



WEEK ENDING JUNE 17, 2022

THE PORK WRAP

The hog and pork complex continued to work higher this week, and it definitely felt like a lot of work. The NDD negotiated market was up \$1.48/cwt through Thursday and the cutout was up \$1.43/cwt. Traders got a bit of a scare on Wednesday when the belly primal printed sharply lower, but it bounced back on Thursday, and all was well. It wasn't the belly primal that provided support for the cutout this week. Instead, it was the mighty butt primal with some help from the hams. I'm not quite sure what lit a fire under the butts over the past few weeks, but it has outperformed all of the other primals in terms of percentage price gains. The two likely sources of strength would be either a major retailer preparing to feature butts heavily for Father's Day or Independence Day or S. Korea sucking them out of the domestic market. Either way, the gains in butt prices came at an opportune time and probably kept the cutout from slipping lower over the past few weeks.

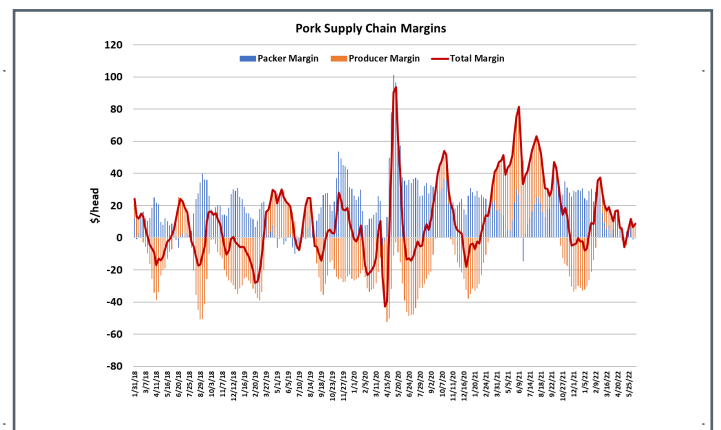
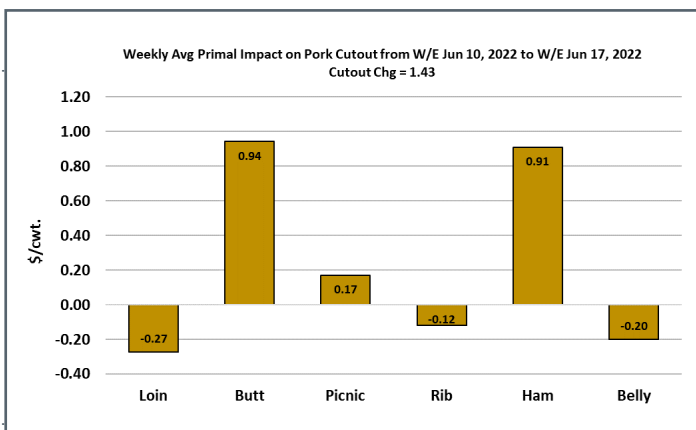
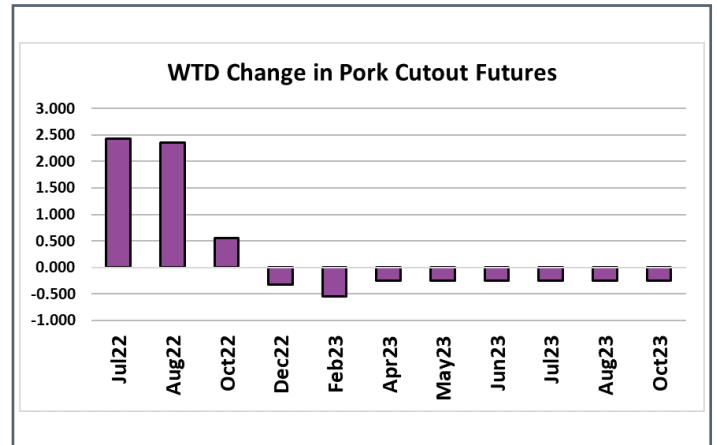
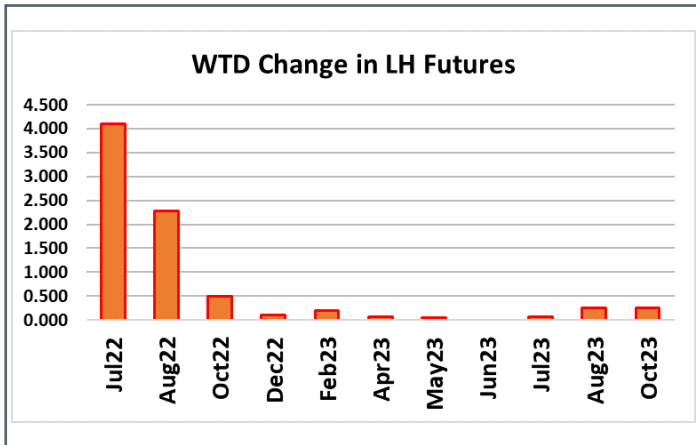
I don't see the strength in butts continuing much longer, perhaps another week or two, and then I'd expect butt pricing to move back more in line with the other retail primals. My presumption is that, going forward, the bellies will provide the primary support for the cutout, but I have to admit that right now that theory looks a little shaky. Demand for bacon is very inelastic and so it is normal for belly prices to rise and kills shrink in the summer. Bacon also sells well through foodservice channels and I am expecting that foodservice business will be brisk this summer as consumers travel like crazy now that COVID fears have faded. Just because the belly rally hasn't taken hold yet doesn't mean that it won't, so I will hold out hope for the bellies a little longer. Hams are getting very expensive, with the primal printing over \$98 on Thursday afternoon. I think it can hold that level, but wouldn't expect it to advance much beyond it. So, hams may provide temporary support for the cutout while the bellies are getting organized for their rally.

