Daily Livestock Report

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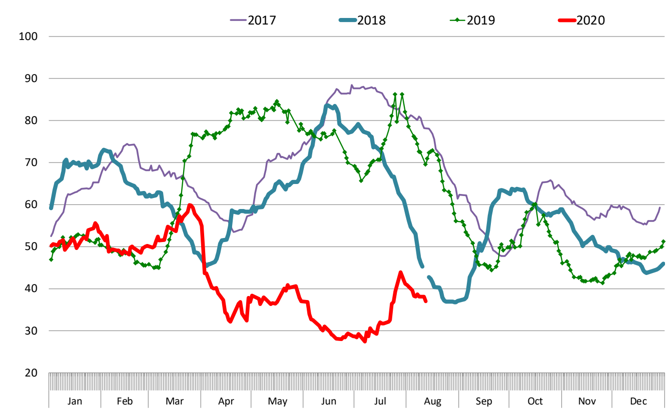
October lean hog futures gained about 11% between October 3 and October 10 but they gave up some of those gains yesterday and **there is still a fair amount of uncertainty about price direction in the near term**. The big unknown at this time is the supply of hogs that is currently in the pipeline and expectations for slaughter in September/October. Hog carcass weights steadily declined in July and early August. In a normal year would suggest producers are fairly current in their marketings. And yet, the June USDA ‘Hogs and Pigs’ report indicated there were some +3 million more hogs than a year ago that would need to be processed in June, July and August. Hog slaughter during this period has been running above year ago levels but, according to our calculations, weekly slaughter between June 1 and mid August is up 1.4 million head or 6.1% from a year ago. Was the USDA survey wrong? Or have producers figured out how to slow down the rate of growth enough to match weekly supply with shackle space available? IA/MN Lean Hog Base Price for negotiated hogs last night was quoted at under 37 cents again, suggesting still plentiful supplies available in the spot market. The chart to the right outlines the normal seasonal for hog prices going into the fall. In the last three years, the bottom in the cash market has not been made until September or early October. This year we did not have much (any?) summer rally given the backlog that was created in April and May.

The challenge for the market will come in September as supply availability seasonally increases, the weather turns cooler (heavier weights) and retailers shift away from grilling items. **There is plenty of competition in the retail case at this time, with near record supplies of beef, pork and chicken vying for a given space in the meat case**. Foodservice demand should slowly improve but it still is, by most accounts, below year ago levels. Indeed, as we look at the performance of individual primals vs. a year ago, it is clear that **processing items continue to drag down the overall pork cutout value**. Last night the pork cutout value was quoted at $70.39/cwt, $19/cwt or 21% lower than a year ago. The decline in the value of pork bellies accounts for about $9.4 of the $19 decline in the cutout even as bellies are only 16% of the carcass. The decline in the value of hams accounts for another $7.9. **The decline in pork products that normally go into processing accounts for about 92% of the overall decline in the pork cutout**. Labor availability needed to preparing these items is a key challenge that may not improve as quickly as some think/hope. A key question that will need to be addressed this fall: **Will processing items recover so as to offset the seasonal decline in some retail items (loins, butts, ribs)**. Current futures hog prices in the low 50s imply the cutout will continue to trade around current levels through the fall and early winter, suggesting that market expect ham prices to improve to offset the potential decline in loins for instance. Bone-in hams are no longer trading in the mid 30s but they remain historically weak. The primal ham value remains extremely volatile for the simple fact that it represents a weighted average of bone-in and boneless products, which are very far in value. In any given day, differences in the volume of product reported will skew the calculated primal value significantly. In the case of bellies, **fast food demand remains critical but so is the availability of labor at processing plants**. Some fast food operators are doing well, benefiting from drive thru business. Still, the latest survey of restaurant operators from the National Restaurant Association indicated that in June 77% of respondents indicated sales were lower than a year ago while only 20% said sales were higher. More importantly, 56% of respondents said they see sales in the next six months remain below year ago while 24% said they expect sales to be higher. A survey of restaurant operators from Datassential indicated that over 20% of restaurants have not opened since the crisis hit or have opened and closed multiple times. With fewer restaurants to service, distributors and large chains will remain cautious in building inventory positions, despite current attractive prices.

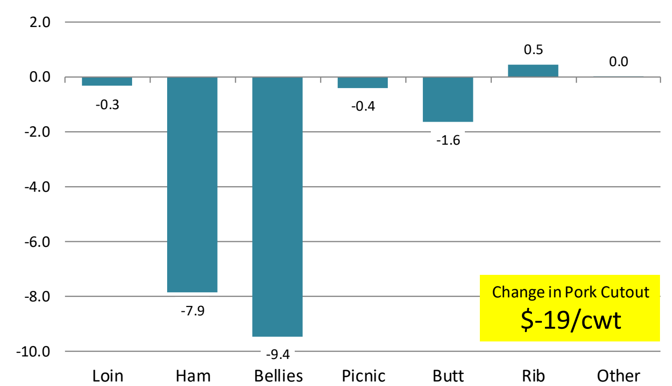
IA/MN Lean Hog Carcass, Base Price. Wt. Avg.

Source: USDA-AMS Daily Prices



Contribution to the Change in the Value of the Pork Cutout

Based on USDA-MPR data for Aug 11, 2020 vs. yr ago. Analysis by Steiner Consulting



Restaurant Status During Pandemic

Source: Datassential