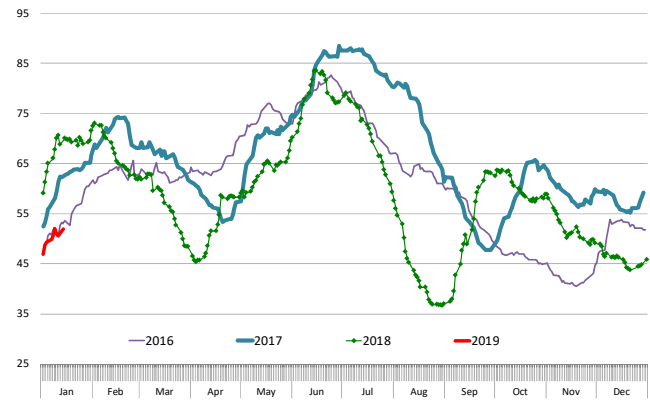


It has been **a bit of a rocky start for lean hog futures**. Cash hog prices jumped higher right out of the gate but then pulled back some last week. IA/MN prices were higher once again yesterday. As a result, the nearby lean hog (Feb) contract gained 3.8% between Jan 2 and Jan 10 only to give all of it back in the last two trading sessions. But **the selloff in the last two sessions was not confined just to the nearby contract**. June futures, which have proved to be quite resilient due to the ever present risk of African Swine Fever, are down 3.8% in the last three trading sessions. June futures are now down 7.6% from the contract high on November 23. Money flow may be one factor that explains the value erosion in the summer contracts. One can also speculate that participants have tired of looking for signs of impending supply shortages in China and, for now, maybe want to scale back some of their more bullish bets. This **does not mean that the risk from ASF has subsided, indeed we would argue that the situation today is significantly worse than it was a month or so ago**. In the last week or so Chinese authorities have announced outbreaks of ASF in two very large hog farms. This disease is not confined to small backyard operations and the recent outbreaks should highlight the extreme risk that this disease presents for the pork industry in the country. But at this point market participants appear content to sit back and watch for signs that pork supplies in China have started to tighten up. And the best measure of that is not government reports but hog and pork prices.

But **while the risk from ASF is something that market participants will try to weigh for the future, in the near term the focus will remain on meat demand in domestic channels and exports** to both NAFTA and non-NAFTA markets. The pork cutout value last night was calculated at \$71.19/cwt, **down \$9.9/cwt or 12.2% compared to the same period a year ago**. The cutout value is currently \$8.8/cwt compared to the same time period two years ago. The chart to the right illustrates how each primal has contributed to the overall decline in the cutout. The chart may be a bit difficult to read so here's what it is basically saying. The current cutout is down almost \$10/cwt compared to last year. The ham primal last night was \$48.51/cwt, \$15.13/cwt or 24% lower than a year ago. Because the ham primal accounts for about 25% of the carcass, this means that **the decline in the ham primal value removed about \$3.7/cwt from the overall cutout**. You can go down the list and see the impact from each individual primal in the same way. We continue to think that tariffs on US pork in Mexico are having a notable impact. Much of the pork that Mexico buys are hams and US packers have had to lower prices roughly by the value of the tariff to maintain the sales volume. Due to the lapse in government funding, the weekly export report has been suspended so we do not have any current information about outstanding sales to Mexico for CY2019. The last report available in mid December showed the sales pace had slowed down considerably. As was the case in September, Mexican buyers may be waiting a bit longer to purchase product for the holidays (Easter) hoping the tariff may be lifted. For now the Mexico tariff may be shaving about \$3/cwt from the cutout. But the tariff is not the only reason why the cutout is down. The loin primal is down 9% compared to last year and 23% lower than two years ago. Pushing ever increasing amount of pork loins through retail channels has been difficult. And there is no easy fix for this. Loin prices will increase if we produce less pork or somehow make pork chops tasty enough so people buy them more often. Notice that **bacon (bellies) has no problem selling itself despite the rise in supply**.

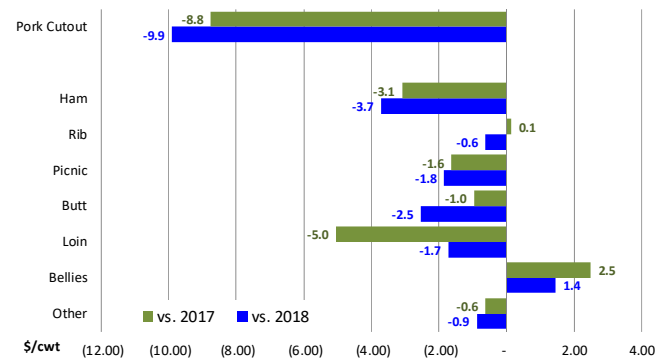
IA/MN Lean Hog Carcass, Base Price. Wt. Avg.

Source: USDA-AMS Daily Prices



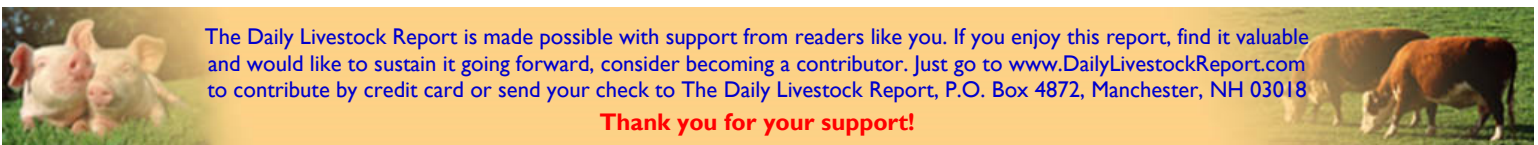
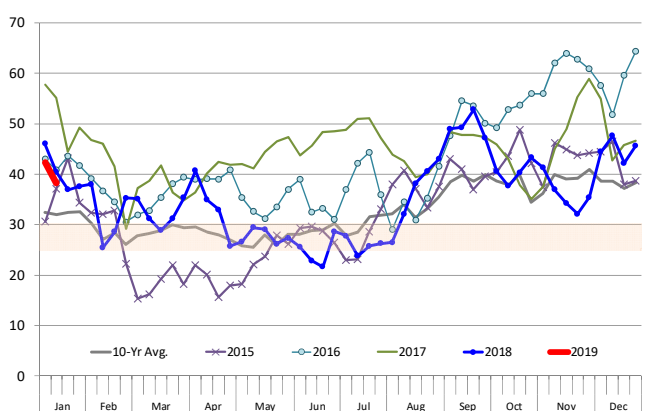
Change in Primal Contribution to Cutout: 2019 vs. 2018 & 2017

Source: USDA-AMS Mandatory Price Reporting System. Analysis by Steiner Consulting



PORK PACKER CALCULATED GROSS MARGIN. \$/HEAD

Calculated Using the Weekly Pork Cutout Value, Number of Head Processed, and Drop Credit Value. Data Source: USDA, Steiner & LMIC Drop Credit



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