



Pork Merchandiser's Profit Maximizer

- Retail Edition -

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November 26, 2018

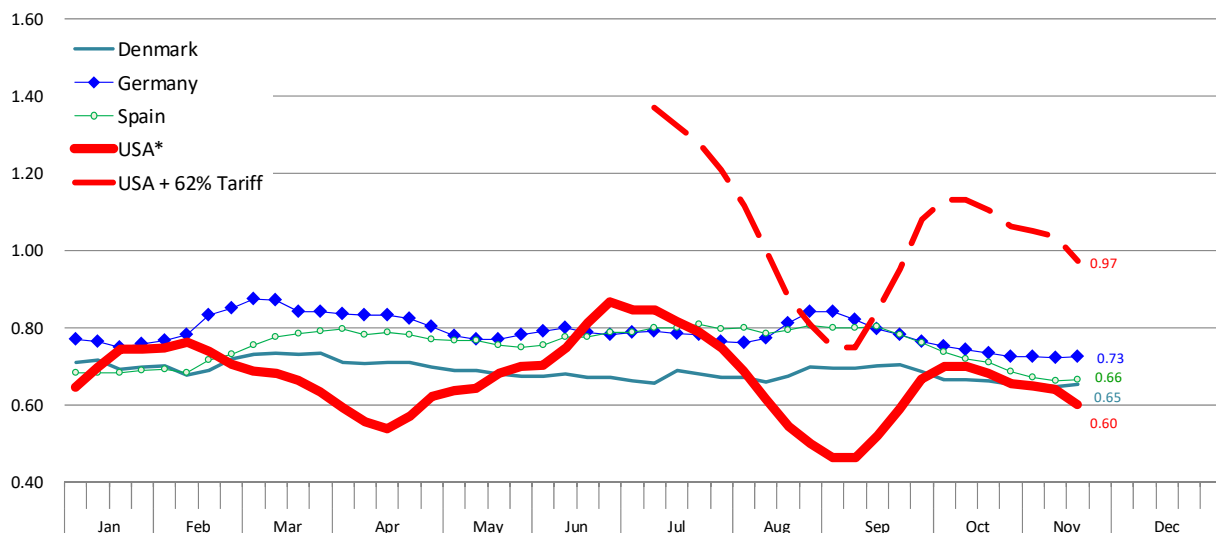
1. Speculation about Chinese pork supplies/ prices in 2019 continues to drive hog market forward premiums.

The pork cutout finished last week at 0.6693 cents per pound, 15.4 cents or 18.7% lower than a year ago. All pork primals are currently trading lower than a year ago, with bellies, hams and loins accounting for the bulk of the decline.

Hog slaughter hit an all time record high at 2.618 million head in the week prior to Thanksgiving, in part because producers sought to market their hogs before the holiday shortened week. In the short term the pork market appears to be well supplied and pork prices have adjusted lower in order to keep the flow of product moving, whether into export markets or domestic retail case. Given a steady demand, rising supplies necessi-

Hog Carcass Prices in USA and European Union. US cents per pound.

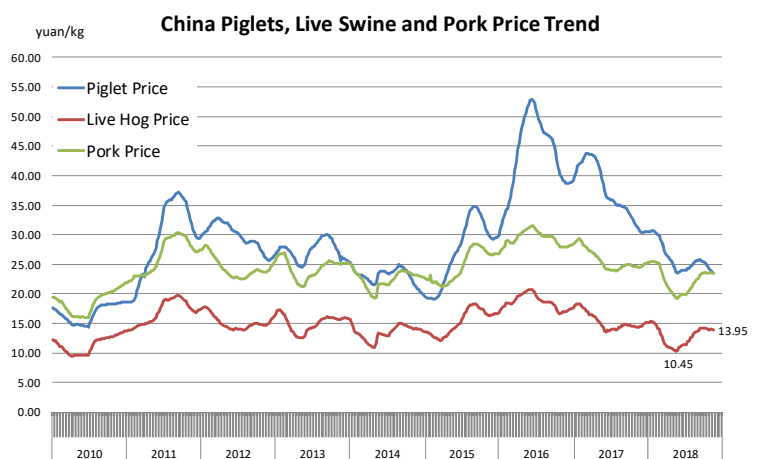
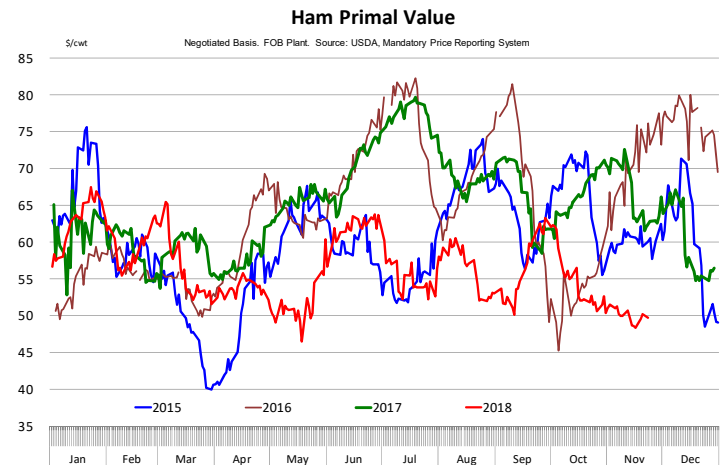
Prices Expressed in USD per Pound. USA Price is 1-Day Index + Premium for Beta Agonist Free. EU Price from European Commission Weekly Series by Country.



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tate lower prices in order to clear the market. But true as that is for the short term, futures markets have rallied in recent days and they hold a significant premium for next year. On Friday, CME hog futures for all of 2019 averaged almost \$0.76 per pound compared to an average of \$0.65 cents per pound in 2018 (Nov/Dec reflect current futures). So production next year is expected to increase between 3 and 5%, depending on what forecast you look at and yet futures are pricing a 17% price premium. We doubt this reflects any sort of demand shift in the domestic market although that may happen if broiler producers decide they want to bring a margin back in the business and start to truly cut back. Rather, we think the futures premium for 2019 reflects speculation about the level of export demand that we may see due to the spread of African Swine Fever and the elimination of Mexican tariffs on US pork.

