



WEEK ENDING SEPTEMBER 24, 2021

THE PORK WRAP

Pork packer margins expanded to \$25/head this week as hog prices continued to fall and the pork cutout managed to hold steady. The negotiated hog markets were \$5-6 lower on a weekly average basis and the cutout was lower through Thursday and then a sharp bump higher on Friday moved the weekly average about \$0.85 over last week's average. Is this a turning point for hog and pork prices? That is the question on everyone's mind. My answer to that is probably not. Pork demand has indeed been very good and we are now starting to see some price increases in the ham and belly primals, but that is being largely offset by weakness in the retail primals (chart below).

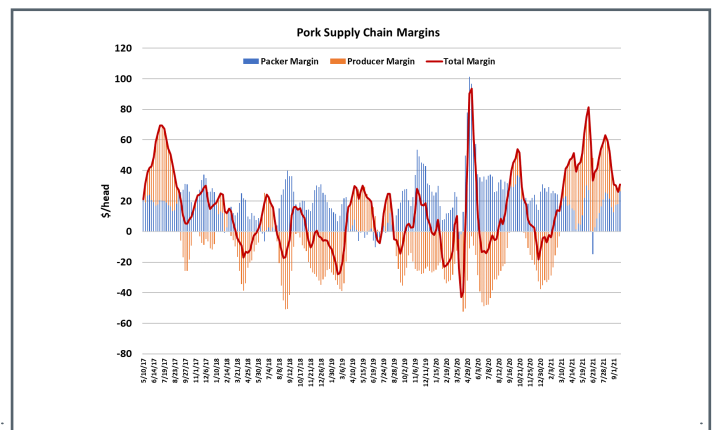
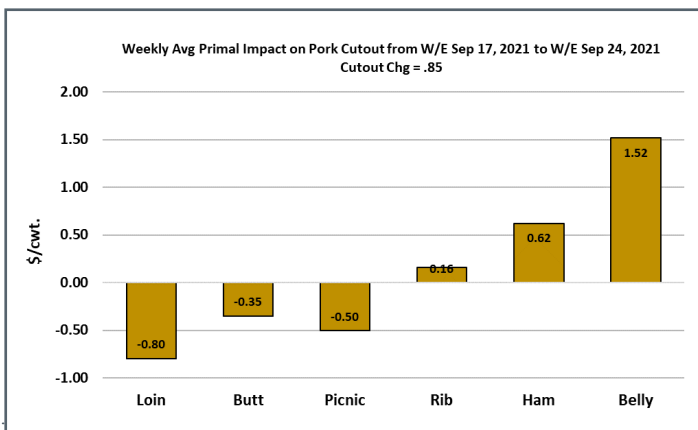
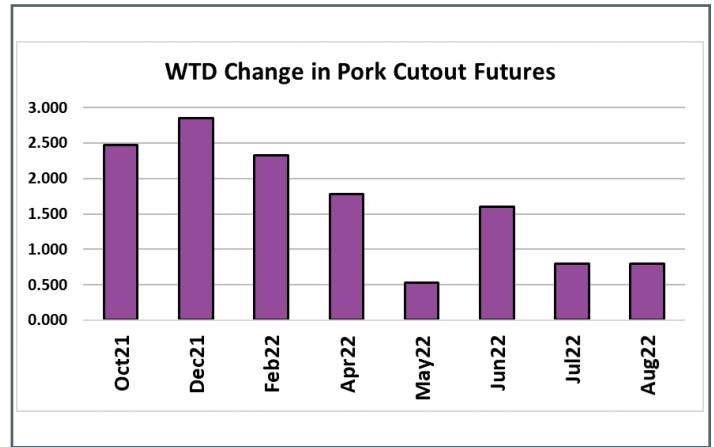
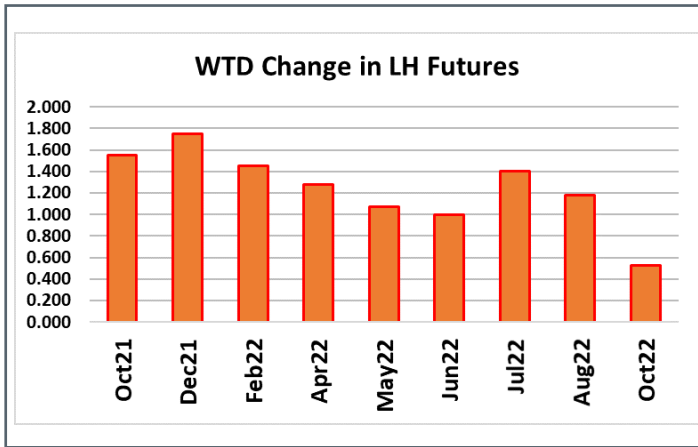
I think the deciding factor on which direction the cutout goes from here will come down to hog slaughter and thus pork production. This week's kill came in at 2.58 million head, only slightly below what the prior pig crop indicated and there will be further growth in the weeks ahead. Packers had some issues at plants early this week and we saw the daily kills revised downward on Monday through Wednesday. I think that shorted the market temporarily and helped keep price levels from being pressured. However, packers did a big Saturday kill (232k) and that will more than make up for the production that was lost early in the week. That pork will need to find a home next week. That might be expected to drive prices lower. However, there are two things that might work in favor of higher prices. The first was a very sharp rally near the close today in the Oct futures.

