



WEEK ENDING SEPTEMBER 03, 2021

# THE PORK WRAP

The hog and pork complex continued on its downward trajectory this week with both the cutout and negotiated hog prices dropping approximately \$5 on a weekly average basis. Meanwhile, the nearby futures rose \$2. Go figure. The problem in the cutout seems to be almost entirely limited to the bellies, with the other primals holding about steady on the week. Maybe that is why the futures market is reluctant to follow the cutout lower. Traders know that bellies can turn on a dime and normally downward belly price corrections happen over a period of 2-4 weeks and the move is often dramatic. The current down move in bellies just completed its fourth week and is very close to the level where the bottom was made back in the great June belly sell-off. After selling off for a few short weeks, bellies often spend many more weeks grinding higher before a new top is made. Maybe traders are banking on that pattern repeating itself now.

My problem with that is that pork supplies are about to undergo a rapid expansion moving from Labor Day to Halloween. That makes it much tougher for any part of the carcass to post a stout rally. It is easy to rally bellies in June when hog supplies are near their tightest, but it is a whole different deal in the fall when supplies are growing week after week. My guess is that bellies are approaching a near-term bottom, but the rally phase won't lift prices all that much. The bigger risk is that the other primals start to come under pressure as supplies grow. The weather forecast across the US for the upcoming Labor Day weekend looks quite good although we need to keep in mind that some areas of the country are struggling under the devastation wrought by Hurricane Ida, so those areas probably won't see much in the way of retail pork clearance this weekend. Other parts of the nation probably will see good clearance. Packers are expected to keep the kill light on Saturday in order to give more employees a three-day weekend. That, in combination with Monday's no-slaughter, will tighten up pork availability early next week and could result in a short-term bump in the cutout, but packers are very likely to make up a good chunk of the lost production with a very large Saturday kill the following week.

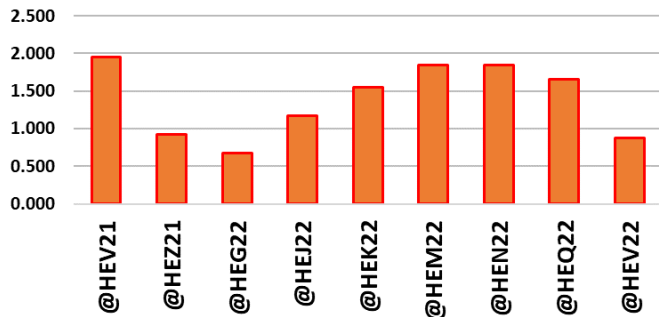
Anyone needing immediate ship product for next week is likely already factoring that in. Packer margins fell \$5 this week and now stand at just a little over \$11/head. I don't think that packers are very happy with that and thus will likely try to increase the pressure on cash hog prices next week. Negotiated hog markets have lost over \$10 in the last 10 days. Some hogs will back up during the short kills ahead and that will make it easier for packers to buy them lower next week. Barrow and gilt carcass weights were reported down a pound to 206 pounds today. That likely marks the 2021 bottom in weights are they should start to trend strongly higher over the next few weeks as cooler weather and freshly harvested corn ramps up their appetite.

The DTDS weights are still relatively low however, which suggests that there is not any meaningful backup of hogs in the supply chain at present. Hog producers are hoping that packers can find and keep enough labor in their plants to get all of this fall's hogs dead on schedule. We will be watching the DTDS closely throughout the balance of the year for signs that hogs are backing up. My sense is that packers and/or second stage processors have already found some additional labor or at least shifted some existing labor into more value-added production over the past few weeks. The difference between the core cutout and the printed cutout has narrowed considerably since the middle of August and that tells me that more value-added product is being produced and thus clearing the market at lower prices.

Another piece of evidence in that direction is the price of pork 42s, which have been falling like a rock lately. This afternoon they printed \$67 after being over \$150 just two weeks ago. More value-added processing means more trim production and that could at least partially explain the rapid decline in trim prices. There is probably also a demand-side effect as demand for products made with trims, such as hot dogs, typically declines after Labor Day. I don't want to give the impression that pork demand is falling apart, because that is not the case. Just the fact that we have a cutout over \$100 at Labor Day is an indication that demand remains way stronger than normal. Beef prices are now declining and that retreat could accelerate through September. That would weigh on pork prices also. The weekly export numbers for pork continue to point toward a dismal fall on the export side of the business.

China is no longer the roaring giant that it has been for the past couple of years. A significant loss of export business this fall has the potential to push prices lower even if domestic demand remains strong. There are now several other countries that can land pork in China well below the price that the US can achieve. I think that we are going to be looking at a pork market this fall that slowly erodes, but stays relatively high by historical standards. There will be some brief updrafts in prices and post-Labor Day may be one of those, but in general I'd expect the price depressing effect of growing pork supplies and softer exports to outweigh any price enhancing effects of strong domestic demand. Next week, watch those bellies because as the bellies go, so go the cutout.

