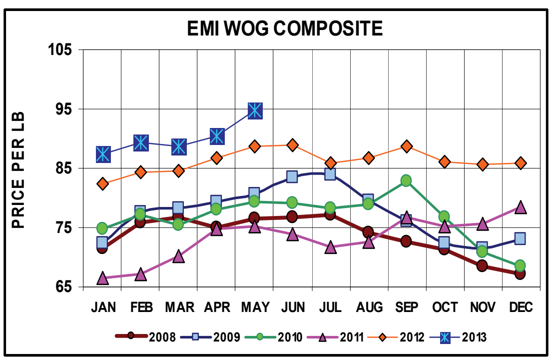
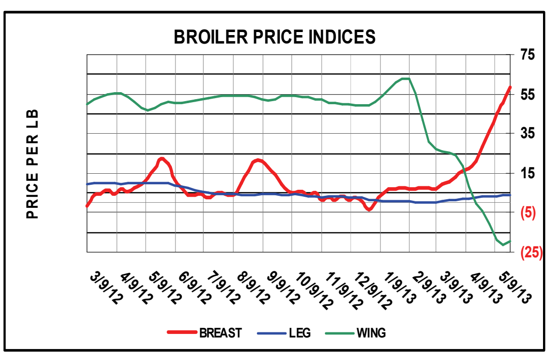
EMI VitalSigns

the Pulse of the Poultry Industry

WEEK END 5/24/13 DESCRIPTION	PRICE per 100 LB	CHANGE +/- Prior Wk	TOTAL LBS (000)	CHANGE +/- Prior Wk
WHL BIRD 3LB. +	108.31	2.49	2,148	297
WOG 2.5-4.0 LB.	102.36	1.95	9,134	703
8 & 9 PC MR	96.33	(0.09)	19,144	1,660
FRONT HALVES	118.76	3.04	32	(4)
FRONT HALVES, SML	115.02	0.91	39	(57)
B/S BREAST UNSZD	198.43	6.67	33,622	(826)
B/S BRST UNSZD, SML	208.13	5.55	1,437	12
BREAST TRIM <=5%	140.72	(2.58)	478	(179)
TENDERS <=1.2 OZ	215.51	4.68	597	(30)
WINGS	127.72	5.00	3,620	436
FR LEG QRTS	51.77	(0.12)	19,280	582
FZ LEG QTRS	50.71	(1.22)	29,191	6,740
THIGHS	70.32	2.32	2,041	(476)
B/S THIGH	138.82	2.22	4,082	(210)
DRUMSTICKS	67.37	(0.52)	1,823	(81)
MSC >15% FAT	27.85	(0.01)	22,061	(1,343)
TOTAL			148,729	7,224





May 31, 2013 Issue

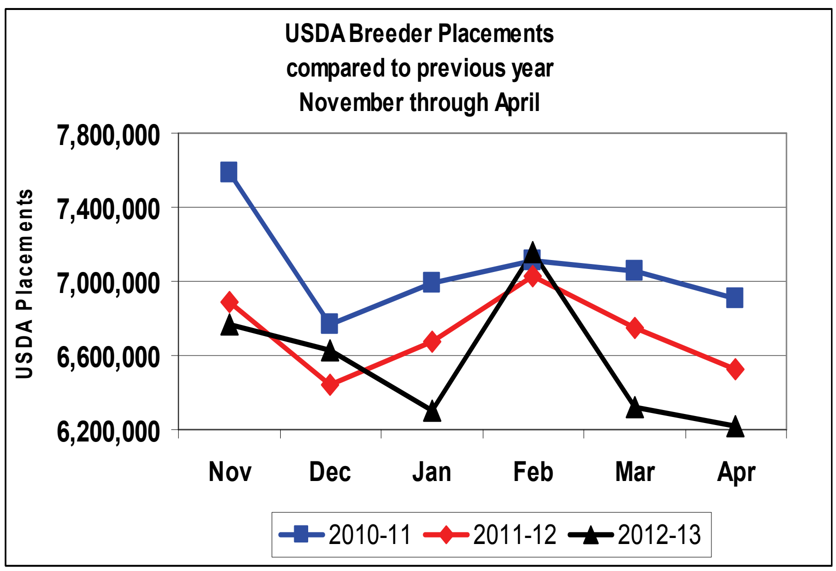
Random Thoughts on the Industry

-- By Mike Donohue

<u>This Thing Has Legs</u>

With the rebound in returns for the broiler industry the overwhelming question is 'How long can it last?' This question from an industry that has experienced wild volatility in profitability over the last decade from dealing with grain and soybean meal costs and periods of more production than consumers wanted to buy. For the moment anyway, these factors are largely under control.

