Daily Livestock Report

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Lean hog futures traded lower once again yesterday and the nearby December contract is now down almost $8/cwt (-8%) for the month of October. While hog futures tried to rally late last week and early this week, gains proved to be short lived given continuing weakness in wholesale pork markets and sharp declines in cash hog prices. Last night the IA/MN Lean Hog Carcass price was quoted at $86.77/cwt, some $22/cwt (-20%) since October 1. It is not unusual for the cash hog market in late October and early November to trade below the December hog contract (negative basis) but the magnitude of the declines in the cash market seem to have caught some futures markets participants by surprise. Hog slaughter numbers remain below year ago levels but with carcass weights still hovering near record levels, overall pork supplies are currently near year ago levels. We are coming into the time of year when hog supplies will continue to increase and there is little incentive for producers to hold back hogs, as they did over the summer months. The push is to get hogs sold more aggressively and daily slaughter has averaged 428,000 head this week. The problem is that so far Friday and Saturday slaughter remains light and hog carcass weights have been steadily advancing in recent days. We calculate that the average hog carcass weights for both packer and producer hogs (5-day average) currently stands at 215.1 pounds per carcass, 2.5% higher than a year ago. Keep this number in mind when you look at the USDA weekly hog carcass weight number that will be published on Friday afternoon. That number actually reflects the moving average for the past few weeks and thus does not really capture the actual weight of hogs coming to market this week.

The seasonal increase in pork supplies has been enough to pressure pork prices lower. One would think that with the lower pork prices, retailers and foodservice operators would be quick to take advantage of the opportunity but retail sales unfortunately do not react that quickly. Many end users likely are facing significantly higher costs for the products they will put on their shelves during the holiday period. That is particularly so for those products that first have to go through a processor (think cooked hams for instance). It takes time to secure raw material, process it and build enough inventory for the rush of orders during the holidays. Those processors had to secure a good portion of their needs during July, August and September, which is why you saw the big spikes in price as they struggled to find product. The inventory these processors (and their customers) hold has a much higher price tag on it. Packers have now put a sale tag on many of the products they sell but we will have to go through the high priced product currently in storage before markets normalize and reflect current supply conditions. But while current markets are weak on account of the drop in cash hog values, it is interesting that futures also sold spring and summer 2015 hogs quite aggressively. That may be more of a knee jerk reaction to short term conditions rather than a reflection of any shifts in supply/demand situation for next spring. The current premiums for spring and summer of 2015 are smaller than the normal seasonal would suggest.