



WEEK ENDING NOVEMBER 12, 2021

# THE PORK WRAP

The hog and pork complex eased a bit this week as the cutout dropped about \$2.50 on a weekly average basis and the negotiated hog markets were down a similar amount. The gains that the cutout posted last week were erased this week by a downdraft in the loin primal. Hams were a little higher and bellies were a little lower, but the big move lower in the loins outweighed all of that. I've been concerned that the retail cuts would weaken under the pressure of seasonally-big kills and softer demand as people do less cooking at home. This week it was the loins. Next week it could be the butts or the ribs. The market will have to deal with bigger production next week due to a slightly larger kill this week and heavier carcass weights. Further, retailers and consumers both will be focused on turkeys and hams since it will be the week before Thanksgiving. Thus, I wouldn't be too surprised if the retail cuts slip a bit lower next week.

Hams are still working higher, but that might not last more than about another week. Bellies also have a strong tendency to work lower from now to the end of the year, so there is some risk there as well. However, if the market can just get through next two weeks without much concession then the short Thanksgiving week kill could pump prices back up during the first week in December. This week's kill came in at 2.61 million head, which was about 4.5% below last year. Estimated pork production, which takes into account the fact that carcass weights are slightly below last year, came in 5.4% below last year. Meanwhile, the pork cutout averaged almost 12% stronger than last year at this time. In 9 of the last 10 years, the cutout has finished the year below where it was in the second week of November, with an average decline of about \$4 (disregarding last year's massive \$14 decline). This year might buck the trend if hog supplies tighten up as suggested by the last Hogs and Pigs report. The industry will soon start killing the Jun/Aug pig crop which was estimated to be down 6% from last year.

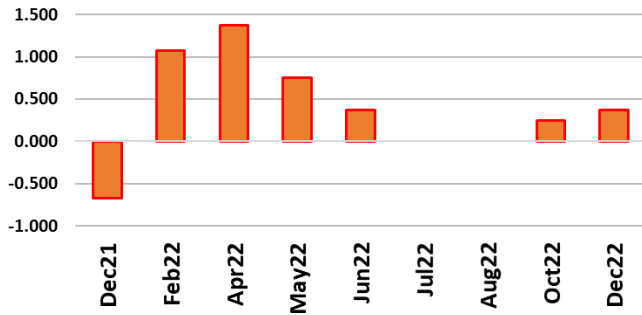
There is a contingent of analysts that think that there is a hole coming in hog supplies that will surprise buyers and force the cutout higher. That is certainly possible, but I wouldn't call it a "hole" but more like a gradual tightening. Whether or not that can translate into higher prices depends upon what demand does. Right now it appears to be slowly softening, so it is possible that we could have hog supplies tighten in December yet not get much of a price increase because demand is weakening. One thing that we need to keep an eye on is an uptick in COVID infections here in the US. Medical professionals have started to warn about another COVID wave this winter as more activities are held indoors. I wouldn't expect it to be as bad as last winter's wave, simply because we have 65% of our population vaccinated this time around, but any significant surge will likely result in more meal preparation at home, which we already know is positive for pork demand.

Carcass weights were reported one pound higher this week, which is perfectly normal for this time of year. I estimate that weights will probably increase about 3-4 more pounds before they plateau near the end of the year or early in January. The next Hogs and Pigs report is due out on Dec 23 and I've scaled back my expectations for herd growth after the last report showed producers reducing the breeding herd even though they had enjoyed strong profitability for most of 2021. Producers are likely concerned about high corn prices (Dec corn futures gained 24 cents per bushel this week) and softening exports to China. There is also the increased risk of ASF jumping to the US now that it has emerged in Hispanola.

