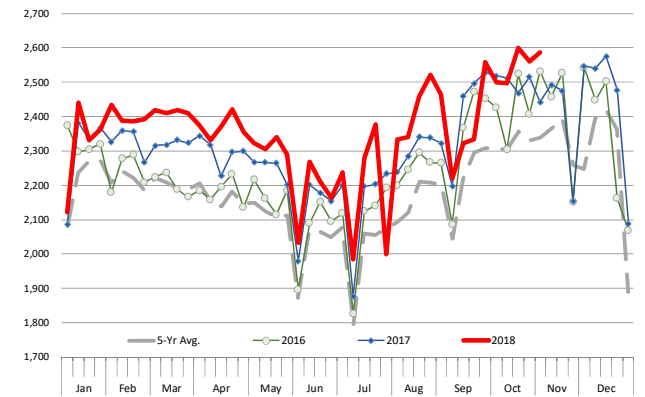


Hog supplies are seasonally higher and, predictably, this has put some downward pressure on both cash hog prices and the price of various pork cuts. Hog slaughter on Monday and Tuesday was 476k and 477k head, respectively and we expect the slaughter numbers to hold around those levels through at least Thursday. As more hogs become available at this time of year packers have to run more Saturday shifts in order to accommodate the growing supply. Last week Saturday slaughter was around 240k head and based on the number of hogs scheduled for this week, we expect Saturday slaughter to be almost as large. If correct, this would put weekly hog slaughter for this week slightly above 2.6 million head, the highest weekly hog slaughter on record. And these numbers are just estimates at this point. The latest actual hog slaughter data reported by USDA is for the week ending October 20 and it showed that USDA revised up its estimates for hog slaughter during that week and the week prior. This included one day when slaughter was estimated at over 479,000 head, the highest daily slaughter on record. Hog supplies should remain high for the next few weeks and producers will look to keep the flow moving. Additionally, there is a notable discount for December hogs vs. current cash levels, offering another incentive for producers to market hogs as soon as they can. The one day cash hog index is currently around \$63/cwt while the nearby December contract is now at around \$54 following yesterday's limit down move.

With more pork supplies coming to market the pork cutout has come under pressure. The meat margin, the difference between the cutout and cash hog prices (CME index) is around \$11/cwt and heading lower. This is similar to what the margin was last year. However, in 2017 and the two years prior to that the margin expanded in November and December. Increased hog availability bolsters demand for shackle space and packers are able to command higher prices. The big question for market participants is not whether packers will be able to realize better margins going forward, that is fairly normal for this time of year. The question is whether the market will be able to absorb the ever increasing supply of pork without significant damage to the cutout. Seasonally the price of pork loins declines during this time of year and already we have seen the loin primal value decline from near \$80/cwt in mid October to \$71.95/cwt last night. If seasonal patterns persist, the loin primal value may decline under \$70/cwt in the next two weeks. A \$10 drop in the loin primal value removes about \$2.5/cwt from the cutout. Bellies were very strong in October but have been sliding, which again is normal for this time of year. The decline in belly values has subtracted about \$3 from the cutout already and it is possible we may see further value erosion. In the past the decline in the value of other primals has been offset by gains in the value of hams due to improving seasonal demand. So far ham prices remain very soft, in part because of the current 20% tariff on US hams in Mexico. Consider the second chart to the right. It shows the price of #23-27 hams converted in peso per kilogram (red line) and the effect of the 20% tariffs since July. **Since July, the US ham price has averaged 23.35 peso per kg, 16% lower than a year ago. However, with a 20% tariff in place prices are now above year ago levels.**

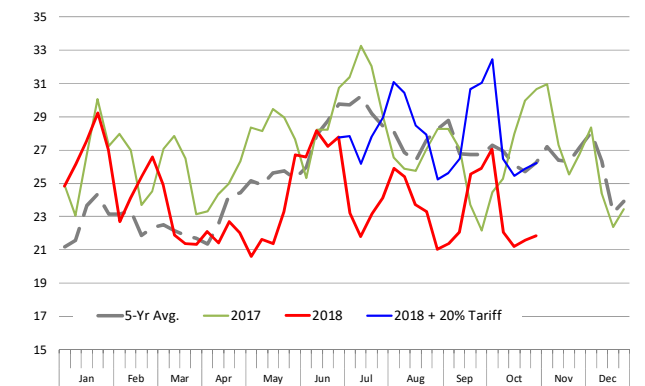
WEEKLY HOG SLAUGHTER, '000 HEAD

Source: USDA

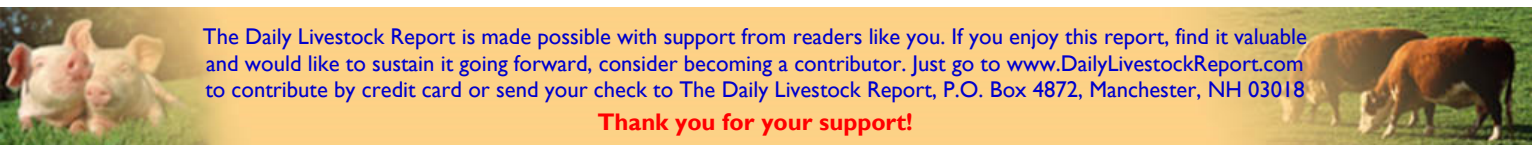
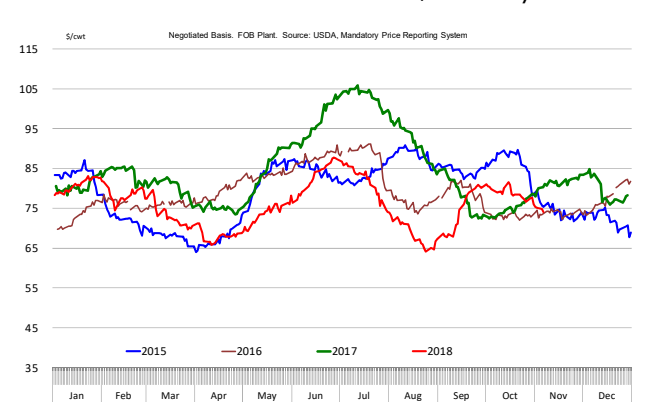


USA 23-27# Hams. Weighted Avg. Price. **MX Peso per Kg + 20% Tariff since July**

Source: USDA and Steiner Consulting



Pork Cutout Value. Source: USDA-AMS. \$/cwt. Daily Prices



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