



WEEK ENDING APRIL 23, 2021

THE PORK WRAP

As usual, both pork prices and hog prices moved higher this week. The cutout was up \$2.25 on a weekly average basis while the WCB negotiated market was almost \$6 higher. That was enough to move packer margins down below \$15/hd and those margins will get even smaller next week when the full brunt of the cutout and WCB advance is registered in the Lean Hog Index.

On the supply side, there wasn't really very much unusual about this week. Barrow and gilt carcass weights held at 215, which is where they have been for the past 9 weeks now. The weekly kill totaled 2.47 million head, which is right on schedule with where the Sep/Nov pig crop indicated. Corn prices surged higher this week, with the May contract now over \$6.50/bu. That is starting to eat into producer margins by raising their cost of gain, but the cash hog price is rising even faster, so I doubt many hog producers are overly concerned about high corn prices right now. That will change quickly if the cash hog markets ever stop going up. The seasonal tightening in hog supplies is becoming evident now. Negotiated hogs in the WCB market sold for almost \$113 today. That is the highest price on record outside of the spring of 2014, when the PEDv outbreak sent hog prices briefly into the \$125-30 range. Packer margins are compressing.

As supplies get smaller between now and early July, a real margin risk exists for packers if the cutout ever stops going up because they might not have enough leverage to pressure the cash hog market lower and preserve their margin. Right now I've got packer margins going slightly negative in July and averaging a little less than \$5 per head in June. That assumes the cutout comes down some, but not a lot, from current levels. Outside of the crazy period last spring when COVID was disrupting the industry, packer margins haven't been in single digits for almost 2 years.

Producers, on the other hand, are enjoying astounding margins over \$35/hd, so you can see why high corn prices are not a huge issue for them at the moment. The combined margin continued higher again this week and is now challenging the top that it made last fall in that very strong demand cycle. My guess is that the current cycle is going to shoot way beyond last fall's peak and remain very elevated for weeks or even months. I really don't know what else to say about the demand side of this market other than it seems to be originating with domestic consumers and is extraordinarily strong.

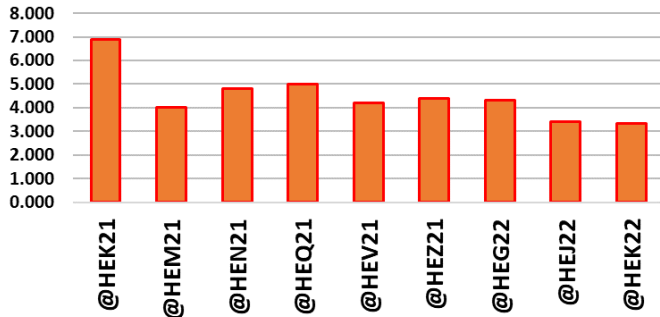
The chart below indicates that all of the primals were higher this week on an average basis, with the ribs and hams leading the way. Ribs I can understand because there are a lot of those used in foodservice applications and that sector is rebuilding inventories. Plus they are a favorite retail feature items across the Southern US in the spring. The persistent strength in hams however, is a bit perplexing. The 23/27 lb hams averaged almost \$92.50 today, which is extremely high for a bone-in ham at this time of year.

Of course, cold storage stocks of pork in general are well below normal levels. This week USDA reported total pork in cold storage at the end of March was down 27% from last year. Hams in cold storage are down 31% and belly stocks are 55% lower than last year. Those low stocks are forcing some buyers into the spot market that would normally be drawing from the freezer in spring and summer, so it is very much price-enhancing. Bellies showed a little softness toward the end of the week, but with stocks so low, I really don't expect belly prices to drop sharply anytime soon. That probably means that the cutout doesn't fall apart either and so buyers had better get used to paying a lot more for pork than they are accustomed to.

