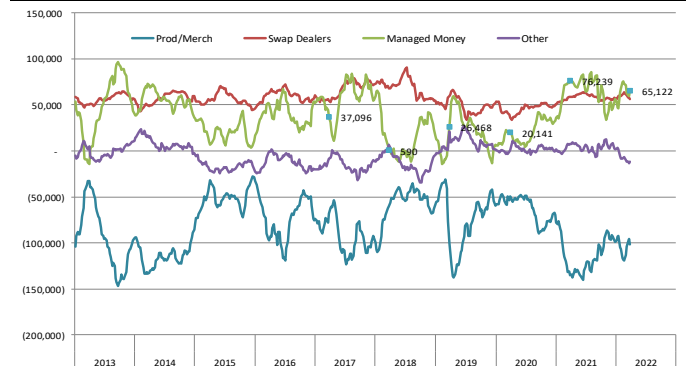


USDA issued the results of its quarterly survey of hog and pig operations on March 30 and by all accounts the results were “bullish” as most numbers in the survey were below expectations. Since then, **June lean hog futures have declined 950 points or 7.7% - what gives?** Probably a simple explanation is the old adage of “buy the rumor and sell the fact.” Coming into the report there was a lot of talk of tight supplies in the summer, speculation about the bird flu impact on chicken supplies and prices, runaway inflation for meat proteins, etc, etc. Speculative money was paying attention and the latest CFTC ‘Commitment of Traders’ report pegged managed money position a net long 65,122 contracts. That position is not as big as it was last year but higher than in recent years. But building a net long position and holding on to it are two different things. The USDA report confirmed what the market was already trading, at least for the summer. Analyst estimates presented before the report was issued (and which we covered) were clearly behind the market because they tend to be anchored by the results of the previous survey (breeding herd, historical trends, farrowing intentions). In our view the real surprise in the report was not the supply hogs on the ground but the decline in the size of the breeding stock. This explains why June hogs have lost 7.7% while December hogs are down only 0.3% during this period. A smaller breeding herd on March 1 means a smaller pig crop during Mar-May and tighter than expected supplies in Sep-Nov. Its possible that those speculative summer longs may have concluded that the upside was limited and it was a better idea to roll into fall and winter contracts.

While money flow may help explain the pullback in summer futures, there are fundamental reasons that also help explain the pullback. It’s lazy thinking to just blame futures traders for playing the “casino” and mispricing hogs. The reality is that people put their money at risk when they seen an opportunity for profit. We cannot say we are for the free market system while in the same breath begrudge the ability of people to put their money at risk based on their judgement of the market. Can’t have it both ways, but we digress. The second chart to the right shows the trend in the value of the pork cutout in recent years. We left 2020 out because of the COVID mess and decided to show 2017 rather than 2018 because the supply situation is more similar to this year. Towards the end of 2021 the value of the pork cutout had given up much of the ground gained during the summer and early fall of the year. As a result, futures participants were not in the mood to put a big premium for the summer of 2022. Things quickly changed in January and February as the cutout rebounded and was running well ahead of 2021. Futures players that thought June 2022 hogs were worth \$97/cwt at the end of December were paying \$120/cwt for June futures in February. If the pork cutout managed to hit \$110 in February, what would it be in June when supplies are seasonally lower and demand improves. At last that was the theory. But wholesale prices hit a wall in March and high summer futures also negatively impacted forward sales for fresh pork. Things could change by the end of April but, for now, market participants are making a rational decision to pull back summer premiums until/unless pork market trends improve.

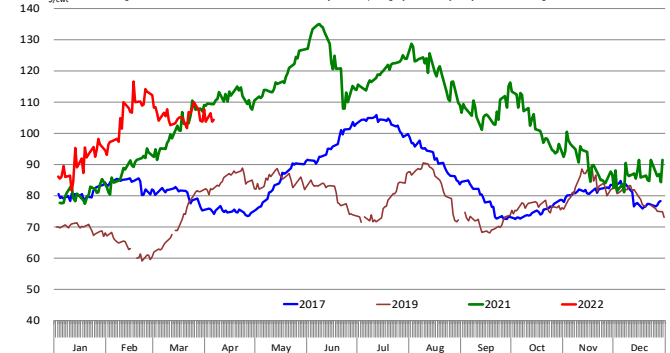
CME Lean Hog Futures - Disaggregated CFTC Net Positions

Source: CFTC Weekly COT Report. Analysis by: Steiner Consulting



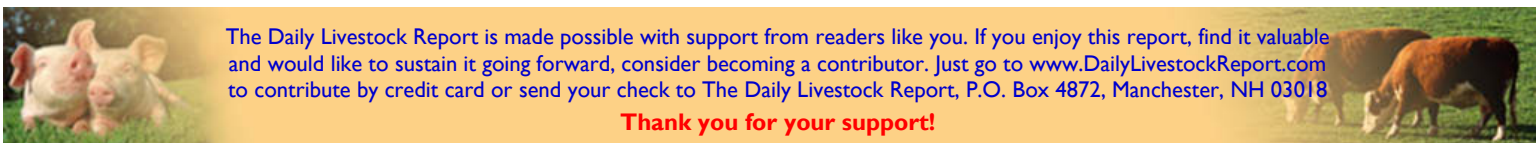
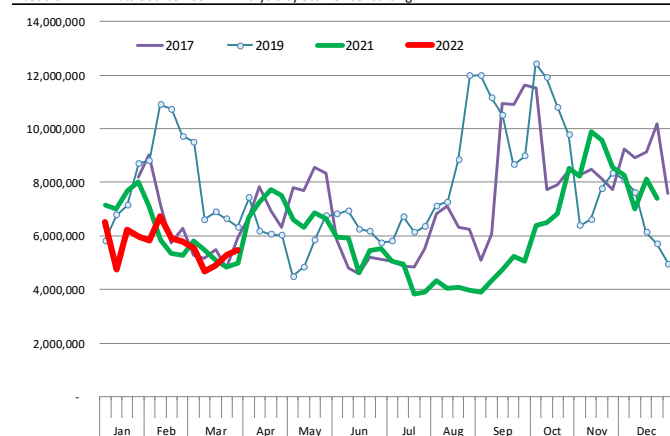
DAILY OVERALL CUTOUT PORK PRIMAL VALUE

Negotiated Basis. FOB Plant. Source: USDA, Mandatory Price Reporting System. Analysis by Steiner Consulting



Loin Primal - Weekly MPR Forward Sales Volume - 4-week Moving Avg.

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



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