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WEEK ENDING FEBRUARY 11, 2022

THE PORK WRAP

Cash hogs continued to march higher this week, with the WCB adding a little over $5 on a weekly average basis and the NDD negotiated price up $1.59. It seems that hog availability in the Western Cornbelt region must be quite a bit tighter than in the other regions. Prices out of the WCB have been running very strong relative to the national average over the past several weeks. That has led some to speculate that perhaps there are bigger disease issues in that region. Whatever the cause, the rally in cash hogs has been impressive. In the six weeks since the end of 2021, negotiated hog prices in the WCB have gained over $28/cwt. What's more, the rally has yet to show any sign of slowing down. Normally, such a rapid increase in cash hog prices we might expect packer margins to come under serious pressure, but so far that hasn't been the case. In fact, packer margins expanded over $6/head this week to nearly $29 because the cutout gained over $6/cwt to average $102.35 for the week. That is the first triple-digit cutout since mid-October and is more than $15 over the same week last year.

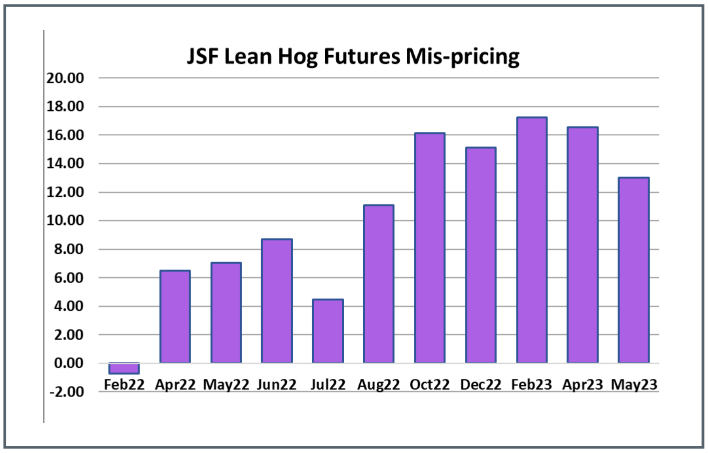
Weekly pork production was about 5% under last year, so that explains part of the strength in the cutout, but it is pretty clear that export volumes are well below last year and import volumes are well above last year. So, total availability here in February is only about 3% below last year. The real difference maker is demand, which is considerably stronger than it was last year at this time. Last February was when the "great demand bubble of 2021" first started and the cutout gained $28 over the Feb/March period last year then kept on rising through the spring and early summer. It is unlikely that demand this spring and summer will be as strong as it was last year, but right now pork demand is in an upcycle as indicated by the combined margin chart below. My theory is that consumers are moving back down the protein ladder and trading down from beef to pork. That will give us strong pork demand for a few weeks, but eventually they will trade out of pork and into cheaper chicken.

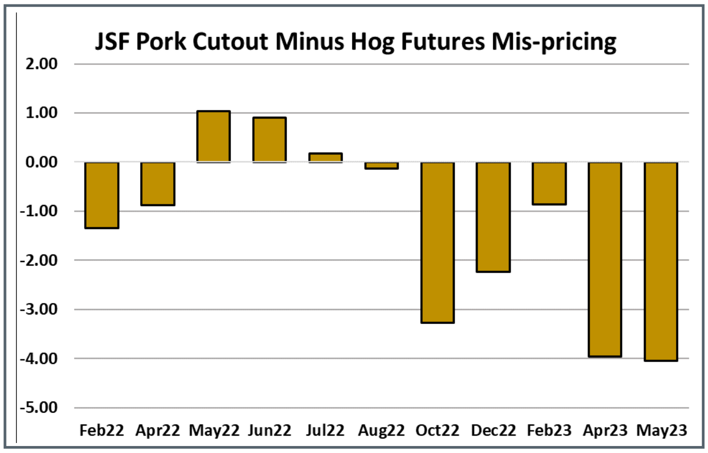
For now however, demand is quite strong and this week it was most evident in the hams and bellies, which accounted for most of the cutout's gain while the retail primals were only slightly higher. The rally in bellies is somewhat unusual in that it has been going on for seven weeks now. Normally, bellies rally hard for 3-4 weeks and then fall rapidly. The forecast has bellies moving higher for another 2-3 weeks before price levels cause users to back away and prices to fall. Belly pricing often follows retail bacon features. When the retailers decide to feature bacon heavily, belly prices will rise for a few weeks leading up to the promotion and then fall hard once all of the raw material has been procured. On the ham side, we have seen the bone-in hams begin to creep higher and of course, there is the periodic price spike caused by boneless ham buyers coming into the market. If buyers haven't secured their Easter ham needs yet, they will likely be hurrying to get that done in the next couple of weeks and after that we could see ham prices sag once again.

