

# COMMODITY UPDATES

## January 2023 Market Outlook

Data courtesy of Smithfield

- **Pork: Tighter hog supplies in H1 2023; export demand could improve.**
  - The December Hogs & Pigs Report showed market hog inventories -2% YoY, the lowest December 1st level since 2016. The breeding herd did indicate small expansion YoY for the Sept-Nov period, up 0.5%.
  - November pork cut exports were down 1% YoY at 431 million lbs while YTD pork & pork variety meat exports are down 10%. Mexico took approximately 116 million lbs of ham in November, down 5% YoY but the highest monthly volume since March. The USDA could be underestimating US pork exports in 2023 (-1% versus 2022) as US pork prices are one of the cheapest in major exporting countries.
  - Cold storage inventories for pork at the end of November were 454 million lbs, up 14% YoY, but below the 2015-19 average. Belly stocks were near record large for November, while hams inventories were the smallest since 1996.
  - The winter storm across the Midwest in late December, coupled with recent harvest disruptions, have backed hogs up to start the year. Hog weights have increased as a result. The industry will work through the excess supply of hogs in the coming weeks.
  - The USDA pork cutout was relatively flat for December near the \$87 level. To start out 2023, the cutout has worked lower led by hams, bellies, and butts. If hams & bellies can bottom in the upcoming week(s), the cutout could be setting the stage for a spring rally with the impact of lower hog numbers. Demand will be key in 2023.
- **Other Protein: Polar opposites for beef & chicken. Boxed beef rallied over \$40/cwt in December while chicken breast sits near record lows.**
  - Beef packers pulled back on harvest levels ahead of the holidays as cattle prices hit the highest level since June 2015. As a result, Choice boxed beef is up over \$43/cwt since the low on December 6th. Higher beef prices could bolster demand for pork and chicken in 2023.
  - The December Cattle on Feed Report indicated 2.6% less cattle in feed yards with placements for November down 2.1%. The USDA forecasts beef production to be down over 7% in 2023 as liquidation across the cattle feeding industry continues.
  - Chicken breast prices are 54% below 2022 prices due to record broiler production in the second half of 2022. At \$.98/lb, chicken breast prices are near record low for this time of year, and over \$2.50/lb off the 2022 highs in late May.
  - HPAI ravaged the turkey and egg layer sectors of the poultry industry in 2022. Turkey breast prices and table egg prices hit record high in 2022. Currently, the USDA expects turkey production to be up over 6% in 2023 assuming the industry can rebound from last year's HPAI impact.
- **Grain: Dry weather in Argentina & southern Brazil ignited the grain & oilseed complex.**
  - An ongoing La Nina has impacted weather across key grain & oilseed producing regions of Argentina and southern Brazil. Corn promptly rallied \$0.50/bushel while soybean meal increased over \$50/ton in December. Historically high input costs for protein producers will make 2023 another challenging year. Domestically, corn export sales have been lethargic. Expect the USDA to reduce demand in upcoming WASDE reports adding back much needed bushels to the US balance sheet.