



WEEK ENDING SEPTEMBER 2, 2022

THE PORK WRAP

The hog and pork complex remained on the defensive this week and the main feature was a huge \$18/cwt drop in reported negotiated prices. The WCB negotiated market averaged \$107.38 this week, down from a little over \$125 the week before. It isn't all that unusual to see the negotiated market follow the cutout down after a big drop, but it is interesting that while USDA was reporting WCB base prices at \$107, the negotiated price that goes into the LHI calculation was still around \$125. Either there is a big delay in prices flowing into the index or producers are getting some huge premiums on top of the base price that has allowed that LHI negotiated price to remain so high. This disconnect bears watching over the next couple of weeks. The cutout fell \$3.71 this week to average \$102.41 and we can see from the attached chart that it was the bellies once again that drove the decline.

Some of the retail items were lower also, but that might just reflect the end of Labor Day buying and if clearance is good over the long weekend, we could see those retail primals get a nice bump next week. Hams were the bright spot in the pork complex this week as prices first stabilized and then moved higher as the week progressed. If the hams are finished going down for now, then it could be difficult to get much further weakness in the cutout, particularly if the bellies show some life after the holiday. There is a school of thought that says that processors lighten up on their demand for raw materials ahead of a holiday week and then come back strong after the holiday to replenish the pipeline. That might explain why bellies and trims were so soft this week and it may offer a clue as to what will happen next week as processors ramp back up.

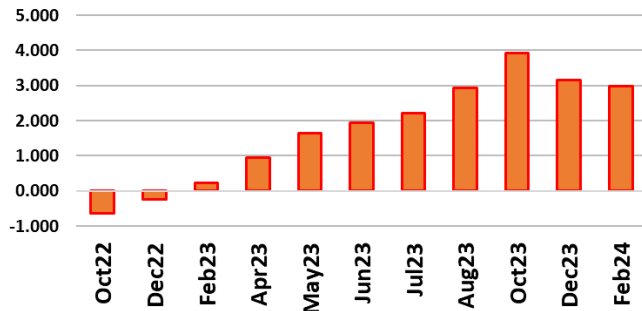
I'm forecasting the cutout to average a little over \$2 higher next week but feel like I might be too low on that. The belly primal finished the week at \$137/cwt and the weekly average was \$143/cwt. We have to go all the way back to January to find bellies that cheap. I suspect that some buyers are eyeing this as an opportunity, and we could see improved demand for bellies next week. The attached chart puts the average price for bellies this week right in line with its previous two low points this year. This could act like a support level in the near term, but I suspect that bellies will need to trade below that level for a while during Q4 as seasonally large production makes its way through the system.

Hams have been very resilient this summer and that makes me think that this week's small increase in the primal value could be followed by another week or two of higher ham prices. Any processors that haven't secured their raw material commitments for Thanksgiving and Christmas hams had better get busy in the next few weeks or risk being constrained by a lack of smokehouse space and processing capacity. Of course, the biggest thing that makes me optimistic about seeing some gains in the cutout next week is the short kills. Packers really pulled back on the Friday and Saturday kills this week and that resulted in a 50k reduction from the week before and produced a total kill of 2.35 million head. Next week, without a Monday kill, slaughter could total only 2.2 million head. So, there is a short-term supply constriction that could be favorable to the cutout. After next week, the Mar/May pig crop estimate suggests that weekly kills should quickly eclipse 2.5 million head.

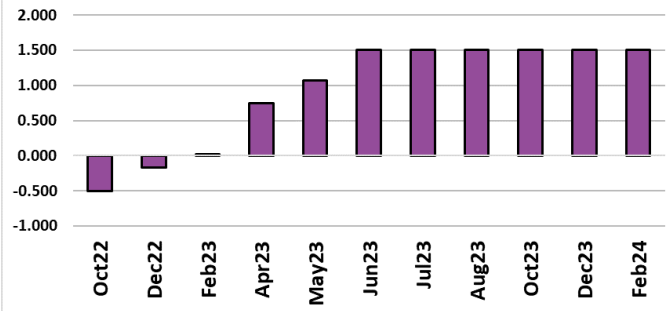
Keep in mind that most of the increase in slaughter between Labor Day and Christmas typically happens before Halloween, so that will be the period of greatest supply pressure on the market. The pork industry tries to counter this by funding "pork month" in October, where retailers can collect some financial incentives for featuring pork aggressively. That seems to work pretty well since the average change in the cutout between the end of August and the middle of October has been +\$4.70/cwt over the past 10 years. Last year, the cutout dropped \$4 during that period, but in 2020 it gained \$21 and in 2018 it gained \$13/cwt. So, it isn't a given that the cutout is going to collapse over the next six weeks, and it is hard to justify Oct LH futures near \$90 at expiration without further significant pressure on the cutout.

Granted, the macro environment for pork demand probably is worse this year than in the recent past, but that was the case this summer too and demand held up way better than expected. It seems to me that enough damage has been done to the hog and pork complex and now it is time for some modest recovery. Next week, watch for signs that buyers are finding value in bellies. Retail primals should also perform well. If it becomes clear that the cutout is gaining support, then I suspect the futures will jump with joy.

