



WEEK ENDING DECEMBER 24, 2021

THE PORK WRAP

The hog and pork complex experienced another steady week. The negotiated markets were essentially unchanged from the week before and the cutout averaged \$0.65 lower than the week before. In the midst of this uneventful week in the cash markets, the Feb futures saw fit to rally almost \$2.50 and is now trading close to \$12 over the current LHI. That seems excessively wide. Are traders trying to tell us something? The surge of bullishness in the futures could very well be related to the escalating risk posed by the omicron variant and traders may be saying that they would rather be long than short if packing plants have to reduce production due to absenteeism spawned by COVID infections. Hog futures react differently than cattle futures to production restrictions because the cutout plays a big role in hog pricing.

Production slowdowns will raise cutout values and thus also likely raise the LHI. Any such slowdowns would certainly cause the hog production pipeline to back up and reduce the price of negotiated cash hogs, but the positive influence from the cutout on hog pricing often overwhelms the negative effect from cash hog markets. There also seems to be a general sense that pork demand is about to enter into another upcycle and take prices higher. That is what the combined margin has been pointing to, however this week it ticked a little lower. It is definitely in the zone where it normally turns higher, so it is natural to assume that the next move in pork will be up. Futures traders will spend the holiday weekend digesting Thursday's Hogs and Pigs report. That report didn't contain a lot of surprises, so the market impact may be minimal. USDA reported the total swine herd about 0.6% lower than what analysts were looking for, so that might be considered mildly bullish. However, the breeding herd was dead-on with the average trade guess and the breeding herd is the engine that powers future hog supplies. The Sep/Nov pig crop was estimated down 2.6% before USDA revised last year's Sep/Nov pig crop estimate upward. After that change, the pig crop was down 3.6%.

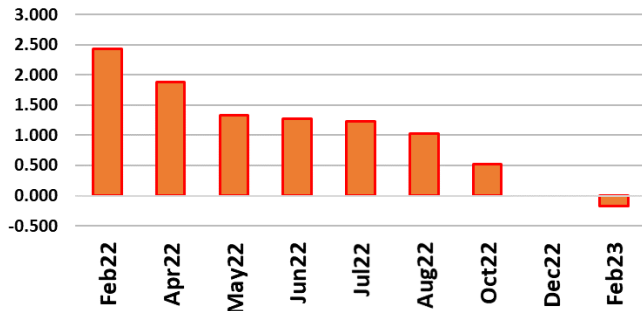
The revision to past numbers makes absolutely no difference to how many pigs are on the ground right now. It only affects people's perception when they view the percentage change. The average trade guess was for the Sep/Nov pig crop to be down 2.8%, so the reported number was actually 0.2% larger than what analysts were expecting. That should be mostly neutral to the market. The number of pigs saved per litter bounced back up in the most recent quarter and if producers can maintain the growth in that important productivity measure, it would allow them to get more market hogs out of the same sow base than what we've seen in the past few quarters. In all, I think the H&P report shouldn't be a big market mover on Monday.

The numbers were a little smaller than what I had dialed in, so when I included the new data it raised my 2022 price forecasts slightly. This week, it was gains in the retail items that supported the cutout while the hams and bellies exerted downward pressure on the cutout. In the end, it was almost a wash and the cutout remains stuck in the mid \$80s. If packers experience increased absenteeism as COVID cases increase, then we might well expect to see more day-to-day volatility in the pork cutout. It already gyrates wildly depending upon what proportion of the ham volume was boneless on any given day.

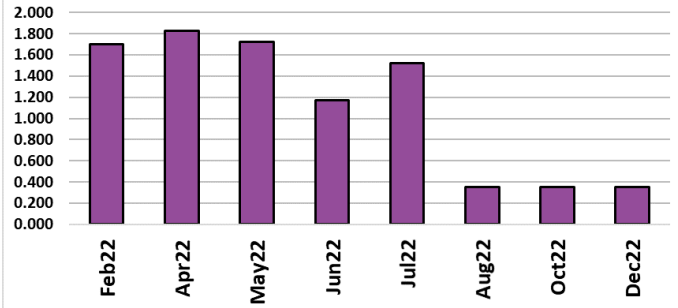
Further labor tightening will increase boneless product pricing relative to the bone-in and thus make the swings even bigger on days when the boneless buyers are active. The forecast over the next few weeks has all of the retail items working higher and some modest increases in belly pricing. Hams will likely be the laggard, but by the middle of January they could be strengthening as well. Trim markets also appear to be poised for increases in January. This week packer margins averaged about \$28/head, down \$4 from the week before. I see margins stabilizing in the high \$20s/low \$30s over the next month or so before they start to move below \$20 in February. I'm expecting packers to only do a modest kill on Christmas Eve and zero on Saturday to put the weekly total somewhere close to 2.05 million head. Next week, 2.2 million is expected and when we return to full production in the first week of January, kills should be around 2.5 million head or slightly higher. So far, the industry has over-killed USDA's estimate of the summer pig crop and that trend should continue in January unless covid-related slowdowns disrupt harvest facilities. Hog carcass weights are at their seasonal high point now, but pretty close to what was expected.

It looks like the hog pipeline is filled, but not backed up. Export demand still looks pretty weak compared to last year as China is only buying a fraction of what they did last year at this time. I think that is one of the things that has hog producers cautious about expanding. The prospect of persistently high corn prices is another. Futures corn traded over \$6/bushel this week and we haven't even entered the season where traders normally start to build in a risk premium for concerns about the next crop. With all of the volatile weather around the globe, there will almost certainly be floods, droughts, wind storms or some other phenomenon this spring that will cause traders to bid up corn futures further. Next week watch the news on covid infections and the public's reaction to soaring case counts. That is the most important feature in this market right now.

