Pork Merchandiser's **Profit Maximizer**

- Foodservice Edition -

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

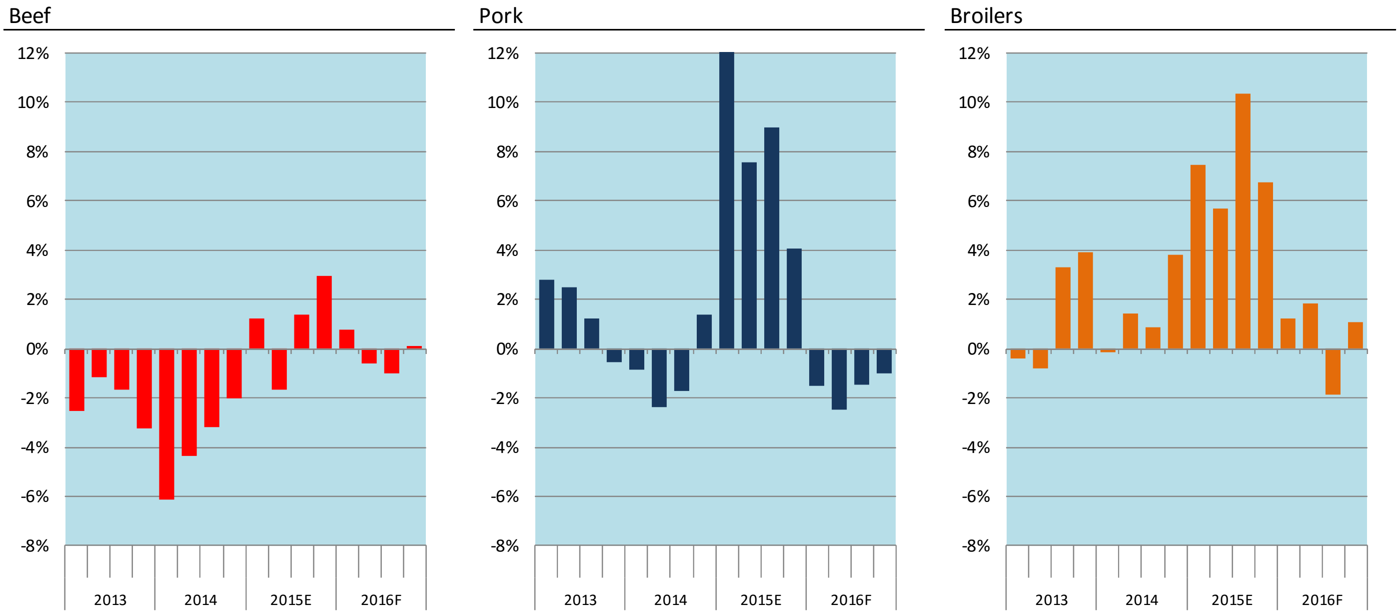
December 14, 2015

Key Points:

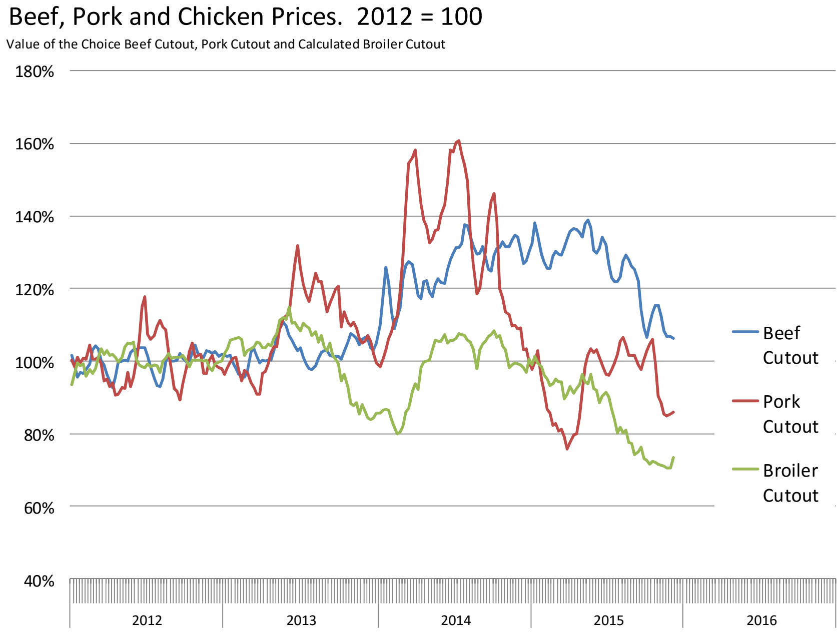
- **Meat prices pressured lower as supplies recover quickly in 2015.**
- **Supply situation will be less burdensome in 2016.**
- **Exports remain key.**
- **Potential for COOL related tariffs is a significant risk for US meat exports in 2016**

The pullback in prices across the meat complex has been much more significant than expected at the start of 2015, largely due to a sharp increase in the supply of pork, chicken and (in Q4) to a lesser extent beef. There are two factors that drive the increase in supplies available in the domestic market: a) we are producing more than we did a year ago either by bringing more animals to market and/or feeding them to heavier weights; b) we are importing more

Y/Y Change in Per Capita Disapperance for the Three Main Meat Proteins



and exporting less, thus pushing more product through domestic marketing chains. On all counts the supply expansion has been larger than earlier expected.



Situation by species:

Pork: The situation in the pork market has gone from one of extreme rationing to being quite burdensome. The last two weeks slaughter has exceeded 2.4 million head. This is not exactly a surprise as the slaughter numbers are in line with the Hogs and Pigs survey. Still, hog prices are lower than what futures were trading in September and October and speculation about booming China demand has not materialized (see next section). Per capita pork disappearance in Q1 of 2015 jumped 12% from the previous year, which explains why lean hog prices dropped to the mid $50s. For the year pork per capita disappearance is projected to be up 8.1% compared to the previous year. At 63.9 pounds per person per capita availability is still less than beef but it is the largest pork availability number since 2009. We expect per capita availability in 2016 to be modestly lower and this helps explain our forecast for a modest increase in pork prices in 2016. Per capita availability should be relatively large (historically speaking) through Q1 of 2016 at 16.1 pounds per person but it should then be seasonally lower in Q2 and Q3 of next year. Exports are a major wild card for the pork market as one out of five pounds of US pork produced goes to export. We currently expect US pork exports to increase to 5.258 billion pounds next year, 6.8% more than in 2015. The strong US dollar remains problematic for the pork supply outlook, however. There is the potential for higher tariffs from Canada and Mexico in retaliation for Country of Origin Labelling (COOL). At this point we have not factored this in our forecasts, assuming that Congress will at the last moment opt to make substantial changes to COOL. However, if the tariffs do go into effect it is likely our prices for 2016 will need to be adjusted lower.

