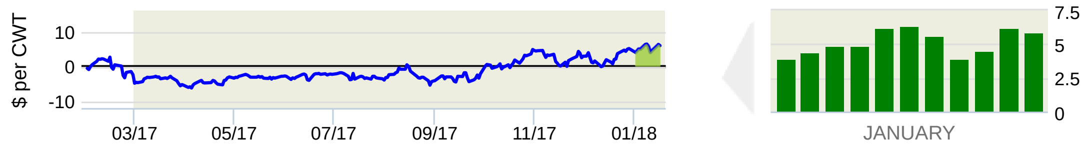
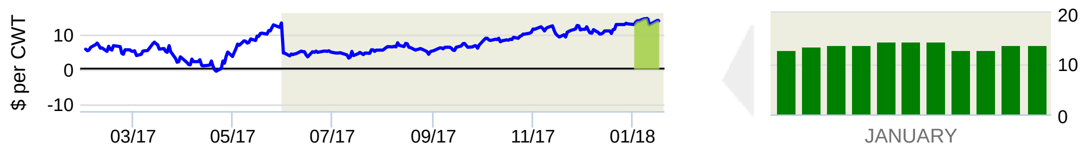
Hog Margin Watch: January

Margins held relatively flat over the first half of January, improving slightly from year-end, with limited movement in the hog and feed markets. Hog prices recently advanced to fresh contract highs as the demand outlook remains strong despite record pork production. Hog slaughter has been up 4.5% year-over-year since early December, compared to a 2.3% increase implied by the USDA's December Hogs and Pigs report, with last week's slaughter totaling 2.45 million head. The average negotiated base price last Friday of $64.01/cwt was up $5.44/cwt. from the previous week., indicating that some packers are likely short on supply and having to bid up for hogs on the open market. The latest international trade report showed November pork exports up 8.2% from last year, with exports representing 23.9% of total production, the highest percentage since May. Through November, pork exports were up 7.9% year-over-year, and there is optimism for that trend to continue into 2018, given expectations for accelerating economic growth in the global economy and emerging markets in particular, along with a recent weakening in the U.S. dollar. Feed costs have held relatively steady with little impact from the USDA's January crop report. Corn ending stocks increased 40 million bushels from December due to slightly higher production and lower demand, while soybean ending stocks were revised up 25 million bushels as lower production was more than offset by a reduction in the export forecast. Our hog producer clients continue to fine-tune existing margin protection, making adjustments to strengthen their hog hedges following the recent increase in price, while maintaining strong feed hedges.

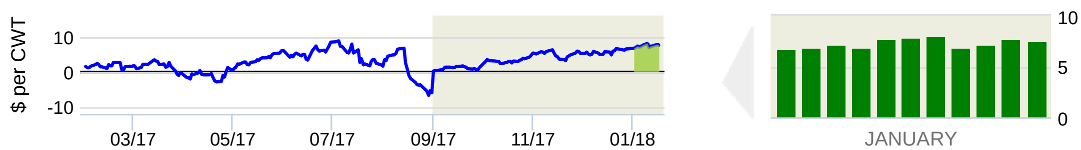
1st Qtr '18 2017 2018 Q1 2018: HIGH **$6.36** LOW **($6.22)** LAST **$5.91** 10YR PERCENTILE **81.7%**



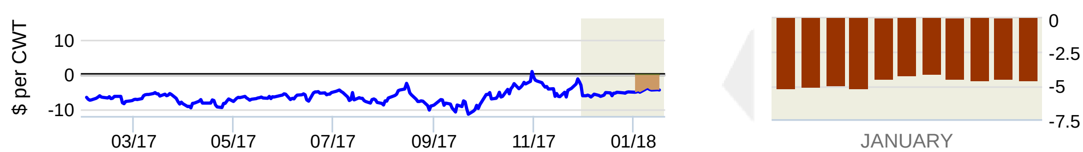
2nd Qtr '18 2017 2018 Q2 2018: HIGH **$14.41** LOW **$3.09** LAST **$13.69** 10YR PERCENTILE **81.7%**



3rd Qtr '18 2017 2018 Q3 2018: HIGH **$8.02** LOW **$0.21** LAST **$7.52** 10YR PERCENTILE **68.4%**



4th Qtr '18 2017 2018 Q4 2018: HIGH **($4.03)** LOW **($6.52)** LAST **($4.57)** 10YR PERCENTILE **42.3%**



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.

Commodity & Ingredient Hedging, LLC
120 South La Salle St, Suite 2200 ▪ Chicago, IL 60603 ▪ 1.866.299.9333