



WEEK ENDING OCTOBER 8, 2021

THE PORK WRAP

Last week's relatively small kill didn't do much to support the pork market this week as the cutout lost \$2.44 on a weekly average basis. The negotiated markets were also lower, down \$3-4. Interestingly, the LHI was almost unchanged on the week. Nearby futures were down a little over \$2. Last week, I talked about the turn in the demand cycle that I've been seeing in the combined margin chart. This week that upcycle took a little pause when the combined margined ticked a little lower. We've seen those kinds of breathers in the past, and this could be one of those. This week's decline in the cutout can be directly traced to unexpected weakness in the ham market and, to a lesser degree, the loin market.

Bellies were on the positive side of the ledger. There was a big drop in the price of 23/27 bone-in hams on Thursday that really took the primal lower. The value of the ham primal still bounces around a lot based on the percentage of boneless hams in the mix, but a \$10 drop in a stalwart like the 23/27 is a sure sign that the complex is softening. The belly primal averaged \$203 this week and while that is still a good ways below the \$234 top that was posted this summer, the bellies appear to be pretty vulnerable at these levels. I've got it holding steady to a little higher for a couple more weeks, but then breaking lower on bigger kills late in the month. It may break sooner.

That, of course, raises the question as to whether or not the demand upcycle can remain in place if the hams and bellies are going the other way. Time will tell, but it is reasonable to expect the price impact of this cycle to be considerably muted by seasonally increasing pork supplies. This week's kill came in at 2.597 million head—just a hair under 2.6 million. Packers will kill 224,000 head tomorrow. That will expand pork availability next week, which won't do the cutout any favors. The good news is that kills probably don't have much more room to increase since the prior pig crop suggests a max kill just below 2.7 million head this fall. This week's kill was closer to what the pig crop implied, but still fell a little short. So far, the industry is running a 400,000 head deficit relative to the pig crop since the first week of September.

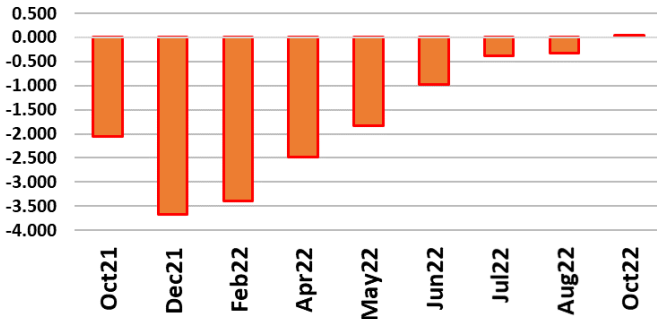
However, the recent Hogs & Pigs report weight range data indicated that the pig crop was front-end loaded and that supplies should tighten up in the second half of the quarter (mid-Oct through Nov). That might help erase some of the deficit and it might also make it harder to reach a peak kill of 2.7 million head. Barrow and gilt weights increased one pound this week in normal seasonal fashion. I'm forecasting about 6 more pounds of carcass weight increase before weights plateau in early December. The DTDS weights don't suggest that hogs are backing up at this point, but producers who negotiated their hogs daily with packers continue to accept lower prices.

Negotiated hog prices have been in a downtrend since peaking back in mid-June. Soon, those prices will be at risk of falling below last year's level. That is something that hasn't happened yet in 2021. USDA reported the official export numbers for August this week and they were almost dead on with last August. Strong movement to Mexico helped offset very weak movement to China. So far, there hasn't been any indication that China is going to come back into the US market in a big way. Pork prices in China are below what US product can be landed for and producers in China are enduring negative margins.