The USDA came out last week with the April breeder placement numbers and again the numbers were lower than last year and almost 9% below the level of 2011.



Fewer breeders now, fewer broilers nine months from now. The tight supply situation for hatching eggs will likely continue into the second quarter of 2014. The average age of flocks in lay again approaches 45 weeks of age but that has a limited effect on day old broiler chick production due to lower rates of lay at older ages.

Inventories are also in good shape and are at their lowest levels since the spring of 2013; the last time we had breast meat above $1.70 per pound.

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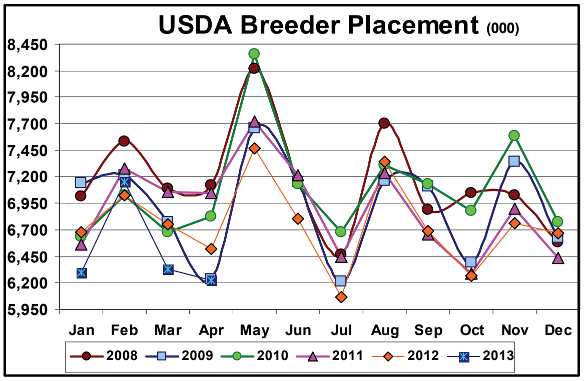
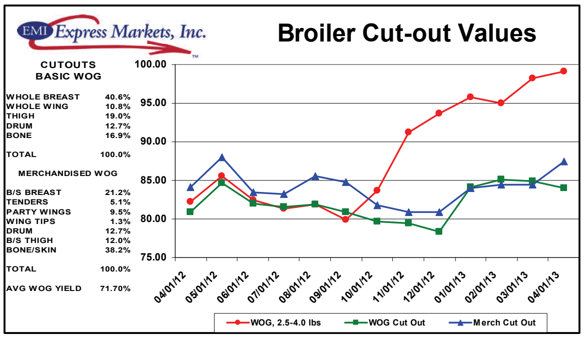
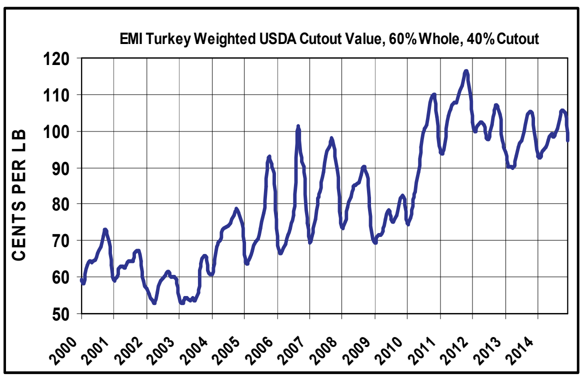
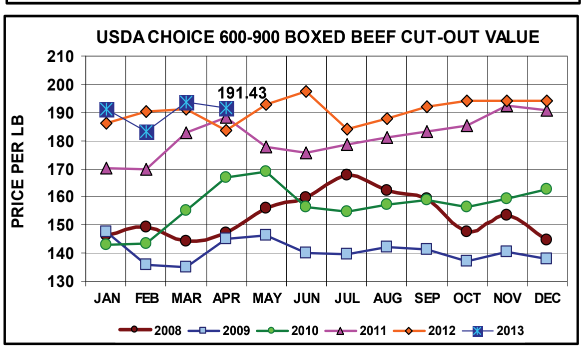
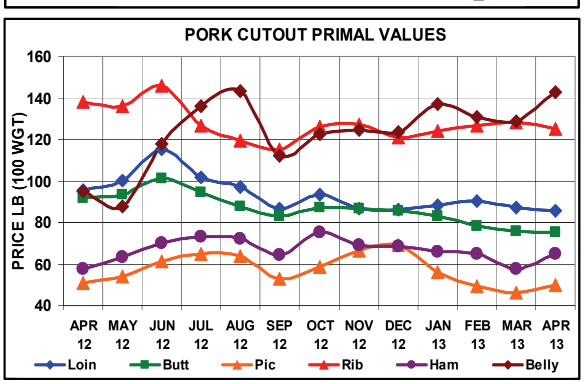


