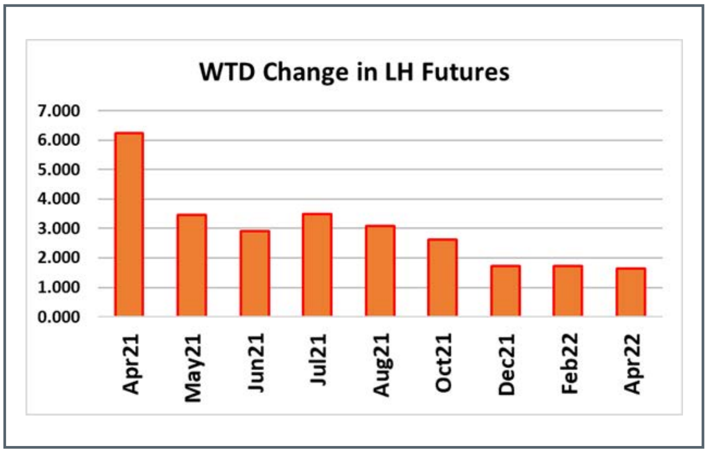
J.S. FERRARO

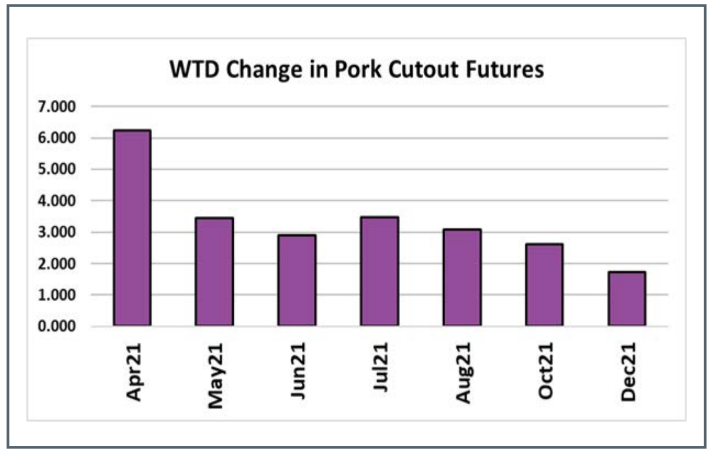
jsferraro.com | 416.306.8788
130 Adelaide Street West, Suite 810 Toronto, Ontario M5H 3P5

