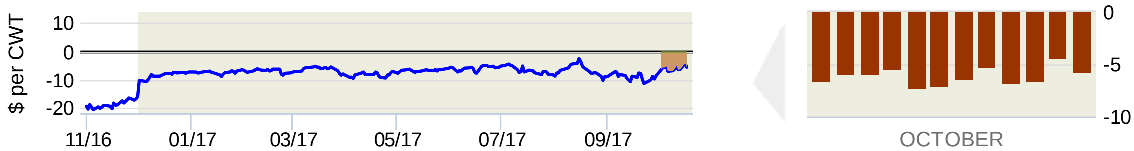
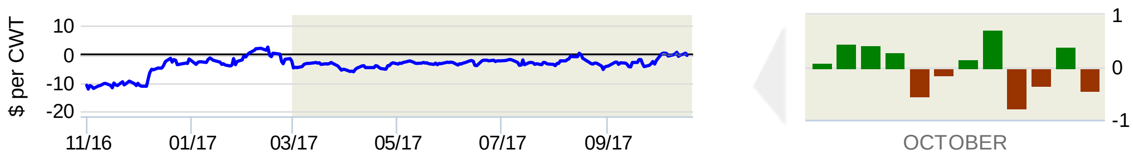
Hog Margin Watch: October

Margins improved over the first half of October due to rising hog prices while feed costs held mostly steady. Margins remain negative through the winter in Q1 before improving to above breakeven levels in both Q2 and Q3. Hog prices have been moving higher since the beginning of the month due to increased demand from packers amidst strong demand. With both the new Seaboard/Triumph Foods plant in Sioux City, Iowa and the Clemens Food Group plant in Coldwater, Michigan ramping up operations and slaughtering more hogs, competition for excess supply on the open market has increased. Meanwhile, pork belly prices have stabilized following a significant decline from earlier this year and export demand remains robust. Recent data for weekly pork shipments indicates strong growth over the previous year following flat exports during August. Steiner Consulting calculates September pork exports at 436 million pounds, up 5.3% from last year, while October exports are projected at 484 million pounds, up 7.1% from 2016. USDA released the October WASDE report, which did not provide much direction for the feed markets. Corn production was raised 96 million bushels from the previous estimate to 14.28 billion bushels, with a higher projected yield of 171.8 bushels per acre offsetting lower planted and harvested acres, which dropped about half a million bushels from September. Soybean production was left unchanged as higher planted and harvested acres completely offset a slightly lower projected yield of 49.5 bushels per acre. Our hog producer clients continue to benefit from recent adjustments to existing positions, particularly adding flexibility to hog hedges, while waiting for targets to initiate new margin protection in deferred periods.

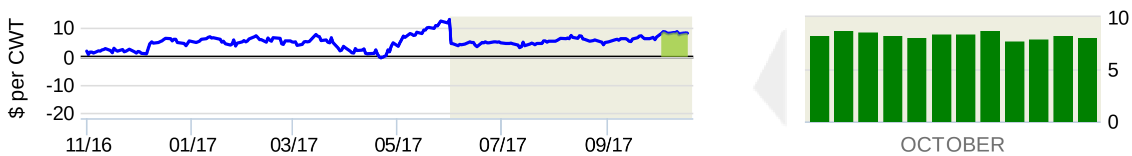
4th Qtr '17 ☐ 2016 ☐ 2017 Q4 2017: HIGH **($2.63)** LOW **($11.54)** LAST **($5.66)** 10YR PERCENTILE **36.8%**



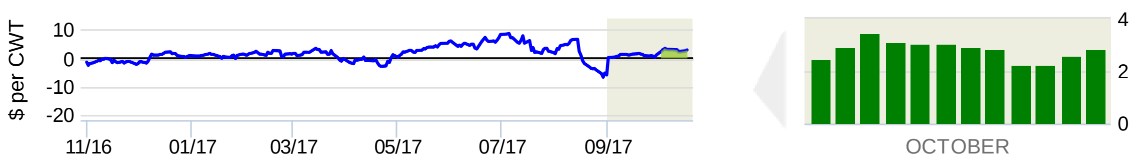
1st Qtr '18 ☐ 2017 ☐ 2018 Q1 2018: HIGH **$0.72** LOW **($6.22)** LAST **($0.43)** 10YR PERCENTILE **51.4%**



2nd Qtr '18 ☐ 2017 ☐ 2018 Q2 2018: HIGH **$8.82** LOW **$3.09** LAST **$8.19** 10YR PERCENTILE **58.8%**



3rd Qtr '18 ☐ 2017 ☐ 2018 Q3 2018: HIGH **$3.48** LOW **$0.21** LAST **$2.86** 10YR PERCENTILE **41.1%**



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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