U.S. Commodities Markets

What's Driving Price Discovery In The Cattle and Hog Markets?

- **The intractable drought has led to extreme cattle culling**. Breeding herd slaughter (cows+heifers) is the largest on record.
- **When the drought starts to recede feeder cattle supplies will contract further and prices can soar higher**.
- **Aggregate beef demand is strong**. Strong US labor market and exports are supporting the cutout.
- **US hog supplies will remain tight**. Farrowing data from the USDA's December Hogs & Pigs report showed minimal expansionary tendencies.
- **Record high soybean meal costs are eroding hog profitability and limiting expansion**.
- **US pork export sales are encouraging.** US pork exports have been strong and as the global hog herd is contracting the demand for US pork should continue to expand. Chinese export sales are encouraging and can grow as the country continues to emerge from COVID lockdowns. _
- **The lean hog futures trade has been driven by a large managed money short position.** If fundamentals change and supplies tighten, this can cause managed money to short cover and help futures markets rally.

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