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WEEK ENDING AUGUST 12, 2022

THE PORK WRAP

The pork cutout took another step lower this week, dropping $3.46/cwt to average $123.34. Unfortunately for packers, the cost of hogs going into their plants increased this week. The LHI was up only $0.40/cwt, but the WCB negotiated market gained $3.61/cwt. The falling cutout combined with rising hog prices caused packer margins to crash from about $9/head last week to a little less than $1/head this week. What's more, I'm expecting margins to go negative by several dollars next week as the cutout continues to ease, yet cash hogs remain stubbornly firm. The turn lower in the cutout has been led by the hams. The bellwether 23/27 lb bone-in ham has moved from $121/cwt at the end of July to $105/cwt in today's print. We are also seeing bigger volumes of hams traded in the spot market, and that is likely a sign that the stout pricing in late July was caused by bigger-than-normal commitment to deliver hams that took them out of the spot market.

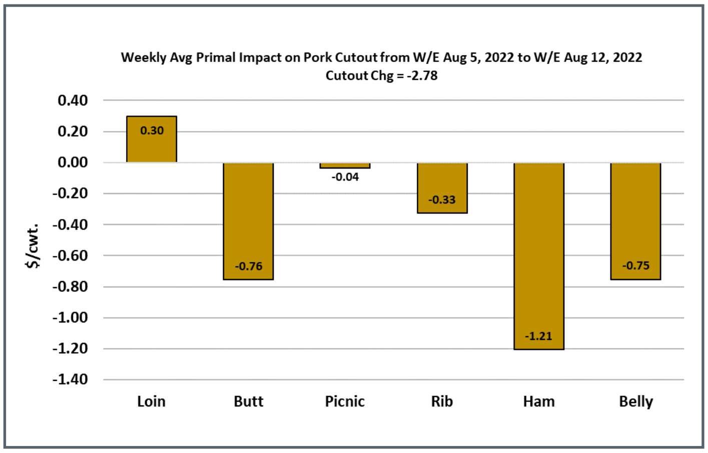
Whether that was an export or domestic commitment is unclear, but with volumes now rising, it appears that source of demand has faded. Fortunately for packers, the bellies have held up well while the hams have been on the defensive over the past couple of weeks or else the cutout would have been down a lot more. The bellies did slip some this week and I suspect that they are living on borrowed time, with further, and probably bigger, price declines just over the horizon. As far as the retail primals go, the butts have had a tremendous reset over the past few weeks with the primal price dropping from $160/cwt down to $126/cwt this week. We always expect some price increases over the summer when supplies get tight, but the move that the butts put in this summer was very impressive. The butt primal is now back to last year's level and should continue to ease lower in the weeks ahead as kills expand. Loins have held together very well and will likely be a post-Labor Day favorite for retail features.

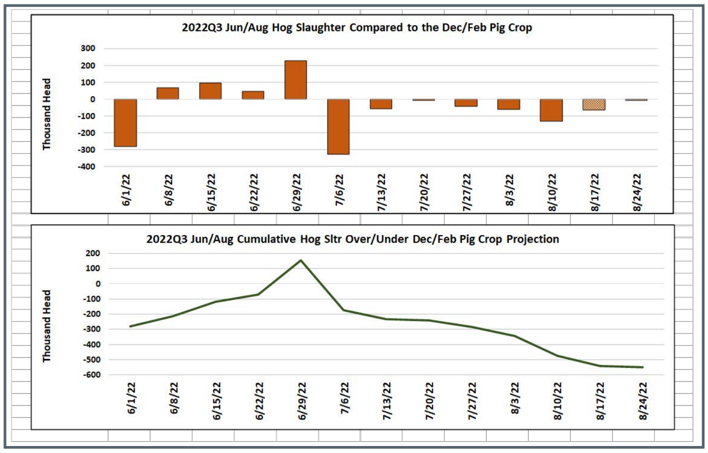
Ribs have been in steady decline for weeks, but could stabilize in late August as retailers square up their needs for Labor Day promotions. So, as I look across the cutout over the next several weeks, I see it being dragged lower primarily by a reset in the bellies and some further erosion in the hams. The retail items should contribute to the decline in a much smaller way. The combined margin has made a solid turn lower now, signaling a new downcycle in demand. The recent upcycle was stronger than expected, mostly because hams got so strong in the spot market. As demand fades lower, packers will need to find some way to pressure the negotiated market lower or else they face the prospect of an ugly September. Margins for hog producers have been stellar lately, holding in the $30-35/head range for the past month or so.

It may be Oct 1 or later before hog producers have to worry about margins going negative. This week's kill came in at 2.34 million head, which was only a tiny fraction larger than last week's total. The normal seasonal pattern tells us that kills should be expanding more rapidly than that, but it seems as though the hog supply isn't large enough to allow that to happen just yet. Once again, this week's kill was smaller than what the Dec/Feb pig crop implied and my forecast has it falling short again next week. As we approach the end of the Jun/Aug quarter, it is looking like cumulative slaughter will be about 500-600k below the pig crop estimate. USDA will need to get their revision pencils sharpened for the next Hogs & Pigs report. I have the peak kill this fall at 2.61 million head in the second week of November. The risk to that forecast is that it might be too high because it is entirely possible that USDA over-estimated the Mar/May pig crop also.

