Daily Livestock Report

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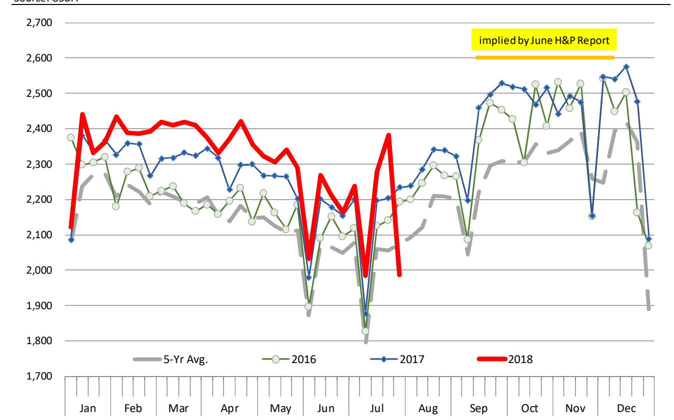
<u>The nearby CME Lean Hog August futures contract closed last night at $63.3/cwt, a 16% decline in less than a month</u>. Fall and winter contracts have also followed suit, with December now trading under $47. Clearly the catalyst for the decline is the imposition of retaliatory tariffs from Mexico and China, both major buyers of US pork. However, the effect of these tariffs should be seen in the broader context of expected record pork supplies this fall, the potential for record corn yields and continued expansion in the pork industry. But despite this generally bearish context, it appears that **<u>some short term factors have further contributed to dramatic value erosion of the last few weeks</u>**. A few points worth noting:

- **<u>The flow of hogs to market has been anything but smooth</u>**. Hog slaughter two weeks ago was up 8% compared to a year ago and then last week posted an 11% decline. Wire stories and market participants attribute these swings to plant upgraders at the largest US hog packer. The upgrades were likely scheduled for this time of year to cause minimal disruptions. However, with all the trade uncertainty and deteriorating fall market outlook, the shortfall in slaughter has escalated the anxiety level in the marketplace.
- What has been especially disconcerting for producers is that **<u>the cutout has been pressured lower eve as overall pork supplies have been lower than a year ago</u>**. In the last two weeks slaughter is down 1.5% while pork production is down 0.9% from a year ago. What happened to pork demand? Some of this certainly is due to exports. Sales to China have ground to a halt. Sales to Mexico were minimal at the start of the month and have only recently started to show some improvement. Weekly export volumes to some other markets have improved recently but this could be because packers have had to discount significantly in order to move pounds.
- Some pork items that were flying high in June have quickly corrected (e.g. bellies, trimmings). In part this may be due to normal seasonal factors. Also, **<u>expectations of future lower prices tend to impact buyer behavior in the present</u>**. While we could very well see more pork go into cold storage later in the year, **<u>the incentive for buyers right now is to work down the inventories they have and delay purchases as long as they can</u>**. The USDA monthly 'Cold Storage' report tells us about the amount of pork raw materials in cold storage. The supply of pork bellies at the end of June was about 51 million pounds. If you are the owner of those bellies and price s at the start of this month were around $174/cwt, then you probably want to use them up as quickly as you can. Keep in mind these are only frozen bellies. We don't know about the supply of cooked bacon that was put away by processors and which they likely want to deliver before they go out and make more. **<u>Drawing down inventories and delaying purchases is nothing more than end users shorting the market</u>**.
- The lower cutout value has negatively impacted the cash hog index in the near term. The CME index is calculated using a weighted average price of hogs traded on a negotiated basis as well as hogs priced using formulas off hog or pork cutout. The sharp decline in the cutout has negatively impacted the index, recently. How the cutout performs in the next two weeks will be critical, with bellies a key factor.

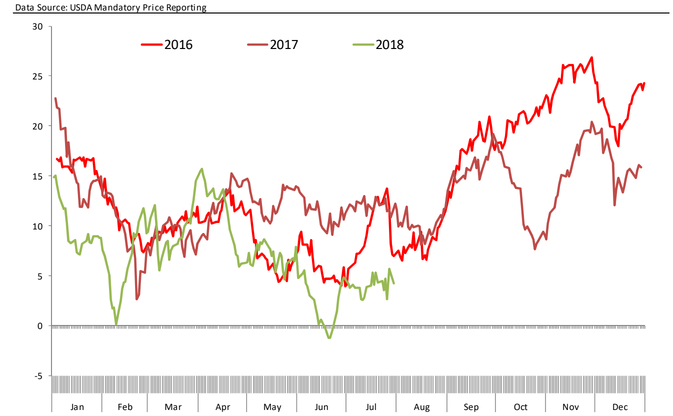
WEEKLY HOG SLAUGHTER. '000 HEAD

Source: USDA



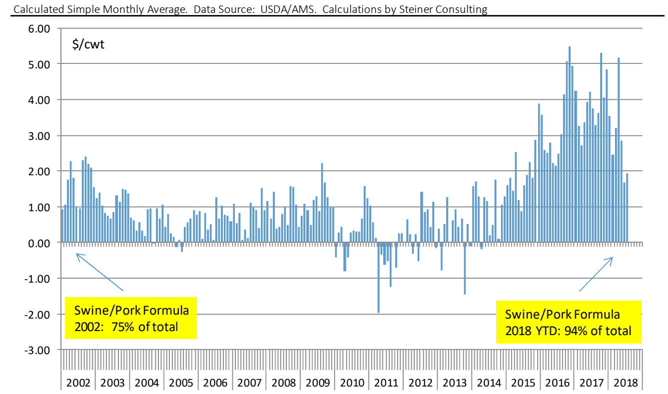
SPREAD BETWEEN PORK CUTOUT AND CASH HOG INDEX, $/cwt

Data Source: USDA Mandatory Price Reporting



Spread Between NET Negotiated Hog Price & Swine/Pork Market Formula

Calculated Simple Monthly Average. Data Source: USDA/AMS. Calculations by Steiner Consulting



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