

Volatility continues in the Lean Hog Contracts. April 4th marked the first close over \$100/ cwt in the July contract since July of 2014. In 2014, the U.S. hog industry was surviving Porcine Epidemic Diarrhea (PEDv) virus, and had daily closes above \$100/cwt across nearly all contracts.

Last week, the July and August contract closes tiptoed past \$100/cwt. Volatility in the summer contracts has been tremendous this year. A daily close chart does not nearly do the volatility justice. On the first day, the limit setting for the Lean Hog contract is \$3/cwt (up or down), and if the contract trade is suspended once it reaches that limit the following day is increased to +/- \$4.50 from the previous close. The June Lean Hog contract has exceeded a \$3/cwt change in price from the previous close 8 times just since the beginning of March. The July contract has had 5 closes with greater than \$3/cwt changes.

For comparison, in all of 2014 the June contract had 8 days of day-over-day changes that were limit up or down and the July contract during that timeframe had 6 limit changes (price changes >\$3/cwt). We attribute most of the difference between the volatility during PEDv compared to now to information. During PEDv, industry participants relied on USDA to provide timely and accurate information regarding disease status, supply and price picture. Trust in these resources guided the market to market equilibrium and reactions to each new update tended to quickly occur.

Looking at the continuously evolving picture of African Swine Fever and the effect on U.S. hog prices is not as easy. Information on the number of animals being taken out of the Chinese herd, OIE reporting

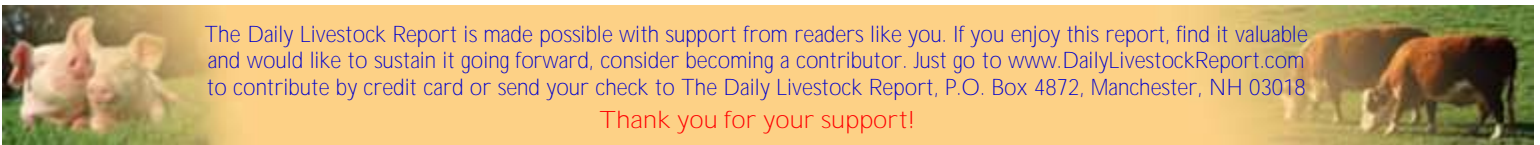
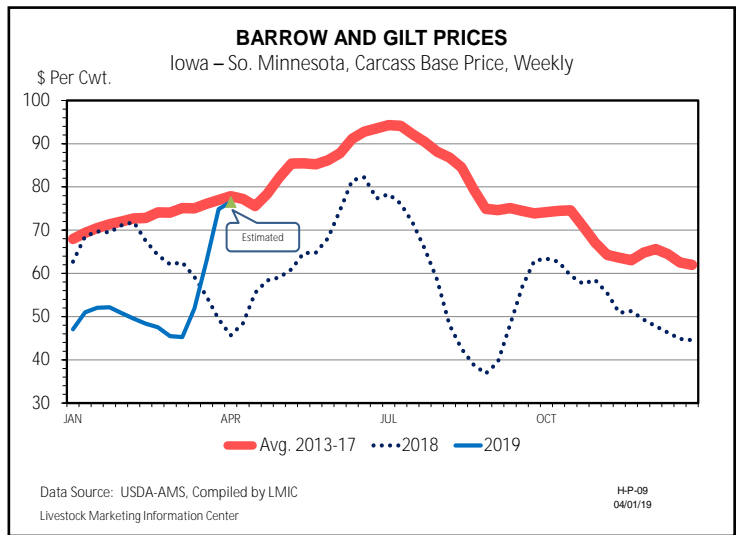
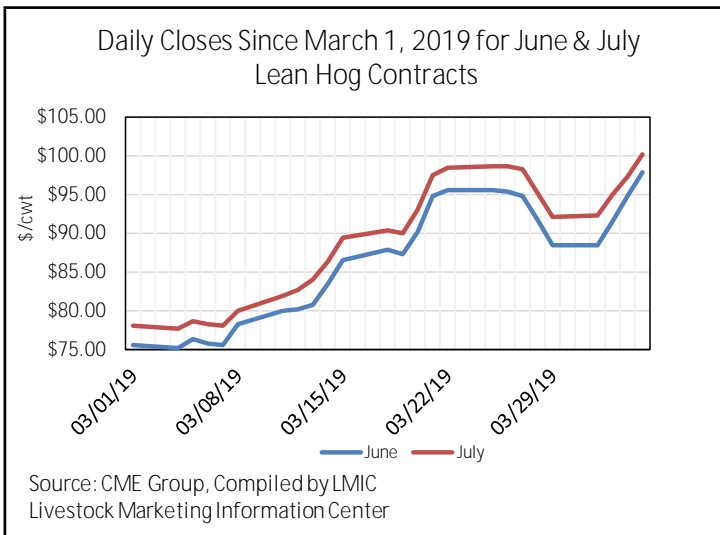
figures, and industry expert forecasts have wide ranges among them.