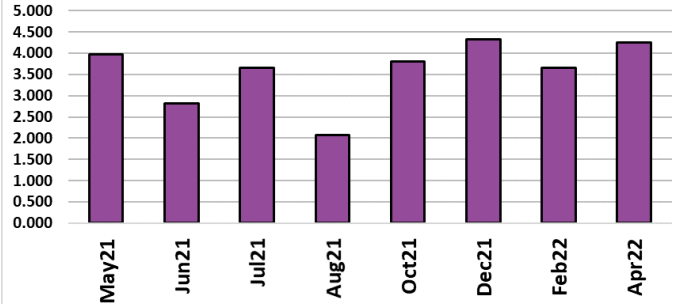
The real danger, as I see it, is that demand stays super-elevated right into July when hog supplies are shrinking seasonally. In that scenario, it wouldn't be all that surprising to see the cutout and cash hog prices both top \$125. The futures bulls would have a heyday with that. Those bulls are already having an extended party, particularly those that adhere to the front of the curve where the rising cash markets have forced the futures higher and higher. The May contract set a life-of-contract high today at \$109.45. I will say that the futures are very jumpy and volatile at these high levels. Any little hitch in a daily cutout print seems to send the futures down several dollars, particularly the Jun contract. Next week watch for further advances in the cutout and negotiated hog market as a sign that this rally still has life. My guess is that it does.



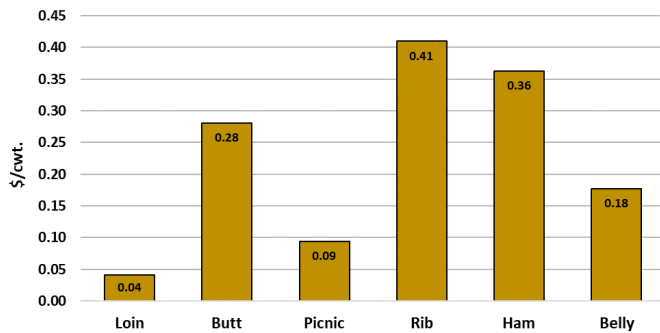
WTD Change in LH Futures



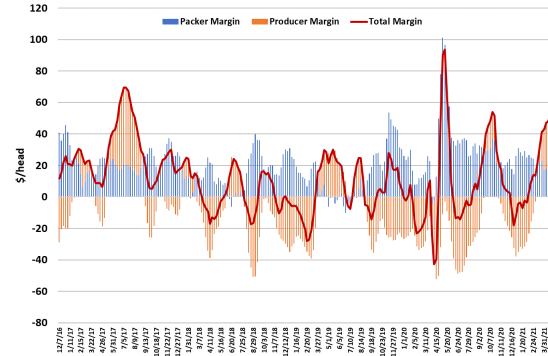
WTD Change in Pork Cutout Futures



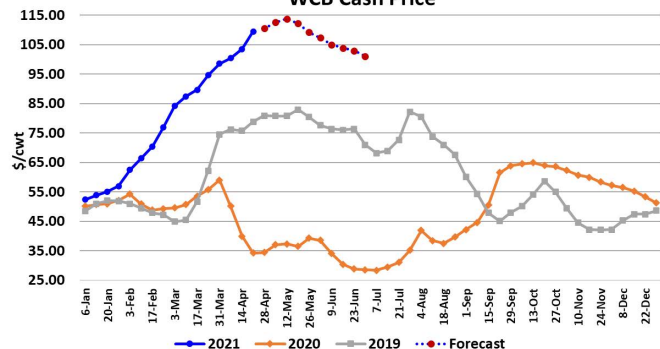
Weekly Avg Primal Impact on Pork Cutout from W/E Apr 16, 2021 to W/E Apr 23, 2021
Cutout Chg = 2.25



