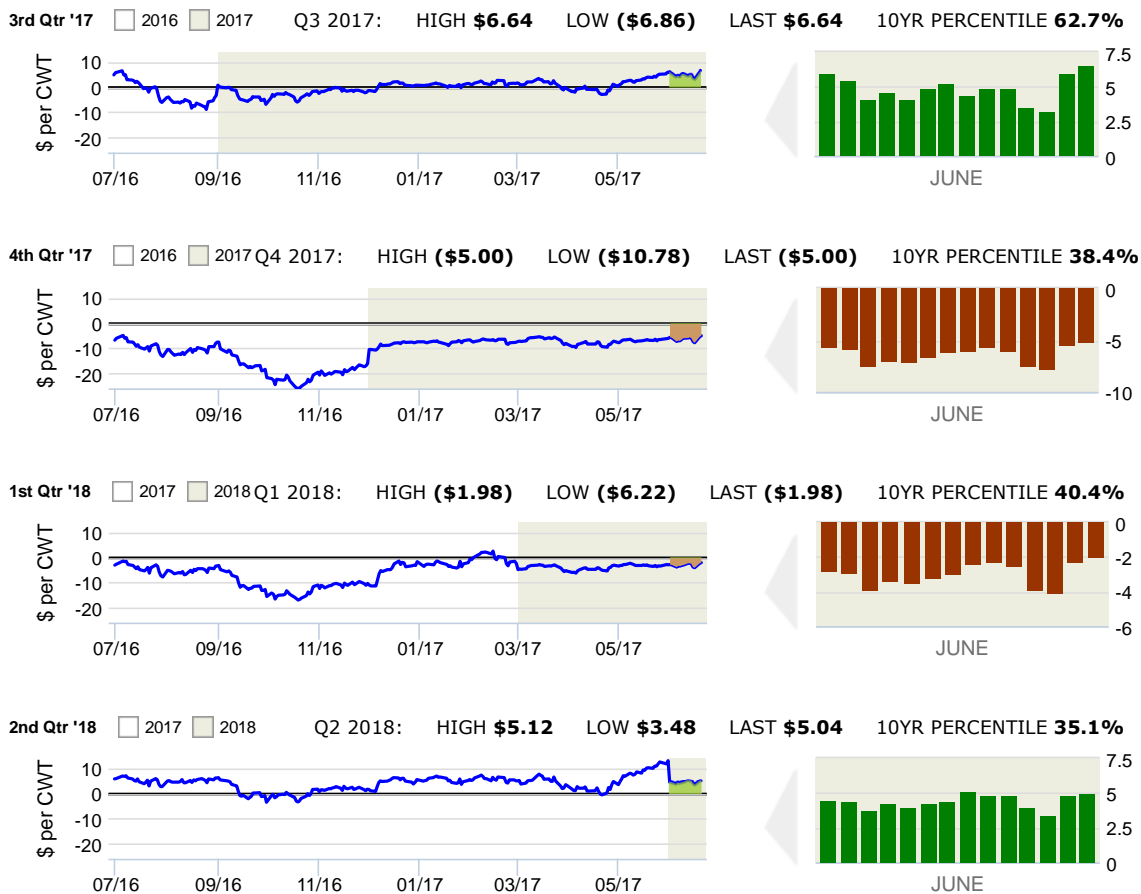


Hog Margin Watch: June



Hog margins deteriorated over the first half of June due to an uptick in projected feed costs while hog prices held steady during the period. From a historical perspective, margins based on the spot Q3 period are only average at best, while deferred margins in both Q4 and Q1 are negative, and well below average profitability for the previous decade. Feed prices have moved higher recently as less-than-ideal weather in the Corn Belt thus far in the growing season has added risk premium to the market. The most recent crop condition report put corn rated in good to excellent condition at 67%, compared to 75% last year and the 10-year average of 69% for this point in the season. Although recent rainfall across the Midwest has helped to stabilize conditions, there remains concern over the high temperatures during the first half of June and possible impacts on the July pollination outlook. Hog prices remain supported by declining hog slaughter and a drop in market weights, which is typical for this time of year. Federally-inspected hog slaughter for the week ending June 17 totaled 2.179 million head, one of the lowest non-holiday hog slaughter weeks thus far this year. Weekly slaughters are also running at about 1% below what would have been expected based on the March Quarterly Hogs and Pigs report. The next report from USDA comes out at the end of this month. Meanwhile, both producer and packer-owned hog slaughter weights are well below year-ago levels, and will likely continue declining as we move through the summer. Our hog producer clients have benefited from recent adjustments to strengthen existing hedge positions in both hogs and soybean meal, and are positioned to take advantage of further potential upside in hog prices.



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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