

Hog Margin Watch: January



Hog margins were mixed over the last half of January, weakening in spot Q1 and Q2 while strengthening in Q3 and Q4. Soybean meal prices eased slightly over the past two weeks after significant recent gains, while corn was flat and hogs were steady to higher. Margins remain below average relative to history although still positive in Q2 and Q3. Hog prices have been supported by strong demand indications despite increased supply. USDA's latest Cold Storage report showed the highest December decline in pork inventories since 1985 and the lowest month-end figure since 2010. Total pork in cold storage was reported at 477 million pounds, down 8.0% from November and 12.5% from 2015. Pork bellies led the decline, as stocks at 17.8 million pounds were the lowest on record for a year-end going back to 1973. Meanwhile, federally inspected hog slaughter in December was a record high of 10.4 million head, with strong weekly kill rates continuing in January. Through last week, hog slaughter since December 1 has been 3% larger than last year, as weekly pork production totals broke records. Feed prices have eased somewhat following recent rainfall in parched growing regions of Argentina and welcome dryness in others. While concerns over reduced acreage and yields remain, the change in weather has moderated some of the bullish enthusiasm over soybean meal in particular. In addition, recent executive orders from the new Trump administration on immigration, as well as its commitment to build a border wall with Mexico – and possibly tax imports from the country as much as 20% to pay for it – have reignited fears of a trade war. Our hog producer clients have been focused recently on adding flexibility to existing soybean meal positions and strengthening hog protection.

1st Qtr '17 2016 2017 Q1 2017: HIGH (\$0.57) LOW (\$17.00) LAST (\$0.57) 10YR PERCENTILE 45.8%



2nd Qtr '17 2016 2017 Q2 2017: HIGH \$7.07 LOW (\$3.45) LAST \$5.63 10YR PERCENTILE 38.5%



3rd Qtr '17 2016 2017 Q3 2017: HIGH \$2.21 LOW (\$6.86) LAST \$1.44 10YR PERCENTILE 31.4%



4th Qtr '17 2016 2017 Q4 2017: HIGH (\$6.60) LOW (\$10.78) LAST (\$6.69) 10YR PERCENTILE 27.7%



The Hog Margin calculation assumes that 73 lbs of soybean meal and 4.87 bushels of corn are required to produce 100 lean hog lbs. Additional assumed costs include \$40 per cwt for other feed and non-feed expenses.

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