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WEEK ENDING JANUARY 14, 2022

THE PORK WRAP

I could say that this was yet another week where the pork cutout went nowhere since it averaged $87.37, only $0.80 higher than last week's average. However, that would ignore the wild day-to-day volatility we saw. On Tuesday, the cutout finished at $81.62 and on Thursday it closed at $95.28. Needless to say, Thursday was a big day for boneless hams. This was the first week in a while where the hams and bellies weren't the biggest influencers on the cutout. This week, the loins came to life toward the end of the week. Butts and picnics were a drag on the cutout this week and I'm more than just a little concerned about those going forward. Both are typically soft in Jan/Feb and it looks like this year they are going to follow the normal seasonal pattern after bucking it last year. I think the other primals will have to overcome the weakness in butts and picnics over the next couple of weeks if the cutout is to gain any real traction.

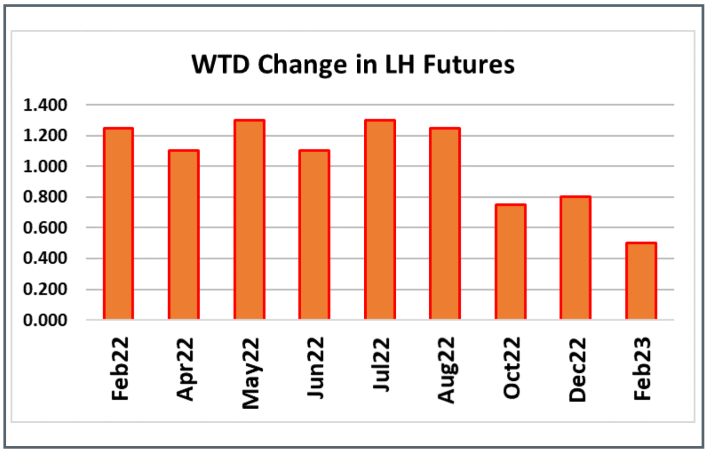
Last week I talked about how COVID absenteeism was adversely affecting packers' ability to process hams and that was causing bone-in hams to get dumped on the market at low prices. At one point this week, the 23/27 lb hams were quoted below $40/cwt–the lowest in almost seven years. Volumes on the bone-in hams were huge. A good portion of those are likely headed for the freezer and will be processed later when labor is more available. The bone-in hams did eek out some small gains late in the week, but there is considerable risk that those gains don't stick. The bellies fared better this week, posting their third weekly increase in a row. I see those continuing higher and even at current price levels some users might opt to move bellies into cold storage ahead of a stronger pricing environment this spring and summer. The forecast has the cutout holding in the mid-to-high $80s for the next several weeks with bellies and loins helping and butts and picnics hurting the cutout.

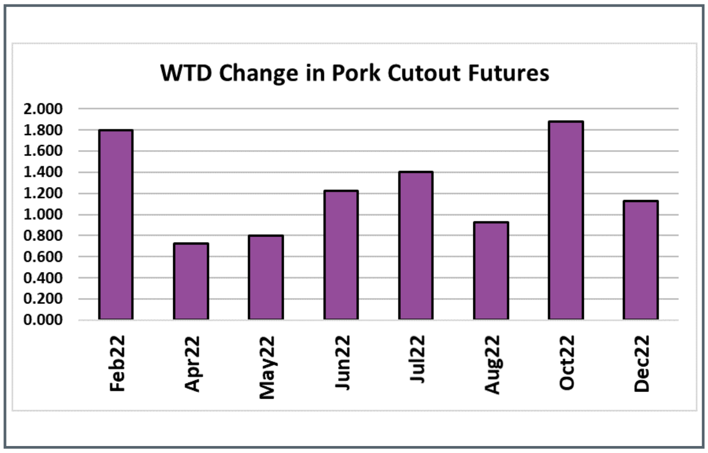
Hams are the wild card that could cause the cutout to be stronger or weaker than currently forecast. Packers are still struggling with absenteeism in the plants and that fact was evident in this week's kills. The daily kills were revised a lot this week and mostly downward. The average weekday kill was right at 446k, compared to about 480k per day back before Christmas. Further, packers did a Saturday kill that was almost 100k less than last week, putting the weekly total at a paltry 2.41 million head. This was the first week in the Dec/Feb quarter where the kill failed to live up to the pig crop projection. It was about 100k short of it. That will probably back up some hogs in the pipeline, especially if packers struggle again next week. Fortunately for producers, hog weights are not excessive at the moment and they may be able to dial back the energy component of rations for a couple of weeks and manage this problem without too much price concession.

