



WEEK ENDING DECEMBER 17, 2021

THE PORK WRAP

The Dec LH futures cash settled on Tuesday to a LHI of \$72.30. At the end of the week, the LHI was still very close to that level. The Feb futures, which are now the nearby, moved lower the first three days of the week, but then rebounded on Thursday and Friday to finish the week almost unchanged. The thing that seemed to change trader's minds midweek, was the cutout printing in the high \$80s and low \$90s. However, that was mostly an artifact of some boneless ham volume that was spread out over more days than normal. By the end of the week, the cutout was back below \$86. There was also a sense that the negotiated hog market was moving higher, but in actuality the WCB market averaged \$1.26 less than the week before and the NDD was only \$0.25 higher. This just highlights the difficulty that traders are having figuring out a market that doesn't seem to have a discernible trend. The cutout has been stuck in the \$80s for five weeks now, and my forecast has it holding in the \$80s for another 3-4 weeks. Some of the weekday kills were smaller than expected this week and perhaps that gave the impression that packers were having difficulty finding hogs.

However, they didn't have any trouble finding enough hogs to generate a huge 332k Saturday kill. That put the weekly total at 2.65 million head and was only a hair shy of the biggest kill this fall. The kill was only down 4% YOY—well above the 6% smaller kills that USDA indicated with its summer pig crop estimate. The chart below shows that we've over-killed the pig crop every week so far in this quarter and next week the over-kill is expected to be even larger as a result of the way that Christmas falls on a Saturday this year. I haven't found a good explanation for the small weekday kills we saw, but the windstorms in the Midwest this week may have played a role. Hopefully, it wasn't COVID-related absenteeism, but that is something that could emerge as an important factor in the weeks ahead. Buyers should be prepared for the possibility that this more-infectious variant causes reduced production as workers come back from the Christmas holiday.

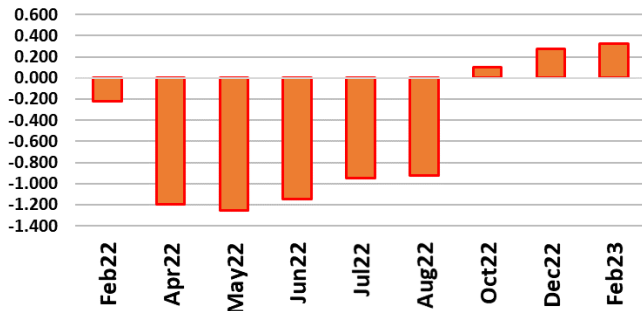
Next week, the Saturday kill will be zero and the Friday kill is likely to be reduced. I'm expecting the weekly total to be only 2.07 million head. In the week leading up to New Year's, I have the kill closer to 2.2 million head. It is possible that the short production in the next two weeks will produce some gains in the cutout, but that typically doesn't happen because everyone knows it is coming and prepares for it. This week, it was the hams that provided the most support to the cutout and that is a little unusual because normally the hams are breaking lower at this point in the calendar. It does look like packers sold forward a big order of hams recently and negotiated volumes of bone-in hams were unusually low, so perhaps that was limiting availability. My guess is that their ham inventory will be replenished by the huge Saturday kill and hams will come out of the gate next week trading lower.

Bellies have been stagnant as expected, with the primal holding near \$130 for the past few weeks. I don't see them moving much in either direction until after the holidays when they could see some modest price gains. Other than that, I have most of the other primals in a sideways pattern until mid-January and that is what leads me to a cutout that holds in the \$80s for the next few weeks. Packer margins improved about \$5/head to \$32 this week and, while that isn't anywhere near the record for this time of year (\$43/head), it certainly doesn't seem to be consistent with the very tight hog supply scenario that many have been anticipating. USDA will release another issue of Hogs & Pigs on Thursday and I expect it to show the swine herd down a little over 3% YOY and the near-term hog supply about 4% below last year. The most important number will be the estimate of the Sep/Nov pig crop and there I'm looking for a 3.2% YOY decline.

