



WEEK ENDING NOVEMBER 4, 2022

THE PORK WRAP

The biggest feature in the hog and pork complex this week was a significant softening in the negotiated hog market. The Western Corn Belt market averaged right at \$90/cwt this week, down over \$7 from the week before. The NDD market was down \$5.66/cwt. But before we declare the cash hog market dead, it is important to recognize that we have seen weeks before where the negotiated hog market softened one week and then bounced back the following week. It will be important to watch for some rebound next week. If it posts another big drop, then I'd say the party is over for now. The negotiated market wasn't all that struggled this week—the cutout was also softer, losing \$2.30/cwt. to average \$97.29. The losses in negotiated hogs and the cutout have yet to be fully reflected in the LHI, which was down only \$1.50 this week, but is likely to see bigger losses next week unless something changes dramatically.

The attached chart shows that the weakness in the cutout this week was almost exclusively related to the belly primal, which lost almost \$11/cwt and averaged \$129.21. Compared to that, the contributions of the other primals to the cutout's loss were minimal. I wasn't surprised that the bellies turned lower, but the magnitude of the one-week drop was surprising. Bellies are now clearly in a downcycle that will probably last at least 2-3 more weeks and very well could contain the lowest belly prices of 2022. Bacon slicers will likely be busy scooping up some of those cheap bellies to add to freezer stocks for use next spring. Hams were down just a tad this week, but probably face further losses in the next few weeks as the processing window for Christmas hams closes. No ham processor in his right mind is putting hams away at today's price levels. Instead, they will wait for the last two weeks of December, which is when the lowest ham prices of the year typically occur.

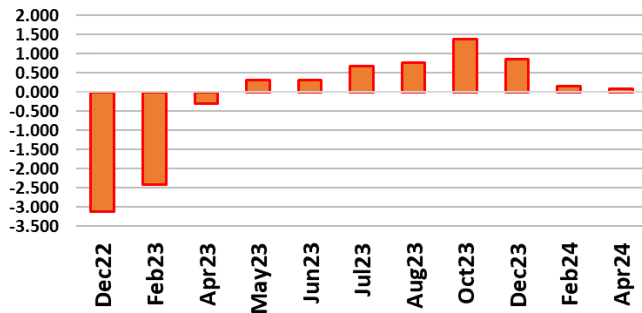
The attached chart indicates that I am forecasting a relatively steep decline in ham prices over the next few weeks. I think the risk is that hams hold up better than I expect and provide more support to the cutout than I anticipate. The loin primal was a little higher this week after a long string of declines. My feeling is that the loin primal is near a bottom and will get decent support once Thanksgiving is behind us. Still, with both the hams and bellies forecast lower over the next few weeks, it is nearly impossible to see how the cutout could post a gain. I think it continues to ease over the next few weeks and then makes a bottom in the low \$90s in early December. By the time the pork cutout futures expire in the middle of December, the cutout could be back into the \$93-95 range. Pork demand seems pretty stable right now.

We are seeing some normal seasonal price weakness, but a lot of that is probably due to seasonally large supplies. There is a risk that demand eases some as pork fatigue sets in. Ham clearance for Thanksgiving will be important to watch. With turkey prices elevated, retailers are expected to lean a little more on hams for holiday advertisements this year. With all that said, I've got a fairly soft demand structure dialed in for Q4, and it makes me think that the odds favor demand being a bit better than what I'm currently forecasting. That would mean price a bit higher than the what the current forecast implies. This week's slaughter was reported to be 2.58 million head and that was actually a good bit smaller than what I thought at the beginning of the week. Both Friday and Saturday showed smaller kills than expected. This was a "big Saturday" week, with the Saturday kill estimated at 164k. Next Saturday is likely to be smaller, maybe even less than 100k.