But, its not only the pork supply picture that is muddy. There are numerous questions and few answers at this point: How will the tariffs effect how much pork is purchased by China from the U.S. versus other sources? Will the Chinese consumer eat the same amount of pork or will consumption of pork drop significantly? Does the U.S. benefit from the pork vacuum created from China buying from other sources versus the U.S.? To what extent does the U.S. chicken and beef industry benefit more than the U.S. pork industry if Chinese consumers substitute away from pork to other animal proteins?

These questions all depend on information. With every new news update and report the hog market is left with industry participants weighing the information and its accuracy. The trade is burdened with the risk of action or inaction (taking a position).

Money has been made on short and long sides of the disease-driven markets. For example, during PEDv 5 of those limit moves were to the upside and 3 were to the downside in the June contract. In 2019, hog futures have moved aggressively upward, with six of the limit moves to the high side and two limit moves lower. Five out of 8 of these moves have been in the last 7 trading sessions. More days of large volatility are still come, as the futures market feels its way through the answers to these questions.

In the current month, hog cash prices have moved up the last 4 weeks, narrowing the basis in IA-MN market by more than half in the last two weeks. Higher cash prices have been driven by significant gains in the pork cutout, primarily driven by hams and bellies (covered in the DLR on April 3).



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PRODUCTION & PRICE SUMMARY

Week Ending

4/6/2019

Source: Various USDA Agricultural Marketing Service (Market News) reports. DATA ARE PRELIMINARY.

