



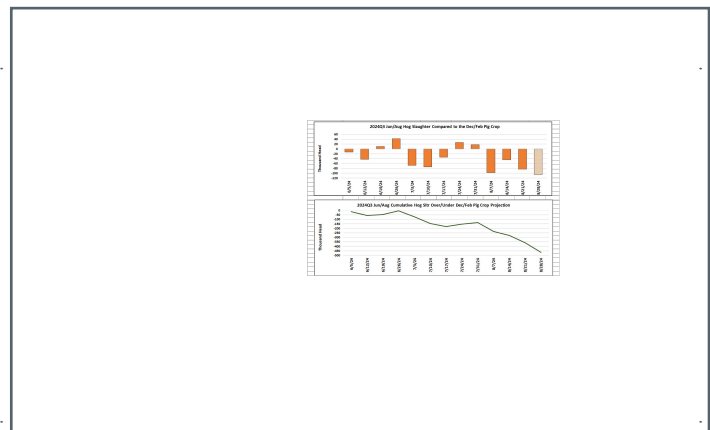
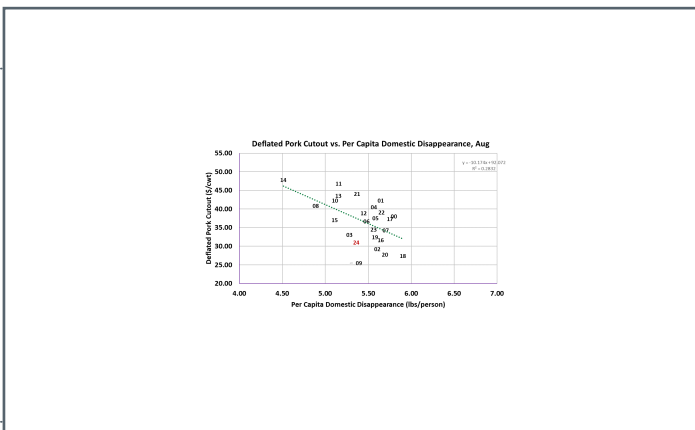
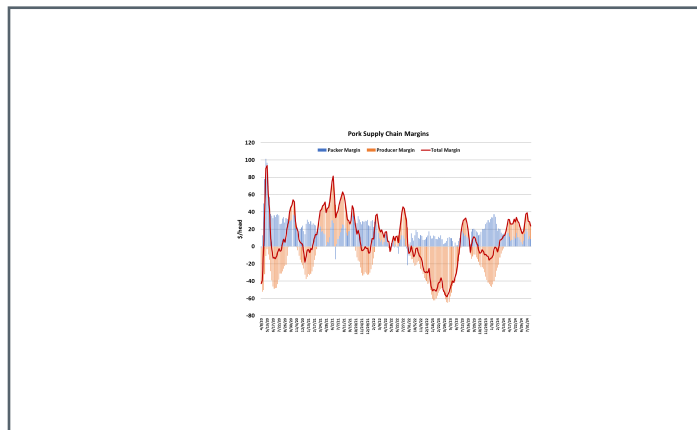
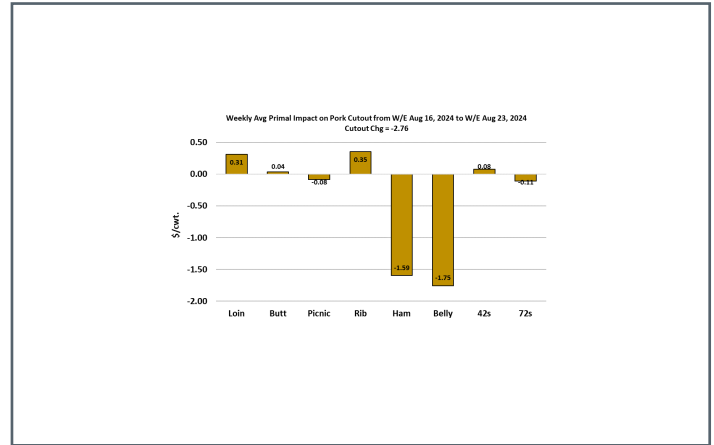
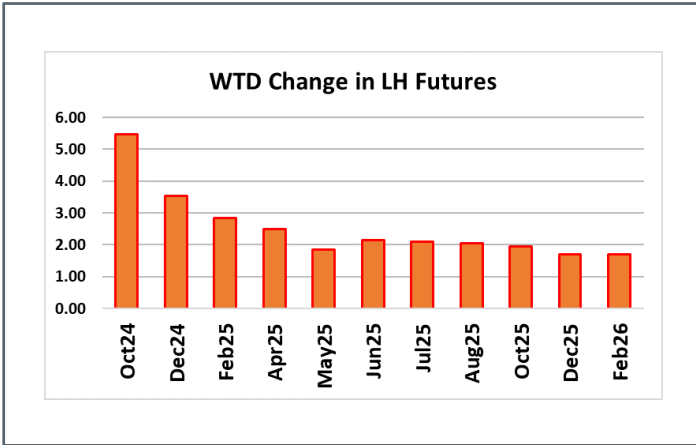
WEEK ENDING AUGUST 23, 2024

