

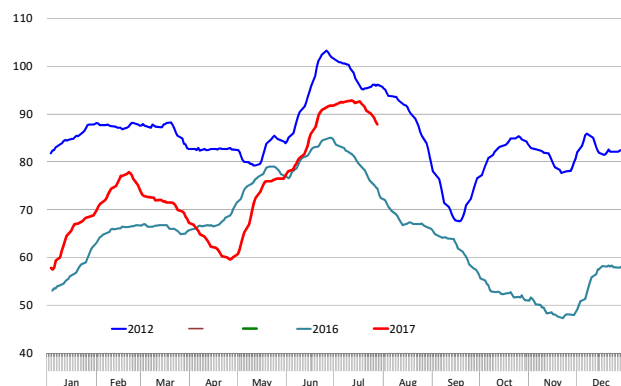
Lean hog futures pulled back yesterday despite gains in the value of the pork cutout and robust pork packer margins. The August contract lost the most ground, declining 110 points from the previous day. Our calculations currently peg the 1-day cash hog index at \$87.87/cwt, down about \$5/cwt from the peak in mid July but still some 21.4% higher than a year ago. There is currently an almost \$8 basis with just two weeks or so until expiration. Futures are currently implying significant value erosion in the cutout but so far we have not seen much to support that. The market is significantly discounted and participants will trade accordingly depending on how trade develops in the next few days. Belly prices remain key.

Despite the recent declines, hog producers and processors continue to benefit from excellent pork demand, both from domestic and export channels. While bellies get much of the press as current values are about double what they were a year ago, other primals have also performed quite well. The overall **value of the pork cutout is now up 25.4% from last year and the difference between the hog and cutout gains has translated in improved meat margins for pork packers.** By our last count, the meat margin stood at \$11/cwt compared to \$7/cwt a year ago. Keep in mind that the meat margin is a subset of the overall gross packer margin. One needs to also consider the value of pork by-products to get a more complete picture on packer returns. But back to the gains of various primals. The loin primal is up 5% from last year, the picnic primal is up 4% and the ham primal is up 19% from a year ago. So while ham cold storage stocks may have increased in June, one should not immediately assume that it reflects a slowdown in demand. Exports are a big part of pork sales these days and exports to Asian markets require that product be staged in cold storage before it ships out. Consequently, higher cold storage stocks may not necessarily imply a weakness in demand, particularly when ham primal values are up significantly compared to a year ago. USDA does provide some insights as to the kind of product that currently is being sold for export. Unfortunately, the data does not include sales to NAFTA markets. Still, in the context of the discussion above the numbers tell an interesting story. For week ending July 28, FOB ham sales to export markets outside of North America were 1.463 million pounds, 252% higher than a year ago. And this is not just a one week sale. For the period June 3 - July 28, weekly ham export sales outside of NAFTA have averaged 1.7 million pounds per week or a total of 13.9 million pounds for the entire period. This represents an increase of 10.6 million pounds or 326% compared to the same period a year ago. In this context, one can square the reality of both larger cold storage inventories AND higher ham primal values.

One final point concerns recent hog slaughter trends and how well they have matched with the June 'Hogs and Pigs' report. Our assessment is that while hog slaughter is modestly lower than the inventory report implied, it is still close to the market and a useful guidance for late summer/early fall supplies. If, like us, you track weekly hog slaughter numbers, we would urge you to update those numbers when USDA issues its revisions two weeks later. For the last few months, the weekly hog slaughter data has been revised consistently higher. Since June 4, total hog slaughter based on the initial weekly hog slaughter estimate has been 12.744 million head while the revised slaughter has been 12.807 million, a 0.5% difference.

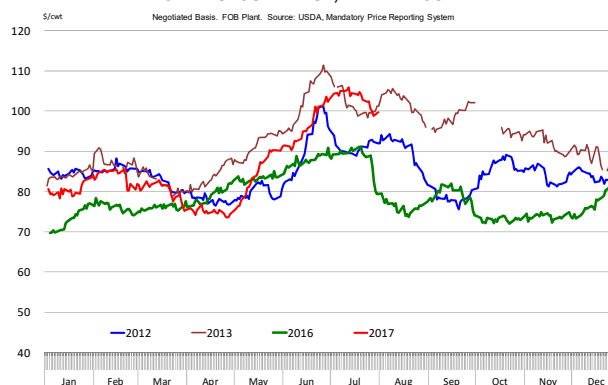
CALCULATED 1 DAY CASH HOG INDEX

Based on Daily USDA MPR Data. Wt. Avg. Price of Negotiated Cash Hog Price and Swine or Pork Market Formula (SPMF). See LM_HG201