Item	Units	Current Week	Last Week	Pct. Change	Last Year	Pct. Change	YTD	Y/Y % Change
		6-Apr-19	30-Mar-19		7-Apr-18			
Beef, Pork, Chicken, & Turkey	Mil Lbs., cwe	1,891	1,894	-0.2%	1,833	3.2%	25,218	0.9%
C FI Slaughter	Thou. Head	621	614	1.1%	615	1.0%	8,426	0.7%
A FI Cow Slaughter **	Thou. Head	134	125	7.1%	120	11.5%	1,499	3.8%
T Avg. Dressed Weight	Lbs.	803	806	-0.4%	816	-1.6%	809	-1.6%
T Beef Production	Million Lbs.	497.2	493.4	0.8%	500.7	-0.7%	6,814	-1.0%
L Live Fed Steer Price, 5-Mkt	\$ per cwt	124.43	126.34	-1.5%	116.73	6.6%		
E Dressed Steer Price, 5-Mkt	\$ per cwt	204.03	205.60	-0.8%	187.74	8.7%		
Oklahoma Steer (600-700 lbs)	\$ per cwt	163.36	159.45	2.5%	153.67	6.3%		
& Choice Beef Cutout	\$ per cwt	226.48	228.20	-0.8%	217.41	4.2%		
Hide/Offal	\$ per cwt, live wt	9.18	9.17	0.1%	9.98	-8.0%		
B Rib, Primal, Choice	\$ per cwt	376.54	374.67	0.5%	359.82	4.6%		
E Round, Primal, Choice	\$ per cwt	177.22	181.92	-2.6%	166.21	6.6%		
E Chuck, Primal, Choice	\$ per cwt	177.59	181.51	-2.2%	174.08	2.0%		
F Trimmings, 50%, Fresh	\$ per cwt	84.60	81.71	3.5%	92.46	-8.5%		
Trimmings, 90%, Fresh	\$ per cwt	217.85	217.69	0.1%	217.48	0.2%		
H FI Slaughter	Thou. Head	2,458	2,504	-1.8%	2,333	5.4%	34,134	2.7%
H FI Sow Slaughter **	Thou. Head	59.5	60.0	-0.7%	60.4	-1.4%	698	-0.6%
O Avg. Dressed Weight	Lbs.	214.0	214.0	0.0%	215.0	-0.5%	215	0.2%
G Pork Production	Million Lbs.	526.5	537.5	-2.0%	501.4	5.0%	7,322	3.0%
S Iowa-S. Minn. Direct	Wtd. Avg.	76.53	74.85	2.2%	45.69	67.5%		
& Natl. Base Carcass Price	Wtd. Avg.	74.64	71.14	4.9%	56.80	31.4%		
& Natl. Net Carcass Price	Wtd. Avg.	76.68	72.99	5.0%	58.80	30.4%		
P Pork Cutout	\$ per cwt	81.64	81.09	0.7%	69.60	17.3%		
O By-product Value	\$ per cwt, live wt	3.57	3.39	5.3%	3.63	-1.7%		
R Ham, Primal	\$ per cwt	64.81	71.24	-9.0%	52.96	22.4%		
R Loin, Primal	\$ per cwt	73.50	73.06	0.6%	68.49	7.3%		
K Belly, Primal	\$ per cwt	147.56	146.11	1.0%	102.61	43.8%		
Trimmings, 72%, Fresh	\$ per cwt	80.49	72.16	11.5%	58.48	37.6%		
C Young Chicken Slaughter *	Million Head	161.3	163.4	-1.3%	158.70	1.7%	2,085	1.3%
H Avg. Weight (RTC)	Lbs.	4.68	4.64	1.0%	4.67	0.2%	4.65	-0.8%
I Young Chicken Production (RTC)	Million Lbs.	755.3	757.5	-0.3%	741.7	1.8%	9,705	0.5%
C Eggs Set (US)	Million	231.5	230.7	0.3%	228.0	1.5%	2,991	1.5%
K Chicks Placed (US)	Million Head	185.2	183.6	0.9%	183.2	1.1%	2,389	1.2%
E National Composite Whole Bird	Composite	96.62	95.48	1.2%	108.74	-11.1%		
N Northeast Breast, B/S	\$ per cwt	128.19	123.81	3.5%	142.30	-9.9%		
Northeast Leg Quarters	\$ per cwt	42.01	41.88	0.3%	39.89	5.3%		
T Total Turkey Slaughter *	Million Head	4.15	3.93	5.6%	3.42	21.6%	51.3	-2.5%
U Avg. Weight (RTC)	Lbs.	26.91	26.93	-0.1%	26.00	3.5%	26.85	4.4%
R Turkey Production (RTC)	Million Lbs.	111.8	105.9	5.5%	88.8	25.8%	1,377	1.8%
K National Hen (8-12 Lbs)	\$ per cwt	84.00	86.00	-2.3%	79.50	5.7%		
G Corn, Omaha	\$ per Bushel	3.57	3.64	-1.9%	3.69	-3.3%		
R Distillers Grain, IA	\$ per Ton	142.50	140.50	1.4%	152.50	-6.6%		
A Soybean, Cntrl IL	\$ per Bushel	8.79	8.59	2.3%	10.14	-13.3%		
I Soybn Meal 48%, Cntrl IL	\$ per Ton	310.40	305.00	1.8%	386.60	-19.7%		

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