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WEEK ENDING MARCH 25, 2022

THE PORK WRAP

The bulls in the hog market had been frustrated in recent weeks by softer cutouts and mostly sideways LHI. However, when the cutout showed a modest amount of strength this week, the bulls exploded onto the scene, forcing the Jun contract up almost $10/cwt. That really seems like an excessive reaction in a week where the cutout only gained $1.95 and the WCB negotiated market was flat with the week before. I chalk it up to pent-up bullish enthusiasm. Now comes the hard part. The market has to live up to the high expectations that futures traders have set for it. We have been waiting for the pork demand cycle to turn higher and it may have accomplished that this week. The combined margin is showing a slight uptick, but we have seen those before and then the combined margin continued lower. The gain in the cutout this week was driven by stronger ham pricing, with a little help from the butts and picnics.

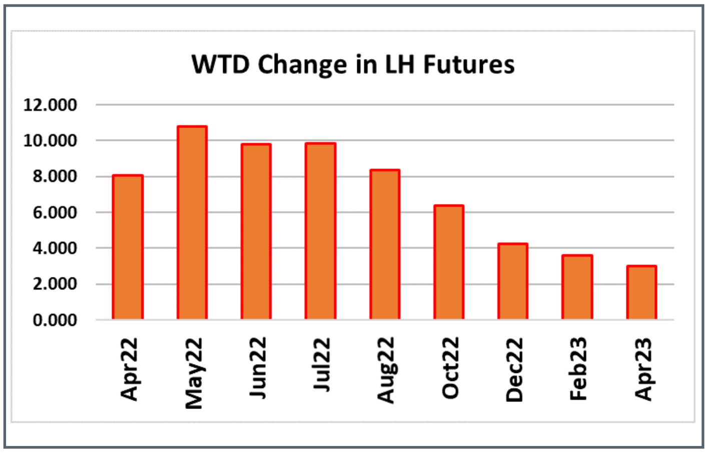
There were a couple of points during the week where the bellies looked like they were about to surge higher and perhaps that is part of what stoked the futures so much today. However, those all turned out to be false signals generated by light volumes. The up-move in ham prices is definitely real however, and it could be driven by stronger export business to Mexico. By now, all of the Easter hams for US retailers have been bought and processed, so I doubt that it is stronger domestic demand that has been moving ham prices higher. We are definitely seeing more boneless hams in the mix these days and that has the effect of raising the ham primal value. I have to surmise that packers are seeing labor availability improve. That is important for sure, but prices for bone-in hams have also been moving higher recently and when we combine the two effects, the result is stronger ham primal values. I'm a little surprised that loins haven't performed better since that is a retail favorite for grilling season.

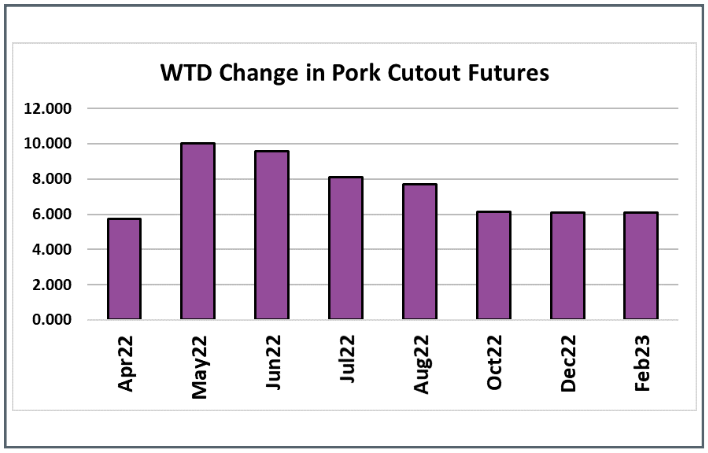
Perhaps we are just not far along enough in the calendar for that to occur. It is also possible that the modest upward turn in the cutout this week has its origins in smaller pork production rather than any significant demand strength. Kills are working seasonally lower now and this week's total came in at 2.42 million head, about 10k less than the week before and about 20k less than what the Sep/Nov pig crop implied. That is not a very big deviation from the pig crop, so for now I'm assuming that USDA was pretty close in its estimate. There has been a lot of speculation about disease problems limiting the supply of hogs, but if that were the case I would expect to see kills coming in way below the pig crop estimate and so far that hasn't happened. We will get a clearer picture on Wednesday when USDA releases its next issue of Hogs and Pigs.

