



WEEK ENDING JUNE 11, 2021

THE PORK WRAP

The hog and pork complex continued higher this week with the cutout adding \$3.74 on a weekly average basis and the WCB negotiated market up a whopping \$9.40. Packer margins clocked in at \$28/head, down \$2 from last week. That margin will shrink further once the full impact of the rapid rise in the negotiated hog markets gets fully reflected in the LHI.

Production this week bounced back from the Memorial Day and JBS-cyberattack-shortened kill the week before. In fact, this week's kill was about 60k more than the pig crop projected so that may reflect a conscious effort on the part of packers to make up some of the lost kill from the previous week. Carcass weights are working seasonally lower also, further restricting production. The fact that the negotiated hog market was so strong this week tells me that market-ready hogs are tight and packers will probably have to give up a lot of margin in the next few weeks as they chase hogs to fill their kill schedules.

But what about the cutout? Well, there were some concerns about the cutout late in the week as the ham primal took a dive. Ribs also saw a good bit of softening. The weakness there was offset by further strength in the retail cuts and a little help from the bellies as well. However, the hams are such a big part of the carcass that it will be difficult to keep the cutout on an upward trajectory if hams are heading south in a major way. June and July normally see pretty good buying interest on hams, so this week's softness could get reversed in the next few weeks. It looks to me like the hams are going to trade in a zig-zag pattern for a while—a couple of weeks up, then a couple weeks down (chart below). The primal found good buying interest down around the \$80 level a few weeks ago and I suspect that will be the same this time around.

Currently, the primal sits at \$87 so there could be some additional downside risk in the near term. The ribs are a little more difficult to ascertain, but I'm not completely convinced that they will continue lower. Cold storage stocks of ribs are down about 67% from 2019 levels, so there will be some rib users that must remain in the fresh market when normally they would be more of a frozen user. Ribs have a strong foodservice presence and I suspect that demand will be good there all summer long. So, although there are a couple of weak spots, when we look at pork demand overall, the picture is still bright.

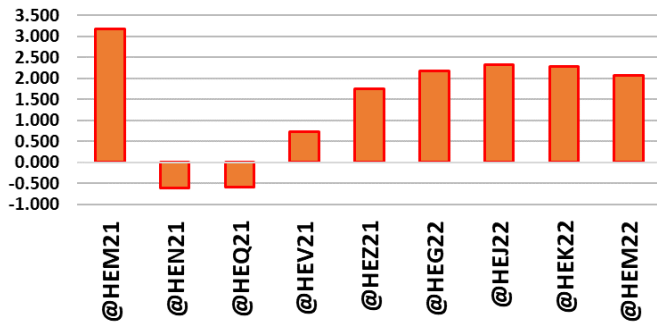
The combined margin is still moving higher and not all that far from the record peak that it made last spring in the midst of all the covid craziness. I fully expect the cutout to breach the \$137.56 all-time high that was set back in the summer of 2014 when PEDv had restricted hog supplies. This week we got the official export numbers for April and it showed a 2.1% increase over last year. However, the weekly numbers are pointing about a 5% decline in May exports.

The way that pork prices escalated this spring, I'm actually surprised that the May decline isn't bigger. It does look like China is pulling back on pork exports from the US, but interestingly, they are eager to buy very expensive US beef. Honestly, I think export demand has held up very well given the high price of US pork this spring and summer. But this market is being primarily driven by domestic demand and I don't see anything on the horizon that would significantly crimp domestic demand over the next couple of months. So, with demand remaining firm and hog supplies and hog weights expected to dwindle, it is hard not to call this market higher, at least until supplies start to expand seasonally later this summer. Traders are obviously concerned about the cutout and it did print about \$1.50 lower this afternoon. Still, it is important not to be too fixated on the cutout when the negotiated markets are roaring higher.

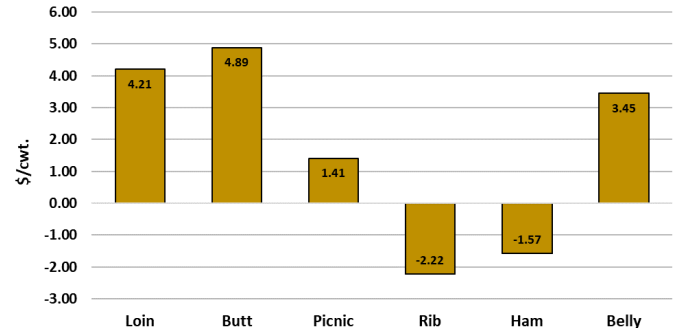
That is a sign of very tight hog supplies and in the end, tight supplies will trump whatever demand softness might attempt to develop. Packer margins should start to shrink rapidly and at some point, they may go back into margin management mode. They may drop the Saturday kill completely if the cutout doesn't keep pace with what they are having to pay for hogs. Next week, watch the hams and ribs for signs of further weakness. Also keep an eye on the negotiated markets because those could be the primary driver over the next few weeks.



