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WEEK ENDING JUNE 25, 2021

THE PORK WRAP

What a wild week it has been in the hog and pork complex. It has become abundantly clear that the cutout has finally turned downward after six month of moving almost straight up. The chart below indicates that it is primarily the loins and bellies that have pushed the cutout lower. However, the bellies appeared to bounce back some Thursday and we know that cold storage stocks of bellies are pretty light. This week's cold storage report showed belly stocks down 40% from last year and the five-year average as of the end of May. Some belly slicers that normally would have drawn on frozen inventories during the summer are likely being forced into the cash market.

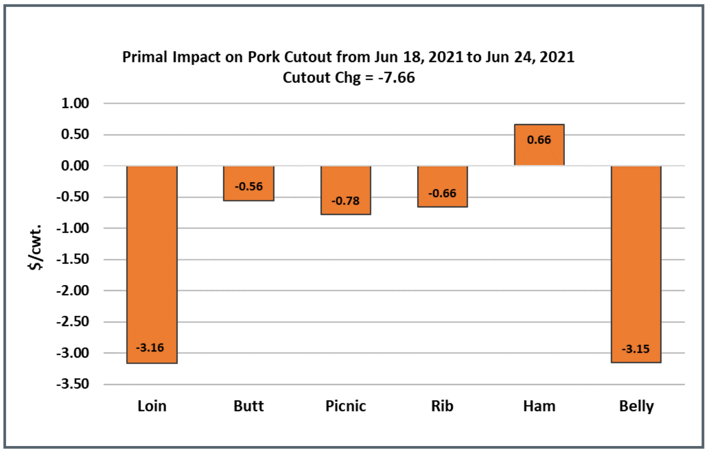
Hams, on the other hand, are only 17% below their five-year average. It is pretty clear to me that the main retail cuts–loins, butts and ribs have topped and will probably trend lower through the remainder of the summer. The direction of bellies and hams however, is less certain. Low stocks could mean a belly rebound in the weeks ahead and hams appear to be cycling higher after three weeks on the defensive. I don't think that any strength in the processing items will be enough to offset the decline in the retail cuts and thus the forecast has the cutout working lower through the end of July. On Tuesday, the cutout lost nearly $13–the biggest daily drop ever recorded as packers puked up bellies at a sharp discount.

Often these kinds of events are followed by a sharp rebound, but it definitely affects the tone in the market and can cause buyers to step back. The bellies posted a significant increase Thursday, but I'm not sure that it is going to stick. There is so much volatility in all parts of this market right now that forecasting is an exercise in frustration. The futures market sells first and asks questions later. Thursday, the July contract, which was trading around $120 less than two weeks ago, settled at $100. August has taken a beating also. My, how quickly the air can come out of an inflated market. The quick retreat in the cutout has caused packer margins to go sharply negative and they are beginning to pressure the cash hog market. I have packer margins at -$17/head this week, but the true value will probably be closer to -11/head once all of the softening in the negotiated markets gets fully reflected in the LHI next week. Clearly, packers are not happy about this situation and have decided to kill almost no hogs on Saturday in an effort to correct their margin problem.

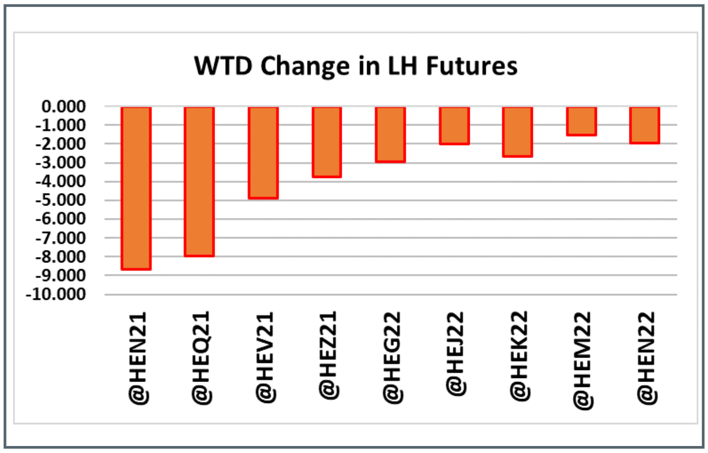
That could help support the cutout next week, but it in this environment it is going to be tough to convince a pork buyer to pay higher money for anything. I don't think consumer demand has declined nearly as much (if any) as recent wholesale price declines would suggest. This is purely a feedback loop created by scared futures traders selling out of some very high priced contracts which then causes pork buyers to back away and the resulting drop in the cutout scares the futures traders even more.

If consumer demand is still strong (and I think it is), retailers won't be able to back away from the pork market for long or else they will have empty meat cases and that is unacceptable. If this were November or December when pork supplies are huge, then I would say look for the cutout to fall $20 or $30 in a short about of time. But this is late June, when hog and pork supplies are a their seasonal low point and that makes me think that there is a reasonable chance of greatly slowing the fall or perhaps even getting some small increases in the next couple of weeks.

Today's Hogs and Pigs report didn't hold any big surprises, but the Mar/May pig crop was about 1.2% smaller than the average analyst forecast and 3.1% smaller than last year. The data didn't show wild expansion in the breeding herd as a result of this spring and summer's strong pricing. That is a good thing, because it is looking more and more like China is starting to back away from the US pork market and if that continues there will be lots of pork looking for a home later this year. Next week, watch everything because it is going to be a fascinating market with volatility everywhere. Strap on your seat belt and enjoy the ride!