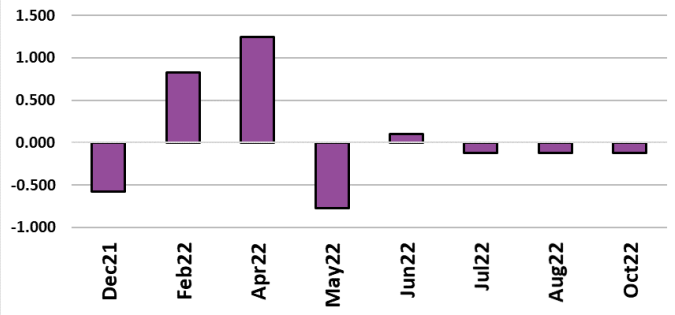
They probably also know that it is impossible for demand to stay at the super-strong levels that we saw in 2021. All of that makes me think that the next report might not show any increase in the breeding herd, or a small one at best. That will help keep supplies manageable well into 2022, but that doesn't necessarily translate into stronger pricing because I think that the demand erosion will continue and thus could cancel out any benefit from smaller hog supplies. The weekly export data continues to look soft, especially for product shipping to China. I estimate that in Q4 the US will export 22% of its production. Last year in Q4 we were exporting 25% of production. The market will also have to deal with California's Proposition 12 next year and that could further temper domestic demand for pork. It seems to me that less pork will flow into California after the first of the year and the product that does go there will be higher priced, thus California's pork consumption is likely to fall. That means more pork that has to be consumed in the other 49 states and we all know from economics class that consumers will only accept larger quantities when prices are lowered (all else equal).

No one really seems to know what to expect from Prop 12, but just the uncertainty that it creates is not good for the market. Futures traders have decided that prices for both hogs and pork won't get much cheaper than they are now. The Dec pork cutout futures settled today at almost \$94, which is less than a dollar under where the cutout printed this afternoon. Lean hog futures traded around \$76 today and by my calculation, the LHI will print \$76.40 on Monday. Traders have been whipsawed a lot lately, mostly as a result of wild variability in primal values depending on how much boneless product is in the mix on any given day. As a result, the futures market has decided to hang very close to the LHI. It is not trying to anticipate either an increase or decrease from here. I guess that is the sign of a well balanced market. Next week, watch for signs of weakening demand in the retail cuts. That could decide the direction of the cutout, and of course, movements in the cutout tend to heavily influence movements in the futures and cash hog markets.

