

We think futures may construe the latest 'Hogs and Pigs' report as bearish for the short term and neutral for spring/summer of 2018. The headline numbers were exactly the same as analysts had expected. **The total inventory of hogs and pigs on September 1 was estimated at 73.549 million head, 2.5% higher than the previous year, the same number as the average of analyst forecasts.** The breeding herd was 6.087 million head, 1.2% higher, also as expected. The fact that the breeding herd was exactly the same as analysts expected is the main reason we think futures will view this report as neutral for spring/summer months.

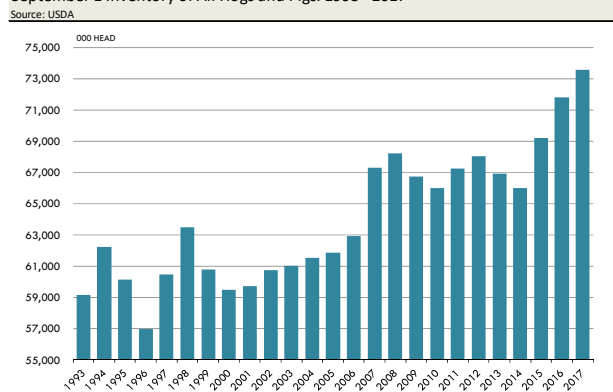
There were some surprises that futures participants will ponder when futures start trading this morning. The inventory of hogs over 120 pounds was quite a bit higher than analysts were expecting but consistent with the large pig crop in Mar-May. These are hogs coming to market in Sep, Oct and early November. Some of the +180 pound hogs already have come to market and slaughter has been under what the report suggested. The combined inventory of these two weight categories was 3.9% higher than a year ago, implying that we could see weeks between now and November when weekly slaughter exceeds 2.6 million head. Futures have been pricing a significant premium for the December contract although some of that premium was cut back on Thursday. Based on this report one would expect that spread to be pressured further. Hog slaughter was lower than then June report suggested during the summer and market participants will likely ponder whether we will continue to see slaughter underperform this report in the next two months. Recently hog slaughter has expanded rapidly but hog weights have been steady as well, implying that producers have been able to market aggressively and thus stay relatively current.

The inventory of lighter pigs was 1.7 to 1.8% higher than a year ago, which is somewhat lower than we would expect considering the pig crop during Jun-Aug was up 2.2%. The report also continued to show larger farrowings (and therefore pig crop) than was suggested by farrowing intentions in previous reports. The farrowing intentions for Dec-Feb were +1.3% while analysts were expecting farrowings to be flat. The current farrowing number seems to be in line with what one would expect based on our projections for the breeding herd later in the year.

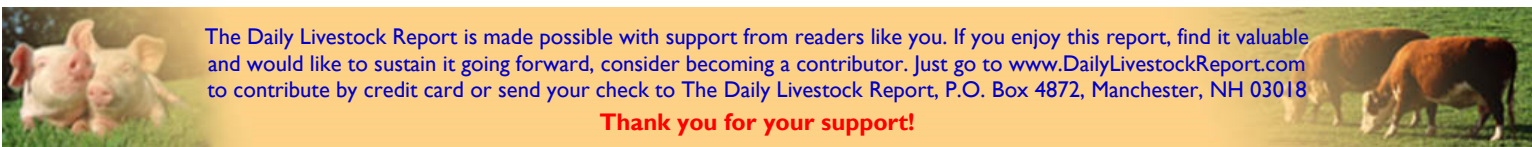
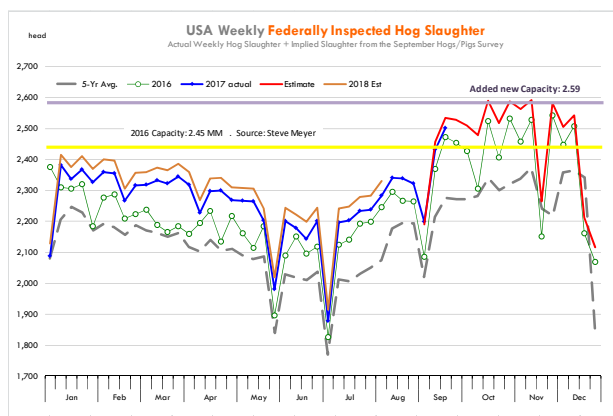
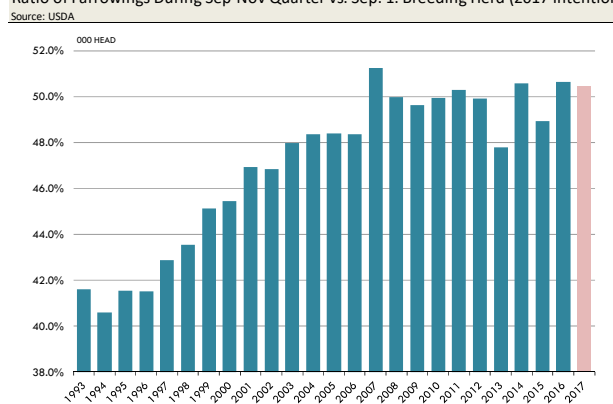
The breeding herd on September 1 was 6.087 million head, 1.2% larger than the previous year. Looking at starting/ending breeding herd numbers and accounting slaughter/imports during the quarter, it does not appear to us that there was much gilt retention. Last year we saw a notable increase in gilt retention during Sep-Nov and it remains to be seen if something similar happens this year as well.

