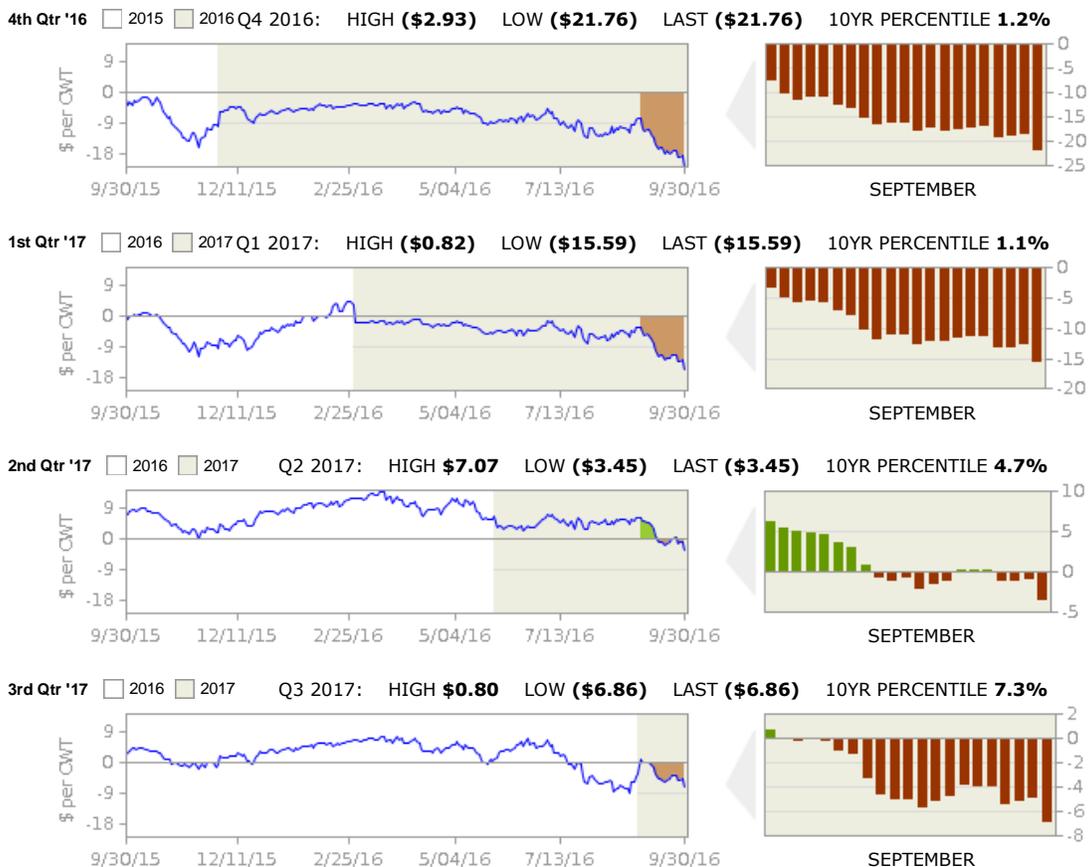


Hog Margin Watch: September



Margins continued to plummet through the second half of September, as hog futures dropped to fresh contract lows, with feed costs holding relatively steady since the middle of the month. Hog finishing margins are exceptionally depressed through Q1, at the first percentile of the previous 10 years, while forward margins are also negative and in the bottom decile of the past decade. USDA released their Quarterly Hogs and Pigs report, which confirmed industry expectations of larger hog supplies. As of September 1, "All Hogs and Pigs" were reported at 70.9 million head, up 2.4% from a year ago and above the range of expectations. While the "Kept-for-Breeding" figure of 6.016 million head was right at industry expectations, the "Kept-for-Marketing" figure of 64.835 million head was 2.6% higher than last year when the market was only expecting an average increase of 1.1% from 2015. Both the June-August "Pig Crop" and the June-August "Pigs-Per-Litter" figures were higher than expected, and help to explain why weekly slaughter figures have trended above what would have been anticipated from the last quarterly inventory survey in June. It appears that the industry has resumed its long-term growth trend in farrowing productivity following the PED epidemic in 2014, and analysts are now revising their estimates higher for hog slaughter forecasts late this year into early 2017. On the feed side, USDA also released their September 1 Quarterly Grain Stocks report, which was considered neutral. Corn stocks in all positions were pegged at 1.738 billion bushels, 19 million below the average trade guess but within the range of estimates. The figure was 22 million above the previous forecast for September 1 stocks. Given this backdrop, our hog producer clients continue to focus on adding flexibility to hog positions, while maintaining strong feed coverage.



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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