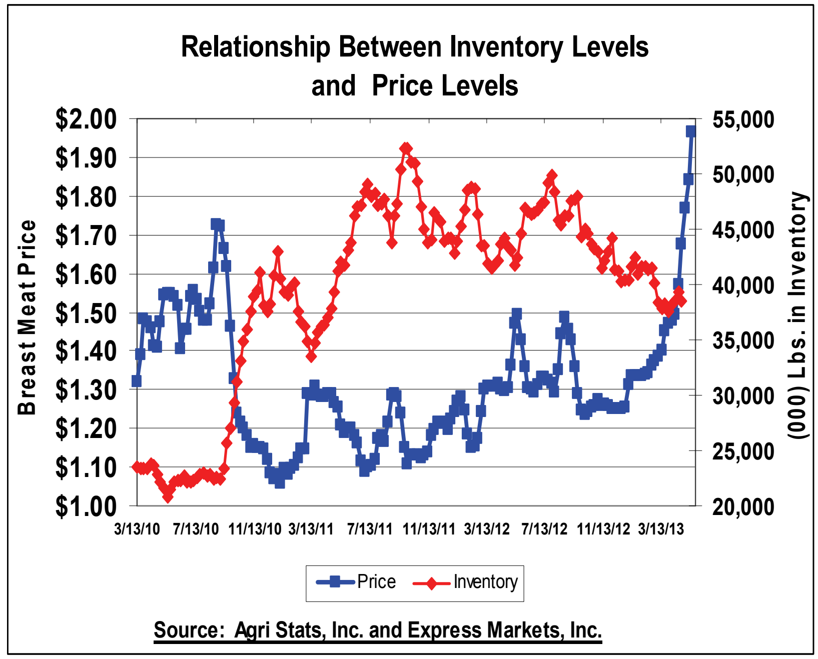








Random Thoughts (Cont'd)



With a changed pricing structure that recognizes the higher production costs associated with corn and soybean meal prices, the drawdown in inventory is supporting boneless prices at the $2.00 per pound level, the highest seen since the summer of 2004.

To meet the increased demand producers are increasing bird weights, especially in the big bird sector. While birds processed remains largely unchanged, the increase in overall bird weight by 10 to 15 points coupled with ongoing annual improvements of close to 1% in meat yields has increased total volume produced by close to 4% vs. the 2012 level.

For the last two weeks the industry has produced over 710,000,000 pounds of broiler meat, 20 million pounds more than last year but 20 million pounds less than the volumes of 2011.

Heavier weights and improved yields can offset some of the restrictions coming from hatching egg availability but not all the effect. When coupled with the challenges the beef and pork industry face this volume is supported, especially during holiday times.

When supply and demand factors are in good shape the industry can get a good return on investment and for the short and medium term it appears that there is certainly room for optimism in these factors.

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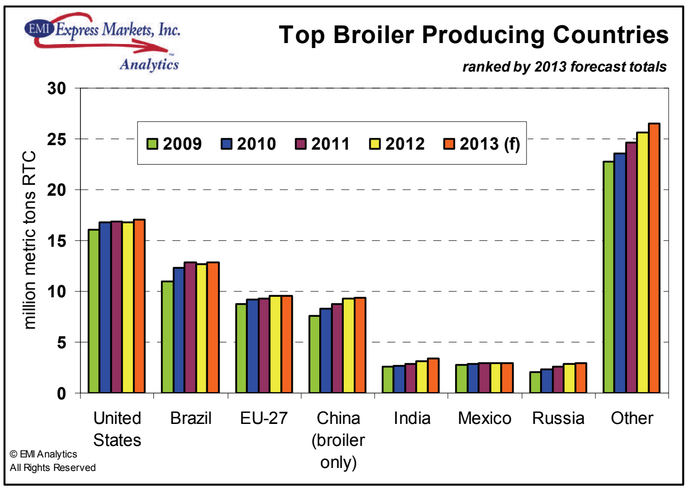
United States Still Top Broiler Producer; Brazil Top Exporter

