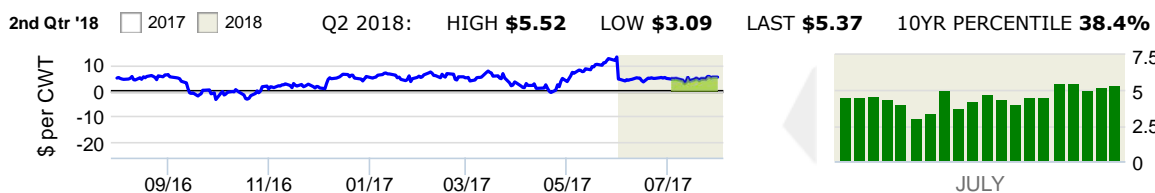
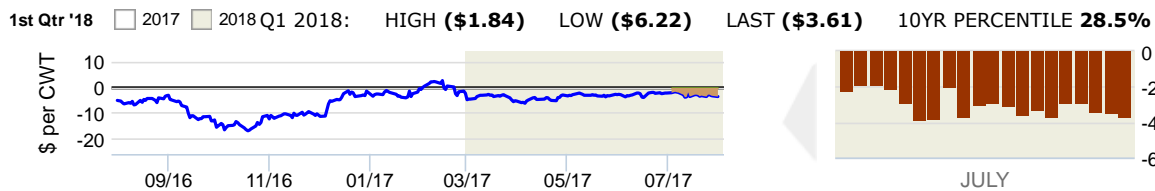
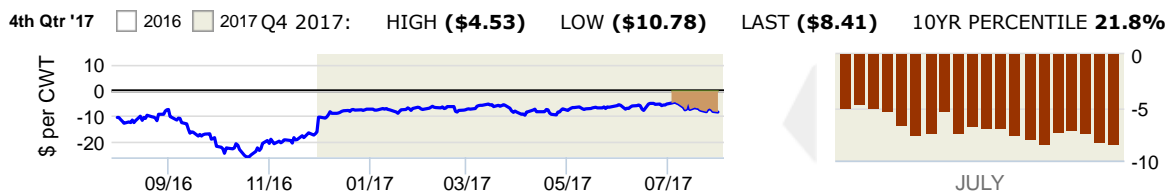


# Hog Margin Watch: July



Margins continued to erode over the last half of July as lower hog prices more than offset declining feed costs. Hog finishing margins remain well below historical averages, with negative profitability indicated for both Q4 and Q1. Hog prices remain under pressure despite ongoing strength in cutout values in absolute terms and as compared to cash hog prices. The recent USDA Cold Storage report showed total pork inventories as of June 30 at 562.973 million pounds, down 29.431 million (or 4.97%) for the month, and 23.506 million pounds (or 4.0%) from last year. Belly stocks of 22.291 million pounds were down 9.298 million (or 29.43%) from May and a record low for the month of June, dropping 40.63 million pounds (or 64.57%) from 2016. The pork cutout value is currently up 25.4% from last year, and there continue to be indications of very strong demand in both domestic markets and export channels. On the feed side, USDA reported a slight uptick in soybean crop condition ratings this past week, with the percentage rated in good-excellent condition climbing 2%. Coupled with cooler weather forecasts over the medium term, risk premium has come out of both the soybean complex and corn markets recently. There remains confusion over yield prospects given differentiated conditions across the Corn Belt from east to west. NASS will take over yield projections starting with the August WASDE report, incorporating field surveys to fine-tune the estimate for both corn and soybeans. Given deteriorating margins, our hog producer clients have focused recently on adding flexibility to existing hog hedges and strengthening existing feed hedges following recent price action in those markets.



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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