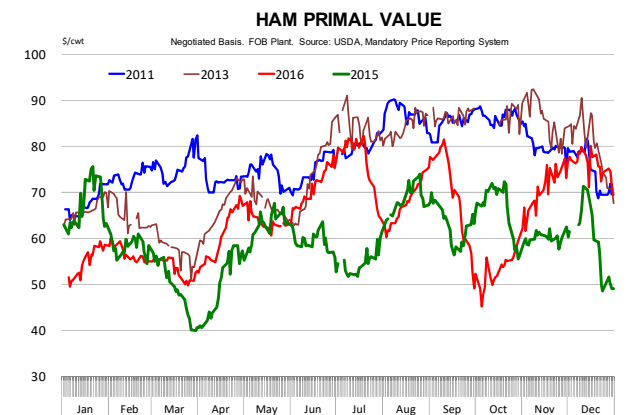
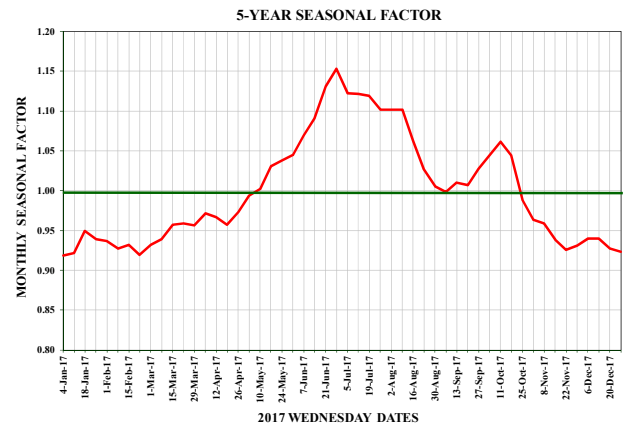


Hog futures took a step back yesterday, with the nearby February futures contract declining by more than 260 points. The decline followed some weakness in the cash market for pork cuts, which is not unusual for this time of year.

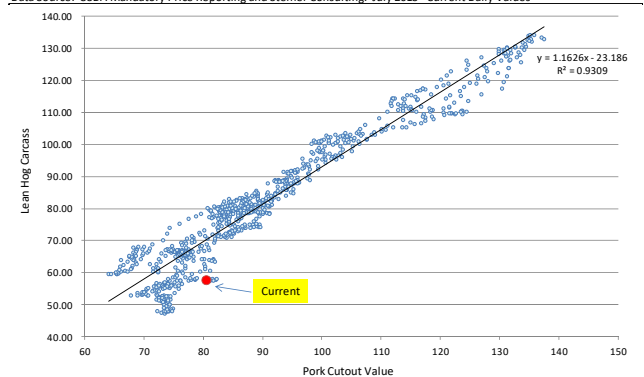
As we have noted before in this report, the pork cutout moved counter seasonally higher in December, largely due to excellent demand from both domestic and export channels. The latter cannot be overstated in our view. The weekly export numbers have revealed how strong Mexican demand in recent weeks, which largely translates into robust demand for hams. But in the short term there is some concern that seasonal factors may eventually catch up with the pork market. Hog futures are currently pricing demand to stay strong all the way into spring. Consider that hog futures for February are currently around \$64/cwt, which would imply a pork cutout value in the high 70s or close to \$80/cwt. How so? The meat margin, which is basically the difference between the value of the hog carcass and the net hog price is currently running at an astounding level, reflecting the effect of excellent pork demand and ample hog supplies on the ground. The cutout last night was around \$80.5/cwt while the CME hog index is calculated at around \$57-58/cwt. The meat margin therefore is around \$23.5-\$24.5/cwt compared to \$16.5 a year ago and \$5/cwt in 2015. Normally the meat margin declines into February and March, in line with the normal pullback in hog supplies. Last year the meat margin dropped from around \$16/cwt in late January to under \$10 in early March. But with hog supplies expected to be +4% higher this year than last year it may be reasonable to expect those margins to stay quite large for a bit longer. New hog processing plants are expected to come online this year but the larger ones are not expected to be operational until late summer and fall. For now, processing capacity still remains somewhat tight and has put packers in the drivers seat in terms of dictating pricing direction. Obviously this is a cyclical industry and we can point to other times in the past when it was producers that were forcing packers to made do with tighter margins. Over time, however, there is a fairly strong relationship between the pork cutout and hog prices. The bottom chart shows that relationship in recent years, using daily values, and also highlights how far off the regression line current prices are.

So what seasonal pressures could come into play and what are some of the risks in the short term for pork and hogs? Hams certainly will come into focus. The price of #23-27 hams last night was \$57.72/cwt, down \$15.77/cwt (-21%) from just a week ago. But take a look at the chart of the ham primal, it is not unusual for ham prices to fall like a rock after Christmas, it is something that ham buyers know well and wait for every year. At this point retail ham buyers looking to secure hams for Easter likely are sitting on the wings waiting for a bottom before they wade in. Easter in 2017 is on April 16, about 20 days later than it was last year. As a result we could see buyers probably take a bit more time before they start working their Easter needs. Export demand is a bit more uncertain. The value of the Mexican peso continues to erode. In mid December a Mexican buyer needed 20.2 peso to buy 1 USD. Today they need 21.7, which is basically a 7.4% price increase. And then there is the uncertainty of the policies that the new administration will pursue after it comes to power and has the ability to issue executive orders.

Hog Carcass Value, FOB Plant, USDA



Cutout vs. Net Lean Hog Carcass Value (calculated to mimic the CME Cash Index)
Data Source: USDA Mandatory Price Reporting and Steiner Consulting, July 2013 - Current Daily Values



The Daily Livestock Report is made possible with support from readers like you. If you enjoy this report, find it valuable and would like to sustain it going forward, consider becoming a contributor. Just go to www.DailyLivestockReport.com to contribute by credit card or send your check to The Daily Livestock Report, P.O. Box 4872, Manchester, NH 03018

Thank you for your support!

The **Daily Livestock Report** is published by **Steiner Consulting Group, DLR Division, Inc.**. To subscribe, support or unsubscribe please visit www.dailylivestockreport.com. Copyright © 2016 Steiner Consulting Group, DLR Division, Inc. All rights reserved.

The Daily Livestock Report is not owned, controlled, endorsed or sold by CME Group Inc. or its affiliates and CME Group Inc. and its affiliates disclaim any and all responsibility for the information contained herein. CME Group, CME and the Globe logo are trademarks of Chicago Mercantile Exchange, Inc.

Disclaimer: The *Daily Livestock Report* is intended solely for information purposes and is not to be construed, under any circumstances, by implication or otherwise, as an offer to sell or a solicitation to buy or trade any commodities or securities whatsoever. Information is obtained from sources believed to be reliable, but is in no way guaranteed. No guarantee of any kind is implied or possible where projections of future conditions are attempted. Futures trading is not suitable for all investors, and involves the risk of loss. Past results are no indication of future performance. Futures are a leveraged investment, and because only a percentage of a contract's value is required to trade, it is possible to lose more than the amount of money initially deposited for a futures position. Therefore, traders should only use funds that they can afford to lose without affecting their lifestyle. And only a portion of those funds should be devoted to any one trade because a trader cannot expect to profit on every trade.