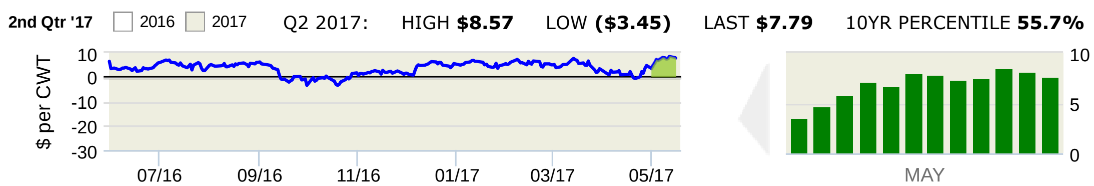
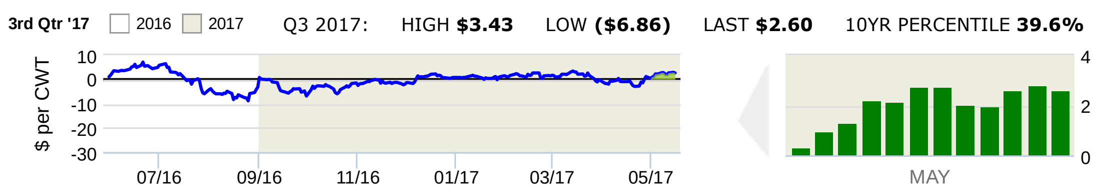
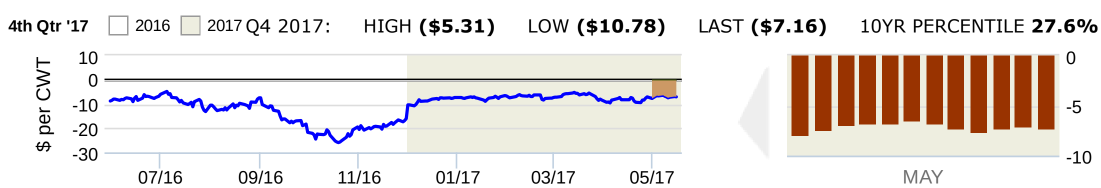
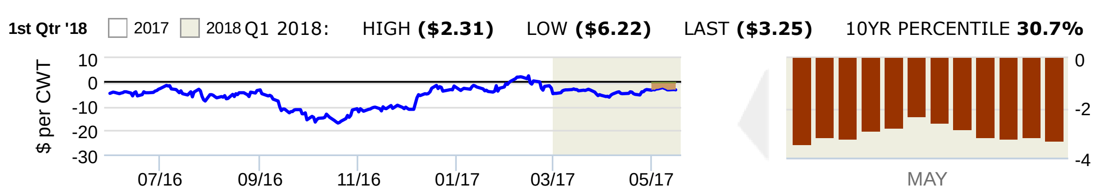
Hog Margin Watch: May

Hog margins were sharply higher in nearby marketing periods and steady over deferred slots during the first half of May following a rally in hog prices and a steady price trend in corn and soybean meal. Spot Q2 margins are back above average from a historical perspective, while below average but still positive in Q3. Deferred margins in both Q4 and Q1 remain negative, however. Cash hog prices are being supported by strength in pork export demand, as well as seasonal considerations as the weather warms across the country and the Memorial Day holiday around the corner. March pork exports of 523.79 million pounds were up 73.6 million pounds, or 16.35%, from February and 68.6 million pounds, or 15.07%, from a year ago. That export figure surpassed the previous record high from November 2016 and represented 23.10% of total pork production in March, as compared to 22.65% last month and 21.12% in March of 2016. Given the strength in Q1 exports, USDA increased their annual export forecast in the May WASDE to 5.747 billion pounds from 5.67 billion in April. Meanwhile, feed costs have held steady with limited movement in the market since the beginning of the month. USDA released their first new crop 2017/18 balance sheets for corn and soybeans in the May WASDE, which were largely as expected and failed to provide much new direction to either market. New crop corn ending stocks are projected to drop 185 million bushels from the current year, while soybean ending stocks are projected to rise 45 million bushels from 2016/17. Our hog producer clients benefited from recent adjustments to add flexibility to existing hog positions, and are now looking to strengthen those hedges following the recent 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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