



WEEK ENDING SEPTEMBER 10, 2021

# THE PORK WRAP

The pork cutout was down only a dollar on an average basis this week, but by the way the futures market reacted, you would think it fell \$10. October LH futures were down every day this week, but the losses really accelerated late in the week, and the contract dropped over \$7 in total. I think there was a contingent of traders that thought the cutout would bounce in response to the short kills of the past two weeks, but when that didn't happen they became increasingly concerned about what would happen to the cutout when kills return to normal next week. This week's slaughter came in at 2.27 million head, and packers plan to slaughter 370k tomorrow to compensate for Monday's lost production. Judging by the hog deliveries that packers have already scheduled, it looks like next week's kill will be over 2.5 million head.

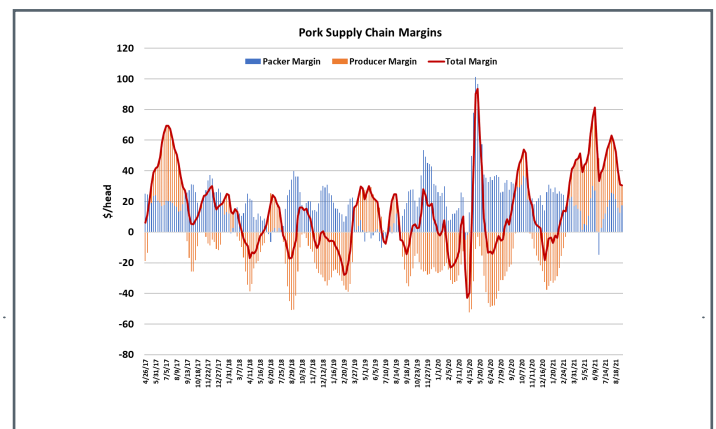
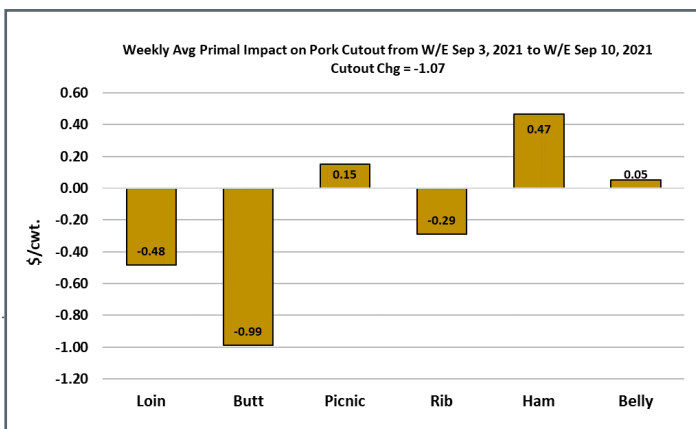
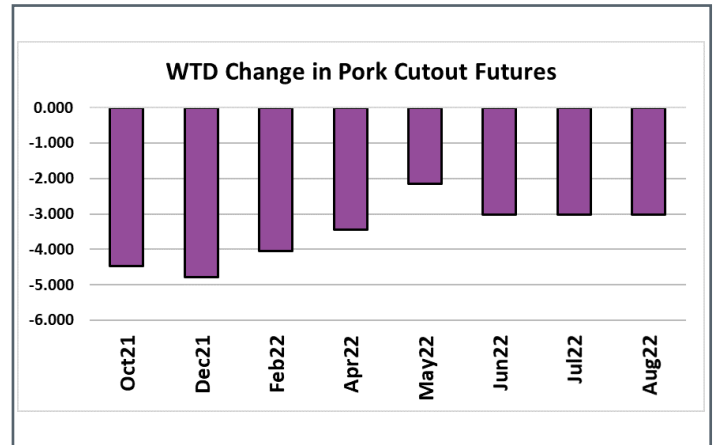
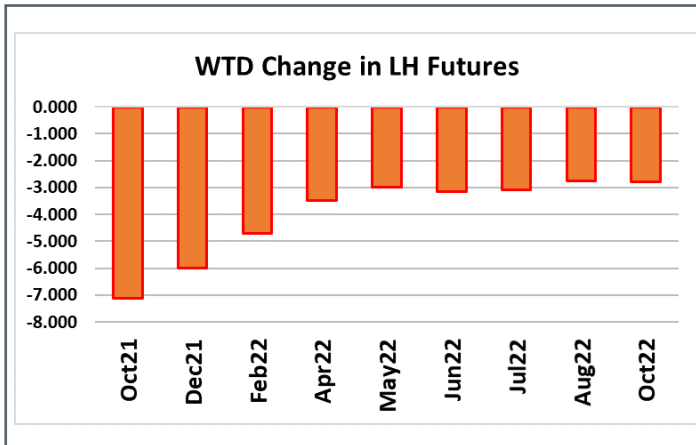
Buyers can see that big production coming and will likely step back to see how much price levels decline. Relative to the reported pig crop however, this week's kill looks small and next week's should also fail to match what USDA projected. Thus, through the first three weeks of the Sep/Nov quarter, it is likely that slaughter will be about 250,000 head below what the pig crop implied. So, the under-killing that we witnessed all summer is continuing here in the fall. That is somewhat bullish since the pig crop was estimated to be down 3.1% YOY and in actuality it might be down as much as 5% YOY. If I simply go by what USDA reported the pig crop to be, I'd have peak kills this fall right around 2.68 million head—far below the 2.8 million head peak last year. If USDA did indeed over-estimate the pig crop, then perhaps peak kills might only reach 2.64 million head. So, in my mind, while the supply of pork will certainly expand this fall, it is likely not to be nearly as burdensome as what we've seen in recent years. If you combine that with the thought that demand certainly looks like it will be a lot stronger than in years past, it is hard to be overly bearish about the pork complex this fall.

