



THE MONTHLY RED MEAT OUTLOOK: HOGS & PORK

NOVEMBER 2019

The hog and pork complex turned higher in early October, but that now appears to have run its course and prices are once again on the defensive. Exports to China remain the biggest unknown in the market and because of the lagged nature of the government's monthly export data, it is impossible to know just how much US pork was shipped overseas in October. USDA does produce weekly export totals that have a much smaller lag (one week), but that data has historically been unreliable and in October USDA took steps to improve it. Exporters are required by law to report overseas sales to USDA, but for years, enforcement in the pork market has been lax. Now, with the African Swine Fever (ASF) situation in China, exports

pork exports surge to extreme levels. Our current supply forecast has weekly hog slaughter running at or above 2.7 million head per week until mid-December, excluding holiday weeks.

In addition to the large number of hogs coming to slaughter, hog carcass weights are also heavier than last year. The most recent data shows barrow and gilt weights one pound above last year. That is not a huge increase, but it does add to the available pork supply. The de-trended and de-seasonalized carcass weights that we watch for signs of hogs backing up in the production sector are still relatively low, so that suggests that producers have maintained timely marketings and there is no imminent danger of a price collapse as a result.

First 2.7+ million head kill of the year registered in October

have become a huge focus for market participants and in October USDA cracked the whip on a lot of non-reporting entities and they have now started to report. Unfortunately, while this development is positive in the long run, in the short run it makes it very difficult to compare the current weekly export numbers with previous years because we know the level of reporting was much lower in those years. Bottom line, analysts and market participants remain largely in the dark when it comes to pork exports — currently one of the most important factors influencing prices.

SUPPLY PICTURE

The industry produced its first 2.7 million head weekly hog slaughter for 2019 in October. It is not likely to be the last one, either. Producers are currently marketing pigs that were born in the March/May quarter and that pig crop was reported up 3.7%. Slaughter levels since September have been slightly larger than what that pig crop implied, but not by much (See **Figure 1**). The June/August pig crop, which will be slaughtered between December and February, was up 2.9%, so we can expect YOY slaughter increases to continue well into next year. All this means is that the supply of hogs is more than adequate unless

The futures market has continued to maintain very large premiums on the 2020 contracts and that will almost certainly incentivize hog producers to crank up production in the months ahead. That is exactly what is needed given the massive loss of hogs in Asia due to ASF. However, it does present a sizeable risk. If the US-China trade war does not resolve and as a result, China does not take the huge quantities of US pork in 2020 that the futures market is expecting, then we could be left with a situation of huge pork supplies that will only clear the domestic market at depressed prices.

DEMAND SITUATION

It appears as though domestic pork demand was very good in October, although without any visibility into the level of exports in October, it is difficult to know with certainty whether the stronger pricing was the result of good domestic demand or just good export volumes. Pork demand typically runs in cycles that last a few weeks to a few months. One broad indicator of overall pork demand is the combined 'producer + packer' margin. You can see from the chart in **Figure 2** that the combined margin was on the upswing during October but now looks like it may have topped and could be heading lower. If that is the case, it comes at a very inopportune time since hog kills in the next few weeks will be the highest of the year. Even if demand manages to hold at the level seen in October, we think that the additional production in November will end up forcing prices lower.

USDA reported August pork exports up 16% YOY, with most of that increase attributable to China. The Chinese are importing vastly more

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pork from the US than they ever have in the past and for a more sustained period. However, this hasn't led to the sharply higher price levels that everyone expected because the gains in production have been larger than the increase in exports. Pork prices in China have skyrocketed and are now about six times greater than the price of pork in the US. In normal times, we would expect that kind of price imbalance to generate enormous exports from the US to China, but the trade dispute between the two countries is hindering that outcome.

