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THE MONTHLY
RED MEAT OUTLOOK: HOGS & PORK
DECEMBER 2021

The air continues to slowly leak out of the hog and pork complex. The pork cutout averaged $85.25 last week, which is nearly equal to where it was at this time in 2019 before anyone had ever heard of COVID-19. This year has been a tale of two halves, with the first half of the year characterized by rising hog and pork prices and the second half mostly a story of falling prices. The decline in the second half of the year was helped along by a large reduction in export demand from China, which became very apparent during Q4 as the industry worked through seasonally large production.

> **Declining export demand from China** has helped negate the effect of smaller US pork production in Q4

There has also been deterioration in domestic demand as transfer payments from the government have dried up and retail pork prices reached all-time highs. When USDA estimated the summer pig crop to be down 6% YOY back in its September report, the futures jumped with joy and many observers began penciling in a strong price environment for Q4. Alas, softer demand has taken the wind out of those sails and resulted in price levels that have underperformed most expectations. Perhaps we should be thankful that producers had the foresight to curtail production last summer or else we would have had much lower pricing this fall. Going forward, the supply picture will be tighter than last year at least through Q1 and that should be price supportive. The real question is whether or not demand will continue to erode and effectively offset the bullish supply picture. The US is now bracing for the arrival of the omicron variant of the coronavirus, which might evade the protection that vaccines have afforded. If that causes consumers to return to “stay-at-home” mode, then it could provide a boost to demand, particularly if more government assistance is forthcoming.

SUPPLY PICTURE

Last week’s estimated slaughter of 2.66 million head may very well mark the peak kill of Q4, somewhat below our earlier expectation. The industry is now slaughtering the Jun/Aug pig crop, which USDA found to be 6% smaller than last year. Further, our calculations suggest that slaughter during the most recent Sep/Nov quarter was about 700,000 head smaller than what the Mar/May pig crop indicated. So once again, the survey reported more pigs than were actually out there. The concern is that perhaps the government also overestimated the Jun/Aug pig crop and instead of being down 6% as advertised, it may actually be down 7-8%. We will be watching the kills closely in the weeks ahead, but so far the kills in December have been larger than what the pig crop suggested. Interestingly, the negotiated hog market has turned higher in recent days, suggesting that the hog supply is beginning to tighten up and packers are having to compete a little harder in order to round out their kill schedules. December is riddled with holiday weeks, but we forecast non-holiday slaughter during December to average about 2.61 million head per week and by January those weekly kills could be just below 2.5 million head per week.

Barrow and gilt weights are still increasing in normal seasonal fashion, but are likely to plateau in the next couple of weeks and then maintain that plateau until the end of February. The recent weight data doesn’t indicate any problems with hogs backing up in the pipeline, although the de-trended and de-seasonalized weights are rising off of multi-year lows (see **Figure 1**). Corn prices remain stubbornly elevated and there is a growing consensus that in this age of climate change, grain prices are likely to stay well above the levels that producers were accustomed to just a few years back. If that is the case, then eventually producers will reduce output, raising pork prices and lowering pork consumption. The deferred hog futures already seems to be trying to anticipate this. In our opinion that is a little premature, but traders have the right idea.

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USDA will release another issue of its *Hogs and Pigs* survey two days before Christmas and we expect that it will show a slight YOY increase in the breeding herd (around 0.5%), but recognize that the dimming outlook for 2022 pork demand could cause producers to reduce the herd by a small amount. Producer profitability has been very good over the last 10 months or so and normally that would encourage expansion, but there are a lot of headwinds on the horizon that may cause producers to think twice before expanding herds. High corn prices look persistent (see **Figure 2**), China is fading as a strong export destination and ASF is on America's doorstep now that it has spread through Hispaniola. In the September *Hogs and Pigs* report, producers surprised us by failing to respond to strong positive margins with expansion. That may very well happen again this month.

DEMAND SITUATION

Many of the conditions that fostered extraordinary domestic demand during 2021 are starting to ease. The most important of these is financial support to individuals in the name of pandemic relief. In addition, more meals are being eaten away from home and consumers are turning to other activities in place of cooking as a means of entertainment. The decline in domestic demand has been very gradual and is subject to being upended by a resurgence in COVID-19 infections and a return to the stay-at-home lifestyle, particularly now that a new variant is circulating. In our opinion, the decline in international demand for US pork has been a bigger factor than the modest softening of domestic demand. Still, we must recognize that domestic demand is on the wane now. There will still be short-term up and down cycles in domestic demand, but the longer-term trend is likely to remain lower unless the new omicron variant becomes widespread and existing vaccines are deemed to offer little protection against it. Pork is also facing stiffer competition from beef and chicken, as price levels for those proteins have been declining. Retailers have been in no hurry to lower retail pork prices from record high levels and that will also prove to be a headwind that limits consumption in the domestic market. At present, the industry is at peak production yet retailers have prices jacked up so high that it doesn't encourage consumers to off-take the large production. That is being felt first in the wholesale market and is a reason why the cutout has struggled recently.

