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WEEK ENDING NOVEMBER 11, 2022

THE PORK WRAP

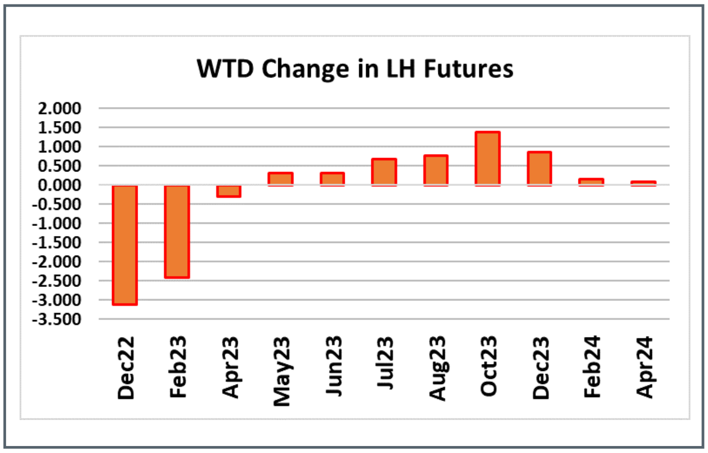
It was a another soft week for the US hog and pork complex. The cutout fell $1.14/cwt on a weekly average basis and the negotiated hog markets were also lower. In fact, something very unusual happened in the negotiated markets today as the WCB cash price actually fell below the National price. On a weekly average basis, the WCB price was less than $1 premium to the NDD and the attached chart shows that is the narrowest that spread has been so far in 2022. Is this signaling that the tight supply conditions in the WCB have finally receded? It is probably to early to know for sure, but if it is true then that should be considered bearish for cash hog prices and for the LHI. Speaking of the LHI, it was down almost exactly $3/cwt this week as the recent losses in the cutout and negotiated markets became fully reflected in the Index. The LHI currently sits at $88.63 and it will take further softness in the cutout and/or negotiated markets to drive it any lower. The Dec futures finished the week at $84.35, so traders are looking for the LHI to decline less than $1 per week for the next five weeks between now and expiration.

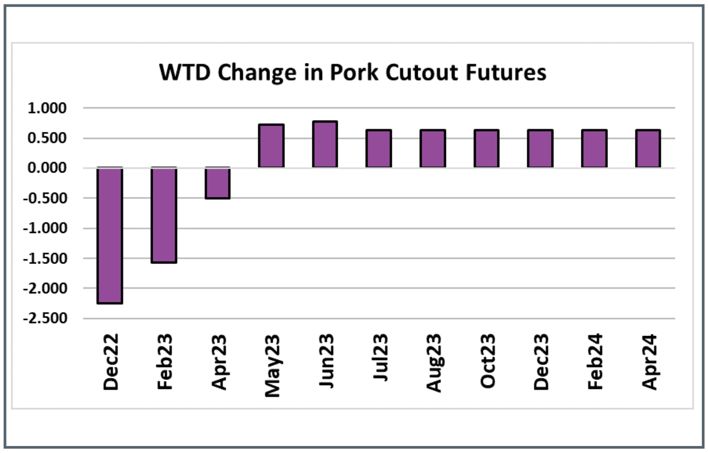
I can't argue too much with that, although I suspect that the LHI will move below $84 briefly in late November before rallying a couple of dollars in early December. This week, the bellies and loins were the biggest drags on the cutout, but that was partially offset by some modest strengthening in the hams. It seems like every part of the carcass except the hams is behaving normally for this time of year. The price strength that hams are demonstrating in the midst of some of the largest kills of the year is very impressive. I have to believe that this isn't all domestic ham demand. Some international buyers must be soaking up large quantities of US hams. At present the ham primal is priced about $30/cwt. over last year and the five-year average. Every week, I keep looking for the hams to break lower and every week I have to raise the forecast because the hams just don't cooperate.

Without this unusual strength in the hams, the cutout would likely be $5-10 lower than it is today. The belly primal traded $6 lower this week, but that wasn't much of a surprise. I expect that bellies will remain on a downward trajectory until the end of November. This week I made some significant downward adjustments to the loin primal forecast because it keeps under-performing and appears as though it is going to keep working lower in the near term. So the cutout remains a balancing act, with strong hams at least partially offsetting weak bellies and loins so that the cutout only trickles downward a little every week. The forecast has the cutout moving down to the low $90s by early December and then rising a bit to close out the year. Pork packing margins continue to run much tighter than in recent years and this week's margin came in just under $13/head. If the narrowing of the spread in the negotiated - hog market portends better hog availability in the weeks to come, then we could see margins move toward a peak around $20/head near the end of the year. That would still be tighter than normal. USDA released its retail price survey for October this week and it showed retail pork prices advanced to another all-time high at $5.05/lb. Given that the cutout has been trending mostly lower since July, this implies that retail margins on pork are quite strong right now. That's great for retailers, but high retail prices hinder movement and that is not a good thing at this time of year when pork production is near its annual maximum. Next week, retailers will be taking delivery on their hams for Thanksgiving and we will be eager to see how well those hams move. Turkey prices are very high this year, so the expectation is that hams will get more ad exposure than normal and that should result in better-than-average sales volumes. This week's slaughter was smaller than expected, registering only 2.49 million head. That was about 100k below what the pig crop implied and the biggest miss so far in the Sep/Nov quarter.

