

Hog Margin Watch: July



Margins deteriorated over the first half of July due to a combination of lower hog prices and slightly higher feed costs, particularly for soybean meal. Hog finishing margins are now back to well below historical averages, at around the bottom quartile of profitability over the previous decade. The exception is the spot Q3 period, which has lost the most ground, margin-wise, since the end of June. Hog prices have been under recent pressure as some believe the pork cutout may be reaching a seasonal peak. The cutout has been sustained primarily by strength in the pork belly primal, which is responsible for around \$11/cwt. of the \$13/cwt. gain in the value of the pork cutout from last year at this time. However, there is concern that this strength may be difficult to sustain as retail prices catch up to consumers when the summer grilling season winds down in another month. Moreover, the industry is bracing for record pork production this fall that will strain packer capacity in Q4, further underscoring the importance of maintaining strong demand for pork from both domestic and export channels. On a positive note, August Lean Hog futures are at a historically wide discount to the CME Lean Hog Index, and this may help support the market if cash hogs stay strong. Feed prices have been more volatile lately following the updated acreage and quarterly stocks reports from USDA at the end of June. Recent forecasts have hinted at a return of hot weather in the U.S. Plains and Midwest over the medium-term, and concern is rising for the soybean crop in particular. Soybean meal has been much stronger than corn over the past two weeks, adding to projected feed costs for hog finishers. With deteriorating margins, our hog producer clients have focused recently on adjustments to existing positions with an emphasis on adding flexibility to feed hedges following recent price strength.



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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