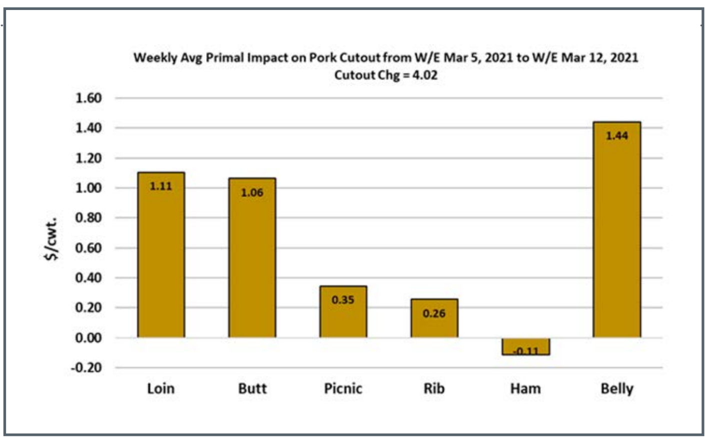
WEEK ENDING MARCH 12, 2021

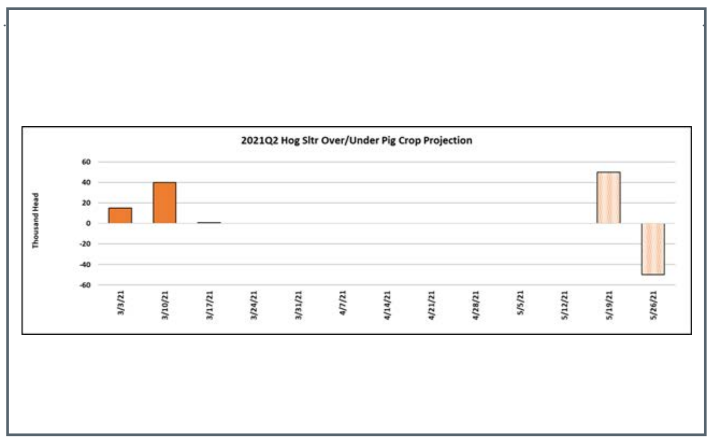
THE PORK WRAP

It was yet another week of increasing prices in the hog and pork complex. The cut-out gained a little over $4.00 on a weekly average basis and the negotiated cash markets were up around $3.30. The nearby April futures responded by gaining over $6.00 Friday-to-Friday. The April cut-out futures gained a similar amount. At one point this week, the cut-out came within $0.31 cents of printing $100.00. It still looks to me that it is mostly a case of strong domestic demand driving this market, although there could be some modest tightness in the spot hog supply. On Monday, the negotiated price component of the LHI actually registered above the “swine and pork market formula” component - a very rare event indeed. Normally, the negotiated market runs about $10.00 - $15.00 discount. There is reason to believe that there is a tightness in the producer-owned hog supply. Some of that tightness could be artificial, as producers hold back hogs on purpose; under the idea that they will be worth more several days down the road. Regardless, packers don’t seem to be having too much trouble putting a sizable kill together. This week’s slaughter totaled 2.58 million head, about 20k stronger than last week. It was also about 40k more than what the September/November pig crop implied. Packer margins this week were about $18/head, which is still very healthy, and enough to incentivize packers to keep the kill solid. Packers also killed about 35k head more on Saturday this week, than they did last week. This might be a sign that the tightness in spot hog supply is loosening a bit. Barrow and gilt carcass weights are still stuck at 215 lbs for the third week in a row, but that is not out of line with historical averages. In fact, the DTDS weights are close to -1 currently, which suggests that there are no problems with overweight hogs. When does this high price environment come to an end? Whenever pork buyers get tired of paying crazy high prices, would be my answer. We may be getting near that point now. The weekly demand scatter below, shows pork demand at nearly the same level as it was when it peaked last October. That peak in the cut-out was right around $100.00, same as this week. The difference between now and last October, is that this time, we are moving into a tightening hog supply situation. Whereas last fall the market was experiencing an expanding hog supply situation. That might mean that once the cut-out does start to come down, it will decline at a slower rate than it did last fall. We are still seeing very high belly and trimmings markets. Some of the retail cuts such as loins and butts are also very high. When this happened last October, I had a suspicion that pork was leaking undetected into export markets, but once the actual export data became available, we could see that was not the case. I am reluctant to make that mistake again. Instead, I place the blame squarely on strong domestic demand for this rally. However, domestic demand runs in cycles, which are largely driven by retailers switching feature proteins when one gets too high relative to the others. Pork is certainly higher than normal relative to beef right now, I’d expect the demand cycle to turn lower soon. The combined margin is now over $20/head and many of those cycles seem to top around $25/head. That might also be pointing toward a downturn in demand relatively soon. The USDA released the monthly trade data for January this week, and it showed total pork exports 8.6% below last year’s huge number. February is likely to see an even larger percentage decline. In Q1 last year it was exceptionally strong for exports; therefore, I don’t want to give the impression that export demand is soft. The demand just isn’t matching last year’s stellar performance. Some of that might have to do with the well-publicized congestion at ports and lack of containers in the right place. There has been a lot of speculation lately about a resurgence of ASF in China, but no one seems to have reliable data for confirmation. Futures traders generally don’t wait for hard data before casting their vote. The way they have bid up the deferred contracts, makes it look like they believe that China is losing ground in its fight with ASF, and will need to import more pork from the US in coming months. I’m skeptical, but wouldn’t want to rule that completely out. So far, the weekly export numbers haven’t telegraphed an impending surge in exports to China. The Chinese are known to be value buyers and today’s cut-out levels can hardly be considered a value for the buyer. Bellies could be the first to break lower, but my guess is that once it starts, it will be felt across all primals fairly quickly.


WTD Change in LH Futures
7.000
6.000
5.000
4.000
3.000
2.000
1.000
0.000
Apr21
May21
Jun21
Jul21
Aug21
Oct21
Dec21
Feb22
Apr22


WTD Change in Pork Cutout Futures
7.000
6.000
5.000
4.000
3.000
2.000
1.000
0.000
Apr21
May21
Jun21
Jul21
Aug21
Oct21
Dec21


Weekly Avg Primal Impact on Pork Cutout from W/E Mar 5, 2021 to W/E Mar 12, 2021
Cutout Chg = 4.02
$/cwt.
1.60
1.40
1.20
1.00
0.80
0.60
0.40
0.20
0.00
-0.20
1.11
1.06
0.35
0.26
-0.11
1.44
Loin
Butt
Picnic
Rib
Ham
Belly