Starting with this second point, the Mexican ambassador to the US was quoted by US media that he expects US and Mexico to drop corresponding tariffs on steel and pork once the new trade agreement is signed next week. This would be particularly beneficial for US ham, which has struggled to gain traction this year. The ham primal value last week was quoted at below 50 cents per pound, 21% lower than a year ago. Coincidentally, the current Mexican tariff on US ham is 20%. One question that market participants have been asking is why a removal of the tariff would translate into higher ham prices. Consider the situation from the perspective of a Mexican buyer. Currently prices in USD terms are significantly lower than a year ago but in Mexican Peso terms prices are little changed. If the tariff is removed, it would act as

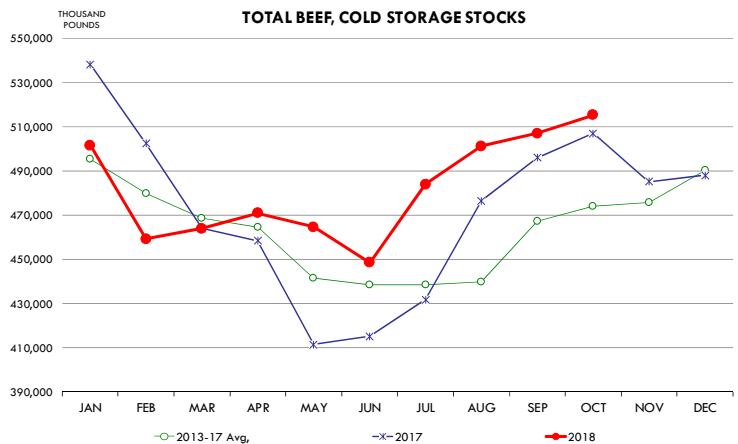


an immediate 20% price cut from current levels. The 20% reduction in price would result in a significant increase in the quantity demanded and prices would then rise up to the level where they equilibrate with the available supply.

But the main reason why futures for next year hold an almost 20% premium vs. 2018 has to do with the rapid spread of African Swine Fever in China. Only three months after the first case was reported, there have been over 70 cases reported throughout the country. Private estimates suggest that the disease has been vastly under reported. Hog prices in China have increased from the extremely depressed levels we saw during the summer but they are still lower than a year ago. China prices are also substan-

tially below the levels we observed in 2016. In the short term the low hog prices and forced liquidation is expected to limit pork import demand in China. Most recent export data from Europe shows volumes shipped in September were down 10% compared to the same period a year ago. The chart on page 1 shows the relative price of hog carcasses in EU-28, three main EU pork exporters and in the US. We have adjusted the US price to account for the beta agonist premium and thus make an apples to apples comparison with European prices. The prices are in US\$ per pound. As you can see, US prices at this time are trading at a discount between 8% and 18% of EU prices. However, when we consider the 62% tariff on US pork in China, US pork prices remain significantly disadvantaged. Initially, any increase in Chinese pork imports will be mostly pork from Europe and then pork from Canada and Brazil. The main upside risk for the market is that the disease continues to spread in China and leads to a sharp contraction of the breeding herd there. If that happens, we could see a shortfall in Chinese piglet production next summer and fall. This is clearly a possibility but also far from certain.

2. The total inventory of beef, pork, chicken and turkey in cold storage at the end of October was 2.474 billion pounds, 1.4% higher than a year ago and 10.4% higher than the five year average. Inventories declined 5.6% compared to the previous month compared to an average drawdown of about 3.6% in the last five years. High prices for some products, especially beef and pork, appear to have encouraged users to draw down inventories rather than



continue to pay inflated prices in the spot market. Meat protein supplies are expected to continue to expand and the drawdown in inventories should be supportive for prices in late 2018. The total inventory of boneless beef and bone-in beef cuts at the end of October was 515.4 million pounds, 1.6% higher than a year ago and now 8.7% higher than the five year average. Some end users have bolstered inventories in preparation for year-end demand. Inventories increased 1.6% in October vs. September compared to a 5-Yr average increase of 1.4%. Inventories of bone-in cuts declined 1.8% in October but still were 5.4% higher than a year ago and 15.6% higher than the five year average. The total inventory of pork products in cold storage at the end of October was 570.6 million pounds, 3.2% lower than the previous month. In the last five years the drawdown in pork inventories has been 4.5%. However, current pork inventories are 4.6% lower than a year ago and 1.6% lower than the five year average. Pork production has increased in the last few weeks but so far there has been good flow from the packing floor to the consumer. Lower inventories remain positive for Feb/Apr hog prices.

Upcoming holidays:

2018 Hanukkah (Sunday December 2, starts at sundown); Christmas Day (Tuesday December 25); Boxing Day [Canada] (Wednesday December 26).

2019 New Year Day (Tuesday January 1); Martin Luther King Day (Monday January 21); Chinese New Year (Tuesday February 5); Super Bowl 52 (Sunday February 3, in Atlanta, GA); Valentine's Day (Thursday February 14); President's Day (Monday February 18); Ash Wednesday (Wednesday March 6; Daylight Savings Time Begins in US (Sunday March 10); St. Patrick's Day (Sunday March 17); Passover (Friday April 19, at sundown); Easter (Sunday April 21); Cinco de Mayo (Sunday May 5); Mother's Day (Sunday May 12); Victoria Day [Canada] (Monday May 20); Memorial Day (Monday May 27); Father's Day [US and Canada] (Sunday June 16); Canada Day [Canada] (Monday July 1); Independence Day (Thursday July 4); Labor Day [US and Canada] (Monday September 2); Rosh Hashanah (Sunday September 29, at sundown); Yom Kippur (Tuesday October 8, at sundown); Columbus Day (Monday October 14; Canadian Thanksgiving Day (Monday October 14); Daylight Savings Time Ends [US and Canada] (Sunday October 27); Veterans Day (Monday November 11); Remembrance Day [Canada] (Monday November 11); Thanksgiving (Thursday November 28); Hanukkah (Sunday December 22, starts at sundown); Christmas Day (Wednesday December 25); Boxing Day [Canada] (Thursday December 26).

