Pork Merchandiser's **Profit Maximizer**

- Foodservice Edition -

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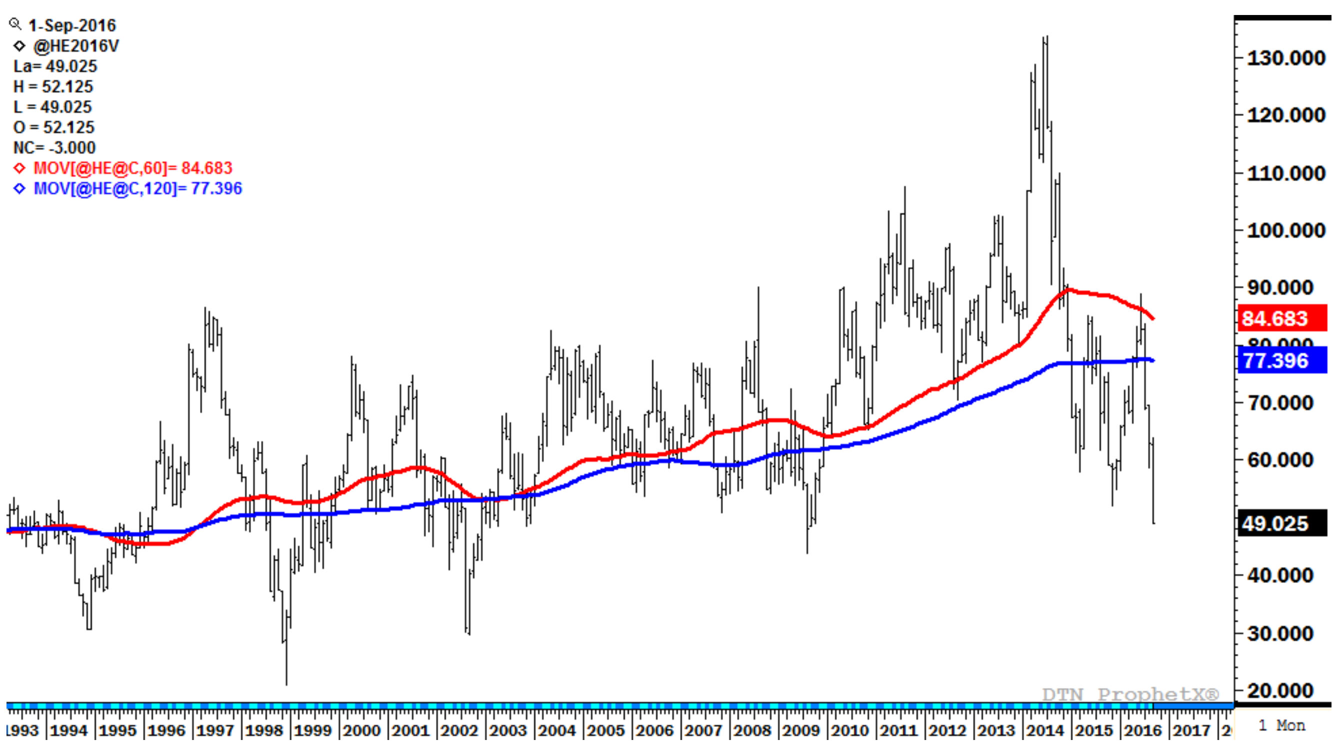
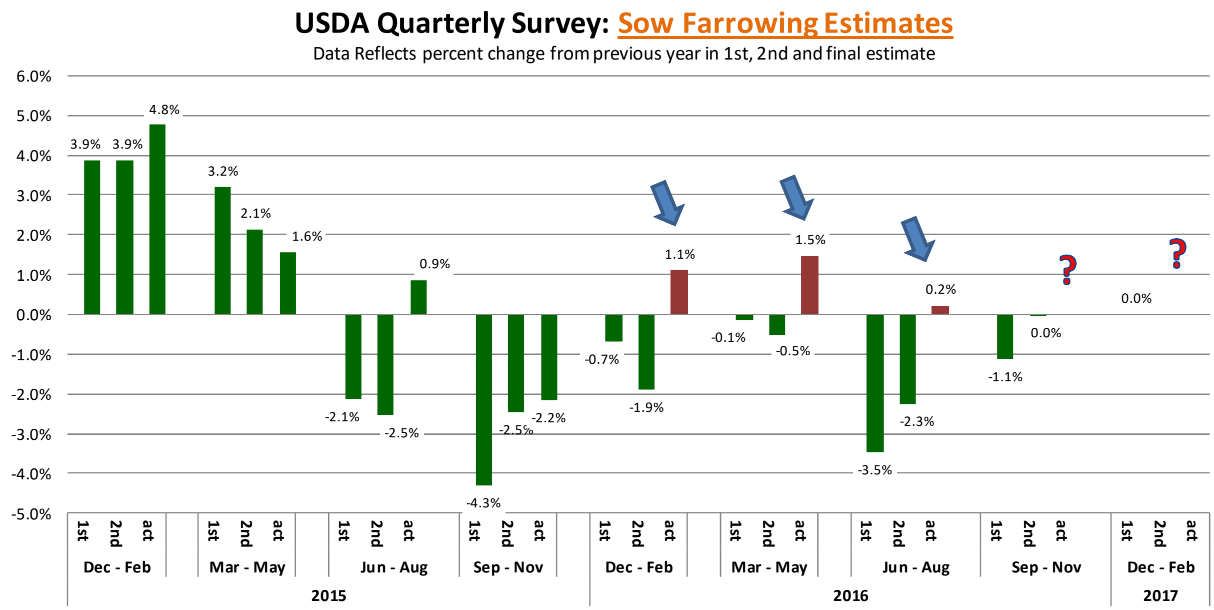
October 3, 2016

September USDA Hogs and Pigs Survey Points to Capacity Squeeze, Lower Hog/Pork Prices through 2017

USDA released on Friday afternoon the results of its latest 'Hogs and Pigs' inventory survey. Coming into the report futures had sold off quite aggressively, largely because market participants were shocked that hog slaughter the last two weeks has averaged +7.8% from a year ago. The USDA survey confirmed what futures markets

Nearby Lean Hog Futures





feared: there are a lot of hogs coming in the short term and this will continue to challenge the ability of packers to process them in a timely fashion. Coming into the report we thought analyst estimates were extremely conservative, especially when considering that at least one part of the report, inventories of +180 pound hogs, already were known with four weeks of September slaughter in the books. Futures already have priced some fairy bearish ideas for hog supplies/prices going into December. The question is how bearish is bearish enough when the only reference point of running out of capacity was in 1998 and that was a debacle with hogs trading in single digits.

There was some hope among producers and market participants that maybe the survey would tell us that the market was being too bearish. That maybe the reason why spot cash hog prices are so cheap now is because producers are pulling supplies forward. The survey told us that hog numbers on the ground are indeed too big. The inventory of +180 hogs, which are hogs scheduled to be marketed between early September and mid October, was 4.1% larger than a year ago. Weekly slaughter so far has averaged 5% above last year, which would imply weekly hog slaughter of just around 2.4 million head for the next couple of weeks. One of the key points we were watching in the report was the inventory of 120-179 hogs (mid Oct - mid Nov) and the inventory of 50—119 hogs (mid Nov through mid Jan). These two categories were up 3.7% and 1.9%, respectively. Consider what a +3.7% increase in the 120-179 category implies. It means that we will have +2.4 million hog slaughter for late October and into mid-November. And based on both the pig crop for Jun-Aug and the inventory of the 50-119 hogs, we would expect at least a +2% (maybe even a bit higher) slaughter for late November and into December. Well in that case we are looking at weekly hog slaughter averaging +2.51 million hogs for weeks ending Dec 3, Dec 10 and Dec 17. This is well above rated capacity and will require even more aggressive selling to clear the market. Could futures sell under 40 cents in order to force producers to hurry their hogs along?

