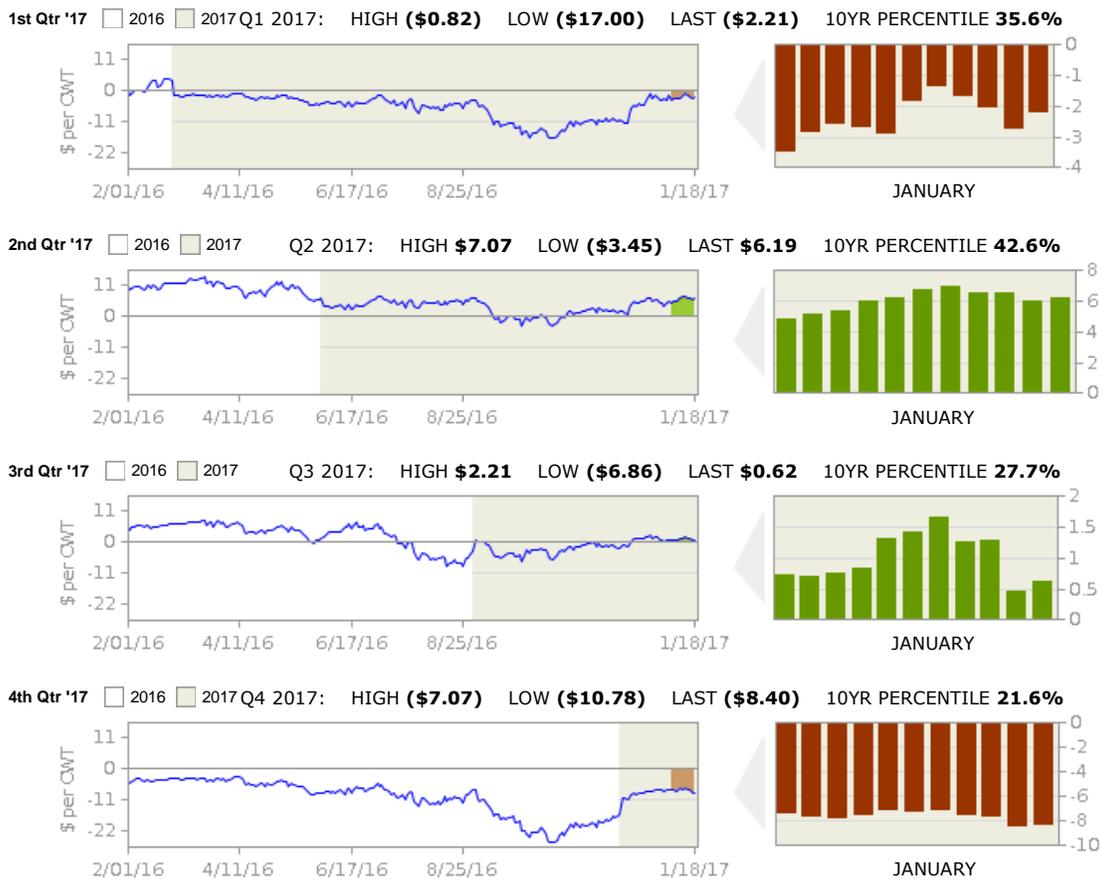


Hog Margin Watch: January



Hog margins were steady to weaker, with generally higher trade, since the end of 2016. Soybean meal prices in particular have soared over the past few trading sessions on renewed weather concerns in Argentina, the world's largest soybean meal exporter. Heavy recent rainfall in key growing regions in that country have raised the specter that additional U.S. supply may be needed to meet global demand. In addition, the USDA's January WASDE report reduced the size of the U.S. soybean crop by 54 million bushels on lower harvested area and yield, reducing projected ending stocks by 60 million bushels. The corn data had a similar tone, as USDA lowered U.S. production by 78 million bushels on reduced yields and slightly reduced ending stocks as well. Despite forecasted increases in pork and beef production, with higher hog and cattle herds, projected corn feed and residual usage was cut 50 million bushels, likely due to higher ethanol production and a recent tariff hike from China on U.S. DDGS imports. Hog prices meanwhile remain supported by strength in pork demand, particularly exports. November pork exports posted the highest monthly total for the year, eclipsing the previous monthly high (in May) by 10% and exceeding the 2015 November total by 18%. Shipments to Mexico were up 31 million pounds from 2015, representing the biggest year-over-year gain in volume for the month despite the significant depreciation in the Mexican peso relative to the U.S. dollar. Pork exports are on track to be up 4% from last year and to reach the largest total since 2012. Given the limited change in margins, hog producers have been focused on lightening delta on existing soybean meal positions following the recent large price increase.



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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