Hog Margin Watch: February

Hog margins deteriorated over the second half of February due to lower hog prices as feed costs held steady. While margins are still positive in both Q2 and Q3, they remain well below average from a historical perspective. Hog prices have come under some pressure from weakness in the cutout, in particular from a large drop in the value of the belly primal. The resulting narrowing of pork processor margins may be causing packers to slow down their slaughter schedules. On a positive note, weekly hog slaughter has been trailing what would have been implied by the latest December quarterly hog inventory survey from USDA. As a result, the current Q2 pork production estimates, which are 6% higher than last year, may prove to be overly optimistic. That would be a bullish indicator for hog prices. However, questions remain about both domestic and export demand heading into spring. Meanwhile, feed prices appear to be catching a bid following rumors that the Trump administration is considering changes to the Renewable Fuels Standard. At issue are changes in the point of responsibility for certifying RINS compliance with the RFS mandate and whether to allow E15 in gasoline blendstocks year-round, which would potentially be supportive of corn prices. In addition, a possible restriction on tax credits in the advanced biofuels mandate, to apply only U.S.-produced biodiesel, was viewed as very supportive for the soybean oil market. Given recent price movements, hog producers have been adding flexibility to existing corn positions.

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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