



WEEK ENDING AUGUST 20, 2021

# THE PORK WRAP

This week the pork cutout softened a bit, losing about \$3.25 on a weekly average basis. With the pork coming down faster than the hog markets, packer margins compressed, now sitting close to \$21/head, down about \$4 from last week. Pork by-product values have really escalated lately, up about 11% in only four weeks. By-product markets tend to follow the flow of general economic activity because they form the basis for thousands of different products.

When the macro-economy is improving, by-product values also improve and when the economy goes into a slump, we typically see by-products move sharply lower. As far as the cutout goes, the chart below shows that the ham primal is still the weak sister and all of the other primals have been mostly unchanged over the past week. So, if one wants to predict where the cutout will head next, they need to be correct on the direction of the ham primal. Personally, I think hams are near a turning point after declining for the past three weeks. The chart below shows that the \$80 level has been a floor for hams all year long and I suspect that it will be again this time. Buyers are probably holding back waiting for it to go even lower, but that creates a situation where at the first solid uptick in prices, buyers will rush in and rapidly carry the primal higher.

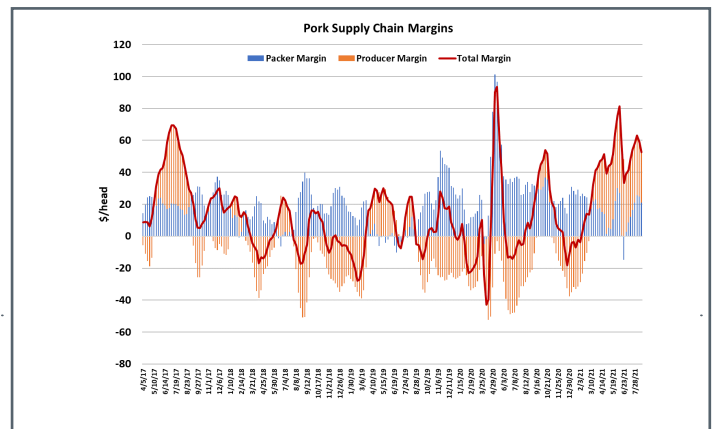
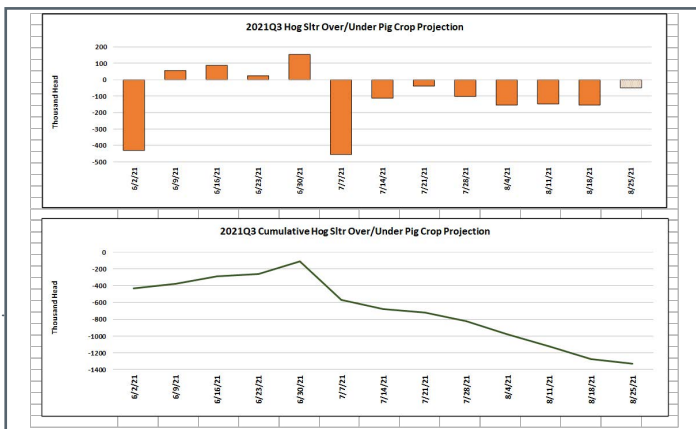
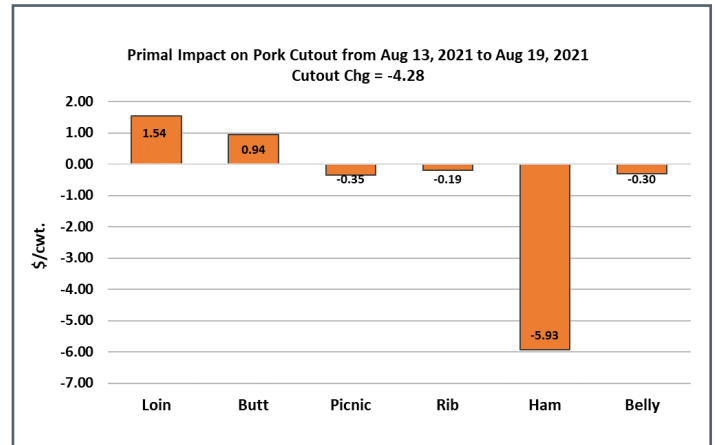
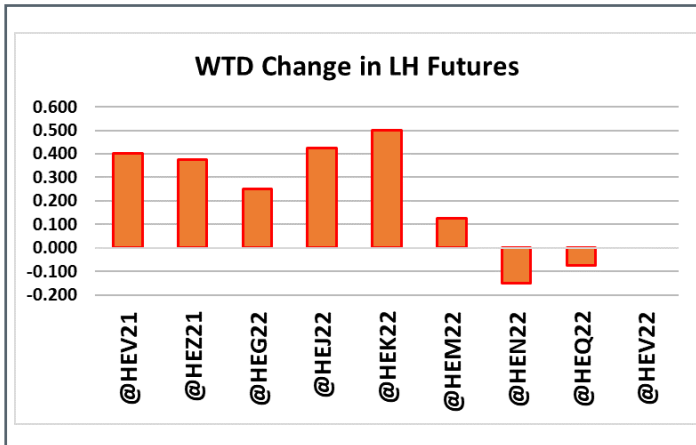
The belly primal held close to all-time highs, before giving up ground on Friday. Movement on the bellies has been light, suggesting that there is just not a lot of fresh product that hasn't already been spoken for. The bellies do create the biggest risk for the cutout at this point, since they can turn sharply lower whenever retail interest in featuring bacon runs dry. Normally, retail bacon features run in cycles with pricing managers pulling back when the raw material cost gets too high to hit an attractive price point, but this year consumers seem to care a whole lot less about the price per pound than they have in times past and that may extend the length of the belly cycle and allow it to remain elevated for several more weeks. Besides, bellies are primarily fat and everything with high fat content seems to be very high-priced these days.

