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WEEK ENDING JULY 1, 2022

THE PORK WRAP

The hog and pork complex eased a bit this week as the cutout dropped $3.36/cwt on a weekly average basis and the WCB negotiated hog market was down $1.15/cwt. The LHI, which lags the other markets, was actually up about $0.30/cwt on the week. I think most of the easing in the negotiated markets can be attributed to packers having less demand for hogs due to the holiday, which should be transitory. The softening in the cutout can almost entirely be traced to the belly primal, where a very low print on Tuesday afternoon set the tone for a lower average for the week. The belly primal averaged $145 this week and there have only been 4 other weeks so far in 2022 where the average has been lower. Given that we are currently at the tightest production of the year, it makes sense to me that bellies have more upside opportunity than downside risk at this point. On the other side of the spectrum, we have hams, which held up valiantly this week and are very close to their highest point so far in 2022.

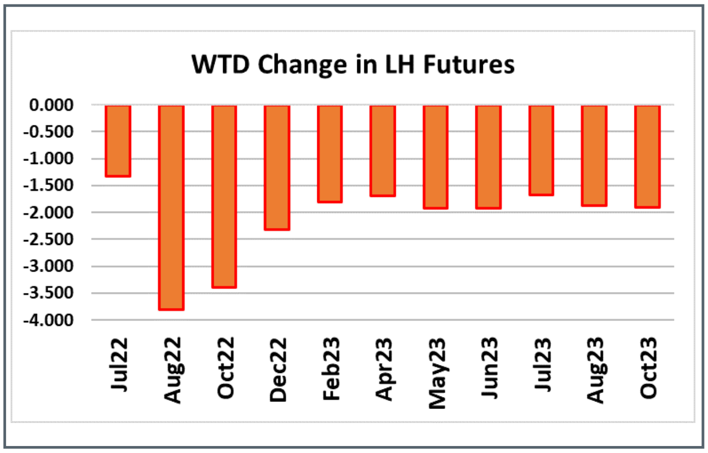
The small production around Independence Day may keep these from showing too much weakness in the near term, but as we get further out into July, I expect that hams are going to retreat. The butts, which I've highlighted recently due to extraordinarily strong pricing, averaged a little higher again this week but near the end of the week they were trading lower and the weekly chart seems to be suggesting that the butts are making a top and will soon move lower. It seems likely that the other retail primals such as loins and ribs are going to ease over the next few weeks as kills start to slowly increase and pork demand has to contend with the dog days of summer. That keeps the cutout on a downward trajectory even if the bellies do manage a rally as expected. I'm not looking for rapid collapse in the cutout just a slow easing in the average of $1-2 per week.

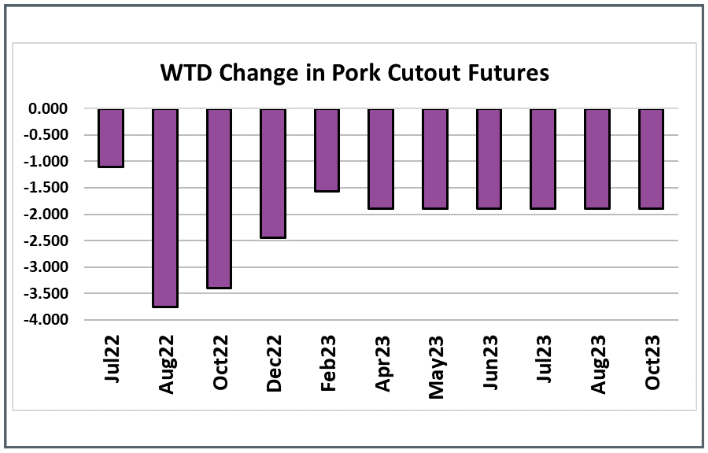
Futures traders don't seem to agree with that in the near-term, as they are pricing the Jul cutout futures close to $111, which would be about $3 higher than this week's average cutout. Perhaps they are anticipating a bump in the cutout due to the short kills and I have to concede that is a distinct possibility for next week, but by the time we get into settlement week for the Jul contract production will have expanded back to normal and the cutout should be moving lower again. The combined margin appears to be making a top now, which could be a signal that softer pork demand is on tap for the balance of the summer months. This week's slaughter registered 2.29 million head as packers pulled back on the Friday kill and reduced the Saturday kill to a paltry 9000 head. It is a long weekend for a lot of pork plant workers. Monday's kill should be almost zero, but look for packers to push next Saturday's slaughter above 100k in order to help offset some of Monday's lost production.