THE PORK WRAP

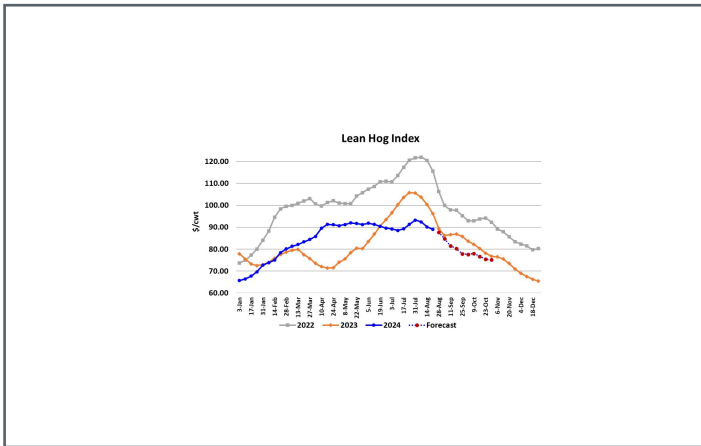
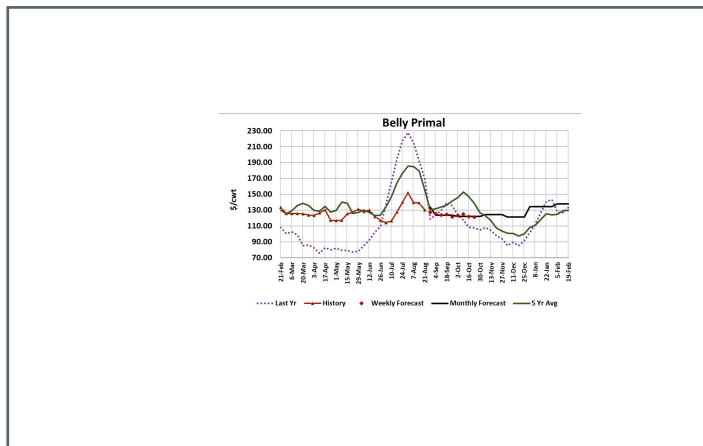
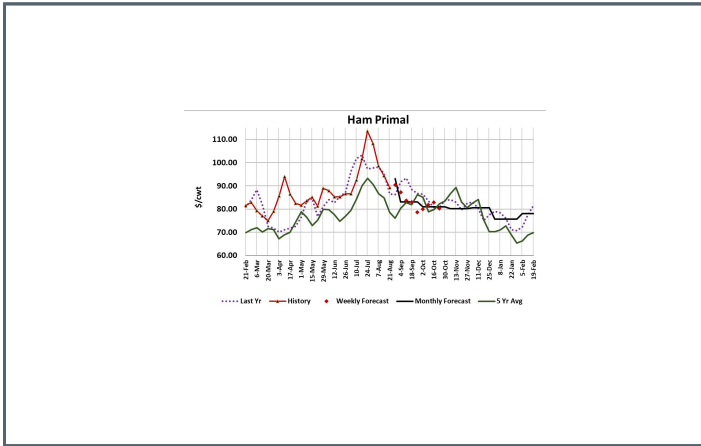
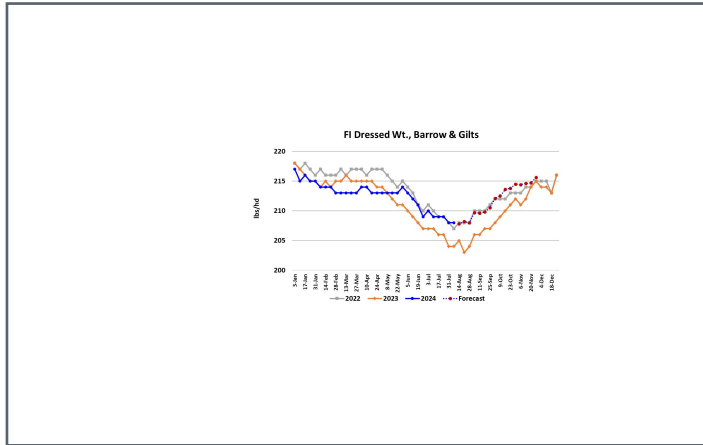
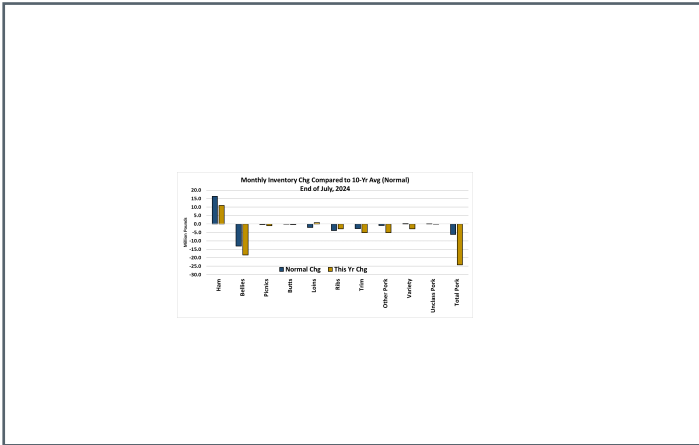
An odd thing happened in the hog and pork complex this week. Pricing for most of the cuts and hogs moved lower, yet the nearby Oct futures rallied over \$5. I think there were a couple of things driving this weird outcome. The first and probably most important, was that the Oct contract was just too low relative to the cash index. As mentioned last week, the LHI hasn't moved more than a couple of dollars either side of \$90 for the past four months. Traders have gotten used to prices in this complex changing very slowly and when the Aug futures expired, leaving Oct as the standard bearer, traders looked at the \$15 discount to the LHI and thought, "no way it will move down that fast". That made it very easy to buy, even in the face of cash market softness. The other thing that happened was we saw some late-week price strength in the processing items, mostly hams and bellies, and that reinforced the idea that this market isn't going to go down very fast. Processors will likely run a heavy week next week in order to get ahead on production before Labor Day week and in order to do that they needed raw materials. Now of course that means that next week their demand for hams and bellies is likely to be lighter, so the little bit of price strength we saw late week could easily evaporate next week. From my perspective, the rally in the futures was needed to bring the contract into better alignment with the fundamentals since coming into the week I was projecting Oct expiration near \$80. This week's changes lowered that target to \$78, so now the Oct looks a bit overpriced and could be vulnerable. The fact of the matter is that if prices were ever going to come down fast in this complex, late Aug/early Sep is the most likely period for that to happen because that is when slaughter is usually expanding at a rapid clip. But with the cutout printing over \$99 on Friday afternoon, it will be tough to sell traders on the idea that a rapid decline in prices is just around the corner. This week the cutout dropped \$2.76/cwt. on a weekly average basis and the WCB negotiated cash hog price was down \$1.31. The LHI dropped \$1.16 and is still easing, but you can see that at \$1-2 per week it would take a long time to get the Index into the mid-\$70s from its current level around \$89. Hence the incentive to buy the Oct contract. Another problem for the bears is that kills continue to come in smaller than what the pig crop suggested.

