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THE MONTHLY RED MEAT OUTLOOK: HOGS & PORK

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January saw the pork cutout clawing higher and cash hogs following. Following some demand softness in December, pork demand regained its footing as the calendar turned to 2021 and price levels have been on an upward trajectory ever since. There has been no shortage of hogs. In the last *Hogs and Pigs* report, USDA revised the Jun/Aug pig crop up almost a million head and that revision has been validated by the large kills that were observed in January. However, strong pork demand helped the industry to chew through those big hog supplies and still keep price levels working higher. Production should work lower from this point forward, moving toward a bottom in early summer. Hog weights are currently higher than projected for this time of year, but big kills in the next few weeks should help take some of that additional weight off. Demand will be the key to pricing, and at some point, perhaps by the end of February, we look for demand to wane and price gains to stall. Bellies in particular are starting to get to levels that may meet buyer resistance. However, cold storage stocks for nearly all pork items are historically low right now and that creates upside price risk in the upcoming spring and summer months when users typically draw on frozen inventories in an effort to avoid seasonally high spot pork prices. Packer margins are currently about $25/hd, which is very good for this time of year (see **Figure 1**). Hog supplies appear large enough that packers should not have to worry about margins moving into the red anytime soon. Hog producers, on the other hand, are struggling with rising feed costs and may find it difficult to turn a profit for much of 2021 (see **Figure 2**).

> **Pork margin** currently sits at **about $25/hd**

SUPPLY PICTURE

Weekly hog slaughter averaged close to 2.7 million head per week in January and at times the kill grew larger than what we saw during December. That is pretty unusual and may be related to the way the holidays fell in late December. The industry is currently killing the Jun/Aug pig crop, which USDA revised upward by almost a million head in its December release of *Hogs and Pigs*. It is a good thing they made that revision or else the analyst community would be squawking about how badly they under-estimated that pig crop. Even with that revision, kills in January and early February appear to be running a little larger than what the (revised) pig crop estimate would suggest. All this means is that there have been plenty of hogs available for slaughter here in the early days of 2021. When March arrives, the industry will begin slaughtering the Sep/Nov pig crop, which USDA reported to be down 1.4% from a year earlier. Of course, comparisons with last year during Q2 will be difficult given how much the supply numbers were reduced last year in Q2 due to COVID-19 related plant closures. Further, there is always the risk that USDA will also revise the Sep/Nov pig crop higher as they did with the Jun/Aug pig crop. For now though, the numbers point to slaughter levels in Q2 that are about 1.9% stronger than we saw in 2019.

Carcass weights are currently very heavy, with USDA's latest data showing barrow and gilt weights up four pounds over last year. However, it looks like the big kills in January and early February are helping to bring weights down and we expect that by the end of this month weights may only be a couple of pounds stronger than last year. Bitter cold is expected in the Midwest over the next couple of weeks and that usually helps to contain carcass weights. When we combine the outlook for slaughter with the forecast for carcass weights, it points to total pork production in Q2 that is about 3% larger than in 2019. It should be more than 8% larger than last year, but last year's numbers are skewed downward by last year's plant closures.

Concern has arisen over high feedgrain prices and what that might mean for pork availability later in 2021. One might expect that high corn prices would lead producers to feed hogs to lighter weights, but we didn't observe that in the last high corn price period between 2011 and 2013 (see **Figure 3**). Instead, what happened was that producers grew the herd at a much slower than normal pace (not a reduction, just very slow growth) over that period and that helped to elevate hog and pork prices. That may happen this time also, but we are not yet convinced that high corn prices are going to dominate 2021 and thus haven't adjusted our herd size forecast downward yet. That may come, but there is still plenty of time until the 2021 corn crop goes into the ground and gets harvested. Right now, the weather models seem to be pointing towards a dry summer in the Corn Belt, but that could change quickly, as weather forecasts often do. The lean hog futures seem to believe high corn prices will be a major feature in 2021 and traders have inflated the 2021 hog futures curve as a result. We think that buying is premature and it has created a futures curve that is way too rich, particularly in the summer and fall contracts.

DEMAND SITUATION

Demand in the domestic market was very strong during January and looks to remain that way at least through the first half of February. We attribute this to consumers pulling harder on pork through the retail channels as they remain hunkered down due to high COVID-19 infection rates. However, new infections are coming down and the vaccination effort is gaining steam, so that will begin to encourage more consumption in foodservice and less through retail in the months ahead. That will likely be a net negative for pork demand. For now though, demand looks very strong and it has helped push the cutout into the mid-$80s, even as hog supplies and pork production has been plentiful. Strong beef prices during January probably also helped pork and that may be an ongoing feature of this market until mid-summer. Beef prices could get explosive this spring and that would send retailers looking for cheaper feature opportunities in the pork market. We caution readers not to expect this unusually strong demand strength to last forever. As we move into the second half of 2021 and the pandemic fades into the background, pork demand is likely to fade back to more traditional levels.

