



THE MONTHLY RED MEAT OUTLOOK: HOGS & PORK

AUGUST 2022

The two short kill weeks around the July 4th holiday seemed to ignite something in the US hog and pork complex. Until then, the cutout had held in the low-to-mid 100's since the middle of February (see **Figure 1**). The strength in the cutout during July was largely a function of stronger pricing for bellies and hams, but more moderate price increases have also taken hold in the retail primals. Slaughter levels have been a little smaller than what the Dec/Jan pig crop projected, but the bigger supply-side effect was likely caused by excessively warm temperatures throughout the Midwest this summer. That hot weather may have slowed weight gains just enough for packers to bid more aggressively in the negotiated hog market and thus drive prices higher. However, the supply side doesn't explain all of the price strength — there was also a pretty strong surge in domestic pork demand also, and much of this strength was centered on the hams. Daily pricing on the 23-27 pound bone-in hams is now over \$120/cwt, which is well above the \$100/cwt tops that were posted last summer. We understand that ham processors may have booked large quantities of ham earlier than normal this year and as they take delivery of that product, it leaves less available for spot market participants.

Figure 2 illustrates the sharp price increase for the ham primal since late June. The same may also be true for bacon slicers who are now gobbling up limited supplies of fresh bellies at higher and higher spot prices. None of this will last forever, but in the short-run buyers will likely have to pay up or do without. Bigger hog supplies and lower pork pricing should become evident in the second half of August, but prices will be coming down from relatively high levels, so buyers may be contending with YOY prices that are only modestly below last year through much of the fall.

SUPPLY PICTURE

Hog slaughter is probably now beyond its lowest level of 2022 and should expand slowly from now until early December. However, the increases in slaughter during August will come slowly and might not be enough to offer much price relief to buyers. We are now two-thirds of the way through the Jun/Aug quarter and so far it appears that cumulative slaughter for the quarter is down

about 300,000 head from what the Dec/Jan pig crop estimate produced by USDA suggested. That isn't a huge miss, but it has meant that hog supplies this summer have been a little snuggier than advertised and that has forced packers to compete more vigorously in the spot hog market as they seek to round out their kill schedules. As a result, we have seen negotiated spot hog prices exceed \$130/cwt recently. It wasn't that long ago that packers were struggling to attract enough labor to keep their plants running smoothly and now that they have shored up the workforce, they desperately don't want to discourage those workers by having to cut shifts due to a lack of hogs to process. So now packers are working hard to find any and all extra hogs, even if it means paying super-high prices for them. With the way that the cutout has surged lately, packer margins have moved back to the \$10/head area and that provides more dollars to support their hog procurement efforts. At some point, likely in mid-to-late August, the available hog supply should have expanded enough that packers can relax some in the spot market and allow prices to soften.

By the end of August, weekly slaughter should exceed 2.4 million head

Hog carcass weights are in the process of looking for their seasonal bottom and barrow and gilt weights were last reported at 209 pounds, up 2 pounds from last year. Weights seem to be behaving normally and so far aren't giving any indication that production pipeline isn't flowing smoothly. That said, there have been some spells of pretty hot weather in the Midwest and the weather forecast is pointing to more hot weather during August, so it is possible that the heat will cause some hogs to fall behind their marketing schedule during August. If that happens, it will keep buying pressure in the negotiated hog market longer than

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would otherwise be the case. Pork buyers would be wise to keep an eye on temperatures in the Midwest production regions over the next few weeks because the potential is still there for excessive heat to disrupt the production pipeline and tighten supplies unexpectedly.

Packers will begin slaughtering the March/May pig crop after Labor Day and USDA has already told us that pig crop was down 1% from the previous year, so it is reasonable to expect hog slaughter this fall to be down by a similar amount. Our forecast has carcass weights up about 1.4% YOY during the upcoming Sep/Nov quarter and thus the gain in carcass weights may more than offset the smaller numbers going to slaughter. That suggests pork availability this fall will be fairly similar to what was seen last year. Of course, if exports surge that could tighten the supply side up, but recently we have seen any export gains more than offset by stronger imports. With the supply side for fall setting up similar to last year, it will be the demand side of the market that largely dictates the difference in price levels compared to last year.

