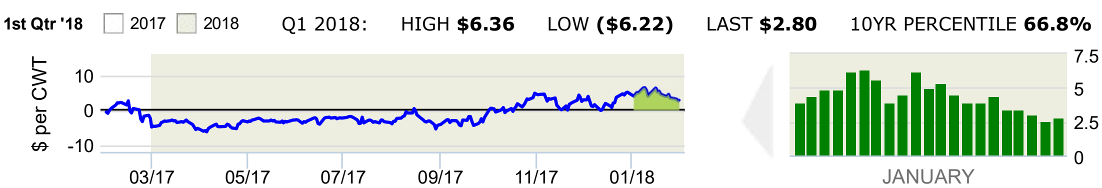
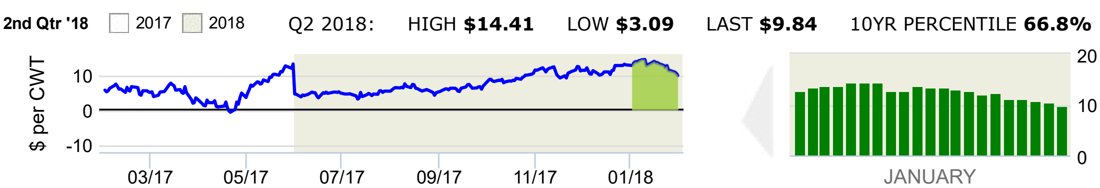
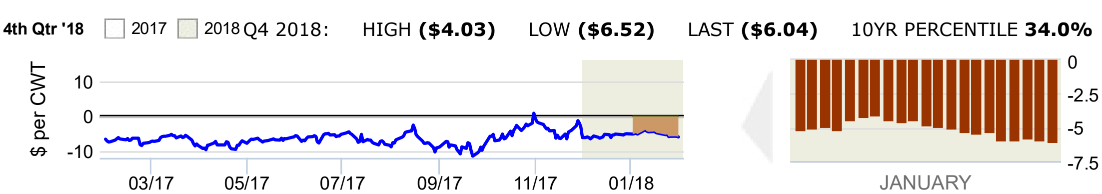
Hog Margin Watch: January

Margins deteriorated over the second half of January due to a combination of lower hog prices and higher feed costs. Hog prices have retreated recently despite strength in the pork cutout and January slaughter levels that have trailed what was expected based on the USDA's December Hogs and Pigs report. Hog slaughter for the first four weeks of the year has been up 1% from 2017, compared to the forecast for a 2% increase in slaughter supply based on the quarterly inventory data. It appears that many hogs may have been pulled forward in December, and weather disruptions during January may also have limited hog slaughter in early 2018. Meanwhile, the pork cutout value during January remained higher than a year ago despite increased production, indicating strong demand. Much of the strength in the pork cutout appears to be tied to the performance of the pork butt, which is a key export item to some Asian markets. Continued U.S. dollar weakness and accelerating growth in the global economy bodes well for U.S. pork exports over the near to medium term. Pork stocks in Cold Storage at the end of December totaled 491 million pounds, up 3.2% from last year, but around 6.7% below the five-year average. Stocks declined 2.3% from November compared to the five-year average decline between those two months of 1.7%. Feed costs have been rising recently due to weather concerns in Argentina, which have trimmed crop estimates from earlier forecasts. This likewise has pressured hog finishing margins. Given recent margin deterioration, our hog producer clients have been focused mainly on adding flexibility to existing hog and feed hedges following the recent price action in those markets.







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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