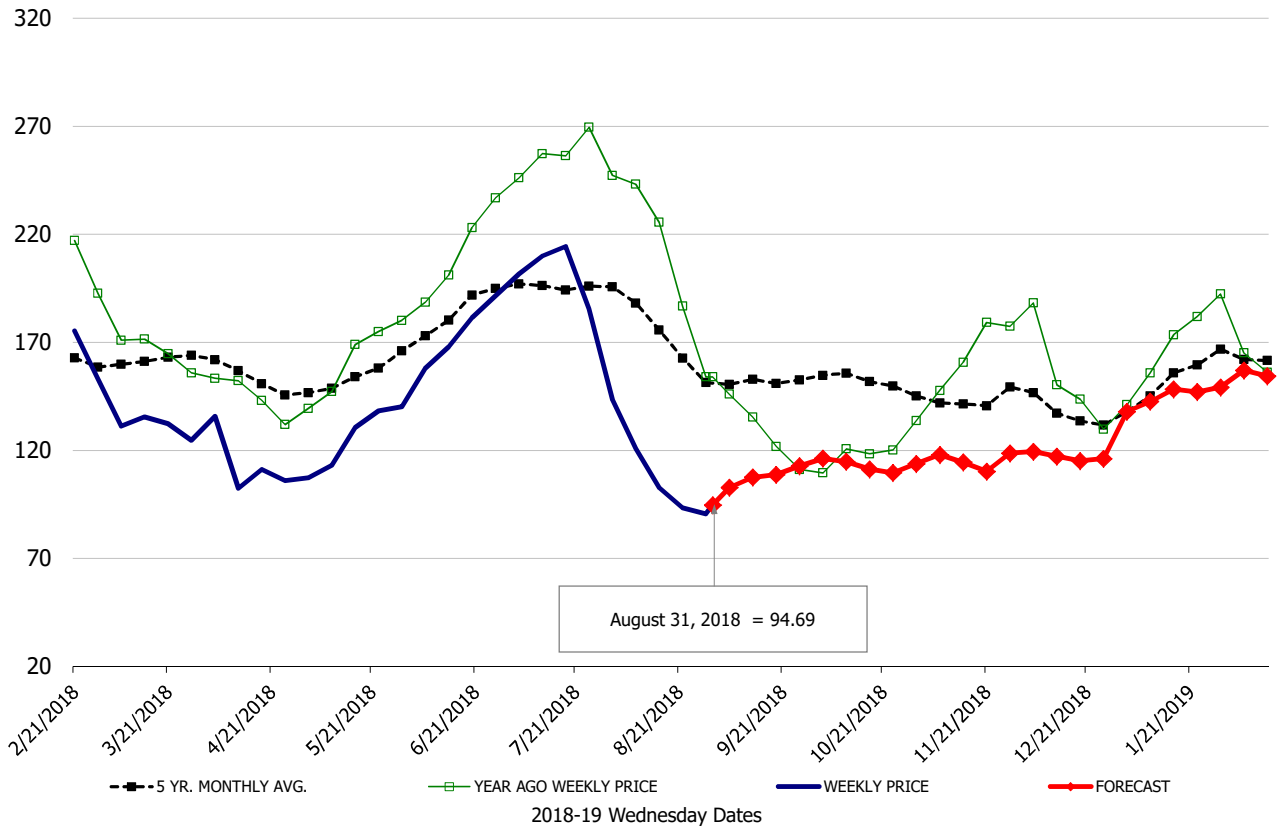
	HISTORY								FORECAST						
	Mar	Apr	May	Jun	Jul	Aug	8/22/2018	8/31/2018	9/12/2018	Sep	Oct	Nov	Dec	Jan	Feb
PORK															
Loin, 1/4 Trimmed Loin VAC, FOB Plant, USDA	0.89	0.83	0.96	1.01	0.98	0.98	0.97	0.97	0.97	0.98	0.88	0.78	0.78	0.89	0.89
Loin, 1/8 Trimmed Loin VAC, FOB Plant, USDA	0.96	0.90	1.01	1.06	1.04	1.03	1.02	1.04	1.07	1.05	0.92	0.81	0.81	0.96	0.97
Loin, Bnls CC Strap-off, FOB Plant, USDA	1.32	1.25	1.34	1.34	1.32	1.29	1.27	1.31	1.31	1.35	1.31	1.25	1.31	1.38	1.35
Loin, Tenderloin, FOB Plant, USDA	2.03	1.93	2.01	2.18	2.17	2.11	2.01	2.15	2.12	2.08	2.04	1.87	1.87	2.10	2.19
Butt, 1/4 Trim Butt Combo, FOB Plant, USDA	0.94	0.93	1.21	1.00	0.99	0.98	0.85	1.07	0.93	0.92	0.87	0.87	0.88	0.91	0.86
Sparerib, Trmd Sparerib - LGT, FOB Plant, USDA	1.47	1.44	1.49	1.47	1.29	1.27	1.29	1.26	1.27	1.26	1.25	1.30	1.31	1.37	1.41
Sparerib, St Louis Spareribs, POLY, FZN, FOB Plant, USDA	2.04	2.14	2.23	2.18	2.20	2.10	2.13	2.26	2.06	2.05	1.92	1.95	1.97	2.03	2.07