-- By Amanda Martin

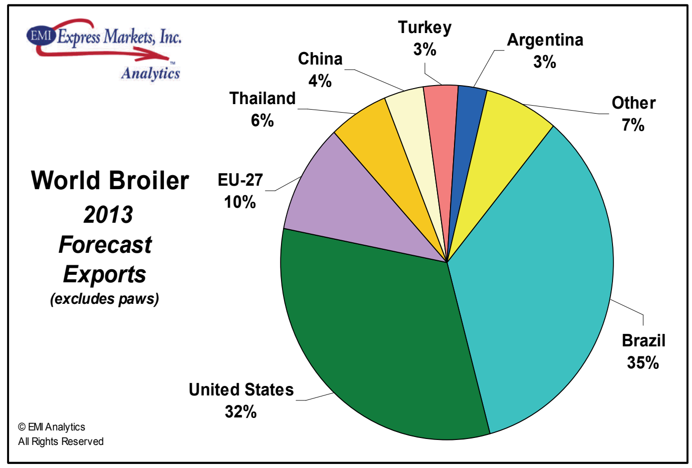
According to the April edition of USDA-FAS's *Livestock and Poultry: World Markets and Trade* circular, global broiler meat production is expected to grow from 2012 levels to total close to 84.6 million metric tons during 2013, with the majority of the growth accounted to the United States, Brazil, India, and Russia. The EU-27, China, and Mexico are all expected to show similar production levels to 2012. (Key to Note: USDA-FAS reports commercial production and native, backyard production as one total production number for some countries on the circular. For our calculations, we are only accounting for commercial production).



While the US continues as the top broiler producer, the 'Other' category continues to show the most overall growth. Since 2009, these countries have accounted for approximately 45% of world broiler production. The top driver of this category has been Argentina, which has increased broiler production nearly 170% since 2003. Production increases have mainly been boosted by increases in exports, especially to Venezuela, Chile, and China.

In regard to world broiler exports, Brazil is expected to be on top during 2013, with 35% of total world exports. At this time, they are forecasted to export 3.6 million metric tons during the year, which would be an increase of around 100,000 metric tons from 2012. Increases in exports are expected due to greater demand in East Asia and the Middle East.

Increases in exports are also expected for the United States, Thailand, Turkey, and Argentina. The US is experiencing escalated demand from Mexico and Cuba, while Thailand, Turkey, and Argentina are all expected to see increases to the Middle East, East Asia, South America, and Europe.



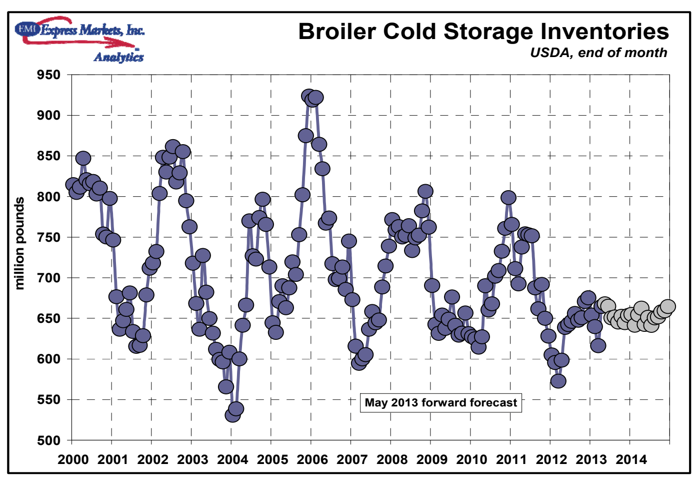
The EU-27 is expected to see a small decrease in exports due to a lower availability of exportable product, as a result of Doux France's bankruptcy. China is expected to see relatively stable export markets due to price competition from the Brazil and US in some export markets, but expanded demand in other areas.

The EMI Analytics International Trade Web Section 2.0 has been updated with this information along with updates on world imports, domestic demand, and per capita numbers for the largest players in the world broiler markets. This information is updated annually with the release of the April trade circular.

