Pork Merchandiser's **Profit Maximizer**

- Retail Edition -

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

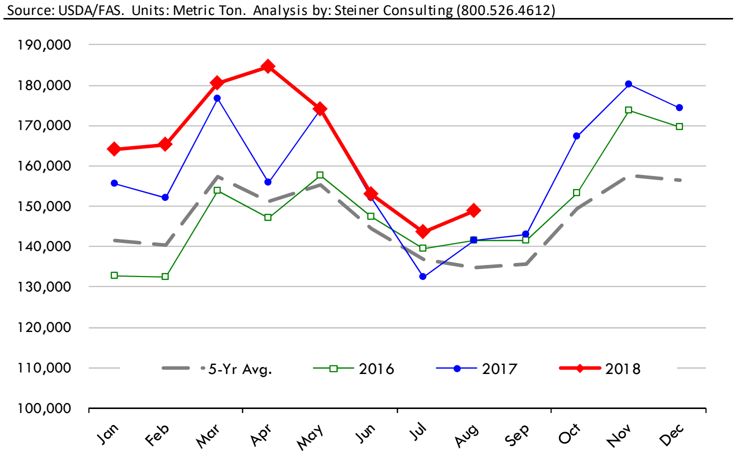
October 15, 2018

Pork exports improve modestly in August but more robust growth is needed in Q4

Pork exports were higher in August but the rate of growth was disappointing considering that August production was the highest on record. Exports to Japan have recovered in the last three months. Shipments in August were 33,646 MT, 8.8% higher than a year ago. For the year exports to Japan are now 1.1% higher than a year ago on a volume basis. The value of US exports to Japan through August was $1.071 billion, 1.8% higher than a year ago. Exports to Mexico in August were 51,827 MT, 3.8% lower than a year ago but the highest export volume since April. Lower prices were needed to maintain the export pace

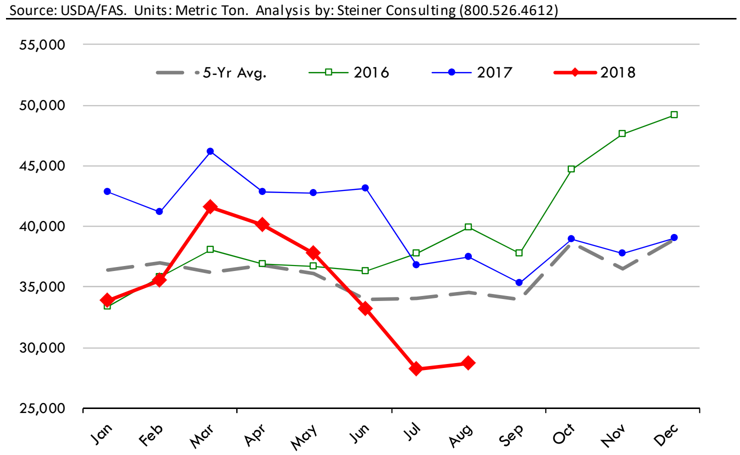
Quantity of US Exports of Fr/Frz/Cooked Pork: World Total

Source: USDA/FAS. Units: Metric Ton. Analysis by: Steiner Consulting (800.526.4612)



Quantity of US Exports of Pork Variety Meat: World Total

Source: USDA/FAS. Units: Metric Ton. Analysis by: Steiner Consulting (800.526.4612)



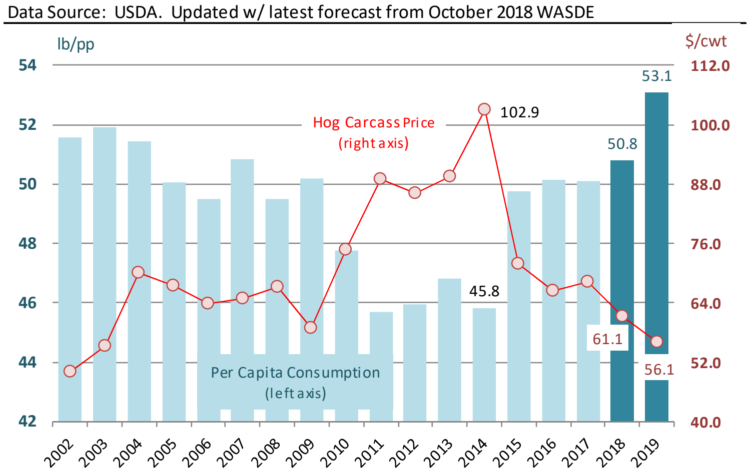
to this market, however, as US packers had to discount product in order to offset the tariff impact. The value of US exports to Mexico in August was $86.7 million, 22% lower than a year ago. Exports to Korea have been very strong all year and in August they were recorded at 9,674 MT, 27.8% higher than a year ago. Year to date exports to South Korea are up 43,525 MT or 41% compared to year ago levels. The increase in South Korean pork exports has accounted for almost 60% of the overall US pork export increase this year. China was an important market for US pork in 2017 but shipments have slowed down significantly following two rounds of higher tariffs. Exports to China in August were 4,987 MT, 22% lower than a year ago and 65% less than what we shipped to China in April. Exports to Hong Kong have also declined sharply, down 65% compared to year ago levels. The tariffs have had an even more significant impact on US variety meats since China and Hong Kong were the top markets for US pork variety products. Total US exports of pork variety meats in August were 28,683 MT, 24% lower than a year ago. Exports to China were just 3,826 MT, down 65% compared to a year ago. Exports of pork variety meats to Hong Kong were 7,428 MT, 35% lower than last year. The value of pork variety meats has declined by even more as packers look to sell product into other markets at a lower price. The total value of pork variety meat sales in August was $44.9 million, down $23.5 million or 34% compared to a year ago.

2. USDA forecasts for production and per capita consumption in 2019

Recent production trends caused USDA to revise

Per Capita Pork Consumption vs. Barrow/Gilt Prices, National Net Price

Data Source: USDA. Updated w/ latest forecast from October 2018 WASDE



its 2018 production by 250 million pounds and per capita consumption at 50.8 pounds per person was 0.7 pounds lower than earlier forecast. Back in May per capita pork consumption for 2018 was forecast at 51.9 pounds. Pork production next year is forecast up 5.2% and per capita consumption up 4.5%. Futures currently hold a significant premium for next year. The midpoint USDA hog price for next year is around $56/cwt (dressed wt equiv) compared to $71.5 futures are currently trading. Clearly the market thinks production may not be as big as USDA thinks and ASF should bolster trade. How many pounds do we need to export to bring per capita consumption to 50 pp: 7.5 billion or 20% more than current USDA forecast (this assumes we do produce 2.8B).

