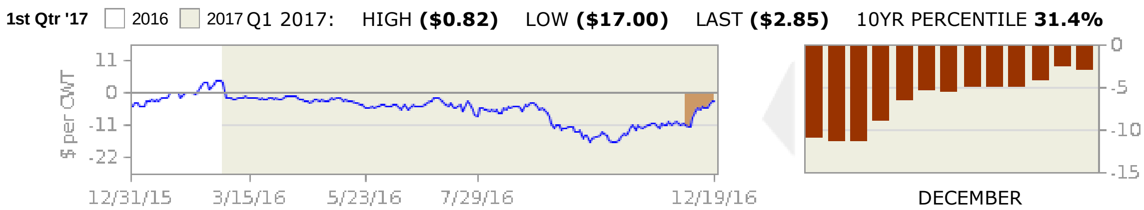
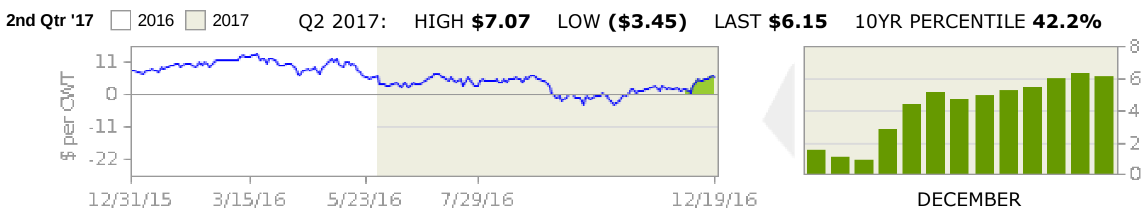
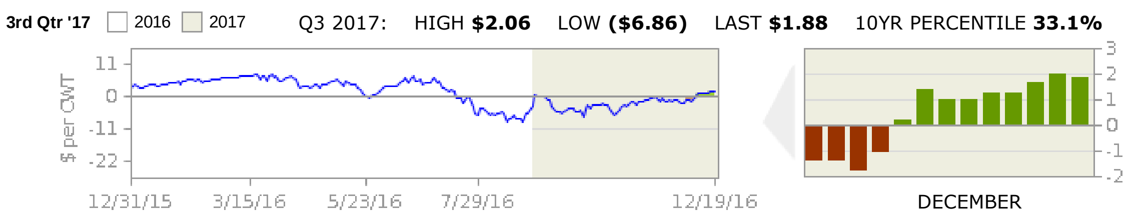
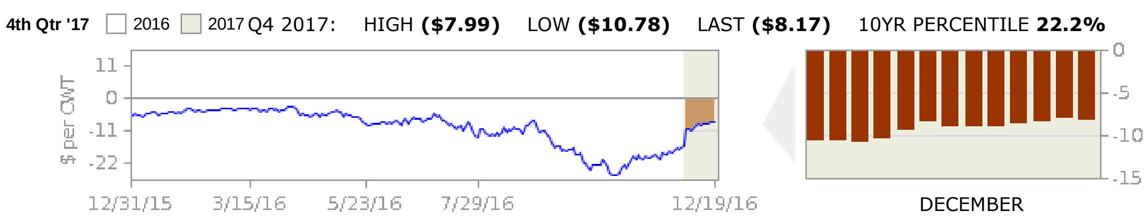
Hog Margin Watch: December

Hog finishing margins have strengthened significantly since the end of November due to a surge in hog prices, while feed costs have held mostly steady. Projected forward margins remain below historical averages, although Q2 and Q3 2017 are back above breakeven. Hog prices have been moving higher on ideas that producers have been doing a good job of staying current with their marketings, while demand indications are improving. Despite increased pork production, the cutout – and the ham primal in particular – has been supported by strength in the export market, particularly from Mexico. However, high Mexican demand may be primarily attributable to anticipation of less favorable trade relations with the U.S. in the incoming Trump administration and there is concern about the possibility of seasonal ham price declines post-Christmas. Meanwhile, USDA will release their next Quarterly Hogs and Pigs report on December 23, which will provide more insight on hog and pork supplies moving into 2017. On the feed side, both corn and soybean meal have been moving sideways. The USDA December WASDE report left both the soybean and corn balance sheets unchanged from November, and attention has been focused on weather conditions in South America which remain favorable, by and large, for crop production there. Following higher prices in the hog market, hog producers have begun strengthening their hog 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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