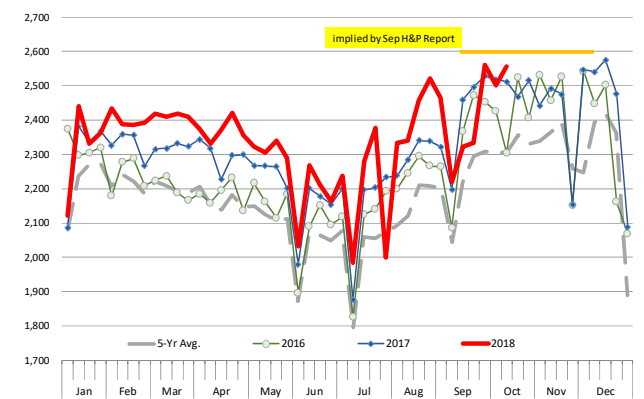


Hog slaughter numbers continue to confound us. Initially USDA pegged hog slaughter for Tuesday at 473,000 head, which would be a full slaughter run given current capacity. However, that number was revised lower by about 22,000 head and Wednesday slaughter was estimated at 457,000. Keep in mind that even after these revisions the numbers are still estimates and will be updated/revised when USDA tabulates and reports actual numbers based on individual plant inspector reports. Today we should get actual slaughter numbers for the week ending September 29. In recent weeks the actual hog slaughter numbers have been lower than the initial estimate. For the period Aug 27 - Sep 22 total hog slaughter was 9.342 million head, 33,400 head or 0.4% less than initially estimated. We expect slaughter this week, after the USDA revisions, to be around 2.56 million head, around 2% higher than a year ago. Since August 27, weekly slaughter has averaged 2.423 million head/week, 0.4% less than the same period a year ago. That is seven weeks during which weekly slaughter was on average less than last year. In there are two weeks when large plants in North Carolina were idled by Hurricane Florence. Still, the year over year decline represents a very stark difference from the USDA 'Hogs and Pigs' report that suggested slaughter during this period should have been about 3.5% higher than last. The decline in slaughter and shortfall in pork production has helped bolster cutout values, which are currently close to \$80/cwt. Additionally, producers in the Midwest appear to still be relatively current, as evidenced by hog weights that have increased only modestly and in line with normal seasonal patterns.

In the short term the current situation of Midwest hog producers and robust pork prices have allowed packers to pay up in order to secure hogs. The meat margin, the spread between the cutout and cash hog prices is currently about \$11/cwt, not terrible but also quite a bit lower than analysts and packers were likely expecting. By product values have come under some pressure given weak exports. But by-product prices have also benefited from the lower slaughter and current drop credit is estimated by LMIC at \$17.25/head, down about 80 cents compared to a year ago. One challenge here is that the erosion in export markets often causes packers to get substantially less than the calculated drop credit. Our guess is that industry wide drop credit value is probably less than the calculated \$17.25/head. The chart to the right illustrates our calculated pork packer gross margin, which combines both the drop credit and the meat spread. December futures have sold off recently in part we think because of fears hogs may eventually be backed up and higher supplies will come to market in November and early December. For now pent up demand and lower than expected production has contributed to the dramatic 53% recovery in cash hog values. One can argue that prices have recovered from an artificially low level in August. In the short term, the focus will remain on slaughter and weights. Going forward, market will maintain a price premium for 2019 despite higher supplies due to supply risks from African Swine Fever.

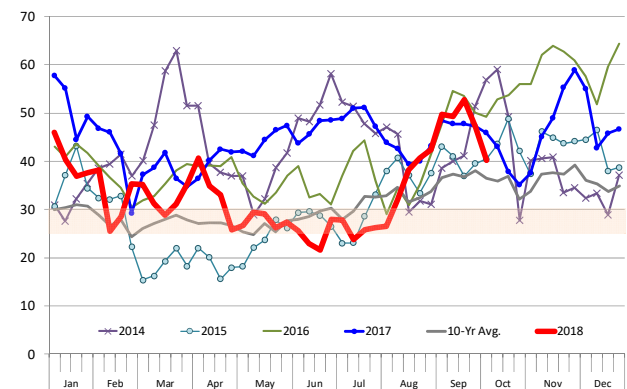
WEEKLY HOG SLAUGHTER, '000 HEAD

Source: USDA



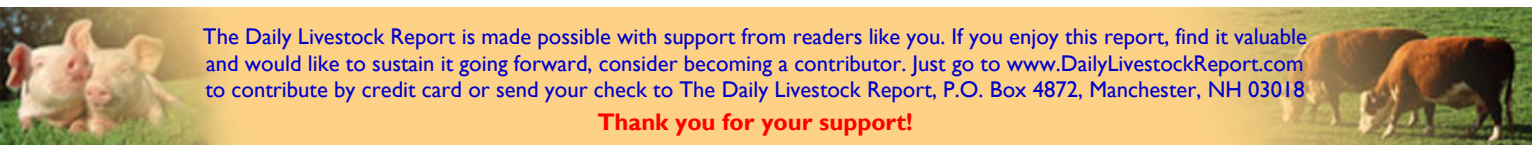
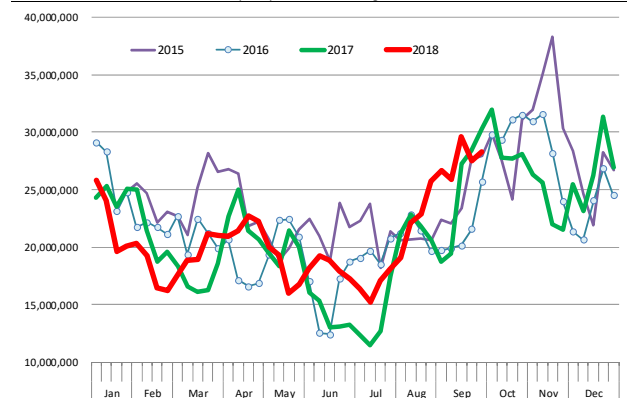
PORK PACKER CALCULATED GROSS MARGIN, \$/HEAD

Calculated Using the Weekly Pork Cutout Value, Number of Head Processed, and Drop Credit Value. Data Source: USDA, Steiner & LMIC Drop Credit



Total Primal - Weekly MPR Forward Sales Volume - 4-week Moving Avg

Based on MPR. Data Source: USDA. Analysis by Steiner Consulting



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