



WEEK ENDING NOVEMBER 5, 2021

THE PORK WRAP

Uh-oh, here we go again. After several weeks of trending lower, the cutout posted a \$1.65 increase this week. We have seen this behavior before. The chart below shows the LHI and nearby futures between the Aug and Oct expirations. Here the index was in a steady downtrend until about Sept 20, when some transitory gains in the cutout turned the index higher for a couple of weeks. It eventually resumed its downtrend. Back in September, this event forced the futures to rally since it had been carrying a discount to the index. The same thing appears to be happening now.

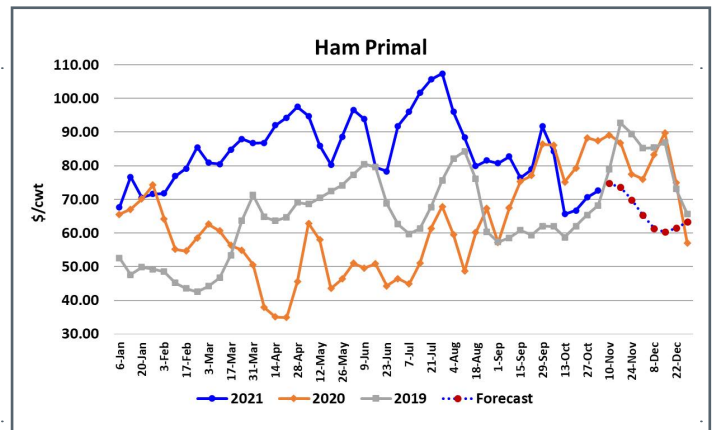
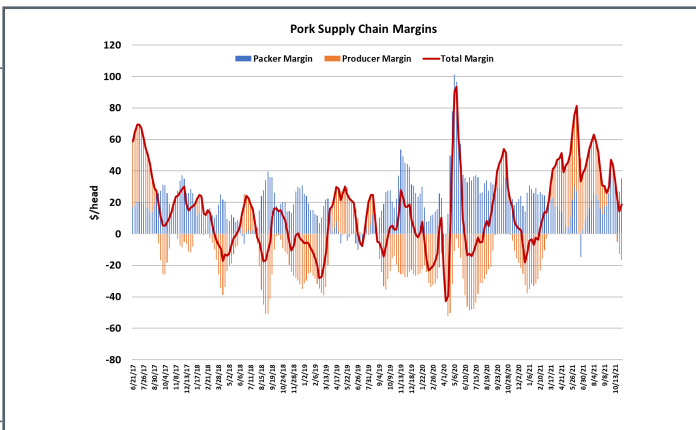
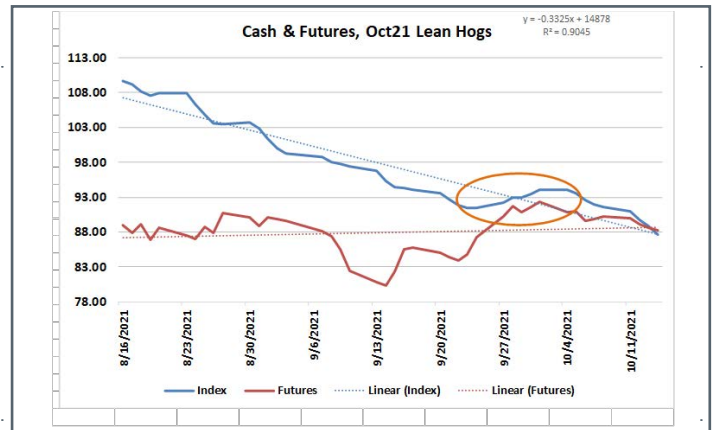
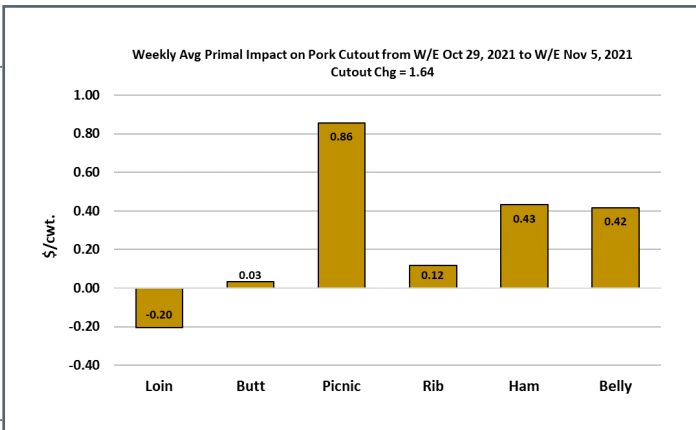
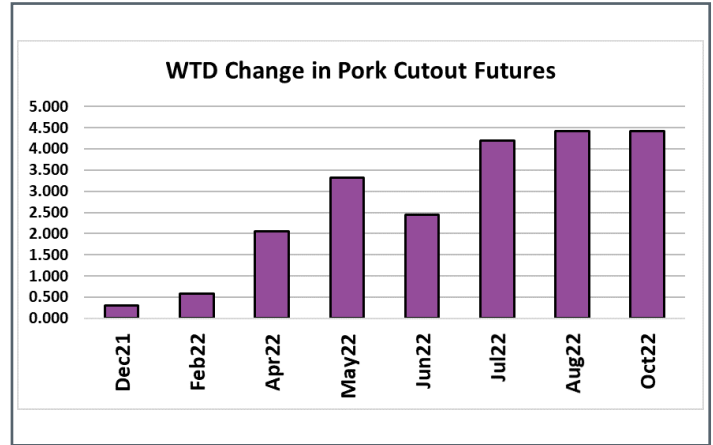
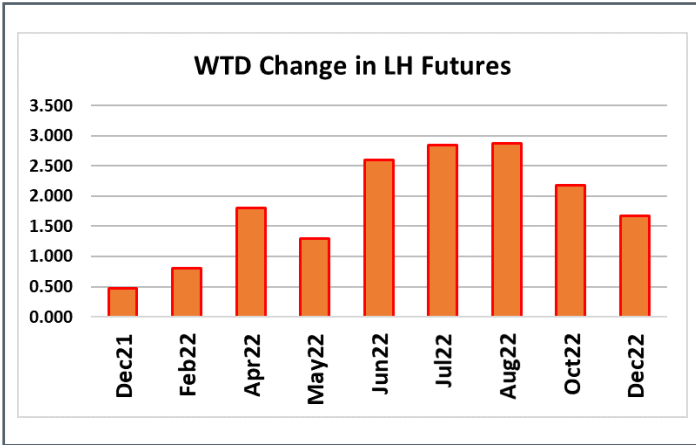
Modest gains in both the bellies and hams this week combined with a surprise surge in picnic prices to push the cutout back up into the high \$90s. The strength could be associated with last week's relatively light kill, but it has certainly changed the complexion in the futures market. The Dec contract moved lower today, but is still only \$2.40 under the LHI. I've had to revise forecasts higher in response to this development and now have the cutout forecast holding in the high \$90s for three more weeks. Because the hams and bellies both seem to be in an upcycle at the same time, I wouldn't rule out cutouts in the low \$100s at some point. This is all likely to be transitory, just like back in September, but for the next couple of weeks it could provide a lot of support to cutout and the nearby futures. The retail cuts seem to be holding in a sideways pattern, so it will likely come down to the hams and bellies for cutout direction in the near-term. Hams are clearly strengthening now and this is the third week of increasing ham prices.

