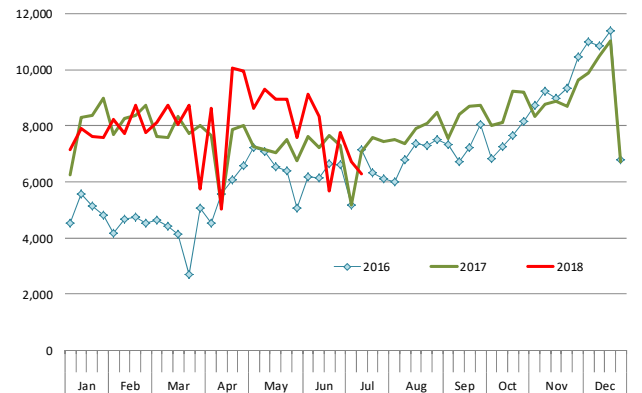


Since we spent the last two day discussing the upcoming cattle on feed and cattle inventory numbers, we will turn our attention to the pork market. **Lean hog futures have declined sharply since the beginning of July on concerns that slowing export sales and record production will force more product into domestic channels.** The two markets where US pork now faces new tariffs are China and Mexico. Two rounds of 25% tariffs on US pork in China and the normal 12% tariff on frozen US pork have effectively closed this market to most US product. The weekly pork export report published by USDA-FAS yesterday shows **pork exports to this market at zero for the last two weeks and a mere 17 MT per week in June.** Net sales have been minimal recently as well. Last year US sales of fresh/frozen and cooked pork to China were 380.4 million pounds, on a carcass weight basis. Sales in the second half of the year were 155.4 million pounds. As long as the tariff stays in place we don't see much US pork going to this market. The 155 million pounds that went to China during Jul-Dec of last year represented 1.2% of total US pork production for that period. While this may not appear like much, consider that USDA now expects pork production in Q4 to increase by 6.3% compared to a year ago.

Mexico was a much larger export market for US pork in 2017 and in the first half of this year. **Pork exports to Mexico during Jul-Dec 2017 were 917.5 million pounds (cwe), representing 7% of all US production.** For week ending July 12 USDA reported pork export sales to this market at 6,289 MT, 11% lower than the same week a year ago. What concerns market participants is the slowdown in pork export sales to this market and the outlook for exports this fall when pork supplies blow out previous records. **In the first two weeks of July net pork export sales to Mexico have averaged 1431 MT/week compared to a weekly average of 7,893 MT in the first six months of the year.** Looking at the first chart to the right, it appears that Mexican buyers rushed to buy as much pork as they could ahead of the tariff. Weekly pork exports between mid April and mid June averaged 22% above year ago levels. It certainly helped that ham prices at the end of May were around 47 cents per pound. For now it appears that Mexican buyers have decided to sit on their hands. US hog slaughter this week should be around 2.275 million head but by the end of August just surpass 2.4 million and by the end of September it should be at 2.6 million. By their very nature export sales tend to be quite volatile, a big order is booked and then it takes a while for product to ship out. December hogs are now priced at almost 46 cents, implying among other things ham prices in the 40 cent area. Last year the ham primal on December 1 was around 64 cents. A 20% tariff would put hams at around 51 cents. Mexican consumers still like to eat pork and pork price inflation in Mexico has been minimal. Pork sales there should be robust and at some point Mexican buyers will come back and buy at levels that cover the tariff. The challenge for participants is that in the short term export business may be sluggish while domestic users are sitting on the sidelines given ample supplies and lower forward prices. There seem to be a lot of shorts in the hog complex today and prices, **for now**, are drifting lower.

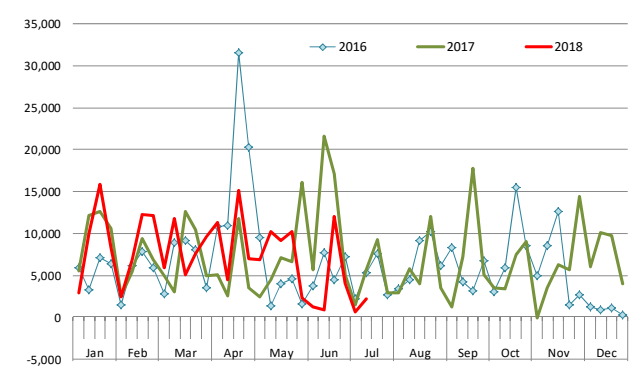
## Weekly Exports of Fresh/Frozen Pork Muscle Cuts to Mexico

Based on USDA-FAS Weekly Export Sales Report. Data in Metric Ton.



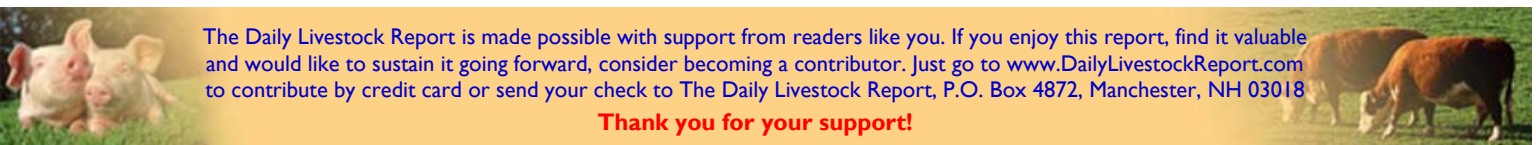
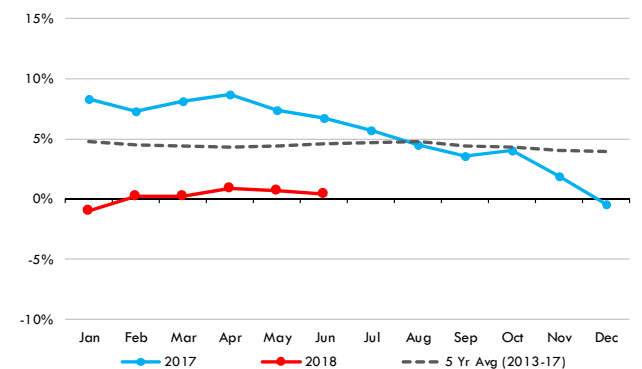
## Weekly Net Exports Sales of Fresh/Frozen Pork Muscle Cuts to Mexico

Based on USDA-FAS Weekly Export Sales Report. Data in Metric Ton.



## Mexico Consumer Price Inflation - Pork. Y/Y Change

Source: INEGI



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