At some point in the next 2-3 weeks, we could see a hand-off from the hams to the bellies and that could keep the cutout firm. I'm forecasting the cutout to average over \$110 for the next 3-4 weeks and that should put us past the smallest kill of the year. The negotiated hog market has shown no signs of backing down and we've seen quotes near \$120 for several days now. I'm nervously watching for the heat dome that the weather service says is forming over the hog production regions. That has the potential to bring excessive heat to hog barns in the Midwest, slowing gains and forcing packers to compete even harder for the available hog supply. In my opinion, this potential weather event is the most important factor to watch for in the next few weeks. If I'm wrong on the near-term price forecasts, it will likely be that I was too low because the heat wave cut production and thus drove prices higher than expected.

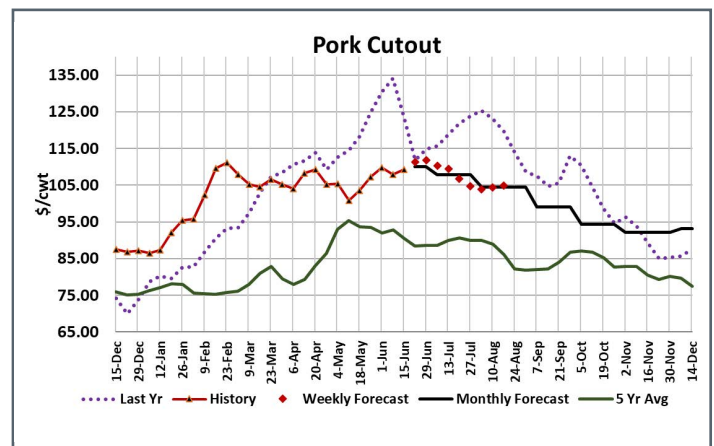
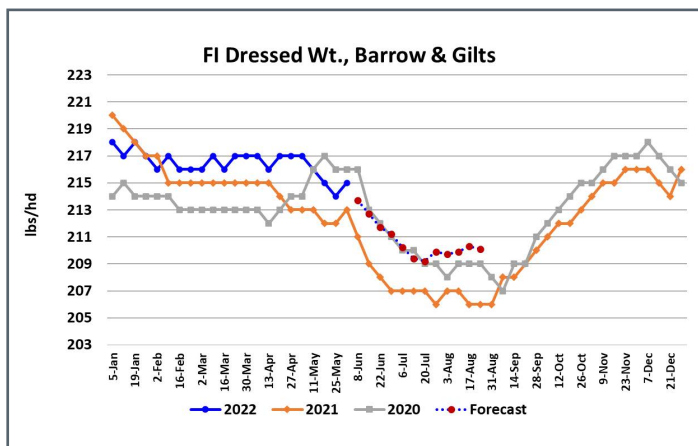
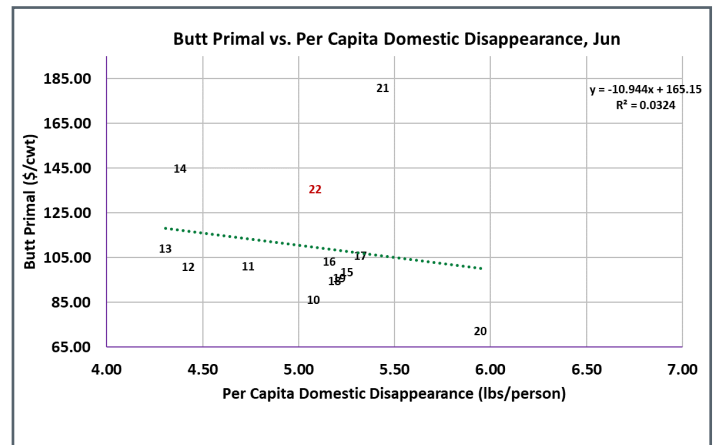
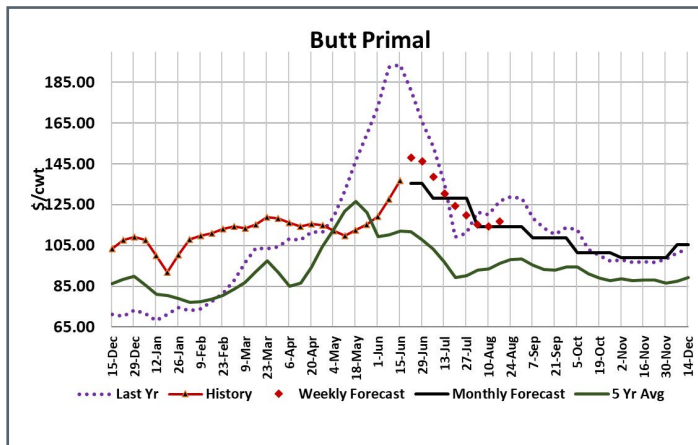
Pork packer margins were about -\$1/head this week and I suspect that margins will get worse before they get better. This is just a fact of life for pork packers that margins are soft in the summer. The industry must have enough packing capacity to handle the seasonal surge in hogs each fall and so they have built toward that goal, but this creates an over-capacity problem in the summer when hog numbers are seasonally tight. Packers are forced to compete vigorously for those hogs that are available, driving up cash hog prices and sending margins into the red. USDA is set to release its summer issue of the Hogs and Pigs survey in a little less than two weeks. I am looking for it to show the breeding herd about flat with what they reported in March and 2% below last year. I'm calling the March/May pig crop down 1% as improving productivity helps to offset the 1.9% smaller breeding herd that was available to produce that pig crop.

