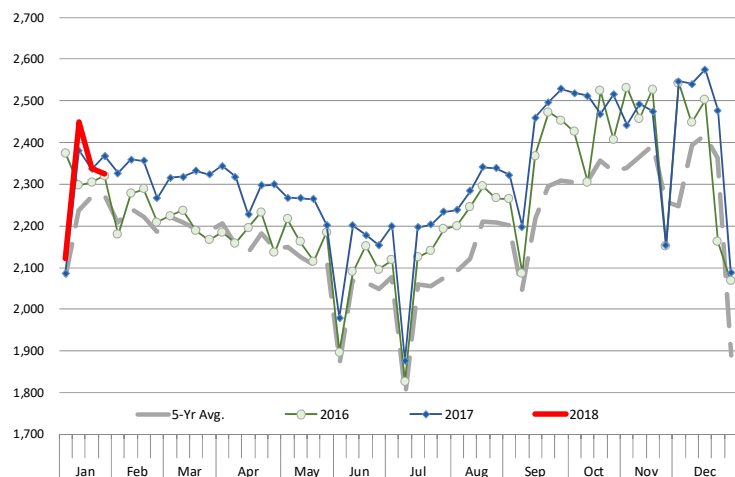


Hog slaughter for the last two weeks has been lower than many expected and below the weekly projections based on the USDA hog inventory data. **But is that a survey “miss” or do we need to zoom out a bit and take a bit of a broader view than just the last two weeks?** We think a broader view is warranted. Weather disruptions and higher than expected slaughter in December appear to be the main culprits behind the lower slaughter rates so far in January. We estimate **weekly slaughter for the period December 4 through January 27 at 18.918 million head, 3.1% higher than the same period a year ago.** Please note that we have used the actual revised hog slaughter data through January 4 and the estimated USDA data for the next two weeks. Our hog slaughter estimate for this week is 2.33 million head, about 1.5% less than the previous year. However, when we break up the slaughter data in two parts, we see two different pictures. Weekly hog slaughter through the end of December was 9.682 million head (Dec 4 - Dec 30), 5.5% higher than the same period a year ago. For the period from Dec 31 through January 27 hog slaughter is estimated at 9.236 million head, 0.8% higher than a year ago.

More current hog supplies, a seasonal decline in hog availability in January and two new big plants competing for hogs has bolstered hog values in the short term. Pork demand appears to be in good shape and the reduction in available supplies, at least in the last two weeks, has supported pork cutout values. The pork cutout last night was quoted at \$83.03/cwt, \$1.6/cwt or 2% higher than the same period a year ago. And it is interesting to see that one of the biggest contributors to the gains in the pork cutout to this point are pork butts (shoulder). The value of the butt primal last night was quoted at \$98.48/cwt, \$13.79/cwt or 18% higher than last year. The butt primal is only 11% of the overall carcass but, thanks to the big gains so far this year, the butt primal gains have contributed more than hams to the cutout. Belly prices are currently as much as 7% less than they were last year, which is not a surprise given how inflated belly prices were last year. But pork packers have been able to put more money on other pork cuts and thus have offset the losses from the bellies and loins. But can these gains be sustained into the spring as slaughter remains well above 2.3 million head? Exports as always will be key. **Pork butts are a key pork export item into some Asian markets.** Mandatory price reporting data shows that, in the last six weeks, pork butt exports to overseas markets have averaged 10.2 million pounds per week. For the same period last year weekly butt exports were 3.5 million pounds. Hams are a key export item into Mexico but unfortunately NAFTA sales are not included in the MPR export reports. Weekly export data shows that pork shipments to

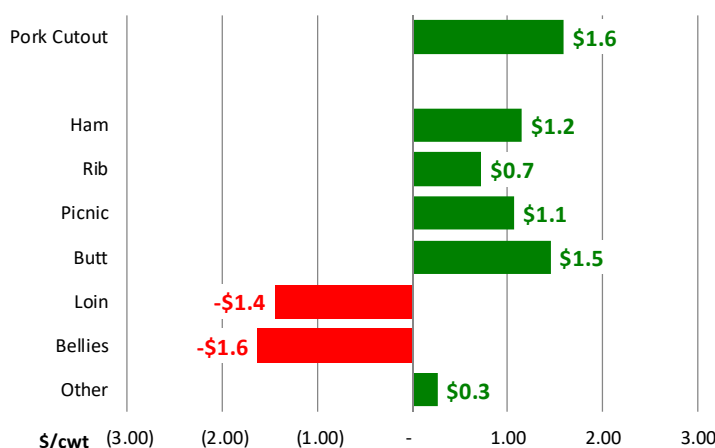
WEEKLY HOG SLAUGHTER. '000 HEAD

Source: USDA



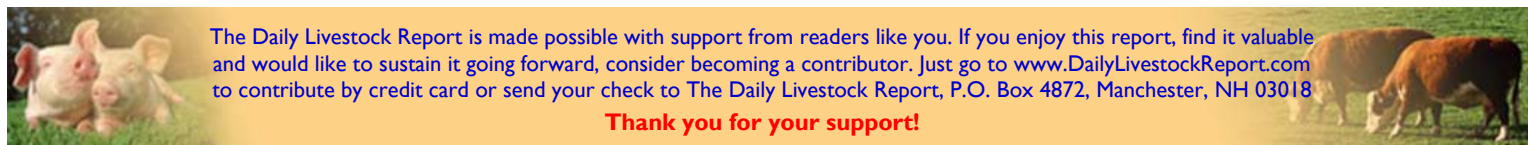
Contribution of Each Primal to the Change in the Value of Pork Cutout

January 23, 2018 vs. January 24, 2017



Mexico in the first two weeks of the year averaged 7,500 MT/wk compared to 7200 MT/week the year before.

Bottom line: Increased competition has underpinned hog values and narrowed the meat spread. Excellent export demand, especially sales into Asian markets have bolstered the value of the cutout, creating a more bullish environment for hogs than most expected last fall.



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