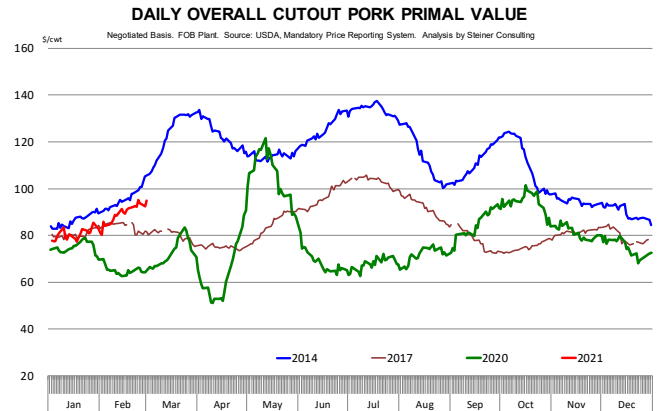


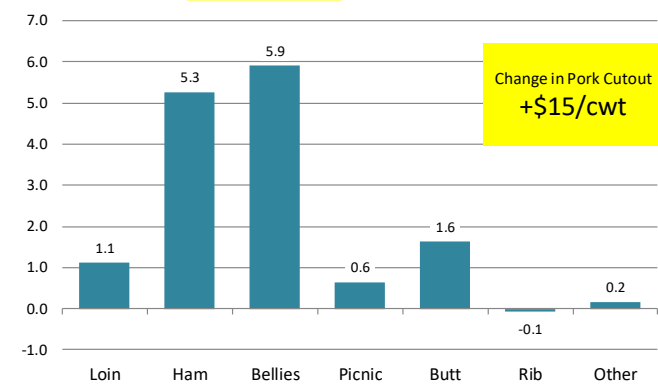
As the pork cutout has been steadily climbing since the start of the year, we thought it would be interesting to compare to other years where we have seen similar types of increases in the first two months of the year (2014 and 2017 see chart). In 2017 market was expecting tighter supplies in Q2 and looking to price the impact from the expected reduction. **That year the pork cutout started strong, largely because of strong competition and higher prices for pork bellies.** Belly primal value in 2017 was as high as \$185/cwt in late February before dropping to under \$110/cwt by the end of April. Fears of tight pork supplies were proved right that year, as the pork belly primal value in the summer of 2017 climbed to \$215/cwt. This year we have seen a similar increase in the value of pork bellies, with prices starting the year at around \$120/cwt and then steadily climbing to \$160/cwt. The increase in the value of pork bellies contributed almost \$6 to the overall gain in the cutout in February, the biggest contribution from all primals (see chart). Futures are currently implying summer belly prices as high as \$200/cwt and the hogs and pigs report points to weekly slaughter in May and June down about 300k head vs. what it is today (see slaughter chart). In addition, market participants also have to contend with expectations of a rebound in foodservice demand (easing pandemic) and limited freezer inventories. The supply of pork bellies in the freezer on February 1 was 56% lower than the previous year and hog futures are currently implying belly prices for the summer at near \$200/cwt. Further adding to the upside pressure in February were weather disruptions, limiting the amount of bellies available in the spot market during the week. As a result, the amount of bellies trading in the spot market has declined sharply, with formula buyers getting much of the product as they look to shore up their positions. **In the last two weeks of February, the amount of bellies traded in the spot market was down 58% compared to the same period a year.** If you are a spot buyer looking to get needs covered, suddenly you found out product was not available and had to bid up to cover needs. The risk in the near term is that at these levels buyers have less of an incentive to put bellies in the freezer. Accumulating bellies at \$120 or \$130 when you expect prices to maybe get to \$200 makes sense. It makes less sense to do so when prices get to \$160 or higher.

The ham primal in the last 30 days has gained \$21.4/cwt or 33%, adding \$5.3/cwt to the overall pork cutout value. The increase in ham values has far outpaced what we saw in 2017 and it is closely tracking with 2014 (so far). Easter in 2017 was about two weeks later than this year so there was not as much pressure to accumulate product. We also did not see the level of demand from Mexico we have seen so far this year and, as with bellies, freezer ham inventories on February 1 were 26.5% lower than the previous year. Fewer hams in the freezer, fewer business days to accumulate hams for Easter and robust export demand have bolstered ham prices so far. Futures are currently implying hams for the summer in the high 90s. This will tend to ration out future demand as processors price their customers accordingly. If export market holds up and slaughter declines as expected, then rationing domestic demand makes sense. If export business slows down, lower prices may be needed to get retail business back, especially as they start planning for year end holiday needs.



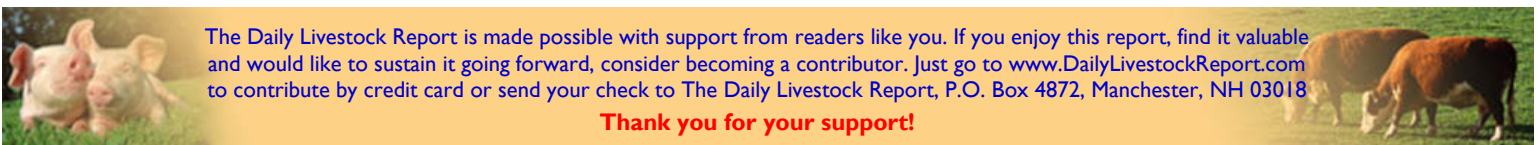
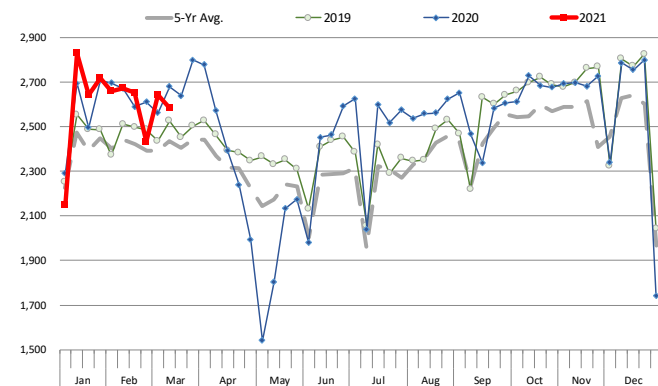
Contribution to the Change in the Value of the Pork Cutout

Based on USDA-MPR data for Mar 2, 2021 vs. Feb 3, Analysis by Steiner Consulting



WEEKLY HOG SLAUGHTER, '000 HEAD

Source: USDA. Analysis by Steiner Consulting



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