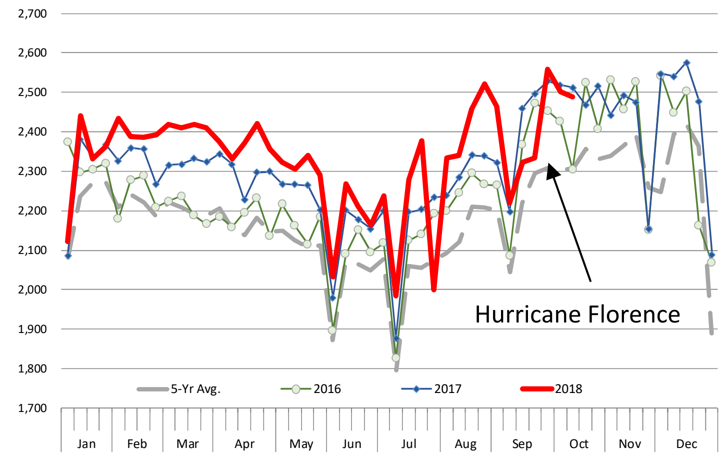
3. Hog slaughter remains well below levels implied by Sep. 'Hogs and Pigs' survey.

Hog slaughter numbers so far are lower than previously expected. Take the slaughter numbers from last week. Initially USDA pegged hog slaughter for Tuesday at 473,000 head, which would be a full slaughter run given current capacity. However, that number was revised lower by about 22,000 head as an accident caused a major plant to shut down for a good part of the day. The slaughter that was lost on Tuesday was not made up on Saturday, however, in large part because packers in other parts of the country so far have not been incentivized enough to increase the number of Saturday shifts. Saturday slaughter was 181,000 head, down 22.8% compared to a year ago. Total hog slaughter for the week was 2.489 million head, 0.9% lower than a year ago. For the period Aug 27 - October 13 total hog slaughter was 16,891 head, down 0.4% lower than the same period a year ago. The year over year decline represents a very stark difference from the USDA 'Hogs and Pigs' report that suggested slaughter during this period should have been about 3.5% higher than last. The decline in slaughter and shortfall in pork production has helped bolster cutout values, which are currently close to $80/cwt. Additionally, producers in the Midwest appear to be relatively current, as evidenced by hog weights that have increased only modestly and in line with normal seasonal patterns.

In the short term, current hog supplies in the Midwest and robust pork prices have allowed packers to pay up in order to secure hogs. The meat margin, the spread between the cutout and cash hog prices, is currently about $11/cwt, not terrible but also quite a bit lower than analysts and packers were likely expecting. By product values have come under some pressure given weak exports. But by-product prices have also benefited from the lower slaughter and current drop credit is estimated by LMIC at $17.25/head, down only 80 cents compared to a year ago. One challenge

WEEKLY HOG SLAUGHTER. '000 HEAD

Source: USDA



here is that the erosion in export markets often causes packers to get substantially less than the calculated drop credit. Our guess is that industry wide drop credit value is probably less than the calculated $17.25/head. December futures have sold off recently in part we think because of fears hogs may eventually be backed up and higher supplies will come to market in November and early December. For now pent up demand and lower than expected production has contributed to the dramatic 53% recovery in cash hog values. One can argue that prices have recovered from an artificially low level in August. In the short term, the focus will remain on slaughter and weights. Going forward, market will maintain a price premium for 2019 despite higher supplies due to supply risks from African Swine Fever.

Upcoming holidays:

2018 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 October 13 hog slaughter was 2.489 million head, down 0.9% from a year ago. In the last two weeks hog slaughter is down 0.8% vs. year ago levels.

Iowa/Minnesota, Base Negotiated Purchase for Barrows and Gilts. Lean hog carcass values at about 62.98 /cwt. on Friday were down $0.4/cwt since Wed. October 3. Prices are up about 6.88 $/cwt compared to year ago values.

Loin, 1/4 Trimmed Loin VAC, FOB Plant, USDA (page 8). Prices finished last week at $0.9021, down about 8.7 cent since the Wed. October 3 quote but up about 5 cents from year ago levels.

Bnls. Strap on Pork Loins. Prices finished the week at $1.5532 for the strap on loins, up 0.4 cent since Wed. October 3 and up 37 cent from the year ago levels. Strap off loins at $1.5331 are down 2.6 cent since Wed. October 3 but up about 13 cent compared to the year ago quote.

Boneless sirloins at $0.9230 are down about 8 cents from the Wed. October 3 quote and down about 23.6 cents from the year ago price.

Pork tenderloin finished last week at $1.8815, down 4.5 cent since the Wed. October 3 quote and down about 34.1 cents from the year ago price.

1/4 Trim Pork Butts (page 10), prices finished the week at $1.0564, down 12.9 cents since Wed. October 3. Prices are up 11 cent from a year ago.

Spare Ribs, Trimmed - LGT, Vac (page 8). Prices finished the week at $1.3292, up about 3 cent since Wed. October 3 and up about 6 cents from year ago levels.

Rib inventories on August 31 were 77.8 million pounds, up 4.7% percent from a year ago.

Bone-in Hams.

17/20 hams (page 9) price was $0.6600/lb., down 0.5 cents since Wed. October 3 and down about 0.5 cents from a year ago.

20/23 hams finished the week at 58.09 cents, down about 10 cents since Wed. October 3 and down about 8 cents from the year ago level.

23/27 hams finished the week at 48.96 , down about 16.5 cent from the Wed. October 3 quote and down about 14 cents from the year ago level.

Total ham cold storage stocks on August 31 at 204.8 million pounds were up slightly from year ago levels.

42 CL Pork Trim "FOB Basis". Prices finished the week at 34.86 cents, down about 12.7 cent since Wed. October 3 but up about 9 cents from the year ago price.

72 CL Pork Trim "FOB Basis". Prices finished the week at 62.80 cents, up 1.63 cents since the Wed. October 3 quote and up about 0.7 cents from the year ago level.

