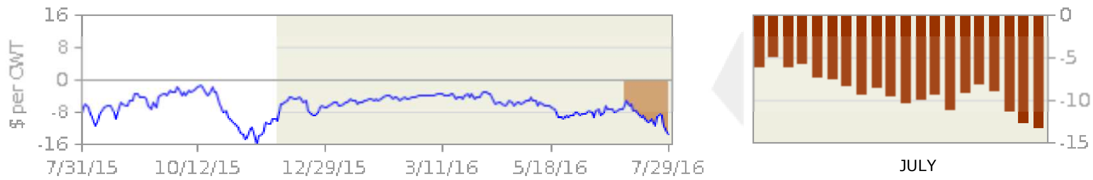
Hog Margin Watch: July

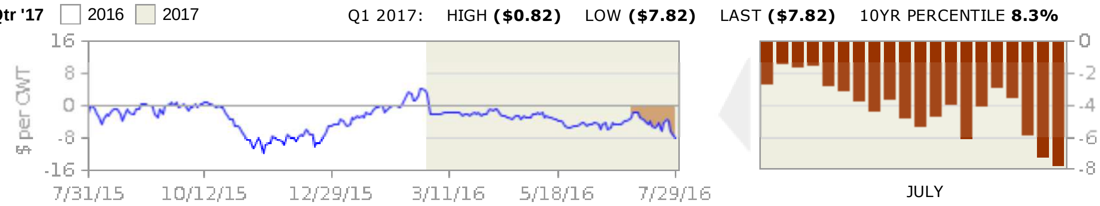
Margins have deteriorated sharply since the middle of the month as a steep selloff in the hog market failed to offset the savings from lower corn and soybean meal prices. Hog finishing margins are now projected negative into Q2 and are hovering in the bottom decile of profitability over the past 10 years. Hog prices have come under significant pressure recently due to weakness in the carcass cutout. In particular, both the belly and ham primals have each experienced counter-seasonal price declines, contributing about $4.00/cwt. of losses to the cutout value in the past couple of weeks. Lackluster export demand from China amidst a backdrop of large hog supplies coming to market have exacerbated the pressure on cash prices in recent days, while hog slaughter weights remain high. On a positive note, feed prices continue to moderate as beneficial weather and growing conditions across the U.S. Corn Belt are raising optimism for corn and soybean yields this season. The next WASDE report on August 12 will incorporate updated yield estimates from NASS that will take into account actual field surveys. In contrast, the WAOB assumptions used in the first three new-crop balance sheets were based on econometric models. In addition, recent rainfall across the Midwest and reduced heat forecasts in updated models have lessened weather concerns. With limited opportunities to establish new margin protection in deferred marketing periods, our hog producer clients have primarily been focused on making adjustments to existing positions that add flexibility to hog hedges while strengthening feed coverage.

3rd Qtr '16 2015 2016 Q3 2016: HIGH **$7.63** LOW **($6.04)** LAST **($6.04)** 10YR PERCENTILE **8.0%**

4th Qtr '16 2015 2016 Q4 2016: HIGH **($2.93)** LOW **($13.24)** LAST **($13.24)** 10YR PERCENTILE **7.8%**



1st Qtr '17 2016 2017 Q1 2017: HIGH **($0.82)** LOW **($7.82)** LAST **($7.82)** 10YR PERCENTILE **8.3%**



2nd Qtr '17 2016 2017 Q2 2017: HIGH **$7.07** LOW **$2.37** LAST **$2.74** 10YR PERCENTILE **16.4%**

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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