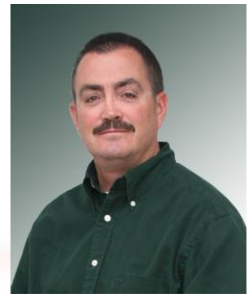
THE MAXFIELD REPORT
ACCURATE · TRUSTED · PROVEN



Monday, February 02, 2015

THE COMMENTARY

The US Runner market remains unchanged at levels of $1.20; however, only for a lack of product to offer. We continue to hear numerous reports from buyers looking for product and popular opinion of the trade is that buyers would pay $1.25 and possibly more to secure product. In the meantime, producers of Runners remain well sold; however, we tend to suspect the prospects of obtaining more money for their product may be enough to motivate some to offer product in the next couple of weeks.

Meanwhile, reports from the finished material trade are unchanged with a week ago. Collectively as a group, producers appear as if they possess strong sold forward positons, to include wider sized material and this is leading to reports of numerous producers able to achieve incremental price increases on new business.

Members of the trade in Europe share that producers of Runners continue to press for price increases and it appears as if their efforts have met with some success last week. According to reliable sources, trading this week has ranged from 1.05 Euros to as high as 1.08 Euros for Runner known to produce extremely high yields. As of this writing, we are aware of asking prices as high as 1.10, but no confirmation of any sales.

THE LOOK AHEAD

As to what we expect for his week, we continue to remain of the opinion that we are in a firm market and if Runner prices are to change the likelihood of them moving higher, far outweigh any chance of Runners moving lower. In the meantime, the work slowdown situation on the west coast seaports is likely to have an impact on our market later this year.

Currently, there are numerous containers of Runners sitting on the pier waiting to be loaded. According to sources, the average delay in loading a container is now exceeding one month. That said, if this situation would continue for another couple of months, average delay time would be closer to 8-9 weeks.

If this should happen, we are going to propose an argument that this will in turn, create a shortage of natural casings in the middle of the summer barbeque season and suspect we will see prices of natural casing rise substantially in the 2Q of this year.

In the meantime, those in the collagen market, keep an eye on lime splits in China. Demand for this product for leather tanners has dwindled substantially and prices are running 30-40% lower than levels of a year ago. We would tend to suspect buyers of collagen are in an inevitable position at this time and certainly would not want to be "over-paying" for product.

THE HARVEST

Hog harvest last week totaled 2.26 million head, down 2.5% from the week before, but up 6.2% from same week last year. Worth noting, since December 1, hog slaughter is down a bit less than indicated by the inventory numbers in USDA's December Hogs and Pigs report. Meanwhile, year-to-date, the hog harvest stands at 9,720,000 head and we trail the pace we set a year ago by 157,000 head or 1.59%, as pork production has been above the year-ago level for five consecutive weeks.