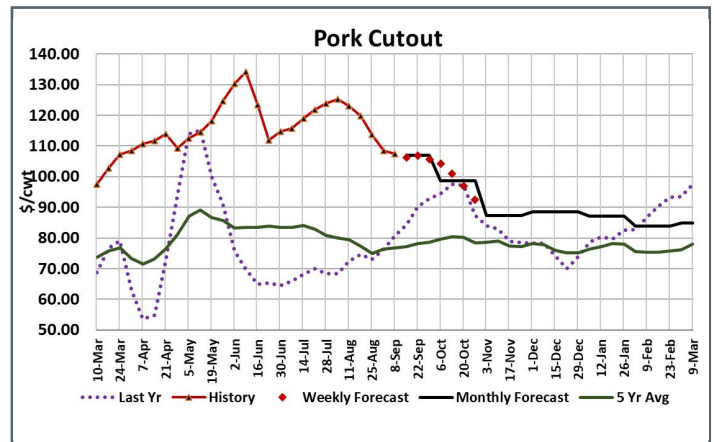
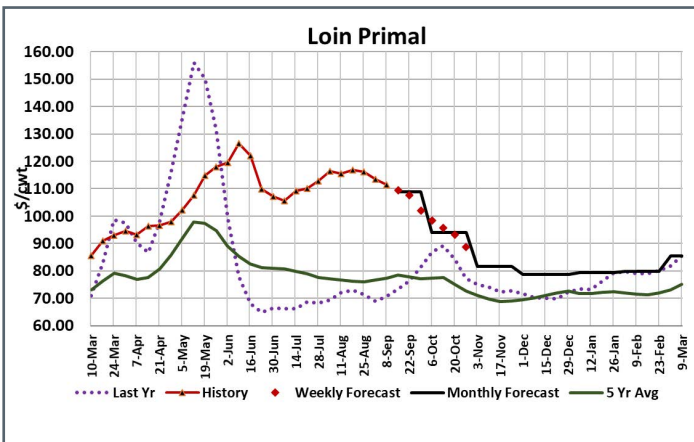
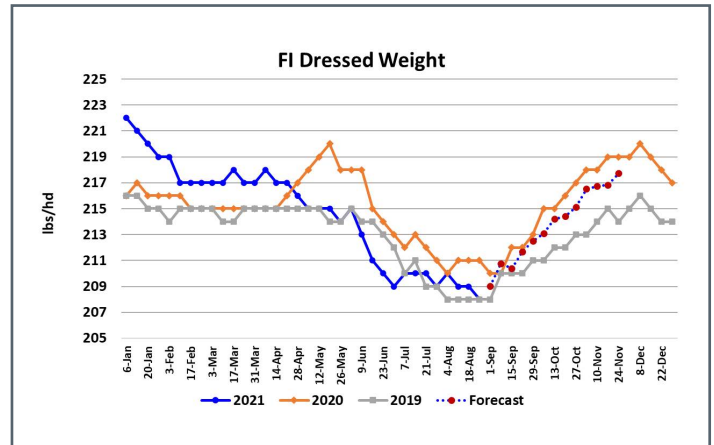
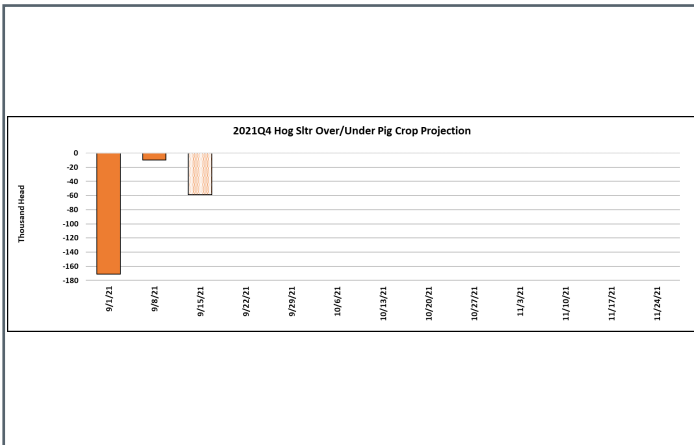
One of the mysteries in the past couple of weeks is how packers have been able to persistently push cash hog prices lower when the weight data suggests that hog producers are still pretty current. USDA reported the all-swine carcass weight down another pound this week, matching the low set back in 2019. So, the hogs are clearly not overly heavy. Now, weights should increase from this point forward and that will give hog producers less leeway in their marketing windows, but for now it doesn't appear as though we have backed hogs up in the pipeline. This week cash base prices in the Western Corn Belt averaged \$90.28, down \$3.36 and the LHI averaged \$98.14, also down about \$3.30.