Primal Impact on Pork Cutout from Jun 18, 2021 to Jun 24, 2021
Cutout Chg = -7.66
$/cwt.
1.00
0.50
0.00
-0.50
-1.00
-1.50
-2.00
-2.50
-3.00
-3.50
-3.16
-0.56
-0.78
-0.66
0.66
-3.15
Loin
Butt
Picnic
Rib
Ham
Belly



WTD Change in LH Futures
0.000
-1.000
-2.000
-3.000
-4.000
-5.000
-6.000
-7.000
-8.000
-9.000
-10.000
@HEN21
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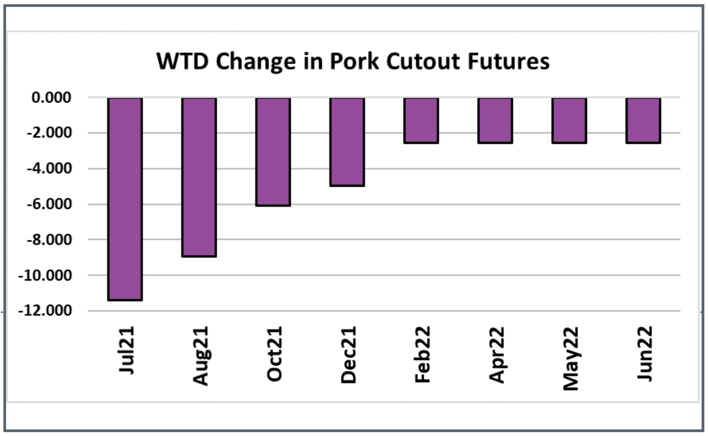
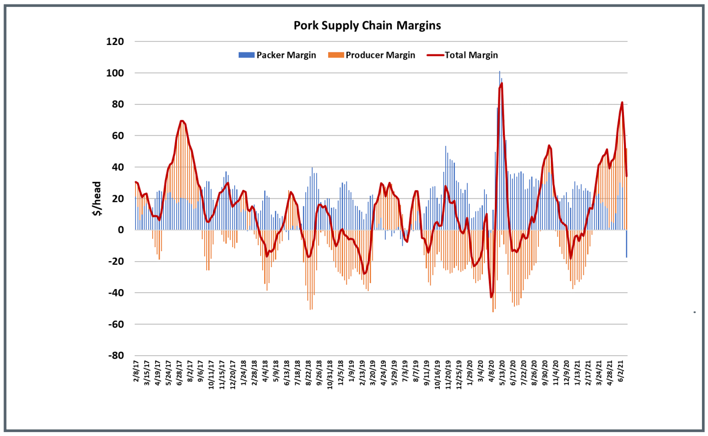
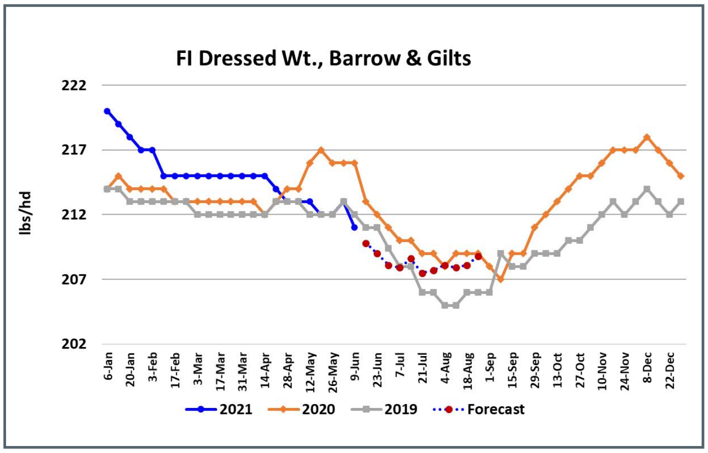
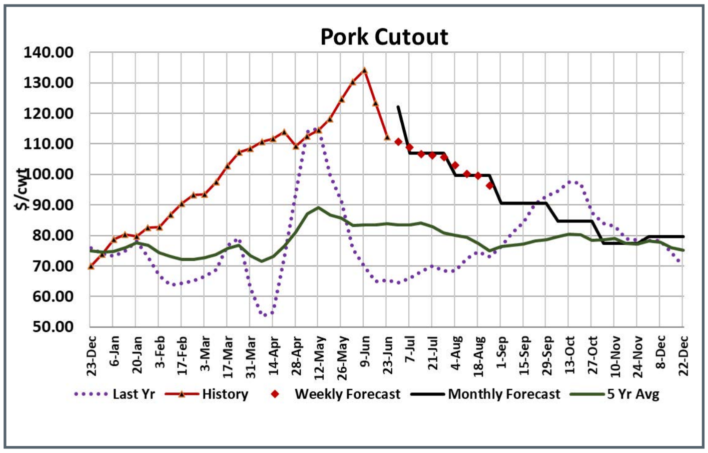


WTD Change in Pork Cutout Futures
0.000
-2.000
-4.000
-6.000
-8.000
-10.000
-12.000
Jul21
Aug21
Oct21
Dec21
Feb22
Apr22
May22
Jun22



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





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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.