



WEEK ENDING FEBRUARY 25, 2022

THE PORK WRAP

Things slowed down a bit in the hog and pork complex this week. The cutout was higher, but only up \$1.55 on a weekly average basis. Cash hogs were down slightly, with the NDD negotiated market dropping \$0.75. The LHI gained \$3.67 because it had some catching up to do from the prior week. The next release of the LHI is expected to be \$99.27. The sow market was on fire however, up nearly \$7. Sows averaged \$78 last week. That used to be a good price for market hogs. Even though hog and pork prices were steady to a little higher, futures traders turned decidedly bearish and punished nearby Apr with an almost \$6 loss on the week. To be fair, the futures had gotten overly optimistic and at one point this week traded \$112.85. That was close to \$14 over the LHI at the time. The market quickly realized the error in its ways and by the close on Friday, Apr was back down to \$103.67. Now Apr is less than \$4 over the LHI. That is quite a change. The news of Russia's invasion into Ukraine sent all markets into a tizzy and the normal reaction in those situations is to sell first and figure out the implications later.

Hogs were easy for traders to sell because they had risen so much in the past few weeks. Market participants are trying to determine if the cash markets are near a top or if there is more room to run. The cutout was really strong toward the end of the week, averaging close to \$114 in the last two days. Bellies were providing much of the support for the cutout, but there were positive contributions from other parts of the carcass. As I look across the primals, bellies are the only one that appear to be in significant danger of breaking lower in the near-term. The belly rally has been going on since Christmas and has now seen 9 straight weeks of price increases. That is way longer than most belly rallies last, but we did have a belly rally last year that started at Christmas and didn't end until early April. Over the course of that rally, the belly primal went from \$87 to \$200, a \$113 increase. The current belly rally has added \$88. The fear is that when the bellies start to move lower from such high levels they often do so very quickly and take the cutout lower in big chunks. I think that the bellies can increase for another week or two, but am looking for a sharp break after that.

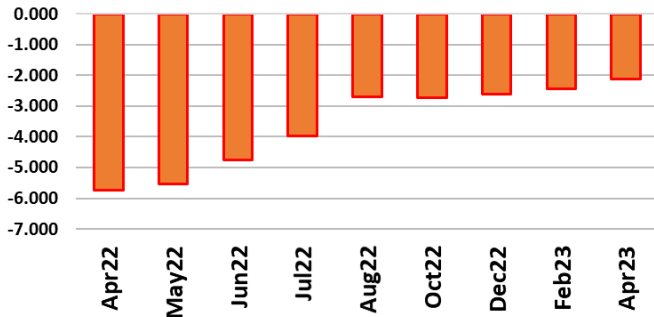
Hams appear to be on solid footing, with the bone-in hams currently trending higher and we are seeing more boneless volume in the primal mix these days, which has the effect of boosting the overall primal value. Weekly exports to Mexico have been strong in the past few weeks and that points to good demand for hams. All of the retail items should do well for at least a few more weeks as consumers trade down from more-expensive beef when they visit the grocery store. However, the Ukrainian conflict is increasing the prospects of further price inflation in the general economy and thus consumer budgets will likely get very stretched this spring. The combined margin is still moving higher, but this week's gain wasn't as strong as in recent weeks. Maybe it is going to top next week or maybe it will just give a small head fake and continue higher. Over the past few weeks, it has been strong domestic demand that has pulled the cutout higher, but very soon we will start to see kills tighten up and thus more of the influence may start to come from the supply side.

This week's kill came in at 2.51 million head, up slightly from last week and about 90k over the pig crop projection. This was the final week of the Dec/Feb quarter and by my calculation the industry over-killed the pig crop by about 550k. That isn't a terrible miss, but it will likely cause some upward revision in the Jun/Aug pig crop when USDA releases the next Hogs and Pigs report on March 30. Next week we start working on the Sep/Nov pig crop which should give us weekly kills in March around 2.45 million head and by April that will be down to 2.35 million head. So there is some hog supply tightening on the way. If the disease problems are worse than normal, we could see kills even smaller than that. That seems to be what the summer futures are banking on. After the Jun contract traded close to \$122 this week, traders did an about face and Jun finished at \$113.87 this afternoon. The fundamental forecast has the cutout holding near this week's level for one more week and then starting to slowly ease, but not moving back below the \$100 mark. Hopefully the hand-off from demand-driven support to supply-driven support will go smoothly and keep the cutout relatively well supported.

