

Hog and pork cutout futures were mixed yesterday, with nearby market registering modest gains but more selling in the spring and summer. **The so called "risk off" trades have been a major factor in recent days.** A new COVID variant appears to be quickly spreading around the world and large fund traders are trying to price the potential impact on demand, both in domestic and export markets. Before the new variant had been announced, funds had taken a more bullish stance. For the week ending November 23, managed money funds increased their long position by 6,107 contracts and reduced their short position by 3,096 contracts. This brought the net long position of managed money funds to 52,366 contracts, a net long increase of over 9,200 contracts. It was quite inconvenient that just a day later news of the more infectious COVID variant started to make the rounds.

In the near term there are some positive developments although one should continue to be aware of the seasonal factors that tend to impact product prices. Cash hog values appear to have found a bottom, with the latest cash hog prices \$1.3/cwt higher than the previous day. Cash hog prices drifted lower for much of the last three months but appear to have now stabilized (see chart). Packers should be able to run a full production schedule this week and the next two, with hog slaughter expected to be above 2.6 million. Producers fell behind in marketings during October and November, which contributed to the weaker cash market. Weights of producer owned hogs are still running above 2020 and 2019 levels. The trend in weights in the next two weeks will be telling. We think a big part of the reason for the widening spread between cutout futures and hogs was due to producers losing currentness and thus leverage (see chart). But if the USDA September survey was right, pipeline supplies will likely ease and allow producers to catch up. This would suggest the spread returns to under \$10/cwt, which is the level we have seen in previous years as well. Implied hog slaughter for Jan/Feb is expected to decline to 2.5 million hogs.

A big unknown for early 2022 is the impact that the rollout of Prop 12 in California, and a similar measure in Massachusetts, will have on the market. It is thought that packers have prepared for this, in part by reducing the number of sows in group housing operations in order to meet requirements. However, this is still extremely disruptive, forcing more inefficiencies in the system. We will not really know the impact until the rubber hits the road. Exports also remain a major risk. This morning USDA will issue the weekly export figures for last week. Shipments will likely be low, in part due to the holiday shortened week. MPR export data also would suggest another week of low sales to China and other Asian markets. In the past February, and especially April futures, have been vulnerable to export demand. That is because production tends to still be relatively strong while retail demand is somewhat soft. Easter tends to support the ham market in Feb/Mar but robust export demand is needed once buying for Easter needs comes to an end. Finally, labor remains an ongoing concern, especially as it limits the ability of packers to bone/trim product,

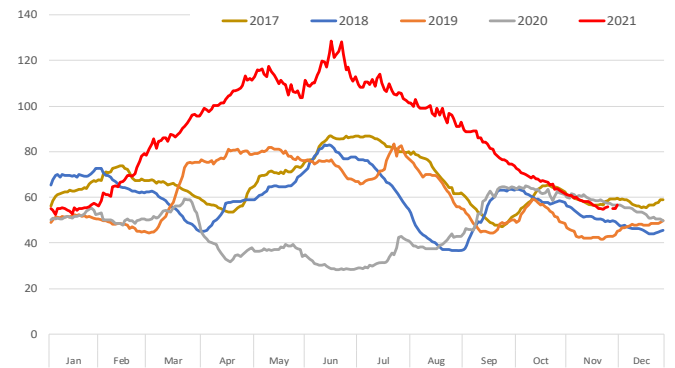
CFTC Commitment of Traders Report

Data Source: CFTC. Analysis by: Steiner Consulting

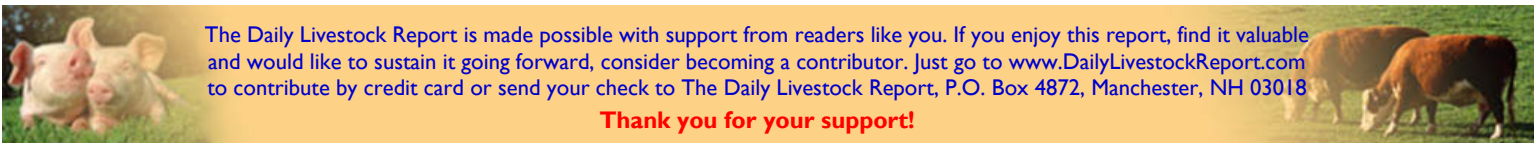
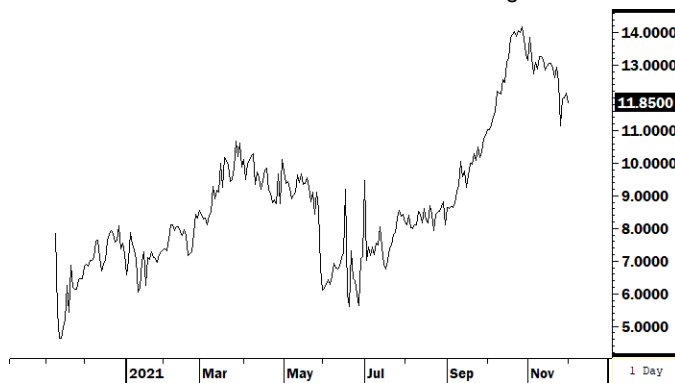
		Lean Hogs		
		16-Nov	23-Nov	ch.
Prod/Merch	Long	10,741	10,885	144
	Short	99,839	106,191	6,352
	Net	(89,098)	(95,306)	(6,208)
Swap Dealer	Long	63,236	62,749	(487)
	Short	5,767	5,251	(516)
	Net	57,469	57,498	29
Mng. Money	Long	62,904	69,011	6,107
	Short	19,741	16,645	(3,096)
	Net	43,163	52,366	9,203
Other	Long	25,551	25,422	(129)
	Short	21,950	22,595	645
	Net	3,601	2,827	(774)
OI (Futures Only)		226,170	237,280	11,110

Daily Cash Hog Prices. National Price. Negotiated. \$/cwt

Source: USDA-AMS (LM_HG200). Analysis by Steiner Consulting



Feb. '22 Pork Cutout Futures minus Feb. '22 Lean Hog Futures



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