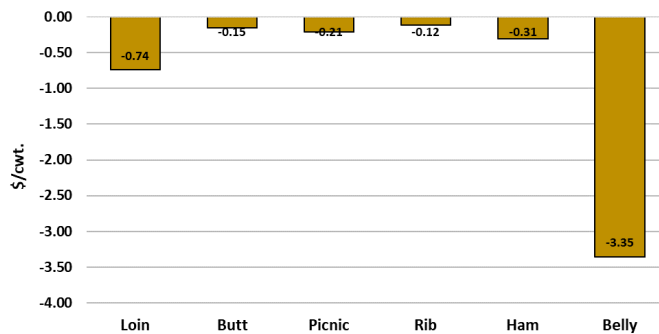
WTD Change in LH Futures



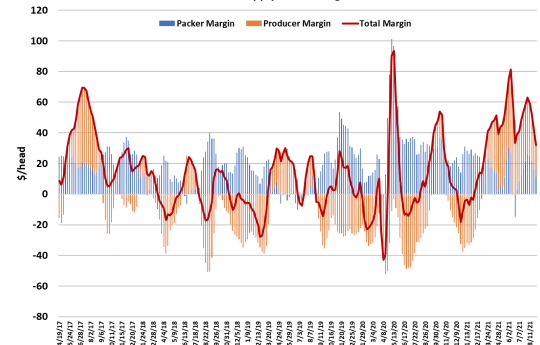
WTD Change in Pork Cutout Futures

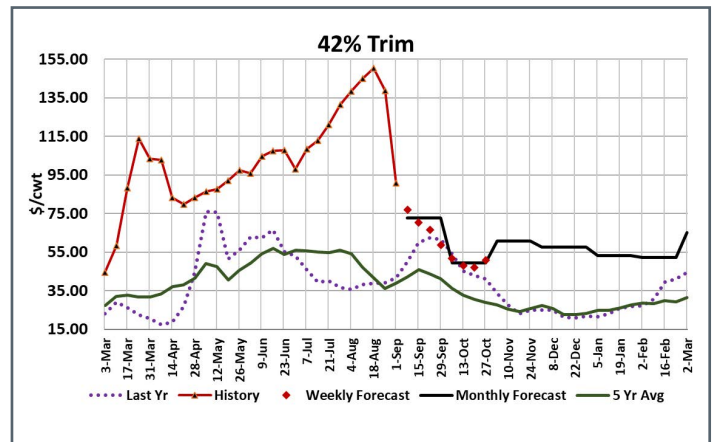
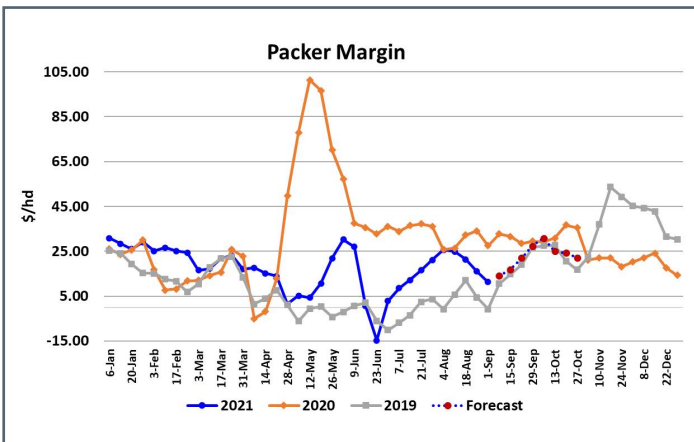
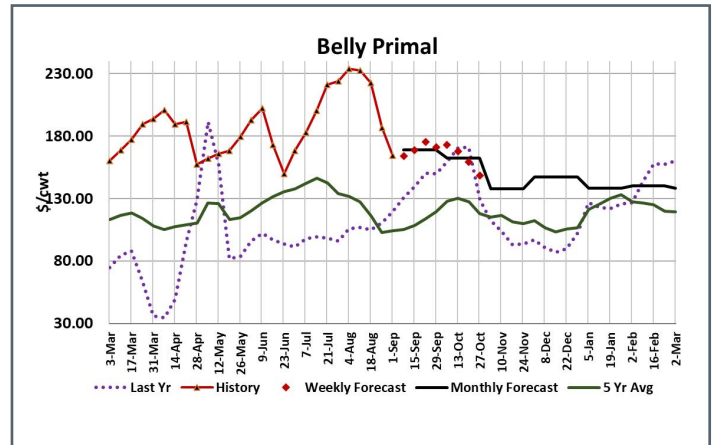
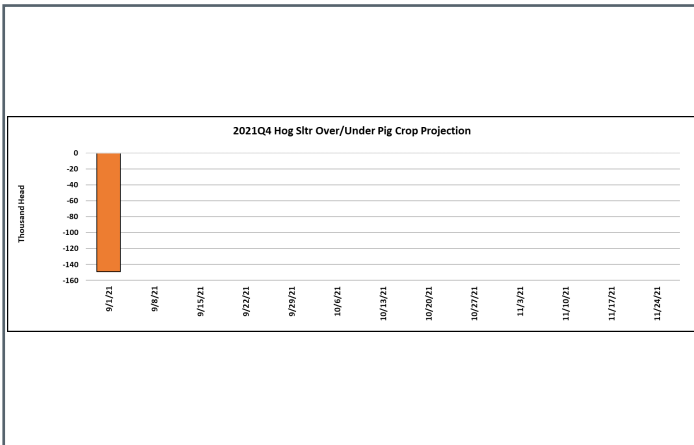


Weekly Avg Primal Impact on Pork Cutout from W/E Aug 27, 2021 to W/E Sep 2, 2021  
Cutout Chg = -5.16



Pork Supply Chain Margins





**DR. ROB MURPHY** BS, MS, PhD Agri Economics,  
Executive Vice President, Research & Analysis,  
J.S. Ferraro

E: [Rob.Murphy@jsferraro.com](mailto:Rob.Murphy@jsferraro.com) [in](#) [tw](#)

*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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