

Lean hog futures have rallied in the last few days, we think largely due to the improvement in the value of the cutout. A number of factors tend to support meat markets at this time but market participants are also well aware of the expected shift in supply availability a few weeks from now. Demand remains a key wild card for the second half of the year. Below are a few highlights about what seems to be driving the market at the moment and implications for the fall:

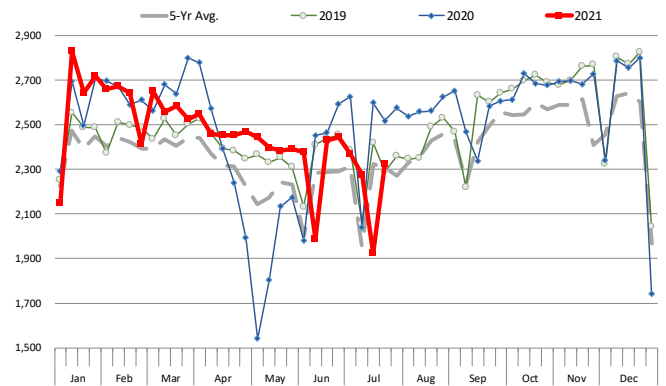
We are near the pork supply lows for the year. This is a well known fact for those that follow the market, not exactly a surprise. We think slaughter this week will be a little over 2.3 million head. This is higher than the previous two weeks, when the long holiday weekend limited slaughter, but the lowest non-holiday slaughter week this year. Pork supplies will be further limited by the seasonal decline in carcass weights. The attached chart shows the average weight of producer-owned barrows and gilts, which are down about 5 pounds or 2.2% since early June. Weights got a bit of a bump the last few days due to the shortened holiday slaughter, but we think they will continue to move lower in July. **The combination of the lower weights and slaughter will keep pork supplies near annual lows for the next couple of weeks.**

The reduction in supply due to the short holiday weeks and expectations for seasonally tight supplies have helped bolster pork prices in the near term. The value of the pork cutout last night was \$118.8/cwt, up \$5.2/cwt or 4.6% compared to July 6. About half of the increase in the value of the cutout has come as a result of higher belly prices, with the belly primal up 19% in the last few days. Retail demand is generally good during this time of year as fresh tomatoes become available and retailers like to run bacon features. Current featured bacon prices at retail are quite high so it remains to be seen how good retail movement will be in the next 3-4 weeks. However, for now bacon processors are back in the market looking to run full shifts and finding raw material supplies tight. The bottom chart includes 2017 as a comp for the simple reason that per capita pork availability that year was similar to what we are seeing this year. That year the peak in the belly market happened in July but part of that may have been due to the fact that low prices in March and April "bought" a lot of demand for the summer months. This year belly prices have been high for much of the spring and early summer. But beware of the seasonality in belly prices. In 2017, the value of the belly primal dropped from \$215/cwt in mid July to under \$90/cwt by early October. That decline alone removed about \$20/cwt from the value of the cutout. Right now October pork cutout futures are trading an \$18 discount to July and \$12 discount to August.

Pork loin prices have also increased in the last few days but they have been range bound for the last few weeks. In 2019 loin prices were steady through July and August while in 2017 they peaked in mid July and then dropped about 25% by October. Ham primal is volatile due to the day to day shifts in the volume of bone-in hams traded in the market. Subprimal prices are firm, thanks to robust Mexican pork import demand. This should be a key focus for the market in the coming weeks/months. As for ribs and shoulders, prices are down but remain above historical levels. Ribs may benefit from Labor Day demand but picnic and butt prices seasonally move lower into the fall.

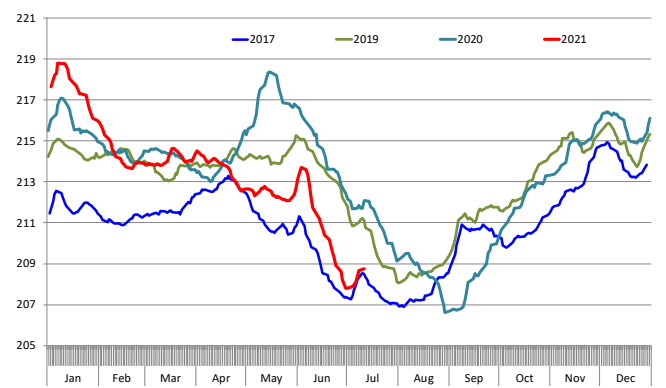
WEEKLY HOG SLAUGHTER, '000 HEAD

Source: USDA, Analysis by Steiner Consulting



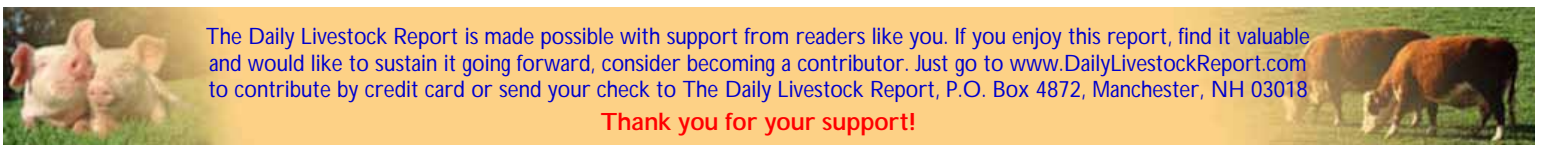
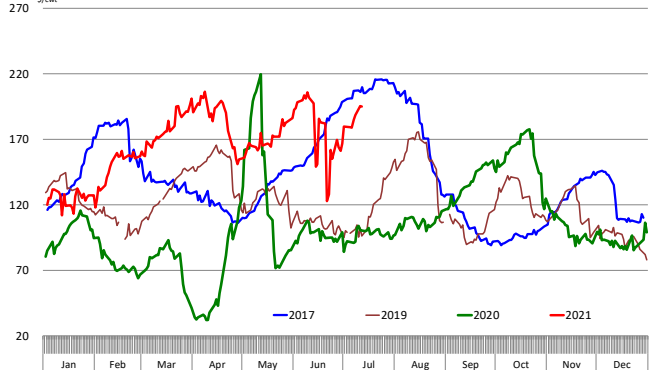
Barrow/Gilt Dressed Carcass Weights, 5-day Moving Avg. - Producer Hogs

Based on Daily MPR Report, LM_HG201. Data through Jul 12, 2021. Analysis by Steiner Consulting



DAILY BELLY PORK PRIMAL VALUE

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



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DAILY OVERALL CUTOUT PORK PRIMAL VALUE