International demand for US pork appears to be good at present, but it is not showing YOY growth. Pork exports in Q1 last year were extremely large and it will be difficult for 2021 Q1 exports to match those lofty levels. Still, we only look for a 4% decline in Q1 exports. If the weekly export numbers are to be believed, shipments to China have slowed modestly in recent weeks and are well below last year's strong pace. Still, there are other countries stepping in to help fill that void and thus total pork exports are only minimally under last year. Getting further growth in exports from here may be difficult however, particularly with cash pork markets so elevated. In fact, as China's herd rebuilds further in 2021, it is reasonable to expect that China will slowly back away from the US pork market and instead focus more on importing US corn and soybeans to help feed their growing herd. That means additional pork generated from any further growth in the US herd over the next couple of years will need to be disposed of in the domestic market. The China potential appears to be maxed out at current levels.

Strong beef pricing this spring could easily **spillover into pork markets**

SUMMARY

The US pork market is currently being supported by unusually strong demand. Production has been large so far in 2021, but the demand strength in the domestic market has been more than enough to absorb that large production and still keep prices working higher. Some setback in demand is inevitable, but we think that might not happen until late February or early March. The production pipeline appears to be well stocked and carcass weights are high, so there are no near-term concerns about pork availability. With corn futures approaching $5.50/bushel, futures traders have been concerned that will lead to reduced pork production and higher pork prices later this year. We are not convinced that is the case, but futures traders have bid up the price of the 2021 contracts from summer onward to levels that look way too rich. Astute producers should be taking advantage of this bubble in futures prices to lock in profits for 2021 because we suspect that the actual cash market will fall far short of what the futures are now projecting. If weakness develops in pork pricing over the next few weeks, pork buyers should consider extending coverage at least through June because it is likely that very strong beef pricing this spring could spill over into the pork market. **Table 1** provides our near-term price forecasts.

Figure 1: Packer Margin

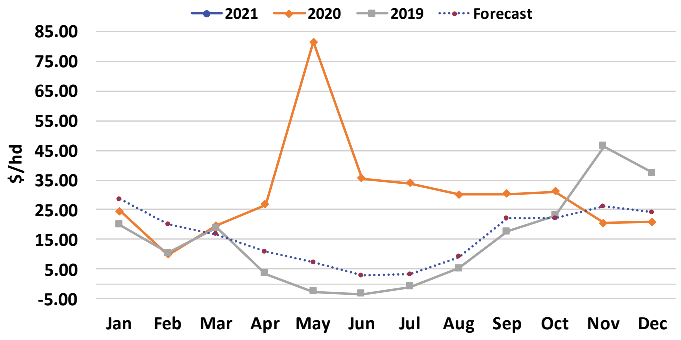

Figure 2: Producer Margin

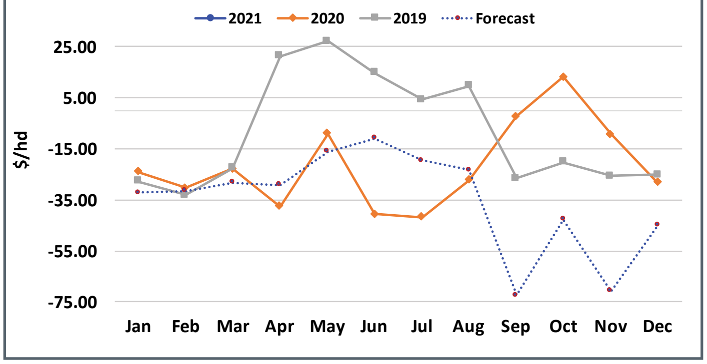

Figure 3: Annual Hog Carcass Weight

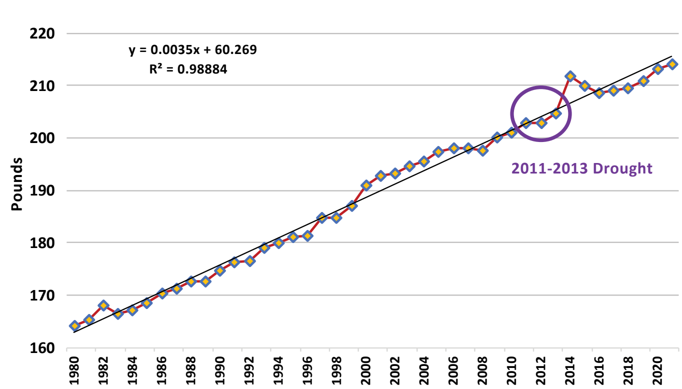

Table 1: JSF Hog and Pork Price Forecasts

	17-Feb	24-Feb	3-Mar	10-Mar	17-Mar	24-Mar
Pork Cutout	77.9	78.9	80.6	80.9	82.1	82.6
Loin Primal	79.3	76.2	74.5	76.0	78.3	80.1
Butt Primal	71.2	73.0	76.4	79.3	83.7	88.8
Picnic Primal	51.3	52.2	53.8	55.9	58.0	56.4
Rib Primal	151.4	150.7	149.2	146.7	146.0	148.8
Ham Primal	64.5	68.3	72.2	67.3	63.0	59.4
Belly Primal	118.3	121.5	126.2	129.7	136.1	138.8
Lean Hog Index	66.9	67.2	70.8	72.1	72.5	72.1

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