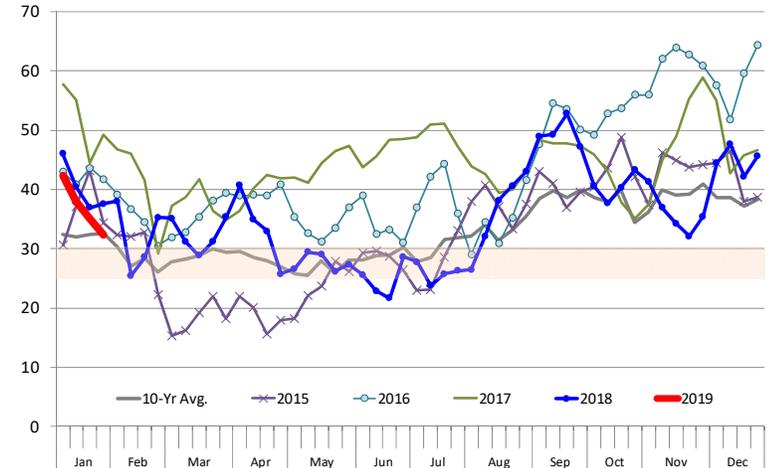


Nearby lean hog futures have come under pressure in recent weeks and the **premiums following African Swine Fever (ASF) outbreaks in China have been mostly erased at this point.** A couple of days ago we outlined how pork supplies in recent weeks have been higher than expected, pressuring pork prices lower and thus pinching packer returns and demand for hogs in the open market. Estimated **packer margins are currently near the 10 year average and well below recent history for this time of year.** The chart to the right illustrates our gross margin calculation based on three key inputs: weekly pork cutout + LMIC calculated by-product value - net national hog price. This is a very broad indicator because individual packers will have very different results for each one of these inputs. Additionally, some packers are also major hog producers and own value added operations. This means profitability needs to be viewed in the broader scope of a vertically integrated operation. According to USDA Mandatory Price Reporting System, in 2018 32% of all hogs that were marketed and reported through the MPR system were packer owned.

One of the inputs in that gross margin calculation is **the price that packers are paying for hogs delivered to them.** It is not unusual for hog prices to move higher after the holidays due to the seasonal decline in supplies and normalization of slaughter after two holiday shortened weeks. Weekly hog slaughter in December was as high as 2.7 million head compared to 2.5 million a week ago and likely 2.45 million head/wk. in February. More packing capacity and fewer available hogs tend to bolster hog prices and pressure margins. Additionally, it is important to understand the myriad ways in which hogs are priced and delivered these days. Gone are the days when all you had to do was look at the IA/MN lean base price and have a pretty good idea where hogs were trading at. For the week ending January 25, the average national base price for producer sold barrows and gilts was calculated to be \$60.95/cwt. This is the input we used to calculate the gross margin above. And yet, the average net price of negotiated hogs was \$53.17/cwt, 87% of the average price for the week. While you may be used to look at the negotiated price, those barrows and gilts represented just 2.7% of the producer sold hogs and the discount to the overall price was substantial. The negotiated price is used to price a large portion of the hogs sold through the “swine/pork formula” category. But more hogs are also formulated today using the cutout which is why the average net price for the “swine/pork formula” category was \$58.74/cwt, 96% of the overall price. The table to the right illustrates how the volume and price of hogs sold through the four main marketing channels compares to the average net price. In addition, we have included comparisons to both last year and where things stood five years ago. For last week alone, it appears that those producers using formulas tied to futures/options and other marketing arrangements have

## 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



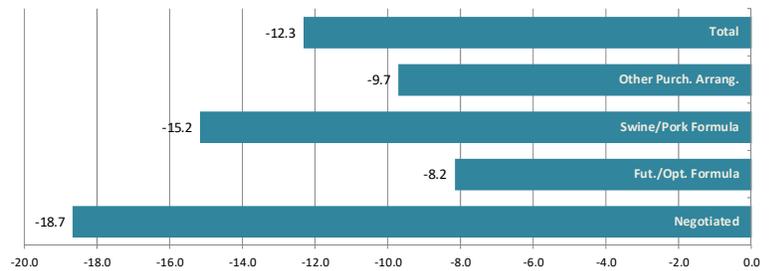
## Comparison of Producer Sold Barrows and Gilts from Various Marketing Methods

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

	Negotiated Share of total head	% of Overall Net Price	Fut./Opt. Formula Share of total head	% of Overall Net Price	Swine/Pork Formula	Other Purch. Arrang.
01/25/13	4.9%	100%	11.4%	96%	60.5%	101%
...						
01/26/18	3.2%	98%	17.4%	95%	47.0%	101%
01/25/19	2.7%	87%	14.9%	101%	49.8%	96%

## Y/Y Change in the Net Price Received for Producer Sold Barrows and Gilts

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



performed better. But this is for one week and one needs to look at a longer term performance record before drawing conclusions on formula pricing performance.

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