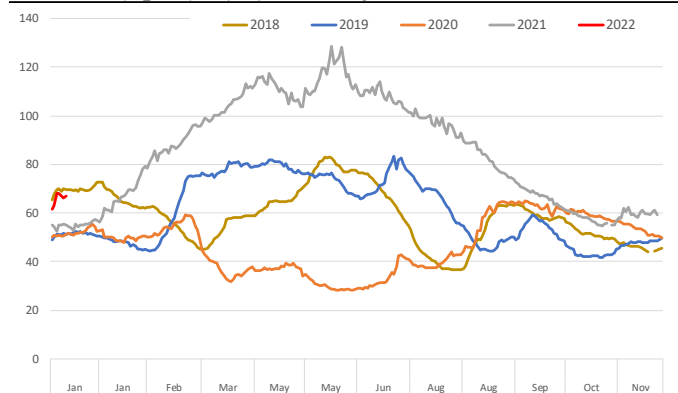


Hog futures have slumped in recent days as market participants have gone on the defensive following reports of lower than expected slaughter and ongoing processing bottlenecks. A Reuters report from a couple of days ago noted that “Rising COVID-19 infections among U.S. workers have forced meat plants to slow production and the government to replace slaughterhouse inspectors, meat companies and union officials said.” Slaughter data for the last few days appears to support this. Last night USDA put hog slaughter at 458k, about 20-25k less than we would have expected. On Monday hog slaughter was 448k head and we think for the week slaughter will be under 2.5 million. This is about 6.5% lower than the previous year. Cattle slaughter has been lower than expected as well, with slaughter in the first two days at 227k head, about 5k head less than a year ago. But the slowdown in hog slaughter does not appear especially consequential for the cash hog market (see cash hog price chart). Last week we saw slaughter run light for much of the regular work week but packers were able to make up some of the shortfall on Saturday. Also, the y/y decline is not that far off from what the December ‘Hog inventory’ report implied. A weekly slaughter of around 2.5 million head is about in line with supply available. No wonder, therefore, that cash hog values have held up well and hog weights have been in line with historical levels (see chart). It will be interesting to see what happens with hog weights in the second half of January and first half of February. Normally we would expect weights to move sharply lower. If they do not, then it could provide some support to the argument that the slowdown in hog processing is causing producers to get backed up. For now that is just speculation not supported by high frequency data.

Rising COVID cases and higher rates of absenteeism appear to be negatively impacting the ability of packers to process subprimals and the dramatic variability in the value of the ham primal is the best example of that. Last night USDA quoted the value of the ham primal at \$43/cwt, with some 4.5 million pounds of bone-in hams reportedly sold at \$40/cwt. On the other hand the supply of boneless hams available in the spot market is extremely tight and boneless hams are now trading at 5.7 multiple to bone-in. This has added to the downward pressure in the hog complex, at least in the near term. With no labor to harvest/trim specific cuts, packers have little choice but lower the price in order to generate export interest or get someone to put this product away in the freezer. But this is nothing new, all one has to do is look at the extreme volatility in the value of the ham primal the last two years, especially the second half of last year. We would not be surprised if that continues to be the case again this year. On the positive side, fresh retail pork items continue to perform well, with loins and butts trading well above last year. Pork is very competitive at retail at this moment, with chicken breast meat hard to come by and ground beef prices up 25% in the last three weeks.

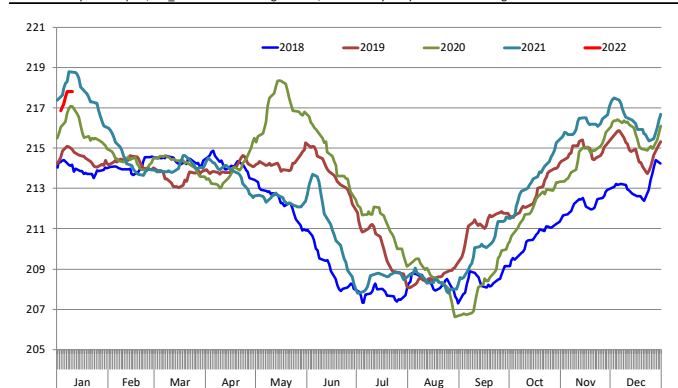
Daily Cash Hog Prices. National Price. Negotiated. \$/cwt

Source: USDA-AMS (LM_HG200). Analysis by Steiner Consulting



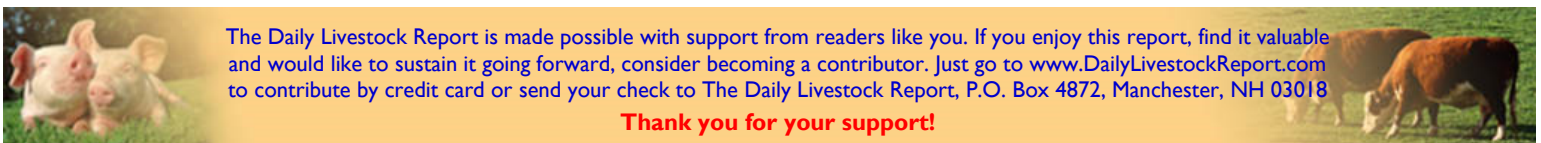
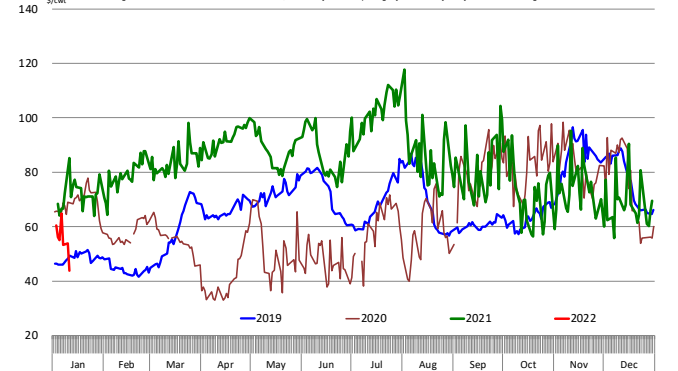
Barrow/Gilt Dressed Carcass Weights, 5-day Moving Avg. - Producer Hogs

Based on Daily MPR Report, LM_HG201. Data through Jan 10, 2022. Analysis by Steiner Consulting



DAILY HAM PORK PRIMAL VALUE

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



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