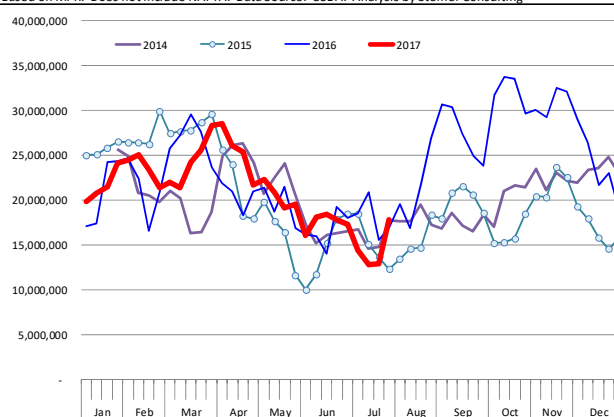
PORK CUTOUT VALUE, DAILY CLOSE

Negotiated Basis, FOB Plant. Source: USDA, Mandatory Price Reporting System



Weekly FOB Export Sales Volume, All Pork - 4-week Moving Avg.

Based on MPR. Does not include NAFTA. Data Source: USDA. Analysis by Steiner Consulting



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Wholesale Pork Pricing Chart - USDA Prices for Pork Sub-primals

Weekly Wt. Average, USDA Weekly National Pork Report FOB Plant - Negotiated Sales (LM_PK610)¹

Price Increase vs. Wk/Yr Ago

Price Decrease vs. Wk/Yr Ago

Average for Week Ending: **July 28, 2017**

BUTT Primal, Various Styles: 10% of carcass

Description	Last Wk. 28-Jul-17	Prev. Wk. 21-Jul-17	W/W % ch.	Year Ago 29-Jul-16	Y/Y % ch.
1/4 Trim Butt VAC	0.98	1.10	↓ -11%	1.19	↓ -18%
1/8 Trim Steak Ready Butt Vac	1.21	1.34	↓ -10%	1.38	↓ -13%
1/4 Trim Bnls Butt VAC	1.24	1.34	↓ -7%	1.36	↓ -9%

LOIN Primal, Various Styles: 25% of Carcass

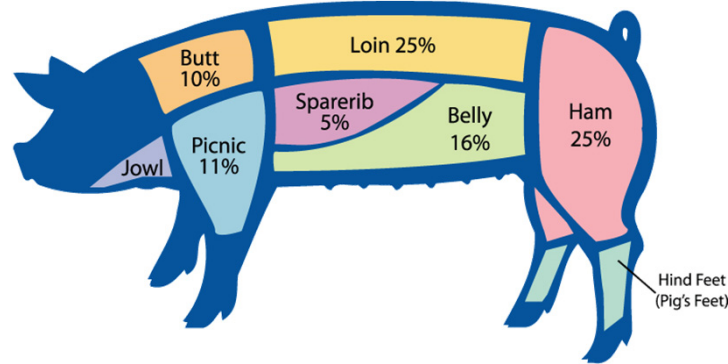
Description	Last Wk. 28-Jul-17	Prev. Wk. 21-Jul-17	W/W % ch.	Year Ago 29-Jul-16	Y/Y % ch.
1/4 Trimmed Loin VAC	1.09	1.20	↓ -9%	1.03	↑ 6%
1/8 Trimmed Loin VAC	1.19	1.26	↓ -6%	1.09	↑ 9%
Bnls CC Strap-on	1.26	1.34	↓ -6%	1.22	↑ 3%
Bnls CC Strap-off	1.49	1.55	↓ -4%	1.39	↑ 7%
Boneless Sirloin	1.14	1.15	↓ -2%	1.12	↑ 1%
Bone-in Sirloin	0.75	0.81	↓ -7%	0.82	↓ -8%
Tenderloin	2.43	2.40	↑ 1%	2.55	↓ -5%
Backribs 2.0#/up	2.39	2.42	↓ -1%	2.42	↓ -1%