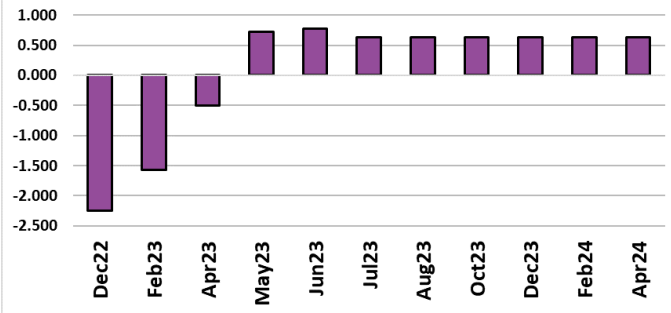
We have yet to hit the 2.61 million head level that I calculate as the practical top based on USDA's Mar/May pig crop estimate. This week's slaughter was almost dead-on with what the pig crop implied, but next week is likely to fall short. So, as we near the end of the Sep/Nov quarter, it looks to me like the industry is going to under-kill the pig crop by about 200,000 head. That is rather small in terms of past errors in the pig crop estimate. Hog weights continue to run lighter than expected. Barrow and gilt carcass weights have been stuck at 212 pounds for the last three weeks and may repeat that again next week. Seasonally, weights should be increasing, but they haven't done much of that lately. That means that hog producers are probably still pretty current on their marketings and increases the risk that the negotiated market will rebound at some point in the near future. Lean hog futures appear to be pretty closely aligned with my fundamental forecast through July of next year and then are over-priced by about \$8/cwt. from August through the end of 2023.

Of course, that is a long way off and those forecasts are based on pig crops that haven't happened yet, so there could be some substantial adjustments to those deferred forecasts as we get into 2023. ERS provided its trade data for September today and it showed total pork exports almost even with last year. Canada and Mexico's numbers were softer than last year, but that was made up by gains in many of the other traditional destinations such as Japan and S. Korea. China only saw a slight YOY increase in exports. Pork imports were down 7% YOY in September. Next week, the focus is going to be on the negotiated hog markets and the belly primal. Both were substantially lower this week and the two combined for most of the decline in the LHI. Whether or not that repeats again next week will have a big bearing on how rapidly the LHI declines and how aggressively traders will be inclined to sell the Dec futures.

