

Best wishes for a joyous Christmas from all of us at Steiner Consulting Group & LMIC

Please note that CME Livestock futures will trade until 1205 CT today and it is closed for Christmas tomorrow. Trading on Thursday 12/31 will have a regular close but no trading will take place on Friday, 1/1, New Year's Day.

The table on page 2 presents a quick summary of the key numbers from the latest USDA 'Hogs and Pigs' report. We do not presume to know how the market will respond to this report although most numbers were within the range of analyst estimates. Our takeaway was that in the near term hog supplies remain plentiful but with good export demand and low cold storage stocks the market could manage to absorb the relatively large supplies. The decline in the breeding herd could provide support to the summer market although futures already have some lofty premiums built vs. winter and early spring levels. Any projections for the summer and fall of 2021 will need to be anchored on export expectations. With more than a quarter of pork going to export, this clearly remains a key wild card going forward. Below are a few observations and implications from the report as we see it:

Market hogs and supply implications for the next six months: The inventory of hogs weighing over 180 pounds was estimated at 13.980 million head, 164k head or 1.2% higher than the previous year. Normally this inventory would coincide with the number of hogs slaughtered during December and early January. So far this month, however, weekly hog slaughter has been running below a year ago. Slaughter remains a function of available shackle space but we think this number will continue to fuel ideas that USDA continues to miss the actual supply of hogs on the ground. However, there is an argument to be made that it is packers rather than producers that continue to have a few more large hogs on the ground than a year ago, something suggested by the sharp increase in the weight of packer owned hogs. **Inventory of +180 lb. hogs in North Carolina was 180k head or 12% higher than a year ago. Inventory of such hogs in Indiana and Illinois was 90k head (+9%) and 40k head (+5%).** These additional market hogs should keep the market well supplied into Feb/Mar period. Inventory of 120-179 lb. hogs was estimated at 15.246 million hogs. Usually these hogs will come to market mid-January through third week of February. The survey suggests a similar inventory as a year ago, which would imply weekly hog slaughter a little over 2.6 million hogs. The inventory of 50-119 lb. hogs was estimated 1.8% lower than the previous year. Coming up with an implied slaughter number is difficult if you were to look at the slaughter last spring given COVID disruptions. **We think it is useful to compare to 2019 (see page 2).** The inventory of this group of hogs is 4.6% higher than it was two years ago. Weekly slaughter during late February and mid-April 2019 averaged 2.46 million hogs. This would suggest a weekly slaughter of around 2.57

Hogs Kept for Breeding. Quarterly Inventory. '000 Head

Source: USDA-NASS. Analysis by Steiner Consulting

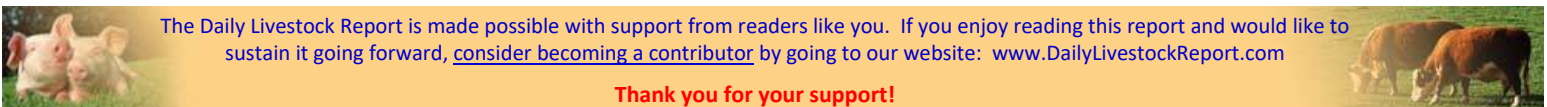


million this year, a fairly lofty number. Export demand will be key for the pork/hog market this winter and early spring. The inventory of pigs under 50 lb. was a bit higher than analysts were expecting but still forecast 1.4% lower than the previous year. Running the same comparison to two years ago would suggest weekly hog slaughter in mid to late April and in May at under 2.3 million hogs. This would suggest notably better pricing, something that's already reflected in hog futures for May and June.

Breeding herd and outlook for the summer/fall: One of the key surprises from the report was the estimate of the breeding herd, pegged at 6.276 million head, 3% lower than the previous year. **The breeding herd was also 57k head or 0.9% lower than on September 1.** This was the smallest US hog breeding herd since March 2018. The lower breeding herd suggests that producers reduced gilt retention during the Sep-Nov quarter. According to our estimates, implied gilt retention during this quarter was 6% lower than the previous year. The lower breeding herd will help limit overall farrowings. Interestingly USDA reported farrowings for the Dec-Feb quarter up 1.6% compared to the previous year. We think this is more a function of the revisions that USDA made to those quarters in order to reflect the number of hogs that came to slaughter during late spring and summer. Farrowings for the Mar-May period were forecast down 0.8%. The farrowing intention numbers do not imply any significant supply reductions but again, some of the year/year comparisons are skewed by COVID disruptions. **We think that the reduction in the breeding herd is a much more significant indicator of future supply and it points to the fact that producers may keep the lid on production, be this due to ongoing market uncertainty domestically, uncertain export demand and the effect of higher feed costs.**

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USDA HOGS AND PIGS REPORT: December 1, 2020

CATEGORY	2018	2019	2020	2021	2020 AS % OF 2018	2020 AS % OF 2019	2021 AS % OF 2020
ALL HOGS AND PIGS	75,070	78,228	77,502		103.2%	99.1%	
KEPT FOR BREEDING	6,326	6,471	6,276		99.2%	97.0%	
KEPT FOR MARKET	68,745	71,757	71,226		103.6%	99.3%	
180 Pounds and over	13,195	13,816	13,980		105.9%	101.2%	
120 - 179 Pounds	14,323	15,256	15,246		106.4%	99.9%	
50 - 119 Pounds	19,369	20,636	20,260		104.6%	98.2%	
Under 50 Pounds	21,858	22,048	21,739		99.5%	98.6%	
<u>SOW FARROWINGS</u>							
DEC - FEB 1,2	2,977	3,098	3,068	3,118	103.1%	99.0%	101.6%
MAR - MAY 2	3,064	3,132	3,149	3,123	102.8%	100.5%	99.2%
DEC - MAY 1	6,041	6,231	6,217	6,241	102.9%	99.8%	100.4%
JUN - AUG	3,172	3,274	3,260		102.8%	99.6%	
SEP - NOV	3,205	3,197	3,164		98.7%	99.0%	
JUN - NOV	6,377	6,471	6,424		100.7%	99.3%	
<u>PIG CROP</u>							
DEC - FEB 1	31,497	33,164	33,745		107.1%	101.8%	
MAR - MAY	32,556	34,455	34,644		106.4%	100.5%	
DEC - MAY 1	64,053	67,619	68,389		106.8%	101.1%	
JUN - AUG	34,019	36,370	36,056		106.0%	99.1%	
SEP - NOV	34,496	35,459	34,973		101.4%	98.6%	
JUN - NOV	68,515	71,829	71,030		103.7%	98.9%	
<u>PIGS PER LITTER</u>							
DEC - FEB 1	10.58	10.70	11.00		104.0%	102.8%	
MAR - MAY	10.63	11.00	11.00		103.5%	100.0%	
DEC - MAY 1	10.60	10.85	11.00		103.8%	101.4%	
JUN - AUG	10.72	11.11	11.06		103.2%	99.5%	
SEP - NOV	10.76	11.09	11.05		102.7%	99.6%	
JUN - NOV	10.74	11.10	11.06		103.0%	99.6%	

1. December of preceding year

2. Intentions for 2020

