



WEEK ENDING DECEMBER 03, 2021

THE PORK WRAP

On a weekly average basis, the pork cutout was essentially unchanged this week, but Friday-to-Friday it was down \$2.61. Cash hogs rallied strongly this week, with the WCB negotiated market gaining over \$9 and the NDD market up nearly \$7 Friday-to-Friday. Of course this begs the question as to why packers would be paying so much more for cash hogs at a time of year when kills are near their peak and cutout values are struggling. I don't have a good answer for that other than perhaps the supply of hogs is tightening and packers have commitments to fill. The WCB market jumped almost \$4 today and as this week's higher hog prices flow into the LHI, it will pressure packer margins.

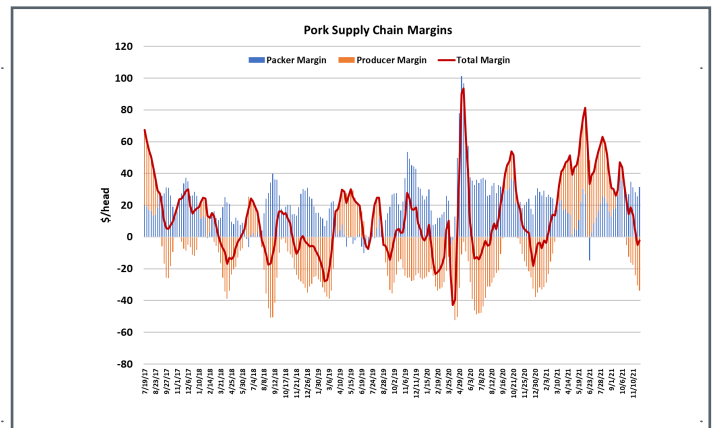
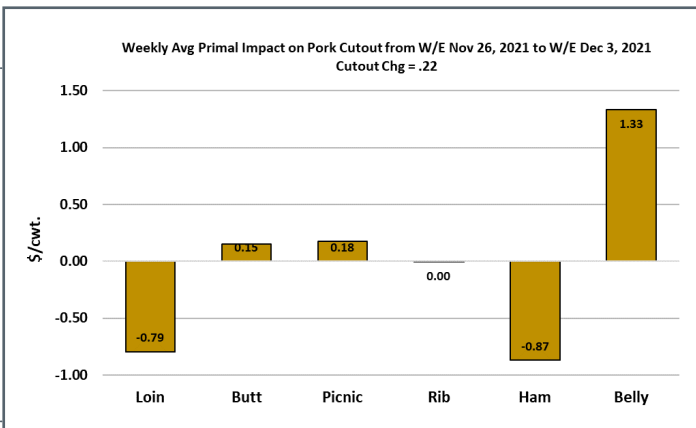
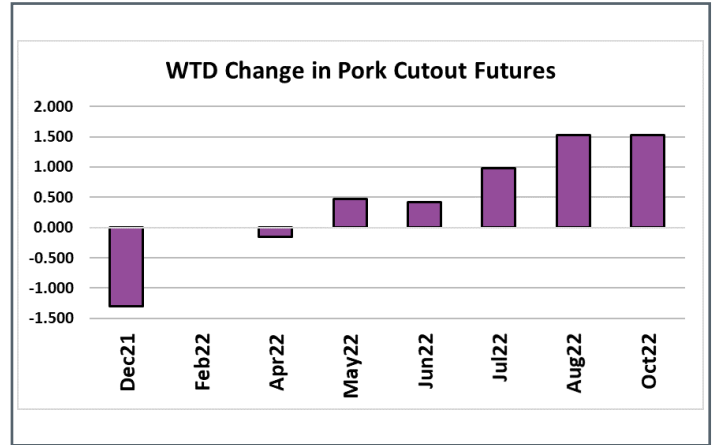
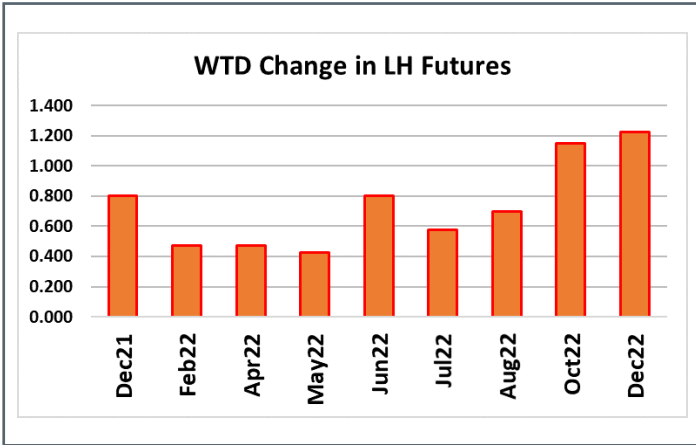
This week margins averaged a little over \$29/head, but that could drop below \$25/head next week. On Monday morning, I'm pretty sure packers will be telling buyers that they need to increase asking prices for pork because their input costs are going up. Whether or not buyers go along with that remains to be seen. Packers will have a lot of product to move next week given that the kill totaled 2.67 million head. That is the largest kill this fall and probably marks the seasonal peak. After under-killing the pig crop significantly during the Sep/Nov quarter, now the first two weeks of the Dec/Jan quarter have seen a 200k over-kill. It is still early, but we have to be thinking about the possibility that USDA may have under-estimated the summer pig crop. However, the fact that the negotiated hog market is moving rapidly higher doesn't fit well with the idea that there are more pigs than expected out there.