Sparerib, Trmd Sparerib - MED, FOB Plant, USDA	1.42	1.36	1.50	1.50	1.32	1.31	1.32	1.30	1.27	1.24	1.23	1.27	1.28	1.34	1.38
Loin, Backribs 2.0#/up, FOB Plant, USDA	2.20	2.24	2.37	2.43	2.36	2.27	2.28	2.21	2.11	2.09	2.00	1.95	1.97	1.94	2.04
Ham, 17-20# Trmd Selected Ham, FOB Plant, USDA	0.63	0.57	0.56	0.63	0.60	0.63	0.64	0.56	0.56	0.57	0.60	0.58	0.56	0.58	0.59
Ham, 20-23# Trmd Selected Ham, FOB Plant, USDA	0.60	0.58	0.55	0.65	0.56	0.61	0.60	0.57	0.56	0.56	0.59	0.57	0.55	0.57	0.58
Ham, 23-27# Trmd Selected Ham, FOB Plant, USDA	0.56	0.54	0.51	0.61	0.54	0.56	0.55	0.52	0.53	0.55	0.58	0.56	0.54	0.56	0.58
Belly Cutout, FOB Plant, USDA	1.06	0.91	1.01	1.41	1.60	0.88	0.76	0.79	0.88	0.88	0.92	0.95	0.95	1.17	1.28
Belly, Derind Belly 9-13#, FOB Plant, USDA	1.34	1.07	1.25	1.72	1.94	1.05	0.93	0.95	1.08	1.08	1.13	1.17	1.17	1.44	1.58
Belly, Derind Belly 13-17#, FOB Plant, USDA	1.25	1.10	1.21	1.70	1.89	1.05	0.95	1.01	1.05	1.07	1.12	1.16	1.16	1.43	1.57