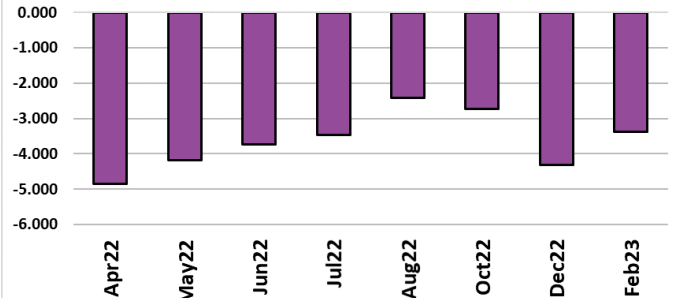
A lot has been said lately about spot hog prices being near \$100 in the Western Corn Belt. The theory is that disease issues are worse there than in the other regions. But, we need to remember that the cutout is in the low \$110s and that allows packers to pay \$100 for cash hogs and still have a decent margin. This week's packer margin is estimated at a little over \$25/head, down \$4 from last week. I don't think many pork packers would complain about a \$25 margin at the end of February. When the cutout starts to ease, then we will really find out how tight the hogs are in the cash market. If packers can't seem to move cash hog prices lower, then we will have to surmise that the disease problems are real and extra hogs are tight out in the country. The fact that they were able to stabilize the cash market this week was a good sign. Carcass weights look pretty normal for this time of year and the DTDS isn't pointing to any issues with either too many or too few hogs in the pipeline. Right now, US pork prices are the highest in the world and that is attracting imports from countries where domestic prices are a lot lower.

At the same time, pork exports are way down from last year. That has added to per capita availability, but it cannot completely offset the impact of smaller domestic production stemming from a very small pig crop last summer. I estimate that per capita availability will be down about 4.5% YOY in both Q1 and Q2. Both of those pig crops are already known, so hopefully those estimates are pretty close. I did recently scale back my forecasts for the next few pig crops to take into account greater disease prevalence and the impact of input cost inflation. Next week, keep an eye on the bellies because they hold the key to further gains in the cutout and watch prices in the negotiated markets for indications that there are still pockets of tightness in the hog supply.