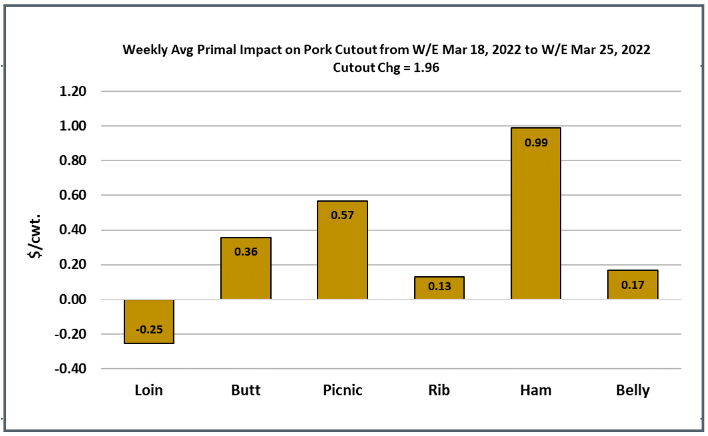
I've included a table here that provides the average trade estimate for the important numbers in that report along with the JSF projections. Expectations are for the total herd and breeding herd to be down only slightly from last year, with a modest gain in the pig crop due to productivity improvements. If there are more disease problems than normal, then I would expect it to show up in a weak pigs-saved-per-litter number and perhaps smaller than expected farrowings. I think that the biggest risk heading into this report is that it will show more contraction in the herd than the average trade or JSF's forecast. If that happens, it could be like throwing gasoline on a fire in the futures because the summer contracts have been exceedingly bullish and a smaller-than-expected pig crop would have the effect of confirming the bulls' bias.

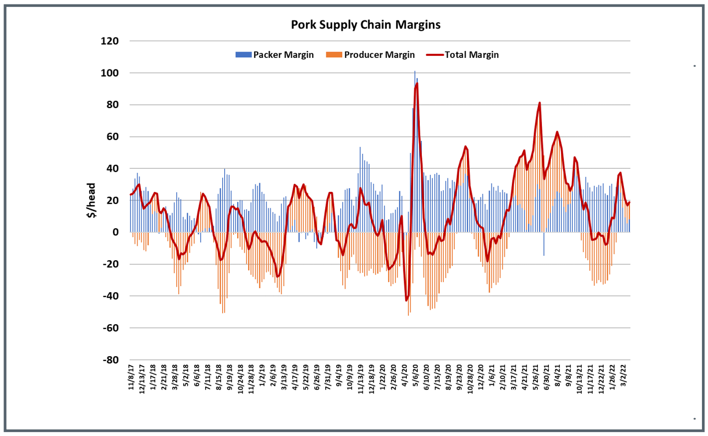
If it goes the other way and supplies are reported larger than expected, I suspect it won't have near the same effect to the downside. The bulls in the market seem to be pretty resolute right now. They honestly believe that hog supplies are going to be very tight this summer and no amount of USDA data will convince them otherwise. It is interesting that the WCB negotiated price seems to have stalled out around $110/cwt for the past couple of weeks. Perhaps packers have adjusted their slaughter expectations downward to better fit available supplies. This week the WCB cash hog price was more than $3 higher than the cutout. That is a very unusual occurrence, but it does point toward very small packer margins. I have this week's margin at $8/head, with risk that it shrinks even more if the cutout struggles to hold on to the small gain it made this week. Producer margins are larger than packer margins, which is also a very rare occurrence. This week's producer margin was about $11/head.

