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WEEK ENDING MAY 14, 2021

THE PORK WRAP

The pork cutout inched a little higher this week, adding $1.56 on a weekly average basis. In the cash hog market, the WCB negotiateds added only $0.33/cwt, while the LHI was up $2.25. The bigger gain the LHI compared to the negotiated market reflects some catching up that the LHI needed to do following last week's strong rally in the negotiated market.

Packer margins moved about a dollar lower, now close to $4/head. Last week, packers did very little in terms of a Saturday kill and I suspect they may do even less this week. They are having difficultly staffing plants and margins are not great anyway, so why not let the Saturday kill go to almost nothing. By my estimate, this week's kill should come in very near 2.4 million head, which is not all that different from last week's total. It is however, about 30k below what the pig crop implied. So, with two weeks to go in this pig crop quarter, the kill is running 80k below the pig crop and that may slip another 20k between now and the end of the month. So, hog slaughter is beginning to tighten down seasonally.

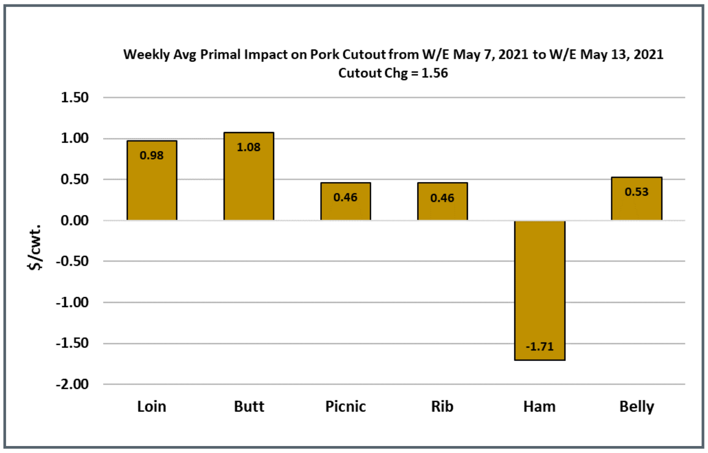
Carcass weights are also starting their seasonal descent. This week's weight data showed a 1 pound drop in barrow and gilt weights and the IA/S. MN liveweight data suggested the FI weights will print lower again next week. The DTDS weight is now registering -3, which is very low and an indicator that hog producers are current on their marketings. Thus, I don't really see any surprises on the supply side of the market. Negotiated hog prices have slipped off of their highs by about $3 in recent days and that may indicate that a near-term top has been made in the negotiated market. However, it is certainly conceivable that cash hog prices resume their march upward as hog supplies tighten further in June and July.

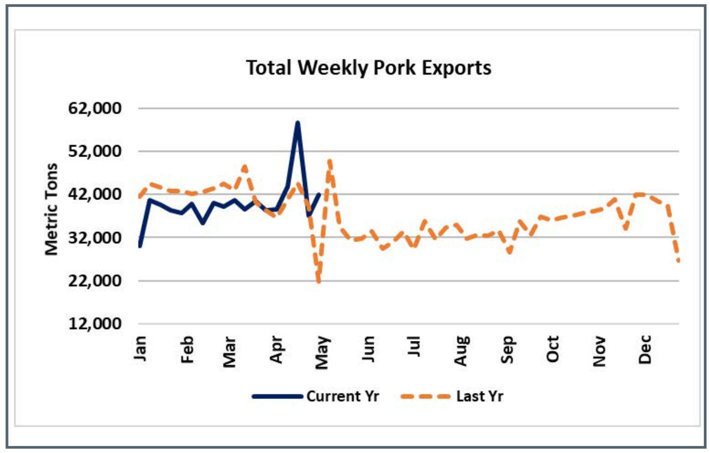
On the demand side of the market, we are seeing very strong demand for the retail cuts–loins, butts, ribs. The weak sister in the cutout is the ham primal, which has dropped $10 over the past two weeks. The combined margin chart made a goofy little bend higher this week, so I'd say that we are still inconclusive as to whether or not the current strong demand cycle is nearing its end. Even bellies managed a modest gain this week, up about $3.50. We are really close to the point where the Memorial Day buying dries up and I suspect that the retail cuts will start to ease lower once that point is passed.