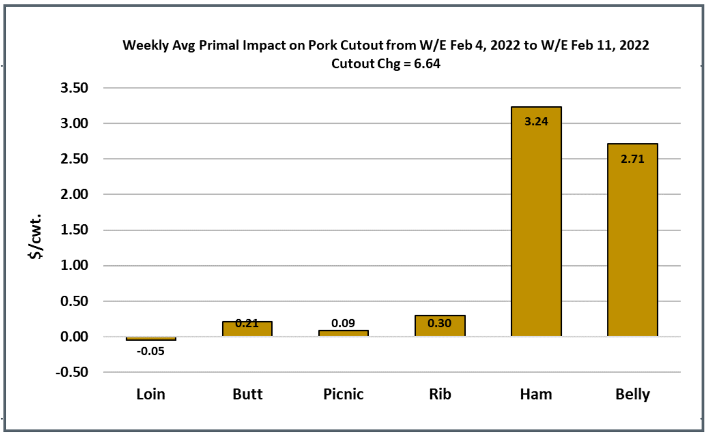
Although the retail primals didn't post the sizable gains that the processing primals did this week, it is still noteworthy that they did not weaken. Retail prices are very high and this week USDA released the results of its retail price survey for January which showed a slight uptick in pork prices. Those prices are a little below the peak they made back in November, but not by much. Retail pork prices were about 35% lower than beef prices during January and that is what will matter most to consumers. On the supply side, this week's slaughter was estimated at 2.52 million head, up 71,000 from the week before. That turned out to be about 100k larger than what the pig crop implied, thus we continue to see weekly kills larger than expected, outside of the two weeks in early January when omicron-related absenteeism constrained kills. It looks to me like when the Dec/Feb quarter comes to a close in a couple of weeks, we will have over-killed the pig crop by about 500,000 head and USDA will likely revise that pig crop upward in its March Hogs and Pigs report.

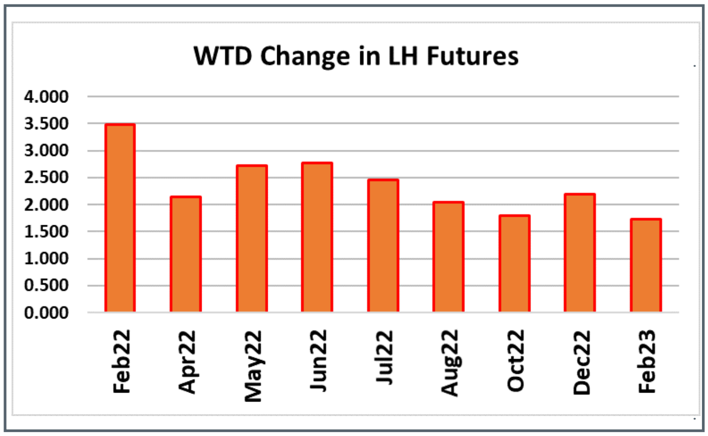
Carcass weights moved a pound lower this week and that pulled the DTDS weights, which had crept into positive territory, back down to zero. That helped to relieve any concerns that hogs might be backing up in the system. The big mystery at this time is why weights aren't unusually light given what appears to be a strong pull on the spot hog supply. In fact, the daily weight data reported by packers as part of the requirements for mandatory price reporting, shows weights for producer sold hogs modestly above where they have been in recent years. So, the mystery remains, but it is very clear that cash hog prices are in a strong uptrend. International trade is perhaps the weakest part of the fundamental picture for hogs right now. The official export totals for December, which were just released this week, showed a 16.4% YOY decline in pork exports and for 2021 as a whole, exports were 3.5% below last year. Pork imports, on the other hand, were very strong in December, up 50% YOY.

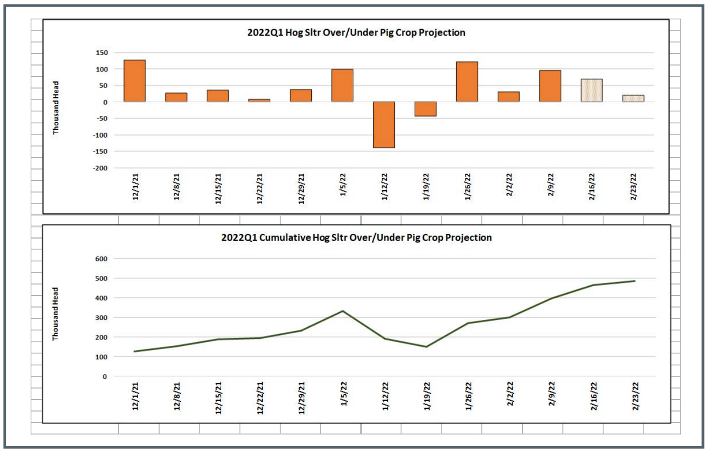
Right now, pork prices in the US are among some of the highest in the world and naturally that is attracting imports from countries where the internal price is a lot lower. Futures traders have been trying to stay ahead of a rapidly rising Lean Hog Index that looks like it may be close to $91.50 when the February contract expires on Monday. If you recall, the Dec contract expired at close to $72, so we've had almost a $20 increase in two months. There was some mild selling in the hog futures on Thursday and Friday, but that was mostly corrective in nature and not related to anything negative in the fundamentals. Given that the cutout printed at an eye-popping $110 this afternoon, it is very likely that the bulls will be back on Monday morning with their horns sharpened. Next week, watch the bellies and hams. Those have been the primary source of strength in the cutout. If they start to show some cracks then we might have to conclude that the uptrend in the hog and pork complex is nearing its end.

