



THE MONTHLY RED MEAT OUTLOOK: HOGS & PORK

JULY 2019

As expected, the hog and pork markets continued to weaken during June, with the cutout dropping almost \$9 over 30 days and the Lean Hog Index losing over \$6. These declines are definitely a counter-seasonal move since in most years both hog and pork prices trend higher toward a peak in early July. However, 2019 is turning out to be anything but a normal year for the pork complex. The downward pressure that we have seen in recent weeks is a combination of both supply and demand factors. On the demand side, pork buyers scrambled to get pork inventory around them when the market shot higher in early April on unfounded Chinese African Swine Fever (ASF) fears. When it finally became obvious that US pork exports were not going to post a huge surge, buyers were left with a lot of high-priced inventory that needed to be worked through. That translated

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into reduced pork demand during June. At the same time, that same ASF scare and subsequent run-up in prices caused hog producers to hold back on marketing hogs since the futures market was telling them that the longer they waited to market, the more those hogs would be worth. Eventually, those held-back hogs had to come to market and that resulted in much bigger-than-expected kills in June, which also weighed on prices. The late March/early April ASF scare really disrupted the normal seasonal patterns on both the supply and demand sides of the market. Anytime a big event like that occurs, it seems to destabilize the entire hog and pork complex and it can take months for things to settle back down. The problem with the ASF scare is that it probably will happen again, and when it does, a whole new round of destabilization will take place.

SUPPLY PICTURE

US hog slaughter during June was up about 9% year-over-year, despite the fact that USDA had estimated the Dec/Jan pig crop to be up only 4%. The aforementioned holding-back of hogs in response to the sharp price increases generated by the spring ASF scare likely played a big role. Although there is always the chance that USDA also under-estimated the size of that pig crop. The additional pork produced from those big kills weighed heavily on the market and forced the cutout lower. The backing up of hogs in the pipeline could also be seen in weekly hog carcass weights which did not break lower during May, which is the normal seasonal

pattern (Figure 1). As of this writing, hog carcass weights are still five pounds heavier than last year and thus might be signaling that the backlog of hogs has not yet been fully cleared. The August lean hog futures contract is not helping matters either. It is trading at a \$6 premium to the current spot market, and thus is sending a signal to producers to slow down marketings once again. We expect that the YOY increase in hog weights will narrow some as we move through the summer and producers get caught up, but it is unlikely to go to zero. As a result, heavy carcass weights are likely to continue to add to production for the rest of the summer.

USDA released its quarterly *Hogs and Pigs* report on June 27th and it showed the March/May pig crop up 3.7%. Those are hogs that will come to market in the Sep/Nov quarter and so it's pretty clear that the market will remain well-supplied right through the fall of 2019. That report also showed the US breeding herd had increased by 1.4% as of June 1st. Perhaps the most surprising number in the report was USDA's estimate that the number of pigs saved per litter during the March/May quarter had increased by 3.5% YOY. That was a huge productivity increase compared to historical norms. The only other time that we've seen pigs per litter increase that much was back in 2015 as the industry was recovering from the PEDv epidemic that killed more than 10% of the US hog herd. The message from the report was clear: there are a lot of hogs currently on the ground and the industry is well-positioned to produce a lot of hogs in the future. Hog and pork sellers had better hope that China steps up and takes huge quantities of US pork this fall. Otherwise, the US market will be burdened by much bigger than normal pork production and price levels could get really low. The high futures prices generated this spring during the ASF hysteria sent a signal to producers that more production was needed and those producers responded by showing they are quite capable of producing a lot of pork if required.

DEMAND SITUATION

As you might have surmised, the most important factor in determining where price levels will go over the next few months is the level of exports. Unfortunately, that is the one area of the market where participants have the least amount of visibility. The official export data is released with almost a two-month delay and the USDA just released its official export data for the month of May last week. It showed total pork exports down almost 1% YOY and that is eighth months in a row where pork exports declined relative to the prior year. China did take a lot more US pork than they typically do, but that was mostly offset by declines in pork movement to other major destinations, most notably Mexico (Figure 2). Through the

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first five months of this year, pork exports are down 3.8% from the same period last year. It hardly looks like there is a “global protein crisis” that is going to siphon away huge amounts of US pork. That could change, of course, and we (along with everyone else) will be monitoring the export situation closely during the second half of the year. The weekly export data has recently shown some very impressive movement to China, but that data series is not nearly as reliable as the official monthly data that USDA provides. We think that China’s ASF problems will keep them as aggressive buyers in the US market, but the higher price levels that result will also deter a lot of other countries from taking their normal export quantities. Our current forecast has US pork exports in the second half of the year up about 6%, resulting in a 2019 total that is 2% above 2018.

