



WEEK ENDING JULY 9, 2021

# THE PORK WRAP

The pork cutout looks like it will eek out another small gain this week, probably less than \$1 on a weekly average basis. Very light production as a result of the July 4th holiday is helping to support the cutout currently. Packers are not planning a very large Saturday kill this week, which is a reflection of seasonally tight hog supplies. By keeping the kill constrained, they hope to push the cash hog market lower while supporting the cutout and thus improving their margin. They made good headway this week, with the margin increasing to almost \$8/head from just \$3/head the week before.

Once again it was the processing items, hams and bellies, that provided support to the cutout while the retail items were flat or lower. This is the time of year that ham processors start looking to begin purchasing for their end-of-year holiday needs. They are going to find price levels this summer well above what they have experienced in the past two years, but stocks of hams in cold storage are about 17% below the long run average, so more product will need to come from the fresh market this year. Some buyers may try to wait longer than normal this year under the hope that bigger production near the end of summer will push prices lower, but that is a dangerous game because processing capacity is so tight this year due to the labor situation.

If they wait too long, they may find that they can't get all of the hams they need processed in time for the holidays. As a result, many will likely just pay what they have to in the spot market and that should keep the hams fairly well supported over the next few weeks. The cold storage situation in bellies is even worse, now about 40% below the long run average. That suggests that bellies won't come crashing down in the near-term either.

Americans are traveling again and a lot of bacon gets consumed in foodservice settings so I would expect that belly demand holds fairly strong at least until mid-August. The retail items will be vulnerable as production increases next week and I expect that effect to outweigh the support provided by the bellies and hams, thus the cutout should ease lower.

Pork demand is still very good by historical standards (see July scatter below), but it is slowly fading as the pandemic recedes and people find other things to do besides cook at home. Export demand also seems to be softening, particularly from China. That is pretty worrisome, given the large proportion of US production that gets exported (26-30%).

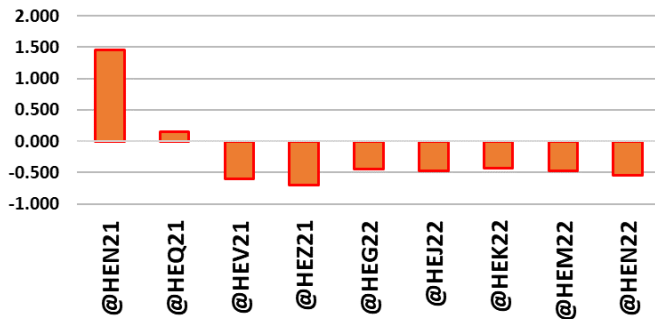
This week we got the official export data for May and it showed an 11% improvement over last year. That was way bigger than what the weekly data suggested. I think the June and July data will show single-digit YOY increases, but am concerned about what might happen if Chinese demand continues to drop off in the next few months. It bears close watching, but unfortunately quality data that is timely on exports doesn't exist.

I'm projecting this week's kill to come in at a little over 1.9 million head, but expect packers to bounce back with a 2.39 million head kill the following week. By the time August rolls around, weekly kills should be solidly above 2.4 million head and could reach 2.55 million head just ahead of Labor Day. Barrow and gilt carcass weights are now 4 pounds below last year and 2 pounds below 2019. High corn prices have likely contributed to the sharp drop in hog weights this summer, since the weather has not been overly hot.

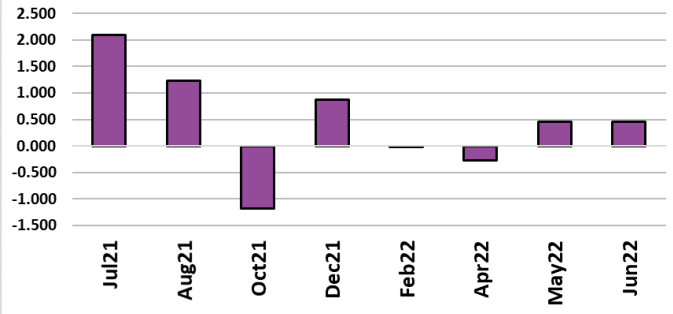
Small kills + light weights = small production and that is what the industry is experiencing at the moment and is likely why the cutout is being supported in the mid one teens. That will start to change as we move out of July. Kills will grow and weights will increase seasonally as the weather starts to cool. If I'm right that demand will continue to fade over time, then we have the perfect recipe for lower hog and pork prices from August through December (increasing supply, decreasing demand).



