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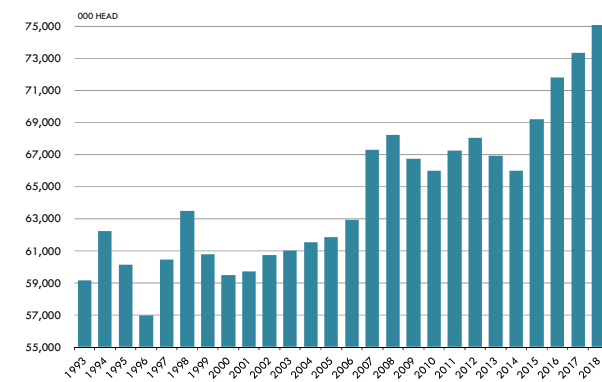
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There were no major surprises in yesterday's report and maybe that in itself may be construed as somewhat positive for the market. There was some concern during the summer that we could see +4% more slaughter in Q4 and combined with heavier carcass weights this could push pork production growth near 5%. In its latest WASDE report USDA projected total pork production for Q4 of this year at 7.225 billion pounds, 6.3% higher than the previous year. There is one extra slaughter day this year than a year ago and adjusting for that USDA projected Q4 pork production was up 4.7% from the previous year. Following this report, however, we would expect a reduction to that supply growth estimate. The total supply of market hogs as of September 1 was estimated at 69.156 million head, 2.9% higher than a year ago. Analysts on average expected the supply of market hogs to be 3.5% higher than last year. Based on this report, the number of hogs available for marketing in September, October and early November is expected to be about 3.5% higher than a year ago. One needs to **consider the disruptions caused by Hurricane Florence and the fact that slaughter during two weeks in September was down as much as 6% from last year.** Some of those hogs will have to be marketed in October. Las July some plants were idled for maintenance, pushing more hogs into August. August slaughter was a record high, surpassing the levels we saw last October and prices declined dramatically. It appears we will see a major increase in slaughter this October as well. Hog weights bear watching. For now the pork cutout has performed better than expected but one needs to be aware that prices do not reflect the supply of hogs on the ground but rather artificially lower slaughter numbers the last three weeks. The true test for the pork and hog market will come by mid October when slaughter numbers surge over 2.6 million head.

One of the first thoughts in our head when we saw the report results was: **"Those export numbers next year better show up."** The breeding herd as of September 1 was up 3.5% from a year ago and about 10,000 head higher than on June 1. In our mind this implies a production increase of around 3% for next spring and summer and possibly for much of 2019. Producers have expanded this year in part because the market has paid them to do so. Sow slaughter was higher in the summer but, as LMIC pointed out to us, half of that increase in sow slaughter was due to imported sows and boars from Canada. Cash hog prices (based on the CME index) have averaged around \$67/cwt. True, cash hog prices collapsed in August and futures sold off across the board, but only briefly. The outbreak of African Swine Fever has caused next year's prices to rally as participants try to build a risk premium due to higher pork export demand. The latest USDA report told us that supplies will continue to grow. The last WASDE report pegged pork production growth for next year to be 1.7% compared to the all time record levels of this year. They had per capita consumption rising by less than 1%. After this report it appears the supply side of the balance sheet may have to be adjusted higher a bit. But will exports also be higher and absorb much/all of this increase? Given the virulence of ASF and the fact that China is a major pork producer/consumer one would expect very strong global pork prices next year. But at this point it remains a potential. What is not well understood is the elasticity of pork demand in China, especially if their economy continues to weaken. For now futures appear willing to maintain those forward premiums, but will also keep a close eye on China pork imports.

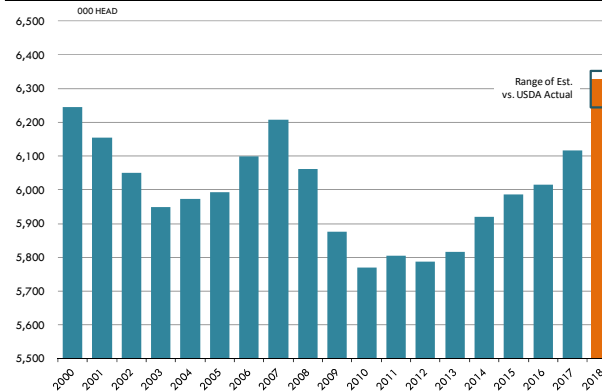
September 1 Inventory of All Hogs and Pigs. 1993 - 2018