The seasonal increase in supply should keep downward pressure on the prices for almost all parts of the carcass between now and November, but don't take that as a given. We have seen times in the past when a strong demand upcycle in October or November produces impressive price gains even though pork production is steadily increasing. Barrow and gilt carcass weights held steady this week, which was a bit of a surprise given how high temperatures have been in the Midwest, but I don't think that weights have found a bottom just yet. That may come in a couple of weeks. USDA released the trade data for June this week and it showed pork exports down about 6% YOY. That wasn't a surprise to anyone since we have known for months that exports are much softer than in 2021. The weekly data issued since June doesn't suggest that there has been any big improvement in the interim. Pork imports continue to run strong, with the data for June showing a 24% YOY increase.

By the time we get the import data for August, the big YOY increases should have dissipated, but only because we will be lapping the point in last year's calendar where imports started to surge. The Aug LH futures expired today just a touch under $122 and that probably marks the top in the LHI for this year. Traders will now focus on October which is trading near $100. That is a long way for the index to travel in just two months, but it has done it before. If LHI is going to reach $100 by October, there will need to be some sharp price corrections in the processing items, as well as negotiated spot hog prices, to help it reach that goal. Deteriorating macro conditions this fall are also a key piece of the puzzle that would take the LHI and cutout back into double digits. Next week, watch for the bellies to give up more ground, perhaps in big chunks. Packer margins should go negative, so watch the daily kills for signs that packers might be tempering slaughter levels in an effort to preserve what little profitability they have.


Weekly Avg Primal Impact on Pork Cutout from W/E Aug 5, 2022 to W/E Aug 12, 2022
Cutout Chg = -2.78
$/cwt.
0.40
0.20
0.00
-0.20
-0.40
-0.60
-0.80
-1.00
-1.20
-1.40
0.30
-0.76
-0.04
-0.33
-1.21
-0.75
Loin
Butt
Picnic
Rib
Ham
Belly