Trim, 42% Trim Combo, FOB Plant, USDA	0.37	0.35	0.27	0.52	0.54	0.33	0.29	0.26	0.32	0.30	0.30	0.25	0.22	0.28	0.29
Trim, 72% Trim Combo, FOB Plant, USDA	0.63	0.58	0.63	0.78	0.63	0.49	0.44	0.44	0.49	0.50	0.53	0.50	0.48	0.52	0.58
HOG CARCASS															
IA/MN, Base Market Hog 185 lb Carcass Basis, Plant Div.	0.57	0.52	0.63	0.78	0.71	0.44	0.38	0.40	0.45	0.46	0.49	0.50	0.51	0.61	0.64
BROILERS															
BROILER, NATIONAL WHOLE BIRD PRICE, USDA	1.02	1.09	1.18	1.19	1.11	0.87	0.83	0.83	0.86	0.86	0.86	0.87	0.88	0.89	0.88
N.E. BROILER BREAST BONELESS-SKINLESS, USDA	1.31	1.36	1.27	1.19	1.28	1.14	1.14	1.03	1.01	1.00	0.91	0.92	0.92	0.98	1.05
N.E. BROILER BREAST LINE RUN, USDA	1.03	1.06	1.12	1.15	1.14	0.99	0.99	0.93	0.96	0.96	0.91	0.89	0.88	0.88	0.89
N.E. BROILER LEG QUARTERS, USDA	0.40	0.41	0.40	0.37	0.35	0.32	0.33	0.32	0.31	0.31	0.30	0.30	0.30	0.32	0.33
N.E. BROILER WINGS, USDA, WT.AVG.	1.52	1.44	1.39	1.38	1.40	1.40	1.43	1.42	1.55	1.55	1.61	1.53	1.55	1.66	1.66
