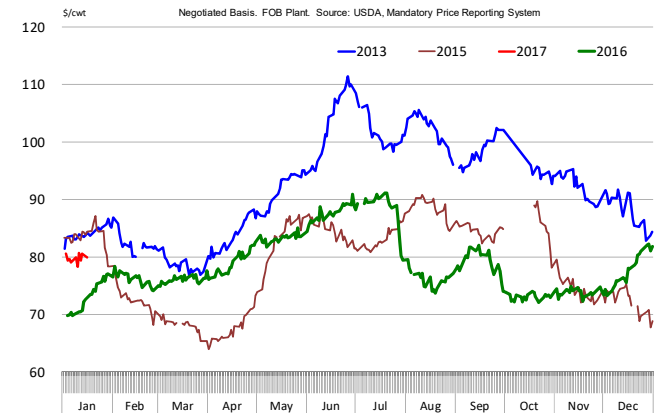


For those that watch futures or meat product markets on a daily basis a certain amount of noise is par of the course. But we have noticed that **the amount of noise in the pork market has increased significantly in the last three months and this, at least in our view, has added to the overall volatility.** To be sure, the reality of snug packing capacity and record hog numbers has played a role in this. But so have changes to the way in which USDA calculates the value of the individual pork primals and, ultimately, the value of the overall carcass. As USDA notes in their methodology overview, the pork carcass cutout is “an estimate of the value of a 53-54% lean, 205 lb. hog carcass based upon current wholesale prices being paid for sub-primal pork cuts.” Since October USDA has made two changes in how the cutout is calculated. The first change came in October whereby USDA started to include boneless hams in its calculation of the ham primal. The reasoning for this change was solid as there was significant trade taking place in the market for boneless hams (insides, outsides, knuckles) and this was not being reflected in the overall total. The second change came at the start of the year where USDA updated the various factors it uses to calculate the cutout value.

Are we seeing more volatility in the value of the ham primal? We think the answer to that is “Yes”. The second chart to the right shows the percentage change in the day to day value of the ham primal. Since the end of October, the standard deviation in the day to day variation of the ham primal has been 6%, about double what it was for the period Jan 2013 - October 2016. And this includes the summer and fall of 2014 when PEDv had an extremely disruptive impact in the hog and pork markets. In the two week period since the start of this year we have seen the value of the ham primal drop 11% one day, jump 7% the following day, then drop 9% increase 12% and so forth. We think the reason for the wild moves has to do with the relative volume of various ham products traded in a given day. If one day there is a very light trade of heavy hams and more volume on the boneless product then the primal value naturally jumps higher and vice versa. What has further contributed to the volatility not that boneless hams are part of the equation is that boneless ham values have exploded. The last chart shows the ratio of ham insides relative to the price of #23-27 hams. While that ratio tended to move around depending on the time of year, insides generally received a 1.2 to 1.6 multiple relative to the bone-in product. Last fall the multiple hit 2.2 and even today it is still significantly higher than in previous years. There is a lot of speculation as to why the value of boneless products has exploded but labor constraints and the fact that hog supplies have been so heavy are mentioned as key reasons for the spike.

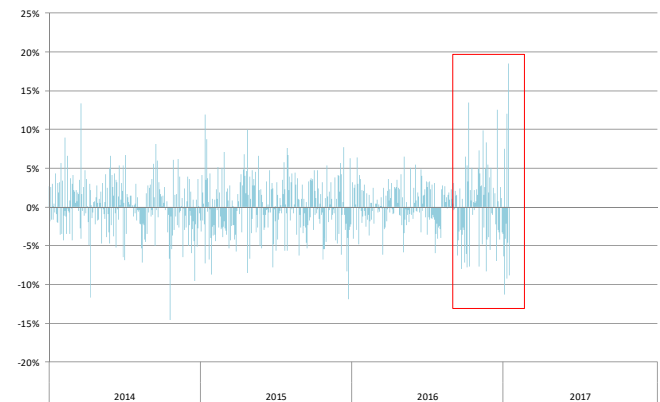
For now market participants need to take the heightened volatility in the value of the cutout into consideration. Market participants have been watching the cutout value closely to gauge packer interest in bidding on hogs. But in any given day just looking at the topline cutout number can be misleading. Rather we urge you to look at moves in the individual primals as well as the volume of product traded in a given day.