Those will be the hogs coming to market in the March/May quarter, so its reasonable to expect both hog supplies and pork production to be below year-ago levels at least through the first half of 2022. With smaller supply being likely, the focus will turn to demand for price determination and in particular export demand. China continues to pull back from the US pork market and there is little reason to think that will change in early 2022. That will leave a big hole to fill because the China business was very strong in early 2021. Mexico has been stepping up as a bigger buyer lately and that has helped to temper the influence of dwindling Chinese business, but it won't be able to fully replace it. As a result, I'm projecting significant YOY declines in pork exports for most of the first half of next year. It won't be enough to offset the smaller production in Q1 and thus per capita availability could be down 5% or more through March, but by Q2 we could have availability back near 2021 levels. Domestic pork demand appears to be turning higher, albeit slowly.

The combined margin chart below makes it pretty clear that a bottom has been established. This is the first bottom in negative territory since the pandemic began. My guess is that the next peak in the combined margin will be well below what we saw in the pandemic also. So we have all of the elements for some price appreciation in both hogs and pork, but the increases may be very small initially and then gain more traction around the middle of January. There is risk however, that the omicron variant will disrupt production and send prices sharply higher. From what I know right now, I'd put the odds of that kind of event at 1 in 4, so it's not insignificant. Next week, watch the hams for signs that the seasonal price break is taking hold and watch the news closely for reports of escalating omicron infections in or near packing plants.

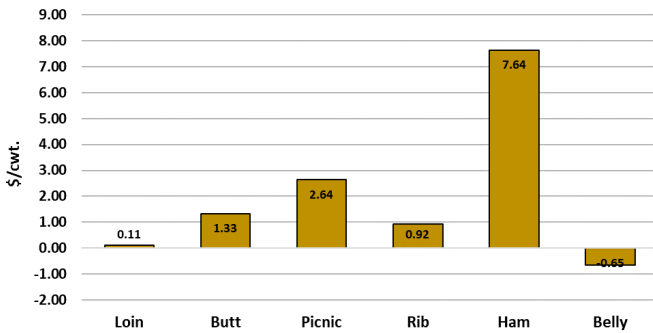
WTD Change in LH Futures



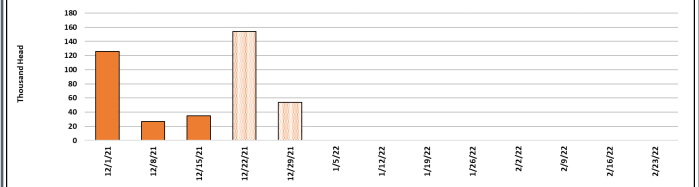
WTD Change in Pork Cutout Futures



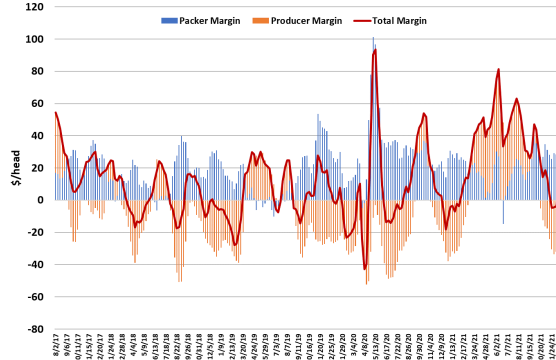
Weekly Avg Primal Impact on Pork Cutout from W/E Dec 10, 2021 to W/E Dec 17, 2021
Cutout Chg = 1.85