To be fair, this was a "small Saturday" week and there could have been some reduction in the Friday and Saturday kills due to the tropical storm that is passing through North Carolina this weekend. If the storm did reduce the kill, then I'd expect packers to run harder next week to help make up the shortfall. Next week looks like it could be a "triple witching" week for slaughter where we have three events all converging to produce possibly the largest kill of the year: possible storm make-up, a "big Saturday" week, and the week before a short kill week. I'm forecasting next week's slaughter total at 2.61 million head. Of course, that will be followed by Thanksgiving week where the kill might only be about 2.33 million head. As we approach the end of the Sep/Nov quarter, slaughter levels are telling us that USDA over-estimated the March/May pig crop by about 200-250,000 head. Recall that USDA over-estimated the pig crop prior to that by a little over 700,000 head.

So I guess their estimates are improving, but it could be that we have a trend of routinely over-estimating pig crops on our hands. Post-Thanksgiving, kills should remain in the 2.5-2.6 million head range until we reach the end-of-year holidays. Carcass weights advanced one pound this week, but that was in line with expectations for this time of year. So far, the weight data continues to paint a picture of hog producers that are current on their marketings. That's a bit at odds with what we are seeing in negotiated hog prices, but hopefully the picture will become clearer with a couple more weeks of data. The hog and pork complex seems to be in good balance right now. Production is seasonally large and prices are working lower as they should at this time of year. The nearby futures seem to have honed in on a reasonable value for the LHI in mid-December. The two things that are a bit out of the ordinary are super-high ham pricing and relatively narrow packer margins. Next week, watch the hams for potential weakening under the weight of bigger kills, because there isn't much outside of the hams that is supporting the cutout right now.


WTD Change in LH Futures
2.000
1.500
1.000
0.500
0.000
-0.500
-1.000
-1.500
-2.000
-2.500
-3.000
-3.500
Dec22
Feb23
Apr23
May23
Jun23
Jul23
Aug23
Oct23
Dec23
Feb24
Apr24