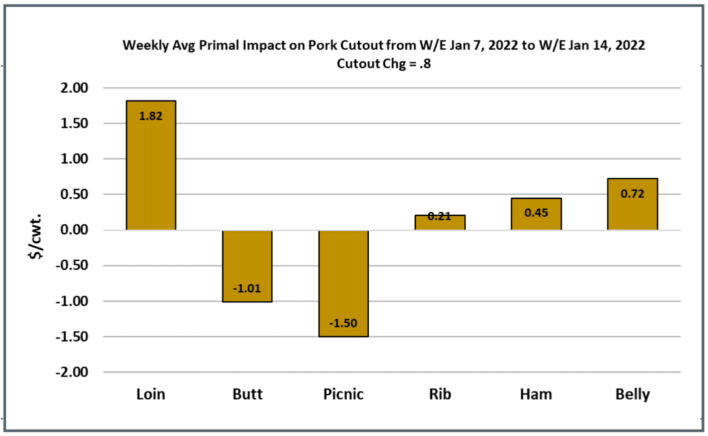
Nationally, negotiated cash hog prices were steady this week, but the WCB region saw a $2 price increase. The LHI gained about a dollar on the back of a little stronger cutout and now sits at $74.32. Nearby futures moved lower early in the week as traders continued to be disappointed by the lack of upward movement in the LHI. However, Thursday's $95 cutout print sent the Feb futures soaring on Friday and pushed the contract into positive territory for the week. I expect that it will probably take a couple more weeks before the omicron train has run its course and plants are able to operate at normal capacity again. This week packer margins averaged close to $23/head, down about $1 from the week before. I'm more than a little surprised that margins haven't ballooned out in response to the constriction in processing capacity.

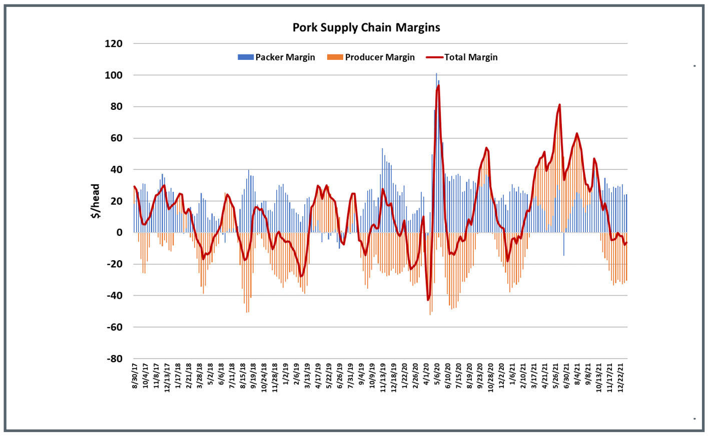
Normally we would expect pork prices to shoot higher as less is produced and hog prices to move lower as the pipeline backs up. Neither has happened so far. Margins are rapidly increasing for beef, but not so for pork. It is possible that soft exports are keeping more product at home and thus tempering the price impact of smaller kills. There is also the Prop 12 issue, whereby all pork sold in the state of California has to be produced from sows that are given more space than is common in the industry. Theoretically, Prop 12 compliant pork should sell for more than commodity pork and as a result we should see less pork consumption in California. That would leave more to be consumed in the other 49 states and have a downward influence on the pork prices that go into USDA's cutout calculation.

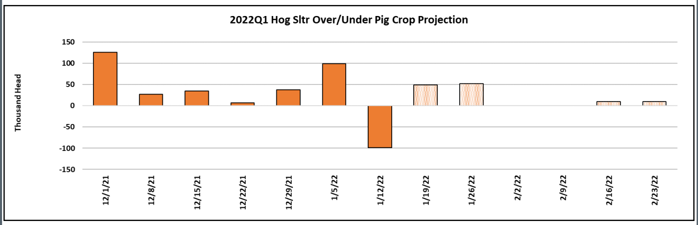
From what I understand, the high-priced Prop 12 pork is not going into the cutout. USDA is treating that more like specialty pork. Still, no one really seems to know how Prop 12 is actually affecting the market, if at all. This issue has been pushed into the background by the omicron-induced labor problems, but it has the potential to be a significant factor in the weeks and months ahead. My guess is that it will have a moderately negative effect on the cutout and thus on hog prices, but until we hear more from California retailers on how the new law is working, there will be a lot of uncertainty and speculation around this topic. Next week, watch the daily kills for signs that the plant labor problem is improving. Expect the cutout to average in the high $80s, with a strong likelihood of big daily price swings.

