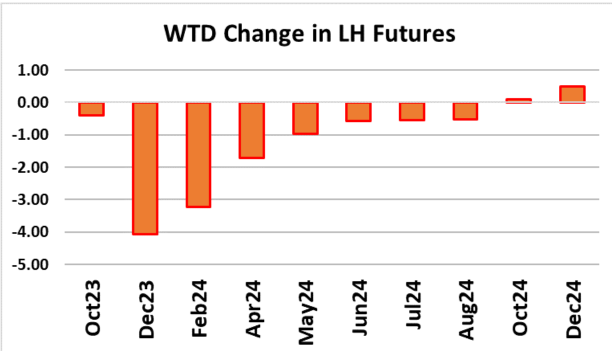
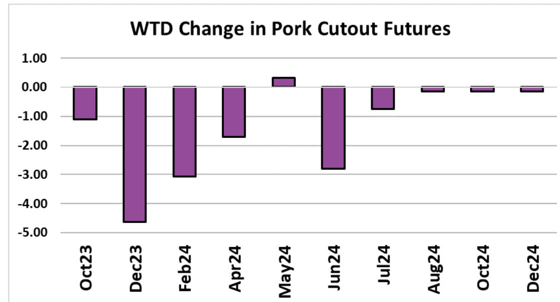
J.S. FERRARO
jsferraro.com | 416.306.8788
130 Adelaide Street West, Suite 3302 Toronto, Ontario M5H 3P5

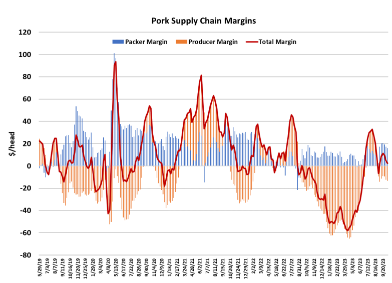
WEEK ENDING OCTOBER 13, 2023

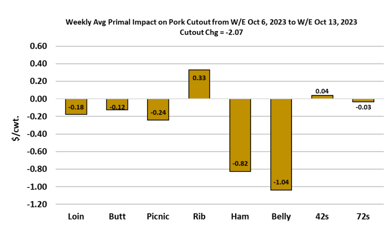
THE PORK WRAP

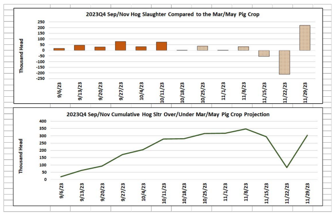
This week's surprise in the hog and pork complex was an increase in cash hog prices. The WCB negotiated market added $1.40/cwt. and the National Daily Direct negotiated market averaged $1.42/cwt. higher. At same time, the pork cutout was continuing on its downward path, dropping $2.06 to average $92.63. That put some pressure on packer margins, moving them down to about $15/head. It does make one wonder what prompted packers to pay up for negotiated hogs this week if the cutout was declining. Maybe packers are just trying to run the kill too hard for available supplies because their margins are relatively good. This week's slaughter came in at 2.61 million head, up 2.1% from last year. Next week's kill is likely to be smaller, perhaps down around 2.58 million head. We are starting to see the return of the alternating "big kill then smaller kill" pattern, but in reality the differences aren't huge. I don't expect the weekly kill to exceed 2.63 million head this fall, so we are now pretty close to the largest kills of the year. Of course, this begs the question, "if kills aren't expanding much beyond current levels, does the pork cutout need to decline much beyond current levels?" The quick answer would be no, but there is a certain cumulative effect that happens when production stays very large for many weeks. Some observers have used the phrase "pork fatigue" to describe this phenomenon. It happens because hot retail features can keep product moving out of the stores briskly at first, but if a retailer tries to feature pork every week eventually consumers have filled their freezers and the feature becomes less effective. Product movement slows and lower prices are needed to encourage commercial users to put product into cold storage as a hedge against higher pricing the following spring and summer. So, even though slaughter levels won't grow much from here, we should still see some modest ongoing pressure on the cutout. That said, Dec pork cutout futures at $79 looks way too pessimistic to me. I would vote for a mid-December cutout in the mid to high $80s. It is fairly common for traders to believe that something that has been trending lower will continue that way, especially after last winter and spring where it seemed like the downtrend in prices would never end. That kind of thinking has probably pushed the Dec LH and cutout futures too low, but traders might not be willing to rally those until they actually see the price declines slow or reverse. There will almost certainly be one or more weeks between now and Dec expiration when the cutout bumps higher. That will get trader's attention and everyone will be wondering how those contracts got so low in the first place. For now though, the bearish psychology is in place. This week, both the bellies and the hams helped drive the cutout lower. The belly primal was quoted close to $110 on Friday afternoon and has struggled in recent days. Last year, on similar availability, the belly primal went all the way to $90 before flattening out. However, this year the industry has worked cold storage stocks down and thus there should be more need for "freezer filling" at low price levels. My guess is that will keep the belly primal above $100 this year. Further, bacon has huge exposure to the QSR sector, where it is used as a taste enhancer for boring burgers and chicken sandwiches. As consumer spending slows and consumers trade down, I would expect the QSR sector to see better sales and thus strengthen its demand for bacon. Last year, the avian influenza outbreak wiped out a lot of turkeys and turkey prices skyrocketed. As a result, a lot of Thanksgiving demand was diverted from turkeys to hams, boosting ham prices. That dynamic isn't in play for this Thanksgiving, so it is reasonable the think ham demand will turn out to be softer this year compared to last. There have been a few new avian influenza hot spots reported recently, but the timing is such that it probably won't affect buyers decisions for Thanksgiving, which is only five weeks down the road. That said, the ham primal has moved lower for 4 weeks in a row now and should be starting to look attractive at current price levels. High hog and pork prices in Mexico should continue to encourage good movement south of the border. From here, I think the downside risk in hams is limited but it might be another week or two before they turn higher. The retail items continue to slowly ease as we move deeper into the fall. That pattern is likely to remain in place until Christmas. At some point however, a bounce in the bellies or hams is likely bump the cutout higher. With respect to cash hogs, I suspect that they will return to their downtrend in pretty short order. Packers have been very good at managing margins over the past couple of years and I expect that they will be quick to recognize when the kill is too large for the available supply of hogs and dial it down enough to keep hog prices moving lower. Hog prices often bottom in early December, so there may only be another six weeks or so where hog prices are on the defensive. Barrow and gilt carcass weights held steady this week at 207 pounds, but are still in a seasonal uptrend. I'd see weights peaking around 214 pounds near the end of the year. The de-trended and de-seasonalized weight continue to track at very low levels, so it seems that producers are keeping current on their marketings and there is little risk of a backlog developing this fall. One piece of bad news that came across the wires this week was a sharp increase in retail pork prices during September. USDA's survey indicated that retail prices gained almost 3% between August and September. That is a huge month-to-month increase and will make pork look a bit less competitive in the retail meat case. I'm not sure why retailers felt the need to jack up prices because the cutout averaged about $8 lower in September compared to August. Their margins on pork must be looking pretty good now. In any case, higher retail prices are bad news for movement through the retail channel any time that they happen, but they can be especially detrimental in the fall when the industry is needing to move its largest production of the year. Next week, it will probably be more of the same: gentle easing of the cutout and negotiated hog prices. Packer margins should get a little better and producer margins a little worse.

