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# THE MONTHLY RED MEAT OUTLOOK: HOGS & PORK

APRIL 2020

The rapid spread of the COVID-19 virus across North America has impacted the hog and pork markets in a huge way. It has dominated the markets over the past month, pushing aside any hopes that North American producers had of capitalizing on the African Swine Fever (ASF) outbreak that has halved China's hog herd. Stay-at-home orders across much of North America have decimated the foodservice industry and sent consumers scrambling to stockpile meat at home. That stockpiling began in earnest in mid-March, shortly after the World Health Organization (WHO) declared the COVID-19 outbreak a global pandemic. Grocery store meat cases were stripped clean of not only pork, but all animal proteins. That sent grocers scrambling to replenish and sent the pork cutout roaring higher, gaining about \$17 over the last three weeks of March.

The pork cutout shot **\$17 higher** as grocers sought to replenish after consumer stockpiling cleared supermarket shelves

The stockpiling by consumers has now ended and the cutout has fallen precipitously in recent days. The hardest hit primals have been those that have a heavy foodservice exposure, such as bellies and ribs. Packers are struggling to shift production from products packaged for foodservice toward those used in the retail trade. As the cutout has retreated in recent days, packer margins have remained intact as cash hog prices have been pushed rapidly lower. This is a period of major adjustment, unlike any the industry has experienced before, and that uncertainty has sent hog futures plunging lower. Currently, the futures are pricing June hogs below the \$50 mark, which is an incredibly low value for hogs during a time of year when prices are normally at their highest. Futures traders greatly fear a situation where COVID-19 could force the closure of one or more large pork packing plants. Should that happen, cash hog prices would plummet and pork prices would likely rise rapidly.

## SUPPLY PICTURE

In late March, USDA released its quarterly *Hogs and Pigs* report, which showed that Dec/Feb pig crop was 4.7% larger than the previous year. That huge increase in the pig crop comes on the heels

USDA estimated the Dec/Feb pig crop up 4.7% – ensuring ample pork supplies this summer

of huge increases during 2019 and guarantees that pork production this summer (which is when the Dec/Feb pig crop comes to slaughter) will remain well above last year. The last year-and-a-half of rapid expansion was brought about by hopes that the ASF crisis in China would greatly boost China's demand for US pork and thus, cause sharply higher price levels in US markets. The futures market fed this fire by remaining at extraordinarily high levels for much of 2019. Economists refer to this phenomenon as a "supply response" which simply means that if the market promises strong returns for a long enough period, then producers will expand production in anticipation. The risk created by this situation lies in the potential for something to change the landscape before the original impetus (China's ASF problem) has time to bear fruit. That is exactly what has happened with the emergence of the COVID-19 pandemic. Suddenly, the market has jettisoned the ASF bull story and begun to focus on the COVID-19 bear story. Futures markets have tanked and are no longer offering positive profits to producers, yet their die has already been cast in the form of a pork production pipeline that is stuffed full for at least the next six months.

Adding to the problem is the fact that USDA appears to have grossly under-estimated prior pig crops and the number of hogs coming to slaughter this spring has way out-paced what was expected given those prior estimates. Hog slaughter during March averaged 11% over last year and we think that slaughter in April could

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Figure 1: Number of Gilts Added to the US Breeding Herd

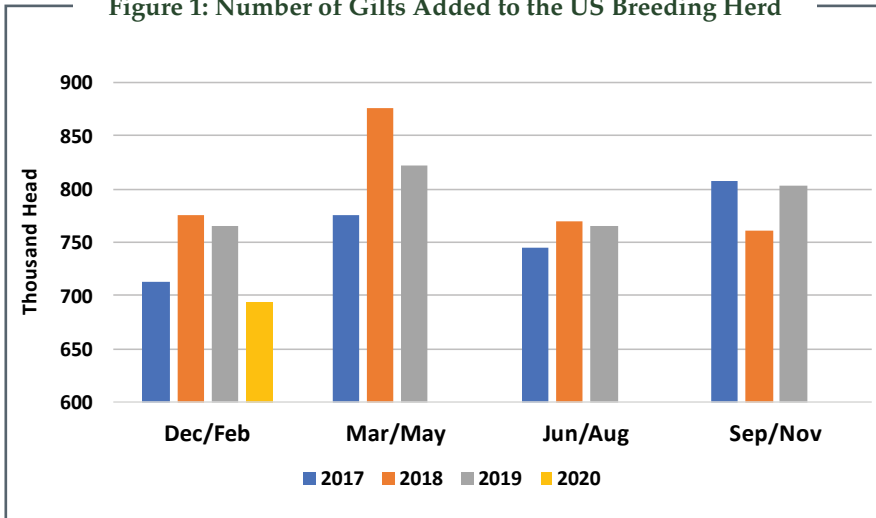


Figure 2: Belly Primal, Weekly Avg Price

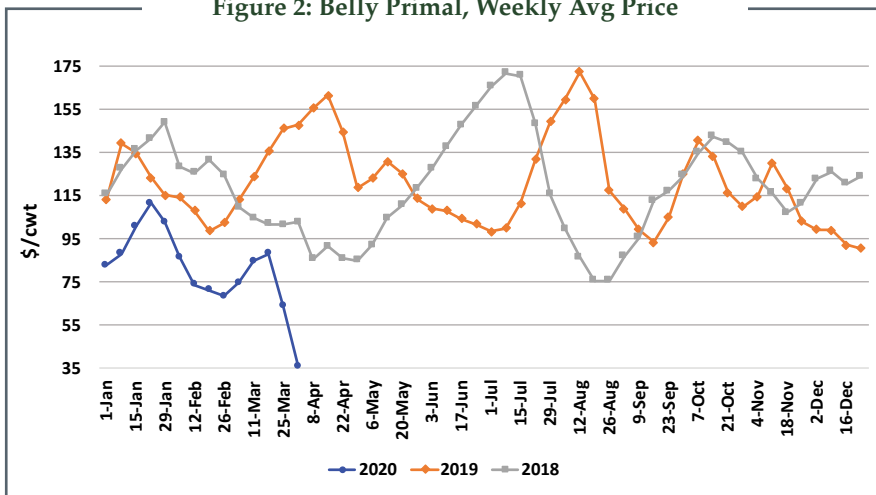


Table 1: JSF Hog and Pork Price Forecasts

	15-Apr	22-Apr	29-Apr	6-May	13-May	20-May
Pork Cutout	65.1	68.3	71.9	72.6	74.5	77.2
Loin Primal	90.4	92.0	91.2	88.4	89.0	88.0
Butt Primal	84.0	86.0	90.0	91.1	89.6	91.4
Picnic Primal	48.0	51.1	50.2	51.3	52.6	54.7
Rib Primal	110.0	112.0	118.0	120.0	119.3	121.0
Ham Primal	32.0	35.0	46.3	47.9	50.8	58.4
Belly Primal	72.2	81.4	83.9	88.7	95.6	99.0
Lean Hog Index	51.0	53.3	56.4	58.1	61.4	64.9



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Dr. Rob Murphy is an agricultural economist and business leader with over 29 years in the industry. He has a wealth of experience in the North American meat and livestock industries studying, analyzing and predicting market movements.

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