



WEEK ENDING APRIL 15, 2022

THE PORK WRAP

The pork market moved higher this week, with the cutout gaining \$4.10 to average \$108.22. Most of that gain can be attributable to the hams and bellies. Cash hogs, on the other hand, eased lower with the NDD negotiated market losing \$1.87 on a weekly average basis. That brought some much needed help to packer margins, which moved from \$5/head last week to over \$16/head this week. However, I'm not yet ready to subscribe to the idea that the cutout is going to continue up from here. It may get help early next week from the short kill this week, but the bellies have been acting fickle and could go lower in the short run. Hams have been supported by a larger-than-normal proportion of product being sold boneless and if we see the sales mix move back toward more bone-in product in the next few weeks, then there is price risk to the ham primal as well.

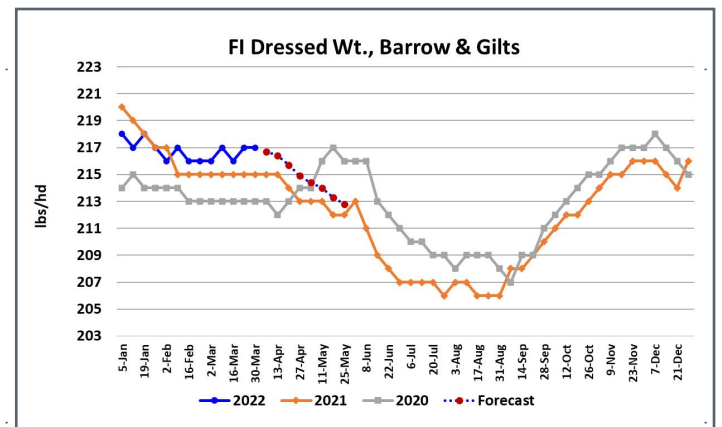
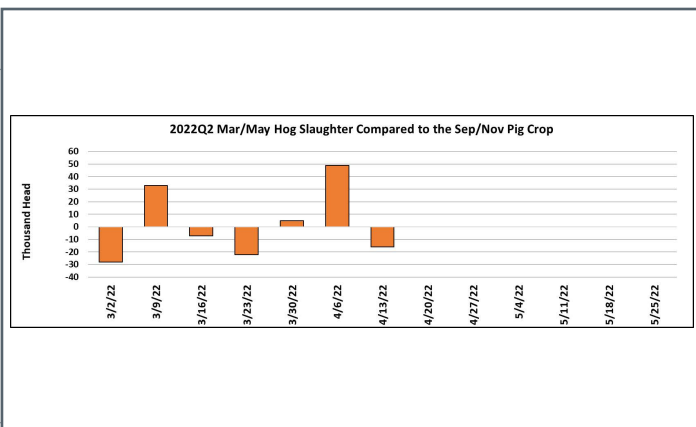
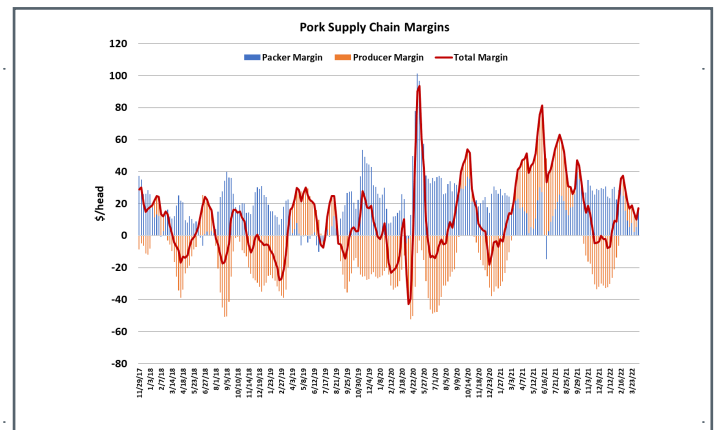
