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THE MONTHLY

RED MEAT OUTLOOK: HOGS & PORK

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The price increases in the US hog and pork complex have been relentless since the beginning of the year. The cutout has marched steadily higher and is now challenging the $110 level.

> Exceptional domestic demand has **propelled** the pork cutout **toward $110**

At the same time, cash hogs have ratcheted higher as well and have recently breached the $100 mark. Back in February, we began looking for the markets to stall and then turn lower, but that never happened. Needless to say, there are many in the industry wondering just what is going on and I think you can count us among them. One thing that appears clear is that this is much more of a demand-driven market than a supply-side issue. Snugger-than-normal hog supplies at the independent producer level may be helping this rally a bit, but the bulk of this pricing strength is due to demand strength that is nearly off the charts. Similar to the situation in beef, demand for pork has moved to levels unseen before except for the panic-driven demand that happened last April/May when COVID-19 infections were closing packing plants. There is no such supply side disruption this year, yet prices are almost as strong as they were last spring when half of the normal production was eliminated. We saw a situation similar to this back in Sep/Oct, where unexplained demand strength lifted the cutout close to $100 in mid-October. That rally eventually faded, and this one will too, but the difference between now and last fall is that hog supplies and pork production were expanding as we moved into Q4. In the current situation, as we move into Q2, hog supplies and pork production are declining seasonally. That means that even if the demand strength starts to fade — and there's no sign of that yet — seasonally tighter supply could keep price levels elevated. That makes us believe that this episode of incredibly high prices will have a longer tail than the one we witnessed last fall.

SUPPLY PICTURE

Slaughter levels in the hog complex have been very close to what the Sep/Nov pig crop indicated. There have been some minor deviations, but on balance the kills are turning out to be very close to what was expected. The Sep/Nov pig crop was reported down 1.4% YOY, so the kill is also down a similar amount in theory. I say "in theory" because actual comparisons with last year are not very informative due to all of the chaos that was generated last year at this time by the spread of COVID-19. But because the pig crop was down 1.4%, this is where the idea comes from that supplies are a little tighter than normal — not a lot, but still below what we would have killed last year had COVID-19 not roiled the market. Packer margins are still decent, at around $18/head this week, and that is a sign that hog supplies are not overly tight relative to packing capacity. Hog prices have risen along with the cutout and

> Hog availability is down moderately from last year, but **packer margins** have held **near $20/head**

the Western Corn Belt negotiated market is now close to $100, but that is more an indication of packers passing along some of the strong demand influence than it is of supplies being exceptionally tight. Of course, the seasonal pattern is for kills to slowly shrink from this point into early July and we don't see any reason why that wouldn't be the case this year. So by the time we get into June, slaughter should be running about 2.35 million head per week, down from just below 2.5 million head last week.

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The carcass weight situation in the US swine market is relatively stable at present. Barrow and gilt weights have printed steady at 215 pounds for the past six weeks and while that is two pounds higher than last year, some year-over-year gain is normal and two pounds over last year doesn't signal any type of problem with producers falling behind on marketings. The de-trended and de-seasonalized weights that we watch as a gauge for hogs backing up in the pipeline doesn't indicate any problems. Hog weights also decrease seasonally from about late April into July, so that too will soon contribute to a tightening of supply.

In the recent *Hogs and Pigs* report, USDA concluded that the US hog herd is continuing to downsize. The most important number in that report was the Dec/Feb pig crop, which was reported down 1.4% YOY. Those are the hogs that will make up the summer (Jun/Aug) supply, so it is rational to expect the modest tightening of the hog supply to continue through the summer. USDA's survey also indicated that the breeding herd was 2.5% smaller than last year and it is that breeding herd that will produce the next pig crop which will end up at the slaughterhouse in the Sep/Nov quarter. That points to a hog supply below last year at least through November. These are not huge restrictions in supply, just modest declines, but they will be price supportive to some degree. We think that this is the last quarter where the USDA survey will show the hog herd declining. The incredibly strong pricing that we have witnessed in Q1 along with very robust deferred futures pricing is likely to put producers back into expansion mode and thus when the next issue of *Hogs and Pigs* comes out on June 24, we look for it to show a bigger breeding herd than what was just reported in the March report (see **Figure 1**).

DEMAND SITUATION

Last month we used the February price-quantity scatter diagram to illustrate how strong pork demand was and this month we feel compelled to do the same with the March scatter (see **Figure 2**). The strength in domestic pork demand has been unrelenting. The JSF demand indexes essentially reflect how far above or below the scatter regression line each data point lies. The cutout demand index for February 2021 was 1.15 — by far the strongest ever recorded in February. The March 2021 demand index is 1.21, also an all-time record for the month. So, there is no doubt in our minds that domestic pork demand remains phenomenal. However, no one seems to know exactly what is driving this. We speculate that consumers, bored with COVID-19 restrictions, are treating themselves to high-quality protein meals as a form of entertainment during this period where they are not able to travel or dine out safely. Further, savings are increasing for consumers who did not lose employment during the pandemic and that creates a wealth effect that is demand-enhancing for red meats. The last time we saw a demand phenomenon like this was in the early 2000s when the Atkins Diet craze swept the nation, where consumers to adopted high-protein, low-carb diets as a means of losing weight fast. Those diets have become popular once again, although they go by different names now, such as Paleo diets. Back then, it took many months of unexplained demand strength before analysts caught on to what was happening. Maybe that is the case once again.

