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WEEK ENDING MARCH 18, 2022

THE PORK WRAP

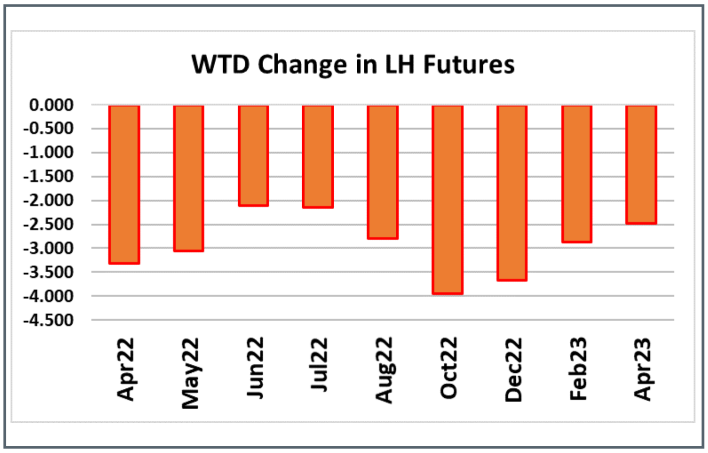
This was a week for treading water in the hog and pork complex. There was very little overall change in the cash market variables. The negotiated market was $1.08 higher in the WCB and $2.48 higher in the NDD market. The LHI gained a paltry $0.80 and the cutout lost $0.74. The one thing that didn't tread water was the futures, where the nearby Apr contract shed almost $3.50 to finish the week below $100 for the first time since early February. Speculative traders are apparently growing frustrated with a market that has no discernable direction and perhaps are opting to look for greener pastures elsewhere. That leaves less buying interest to offset commercial hedge selling and thus the futures move lower. The pullback brought the Apr futures closer in line with my fundamental price forecast, but my guess is that the futures will have at least one or two more runs higher before expiration. Slaughter this week was estimated at 2.44 million head, which was almost dead-on with what the Sep/Nov pig crop projected.

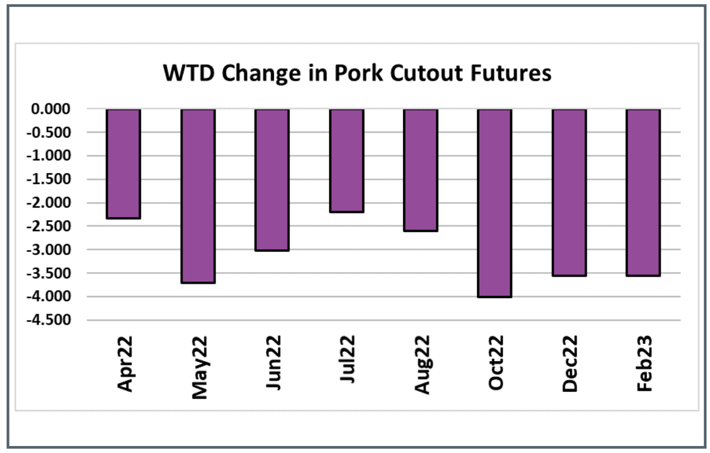
Three weeks into this quarter and cumulative slaughter has been very close to what USDA's survey suggested, helping to inspire some confidence about the production forecast for the next couple of months. We should see 2-3 more weeks of kills above 2.4 million head per week and then they will take another step lower. Packer margins however, might be the fly in the ointment for kills over the next few weeks. I calculate this week's margin at $5.90/head, which is the smallest since late June of last year. Further, if my cutout forecast is close to correct, then margins could very well print in the red next week. That might prompt packers to do a little more maintenance on their plants in order to slow production and thus hopefully raise the cutout to a level that will cover the increasing cost of hogs. On the other hand, packers have worked hard to fully staff their plants post covid and might be reluctant to schedule downtime that would idle new hires. Packers have already trimmed the Saturday kill back substantially, with this Saturday coming in at only 58k, compared to last March when Saturday kills averaged over 110k. There are just not enough hogs to support kills of that size.