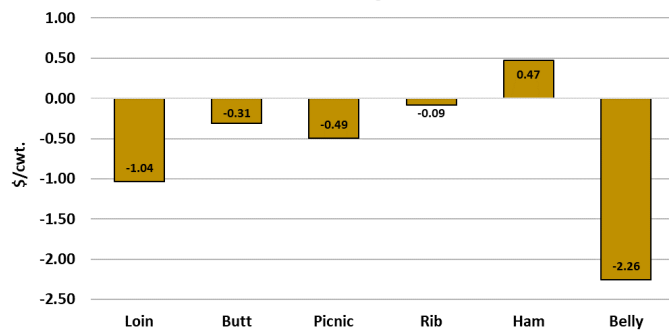
WTD Change in LH Futures



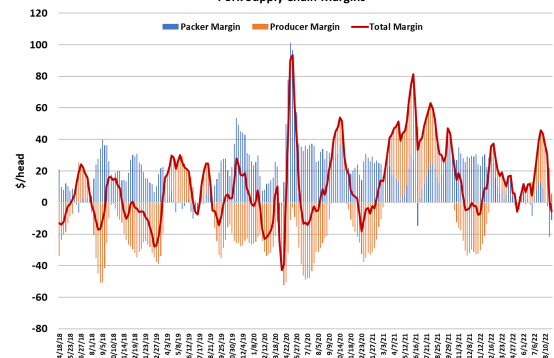
WTD Change in Pork Cutout Futures

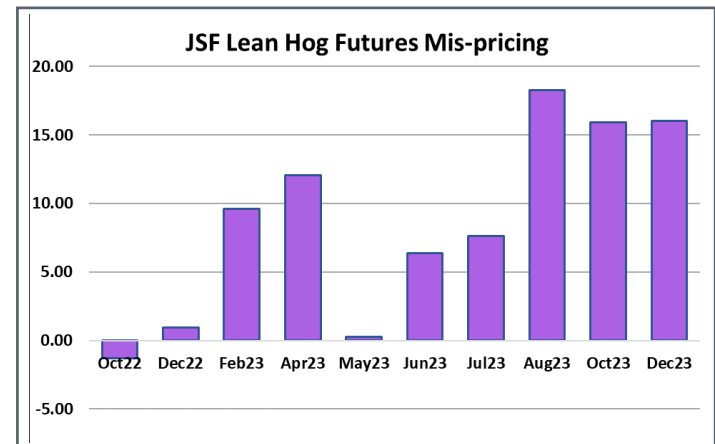
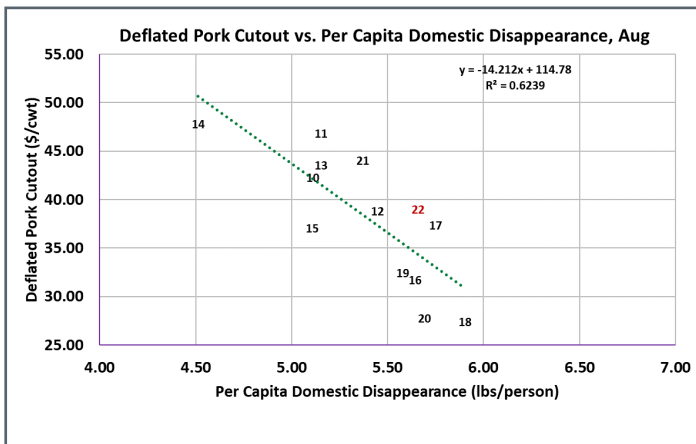
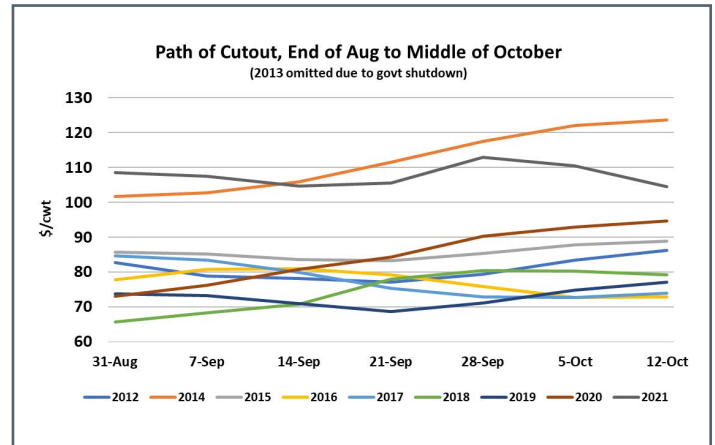
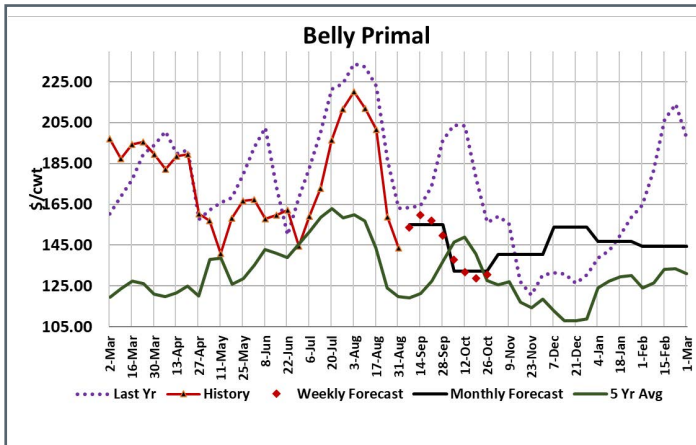


Weekly Avg Primal Impact on Pork Cutout from W/E Aug 26, 2022 to W/E Sep 2, 2022
Cutout Chg = -3.71



Pork Supply Chain Margins





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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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