



WEEK ENDING JULY 29, 2022

THE PORK WRAP

Prices in the hog and pork complex continued higher this week, with the cutout adding \$3.24/cwt on a weekly average basis and the WCB negotiated market up \$1.57/cwt. We are still seeing a strong positive influence on the cutout from the bellies and hams. The ham primal averaged close to \$117/cwt for the week and that was the highest it has been since 2014 when the PEDv crisis cut hog supplies unexpectedly. Further, the cutout, which averaged over \$127/cwt this week is also at its highest level since 2014. So, this is a pretty rare market that we are experiencing right now. Of course, the question on everyone's mind is, "how long will it last?" If history is any guide, it probably won't last too long.

When prices in the pork complex move to extreme levels and then top, they tend to fall rapidly and I expect that is what will happen once the current strength in the hams and bellies has run its course. It is difficult to know exactly when the top will be made and that is causing traders in the Aug futures to be somewhat cautious. That contract only has 10 trading days to expiration and for those that have positions, it will be very important whether or not ham and/or belly prices break lower before or after expiration. Traders did close the gap between the Aug contract and the LHI this week, but the Index is projected to print close to \$123 early next week and by the time that happens there will only be seven more trading days left. And of course, there is always the risk that it will continue to trend upward beyond the \$123 level.

As a result, the hog and pork complex has a level of excitement and uncertainty that just doesn't exist in the beef market right now. The combined margin chart continued on its steep upward trajectory this week, but it normally doesn't take long to reverse course, so just because it moved a lot higher this week doesn't mean that it can't move sharply lower next week. It has already gone further than I thought it would. The retail primals looked a little more shaky this week, with the butts in particular losing some luster. I don't think any of the retail primals are going to exert a lot of downward pressure on the cutout until after Labor Day, although the butts probably will continue to leak lower. Trim prices are very, very strong right now also.

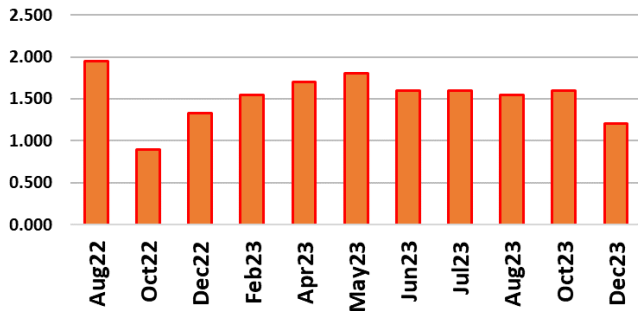
42s averaged almost \$125 this week and the 72s averaged close to \$134. Kills are small and that likely contributes to the high price levels, but I can't shake the feeling that somehow the high ham price is also feeding into the price of trimmings. Perhaps there just isn't much ham trimming going on domestically right now. Maybe untrimmed hams are being moved into export channels and that is keeping the supply of domestic trim tight. My guess is that when we do see ham prices break lower that will be followed pretty quickly by lower trim pricing. This week's kill registered 2.29 million head, up only 6,000 from the week before. Next week, we should see the kill back over 2.3 million head and it will likely be 2.4 million or more by the end of August.

Carcass weights likely have further to fall before they bottom and the heat wave that is in the forecast for the Midwest during the first two weeks of August will likely help that along. The DTDS weights are a bit on the low side and that may be part of the reason why negotiated hog prices have been so firm lately. Packers only scheduled 9000 head to be killed on Saturday, so either they can't find enough hogs out there or they are attempting to cool off the negotiated market. I would lean toward the former explanation since margins this week were calculated over \$13/head. That is a pretty robust margin for August and we need to recognize that it is supported by the small volumes of hams and bellies that are reported in the negotiated market each day. If packers have bigger volumes booked at lower prices then their actual margins would be less than the cash-to-cash calculation suggests.

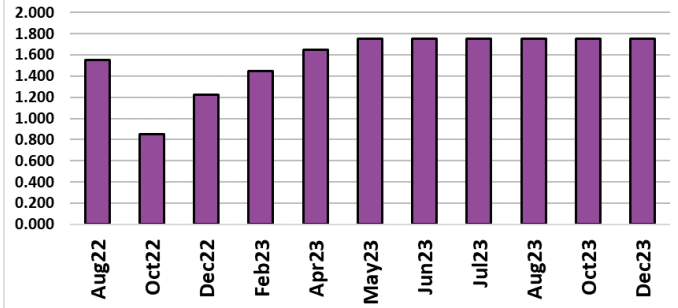
I don't think that the spot hog market will decline substantially until after the cutout breaks lower. The forecast has margins tightening up as we move through August, and we could even see some brief periods of negative margins if the cutout moves down quickly. Export activity seems to be slowing a bit in response to high domestic pork prices. There is no evidence yet that China is eager to increase its purchases of US pork. Next week, the hams and bellies will continue to be center stage because price changes there will determine the direction of the cutout and ultimately where the Aug LH futures expires. It is important to continue to watch the weather also, because if the Midwestern heat wave turns out to be hotter than expected that could cause the price strength in the pork complex to persist longer than currently envisioned.