PORK

Hog Market. For the week ending November 10 hog slaughter was 2.589 million head, up 3.9% from a year ago. In the last two weeks hog slaughter is up 5.0% vs. year ago levels.

Iowa/Minnesota, Base Negotiated Purchase for Barrows and Gilts. Lean hog carcass values at about 57.78 /cwt. on Friday were down

\$1.6/cwt since Wed. November 14. Prices are down about 5.75 \$/cwt compared to year ago values.

Loin, 1/4 Trimmed Loin VAC, FOB Plant, USDA (page 8). Prices finished last week at \$0.6654, down about 8.7 cent since the Wed. November 14 quote and down about 21 cents from year ago levels.

Bnls. Strap on Pork Loins. Prices finished the week at \$1.1893 for the strap on loins, up 2.7 cent since Wed. November 14 and up 2 cent from the year ago levels. Strap off loins at \$1.3163 are up 4.9 cent since Wed. November 14 but down about 4 cent compared to the year ago quote.

Boneless sirloins at \$1.0202 are down about 0.5 cents from the Wed. November 14 quote and down about 15.3 cents from the year ago price.

Pork tenderloin finished last week at \$1.6046, down 3 cent since the Wed. November 14 quote and down about 49.4 cents from the year ago price.

1/4 Trim Pork Butts (page 10), prices finished the week at \$0.9364, down 1.6 cents since Wed. November 14. Prices are down 5 cent from a year ago.

Spare Ribs, Trimmed - LGT, Vac (page 8). Prices finished the week at \$1.2435, down about one cent since Wed. November 14 and down about 14 cents from year ago levels.

Rib inventories on October 31 were 101.7 million pounds, up 7.2% percent from a year ago.

Bone-in Hams.

17/20 hams (page 9) price was \$0.5500/lb., down 1 cents since Wed. November 14 and down about 11.5 cents from a year ago.

20/23 hams finished the week at 53.82 cents, down about 1 cents since Wed. November 14 and down about 11 cents from the year ago level.

23/27 hams finished the week at 52.52 , up about 2 cent from the Wed. November 14 quote but down about 8 cents from the year ago level.

Total ham cold storage stocks on October 31 at 176.1 million pounds were down slightly from year ago levels.

42 CL Pork Trim “FOB Basis”. Prices finished the week at 28.35 cents, up about 5.9 cent since Wed. November 14 and up about 3 cents from the year ago price.

72 CL Pork Trim “FOB Basis”. Prices finished the week at 44.05 cents, up 3.2 cents since the Wed. November 14 quote but down about 19 cents from the year ago level.

Freezer stocks of all trimmings on October 31 were 42.5 million pounds, up 28.0% 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 85.74 on Friday, November 10, down about 0.4 cents from a year ago.

Broiler slaughter for the week ending November 10 was 164.46 million head, down 0.55% from a year ago. For the last two weeks broiler slaughter was down 0.3% vs. a year ago.

Breasts. Prices on boneless skinless breasts finished the week at \$0.8659, down 1 cents since Wed. November 14 and still down about 15 cents from year ago levels.

Leg Quarters. This market continues to be export driven. Last week leg quarter prices were down about 0.3 cents vs. two weeks ago and at 27.66 cents per pound prices were down 9 cent from a year ago.

Wings. Prices at \$1.4321 are down about 31 cents from year ago levels.

Turkeys

The prices below reflect weekly quoted USDA prices.

Hens finished last week at \$0.8045, down cent since Wed. November 14 and down about 9 cents from the year ago price.

Toms finished last week at \$0.8100, down since Wed. November 14 and down about 9 cent from the year ago price.

Total turkey supplies in the freezer on October 31 were down 3.5% from a year ago at 444.7 million pounds. Whole birds were down 2.4% from a year ago with an inventory of 251.5 million pounds.

Turkey slaughter was 5.1820 million head for the week ending November 3, down -1.87% from a year ago. For the last two weeks slaughter has been up 1.7%.

Boneless Turkey Breast Meat. Boneless skinless turkey breast meat prices finished last week at \$2.1100, unchanged since Wed. November 14. 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 \$1.9428 for 90CL and \$0.6938 for 50CL product, an 81CL meat block value is now \$1.6618 and a 78CL meat block is \$1.5681. Choice 114, 3 Clods are now being priced 42.73 cents over 81CL meat block grinding values of 90s and 50s. A year ago the spread was 28.09 cents and the five year average spread for is 37.36 cents over.

Select #115 chucks also are no longer being quoted.

Choice #161 Boneless Rounds finished last week at \$2.2200, down slightly since Wed. November 14 and down about 17 cents from year ago levels.

Choice #184 Regular Heavy top butts finished at \$3.1843 (wt. avg.) up about 24 cents since Wed. November 14 and up about 22 cent from year ago levels.

Choice #184 ¼ inch trimmed Top Butts finished at \$3.2321 (wt. avg.) up about 9 cents since Wed. November 14 and up about 16 cents from the year ago levels.

COARSE GROUND BEEF –

73CL Coarse Ground product finished last week at \$1.4280 down about 3 cents since Wed. November 14 but up about 4 cents from year ago levels.

81CL Coarse Ground product finished last week at \$1.5798 down about 16 cent since Wed. November 14 and down about 6 cents from the year ago quote.

90CL Bnls. Beef prices finished the week at \$1.9428 (wt. avg.) up 3.44 cent since Wed. November 14 but down 18 cents compared to the year ago price quote.

