

Hog futures posted strong gains yesterday although it gave up some of those gains at the open today. While talk of California delaying implementation of its Proposition 12 rule clearly impacted the market, robust pork cutout values and a surprising rally in cash hog values also added to the upside momentum. The delay of Prop 12 in California follows a decision from the Superior Court for Sacramento County to delay implementation with regard to hogs until 180 days after the California Department of Food and Agriculture’s final regulations go into effect. This could help bolster demand during spring and summer and fresh pork demand tends to improve.

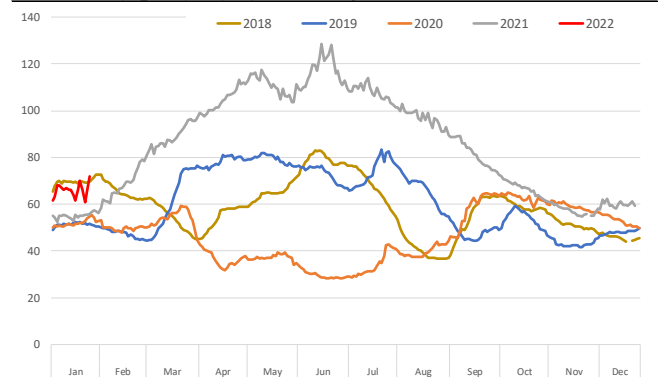
Cash hog prices, defined as hogs trading on a negotiated basis, have been volatile in the last two weeks, as rising COVID cases at processing plants negatively impacted the ability of packers to process hogs. Slaughter for the week ending January 15 was 2.366 million head, 10.5% lower than the previous year and slaughter for the week ending January 22 was 2.440 million head, 10.2% lower than last year. Cash hog prices during this period ranged between \$60-\$70/cwt. Last Friday, USDA quoted the national negotiated hog price at \$60.91 (based on the LM_HG200 report), but then on Monday prices went up \$4.5/cwt and then jumped another \$6.7/cwt on Tuesday. The \$11 move in two days clearly helped bolster futures, adding to the positive tone from the general improvement in the cutout. What’s especially impressive is that cash hog values have rallied even as the weight of producer owned hogs is now far higher than what used to be “normal” levels for this time of year. Compared to 2020 the average weight is up 2.6 pounds or 1.2% and it is up 3.8 pounds or 1.8% compared to 2019.

One item that we have mentioned a number of times, most recently in our 1/21 report, is the need for loins to carry a bigger share of the cutout. That seems to be taking place although there is still a very wide spread between the value of bone-in and boneless loins. **The pork loin primal value last night was estimated at a little over \$100/cwt, \$25/cwt higher than where it started the year.** The improvement in the value of the loin primal has added about \$6.5/cwt to the value of the pork cutout. Since the start of the year, the pork cutout has gained about \$7/cwt (using last night’s close), with the loin primal clearly one of the key contributors to that gain. Higher belly prices have added about \$3.2/cwt to the value of the cutout but that has been offset by lower prices for picnics, butts and ribs. Retail loin demand tends to be inelastic in the near term, especially so given the sharp gains in the value of chicken breasts and ground beef. As hog slaughter improves (expected to be over 2.5M this week) we should see gains in the loin primal slow down but they should remain well above year ago levels. Last April the loin primal barely touched \$100/cwt and the question is whether the current y/y premium is sustained during what is usually a low demand time of the year.

One additional factor that could also impact hog supplies is the recent requirement by Canada and the US that truck drivers crossing the border need to be vaccinated. We think in 2021 US imported about 6.7 million hogs (market hogs and feeder pigs) vs. an annual slaughter of 126.6 million. While the impact may not be somewhat limited overall, it could impact regional markets, especially feeder supply at a time when pig crop is down due to a smaller breeding herd and higher disease related losses.

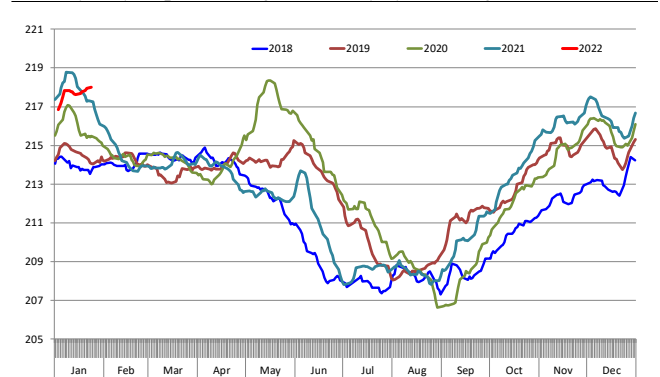
Daily Cash Hog Prices. National Price. Negotiated. \$/cwt

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



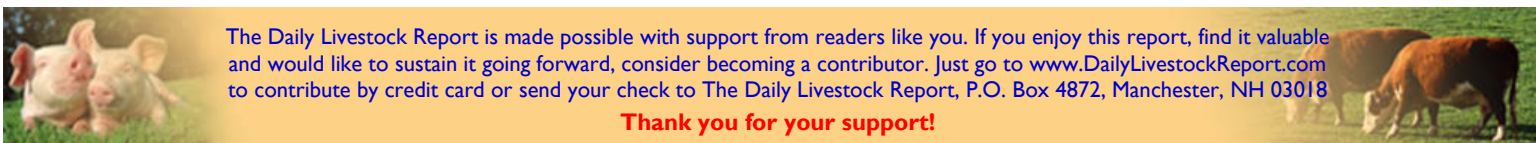
Barrow/Gilt Dressed Carcass Weights, 5-day Moving Avg. - Producer Hogs

Based on Daily MPR Report, LM_HG201. Data through Jan 24, 2022. Analysis by Steiner Consulting



DAILY LOIN PORK PRIMAL VALUE

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



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