



WEEK ENDING JULY 2, 2021

THE PORK WRAP

A couple of weeks ago when the futures market was crashing lower, pork buyers headed for the hills. As they backed away from the market, the cutout fell like a rock and it even printed close to \$107 only a little over a week after it printed \$135. At the time, that seemed like too much, too fast, to me, but that buyer behavior is pretty common when they sense the market is in a freefall. Now, the panic is gone from both the futures and pork markets and things seem to be a little more rational.

The cutout this week averaged close to \$3 higher than it was last week. A further indication that the initial fall was too much, too fast. Don't get me wrong, I do believe that the hog and pork complex has topped and is now in a downtrend. But driving the Jul futures down to \$100 just days after it traded \$120 was definitely too much, too fast. That is what happens when fear takes hold. Pork buyers have seen the Jul contract rebound almost \$9 in the last six trading sessions and that has quelled some of the fear. It is safe to say that the sudden, huge drop in the cutout destabilized the entire complex and it will take some time for things to calm down. I don't think that pork demand at the consumer level has declined nearly enough to justify the big drop in the wholesale market, but consumer demand is likely softening and will eventually get there. The really curious thing about all of this is that it took place when hog and pork supplies were at their annual lows.

This week's slaughter registered only 2.28 million head and next week there is a good chance that it will be less than 2.0 million due to the July 4 holiday. Further, carcass weights are coming down rapidly now, which further tightens the pork supply. This little spell here in early July where production is constrained has the potential to support the cutout and may even give it a boost back up toward \$120. Cold storage stocks are still very tight and puts more buyers into the spot market than normal. With the nearby futures now rising instead of falling, that gives pork buyers "permission" to pay up when needed. The chart below indicates that it is still the bellies and hams that are providing support to the cutout. The retail items all look to be in a solid downtrend, but they could blip higher next week as retailers look to restock after the long weekend.

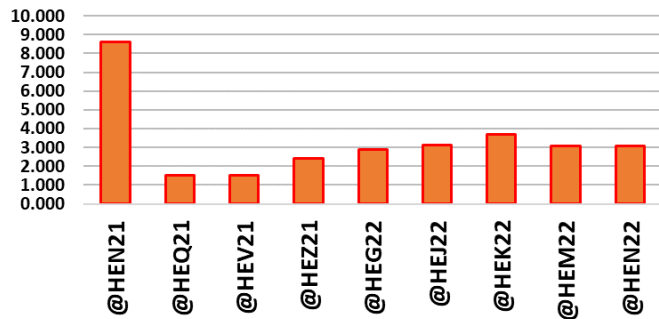
As we move beyond the holiday period, I expect further erosion in pork demand, in part because consumers now have plenty of other things to do rather than cook pork at home and in part because retailers have now pushed retail prices so high that it is likely to curtail retail movement. Those things will swing the demand pendulum back toward weaker demand, but it won't happen all at once. Instead, I'd look for slow steady erosion that lasts for several months.

Another troubling development on the demand side is that China appears to be losing its appetite for US pork. The weekly export numbers show dismal movement to China in recent weeks and new purchases by the Chinese are falling rapidly. I don't think that we can get enough new demand from other export destinations to offset the loss in volume to China, so that means per capita availability will likely expand and prices could soften. Thus, the demand side outlook in this market has dimmed considerably, but we won't likely feel the full effect of it until later in the month when we get past the short production weeks and kills start to expand seasonally. The long steady uptrend that started in late December and saw the cutout go from \$70 to \$135 by the middle of June was one for the record books for sure, but it is over now.

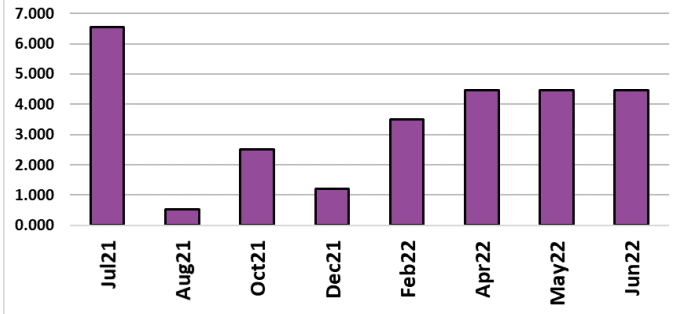
In my experience, it seems that periods of exceptionally high prices tend to be followed by periods of exceptionally low prices or vice versa. Packer margins rebounded to +\$2/head this week after registering -\$15/head the prior week. Packers have found it easier than I expected to push the hog market down in response to the falling cutout and futures. Maybe now that they are back near breakeven, the pressure on the negotiated hog market will subside for a bit. Next week, watch the cutout for some upward movement due to holiday-reduced production and retail restocking. Also keep an eye on the daily kills and prospects for next Saturday's kill. This could be a really light kill week ahead.



