



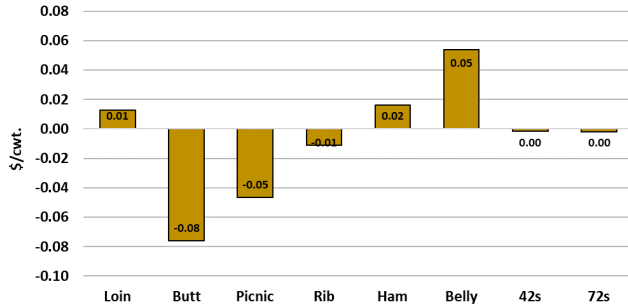
WEEK ENDING FEBRUARY 03, 2023

# THE PORK WRAP

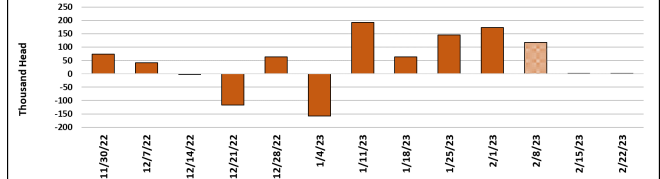
If there is one thing about the hog and pork complex so far in 2023, it's that prices have shown an amazing lack of volatility. Take the cutout, this week it managed to gain \$0.05/cwt. Not exactly an exciting time series. The LHI gained almost six times as much as the cutout at \$0.29/cwt. Lol. The whole complex is just stuck in the mud. Negotiated hog prices fared a little better this week, with the NND price adding \$0.78/cwt. on a weekly average basis and the WCB pricing gaining \$1.18/cwt. Those tepid gains in the negotiated market may be an early signal that the available hog supply is finally starting to tighten up a bit, but it is only a tiny sign and not very reliable at the moment. I'd want to see further increases next week. It is pretty clear to me that the summer pig crop was underestimated and there are a lot more pigs out there than expected. The attached chart indicates that once again, the industry over-killed the pig crop by 150k. And, if my forecast for next week's slaughter is correct, another 100k weekly over-kill is in the works. My thought is that this week's gain in the negotiated market reflects some tightening, maybe temporary, in one of the regional markets, namely the Western Corn Belt. We saw this pattern develop last year, where prices in the WCB ran at a premium to the National price. One or more packers that purchases hogs in the west might be a little tight on supply and having to dip a little more into the negotiated market to fill out its kill schedule. When this happened last summer and fall, it tended to be most pronounced on one or two weekdays, usually Tuesday and Wednesday. We need to watch the spread between the WCB and NDD closely for any indications that this pattern is returning. This week's kill clocked in at 2.58 million head, up 39k from the week before. There is no way around it, these are big kills given the lethargic demand in the pork market right now. I'd look for next week's kill to be around 2.53 million head. The problem is that the Jun/Aug pig crop told us that kills would be running 2.4 million head in February. I would expect a significant upward revision in the Jun/Aug pig crop when USDA releases its next Hogs & Pigs report on March 30. Barrow and gilt weights moved another pound lower this week and could be a sign that producers are getting caught up on marketings. By early April, weekly slaughter should fall below 2.4 million head per week, assuming that the Sep/Nov pig crop is close to correct.

That would be enough supply reduction to get meaningful price gains. With the cutout only adding a nickel this week, it doesn't seem like there was much, if any, change in aggregate demand. Some modest gains in belly prices were offset by losses in the butt and picnic primals. My expectation for gains in the loins haven't materialized yet. Butts and picnics have also been slow to show any upward progress. The ham primal was essentially flat on the week, as was the belly primal. The attached chart illustrates how very little change there was in any of the primal values this week. What a boring market. The nearby Feb futures however, seems convinced that the Lean Hog Index can jump \$2 with little over a week until expiration. Unless some of these pork prices get moving higher soon, that will be difficult to achieve. And the next nearby, April, is projecting a \$13 gain in the LHI over the next two months. Anything is always possible, but as long as the spot hog and pork markets continue to tread water, that kind of a rally seems a bit out of reach. I won't even talk about Jun at \$30 over current cash. The weekly export data has looked a little better recently, so perhaps some of this cheap US pork will begin to attract attention from overseas. Next week, look for some modest improvement in the bellies to help the cutout a little higher. It is time for that primal to start carrying more of the load. Keep an eye on the weather in the Midwest for any potential events that could slow the movement of hogs to packing plants. The last thing this market needs right now is for something to hinder the kill.