Beef: Per capita beef disappearance in 2015 is now projected at 77.3 pounds per person (cwe. basis). This is 1% higher than the previous year. However, disappearance in Q4 is projected to be 3% above a year ago. This may not appear like a significant increase but it is the biggest since Q4 of 2004. Beef supplies in the US domestic market have recovered not because we suddenly have a lot more cattle to sell. Rather, they are a result of a dramatic slowdown in packer slaughter during the spring and summer. This backed up cattle in feedlots and dramatically increased steer weights. Cattle slaughter in Q4 of 2014 is expected to be just 0.8% higher than a year ago following a 7.8% decline in Q2 and 4.5% decline in Q3. Steer weights for the quarter are expected to be up 2.3% thus resulting in a total beef production increase of 3.2%. Beef exports also continue to languish. They are projected down 14.2% for the year at a time when US beef imports increased by almost 20%. Cold storage stocks are also up 34% from last year, implying significant month to month carryover. Is the increase in per capita availability enough to explain the price declines? The choice beef cutout in Q4 is down 16% from last year and futures have reluctantly adjusted lower, recognizing the impact of growing supplies. Keep in mind that in Q4 of 2013 per capita beef disappearance was 19.7 pounds per person compared to 19.9 pounds in

Q4 of 2015. Prices for competing meats are also sharply lower, affecting demand for beef in the near term. The current outlook is for beef per capita availability to be steady to slightly lower in the spring and summer of 2016. This is why we expect fed cattle prices in 2016 to average around $132/cwt, about 9.5% higher than the latest futures close. Still, fed cattle prices next year are expected to be lower than the 2014 and 2015 average when reductions in availability and record pork prices caused significant rationing.

<u>Chicken</u>: As with pork, chicken per capita availability increased sharply in 2015, pressuring prices lower, especially prices for leg quarters. Chicken slaughter in 2015 is projected up 2.7%. However, heavier weights have added another 1.9% to the supply increase. Further adding to the supply pressures for chicken in the domestic market is the sharp reduction in chicken exports. Broiler exports were down 20% in Q3 and we expect them to be down 10-15% in Q4 of this year. For the year broiler exports are down 11.9%, the biggest year/year reduction in chicken exports since 2002. We expect broiler per capita availability in 2016 to increase by only 0.5%. This assumes that broiler exports will rebound and increase 10% compared to 2015 levels, which is a relatively conservative estimate. However, as with pork, COOL tariffs remain a significant threat for US chicken exports as Mexico is the top market for US chicken.

<u>Bottom line</u>: Prices for all meat proteins declined sharply in 2015, largely as supplies recovered. We expect supply growth to continue in 2016 but at a much slower pace. Our working forecast is for exports to recover next year but the value of the US dollar, the slowing global economy and the potential for new tariffs Canada and Mexico could negatively impact the export outlook for 2016.

<u>Upcoming Holidays:</u>

<u>2015</u> Christmas Day (Friday December 25); Boxing Day [Canada] (Saturday 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 December 12 slaughter was 2.426 million head, up 7.2% from a year ago. In the last two weeks hog slaughter is up 7.8% vs. year ago levels.

Iowa/Minnesota, Base Lean Market Hog 185 lbs. Carcass Values. Lean hog carcass values at about 51.62 /cwt. on Friday were down $1.6/cwt since Wed. December 2. Prices are down about 33 dollars compared to year ago values.

Loin, 1/4 Trimmed Loin VAC, FOB Plant, USDA (page 8). Prices finished last week at $0.8444, down about 0.3 cent since the Wed. December 2 quote and down about 32 cents from year ago levels.

Bnls. Strap on Pork Loins. Prices finished the week at $1.2334 for the strap on loins, up 2.7 cent since Wed. December 2 but down about 37 cent from the year ago levels. Strap off loins at $1.3357 are down about 4.9 cent since Wed. December 2 and down about 37 cents compared to the year ago quote.

Boneless sirloins at $0.8934 are down slightly from the Wed. December 2 quote and down about 50.2 cents from the year ago price.

Pork tenderloin finished last week at $1.7924, up 3 cent from the Wed. December 2 quote but down about 71.7 cents from the year ago price.

¼ Trim Pork Butts (page 10), prices finished the week at $0.8906, up slightly since Wed. December 2.

Spare Ribs, Trimmed - LGT, Vac (page 8). Prices finished the week at $1.4591, down about 5 cent since Wed. December 2 and down about 22 cents from year ago levels.

Rib inventories on October 31 were 97.7 million pounds, up 40.8% percent from a year ago.

Bone-in Hams.

17/20 hams (page 9) price was $0.7718/lb., up 3.2 cents compared to prices on Wed. December 2 but down about 32 cents from a year ago.

20/23 hams finished the week at 76.50 cents, up about 7 cents since Wed. December 2 but down about 19 cents from the year ago level.

23/27 hams finished the week at 72.28 , up about 7 cents from the Wed. December 2 quote but down about 11 cents from the year ago level.

Total ham cold storage stocks on October 31 at 197.3 million pounds were up 21.7% from year ago levels.

42 CL Pork Trim "FOB Basis". Prices finished the week at 19.51 cent, down about 2.2 cent since Wed. December 2 and down about 20 cents from the year ago price.

72 CL Pork Trim "FOB Basis". Prices finished the week at 40.07 cents, up about 1 cents since the Wed. December 2 quote but down about 41 cents from the year ago level.

Freezer stocks of all trimmings on October 31 were 36.9 million pounds, up 1.2% 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 $113.00 was down 0.75 cents from a year ago.

The National Whole Bird price was quoted at 80.35 on Friday, December 12, down about 17 cents from a year ago.

Broiler slaughter for the week ending December 12 was 160.87 million head, up 2.69% from a year ago. For the last two weeks slaughter was up 0.8% vs. a year ago.

Breasts. Prices on boneless skinless breasts finished the week at $1.0001, down 3.5 cents since Wed. December 2 and still down about 32 cents from year ago levels.

Leg Quarters. The value of this item and the timing of price moves are completely dependent on the timing of export purchases and export business. Leg quarter prices were up about 4.3 cents vs. two weeks ago but at 26.70 cents per pound prices were down 19 cents from a year ago. Bird flu has been a negative factor for dark meat exports so far this year.

Wings. Prices at $1.5927 are down about 15 cents from year ago levels.

Turkeys

Hens finished last week at $1.3000, unchanged since Wed. December 2 but up about 14 cents from the year ago price.

