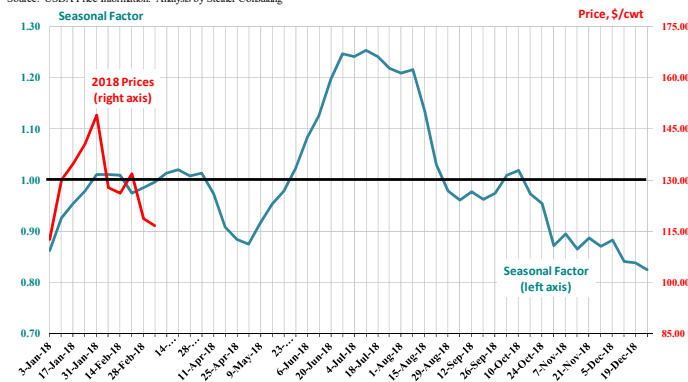


For an item that makes up just 16% of the hog carcass we sure tend to spend a lot of time talking about bellies. The main reason why discussion tends to gravitate to this item is that it now accounts for a larger share of the carcass value. Additionally, it tends to have a significant seasonal component and higher volatility than other pork cuts. Shifts in the value of pork bellies tend to be quite dramatic, forcing traders to react and rapidly change their outlook for the pork cutout and what they see as fair value for hogs in future periods. The last two months are a case in point. The pork belly primal, basically a weighted average price of the various belly products traded, traded at the end of December 2017 at around \$107/cwt, which was half the summer price. However, by the end of January the primal value had jumped to near \$150/cwt, a 40% jump in value in just four weeks. The increase in the value of bellies contributed roughly \$7 to the overall pork cutout value, significantly impacting hog prices not just in the spot market but also late winter and spring futures. Bellies seasonally improve in late January but the magnitude of the price increase was higher than what one would expect from seasonality alone. In a relatively thin spot market demand shifts (e.g. retail promotions) tend to amplify seasonal price swings. Since peaking in late January belly prices have been moving lower, which again is not unusual from a seasonal perspective. But the seasonal decline has not been smooth and orderly. A week ago the belly primal was \$135, a fairly robust price for this time of year only to lose 12% in a matter of two days, recover briefly and then close last night under \$117.

Why the volatility? Some of that has to do with the day/day shifts in slaughter and spot availability during a time of year when demand tends to be spotty. Daily slaughter was 450,000 head on Monday but then 460,000 yesterday. We expect slaughter for the week to be around 2.38-2.39 million head, about 3% higher than a year ago. Current belly prices are low enough that they should encourage some producers and end users to bolster their freezer inventories. Some inventory build already happened in late December and January and we think more bellies will go into the freezer in March. At the end of January pork belly cold storage stocks were 44.7 million pounds compared to 14 million pounds the previous year but still 11% lower than the five year average. If we have a normal inventory build, pork belly freezer stocks at the end of March should be around 50 million pounds. The larger belly inventories should help avoid the kind of price spike that we saw a year ago although it is usually a fair bet to expect higher belly prices in the spring. For now hog futures are reacting, somewhat kneejerk, to the belly driven volatility in the cutout. However, what is lost a bit we think is the still very good demand for other pork items, such as hams, which continue to benefit from strong export demand. And that brings us to the more critical and real downside risk in the pork market - export business. For now futures appear to be taking a wait and see approach to how NAFTA negotiations may play out. More on this very important topic tomorrow.

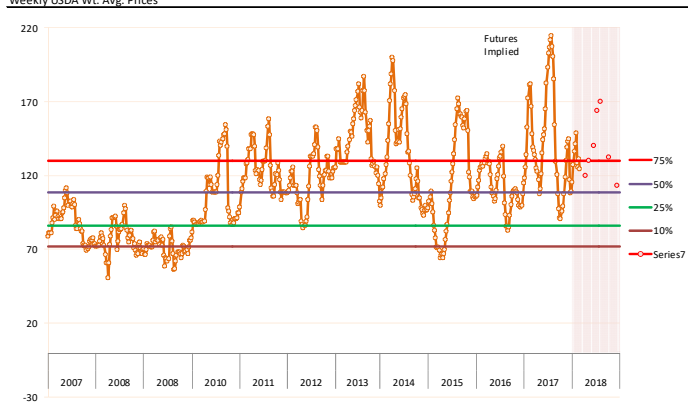
Pork Belly Primal 5-Yr Seasonal vs. Current Price Trends

Source: USDA Price Information. Analysis by Steiner Consulting

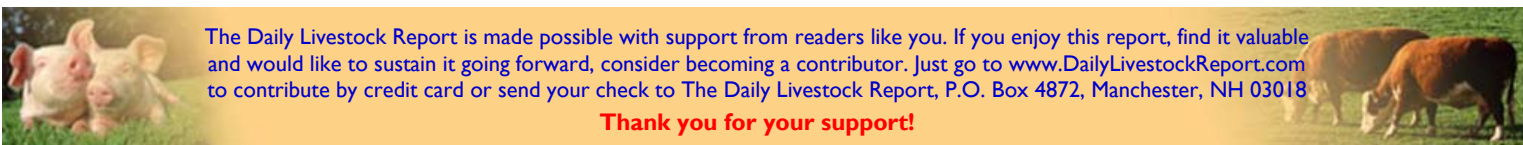
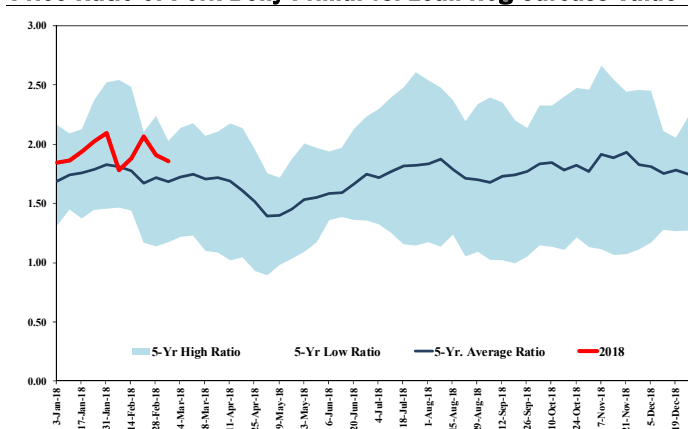


Historical Price Trends & Distribution Percentiles : Pork Belly Primal

Weekly USDA Wt. Avg. Prices



Price Ratio of Pork Belly Primal vs. Lean Hog Carcass Value



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