Freezer stocks of all trimmings on August 31 were 42.3 million pounds, up 21.4% 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 83.32 on Friday, October 13, down about 1 cents from a year ago.

Broiler slaughter for the week ending October 13 was 167.49 million head, up 0.99% from a year ago. For the last two weeks broiler slaughter was up 1.3% vs. a year ago.

Breasts. Prices on boneless skinless breasts finished the week at $0.9171, up 2 cents since Wed. October 3 but still down about 21 cents from year ago levels.

Leg Quarters. This market continues to be export driven. Last week leg quarter prices were down about 1.2 cents vs. two weeks ago and at 29.35 cents per pound prices were down 11 cent from a year ago.

Wings. Prices at $1.5563 are down about 51 cents from year ago levels.

Turkeys

Hens finished last week at $0.9000, up cent since Wed. October 3 but down about 17 cents from the year ago price.

Toms finished last week at $0.8900, up since Wed. October 3 but down about 18 cent from the year ago price.

Total turkey supplies in the freezer on August 31 were up 1.4% from a year ago at 608.6 million pounds. Whole birds were up 0.0% from a year ago with an inventory of 348.7 million pounds.

Turkey slaughter was 4.3010 million head for the week ending October 6, up 8.31% from a year ago. For the last two weeks slaughter has been up 6.0%.

Boneless Turkey Breast Meat. Boneless skinless turkey breast meat prices finished last week at $2.1100, unchanged since Wed. October 3. Prices are up about 56 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 $1.9246 for 90CL and $0.4776 for 50CL product, an 81CL meat block value is now $1.5990 and a 78CL meat block is $1.4905. Choice 114, 3 Clods are now being priced 46.92 cents over 81CL meat block grinding values of 90s and 50s. A year ago the spread was 24.93 cents and the five year average spread for is 26.36 cents over.

Select #115 chucks also are no longer being quoted.

Choice #161 Boneless Rounds finished last week at $2.0800, down slightly since Wed. October 3 and down about 17 cents from year ago levels.

Choice #184 Regular Heavy top butts finished at $2.6707 (wt. avg.) up about 4 cents since Wed. October 3 and up about 30 cent from year ago levels.

Choice #184 ¼ inch trimmed Top Butts finished at $2.7009 (wt. avg.) up about 4 cents since Wed. October 3 and up about 12 cents from the year ago levels.

COARSE GROUND BEEF –

73CL Coarse Ground product finished last week at $1.3428 down about 2 cents since Wed.

October 3 and down about 0.4 cents from year ago levels.

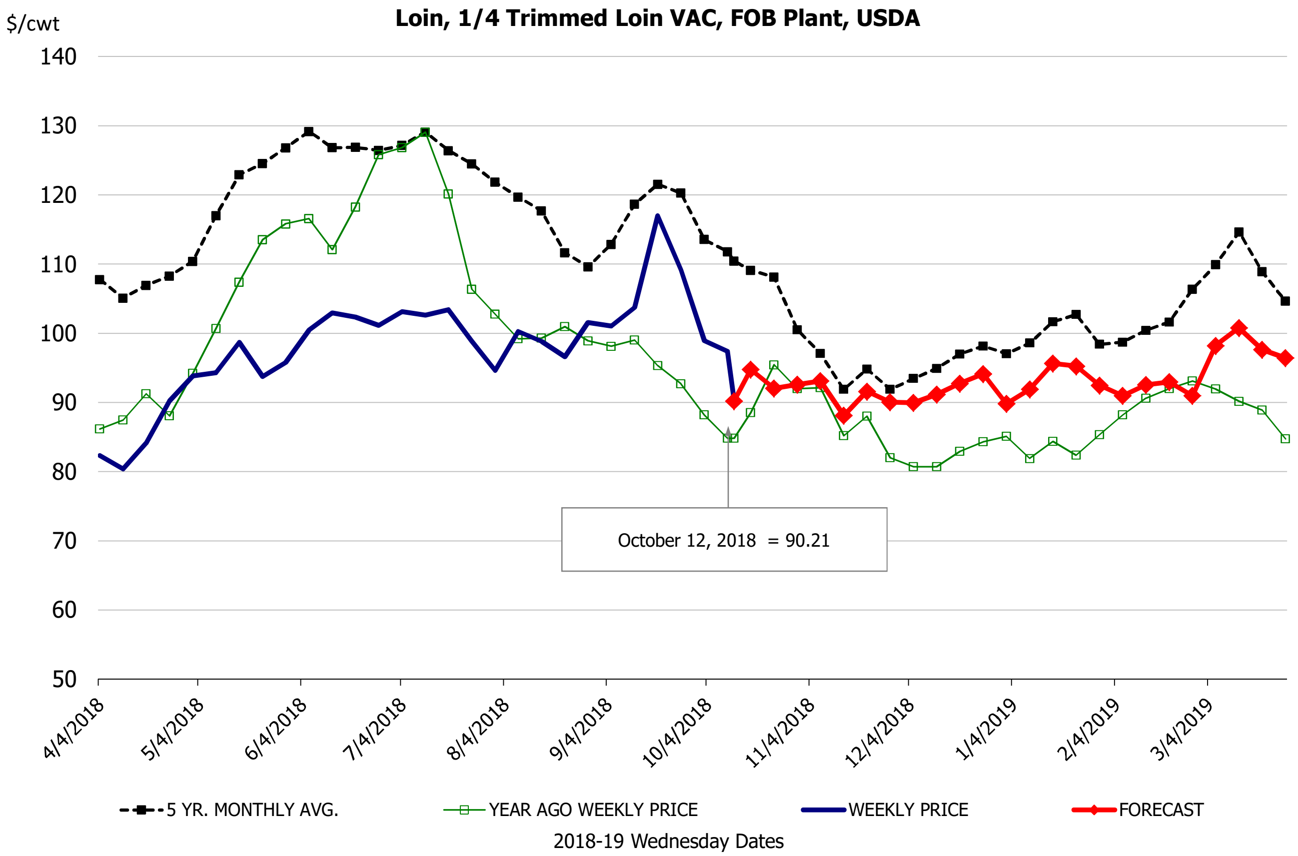
<u>81CL Coarse Ground</u> product finished last week at $1.5385 up about 2 cent since Wed. October 3 but down about 8.5 cents from the year ago quote.

