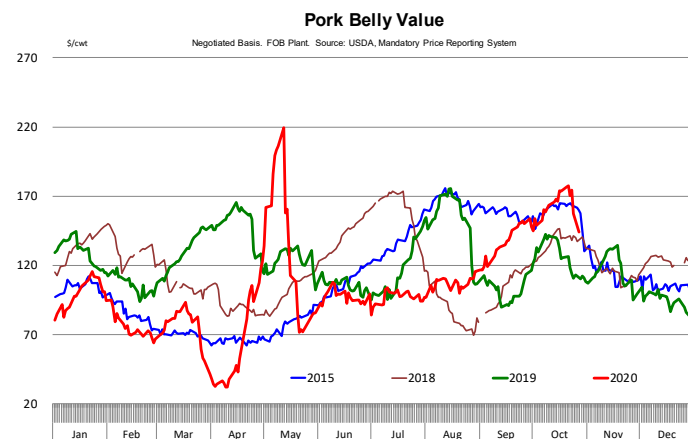
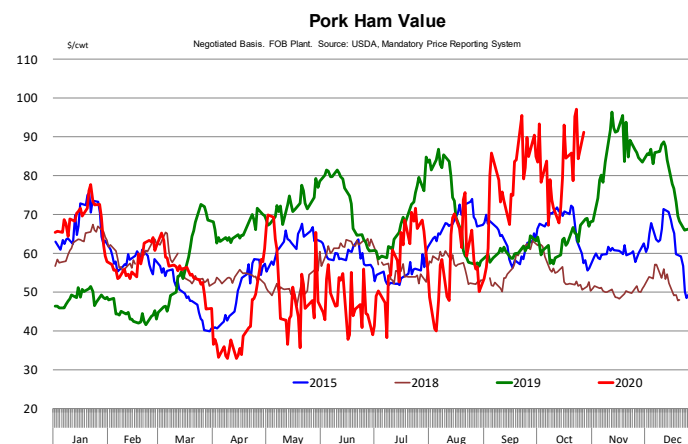
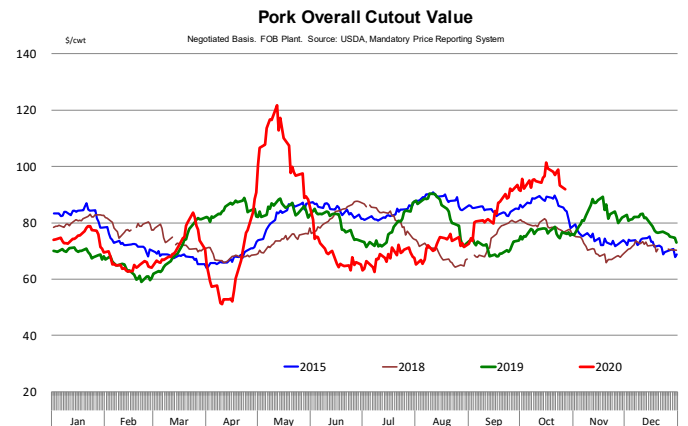


The pork cutout has pulled back in the last few days but it remains well above year ago levels. Last night USDA quoted the overall cutout at \$91.86/cwt, near \$16/cwt or 21% higher than last year. Most of the year/year increase in pork wholesale values has been driven by higher prices for processing items, such as bellies and hams. The value of the belly primal last night was quoted at \$143.09, down from the \$170 or so that the market was trading at last week but still about 30% higher than a year ago. The current value of bellies has contributed about a third of the overall increase in wholesale pork values. The value of the ham primal has been trending higher in the last two months, reflecting both the seasonal improvement in demand and the impact that limited labor supply has had on the value of boneless ham muscles. The value of the ham primal last night was pegged at \$91.27/cwt, 33% higher than a year ago and contributing about 35% of the increase in the cutout. It should be noted that the current value of the ham primal is not the same as the value of bone-in hams even though in theory this should be the same thing. The reason is that the primal value is simply a weighted average price of the various ham muscles sold and currently boneless muscle prices are significantly higher than normal. Packers are looking to maximize labor resources and restrictions they have placed in boning lines as well as concerns among workers about COVID spread in plants have limited the amount of boneless hams produced. As we noted last week, tight cold storage inventories have further exacerbated the situation and some end users/processors appear to be short raw material, bidding up ham values in the near term.

It should also be noted that higher prices for pork trim have also bolstered the overall carcass even though this item is not highlighted separately. This is because pork trim is one of the credit items used when USDA puts together the implied value of a primal. Take the loin primal for instance. Last night the value of the loin primal was pegged at \$78.87/cwt, \$9.16/cwt or 13% higher than the previous year. One would think that loin values are up sharply year over year. However, the value of boneless center cut pork loins last night was actually 3% lower than a year ago. The value of 72CL pork trim, on the other hand, was 80% higher than last year. Depending on how the loin primal is broken down, the increase in trim values has contributed as much as half of the overall gain in loin primal value.

There's plenty of debate in the market as to the outlook for wholesale pork values in the next two months. Clearly items that have been driving the cutout so far are key, especially ham values. Last year ham primal value peaked in mid November, in part due to strong export demand. Will current high ham prices ration out export orders? So far exports to Mexico remain very strong and even though China sales have slowed down, forward commitments still represent an about 11 week supply. USDA MPR data showed that ham export sales rebounded last week. Please note that this data set does not include sales to Mexico or Canada. In our view the Monday MPR export numbers offer a good indication of sales to Asian markets such as S. Korea and Japan as well as sales to smaller markets in South America and Oceania. It is unlikely that packers will be able to resolve the labor issues that have plagued the market so far, which could imply ham values may remain elevated at least into the holidays. Normally ham prices pull back sharply into Christmas, something worth considering when evaluating cutout potential for Jan/Feb. Belly prices, on the other hand, appear to have more potential for volatility. The sharp pullback in belly prices yesterday was a good reminder of the wide swings in the value of this item. In the attached chart we included a comparison to 2015, a year that saw very weak prices in the spring, followed by sharp price gains in summer/early fall and then a retreat in Nov/Dec.



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