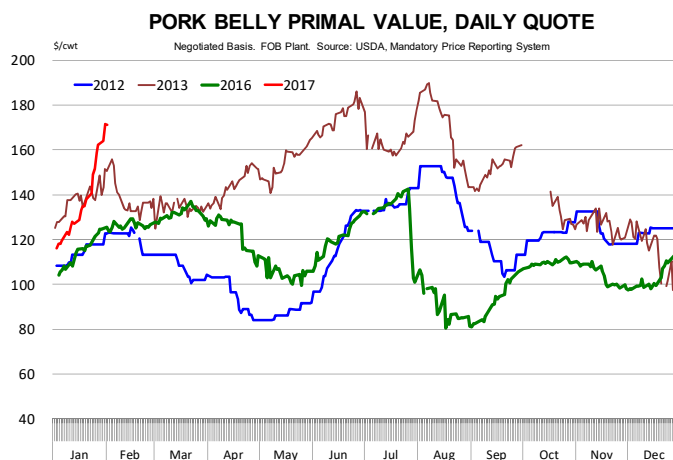
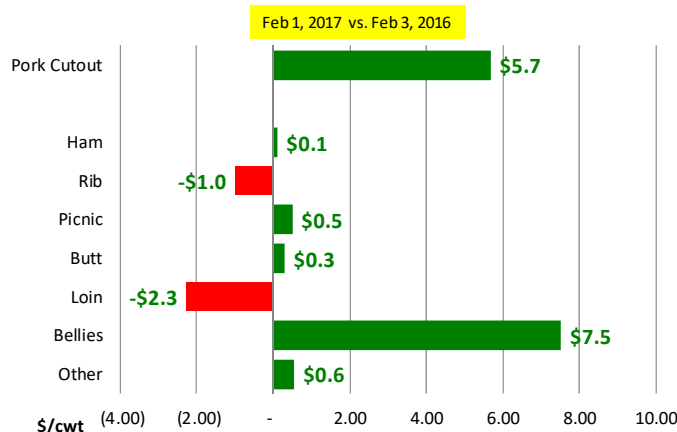


Here's the opening from an NBC News report yesterday: "Call it **the first sign of the aporkalypse**: The nation could be facing a bacon shortage..." The report, and others in the New York Times and BBC of all places, went on to quote analysts and producers that offered a more balanced view of the situation (plenty of pork, large supplies, etc etc). It is **concerning that some of this silliness was instigated by a pork producer group** that went through the trouble of building a website called baconshortage.com. Why silly? Because it is not helpful to tell your customers that you may not have enough product to sell them at a time when production is expected to break all time records. But while the talk of a bacon shortage may be silly, what's not in dispute is that we have never had such high pork belly prices this early in the year. **Short covering and panic buying appear two key factors driving prices in our view.** USDA quoted the value of the pork belly primal yesterday at \$171.09/cwt, 38% higher than a year ago and 14% higher than the very high prices we experienced in 2013. The increase in belly prices has come even as pork production is running about 1.3% higher than it was a year ago and 11% higher than in 2013. The improvement in the value of pork bellies has helped bolster the overall pork cutout and has significantly improved producer returns. Futures were pricing February hogs at around \$54/cwt in early December but today the cash index is closing in on \$70/cwt, turning what looked to be a red Q1 into a profitable one. The hog carcass value last night was quoted at \$82.91, \$5.68/cwt higher than a year ago. All this increase is due to the gains in the value of the pork belly (see chart). Indeed, the strong belly prices have been enough to even offset the losses currently experienced in the value of the loin and rib primals (those account for 30% of the carcass).

Higher cash hog and pork prices have caused futures markets to raise price expectations for the spring and summer months. But we also think **market participants realize the inherent risks in a market where one item is carrying so much of the value improvement**, evidenced in the negative spread between Feb and Apr contracts. Can this excellent pork belly demand be sustained into the spring? The reason why the #baconshortage hashtags are dangerous is that they signal to end users that bacon supplies are not sufficient and therefore they probably should rethink plans for bacon promotions this spring and summer. It is a stupid thing to do and kudos to industry analysts that have been trying to set the record straight. **One of the risks that the industry runs at this time is that very high prices could induce end users, be this retailers or foodservice operators, to change their bacon marketing for the rest of the year.** High prices in early 2013 did little to dampen demand that year and prices hit all time record highs that summer. And for now belly prices appear to be supported (in opinion) but robust retail and foodservice promotions that were likely booked during Q4 when pork/belly supplies were quite ample. Pork belly prices were as low as \$80 last August (see chart) and in the \$100 area all the way through November. We are a



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



long way from Kansas at this point and the market runs the risk of rationing out demand at a time when pork supplies are expected to be +3.5 to +4.0% higher than last year through the spring. What the last few months have shown is that **US consumers will eat a lot of bacon if you offer it to them at a reasonable price.** The preference is there and the stigma surrounding fat consumption has faded together with the bad science that accompanied it. However, consumers do respond to price signals and the bacon package that looked such a deal at \$3.99 may not hold the same allure at \$7.99. Panic buying has helped propel prices to record levels (for this time of year) but a more stable market and somewhat lower prices may be desirable to keep this train from getting off the tracks.

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