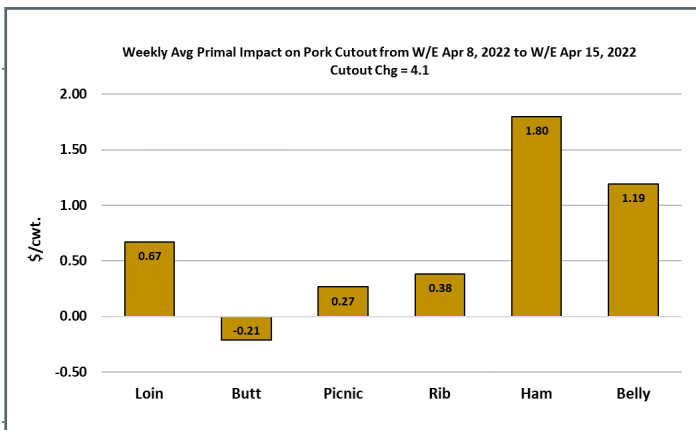
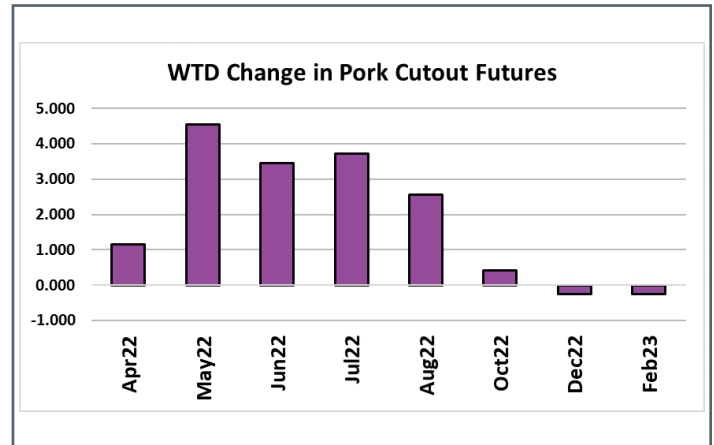
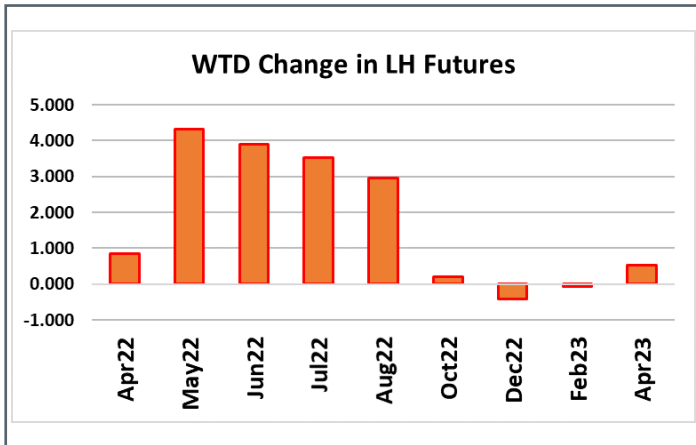
Of course, the flip side of that is that kills are going to be getting progressively smaller each week from now until early July. Packers pulled the daily kill down significantly for Good Friday and are only planning on killing 8,000 head tomorrow. Basically, there is no Saturday kill this week. That should tighten up product availability early next week, but my sense is that buyers are already well positioned for the shrinking spring kills. They have been boosting cold storage stocks moderately in recent months because they know that the hog supply is smaller this summer than it was last year. There is also a really good chance that the demand pull this spring won't be as strong as it was last year. Don't get me wrong, I'm certainly looking for some price appreciation as we head into summer, but I am not nearly as optimistic as the futures are at this point. I also don't think that the gains are going to come in a straight line.

