

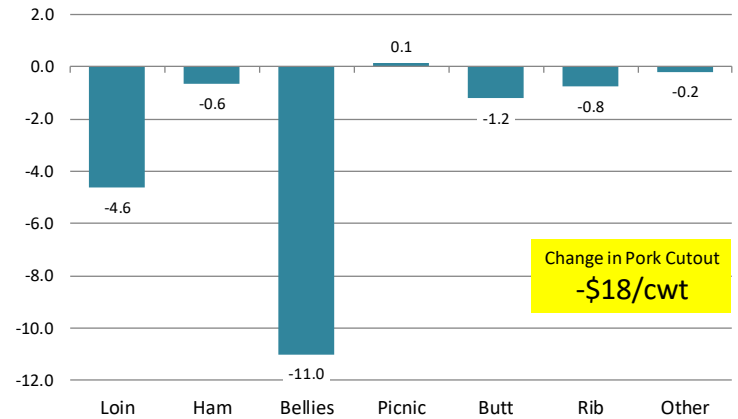
The pork cutout has declined 18% in the last four weeks and this has pressure hog values lower as well. The cutout on October 15 was quoted at \$101.42/cwt but by the end of the day yesterday it had dropped to \$83.14/cwt. While the value of most primals has been lower during this period, by far **the main contributor to the decline in the cutout is the drop in pork belly prices.** In mid October the value of the belly primal, which accounts for about 16% of the carcass, was pegged at \$173.89/cwt, by far the most valuable primal at the time. Since then belly primal value **has declined by almost \$70/cwt or 40% and that has contributed \$11 out of the \$18 drop in the cutout value.** As we noted in one of our reports in late October, it is not unusual for belly prices to be seasonally lower at the end of the year. A slowdown in fast food sales and a net increase in supply availability during Q4 usually combine to pressure belly prices lower. This year this seasonal tendency was further compounded by the increase in retail bacon prices. It appears that the spike in belly prices in late September and early October caused retailers to reduce the number of bacon features while at the same time increasing the feature price. For the week ending November 6 USDA reports that **the average bacon feature price was \$5.34 per pound, up 14% compared to the previous year. The number of bacon features was down 26% compared to a year ago.**

The second chart to the right shows the comparison of belly primal value to the last couple of years and then to 2015. The reason we included 2015 is that it is the most recent year where belly primal value was at elevated levels through mid October. So far, the pullback in belly primal values this year has largely mirrored what happened that year. Could belly prices continue to move lower through the end of the year? A couple of factors may limit the downside in the near term although with bellies prices tend to be quite volatile. One factor is the supply coming to market. Hog slaughter last week was over 2.7 million but that may not repeat again this week. Last year we saw slaughter peak at 2.8 million but it may be difficult to repeat that again, in part because of new processes and procedures at packing plants and the potential impact from rising COVID cases in areas where plants are located. The spike in belly prices this fall was a reminder for fast food buyers and their processors not to be complacent. It appears to us that at around \$100/cwt there appears to be a fair amount of interest from both foodservice but also retail. Looking at the relationship between wholesale bellies and retail bacon prices, a belly price in the \$100-\$110 area corresponds to bacon feature prices of around \$4.25-\$4.30. While we may not see those feature prices for the system as a whole, there are certainly opportunities for retailers at these price levels. Fast food traffic may be negatively impacted in the next two to three months by rising COVID cases. In the short term that remains negative for fast food demand, which accounts for the largest share of demand for bacon. But fast food operators also recognize that they will need to start preparing in Jan/Feb for the potential improvement once warmer weather starts to roll in. That should eventually help set a floor for bacon prices.