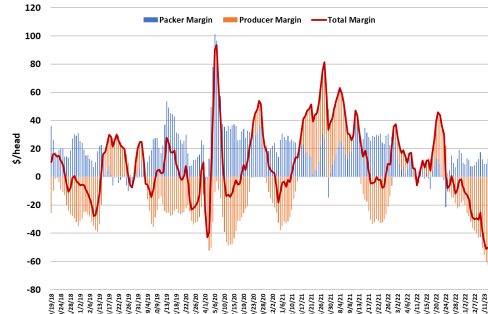
Weekly Avg Primal Impact on Pork Cutout from W/E Jan 27, 2023 to W/E Feb 3, 2023  
Cutout Chg = .05



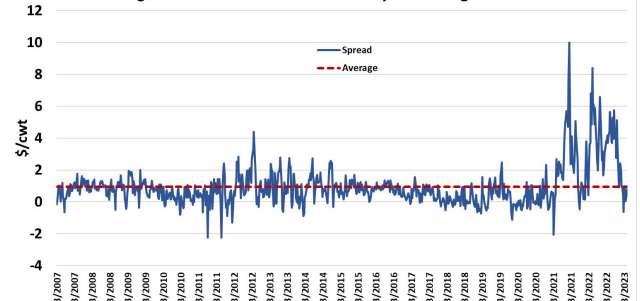
2023Q1 Dec/Feb Hog Slaughter Compared to the Jun/Aug Pig Crop



Pork Supply Chain Margins



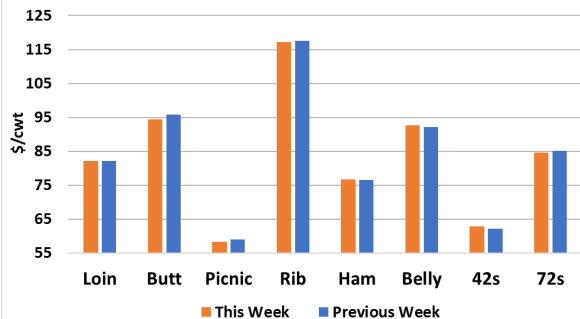
WCB Negotiated Price Minus National Daily Direct Negotiated Price



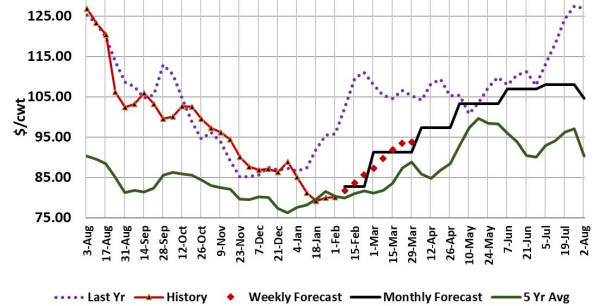
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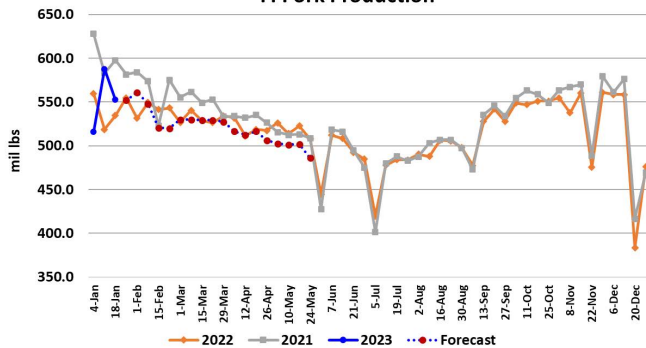
Primal Values, This Week vs. Last Week



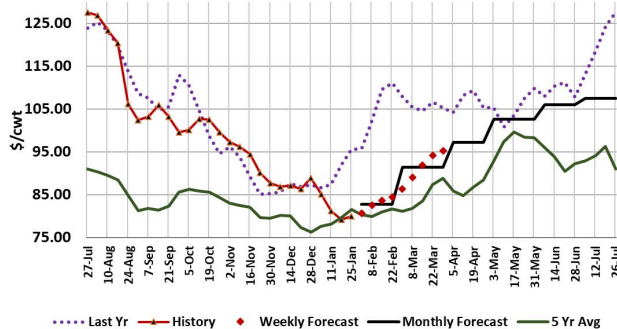
Pork Cutout



FI Pork Production



Pork Cutout



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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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