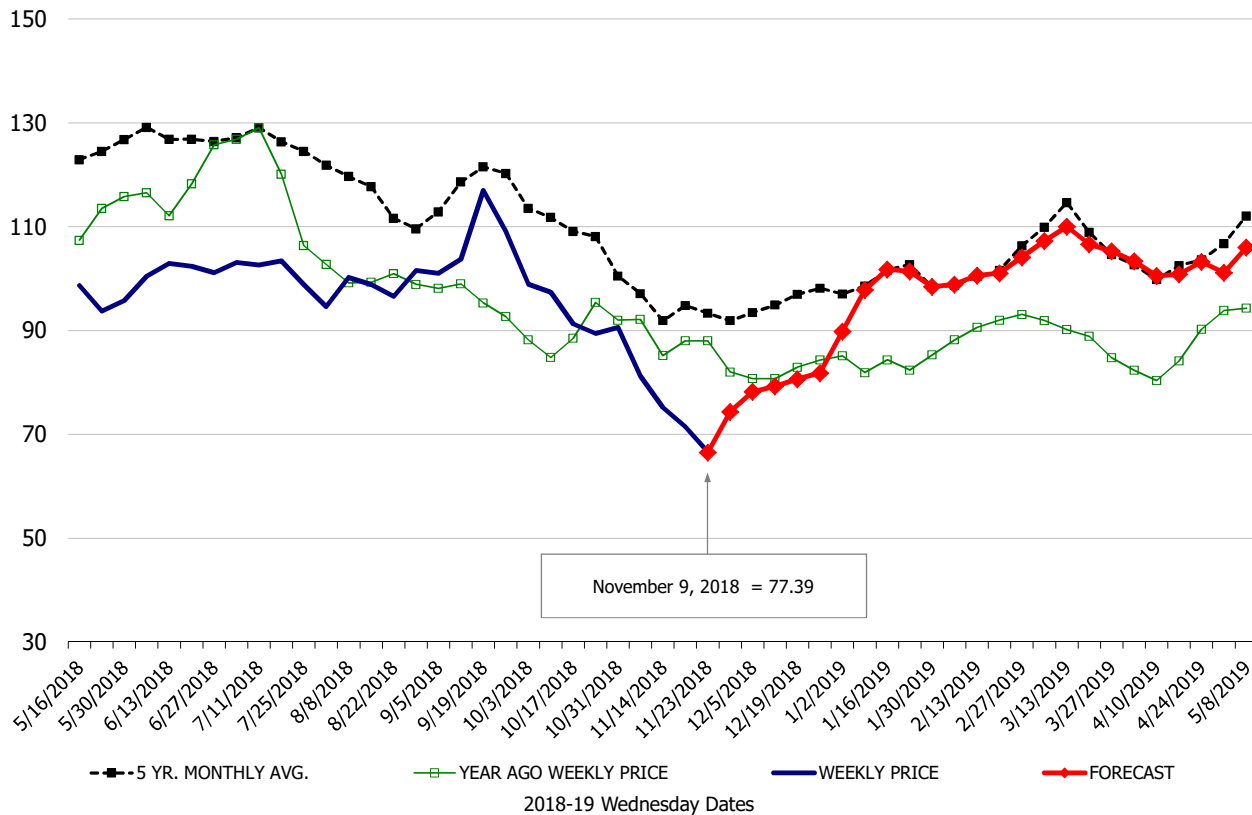
50 CL Beef Trim prices finished last week at \$0.6938, up about 8 cent since Wed. November 14 and up 2 cents compared to the year ago level.

Retail Summary Table - WT. AVE.

