

VEAL PRICE FORECAST

October 2014



Funded by the Beef Checkoff.

MARKET INSIGHT

FOR THE MEAT AND POULTRY INDUSTRY

Production Declines Persist

Carcass prices were projected to be steady to firmer through second half 2014 in the July report. At that time, the forecast showed increases of roughly 5% through October. The direction was correct, but summer price increases exceeded the projection, ranging from 9% to 16% over the period.

Tighter supplies were the sole cause for the strength in the veal market as demand for veal carcasses actually continued with year-over-year declines. The price direction strengthened as declining supplies across the protein complex led to stronger-than-anticipated rallies across red meat and poultry segments.

The availability of Holstein calves was a challenge throughout the summer, motivating the higher veal prices. Feeder cattle and calf inventories were exceptionally small as the beef industry transitioned to herd rebuilding. Overcapacity in the feed yard sector, along with cheaper corn prices and record-high fed cattle values, allowed those companies to pay more for Holstein calves, limiting availability of calves for veal production.

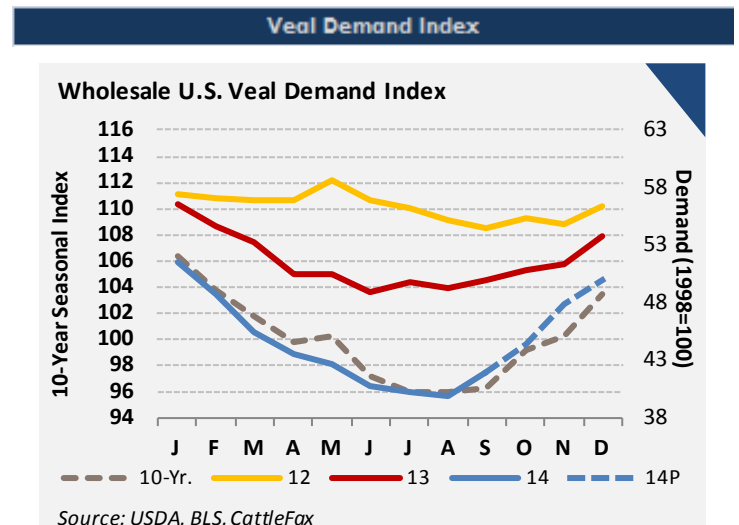
October carcass prices, along with a vast majority of boxed veal cuts, were trading at record-high prices. Most of the highs exceeded the typical seasonal rallies as the protein markets adjusted to overall tighter supplies. Demand started to improve seasonally for veal this fall. Some of this is a seasonal factor, but it should also be noted that many veal cuts are relatively price competitive compared to other center-of-the-plate proteins. Buying interest from the foodservice sector is still active, and retail demand has varied from region to region.

The June to September rally in carcass prices of 12.5% came as the market adjusted to tighter supplies throughout the entire protein complex. These stronger-than-normal advances bring to mind the events of 2007, in which we saw similar dynamics of tightened supply and prices rallying in spite of an environment of lower demand.

Demand is expected to be a challenge for the veal market again next year – continua trend of lower year-over-year demand that has been in place since November 2012. The good news is that tighter supplies mean demand does not need to improve in order to motivate higher prices. Additional supply reductions are expected in 2015, even with calf slaughter declines as much as 30 % smaller than year-ago levels in 2014. Carcass weights will keep some of the slaughter decline from affecting overall veal production, but the

expectation is for prices to trade in a more seasonal pattern starting from the higher price levels established over the last 60 to 90 days. In other words, year-over-year price gains should be narrower in 2015 as the calendar year progresses.

In continuation of these trends, participants in the veal market are expected to keep price levels and product movement near current levels with only modest price increases compared to the last few months. Beef market participants will remain active buyers of Holstein calves, and that presents a supply and price risk for the 2015 veal market. As margins tighten for the feedyard segment, expect some of that demand to fade, but the beef industry will likely remain an active player in this market for the foreseeable future. Year-over-year demand erosion is expected to slow into next year and remains a long-term concern that needs corrected. However, provided that protein supplies remain tight, it is reasonable to expect that veal prices will be well supported.



Veal demand has largely mirrored the ten year average but remains well below previous years. The industry needs to be concerned with the level of decline, from 7 to 20 percent lower in monthly wholesale demand for 2014. Demand should pick up seasonally in the fourth quarter but remain below last year.

