



WEEK ENDING JANUARY 28, 2022

# THE PORK WRAP

The pork cutout continued its upward momentum this week, adding \$3.43 to average \$95.46. Retail items, and in particular the loins, were the big driver of this week's gains, along with some help from the bellies. That fits with the idea that surging covid infections would force consumers back into stay-at-home mode and drive strong demand at retail. For once, the hams were not the main focus. The big story this week was the rapid rise in cash hog prices. Negotiated prices in the WCB rose \$8.55 this week and the NDD price was up \$5.44 on a weekly average basis. This caught a lot of people off guard because the narrative had been that labor problems in the plants were slowing kills and thus hogs should have been backing up to some degree. Well, apparently not. First of all, the hog kills never really got that small. The chart below compares each week's kill to what the Jun/Aug pig crop implied. From Dec 1 through New Year's week, the industry actually over-killed the pig crop.

Then there were two weeks of mild under-killing that I would attribute to absenteeism in the plants. This week's kill came in at 2.55 million head, which was about 145k over the pig crop projection. So now we are back to over-killing the reported hog supply again and I'm forecasting an over-kill again next week. That makes it look like hogs are abundant. However, that doesn't square with the rapid rise in cash hog prices that we saw this week. It is pretty clear now that labor is sufficient to kill all of the hogs that are available. The rise in cash hog prices makes me think that something else is going on. Perhaps producers are having disease issues that are limiting hog availability. Since packers must buy some negotiated hogs each day in order for their formulas to work, they may be running up against producers who are reluctant to sell in the negotiated market because disease has reduced their hog supply below what they need to fulfill their formula commitments.

Thus, sharply higher cash prices are needed to bring forth a small volume of negotiated hogs. This is pure speculation at this point, but disease issues might also explain why there has been so much buying interest in the summer contracts recently. Is PEDv rearing its head once again? It feels a bit like that. I recall back in 2014 when the hog supply started to tighten up unexpectedly and for several weeks no one knew quite how to explain it. Eventually, the truth became widely known, but the futures market had already leapt higher.

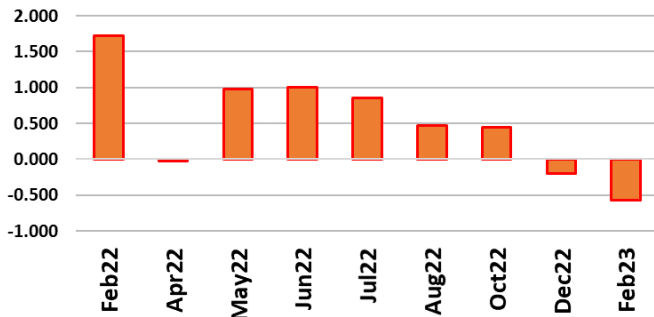
Whatever it is, the negotiated markets should be watched carefully. If they keep rising in big chunks then that is a sign to pork buyers that they had better take coverage quickly because availability is about to tighten. The rise in cash hog prices has yet to be fully reflected in the LHI, which could easily reach \$85 by the middle of next week. Packer margins expanded this week as the cutout outpaced the LHI, but next week they are likely to contract as the LHI catches up. Margins this week were near \$31/head—record large for this time of year. That might explain why packers are pulling harder than they should on the hog supply. All of the uncertainty around the hog supply makes price forecasting rather difficult.

Right now, I'm forecasting the cutout to hold in the high \$90s for a couple of weeks and then come back down into the low 90s. However, if there is a significant disease problem in the herd, then all bets are off and it would be very likely that the cutout would advance well above the \$100 mark. Hog weights are not really showing any signs of the supply being stretched, with barrow and gilt weights last reported 2 pounds under last year and working lower. The DTDS weights are almost at the zero mark, which suggests that producers are a little behind in their marketings. However, that weight data is two weeks old and it might tell a different story a few weeks down the road. On the pork side, export demand is not very good at present either.

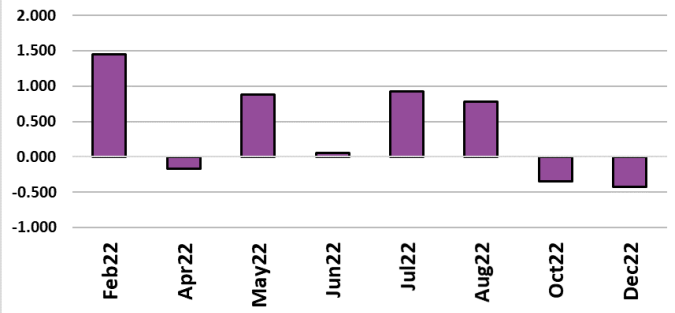
China will be hosting the winter Olympics next week, but not allowing international spectators, so the event didn't generate additional demand for imported pork the way it did for the summer games back in 2008. Mexico is our best customer right now, but one has to wonder if they will remain a strong buyer with cutout values hovering near \$100. After many weeks of holding in a sideways pattern, there is now some excitement back in the hog and pork complex. Next week watch those negotiated prices like a hawk because if they keep up their rapid advance, the odds of tightening availability rise considerably.