	HISTORY								FORECAST						
	May	Jun	Jul	Aug	Sep	Oct	11/14/2018	11/23/2018	12/5/2018	Nov	Dec	Jan	Feb	Mar	Apr
<u>PORK</u>															
Loin, 1/4 Trimmed Loin VAC, FOB Plant, USDA	95.89	101.46	97.82	98.08	105.56	92.91	75.22	66.54	78	76	80	99	100	107	102
Loin, 1/8 Trimmed Loin VAC, FOB Plant, USDA	101.48	106.28	103.98	102.61	107.17	98.50	77.57	74.92	85	83	86	104	106	114	108
Loin, Bnls CC Strap-off, FOB Plant, USDA	133.77	134.19	132.33	128.86	141.33	152.94	126.68	131.63	131	133	135	156	152	159	153
Butt, 1/4 Trim Butt Combo, FOB Plant, USDA	121.41	100.04	98.78	98.66	106.99	102.12	87.84	89.79	93	92	96	103	98	110	113
Sparerib, Trmd Sparerib - LGT, FOB Plant, USDA	149.10	146.90	129.18	127.32	129.56	130.37	125.25	124.35	130	126	131	145	156	161	162
Sparerib, Trmd Sparerib - MED, FOB Plant, USDA	149.99	149.97	132.07	130.63	132.51	132.85	125.94	124.57	134	130	134	148	153	157	157
Ham, 17-20# Trmd Selected Ham, FOB Plant, USDA	56.24	63.48	59.96	60.80	57.79	62.25	55.52	55.00	70	56	61	62	62	62	63
Ham, 20-23# Trmd Selected Ham, FOB Plant, USDA	54.69	65.46	56.49	60.97	57.37	58.03	54.42	53.82	66	55	59	58	59	60	61
Ham, 23-27# Trmd Selected Ham, FOB Plant, USDA	50.79	61.42	53.62	56.07	53.64	53.36	50.59	52.52	61	52	55	57	58	56	58
Belly Cutout, FOB Plant, USDA	101.20	141.23	159.71	87.81	103.86	135.33	113.79	104.76	126	114	125	133	137	135	130
Belly, Derind Belly 9-13#, FOB Plant, USDA	124.74	171.90	194.29	104.36	125.59	167.77	145.19	140.54	157	140	153	163	168	166	160
Belly, Derind Belly 13-17#, FOB Plant, USDA	121.20	169.63	188.95	104.43	119.56	165.52	140.17	127.39	156	139	150	160	167	165	159
Trim, 42% Trim Combo, FOB Plant, USDA	26.67	51.54	54.13	33.15	43.32	33.12	22.45	28.35	30	24	25	33	34	40	41
Trim, 72% Trim Combo, FOB Plant, USDA	62.58	77.94	62.90	48.76	54.86	56.56	40.85	44.05	53	44	49	57	64	66	71
Trim, Picnic Meat Combo Cushion Out, FOB Plant, USDA	72.77	84.03	74.98	60.73	66.61	81.12	59.97	51.69	68	60	65	70	72	75	83
Carcass Cutout, FOB Plant, USDA	73.55	82.85	81.74	68.59	74.66	78.84	69.02	66.93	73	70	72	77	79	82	82
<u>HOG CARCASS</u>															
CME 1-Day Lean Hog Index	66.58	80.68	77.74	54.20	55.78	67.13	59.35	57.78	59	60	57	67	68	73	76
<u>BROILERS</u>															
N.E. BROILER BREAST BONELESS-SKINLESS, USDA	126.82	117.57	128.68	113.13	95.52	91.00	87.22	86.59	91	87	91	98	107	118	130
N.E. BROILER BREAST LINE RUN, USDA	112.54	115.43	114.41	100.70	95.80	91.34	88.87	86.48	89	88	89	90	91	94	101
N.E. BROILER LEG QUARTERS, USDA	39.74	36.44	34.08	31.59	30.33	29.90	28.00	27.66	29	28	29	30	31	33	36
<u>TURKEYS</u>															
HEN TURKEYS, EAST, FROZEN 10-12LBS, USDA	79.39	81.06	83.00	82.25	83.39	82.01	83.48	80.45	82	81	81	80	80	82	86
TOM TURKEYS, EAST, FROZEN 16-22LBS, USDA	79.15	76.47	81.28	81.01	82.50	79.69	84.43	81.00	82	81	81	80	80	82	86
<u>LIVE STEERS</u>															
FIVE AREA DIRECT AVERAGE LIVE STEER, USDA	118.42	111.25	110.57	110.78	108.97	111.10	113.43	114.53	119	115	118	118	120	125	125
<u>BEEF</u>															
CHOICE, 161, 1 ROUND, BONELESS, USDA	219.86	207.95	208.19	215.26	213.54	212.90	222.73	222.00	231	223	229	234	230	235	226
CHOICE, 168, 3 TOP INSIDE ROUND, 1/4" MAX, USDA	232.51	205.83	204.79	209.43	198.76	215.96	203.16	199.45	217	205	226	226	226	239	224
CHOICE, 170, 1 BOTTOM GOOSENECK ROUND, USDA	197.32	187.78	191.23	186.69	193.33	208.90	206.56	210.19	214	215	220	223	220	212	198
CHOICE, 184, 3 TOP BUTT, BONELESS, USDA	363.43	364.50	346.97	310.82	282.82	273.97	313.77	323.21	329	320	325	309	321	373	383
CHOICE, 185A, 4 BOTTOM SIRLOIN, FLAP, USDA	575.36	532.85	476.09	557.07	586.76	477.36	467.70	462.28	501	480	517	519	520	581	645
COARSE GROUND 73%, USDA	159.47	138.24	135.40	161.08	148.34	138.59	146.05	142.80	134	143	148	173	153	162	157
COARSE GROUND 81%, USDA	187.98	164.23	157.34	184.10	165.97	155.00	173.85	157.98	162	165	170	205	182	186	177
90% BONELESS BEEF, CENTRAL, FRESH, USDA	219.51	220.71	218.02	210.79	200.72	190.00	190.84	194.28	194	191	195	200	205	210	214
50CL BEEF TRIM, FRESH, NATIONAL, USDA	85.49	67.99	69.16	80.25	52.54	49.56	61.54	69.38	59	65	58	74	74	91	94

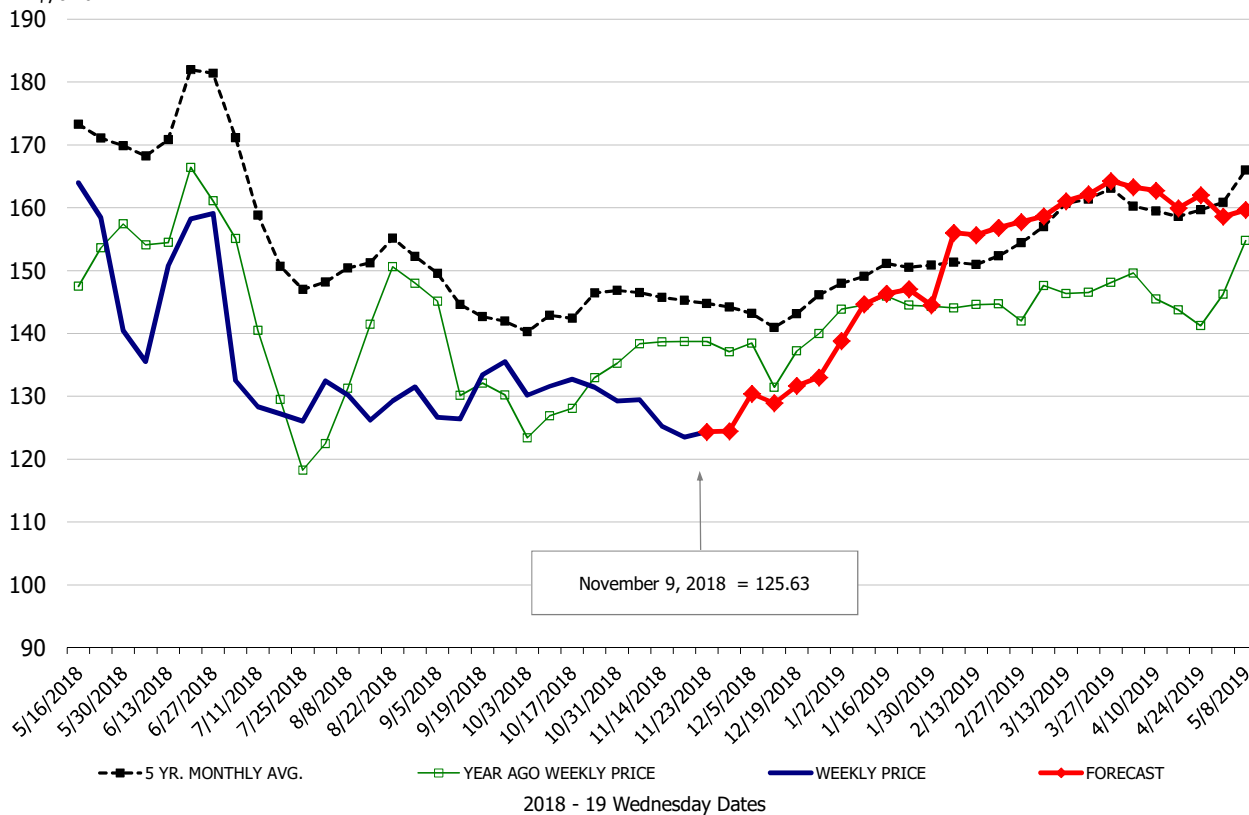
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Loin, 1/4 Trimmed Loin VAC, FOB Plant, USDA