<u>90CL Bnls. Beef</u> prices finished the week at $1.9246 (wt. avg.) down 0.79 cent since Wed. October 3 and down 22.5 cents compared to the year ago price quote.

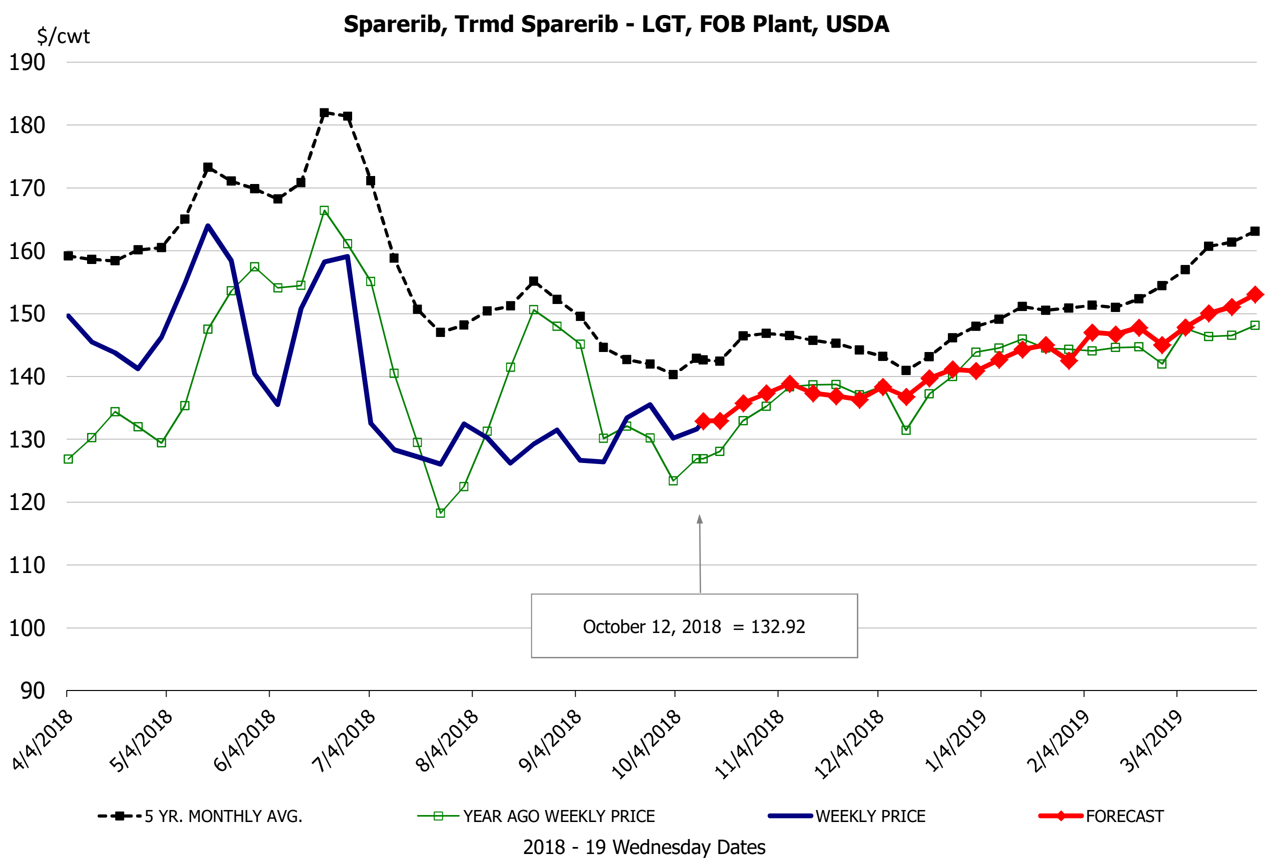
<u>50 CL Beef Trim</u> prices finished last week at $0.4776, up about 5 cent since Wed. October 3 but down one cents compared to the year ago level.

Retail Summary Table - WT. AVE.

