Daily Livestock Report

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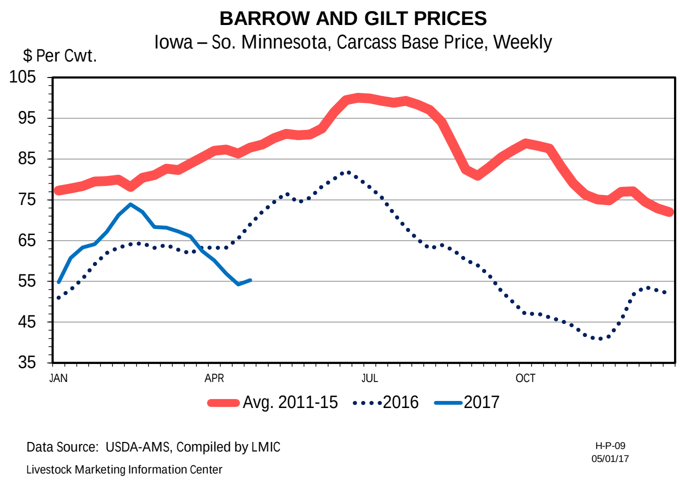
In yesterday's Daily Livestock Report we briefly mentioned that in the hog markets both cash and futures market prices showed at least some signs of trying to stabilize last week. Prices had generally been eroding since mid-February of this year. Looking ahead, the short-term market question is when and how much of a slaughter hog seasonal price rally will occur this year? Since mid-February the national weekly average base carcass price for slaughter barrow and gilts has declined by $12.73 per cwt. as reported by USDA's Agricultural Marketing Service. The normal seasonal price pattern over that timeframe is for a rather steady market (like 2016's) to slightly higher.

The Lean Hog contract for June delivery peaked during the week of February 13 and then dropped $10.95 to a close for the week of April 17 of $68.33 per cwt. During the last week in April, the June Lean Hog Futures contract rebounded $5.75 per cwt., closing at $74.00. Spot market hog carcass values for the last week in April were calculated by USDA-AMS to be close to $60, so the spread between spot market values and the June futures suggests more than a 20% appreciation in hog carcass values in the next 4-6 weeks. Over the same 6 week period of 2011-2015, hog carcass prices, basis the national weighted average base price increased by 5%. Last year, hog carcass values in the same market increased 12% during the comparable 6 weeks.

Digging a bit deeper into the futures market data from where we sit today (at the beginning of May), the performance of the June Lean Hog contract during the 2010-2016 interval can be quite diverse. Over the 6 week period between the end of April and contract expiration in mid-June, the price increased in 5 of the 7 years. One of those years when prices declined was 2014, in the wake of Porcine Epidemic Diarrhea. In that year, prices climbed to record highs in prior months and then began to trend lower as demand for pork reacted to the high prices. Excluding 2014, June futures prices increased in 5 of the 6 years, with the average gain in price over 6 weeks of $2.26. Last year the increase was $2.58 and in 2015 the gain was $.74 per cwt. The year when there was a decline (2010) prices went down $7.21. It is worth noting that even with the price increase last week, the June Lean Hog Futures contract was at the lowest value for this week of the year of any year (by more than 5%), going back as far as 2010

Looking at weekly tendencies for the 2010-2016 interval, hog futures prices went up 57% of the time for the current week. Historically, the next week saw prices increase 43% of the time.



The third week in May, hog futures price registered increases only 14% of the time. Following that week, prices tended to move up a higher percentage of the time, ranging from 57-71% of the time. These historical percentages favor an outlook for cash hog prices moving significantly higher to meet the Lean Hog Futures Contract for June delivery.

U.S. hog slaughter has declined a bit less than is normal since the first of this calendar year. That has contributed to the seasonal price pattern that has developed so far in 2017. As is typical, hog slaughter levels are forecast to drop into summer months, how much of a relative decline occurs be a key driver of the seasonal price rally. In terms of the meat market, all of the pork primal components of the cutout value tend to post their highest prices in the summer, when supply is lowest. The pork belly was the primal that garnered lots of attention earlier this year as prices spiked up, but it came down quickly. Do pork cuts have a normal seasonal rally ahead to underpin a hog price increase?

We leave readers with one final comment -- we wrote this article because so far 2017 has not been normal in terms of price seasonality in the hog and wholesale pork markets. Rather unique years offer both challenges and opportunities for market participants.