DEMAND SITUATION

Domestic pork demand in the US is currently in the midst of a rather substantial upcycle that was probably the result of packers working hard to build a big forward book for the summer and now that they are delivering on those orders, it has left less product available for buyers to fight over in the spot market. The cutout moved quickly higher in July, going from about \$107/cwt at the end of June to nearly \$130 today. A large part of that move was driven by higher pricing in the ham and belly markets, but we have also seen stronger demand in the retail primals. The mid-summer gain in the cutout eclipsed our forecast by a large amount and has forced some re-thinking about how the demand side of the market is likely to play out during the second half of the year. All of the negative macro factors that should create headwinds for demand remain in place. Inflation is running over 9%, energy prices are still very high, the Federal Reserve is raising interest rates and equity markets are still losing value. We think that those things will still become a problem for pork demand, but we may have underestimated the benefit that pork would receive as consumers trade down from pricey beef and how willing those consumers would be to dig into the savings they accumulated during the pandemic. Retail pork prices moved higher again in June, and have been at all-time record levels in each of the past four months. This too, should cause consumption to slow. There is little chance that retailers will lower the prices that consumers see as long as the wholesale pork market is so strong. As kills expand this fall and prices retreat, then we might see some timid reductions in retail pork prices, but it may be October before that happens. In the short run, the cutout is likely to fall quickly once the rallies in the belly and ham markets have run their course. A quickly falling

cutout might also prompt some retail cut buyers to step back from the market also and so the retail primals could join in pressuring the cutout. Our guess that it will be mid-August or later before a substantial downward correction in the cutout occurs.

Sharp increases in both belly and ham pricing have pushed the cutout into the high \$120s

Because ham prices have been on fire lately, there has been a lot of speculation as to whether or not the export markets were the source of the strong demand we've seen recently. If so, Mexico would be the prime candidate, but the weekly data hasn't indicated any large surge in movement to Mexico and it would be really surprising if Mexico was aggressively buying US hams at these high price levels. Instead, we think it was mostly forward purchasing by domestic buyers that has left product tight in the spot market and caused buyers to scramble to meet their needs. There has also been talk about China coming back into the US market in search of pork, but again, the data hasn't confirmed that yet. China's internal hog and pork prices have strengthened in the past couple of months, but probably not to the degree that spur them to become aggressive buyers from North America again.

SUMMARY

Pork prices have surged in the US over the past few weeks, driven mostly by strong gains in the hams and bellies. Hog supplies have been a little tighter than expected, but the lion's share of the recent price gains has been driven by domestic demand. This current demand upcycle is expected to fade by the middle of August, although we could be well into September or even October before the cutout moves back below \$100/cwt. Pork availability this fall should be similar to last year as smaller slaughter is largely offset by heavier carcass weights. There are a number of macroeconomic factors that should help to temper consumer demand this fall, not the least of which is high inflation and a rising interest rate environment. Consumers continue to face record high pork pricing in grocery stores and that should work to curtail consumption. So, there are a lot of reasons not to expect runaway pork prices after Labor Day, but between now and then, seasonally tight hog supplies and the possibility of weight losses due to high temperatures in the production regions, keeps a level of upside risk in the market. If it is any consolation to pork buyers, it is often the case that periods of exceptionally high pricing are often offset later in the year by a period of exceptionally weak pricing.

Table 1 provides our near-term price forecasts.