Due to very high corn and soymeal prices this summer, producer breakevens on hogs are around \$92/cwt. Producers are still profitable until the LHI drops to about \$91-92. I expect that to happen in early October. As hog supplies grow seasonally, packers will have more leverage and their margin should improve. This week margin was up about \$5 to \$17.50/head and by early October that could be approaching \$30 head. Sometime around mid-October we will gain more insight into the labor situation in packing plants because available hog supplies will start to test packing capacity.

If the labor is there to get all hogs slaughtered, then packer margins will probably hover in the "normal" fall range of \$30-45/head. However, if labor is insufficient to process all of the hogs, then we could see packer margins balloon out to \$70/head or more. On the demand side, the combined margin chart is telling us that pork demand is on the down swing at the moment, but this week's decline wasn't very large. Could demand be making a bottom here? Maybe, but I think the action in the futures is likely to spook pork buyers onto the sidelines next week and that will show up as further demand weakness in our analytics. We've been watching the ham market closely for signs that it is near a bottom and, while that hasn't been confirmed yet, the declines in the ham primal have been smaller in recent days, so a bottom might be close at hand. This week it was the retail items that weighed the most on the cutout (chart below), while the bellies and hams actually provided a tiny measure of support.

Pork volume was strong this week, so perhaps packers will come into next week well-positioned. Much will depend on how pork buyers react to this week's sell-off in the futures. The magnitude of the futures drop was reminiscent of what happens when an "ASF in the USA" rumor is circulating, although no evidence of that has surfaced. My guess is that the futures will rebound early next week but are not likely to add more than about half of what they took off this week. Next week, watch those retail cuts to see how they hold up under the pressure of a big Saturday kill and a full production week. Beef prices are now declining quickly, so pork's advantage in the fight for retail ad space will be diminished.





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