Lean Hog Carcass Value



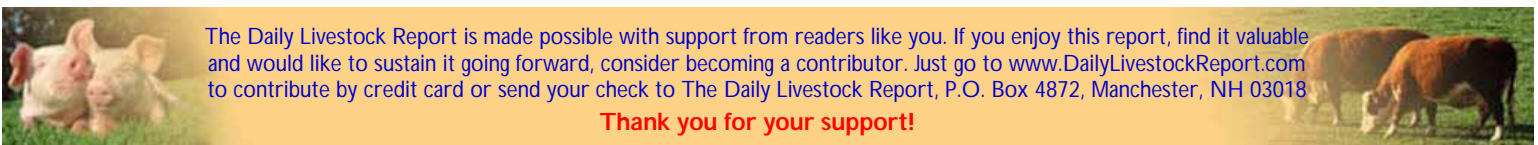
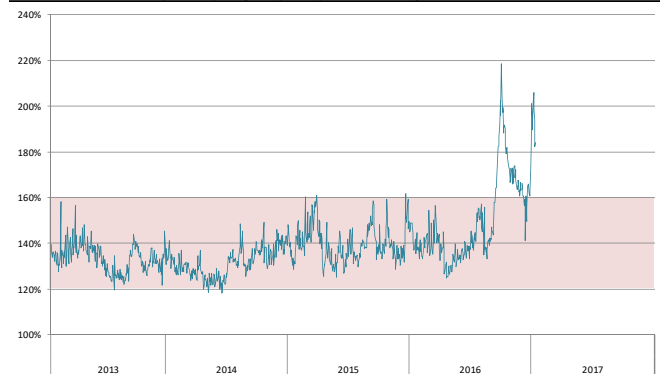
DAY TO DAY % CHANGE IN THE VALUE OF THE HAM PRIMAL

Data source: USDA Mandatory Price Reporting. Prepared by Steiner Consulting



RATIO OF HAM INSIDE PRICE TO THE PRICE OF #23-27 HAMS

Data source: USDA Mandatory Price Reporting. Prepared by Steiner Consulting



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Daily Livestock Report

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PRODUCTION & WKLY AVG. PRICE SUMMARY

Week Ending **1/14/2017**

Source: Various USDA Agricultural Marketing Service reports. Some data are preliminary. Weekly Avg. Prices