2022Q3 Jun/Aug Hog Slaughter Compared to the Dec/Feb Pig Crop
Thousand Head
300
200
100
0
-100
-200
-300
-400
6/1/22
6/8/22
6/15/22
6/22/22
6/29/22
7/6/22
7/13/22
7/20/22
7/27/22
8/3/22
8/10/22
8/17/22
8/24/22
2022Q3 Jun/Aug Cumulative Hog Sltr Over/Under Dec/Feb Pig Crop Projection
Thousand Head
200
100
0
-100
-200
-300
-400
-500
-600
6/1/22
6/8/22
6/15/22
6/22/22
6/29/22
7/6/22
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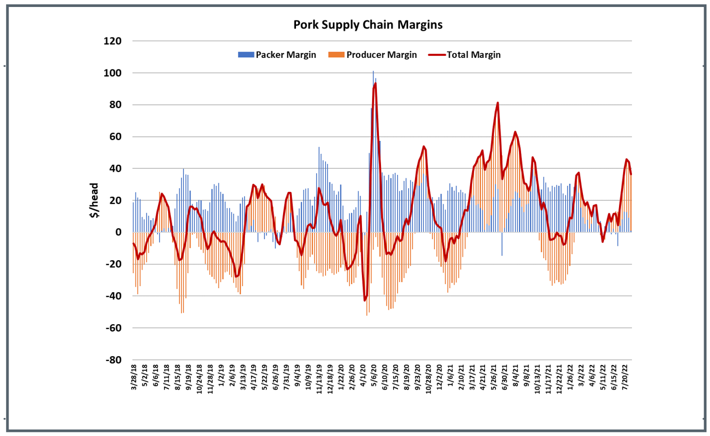
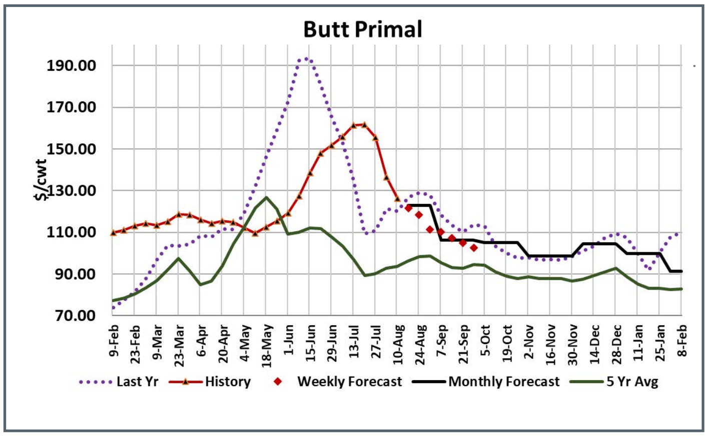
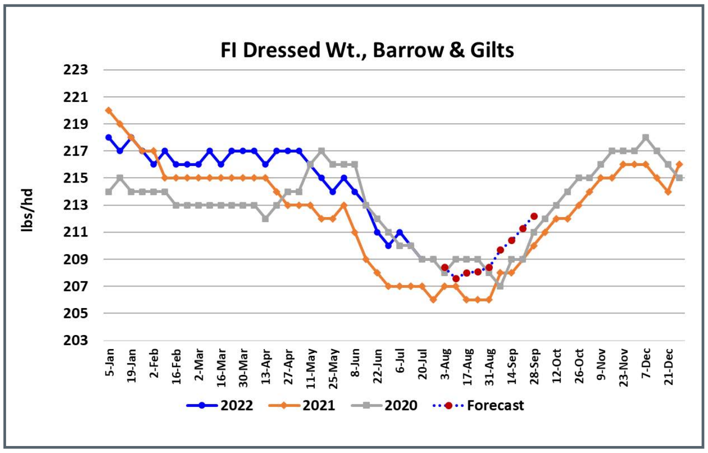
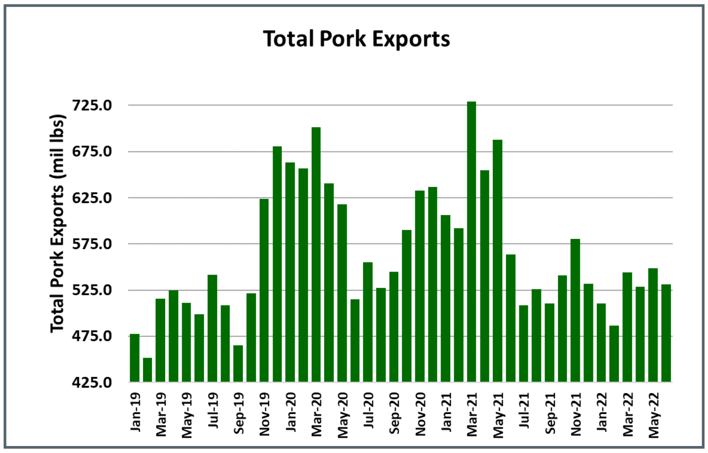
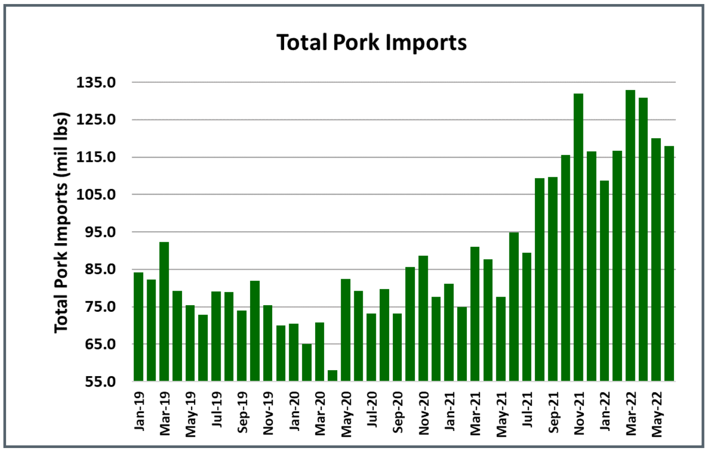
8/17/22
8/24/22

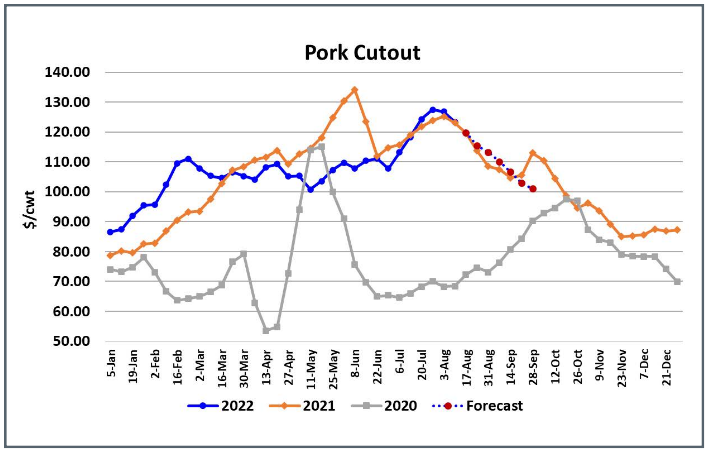

Pork Supply Chain Margins
Packer Margin
Producer Margin
Total Margin
$/head
120
100
80
60
40
20
0
-20
-40
-60
-80


Butt Primal
$/cwt
190.00
170.00
150.00
130.00
110.00
90.00
70.00
9-Feb
23-Feb
9-Mar
23-Mar
6-Apr
20-Apr
4-May
18-May
1-Jun
15-Jun
29-Jun
13-Jul
27-Jul
10-Aug
24-Aug
7-Sep
21-Sep
5-Oct
19-Oct
2-Nov
16-Nov
30-Nov
14-Dec
28-Dec
11-Jan
25-Jan
8-Feb
Last Yr
History
Weekly Forecast
Monthly Forecast
5 Yr Avg









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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.