

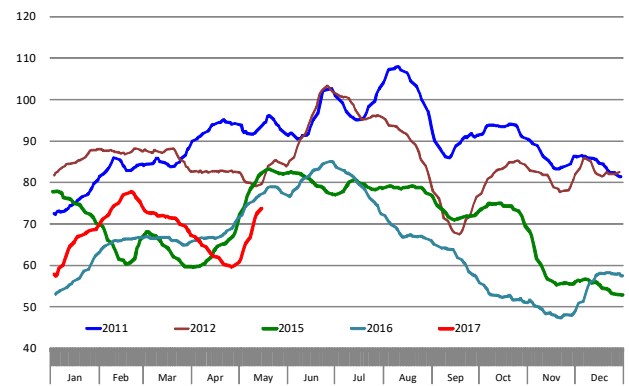
Hog futures have rallied in the last four weeks as market participants come to grips with steady (and rapid) gains in product markets and the spot live trade. Worries in April about large supplies and the shakeout in the belly market have been replaced by the realization that **pork is cheap, it is very competitive with other proteins domestically and very competitive in the global marketplace.** The 1day cash hog index, which is a composite of negotiated and formula net prices, now stands at \$73.4/cwt, \$14/cwt (+24%) higher than three weeks ago (April 26).

The pork cutout during this period has increased by \$11.6/cwt and packers have had to bid more aggressively for hogs in order to maintain full slaughter schedules. During this period a new slaughter plant in Windom MN also started running full time, adding about 4,000 head to available daily slaughter capacity. Later this summer and fall two additional plants with a combined 20,000 head of daily capacity will also be added, helping alleviate the bottleneck that impacted hog values a year ago. While all primals have contributed to the gains in the cutout, bellies once again have jumped ahead of the pack. Since bottoming out in late April, the belly primal has gained almost \$29/cwt (+27%) and contributed \$4.6/cwt to the cutout. Low prices in April likely provided retailers an opportunity for bacon features going into Memorial Day. Spot markets have tightened up as more product is going to fill those orders. Buyers sitting on the sidelines as the market was moving lower now have figured they better get their needs covered for the summer, thus propelling prices even higher even as slaughter remains well over 2.2 million head. But higher belly prices are only part of the reason for the higher pork cutout. Loin prices usually move higher into May and June as grilling demand improves and this year is no different. The loin primal value has increased 15.8% in the last three weeks, adding another \$2.5/cwt to the cutout. Hams, butts (pork shoulder) and ribs also have increased in value from the April lows. One item that does not show up in the broad primal calculations is the value of 72CL pork trim but it is worth highlighting since it is an important credit item for almost all primals. The value of 72CL pork trim has been relatively high all year and may be bolstered further by the record high prices for 50CL beef trimmings. For those manufacturers that use beef/pork blends, maximizing pork use in the formulas implies significant savings. 72CL pork price last night was quoted at \$79.46/cwt, \$7/cwt higher than three weeks ago and \$12.6/cwt higher than last year. Higher prices for 72CL have a direct impact on the value of individual primals (higher credit value) but they also tend to bolster the price of other muscle cuts. High trim values set a floor for muscle cuts because at some point if ham, for instance, is cheap enough, you can simply throw it in the grinder.

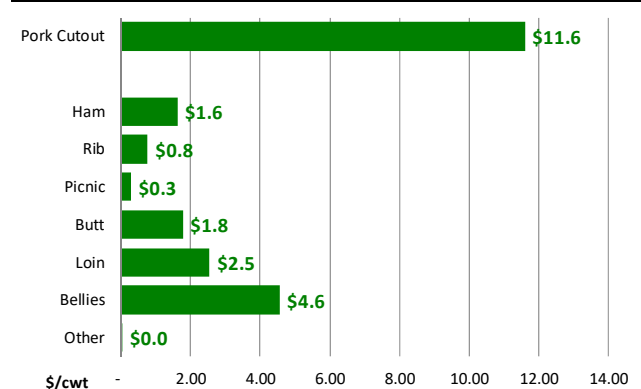
One of the things we are watching is how the retailer responds to the recent sharp increase in beef prices. **Will we see more pork features after an early spring that saw beef featured broadly and at significant discounts?** Normally we like to keep this report to one page but have included a chart on page 2 showing current pork retail feature activity. The data for this report are collected weekly by USDA and we think it is a far better gauge of what is happening out there than the anecdotal evidence or a personal trip down the aisles of the local supermarket. Stay posted for more updates on this topic.

