



WEEK ENDING OCTOBER 15, 2021

# THE PORK WRAP

The cutout was lower for the second week in a row, dropping \$6 on a weekly average basis. The negotiated hog markets were down less, losing only about \$2/cwt. That caused packer margins to compress about \$5 on the week, now sitting just a hair below \$30/head. Further erosion in ham prices are largely responsible for the decline in the cutout this week, although by the end of the week, some of the retail items were starting to soften. That leaves bellies as the sole item providing support to the cutout and that primal could be just about to turn lower also.

This leaves the cutout at risk of falling below the \$100 mark in the near future. The breaking of that arbitrary, but psychologically important barrier, could give pork buyers a reason to pull back unless they have immediate needs. That said, there is no guarantee that hams are going to continue to weaken. I'm calling them a little lower next week, but then rallying into month's end. If the hams do indeed turn higher and the bellies continue to hold at current levels, then there is a possibility that the sub-\$100 cutout could be delayed a bit. All of the buying for "pork month" is now behind us and retailers will probably be looking to give beef a little more ad space between now and Thanksgiving. That could leave the retail items—loins, butts, ribs—taking a back seat as we move into November. I don't want to give the impression that pork demand is not strong, because in a historical context it is very strong.

However, the combined margin (chart below) took a significant turn lower this week after only two weeks of strength. So the previous two weeks are starting to look more like a head fake in an overall downtrending demand environment. And maybe that is how it will go as demand starts to cool after a year and a half of super-strong demand. The overall trend could be lower, but it may be punctuated with periodic strengthening episodes as one primal or another catches fire for a brief period. Meanwhile, on the supply side, kills are increasing seasonally and will continue to do so for 6-8 more weeks. This week's slaughter came in at 2.64 million head, including more than 250k on Saturday. That should improve availability next week and is another reason why we might see further losses in the cutout. The kill was very close to what the pig crop implied for the second week in a row after several weeks of running below what the pig crop projected.

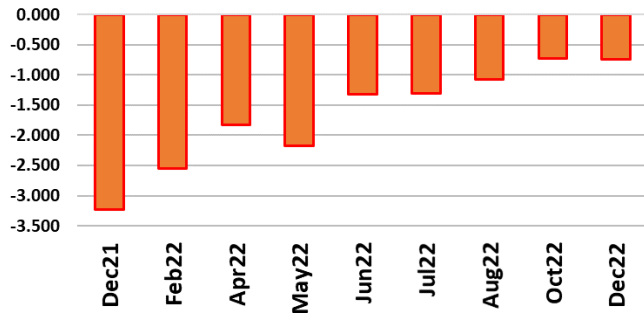
Of course, the inventory numbers in the last Hogs and Pigs report pointed to a 5.8% YOY reduction in weight categories that will be slaughtered in late October and through November. I don't normally put a lot of faith in those inventory numbers, preferring instead to track the pig crop through to slaughter. This week's kill was 3.3% below what looks like a very big number from last year.

So right now, the supply of market hogs appears pretty ample. That could change, but I've never seen the hog supply get really tight in Nov/Dec. It just doesn't happen. Detectable tightness in supply might start to surface around the holidays and into January as the industry starts working on the Jun/Aug pig crop, which was reported down 6% YOY. Between now and then however, I look for hog supplies to be plenty adequate. The price that packers pay for negotiated hogs was under less pressure this week than it has been in earlier weeks, but I really don't expect to see negotiated prices turn upward and march higher at this time of year. Packers will likely struggle to push all of the market ready hogs through the plant this fall, given their labor issues and so I don't see them having much incentive to chase after negotiated hogs. The futures curve for hogs pressed lower this week, with the biggest losses coming in the front end of the curve.

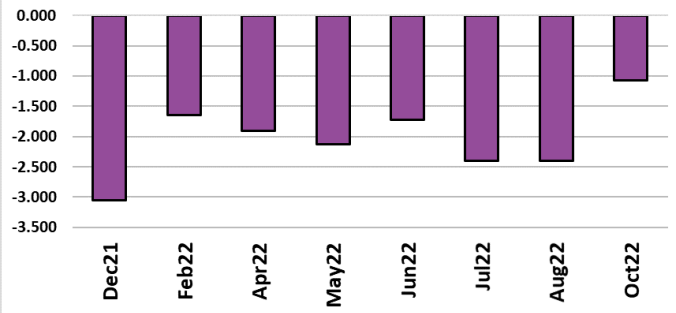
The market was led lower by the expiring Oct contract, which will cash settle at \$87.60 on Monday. At expiration time on Thursday, the final trades were done at \$88.20, so someone left a lot of money on the table. There were 9,300 Oct contracts left open at expiration that will cash settle. The gap between the last trade price and the cash settlement price amounts to \$2.2 million that will be transferred from the open longs to the open shorts next week. This expiration was one of the six worst misses since cash settlement was instituted for lean hogs back in 1997 (chart below). Next week, look for the hams to finally find a bottom and turn higher. That may just about the same time that the bellies decide to break lower.