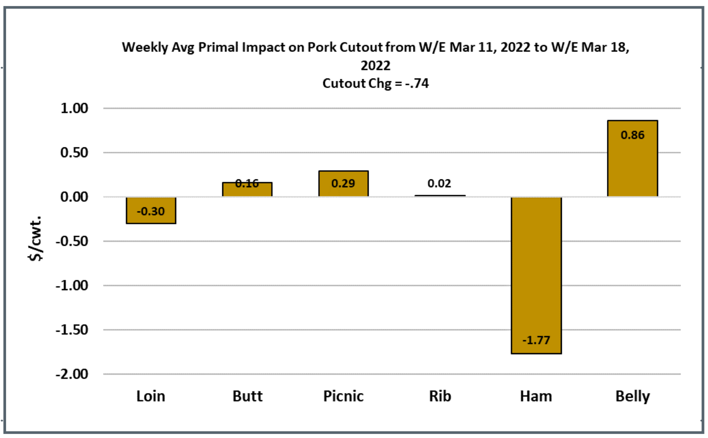
It makes me wonder if this might encourage packers to move further into the hog production sector. They added a lot of new capacity a few years back and now producers aren't cooperating by keeping the hog supply large enough to efficiently utilize all of that capacity. Packers may decide that the only way to guarantee that they can run their plants at high capacity utilization is to raise more of the hogs themselves. Of course, when a packer integrates back into the production segment, he takes on the producer margin, which is pretty unpredictable and with corn prices near all-time highs, it could become a bigger drain on finances than simply running the plant below capacity. However, as of this moment, producers are making more per head than packers, which is pretty unusual for this time of year. I have producer margins this week at almost $11/head. Barrow and gilt carcass weights seem to have plateaued around 216 pounds, and that is pretty normal for this time of year. The DTDS weights don't suggest any problems in the hog pipeline, but they also don't suggest that packers are pulling excessively hard on the available supply. There is still talk circulating about higher disease prevalence this year that seems to be centered in the WCB region. High negotiated prices coming out of that region seem to confirm that there is unexpected tightness there, but overall kills are lining up closely with pig crop estimates, so that doesn't seem to support huge disease losses at a national level. The current demand cycle seems to be leveling, using the combined margin as a guide. It has been trending lower since mid-February and moved sideways this week. It could be carving out a bottom, or it could be just stalled for a bit and will resume its downtrend next week. The cutout has not softened as quickly as I had originally imagined. Hams are weakening now and may stay that way for another couple of weeks, but the bellies have been pretty resilient after the big drop that shaved about $25/cwt off the primal a few weeks back. I had thought that perhaps they held more downside risk, but the primal actually moved higher this week.

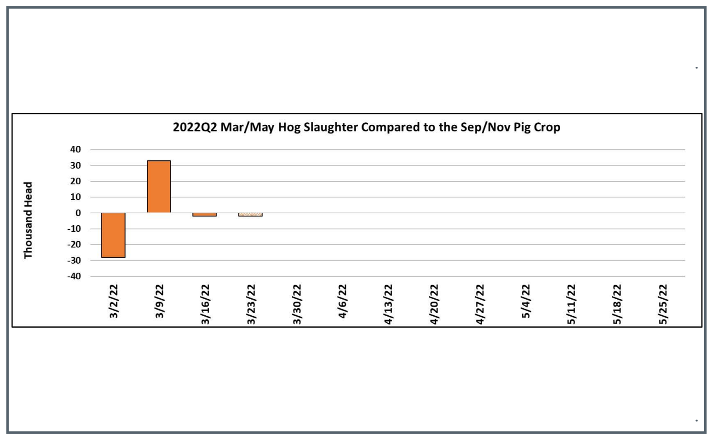
It's not unusual for a pullback in the bellies to be interrupted by a week or two of strength, so I'm not yet ready to call the bellies higher. I have, however, moved my expectation for the bottom upward in recent forecast revisions. Loins are another item that have been softening lately, but soon retailers will want to run those more frequently to capture some grilling demand and thus I don't think they hold a lot more downside risk. Butts and picnics are risk higher as the weather warms. The sow market broke the $90 mark this week and is actually running a bit above last year's exceptional pricing. If consumers are trading down as inflation rages, then we might expect the sow market to perform very well this spring and summer. Back in April of 2014 when disease problems were causing significant supply problems, sow prices actually breached $100 and that is the highest they have ever been. Right now the cutout has some primals rising and some falling, so the cutout itself has been drifting lower only very slowly.