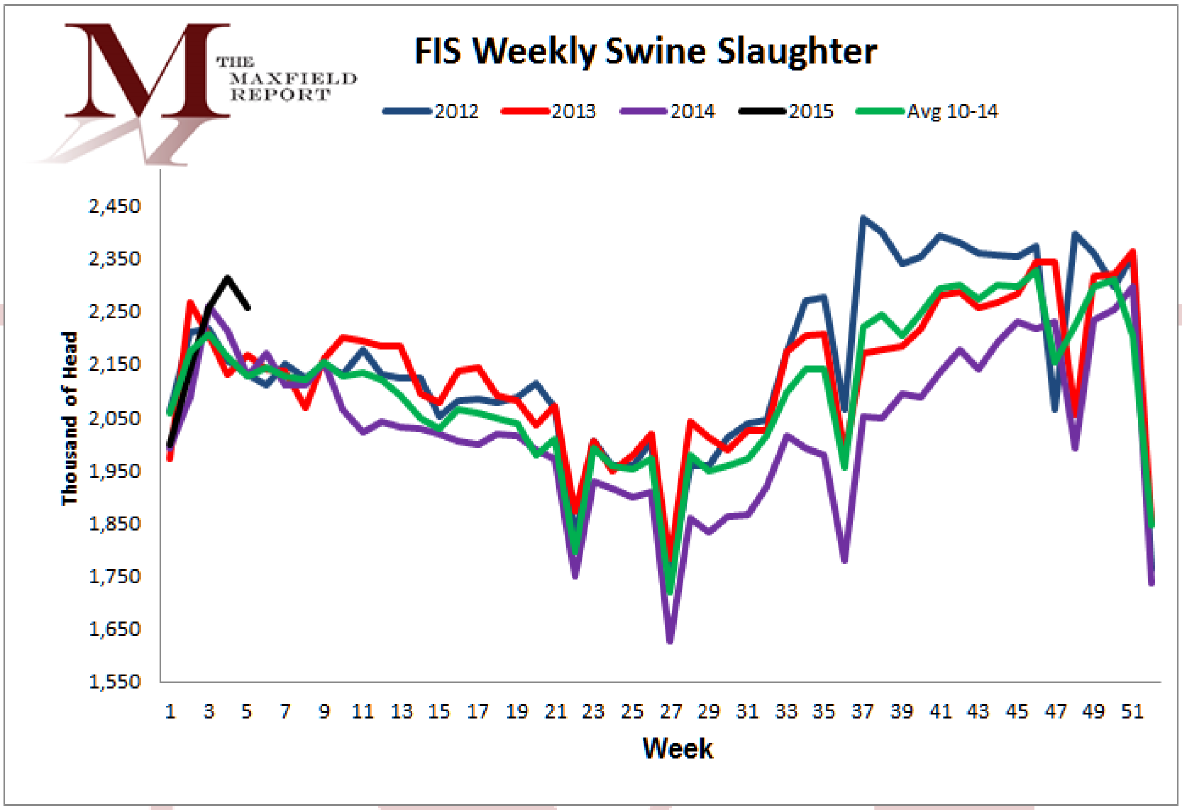
Elsewhere, the average live harvest weight of barrows and gilts in Iowa-Minnesota last week was 286.1 pounds, down 1.0 pound from the week before, but up 3.2 pounds from a year ago. This was the 95th consecutive week that weights have been above the year-ago level. Meanwhile, the work slowdown at west coast seaports appears to be a growing drag on wholesale meat prices. The national negotiated carcass price last week averaged $66.90 / cwt., which was $1.45 lower than the week before, while the national average carcass price is 83.5% of the pork cutout value.

Friday morning's pork cutout value was $79.21 / cwt. (FOB) the plants, down $4.50 from the week before and down $10.21 from a year ago. Hams, bellies, and loin prices were all lower this week. In the meantime, the U.S. dollar continues to strengthen against most foreign currencies, making it harder for U.S. products to compete on world markets. Against major foreign currencies, the dollar was 14% more valuable in mid-January than in mid-July.

Week-to-Date U.S. Estimated Harvest Totals

01/30/2015	Bovine	Swine	Ovine
WTD Harvest	563,000	2,260,000	38,000
Harvest Last Week	576,000	2,318,000	39,000
Harvest Last Year	572,000	2,129,000	37,000
YTD Harvest 2015	2,365,000	9,720,000	158,000
YTD Harvest 2014	2,634,000	9,877,000	167,000

(www.ams.sda.go/LSMarketNews)



THE WEEK IN REVIEW PORK

The U.S. economy grew at an annual rate of 2.6% during the fourth quarter of 2014, down from 5.0% growth in the third quarter. This sharp slowdown in growth was not expected given the rapid decline in energy prices during the second half of 2014. For all of 2014 the economy was 2.4% larger than the year before which is slightly better than the 2.2% growth rate in 2013.

