

The price spreads between summer and fall hogs are reminiscent of the situation in 2014 when PEDv caused a shortfall in the supply of hogs during June and July. Cash hog prices have surged higher this summer, bolstering nearby futures. At the same time, a bearish hog inventory report and uncertainty about trade continue to weigh on futures for the back end of the year. One need only look at the current spread between August and October hogs, which on Tuesday was over \$16, to understand how lopsided this hog market currently is. **The recent cash hog rally is due to a combination of seasonally lower hog slaughter, seasonally lower hog weights but also an improvement in retail pork sales.** Hog prices in the mid to low 50s back in April offered end users an opportunity to plan on more pork features during late spring and summer. The recent surge in prices should be viewed in the context of the discounts that were available back in the spring. It appears **availability of grinding materials is extremely limited at this time, an indication that sales are strong and product is currently going to regular users.** Little is available in the open market. The price of 42CL pork trim on Tuesday was quoted at 83.45 cents per pound compared to 81.06 cents for the price of 72CL pork. Additionally, the value of the pork belly primal on Tuesday was calculated at \$165/cwt compared to \$88 at the beginning of May. **The gains in the value of pork bellies alone have added \$12 to hog carcass value.** But how long will those belly prices stay at these lofty levels? Could they be even higher? And what happens once retail features come to an end and feature bacon prices reset? The latest USDA cold storage report indicated that belly inventories at the end of May were 94% higher than a year ago and just 3% under the five year average. With more pork expected to become available in September, will end users look to dump all their freezer stocks in August? This is part of what's feeding that huge August/October spread.

Looking forward, market participants are well aware of the supply that is currently in the pipeline. The latest 'Hogs and Pigs' report said that the Mar-May pig crop was 4.3% higher than the previous year. This would imply **hog slaughter for the Sep-Nov period +4% above the record levels we saw a year ago.** And it does not appear to us that supply growth is likely to slow down during the winter months despite the farrowing intention numbers. The table to the right shows how USDA has had to consistently revise up the farrowing numbers. There are two intention estimates that are published before USDA reports the actual number. Since 2015, only one quarter has seen the final estimate come in under the initial estimate. On average the final estimate has been 2% higher than the initial one. In the last four quarters, the final farrowing estimate has been 1.6% higher than the initial estimate. Another way to see if the farrowing estimates make sense is to look at the ratio of farrowings in a quarter relative to the breeding herd. The bottom chart shows why the Jun-Aug farrowings are low. Given the size of the June 1 hog breeding herd, we would expect Jun-Aug farrowings to be a little over 3% higher than the previous year (vs. 1.6% USDA reported). With a trend increase in the number of pigs per litter this implies +4% increase in Jun-Aug pig crop / Dec—Feb slaughter.

Hogs and Pigs Farrowing Estimates

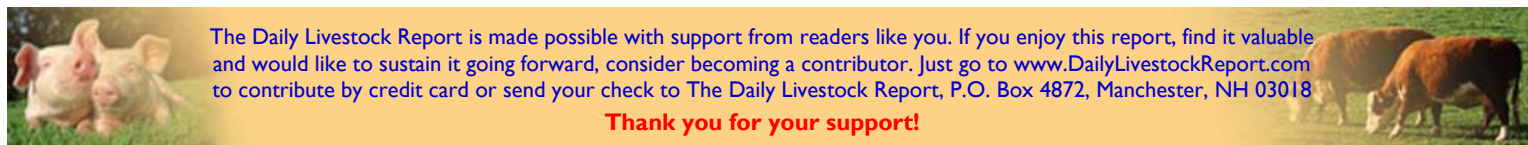
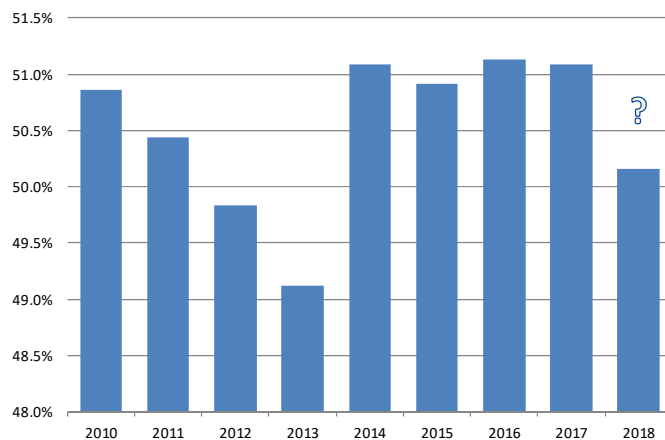
Source: USDA 'Hogs and Pigs' Report & Steiner Consulting

		1st Est.	2nd Est.	Final	Final vs. 1st
2015	Dec-Feb	2,870	2,870	2,895	0.9%
	Mar-May	2,900	2,870	2,854	-1.6%
	Jun-Aug	2,927	2,915	3,017	3.1%
	Sep-Nov	2,865	2,920	2,929	2.2%
2016	Dec-Feb	2,875	2,840	2,927	1.8%
	Mar-May	2,850	2,839	2,968	4.1%
	Jun-Aug	2,912	2,949	3,057	5.0%
	Sep-Nov	2,896	2,928	3,046	5.2%
2017	Dec-Feb	2,927	2,968	2,986	2.0%
	Mar-May	2,997	3,010	3,014	0.6%
	Jun-Aug	3,045	3,064	3,103	1.9%
	Sep-Nov	3,046	3,070	3,109	2.1%
2018	Dec-Feb	3,025	3,070	3,057	1.1%
	Mar-May	3,083	3,078	3,121	1.2%
	Jun-Aug	3,165	3,170	3,197	1.0%
	Sep-Nov	3,180		3,212	1.0%

Note: Dark shading shows progression from low to high

Ratio of Jun-Aug Farrowings vs. June 1 Hog Breeding Herd

Data Source: USDA-NASS. Analysis by Steiner Consulting



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