

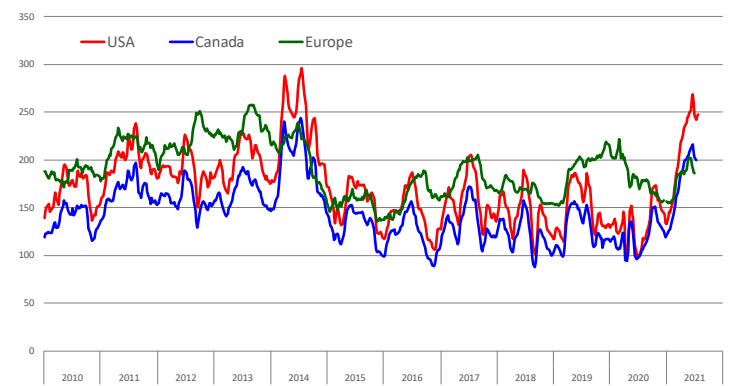
There is a fair amount of uncertainty about the outlook for hog prices in the second half of the year even as in the near term the pork cutout remains in very good shape and the CME index holds a premium to August.

Lean hog futures for October are priced at around \$91/cwt as we write this, this represents a 15% discount to August futures and an almost 19% discount to current value of the CME lean hog index. Big as this discount may appear, it is not particularly large. Consider recent history, for instance. In 2017 summer hog market peak was \$92/cwt, but by end of September cash prices as calculated by the CME index were down 42%. In 2018, the peak to trough drop was 48% and in 2019 the decline was 36%. If anything, current futures are pricing a smaller than normal decline as they account for continued strong demand in the domestic market and robust export business. For producers and other market players that have participated in the market for some time, lower hog prices in the fall are the norm rather than the exception. Hog supplies seasonally increase by September and heavier weights add to overall tonnage. By the end of September weekly hog slaughter should be about 300k head larger than it is today and the average weight of barrows and gilts coming to market should be about 5 pounds larger than it is today.

While we can quibble about the details, there is general agreement about the supply trend in the next few months. **Demand, on the other hand, is far more uncertain.** While ham demand generally benefits from holiday parties, demand for some fresh pork items gets a bit wobbly and lower prices are needed in order to keep the flow of product moving. Export demand has been key for the pork market in the last 20 years and it remains a major driver. For one thing, about 2/3 of the supply growth the US pork industry has experienced in the last 15-20 years has been supported by growing exports. We think this year exports are far more important for another reason - tight labor supply. It has been difficult for packers to run full trim and fabrication lines due to current tight labor market. One can see the effect of this in the ongoing wide spread between trimmed/boneless product and bone-in cuts. Take an item that is very popular during this time of year - spareribs. In recent years the premium of St. Louis style spareribs to regular trim spareribs has been about 50 cents to a dollar. A few weeks ago St. Louis style spareribs traded as much as \$2.80 over the value of regular spareribs. The challenge for packers could come this fall when they may still face tight labor supplies and will need to move a larger share of production into export channels. The benefit from exports is that usually product is not trimmed to the retail spec that domestic users require. It is far easier to ship bone-in large hams to Mexico than convert them to boneless ham muscles, for instance. Which is why the top chart above is somewhat concerning. US hog prices are currently trading as much as 23% higher than Canadian hog prices and 32% higher than EU prices (in USD terms). China was a major driver of US pork export demand in 2019 and 2020 but so far this year China has imported 33% less pork from the US but 19% more pork from the EU. Chinese purchases of EU pork have come even as they no longer import from Germany, once the second largest supplier. In June, Chinese purchases of EU pork were down as well.

Global Pork Prices (Carcass, US\$/100kg)

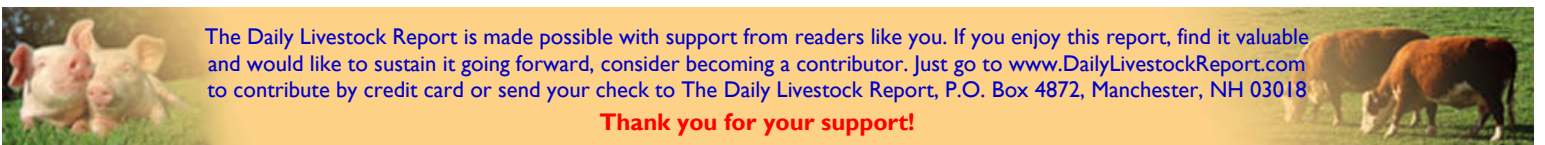
Source: AHDB, Statistics Canada, CME. Analysis by Steiner Consulting



China Pork Import Update: Latest Data is for June 2021. MT (sw)

Source: China Customs Statistics. Analysis by Steiner Consulting

	6/1/2020	6/1/2021			Jan-Jun 2020	Jan-Jun 2021		
European Union	202,572	180,089	(22,483)	-11%	1,115,635	1,329,629	213,994	19%
Spain	70,456	87,491	17,036	24%	370,670	720,582	349,913	94%
Germany	54,009	-	(54,009)	-100%	293,646	2,432	(291,214)	-99%
Netherlands	28,433	28,620	187	1%	154,642	195,068	40,426	26%
Denmark	28,747	34,421	5,674	20%	179,856	206,843	26,988	15%
France	10,129	14,160	4,031	40%	58,763	99,297	40,534	69%
Ireland	6,023	5,562	(461)	-8%	30,672	40,081	9,410	31%
Austria	2,962	5,894	2,933	99%	16,588	31,320	14,732	
Portugal	632	2,187	1,555	246%	6,598	17,999	11,401	
Belgium	-	-	-	-	40	-	(40)	
Hungary	-	-	-	-	-	-	-	
Romania	-	-	-	-	-	-	-	
Italy	1,182	1,755	573	48%	4,161	16,007	11,846	
Lithuania	-	-	-	-	-	-	-	
Estonia	-	-	-	-	-	-	-	
United Kingdom	10,197	8,156	(2,040)	-20%	49,752	54,977	5,225	11%
Brazil	32,770	43,393	10,623	32%	188,588	259,325	70,737	38%
Canada	42,900	19,529	(23,371)	-54%	176,915	159,654	(17,261)	-10%
United States	74,451	50,887	(23,564)	-32%	407,825	272,384	(135,440)	-33%
Chile	15,236	13,553	(1,683)	-11%	72,656	79,514	6,858	9%
Finland	2,106	2,118	12	1%	8,754	12,754	4,000	46%
Mexico	9,456	5,739	(3,716)	-39%	43,894	51,761	7,867	18%
New Zealand	-	-	-	-	-	-	-	
Total	391,142	325,928	(65,214)	-17%	2,074,136	2,233,703	159,567	8%



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