The national average negotiated carcass price for direct delivered hogs on the morning report today was $66.11/cwt, which is $13.88 lower than a year ago. The western Corn Belt averaged $66.47 and Iowa-Minnesota averaged $66.45/cwt on today's morning report. The eastern Corn Belt had an average of $66.06/cwt this morning. Peoria had a top live price today of $43/cwt. The top price Friday for interior Missouri live hogs was $46.75 / cwt., which is down $3 from the previous Friday.

The February lean hog futures contract lost ground this week, but the deferred contracts ended the week higher than they started. The February lean hog futures contract closed today at $67.47 / cwt., down $1.83 for the week. April hog futures ended the week at $72.25 / cwt., up $1.60 from the week before. May hogs gained $3.68 this week to close at $80.45 / cwt. The June contract ended the week at $84.10 / cwt.

The March corn futures contract ended the week at $3.70 per bushel down 17 cents from the previous Friday. The May corn contract also lost 17 cents this week to close at $3.785 per bushel. July corn settled at $3.86 / BU.

THE NEWS

United States and Canadian Hog Inventory Down 4 Percent

United States and Canadian inventory of all hogs and pigs for June 2014 was 75.1 million head. This was down 4 percent from June 2013, and down 5 percent from June 2012. The breeding inventory, at 7.08 million head, was down slightly from a year ago and equal to 2012. Market hog inventory, at 68.0 million head, was down 4 percent from last year and down 6 percent from 2012.

The semi-annual pig crop, at 68.1 million head, was down 4 percent from 2013 and down 5 percent from 2012. Sows farrowing during this period totaled 6.93 million head, up 1 percent from last year but down 2 percent from 2012.

United States inventory of all hogs and pigs on June 1, 2014 was 62.1 million head. This was down 5 percent from June 1, 2013 and down 1 percent from March 1, 2014. The breeding inventory, at 5.85 million head, was down slightly from last year but up slightly from the previous quarter. Market hog inventory, at 56.3 million head, was down 5 percent from last year, and down 1 percent from last quarter. The pig crop, at 27.4 million head, was down 5 percent from 2013 and down 8 percent from 2012. Sows farrowed during this period totaled 2.80 million head, down slightly from 2013 and down 5 percent from 2012.

Canadian inventory of all hogs and pigs on July 1, 2014 was 12.9 million head. This was up 1 percent from July 1, 2013 and up 2 percent from July 1, 2012. The breeding inventory, at 1.22 million head, was up 1 percent from last year and up 1 percent from 2012. Market hog inventory, at 11.7 million head, was up 1 percent from last year and up 3 percent from 2012. The semi-annual pig crop, at 13.4 million head, was down 3 percent from 2013 and down 5 percent from 2012. Sows farrowing during this period totaled 1.26 million head, down 2 percent from last year and down 3 percent from 2012.

(Meat & Poultry.com) - Tyson' Foods' fiscal year is off to a great start with its first full quarter as a combined company – including the Hillshire Brands acquisition – producing record sales and adjusted operating income, an exuberant Donnie Smith, president and CEO of Tyson Foods, told analysts during a teleconference focusing on the quarter's record Q1FY15 performance. "We are proceeding with the integration of Hillshire Brands…We've set ourselves up for another record year, and we are building momentum that will take us into fiscal 2016."

First-quarter FY15 highlights include record sales of $10.8 billion, up 23 percent over first-quarter FY14; record adjusted operating income up 37 percent to $564 million, and adjusted EPS up 7 percent to $0.77 vs. $0.72 in first quarter FY14. The company also reduced total debt by $650 million during the first quarter. Chicken segment operating margins were 12.6 percent in for the quarter while the company captured $60 million in synergies. Smith iterated the company's segment results to the analysts and press attendees:

• **Chicken** — Stronger demand for chicken products pushed sales volumes higher.
• **Beef** — Sales volume declined in the segment due to a reduction in live-cattle processed. Average sales prices climbed on lower domestic availability of beef products.
• **Pork** — Strong demand for Tyson pork products drove higher average sales prices and sales volume. The company's average sales price increased on lower total hog supplies, which resulted in higher input costs.
• **Prepared Foods** — Sales volume increased primarily due to incremental volumes from the Hillshire Brands acquisition as well as improved demand for Tyson's prepared foods products. Average sales prices increased due to higher prices associated with better product mix, which was positively impacted by the acquisition of Hillshire Brands, as well as increased prices associated with higher input costs. Prepared Foods operating income was positively impacted by $55 million related to profit improvement initiatives and Hillshire Brands synergies.