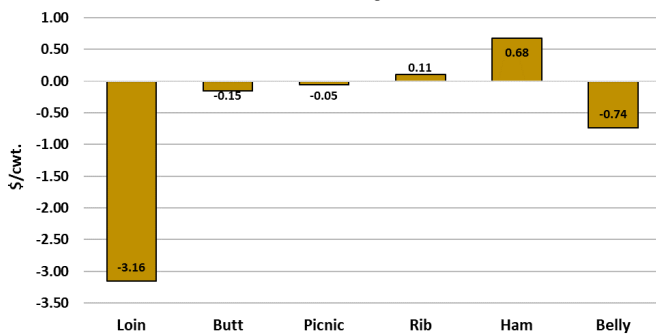
WTD Change in LH Futures



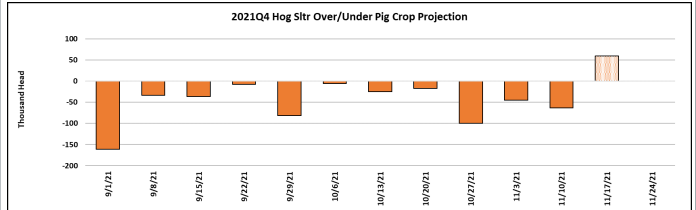
WTD Change in Pork Cutout Futures

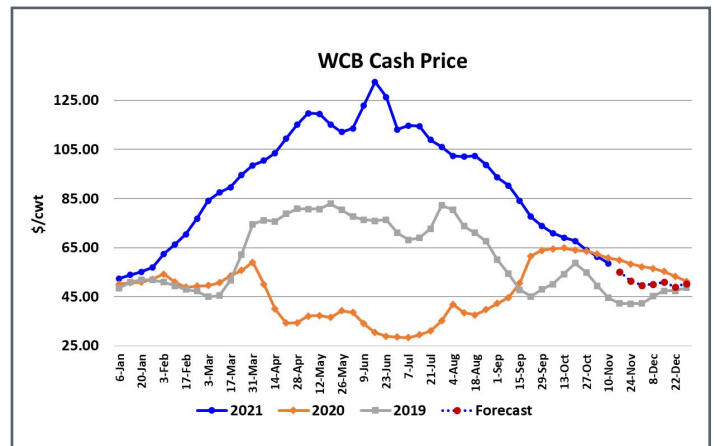
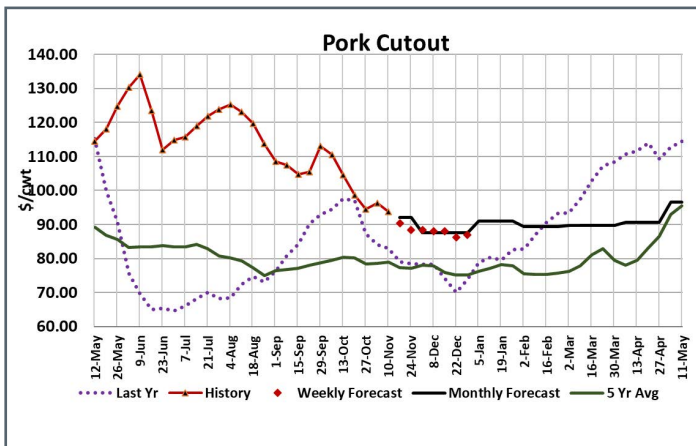
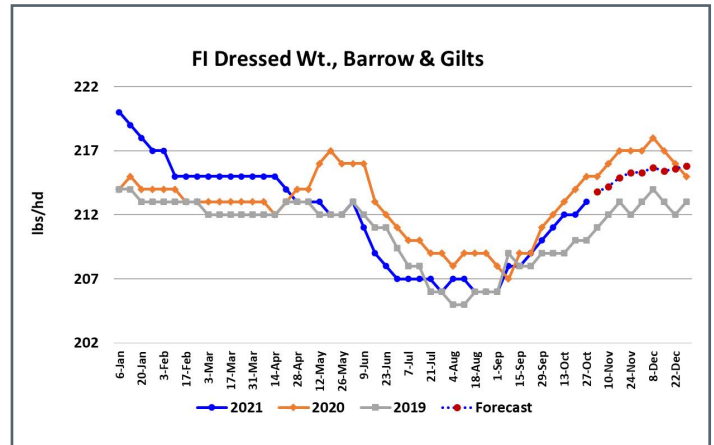
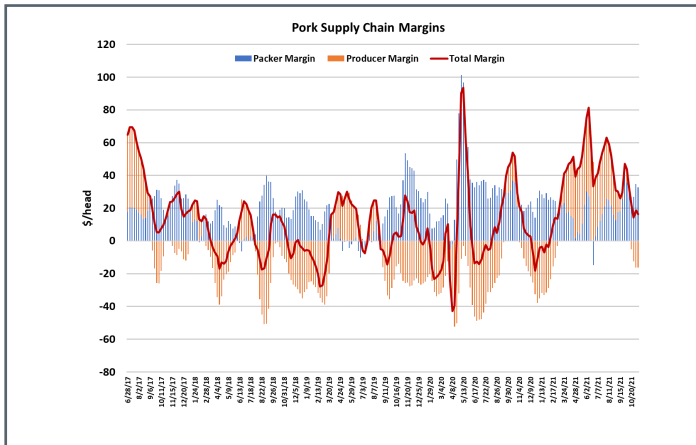


Weekly Avg Primal Impact on Pork Cutout from W/E Nov 5, 2021 to W/E Nov 12, 2021  
Cutout Chg = -2.53



2021Q4 Hog Slt Over/Under Pig Crop Projection





**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.*

**SUBSCRIBE NOW for market intelligence**