Daily Livestock Report

Sponsored in part by CME Group

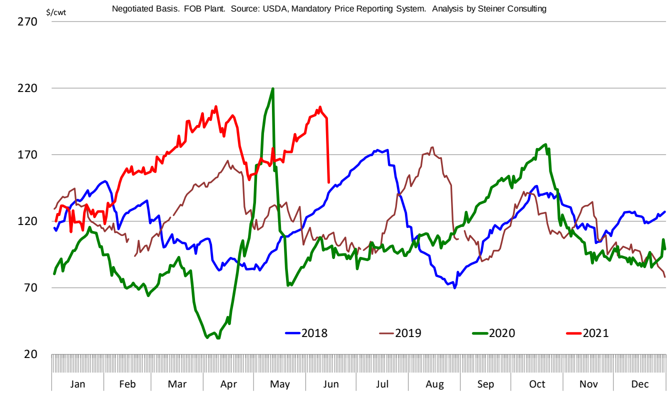
 Vol. 19, No. 114 / June 16, 2021

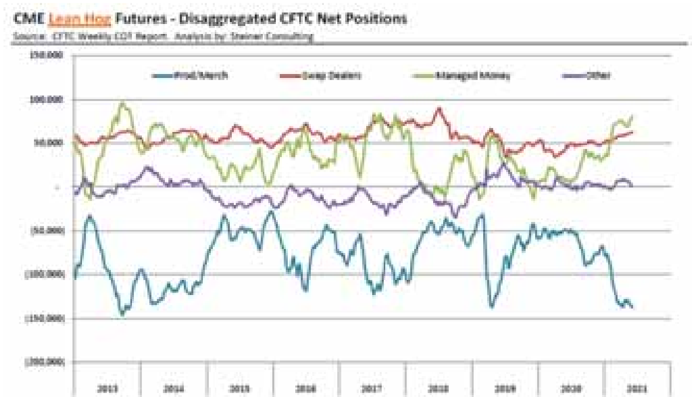
Belly prices staged a stunning reversal yesterday, with the belly primal dropping a stunning $48/cwt or 24.5% from the previous day. While we do not know exactly what happens, it is clear that someone had to unload a significant amount of bellies and took a haircut to do so. Normally light bellies trade at a premium to heavy ones but last night derind #9-13 bellies traded 30% under the value of #13-17 product. Also, we normally see more heavy bellies traded in the open market but last night, the volume of light bellies traded was 2.3x the volume of the heavier category. This could be a one-off event but, as the attached chart shows, a sharp correction normally is followed by even more downside. This is the second biggest one day drop in belly value. The biggest was last May when the primal dropped $61.52. It will be interesting to see how bacon processors respond to this pullback. If the decline is just a seller caught out of position, then once the market cleared we could see prices return to a more “normal” level. However, it could also be that this is a sign that large users, e.g. fast food operators, may be scaling back orders as they have trouble passing on price increases to final customers. If so, processors may take notice and opt to sit on the sidelines, adding to the downside. Again the chart is helpful in illustrating past volatility for this item.

The decline in bellies contributed a $7.7/cwt reduction in the value of the cutout. Fresh pork remains in good shape, with robust prices for loins, ribs and especially buts, helping offset the decline in bellies. Still, the pork cutout last night closed at $122.21/cwt, down $6.17/cwt or 4.8% from the previous close. This was the lowest pork cutout level since May 24.

Futures opened limit down this morning, clearly **reflecting fears that the drop in bellies signals more downside risk for the cutout and eventually hog prices**. Funds have a significant net long position and heightened risk may have caused some of those longs to rethink their positions. The latest Commitment of Traders report shows trader positions for the week ending June 8, telling us that managed money added 2k contracts to their net long lean hog position that week, for **a total net long of 81,263k contracts**. This is on the high end of the range for the last six years (see chart) and substantially higher than last summer. The meat margin (defined as the spread between cutout value and hog price) had already come under pressure in recent days. Before the drop in belly prices last night, the spread was around $6/cwt (cutout was $128.68 on Monday while the CME index was $122.71). The spread all but disappeared last night and dropped into negative territory. This has happened before, however. We had a similar situation develop at almost exactly the same time in 2019. Why would packers continue to pay up for hogs at a time when the meat margin has turned negative? At this time they are looking to fill orders for a significant weekend coming up (Father’s Day) as well as 4th of July orders. Getting their customers product and delivering on orders on the books is a key priority. Eventually, however, packers may adjust slaughter schedules in order to bring a margin back in the business. This is clearly on the mind of traders as they try to assess potential impact on hog values this summer.

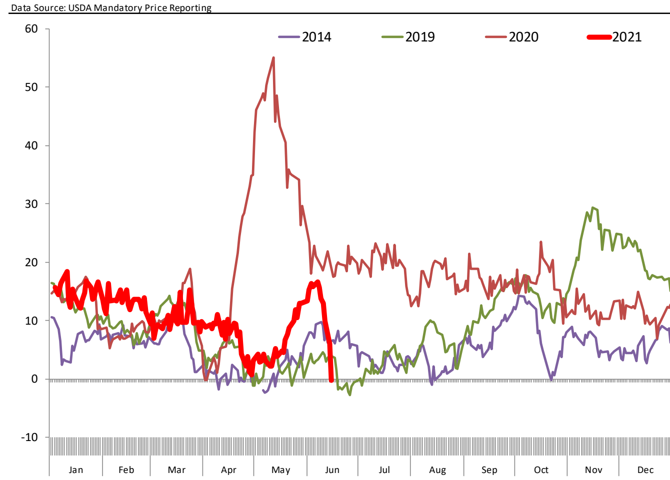
DAILY BELLY PORK PRIMAL VALUE





SPREAD BETWEEN PORK CUTOUT AND CASH HOG INDEX, $/cwt

Data Source: USDA Mandatory Price Reporting



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