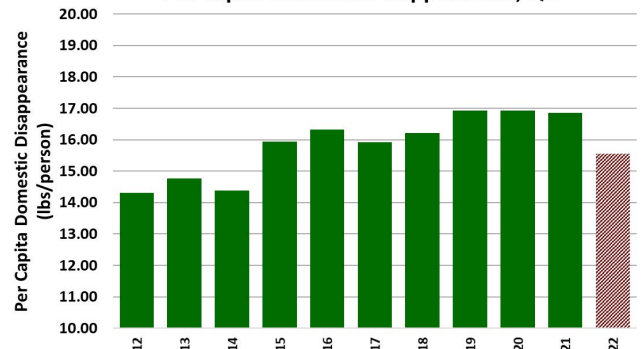
2022Q1 Hog Sitr Over/Under Pig Crop Projection

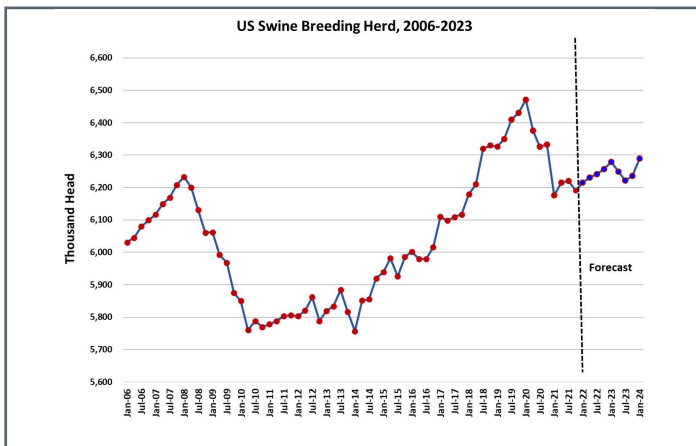
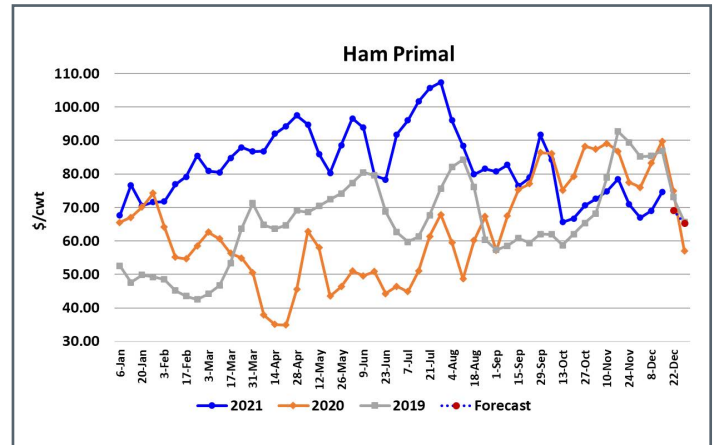
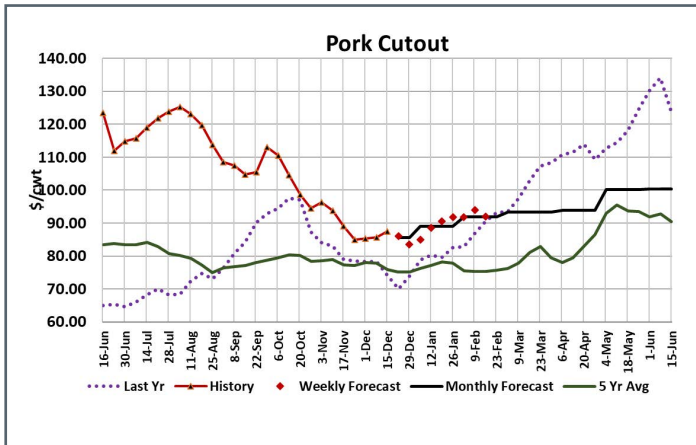


Pork Supply Chain Margins



Per Capita Domestic Disappearance, Q1





DR. ROB MURPHY BS, MS, PhD Agri Economics,
Executive Vice President, Research & Analysis,
J.S. Ferraro

E: 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.

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