It looks much more possible today than even two weeks ago.

What does the report imply for next spring? There will continue to be plenty of hogs on the ground although futures already have priced this in, we think. Farrowing intentions for Sep-Nov are reported to be unchanged from a year ago, which is in line with the size of the breeding herd. There is one thing that needs to be pointed out and is the reason for the chart above. There have been some very big misses in the inventory survey for the last three reported quarters. USDA relies on producer responses for the first two estimates but the actual numbers reflect the supply of hogs that actually came to market. For the Dec-Feb quarter producers were telling USDA that farrowings were down 1.9%. However the actual was up 1.1%. Similarly for Mar-May, producers were indicating that farrowings would be down 0.5% and any growth would come from more pigs per litter. As it happens, larger farrowings and more pigs per litter bolstered the pig crop for this quarter by 2.7%. Farrowing intentions for Sep-Nov and Dec– Feb are about unchanged with last year. We expect Sep-Nov pigs per litter to be up by about 1%, which implies a pig crop of around 1% to 1.2% for Sep-Nov. This implies continued expansion in hog supplies but numbers that the market should be able to absorb during Mar-May of next year.

Farrowings for Dec-Feb of next year are currently reported about unchanged as well. Based on seasonal tendencies we think pigs per litter for the quarter should be +1.5% to as high as 2%, much depending on weather conditions and disease pressures. This would imply a further increase in the pig crop and more hogs coming to market next summer.

Finally, a few words about the breeding herd. The survey results were in line with analyst estimates, showing the total inventory at 6.016 million head, a 0.5% increase compared to a 0.6% increase analysts were expecting. The continued expansion of the breeding herd (and we expect December to be slightly higher as well) implies that we should continue to see more pigs come to market for the next 12-15 months. However, the big shakeout this winter and the possibility of higher feed costs in late 2017 are expected to bring hog supply growth to a halt in 2018. (see our supply/demand balance table on page 195)

Upcoming holidays:

2016 Rosh Hashanah (Monday October 3); Yom Kippur (Wednesday October 12); Columbus Day (Monday October 10; Canadian Thanksgiving Day (Monday October 10); Daylight Savings Time Ends [US and Canada] (Sunday November 6); Veterans Day (Friday November 11); Remembrance Day [Canada] (Friday November 11); Thanksgiving (Thursday November 24); Hanukkah (Sunday December 25); Christmas Day (Sunday December 25); Boxing Day [Canada] (Monday December 26).

PORK

NOTE: WE ARE NOW REPORTING AND FORECASTING MANDATORY PLANT WEIGHTED AVERAGE BLUE SHEET PRICES FOR PORK CUTS.

Live hogs. For the week ending October 1 slaughter was 2.436 million head, up 7.4% from a year ago. In the last two weeks hog slaughter is up 7.7% vs. year ago levels.

Iowa/Minnesota, Base Lean Market Hog 185 lbs. Carcass Values. Lean hog carcass values at about 48.75 /cwt. on Friday were down $3.5/cwt since Wed. September 21. Prices are down 23.8 dollars compared to year ago values.

Loin, 1/4 Trimmed Loin VAC, FOB Plant, USDA (page 8). Prices finished last week at $0.9685, down about 19.7 cents since the Wed. September 21 quote and down about 8 cents from year ago levels.

Bnls. Strap on Pork Loins. Prices finished the week at $1.4588 for the strap on loins, down 10.7 cent since Wed. September 21 and down about 8 cent from the year ago levels. Strap off loins at $1.4981 are down about 24.0 cent since Wed. September 21 and down about 12 cent compared to the year ago quote.

Boneless sirloins at $1.1574 are down one cents from the Wed. September 21 quote but up about 16.8 cents from the year ago price.

Pork tenderloin finished last week at $2.1366, down one cent from the Wed. September 21 quote but up about 4.4 cents from the year ago price.

1/4 Trim Pork Butts (page 10), prices finished the week at $0.9464, down 25.5 cents since Wed. September 21. Prices are up 33 cents from a year ago.

Spare Ribs, Trimmed - LGT, Vac (page 8). Prices finished the week at $1.2151, down about 2 cent since Wed. September 21 and down about 23 cents from year ago levels.

Rib inventories on August 31 were 75.0 million pounds, up 3.2% percent from a year ago.

Bone-in Hams.

17/20 hams (page 9) price was $0.5217/lb., unchanged since Wed. September 21 and down about 20 cents from a year ago.

20/23 hams finished the week at 52.01 cents, down about 18.3 cents since Wed. September 21 and down about 15 cents from the year ago level.

23/27 hams finished the week at 50.40 , down about 11 cents from the Wed. September 21 quote and down about 13.5 cents from the year ago level.

Total ham cold storage stocks on August 31 at 226.0 million pounds were down 4.5% from year ago levels.

42 CL Pork Trim "FOB Basis". Prices finished the week at 25.92 cent, down about 3.9 cent since Wed. September 21 and down about 11 cents from the year ago price.

72 CL Pork Trim "FOB Basis". Prices finished the week at 48.50 cents, down about 2.5 cents since the Wed. September 21 quote and down about 12 cents from the year ago level.

Freezer stocks of all trimmings on August 31 were 32.5 million pounds, down 23.2% percent from the year ago levels.

72 CL Picnic Meat "FOB Basis". Picnics prices should continue to command premiums over the price of 72CL pork trim in the spring.

POULTRY

Georgia Dock Broilers. The Georgia dock price last week at $110.00 was down 4.75 cents from a year ago.

The National Whole Bird price was quoted at 72.04 on Friday, October 1, down about 2 cents from a year ago.

Broiler slaughter for the week ending October 1 was 166.13 million head, up 1.50% from a year ago. For the last two weeks slaughter was up 0.9% vs. a year ago.

Breasts. Prices on boneless skinless breasts finished the week at $1.2667, down 3 cents since Wed. September 21 but still up about 8 cents from year ago levels.

Leg Quarters. Improvements in export demand have provided support and prices are now well above levels we saw in late 2015 and early 2016. Last week leg quarter prices were down about 0.1 cents vs. two weeks ago but at 33.06 cents per pound prices were up 10 cents from a year ago.

Wings. Prices at $1.8027 are up about 7 cents from year ago levels.

Turkeys

Hens finished last week at $1.2800, unchanged since Wed. September 21 but down about 12 cents from the year ago price.

Toms finished last week at $1.2800, unchanged since Wed. September 21 but down about 12 cent from the year ago price.

Total turkey supplies in the freezer on August 31 were up 11.3% from a year ago at 531.4 million pounds. Whole birds were down 2.9% from a year ago with an inventory of 282.0 million pounds.

Turkey slaughter was 4.3050 million head for the week ending September 24, up 6.67% from a year ago. For the last two weeks slaughter has been up 5.3%.

Boneless Turkey Breast Meat. Boneless skinless turkey breast meat prices finished last week at $2.1500, unchanged since Wed. September 21. Prices are down about 360 cents vs. year ago levels.

