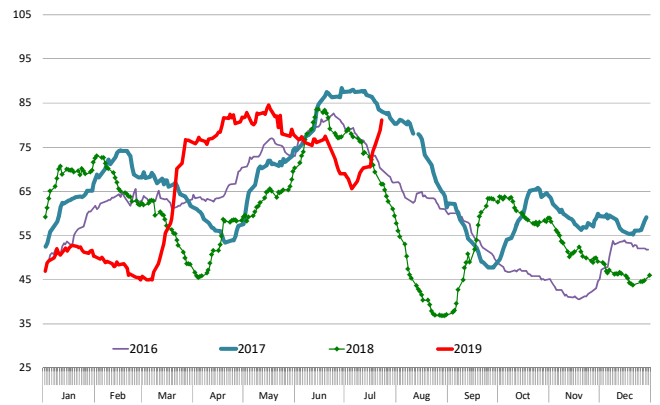


Hog futures were sharply higher yesterday and, we think, **the gains had more to do with the current dynamic in the cash market than with China**. While the spread of African Swine Fever in a number of spots around the world (China, Vietnam, Cambodia, Lao, Eastern Europe) remains a key long run issue for the pork market, in the short term **participants are struggling to navigate the seasonal shifts in supply flows during this time of year**. There is a strong seasonal component to pork supplies during the summer months. Hog slaughter tends to hit the low point of the year in July while hot summer weather negatively impacts hog feeding performance and weights find their annual bottom at this time. It is this combination of low slaughter and low weights that drives the seasonal gains in hog prices (see top chart). This year has been much more difficult in trying to assess these seasonal supply effects. The cool spring and softer than expected demand caused producers to fall behind in their marketings in May and early June (see weight chart). This made it necessary for producers to try and ramp up marketings in restore a more orderly product flow, with weekly hog slaughter in June up 9% from the previous year. It appears that the aggressive marketing pace, while negative for cash hog prices during June, had the intended effect. **Producers have managed to become more current, evidenced by the steady decline in hog weights**. We tend to ignore the preliminary weight estimates that are presented in the USDA Friday reports as they invariably fail to capture changes in trend. Rather we think it is better to look at the weights available in the USDA-MPR daily reports as they offer a more immediate gauge of what's going on. To eliminate the noise in the daily data, it is best to run a 5-day moving average. The chart to the right shows a 5-day moving average of carcass weights for producer owned barrows and gilts. For the week ending June 7, weights of producer owned B/G were about 2.4% higher than the previous year. Since then, weights have declined 3% compared to a 0.8% decline for this period in 2018 and 1.2% decline for the same time frame in 2017. At this time the average weight of producer owned barrows and gilts is running just 0.6% higher than last year.

With hog weights more under control and hot summer weather in the forecast, producers are no longer desperate to try to move hogs. On the other hand, added packer capacity means more competition for hogs and, due to increased vertical integration, a more limited supply of hogs available for marketing. Packer margins have been squeezed hard in recent weeks and may continue to struggle for a bit longer into August. But even as futures are currently flying high (again), it is important to remember that pipeline supplies will be record large this fall. The downside risk in this market is that we end up choking up domestic demand too much while waiting for big export orders to materialize. This is where negotiations with China are critical. Hog producers are not competitive vs. EU in exports to China and either we need to see much more dramatic price increases in China to stoke up even more import demand or a more level tariff playing field.

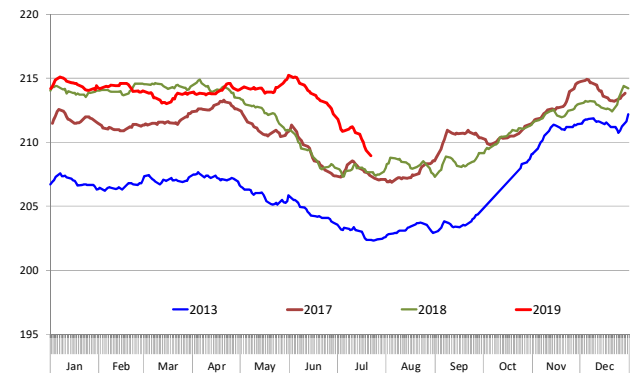
IA/MN Lean Hog Carcass, Base Price. Wt. Avg.

Source: USDA-AMS Daily Prices



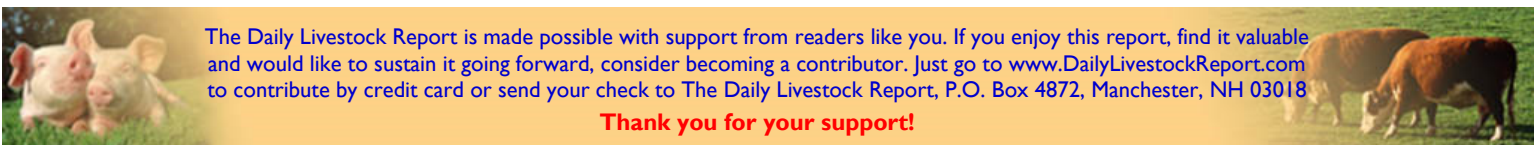
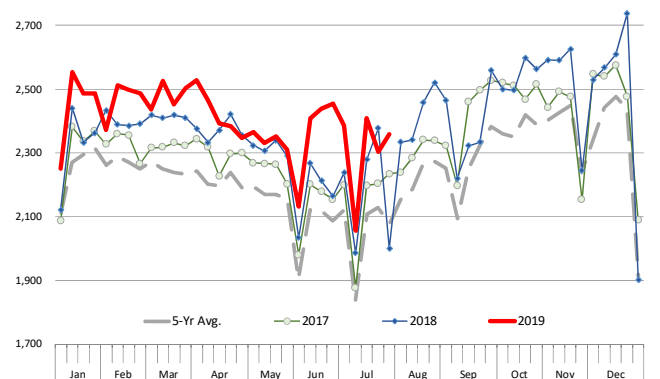
Barrow/Gilt Dressed Carcass Weights, 5-day Moving Avg. - Producer Hogs

Based on Daily MPR Report, LM_HG201. Data through Jul 22, 2019



WEEKLY HOG SLAUGHTER, '000 HEAD

Source: USDA



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