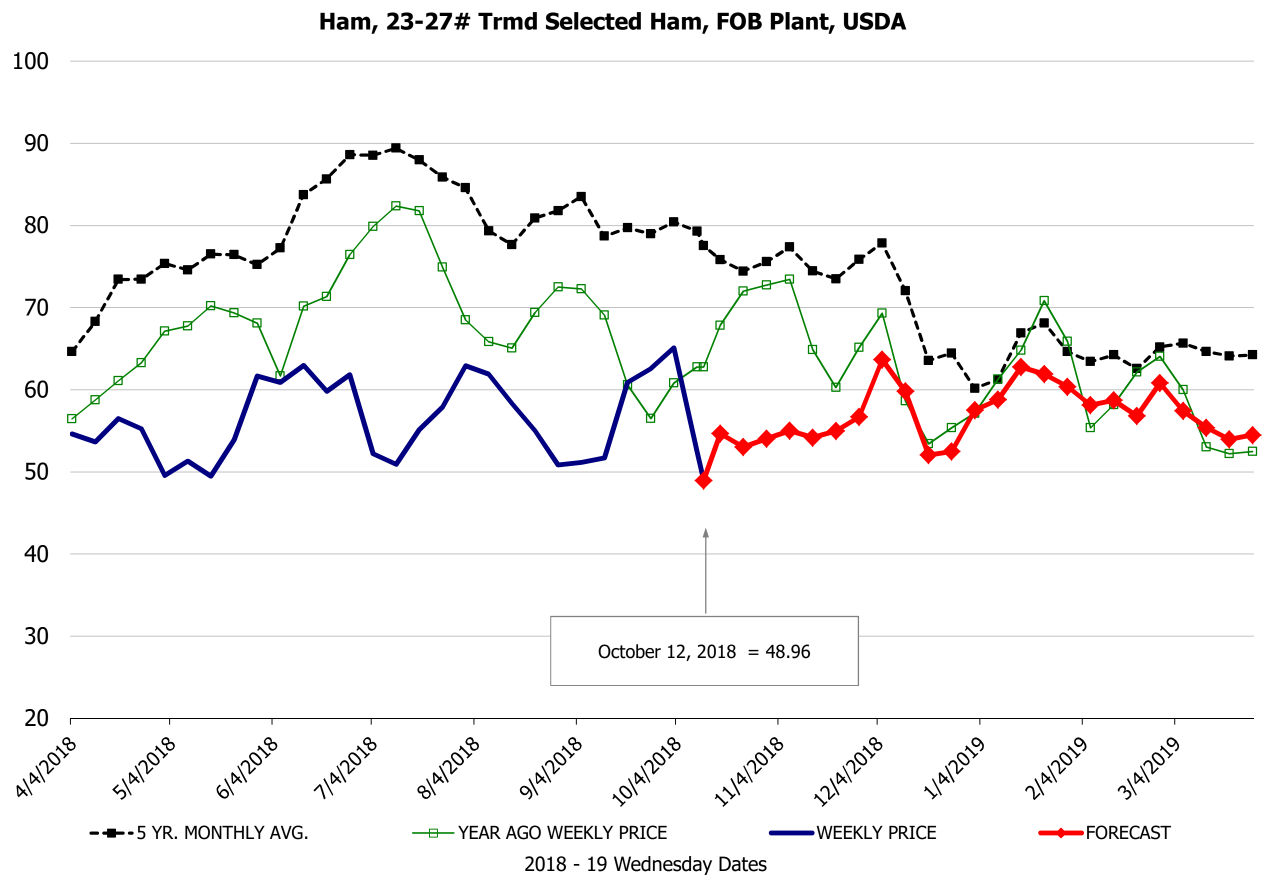
	HISTORY								FORECAST						
	Apr	May	Jun	Jul	Aug	Sep	10/3/2018	10/12/2018	10/24/2018	Oct	Nov	Dec	Jan	Feb	Mar
PORK															
Loin, 1/4 Trimmed Loin VAC, FOB Plant, USDA	83.04	95.89	101.46	97.82	98.08	105.48	98.91	90.21	92	95	92	92	93	92	98
Loin, 1/8 Trimmed Loin VAC, FOB Plant, USDA	90.13	101.48	106.28	103.98	102.61	107.05	99.36	100.62	95	102	95	94	100	100	106
Loin, Bnls CC Strap-off, FOB Plant, USDA	125.13	133.77	134.19	132.33	128.86	140.49	155.95	153.31	146	152	145	154	152	148	148
Butt, 1/4 Trim Butt Combo, FOB Plant, USDA	92.84	121.41	100.04	98.78	98.66	107.14	109.64	96.46	95	97	97	96	103	104	109
Sparerib, Trmd Sparerib - LGT, FOB Plant, USDA	143.93	149.10	146.90	129.18	127.32	129.92	130.17	132.92	136	133	138	139	143	147	150
Sparerib, Trmd Sparerib - MED, FOB Plant, USDA	135.92	149.99	149.97	132.07	130.63	132.54	135.10	137.25	137	137	137	136	140	144	147
Ham, 17-20# Trmd Selected Ham, FOB Plant, USDA	57.04	56.24	63.48	59.96	60.80	57.79	66.38	66.00	66	66	67	62	62	62	62
Ham, 20-23# Trmd Selected Ham, FOB Plant, USDA	57.92	54.69	65.46	56.49	60.97	57.07	68.20	58.09	60	62	63	61	61	61	60
Ham, 23-27# Trmd Selected Ham, FOB Plant, USDA	54.48	50.79	61.42	53.62	56.07	53.62	65.09	48.96	53	55	55	57	60	58	56
Belly Cutout, FOB Plant, USDA	90.95	101.20	141.23	159.71	87.81	103.04	123.02	141.38	137	141	132	132	123	134	132
Belly, Derind Belly 9-13#, FOB Plant, USDA	106.51	124.74	171.90	194.29	104.36	124.82	152.32	174.16	169	174	162	163	164	165	162
Belly, Derind Belly 13-17#, FOB Plant, USDA	109.92	121.20	169.63	188.95	104.43	119.15	149.12	172.11	167	173	161	162	163	164	161
Trim, 42% Trim Combo, FOB Plant, USDA	34.69	26.67	51.54	54.13	33.15	43.10	47.60	34.86	33	35	31	26	32	33	39
Trim, 72% Trim Combo, FOB Plant, USDA	57.61	62.58	77.94	62.90	48.76	54.16	61.23	62.80	58	60	56	52	56	62	64
Trim, Picnic Meat Combo Cushion Out, FOB Plant, USDA	65.64	72.77	84.03	74.98	60.73	66.22	84.74	85.37	83	85	81	78	73	70	73
Carcass Cutout, FOB Plant, USDA	68.11	73.55	82.85	81.74	68.59	74.35	80.37	80.04	76	79	76	74	77	77	80
HOG CARCASS															
IA/MN, Base Market Hog 185 lb Carcass Basis, Plant Dlv.	52.35	63.33	78.48	70.98	43.32	51.15	63.41	62.98	57	60	54	54	64	66	69
BROILERS															
N.E. BROILER BREAST BONELESS-SKINLESS, USDA	135.81	126.53	118.94	127.90	113.51	96.30	90.08	91.71	87	91	91	91	96	105	118
N.E. BROILER BREAST LINE RUN, USDA	105.95	112.15	115.20	114.00	99.09	94.20	90.63	92.40	90	92	90	89	88	89	94
N.E. BROILER LEG QUARTERS, USDA	41.03	40.16	36.81	34.65	31.96	30.95	30.57	29.35	29	30	30	31	32	33	35
TURKEYS															
UB HEN TURKEYS, EAST, FROZEN 10-12LBS	86.50	88.00	88.00	88.00	89.00	89.00	89.00	90.00	90	90	92	89	89	89	93
UB TOM TURKEYS, EAST, FROZEN 16-22LBS	86.50	88.00	88.50	89.00	89.00	89.00	89.00	89.00	90	90	92	89	89	89	93
LIVE STEERS															
FIVE AREA DIRECT AVERAGE LIVE STEER, USDA	119.41	118.42	111.25	110.57	110.78	108.97	110.63	110.83	115	112	117	117	119	121	124
BEEF															
CHOICE, 161, 1 ROUND, BONELESS, USDA	212.01	219.86	207.95	208.19	215.26	213.54	208.45	208.00	214	212	228	225	235	228	232
CHOICE, 168, 3 TOP INSIDE ROUND, 1/4" MAX, USDA	217.21	232.51	205.83	204.79	209.43	198.50	207.91	212.60	221	214	213	212	223	220	233
CHOICE, 170, 1 BOTTOM GOOSENECK ROUND, USDA	186.65	197.32	187.78	191.23	186.69	193.33	208.60	210.73	216	214	207	206	218	211	203
CHOICE, 184, 3 TOP BUTT, BONELESS, USDA	332.58	363.43	364.50	346.97	310.82	283.12	266.44	270.09	275	275	281	295	305	316	368
CHOICE, 185A, 4 BOTTOM SIRLOIN, FLAP, USDA	564.09	575.36	532.85	476.09	557.07	587.48	506.52	440.10	461	460	475	469	480	474	532
COARSE GROUND 73%, USDA	151.67	159.47	138.24	135.40	161.08	149.14	136.61	134.28	144	139	138	136	169	146	155
COARSE GROUND 81%, USDA	176.47	187.98	164.23	157.34	184.10	167.45	151.66	153.85	167	160	169	166	202	178	181
90% BONELESS BEEF, CENTRAL, FRESH, USDA	217.45	219.51	220.71	218.02	210.72	201.09	193.25	192.46	192	193	195	197	208	213	221
50CL BEEF TRIM, FRESH, NATIONAL, USDA	93.37	85.49	67.99	69.16	80.25	53.43	42.56	47.76	54	48	58	56	71	72	92