Chicken Cold Storage

-- By Sue Trudell

USDA's *Cold Storage* report released May 22 showed total stocks of frozen chicken held in public cold storage facilities on April 30 at 665 million pounds, 8% higher than at the end of March, and up 11% from last year.



Although frozen inventories climbed slightly at the end of 2012, the stocks-to-use ratio remained below 24% and is now estimated at or below 21%. The ratio of stocks to broiler usage is projected to remain in the 19% to 20%

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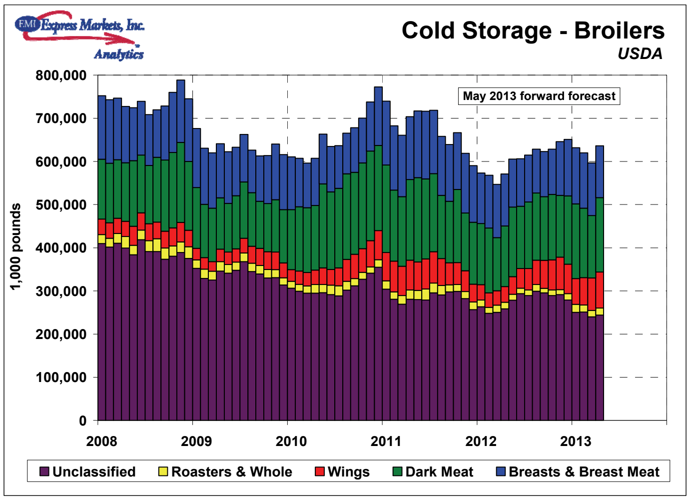
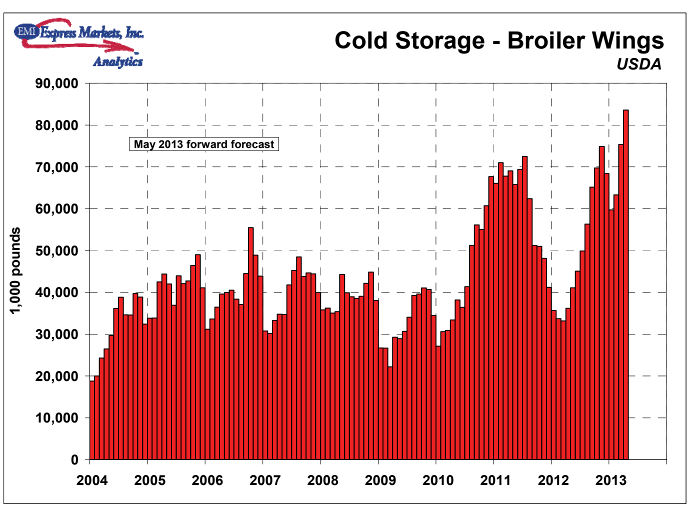
Chicken… Storage (Cont'd)

range for the majority of 2013 and 2014. Historically, stocks-to-use ratios in the 22% to 25% range are generally not associated with extremely low broiler product prices. Ratios in the 18% to 21% range have rarely persisted, but generally are associated with higher wholesale markets.



The composition of stocks has drawn attention from some meat industry analysts, who have pointed out that public cold storage holding of wings set a new record at 83.6 million pounds. The breakout of chicken parts remains dominated by "unclassified" chicken.

Although wing holdings are larger, historically it is not unprecedented for reports of wings in cold storage to be increasing in late spring and early summer. Some of this is due to accumulation of stocks for upcoming promotional activity. In addition, many sellers comment that refrigerated trucking availability is limited by seasonal needs, and tell us that occasionally they must hold some frozen chicken items longer than preferred.



For wings, the current level of frozen storage holdings represents less than 10 days of US chicken wing production, which has been a typical level in recent years. With chicken production increasing, we would expect to see cold storage holdings tend to increase at times for some items.

