



WEEK ENDING SEPTEMBER 30, 2022

THE PORK WRAP

The hairline cracks in pork demand started to grow a little bigger this week. The pork cutout dropped \$3.68/cwt. to average \$99.53. That is the first sub-\$100 cutout since the first week of February. As is typical, the negotiated hog market followed the cutout lower, and the NDD market lost \$2.27/cwt. All of that hasn't yet been reflected in the LHI, so packer margins compressed quite a bit, now close to \$6.50/head, down from \$10/head last week. Once the LHI fully incorporates the decline in the cutout and negotiated markets, I expect that packer margins will move back over \$10/head next week. The weakness in the cutout was largely driven by lower belly pricing, with some help from softer ham prices. Bellies just can't seem to get any traction. At the end of the week the belly primal was printing \$112/cwt., which was the lowest daily value since New Year's Eve, 2020. I guess that is a pretty solid sign that the elevated demand from the pandemic years is dissipating. Ham pricing has remained very strong compared to the other parts of the carcass, but even that has its limits apparently.

The primal printed down \$1 on a weekly average basis, but bone-in hams were starting to stumble near the end of the week. Even the retail primals were looking a little shaky at times this week. The futures market did not like any of this, and we saw the Dec contract lose over \$6/cwt this week. The more deferred issues lost even more. All of this demand softening was happening against the backdrop of worsening macroeconomic indicators which fostered big losses in the stock market. That certainly won't help consumers to feel better, or spend more on pork. The combined margin continued lower this week and if we look closely at the chart, we see that prior to the pandemic years, it wasn't unusual for a demand downcycle to reach -\$20. It looks like that is where we may be headed again. Another sign that demand isn't what it used to be.

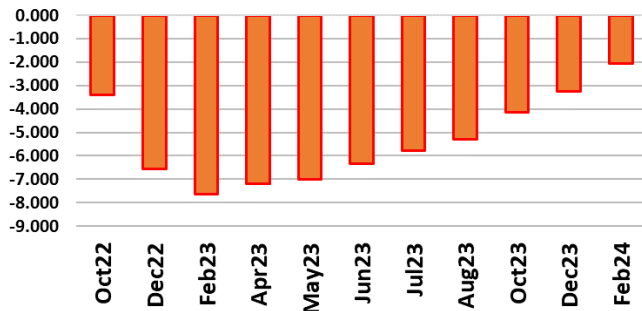
So where does the cutout go from here? Bellies are certainly long overdue for a rally, so maybe that will materialize next week and help lift the cutout some. Hams don't look like they have much gas left in the tank, so bellies or the retail primals will need to step up if the cutout is to recover. More likely, growing production and softer exports continue to slowly press the cutout lower. The fundamental forecast since the end of August has had the cutout hovering in the low \$100s and then stepping down through the \$90s during October. Everything seems to be going according to plan. I don't think that we are going to see widespread demand improvement across the carcass that lifts the cutout higher.

Instead it will probably be more like whack-a-mole where one primal pops up for a bit but that gets offset by weakness somewhere else. The end result is a cutout that slowly fades lower under the weight of seasonally-increasing production. The fundamental forecast has the cutout working from near \$100 today down to the mid-to-high \$80s by the end of November. This week's slaughter came in at 2.53 million head, which was almost dead-on with what the pig crop predicted. By early November, kills should be running close to 2.6 million head per week. That would be about 1.5% below last year, but keep in mind that weights are a little heavier than last year, so actual pork production might not be down that much. Further, softer export markets this year compared to last and the prospect for a much stronger dollar to attract bigger imports, raises the possibility that pork availability might be nearly as large as last year. We got our first look at hog supplies for the Dec/Feb quarter this week when USDA released the results of its Hogs & Pigs survey. The Jun/Aug pig crop was reported 1.1% smaller than last year, so we should expect slaughter during the Dec/Feb quarter to be down a similar amount.

USDA reported the total US swine herd down 1.4% and the breeding herd down 0.6% YOY. So the industry is still slowly contracting. If producers didn't expand much during the boom times of the pandemic, there is little reason for them to expand now that the good times are coming to an end. USDA's survey results were only a tiny bit smaller than what I already had dialed into my models, so the impact of the report on my price forecasts for 2023 was minimal. Barrow and gilt carcass weights were flat at 210 this week, but they should be up another pound in next week's data release. There is still nothing in the weight data that raises concerns about producers not keeping up with their marketing schedules.

However, because the number of market ready hogs are the largest of the year during Q4, packer leverage increases over producers and we should expect to see packer margins grow and producer margins shrink. That means that if the cutout struggles, packers have more power to push cash hog prices down in order to compensate (more power than they would in say, the summer). Although I fully expect packer margins to grow as we move deeper into Q4, I think they will be a bit smaller than last year because last year packing capacity was constrained by labor availability and this year the labor situation is much better. That means we have more capacity chasing fewer hogs and thus margins should be a narrower than last year. Next week, watch for some further slippage in the cutout unless the bellies rebound significantly. Also look for a bit of a rebound in the futures if the fear can fade a bit and traders come to realize that they might have overdone it to the downside this week.

