



WEEK ENDING MARCH 11, 2022

THE PORK WRAP

This was not a good week for pork packers. Hog prices increased sharply, with WCB negotiated prices up \$9.25 to average almost \$109/cwt and the NDD price was \$8.24 higher. At the same time, the cutout was softening, dropping about \$2.55 from the week before. That put a big squeeze on margins and pushed them down to less than \$10 per head. The forecast has margins dipping into the red next week by about \$3/head. Packers can't be too happy about this situation. As a result, they have slowed down the Saturday kill, with this Saturday estimated at 97,000 head and my guess is that next Saturday could be closer to 50,000 head. All of this has created a strange market dynamic where cash hog prices are rising, but softer demand is pushing the cutout lower. It is a huge headache for futures traders who get all bulled up one day by a strong negotiated price print and then slapped back down the next day by a weak cutout print. The two effects have largely offset one another and thus held the LHI in the \$98-100 range for the past 3 weeks.

Once again, it was the bellies that provided the majority of the decline in the cutout this week, but there was also some help from the loin primal. The bellies have yet to make another major leg down but I still think that could be in the cards sometime soon. Hams are helping to shift the focus away from bellies now as they appear to have turned lower and that creates a lot of concern. We are still getting wild moves in the ham primal based on how much boneless product is included on any given day, but the basic bone-in, 23-27 pound ham has been tracking lower since late last week. Some think that there are still hams that need to be bought and processed for Easter, but I'm not so sure about that. The forecast has hams trading sideways to modestly lower over the next few weeks. The strongest part of the carcass right now is the rib primal, which has been in a pretty solid uptrend since last October.

The combined margin moved lower again this week, signaling some further softening of demand. I'm expecting this downcycle to be a short one, perhaps only lasting 2-3 more weeks, before grilling season demand starts to kick in. Pork has to contend with much cheaper beef now for retail ad space and normally beef is the retailer's first choice when it comes to spring features. If I'm right about the bellies taking another step lower in coming days, then it is easy to see how the cutout could move back below \$100. It is not that far from it right now, after printing \$102.55 on Friday afternoon. If it does move back below \$100, wouldn't expect it to trade under \$95. Instead, more of a sideways pattern might develop for a few weeks until the spring demand kicks in enough to lift it back into triple digits.

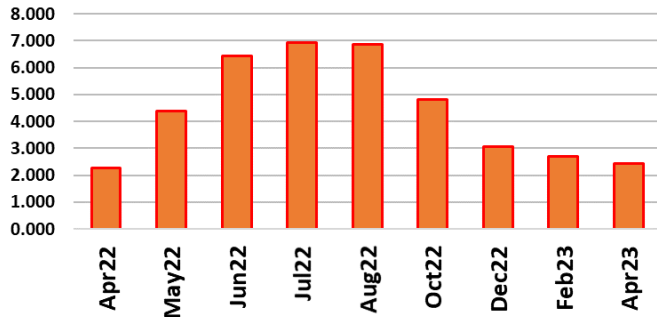
I think the pork cutout futures are vastly over-estimating how high the cutout could get this summer, but I recognize that part of that is predicated on the idea that there are serious disease problems in the WCB region and when traders hear the words "disease problems", they buy first and ask questions later. This week's slaughter came in at 2.475 million head. That was about 30k more than what the pig crop projected, but it helped to offset a 30k deficit last week. Thus, in the first two weeks of the March/May quarter, kills have been almost dead-on with the pig crop estimate. The flow model suggests that kills should move under 2.45 million head starting next week and remain below that level until the middle of August. Going forward from here I think it will be a battle between shrinking kills wanting to lift prices and softer demand that wants to push prices lower. The supply side will probably win that battle and move prices higher as we move into summer, but don't expect the cutout to exceed last year's summer top near \$135.

I'm thinking that a top around \$115 is more likely this summer. Of course, if the disease problems are worse than imagined and kills drop well below the pig crop-implied, then we could stand a chance of reaching last year's top in the cutout. USDA released export numbers for January this week and they indicated a 15.8% YOY decline. That is largely driven by much smaller shipments to China and I don't hold a lot of hope that movement to China will improve anytime soon. Imports, on the other hand, were quite strong, up 34% YOY. However, smaller pig crops in recent quarters leading to smaller YOY kills here in the first half of 2022 will be the dominant factor keeping per capita availability down 3-5% YOY in the first two quarters.

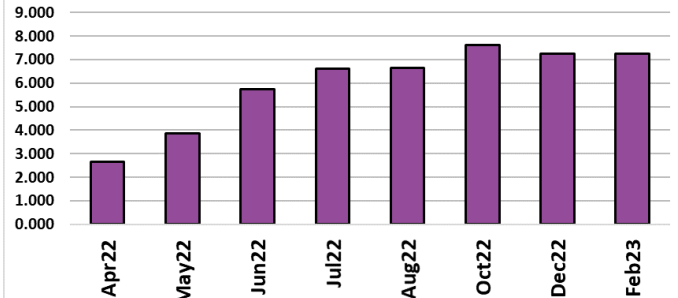
Normally, that would point to higher prices than the year before, but the demand structure in 2022 is expected to fall well short of the phenomenal demand seen last year. The futures curve was higher this week, with the biggest gains coming in the summer contracts. Nearby Apr held in the \$100-103 range for most of the week as traders tried to determine whether stronger negotiated hog prices would dominate a softer cutout in the LHI or vice versa. That remains an unanswered question at this point. Next week, watch the hams for further price erosion. It will be really difficult for the cutout to make significant gains as long as hams are softening. Also, don't be surprised if the bellies express further weakness.



