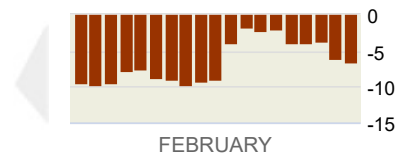
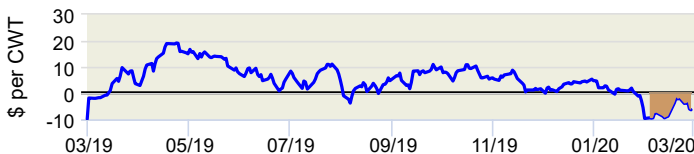


# Hog Margin Watch: February

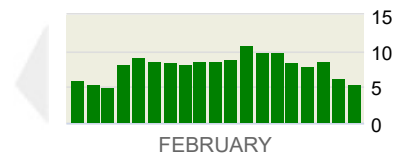
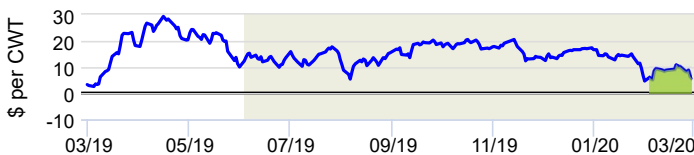


Margins deteriorated over the second half of February as renewed weakness in the hog market weighed on profitability while strength in meal and lower trade in corn were mostly offsetting. Concerns over fallout from the globally expanding coronavirus outbreak continue to reverberate through the grain and livestock markets. The immediate concern is obviously to demand as domestic production continues to expand significantly year-over-year. Pork exports accounted for 23% of total domestic production for all of 2019, with the figure for December at 28%, the highest share ever. Record pork production during December and January combined with a strong export pace resulted in a sharp increase in monthly Cold Storage pork supplies. End of January stocks at 625.2 million pounds were up 11.1% from last year and 8.2% higher than the five-year average. January inventories also increased 8% compared to December. Looking ahead to Q2, USDA pegged hog slaughter to be up 3.8% compared to last year, and both exports and domestic demand will be critical to absorbing the additional supply. USDA is projecting 2020 pork exports to be 16.7% higher than last year, which would offset the increased production although per capita availability will still be above the long-term trend. A worrisome feature is the fact that broiler production is also increasing sharply, with January growth up 6.5% from 2019 and implied February growth of 8% over last year. The supply of chicken in Cold Storage at 957.5 million pounds is up 12.2% from last year and 18.4% higher than the five-year average. Competition in the retail case for spring and summer grilling features will be intense this season, with 70% of fresh pork sold through retail channels according to studies from the National Pork Board. Our clients continue to position hog hedges to allow for upside price flexibility later in the year while also protecting against potential catastrophic losses.

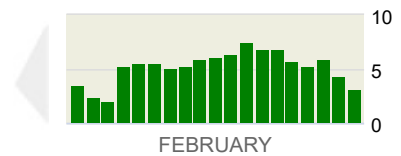
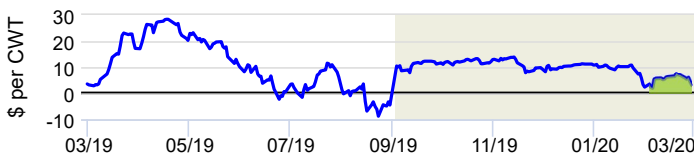
**1st Qtr '20** 2019 2020 Q1 2020: HIGH **\$19.12** LOW **(\$9.83)** LAST **(\$6.47)** 10YR PERCENTILE **12.4%**



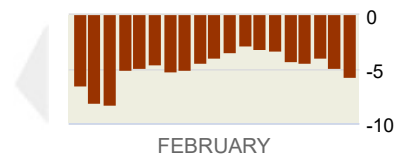
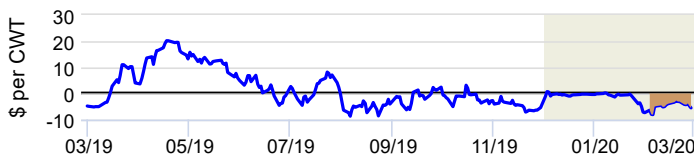
**2nd Qtr '20** 2019 2020 Q2 2020: HIGH **\$20.56** LOW **\$4.57** LAST **\$5.55** 10YR PERCENTILE **28.7%**



**3rd Qtr '20** 2019 2020 Q3 2020: HIGH **\$13.86** LOW **\$2.14** LAST **\$3.15** 10YR PERCENTILE **31.9%**



**4th Qtr '20** 2019 2020 Q4 2020: HIGH **\$0.71** LOW **(\$8.20)** LAST **(\$5.64)** 10YR PERCENTILE **35.9%**



*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.*

The information contained in this publication is taken from sources believed to be reliable, but is not guaranteed by Commodity & Ingredient Hedging, LLC, nor any affiliates, as to accuracy or completeness, and is intended for purposes of information and education only. Nothing therein should be considered as a solicitation to trade commodities or a trade recommendation by Commodity & Ingredient Hedging, LLC. All references to market conditions are current as of the date of the presentation. Futures and options trading involves the risk of loss. Past performance is not indicative of future results. Please visit [www.cihmarginwatch.com](http://www.cihmarginwatch.com) to subscribe to the CIH Margin Watch report.