



WEEK ENDING OCTOBER 1, 2021

THE PORK WRAP

The big news in the hog and pork complex this week was a \$7+ surge in the cutout (weekly average basis) that was driven primarily by strong gains in the hams and bellies (chart below). The remaining primals were pretty much steady on the week. The cutout gains were impressive considering the size of last week's kill. That makes me pretty confident that pork demand has entered a new upcycle. The combined margin chart has been suggesting that for a couple of weeks now, but the move this week really solidified that idea.

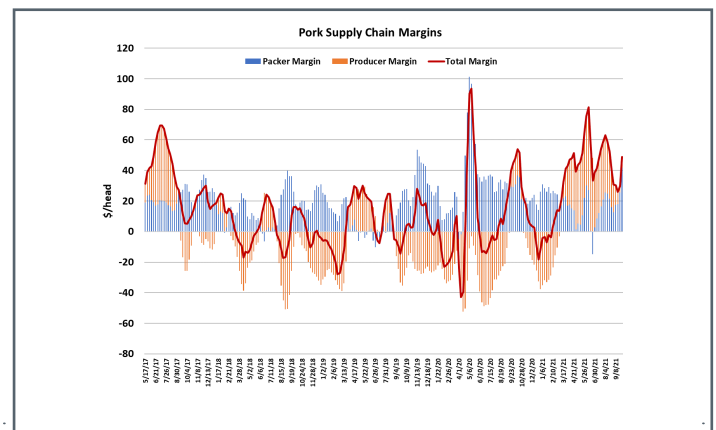
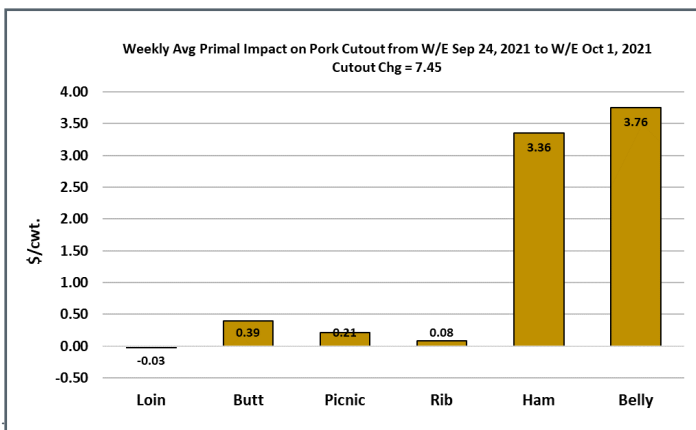
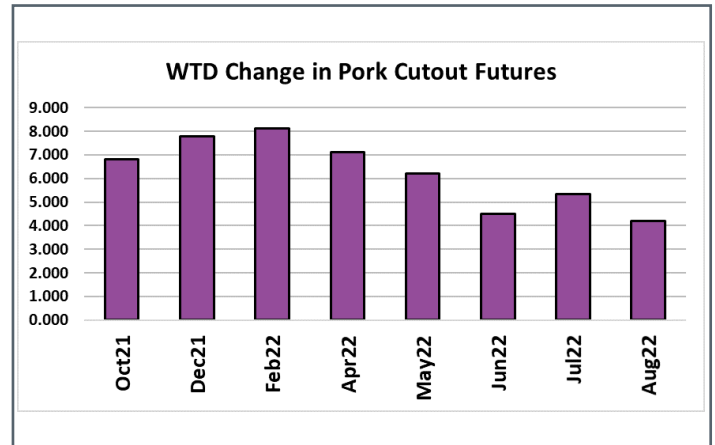
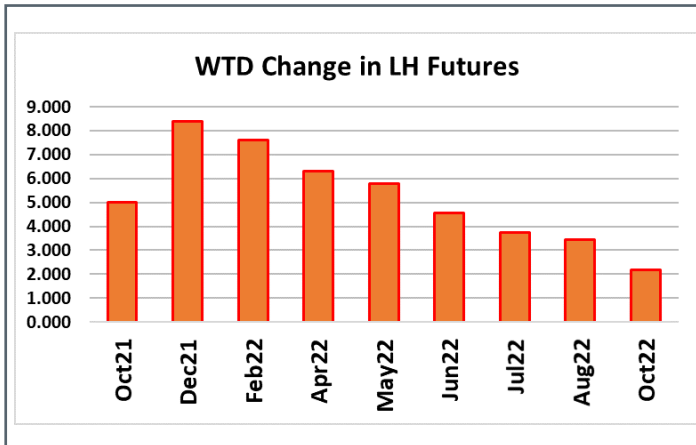
The turn higher in demand wasn't too far off of the normal 8-week cycle that has been typical in the past, since demand last peaked around early August. Hams are seeing demand strength from processors looking to fill needs as the holidays close in and also from Mexican buyers. My guess is that we could see 2-3 more weeks of stronger ham pricing before demand for hams starts to abate. Bellies and hams seem to be closely aligned their price cycles right now, so I'd also guess that the bellies continue to work higher for another 2-3 weeks also. Bellies probably have more upside potential than the hams do at this point and everyone knows how fast a rally in belly prices can lift the cutout. However, just because demand is in an upcycle it doesn't necessarily mean that prices are going to soar from this point forward. Supplies will also have a say. Kills are set to grow seasonally from now until mid-December and that will be the counter-balance that probably keeps price levels below the peaks seen earlier this summer.

