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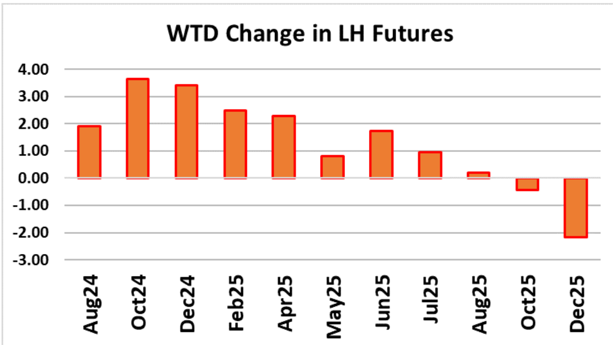
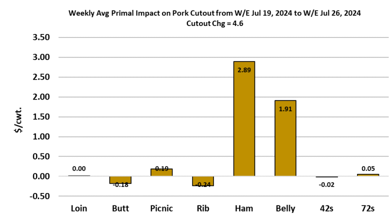
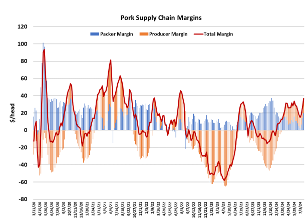
WEEK ENDING JULY 26 2024

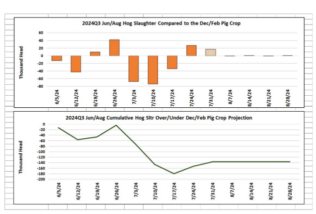
THE PORK WRAP

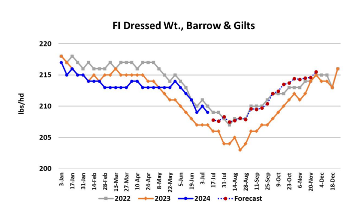
The pork cutout advanced $4.60 this week on its way to averaging $104.78–the highest cutout in almost a year. This marks the second week in a row where the cutout has gained more than $4. Needless to say, there is a bull market going on in pork. The same cannot be said of cash hogs however, as prices there were roughly steady with the week before. Perhaps the cash hog market will get some traction next week as packers seek to capitalize on strong margins by pushing a few more hogs through the plants. I calculate this week's packer margin at nearly $20/head. That is way stronger than what one might expect in the middle of summer. The combined margin continues to track higher and is now at its highest level since the summer of 2022. Once again, it was the processing items that lifted the cutout this week. The ham primal averaged close to $114, which is the highest it has been since August, 2022. Back then it peaked in the first week of August and then eased into Labor Day. The main difference between then and now is that hog supplies were much tighter back in the summer of 2022 and cash hog prices climbed right along with the cutout, driving packer margins into the red in August, 2022. This year, hogs seem to be rather plentiful and packers aren't chasing them yet. However, a heat wave is expected to develop in the Midwest hog producing region next week and it could hang around for a couple of weeks. Hogs are likely to eat less and thus gain less, which may prompt producers to want to delay their marketing date somewhat. If it plays out that way, then packers might have to get a little more aggressive with their bids in the cash markets. Bellies also gave the cutout a big assist this week, with the primal averaging close to $140/cwt., up from $115/cwt. just three weeks ago. Another item that I've been watching closely is the 72% trim, which has added $28 over the past three weeks. That too is a processing item and it just confirms that we are seeing strong demand coming from that sector. Prices for the retail items are not seeing the same kind of improvement, doing well just to hold steady on the week. Since the retail items make up close to half of the carcass' value, it will be difficult for the cutout to post extraordinary gains without their help. Still, the cutout is in an uptrend and I've been raising forecasts to keep up with it. I think there is a good chance that it will print $110 or better at some point in the next couple of weeks. It had better hurry along toward that goal because expanding kills over the next few weeks could threaten to slow its progress and even turn it lower. Big margins encourage big kills and this week packers put together a 2.44 million head total, up about 36k from the week before. That kill was a bit above what the pig crop implied after several weeks of kills below the pig crop, so it may be that packers are already starting to pull hogs ahead somewhat. I look for next week's kill to be a little over 2.45 million head. Carcass weights are still declining seasonally, with barrow and gilt weights reported down 1 pound at 209 this week. The upcoming hot weather could keep weights tracking lower for longer than expected, so that is something to keep an eye out for. FI pork production looks like it was near 512 million pounds this week, about a 2.5% increase over last year. The weekly export data continues to look good, especially compared to last year at this time. A few weeks back we saw a spike in pork sales for product heading into Mexico, so that may have a lot to do with the sharp increase in ham prices that we've seen recently. Those kinds of orders typically get filled over a period of just a few weeks, so the strong pull from Mexico could be a fleeting event. USDA provided the cold storage data for June this week at it showed total frozen inventories 3.3% below last year. However, the drawdown between May and June was less than seasonal, telling us what we already knew–demand in June wasn't great. That is all water under the bridge now and the recent rally in the cutout and subsequent increase in the LHI has given new life to the futures bulls, who have been having a very rough year up to this point. The Aug contract briefly traded over $94 a couple of times this week but settled near $93.50 on Friday. After having been burned many times this year, traders appear reluctant to let the nearby futures get too far out in front of the LHI, which will print $91.85 on Monday. I'm not yet ready to say that this summer rally marks a turning point in pork demand, mostly because it has only been driven by the half of the carcass comprised of processing items. Still, half a loaf is better than nothing, particularly in a market that has had demand struggles for well over a year now. Of course, it is important not to lose sight of the fact that fall is just around the corner and that will bring much bigger kills and sharply lower pricing. August always feels like a game of musical chairs where the market seems strong and improving until it suddenly doesn't. The music could stop next week or it could wait until Labor Day to halt, but it is a very good bet that one day, likely out of the blue, the cutout will print sharply lower, probably due to a collapse in the hams and/or bellies, and then the mood will turn decidedly bearish. For now though, as they say in South Louisiana, "laissez le bon temps rouler".

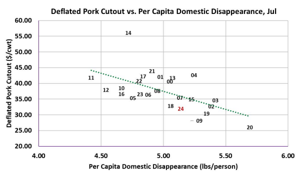

WTD Change in LH Futures
4.00
3.00
2.00
1.00
0.00
-1.00
-2.00
-3.00
Aug24
Oct24
Dec24
Feb25
Apr25
May25
Jun25
Jul25
Aug25
Oct25
Dec25

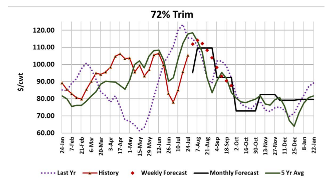

Weekly Avg Primal Impact on Pork Cutout from W/E Jul 19, 2024 to W/E Jul 26, 2024
Cutout Chg = 4.6
$/cwt.
0.00
-0.18
0.19
-0.24
2.89
1.91
-0.02
0.05
Loin
Butt
Picnic
Rib
Ham
Belly
42s
72s

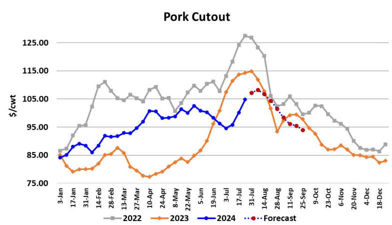

Pork Supply Chain Margins
Packer Margin
Producer Margin
Total Margin
$/head




FI Dressed Wt., Barrow & Gilts
lbs/hd
220
215
210
205
200
2022
2023
2024
Forecast







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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.