



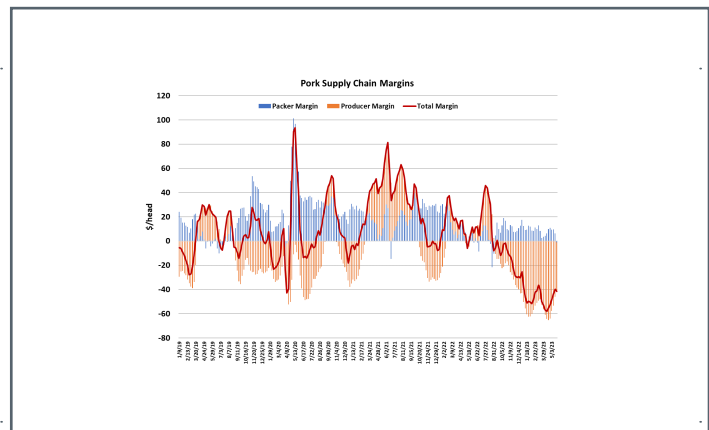
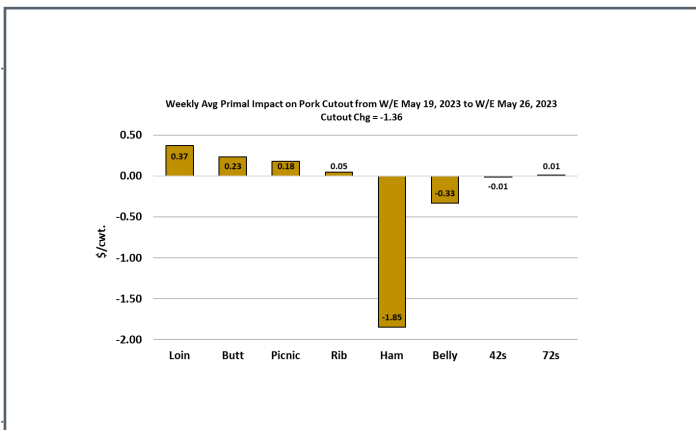
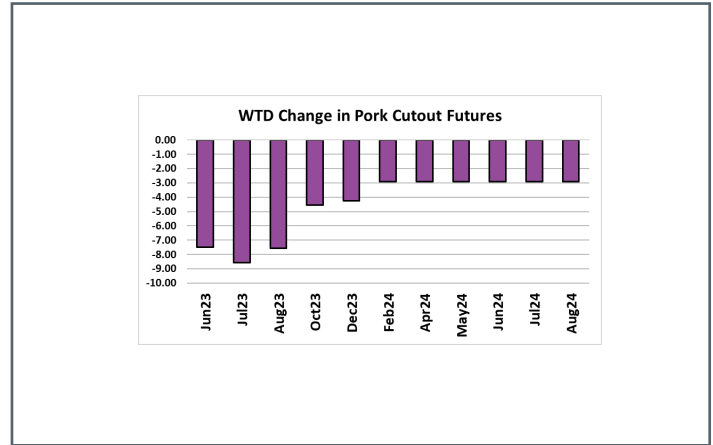
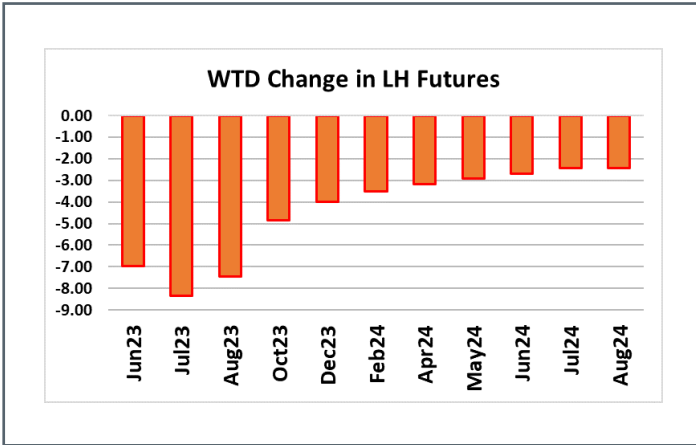
WEEK ENDING MAY 26, 2023

