


WEEK ENDING APRIL 29, 2022

THE PORK WRAP

The pork market got back on its downward trajectory this week, with the cutout dropping \$4.13/cwt to average \$105.18. Cash hog markets were higher, with the WCB negotiated market rising \$2.81 and the NDD up \$0.86. The LHI gained almost \$1 to \$102.20. Hogs up and pork down is a bad combination for packers and this week their margins fell to \$4/head from \$14/head the week before. The drop in the cutout was almost entirely sponsored by the belly primal as the attached chart indicates. Belly corrections are often severe and scary for market bulls and this one has been both. The futures market has undergone a significant correction, with the Jun contract losing over \$12 this week. As scary as the belly correction has been, it is important to keep in mind that the other primals seem to be holding value quite well. I would be much more concerned if this was a broad sell-off affecting all of the primals. Bellies will soon find a level that starts to attract buyers.

I think maybe one more week of softness and belly prices should begin to recover. Hams continue to do very well and what the bulls need to hope for is that the hams continue to hold up until the bellies can get back on track. If both show weakness simultaneously, that would be a real problem. The retail primals—loins, butts, ribs—have been sideways to higher recently and I suspect that is due to consumers trading down from beef to pork items in the retail environment. That isn't likely to last forever and eventually we will see demand soften for those items, but for now they are providing a much needed ballast against the volatility in the belly and ham markets. This week's action removed most of the mis-pricing from the front three contracts. More overpricing is likely to come out of the deferreds as they get closer to the front of the curve.

Pork demand is likely to follow the same path that beef demand is on right now (weakening back to pre-pandemic levels), but because of the trading-down effect, the impact on pork will probably be a few months behind beef. Pork, unlike beef, has the advantage that kills will be declining seasonally over the next two months and that should prove to be price supportive. This week's slaughter registered 2.4 million head, up about 30k from last week and about 60k more than what the pig crop suggested. I'd expect that packers temper the kill next week in an effort to limit further margin erosion. The combined margin chart indicates that the little bump up in the combined margin in the previous 2 weeks was a head fake and it is now back on its downward trajectory. My guess is that it at least touches the zero line before it starts to improve.