BEEF

NOTE: WE ARE NOW REPORTING AND FORECASTING WEIGHTED AVERAGE BLUE SHEET PRICES FOR BEEF CUTS.

Choice 112A Heavy Bnls. Lip On Rib Eyes at $6.7823 (weighted average quote) finished last week down about one cents since the Wed. September 21 quote but up about 22 cents vs. the year ago price.

Select 112A Heavy Lip On Rib Eyes at $5.6373 (weighted average quote) finished last week down about 61 cents since the Wed. September 21 quote but down about 81 cents vs. the year ago price.

Currently Choice 112A Rib Eyes are $1.1450 /lb. over Select. The 2015 annual average spread (wt. average price) had the Choice at a premium to the Select by $0.0723 per pound and the previous five years (2010 thru 2014) average spread was Choice at a premium to the Select by $0.0868 per pound.

Choice regular #168 insides finished last week quoted at $1.9726 up about 3 cents since Wed. September 21 but down about 21 cents from the year ago price.

Choice ¼ inch trimmed #168 insides finished last week quoted at $2.0341 down about 2 cents since Wed. September 21 and down about 22 cents from year ago levels.

Choice #170 Gooseneck Rounds finished last week at $2.0659 down about 0 cents since Wed. September 21 and down about 20 cents from the year ago levels.

Choice #180 (0x1) Bnls. Strip Loins finished last week quoted at $4.7385 (wt. avg.) down about 11 cents from the Wed. September 21 quote. Prices are about 64 cents over year ago levels.

Choice #184 Regular Heavy top butts finished at $3.0206 (wt. avg.) down about 6 cents since Wed. September 21 and down about 67 cents from year ago levels.

Choice #184 ¼ inch trimmed Top Butts finished at $2.8214 (wt. avg.) down about 32 cents since Wed. September 21 and down about 110 cents from the year ago levels.

Choice #185A Flap Meat prices finished Friday at $4.0012 (wt. avg.) down about 80 cents since Wed. September 21 and down about 39 cents from year ago values.

COARSE GROUND BEEF –

73CL Coarse Ground product finished last week at $1.1473 down about 8 cents since Wed. September 21 and down about 48 cents from year ago levels.

81CL Coarse Ground product finished last week at $1.4093 down about 15 cent since Wed. September 21 and down about 47 cents from the year ago quote.

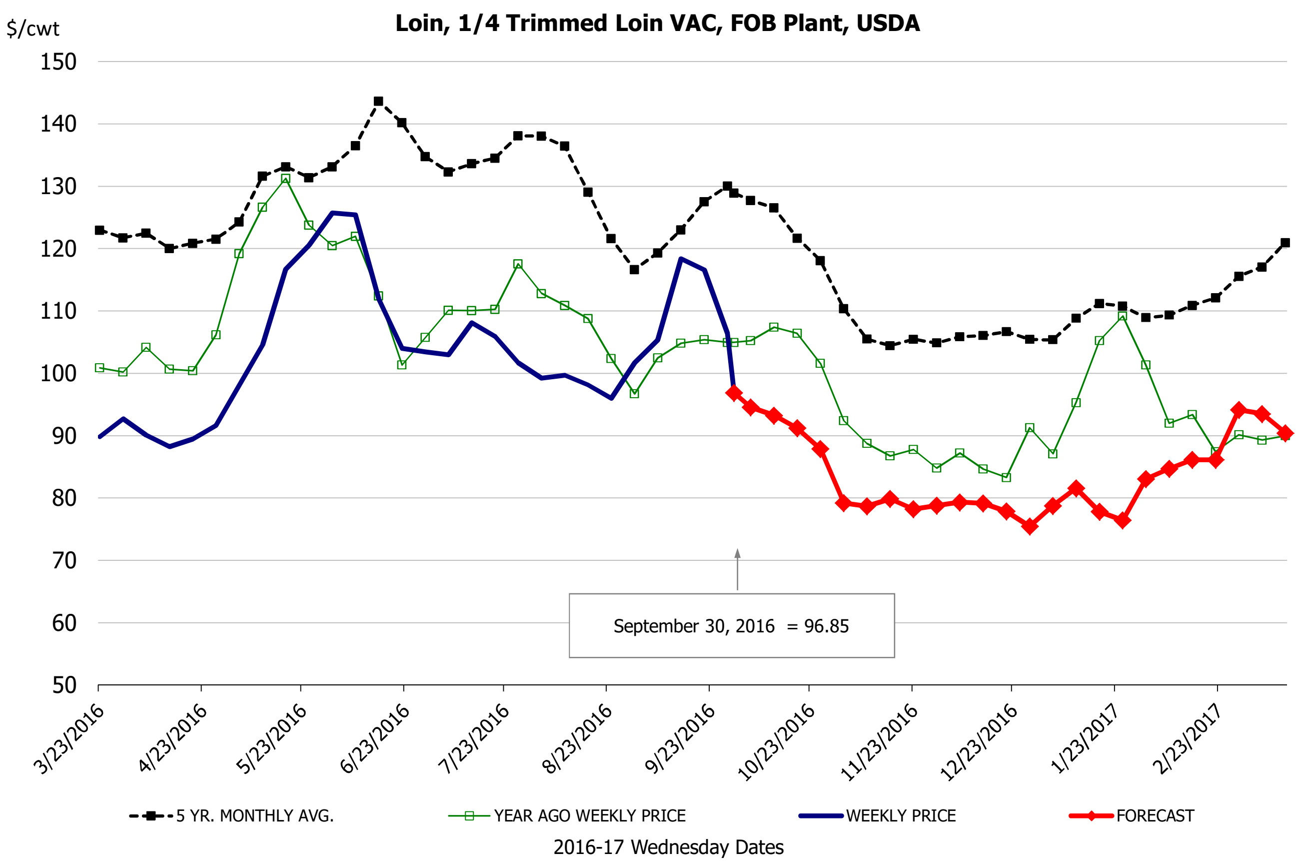
90CL Bnls. Beef prices finished the week at $1.8781 (wt. avg.) down about 11.70 cent since Wed. September 21 and down 58 compared to the year ago price quote.

50 CL Beef Trim prices finished last week at $0.3277, down about 7 cent since Wed. September 21 and down 5 cent compared to the year ago level.