The decline in demand from China has been well documented and it is ongoing. Hog prices in China continue to run below producer breakevens and thus producers are in liquidation mode. That has kept the Chinese market well supplied with domestic pork and reduced the need for imports. At some point, that profitability cycle will turn higher, boosting prices and rekindling interest in US pork, but we don't expect it to come back nearly to the level that was seen in 2020 and early 2021 as ASF-related losses shorted the Chinese market. ASF will likely always be present in China, but producers there are now in a much better position to contain and control it, preventing any repeat of the recent ASF crisis. Fortunately, relatively strong demand from Mexico and Columbia has helped to blunt the impact of the massive reduction in purchases by China.

> Cash hog prices appear to have **bottomed near $55/cwt** and are now **moving higher**

SUMMARY

Pork prices in the US have been on the defensive lately, primarily because demand is softening at the same time the industry is working through peak seasonal supplies. The supply of hogs and pork should shrink over the next couple of months if USDA's estimate of the summer pig crop is accurate. That will be price supportive, but there is concern that perhaps continued softening on the demand side of the market might not allow prices to advance nearly as much as might be expected given the sharp YOY declines in production that we know are coming in Q1. The initial signs of supply side tightening have already started to surface as cash hog prices recently turned higher after many months of decline. The upcoming *December Hogs and Pigs* report is expected to show very small growth in the breeding herd and there is risk that producers may have actually reduced the herd slightly. The recovery in the Chinese hog herd following a two-year bout with ASF is reducing international demand for US pork and at the same time domestic demand is slowly leaking lower. High retail pork prices will continue to limit consumer off-take well into Q1. A pandemic resurgence could boost domestic demand if it is severe enough to encourage stay-at-home behavior. We will need to watch the progression of the omicron variant closely in that regard. **Table 1** provides our near-term price forecasts.

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Figure 1: JDetrended & Deseasonalized Barrow & Gilt Carcass Weights

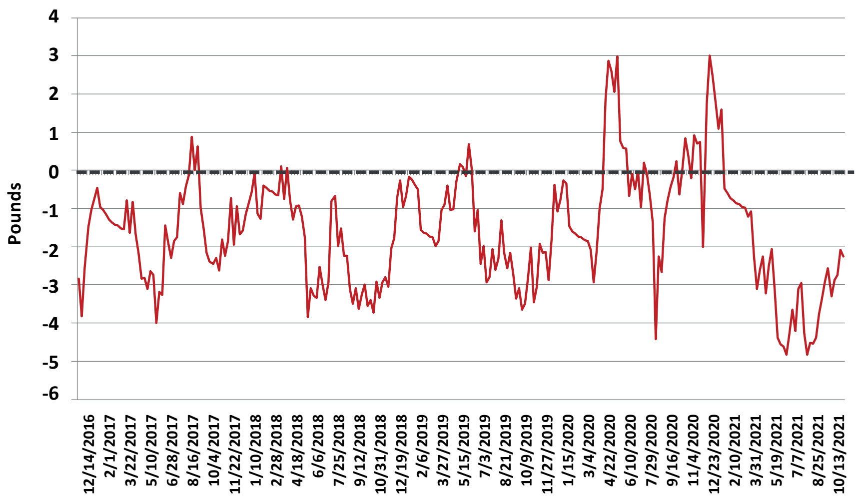

Figure 2: Cash Corn, SW Iowa

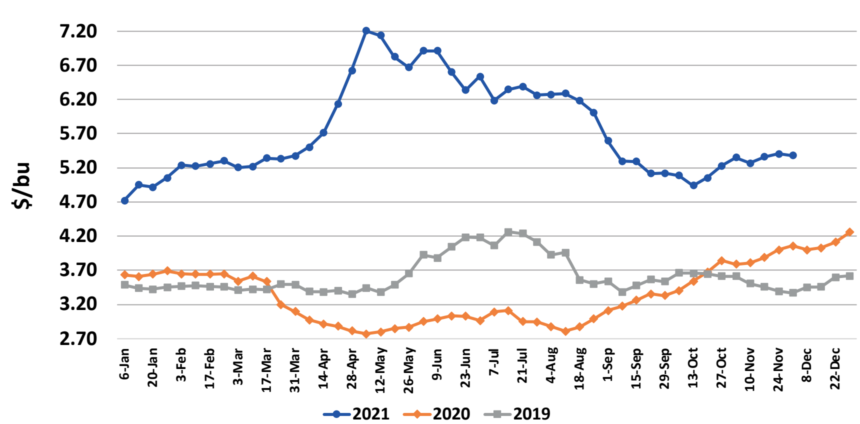

Table 1: JSF Hog and Pork Price Forecasts

	15-Dec	22-Dec	29-Dec	5-Jan	12-Jan	19-Jan
Pork Cutout	83.8	85.5	88.0	91.4	94.3	93.0
Loin Primal	76.4	78.8	82.4	83.7	86.6	85.8
Butt Primal	94.3	92.5	94.3	95.7	98.2	98.0
Picnic Primal	59.7	56.8	58.2	64.0	66.5	65.1
Rib Primal	137.2	139.3	138.8	139.3	142.7	144.7
Ham Primal	63.9	64.7	66.5	70.5	74.6	76.2
Belly Primal	142.0	150.5	155.4	163.2	165.4	157.1
Lean Hog Index	70.5	71.2	71.4	74.9	77.7	78.5

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