Toms finished last week at $1.3000, down slightly since Wed. December 2 but up about 14 cent from the year ago price.

Total turkey supplies in the freezer on October 31 were up 8.9% from a year ago at 356.0 million pounds. Whole birds were up 13.9% from a year ago with an inventory of 193.6 million pounds.

Turkey slaughter was 4.1190 million head for the week ending December 5, down -7.21% from a year ago. For the last two weeks slaughter has been down 7.8%.

Boneless Turkey Breast Meat. Boneless skinless turkey breast meat prices finished last week at $5.8000, down since Wed. December 2. Prices are up about 191 cents vs. year ago prices.

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 $8.5842 (weighted average quote) finished last week up about 5 cents since the Wed. December 2 quote and up about 10 cents vs. the year ago price.

Select 112A Heavy Lip On Rib Eyes at $7.5441 (weighted average quote) finished last week up about 8 cents since the Wed. December 2 quote but up about 61 cents vs. the year ago price.

Currently Choice 112A Rib Eyes are $1.0401 /lb. over Select. The 2013 annual average spread (wt. average price) had the Choice at a premium to the Select by $0.7477 per pound and the previous five years (2009 thru 2013) average spread was Choice at a premium to the Select by $0.7950 per pound.

Choice regular #168 insides finished last week quoted at $1.8120 down about 14 cents since Wed. December 2 and down about 105 cents from the year ago price.

Choice ¼ inch trimmed #168 insides finished last week quoted at $1.9960 down about 5 cents since Wed. December 2 and down about 93 cents from year ago levels.

Choice #170 Gooseneck Rounds finished last week at $2.0862 up about 12 cents since Wed. December 2 but down about 56 cents from the year ago levels.

Choice #180 (0x1) Bnls. Strip Loins finished last week quoted at $5.2600 (wt. avg.) up about 14 cents from the Wed. December 2 quote. Prices are about 21 cents over year ago levels.

Choice #184 Regular Heavy top butts finished at $2.8037 (wt. avg.) down about 16 cents since Wed. December 2 and down about 71 cents from year ago levels.

Choice #184 ¼ inch trimmed Top Butts finished at $3.0095 (wt. avg.) up about 11 cents since Wed. December 2 but down about 68 cents from the year ago levels.

Choice #185A Flap Meat prices finished Friday at $4.1464 (wt. avg.) up about 16 cents since Wed. December 2 but down about 4 cents from year ago values.

COARSE GROUND BEEF –

73CL Coarse Ground product finished last week at $1.3057 down about 6 cents since Wed. December 2 and down about 95 cents from year ago levels.

81CL Coarse Ground product finished last week at $1.4482 down about 16 cent since Wed. December 2 and down about 126 cents from the year ago quote.

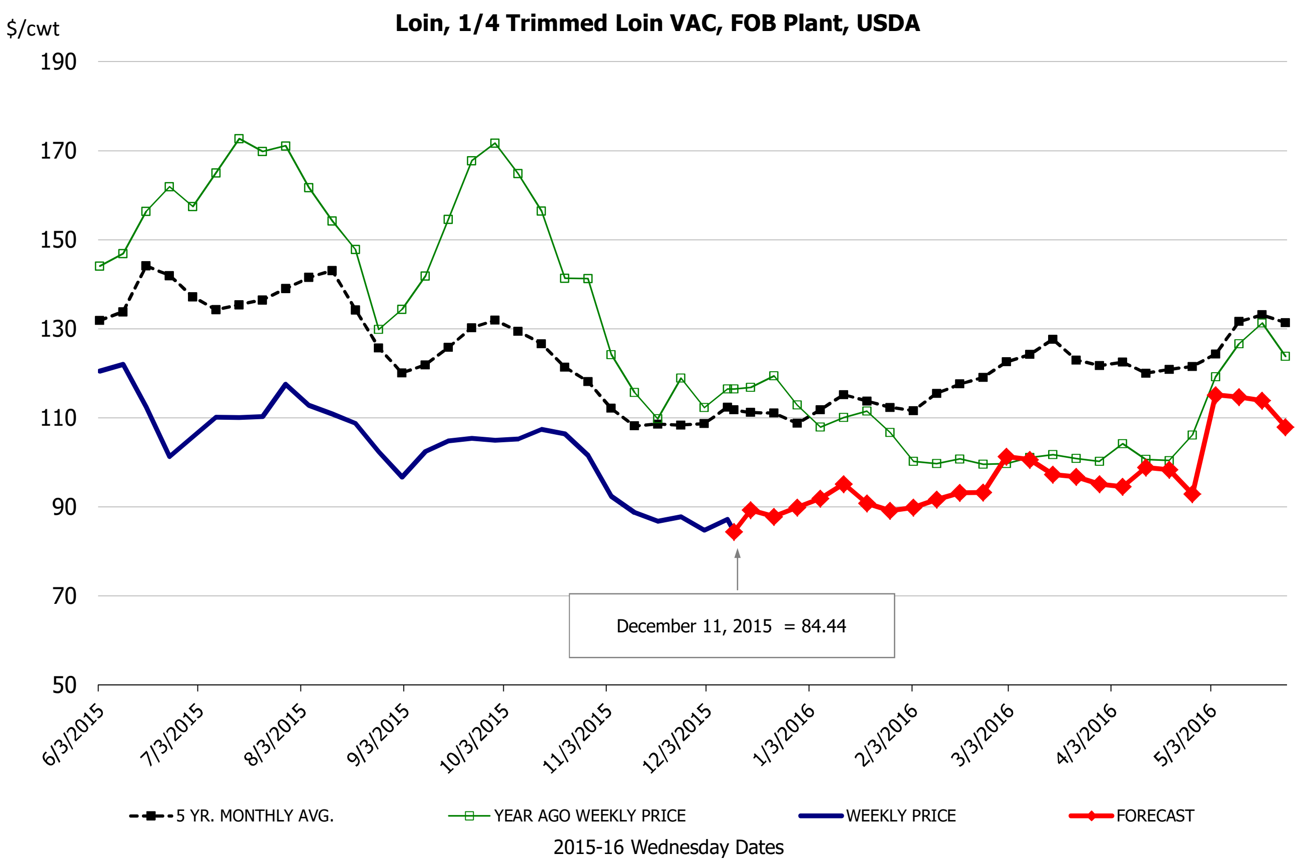
90CL Bnls. Beef prices finished the week at $1.8719 (wt. avg.) down about 19 cent since Wed. December 2 and down 107 compared to the year ago price quote.