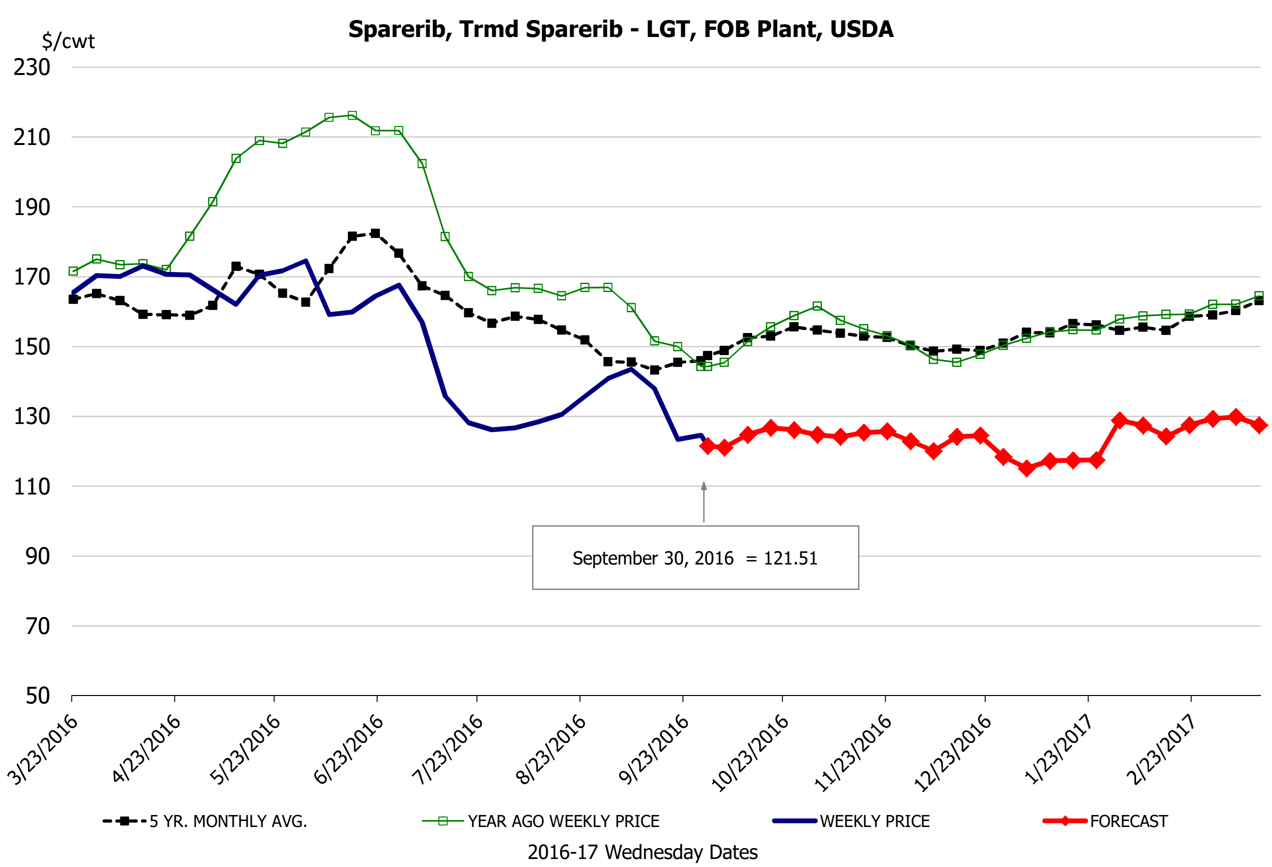
Food Service Summary Table - WT. AVE

	2016 History								2016-17 FORECAST						
	Apr	May	Jun	Jul	Aug	Sep	9/21/2016	9/30/2016	10/12/2016	Oct	Nov	Dec	Jan	Feb	Mar
PORK															
Loin, 1/4 Trimmed Loin VAC, FOB Plant, USDA	0.89	1.08	1.13	1.05	0.98	1.10	1.17	0.97	0.93	0.92	0.79	0.78	0.78	0.85	0.92
Loin, 1/8 Trimmed Loin VAC, FOB Plant, USDA	0.97	1.13	1.22	1.12	1.04	1.16	1.21	1.15	1.07	1.05	0.89	0.88	0.88	0.95	1.02
Loin, Bnls CC Strap-off, FOB Plant, USDA	1.38	1.49	1.51	1.40	1.37	1.60	1.74	1.50	1.53	1.50	1.31	1.30	1.31	1.30	1.30
Loin, Tenderloin, FOB Plant, USDA	2.21	2.52	2.91	2.66	2.22	2.16	2.14	2.14	2.19	2.14	2.07	2.05	2.08	2.15	2.18
Butt, 1/4 Trim Butt Combo, FOB Plant, USDA	0.96	1.12	1.12	1.15	0.99	1.11	1.11	1.13	1.09	1.02	0.91	0.87	0.84	0.86	0.90
Sparerib, Trmd Sparerib - LGT, FOB Plant, USDA	1.67	1.66	1.62	1.33	1.30	1.31	1.23	1.22	1.25	1.23	1.25	1.22	1.16	1.27	1.29
Sparerib, St Louis Spareribs, POLY, FZN, FOB Plant, USDA	2.56	2.61	2.61	2.44	2.42	2.36	2.45	2.19	2.07	2.04	2.11	2.08	2.02	2.10	2.12
Sparerib, Trmd Sparerib - MED, FOB Plant, USDA	1.54	1.65	1.60	1.31	1.31	1.30	1.29	1.14	1.16	1.14	1.21	1.18	1.12	1.20	1.22
Loin, Backribs 2.0#/up, FOB Plant, USDA	2.90	2.98	2.86	2.56	2.22	2.18	2.18	2.14	2.13	2.13	2.13	2.14	2.00	2.13	2.22
Ham, 17-20# Trmd Selected Ham, FOB Plant, USDA	0.64	0.67	0.75	0.79	0.71	0.73	0.66	0.52	0.62	0.62	0.65	0.57	0.55	0.58	0.57
Ham, 20-23# Trmd Selected Ham, FOB Plant, USDA	0.63	0.67	0.74	0.80	0.71	0.74	0.70	0.52	0.58	0.58	0.59	0.56	0.55	0.56	0.56
Ham, 23-27# Trmd Selected Ham, FOB Plant, USDA	0.64	0.66	0.72	0.75	0.67	0.64	0.61	0.50	0.52	0.54	0.54	0.52	0.51	0.54	0.52
Ham, 5 Muscle Ham to Blue, FOB Plant, USDA	1.03	1.03	1.14	1.14	1.14	1.14	1.14	1.14	1.31	1.37	1.22	1.14	1.03	1.07	1.04
Belly, Skin-on Belly 14-16#, FOB Plant, USDA	1.32	1.13	1.27	1.42	1.08	1.39	1.39	1.39	1.06	1.07	1.03	1.06	1.02	1.04	1.08
Belly, Derind Belly 9-13#, FOB Plant, USDA	1.51	1.33	1.52	1.54	1.08	1.14	1.24	1.32	1.30	1.32	1.32	1.31	1.27	1.32	1.34
Belly, Derind Belly 13-17#, FOB Plant, USDA	1.50	1.24	1.50	1.60	1.04	1.14	1.31	1.34	1.30	1.32	1.32	1.30	1.26	1.31	1.33
Trim, 42% Trim Combo, FOB Plant, USDA	0.38	0.46	0.36	0.42	0.49	0.32	0.30	0.26	0.25	0.26	0.21	0.18	0.22	0.25	0.28
Trim, 72% Trim Combo, FOB Plant, USDA	0.69	0.69	0.73	0.80	0.66	0.51	0.51	0.49	0.50	0.51	0.46	0.40	0.44	0.50	0.50
HOG CARCASS															
IA/MN, Base Market Hog 185 lb Carcass Basis, Plant Dlv.	0.65	0.74	0.80	0.73	0.63	0.55	0.52	0.49	0.49	0.49	0.45	0.43	0.46	0.51	0.54
BROILERS															
BROILER, NATIONAL WHOLE BIRD PRICE, USDA	0.88	0.94	0.97	0.88	0.80	0.77	0.76	0.72	0.76	0.76	0.76	0.77	0.78	0.78	0.81
N.E. BROILER BREAST BONELESS-SKINLESS, USDA	1.16	1.23	1.20	1.29	1.43	1.32	1.30	1.27	1.20	1.21	1.05	1.02	1.02	1.04	1.05
N.E. BROILER BREAST LINE RUN, USDA	0.93	0.97	0.97	0.92	0.89	0.94	0.96	0.94	0.88	0.88	0.84	0.80	0.81	0.82	0.82
N.E. BROILER LEG QUARTERS, USDA	0.35	0.37	0.36	0.35	0.32	0.34	0.33	0.33	0.35	0.34	0.32	0.32	0.34	0.34	0.34
N.E. BROILER WINGS, USDA, WT.AVG.	1.79	1.61	1.54	1.56	1.57	1.79	1.83	1.80	1.83	1.81	1.75	1.78	1.80	1.74	1.63
TURKEYS															
UB HEN TURKEYS, EAST, FROZEN 10-12LBS	1.22	1.23	1.24	1.25	1.26	1.28	1.28	1.28	1.29	1.29	1.29	1.14	1.03	1.04	1.04
UB BONELESS-SKINLESS TURKEY BREAST, TOM, FRESH	2.59	2.18	2.15	2.15	2.15	2.15	2.15	2.15	2.15	2.15	2.20	2.20	2.20	2.20	2.25
LIVE STEERS															
FIVE AREA DIRECT AVERAGE LIVE STEER, USDA	1.32	1.28	1.23	1.18	1.17	1.07	1.09	1.04	1.05	1.06	1.09	1.08	1.09	1.09	1.11
BEEF															
CHOICE, 112A, 3 RIBEYE, BONELESS, HEAVY, USDA	7.52	7.32	8.29	6.86	7.37	6.80	6.79	6.78	6.89	6.87	7.63	7.06	5.47	5.56	6.06
CHOICE, 168, 3 TOP INSIDE ROUND, 1/4" MAX, USDA	2.19	2.10	1.99	2.10	2.17	1.98	2.05	2.03	2.02	2.01	1.95	1.96	2.02	1.93	2.04
CHOICE, 170, 1 BOTTOM GOOSENECK ROUND, USDA	1.96	1.92	1.83	1.85	1.85	1.91	2.07	2.07	1.98	1.98	1.84	1.77	1.89	1.85	1.81
CHOICE, 180, 3 STRIP LOIN, BONELESS, 0x1, USDA	7.23	7.33	8.05	6.51	5.51	4.77	4.85	4.74	4.80	4.81	4.85	5.06	5.00	5.03	5.62
CHOICE, 184, 3 TOP BUTT, BONELESS, USDA	4.48	4.40	3.86	3.68	3.61	3.28	3.14	2.82	2.82	2.88	2.88	2.95	2.99	3.06	3.23
CHOICE, 185A, 4 BOTTOM SIRLOIN, FLAP, USDA	5.59	5.17	5.20	5.05	5.20	4.72	4.81	4.00	3.96	4.00	3.75	3.90	3.90	4.02	4.33
COARSE GROUND 73%, USDA	1.50	1.55	1.48	1.34	1.52	1.28	1.23	1.15	1.25	1.23	1.23	1.23	1.52	1.40	1.41
COARSE GROUND 81%, USDA	1.74	1.89	1.83	1.66	1.74	1.57	1.55	1.41	1.46	1.46	1.46	1.45	1.77	1.64	1.63
90% BONELESS BEEF, CENTRAL, FRESH, USDA	2.18	2.18	2.17	2.17	2.14	2.05	2.00	1.88	1.86	1.87	1.76	1.81	1.89	1.95	1.99
50CL BEEF TRIM, FRESH, NATIONAL, USDA	0.72	0.51	0.85	0.90	0.56	0.38	0.40	0.33	0.44	0.43	0.49	0.46	0.64	0.59	0.69