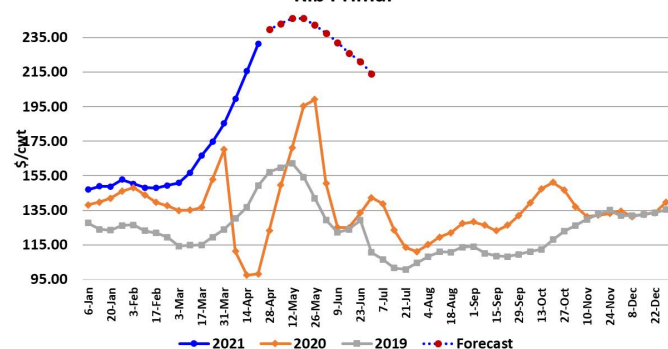
Pork Supply Chain Margins



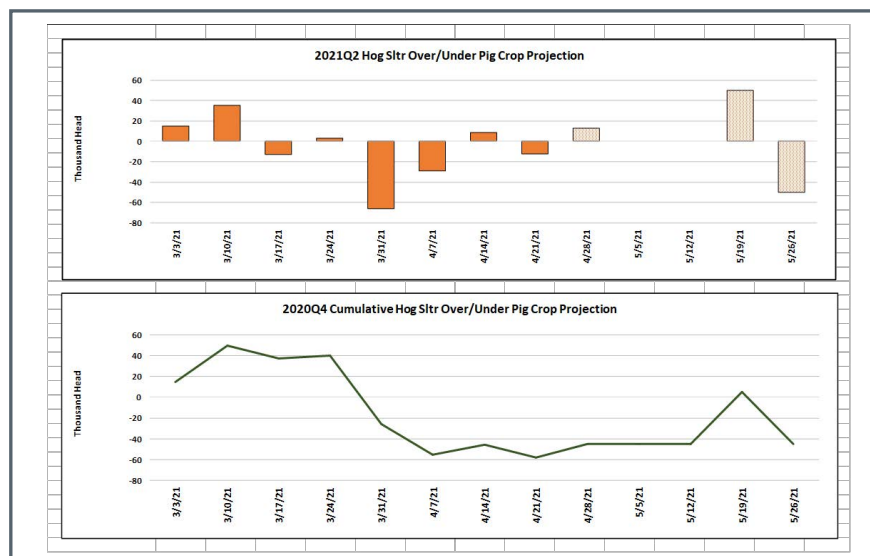
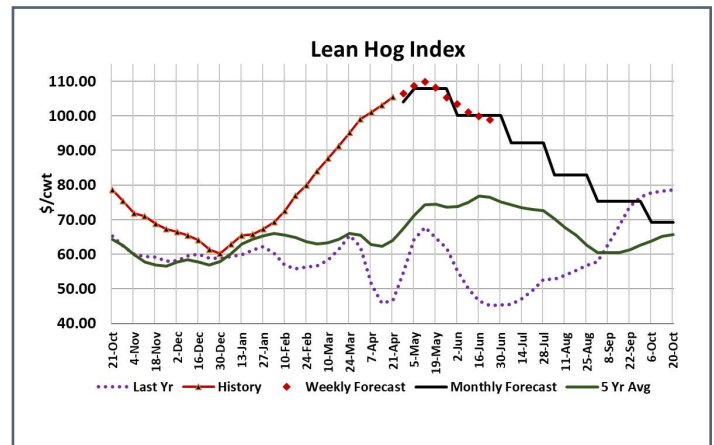
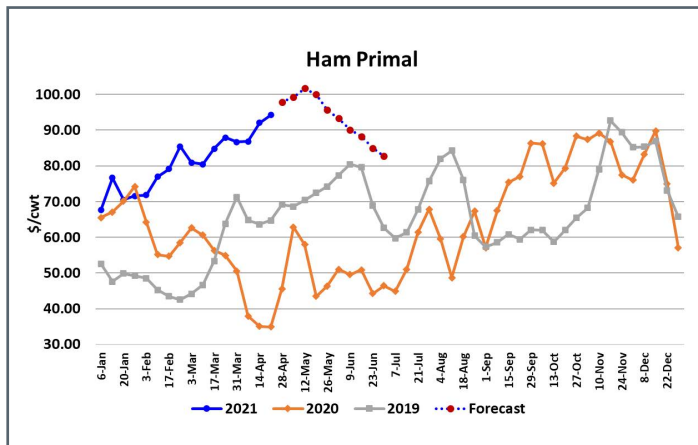
WCB Cash Price



Rib Primal



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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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