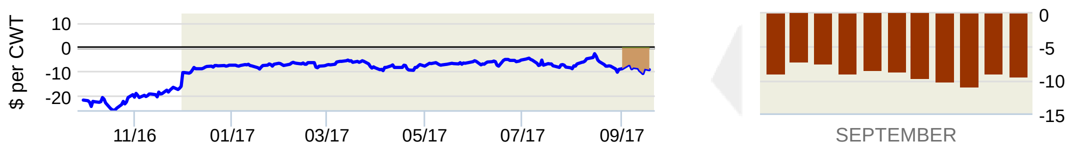
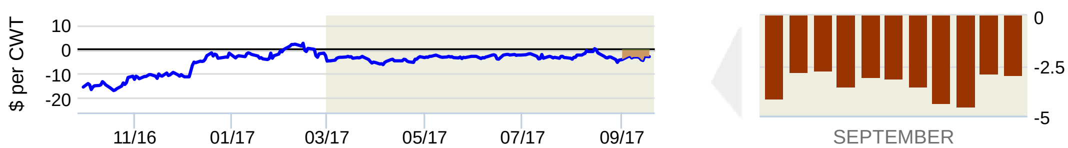
Hog Margin Watch: September

Margins were mixed over the first half of September, weakening in nearby periods while strengthening in forward slots. Hog prices declined in spot contracts, while gaining in deferred months, as feed costs held relatively steady – with the exception of soybean meal, which has moved higher since the end of August. Hog finishing margins remain negative through Q1 of 2018, and while Q2 and Q3 margins are projected above breakeven, they remain well below average from a historical perspective. A sharp decline in cash hog prices has weighed on nearby futures recently, as slaughter weights are increasing at a much faster rate than would be expected for this time of year. Moreover, the number of hogs coming to market is increasing as well, with 2.432 million head slaughtered last week, up 2.68% from the same week last year and expectations that this figure will further increase to over 2.5 million weekly during autumn. The pork cutout remains under pressure from lower belly and ham values, and this is likewise problematic as production further increases into Q4. On the feed side of the margin equation, USDA released the September WASDE report which was quite bearish for corn and soybean meal relative to market expectations. Both corn and soybean yield estimates were raised from August when the market was anticipating lower yield and production figures, although surprisingly the price response has not been that negative. Soybean meal in particular has shown strength following the report, with prices up about $20/ton off the low the day the report was released. Without significant movement in margins since the end of August, our hog producer clients have adjusted existing positions by adding flexibility to hog hedges and strengthening feed hedges.

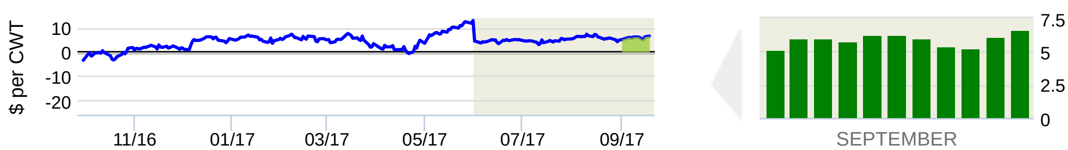
4th Qtr '17 2016 2017 Q4 2017: HIGH **($2.63)** LOW **($10.82)** LAST **($9.27)** 10YR PERCENTILE **19.1%**



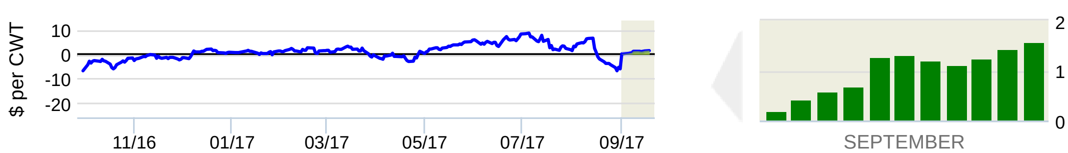
1st Qtr '18 2017 2018 Q1 2018: HIGH **$0.39** LOW **($6.22)** LAST **($2.93)** 10YR PERCENTILE **34.8%**



2nd Qtr '18 2017 2018 Q2 2018: HIGH **$7.47** LOW **$3.09** LAST **$6.61** 10YR PERCENTILE **48.3%**



3rd Qtr '18 2017 2018 Q3 2018: HIGH **$1.57** LOW **$0.21** LAST **$1.57** 10YR PERCENTILE **33.9%**



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.