*St. Louis 2 1/4 dn rib prices are estimated at 3 1/2 dn plus $1.10



Loin, 1/4 Trimmed Loin VAC, FOB Plant, USDA
$/cwt
150
140
130
120
110
100
90
80
70
60
50
September 30, 2016 = 96.85
3/23/2016
4/23/2016
5/23/2016
6/23/2016
7/23/2016
8/23/2016
9/23/2016
10/23/2016
11/23/2016
12/23/2016
1/23/2017
2/23/2017
5 YR. MONTHLY AVG.
YEAR AGO WEEKLY PRICE
WEEKLY PRICE
FORECAST
2016-17 Wednesday Dates



Sparerib, Trmd Sparerib - LGT, FOB Plant, USDA
$/cwt
230
210
190
170
150
130
110
90
70
50
September 30, 2016 = 121.51
3/23/2016
4/23/2016
5/23/2016
6/23/2016
7/23/2016
8/23/2016
9/23/2016
10/23/2016
11/23/2016
12/23/2016
1/23/2017
2/23/2017
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YEAR AGO WEEKLY PRICE
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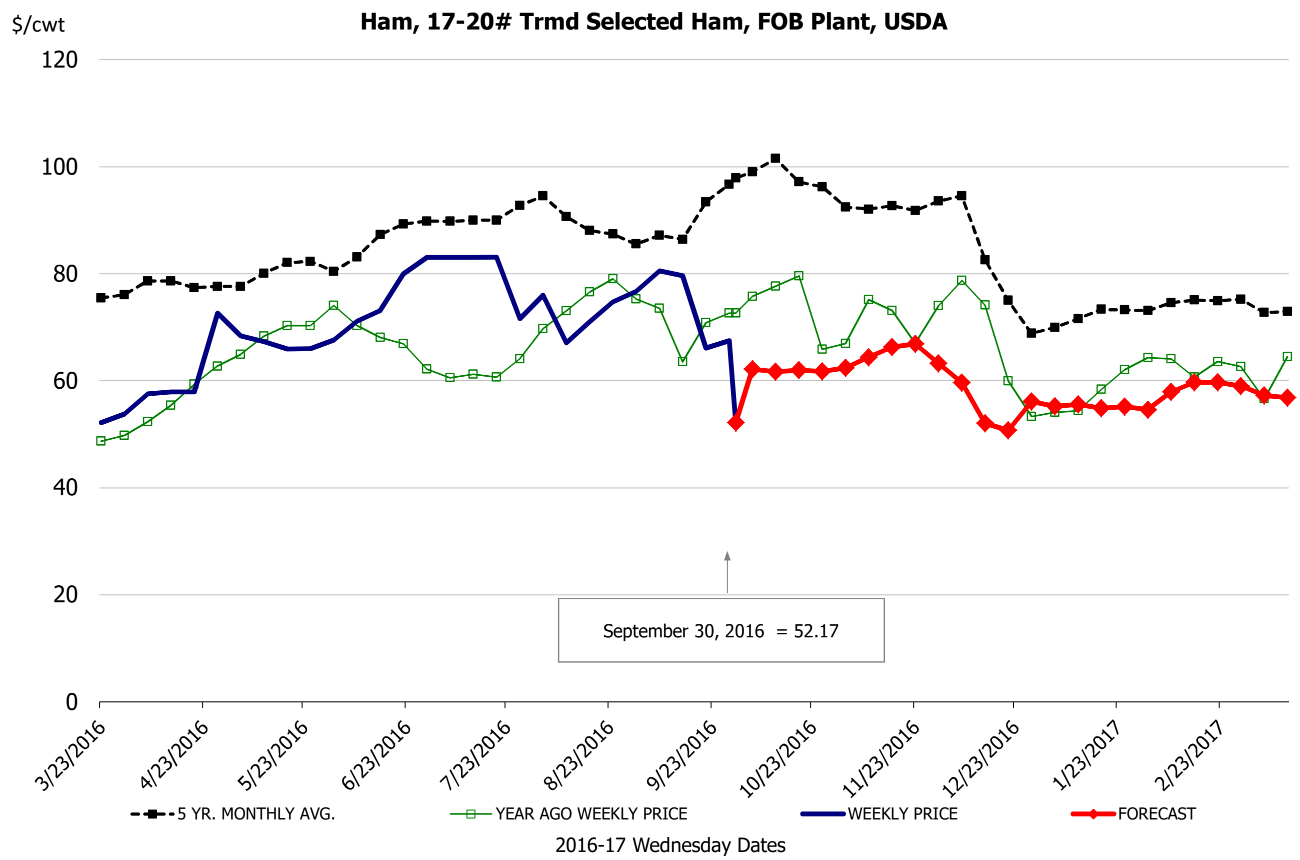
FORECAST
2016-17 Wednesday Dates