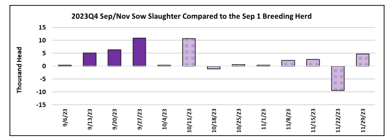

WTD Change in LH Futures
1.00
0.00
-1.00
-2.00
-3.00
-4.00
-5.00
Oct23
Dec23
Feb24
Apr24
May24
Jun24
Jul24
Aug24
Oct24
Dec24

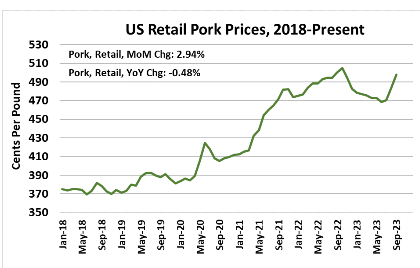

WTD Change in Pork Cutout Futures
1.00
0.00
-1.00
-2.00
-3.00
-4.00
-5.00
Oct23
Dec23
Feb24
Apr24
May24
Jun24
Jul24
Aug24
Oct24
Dec24

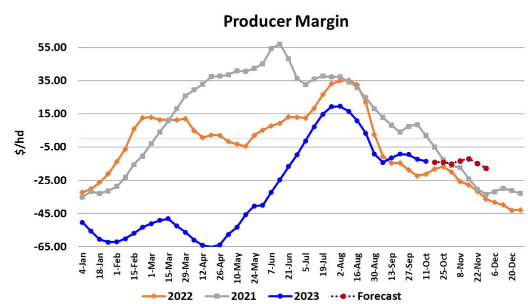

Pork Supply Chain Margins
Packer Margin
Producer Margin
Total Margin
$/head
120
100
80
60
40
20
0
-20
-40
-60
-80

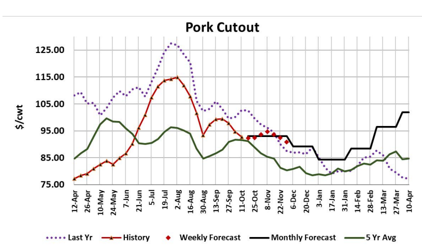

Weekly Avg Primal Impact on Pork Cutout from W/E Oct 6, 2023 to W/E Oct 13, 2023
Cutout Chg = -2.07
$/cwt.
0.60
0.40
0.20
0.00
-0.20
-0.40
-0.60
-0.80
-1.00
-1.20
-0.18
-0.12
-0.24
0.33
-0.82
-1.04
0.04
-0.03
Loin
Butt
Picnic
Rib
Ham
Belly
42s
72s











DR. ROB MURPHY BS, MS, PhD Agri Economics,
Executive Vice President, Research & Analysis,
J.S. Ferraro

E: Rob.Murphy@jsferraro.com

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.