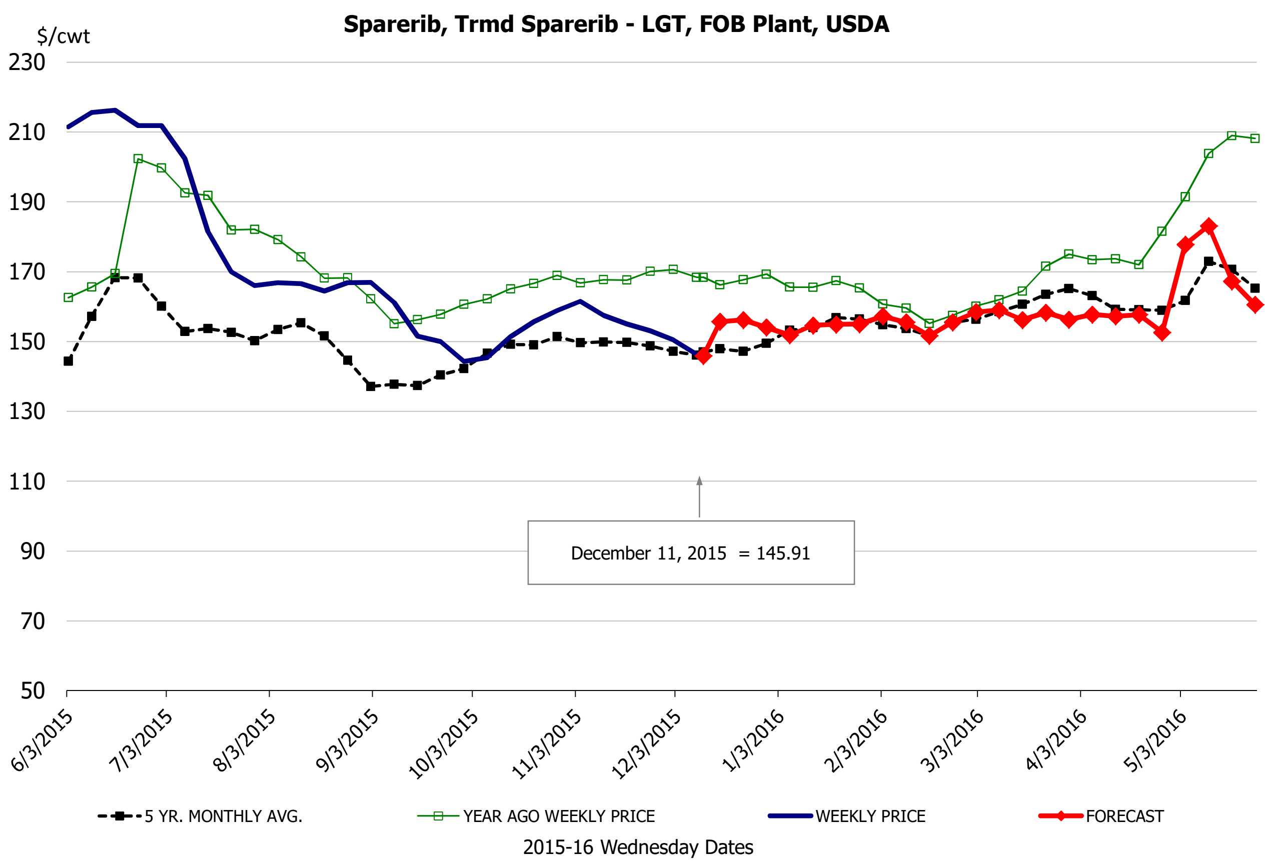
50 CL Beef Trim prices finished last week at $0.3916, down about 4 cent since Wed. December 2 and down 64 compared to the year ago level.