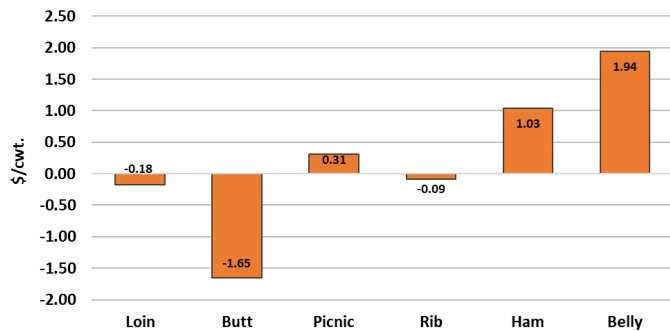
WTD Change in LH Futures



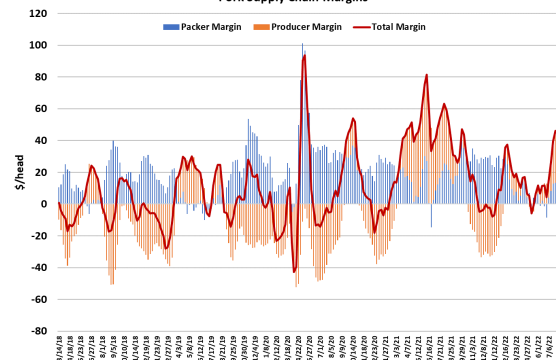
WTD Change in Pork Cutout Futures

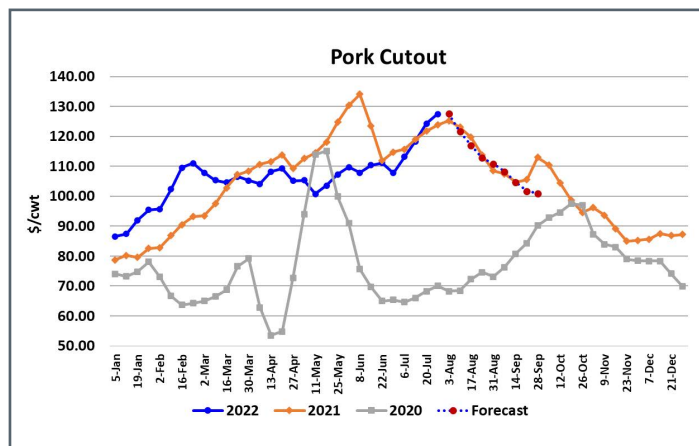
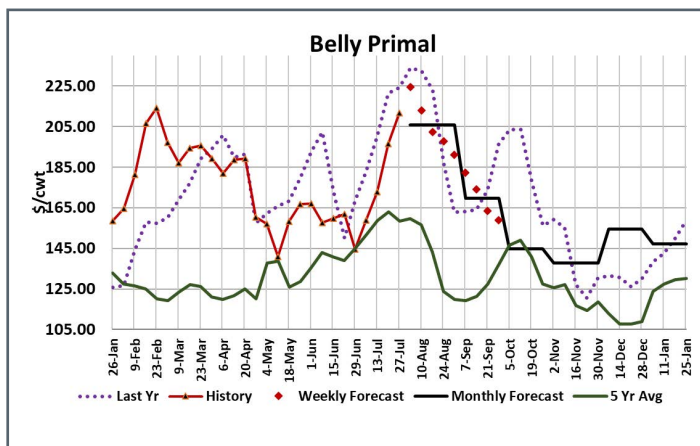
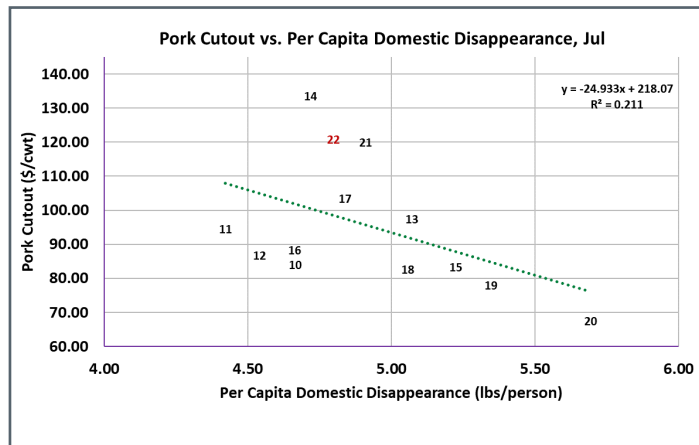
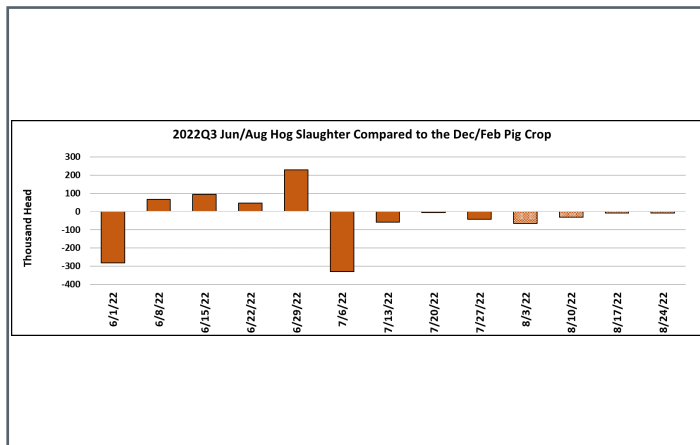


Primal Impact on Pork Cutout from Jul 22, 2022 to Jul 29, 2022
Cutout Chg = 1.37



Pork Supply Chain Margins





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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