



WEEK ENDING APRIL 16, 2021

THE PORK WRAP

The pork cutout was about a dollar higher on an average basis this week, but the negotiated cash hog markets were almost \$2 higher. That compressed packer margins down to a little under \$16/head. The lean hog futures were volatile this week and the most active Jun contract lost almost \$7 on the week. Apr went off the board on Thursday and will cash settle at \$103.24. The same “loss of faith in the future” that plagued the cattle market this week also influenced the hogs. At these high levels, futures tend to be very jumpy.

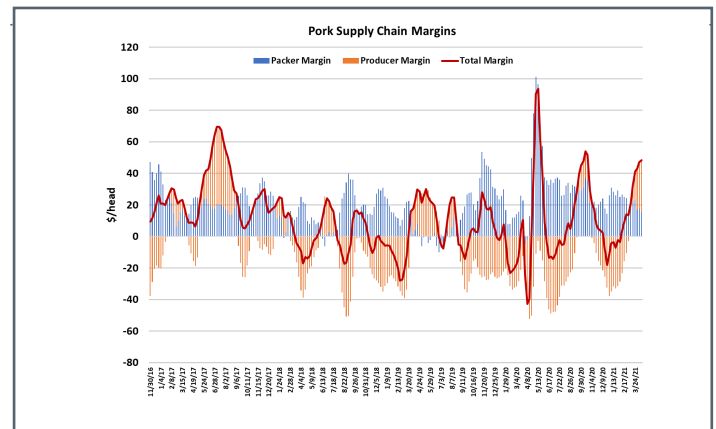
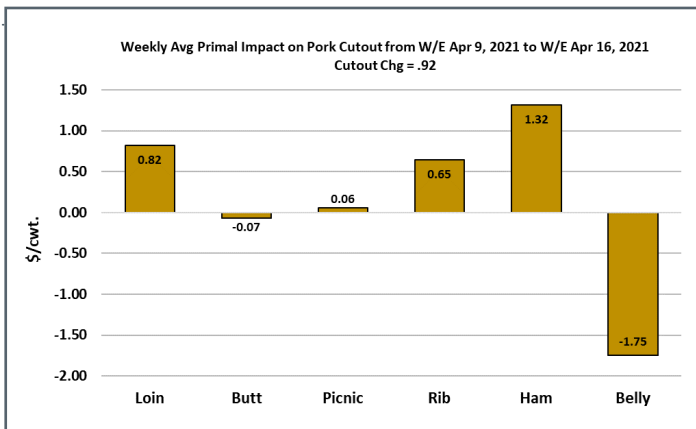
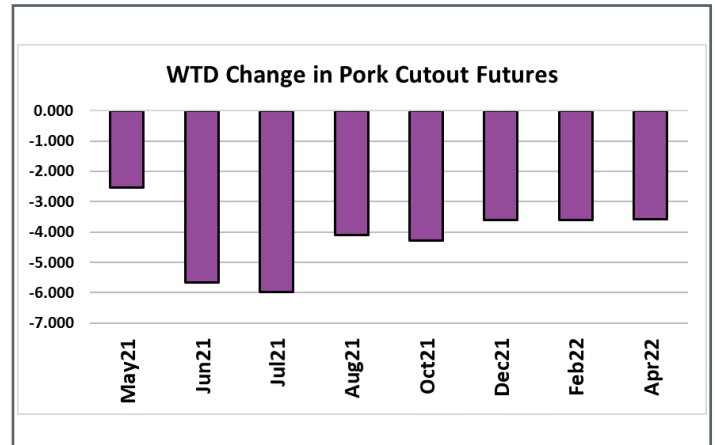
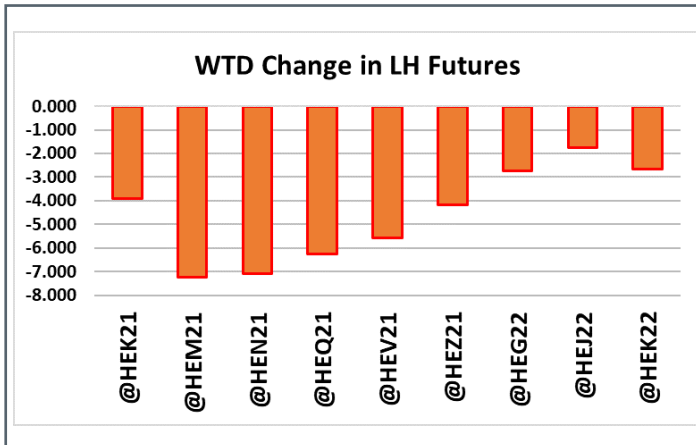
Traders don't think in terms of sideways markets, they either figure it is going up or going down and if the cash market stops going up, then it must be about to go down. The problem with that thinking is that the cash market hasn't stopped going up yet. Traders are trying to pick a top and that is always a risky proposition. Perhaps the biggest contributor to the change in psychology this week was some softness in the belly market. Traders know all too well how fast a belly market can decline and how fast it will drag the cutout down. However, the chart below indicates that the belly was really the only primal with pricing problems this week, and even those weren't too severe. Traders would be better served to take their cues from the relentless advance in the negotiated hog markets. Packers wouldn't be paying up for negotiated hogs day after day if they thought the cutout was about to fall apart. Measured from Friday to Friday, the WCB cash market was up almost \$4.50 and is now approaching \$106. My model says that if the cutout and negotiated markets to stay at Friday's close, then the LHI will be worth \$106 by the end of next week. It will be interesting to see if the bears are willing to continue selling with the LHI at that level.

