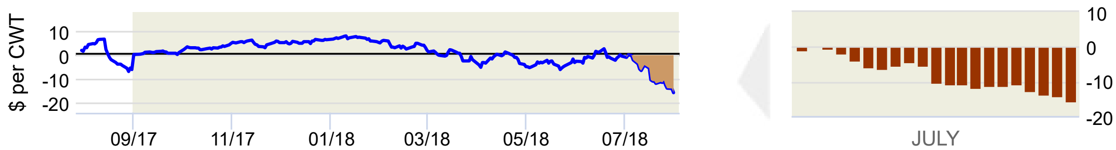
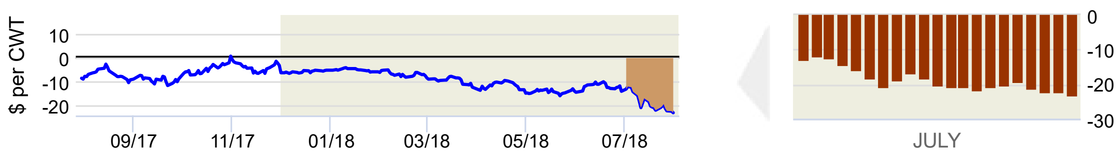
Hog Margin Watch: July

Margins deteriorated further during the second half of July on a combination of higher feed input costs and falling hog prices. Hog margins are hovering at some of their weakest levels in years, at or below the first percentile of profitability over the previous decade. Even margins in Q2 2019 are now projected below breakeven, with large losses evident from now through Q1 in the open market. Hogs continue to face pressure from concerns over an imbalance between supply and demand. With both China and Mexico enacting retaliatory tariffs on U.S. pork imports, there is concern that more pork will have to be cleared in domestic channels during the second half of the year that may be difficult for the market to absorb. USDA currently projects Q4 pork production to increase 6.3% compared to 2017, and both China and Mexico took a large share of total U.S. production between July and December last year at 1.2% and 7.0%, respectively. While the Chinese market for U.S. pork appears to be closed, demand destruction from Mexico is less certain. The peso has strengthened recently relative to the dollar, and even with the added tariff, lower prices compared to last year still make U.S. hams cheaper for Mexican buyers relative to 2017. A bigger issue is that domestic buyers aware of expectations for large production increases later this year appear to be dragging their feet on purchases and allowing inventories to draw down which is adding pressure to the market. Meanwhile, both the corn and soybean meal markets have moved higher recently on declining crop conditions and yield concerns with uncertainty over what USDA will report in the August WASDE. Our clients continue to focus on adjusting existing positions, looking at adding flexibility to feed hedges following the recent increase in price.

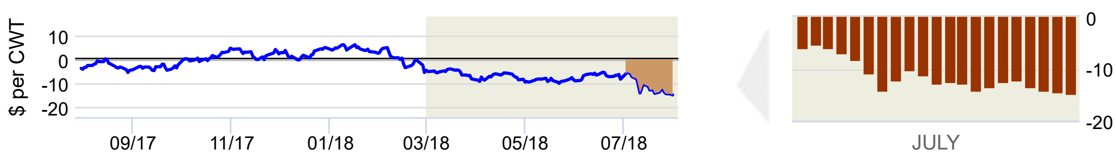
3rd Qtr '18 2017 2018 Q3 2018: HIGH **$8.02** LOW **($15.65)** LAST **($15.65)** 10YR PERCENTILE **1.8%**



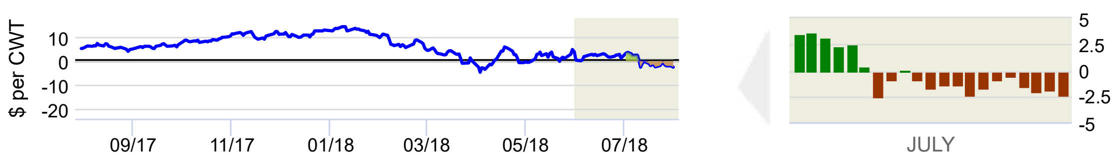
4th Qtr '18 2017 2018 Q4 2018: HIGH **($4.03)** LOW **($22.91)** LAST **($22.91)** 10YR PERCENTILE **1.1%**



1st Qtr '19 2018 2019 Q1 2019: HIGH **($3.84)** LOW **($14.78)** LAST **($14.78)** 10YR PERCENTILE **0.7%**



2nd Qtr '19 2018 2019 Q2 2019: HIGH **$3.73** LOW **($2.52)** LAST **($2.45)** 10YR PERCENTILE **1.8%**



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.