

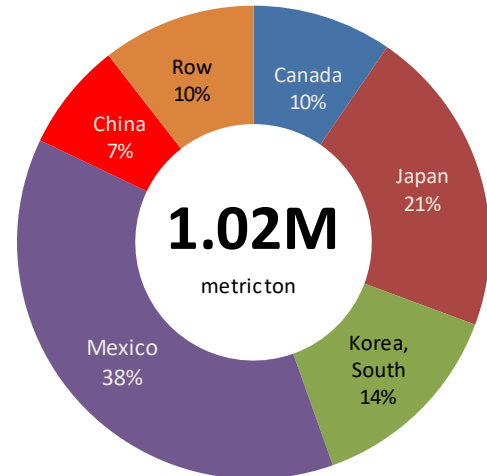
The announcement that US and Mexico had reached a preliminary agreement on a trade deal caused livestock futures to rally yesterday. Whether that rally will be sustained will depend largely on the speed with which trade with Mexico, the top market for US pork, will be normalized. While there was a lot of press about the deal and what it could mean for both countries, there was little to indicate when the new trade deal will go into effect. In part this is due to the fact that negotiations are still ongoing with Canada. A Reuters report noted: “If talks with Canada are not wrapped up by the end of this week, Trump plans to notify Congress that he has reached a deal with Mexico, but would be open to Canada joining, U.S. Trade Representative Robert Lighthizer told reporters...the White House said Trump will sign the deal in 90 days. Congress has to approve it.” So despite the short covering rally that we saw in the October contract yesterday, US pork producers will continue to deal with the 20% Mexico tax for a bit longer. The announcement still is a positive development, suggesting some finality about the current trade uncertainty with Mexico. In the first six months of the year Mexico purchased 38% of all US pork exports. February hog futures currently hold a +\$9 premium to October and December, we think partly because of the seasonal decline in slaughter but also because of the expected normalization of trade.

Another piece of news that may support the pork market this fall was the announcement from the administration that almost \$850 million have been allocated to support hog and pork producers that have been negatively impacted by current trade negotiations. The [full USDA announcement and details by commodity can be found here](#). With regard to livestock production, two programs were unveiled. The first was a ‘market facilitation’ program, with an initial payment rate to producers of \$8/head. This program was estimated to cost \$290.3 million dollars. Eligible producers will apply for this program and will be paid accordingly. Per the USDA explainer sheet, “payment for hog operations will be based on the total number of head of live hogs on August 1, 2018. Production records for hogs may include, but are not limited to, breeding records, inventory records, sales receipts, rendering receipts, or veterinary records.” Per the USDA website, to be eligible “a producer’s average adjusted gross income may not exceed \$900,000.” You can find more details on how this program is set up and how it will work by [following the link to this USDA website](#). Additionally, USDA noted that some \$558.8 million worth of pork products will be purchased as part of the “Food Purchase and Distribution Program.” The purchases are expected to be “spread over several months in response to orders placed by states participating in the Food Nutrition assistance programs.” [You can find a list of these programs here](#). This was by far the largest food purchase allocation among all other products but the impact at this point is hard to quantify. Much will depend on the timing of the purchases and the products involved. Commodity procurement is handled by USDA-AMS and approved vendors are invited to submit offers via a web based system. The money allocation should help bolster domestic purchasing power in Q4 when pork production is expected to exceed last year’s record by as much as 6%.

TOP MARKETS FOR US PORK IN 2018

Total Volume and Country Shares for Period Jan - Jun 2018, MT

Data Source: USDA-FAS



*** ROW - Rest of the World.

Volume and Price of Barrows/Gilts: 4 Main Purchase Types. Producer Hogs.

Data Source: USDA Mandatory Price Reporting.

Since July 1

	2017		2018		
	Head	Price	Volume	Price	
Negotiated	351,835	\$ 80.1	337,111	\$ 58.6	-26.8%
Other Mkt Formula	2,303,354	\$ 73.5	1,518,665	\$ 63.8	-13.2%
Swine/Pork Formula	5,777,272	\$ 84.1	5,177,659	\$ 64.0	-23.8%
Other Purch. Arrangement	2,970,668	\$ 86.1	3,692,954	\$ 69.2	-19.6%
Total	11,403,129	\$ 82.3	10,726,389	\$ 65.6	-20.3%

Year to Date

	2017		2018		
	Head	Price	Volume	Price	
Negotiated	1,461,403	\$ 70.4	1,369,826	\$ 62.4	-11.4%
Other Mkt Formula	8,944,916	\$ 69.6	7,174,317	\$ 68.2	-2.1%
Swine/Pork Formula	24,460,192	\$ 72.7	22,481,862	\$ 65.6	-9.8%
Other Purch. Arrangement	13,811,420	\$ 74.9	15,806,132	\$ 69.7	-7.0%
Total	48,677,931	\$ 72.7	46,832,137	\$ 67.3	-7.5%

Note: All data was collected and reported based on USDA report LM_HG214

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