WTD Change in LH Futures

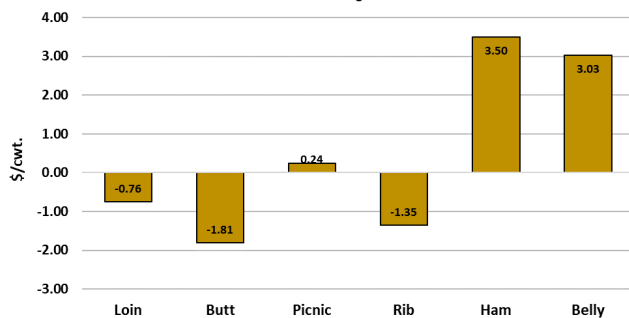


WTD Change in Pork Cutout Futures

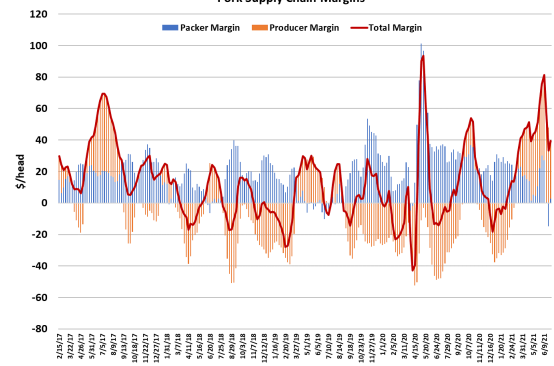


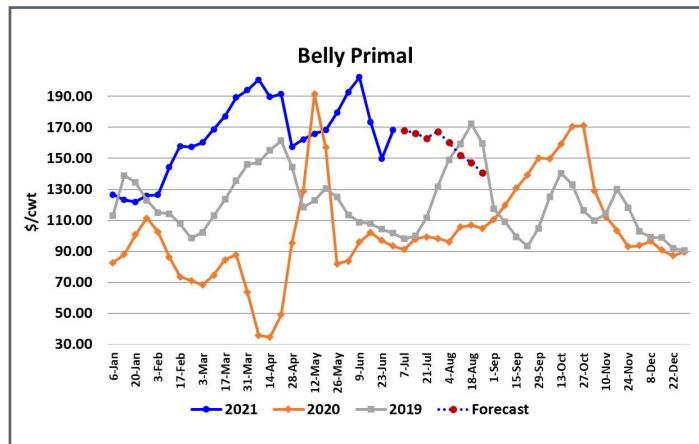
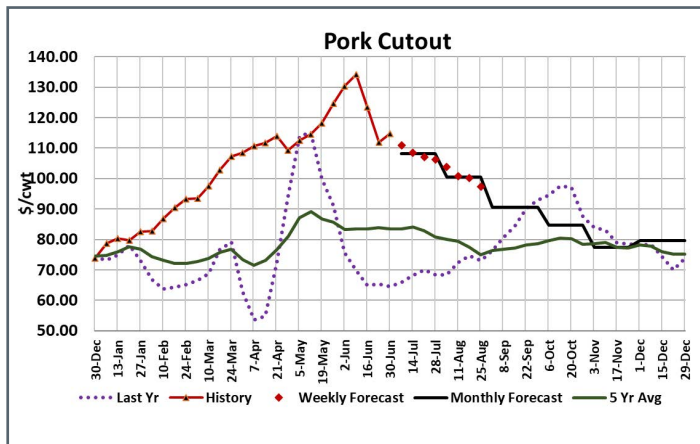
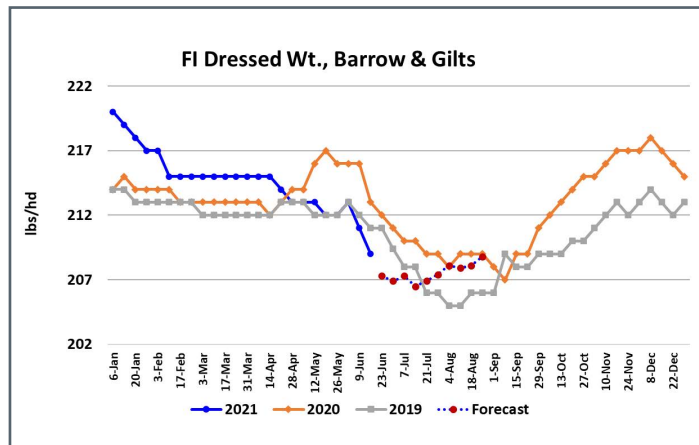
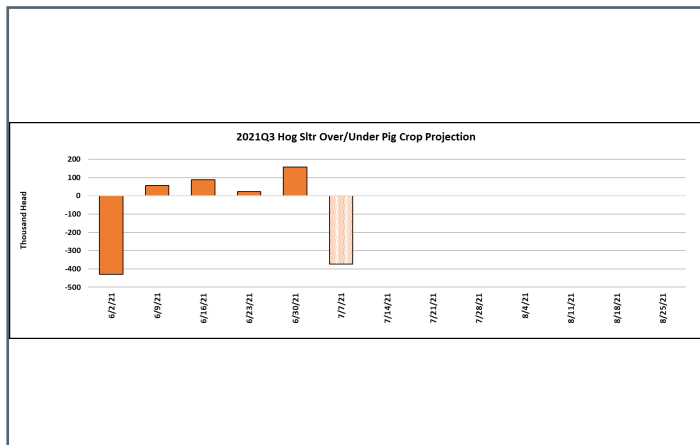
Weekly Avg Primal Impact on Pork Cutout from W/E Jun 25, 2021 to W/E Jul 2, 2021

Cutout Chg = 2.91



Pork Supply Chain Margins





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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.

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