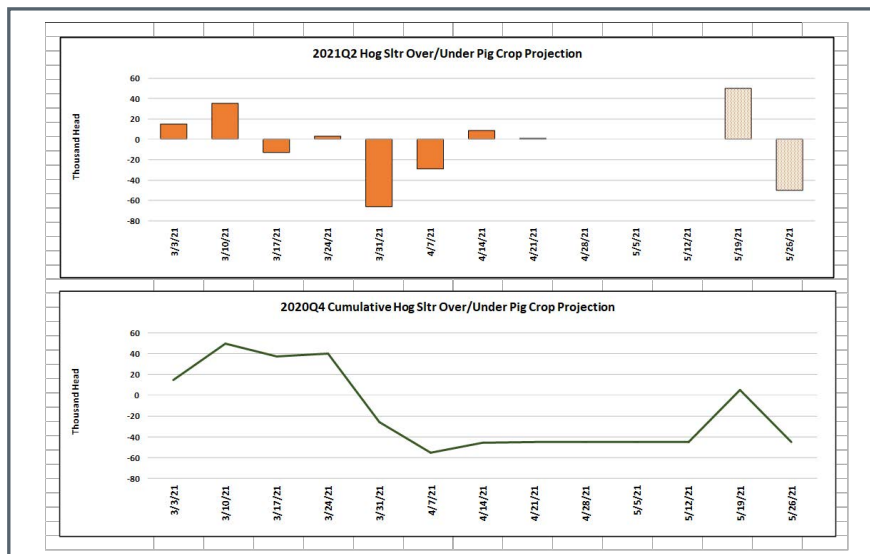
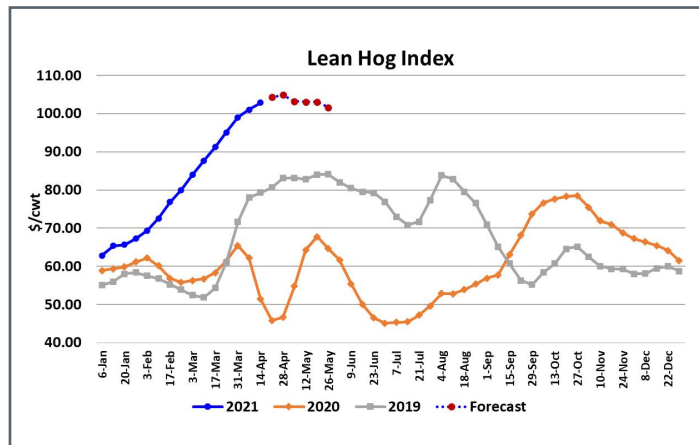
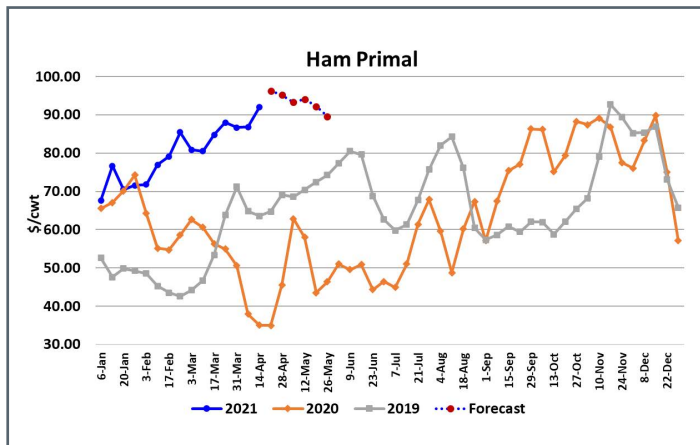
This week's kill came in at 2.47 million head, which was once again very close to what the Sep/Nov pig crop projected. Barrow and gilt carcass weights remain stuck at 215, but it isn't unusual for carcass weights to hold in a sideways pattern at this time of year before turning lower into summer. So, the supply side of the market continues to look well behaved, although the continued rise in the negotiated markets makes me think that perhaps some tightness in the producer-owned hog supply is starting to arise. Retailers are probably not very pleased with these high wholesale prices, but they don't have many good alternatives. Beef is super-expensive right now and while chicken is a little less pricey, it is still high and not a first choice among consumers. This makes me wonder where any future weakness in the cutout might originate.