This week, the pork 42s averaged \$6/cwt higher than the 72s. That is the first time that has happened since at least 2013, and maybe further back. Sows, also primarily fat, are trading at \$93/cwt. The last time that happened was in the summer of 2014 when pork supplies were severely constrained by PEDv in the herd. Fat being back in vogue is a very good omen for the hog and pork complex, since a lot gets produced there.

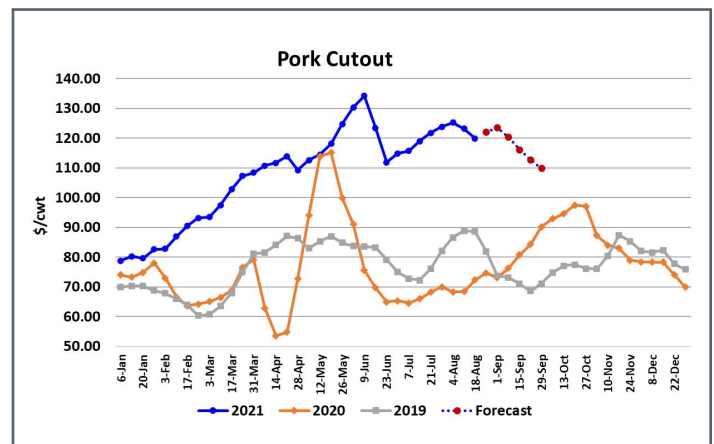
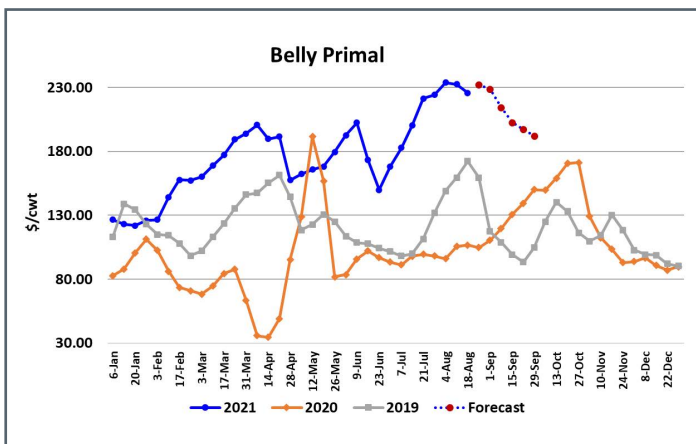
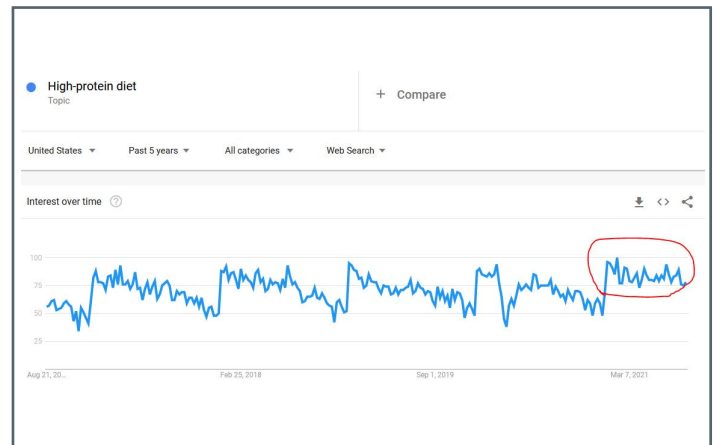
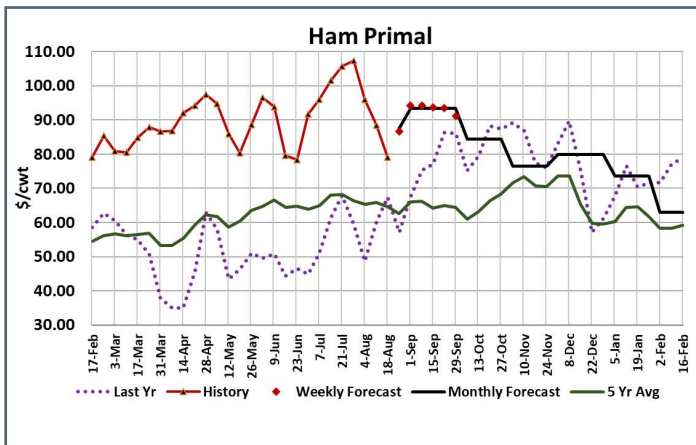
Zooming out a bit and looking at overall pork demand, the combined margin continued lower this week, further confirming a second top there that wasn't as strong as the spring top (unlike beef). I also suspect that consumers are turning more to high protein diets in an attempt to lose weight that was put on during the pandemic.

Note the Google Trends below for the search term "high protein diet". Normally the popularity of that search term is highest right after New Year's and tapers down toward the end of the year. So far this year, that tapering hasn't happened. Just another data point to keep in mind when thinking about 2021 protein demand. Of course, now that covid is surging once again, people may decide to just put their diets on hold until it starts to look like things will get back to normal. The futures market has been a little bit stronger this week, but not much. The Oct contract is now \$21.50 below the LHI. That sure seems like an awful big discount in a year when prices have been very firm and reluctant to decline very much or for very long. This week's kill is projected to come in 2.42 million head, up slightly from last week and working toward a 2.5 million head kill just prior to Labor Day. Kills continue to run well below what the prior pig crop indicated.

I'm concerned that trend will continue during the Sep/Nov quarter and thus keep price levels above my current forecasts. Next week, keep a close eye on the hams and bellies. Hams for signs they've made a bottom and bellies for risk that they could start softening. The retail cuts should get pretty good support in the next few weeks as retailers look for alternatives to super-high beef prices.



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