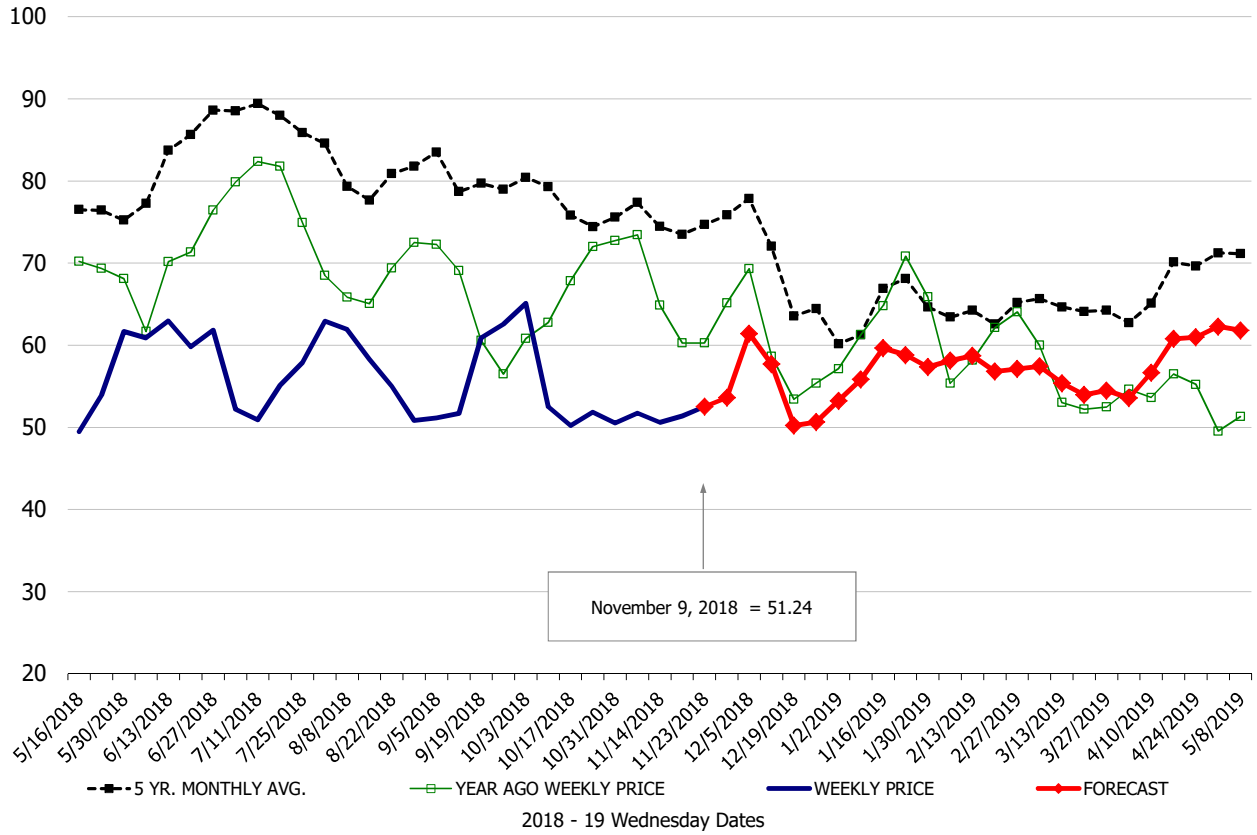


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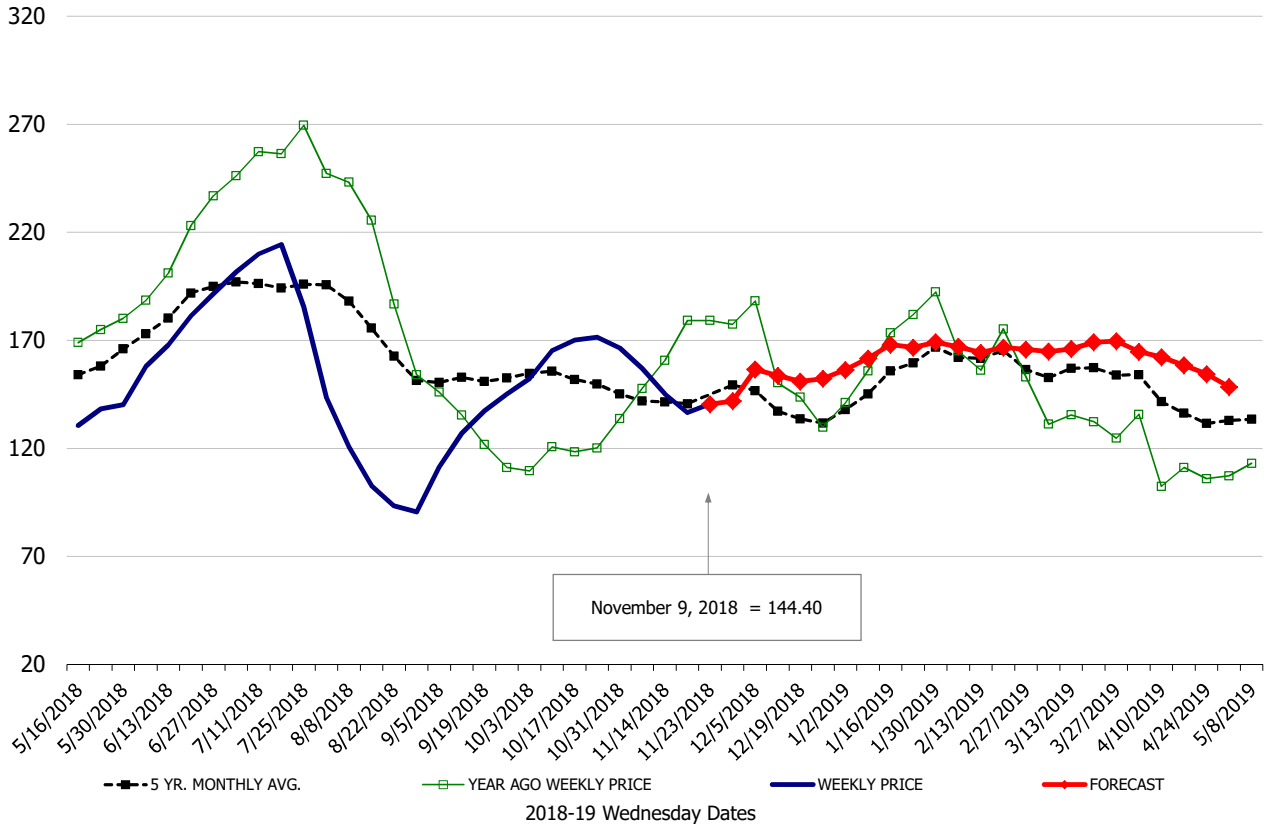
Sparerib, Trmd Sparerib - LGT, FOB Plant, USDA