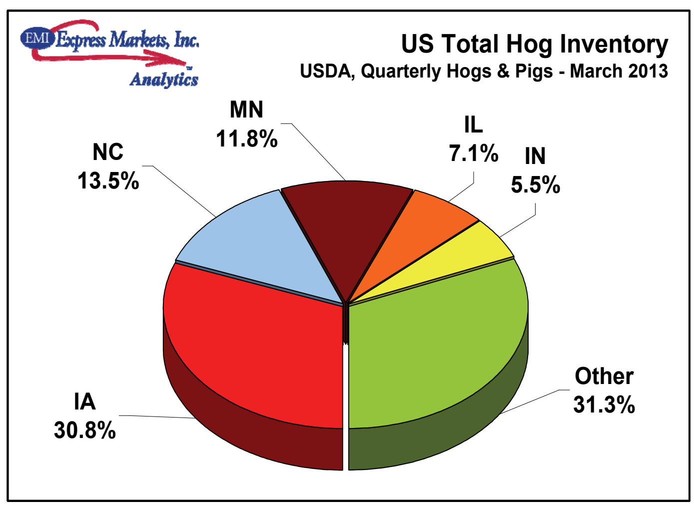
Old Pig Virus, New to the States

-- By Ty Neff

In early May, the USDA confirmed the first cases of (PEDV) Porcine Epidemic Diarrhea Virus. Although this is not a new disease it is the first time it has been identified in the US. This disease may increase mortality rates in young piglets that are still nursing, which might have an impact on pork production depending on how widespread it is and how long it will last.

PEDV was first discovered in England in 1971 and has been identified in a number of European countries as well as in Asia and Canada beginning in the early 80s. PEDV is associated with outbreaks of diarrhea and vomiting. It is clinically similar to TGE or Transmissible Gastroenteritis. It is most generally contracted through oral ingestion of contaminated feces. Since this is a new virus in the US it is expected that there will be no immunity to the virus in any of the hog herds nor are there any effective treatments for the pigs at this time.

PEDV only affects pigs and poses no risk to other animals. The USDA says that the virus does not affect humans and is not a food safety concern.



The first few incidences of PEDV were confirmed in Iowa and Indiana by the National Veterinary Services Laboratories. Iowa is the top pork producing state in the US and Indiana is the fifth producing state according to the USDA Quarterly Hogs and Pigs report that was published in March, 2013. Pigs in Colorado, Illinois, and Minnesota have also tested positive for this disease. Illinois and Minnesota are also in the top 5 producers.

Cont. on Page 5

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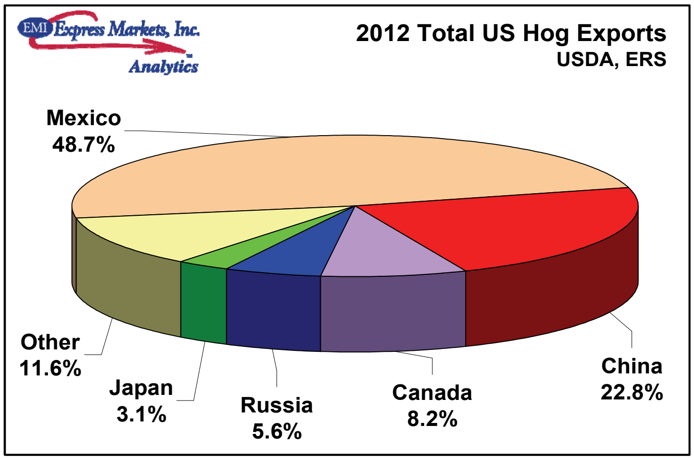
Pig … Virus (Cont'd)

The source of the virus is still unknown. The US imports almost all of its live hogs from Canada. In 2012, the US imported 5.65 million hogs. There have been no confirmed reports of PEDV detected in Canada and they do not test for it.



In 2012, the US exported 55,000 hogs, primarily as breeding animals. The top 5 destinations were Mexico, China, Canada, Russia, and Japan.

PEDV is not considered a foreign animal disease and is not a listed disease in the World Organization of Animal Health even though it has been found in many other countries. Currently there are no trade restrictions on live animals or the meat from an animal that has contracted this virus as the meat is considered safe to eat. US exports of pork and pork products are not expected to see any declines due to this outbreak.

This virus is considered to be a production related disease. Pigs most susceptible to the disease are older hogs, and baby pigs that are still nursing. These young pigs are most vulnerable due to dehydration from the symptoms of the disease.