There could be some soft spots along the way that cause traders to question the high valuations they are placing on the summer contracts. The Apr contract expired today at just a hair under \$100 and the May contract closed the week just shy of \$113. It is pretty rare for the LHI to gain more than \$10 over the course of a month and with all of the headwinds facing consumers this year, I'm betting that May will struggle to earn its premium. If May struggles, so will June. The fact that the trajectory of the negotiated hog market is downward right now is a huge headwind for the LHI. It seems that disease problems that were often cited earlier this year have started to fade and that has put some leverage back into the packer's hands. Of course, everything is ultimately in the consumer's hands because pricing all up and down the supply chain is contingent upon the strength of consumer demand. In that regard, pork is in a better position than beef due to its lower price point during these times where consumers are becoming increasingly price conscious.

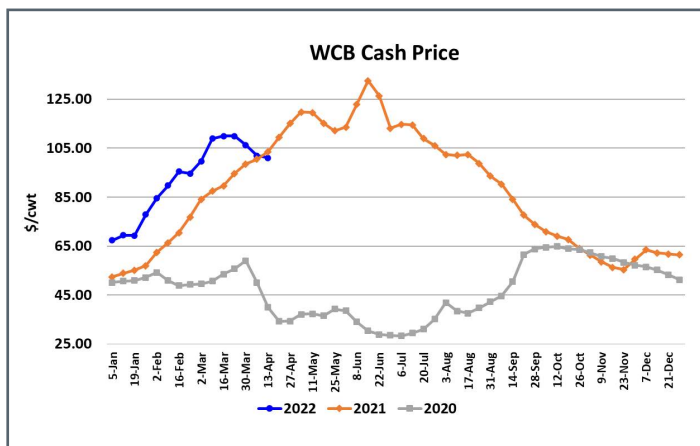
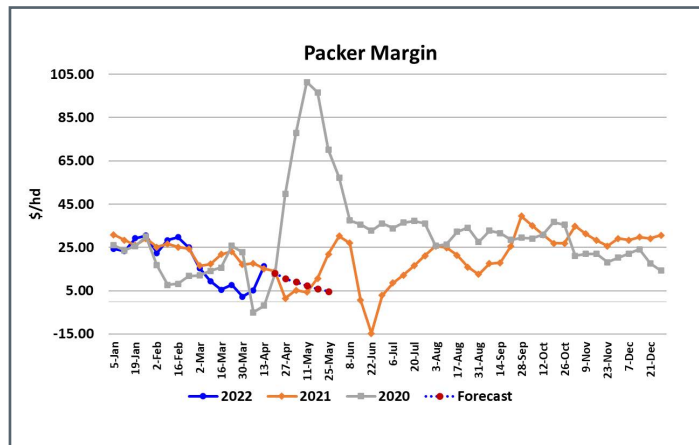
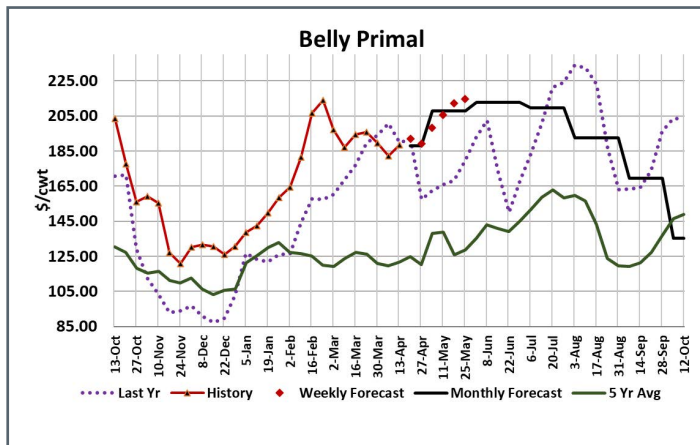
Chicken prices are really elevated also as that industry struggles with avian influenza outbreaks and what appears to be very strong demand. So it is possible that pork might be in the sweet spot for consumers right now-cheaper than beef and almost cheaper than chicken. That makes me think that pork demand is not on the verge of falling apart, but it also is not going to match the super-strong levels that we saw last year at this time. This week, sow prices printed higher than butcher hog prices. That is a pretty rare occurrence and may signal that consumer demand is strongest for the lower-end products in the pork complex. Sow meat also contains a lot more fat and fat seems to be a premium product these days. This week's kill totaled 2.35 million head, which was a little shy of what the pig crop called for, but cumulatively, slaughter so far in the March/May quarter has been almost dead on the pig crop projection.

Next week's slaughter should be a little larger than this week, but probably not by much. By mid-to-late May, the weekly kill should drop under 2.3 million head per week and it should bottom close to 2.25 million head per week in late June or early July. Hog weights remain plateaued for now at two pounds over last year, but some YOY increase is expected and there doesn't seem to be anything concerning about carcass weights right now. So far, super-high corn pricing hasn't led producers to push hogs out the door any quicker than normal. Weekly exports have been mostly sideways recently, but way below last year at this time. China seems to have lost interest in US pork as prices in China are still exceptionally low. Pork prices in the EU are rocketing higher, most likely due to buyers wanting to have more product around them as the Russia-Ukraine conflict intensifies.

Even so, it is not likely that much US pork will head to Europe. Instead, US pork might replace EU pork in some importing countries if relative prices justify it. That could help US exports some, but I don't think the effect will be large and certainly won't be enough to offset lethargic movement to China. The combined margin chart seems to be telling us that pork demand has entered another upcycle and while that might be true, I want to see the combined margin gain for another week at least before I declare this downcycle to be finished. If pork demand is now in an uptrend, then that would be consistent with beef demand and the first time in a while where demand for both is working higher at the same time. Next week, we want to see if the cutout can hold on to this week's gains. That means the bellies and hams need another strong showing. They may both deliver on that, but my gut tells me that at least one of the two will struggle next week.



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DR. ROB MURPHY BS, MS, PhD Agri Economics,
Executive Vice President, Research & Analysis,
J.S. Ferraro

E: Rob.Murphy@jsferraro.com [in](#) [tw](#)

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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