Clearly, the bellies are a candidate, but we are coming into prime bacon season. Cold storage stocks of bellies are very low. Recall that bacon producers had to switch bacon packaging away from foodservice bulk-type toward retail consumer packs last spring when COVID broke. Now, with foodservice on the rebound, they will need to reverse that change and it could leave one channel or the other short of product for a while.

Hams have shown surprising resilience and processors will be busy preparing for the upcoming sandwich season. I've got hams forecasted to ease a little in the next few weeks, but they are likely to remain well above historical averages for this time of year. We are starting to see a little weakness in the lean trim and I can't help but wonder if that is because hams are starting to go into the grinder. Ribs are getting hit with a double whammy of strong demand from foodservice reopening and consumers in the retail market looking to fire up their smokers this spring. To me, the butts seem like the logical place for price softness to set in, but it hasn't happened yet. The combined margin was higher again this week, but only by a little. It looks like it might be ready to make a top, but it has head-faked similarly a couple of times during the recent uptrend so I'm not ready to call a top in the demand cycle.

The net new export sales numbers were small on this week's report, but that shouldn't be surprising given the high pork prices. I'm actually surprised that exports have held up as well as they have throughout this run up in pricing. The Philippines has greatly increased its purchases of US pork as that country grapples with serious ASF spread. China has been taking a lot of US pork too, but that share isn't growing, it is in more of a sideways pattern of late. So, we are left with a market that continues to experience very strong demand and a hog supply that is slowly declining in seasonal fashion. The supply side looks pretty positive over the next couple of months, so if one wants to bet on lower hog and pork prices, they will need to count on demand stumbling. I'm not really looking for much demand weakness from now until Memorial Day, but have built in some softening as we move into June. Even so, hog and pork prices are likely to stay well above historical norms well into summer.





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

E: Rob.Murphy@jsferraro.com [in](#) [tw](#)

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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