This week's kill was a bit disappointing at only 2.52 million head, which was 50k below last week. That means availability will be a little snuggier next week than it was this week when the cutout was able to put on \$7. That makes me think that further price increases could be just ahead. Once again, we are seeing kills fall well short of what USDA's pig crop estimate projected. The kill has been below the pig crop projection in each of the five weeks so far in the Sep/Nov quarter. The deficit over those five weeks has been almost 400,000 head. That is almost a full day's production. If the under-kill continues at this rate, the industry will slaughter about a million head less than advertised in this quarter. Recall that in the most recent summer quarter the kill was 1.3 million head less than advertised. It is pretty concerning that USDA seems to be routinely over-estimating the hog supply now. The recent Hogs and Pigs report pegged the Jun/Aug pig crop down 6%. What if they over-estimated that one by a million head also? That would imply some very tight pork availability in the upcoming Dec/Feb quarter. There are concerns about packers having enough labor to kill all of the hogs this fall, so perhaps a smaller-than-advertised kill would be a blessing in disguise, particularly for hog producers.

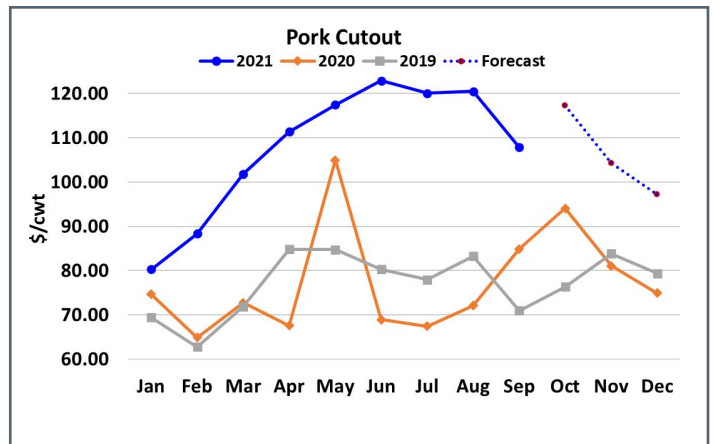
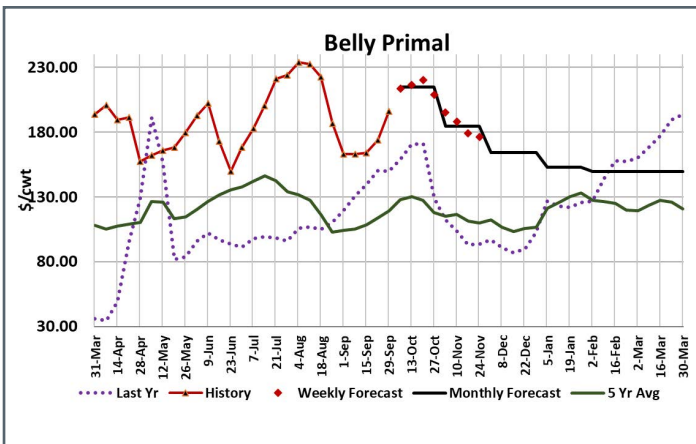
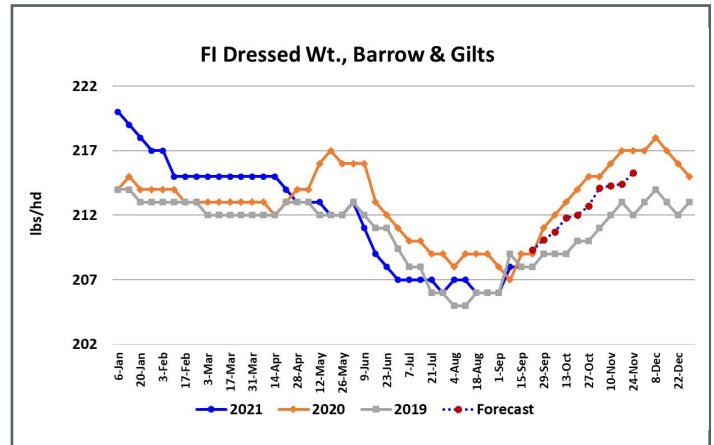
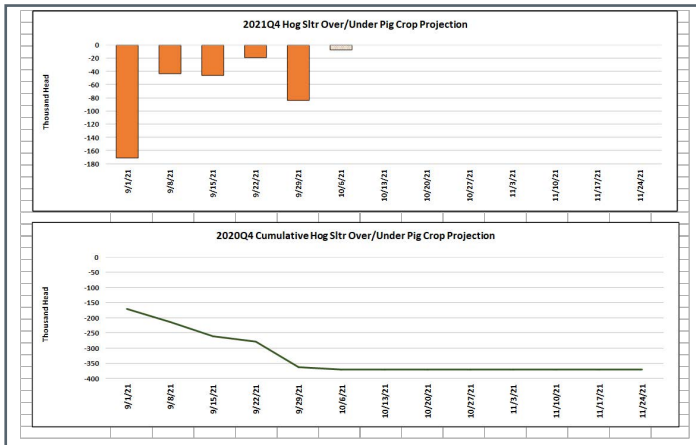
I am a little worried that packers are already struggling to kill the available hog supply. This week packer margins ballooned out to over \$40/head. That may pull back into the upper \$30s early next week as the LHI comes to fully reflect the gains in the cutout from this week, but that is still a very wide margin for this time of year. Packers seem to have no problem pushing negotiated hog prices lower and that would also be a symptom of packing capacity being insufficient. It may still be early in the process because we really haven't seen any abnormal weight gains recently and that would definitely be a feature if producers were having trouble getting their hogs slaughtered on schedule.

