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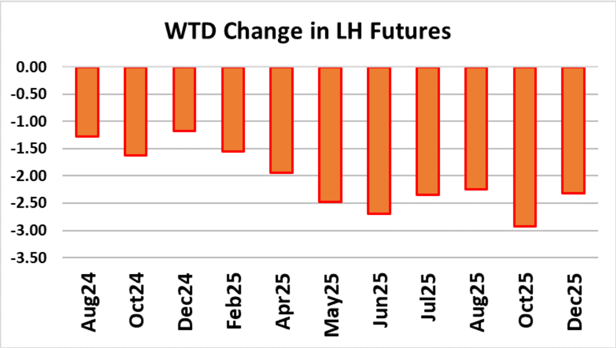
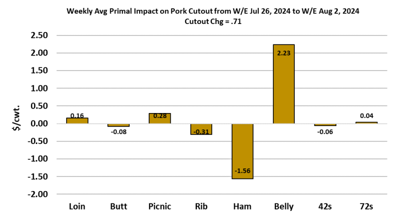
WEEK ENDING AUGUST 2 2024

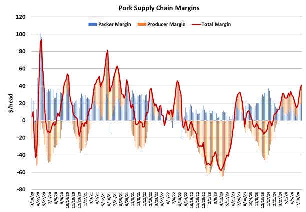
# THE PORK WRAP

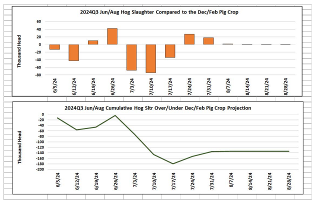
Prices in the hog and pork complex inched higher this week, with the cutout gaining $0.71 on a weekly average basis and the WCB negotiated hog market adding $0.81. The cutout averaged $105.49 this week, but the highest cutout was recorded on Monday and the lowest on Friday, which suggests that it may have exhausted its upward momentum and is poised to turn lower. The hams are the biggest drag on the cutout, with that primal dropping over $5 this week. The bellies were the counterbalance, moving up close to $12 on the week and the retail items pitched in a tiny amount also. However, the move lower in the hams seems to be accelerating and I'm not sure that the bellies and other items are going to be able to fully offset the losses in the hams over the next week or two. Any move lower is likely to be gradual initially, but could pick up steam as kills expand moving deeper into August. The combined margin looks as though it is approaching a top, thus further improvement in demand may be hard to come by. In fact, the attached weekly scatter of the cutout vs. negotiated load counts shows that the demand curve has already shifted lower. This week's cutout was up by a small amount, but the volume traded was much smaller than the week before, so this week's price increase is more appropriately attributed to tighter availability in the spot market rather than any substantial increase in demand. On the supply side, this week's slaughter was pegged at 2.46 million head, up 19k from the week before. Next week's kill is forecast at 2.48 million head. By the time we get to the end of August, the weekly kill should be near 2.55 million head. Those growing kills are likely to put pressure on the cutout and if demand is also turning lower, then that pushes the odds of the cutout declining to a pretty high level. Of course, carcass weights also figure into the supply situation and this week FI barrow and gilt weights were reported steady at 209. There has been some rather warm weather over the midsection of the country this week, so that might take some more weight off the hogs, but that heat is expected to break next week, and cooler temperatures are likely to prevail. My guess is that carcass weights may only shed one or two more pounds before they start to turn seasonally higher.

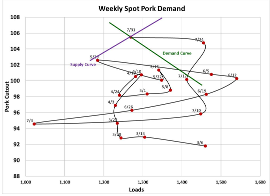
Carcass weights are running 1.5% heavier than last year and this week's kill was about 4.5% stronger than the same week in 2023, so FI pork production is likely up close to 6% YOY. The fundamental forecast has pork production remaining 6% or more above last year through the month of August, so the supply side is likely to be a fairly strong headwind in the next few weeks. The news doesn't get much better after Labor Day, when the industry will start working on the March/May pig crop, which USDA reported to be 1.8% larger than last year. Capacity utilization in the packing industry is likely to get very high in Nov/Dec and packers will need to be incentivized with strong margins to get all of the hogs dead. That likely means ample pork availability and perhaps sharply lower hog prices as the industry works through its biggest numbers of the year. This week's kill was about 18k larger than what the pig crop implied, but for the summer quarter as a whole the cumulative kill has been about 140k less than what the pig crop implied. USDA's pig crop estimate seems to be fairly accurate this time around. Let's hope they didn't undercount the pig crop for the upcoming quarter. Exports are a bit of a bright spot for the industry currently, holding up better than expected in midsummer when prices are usually at their highest. We've heard reports of surging hog and pork prices in Mexico and perhaps that was partly responsible for the big rally in ham pricing during July. Going forward, the industry will really need strong exports to help clear product this fall when production is likely to be very large. The Aug futures have eight trading days to expiration and the LHI will print $93.64 on Monday. If I'm right about the cutout easing over the next week or two, then a good target for expiration might be close to $92. The negotiated cash hog market didn't really follow the cutout higher during the recent rally, but it is likely to follow the cutout down if material declines develop. I calculate packer margins this week at a little over $17/head, down $2-3 from last week, but still very healthy for this time of year. That gives packers an incentive to keep kills moving higher and it appears that there are enough hogs available to make that happen. Producer margins are currently near $22/head, but probably living on borrowed time and will likely be back into single digits by early September. Next week, look for some modest easing in the cutout and perhaps negotiated hogs also.

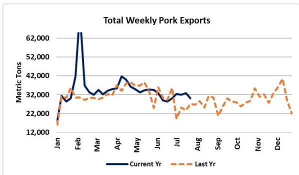

WTD Change in LH Futures
0.00
-0.50
-1.00
-1.50
-2.00
-2.50
-3.00
-3.50
Aug24
Oct24
Dec24
Feb25
Apr25
May25
Jun25
Jul25
Aug25
Oct25
Dec25

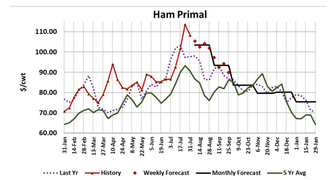

Weekly Avg Primal Impact on Pork Cutout from W/E Jul 26, 2024 to W/E Aug 2, 2024
Cutout Chg = .71
$/cwt.
0.16
-0.08
0.28
-0.31
-1.56
2.23
-0.06
0.04
Loin
Butt
Picnic
Rib
Ham
Belly
42s
72s

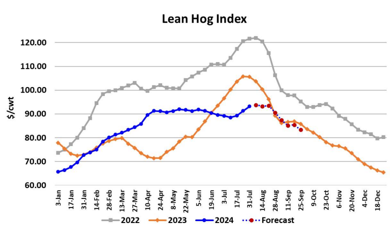

Pork Supply Chain Margins
Packer Margin
Producer Margin
Total Margin
$/head


2024Q3 Jun/Aug Hog Slaughter Compared to the Dec/Feb Pig Crop
Thousand Head
6/5/24
6/12/24
6/19/24
6/26/24
7/3/24
7/10/24
7/17/24
7/24/24
7/31/24
8/7/24
8/14/24
8/21/24
8/28/24
2024Q3 Jun/Aug Cumulative Hog Sltr Over/Under Dec/Feb Pig Crop Projection
Thousand Head


Weekly Spot Pork Demand
Supply Curve
Demand Curve
Pork Cutout
Loads

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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.*