The chart below shows that I'm only expecting another week or two of stronger ham prices before they turn lower again. There is some risk to that forecast, however. The hams are recovering from their lowest price of the year and the primal has spent much of 2021 in the \$80-100 range. My forecast has the primal topping out around \$75 and that may be too low. If the ham primal runs back above the \$80 level then I think that will almost guarantee that the cutout moves back above \$100. Hams have a well known seasonal tendency to break in mid-December. I'm looking for them to break in mid-November this year, so I might be too early on that. The bellies, on the other hand, have just begun to move higher, so they could be a bigger source of support for the cutout over the next few weeks. I'm projecting the belly primal to top just over \$180 in early December.

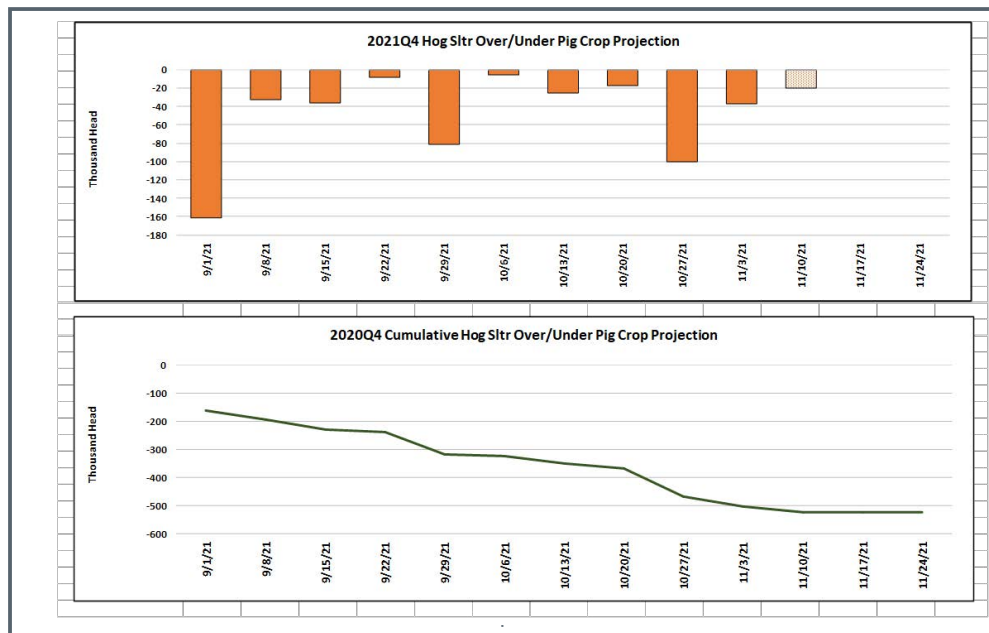
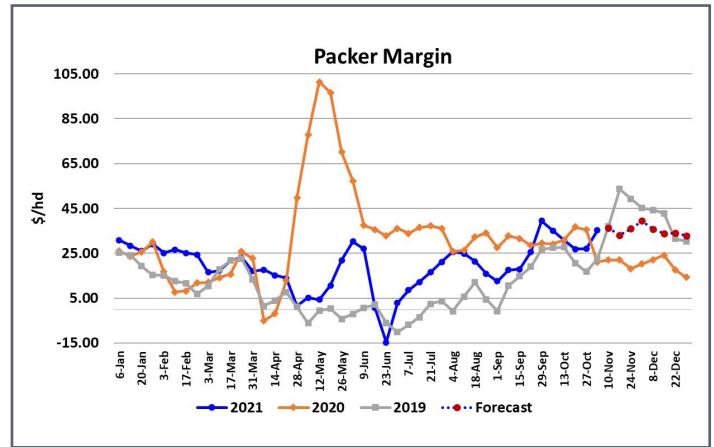
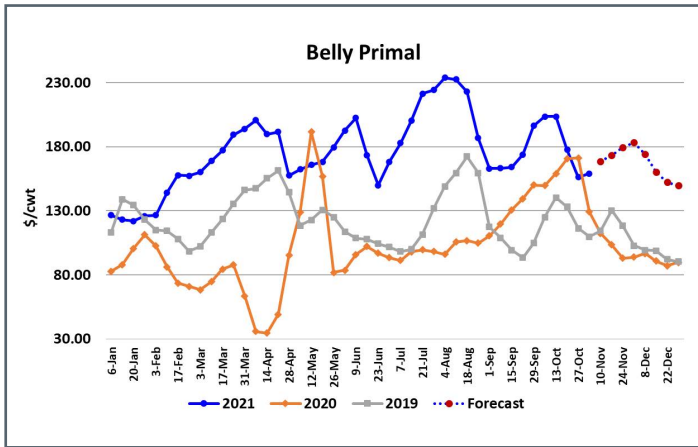
That would be the 5th belly primal top this year. The other tops have been above \$200, so I might be a little too conservative on this one, but it is my sense that bellies don't typically outperform in the latter weeks of the year. Of course the factor that will work against these two important upcycles is the fact that kills are near the largest of the year. This week's total was 2.61 million head, with a larger Saturday than last week. Even so, the kill was below what the pig crop projected once again. With 3 weeks to go in the Sep/Nov quarter, slaughter has underperformed the pig crop by about 500,000 head. I'm projecting next week's kill at 2.65 million head and that may be the fall top.

When December arrives the industry will start working on the Jun/Aug pig crop, which was reported down 6%. So we are getting pretty close to the point in the calendar where pork production will turn lower and of course there are 3 major holiday disruptions between now and the end of the year that will also restrict production. Negotiated hog markets finished the week about \$2 lower than where they closed last Friday. Packer margins swelled about \$9 to \$35 this week. So far, negotiated hog prices and packer margins don't suggest that labor problems are limiting the kill. Outside of the short-term strength projected in the bellies and hams, I do think that overall pork demand is going to be leaking lower as we close out the year although it might not show up in prices strongly because of supply tapering during December.

I'd expect the demand softening to become more obvious after the holidays, but even then it could be masked somewhat by that 6% smaller pig crop that the industry will be slaughtering. USDA released official export numbers for September today and they pegged total pork exports down 6.4% from last year. The YOY comparisons will likely only get worse in the final three months of the year because China has a much smaller appetite for US pork than it did at this time last year. Next week, watch for the cutout to flirt with the \$100 mark again if the hams and bellies can maintain their upward trajectory.



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