2021Q2 Hog Sltr Over/Under Pig Crop Projection
Thousand Head
60
40
20
0
-20
-40
-60
3/3/21
3/10/21
3/17/21
3/24/21
3/31/21
4/7/21
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4/21/21
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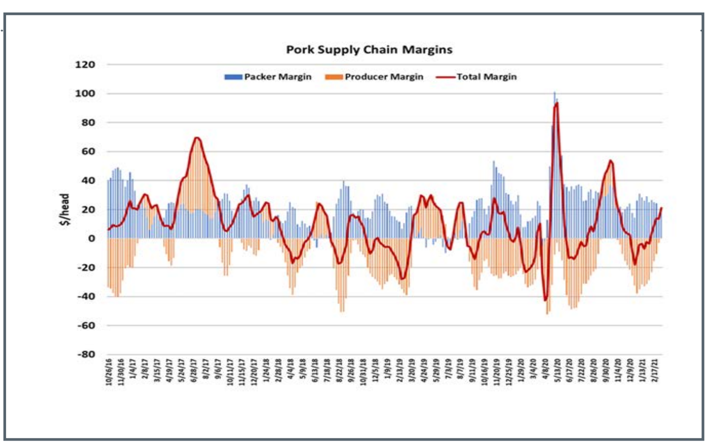
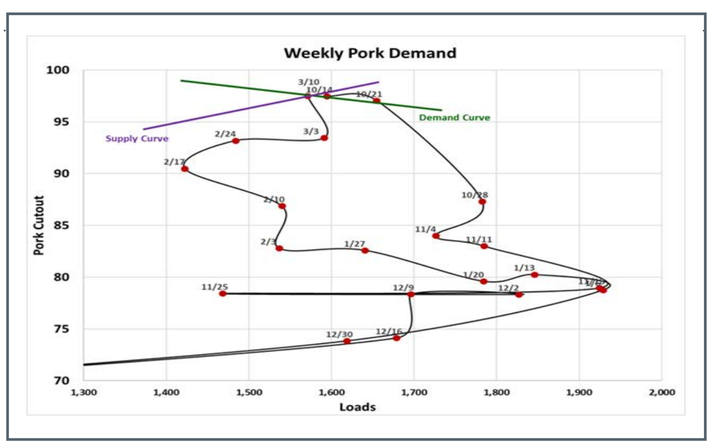
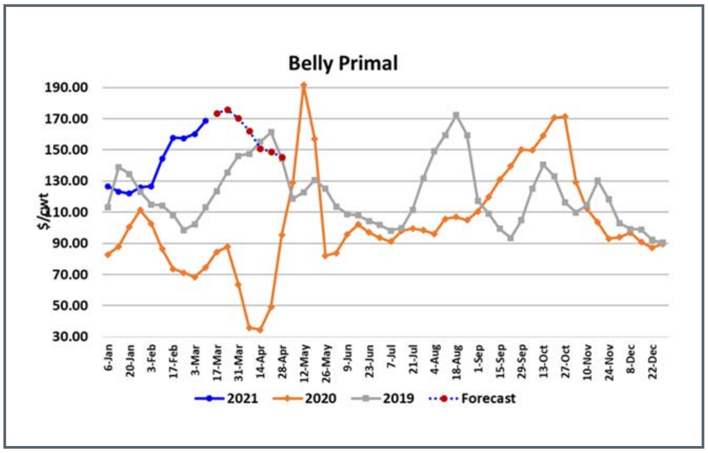
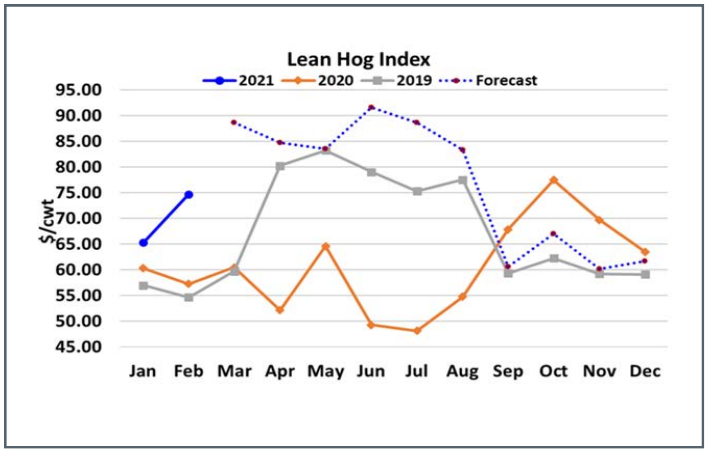
5/12/21
5/19/21
5/26/21


Pork Supply Chain Margins
Packer Margin
Producer Margin
Total Margin
$/head
120
100
80
60
40
20
0
-20
-40
-60
-80


Weekly Pork Demand
Pork Cutout
100
95
90
85
80
75
70
Supply Curve
Demand Curve
3/10
10/14
10/21
3/3
2/24
2/17
2/10
2/3
1/27
10/28
11/4
11/11
1/20
1/13
12/2
11/25
12/9
12/30
12/16
1,300
1,400
1,500
1,600
1,700
1,800
1,900
2,000
Loads





DR. ROB MURPHY BS, MS, PhD Agri Economics,
Executive Vice President, Research & Analysis,
J.S. Ferraro

E: Rob.Murphy@jsferraro.com

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.