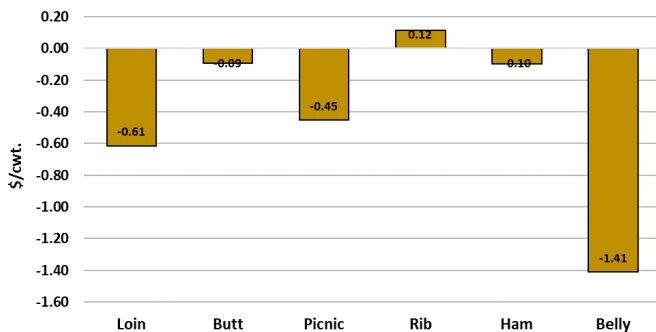
WTD Change in LH Futures



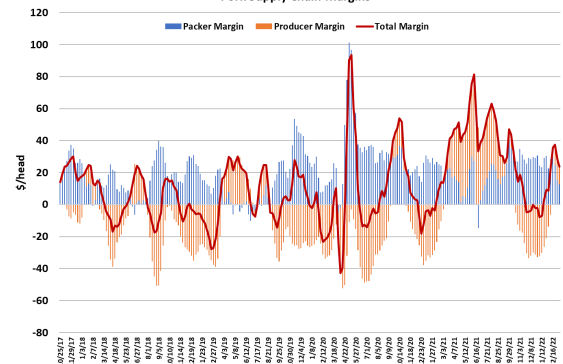
WTD Change in Pork Cutout Futures

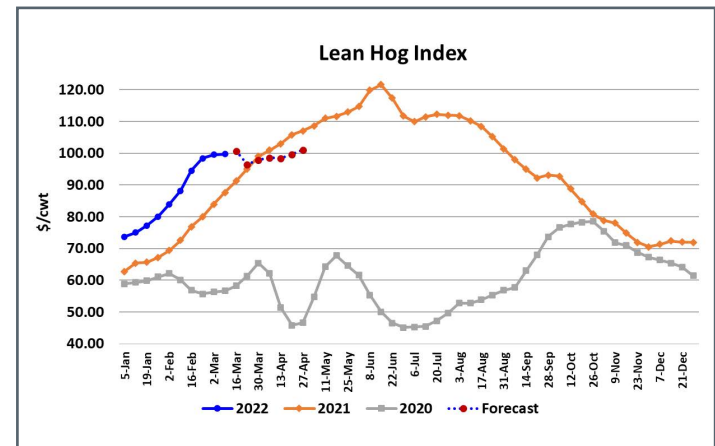
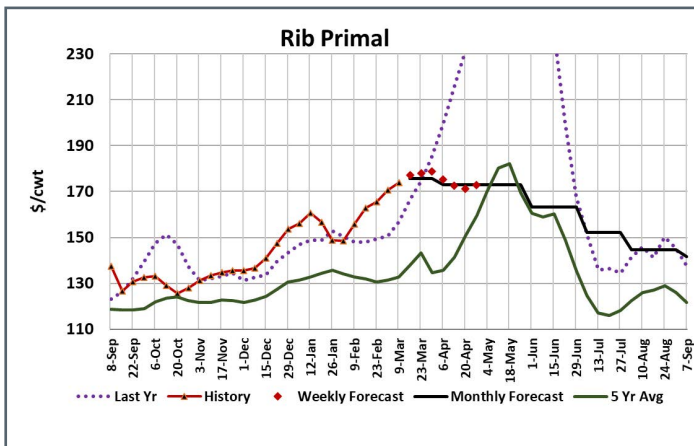
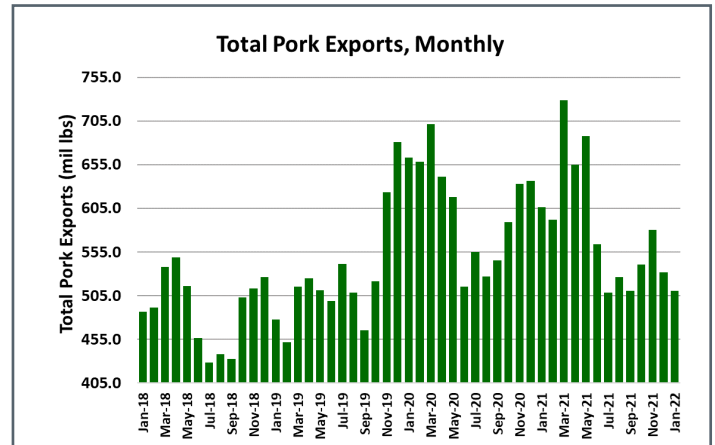
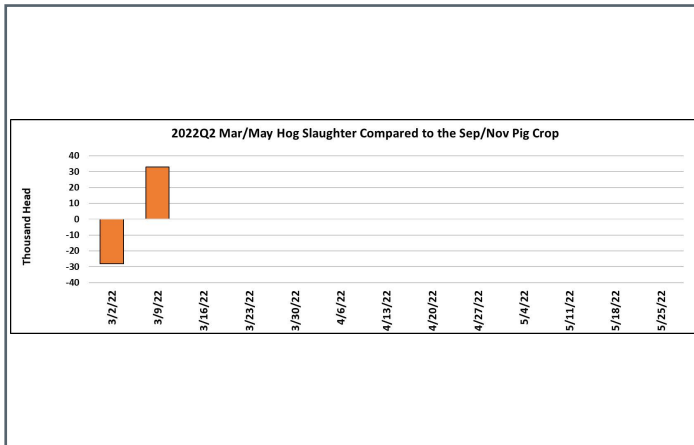


Weekly Avg Primal Impact on Pork Cutout from W/E Mar 4, 2022 to W/E Mar 11, 2022
Cutout Chg = -2.55



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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