WTD Change in Pork Cutout Futures
1.000
0.500
0.000
-0.500
-1.000
-1.500
-2.000
-2.500
Dec22
Feb23
Apr23
May23
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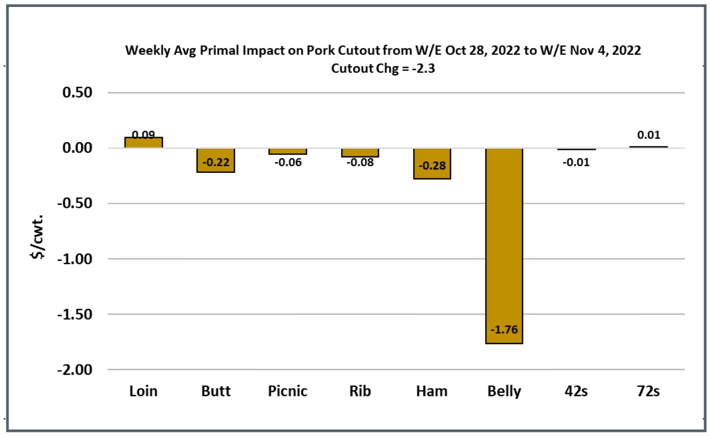
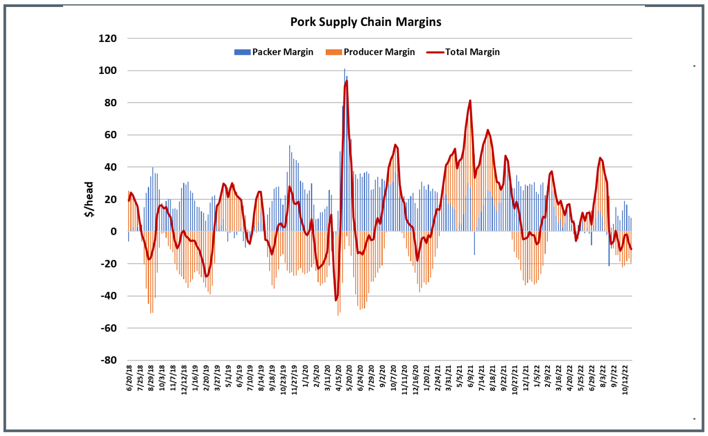
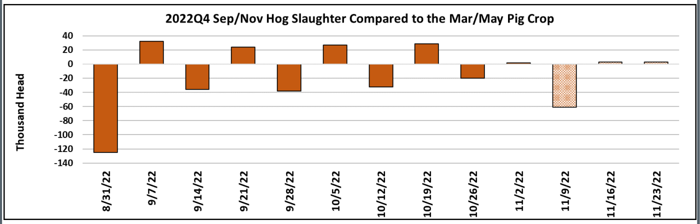
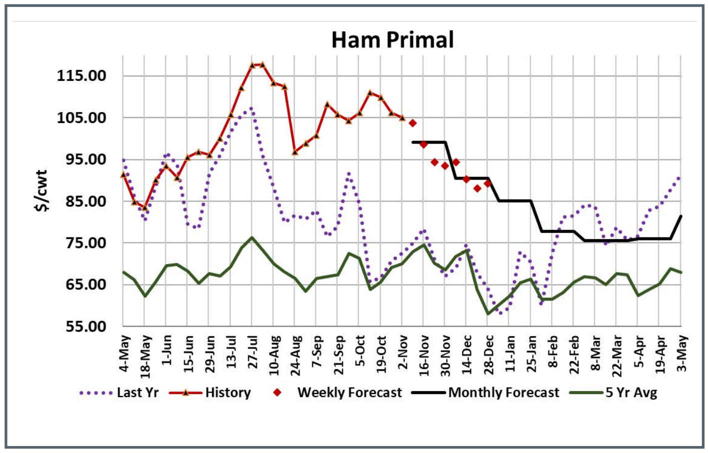
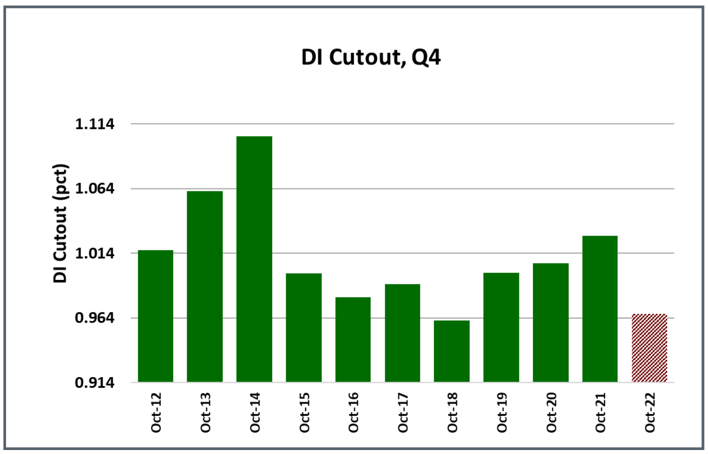
Jul23
Aug23
Oct23
Dec23
Feb24
Apr24

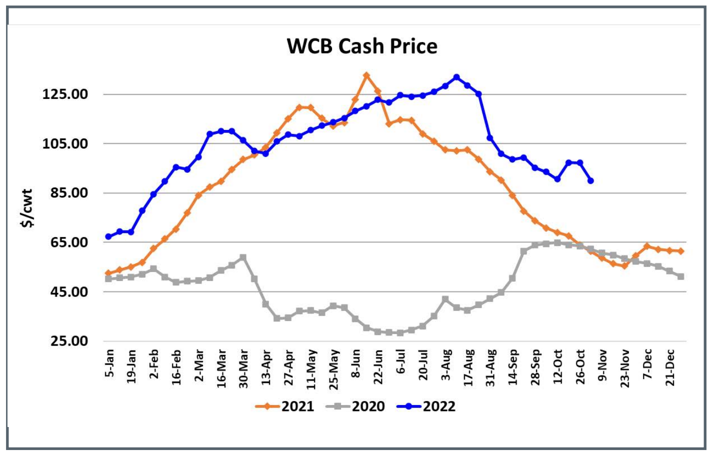

Weekly Avg Primal Impact on Pork Cutout from W/E Oct 28, 2022 to W/E Nov 4, 2022
Cutout Chg = -2.3
$/cwt.
0.50
0.00
-0.50
-1.00
-1.50
-2.00
0.09
-0.22
-0.06
-0.08
-0.28
-1.76
-0.01
0.01
Loin
Butt
Picnic
Rib
Ham
Belly
42s
72s


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









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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.