$/cwt
Ham, 17-20# Trmd Selected Ham, FOB Plant, USDA
120
100
80
60
40
20
0
September 30, 2016 = 52.17
3/23/2016
4/23/2016
5/23/2016
6/23/2016
7/23/2016
8/23/2016
9/23/2016
10/23/2016
11/23/2016
12/23/2016
1/23/2017
2/23/2017
5 YR. MONTHLY AVG.
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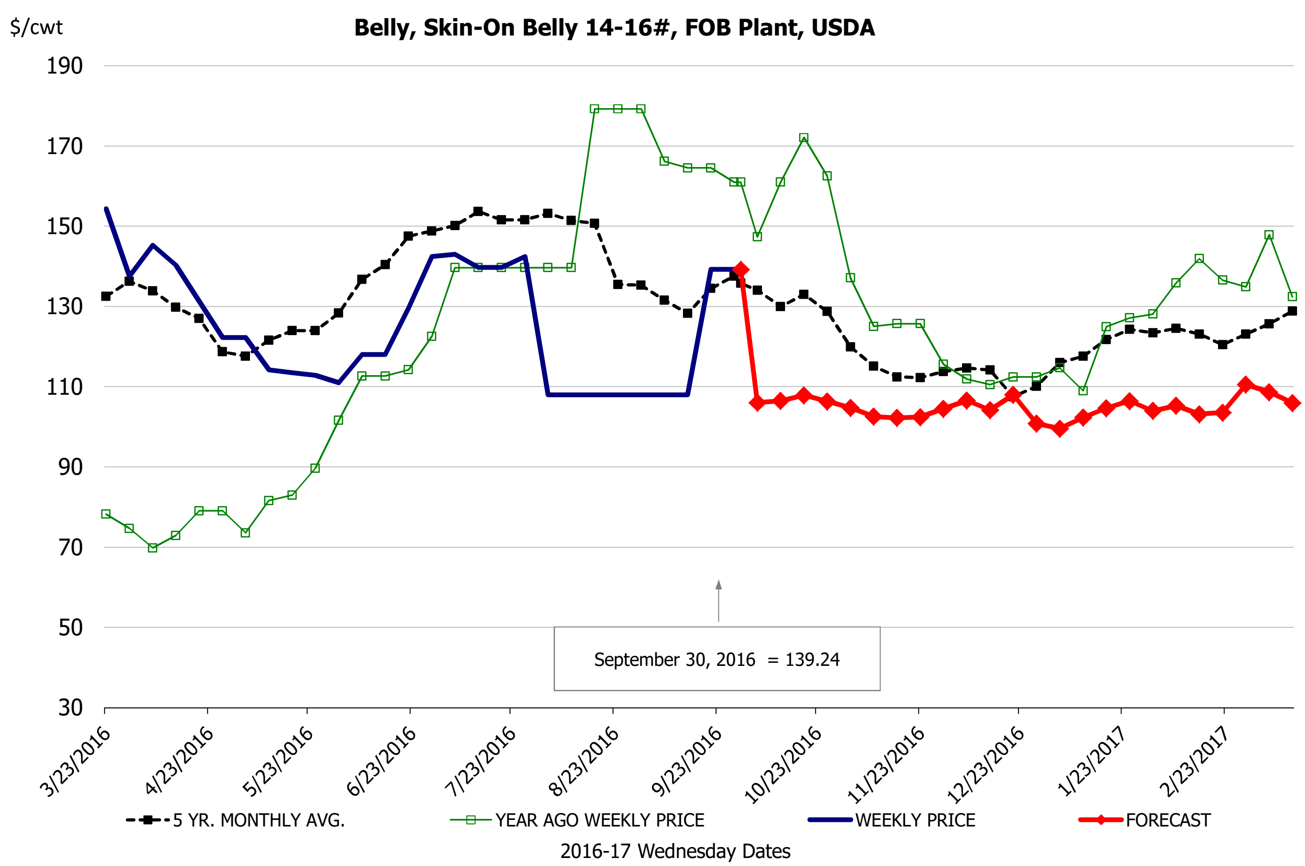

$/cwt
Belly, Skin-On Belly 14-16#, FOB Plant, USDA
190
170
150
130
110
90
70
50
30
September 30, 2016 = 139.24
3/23/2016
4/23/2016
5/23/2016
6/23/2016
7/23/2016
8/23/2016
9/23/2016
10/23/2016
11/23/2016
12/23/2016
1/23/2017
2/23/2017
5 YR. MONTHLY AVG.
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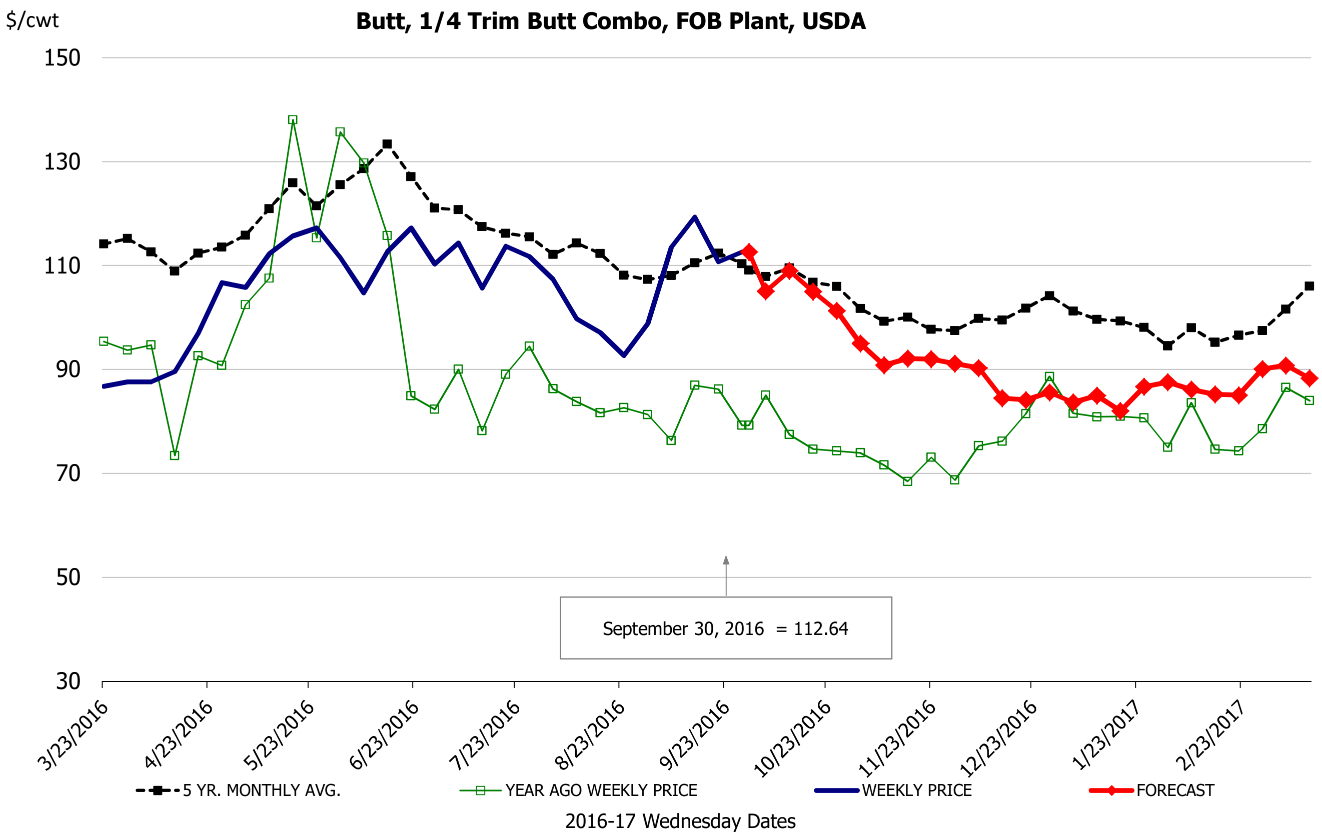
FORECAST
2016-17 Wednesday Dates