Food Service Summary Table - WT. AVE

	2015 History								2015-16 FORECAST						
	Jun	Jul	Aug	Sep	Oct	Nov	12/2/2015	12/11/2015	12/23/2015	Dec	Jan	Feb	Mar	Apr	May
PORK															
Loin, 1/4 Trimmed Loin VAC, FOB Plant, USDA	1.12	1.11	1.07	1.02	1.04	0.89	0.85	0.84	0.88	0.88	0.91	0.92	0.99	0.96	1.12
Loin, 1/8 Trimmed Loin VAC, FOB Plant, USDA	1.20	1.17	1.14	1.07	1.08	0.96	0.94	0.89	0.95	0.95	0.98	0.98	1.06	1.02	1.19
Loin, Bnls CC Strap-off, FOB Plant, USDA	1.56	1.55	1.58	1.52	1.70	1.46	1.39	1.34	1.51	1.46	1.46	1.40	1.53	1.47	1.64
Loin, Tenderloin, FOB Plant, USDA	2.48	2.61	2.42	2.19	2.11	1.95	1.76	1.79	1.88	1.89	1.96	2.08	2.14	2.11	2.45
Butt, 1/4 Trim Butt Combo, FOB Plant, USDA	1.07	0.83	0.85	0.84	0.78	0.73	0.69	0.73	0.74	0.77	0.75	0.79	0.83	0.84	0.97
Sparerib, Trmd Sparerib - LGT, FOB Plant, USDA	2.11	1.79	1.64	1.52	1.51	1.55	1.50	1.46	1.56	1.53	1.53	1.55	1.58	1.57	1.71
Sparerib, St Louis Spareribs, POLY, FZN, FOB Plant, USDA	2.63	2.71	2.58	2.52	2.43	2.47	2.34	2.55	2.51	2.46	2.46	2.47	2.52	2.49	2.63
Sparerib, Trmd Sparerib - MED, FOB Plant, USDA	2.05	1.75	1.65	1.49	1.50	1.50	1.46	1.39	1.49	1.48	1.48	1.48	1.53	1.50	1.64
Loin, Backribs 2.0#/up, FOB Plant, USDA	2.93	2.61	2.43	2.26	2.23	2.37	2.41	2.44	2.41	2.40	2.35	2.32	2.40	2.41	2.70
Ham, 17-20# Trmd Selected Ham, FOB Plant, USDA	0.68	0.63	0.73	0.70	0.75	0.68	0.74	0.77	0.64	0.72	0.60	0.63	0.64	0.63	0.68
Ham, 20-23# Trmd Selected Ham, FOB Plant, USDA	0.64	0.58	0.72	0.67	0.72	0.66	0.70	0.77	0.60	0.69	0.59	0.62	0.63	0.61	0.67
Ham, 23-27# Trmd Selected Ham, FOB Plant, USDA	0.61	0.56	0.72	0.62	0.66	0.61	0.66	0.72	0.58	0.64	0.57	0.59	0.59	0.58	0.65
Ham, 5 Muscle Ham to Blue, FOB Plant, USDA	0.98	0.93	0.96	0.96	0.96		0.96	0.96	1.01	1.04	1.02	1.06	1.06	1.05	1.16
Belly, Skin-on Belly 14-16#, FOB Plant, USDA	1.03	1.28	1.79	1.57	1.61	1.36	1.16	1.03	1.10	1.08	1.16	1.22	1.31	1.32	1.36
Belly, Derind Belly 9-13#, FOB Plant, USDA	1.28	1.71	2.08	1.92	1.97	1.41	1.40	1.28	1.41	1.39	1.46	1.54	1.66	1.67	1.72
Belly, Derind Belly 13-17#, FOB Plant, USDA	1.27	1.64	2.05	1.94	1.95	1.44	1.22	1.26	1.39	1.37	1.44	1.52	1.64	1.65	1.70
Trim, 42% Trim Combo, FOB Plant, USDA	0.45	0.35	0.29	0.32	0.30	0.24	0.22	0.20	0.23	0.25	0.27	0.33	0.36	0.38	0.41
Trim, 72% Trim Combo, FOB Plant, USDA	0.77	0.64	0.49	0.52	0.60	0.50	0.39	0.40	0.48	0.49	0.49	0.58	0.60	0.58	0.63
HOG CARCASS															
IA/MN, Base Market Hog 185 lb Carcass Basis, Plant Dlv.	0.77	0.76	0.75	0.69	0.69	0.53	0.53	0.52	0.57	0.57	0.59	0.61	0.64	0.65	0.73
BROILERS															
BROILER, NATIONAL WHOLE BIRD PRICE, USDA	1.01	0.91	0.83	0.77	0.74	0.75	0.82	0.80	0.81	0.80	0.80	0.80	0.81	0.82	0.86
N.E. BROILER BREAST BONELESS-SKINLESS, USDA	1.48	1.40	1.40	1.29	1.11	1.06	1.03	1.00	1.03	1.03	1.08	1.15	1.20	1.32	1.44
N.E. BROILER BREAST LINE RUN, USDA	1.07	1.01	0.91	0.83	0.77	0.77	0.78	0.78	0.78	0.78	0.79	0.80	0.81	0.89	0.97
N.E. BROILER LEG QUARTERS, USDA	0.28	0.26	0.24	0.24	0.23	0.23	0.22	0.27	0.28	0.27	0.27	0.27	0.27	0.27	0.28
N.E. BROILER WINGS, USDA, WT.AVG.	1.84	1.84	1.77	1.67	1.71	1.63	1.59	1.59	1.70	1.65	1.91	1.81	1.68	1.67	1.59
TURKEYS															
UB HEN TURKEYS, EAST, FROZEN 10-12LBS	1.18	1.24	1.30	1.37	1.40	1.39	1.32	1.30	1.24	1.29	1.18	1.10	1.05	1.05	1.05
UB BONELESS-SKINLESS TURKEY BREAST, TOM, FRESH	4.44	5.20	5.64	5.72	5.81	5.85	5.85	5.80	5.46	5.60	5.00	4.50	4.10	3.60	3.30
LIVE STEERS															
FIVE AREA DIRECT AVERAGE LIVE STEER, USDA	1.55	1.49	1.49	1.37	1.28	1.29	1.26	1.20	1.23	1.22	1.27	1.30	1.31	1.33	1.30
BEEF															
CHOICE, 112A, 3 RIBEYE, BONELESS, HEAVY, USDA	7.79	7.10	7.64	6.96	6.98	8.11	8.53	8.58	7.40	8.40	5.94	6.10	6.42	6.60	6.87
CHOICE, 168, 3 TOP INSIDE ROUND, 1/4" MAX, USDA	2.96	2.86	2.99	2.51	2.25	2.13	2.04	2.00	2.21	2.10	2.42	2.30	2.44	2.39	2.32
CHOICE, 170, 1 BOTTOM GOOSENECK ROUND, USDA	2.48	2.46	2.45	2.38	2.17	2.05	1.97	2.09	2.14	2.08	2.35	2.35	2.28	2.17	2.15
CHOICE, 180, 3 STRIP LOIN, BONELESS, 0x1, USDA	7.32	5.91	6.39	5.85	5.50	5.49	5.12	5.26	5.29	5.20	5.38	5.56	6.20	6.74	6.96
CHOICE, 184, 3 TOP BUTT, BONELESS, USDA	3.99	4.06	4.45	4.35	3.37	3.07	2.95	3.01	3.13	3.14	3.28	3.39	3.56	3.68	3.70
CHOICE, 185A, 4 BOTTOM SIRLOIN, FLAP, USDA	5.45	4.83	4.99	4.67	4.30	4.09	3.99	4.15	4.22	4.14	4.17	4.38	4.82	4.86	5.10
COARSE GROUND 73%, USDA	1.96	1.79	1.97	1.80	1.62	1.46	1.36	1.31	1.48	1.39	1.73	1.62	1.62	1.67	1.70
COARSE GROUND 81%, USDA	2.30	2.31	2.35	2.04	1.91	1.71	1.61	1.45	1.67	1.56	2.05	1.94	1.88	1.88	1.98
90% BONELESS BEEF, CENTRAL, FRESH, USDA	2.94	2.90	2.82	2.72	2.33	2.14	2.06	1.87	2.08	2.02	2.15	2.28	2.29	2.29	2.26
50CL BEEF TRIM, FRESH, NATIONAL, USDA	0.81	0.66	0.68	0.49	0.48	0.51	0.43	0.39	0.45	0.45	0.50	0.48	0.61	0.57	0.59

*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
190
170
150
130
110
90
70
50
December 11, 2015 = 84.44
6/3/2015
7/3/2015
8/3/2015
9/3/2015
10/3/2015
11/3/2015
12/3/2015
1/3/2016
2/3/2016
3/3/2016
4/3/2016
5/3/2016
5 YR. MONTHLY AVG.
YEAR AGO WEEKLY PRICE
WEEKLY PRICE
FORECAST
2015-16 Wednesday Dates


