



WEEK ENDING APRIL 02, 2021

THE PORK WRAP

Things slowed down a bit in the hog and pork complex this week, but they didn't turn south. The cutout was up about \$1.20 on a weekly average basis, but the negotiated markets and the LHI gained about \$4. I guess after three weeks of \$5+ moves in the cutout, it was time for the market to take a breather and let the hogs catch up.

Packer margins compressed this week, now at \$18/hd. That was down about \$5 from last week, but still a pretty good margin in a historical context. Packers don't seem to mind passing though some of their cutout gains to hog producers and producers are no doubt thankful for that. In fact, producer margins are now larger than packer margins. I have producers earning a little over \$25/hd on the animals they marketed this week. Isn't it amazing what \$100 hogs can do for profitability, even in the face of high grain prices? The fact that the gains in the cutout have slowed may lead some to wonder if the great pork rally of 2021 is approaching its end. I guess that is possible, but my rule of thumb has always been not to abandon a price move until it has adequately demonstrated that it is heading the other way. So far that hasn't happened here, although we are getting close to the point in time where I was looking for the rally to end. But even if it is ending, how fast will it come down?

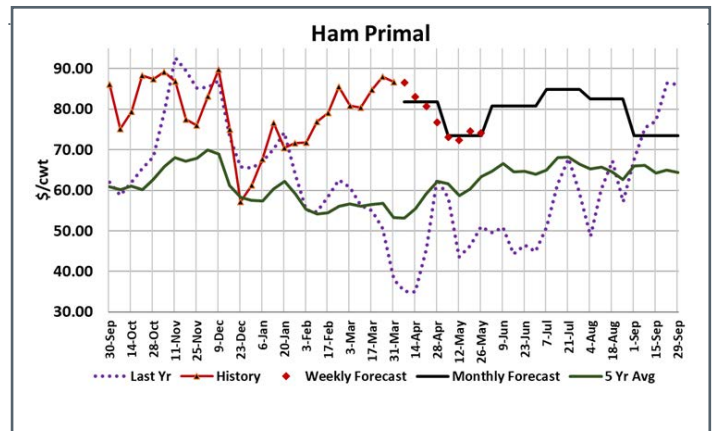
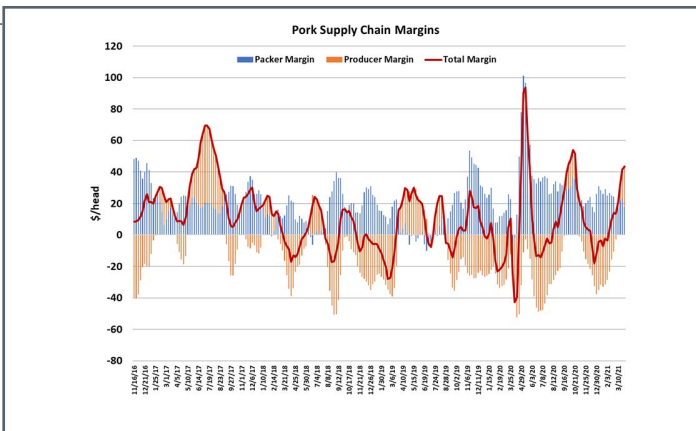
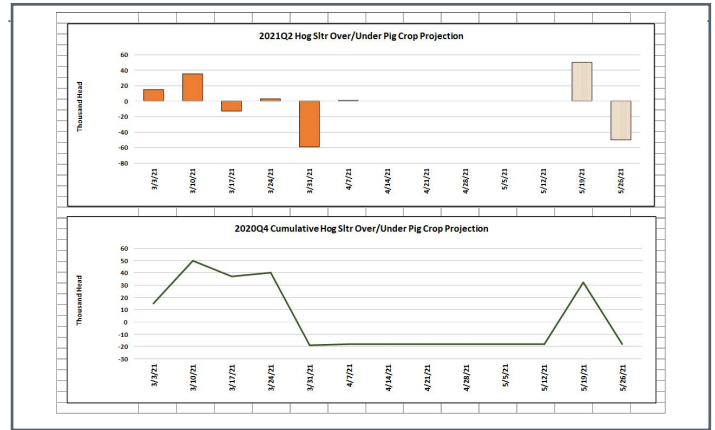
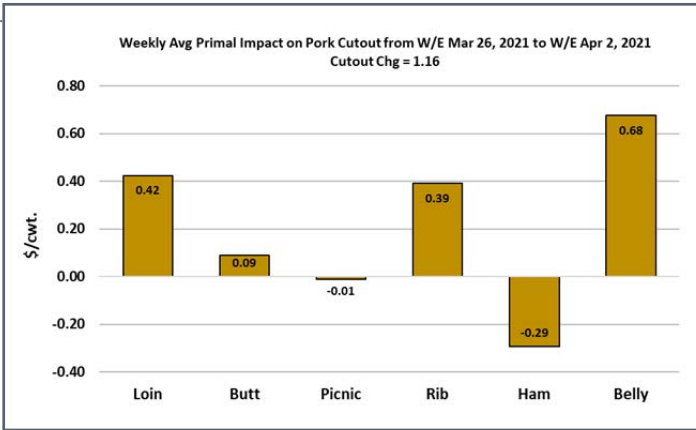