TURKEYS															
UB HEN TURKEYS, EAST, FROZEN 10-12LBS	0.86	0.87	0.88	0.88	0.88	0.89	0.89	0.89	0.91	0.91	0.93	0.95	0.90	0.90	0.91
UB BONELESS-SKINLESS TURKEY BREAST, TOM, FRESH	1.58	1.76	1.84	1.88	1.92	1.97	1.98	1.98	2.05	2.05	2.15	2.20	2.10	1.99	1.99
LIVE STEERS															
FIVE AREA DIRECT AVERAGE LIVE STEER, USDA	1.26	1.19	1.18	1.11	1.11	1.11	1.10	1.07	1.09	1.09	1.12	1.17	1.16	1.18	1.18
BEEF															
CHOICE, 112A, 3 RIBEYE, BONELESS, HEAVY, USDA	8.07	7.59	8.55	8.01	6.87	7.42	7.68	7.65	7.86	7.84	8.05	8.80	7.80	6.45	6.60
CHOICE, 168, 3 TOP INSIDE ROUND, 1/4" MAX, USDA	2.23	2.17	2.33	2.06	2.05	2.09	2.13	2.11	2.13	2.12	2.16	2.15	2.14	2.25	2.22
CHOICE, 170, 1 BOTTOM GOOSENECK ROUND, USDA	1.91	1.87	1.97	1.88	1.91	1.87	1.87	2.00	2.05	2.06	2.14	2.07	2.06	2.20	2.13
CHOICE, 180, 3 STRIP LOIN, BONELESS, 0x1, USDA	6.60	6.48	8.26	7.91	6.34	5.36	5.60	5.67	5.40	5.40	5.37	5.30	5.43	5.62	5.48
