



WEEK ENDING DECEMBER 10, 2022

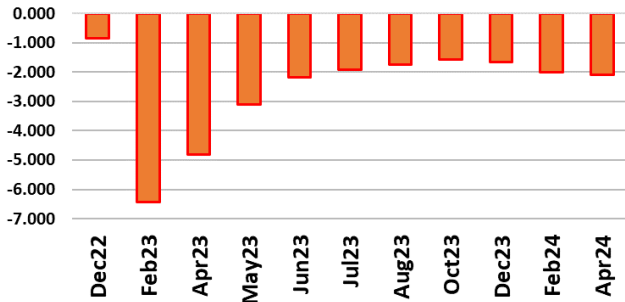
THE PORK WRAP

The hog and pork complex continued to work lower this week, erasing any hopes that there would be a price rebound before the Dec contract expires. The WCB negotiated market dropped \$2.53/cwt. on the week and the NDD market was down \$1.60/cwt. Bellies had another soft week and that caused the cutout to average \$86.85, down \$0.75 from last week. Futures traders have been trying for the last several weeks to build in a rebound in prices during early December, but it now looks like the cutout and negotiated markets are just going to continue sliding lower in the near term. If there was going to be a rebound, the first half of the month would be the best hope, since pork prices normally sag during the last half of December. Hams in particular are at risk of collapsing beyond mid-month. They held up fairly well this week, however. The ham primal averaged almost dead-on with last week. I'm looking for a small bump higher in the hams next week as processors try to get ahead of the holiday lull. After that, I'd see the ham primal as having risk to below \$80/cwt. by the end of the year. Bellies weren't as fortunate as hams this week and that primal lost almost \$7/cwt. This makes the second week in a row that bellies have averaged under \$100. I see the bellies as mostly sideways to lower in the coming weeks, with the next significant price appreciation coming after the holidays. However, as a counterbalance to that bearish forecast in the processing items, it looks like some of the retail items are starting to perk up. Picnics in particular have been very strong over the past few months. My first thought was that the strength in picnics was related to the McRib farewell tour at McDonalds this fall, but that feature ended on November 20 and picnics have only gone up since then. Pics are often ground and used as sausage material and since the 72% trim has been exceptionally strong also, we might be able to chalk up strong pic prices to generally strong demand for lower-priced pork items. Maybe it's another example of trading down by consumers. The attached chart indicates that currently, the trims and picnics have been the strongest relative to their five-year average while the ribs and bellies have been the weak sisters. Not coincidentally, the ribs and bellies are some of the highest priced parts of the carcass while the trims and pics are among the cheapest. It still looks like domestic demand is in the process of moving lower and the combined margin is now getting extremely low. It looks pretty similar to the beef combined margin. There isn't enough margin in the system to support all of the segments. Packers are still making money, but it is far less than they normally make at this time of year. I calculate this week's packer margin at +\$7.54/head, almost flat with last week. The way that packer margins have performed this fall forced me to do a re-think on margins for 2023 and I narrowed those up a bit this week.

