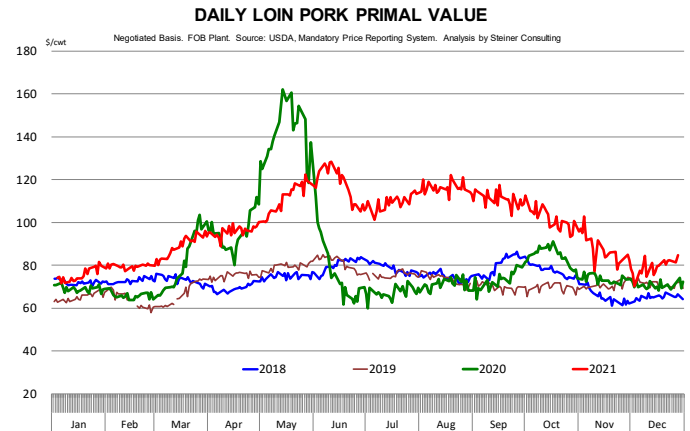


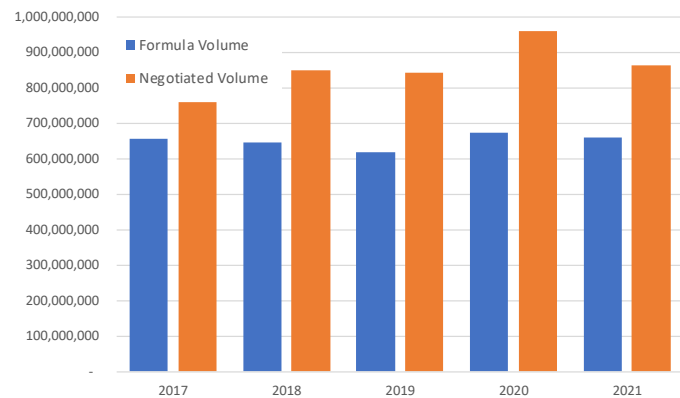
**Note:** Some of the calculations in the hog breeding herd chart in yesterday's report did not reflect the latest USDA revisions. On page 2 we have included an updated version of the chart, showing the most current information. Thanks to our readers for pointing it out and setting us straight. In short, USDA revised the breeding herd for December 1, 2019 was revised to 6.551 million from 6.471 million head previously. This means that since that time the breeding herd has declined 5.7%. The last time we saw such a significant decline in the breeding herd was between December 2007 and December 2009, when the breeding herd declined 7.5%.

**California's Proposition 12 is scheduled to go into effect in just a few days**, and there is plenty of uncertainty as to what happens next. While it seems a given that pork prices in that state will go up, how much is anyone's guess and there's plenty of those guesses out there. One issue that has been discussed is **the potential impact that these "trade barriers" could have on prices for wholesale pork** (cutout), prices that packers are required by law to report to USDA. Over the years, more and more hogs are priced off the cutout rather than traded on a negotiated basis. If packers sell product at a premium to California, will those premiums then filter through to cutout calculations and ultimately impact what producers are paid for their hogs? We do not expect that to be the case. Rather, **we think that pork products which meet CA requirements will be sold on some sort of formula basis**, reflecting the current market for a specific item plus an agreed add-on. This would be similar to what currently happens with other items that have special attributes, be this antibiotic free, free range, organic, etc. Because the volume of special attribute pork is relatively small, it usually does not show up when we look at the price spreads of formula pork vs. negotiated pork. It may not even be included at all. It will be interesting to see, come January, if the relationships between formula and negotiated prices change. That will be one way to understand how the California law is changing/distorting the market. The second chart to the right shows the volume of pork loin products sold on a formula and negotiated basis since 2017. For the most part there is a larger amount of loins traded on a negotiated rather than formula basis. Will some of the volume that currently is sold to California on a negotiated basis now go into the formula bucket and thus impact reported prices? Or could it be that a packer, who now sells to California but does not have the eligible supply, now pushes more product in the spot market and takes a discount to do so. At a minimum we would think this will add to the volatility in the day to day calculation of the loin primal. Already this year has seen a lot more day to day volatility (see chart) than in years past. **Pork prices for product sold on a negotiated basis by and large are lower than formula (see table). It is possible that we see the negotiated discount grow larger and negatively impact prices paid for hogs.**



**Volume of Pork Loin Products Sold/Price on a Negotiated and Formula Basis**

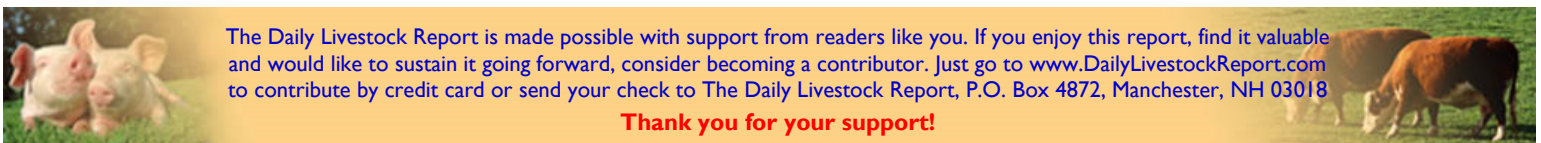
Data source: USDA-AMS Mandatory Pricing System. Analysis by Steiner Consulting



**Price Spread of Main Pork Loin Traded Items: Formula minus Negotiated**

Data Source: USDA-AMS. Analysis by Steiner Consulting

	2017	2018	2019	2020	2021
	US \$ / cwt				
Bnls CC Strap-off	5.16	3.54	4.28	2.21	2.39
1/8 Trimmed Loin VAC	1.10	1.88	0.84	1.09	1.62
Bnls CC Strap-on	2.14	2.07	2.40	0.70	1.72
1/4 Trimmed Loin VAC	0.68	(0.17)	(0.11)	0.40	2.65
1/4 Trimmed Loin Combo	28.50	9.09	1.24	2.04	1.01
Bone-in Sirloin	0.46	0.49	0.67	0.99	1.19
Boneless Sirloin	2.33	1.23	0.51	1.48	1.06
Bnls CC Strap-off, 1/2 cut	(4.89)	(5.13)	(7.18)	(6.89)	(7.34)
Tenderloin	5.48	6.58	3.14	5.53	4.27
Bone-in CC, Tender-in Loin VAC	11.05	10.51	6.57	2.95	(0.15)



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## Hogs Kept for Breeding. Quarterly Inventory. '000 Head

Source: USDA-NASS. Analysis by Steiner Consulting