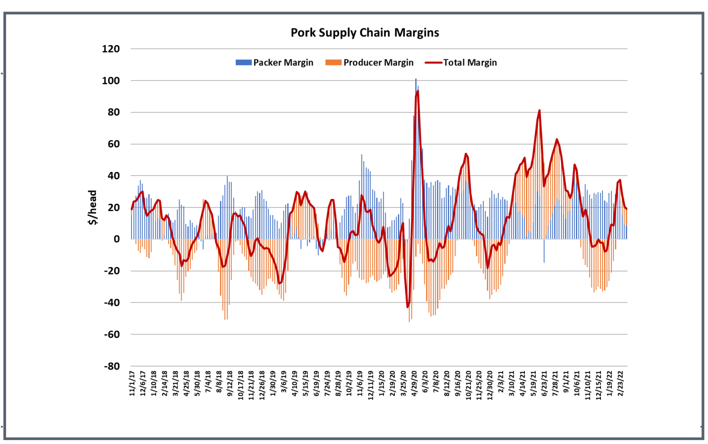
Demand could continue to soften, but smaller kills in the weeks and months ahead may provide enough support to overcome softer demand and thus move the cutout upward. Futures traders are currently valuing the June pork cutout futures near $122, so that suggests that most believe the seasonal decline in pork production will be very supportive to pork prices this spring and summer. My forecasts for summer hogs and pork are well below what the futures are currently implying, but given the recent developments in the relationship of cash hogs to the cutout, I may need to reduce my packer margin forecast this summer. Right now, I'm expecting $6-7/head positive margins, but if those margins actually turn out to be negative, then it would be much easier to get cash hogs or the cutout to a level more consistent with the futures. Next week, keep an eye on the bellies because a price drop there would greatly increase the bearish sentiment that has been creeping into the market lately.

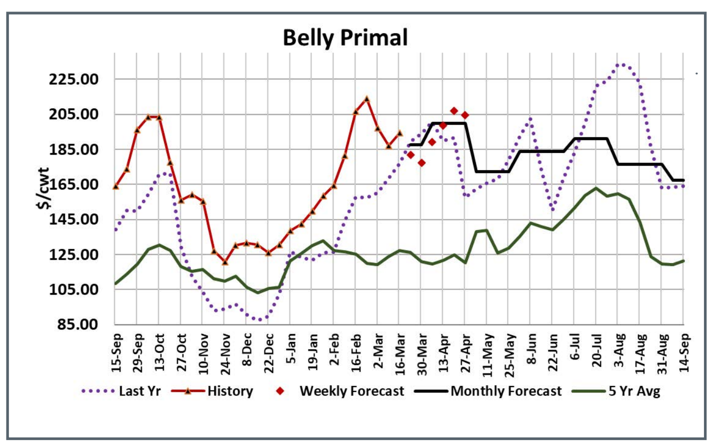

WTD Change in LH Futures
0.000
-0.500
-1.000
-1.500
-2.000
-2.500
-3.000
-3.500
-4.000
-4.500
Apr22
May22
Jun22
Jul22
Aug22
Oct22
Dec22
Feb23
Apr23

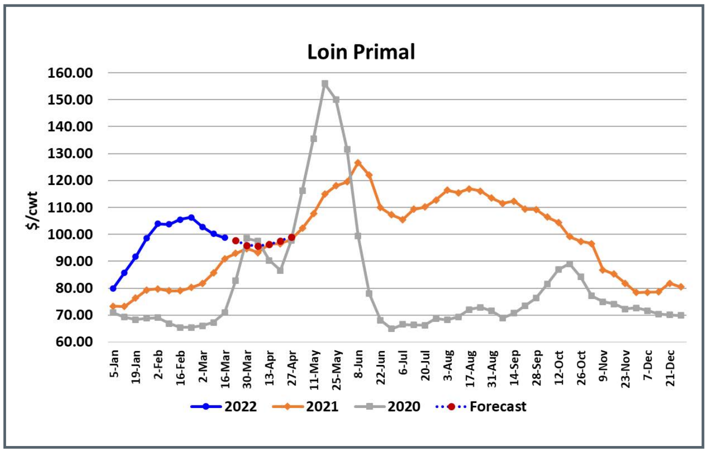

WTD Change in Pork Cutout Futures
0.000
-0.500
-1.000
-1.500
-2.000
-2.500
-3.000
-3.500
-4.000
-4.500
Apr22
May22
Jun22
Jul22
Aug22
Oct22
Dec22
Feb23