HAM Primal, Various Styles: 25% of carcass

Description	Last Wk. 28-Jul-17	Prev. Wk. 21-Jul-17	W/W % ch.	Year Ago 29-Jul-16	Y/Y % ch.
17-20# Trmd Selected Ham	0.77	0.81	↓ -5%	0.70	↑ 11%
20-23# Trmd Selected Ham	0.78	0.81	↓ -5%	0.71	↑ 9%
23-27# Trmd Selected Ham	0.76	0.81	↓ -6%	0.66	↑ 14%
4 Muscle Ham to Blue	1.58	1.66	↓ -4%	1.52	↑ 5%
Insides	1.39	1.39	↓ 0%	1.33	↑ 5%
Outsides	1.39	1.39	↓ 0%	1.32	↑ 5%
Knuckles	1.33	1.36	↓ -2%	1.32	↑ 0%
Outer Shank	1.14	1.10	↑ 3%	0.95	↑ 19%

Note:

Primal yields include trim, fat, skin, bone, shrink. Total yields do not calculate to 100% due to other products derived from carcass (jowl, neckbones, tail, feet, cutting loss). Trim yield is approximate due to various styles of cutting primals.



Description	Last Wk. 28-Jul-17	Prev. Wk. 21-Jul-17	w/w % ch.	Year Ago 29-Jul-16	Y/Y % ch.
Pork Cutout	1.01	1.04	↓ -3%	0.83	↑ 21%

PICNIC Primal, Various Styles: 11% of carcass

Description	Last Wk. 28-Jul-17	Prev. Wk. 21-Jul-17	W/W % ch.	Year Ago 29-Jul-16	Y/Y % ch.
SS Smoker Trim Picnic VAC	0.77	0.80	↓ -3%	0.73	↑ 6%
RS Smoker Trim Picnic Combo	0.70	0.72	↓ -3%	0.63	↑ 11%
Picnic Cushion Meat Vac	1.16	1.17	↓ -1%	1.16	↓ -1%
SS Smoker Trim Picnic 1 Pc Vac	0.95	0.91	↑ 5%	0.82	↑ 16%

BELLY Primal, Various Styles: 16% of carcass

Description	Last Wk. 28-Jul-17	Prev. Wk. 21-Jul-17	W/W % ch.	Year Ago 29-Jul-16	Y/Y % ch.
Derind Belly 9-13#	2.67	2.57	↑ 4%	1.34	↑ 98%
Derind Belly 13-17#	2.59	2.58	↑ 0%	1.47	↑ 76%
Derind Belly 17-19#	2.48	2.43	↑ 2%	1.42	↑ 75%
Skin-on Belly 12-14#	unq	2.14	↑ n/a	1.45	↑ n/a
Skin-on Belly 14-16#	unq	2.25	↑ n/a	1.41	↑ n/a

TRIM from various primals: 10-30% of carcass

Description	Last Wk. 28-Jul-17	Prev. Wk. 21-Jul-17	W/W % ch.	Year Ago 29-Jul-16	Y/Y % ch.
42% Trim Combo	0.69	0.70	↓ -2%	0.51	↑ 34%
72% Trim Combo	0.93	0.94	↓ -1%	0.78	↑ 18%
72% Trim Boxed, FZN	0.91	0.94	↓ -3%	0.87	↑ 4%
Picnic Meat Combo Cushion Out	0.97	1.05	↓ -7%	0.97	↑ 0%
Trim w/Trace Combo	0.49	0.48	↑ 0%	0.39	↑ 26%

SPARERIBS Primal, Various Styles: 5% of carcass

Description	Last Wk. 28-Jul-17	Prev. Wk. 21-Jul-17	W/W % ch.	Year Ago 29-Jul-16	Y/Y % ch.
Trmd Sparerib - LGT	1.19	1.29	↓ -7%	1.26	↓ -5%
Trmd Sparerib - MED	1.28	1.34	↓ -4%	1.33	↓ -4%
St Louis Spareribs, VAC	1.98	2.12	↓ -7%	2.16	↓ -8%
BBQ Style Spareribs, VAC	1.48	1.59	↓ -7%	1.58	↓ -6%



Funded by the Pork Checkoff

1. Prior to April 2013, prices from the voluntary report were used (USDA Weekly National Carlot Meat Report).
 *A number of new items have been added to this report, some of which were not available in the voluntary report.

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