

# Hog Margin Watch: September



The hog market has had a lot to digest the past two weeks. Cold storage numbers, African Swine Fever (ASF) updates, Florence recovery, the Quarterly Hogs & Pigs Inventory and perhaps most importantly, news of a NAFTA 2.0 agreement. The U.S. and Canada reached a resolution, which paves the way for a new, so-called, U.S.-Mexico-Canada Agreement (USMCA). Canada agreed to incrementally relax restrictions on U.S. dairy imports, while also eliminating the Class 6 & 7 Milk categories. The U.S. in turn dropped demands to overhaul the trade dispute mechanisms that exist in the original NAFTA, a major Trump administration goal. The new pact also includes an exchange rate curb, which in practice will deter currency manipulation to gain trade flow advantages. Many believe this will serve as a benchmark in future trade negotiations with others, including China, where this is potentially more of an issue. All three countries still need to approve the treaty, and ratification will likely fall into 2019. It should also be noted that Mexico's 20% duty on U.S. pork and cheese remains in effect as U.S. tariffs on steel and aluminum from both Mexico and Canada have yet to be lifted. This may remain the case until ratification of the new treaty by all parties. The atmosphere regarding trade is relief, albeit with a major pork outlet still closed in China. The Quarterly Hogs & Pigs Report revealed all hogs & pigs inventories of 75.486 million head, an increase of 3.0% from last year, and below pre-report expectations of a 3.4% bump. Hogs kept for marketing at 69.156 million were also 3.0% greater year over year, and similarly below the analysts' estimates of a 3.5% gain. Breeding hogs up 3.5% outpaced expectations of 3.1%. Given the greater breeding numbers, the improved North American trade environment is essential, providing channels for current production projections. Cutout gains from Hurricane Florence remain, even as recovery efforts are progressing towards normalcy. ASF discoveries in China have waned, as Chinese authorities have even relaxed some restrictions in the initial outbreak areas. Lastly, the Cold Storage report estimates August 31 inventories of pork at 583 million pounds, 1.2% higher than 2017 levels. Beef inventories were 5.6% greater and most troubling were chicken inventories, off the charts at 928 million pounds, a bulge of 18.6% from last year. Our clients continue to contemplate extending coverage as margins become more favorable, and lean towards flexibility given trade and ASF issues regarding China.



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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