



WEEK ENDING JULY 16, 2021

# THE PORK WRAP

Prices in the hog and pork complex firmed up this week, with the cutout gaining a little over \$3 and the LHI up a little over \$1 on a weekly average basis. It seems as though all of the doom and gloom that characterized this market a couple of weeks back has now faded. Pork buyers backed away from the market in late June as the cutout fell, but they couldn't stay out of the market forever and now they are back and have pushed the cutout back near \$120 as of this afternoon.

This week, it was the bellies and loins that did the heavy lifting in the cutout. Hams are still posting strong numbers too, but the gains there have slowed somewhat. All of this begs the question, "Was the sell-off back in late June just a dramatic head fake?" Possibly, but I think that the market has peaked and is in the process of heading lower just like the beef market, but it can't come down as fast because we are in the tightest hog supply period of the year. The combined margin chart below shows an increase over the past two weeks. But rather than call it a head fake, it looks to me more like a classic head and shoulders chart pattern, which is considered a bearish indicator. Retailers have now jacked up retail pork prices to a level that will begin to curtail pork consumption at retail and that will eventually reverberate through the wholesale market. USDA reported retail the retail price of pork for June at \$4.55, which is an all-time high. Retail prices never got to this level during the PEDv problems of 2014, nor did they get this high last year when COVID was closing packing plants.

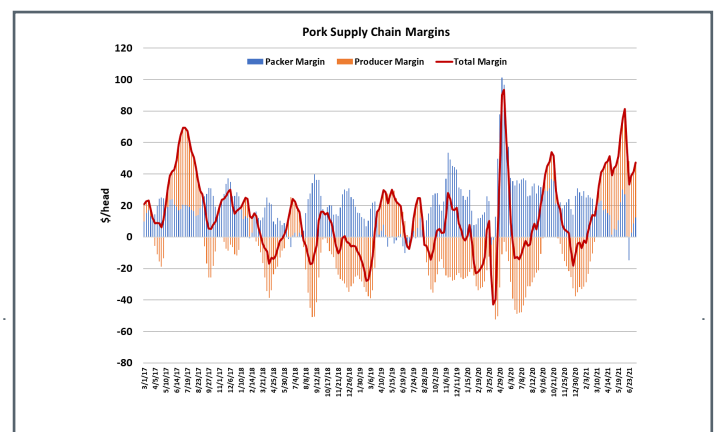
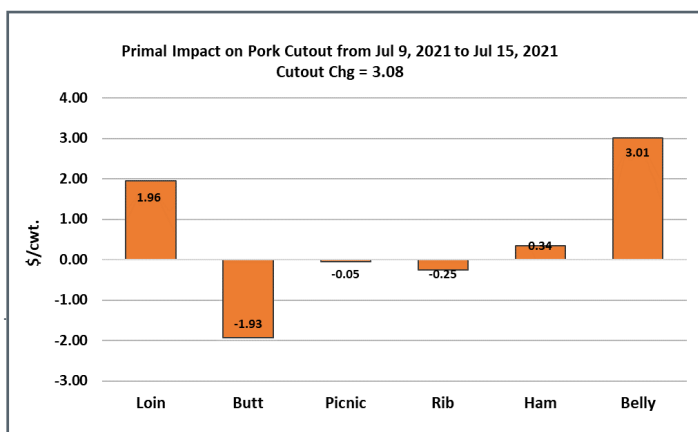
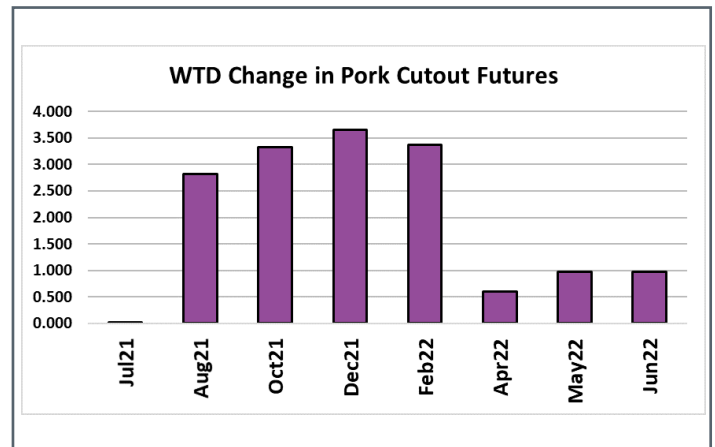
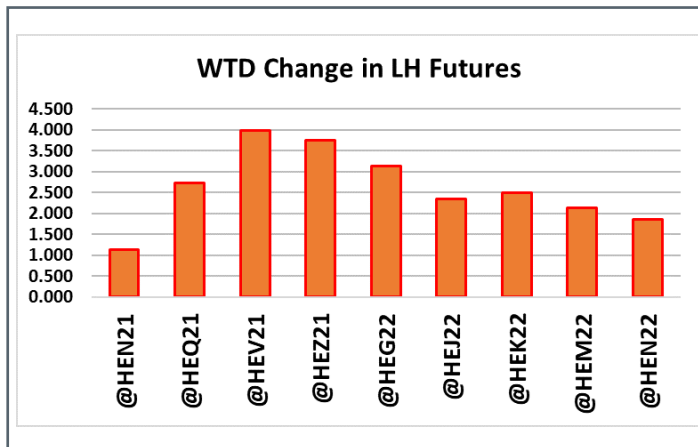
If this doesn't slow pork movement out of retail, I will be very surprised. This slowing of demand will happen just as hog and pork supplies are beginning to expand. The gains will be gradual through the balance of July, but will accelerate in August to the point where the industry should be killing close to 2.55 million head per week by the time Labor Day arrives. Retailers will likely be slow to lower prices, given what they have just been through over the past six months, and that sets up a situation where wholesale prices could fall dramatically in September and October. Helping to offset that will be the government's latest version of stimulus payments, which are directed at families with children. Lower income households will receive a minimum of \$250 for each child, each month, for the next 12 months.