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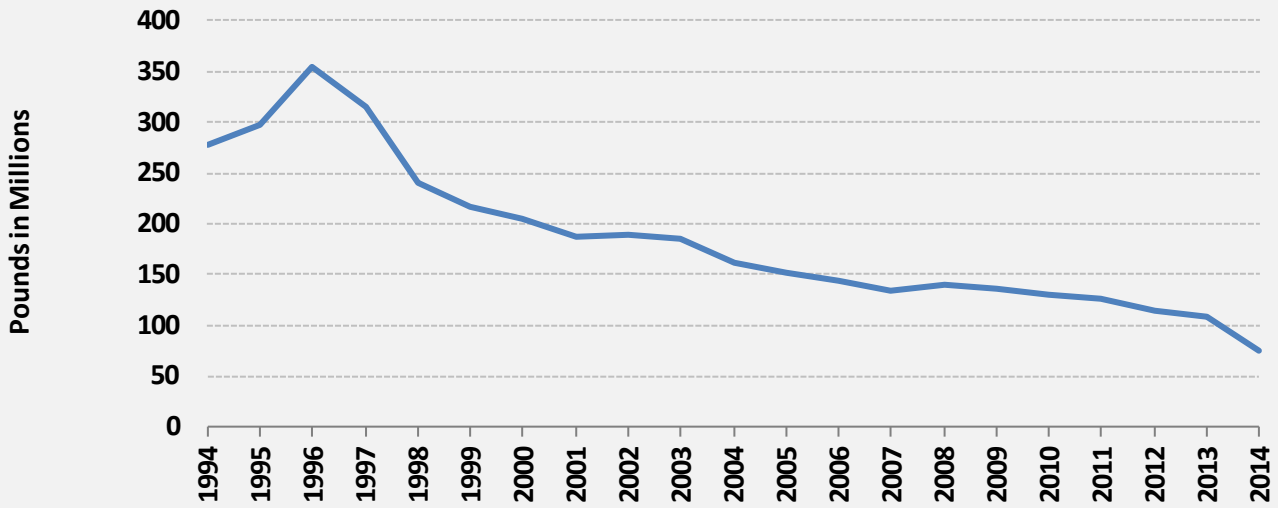
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USDA Federally Inspected Production, Veal (yearly)



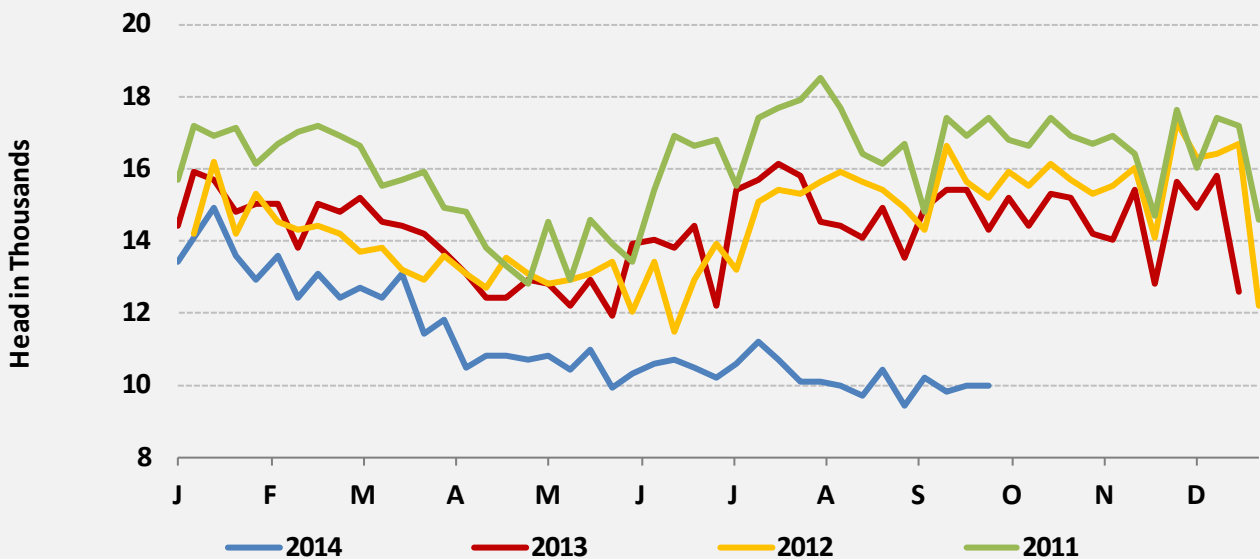
Source: USDA

(2014 = YTD)

2013 veal production was about 109 million pounds, about 5% lower than production during the equivalent period in 2012. The year-to-date production numbers for 2014 are roughly 12% lower than the equivalent time period last year. This downward trend has persisted for over 15 years.