$/cwt
Butt, 1/4 Trim Butt Combo, FOB Plant, USDA
150
130
110
90
70
50
30
September 30, 2016 = 112.64
3/23/2016
4/23/2016
5/23/2016
6/23/2016
7/23/2016
8/23/2016
9/23/2016
10/23/2016
11/23/2016
12/23/2016
1/23/2017
2/23/2017
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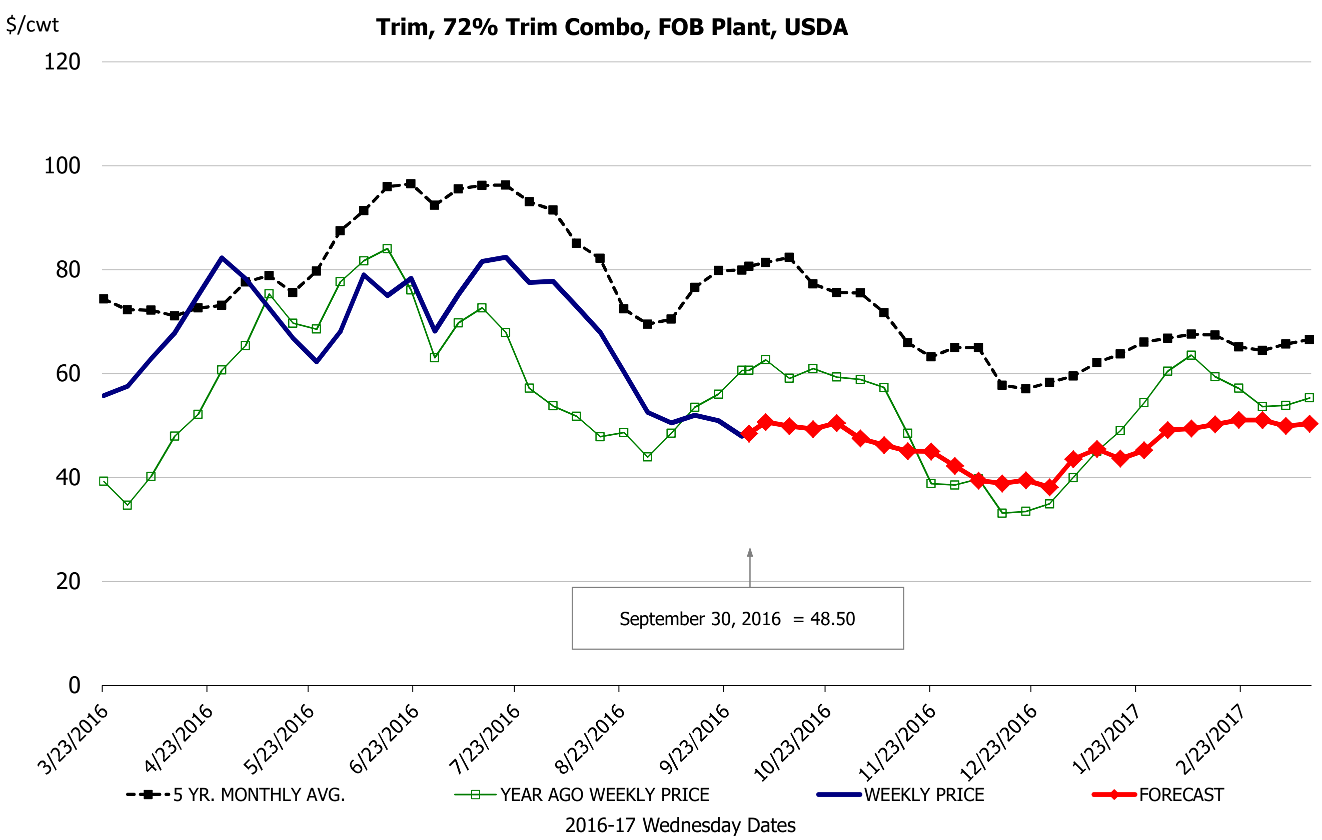
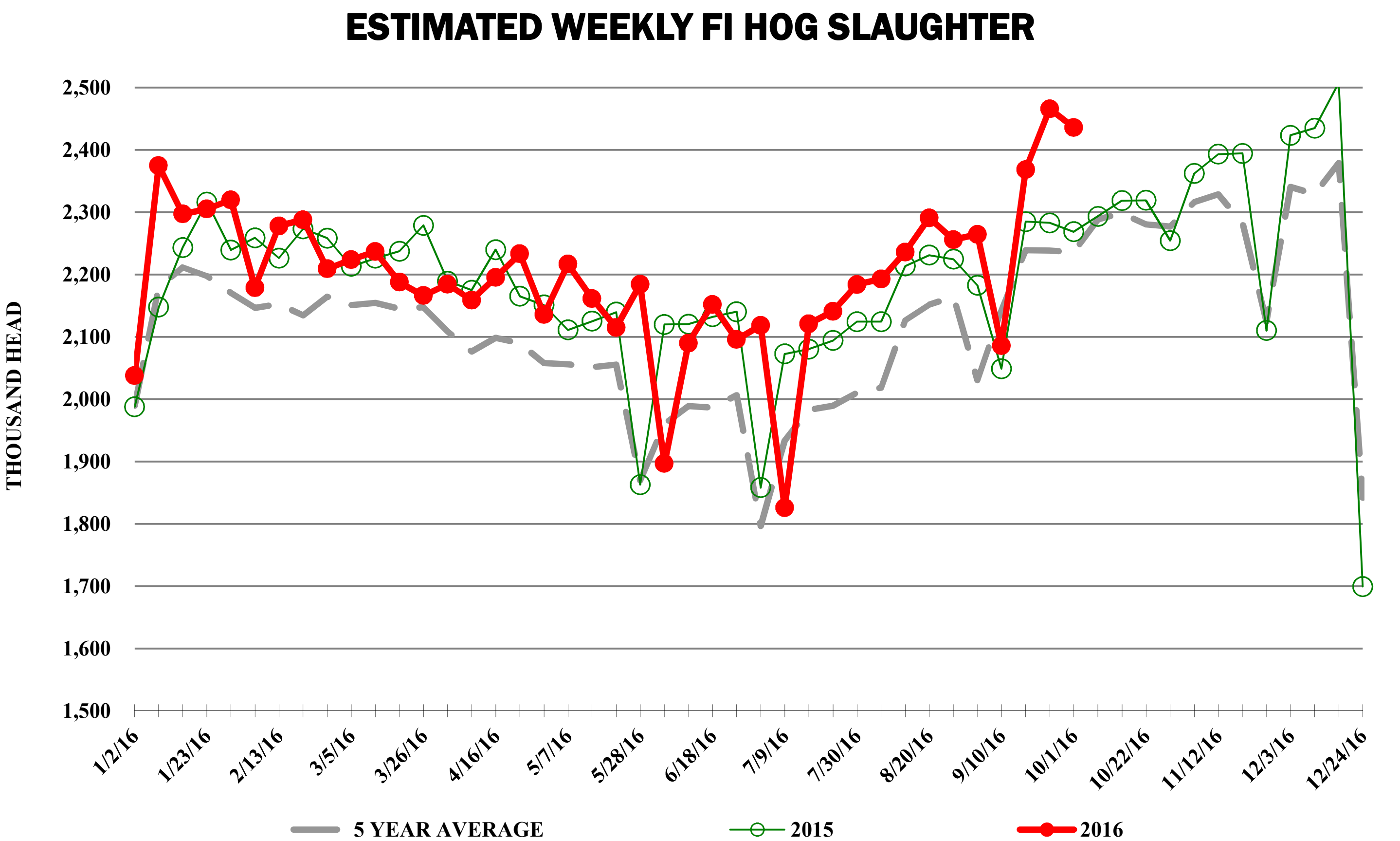
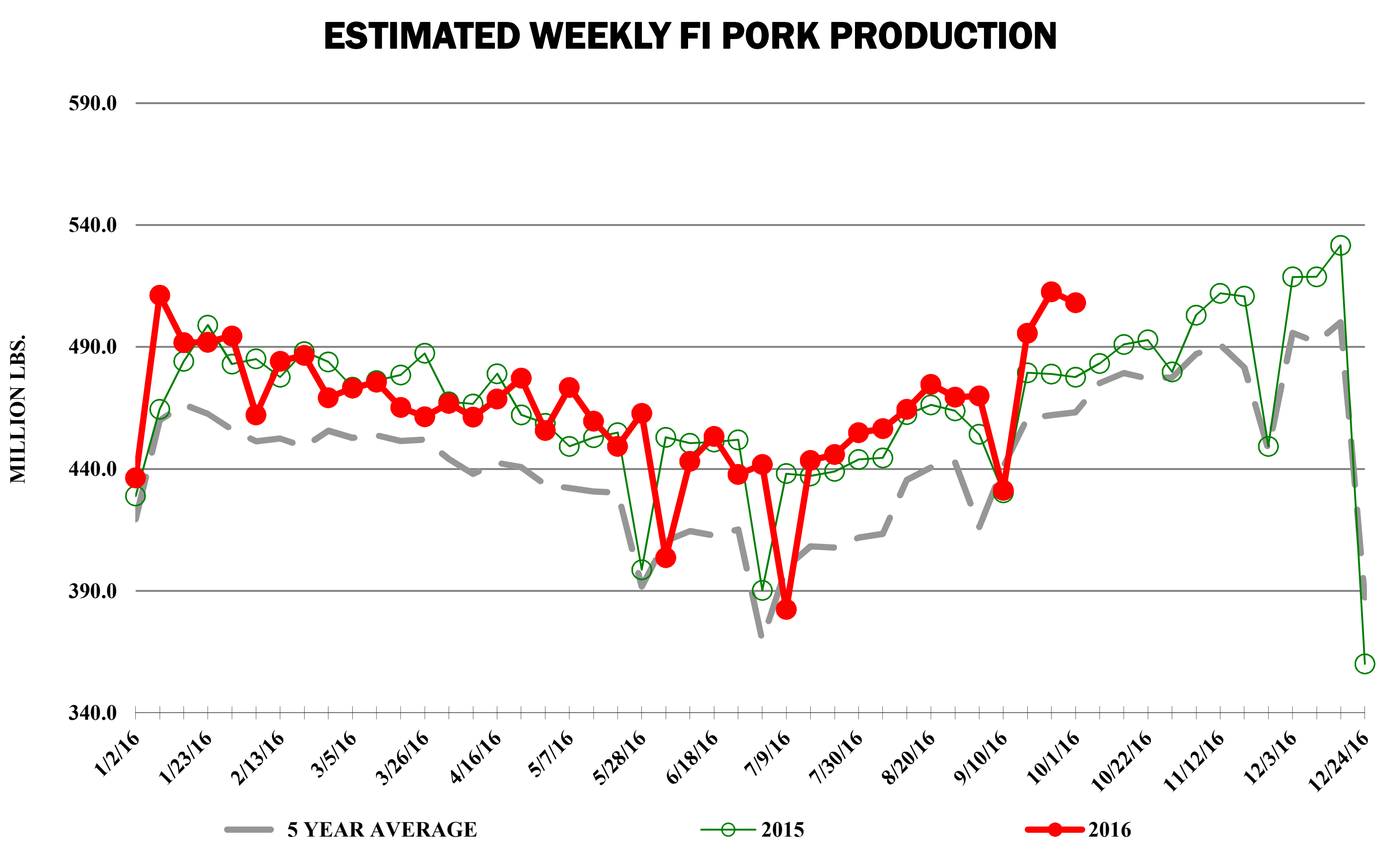