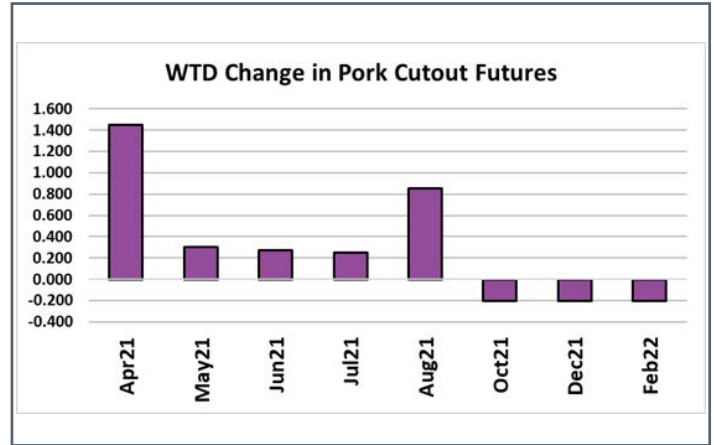
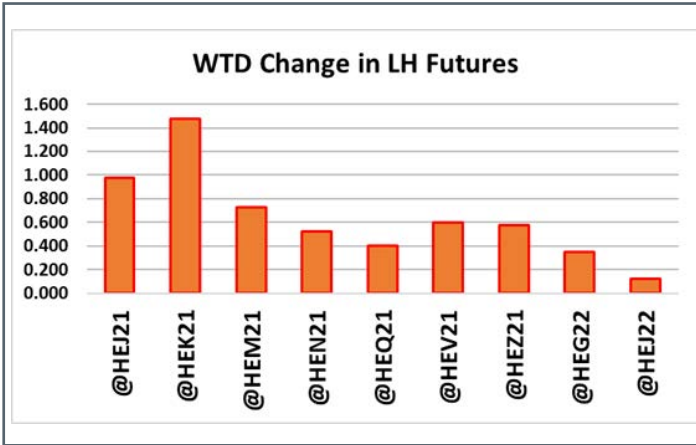
Pork demand remains exceptionally good. Hog kills are shrinking seasonally. Weights will be coming down seasonally soon too. So there are a host of factors that would argue for a very slow and gradual descent if the pork market is now in the process of turning lower. The combined margin chart below shows the deceleration in demand growth this week and it does look like it could be forming a top. The chart below shows that the bellies were the big supporter of the cutout this week while the hams put most of the pressure on. But hams have not come down nearly as much as I would have expected based on the end of Easter buying. In fact, the 23/27 lb hams were quoted at their highest level since mid-December on Friday. That doesn't seem like a weakening ham market to me. Spare ribs have also been very strong lately and the loin market seems to be holding up very well also. Thus, I think there's not enough evidence yet to write this rally off. The kill this week was constrained a bit by the Good Friday and Easter holidays and came in at only 2.47 million head.

That should tighten up pork availability a bit early next week and could give the cutout new life, especially if retail clearance was good over the holiday weekend. The weather forecast over the entire US certainly looks very good this weekend and that could help movement. Pork demand could also get a boost from soaring beef cutouts as retailers look for alternatives.