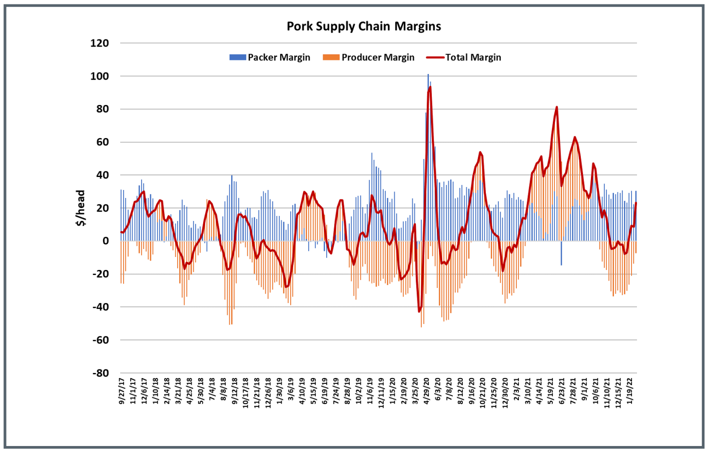

JSF Lean Hog Futures Mis-pricing
20.00
18.00
16.00
14.00
12.00
10.00
8.00
6.00
4.00
2.00
0.00
-2.00
Feb22
Apr22
May22
Jun22
Jul22
Aug22
Oct22
Dec22
Feb23
Apr23
May23

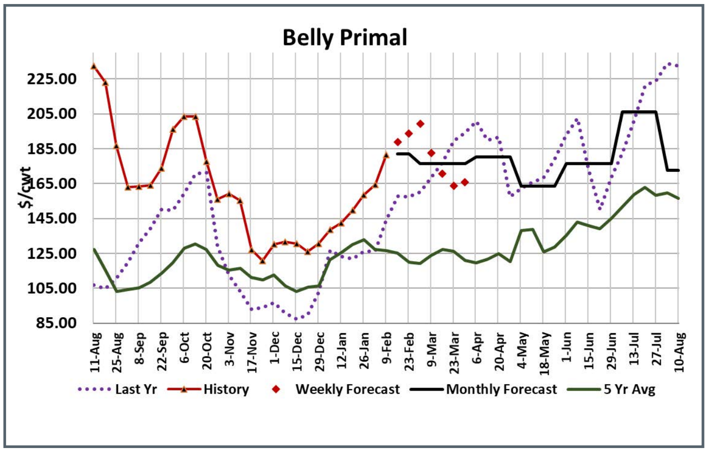

JSF Pork Cutout Minus Hog Futures Mis-pricing
2.00
1.00
0.00
-1.00
-2.00
-3.00
-4.00
-5.00
Feb22
Apr22
May22
Jun22
Jul22
Aug22
Oct22
Dec22
Feb23
Apr23
May23

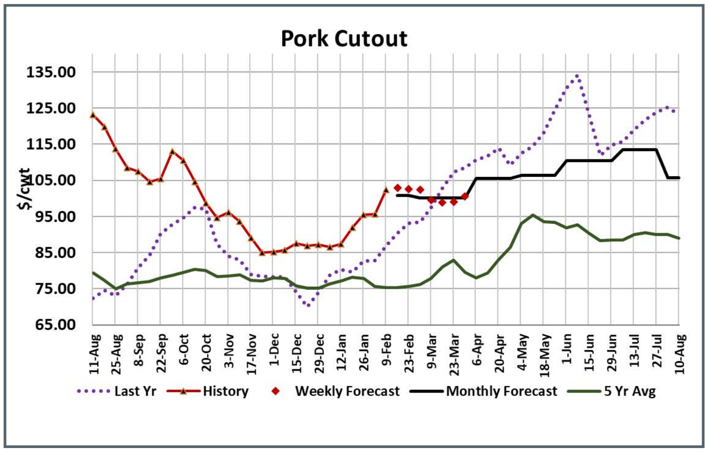

Weekly Avg Primal Impact on Pork Cutout from W/E Feb 4, 2022 to W/E Feb 11, 2022
Cutout Chg = 6.64
$/cwt.
3.50
3.00
2.50
2.00
1.50
1.00
0.50
0.00
-0.50
-0.05
0.21
0.09
0.30
3.24
2.71
Loin
Butt
Picnic
Rib
Ham
Belly


WTD Change in LH Futures
4.000
3.500
3.000
2.500
2.000
1.500
1.000
0.500
0.000
Feb22
Apr22
May22
Jun22
Jul22
Aug22
Oct22
Dec22
Feb23









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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.