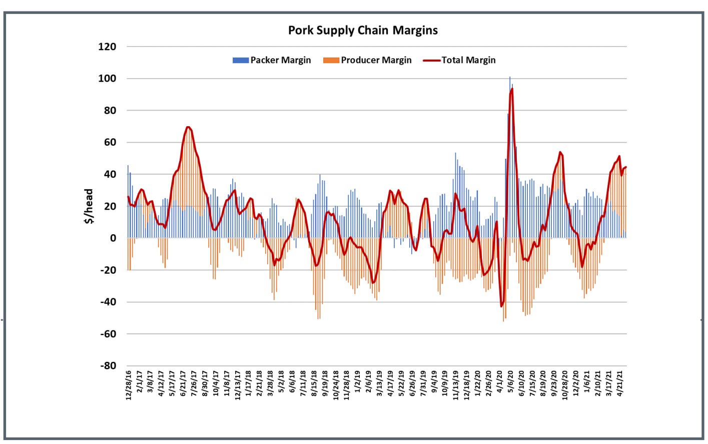
That means that the cutout could soon start moving south, although I don't expect that it will do so at a strong clip. Instead, I'd look for a $1-2 drop in the cutout, on average, each week between now and the end of June. That would still leave the cutout somewhere in the $105-110 range moving into the first week of July.

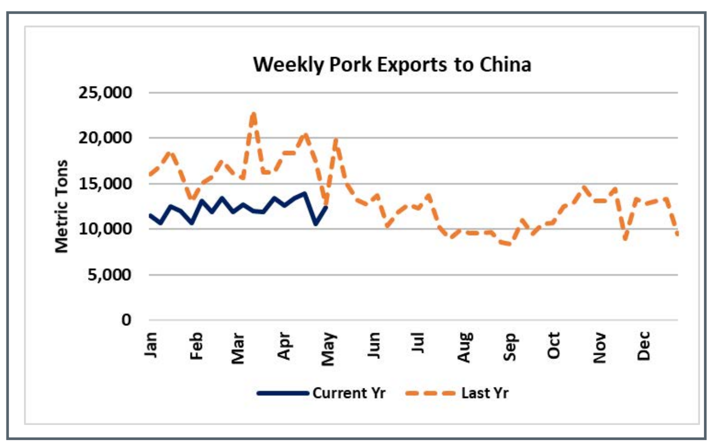
I'm expecting packer margins to work lower from here and turn modestly negative in June. In the context of the LHI, the lower cutout is bearish, but the smaller margin is bullish and those just about wash each other out so that the LHI remains in the $108-111 range through May and for most of June. Grain markets came crashing down near the end of the week and that took some of the air out of the deferred hog futures. However, grain futures are at that point in the calendar when volatility is near its annual high, so I think we can expect to see many more wild swings, both up and down, in the corn and soybean markets. That will move the deferred hog futures up and down as well.

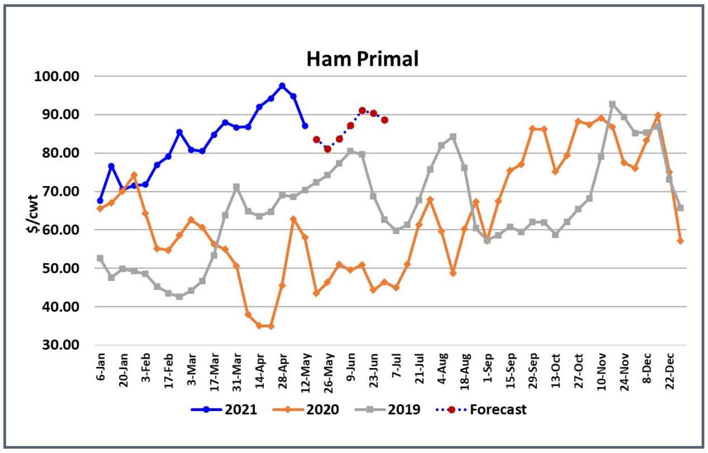
Export markets also seem to be stuck in a sideways pattern, with reported shipments running around 40k MT per week, outside of the weeks where reporting anomalies cause spikes. Even shipments to China remain in the same sideways pattern they have been in for most of 2021. It is actually pretty impressive that international demand has been able to hold steady in the face of rising US pork prices this spring. That may be an indication that this strong demand environment is not limited to just the US, but is part of the fundamentals in many other countries. Next week, watch the hams for signs of further deterioration and be prepared for a topping in the retail cut markets.