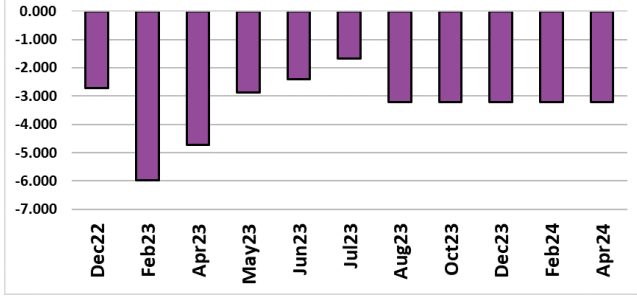
That is why the LH futures mis-pricing is now showing the first five contracts of 2023 as being underpriced. It seems very likely that the spread between the cutout and cash hogs is going to remain well below normal for some time to come. In order for it to expand, there would need to be a solid, and sustained, increase in domestic demand. I'm not sure that is in the cards for 2023. We had our strong demand years in 2021 and 2022, now it is time to pay the piper with at least a couple of weaker demand years. That means smaller margins all up and down the supply chain and more downsizing. Similar to beef, pork packers will need to reduce capacity by reducing shifts and letting some workers go. That's a tough decision to make after struggling so hard to attract labor last year, but the consumer is boss and when demand is down, supply must eventually contract so that the remaining players can earn a reasonable return. On the supply side, this week's kill totaled 2.57 million head, which was just a little larger than what the pig crop called for. At current staffing levels, packers could probably handle a 2.8 million head kill, so it is clear that capacity is being underutilized. Next week, packers are likely to kill more on Saturday and if there aren't any disruptions during the week, the kill might approach 2.61 million head. After that there will be 3 weeks that are influenced by the holidays. Christmas Eve falls on a Saturday this year and so the kill that weekend will probably be very light. All packers will probably take Mondays off in compensation for Christmas and New Year's falling on Sunday. The supply of uncommitted hogs is still relatively tight for this time of year, but those upcoming light kill weeks should have a substantial negative impact on pricing in the negotiated markets. When we return from the holidays, weekly kills should be closer to 2.5 million head during January. USDA released the trade data for October this week and it showed total pork exports almost dead-even with last year. It looks like 2022 exports as a whole are on track to be down about 11% from last year. Pork imports in October were down 10% YOY, but remain relatively high compared to longer-run averages. The strong dollar is probably playing a role there. Now that all of the data for October is in, we can calculate an accurate per-capita disappearance in order to generate the attached demand scatter. This scatter clearly indicates that demand this October was softer than last year and softer than the long-run average (because it lies below the regression line). November and December are likely to look similar. In past Nov/Dec periods, we have seen weekly kills in the 2.75-2.80 million head range. Producers are very lucky that they scaled back and this fall we don't need to push that many hogs through the system with such weak demand in place. Next week, expect the cutout to be about steady with this week as the hams make one last tick higher and help to nullify any belly weakness that may develop. Also, watch the Feb contract closely around Dec's expiration on Wednesday. Those next nearby contracts often make a dramatic move when the old nearby rolls off the board.

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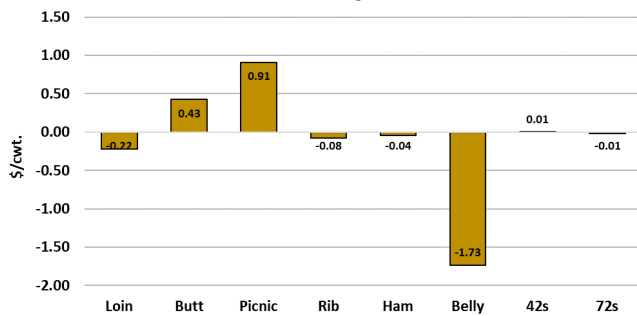
WTD Change in LH Futures



