

# Hog Margin Watch: November



Margins recovered over the second half of November following higher trade in the hog market that was partially offset by increasing feed costs. While spot Q4 margins remain negative, deferred margins through the first half of 2018 are positive and above average from a historical perspective. Projected Q2 margins in particular recently got back to the 80th percentile of the previous decade, offering the best forward opportunity for producers. The hog market has been supported by strength in the pork cutout amidst strong demand, as well as weekly hog slaughter that has trailed what was expected based on the September Quarterly Hogs and Pigs report. The current pork cutout value of \$84.30/cwt. is up 12% from the same period last year, with strength in all of the primals with the exception of hams, which are down 15% from 2016. The belly value in particular is up \$44.69/cwt., or 47%, from last year and is alone responsible for \$7.00 of the overall higher carcass value. Meanwhile, weekly hog slaughter continues to trail what would have been expected based on the USDA September inventory report, while current slaughter carcass weights of 213.7 lbs. are up 3.4 lbs., or 1.6%, from a year ago. Some analysts have expressed concern that supplies could be backing up on farms, and this may become problematic in Q1 if increased supply coincides with reduced demand in the post-holiday period. Feed costs have increased slightly since the middle of November, with strong soybean demand in particular helping meal prices to recover while corn prices have held relatively steady. Our hog producer clients have benefited from adding upside flexibility to existing hog positions, and are now working to capture the benefit of higher prices by strengthening those hedges.



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.

The information contained in this publication is taken from sources believed to be reliable, but is not guaranteed by Commodity & Ingredient Hedging, LLC, nor any affiliates, as to accuracy or completeness, and is intended for purposes of information and education only. Nothing therein should be considered as a solicitation to trade commodities or a trade recommendation by Commodity & Ingredient Hedging, LLC. All references to market conditions are current as of the date of the presentation. Futures and options trading involves the risk of loss. Past performance is not indicative of future results. Please visit [www.cihmarginwatch.com](http://www.cihmarginwatch.com) to subscribe to the CIH Margin Watch report.