



WEEK ENDING MAY 07, 2021

THE PORK WRAP

The cutout turned back higher this week, adding \$3.36 on a weekly average basis. Cash hogs also moved higher, with the WCB negotiated market up \$4.68. The turnaround in the cutout was helped along by some modest improvement in belly prices, which had been a source of softness over the last couple of weeks. The belly primal added about \$5 on the week. The rest of the carcass continues to look strong, with the exception of the hams.

The ham primal was down about \$3 on the week, but I don't want to conclude that the hams are going to enter into a long-run downtrend. I think it is probably just a bit of a breather for the hams, much like the bellies just took and soon processors will be back to bidding them up. I've got the ham primal forecasted to peak at just over \$100 ahead of Memorial Day and after that they should start to work lower. Packer margins improved this week to about \$6/head, but that is inflated somewhat by the fact that the full impact of the higher negotiated hog market hasn't yet been registered into the LHI. Once that happens, I'd look for margins to be closer to \$4/head. This rapid compression in margins has definitely caught packer's attention and this week they responded by slashing the Saturday kill down to a mere 15,000 head.

That moved the weekly total down to 2.41 million head. I'm sure they are hoping that will boost the cutout next week and I suspect they are right on that. Cutting the kill right in the midst of prime grilling season demand is going to force some pork buyers to pay more than they would like. Another side effect of cutting back on the kill is that it might cool down the red-hot cash hog market. It dipped a little on Friday, but my guess is that it would take several weeks of constrained kills to have a material impact on cash hogs. Hog weights finally printed lower this week, with barrow and gilt weights down one pound to 214. As of today, the weather forecast holds cooler-than-normal temperatures throughout the midsection of the country for the next week or so and that should be supportive to hog weights in the near term.

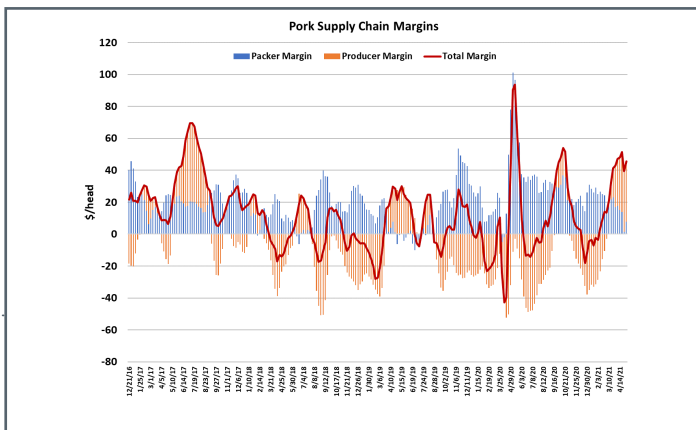
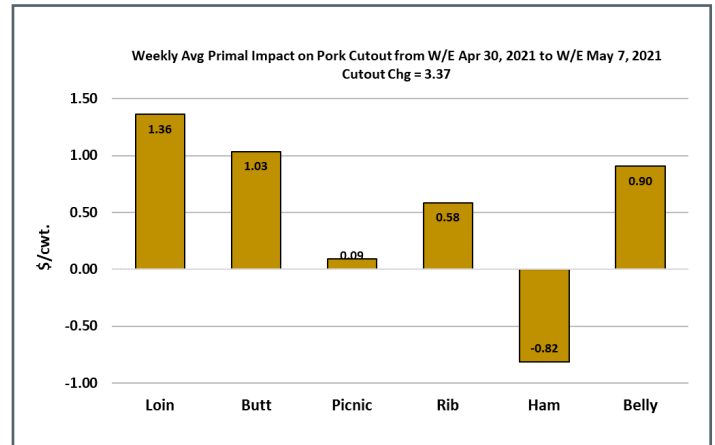
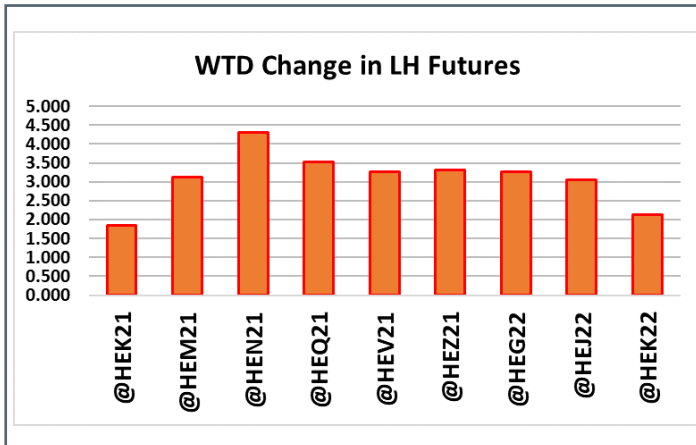
However, hot weather is inevitable as we head into summer and that will start to push weights lower and become a drag on overall pork production for the next 2-3 months. With the arrival of June, the industry will begin killing the Dec/Feb pig crop, which was estimated to be down 3% from last year. So, both hog numbers and hog weights are moving in the direction of tighter pork production. Demand remains phenomenal. Just look at the scatter diagram below for the month of May. The 2021 data point is actually further off of the regression line than the point for 2014 when the industry was dealing with sharply reduced production due to PEDv. With supply shrinking and demand super strong, I was forced to raise price forecasts yet again this week.

