



WEEK ENDING JULY 22, 2022

THE PORK WRAP

Cash hog prices held about steady this week, but the cutout gained nearly \$6/cwt on a weekly average basis. The chart below indicates that, once again, it was the processing items that were the main drivers of the cutout increase. Bellies in particular caught fire this week. It is a dangerous combination when hams and bellies are moving higher in tandem. Naturally, packer margins expanded in a big way. I calculate this week's margin at slightly over \$13/head, up over \$5/head from last week. That is a pretty wide margin for July and I don't expect it to stay that way. Packers are busy scrounging for any extra hogs they can find to keep their plants operating at a reasonable utilization rate and I think that is going to cause a further strengthening in the cash hog market. The weather has not been as hot as advertised in the Midwest, but it has been hot and that might have some hogs falling behind schedule for finishing, thus giving producers more leverage when packers come calling for any hogs that are at market weight.

Another reasonable question to ask is whether or not the belly rally has run its course. I don't think so. Last year, the belly primal peaked at about \$240/cwt in early August and right now the primal is only at \$202/cwt. My forecast has bellies increasing for another two weeks and then starting to work lower. I don't see the top being quite as high as last year, but it could easily reach the \$215-220 area on the primal. Hams, on the other hand, are probably a lot closer to topping. They have been trading over last year since early June and the primal is now \$7/cwt over where it was last year at this time. Buyers should soon start to balk at these high ham prices. If I'm right that the hams are nearing a top, but the bellies keep going, that means the cutout could hold around the \$125 area or better for 2-3 more weeks and by then the Aug contract will be nearing expiration.

The belly rally seems like a normal occurrence that was due and is probably driven by retail features that are scheduled for Aug/Sep. The ham rally, on the other hand, seems out of the ordinary and I sure would like to know what is behind it. It is hard to imagine that Mexico is buying a lot of hams out of the US at these high prices. More likely, users forward contracted back in the spring for delivery of hams this summer and now as packers are delivering on those orders, it has greatly tightened up the spot market supply. Once those orders are filled, we should see greater spot availability and retreating price levels. The processors that normally come into the market in mid-to-late summer looking to secure raw material for their holiday hams must be sweating bullets right now.

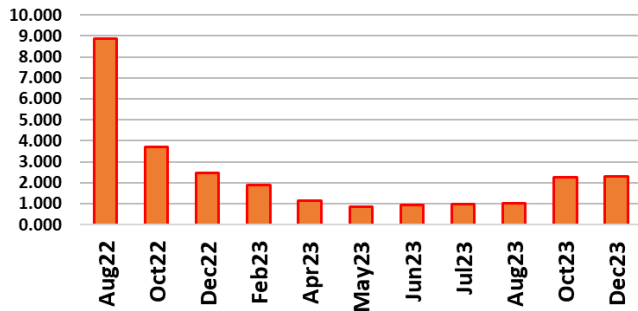
Or maybe they are the ones taking delivery on booked orders. The retail primals are holding value well, but not increasing to the degree that the processing items are. Butts held steady this week but look like they are making a top. Loins were also steady and probably don't have a lot of upside potential from here. On thing that should have been a strong indicator that the pork complex was going to rally is the price of trims. Both fat and lean trim have been moving rapidly higher. That is a sign that processing has slowed, most likely due to limited raw material availability. Of course, it is the middle of July, so we shouldn't be too surprised that pork availability is tight and price levels are high. The combined margin continued to rocket upward this week as belly and ham buyers scrambled to find product in the spot market. That shows up as strong demand and a strong combined margin when the cutout rises.

My guess is that the combined margin has at least 2 more weeks to move higher before it makes a top. Users aren't getting much relief from the supply side of the market. This week's kill registered 2.29 million head, which was very close to what the pig crop implied for this week. However, we are now halfway through the Jun/Aug quarter and cumulative slaughter is down about 300k from what the pig crop projected. It's not a huge miss, but it does suggest that perhaps the hog supply was a little snuggier than advertised. Another possibility is that the heat has slowed down the hog pipeline so that it makes the hog supply look tighter than expected, but those hogs will eventually come tumbling out of the pipeline. I guess that is what the futures bears are counting on because they are pricing the Oct contract at a whopping \$22 under the Aug contract. My fundamental forecast has Oct expiring almost \$29 under Aug, so I can't argue with the wide spread.