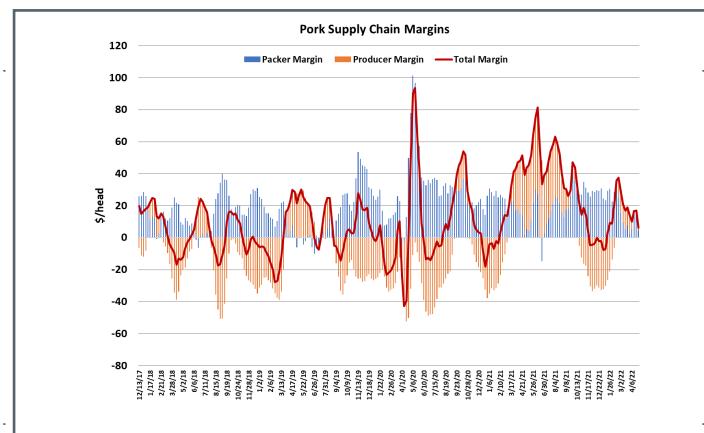
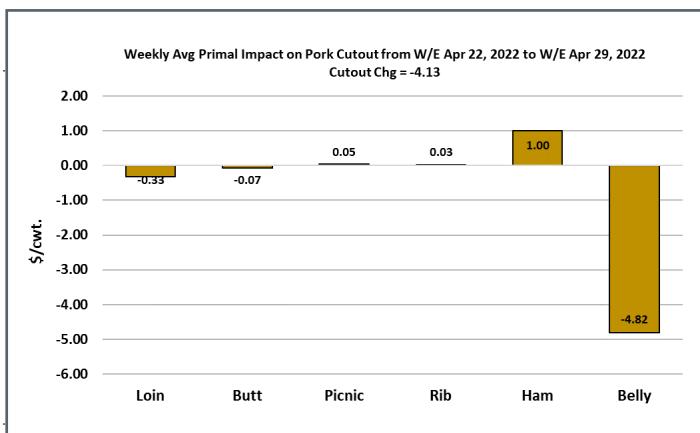
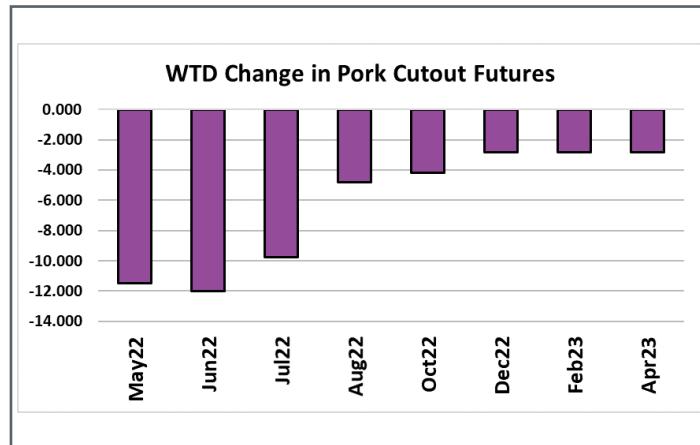
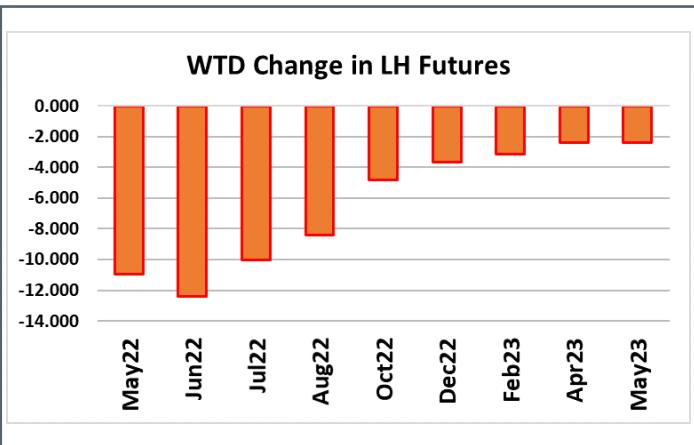
Of course, there is a risk that pork buyers will pull back next week after the big downdraft in hog futures and the huge sell-off in the stock market. If they do, that might take a few more dollars off of the cutout, but they can't stay on the sidelines forever, particularly during grilling season. One might think that hog producers are doing pretty good with the LHI at \$102, but their breakevens are only about a dollar below that, so they aren't seeing much in the way of margin currently. That is the problem with a declining demand environment—there isn't enough margin in the system to go around. For the next two months, packers and producers will be arm-wrestling for what little margin is available. Carcass weights were reported one pound lower this week and that could be the first step in a seasonal downtrend that will take weights progressively lower from now until Independence Day.

There doesn't seem to be any abnormalities with weights currently. There must still be some lingering disease problems in the WCB market because prices there have been erratic again this week. However, I don't think it is going to turn into a large-scale shortage of hogs. Exports are still very soft compared to last year and that is important to keep in mind when considering domestic supplies this summer. We know that the pig crop that will be slaughtered from June to August was reported down 1% by USDA, but much weaker exports this year (and stronger imports), could cause Jun-Aug availability to be as much as 2% greater than last year. So we could see a summer where pork availability is larger than last year, yet demand is way softer than last year. That is why I haven't been a proponent of super-high pork pricing for summer.

The cutout is expected to be in triple digits for sure, but likely not into the \$120-130 range that the futures have wanted to project for so long. Instead, buyers should be thinking about summer cutouts in the \$100-\$112 range. I think the risk to that forecast is that actual cutouts turn out to be lower, rather than higher, than the forecast. Sow pricing moved lower again this week, but it is still very high in a historical context. Trims are also very high and that is a big supporting factor for sow prices. It is just another example of consumers trading down to cheaper protein sources. Next week, watch the bellies for signs that they are making a bottom, since that will likely determine the direction of the cutout and the mood in the futures market.

