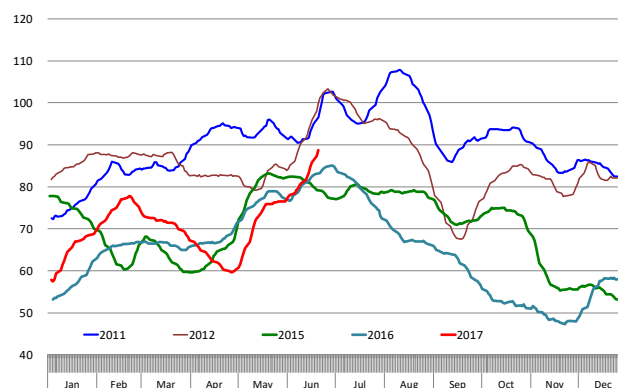


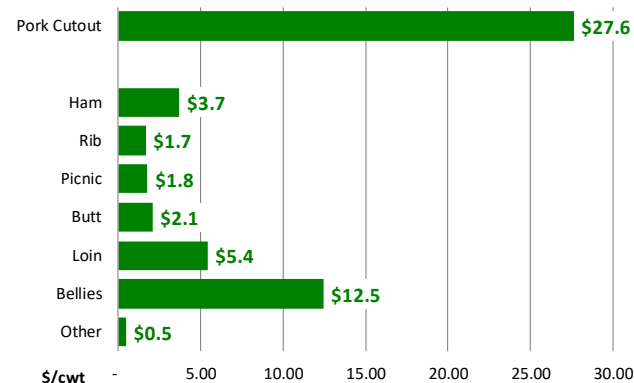
A number of factors continue to support hog prices in the near term, helping propel cash hog values to the highest price for the year. While it is not unusual for hog prices to be higher in the summer (see chart), the run-up appears to have caught some market participants by surprise. **So what are some of these supporting factors.** First and foremost: **bellies, bellies, bellies.** The pork cutout last night closed at \$101.9/cwt, 38% higher than where it was two months ago and now 13% higher than year ago levels. When we look at the roughly \$28 gain in the value of the cutout since bottoming out in April, the biggest chunk of it (\$12.5/cwt) has come as a result of higher belly prices. The bottom chart shows the relationship of wholesale pork belly prices (left axis) vs. the sliced bacon feature price reported weekly by USDA. We have **lagged the retail price by two months**, i.e. we have matched current retail prices with where the wholesale pork belly price was back in April. It may look strange to some to see bacon prices at retail for June down 8% from May levels (\$4.54 vs. \$4.93) while at the same time wholesale values are at annual highs. But those June ads were likely booked back in April when prices were much cheaper. Now a lot of bellies produced are going to fill those retail orders. Those looking to buy bellies in the spot market are finding much of the supply is spoken for. Cold storage belly stocks are much smaller than normal, giving buyers no choice but to pay up. How high could belly prices get? It is a hard question to answer since getting caught short sometimes causes buyers to pay much more than one would consider reasonable, exhibit 1 is the price of 50CL beef in May. But what history also tells us is that current high pork belly prices are setting the stage for a sharp run-up in the price of bacon at retail (see chart) and that's what eventually will help ration out the quantity demanded by consumers. Loin prices also have improved in the last few weeks, which is not unusual considering the time of year and consumers still counting on pork chops as an inexpensive grilling item. Hams, ribs, butts all are higher but the contribution has not been as significant. And lost in this picture is the contribution that higher pork trim prices have made to the overall carcass. The price of 72CL pork trimmings last night was quoted at \$105/cwt, a \$21/cwt jump from the start of the month and almost \$30/cwt from a year ago. As we noted a few weeks ago, 72CL and 50CL beef are used together in some product formulations and when the price of 50CL beef increased sharply some end users likely tweaked formulas to maximize pork trim. Now we are seeing the effect of those changes. The price of 50CL beef is coming down but still is quite high for this time of year. Lower prices for beef trim should cool off the demand for pork trimmings but again, keep in mind the lags, prices may change instantaneously in the futures market but take a while to take effect in the product market. The high price of trim tends to set a floor for the price of a number of items, particularly hams. The export report we saw today showed a significant jump in net sales to Mexico, our top ham customer. Buyers there likely recognized the wide spread between pork trim and hams and likely jumped to cover their needs before prices rose. Higher ham prices could continue to support the pork cutout in the very near term. USDA will issue the results of its 'Hogs and Pigs' inventory survey next week and this will help inform market participant expectations for the fall market. But for now the focus is squarely on summer demand and good clearance rates.

CALCULATED 1 DAY CASH HOG INDEX

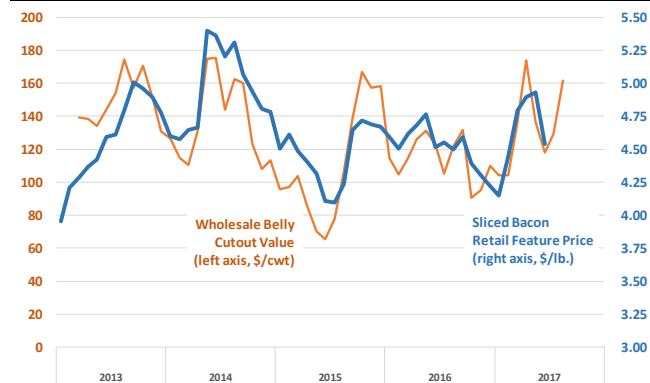
Based on Daily USDA MPR Data. Wt. Avg. Price of Negotiated Cash Hog Price and Swine or Pork Market Formula (SPMF). See LM_HG201



Contribution of Each Primal to the Change in the Value of Pork Cutout
June 22, 2017 vs. Apr 26, 2017



RETAIL BACON AVERAGE FEATURE PRICE VS. WHOLESALE PORK BELLY VALUE (2M LAG)
INDEX CONSTRUCTED USING 2011 AVERAGE = 100%. BACON FEATURE PRICE IS FOR SLICED BACON



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