Daily Livestock Report

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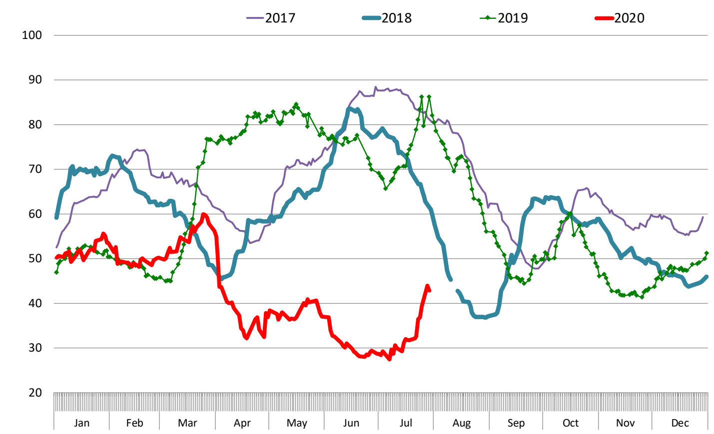
Cash hog prices have surged higher in the last three weeks, which may have come as a surprise given all the talk of a large backlog of hogs in the system. The negotiated base price of IA/MN hogs jumped from $27.46/cwt on July 6 to as high as $43.86/cwt, a 60% jump. Last night the weighted average IA/MN base price was quoted at $42.81/cwt, down 2.4% from the previous close and the first d/d decline in eight days. The average national price was quoted at $42.61/cwt, slightly lower than the previous close. It is hard to say what cash prices may do on a day to day basis but it may be helpful to review some of the fundamentals that may have contributed to the most recent rally and implications for August and September.

It is not unusual for hog values to be higher in the summer months. Some of that has to do with the fact that fewer hogs are available during this time of year, a function of a lower pig crop during winter months. In the last five years, the **Dec-Feb pig crop has averaged about 4.1% below the annual average**. Further adding to the seasonal tendency for hog values to be higher in the summer months is the impact that heat stress has on hog performance. **This year was expected to be different**. The temporary closure of some key processing facilities in April and May resulted in a significant backlog of hogs, a backlog that reportedly persisted thought June when USDA last conducted its inventory count. Indeed, it appeared that the only thing limiting hog slaughter in the short to medium term was shackle space rather than the normal seasonal factors of market ready supplies and heat stress. **But if so, why would packers pay 60% more for negotiated hogs in the last three weeks?** We don't know the answer but suspect it has to do with **short term factors rather than a material shift in either demand (processing capacity) or supply (inventory)**. Packer capacity has recovered to near 2.6 million hogs per week and packers have shifts planned out that need to be staffed and then supplied with hogs for processing. So in the short term their demand is somewhat inelastic. Plants are not staffed by robots that you can turn on and off as you wish. Producers, on the other hand, have implemented plans to deal with the backlog of hogs, such feeding maintenance diets. We suspect temps in the 90s during much of July in Iowa and surrounding areas as usual impacted hog performance, limiting the supply of hogs available. Hog carcass weights tell the story. The average weight of producer owned barrows and gilts dropped from 211.7 pounds on July 6 (5-d avg. on that day) to 210 on July 27. **Dressed weights are down almost 4% since mid May as producers have become a bit more current but also have managed to slow down pig growth**. We think this should be seen in the context of plants needing hogs to meet production plans and the thin negotiated market. Last week USDA consistently revised down its estimates of daily slaughter. Temperatures in Iowa are expected to be cooler for the rest of this week and into early next week. But in the near term producers may still be able to manage the supply. The more challenging issue comes when we look forward to October and December. Any slowdown in slaughter today makes it even more difficult to get caught up later in the fall. Last year weekly non-holiday slaughter in September averaged 2.634 million head per week and in October it averaged 2.697 million. The June inventory survey indicated that we should expect at least 3% more hogs for that time period plus any hogs that should have been processed in July and August but were carried over through slow growth diets. Cooler weather, fresh corn and lack of shackle space all could combine to create a very competitive environment in the hog complex come at the end of summer and early fall.

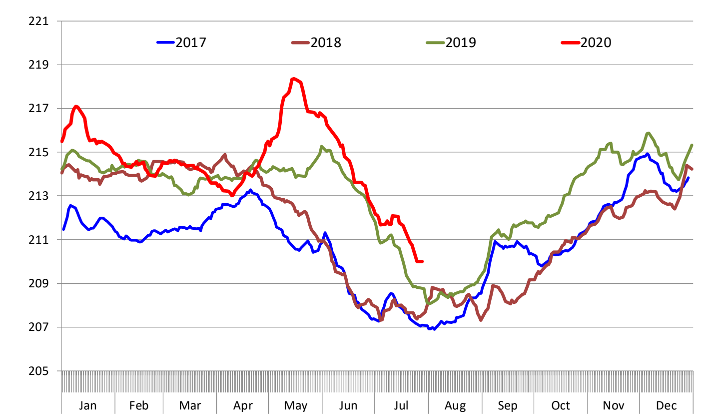
IA/MN Lean Hog Carcass, Base Price. Wt. Avg.

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 27, 2020. Analysis by Steiner Consulting



WEEKLY HOG SLAUGHTER. '000 HEAD

Source: USDA. Analysis by Steiner Consulting