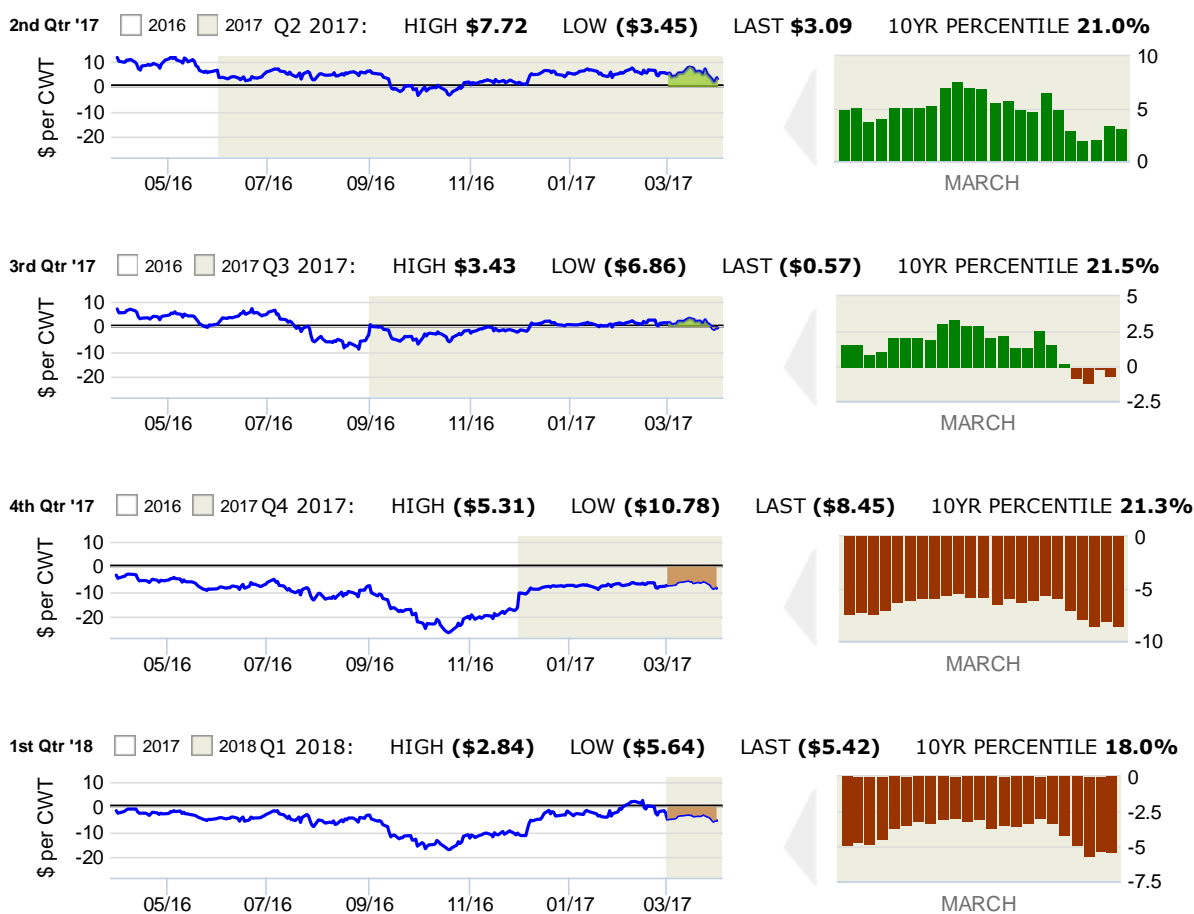


Hog Margin Watch: March



Hog margins have deteriorated sharply since the middle of March, as a slump in hog prices more than offset steady-to-cheaper projected feed costs. With the exception of the spot Q2 period, forward margins are now negative through Q1 2018 and in the bottom quartile of profitability over the past decade. Hog prices have been declining due to continued large slaughter runs that have been tracking around 7% higher than a year ago. USDA's latest Quarterly Hogs and Pigs report showed all hogs and pigs on March 1 at 70.976 million head, up 4.19% from last year, with the breeding inventory up 1.47% from last year at 6.068 million head. The kept-for-marketing figure was reported at a record 64.908 million head, up 4.45% from 2016. All figures were very close to pre-report expectations and considered neutral, although they point to ongoing increases in year-over-year pork production that will last throughout 2017 and likely into 2018. USDA also released their Quarterly Grain Stocks and Prospective Plantings reports to provide further insight on forward feed costs. The surprise in the report came from corn planting intentions at 89.996 million acres, which would be down over 4 million from last year and 1 million from the average trade estimate on the lower end of the pre-report range. By contrast, soybean planting intentions were reported at 89.482 million acres, which is up over 6 million from 2016 and 1.35 million above the average trade estimate. In addition to the larger-than-expected soybean planting estimate were larger expected March 1 stocks of both corn and beans. Given the deteriorating margins, hog producers have been adding flexibility to existing hog positions while also strengthening coverage on feed.



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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