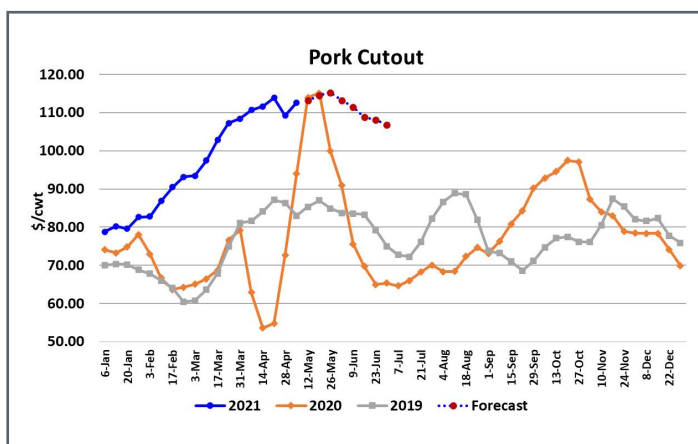
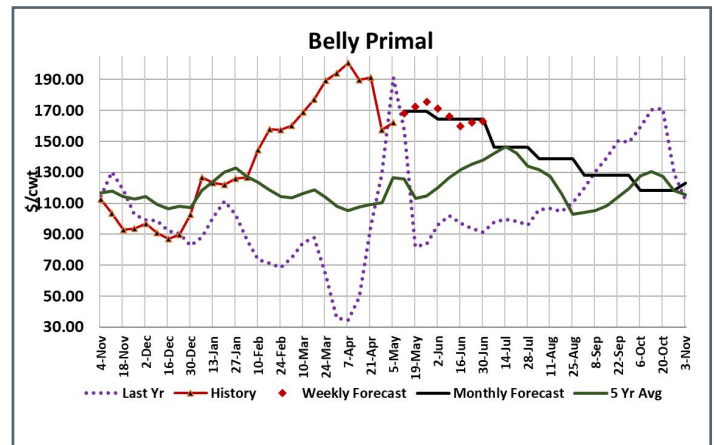
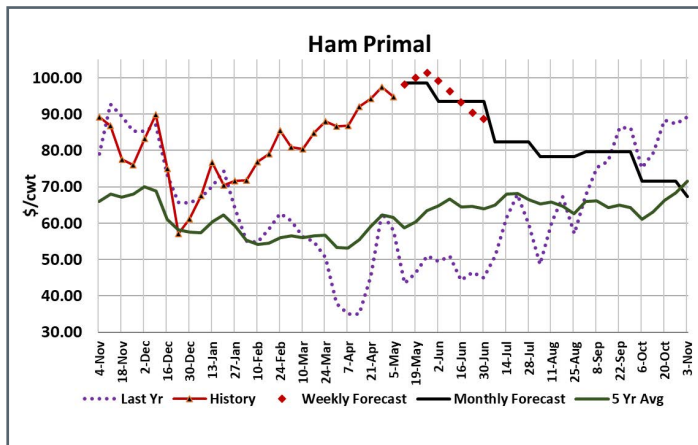
I've now got the cutout continuing to work higher until just after Memorial Day, when I would expect some of the seasonal demand pressure to let up and thus prices could start to erode some. I don't think the market is going to go into a large-scale freefall however. There are just too many buyers out there that are in hand-to-mouth mode right now and those will be greatly tempted to step into the market on even a modest price decline. In fact, after this week's forecast revisions, I now have the cutout holding above \$100 until mid July. I also dialed up the demand forecasts through the remainder of the year, because it has become abundantly clear that this strong demand environment is going to last much longer than originally envisioned.

The combined margin, which I use to quantify demand cycles, turned unexpectedly higher this week after posting a sharp downturn last week. That also factored into the decision to push demand higher over the next few months. However, even after increasing the demand index forecasts for the second half of 2021, the deferred futures still look way too rich. I guess futures traders are looking for way stronger demand than I am, or else they expect a much brighter export picture in the second half of the year because supplies for the balance of 2021 are fairly easy to project at this point. Some of the enthusiasm for deferred hogs may be arising from a commodity price inflation play.

Prices of all commodities, except cattle, are now quite elevated. Corn seems to be leading the way, with the nearby May contract settling at \$7.72/bushel today. With feed prices so high, hog producers will need to see hog pricing this fall much stronger than normal in order to avoid financial disaster. The hog futures market is offering them that opportunity right now and they can hedge very strong pricing right through Q1 of next year. The official export data for March was released this week and it showed a 3.9% gain over last year's strong number. That was bigger than what I had dialed in, but not large enough to explain the strength in hog prices that we saw in March.

China is still buying a lot of US pork, but it is their appetite for US beef that is capturing all of the attention lately. Next week, watch the ham primal for some firming up after this week's setback and keep an eye on the daily kills for indications that packers feel like they need to do more than just cut out the Saturday kill in order to improve their margin.





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