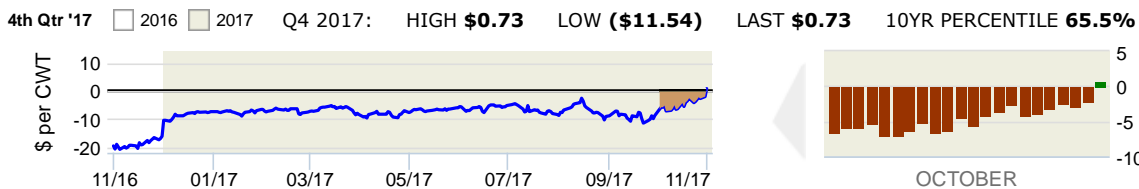


Hog Margin Watch: October



Margins appreciated sharply over the second half of October on the back of a strong rally in hog futures and weakness in feed prices. While spot hog finishing margins remain negative in Q4 and only slightly above average from a historical perspective, deferred margins in Q1 and Q2 are both positive and over the 70th percentile of profitability within the past decade. Some producers are even seeing margins above the 80th percentile now, which has spurred a wave of activity this past week to add new positions and increase forward protection. The hog market has been supported recently by strength in cash hog prices, which gained 5% in the past week alone and are as much as 26% higher than a year ago at this time. The two new pork processing facilities in Sioux City, Iowa and Coldwater, Michigan appear to have helped support the cash hog market despite record production, with hog supplies expected to remain record large through year-end. In addition to cash hog prices though, the pork cutout is also 4.9% higher than last year despite a 2.6% year-to-date increase in pork production, indicating that demand remains very strong. Moreover, despite the increase in pork production, pork availability in the spot market is down 13% from a year ago due to a larger amount of product already spoken for on previous forward purchases. A surge in September export sales also appears to have reduced the amount of pork available in the spot market. Feed costs meanwhile remain subdued with ongoing weakness in the cash market due to advancing harvest progress. Following the recent margin improvement, our hog producer clients have been adding protection in forward periods with flexible hog hedges that will allow for further margin strength over time.



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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