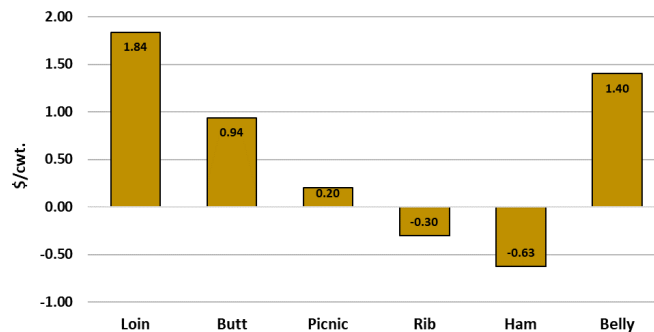
WTD Change in LH Futures



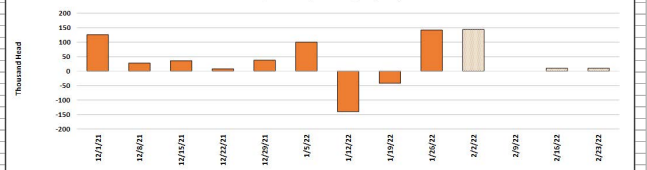
WTD Change in Pork Cutout Futures



Weekly Avg Primal Impact on Pork Cutout from W/E Jan 21, 2022 to W/E Jan 28, 2022  
Cutout Chg = 3.43

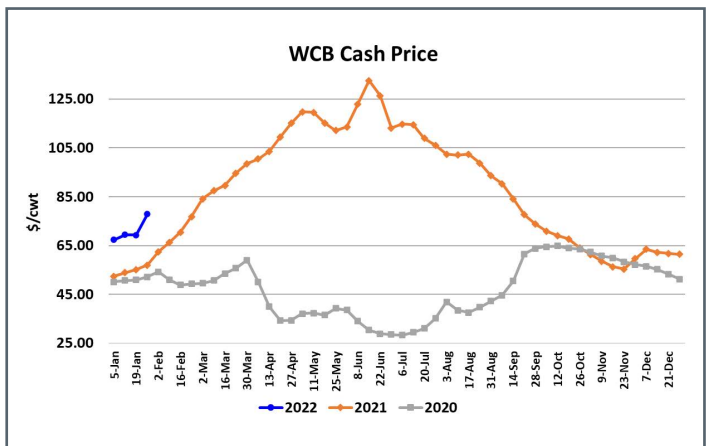
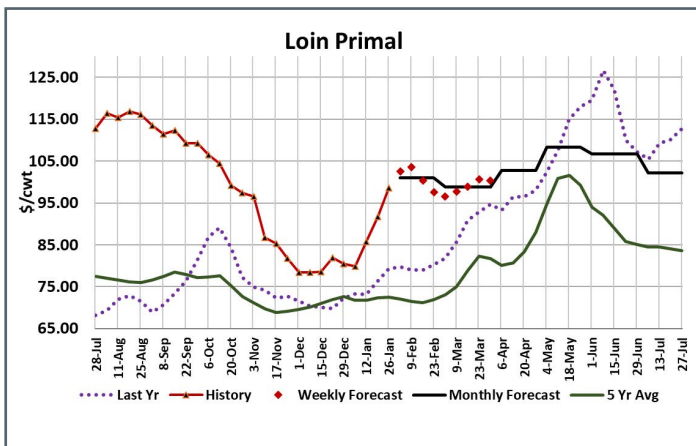
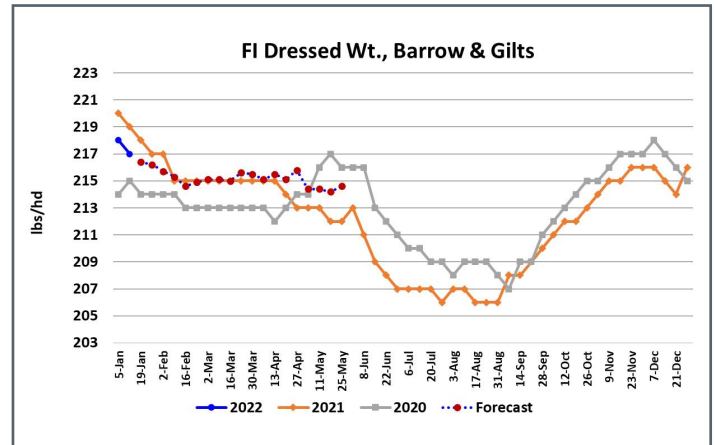
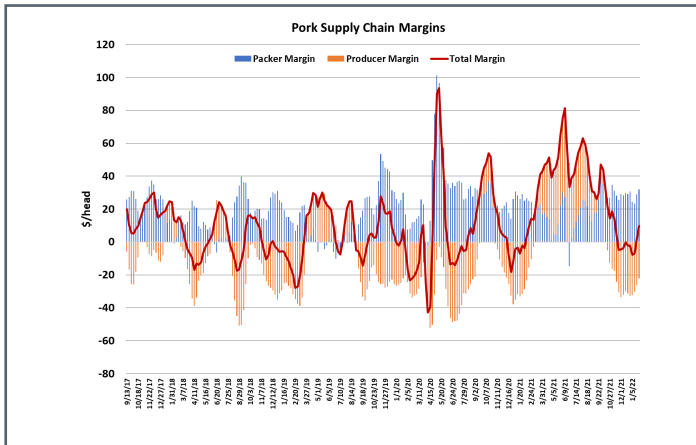


2022Q1 Hog Sltr Over/Under Pig Crop Projection



2022Q1 Cumulative Hog Sltr Over/Under Pig Crop Projection





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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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