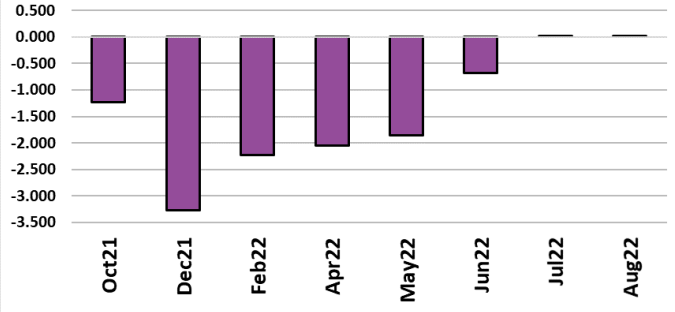
That may cause some smaller producers to exit the industry and there is a good chance that the Chinese hog herd shrinks a little bit in 2022. USDA is forecasting a 6.5% YOY decrease in sow numbers. That would likely lift internal pork prices and could rekindle interest in US pork next year. Oct LH futures will expire on Thursday and the LHI currently sits just under \$92, while the futures have wanted to hang closer to \$90. The softness in the cutout late in the week is likely to drive the index lower early next week. Next week, watch the ham and belly primals. They hold the key to the cutout and the cutout holds the key to the LHI.



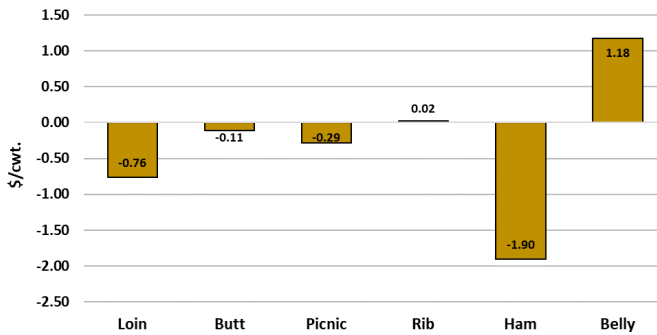
WTD Change in LH Futures



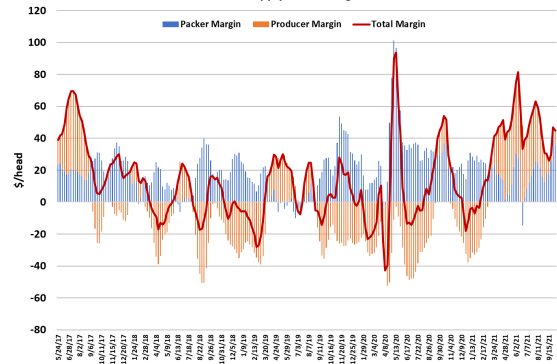
WTD Change in Pork Cutout Futures



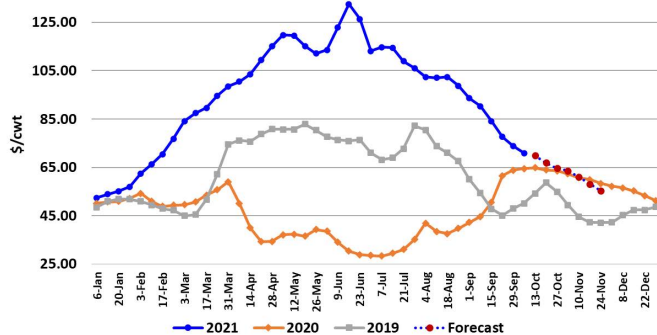
Weekly Avg Primal Impact on Pork Cutout from W/E Oct 1, 2021 to W/E Oct 8, 2021 Cutout Chg = -2.44