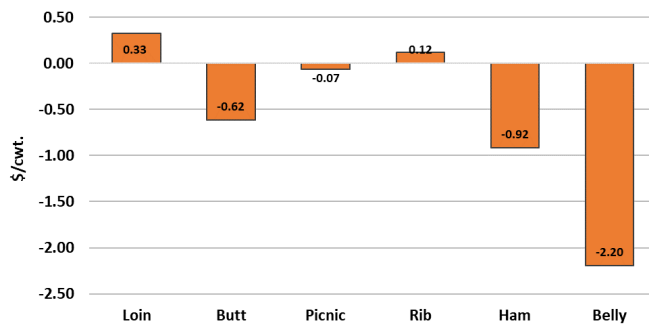
WTD Change in LH Futures



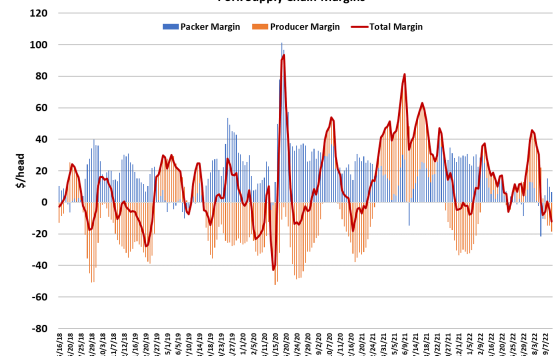
WTD Change in Pork Cutout Futures

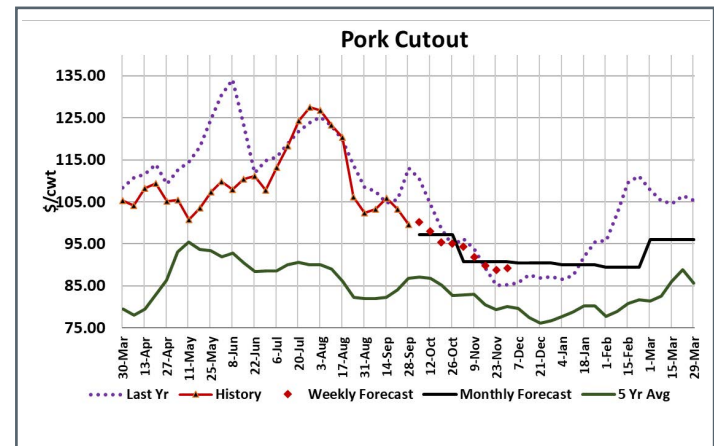
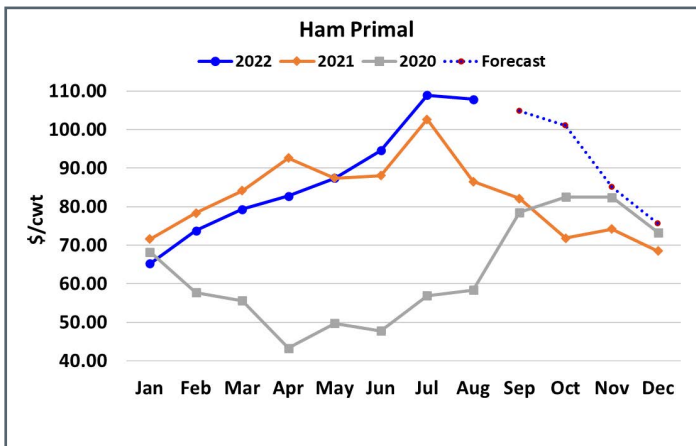
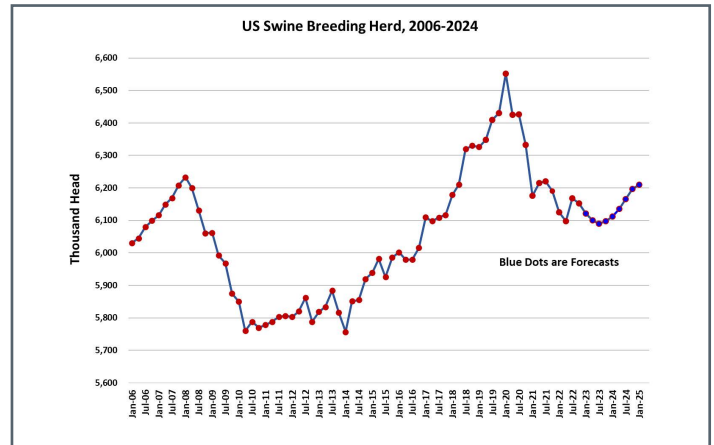
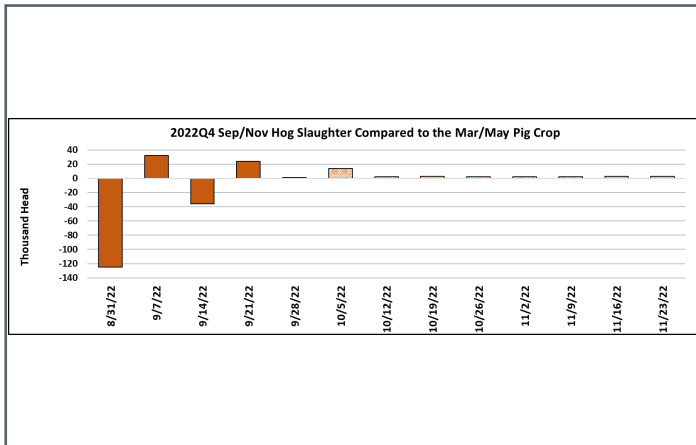


Primal Impact on Pork Cutout from Sep 23, 2022 to Sep 30, 2022
Cutout Chg = -3.34



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.

SUBSCRIBE NOW for market intelligence