Sparerib, Trmd Sparerib - LGT, FOB Plant, USDA
$/cwt
230
210
190
170
150
130
110
90
70
50
December 11, 2015 = 145.91
6/3/2015
7/3/2015
8/3/2015
9/3/2015
10/3/2015
11/3/2015
12/3/2015
1/3/2016
2/3/2016
3/3/2016
4/3/2016
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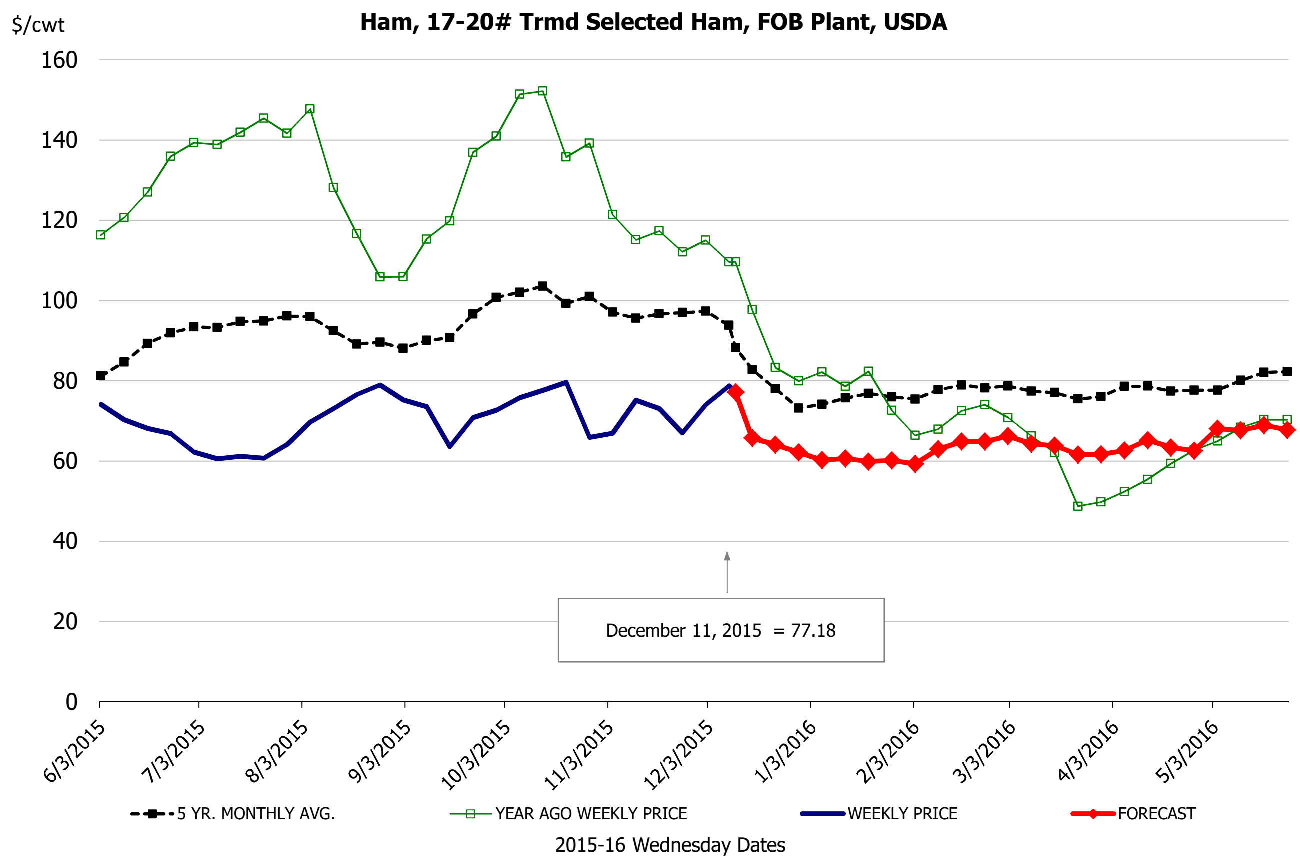
$/cwt
Ham, 17-20# Trmd Selected Ham, FOB Plant, USDA
160
140
120
100
80
60
40
20
0
December 11, 2015 = 77.18
6/3/2015
7/3/2015
8/3/2015
9/3/2015
10/3/2015
11/3/2015
12/3/2015
1/3/2016
2/3/2016
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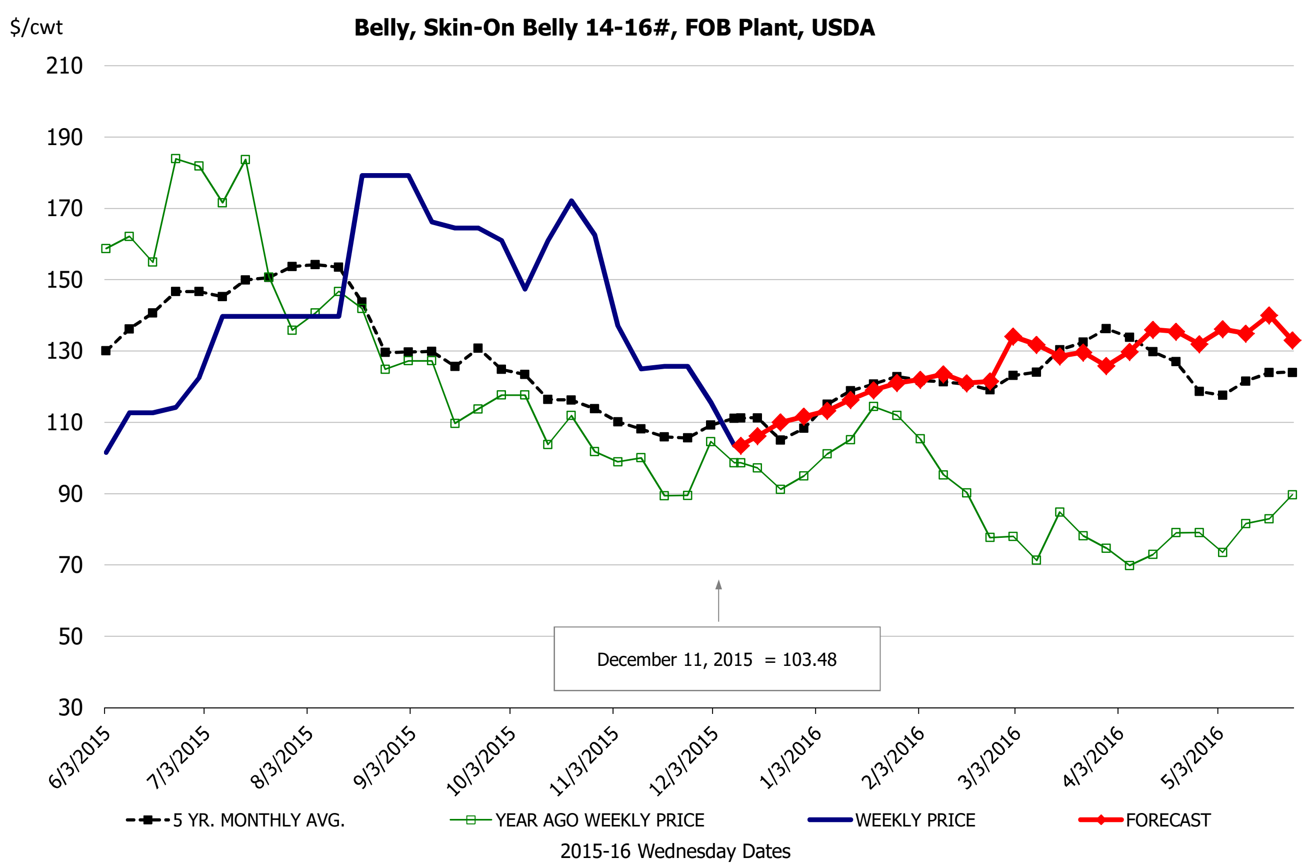