It would make economic sense that exports to China should swell to incredible levels in the coming months, but in the current chilly trade environment that is not a given. If a trade deal that allows US pork to move to China at lower tariffs gets signed, then exports are likely to surge well above current levels. That is why the market is so jumpy whenever positive talk of an impending trade deal surfaces. We don't think such a trade deal is likely anytime soon, but pork buyers need to remain aware that if it were to happen, domestic pork prices could rise rapidly.

Figure 1: 2019Q4 Cumulative Hog Slaughter Over/Under Pig Crop Projection

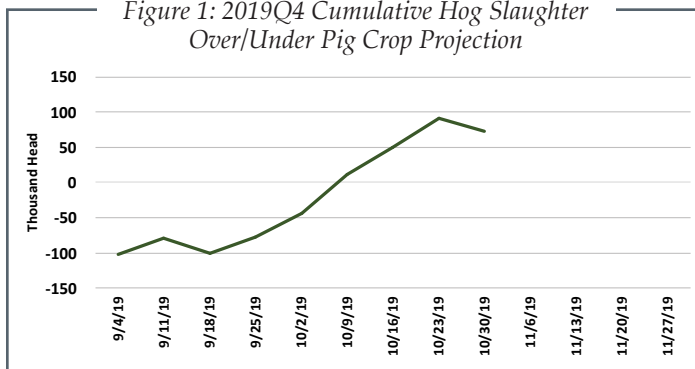


Figure 2: Pork Supply Chain Margins

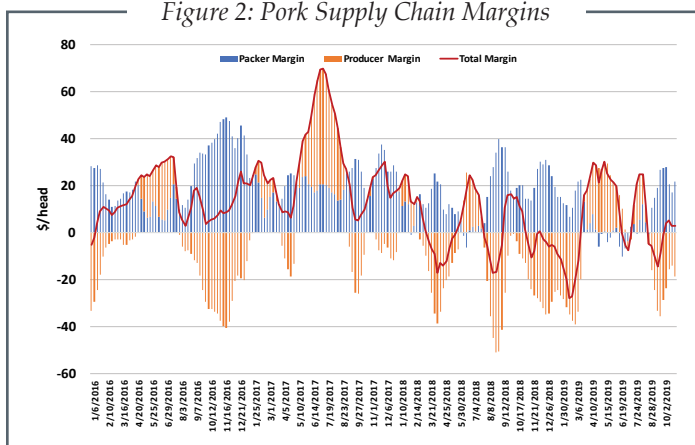


Table 1: JSF Hog and Pork Price Forecasts

	13-Nov	20-Nov	27-Nov	4-Dec	11-Dec	18-Dec
Pork Cutout	75.8	76.1	76.1	76.7	76.3	76.0
Loin Primal	69.5	69.9	70.6	72.4	71.2	69.4
Butt Primal	86.6	88.0	87.8	87.0	85.0	83.1
Picnic Primal	63.0	62.6	61.1	59.3	56.1	54.2
Rib Primal	126.4	124.3	122.0	121.2	120.0	119.3
Ham Primal	65.4	63.7	61.8	60.5	58.7	57.8
Belly Primal	105.0	108.6	112.4	117.6	124.3	130.1
Lean Hog Index	60.5	59.1	57.7	60.8	61.4	62.3

Weakening pork demand into Nov – consumers could experience “pork fatigue”

SUMMARY

The hog and pork complex will be working through its biggest pork supplies of the year during November. Toward the end of the year, supplies will decrease seasonally somewhat, but still remain well above the prior year at least through February. Domestic pork demand looked quite good in October but there is some concern that demand is waning now that November is upon us. Both hog and pork price levels should be softer in November than they were last month and there is a significant risk that they could move sharply lower if demand struggles in the month ahead. Exports to China remain the wild card in this market and unfortunately recent changes in the number of entities reporting weekly export sales makes YOY comparisons almost meaningless. Without a US-China trade deal, we look for the market to remain under pressure in the near term. If a trade deal does happen, then prices could surge higher and buyers need to be prepared for that possibility. **Table 1** provides our near-term price forecasts in the hog and pork complex.



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