



WEEK ENDING SEPTEMBER 16, 2022

THE PORK WRAP

This was a constructive week for pork packers. They managed to move the cutout higher while at the same time keeping some pressure on the cash hog market. That helped to restore their margins back to about \$15/head, which is much more typical for this time of year than the negative margins that they posted near the end of August. The cutout gained \$2.72/cwt. to average \$105.92 and the LHI dropped \$2.16 to average \$97.75. However, the average masks the fact that toward the end of the week the LHI was starting to move upward and it looks like it will print over \$99 sometime early next week. That caused some nervousness for the shorts in the Oct contract and as they covered, they pushed the Oct up close to \$97 at week's end. It was rather impressive to see the cutout move higher as the slaughter levels got back to normal after the holiday. This week's kill registered 2.47 million head, which was a big increase over the 2.24 million head from the week before.

Hams carried the load once again, but there were also some modest increases in most of the other primals. The belly primal gained about \$3/cwt. this week, which is a rather small price movement in the belly world, so I think market participants are still expecting bigger things out of the bellies in the next few weeks. Bulls have been hoping that the hams and bellies would join forces and shoot higher simultaneously, but alas, it seems the belly is just fine letting the hams lead the way. Processing demand for hams should be quite strong this fall as super-high pricing on fresh turkeys make hams a more attractive alternative. However, the window to get hams cured, smoked, spiral-sliced and packaged in time for Thanksgiving is narrowing.

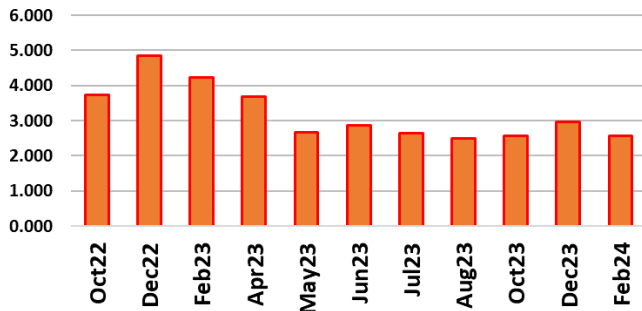
That could lend a sense of urgency that keeps the ham market supported until the early part of October. After that, a price reset becomes much more likely. I'm forecasting two more weeks of strong ham pricing before they break lower. I do think that bellies will join the party eventually, but it is hard to know just how strong the potential price increase will be. Belly slicers often wait for November, when the biggest kills of the year occur, to put bellies into the freezer for use the following spring. However, if they start to sense that bellies might not get any cheaper than current levels, we could see a flurry of buying activity in late September or early October. The retail primals should do better over the next couple of weeks as grocers start laying in supplies for their pork month features.

So, it seems to me that the cutout should stand a good chance of posting further gains in the next couple of weeks. Right now, I'm forecasting the top close to \$110 on a weekly average basis, but if I'm wrong it will probably be because the hams and bellies strengthened more than expected and lifted the cutout above \$110. I made the same changes in the demand indexes for pork as described for beef, incorporating the CPI as to better account for the impact of inflation. After making that change for beef, it became apparent that the pandemic-induced demand bubble has fully dissipated, but the attached chart for pork indicates that there is probably still some of that elevated demand left in the pork complex. The chart indicates that I'm forecasting a rather big drop in pork demand for Q4 and I'm a little nervous that maybe I've got demand dialed down too much over the next few months.

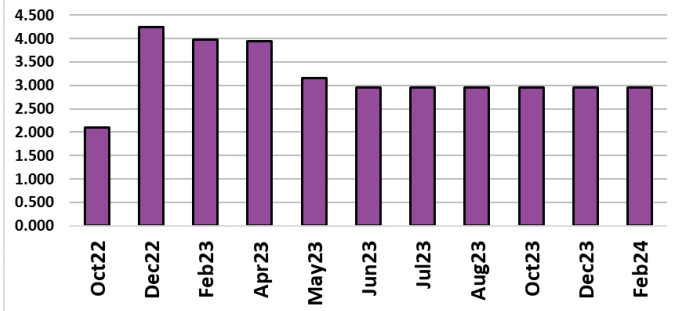
That means that the risk to my cutout forecasts lies to the upside in Q4. We are rapidly approaching the next release of USDA's Hogs & Pigs survey on September 29. I'm projecting further modest contraction in the herd, with both the breeding herd and total swine numbers down about 1% YOY. I see the Jun/Aug pig crop down only half a percent however, as productivity improvements should be in the cards. Even so, if this would mark the seventh quarter in a row where the pig crop posted a YOY decline. Once China resolved their ASF problem, it appears the need to continue growing the US herd diminished. Speaking of exports, USDA finally got caught up on their weekly export data after 4 weeks of darkness due to system issues. When the data finally saw the light of day, the news wasn't good for pork.

Total exports for last two weeks have averaged about 10% below where they were during the middle of summer, when pork prices were much higher. The attached chart indicates that export volumes are still lagging last year by a significant amount and the comparison will get even tougher in Q4. As a result of smaller YOY exports and larger imports, it looks like per capita domestic pork availability was modestly higher YOY in Q3 of this year, even though pork production was almost equal to last year. The same could hold true for Q4 if recent trends continue. For now however, supply concerns take a backseat because the combined margin has confirmed that a new demand upcycle has begun and with a little help from the bellies, that should support the cutout in the near-term.

