Hog Margin Watch: February

Margins continued to deteriorate sharply since the end of January due to an ongoing combination of lower hog prices and higher feed costs. Hog prices have retreated recently with weakness in pork cutout values and uncertainty over near-term demand. While exports continue to hold up quite well, we are moving into a seasonal period when domestic meat demand tends to decline slightly with the beginning of Lent ahead of the Easter holiday. Much also has been made of eroding packer margins as cutout values have declined much faster than cash hog prices recently. Gross packer margins have not been this low since 2015, and further weakness may cause processors to slow down chain speeds and reduce their slaughter schedules. While cash hog prices seasonally tend to rise from now into early summer, there is a noticeable decline between late February and late March in Western Corn Belt prices when the PED 2014 year is excluded from the data set. Feed costs meanwhile continue to advance on growing concerns over drought in Argentina. Soybean meal prices in particular have experienced the sharpest appreciation as Argentina provides around 45% of global exports. In the latest monthly WASDE report, USDA cut Argentina's corn crop by 3 million tons from their previous estimate while the soybean crop was reduced 2 million tons, although no change was made to their soybean meal export forecast. Ongoing drought portends further reductions in production forecasts for both crops. Given the margin deterioration, our hog producer clients continue to focus mainly on adding flexibility to existing hog and feed hedges following the recent price action in those markets.

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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