International demand for US pork has been good also, but growth in that segment has been lacking. We see Q1 pork exports down somewhere in the area of 7-10% YOY. That is primarily due to very strong pork exports in Q1 last year, rather than any serious weakness in exports this year. Movement to China remains strong and there have been reports of fresh ASF outbreaks in China that some think will lead to greater purchases of US pork later this year. The weekly export sales data out of USDA has recently shown an uptick in interest by China, so there could be some truth to those reports. However, the Chinese have demonstrated that they are adept at containing ASF and our guess is that they will quickly move to limit the impact of new outbreaks. Our view is that China will remain a major export destination in 2021, but further growth in movement to China will be minimal.

SUMMARY

Super-strong domestic demand continues to be the dominant feature in the US hog and pork complex. The source of this demand strength is difficult to ascertain, but could possibly be originating from a change in consumer spending patterns during the pandemic or the resurgence of high-protein diet fads. Whatever the cause, the demand strength appears to be persistent and is likely to support pork prices at very high levels for quite a while. The supply side of the market is well behaved and kills are coming in close to what prior pig crops have suggested. Slaughter is now declining seasonally toward a bottom in early July and carcass weights will soon be on a similar path and that points to tightening pork supplies over the next three months. Cutout values may not be able to hold near their current levels around $110, but it is a pretty good bet that they will stay north of $90 into the summer months. Very strong beef pricing is expected this spring and that will also help support pork values. That said, the futures market looks overly optimistic at present, particularly as it relates to the fall and winter months, so buyers are advised to keep forward pricing activity confined to spring and early summer and avoid extending coverage into the fall months. **Table 1** provides our near-term price forecasts.

Figure 1: US Swine Breeding Herd, 2005-2022

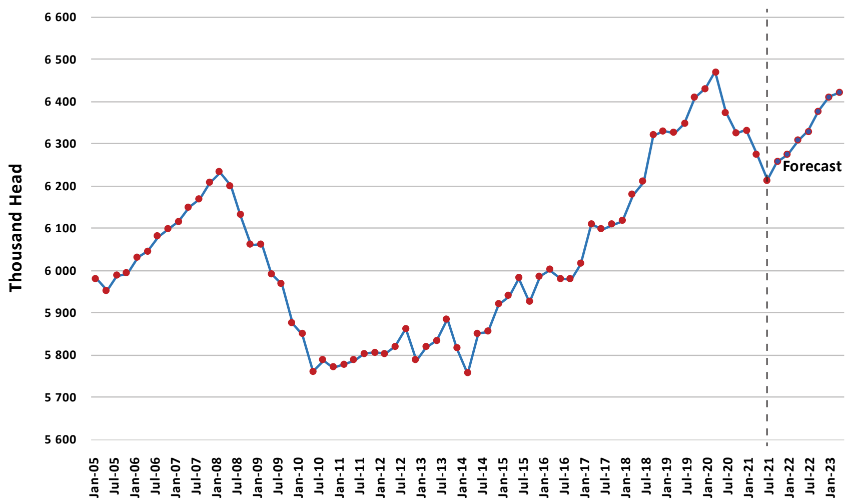

Figure 2: Pork Cutout vs. Per Capita Domestic Disappearance, Mar

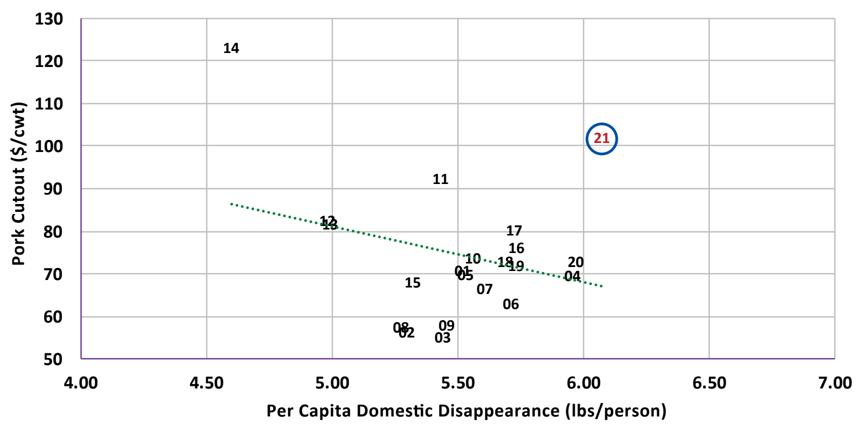

Table 1: JSF Hog and Pork Price Forecasts

	14-Apr	21-Apr	28-Apr	5-May	12-May	19-May
Pork Cutout	108.9	106.4	103.1	100.2	99.4	100.5
Loin Primal	95.2	93.3	90.1	88.6	88.9	88.5
Butt Primal	101.2	100.3	97.6	98.6	101.0	105.3
Picnic Primal	74.6	71.0	68.2	65.7	66.9	69.0
Rib Primal	194.3	190.3	184.6	182.0	186.0	189.8
Ham Primal	83.0	80.7	76.7	73.1	72.4	74.5
Belly Primal	209.9	205.3	201.4	193.0	185.0	183.3
Lean Hog Index	101.4	99.9	97.4	95.0	94.4	95.5

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