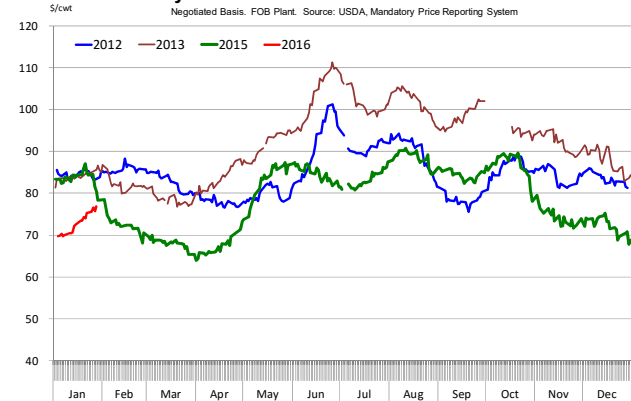
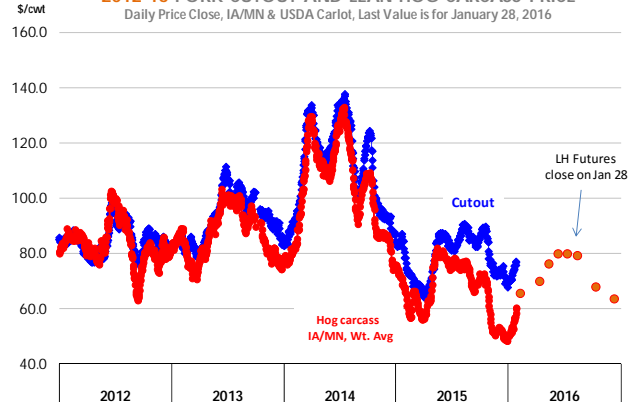


The hog futures rally that started sometime in mid December hit the pause button yesterday as market participants ponder demand resilience into February. While we have seen gains in the value of the pork cutout since the start of the year, **the increase in cash hog prices has been more significant - and for good reason.** Hog prices dug a deep hole at the end of last year, a direct result of the sharp increase in the number of hogs showing up at processing plants. That situation is slowly normalizing. Hog slaughter for week ending December 19 was 2.499 million head, well above implied capacity benchmarks. With daily slaughter schedules full for much of last month, packers demanded steep discounts in order to run heavy on weekends. Current weekly slaughter is approaching 2.3 million per week. The spread between the pork cutout and the IA/MN lean hog carcass base price in December averaged around \$22/cwt, the largest spread we could find going back 30 years. According to our numbers, the absolute dollar spread this past December was even bigger than in mid December 1998 when the IA/MN cash hog prices were quoted at around \$16/cwt. But while this is a somewhat stunning statistic that's where the parallels end. The cutout value in December 1998 was about \$34/cwt, a multiple of over 2 vs. cash hog values. The highest multiple this past December was around 1.47. The point is that the situation that developed in this past December was quite unusual, reflecting the impact of a short term supply glut. **Futures markets participants have been pleasantly surprised that pork prices have held up quite well despite record January slaughter numbers.** Pork prices remain extremely competitive relative to beef and this has given retailers an incentive to continue to aggressively promote pork after the holidays. The pork loin primal, an item that is heavily dependent on retail business, last night was quoted at \$84.18/cwt, up \$10.3/cwt (+14%) from the start of the year. Last year loin values declined in February as the market appeared to have trouble absorbing the extra number of hogs coming to market. The loin primal in 2015 dropped from \$89.50/cwt on January 28, 2015 to \$80/cwt by February 26. As a reminder, a \$10 drop in the value of the loin primal removes roughly \$2.5 from the value of the cutout. So far loin prices are holding up well despite 2.3 MM slaughter. Ham prices also have recovered, which is not that unusual coming out of the holidays. Processors have started to put up inventory to support Easter demand. And because Easter is early this year (March 27) they have a shorter production window. Ham prices collapsed in March 2015 once Easter ham needs were covered. This remains a key risk for the hog market in late February and early March of this year. Other pork items are also faring well, none better than pork bellies. The pork belly primal last year dropped from around \$109/cwt in early January to \$74/cwt by the end of February. This year, belly prices have contributed about \$3.7/cwt to the value of the cutout compared to a year ago and could further support cutout values in February and March.

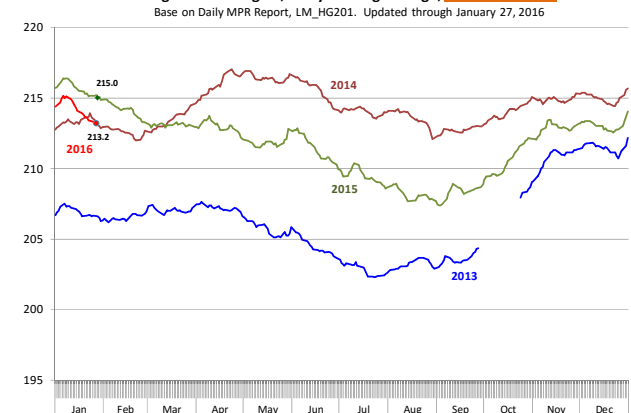
Daily Performance of the Pork Carcass Cutout



2012-16 PORK CUTOUT AND LEAN HOG CARCASS PRICE



Hog Carcass Weights, 5-day Moving Average, Producer Owned



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