Item	Units	Current	Last Week	Pct. Change	Last Year	Pct. Change	YTD	Y/Y % Change	
		Week							
		14-Jan-17	7-Jan-17		16-Jan-16				
Total Beef, Pork, Chicken, Turkey		mil lbs., cwe	1,822	1,594	14.32%	1,842	-1.07%	2,711	-7.2%
C	Fl Slaughter	Thou. Head	609	537	13.41%	575	5.82%	1,146	-2.3%
T	Fl Cow Slaughter **	Thou. Head	97	101	-4.39%	81	20.34%		
T	Avg. Dressed Weight	Lbs.	835	837	-0.24%	831	0.48%	834	0.5%
L	Beef Production	Million Lbs.	507.6	448.3	13.23%	477.4	6.33%	956	-1.8%
E	Live Fed Steer Price	\$ per cwt	118.44	117.67	0.65%	133.25	-11.11%		
E	Dressed Fed Steer Price	\$ per cwt	NQ	187.97	NA	209.56	N/A		
&	Oklahoma Steer (600-700 lbs)	\$ per cwt	137.58	N/A	N/A	171.82	-19.92%		
B	Choice Beef Cutout	\$ per cwt	192.00	201.83	-4.87%	234.67	-18.18%		
E	Hide/Offal	\$ per cwt, live wt	11.92	11.83	0.76%	10.67	11.72%		
E	Rib Primal, Choice	\$ per cwt	289.06	299.90	-3.61%	327.54	-11.75%		
E	Round Primal, Choice	\$ per cwt	173.88	188.61	-7.81%	224.72	-22.62%		
F	Chuck Primal, Choice	\$ per cwt	164.69	178.73	-7.86%	207.76	-20.73%		
F	Trimming, 50%	\$ per cwt	50.81	45.57	11.50%	78.35	-35.15%		
F	Trimming, 90%	\$ per cwt	201.68	198.08	1.82%	200.17	0.75%		
H	Fl Slaughter	Thou. Head	2,395	2,088	14.70%	2,297	4.25%	4,495	-10.8%
H	Fl Sow Slaughter **	Thou. Head	40.1	56.2	-28.65%	40.3	-0.45%		
O	Avg. Dressed Wght	Lbs.	211.0	211.0	0.00%	214.0	-1.40%	211	-1.1%
G	Pork Production	Million Lbs.	506.4	440.1	15.06%	491.8	2.97%	947	-11.8%
S	Iowa-S. Minn. Base	Wtd. Avg.	60.40	54.83	10.16%	52.96	14.05%		
S	Natl. Base Carcass Price	Wtd. Avg.	61.01	58.70	3.94%	55.88	9.18%		
S	Natl. Net Carcass Price	Wtd. Avg.	63.02	60.66	3.89%	57.69	9.24%		
S	Pork Cutout	205 Lbs.	79.73	79.61	0.15%	71.26	11.89%		
S	Ham Primal	\$ per cwt	58.77	61.08	-3.78%	53.10	10.68%		
S	Loin Primal	\$ per cwt	81.53	80.32	1.51%	77.19	5.62%		
S	Belly Primal	\$ per cwt	125.33	117.95	6.26%	111.68	12.22%		
S	Trimming, 72%, Fresh	\$ per cwt	74.42	63.63	16.96%	45.27	64.39%		
S	Hog By-Product Value	\$ per cwt, live wt	3.89	3.91	-0.51%	3.01	29.24%		
C	Young Chicken Slaughter *	Million Head	147.8	133.0	11.11%	160.9	-8.15%	148	-8.2%
H	Avg. Weight (RTC)	Lbs.	4.85	4.72	2.74%	4.73	2.57%	6.38	2.6%
I	Young Chicken Production (RTC)	Million Lbs.	716.5	627.7	14.15%	760.6	-5.79%	717	-5.8%
C	Eggs Set (19-state)	Million	211.4	212.1	-0.37%	207.2	2.03%	211	2.0%
K	Chicks Placed (19-state)	Million Head	172.5	172.1	0.25%	171.0	0.87%	173	0.9%
E	National Composite Whole Bird	Composite	86.66	87.16	-0.57%	89.50	-3.17%		
E	Northeast Breast, B/S	\$/cwt	99.9	97.74	2.21%	103.28	-3.27%		
E	Northeast Leg Quarters	\$/cwt	31.36	30.29	3.53%	24.11	30.07%		
T	Total Turkey Slaughter *	Million Head	3.503	2.791	25.51%	4.317	-18.86%	3.503	-18.9%
U	Avg. Weight (RTC)	Lbs.	26.19	27.92	-6.20%	25.99	0.77%	32.55	0.8%
R	Turkey Production (RTC)	Million Lbs.	91.7	77.9	17.73%	112.2	-18.23%	92	-18.2%
K	National Hen (8-12 lb)	8-16 Lbs.	98.60	101.25	-2.62%	114.50	-13.89%		
G	Corn, Omaha	\$ per Bushel	3.34	3.37	-0.89%	3.40	-1.76%		
R	Distillers Grain, Chicago	\$ per Ton	117.50	117.50	0.00%	132.50	-11.32%		
A	Wheat, Kansas City (deliv.)	\$ per Bushel	3.84	3.69	4.07%	4.52	-15.04%		
I	Soybeans, Cntrl IL	\$ per Bushel	10.33	10.07	2.58%	8.90	16.07%		
N	Soybn Meal 48%, Cntrl IL	\$ per Ton	327.40	322.70	1.46%	283.20	15.61%		

* Chicken & turkey slaughter & production are 1 week earlier than the date at the top of this sheet.

** Cow and sow slaughter reflect levels from two weeks ago due to reporting lag.

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