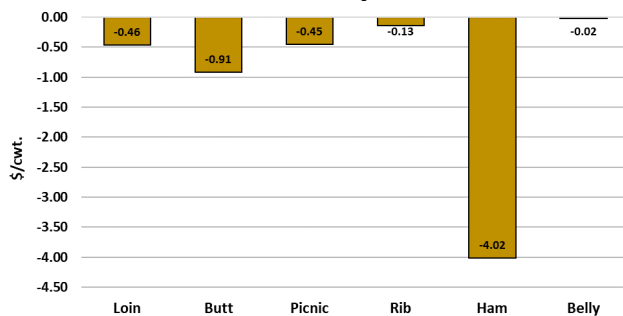
WTD Change in LH Futures



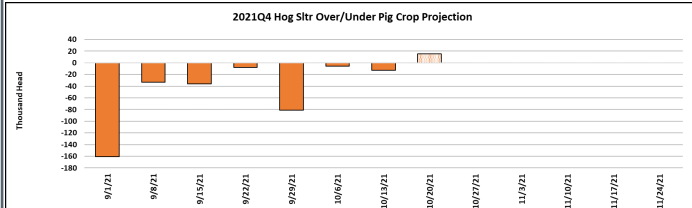
WTD Change in Pork Cutout Futures

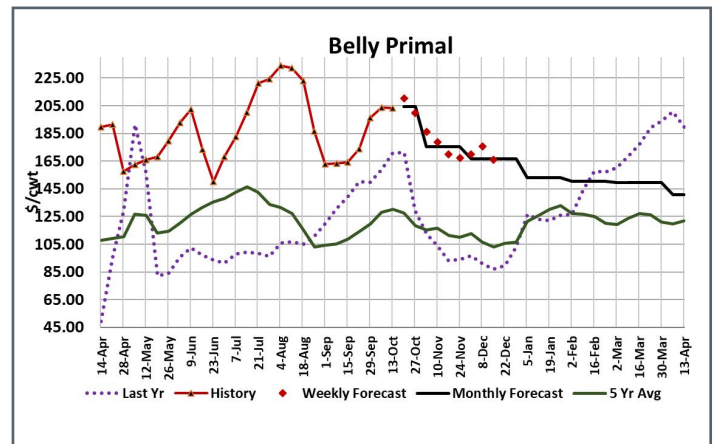
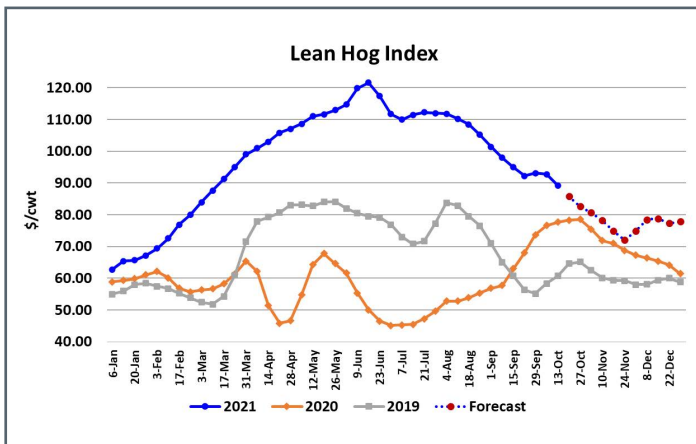
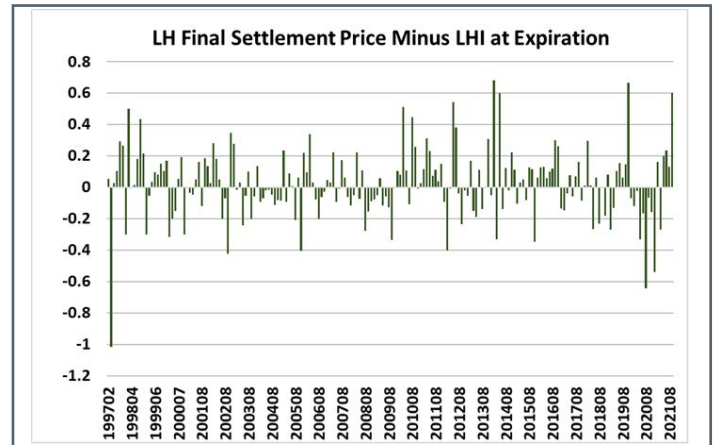
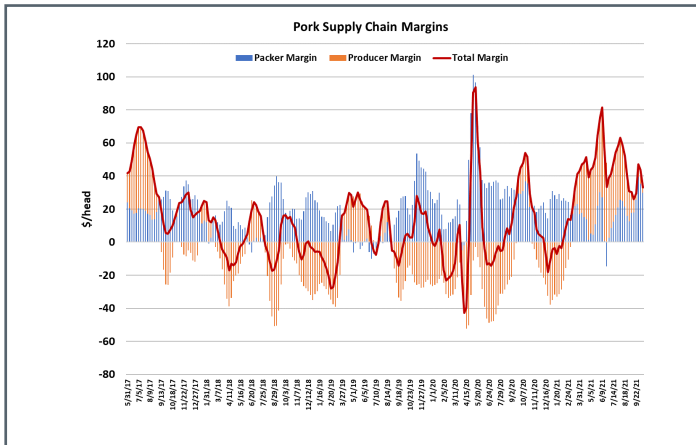


Weekly Avg Primal Impact on Pork Cutout from W/E Oct 8, 2021 to W/E Oct 15, 2021  
Cutout Chg = -6.



2021Q4 Hog Slt Over/Under Pig Crop Projection





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*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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