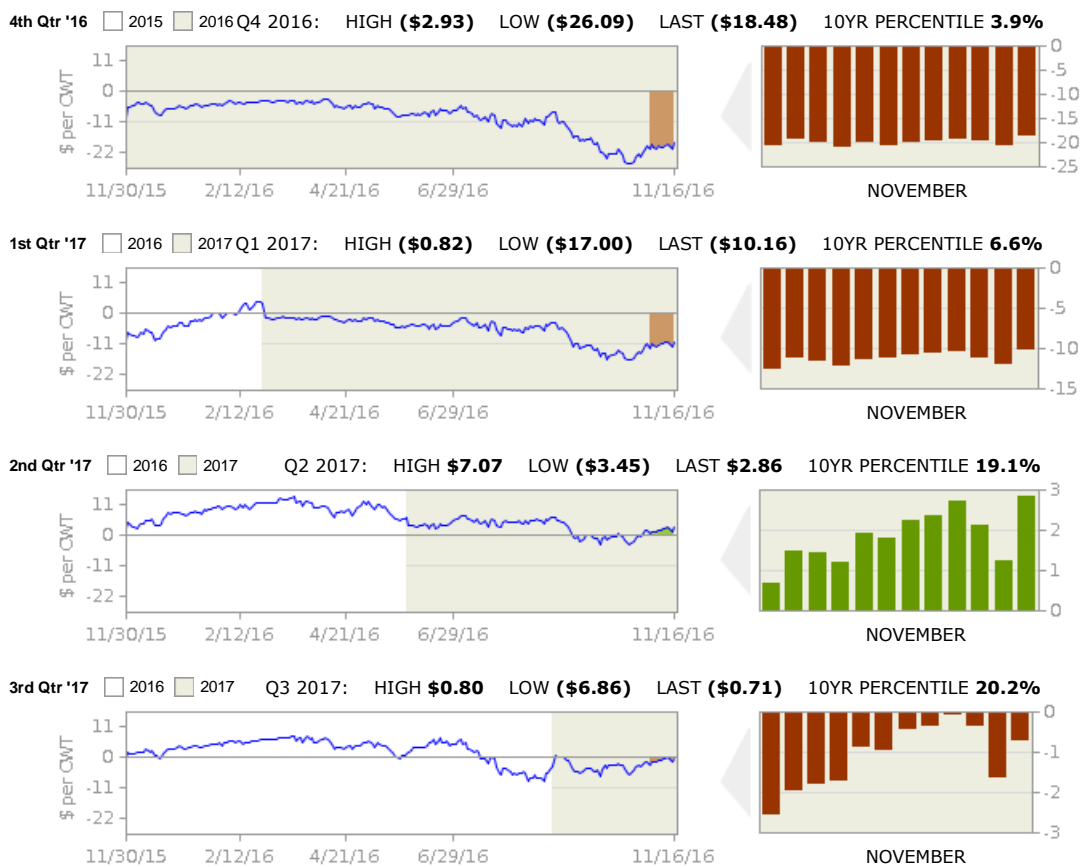


Hog Margin Watch: November



Margins have held steady since the end of October, due to sideways trading in the hog, corn and soybean meal markets. Deferred Q2 margins improved slightly over the first half of November, as summer hog contracts gained on spreads relative to winter and spring months, although hog finishing margins remain historically depressed. Hog prices have begun to consolidate, as slaughter weights are not seasonally increasing, which has helped mitigate some of the impact from larger weekly runs. While hog slaughter in the last four weeks has averaged about 6.3% above a year ago and well above what the USDA's September Hogs and Pigs report projected, pork production during that period was only up an average of 5.1% from last year. Although strength in the pork cutout relative to cash hog prices has helped to provide support, there is concern about future export demand, given renewed strength in the U.S. dollar following last week's election results as well as expectations for higher U.S. interest rates. The incoming administration's immigration and trade policies may also impact pork export demand. On the feed side, USDA's November WASDE report raised corn and soybean ending stocks due to higher yield projections for both crops. While increased demand estimates helped to absorb some of the larger supply, there was a negative price response from both markets. Our hog producer clients have been reallocating hog hedges further out in deferred contracts as they remove nearby positions, and adding flexibility to those new positions with the aim of benefiting from improved margins over time. Given historical price trends, our clients are also considering strengthening their feed 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.

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