CHOICE, 184, 3 TOP BUTT, BONELESS, USDA	3.40	3.33	3.63	3.64	3.47	3.11	3.09	3.01	2.97	3.05	2.97	2.91	2.95	3.07	3.18
CHOICE, 185A, 4 BOTTOM SIRLOIN, FLAP, USDA	5.75	5.64	5.75	5.33	4.76	5.56	5.67	5.67	5.11	5.05	4.60	4.59	4.72	4.82	4.76
COARSE GROUND 73%, USDA	1.55	1.52	1.59	1.38	1.35	1.62	1.71	1.50	1.49	1.46	1.44	1.38	1.36	1.69	1.46
COARSE GROUND 81%, USDA	1.86	1.76	1.88	1.64	1.57	1.84	1.87	1.85	1.88	1.82	1.73	1.69	1.66	2.02	1.78
90% BONELESS BEEF, CENTRAL, FRESH, USDA	2.17	2.17	2.20	2.21	2.18	2.11	2.12	2.14	2.13	2.10	2.09	2.08	2.07	2.08	2.13
50CL BEEF TRIM, FRESH, NATIONAL, USDA	0.84	0.93	0.85	0.68	0.69	0.80	0.90	0.71	0.65	0.63	0.66	0.72	0.61	0.76	0.72



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

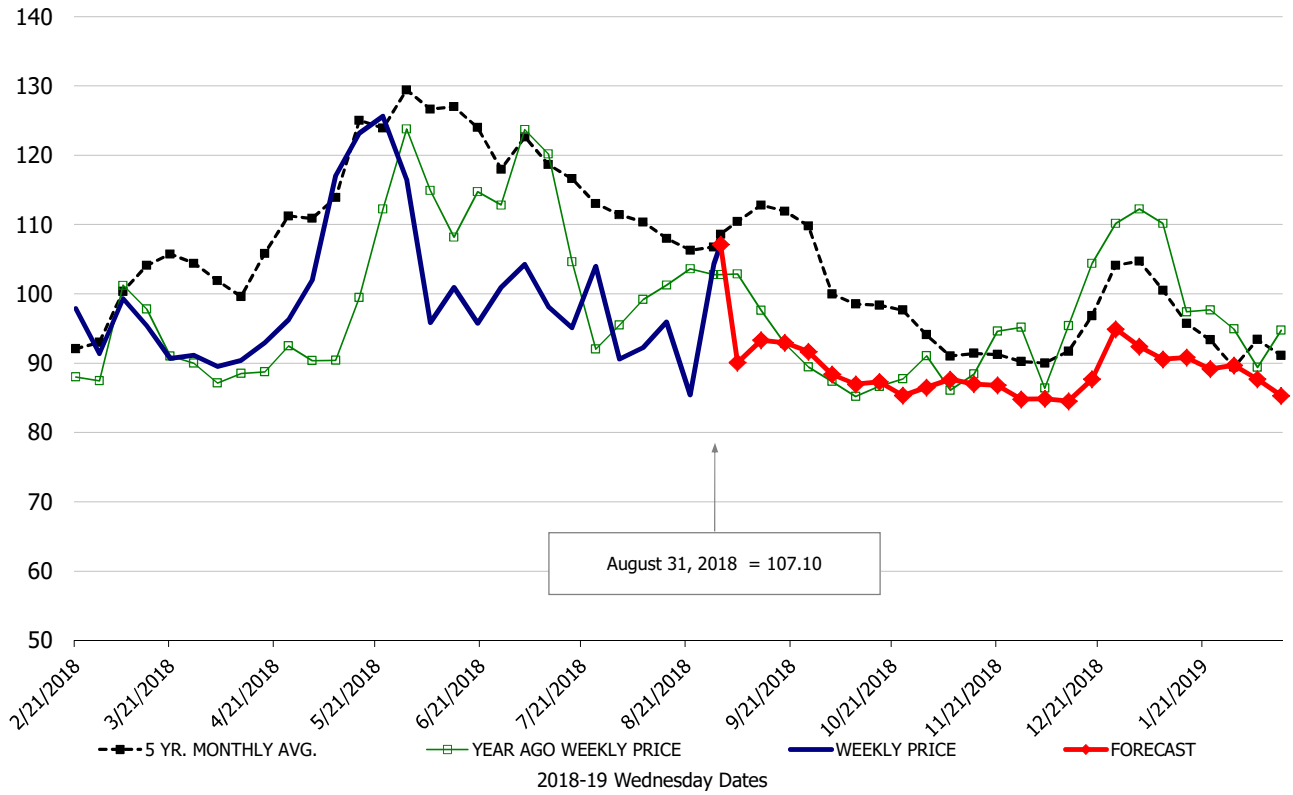


Belly, Derind Belly 9-13#, FOB Plant, USDA



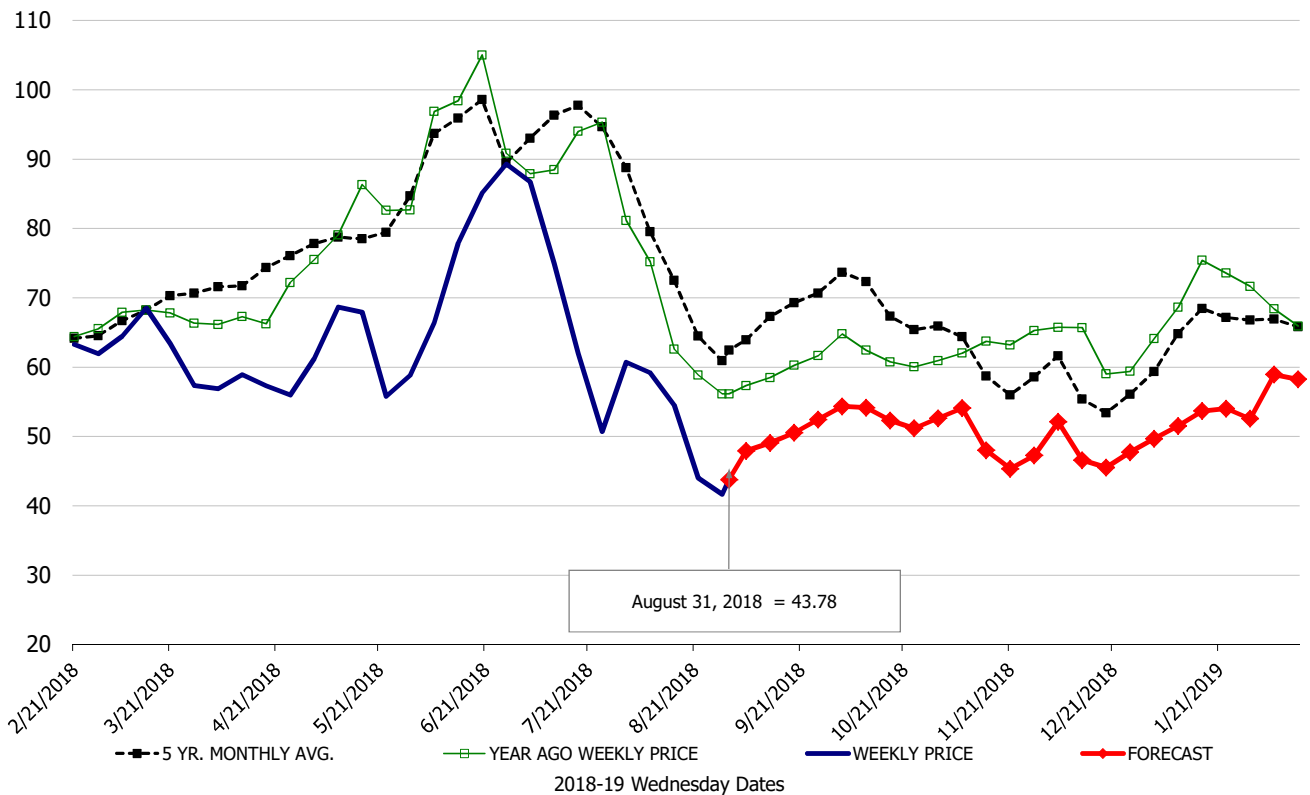
\$/cwt

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



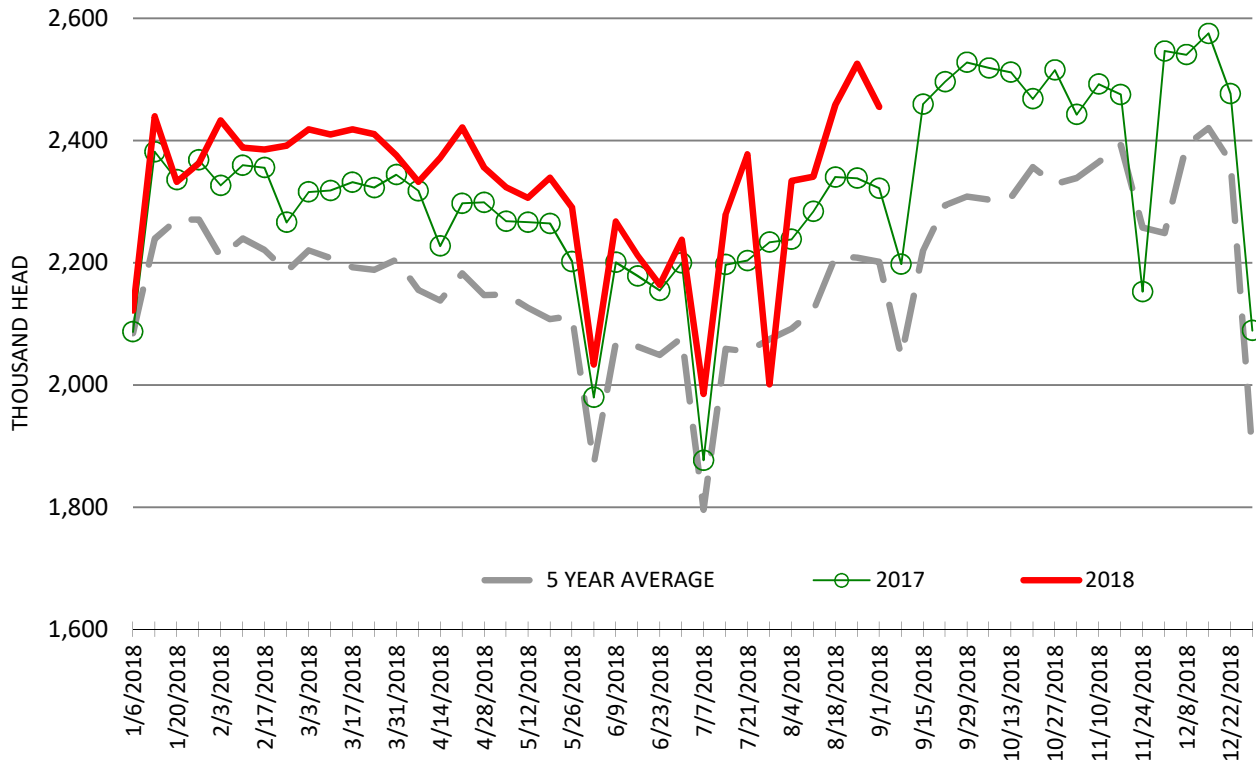
\$/cwt

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