$/cwt
Belly, Skin-On Belly 14-16#, FOB Plant, USDA
210
190
170
150
130
110
90
70
50
30
December 11, 2015 = 103.48
6/3/2015
7/3/2015
8/3/2015
9/3/2015
10/3/2015
11/3/2015
12/3/2015
1/3/2016
2/3/2016
3/3/2016
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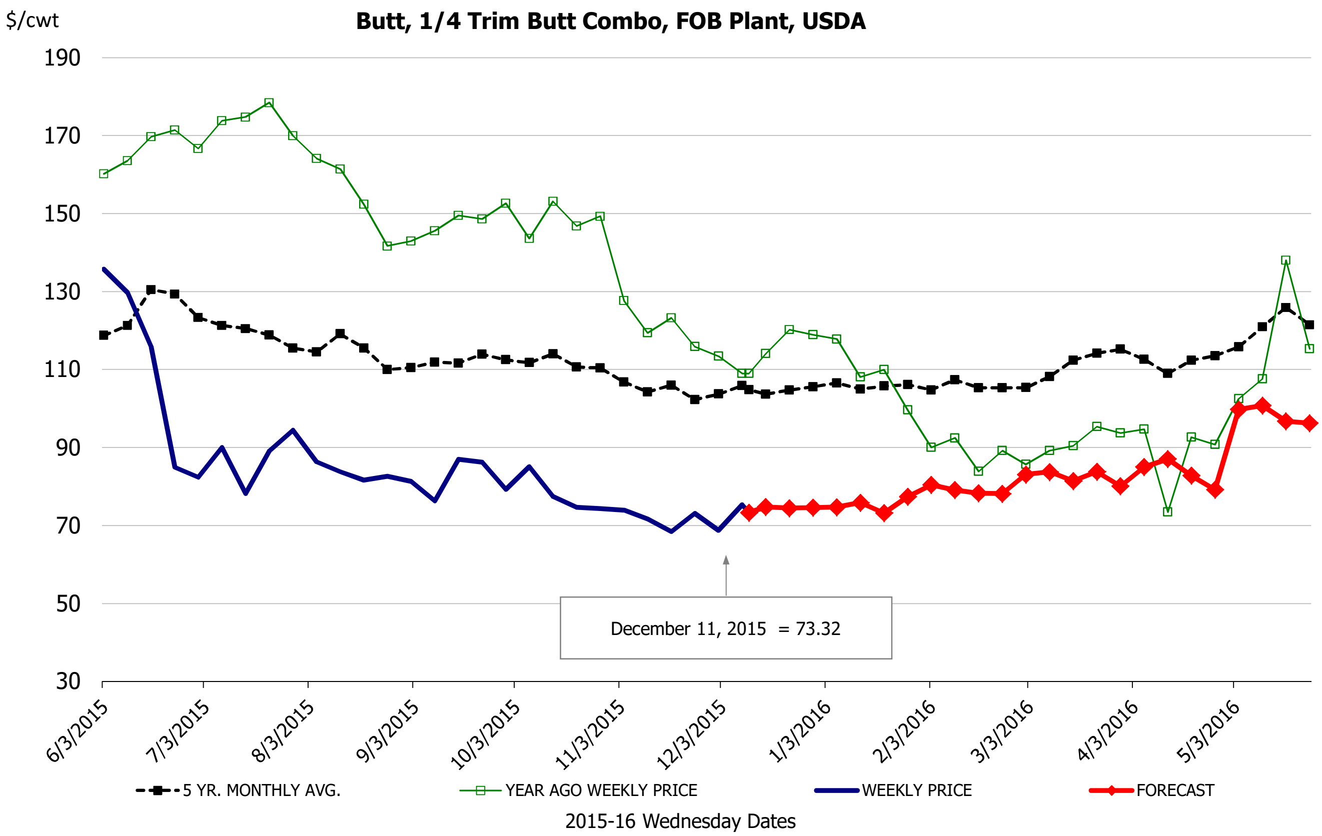
$/cwt
Butt, 1/4 Trim Butt Combo, FOB Plant, USDA
190
170
150
130
110
90
70
50
30
December 11, 2015 = 73.32
6/3/2015
7/3/2015
8/3/2015
9/3/2015
10/3/2015
11/3/2015
12/3/2015
1/3/2016
2/3/2016
3/3/2016
4/3/2016
5/3/2016
5 YR. MONTHLY AVG.
