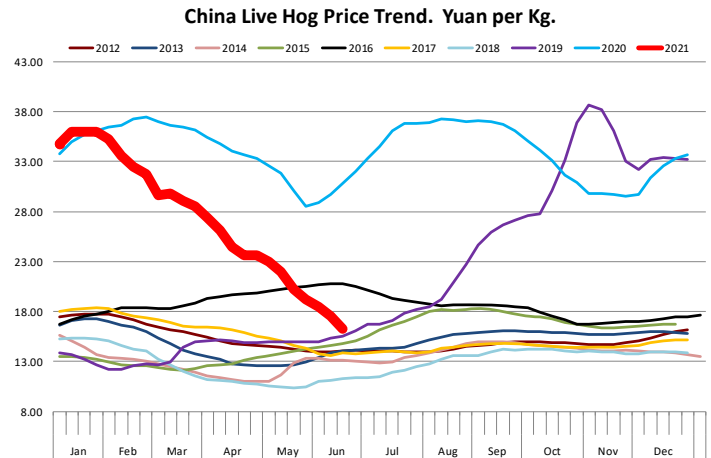


There's been a lot of talk in the market recently on Chinese hog price trend and the outlook for US pork exports to China.

The attached chart shows the average Chinese live hog price, which was last quoted at 16.24 yuan per kilogram although in parts of China prices have been as low as 15 yuan/kg. The average Chinese live hog price converts to \$1.14/lb. Chinese hog prices are 55% lower than where they were at the start of the year and near 60% lower from their peak. Still, Chinese hog prices are higher than US hog prices although the spread has become far narrower. US hog prices are quoted on a dressed weight basis and last week were near \$1.15/lb. The live equivalent of this, which would be comparable to the Chinese quoted price, would be \$0.85/lb. using a 74% yield. Analysts that follow the Chinese pork market much more closely than we do suggest that the collapse in price reflects the impact of a decline in the quantity of pork demanded (high prices tend to have that effect), an increase in the supply of pork imported and stored, extremely heavy carcass weights (+330lb live) as producers gambled on a supply shortage this summer, and panic selling now that prices have collapsed. We would add to this the negative effect of an opaque market where many don't trust the information provided and thus distorts price signals. In the near term the pullback in Chinese hog/pork prices and the correction in some domestic pork items has added to the negative sentiment in the hog futures complex.

Weekly export data had little positive to say for beef or pork

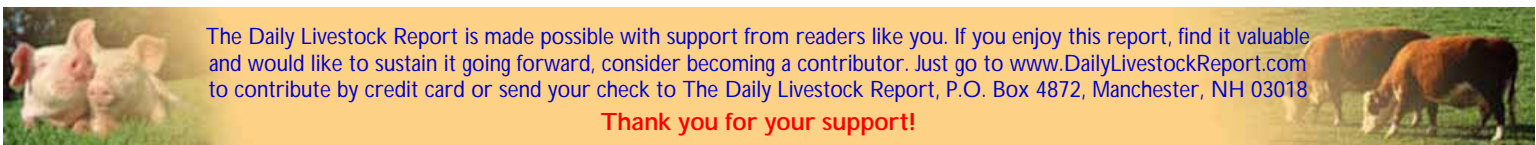
Shipments of pork muscle cuts for the week ending June 10 were quite robust at 38,136 MT. This helps explain why spot pork market continued to trade very firm until last week. Total shipments were 4% higher than the average of the last four weeks and 14% higher than a year ago. Shipments to China slowed down and at 8,831 MT they were 13.6% lower than the average of the previous four weeks as well as 36% lower than a year ago. But strong shipments Mexico, Japan and South Korea helped offset the slowdown in exports to China. The reason we see the latest numbers as bearish has to do with new sales. The most striking number is the net negative export sales to China, i.e. cancellations were higher than new sales. This was the first negative net sales number to China since December of last year. Sales to other markets were mixed. Colombia saw a significant decline while sales to Japan were very strong while sales to S. Korea returned to a more normal level after several weeks of very low sales. Export sales to Mexico continue to follow the trend in the ham market. In mid-May Mexican buyers sought to take advantage of the lower ham prices and booked near 22,000 MT of product. The big sales package helped reduce the supply of bone-in product in the spot market and helped firm up prices in late May and early June. Now that bone-in ham prices have started to slip again (they were 71 cents last night), Mexican buyers were



once again active. This should help shore up the ham market in late June and early July. However, it also underscores the fact that ham prices seem to have a ceiling in the low to mid 90s at which point export buyers decide to step off to the sidelines.

Beef shipments slowed down but they were still quite robust at 17,821 MT, down only about 1.6% from the average of the previous four weeks.

Shipments to China holding at around 3000 MT and shipments to Japan and S. Korea continued to be very strong. As with pork, the strong pace of shipments at a time when domestic demand is also very strong helps explain the tight spot market situation. However, high prices appear to have affected sales, which were lower to almost all markets. Total net sales for the week were 12,828 MT, 36% lower than the average of the last four weeks. In the last three weeks, net beef sales have averaged 13,800 MT, well below the pace of shipments. In early May net beef sales were double current sales. Sales to China were strong yet again at 3,581 MT. However, net sales to S. Korea slowed down significantly and at 1,707 MT were 60% lower than the average of the last four weeks. Sales to Mexico were just 582 MT and sales to smaller markets were down 28% from the four week average.



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