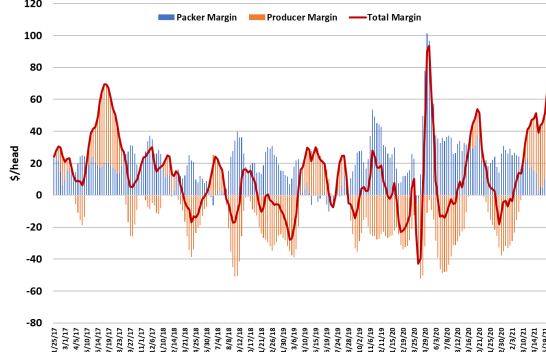
WTD Change in LH Futures



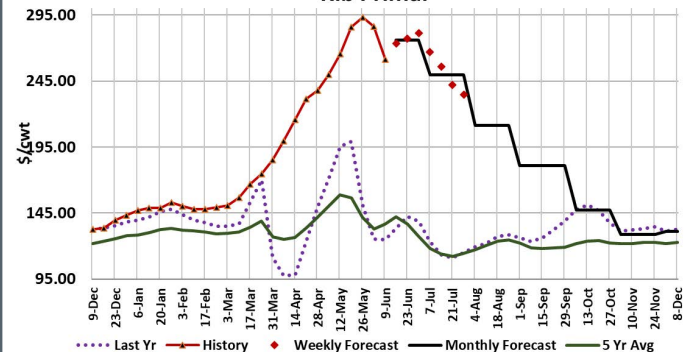
Weekly Avg Primal Impact on Pork Cutout from W/E Jun 4, 2021 to W/E Jun 11, 2021 Cutout Chg = 3.75



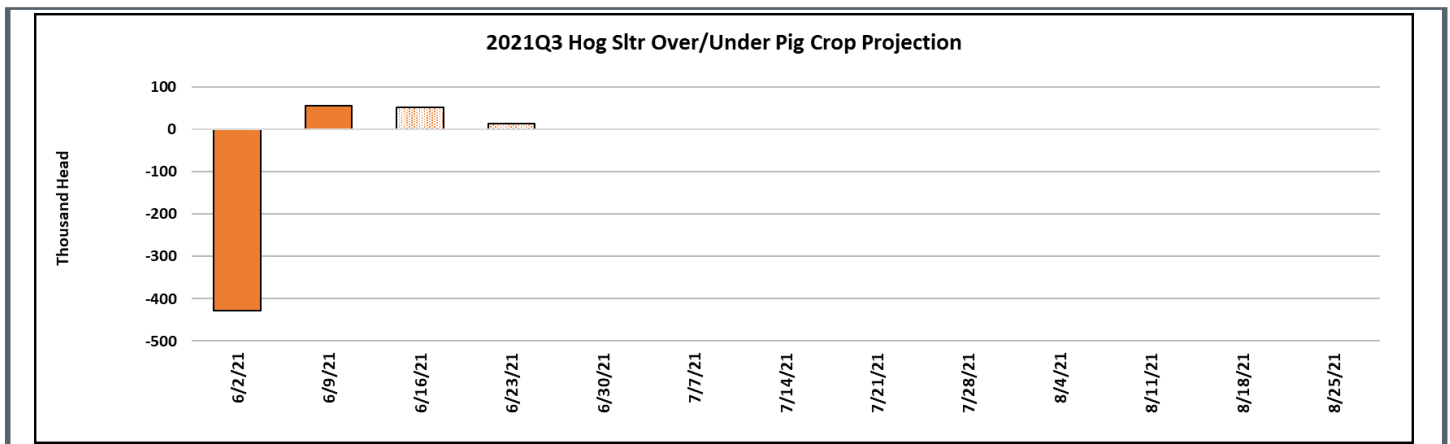
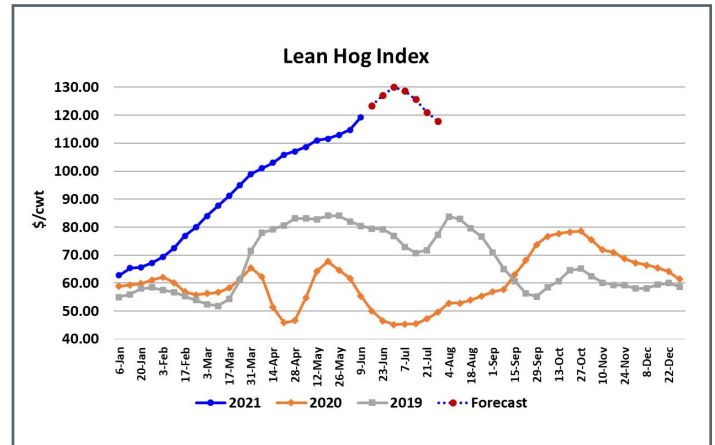
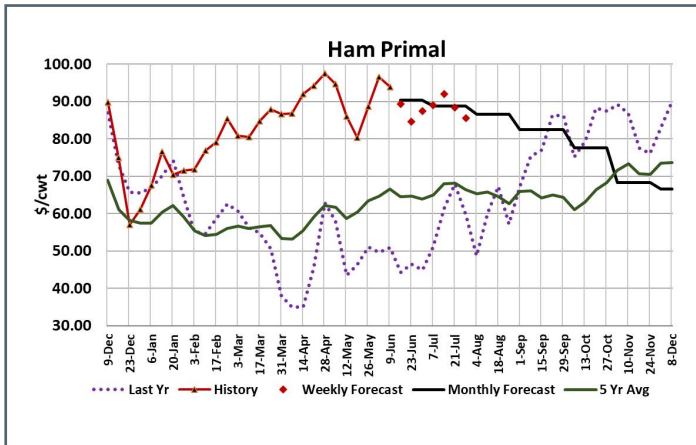
Pork Supply Chain Margins



Rib Primal



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