

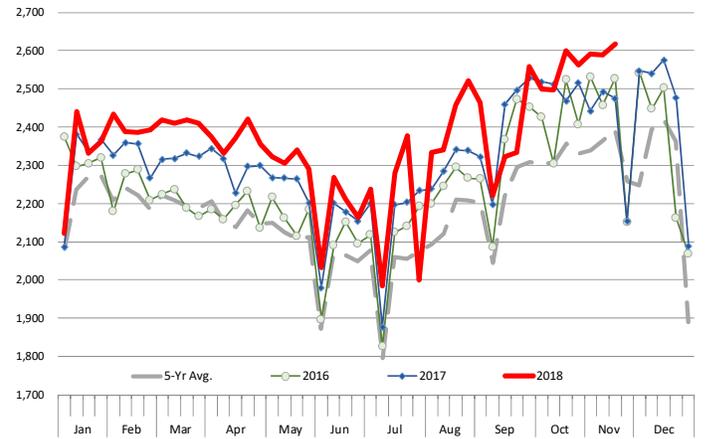
Notice: We received note yesterday afternoon that Urner Barry had made a correction to their analyst survey. Rather than the 1% increase that was earlier reported, they now show the average of analyst estimates at 99.1% of year ago levels. The average of marketings and total on feed numbers remains unchanged, +4.2% and +4.3% higher than a year ago, respectively.

Hog slaughter last week was a record 2.618 million head (after the USDA revision), 5.8% higher than a year ago and the highest weekly slaughter on record. In the last five reported weeks (Oct 14 - Nov 17) hog slaughter has been a total of 12.960 million head, 4.6% higher than a year ago. This number is consistent with the results of the latest USDA hogs and pigs survey, especially if we consider that there was a backlog of hogs created by the hurricane that hit the Carolinas in September. The inventory of 120-179 pound pigs was reported in September at 14.356 million head, 3.5% higher than a year ago while the inventory of hogs 50-119 pounds was 20.262 million head, 2.6% higher. Last year hog slaughter in late November and the first two weeks of December hovered around 2.55 million head and given the inventory corresponding to this time period, we would expect slaughter after Thanksgiving to stay above 2.6 million head and possibly be as high as 2.65 million in one of those weeks. Clearly producers were very aggressive in marketing hogs last week but this should not come as a surprise as producers every year look to work around the disruptions caused by holiday shortened weeks. With plenty of hogs in the pipeline, producers were well served to try and get as many hogs out the door as possible. The effect was a reduction in the average weight of hogs coming to slaughter, which is helpful considering the increase in supply availability. By Friday, the five day average of weight of producer owned barrows and gilts was 212.1 pounds per dressed carcass compared to 212.3 pounds at the end of the previous weeks. Hog carcass weights have been steadily increasing in the last two months, however, which is normal for this time of year when temperatures drop and hogs are fed fresh corn.

Hog weights near current levels and higher slaughter means a notable increase in pork supply availability. Last week pork production was estimated at 555 million pounds, a number that may be revised higher when the actual production data becomes available in a couple of weeks. The increase in production has predictably put some downward pressure on the pork cutout, which is down about \$12/cwt or 15% compared to mid October levels. The decline in the cutout has resulted in a similar decline in cash hog prices, with the 1-day CME index down about 15% during this same period. What is different this year than the last two years is that packer margins have been much more constrained, a function of increasing packing capacity and more competition for hogs. This is something worth considering when looking to estimate hog prices into next year. Even more packing capacity is scheduled to become

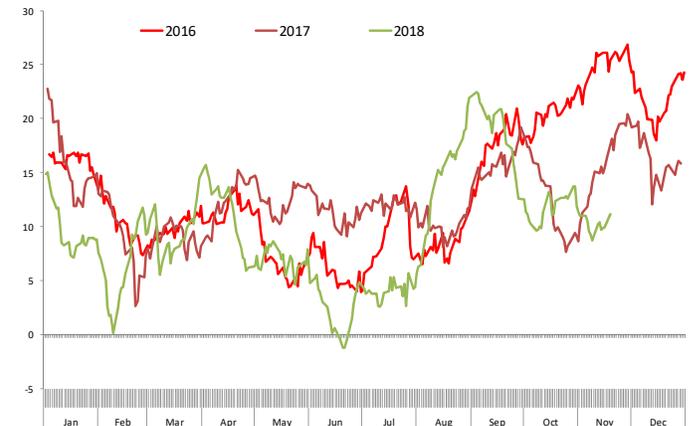
WEEKLY HOG SLAUGHTER, '000 HEAD

Source: USDA-AMS



SPREAD BETWEEN PORK CUTOUT AND CASH HOG INDEX, \$/cwt

Data Source: USDA Mandatory Price Reporting



available next year as a brand new plant starts operations maybe by the end of the year and ramps up in Q1. The outlook for the pork cutout remains critical and futures are currently pricing a significant premium for 2019 on expectations of strong export demand. A number of new cases of African Swine Fever in China proved to be a catalyst for another round of buying recently. But as we noted in this report a week ago, at this time the spread of ASF in China represents potential demand. At this time we appear to still be in the "buy the rumor" phase. The issue of Mexico tariffs on US pork is of more immediate concern, especially as weak ham values have been a major drag for the cutout in the last four weeks.



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