Takeaway: The hog/pork industry continues to expand and this will help keep pork price inflation in check in 2018. Volatility was quite high in 2017, in part due to export demand but also retail promotions. It is likely this will continue to be the case in 2018 as current market provides retailers with plenty of opportunities to feature pork. The two new pork plants are slowly ramping up production. As Steve Meyer indicated in a call with reporters yesterday, it appears the Sioux City plant will be up and running by the end of November while the Clemens Foods plant in Michigan is not expected to be fully operational until Feb of next year.

September 1 Inventory of All Hogs and Pigs, 1993 - 2017



Ratio of Farrowings During Sep-Nov Quarter vs. Sep. 1. Breeding Herd (2017 Intention)



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USDA HOGS AND PIGS REPORT: SEPTEMBER 1, 2017

Urner Barry Survey of ANALYST PRE-REPORT ESTIMATES

CATEGORY	2015	2016	2017	2018	2017 AS %	2017 AS %	2018 AS %	Urner Barry Survey of			USDA vs. Est.
					OF 2015	OF 2016	OF 2017	Range	Avg.	vs. Est.	
ALL HOGS AND PIGS	69,186	71,786	73,549		106.3%	102.5%		101.7	103.3	102.5	0.0
KEPT FOR BREEDING	5,986	6,016	6,087		101.7%	101.2%		100.8	101.4	101.2	0.0
KEPT FOR MARKET	63,200	65,770	67,462		106.7%	102.6%		101.7	103.5	102.6	0.0
180 Pounds and over	11,108	11,683	12,139		109.3%	103.9%		101.5	103.9	102.6	1.3
120 - 179 Pounds	12,855	13,600	14,129		109.9%	103.9%		101.5	103.7	102.9	1.0
50 - 119 Pounds	18,496	19,271	19,626		106.1%	101.8%		100.7	104.0	102.6	-0.8
Under 50 Pounds	20,741	21,215	21,568		104.0%	101.7%		101.7	103.5	102.4	-0.7
SOW FARROWINGS											
DEC - FEB ^{1,2}	2,895	2,927	2,986	3,025	103.1%	102.0%	101.3%	97.8	101.2	100.1	1.2
MAR - MAY	2,854	2,968	3,060		107.2%	103.1%					
DEC - MAY ¹	5,749	5,896	6,046		105.2%	102.5%					
JUN - AUG	3,017	3,057	3,103		102.9%	101.5%		100.2	102.0	101.0	0.5
SEP - NOV ³	2,929	3,046	3,070		104.8%	100.8%		99.7	101.0	100.6	0.2
JUN - NOV ⁴	5,946	6,103	6,173		103.8%	101.1%					
PIG CROP											
DEC - FEB ¹	29,627	30,139	31,138		105.1%	103.3%					
MAR - MAY	29,593	31,097	32,264		109.0%	103.8%					
DEC - MAY ¹	59,219	61,236	63,402		107.1%	103.5%					
JUN - AUG	31,343	32,331	33,048		105.4%	102.2%		100.3	103.0	101.8	0.4
SEP - NOV	30,848	32,369									
JUN - NOV	62,191	64,700									
PIGS PER LITTER											
DEC - FEB ¹	10.23	10.30	10.43		102.0%	101.3%					
MAR - MAY	10.37	10.48	10.55		101.7%	100.7%					
DEC - MAY ¹	10.30	10.39	10.49		101.8%	101.0%					
JUN - AUG	10.39	10.58	10.65		102.5%	100.7%		100.0	101.4	100.8	-0.1
SEP - NOV	10.53	10.63									
JUN - NOV	10.46	10.60									

(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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