Daily Livestock Report

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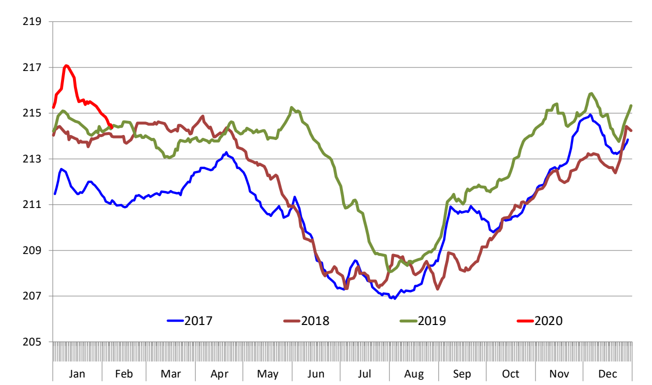
<u>Hog futures have been lower so far this week on weak pork prices at wholesale, ample hog supplies and uncertainty regarding the outlook for US pork exports this spring</u>. Reports from various trade organizations and private entities continue to note the extreme disruptions that the Novel Coronavirus (nCoV) has caused to the Chinese supply chain. In a note to members yesterday, NAMI (North American Meat Institute) noted that some key ports in China are facing a significant backlog of containers due to the lack of workers. The containers used for meat products are refrigerated and need to be plugged into a power source in order to keep the load at the proper termperature. According to NAMI, "Import reefer containers into China are being discharged but very few receivers are picking up reefer containers with the result that some terminals are running out of reefer plugs to power the reefer units. Shanghai and Xingang have reported 100 percent utilization of available reefer plugs." China in December purchased 222 million pounds of fresh/frozen pork on a carcass weight basis. US commercial pork production in December, on a carcass weight basis, was 2.443 billion pounds. This implies **<u>in December China took a 9% share of all US pork output while overall exports accounted for a 28% share</u>**. Like it or not, the US has become a key global pork supplier, tying the fate of US pork/hog prices to the broader global supply/demand flows.

<u>In the short term producers have responded to the current disruptions by marketing their hogs more aggressively</u>. In the near term there is not much flexibility for hog producers. Dragging your feet in marketing hogs will do little but compound the hurt by getting hogs to heavier weights, adding discounts on top of what are already very weak prices. Consequently, more hogs are showing up in the market than one would expect. Slaughter last week was estimated at 2.691 million head, 6.4% higher than the previous year. In the five weeks between January 5 and February 8, US weekly hog slaughter has averaged 2.655 million head/wk, 7% higher than the previous year, rivalling the kind of supply we saw last fall. It becomes increasingly difficult to maintain pricing when a good chunk of the demand that helped the market last fall has now been idled. Belly prices traded under 80 cents yesterday and ham prices are trading in the mid 50s. Domestic retail demand for pork does not really pick up until spring so, for the moment, packers and producers face a situation where prices need to stay low in order to clear the market. More pork will go to some smaller markets but their purchasing power is lower than China and a strong US dollar is doing no favors to the US producer. As the second chart to the right shows, the seasonal tendency for hog prices in the last few years is to remain soft through April before moving up in May and June when hog supplies seasonally decline and domestic demand picks up. Last year we saw an earlier rally in the index, driven by speculation of a trade deal with China and strong demand in that market. But it is good to remember that it was expectations of future inflation rather than actual demand that caused April prices to rally last year. Indeed, hog prices were higher in April than in June and July last year. One final point on hog prices. There has never been a single hog price given discounts and various marketing methods. The chart to the right shows the distribution of the hogs marketed for 2/7, with prices ranging from mid 40s to the high 70s.

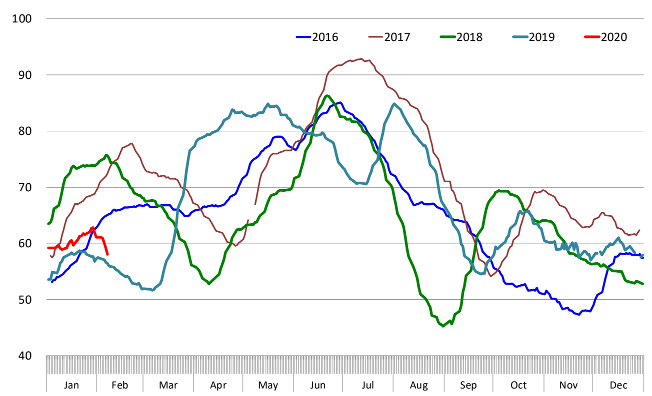
Barrow/Gilt Dressed Carcass Weights, 5-day Moving Avg. - Producer Hogs

Based on Daily MPR Report, LM_HG201. Data through Feb 7, 2020. Analysis by Steiner Consulting



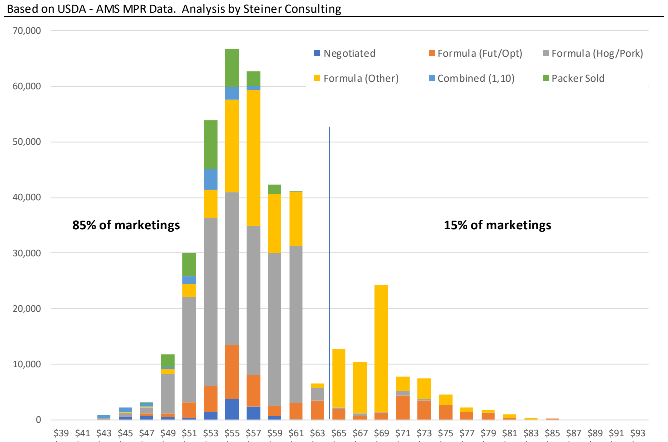
CALCULATED 1 DAY CASH HOG INDEX

Based on Daily USDA MPR Data. Wt. Avg. Price of Negotiated Cash Hog Price and Swine or Pork Market Formula (SPMF). See LM_HG201



Distribution of Barrows and Gilts Marketed on February 7, 2020

Based on USDA - AMS MPR Data. Analysis by Steiner Consulting



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