



WEEK ENDING OCTOBER 29, 2021

THE PORK WRAP

Everything continued lower in the hog and pork complex this week. The cutout lost \$4.12 on a weekly average basis and the NDD negotiated hog market was about \$3.50 lower. At this point, everything is being driven by the cutout and the cutout is being driven by the bellies and hams. The belly primal continued to work lower, finishing the week \$21 lower than where it ended last week. On a weekly average basis, the ham primal was up \$3.90. So far, the declines in the bellies have outweighed the modest support provided by the hams. We are also seeing some slippage in prices of the retail primals. The loin primal dropped about \$1.75 on a weekly average basis.

Given that this week's softer pricing occurred against the backdrop of a little smaller production last week than the week before, it is reasonable to conclude that overall pork demand is still softening. USDA revised last week's kill down to 2.59 million head and this week packers did a much smaller Saturday resulting in a 2.55 million head kill. That should reduce availability somewhat next week, but if the demand softening continues that might not be enough to raise price levels. Hams look dirt cheap right now and I'm pretty surprised that hasn't attracted more buying interest. The forecast has them moving modestly higher next week. Bellies probably have at least one or two more weeks of softer pricing before their cycle turns higher. My biggest concern right now in the pork complex is the retail cuts and trims seeing softer demand. Even if the hams move higher next week, I think declines in the retail items and trims will be enough to keep the cutout on a downward trajectory. Those declines are likely to be in small chunks and the forecast has the cutout holding in the upper \$80s for much of November.

Figuring out what is going to happen in the cash hog market is a little more complicated. USDA's March/May pig crop made it clear that we should expect less hogs coming to slaughter this fall than last. So far, that is what we are seeing. In fact, we've actually seen slaughter come in about half a million head below what the pig crop implied in the Sep/Nov quarter. However, we also know that plants are struggling with a labor shortage that seems worse this fall than it was last fall. If there are more hogs than the plants can process, that is very bearish for the cash hog market, but if plant labor is sufficient to handle this fall's smaller hog supply, then I would expect cash hog prices to be relatively firm.

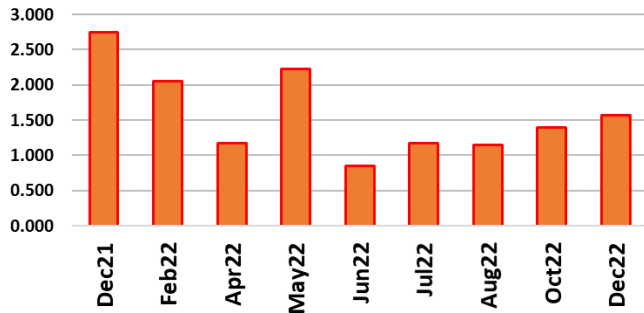
The cash hog market hasn't firmed up, but instead keeps trending lower. This week's kill was only 2.55 million head, with a much smaller-than-normal Saturday kill. Is that because the hogs aren't available or is it because of labor shortages? I'm leaning toward the latter explanation, but also recognize that it could just be some plants doing maintenance over the weekend. Maybe maintenance was scheduled with margin-enhancement in mind. This week's packer margins registered \$26/head, down about \$1 from last week. That is a pretty typical margin for this time of year, but I'm sure that packers would like to see it larger.

Packer margins are the key variable to watch to discern if plants don't have enough labor to process all of the hogs. If that becomes the case, then packer margins would likely balloon out to \$50/head or more. So far we haven't seen that either so it's reasonable to conclude that processing capacity is sufficient for now. Barrow and gilt carcass weights moved another pound higher this week to 212 pounds, only one pound below last year. This is a normal seasonal increase in weights and doesn't necessarily indicate that hogs are backing up. The DTDS weights have risen a bit, but are still relatively low from a historical perspective, so that piece of information doesn't support the idea that hogs are backing up either. The demand side of the market looks like it is slowly weakening to me. Hams may creep higher from here, but I don't think the bellies are done moving lower.

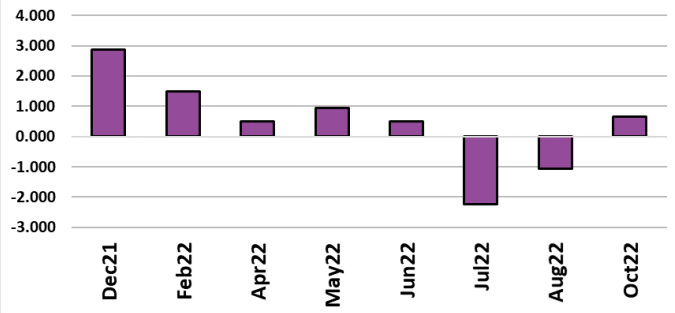
International demand is down also. China continues to back away from the US market, but Mexico has been a stronger buyer lately. I had hoped that perhaps we would see China increase purchases this fall to support their New Year's celebration, but so far that hasn't shown up in the data. Pork prices at retail are record high—just like beef. That should be detrimental to movement through the retail channel over the next couple of months. Lean hog futures were higher across the board this week, with Dec the biggest gainer. Next week, watch the hams and bellies. They will have the most influence on the cutout and the cutout will influence the futures.