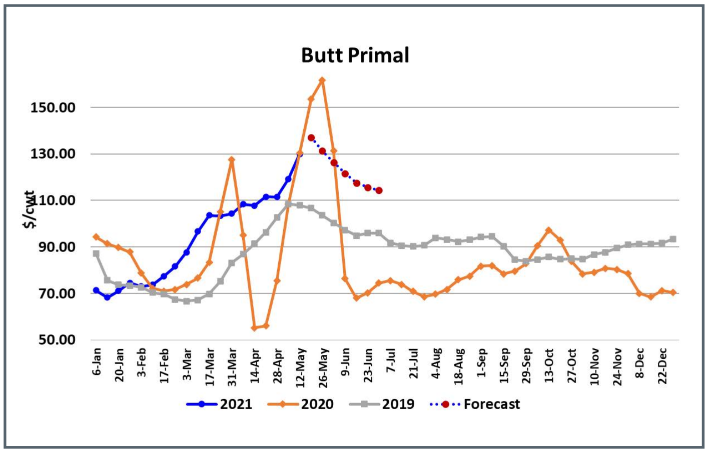

Weekly Avg Primal Impact on Pork Cutout from W/E May 7, 2021 to W/E May 13, 2021
Cutout Chg = 1.56
$/cwt.
1.50
1.00
0.50
0.00
-0.50
-1.00
-1.50
-2.00
0.98
1.08
0.46
0.46
-1.71
0.53
Loin
Butt
Picnic
Rib
Ham
Belly

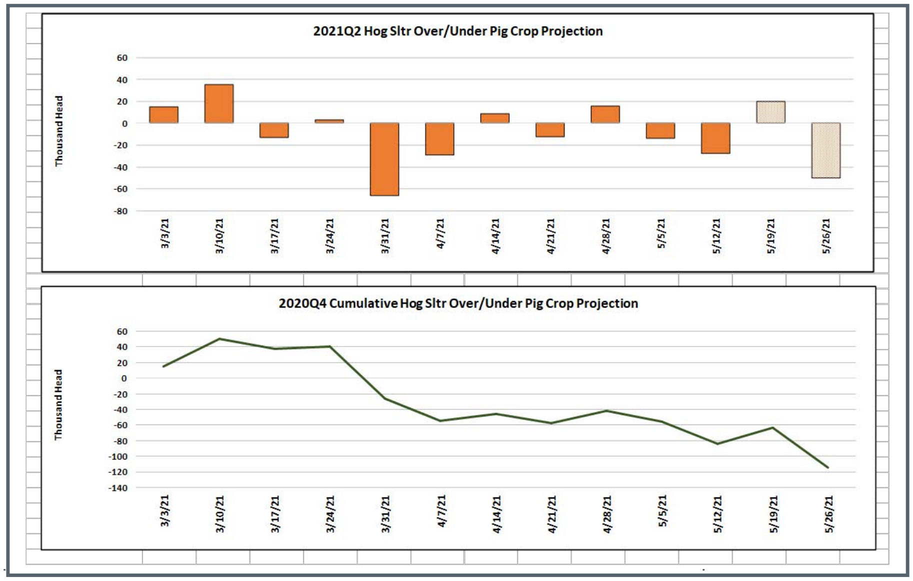

Total Weekly Pork Exports
Metric Tons
62,000
52,000
42,000
32,000
22,000
12,000
Jan
Feb
Mar
Apr
May
Jun
Jul
Aug
Sep
Oct
Nov
Dec
Current Yr
Last Yr


Pork Supply Chain Margins
Packer Margin
Producer Margin
Total Margin
$/head
120
100
80
60
40
20
0
-20
-40
-60
-80


Weekly Pork Exports to China
Metric Tons
25,000
20,000
15,000
10,000
5,000
0
Jan
Feb
Mar
Apr
May
Jun
Jul
Aug
Sep
Oct
Nov
Dec
Current Yr
Last Yr







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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.