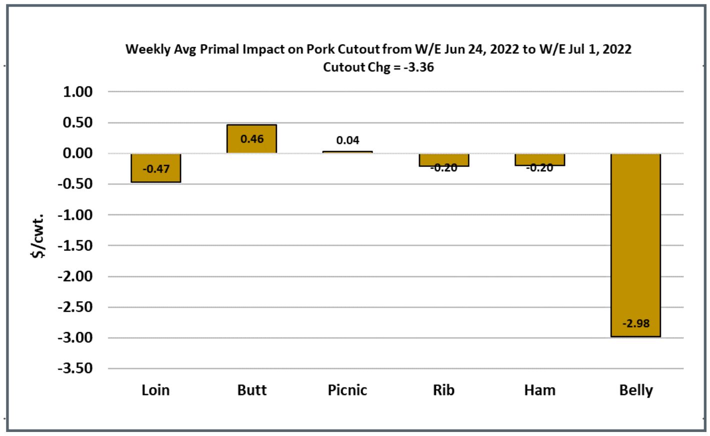
Even so, we are likely to see next week's kill fall below 2 million head. When that happened last year for the Fourth of July, both the ham and belly primals posted impressive gains. Processors likely let inventories run a bit low ahead of the holiday and thus will need to refill right when production is at its lowest. Barrow and gilt carcass weights were reported another pound lower this week and are likely to post a 1-2 pound decrease in next week's data. This is all part of the normal drawdown in weights that happens during the summer. The weather forecast for the Midwestern production regions seems rather benign until about the middle of July, when the chance for above normal temperatures increases. That is worth keeping an eye on, but the reliability of weather forecasts much beyond 7-10 days is low. There is not much new happening on the trade front. Pork exports appear to be holding in a mostly sideways pattern and now we are getting to the point in the calendar where we saw big export declines last year, so the YOY comparables are not as stark as they were earlier this year.

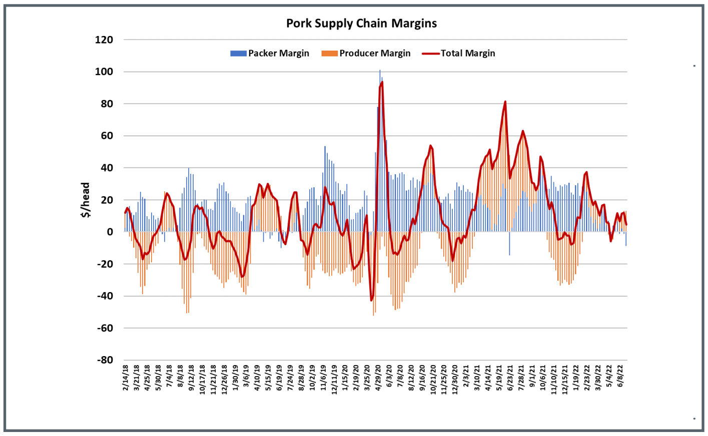
Hog and pork prices are slowly rising in China, but I really don't think they are near the point where it would generate a material increase in purchases from the US. The bigger risk is that relatively high summer pork pricing will cause a modest decline in Mexican purchases. This week's Hogs and Pigs report showed that producers added 70,000 breeding animals between March 1 and June 1, which is a bit surprising given the high feed cost environment that was in place during that period. That was more than I had been expecting prior to the report, so adopting USDA's numbers caused some modest declines in my distant pork price forecasts. The March/May pig crop was reported down 1% YOY and those will be the animals that come to slaughter during the Sep/Nov quarter this fall. The Dec/Feb pig crop had been reported down 1% also earlier this year and so the market has adjusted to working with a slightly smaller hog supply and the new report confirms this is likely to continue through the balance of 2022.

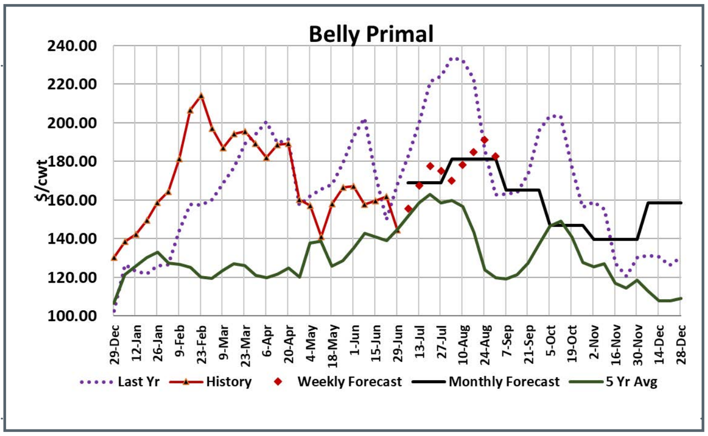
So, there doesn't seem to be much in the way of supply side surprises for the hog and pork complex over the next six months or so. Disease problems are often confined to the winter and spring quarters, so they don't create a lot of uncertainty in summer and fall either. I think it will be the demand side that holds the most potential to surprise us in coming months and if I had to guess, that surprise could be that demand is softer than most expect given all that is going on in the macroeconomy. Next week, watch for a belly rebound on holiday-shortened production and also keep an eye out for a rebound in the negotiated hog markets as packers look to get back to a full kill schedule after Monday.