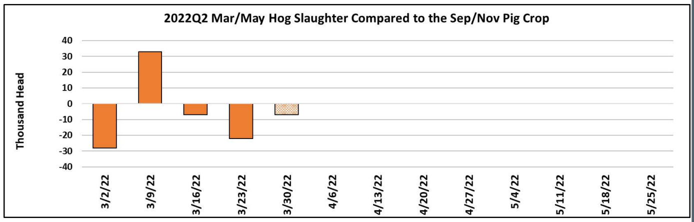
Prior to 2020, it wasn't unusual to see producers $10-20/head in the red during March. Last year, producer margins averaged a little over +$8/head–their best margin since 2014. I don't think they will be able to build on that this year with corn prices so high and demand likely to fade from last year's level. More likely, the average margin for 2022 will be below zero and perhaps by a substantial amount. That makes the decision not to expand the herd look very smart in the current environment. Next week, we will be watching for confirmation that the demand cycle has turned higher and a stronger cutout would be the first clue. Futures traders have already placed their bets that the upcycle has begun. There could be a rather strong negative reaction if that turns out not to be the case.

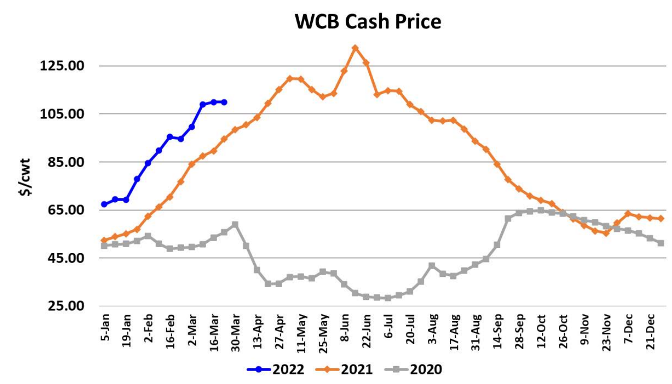

WTD Change in LH Futures
12.000
10.000
8.000
6.000
4.000
2.000
0.000
Apr22
May22
Jun22
Jul22
Aug22
Oct22
Dec22
Feb23
Apr23

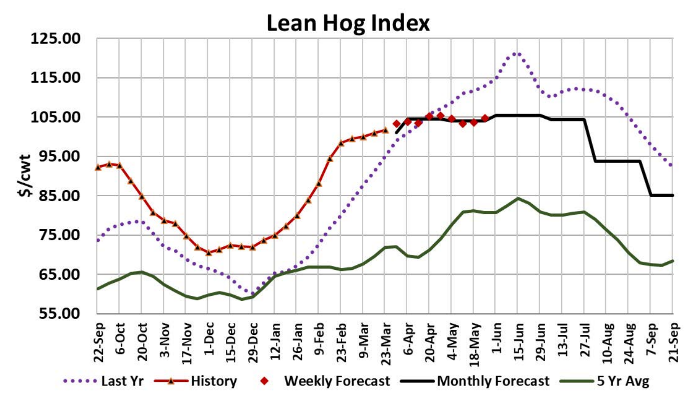

WTD Change in Pork Cutout Futures
12.000
10.000
8.000
6.000
4.000
2.000
0.000
Apr22
May22
Jun22
Jul22
Aug22
Oct22
Dec22
Feb23


Weekly Avg Primal Impact on Pork Cutout from W/E Mar 18, 2022 to W/E Mar 25, 2022
Cutout Chg = 1.96
$/cwt.
1.20
1.00
0.80
0.60
0.40
0.20
0.00
-0.20
-0.40
-0.25
0.36
0.57
0.13
0.99
0.17
Loin
Butt
Picnic
Rib
Ham
Belly


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







March 30, 2022 Hogs & Pigs Report - Before Revisions

	Avg Trade	JSF
All Hogs & Pigs	98.8%	99.0%
Breeding Herd	99.9%	99.7%
Market Hogs	98.7%	98.9%
Mkt Hogs <50 lbs	101.1%	103.9%
Mkt Hogs 50-119 lbs	99.6%	97.3%
Mkt Hogs 120-179 lbs	96.5%	94.8%
Mkt Hogs >180 lbs	97.6%	98.2%
Dec-Feb Pig Crop	101.3%	100.5%
Dec-Feb Pigs Per Litter	100.9%	100.6%
Dec-Feb Sows Farrowing	100.4%	99.9%
Mar-May Farrowing Intentions	99.7%	98.9%
Jun-Aug Farrowing Intentions	100.6%	102.3%

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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.