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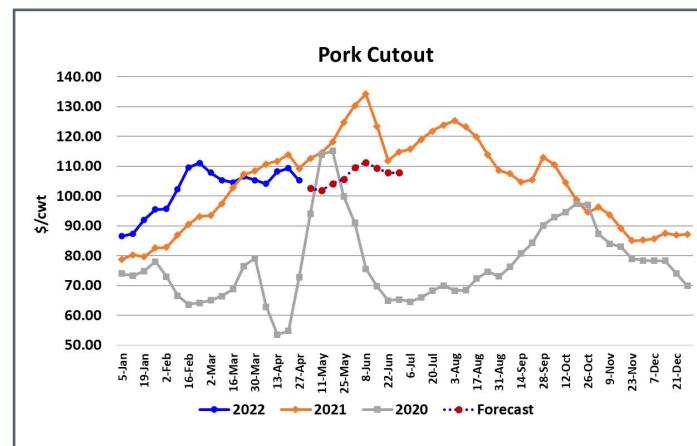
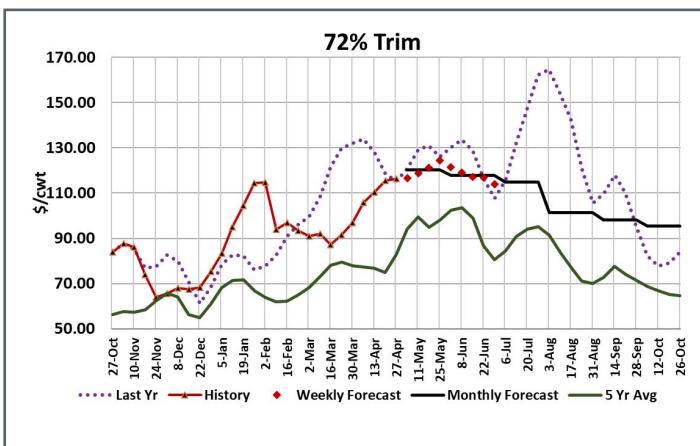
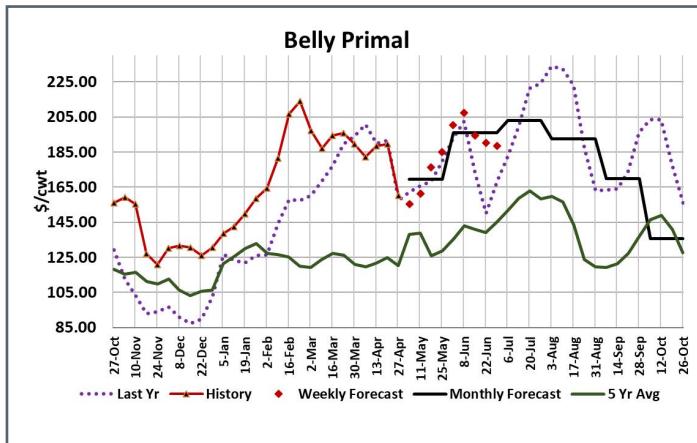
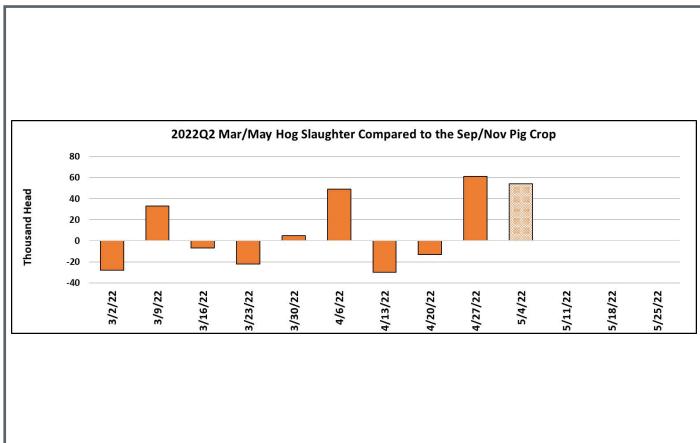


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