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Figure 1: Pork Cutout, 2022

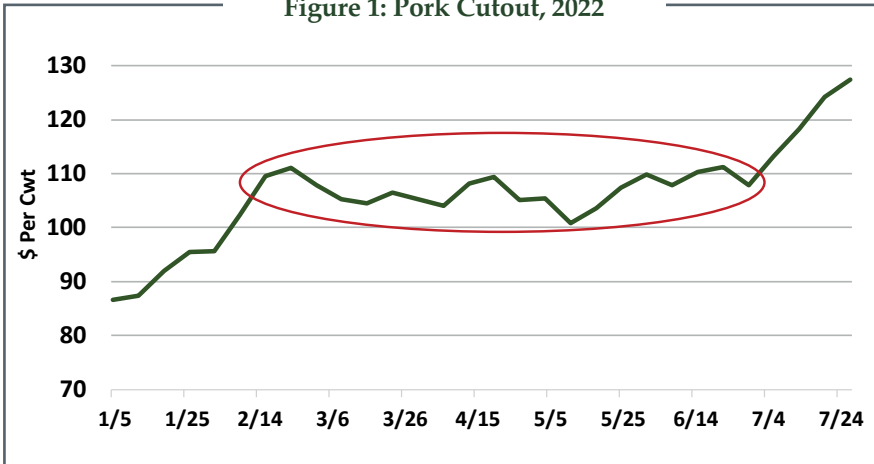


Figure 2: Ham Primal

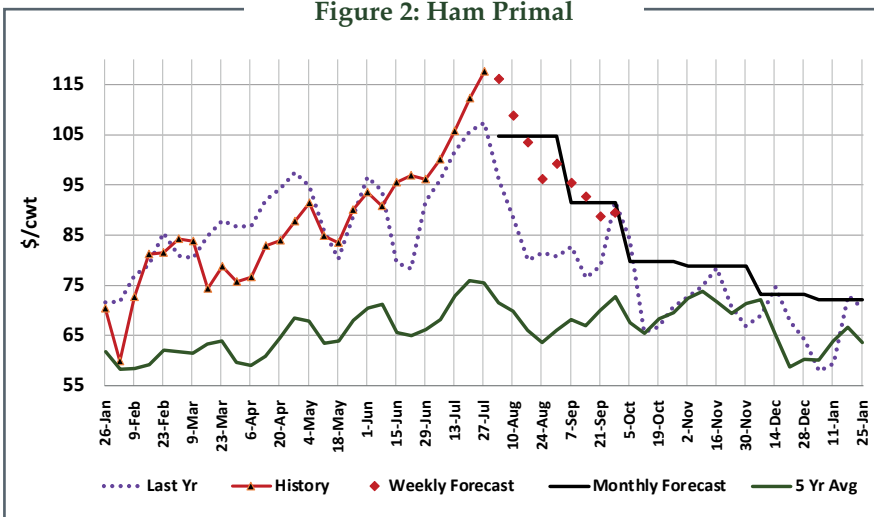
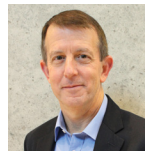


Table 1: JSF Hog and Pork Price Forecasts

| | 10-Aug | 17-Aug | 24-Aug | 31-Aug | 7-Sep | 14-Sep |
|----------------|--------|--------|--------|--------|-------|--------|
| Pork Cutout | 121.6 | 117.0 | 112.8 | 110.8 | 108.3 | 104.7 |
| Loin Primal | 100.7 | 100.5 | 99.4 | 97.5 | 98.2 | 94.3 |
| Butt Primal | 145.2 | 137.6 | 129.0 | 123.3 | 122.3 | 120.4 |
| Picnic Primal | 82.3 | 77.6 | 75.2 | 72.2 | 70.3 | 68.2 |
| Rib Primal | 159.0 | 154.1 | 150.8 | 146.4 | 145.3 | 142.1 |
| Ham Primal | 108.8 | 103.5 | 96.2 | 99.2 | 95.3 | 92.7 |
| Belly Primal | 212.9 | 202.4 | 197.9 | 191.2 | 182.3 | 174.0 |
| Lean Hog Index | 119.9 | 116.2 | 112.4 | 108.4 | 102.6 | 97.9 |



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