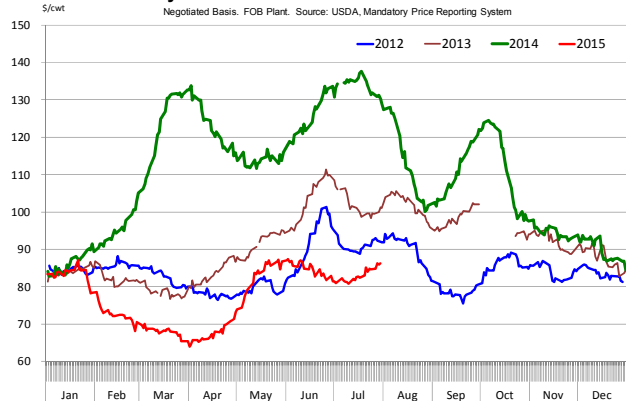


The rally in the lean hog complex appeared to run out of steam yesterday. Futures were up early following positive export numbers and hopes of stronger export demand going into the fall. But then additional **selling pressure developed and on Thursday most futures, December was the exception, closed lower for the day.** Hog cash prices have increased in the last few days, which has supported futures, but market participants remain well aware of the normal seasonal break that takes place after mid August. So far this year, pork prices have followed the normal seasonal. Last year was somewhat of an aberration but the pattern becomes a bit easier to see when comparing to pork cutout levels in 2012 and 2013. Keep in mind that both hog slaughter and hog carcass weights were higher than in 2012 and 2013 and thus the lower cutout values reflect that supply increase. The pork cutout normally holds together through mid August, in part because slaughter remains under the annual average until that point, hot summer weather continues to limit carcass gains and retailers look to run promotions and fill the meat case for the Labor Day weekend.

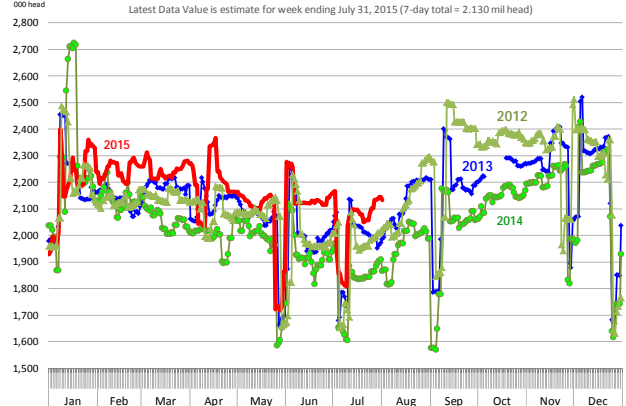
The pork cutout yesterday was modestly higher, supported largely by higher belly and ham prices. The pork belly cutout was quoted at \$157.25/cwt, \$4.34 higher than the previous day and \$8.29 higher than a week ago. This was the highest pork belly cutout value since last summer. It is not unusual for pork bellies to be strong at this time of year on heavy retail promotions. However, belly prices invariably are down in September and packers are forced to sharply reduce prices in order to clear the market. It happens every year and it is a very good chance it will happen this year as well. In 2012, the belly cutout declined from around \$152/cwt in mid-August to around \$105/cwt by mid September, a 30% correction. In 2013, the correction was about 25%. As for hams, they normally are firm in July and August due to the normal reduction in supply. That has not happened this year because slaughter levels have been much higher than normal. In addition, hog carcass weights are coming well above levels we saw in 2012 and 2013, increasing the supply of heavy hams available. As slaughter is expected to ramp up in the second half of August and in September, ham supplies are expected to be plentiful, thus limiting the support to the cutout that normally comes from seasonal ham demand. Other pork items are performing poorly. It was particularly troubling for the pork market that the value of 72CL pork trim has now declined to around 55 cents. It is way too early for pork trim values to trade this weak. Hog slaughter this week is expected to be around 2.13 million head and hog weights are still around 210 pounds per dressed carcass. Trim supplies are heavy now and they will be much heavier in the fall.

Bottom line: Cash hog prices have increased in the last few days but that is normal for this time of year. Strong belly prices have contributed to the strength of the cutout but that support will weaken in September. At the same time hog slaughter continues to run heavy and hog weights should bottom out in the next two to three weeks. Hog prices should be seasonally lower, the question is how much and how quickly.

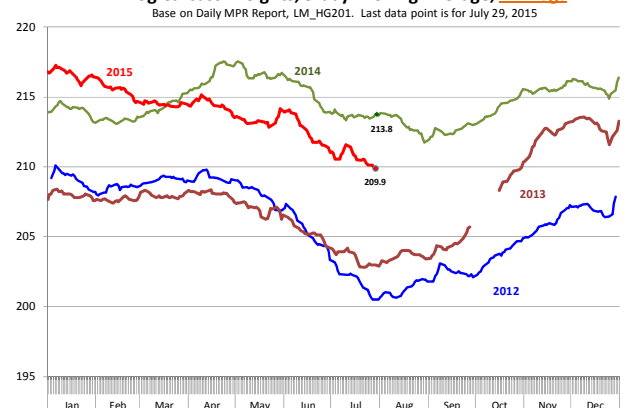
Daily Performance of the Pork Carcass Cutout



HOG SLAUGHTER, 7-DAY ROLLING TOTAL, JAN - DEC



Hog Carcass Weights, 5-day Moving Average, All Hogs



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