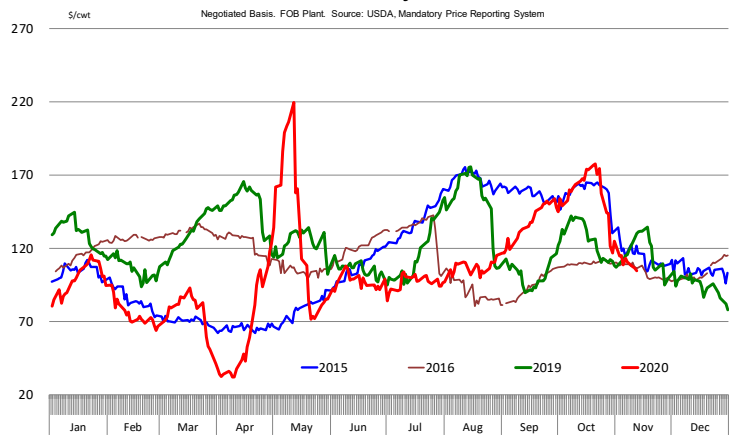
Weak as belly prices have been recently, the pork cutout remains only \$4 below last year's levels, largely thanks to very robust ham prices. **While bellies may or may not have a bit more downside in the near term, hams are the more important factor for the next few weeks.** So far ham demand remains very good, from both domestic buyers and export markets. How quickly seasonal ham demand comes to an end and how active exports remain after January 1 are the more critical factors for the cutout in Q1. This is a topic we will cover at length in future updates.

Contribution to the Change in the Value of the Pork Cutout

Based on USDA-MPR data for Nov 11, 2020 vs. Oct. 15. Analysis by Steiner Consulting

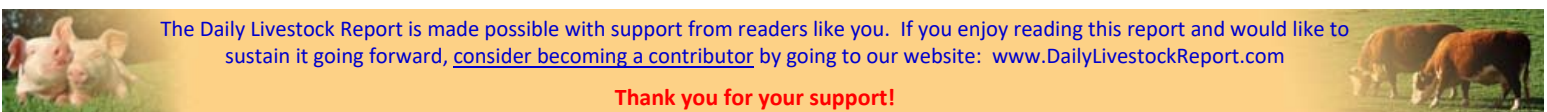
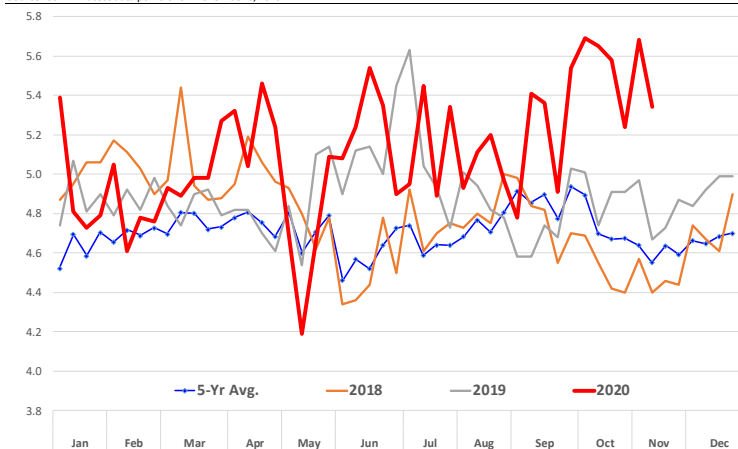


Pork Belly Value



NATIONAL RETAIL PORK FEATURES REPORT: SLICED BACON, 1 LB PKG PRICE. USD/LB.

Source: USDA. Latest data point is for November 6, 2020



The Daily Livestock Report is made possible with support from readers like you. If you enjoy reading this report and would like to sustain it going forward, [consider becoming a contributor](http://www.DailyLivestockReport.com) by going to our website: www.DailyLivestockReport.com

Thank you for your support!

The Daily Livestock Report is made possible with support from readers like you. If you enjoy reading this report and would like to sustain it going forward, [consider becoming a contributor](http://www.DailyLivestockReport.com) by going to our website: www.DailyLivestockReport.com

Thank you for your support!