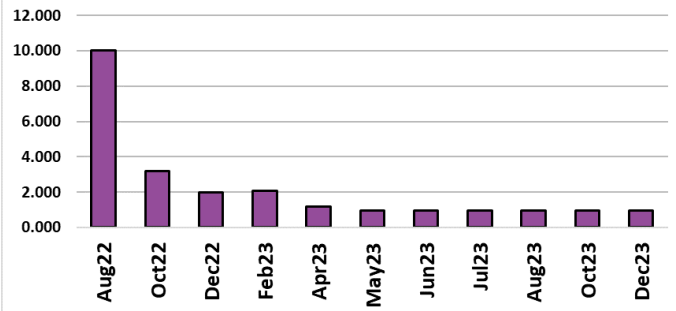
Of course, the longer the current price strength persists, the more likely that I will need to raise the Oct forecast. Carcass weights ticked one pound higher this week, but the data were for the week including July 4, so the gain is probably temporary. The DTDS weights look rather normal and are not indicating a super-current hog supply yet. We will need to keep a close eye on that because the potential for heat-related weight loss doesn't really go away until late August. Today's Cold Storage report showed about a one percent out-movement of product during June for pork as a whole, but hams showed a 10% increase in cold storage stocks over the 30 days in June. Total pork in cold storage is up 22% YOY, but hams in cold storage are only up 6.6%. Belly stocks are up 46% YOY, so no problems there. Next week, watch the hams and bellies for further gains and also watch for strength in the negotiated market as packers continue to search high and low for available hogs.



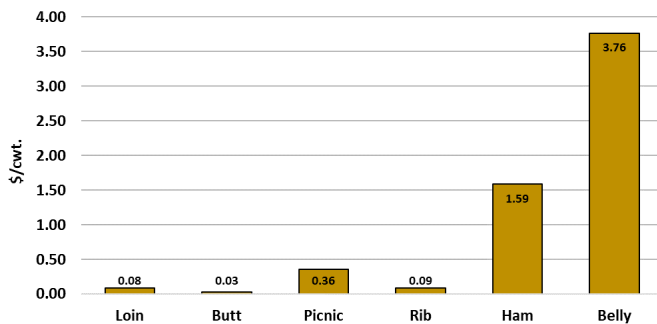
WTD Change in LH Futures



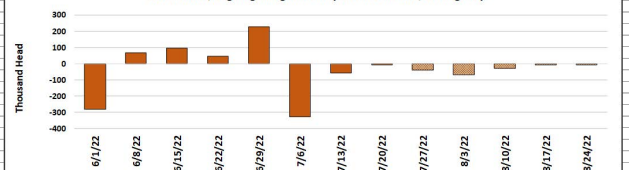
WTD Change in Pork Cutout Futures



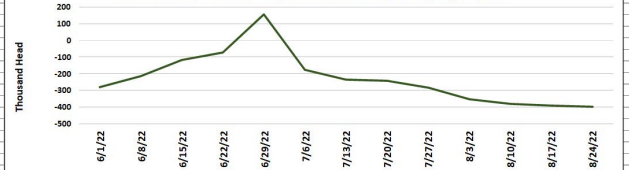
Weekly Avg Primal Impact on Pork Cutout from W/E Jul 15, 2022 to W/E Jul 22, 2022
Cutout Chg = 5.92