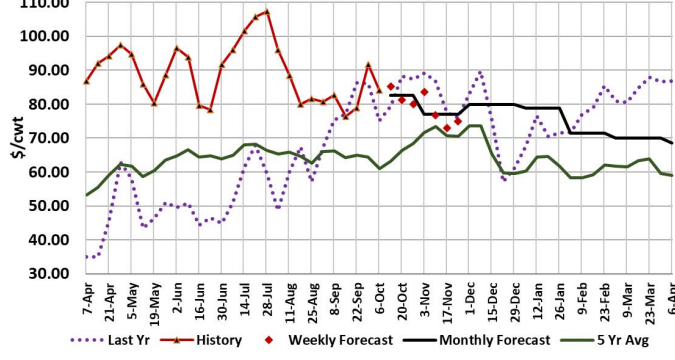
Pork Supply Chain Margins

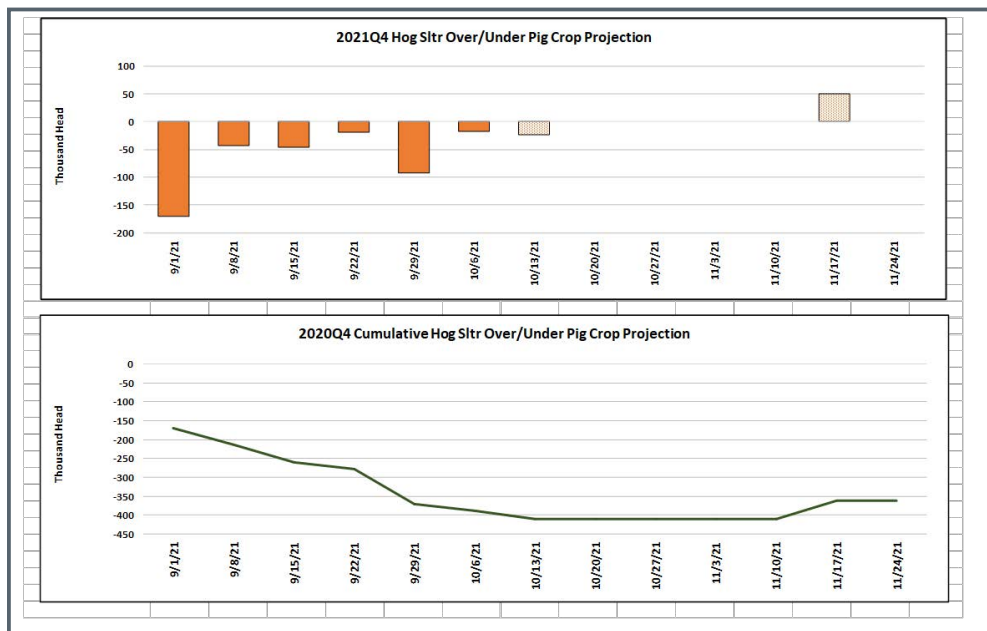
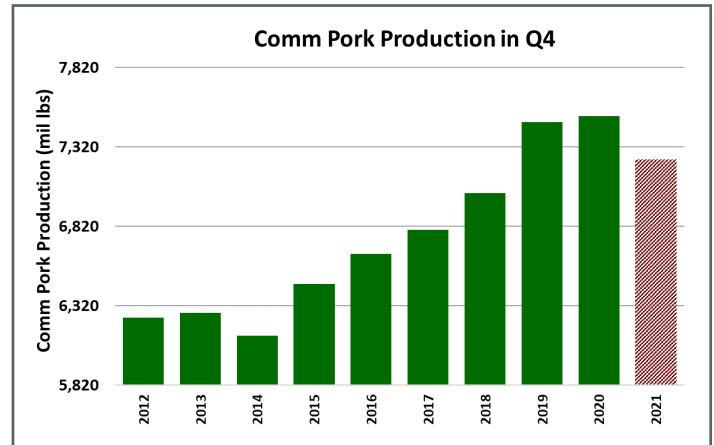
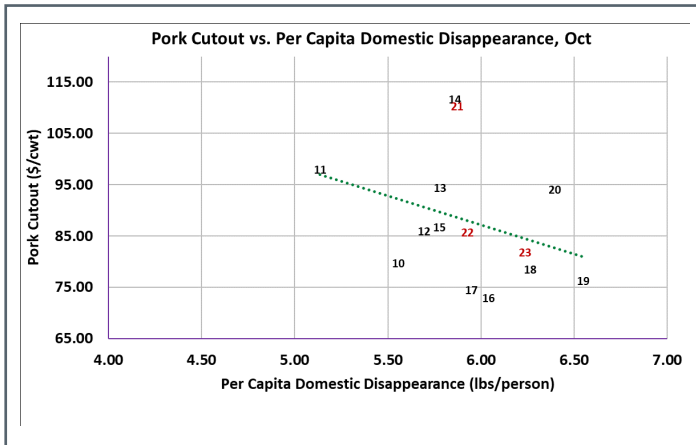


WCB Cash Price



Ham Primal





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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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