Loin, 1/4 Trimmed Loin VAC, FOB Plant, USDA
$/cwt
140
130
120
110
100
90
80
70
60
50
October 12, 2018 = 90.21
4/4/2018
5/4/2018
6/4/2018
7/4/2018
8/4/2018
9/4/2018
10/4/2018
11/4/2018
12/4/2018
1/4/2019
2/4/2019
3/4/2019
5 YR. MONTHLY AVG.
YEAR AGO WEEKLY PRICE
WEEKLY PRICE
FORECAST
2018-19 Wednesday Dates



Sparerib, Trmd Sparerib - LGT, FOB Plant, USDA
$/cwt
190
180
170
160
150
140
130
120
110
100
90
October 12, 2018 = 132.92
4/4/2018
5/4/2018
6/4/2018
7/4/2018
8/4/2018
9/4/2018
10/4/2018
11/4/2018
12/4/2018
1/4/2019
2/4/2019
3/4/2019
5 YR. MONTHLY AVG.
YEAR AGO WEEKLY PRICE
WEEKLY PRICE
FORECAST
2018 - 19 Wednesday Dates


Ham, 23-27# Trmd Selected Ham, FOB Plant, USDA
100
90
80
70
60
50
40
30
20
October 12, 2018 = 48.96
4/4/2018
5/4/2018
6/4/2018
7/4/2018
8/4/2018
9/4/2018
10/4/2018
11/4/2018
12/4/2018
1/4/2019
2/4/2019
3/4/2019
5 YR. MONTHLY AVG.
YEAR AGO WEEKLY PRICE
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FORECAST
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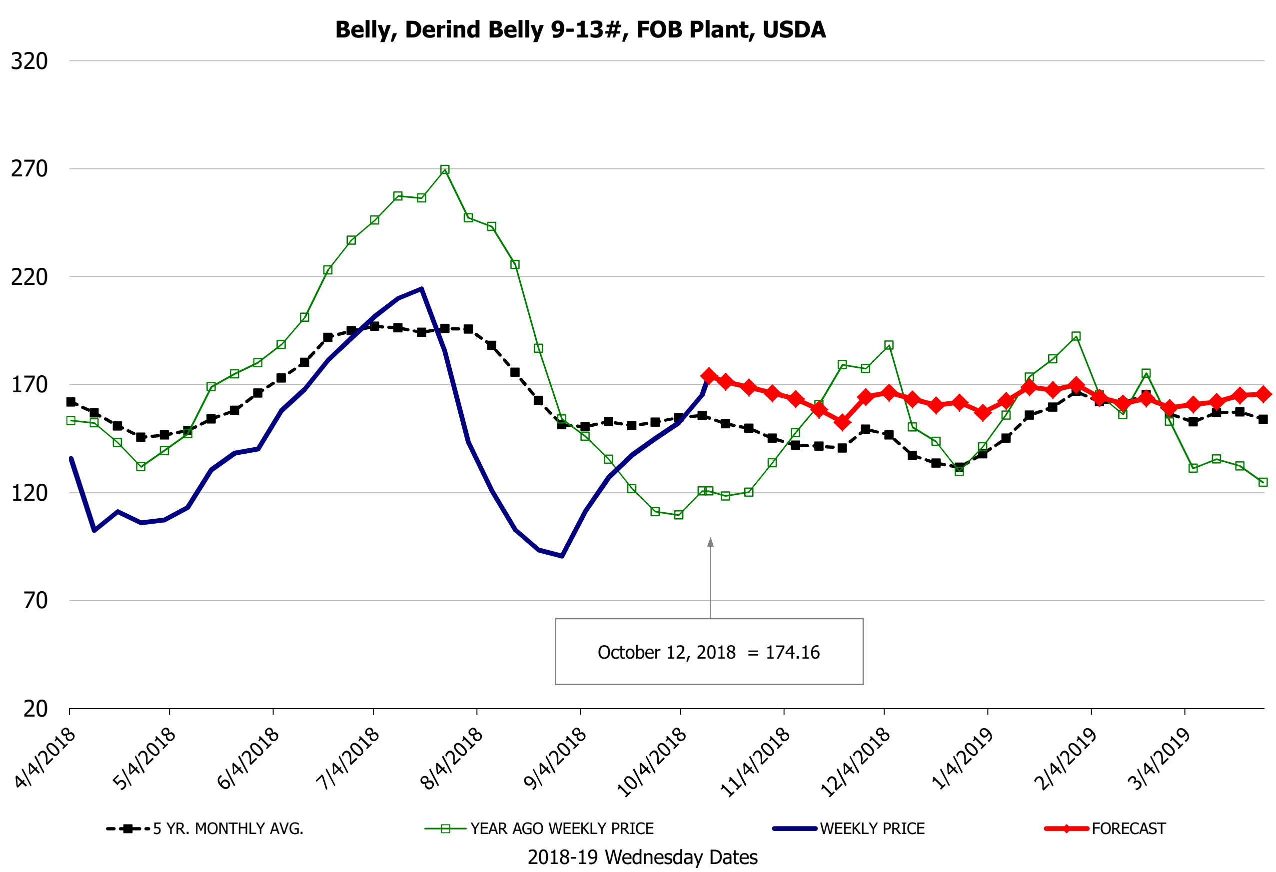
Belly, Derind Belly 9-13#, FOB Plant, USDA
320
270
220
170
120
70
20
October 12, 2018 = 174.16
4/4/2018
5/4/2018
6/4/2018
7/4/2018
8/4/2018
9/4/2018
10/4/2018
11/4/2018
12/4/2018
1/4/2019
2/4/2019
3/4/2019
5 YR. MONTHLY AVG.
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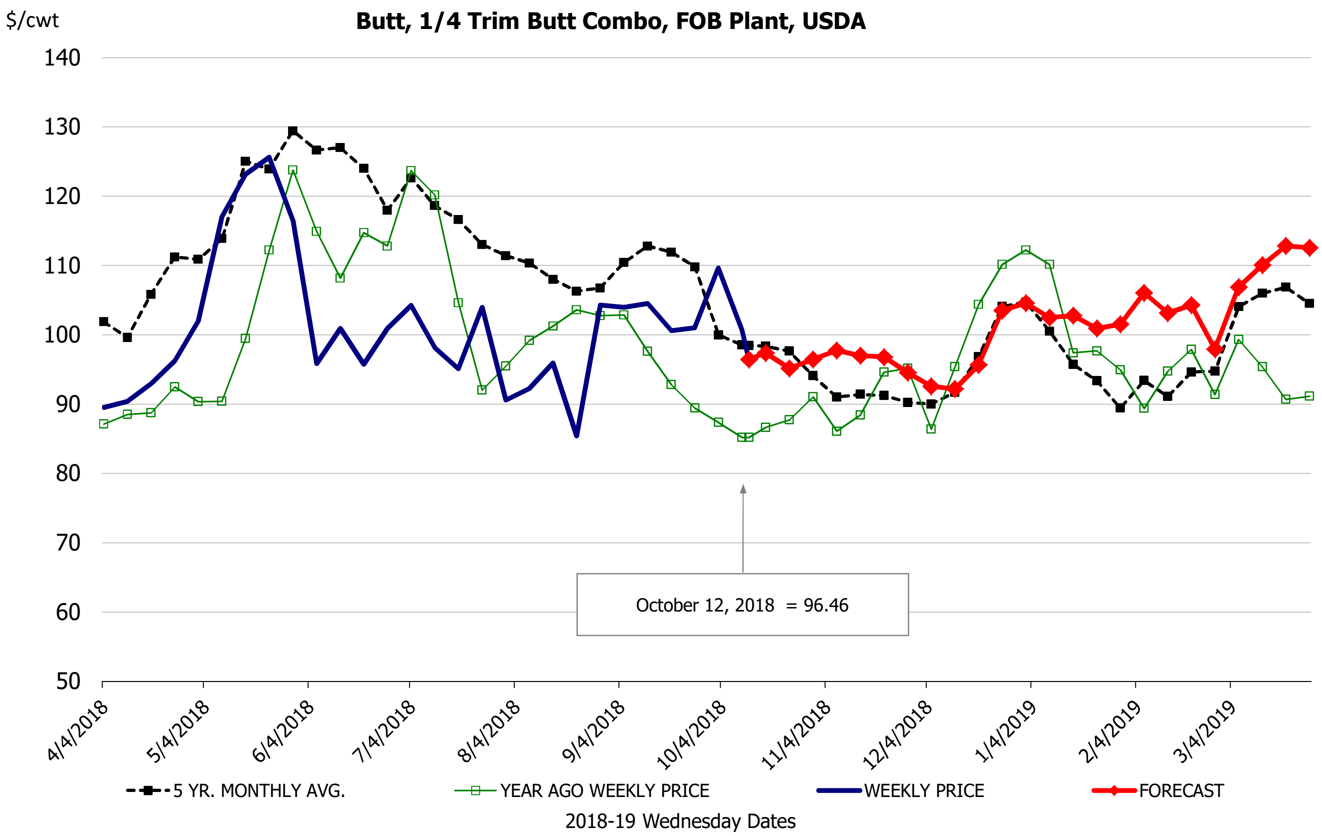
$/cwt
Butt, 1/4 Trim Butt Combo, FOB Plant, USDA
140
130
120
110
100
90
80
70