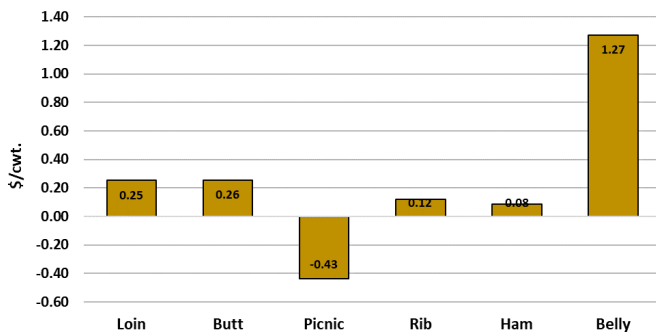
WTD Change in LH Futures



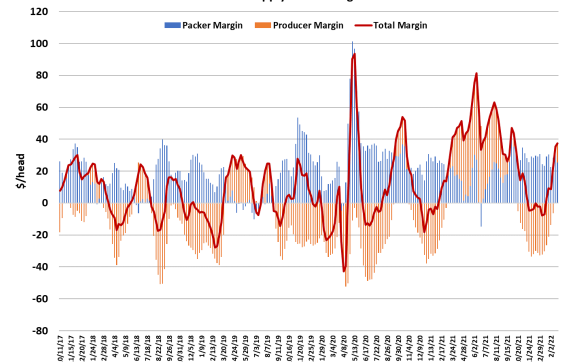
WTD Change in Pork Cutout Futures

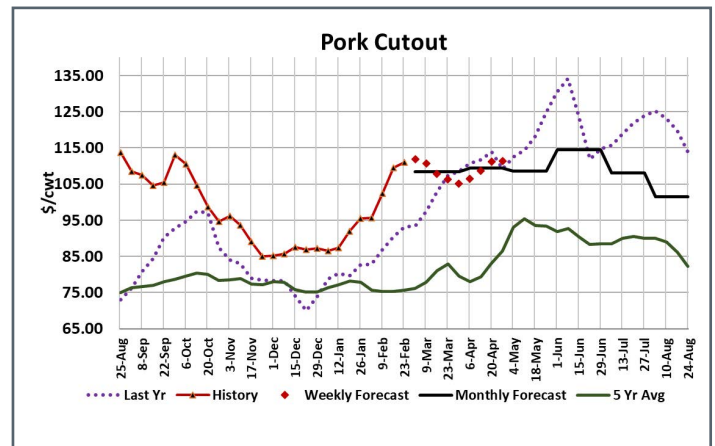
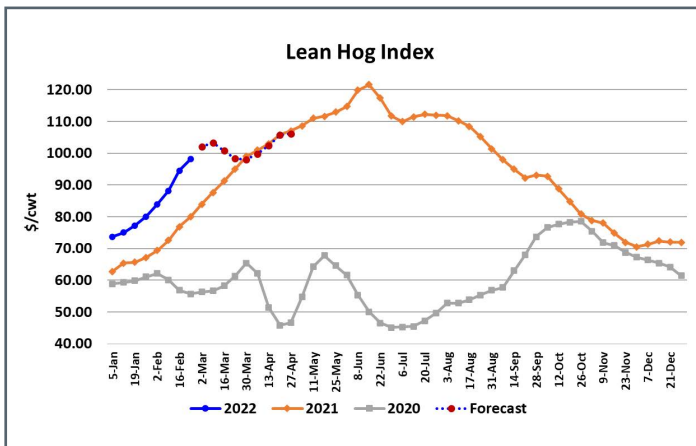
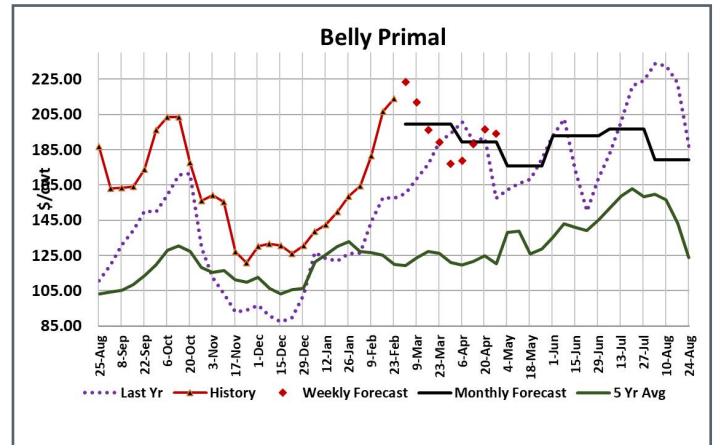
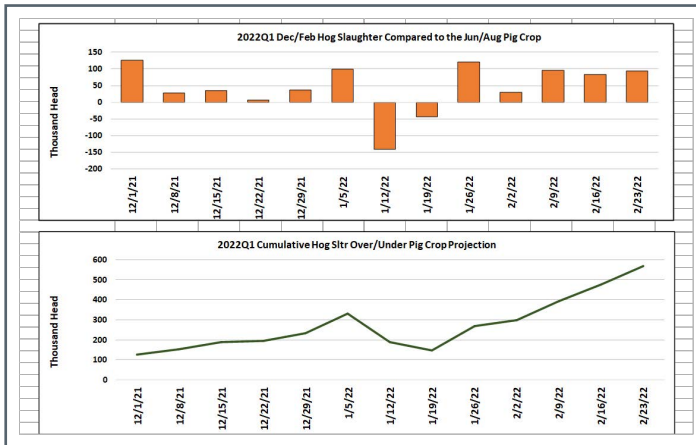


Weekly Avg Primal Impact on Pork Cutout from W/E Feb 18, 2022 to W/E Feb 25, 2022
Cutout Chg = 1.55



Pork Supply Chain Margins





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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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