• **International** — Sales volume declined due on the sale of Tyson's Brazil operation during the first quarter of fiscal 2015. Average sales prices retreated due to supply imbalances associated with weak demand in China. Operating loss improved on the sale of the Brazil operation and better market conditions in Mexico.

When asked about Tyson's strategy regarding future pork sales to China, Smith told analysts the company would remain "on hold" and wait for pork demand to improve in China. However, his primary concern regarding Tyson Foods' exports rests with the continuing stall in product movement at West Coast ports in the US.

US exporters of beef, pork and poultry are under major shipping pressures due to massive, growing backlogs of containers containing such products in key West Coast ports — most importantly, the Port of Long Beach, said Barry Carpenter, North American Meat Institute (NAMI) president and CEO, during a Jan. 20 media teleconference. This is the result of an eight-month long, ongoing labor dispute between the Pacific Maritime Association (PMA) and the International Longshoreman and Warehouse Union regarding reaching an agreement on a new contract for longshore workers. (Read "Stalled West Coast ports sinking industry's business" in the Jan. 21 edition of MEAT+POULTRY.com for more details.)

"The West Coast slowdown is starting to back up [meat product exports] a little bit," Smith agreed. "But there was encouraging news in the start of this week on a possible resolution." Despite expecting an "adjustment upheaval" in coming weeks should an agreement soon be reached, Smith does not expect this issue to affect Tyson margins. Looking ahead in FY15, Smith told analysts current US Department of Agriculture data shows an increase in chicken production of 3 percent. More recent data indicates a greater increase in supply; however, Tyson believes demand will more than keep pace with the supply change.

Tyson also anticipates a reduction of industry fed-cattle supplies of 4-5% in fiscal 2015 compared with totals in fiscal 2014. There may be periods of imbalance of fed-cattle supply and demand. "For fiscal 2015, we believe our Beef segment's profitability will be slightly below fiscal 2014," Smith said. Smith went on to say industry hog supplies are expected to increase around 2-3%. The company also expects its pork segment-operating margin to be in its normalized range of 6-8%.

In addressing its prepared foods segment, Smith said Tyson Foods is making good progress with the integration of Hillshire Brands. In fiscal 2015, the company expects to realize more than $225 million of synergies from the acquisition as well as a profit improvement plan for its legacy Prepared Foods business, with the majority to be realized in Tyson's Prepared Foods segment.

Smith told analysts Tyson expects to complete the sale of its Mexico chicken production operation in the second quarter of fiscal 2015, which may result in its international revenues to decrease by approximately $600-650 million compared to a year ago. Fiscal 2015 capital expenditures are expected to total approximately $900 million. "We have a lot of momentum going forward in fiscal 2015, especially with Hillshire Brands on the company team," Smith said. "We expect the FY3 and FY4 quarters to be really strong."

(Pig Progress.net) - The National Pork Producers Council (NPPC) and 92 other food, agricultural and allied industry groups have urged the parties involved in a labour dispute that is affecting food exports that ship out of West Coast ports to resolve their differences as soon as possible.

The National Pork Producers Council (NPPC) and 92 other food, agricultural and allied industry groups have urged the parties involved in a labour dispute that's affecting food exports that ship out of West Coast ports to resolve their differences as soon as possible.

Slowdowns by dock workers at the ports in Long Beach, Los Angeles and Oakland, Calif., and in Seattle and Tacoma, Wash., have stranded thousands of containers of pork and other farm products over the past several months.