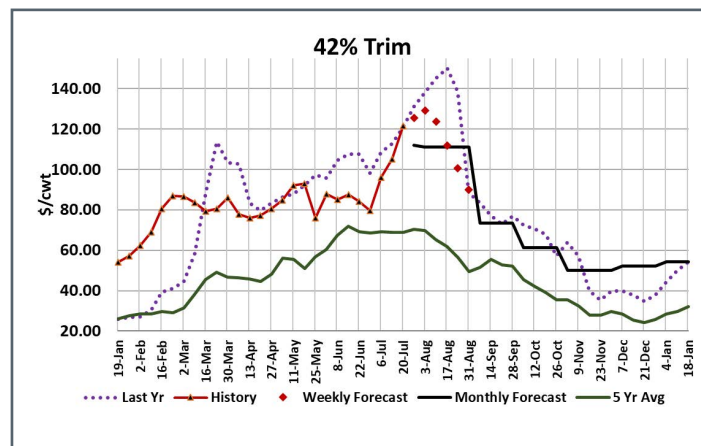
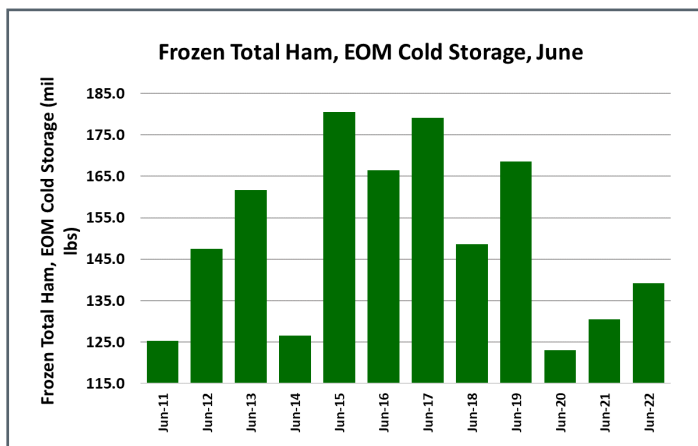
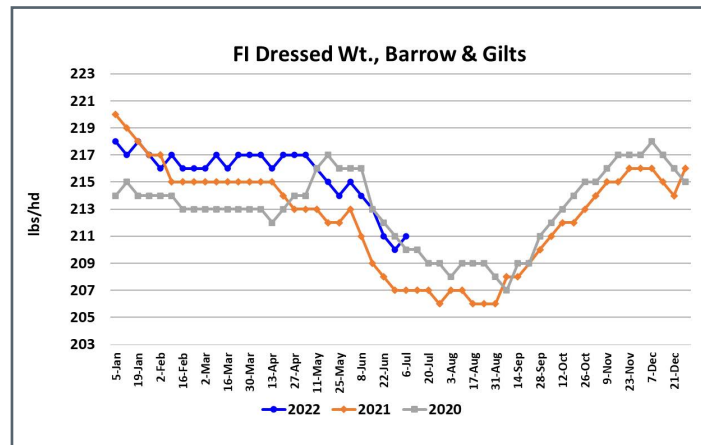
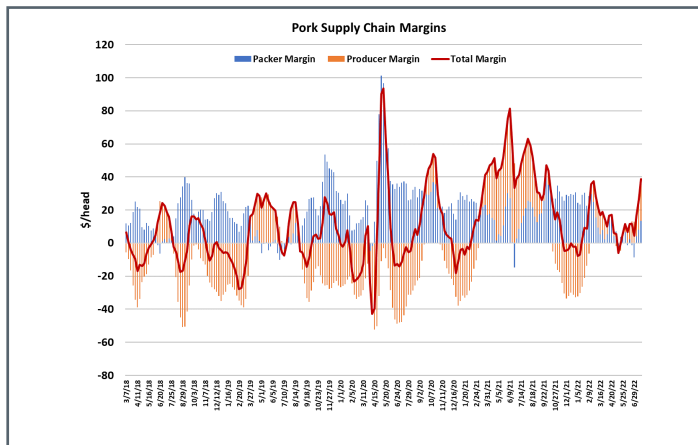


2022Q3 Jun/Aug Hog Slaughter Compared to the Dec/Feb Pig Crop



2022Q3 Jun/Aug Cumulative Hog Slt Over/Under Dec/Feb Pig Crop Projection





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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.

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