That is a substantial boost and there is a good chance that the Democrats will extend the payments for several years to come in a separate bill yet to be passed. Families are typically big meat consumers and so this money will hit in a good spot for the pork industry. We should watch closely to what happens to red meat demand over the next couple of months as these new payments get incorporated into family budgets.

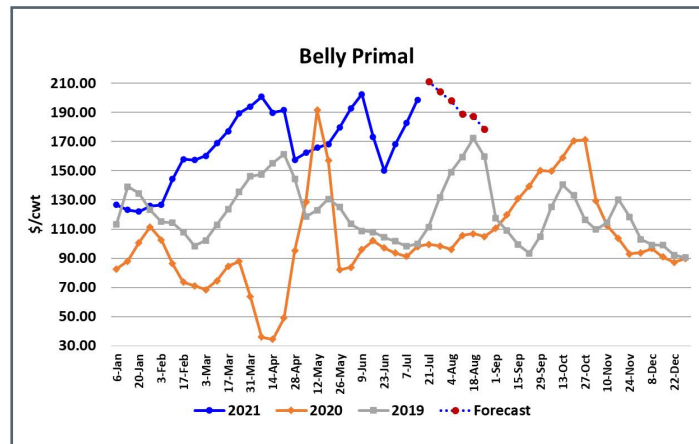
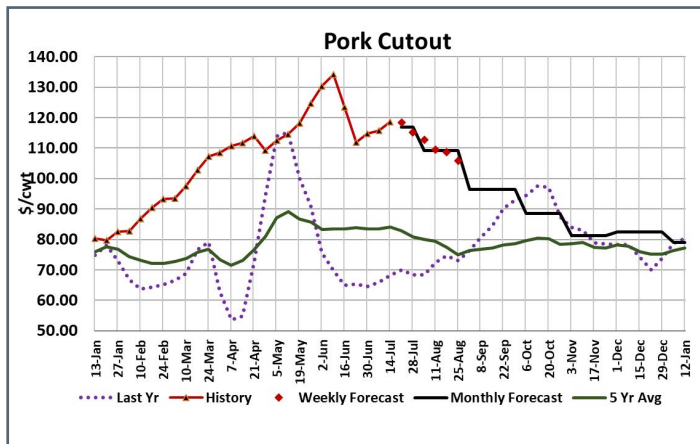
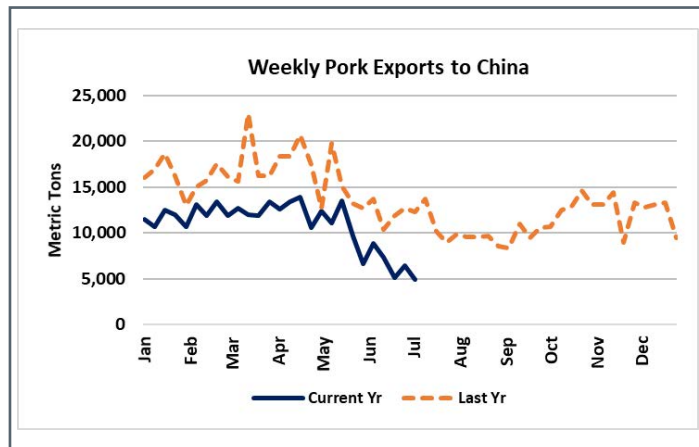
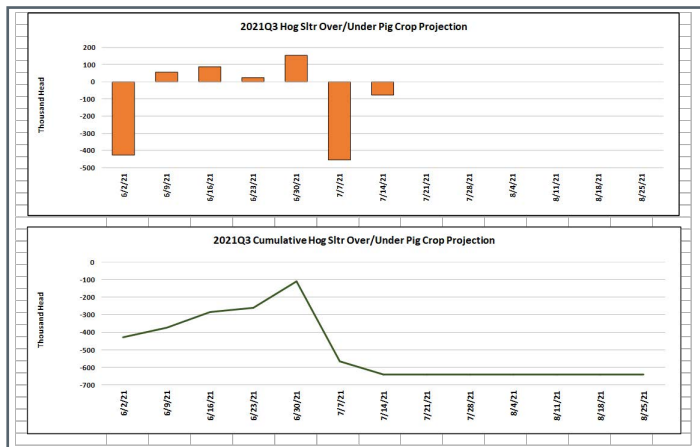
If this spring provides any indication, it should have a strong positive impact. I wouldn't look for the program to return pork demand to the levels that we saw this spring, but it will probably keep it higher than pre-pandemic averages. International demand for US pork is beginning to look like it may be in trouble. The weekly export data has been weak lately and movement to China has been declining rapidly.

Net-new sales to China in this morning's report were actually negative, meaning that there were more cancellations than new sales to that destination. This bears close watching because the export market is currently absorbing more than 30% of US pork production and if China goes back to importing minimal amounts of US pork, it will leave a lot more that needs to be consumed through domestic channels (at lower prices, of course). So, the fundamental tea leaves for the hog and pork complex are a bit murky at present. On one hand we have very small kills and light carcass weights propping up the market, but both will be expanding soon. We have weakening domestic and international pork demand, but also a new government spending program that could boost pork demand. Rapidly declining beef prices will also tempt retailers to shun pork in favor of beef over the next couple of months.

My guess is that the overall direction of prices for both hogs and pork is lower, once July is behind us and maybe sooner. Once the tightness in supply starts to fade, I think the lower price trend will be more evident. Near-term however, we could easily see a few more dollars added to the cutout and cash hogs before that turn takes place. Futures traders apparently see it the same way, as the August hog contract, which becomes the nearby tomorrow after July expired today, is trading about \$8 under the current index. The August cutout futures are pointing lower also, down around \$112. Next week, watch for some softening in the cash hog markets. That would indicate that the packer's near-elimination of the Saturday kill is causing producers to fall behind on their marketings. Also, watch the belly primal because that seems to be the main mover of the cutout recently.



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