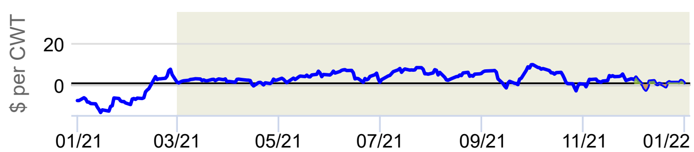
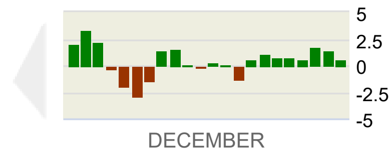
Hog Margin Watch: December

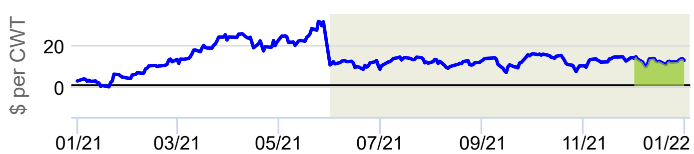
Margins strengthened over the second half of December as higher hog prices more than offset the impact from rising feed costs. USDA's Quarterly Hogs and Pigs report was bullish and helped to support the market while ongoing concerns over weather in South America are fueling crop markets. The USDA reported all hogs and pigs on December 1st at 74.201 million head, down 4.02% from last year when on average the market was anticipating a decline of 2.8% from 2020. Inventories in the heavier weight categories were well below expectations at 94% and 93.8% of last year, respectively, for the over 180 lb. and 120-179 lb. tranches when on average the market was only expecting declines of 3% and 3.8% from 2020 for these two groupings. The breeding herd at 6.18 million head was essentially equal to last year's 6.176 million, indicating that producers are being very cautious with expansion plans given the faster than expected recovery in China's domestic swine herd and uncertainties surrounding California's Prop 12 rule that goes into effect in 2022. USDA also significantly revised the breeding herd for December 1, 2019 to 6.551 million head from 6.471 million previously, implying that the breeding herd has declined 5.7% over the past two years, the largest drop since the 7.5% decline between December 2007 and 2009. Feed prices meanwhile continue to hold firm with a significant rally in soybean meal recently in response to growing drought in Southern Brazil. Our clients continuing looking for opportunities to add margin protection in deferred periods with flexible strategies that allow for further margin improvement while evaluating adjustments on existing positions.

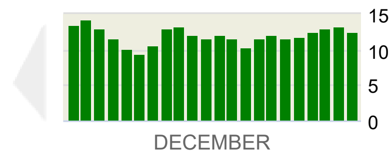
1st Qtr '22 ☐ 2021 ☐ 2022 Q1 2022: HIGH **$9.48** LOW **-$3.28** LAST **$0.64** 10YR PERCENTILE **55.3%**



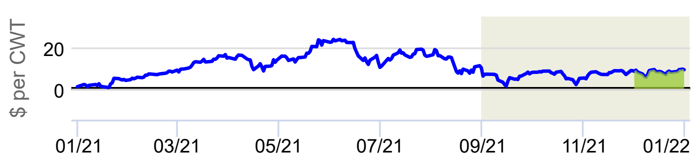


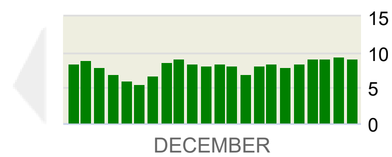
2nd Qtr '22 ☐ 2021 ☐ 2022 Q2 2022: HIGH **$15.71** LOW **$6.61** LAST **$12.49** 10YR PERCENTILE **70.6%**



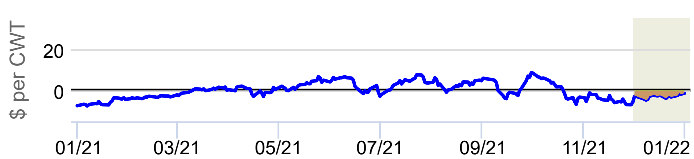


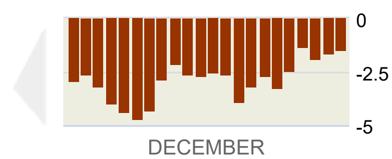
3rd Qtr '22 ☐ 2021 ☐ 2022 Q3 2022: HIGH **$9.52** LOW **$1.30** LAST **$9.21** 10YR PERCENTILE **73.1%**





4th Qtr '22 ☐ 2021 ☐ 2022 Q4 2022: HIGH **-$1.31** LOW **-$4.72** LAST **-$1.44** 10YR PERCENTILE **61.1%**





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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