$/cwt
Trim, 72% Trim Combo, FOB Plant, USDA
120
100
80
60
40
20
0
September 30, 2016 = 48.50
3/23/2016
4/23/2016
5/23/2016
6/23/2016
7/23/2016
8/23/2016
9/23/2016
10/23/2016
11/23/2016
12/23/2016
1/23/2017
2/23/2017
5 YR. MONTHLY AVG.
YEAR AGO WEEKLY PRICE
WEEKLY PRICE
FORECAST
2016-17 Wednesday Dates



ESTIMATED WEEKLY FI HOG SLAUGHTER
THOUSAND HEAD
2,500
2,400
2,300
2,200
2,100
2,000
1,900
1,800
1,700
1,600
1,500
1/2/16
1/23/16
2/13/16
3/5/16
3/26/16
4/16/16
5/7/16
5/28/16
6/18/16
7/9/16
7/30/16
8/20/16
9/10/16
10/1/16
10/22/16
11/12/16
12/3/16
12/24/16
5 YEAR AVERAGE
2015
2016



ESTIMATED WEEKLY FI PORK PRODUCTION
MILLION LBS.
590.0
540.0
490.0
440.0
390.0
340.0
1/2/16
1/23/16
2/13/16
3/5/16
3/26/16
4/16/16
5/7/16
5/28/16
6/18/16
7/9/16
7/30/16
8/20/16
9/10/16
10/1/16
10/22/16
11/12/16
12/3/16
12/24/16
5 YEAR AVERAGE
2015
2016