60
50
October 12, 2018 = 96.46
4/4/2018
5/4/2018
6/4/2018
7/4/2018
8/4/2018
9/4/2018
10/4/2018
11/4/2018
12/4/2018
1/4/2019
2/4/2019
3/4/2019
5 YR. MONTHLY AVG.
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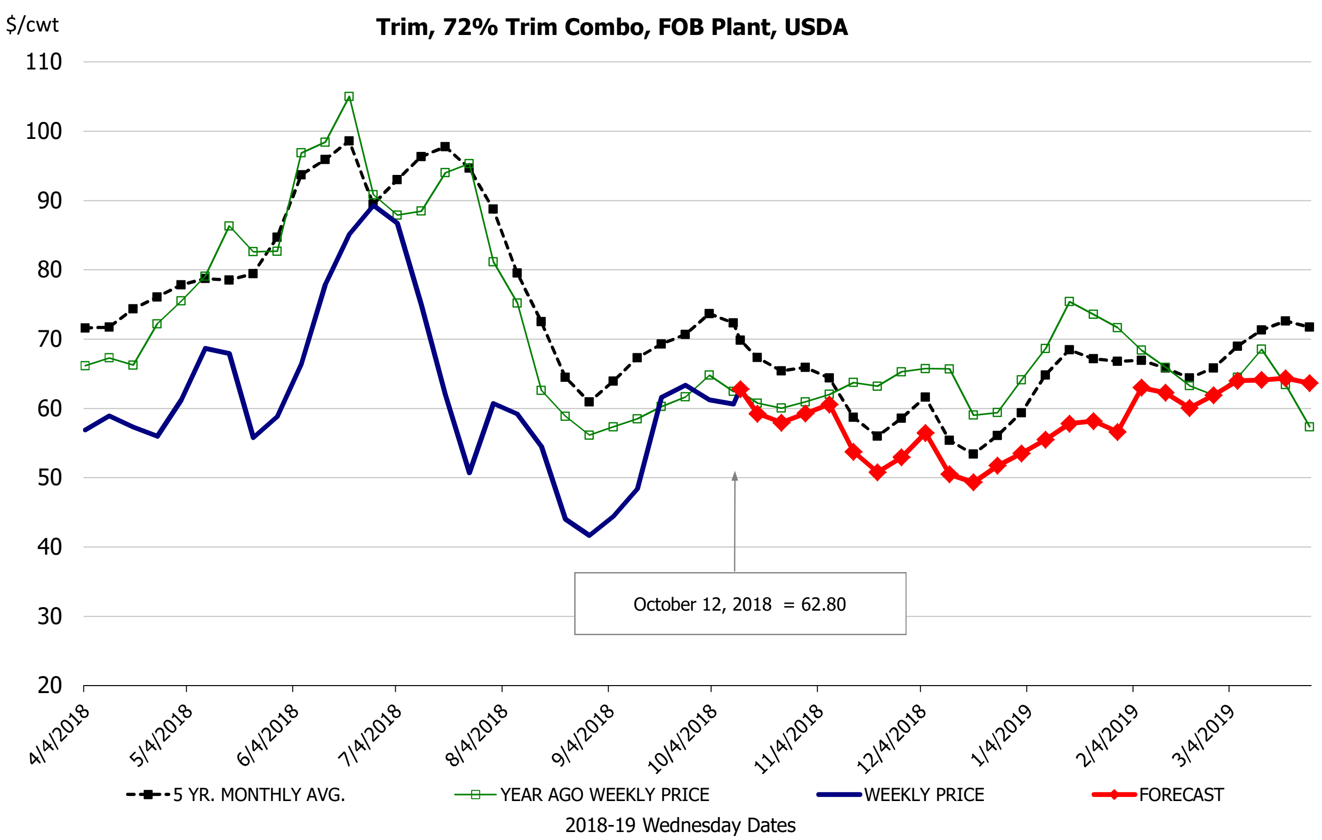
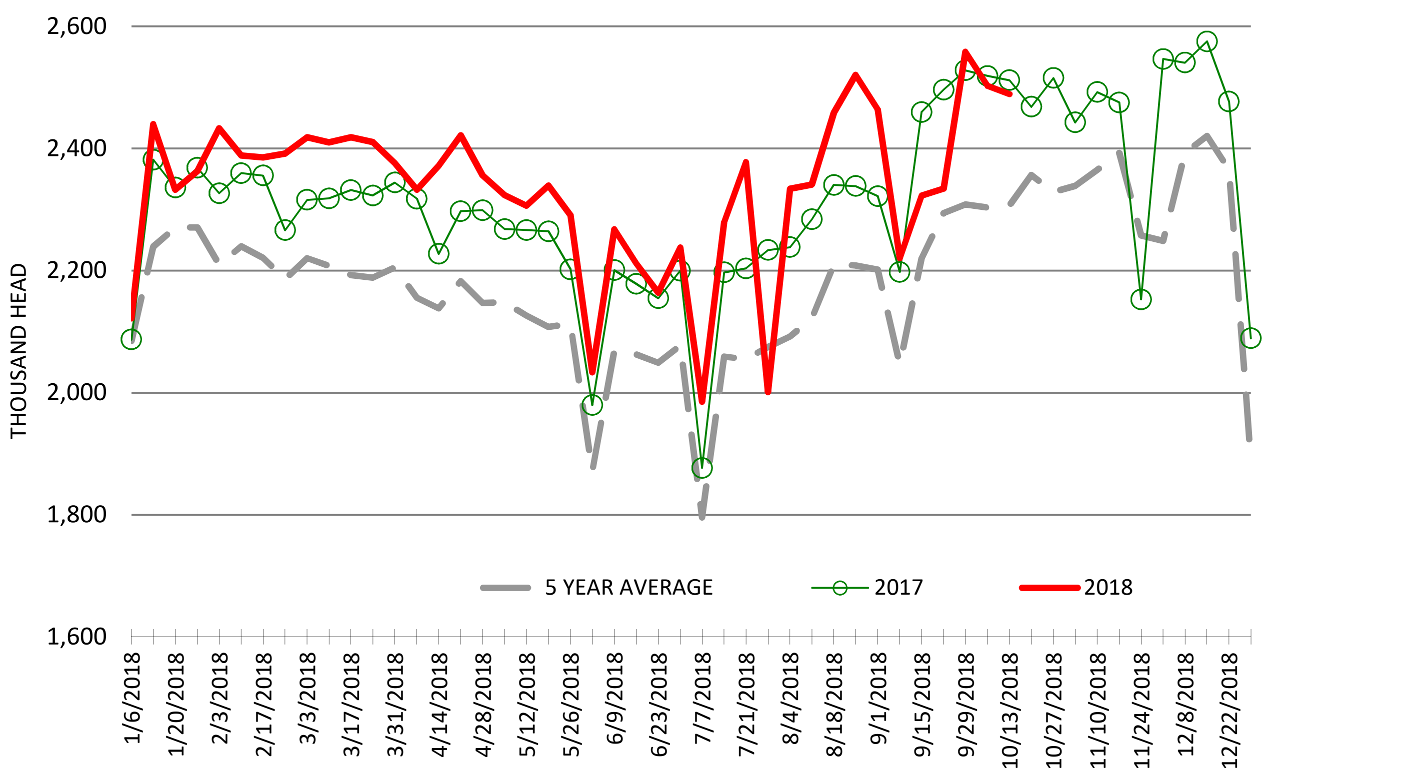

$/cwt
Trim, 72% Trim Combo, FOB Plant, USDA
110
100
90
80
70
60
50
40
30
20
October 12, 2018 = 62.80
4/4/2018
5/4/2018
6/4/2018
7/4/2018
8/4/2018
9/4/2018
10/4/2018
11/4/2018
12/4/2018
1/4/2019
2/4/2019
3/4/2019
5 YR. MONTHLY AVG.
YEAR AGO WEEKLY PRICE
WEEKLY PRICE
FORECAST
2018-19 Wednesday Dates

ESTIMATED WEEKLY FI HOG SLAUGHTER

Source: USDA, '000 head



ESTIMATED WEEKLY FI PORK PRODUCTION

Source: USDA, Mil. Pounds