Source: USDA



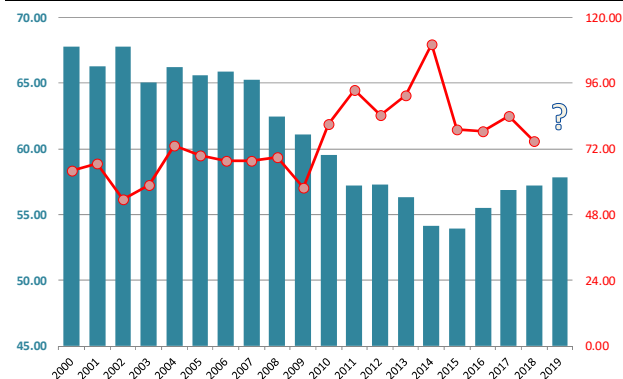
September 1 Inventory of Hogs Kept for Breeding. 1993 - 2017 + Est. Range & Actual

Source: USDA-NASS, Analyst Estimates Based on Umer Barry Survey



Per Capita Pork Consumption vs. Pork Cutout Value

Historical Data and 2019 Supply Fcast from USDA. 2018 Cutout Est. from Steiner Consulting.



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USDA HOGS AND PIGS REPORT: SEPTEMBER 1, 2018

CATEGORY	2016	2017	2018	2019	2018 AS %	2018 AS %	2019 AS %	Urner Barry Survey of			USDA vs. Est.
					OF 2016	OF 2017	OF 2018	ANALYST PRE-REPORT ESTIMATES			
								Range	Avg.		
ALL HOGS AND PIGS	71,786	73,309	75,486		105.2%	103.0%		102.8	104.0	103.4	-0.4
KEPT FOR BREEDING	6,016	6,117	6,330		105.2%	103.5%		102.1	103.8	103.1	0.4
KEPT FOR MARKET	65,770	67,192	69,156		105.1%	102.9%		102.9	104.0	103.5	-0.6
180 Pounds and over	11,683	12,028	12,445		106.5%	103.5%		103.0	105.0	103.6	-0.1
120 - 179 Pounds	13,600	13,874	14,356		105.6%	103.5%		103.1	104.4	103.7	-0.2
50 - 119 Pounds	19,271	19,757	20,262		105.1%	102.6%		103.0	104.2	103.5	-0.9
Under 50 Pounds	21,215	21,533	22,092		104.1%	102.6%		102.5	104.0	103.3	-0.7
SOW FARROWINGS											
DEC - FEB ^{1,2}	2,927	2,986	3,055	3,115	104.4%	102.3%	102.0%	100.5	103.0	101.7	0.3
MAR - MAY	2,968	3,014	3,121		105.2%	103.6%					
DEC - MAY ¹	5,896	5,999	6,176		104.7%	103.0%					
JUN - AUG	3,057	3,106	3,185		104.2%	102.5%		101.5	103.2	102.1	0.4
SEP - NOV ³	3,046	3,115	3,163		103.8%	101.5%		100.1	102.9	101.8	-0.3
JUN - NOV ⁴	6,103	6,221	6,349		104.0%	102.1%					
PIG CROP											
DEC - FEB ¹	30,139	31,146	32,320		107.2%	103.8%					
MAR - MAY	31,097	31,790	33,167		106.7%	104.3%					
DEC - MAY ¹	61,236	62,935	65,487		106.9%	104.1%					
JUN - AUG	32,331	33,075	34,159		105.7%	103.3%		102.1	104.2	103.2	0.1
SEP - NOV	32,372	33,456									
JUN - NOV	64,703	66,530									
PIGS PER LITTER											
DEC - FEB ¹	10.30	10.43	10.58		102.7%	101.4%					
MAR - MAY	10.48	10.55	10.63		101.4%	100.8%					
DEC - MAY ¹	10.39	10.49	10.60		102.0%	101.0%					
JUN - AUG	10.58	10.65	10.72		101.3%	100.7%		100.6	101.4	101.0	-0.3
SEP - NOV	10.63	10.74									
JUN - NOV	10.60	10.69									

(1) - Dec. preceding year

(2) - Intentions for 2017

(3) - Intentions for 20176

(4) - Actual farrowings for June-August plus intentions for September-November

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