YEAR AGO WEEKLY PRICE
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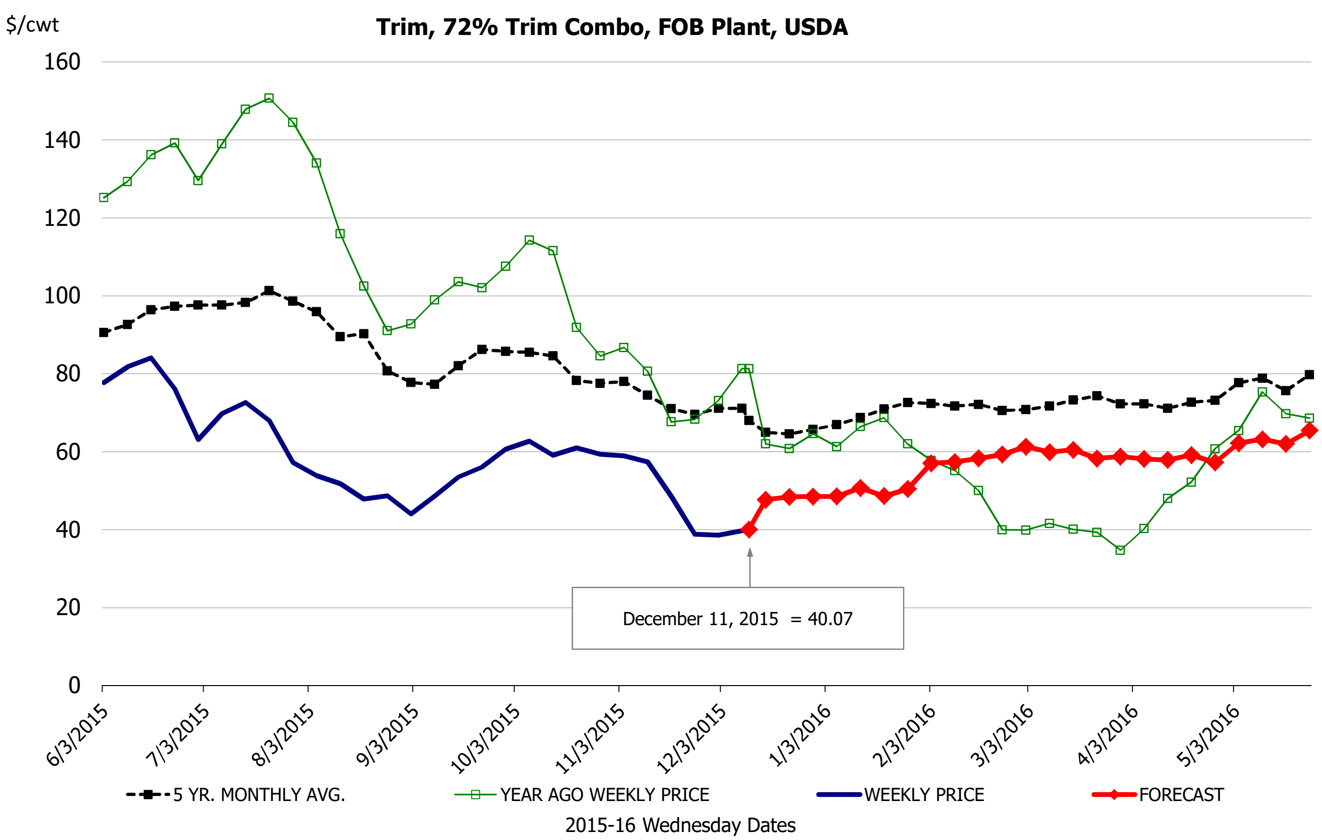
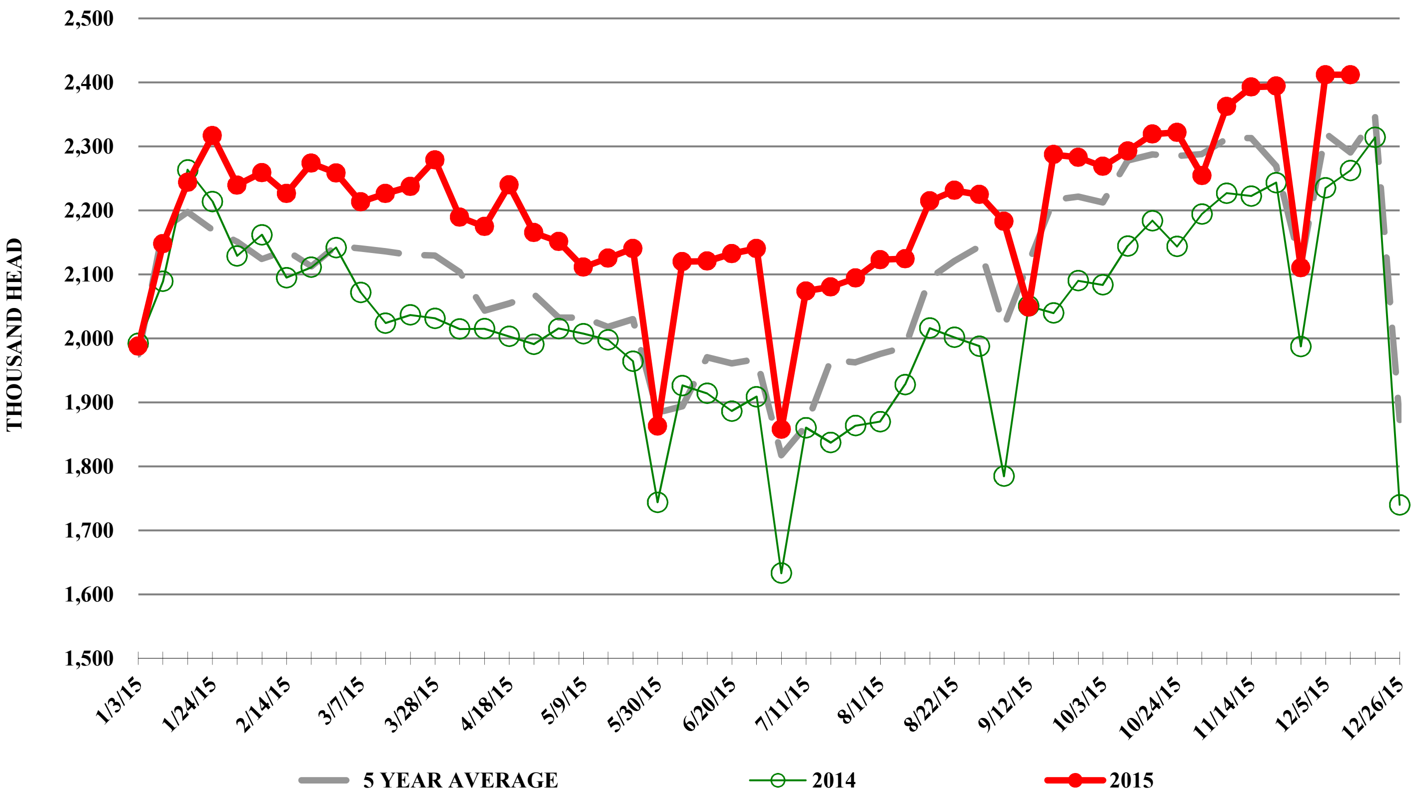
FORECAST
2015-16 Wednesday Dates


$/cwt
Trim, 72% Trim Combo, FOB Plant, USDA
160
140
120
100
80
60
40
20
0
December 11, 2015 = 40.07
6/3/2015
7/3/2015
8/3/2015
9/3/2015
10/3/2015
11/3/2015
12/3/2015
1/3/2016
2/3/2016
3/3/2016
4/3/2016
5/3/2016
5 YR. MONTHLY AVG.
YEAR AGO WEEKLY PRICE
WEEKLY PRICE
FORECAST
2015-16 Wednesday Dates

ESTIMATED WEEKLY FI HOG SLAUGHTER



ESTIMATED WEEKLY FI PORK PRODUCTION