Since November, pork prices, for example, have tumbled by 20% in large part because of the port problem, and meat and other perishable products awaiting shipment soon may need to be destroyed or discounted and sold on the domestic market. One estimate has the US meat and poultry industries losing more than US$30 million a week.

The International Longshore and Warehouse Union (ILWU) and the Pacific Maritime Association (PMA) have been unable to hammer out a new contract since the last one expired in July. Although the ILWU initially agreed to continue sending workers to the ports during the contract negotiations, in November it reneged on that agreement.

In an open letter to the White House, congressional lawmakers, the PMA and the ILWU, NPPC and the other organisations pointed out that the increase in food and agriculture products exported has been very beneficial to the companies that own West Coast ports and to the dock workers.

(Pig Progress.net) - Three new outbreaks of African Swine Fever (ASF) have been discovered in wild boar in Lithuania, along the boarders with Latvia and Belarus. This is reported by local veterinary services. The first outbreak has been discovered in Utena county, where one wild boar was shot and his blood and organs samples were delivered on January 19 to the National Food and Veterinary Risk Assessment Institute, in the framework of the national ASF control program. On January 20 ASF was confirmed.

The second outbreak has also been reported in Utena county. Again a wild boar was shot by hunters and the blood and organs were tested. The results were negative for ASF, however ASF antibodies were found. In Alytus county a wild boar that was shot near the border with Belarus on January 10 also tested negative for ASF, but again ASF antibodies were found.

(Pig Progress.net) - African Swine Fever (ASF) and political unrest resulted in pork import restrictions into Russia. The effect of these restrictions can now be seen through the recently released trade figures from Russia, which show a 40% drop in pork imports.

Russian trade data has recently become available for the first time since April. The new figures, reported by BPEX, show that, Russia imported 542,800 tonnes of pork between January and November 2013, but for the same period in 2014 this figure was 329,800 tonnes a fall of over 200,000 tonnes, or nearly 40%. This decrease has be put down to successive trade restrictions based on disease outbreaks and international politics.

Disease and politics shuts EU out of Russian market

In February imports from the EU were banned due to concerns over ASF; shipments decreased from 332,000 tonnes in the first 11 months of 2013 (over 60% of all imports) to just 19,000 tonnes (6% of the total) last year. Canada and Brazil stepped up to the plate and increased their deliveries but they were not able to fill the deficit. Then in August additional sanctions were put into place against Canada, the US and the EU, this time on political grounds.

Trade sanctions opened doors for Brazil and China

This allowed Brazil to expand shipments to over 20,000 tonnes in November, going some way to fill the gap that ban on pork imports from US and Canada made but leaving the deficit from the EU untouched. Russia also expanded trade with some of its smaller partners, including Chile and Serbia. Agreements with China, India and South Korea are thought to be in progress but had not come into effect by November.

Russian pork prices rose up to 80%

Imported pork prices increased by over a third on average for the January to November period. However, as the successive restrictions began to impact on the market, prices rose steadily and by November the year on year increase was up to 80% in rouble terms, partly due to the devaluation of the Russian currency. This has inevitably driven pork prices much higher on the Russian consumer market, even with internal pig production reported to be increasing, with a 12% rise in slaughterings.

Russia reopening pig markets to some EU countries

There has been suggestions last week that Russia would reopen its doors to some pig meat products from certain EU countries, including France, Italy and Denmark. However, while progress has been made in discussions, it appears that significant technical work will be required before shipments can resume. Even then, the political ban will remain in place until the summer, at least, and will prevent fresh and frozen pork and some other EU products from being sent to Russia.

Ken Maxfield, President and Editor in Chief of The Maxfield Report brings 10 plus years' experience reporting on Hog Runner and Casings to our report. It is Ken's experience and breadth of knowledge and holistic approach to his reports why peers consider him one of the leading authorities reporting on Hog Runners and Casings. If you have questions, suggestions, or comments, or interested in receiving any of the reports offered by The Maxfield Report, please call 712-943-3210 or e-mail ken@themaxfieldreport.com.