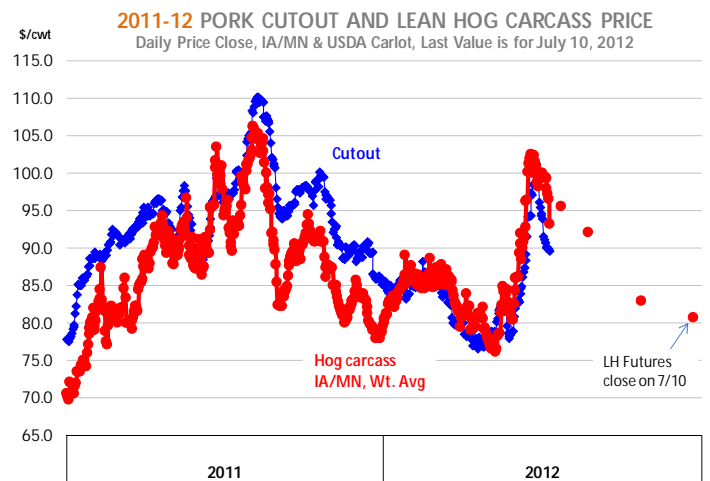
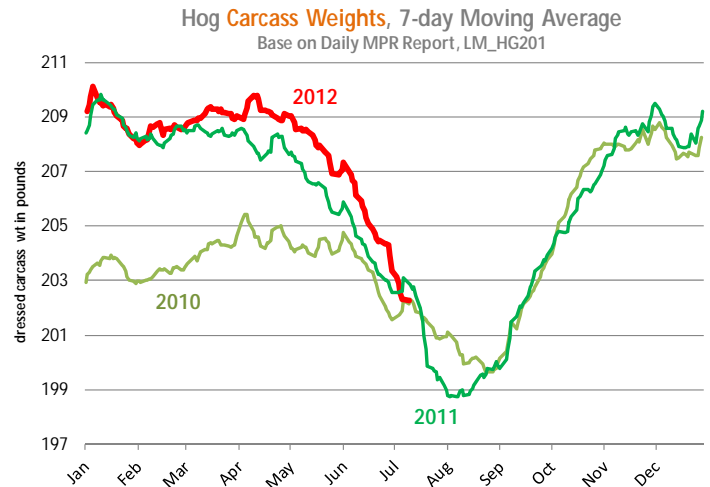


Market Comments

Hog futures were sharply lower on Tuesday as wholesale pork values show signs of strain. Packers lowered their bids on hogs and IA/MN hogs traded at \$93.25/cwt, \$3.2/cwt lower than the previous day and some \$6.2/cwt lower than the previous week. Packer meat margins (difference between cash hogs and cutout) have been negative for much of this year. This is in contrast to a year ago when packer margins were riding high as strong export demand pushed wholesale prices to record levels. Packers were aggressive in chasing hogs to fill July 4th orders. But grilling demand appears to be a bit tired as high temperatures have limited outdoor grilling for many consumers. As expected, some grilling items are trading poorly, negatively impacting the overall carcass value. The loin cutout (a composite value of various loin cuts) was quoted last night at \$98.15/cwt, \$6.2/cwt or 6% lower than the previous week and some 12% lower than a year ago. Pork loins performed very well in May and June as retailers sought to feature inexpensive meat protein options for the grilling season. Seasonally this item begins to run out of steam as hot summer weather drags on, more so this year it appears. Ham, picnic and rib primals are also down between 10-14% from a year ago. The only item that remains above last year's levels are pork bellies, up about 3% from 2011 levels. You can find a weekly recap of individual pork cut prices and comparisons to last year in [this National Pork Board website](#).

It is not unusual for pork and hog values to retreat in the second half of July. After promoting grilling items between late May and early July, retailers tend to take a step back and diversify their promotions. Hot weather also starts to take its toll. The decline in wholesale values appears so pronounced given the sharp run-up in prices between early May and late June. Last year, August hog and pork prices were greatly influenced by a rush of pork orders from China. While export demand remains good, it will be difficult to replicate what happened a year ago. The market has received some support so far from declining hog carcass weights, which have limited overall pork supplies coming to market. The top chart shows a 7-day moving average of hog weights as reported in the USDA mandatory reports. This is not the same number as what USDA publishes each week but it should reflect in real time the weight of hogs coming to market. Hog carcass weights are currently running at around 202 pounds, slightly lower than a year ago and about 8 pounds lighter than what they were in April. High feed costs and hot weather will



likely keep weights in check for the remainder of the summer. For now, however, the focus of the market remains on demand, both in the domestic market as well as exports.

Corrections & Amplifications: Our chart in yesterday's letter had a couple of typos. We have included a corrected chart on page 2 and apologize for the inconvenience.

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