This week's kill registered 2.50 million head, down slightly from last week and next week may only be around 2.46 million head as packers will probably curtail the Friday and Saturday kills in order to allow their workers a long holiday weekend. It now looks like the industry will end up underkilling the Dec/Feb pig crop by about 450k—not insignificant. The attached chart indicates that a lot of that underkilling happened in the past three weeks. That raises the possibility that kills will remain lighter than expected as we move into September. Another clue that the number of hogs on the ground is less than expected is found in packer margins, which averaged about \$8/head this week, down from \$20/head near the end of July. Barrow and gilt weights were reported steady this week at 208 pounds and that may be very close to the seasonal bottom in weights, but material increases might still be a couple of weeks away. Pork production this week is estimated to be about 3% larger YOY. This week, it was the bellies and hams that were the biggest drag on the cutout, as hard as that may be to believe. The forecast has the hams averaging a little higher next week, but bellies probably remain on a downward trajectory. The retail items held up quite well this week, but those too are likely to see softening price levels next week. The attached scatter diagram shows that pork demand remains relatively weak (Aug24 below the regression line) and I don't see much reason for that to change in the near term. The combined margin is still tracking lower, suggesting that the industry is currently in a demand downcycle. It doesn't help that retailers raised prices to consumers again in July. Today's cold storage report showed total pork in cold storage down 4.3% YOY at the end of July and a closer look at the individual items reveals that it was because the inventory build in hams during July was smaller than normal while the inventory drawdown in bellies was larger than normal. Total pork inventory declined about 25 million pounds from the end of June to the end of July, when a more normal drawdown would only have been about 5-6 million pounds. Next week, look for the cutout to be steady to slightly weaker and the cash hog prices down another dollar or two.

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