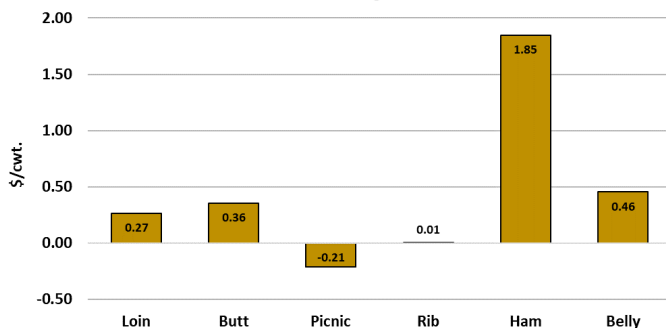
WTD Change in LH Futures



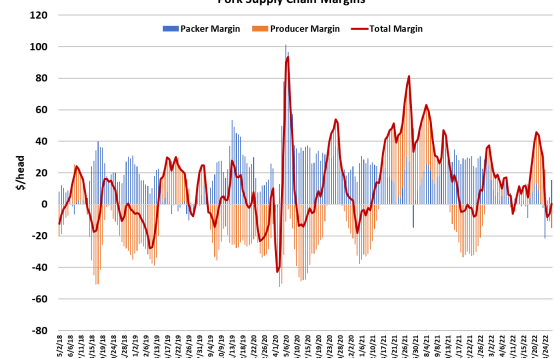
WTD Change in Pork Cutout Futures

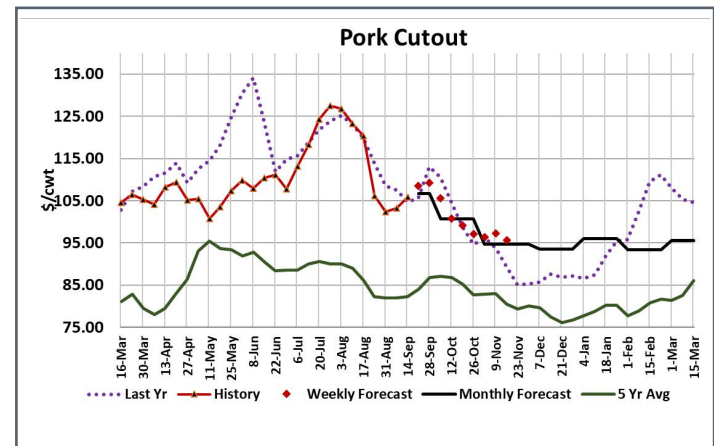
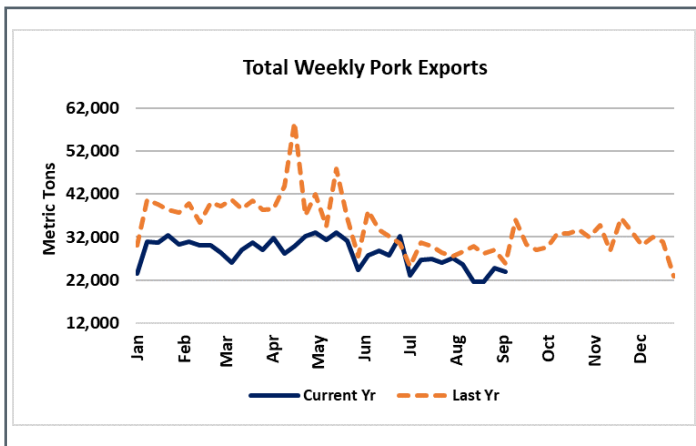
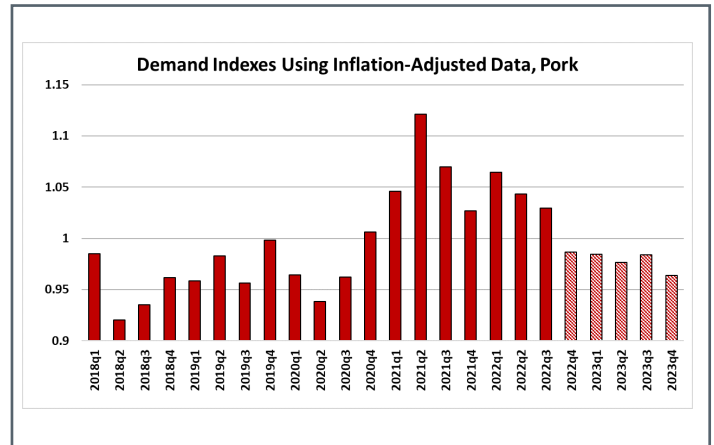
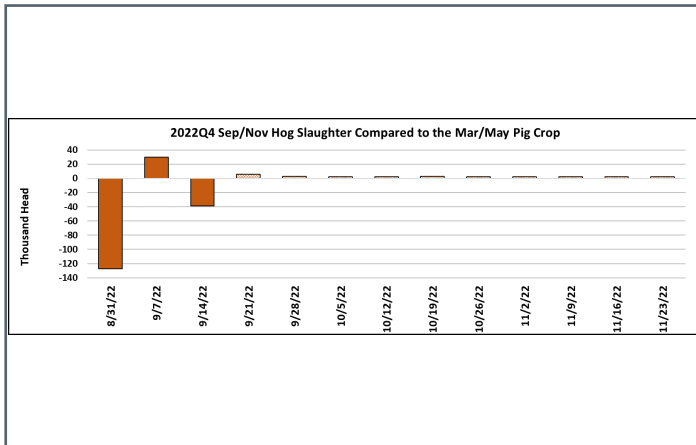


Weekly Avg Primal Impact on Pork Cutout from W/E Sep 9, 2022 to W/E Sep 16, 2022
Cutout Chg = 2.72



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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