The USDA and industry officials are still investigating the origin of the disease in the US. Until it is determined, the best defense in keeping the impact to a minimum is following bio-security protocols, focusing on disinfecting and sterilizing equipment, and keeping the pigs well watered to minimize dehydration, according to Michigan State University Extension.

Depending on the number of pigs that become infected and the severity of the disease, declines in pork production could begin as early as September and October of this year when those pigs that were born in late April and early May would be expected to go to market. If the current outbreak is short-lived then it is likely that there would be a minimal impact on production. This will be important to watch over the next couple of months because it could contribute to stronger pork markets late in the year if production is impacted.

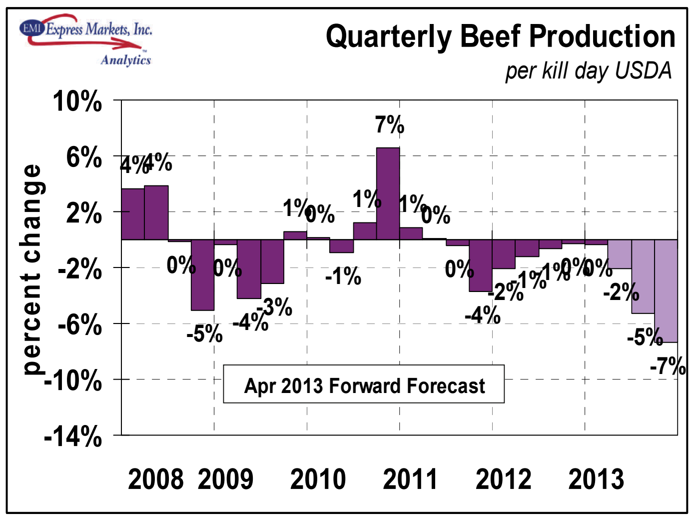
Soaring Beef Prices Leading to Increased Chicken Consumption

-- By Eric Scholer

The choice boxed beef cutout value hit a record high during May and will likely remain near record levels due to the reduced availability. There has been a lot of discussion about the reduced beef availability but what is more interesting is how some of the market prices have reacted.

The following chart displays the quarterly beef production per kill day change from the previous year. As you can see, beef production had been flat to down slightly during 2011-2012, and is expected to decline sharply later this year.

Beef slaughter declined significantly the past two years but the average live weight has been increasing, offsetting the decline in head slaughtered. Average live weights are expected to continue to increase but the cattle on feed data still indicates reduced production.



The *select* beef cutout value is at an all time high of $2.10 per pound while the *choice* beef values have also increased but not at the same rate. The *choice* cutout is currently at $1.92 per pound, 18 cents less than the *select*. The *select* cuts are also below the highs set in March of this year.

The spread between the two grades does change throughout the year depending on the demand for different cuts but it's also likely that the change in average live weights is contributing as well. Increasing the average live weight has likely contributed to lower graded cattle making more *select* cuts available relative to *choice*.