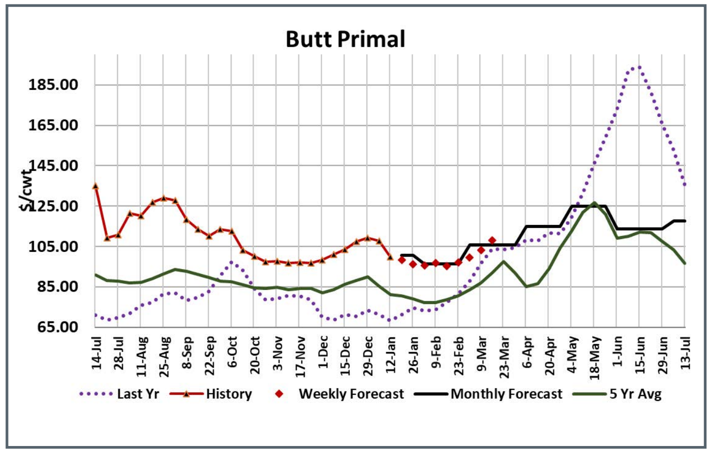

WTD Change in LH Futures
1.400
1.200
1.000
0.800
0.600
0.400
0.200
0.000
Feb22
Apr22
May22
Jun22
Jul22
Aug22
Oct22
Dec22
Feb23

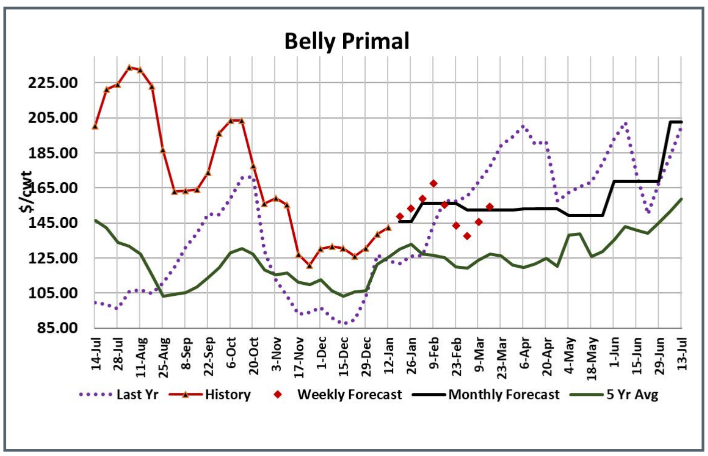

WTD Change in Pork Cutout Futures
2.000
1.800
1.600
1.400
1.200
1.000
0.800
0.600
0.400
0.200
0.000
Feb22
Apr22
May22
Jun22
Jul22
Aug22
Oct22
Dec22

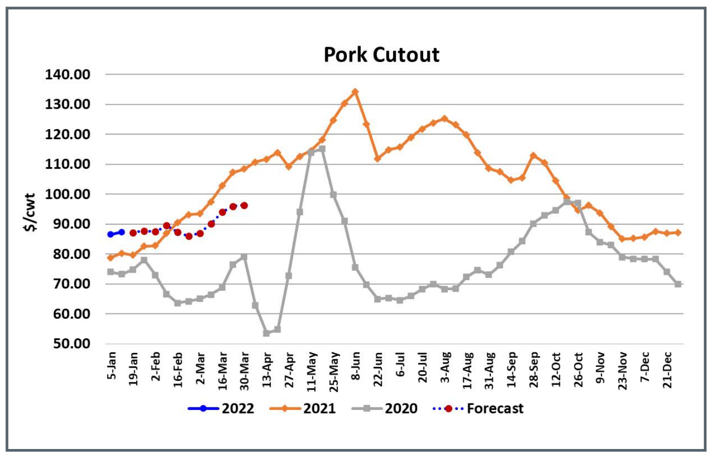

Weekly Avg Primal Impact on Pork Cutout from W/E Jan 7, 2022 to W/E Jan 14, 2022
Cutout Chg = .8
$/cwt.
2.00
1.50
1.00
0.50
0.00
-0.50
-1.00
-1.50
-2.00
1.82
-1.01
-1.50
0.21
0.45
0.72
Loin
Butt
Picnic
Rib
Ham
Belly

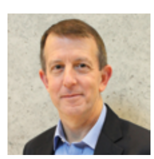

Pork Supply Chain Margins
Packer Margin
Producer Margin
Total Margin
$/head
120
100
80
60
40
20
0
-20
-40
-60
-80











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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.