THE PORK WRAP

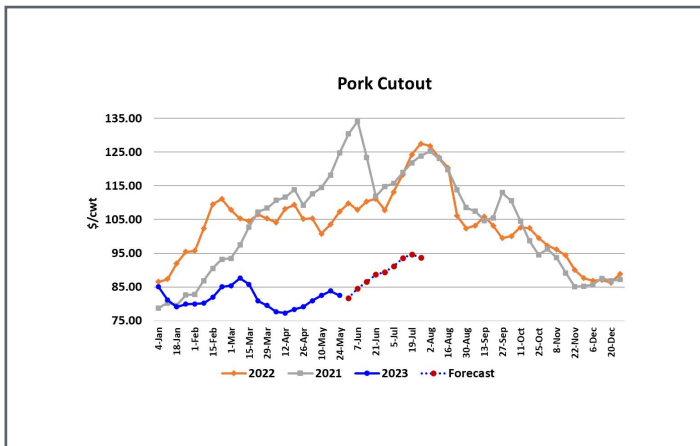
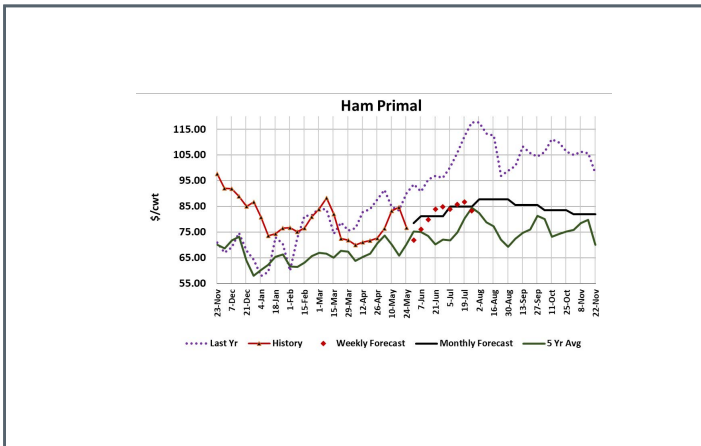
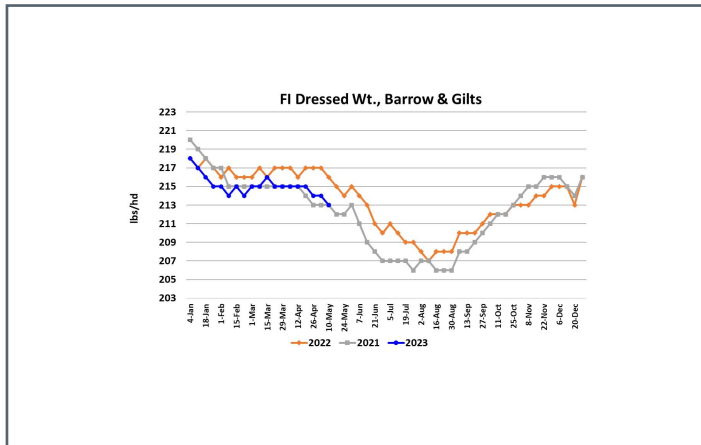
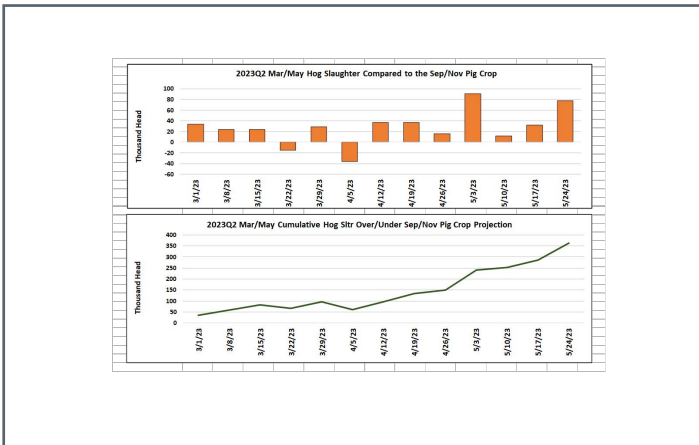
For the first time in six weeks, the pork cutout failed to advance. The cutout averaged \$82.51/cwt. this week, down \$1.36 from last week's average. If that seems like a small thing, it probably is, but futures traders took it very seriously and pummeled the entire curve this week. Friday-to-Friday, the July contract lost \$8.57/cwt. Last week all of the summer futures contracts were premium to the LHI and by the end of this week, they were all significantly discount to the index. What in the world brought about such a violent reaction to such a small price change in the cutout? Traders have probably been ruminating on the Supreme Court's Prop 12 decision since it was issued a couple of weeks ago and may have taken this week's price softening as an indication of far worse things to come due to the implementation of Prop 12 by California on July 2. That is the best explanation I can come up with. In reality, all that happened this week was that the processing items, hams and bellies, saw price declines ahead of Memorial Day weekend. The retail primals all traded higher. It wouldn't be unusual for ham processors or bacon slicers to have less interest in purchasing raw materials the week before a holiday, so those price declines may have been perfectly rational and they may get at least partially reversed next week when processing plants re-open after the holiday. For several week now, ham prices have been the only part of the cutout moving in any significant way. All of the other primals have either been flat (bellies) or inching seasonally higher (retail primals). For a while hams were moving higher and that lifted the cutout from the high \$70s to the low \$80s. Now suddenly, the hams have a bad week and the futures traders act like it is the end of the world. There are a lot of reasons to be optimistic about the cutout, not the least of which is a reduced Saturday kill this week and a holiday-shortened kill next week. Further, the calendar is now turning to June, which usually sees available hog supplies tighten up significantly and carcass weights post some of the largest declines of the year. Granted, the pork complex hasn't performed well at all this year, but it has been in the process of slowly working higher. No one was expecting the LHI to break into triple digits this summer, but it wouldn't be unreasonable to expect it to continue plodding a little higher each week until supplies start to expand again near the end of July. This week's market action seems like a huge over-reaction to a relatively minor, and possibly short-lived, problem with the hams. And, because this pessimism permeated the entire futures curve, all of the contract on the board now look really underpriced relative to the fundamental forecast. Cash hog prices were also a little lower this week, probably as a result of packers pushing back due to the big gains in the last couple of weeks, but I certainly don't think that negotiated hog prices have topped for the year. That is more likely to be a July event. The NDD negotiated market averaged \$0.72/cwt. below last week. That is not a crisis either. Packers only slaughtered 20k hogs on Saturday since it is Memorial Day weekend, and that brought the weekly total to 2.37 million head. USDA estimated to be up 0.3% YOY. Next week, look for the holiday-reduced kill to be below 2.0 million head. This week's kill was, once again, larger than what the (revised) Sep/Nov pig crop implied and now that the March/May quarter is complete, I calculate that the industry overkilled the pig crop by about 360,000 head.

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