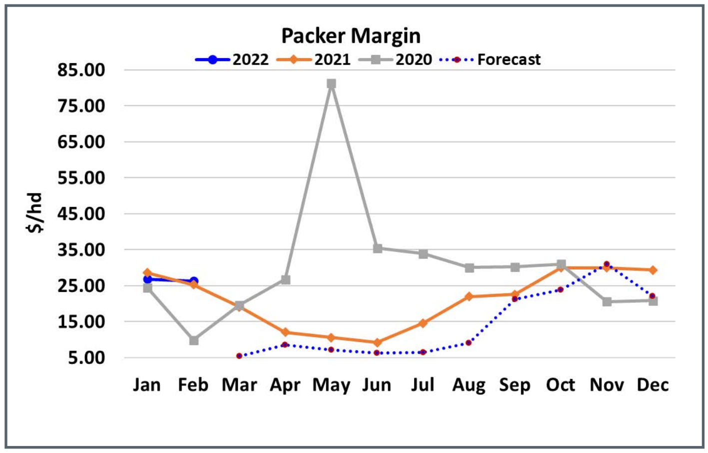

Weekly Avg Primal Impact on Pork Cutout from W/E Mar 11, 2022 to W/E Mar 18, 2022
Cutout Chg = -.74
$/cwt.
1.00
0.50
0.00
-0.50
-1.00
-1.50
-2.00
-0.30
0.16
0.29
0.02
-1.77
0.86
Loin
Butt
Picnic
Rib
Ham
Belly

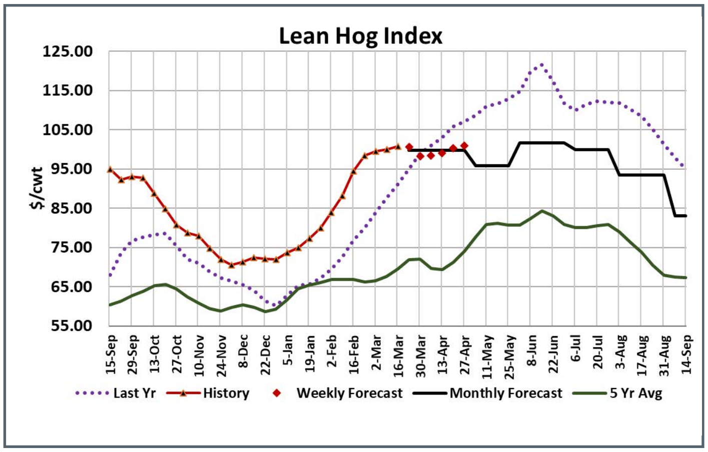

2022Q2 Mar/May Hog Slaughter Compared to the Sep/Nov Pig Crop
Thousand Head
40
30
20
10
0
-10
-20
-30
-40
3/2/22
3/9/22
3/16/22
3/23/22
3/30/22
4/6/22
4/13/22
4/20/22
4/27/22
5/4/22
5/11/22
5/18/22
5/25/22


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


Belly Primal
$/cwt
225.00
205.00
185.00
165.00
145.00
125.00
105.00
85.00
15-Sep
29-Sep
13-Oct
27-Oct
10-Nov
24-Nov
8-Dec
22-Dec
5-Jan
19-Jan
2-Feb
16-Feb
2-Mar
16-Mar
30-Mar
13-Apr
27-Apr
11-May
25-May
8-Jun
22-Jun
6-Jul
20-Jul
3-Aug
17-Aug
31-Aug
14-Sep
Last Yr
History
Weekly Forecast
Monthly Forecast
5 Yr Avg







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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.