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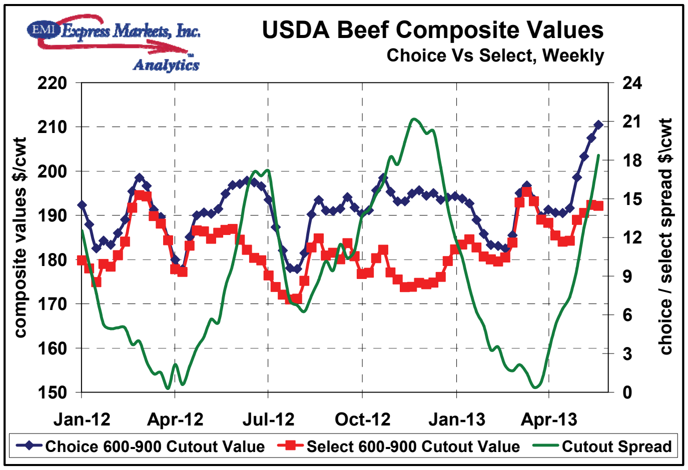
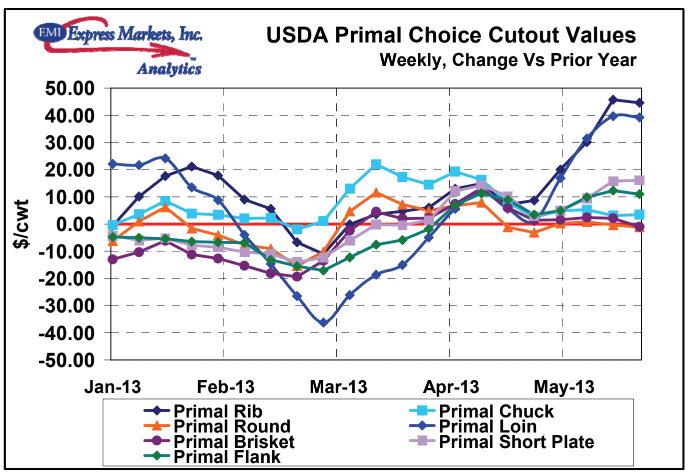
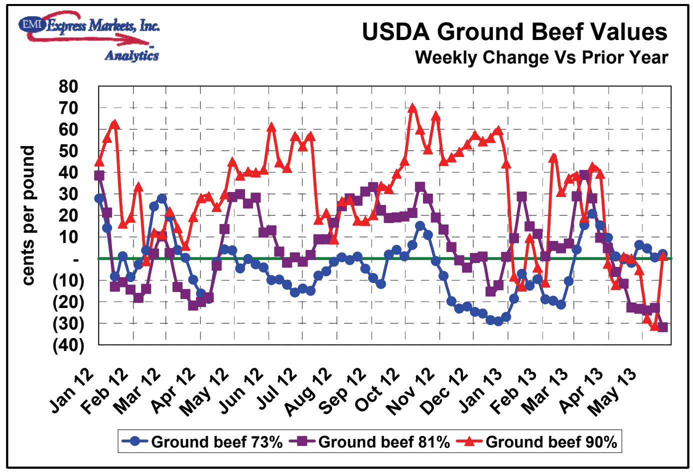
Beef … Prices (Cont'd)



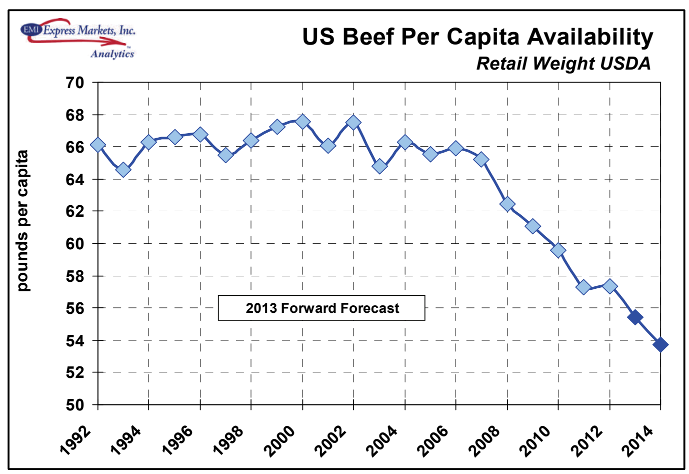
While the cutout value has reached record high levels, not all cuts have moved significantly higher. The chart below shows the change from the prior year for the beef primal cutout values. As you can see, while most primal values have increased, the majority of the increase has come from ribs and loin. Those items wouldn't necessarily be considered trade offs for breast meat while some of the other cuts, such as grinding meat, could be considered competition.



The increase in weights is likely contributing to a shift in the availability of different grades of meat and has also likely increased the availability of fatty trimmings. Fatty trimmings are blended with lean trimmings to make different grades of ground beef. Lean trimmings imports have increased during the past several months as we have seen an increase in the availability of fatty trimmings driven by a reduction in the production of LFTB (Lean Finely Textured Beef) and also an increase in average live weights.



With ground beef prices below year ago levels many would not expect the upward market reaction that has occurred in chicken breast meat. Part of this has been due to multiple foodservice chains promoting poultry as a strategy to reduce their need for ground beef, knowing supplies are likely to stay tight. As long as promotional activity doesn't shift back to beef with these grinding meat markets, poultry movement should continue above average values.



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