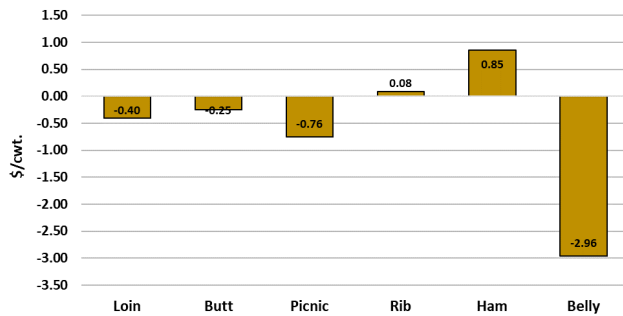
WTD Change in LH Futures



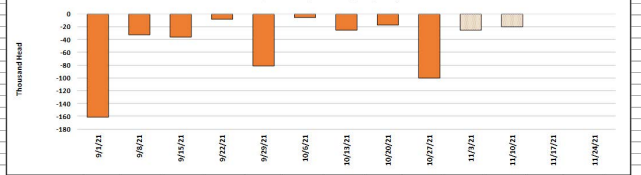
WTD Change in Pork Cutout Futures



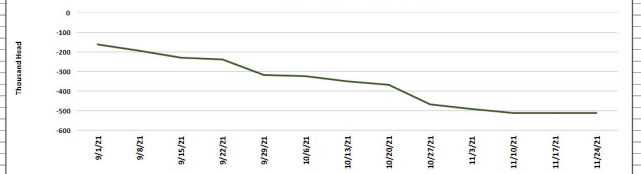
Weekly Avg Primal Impact on Pork Cutout from W/E Oct 22, 2021 to W/E Oct 29, 2021
Cutout Chg = -4.12

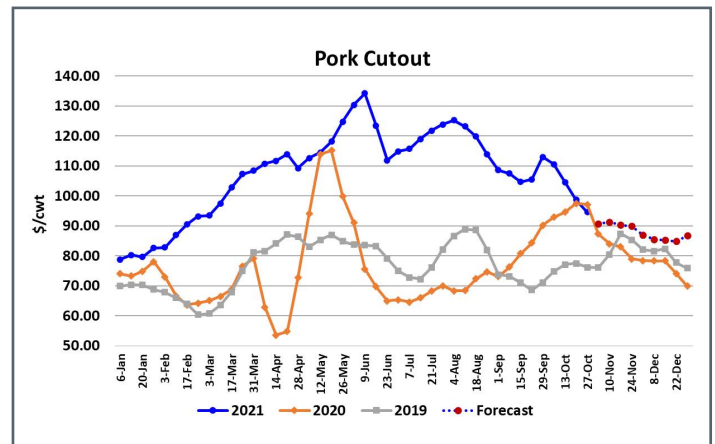
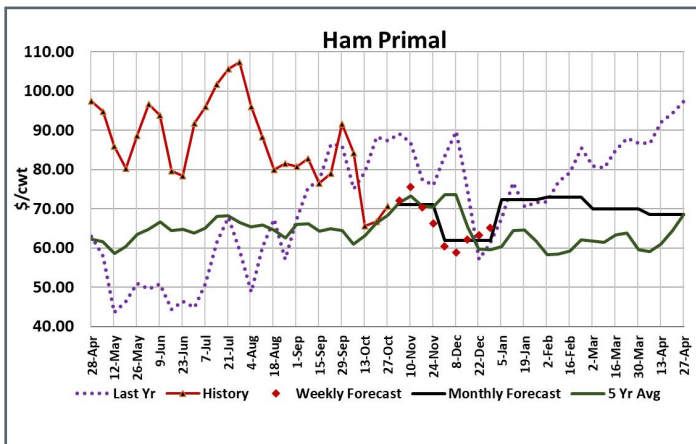
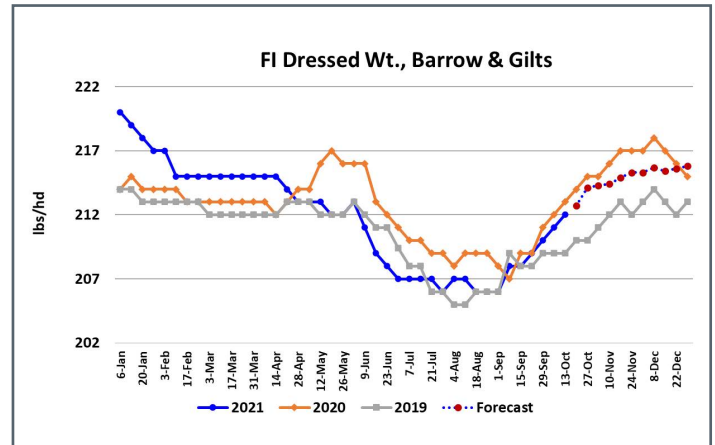
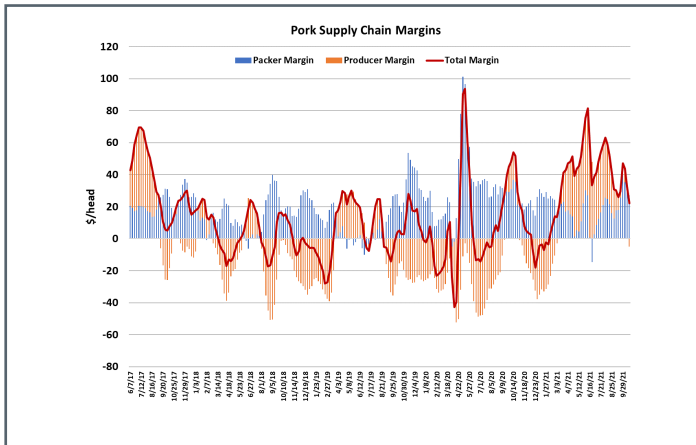


2021Q4 Hog Slttr Over/Under Pig Crop Projection



2020Q4 Cumulative Hog Slttr 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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