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

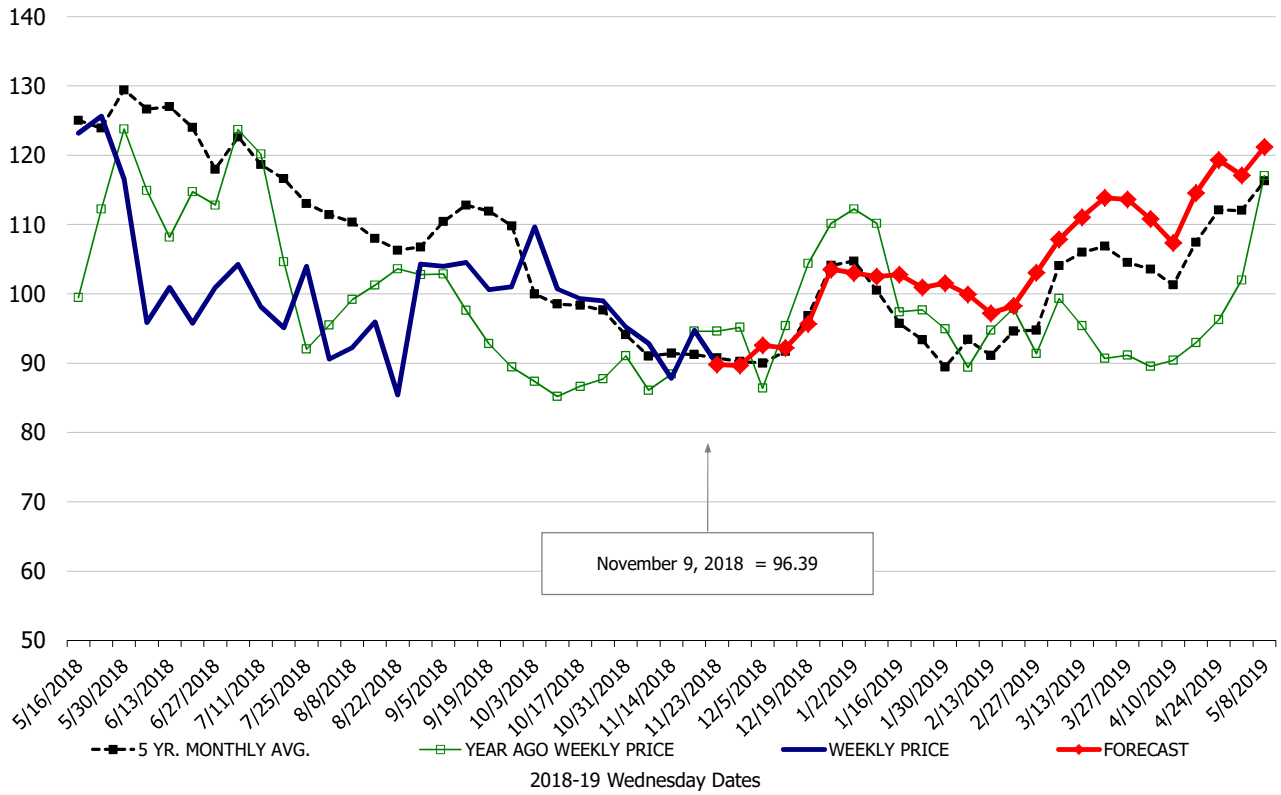


Belly, Derind Belly 9-13#, FOB Plant, USDA



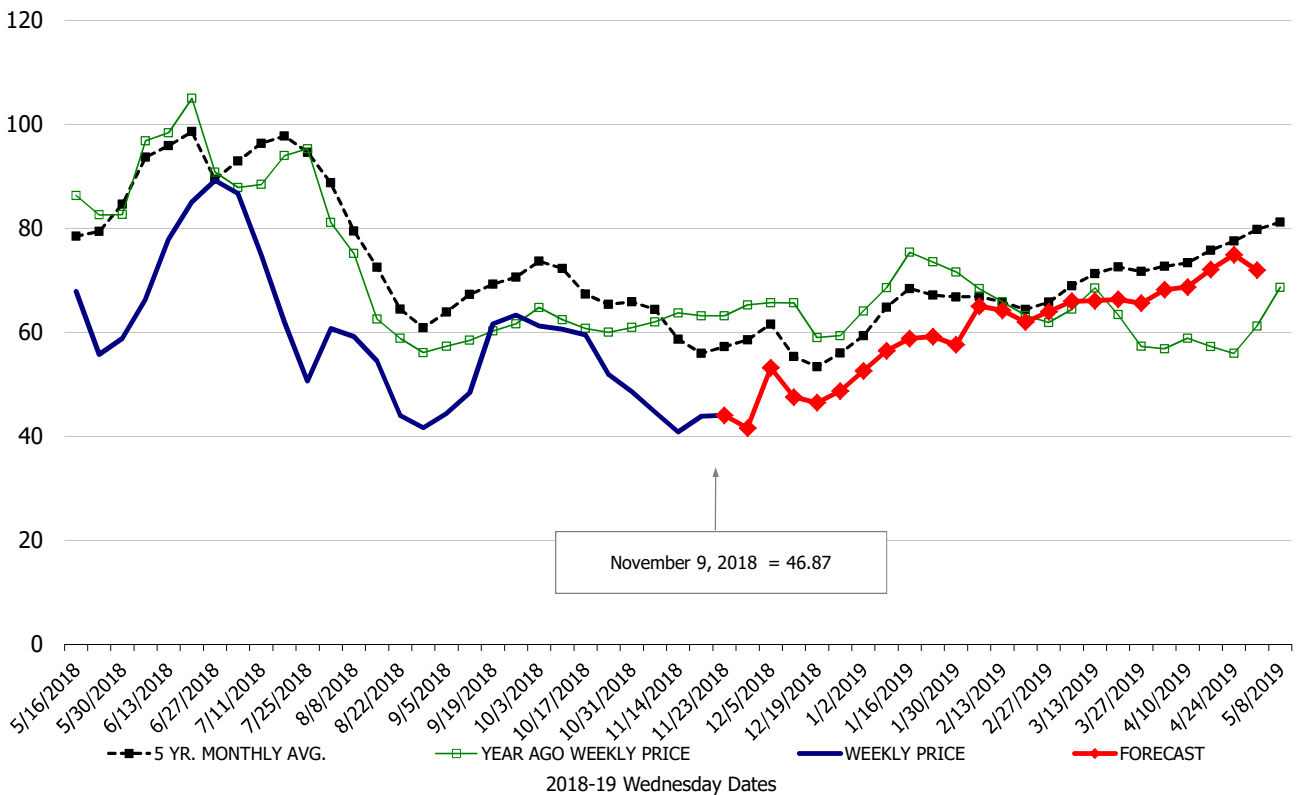
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Butt, 1/4 Trim Butt Combo, FOB Plant, USDA