That sends a signal to pork buyers that the October market may well be stronger than expected and it could cause some buyers to scramble for coverage and thus bid up pork prices. The other thing is the Hogs and Pigs report released today. The data reported by USDA from their quarterly survey was very bullish. There will likely be a substantial rally in those futures on Monday and they may even trade limit-up. That also may freak buyers out who have been sitting on the sidelines watching pork prices fall for the last few weeks. Those two things and the impact that they have on buyer psychology might outweigh the effect of next week's larger production and thus push the cutout higher. Speaking of the Hogs and Pigs report, the numbers that USDA revealed today were solidly below the average trade guess in almost all categories and even more below what I was carrying prior to the report. Replacing my pre-report estimates with USDA's numbers caused a substantial downward revision in hog and pork supplies going forward.

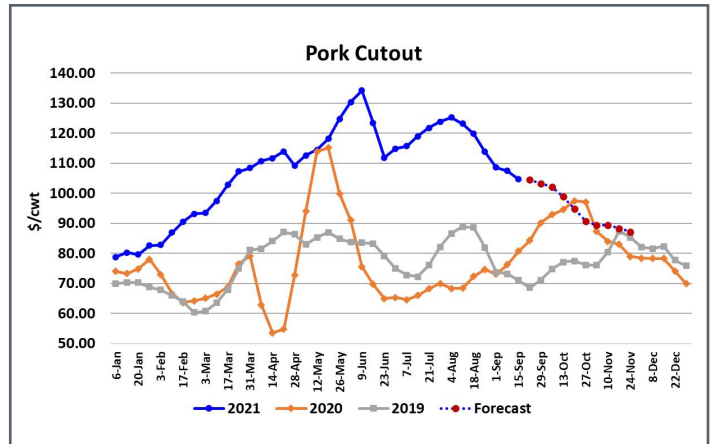
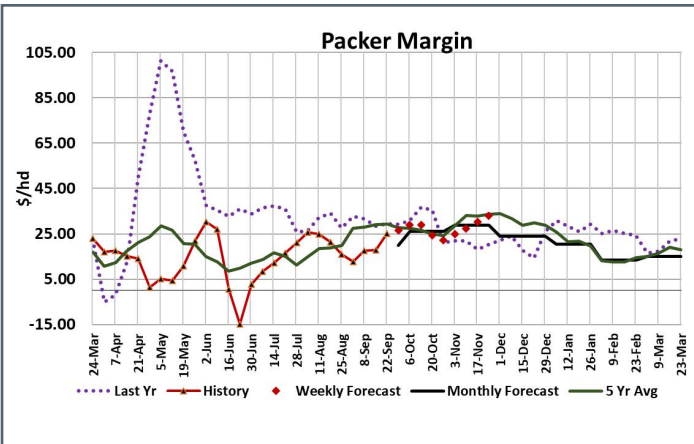
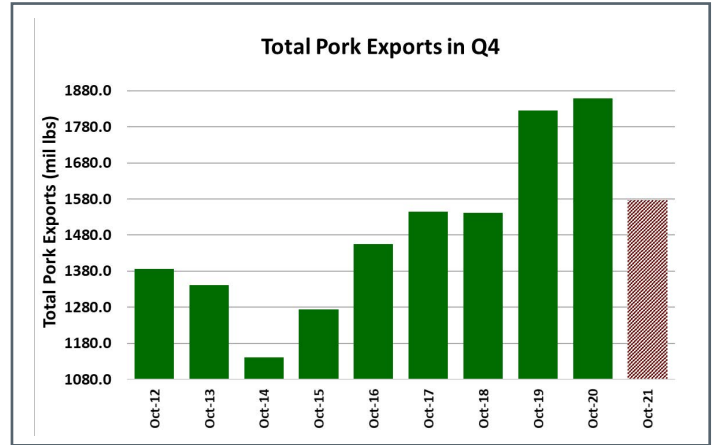
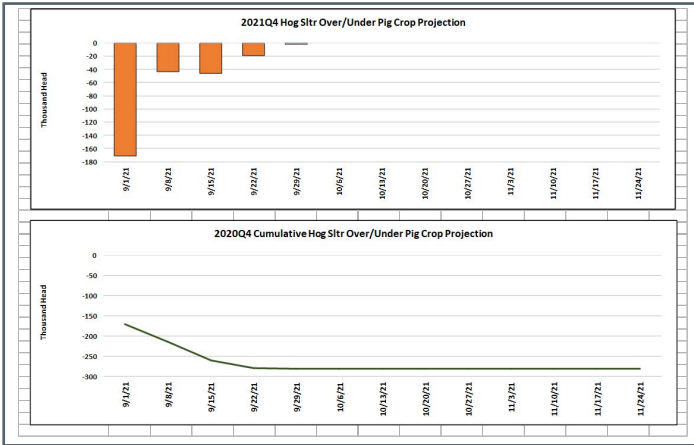
The most important number in today's report was the Jun/Aug pig crop, which are the hogs that will be slaughtered in the Dec/Feb quarter. That pig crop was reported down 4% from last year. The number of sows farrowing last summer was reported to be extremely low in a historical context. One might surmise that PRRS was much worse than thought last summer and thus far more sows aborted litters than expected. I don't really know what was the cause of the very low farrowing percentage number, but disease is a likely suspect. For pork buyers, that means that this winter's pork supply is going to be tighter than we expected. USDA did revise the prior Dec/Feb pig crop lower by 1.3 million head, acknowledging the miss that became obvious to us this summer when kills fell well below what was expected.

Nothing in USDA's numbers will affect supply for the October contract, which expires in three weeks. In fact, USDA reported near-term hog supplies just a little larger than what the analyst community expected. Pork demand has been easing in recent weeks, but this week the combined margin showed a slight uptick. It is probably too early to declare the current demand downcycle dead because these kinds of head fakes are common. This afternoon's cutout printed over \$110 and to the casual observer who has been seeing the cutout in the \$103-106 area earlier this week, it may appear like the start of a new upcycle in demand. However, today's cutout strength is more a function of the particular mix of items that were sold and it will likely revert to the \$103-106 range on Monday.

That is, unless buyers panicked by Friday's rally rush into the market on Monday. Lest it seem like all the news is bullish, I remind readers that the export numbers to China have been terrible lately and hog and pork prices in that country are very depressed. That probably means depressed exports out of the US in Q4 and more pork that needs to be consumed domestically. Beef prices are also declining rapidly and that should soon begin to shift retail interest away from pork. Next week, watch the cutout for signs that buyers are rushing to get coverage since that could signal a psychological shift that might very well turn the pork market higher. At least for a little while.



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