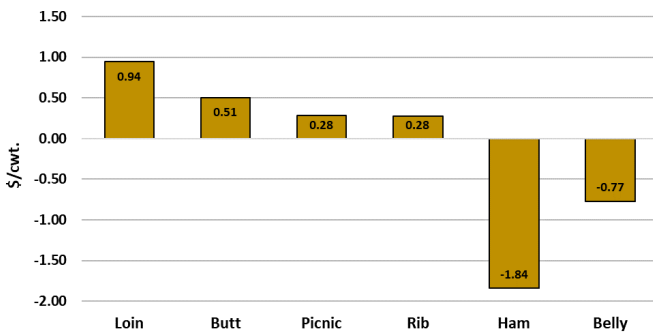
WTD Change in LH Futures



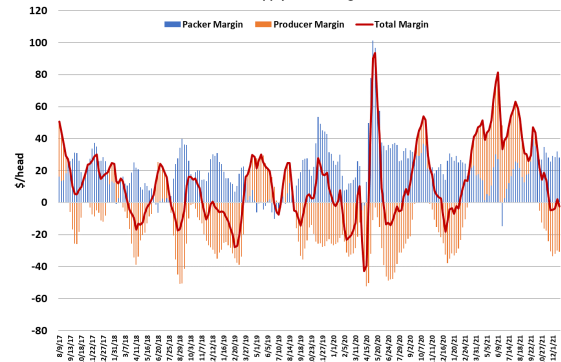
WTD Change in Pork Cutout Futures

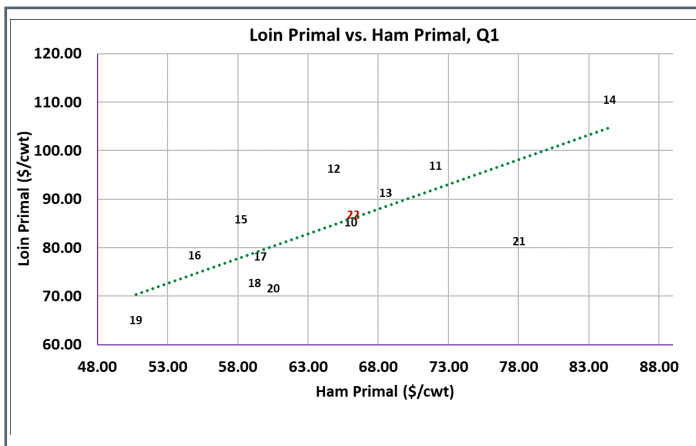
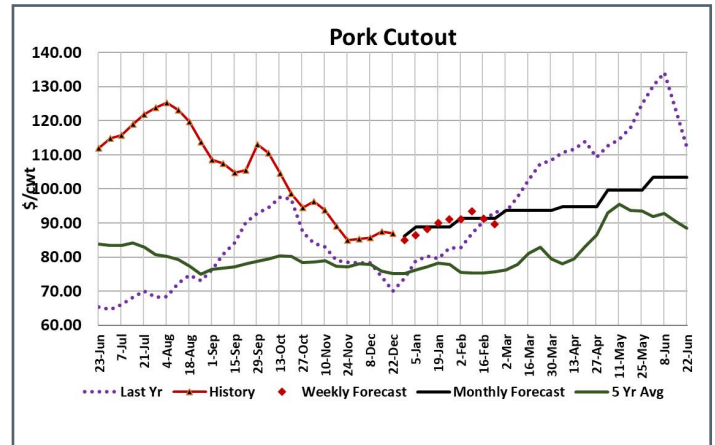
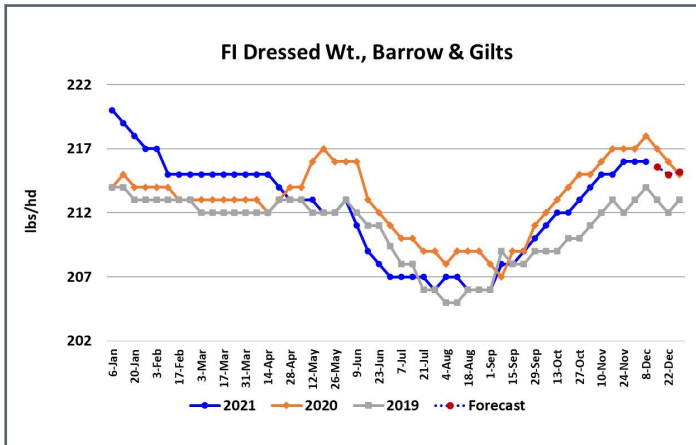


Weekly Avg Primal Impact on Pork Cutout from W/E Dec 17, 2021 to W/E Dec 23, 2021
Cutout Chg = -.65



Pork Supply Chain Margins





	JSF Forecast	Actual	Difference
All Hogs & Pigs	74,387	74,201	(186)
Breeding Herd	6,215	6,180	(35)
Market Hogs	68,172	68,021	(151)
Mkt Hogs <50 lbs	21,371	21,174	(197)
Mkt Hogs 50-119 lbs	19,201	19,185	(16)
Mkt Hogs 120-179 lbs	14,414	14,809	395
Mkt Hogs >180 lbs	13,186	12,853	(333)
Prev Qtr Pig Crop	33,843	33,712	(131)
Prev Qtr Pigs Per Litter	11.14	11.19	0.05
Prev Qtr Sows Farrowing	3,038	3,012	(26)



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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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