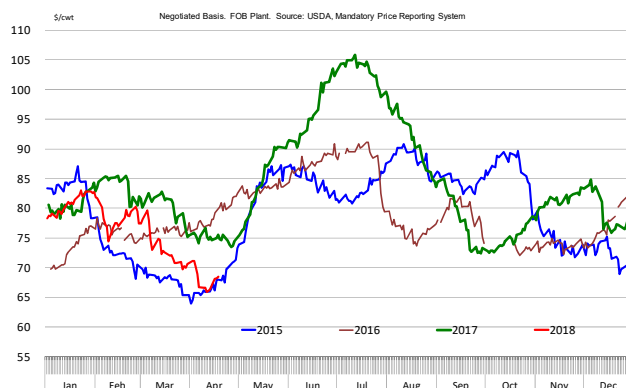


Hog futures have rallied sharply this week as participants have responded to the quick gains in cash prices and expectations for improving pork prices later this spring and summer. **The key here is “improving pork prices”.** The first chart to the right shows the daily values of the pork cutout for the last three years and this year. In each year it has been the case that pork prices have found a bottom some time in March or April and then marched higher in May, June and July. The primary reason why prices move higher in the spring is the seasonal decline in hog slaughter. Summer grilling demand makes for some inelastic demand and it does not take much of a reduction in supply for prices to quickly move higher. The question for market participants at this time is not that prices will move higher in the summer, already futures have priced that possibility. The question is what kind of price improvement do we expect and how quickly do we get there. June hogs futures, which will expire in about 8 weeks, are currently priced at around \$78/cwt. The bottom chart shows the spread in the last four years between the cash hog index (used to settle the contract) and the pork cutout. This is a rough proxy for packer margins. In late January and February the spread went to zero. The compressed margins forced packers to cut back and set the stage for the traffic jam in March and April. Currently the spread is at about the same level it was a year ago and hogs are once again flowing more easily into packing plants. Is we use a spread of say \$8/cwt (somewhere between 2015 and 2017), current futures are implying a cutout value for June of around \$85/cwt. In 2015 we saw the pork cutout trading at about the same level it is today (\$68) to above \$85/cwt by the middle of May. So the implied pork prices baked into the futures currently are not unprecedented.

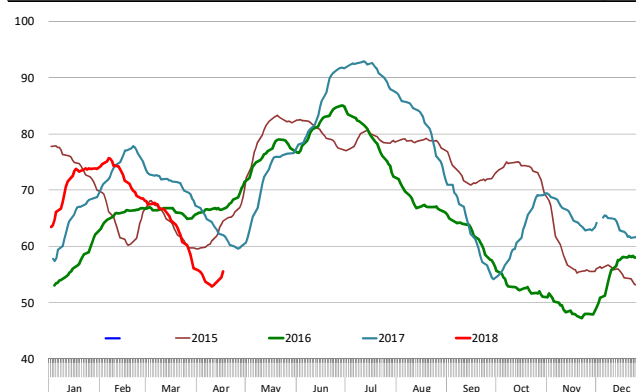
Just because something happened in 2015 does not mean it will happen again this year. It sure may but one would do well to consider how various components of the cutout are performing relative to that year and what may impact that trend going forward. The one item that concerns us the most are loins. The value of the pork loin primal yesterday was quoted at \$69/cwt, 7.5% lower than a year ago and 16% lower than this time in 2015. We would need to see loin values to gain around \$10/cwt between now and mid June to hit the pork value implied by futures. Ham prices in 2015 were extremely weak and so far prices this year have performed better. Yesterday USDA quoted the value of the ham primal at \$54.73/cwt. In 2015 ham prices bottomed out at \$40 post Easter. We would expect ham prices to gain around \$10/cwt in the next few weeks, which is reasonable, and stay within the current futures range. The biggest wild card are bellies, which have been notoriously volatile in the last couple of years. In 2015 the value of pork bellies in mid April was a stunning \$62/cwt. Last night USDA quoted the belly primal at \$91.64/cwt. There are some parallels between 2015 and 2018 belly trends. In both years prices declined in the spring following sharply higher prices in the previous year. In 2015, the belly primal gained 70% between mid April and mid June. It then continued to trend higher and peaked in mid August at \$175. If belly prices rally at the same rate than it did in 2015, it would imply mid June prices in the mid 150s and contribute to cutout values in the mid 80s.

PORK CUTOUT



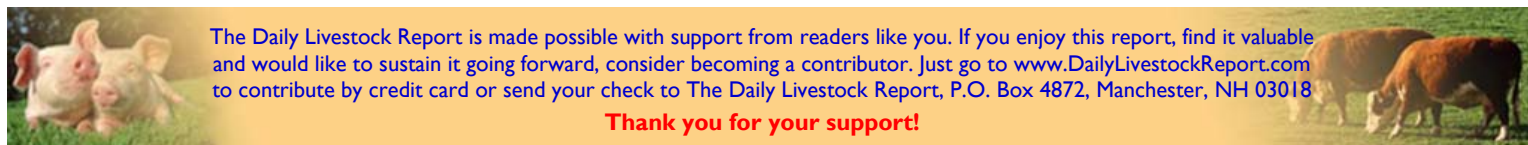
CALCULATED 1 DAY CASH HOG INDEX

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



SPREAD BETWEEN PORK CUTOUT AND CASH HOG INDEX, \$/cwt

Data Source: USDA Mandatory Price Reporting



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