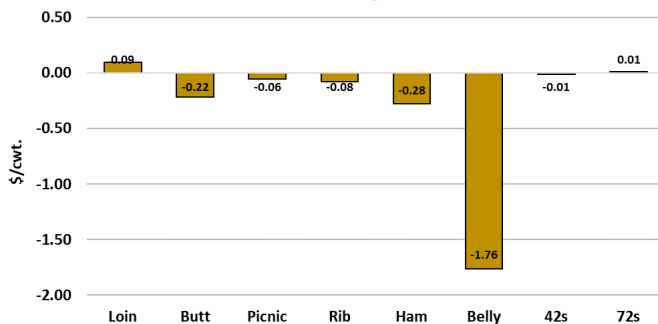
WTD Change in LH Futures



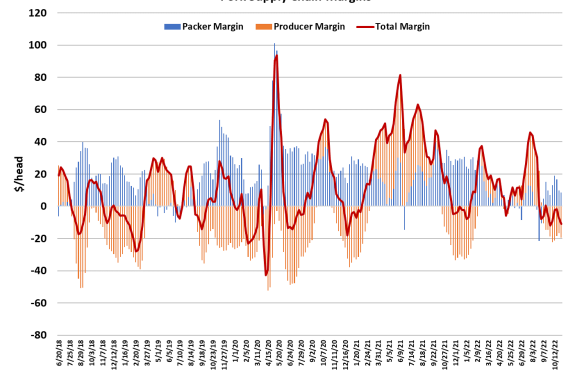
WTD Change in Pork Cutout Futures

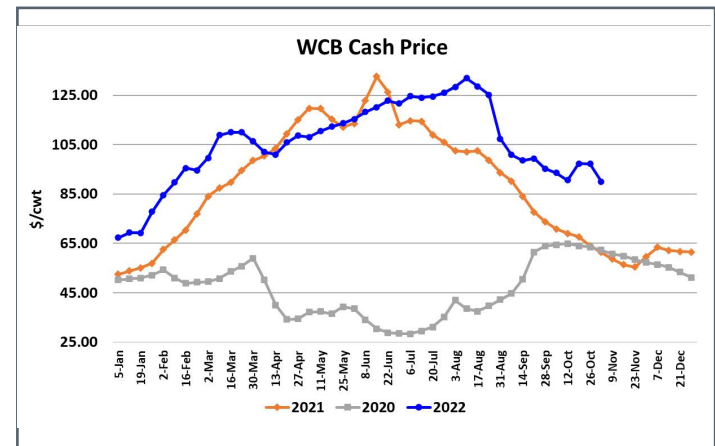
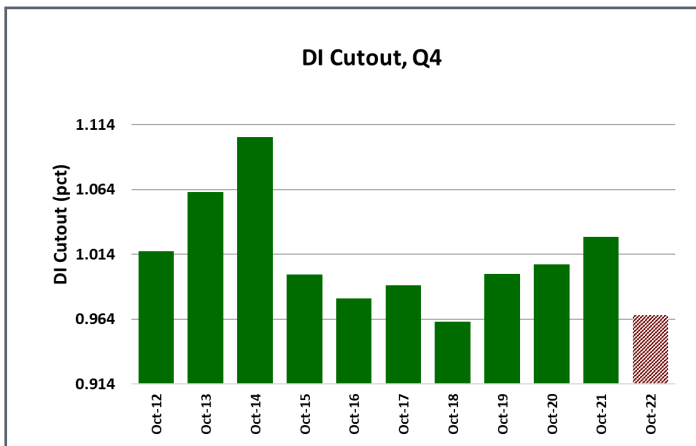
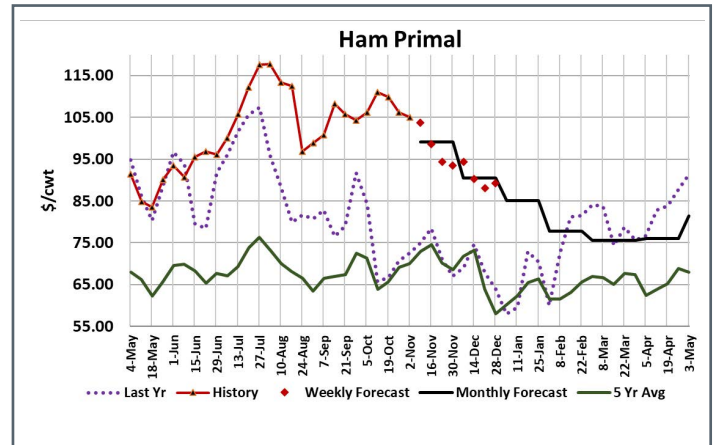
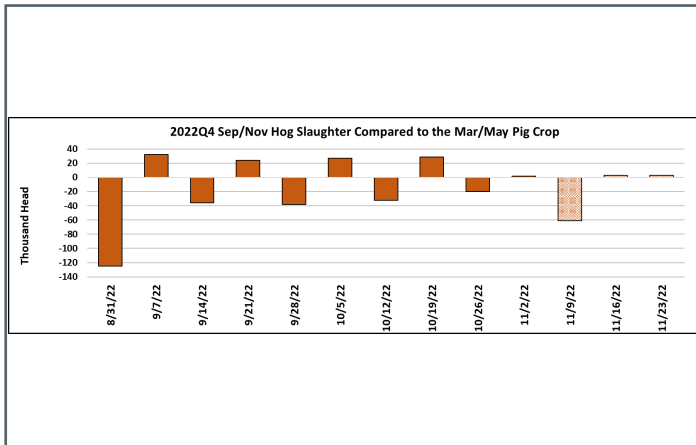


Weekly Avg Primal Impact on Pork Cutout from W/E Oct 28, 2022 to W/E Nov 4, 2022
Cutout Chg = -2.3



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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