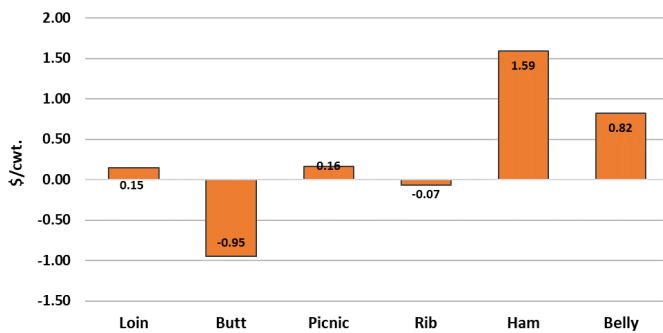
WTD Change in LH Futures



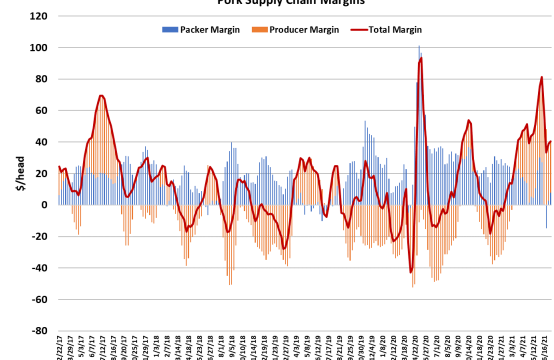
WTD Change in Pork Cutout Futures

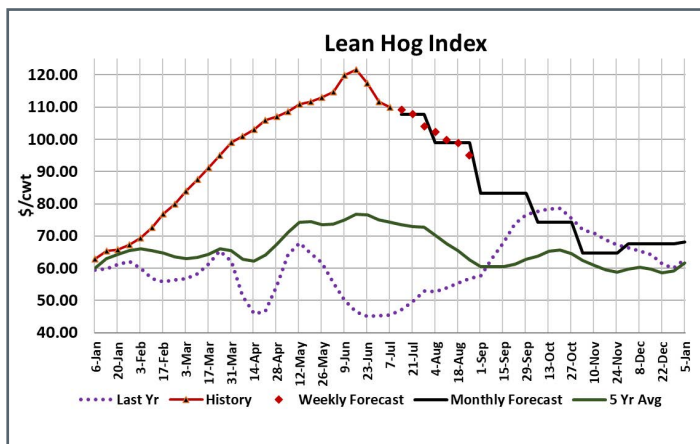
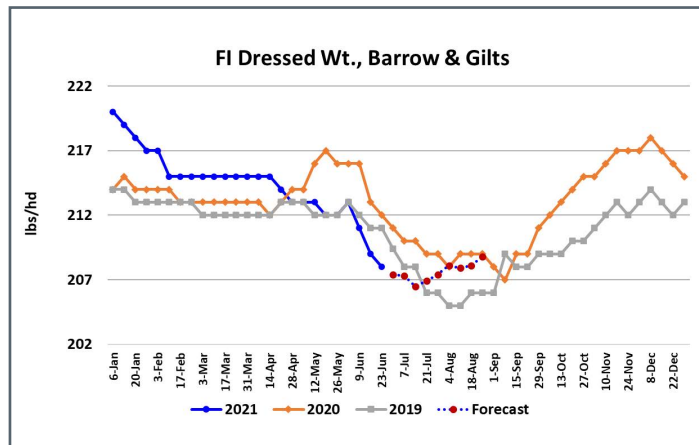
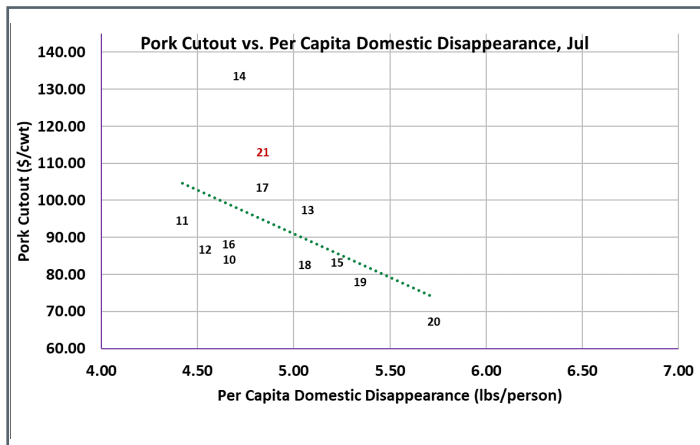


Primal Impact on Pork Cutout from Jul 2, 2021 to Jul 8, 2021  
Cutout Chg = 1.7



Pork Supply Chain Margins





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