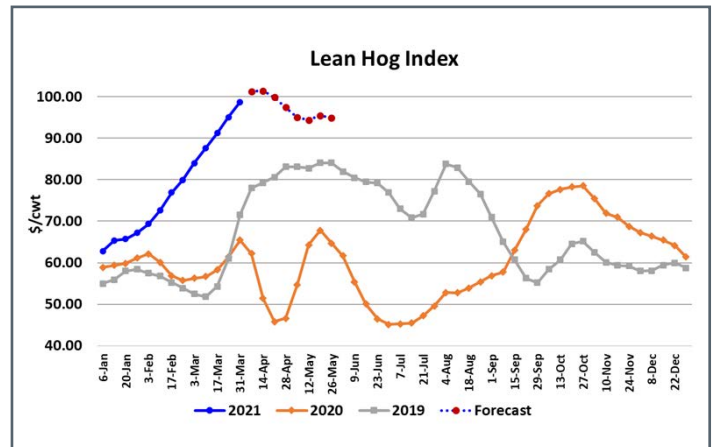
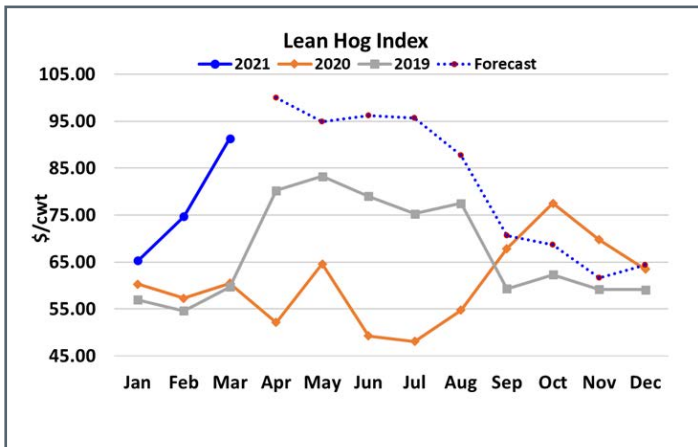
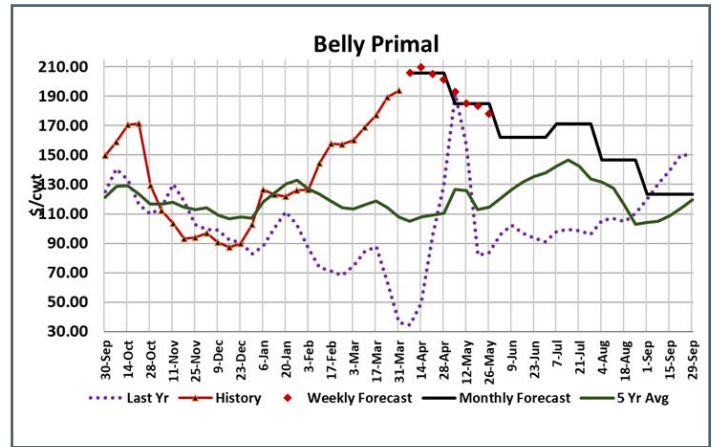
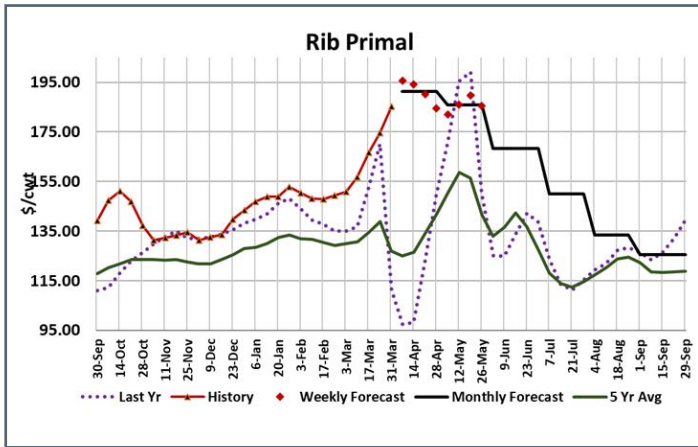
We are now entering that period of the year when hog kills move steadily lower. By early June, we could have kills below 2.35 million head and they could approach 2.25 million at a low point in early July. USDA issued a prospective planting report this week and it indicated that US farmers are planning to plant about 2 million acres less than analysts were expecting and that caused a sharp rally in corn futures. Still, Jul corn is below the \$5.50 mark and thus I don't think it is going to alter hog producer behavior much (e.g., cause downsizing). Strong corn pricing will likely continue to support the back month hogs however. My guess is that the period of high hog and pork pricing and the strong profitability that it is generating will cause hog producers to move back into expansion mode and the next H&P report is likely to show an increase in the breeding herd.

When gilts are retained into the breeding herd, they aren't available for pork production and so that herd-building activity would be supportive to pork pricing. USDA did print a rather large net new sales number to China on its weekly export report, so we need to keep an eye on that. I can't imagine that China is going to be an aggressive buyer of US pork at these price levels, but it bears watching because if China shipments and sales pick up substantially, speculators will notice and could help keep the deferred contracts elevated. Next week, watch the cutout for signs that demand is cooling and it is about to work lower. That said, don't give up on the current rally until clear evidence of a turn in demand manifests.

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