Domestic pork demand in the US fell during June, partly as a result of buyers who had booked and stored pork during the ASF panic this spring. That made them less active in the spot market. That same ASF panic also caused retail supermarkets to cut way back on the amount of pork they intend to feature this summer, further reducing domestic demand. The other demand indicators that we watch, such as the combined packer + producer margins weakened in June and look like they will continue lower through July.

Pork exports to China were up 30 million pounds in May

Domestic demand hasn’t fallen low enough yet for us to consider the current situation a “demand air pocket”, but it is headed that way and there is a real risk that by August we could experience one. So, with supply unusually large for this time of year and domestic demand heading south, there is a very real possibility of continued weak pricing in both the hog and pork complex right through the end of summer. Buyers are advised to remain close bought and let this situation play out before making their fall commitments.

SUMMARY

Hog and pork prices are struggling this summer as a result of both bigger-than-expected pork production and weaker-than-expected domestic demand. That is likely to continue through July and maybe August as well. The recent *Hogs and Pigs* report indicated that the production pipeline is likely to be stuffed full – at least through the fall of this year. Exports will remain the key to price levels in the months ahead. And, while we do think that movement to China will be impressive, declining exports to other destinations will help to mitigate some of the price-enhancing effects of the surge in pork going to China. Domestic demand for pork is on the decline here in early July, partly because supermarkets are shying away from featuring pork due to fears of being caught by a run-up in wholesale prices if exports to China reach high levels. Without a big surprise in export shipments, it is pretty clear that the direction of hog and pork prices should continue to be lower over the next couple of months. Our current hog price forecast points to cash hogs below \$65/cwt when the August futures contract expires. Table 1 provides our price forecasts for the next several weeks.

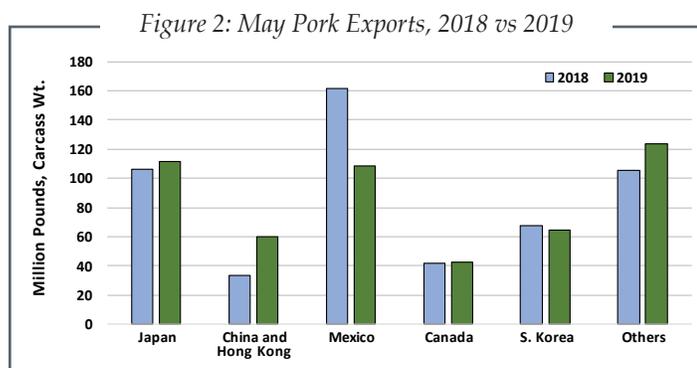
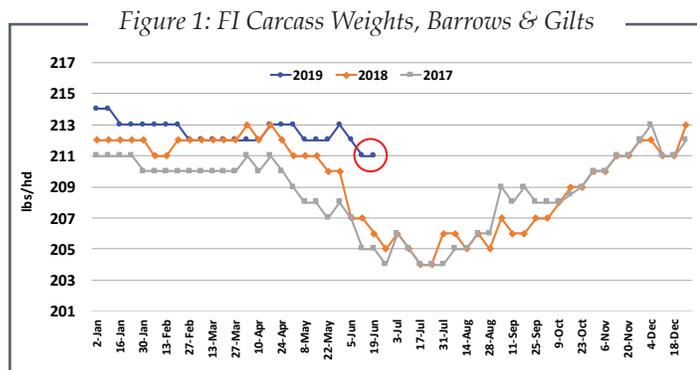


Table 1: JSF Hog and Pork Price Forecasts

	17-Jul	24-Jul	31-Jul	7-Aug	14-Aug	21-Aug
Pork Cutout	73.6	73.7	73.1	72.0	70.2	69.0
Loin Primal	71.0	69.4	68.9	70.5	71.8	73.3
Butt Primal	88.0	87.6	87.2	86.3	83.2	80.4
Picnic Primal	52.2	50.3	48.8	47.2	46.1	45.7
Rib Primal	110.4	111.6	115.4	116.9	118.3	117.4
Ham Primal	62.1	63.3	62.1	60.3	56.4	55.2
Belly Primal	105.9	108.7	108.2	103.1	98.2	92.3
Lean Hog Index	70.0	68.0	66.8	64.7	62.0	58.5



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