Weights are increasing seasonally, but so far the DTDS data doesn't indicate a backup. Stay tuned, because that could change quickly. Since the LHI is dependent both on the cutout and the negotiated cash hog market, we will have two opposing forces working to move the index over the next few weeks, with the cutout trying to pull the LHI higher and the negotiated market pulling it lower. Right now the cutout is winning the tug-of-war and the LHI is rising. I estimate it will print close to \$95 early next week. Since Oct only has nine trading days until expiration, that has energized the bulls and we have seen gains in the Oct contract for six of the last seven sessions. With next week's production being constrained by the smaller Saturday kill this week, I'd expect some further gains in the cutout and that puts the Oct contract on track to enter its final week with a LHI above \$95. Much will depend on continued strength in the bellies/hams and there is always the risk that the bellies shoot higher as they are sometimes prone to do. Belly volume has been very light on the negotiated pork report, so it wouldn't take much to move them in either direction.

Exports continue to look like they are softening, but there is always the chance that the Chinese will step up orders later this month as they try to get ahead of the logistics logjam in order to get product delivered in time for their New Year's holiday and the winter Olympics, both of which happen in early February. Next week, watch the bellies and hams for further strength and also watch the daily kills for signs that the packers are struggling to manage large kills.



While the information contained in this report has been obtained from sources believed to be reliable, J.S. Ferraro disclaims all warranties as to the accuracy, completeness or adequacy of such information. The information is not a recommendation to trade nor investment research. User assumes sole responsibility for the use it makes of this information to achieve his/her intended results. No part of this material may be copied, photocopied or duplicated in any form by any means or redistributed without the prior written consent of J.S. Ferraro.



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

E: 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.

SUBSCRIBE NOW for market intelligence