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

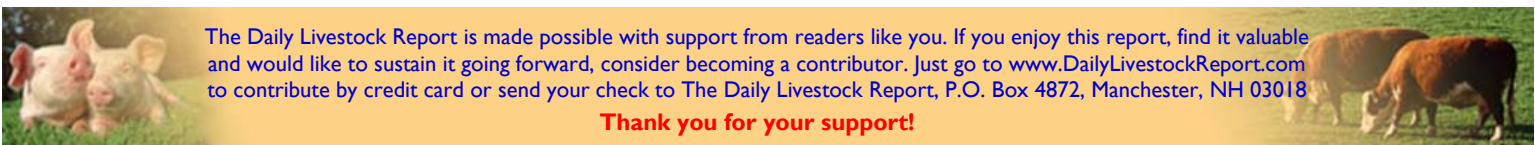
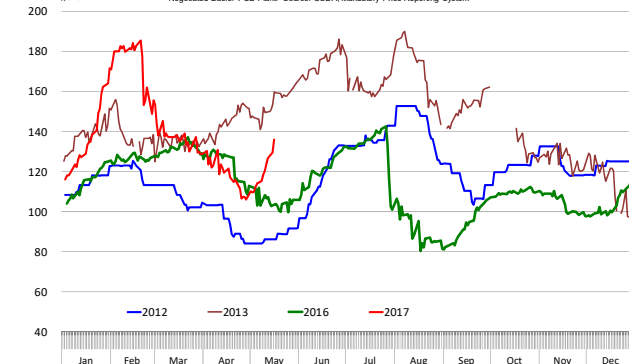


Contribution of Each Primal to the Change in the Value of Pork Cutout
May 16, 2017 vs. Apr 26, 2017



PORK BELLY PRIMAL VALUE

Negotiated Basis. FOB Plant. Source: USDA, Mandatory Price Reporting System



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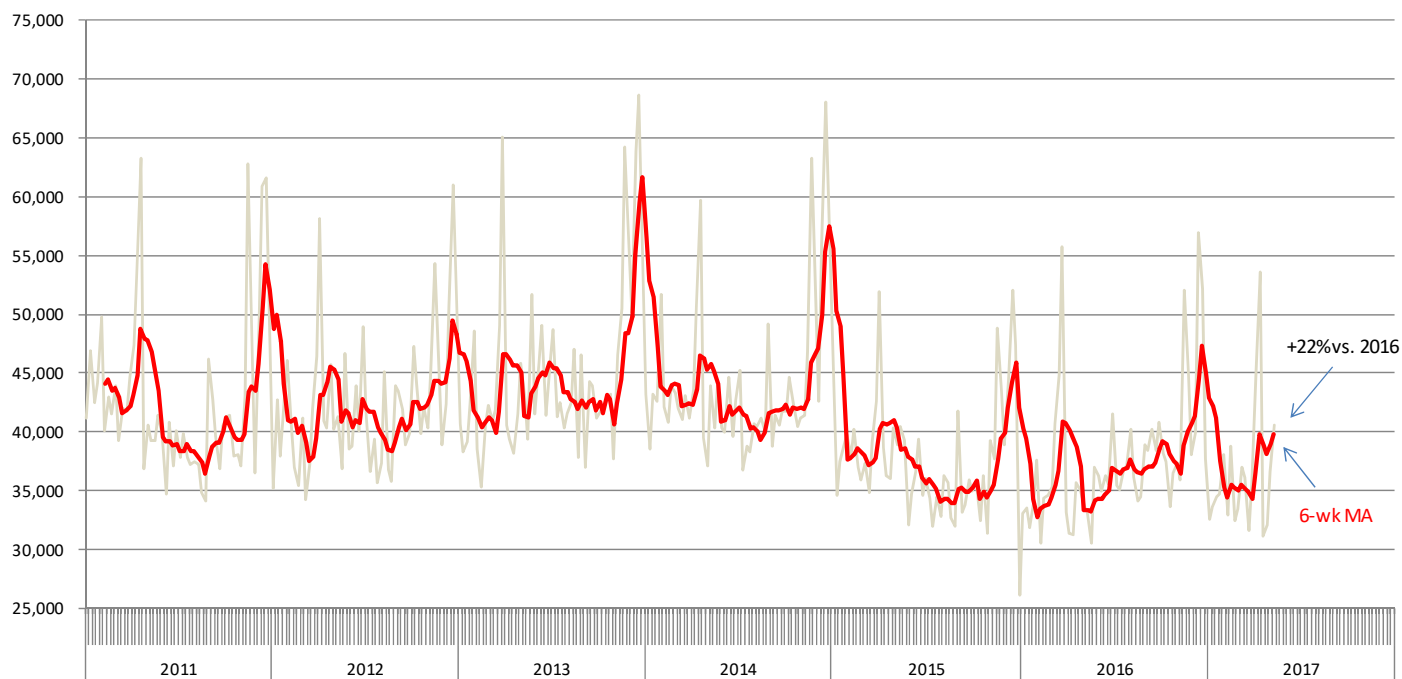
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PORK WEEKLY RETAIL FEATURE ACTIVITY INDEX

Source: USDA Weekly Pork Retail Report. Latest Data is for May 12, 2017



USDA Definition: ACTIVITY INDEX: a measure of the absolute frequency of feature activity equal to the total number of stores for each advertised pork item (e.g., a retailer with 100 outlets featuring 3 pork items has an activity index of 300).

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