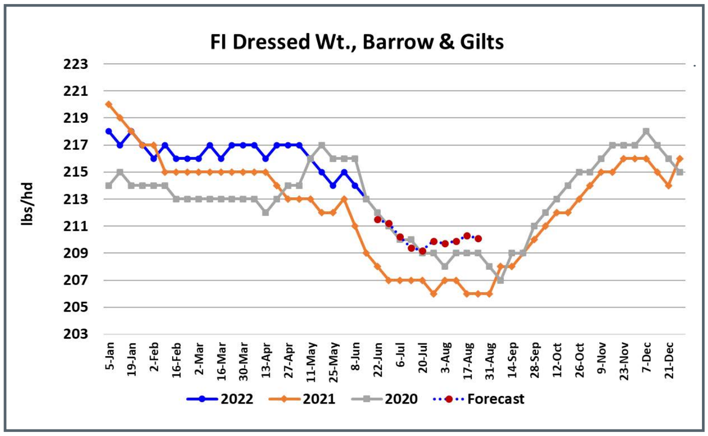

WTD Change in LH Futures
0.000
-0.500
-1.000
-1.500
-2.000
-2.500
-3.000
-3.500
-4.000
Jul22
Aug22
Oct22
Dec22
Feb23
Apr23
May23
Jun23
Jul23
Aug23
Oct23

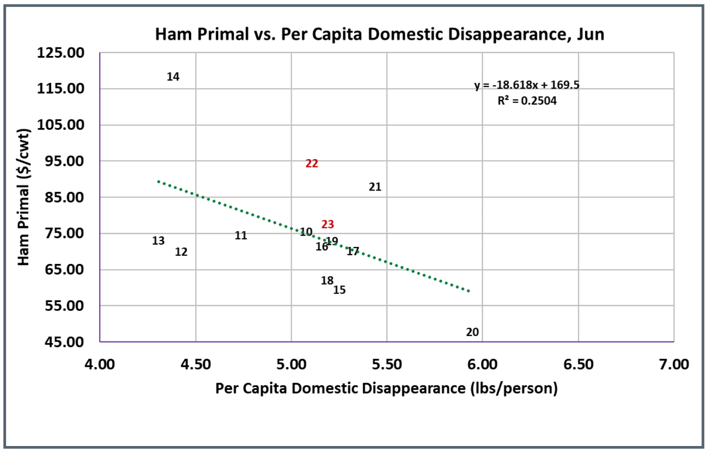

WTD Change in Pork Cutout Futures
0.000
-0.500
-1.000
-1.500
-2.000
-2.500
-3.000
-3.500
-4.000
Jul22
Aug22
Oct22
Dec22
Feb23
Apr23
May23
Jun23
Jul23
Aug23
Oct23

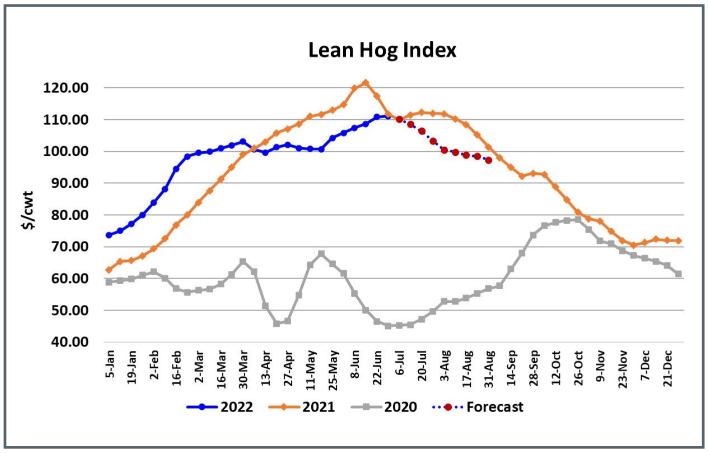

Weekly Avg Primal Impact on Pork Cutout from W/E Jun 24, 2022 to W/E Jul 1, 2022
Cutout Chg = -3.36
$/cwt.
-0.47
0.46
0.04
-0.20
-0.20
-2.98
Loin
Butt
Picnic
Rib
Ham
Belly

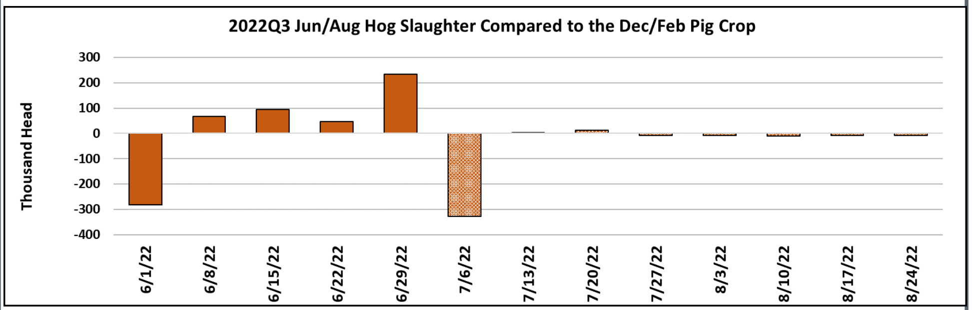

Pork Supply Chain Margins
Packer Margin
Producer Margin
Total Margin
$/head


Belly Primal
$/cwt
Last Yr
History
Weekly Forecast
Monthly Forecast
5 Yr Avg


FI Dressed Wt., Barrow & Gilts
lbs/hd
2022
2021
2020
Forecast







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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.