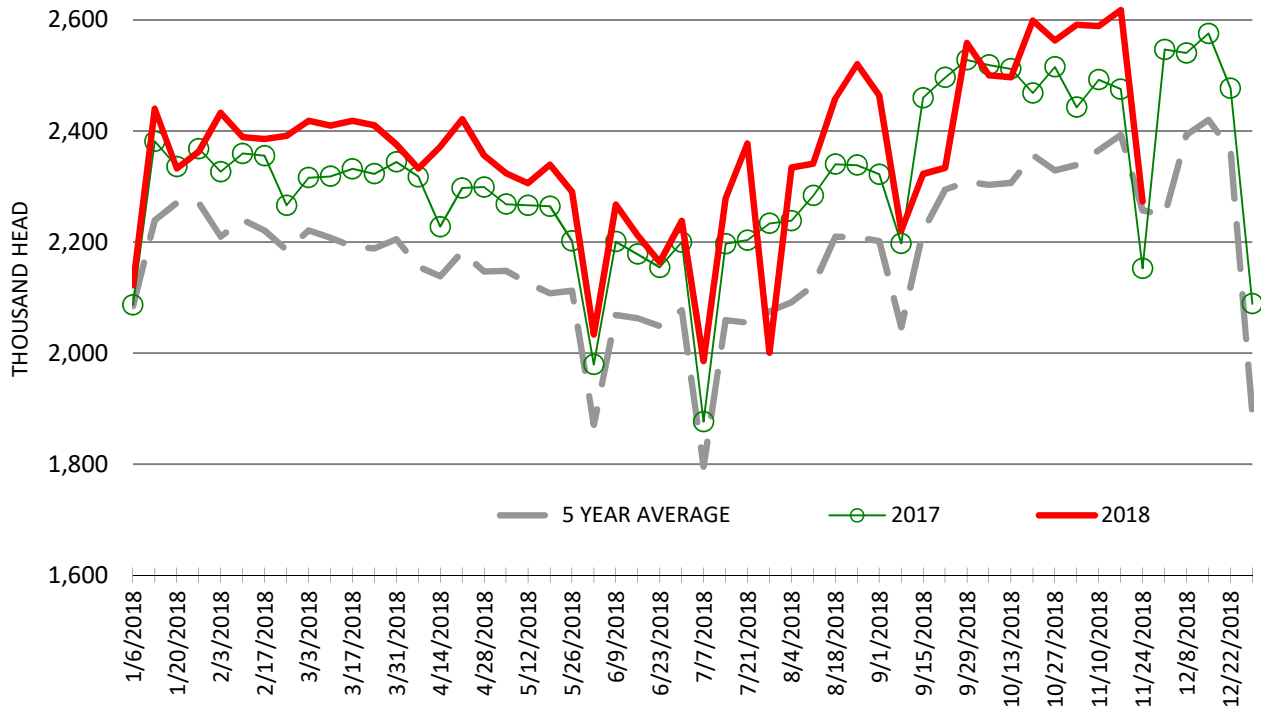
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Trim, 72% Trim Combo, FOB Plant, USDA



ESTIMATED WEEKLY FI HOG SLAUGHTER

Source: USDA, '000 head



ESTIMATED WEEKLY FI PORK PRODUCTION

Source: USDA, Mil. Pounds