Much of the slaughter decline has been motivated by lower corn prices which has caused competition for Holstein calves in feedyards throughout the southern U.S. While the increase in carcass weight has offset some of the slaughter declines, it is forecasted that at the end of the year production will have declined 12 to 13%.

USDA Federally Inspected Slaughter, Calves(Weekly)



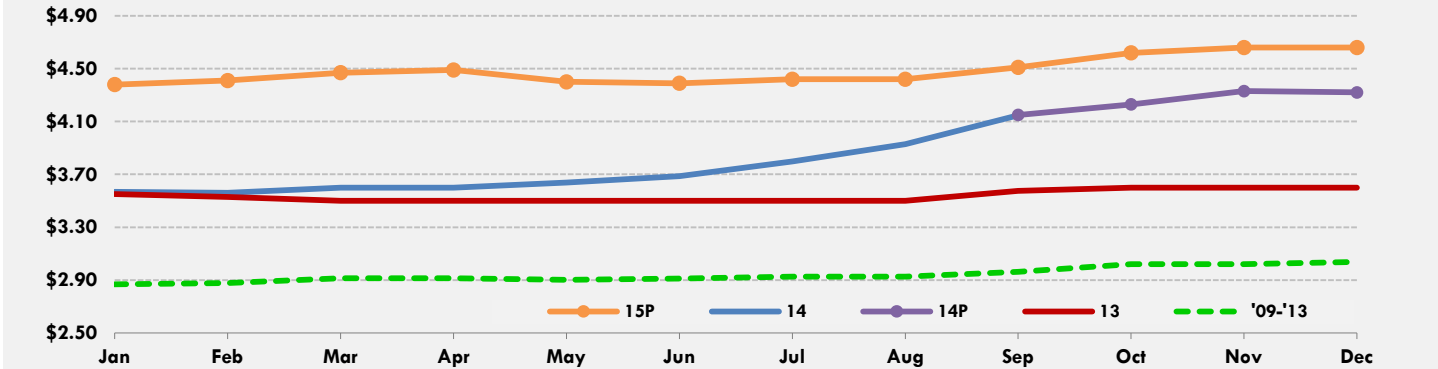
Source: USDA

Calf slaughter from January to October 2014 is estimated at 444,000 head, which represents an approximate 22% departure from the slaughter levels seen during the same time frame for the previous year. Third-quarter calf slaughter is expected to be down 30%, and fourth-quarter calf slaughter numbers are forecasted to be 26% lower relative to year-ago calf slaughter.

Veal: Carcass Veal, Hide-off, 255/315, North East-(LTL)

Carcasses are expected to continue to trend higher throughout the remainder of the year as we approach the winter holidays. Lower slaughter levels are forecasted to be significant throughout the rest of 2014. The fourth quarter calf slaughter declines are projected to be about 26%.

MARKET PRICES AND PROJECTIONS



PROJECTED

YS Carcass Veal, Hide-off, 255/315, North East-(LTL)

	2015	2014	2013	2012	2011	2010	5-Yr Avg
Jan	4.38	3.57	3.55	3.36	2.72	2.18	2.87
Feb	4.41	3.56	3.53	3.45	2.73	2.20	2.88
Mar	4.47	3.60	3.50	3.56	2.74	2.34	2.91
Apr	4.49	3.60	3.50	3.65	2.75	2.30	2.91
May	4.40	3.64	3.50	3.68	2.79	2.35	2.90
Jun	4.39	3.69	3.50	3.70	2.84	2.37	2.91
Jul	4.42	3.80	3.50	3.68	2.90	2.40	2.93
Aug	4.42	3.93	3.50	3.64	2.95	2.43	2.93
Sep	4.51	4.15	3.58	3.63	3.04	2.47	2.96
Oct	4.62	4.23	3.60	3.63	3.20	2.55	3.02
Nov	4.66	4.33	3.60	3.54	3.24	2.61	3.02
Dec	4.66	4.32	3.60	3.54	3.28	2.63	3.04
Avg	4.49	3.87	3.54	3.59	2.93	2.40	2.94
High	4.66	4.33	3.60	3.68	3.28	2.63	3.04
Low	4.38	3.56	3.50	3.36	2.72	2.18	2.87

Corn and Whey

CBOT Corn Continuous Front Month Futures



Corn crop production is projected to be the highest ever in 2014. Despite a minimal uptick in early October, prices have trended lower throughout the year. In fact, prices have dropped over 60% from their peak in August 2012. Price pressures are expected to continue given crop expectations.

WHEY (Animal Feed Milk Replacer, Central)



There remains concern over the rising cost of whey. Whey prices are forecasted to be higher long-term given increased demand.

MONTHLY 5-YR SEASONAL FACTOR