FI hog weights were flat this week, but will probably increase at least a couple more pounds before they top in late December. The DTDS weights do not suggest that hog producers are highly current, which makes the sharp rise in cash hog prices even more difficult to understand. Packers are scheduled to kill 265k tomorrow, which is about 100k less than they did last Saturday as they were playing catch-up from the Thanksgiving holiday. This week's kill may be the largest of the season, but kills will stay large into January, excepting the holiday weeks. Bellies and hams moved in opposite directions this week, with bellies showing some strength and hams continuing lower. If the bellies are really starting a new uptrend, it would be pretty unusual because they typically weaken into the end of the year. Hams normally crash lower during the last half of December, but they are already so low that it is hard to imagine that this year's December drop will match those of years past.

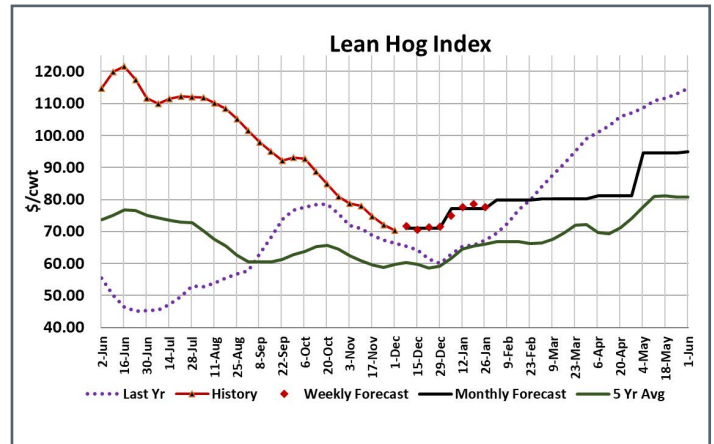
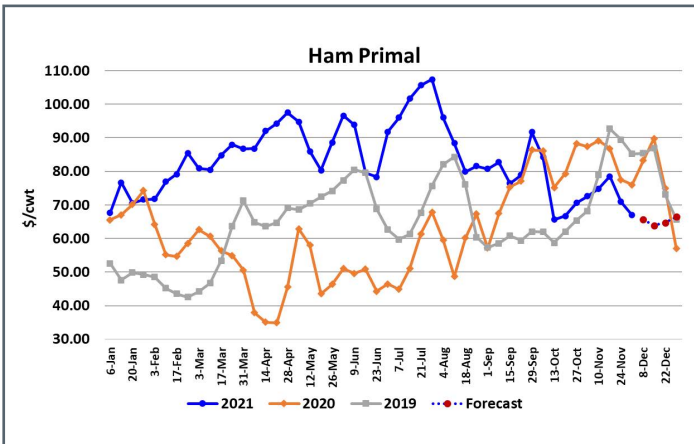
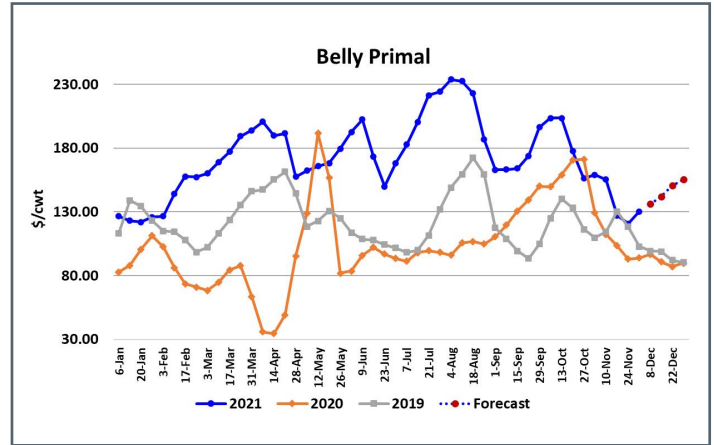
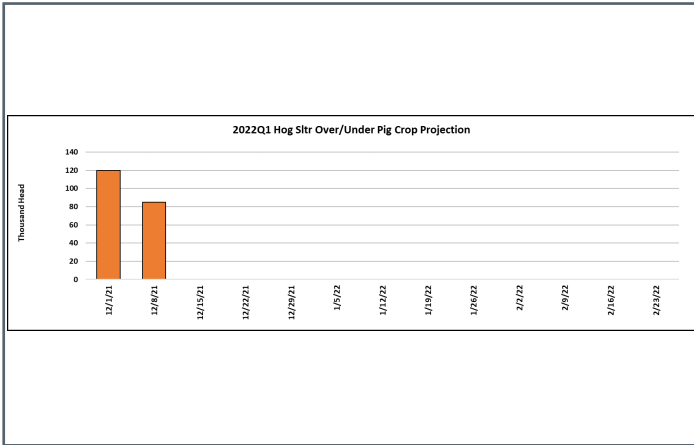
So, this unusual price behavior in the processing items has left observers scratching their head as to the likely direction of the cutout in the next few weeks. I am among them. My fundamental forecast basically has the gains in some areas offsetting the losses in other areas so that the cutout holds in the mid \$80s over the next few weeks. My sense is that the risk to that forecast is on the downside. Now, we can extend that thought to the LHI, which has its own conundrum as negotiated hog prices move higher while the cutout potentially moves lower. Friday was a good example.

Negotiated hogs were quoted \$4 higher and the cutout was quoted almost \$7 lower. This is confounding trader's efforts to forecast where the Dec futures will expire in just 7 trading days. The cutout is only a few dollars above where it was last year at this time, yet the weekly kills have been coming in 3-4% below last year. The difference this year is that China has really reduced its purchases of US pork, leaving more to be disposed of in the domestic market. The current forecast has per capita disappearance during Nov/Dec up about 3% from last year. Fortunately for packers, demand is much stronger this year than it was last year or we might be looking at a cutout in the mid \$70s instead of the mid \$80s. I do get the sense that demand is slowly fading and expect that to continue unless the new COVID variant ends up encouraging consumers to hunker down at home again.

That would be positive for pork demand. It will probably be several more weeks before we can accurately assess that risk. There is another Hogs and Pigs report on the horizon—due out two days before Christmas. That should provide some clarity to the supply picture. I'm expecting the breeding herd to be up slightly YOY, but recognize that it could be down slightly as producers eschew expansion in this time of uncertainty. Next week, watch the bellies and hams for direction. That is likely to be where most of the action lies. The official export data for October will be released next week also. A 10% YOY decline or more wouldn't be surprising.



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