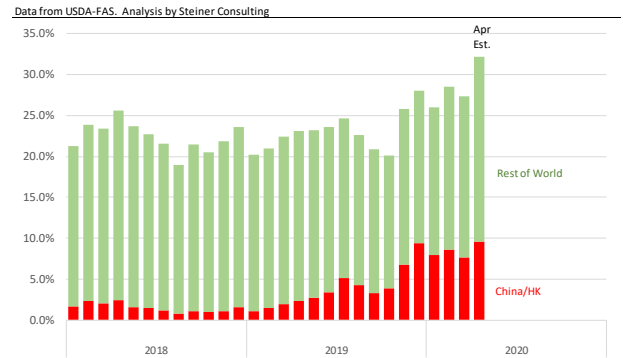


Talk of Chinese officials instructing Chinese companies to stop purchasing US ag products reverberated through the market yesterday. Predictably hogs were hit hard across the board, with steep losses through next spring. We say predictably because in recent months exports have taken a larger share of US pork production and China has been the main catalyst for that growth. Export data for April will be published in a couple of days but March exports showed total shipments on a carcass weight basis were over 700 million pounds and pork production for the month was 2.566 billion pounds. Exports in March accounted for 27.3% of all US pork production. **Exports to China and Hong Kong in March were about 196 million pounds, 28% of all US pork exports for the month and 7.6% of all US pork production.** We think April exports will continue to show double digit growth compared to a year ago. Based on weekly export data for April and the fact that pork production was sharply lower for that month, **it is conceivable that April exports may have accounted for almost a third of all US pork production** and exports to China may have been close to 10% of all US output.

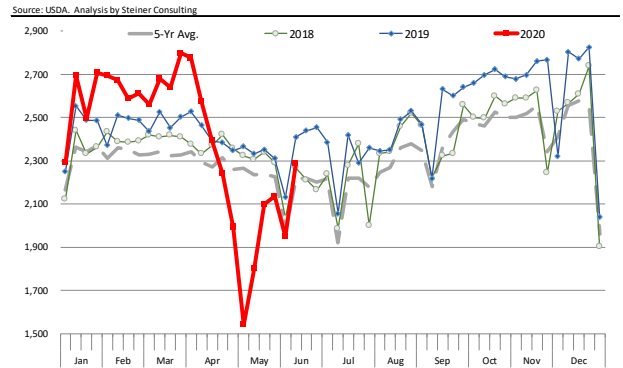
The total volume of pork currently going to China is only part of the benefit for US packers/producers. It is also important that the product currently going to China requires minimal labor. The largest share of exports to China are sent as six piece carcasses. In other words, a full carcass is split into hams/shoulders/middles, boxed up, frozen and then shipped out. No labor is needed to trim or debone product to case ready or processing ready specifications. One of the main bottlenecks for US packers at this time is the labor needed in fabrication lines. Best example of this is the situation in the ham market. Bone-in hams last night were quoted at around 38 cents a pound. If you want only the boneless ham muscles, then that will cost you 4 to 5 times that amount. Last year, the boneless ham muscle multiple to the bone-in product was under 2. If packers are not able to ship product to China, more labor will be needed to process carcasses into products that can be used in domestic channels. And if they cannot find the labor, demand for hogs will struggle. Hogs are already backed up due to plant shutdowns in April and May. Slowdown in exports only makes that situation worse, hence the current bearish attitude in the current hog complex.

At a time of uncertainty about exports, US hog slaughter rate has increased and more product has become available in domestic channels. Last week hog slaughter was estimated at 1.949 million head, 8.6% lower than the previous year. This was a holiday shortened week and slaughter this week is expected to recover. On Monday slaughter was estimated at 403k head. The closure of the Tyson plant in Storm Lake Iowa will limit harvest earlier this week but expectations are for the plant to resume operations later this week. Still, this will likely keep slaughter for this week under 2.3 million. But as the chart above shows, the trend in slaughter remains up and we could see higher y/y slaughter numbers by July. The increase in hog slaughter comes after prices for retail prices have reportedly adjusted higher, reflecting the wholesale price spike back in May. It appears that the combination of higher supplies and higher prices has caused some items to hit a wall. The result has been a very rapid deflation in wholesale prices. Since May 11, the average wholesale pork price (cutout) has declined by \$41/cwt or 33%. The chart to the right shows how that \$41 decline is spread across the various primals. By far the biggest contributor to the decline have been bellies, accounting for about half of the drop in the cutout. The sharp decline in slaughter in early May and the rebound in foodservice demand caused some shortages in the spot market. The belly primal jumped to over \$200/cwt. That was a good enough price to get processors to switch and work down freezer supplies. Loins and shoulders have also lost ground now that retailers have raised prices and supplies have recovered. **Maybe the China export story is exaggerated and maybe processing capacity returns in July and August. But, for now, demand jitters continue to hold back hog values.**

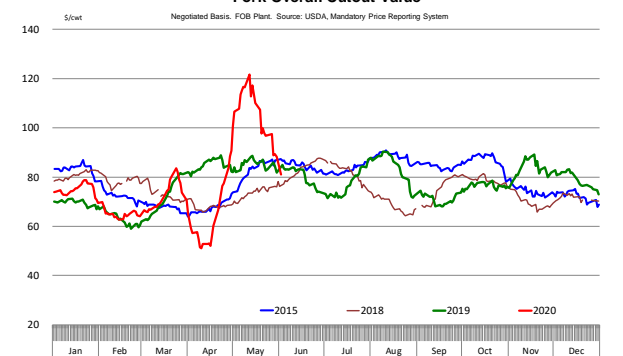
### US PORK EXPORTS AS A % SHARE OF US PORK PRODUCTION



### WEEKLY HOG SLAUGHTER, '000 HEAD



### Pork Overall Cutout Value



### What Drove the \$41 Decline in Cutout Since May 11?