So, from what we already know about past pig crops and my expectations for the breeding herd on June 1, it is safe to say that market hog availability should be down about 1% YOY for the balance of 2022. Of course, exports are expected to be way down this year (the current estimate is 6% below last year) and so that will take some of the edge off of smaller domestic pork production. In the end, it seems likely to me that 2022 per capita domestic pork availability will be very close to what we saw in 2021 but price levels should be lower because of the demand fade coming out of COVID. I'm expecting total hog slaughter this week to be close to 2.35 million head, which would be 3.6% below last year. My guess is the kill will continue to shrink until we see a sub 2.3 million head kill in late June or early July and that will mark the smallest non-holiday kill of 2022. By the end of August, kills should be back near 2.5 million head per week. Barrow and gilt carcass weights ticked higher this week to 215 pounds, but the data was for the holiday week, so that isn't too concerning.

Weights seem to be pretty normal and in a good spot right now. That may turn out to be fortuitous if a heat wave sets in. At least we won't be starting out with excessively light carcass weights. Jun futures expired on Tuesday at \$108.57, a little more than \$8 over where May expired. I suspect that Jul will expire a lot closer to Jun than May did, but the wild card is the weather over the next couple of weeks. I guess I'm a little surprised that traders haven't run the Jul contract further out in front of the cash index in anticipation of potential supply tightness due to weather. Either way, that puts the weather forecast firmly at the top of our watch list for next week. A close second will be to watch the belly primal for signs of life that could put the cutout in position to exceed \$110 for a few weeks.



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