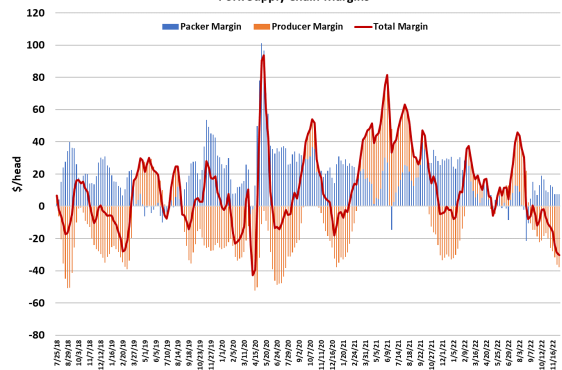
WTD Change in Pork Cutout Futures



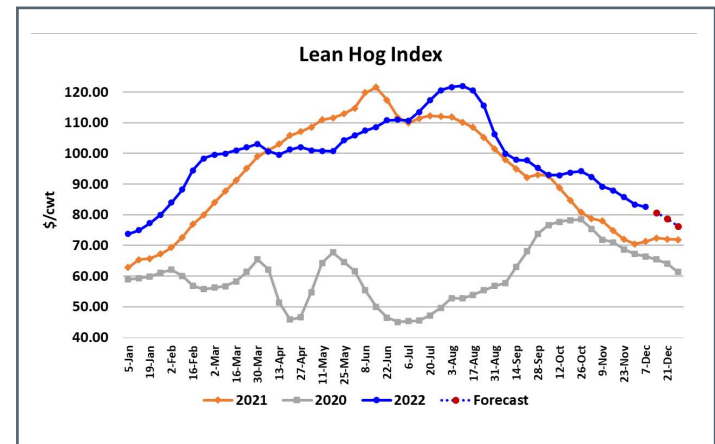
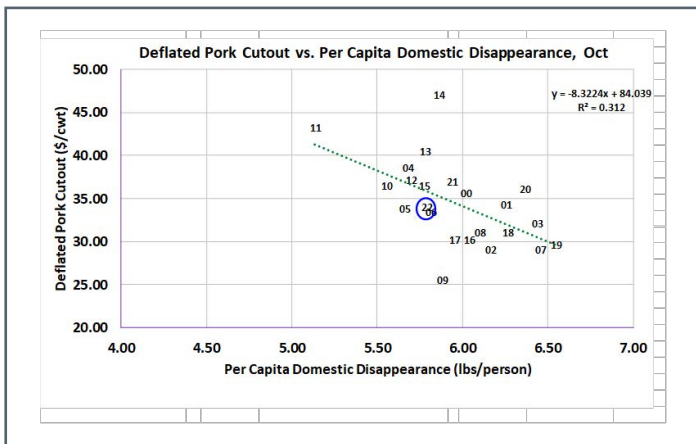
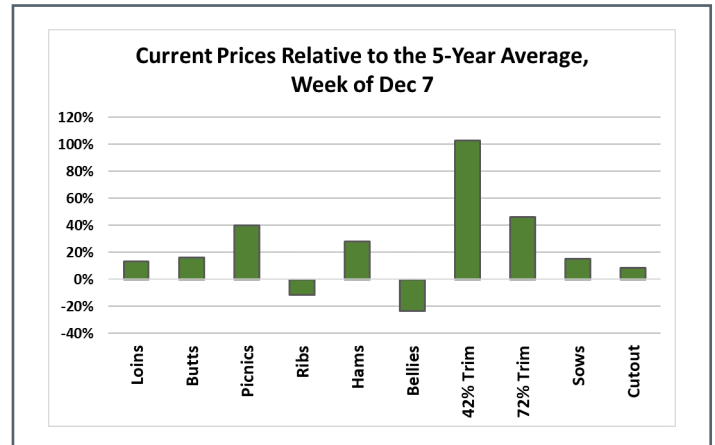
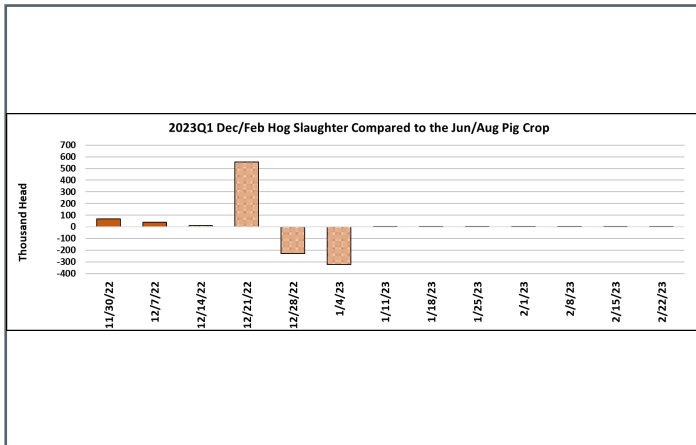
Weekly Avg Primal Impact on Pork Cutout from W/E Dec 2, 2022 to W/E Dec 9, 2022
Cutout Chg = -.75



Pork Supply Chain Margins



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