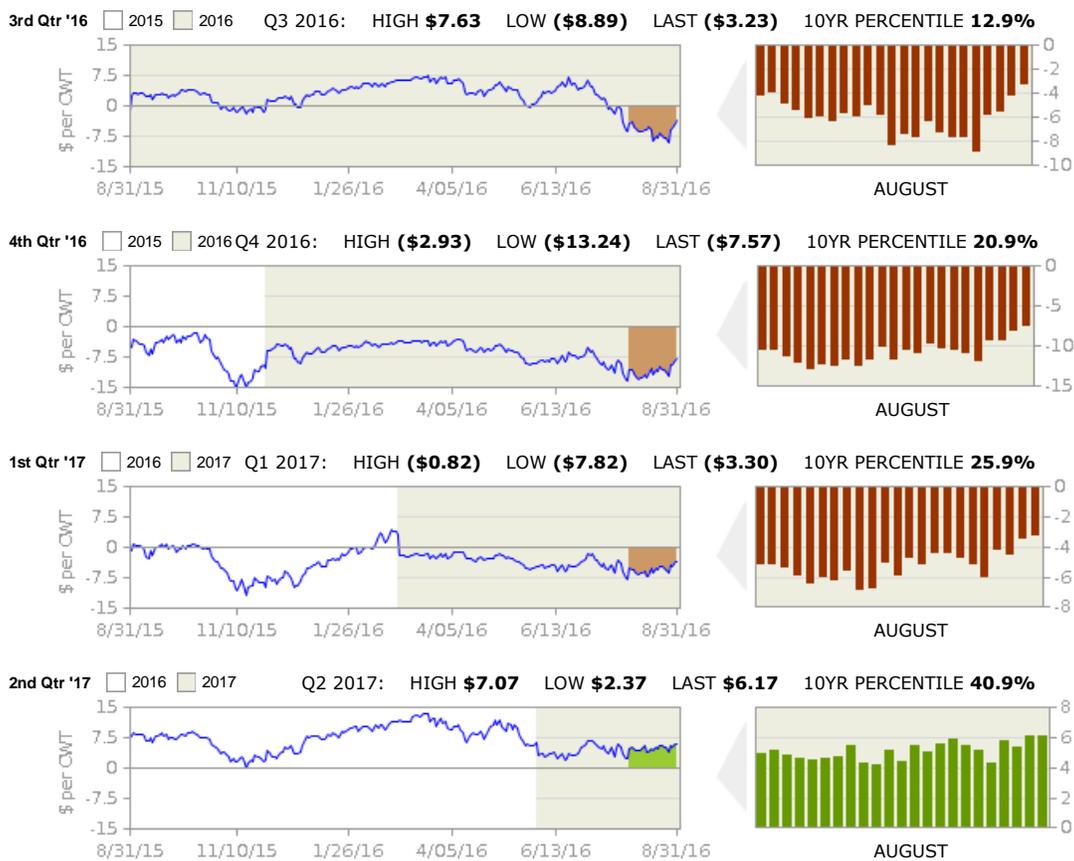


Hog Margin Watch: August



Margins have improved since the middle of August, as feed costs declined while hog prices were generally steady. Despite the improvement, hog finishing margins remain historically depressed – particularly in nearby marketing periods through the end of the year. Forward margins in Q2 2017 are still positive, but below the average of the past 10 years. Hog prices have struggled as large slaughter runs have resulted in increased pork supplies. In the last six weeks, federally inspected hog slaughter has averaged 2.224 million head, 2.6% higher than last year and about 1% above what was implied for this time period in the June Hogs and Pigs report. In addition, demand has not kept pace. Exports have not been as strong as expected since China is sourcing more of their supply needs from the EU. However, the U.S. has become much more price competitive, which should support strong exports through the fall. Domestic demand appears to be the bigger challenge though, as the latest USDA Cold Storage report showed pork inventories increased by 2.3% during July. That’s in contrast to the trend over the past five years of a 4% drawdown. Pork belly stocks in particular were 114.3% higher than last year and 45.6% higher than the five-year average, which helps explain the nearly 40% drop in price since late July. On a positive note, feed costs continued to moderate with corn dropping to fresh contract lows while soybean meal prices have likewise made new lows for the move. Following this weakness, our hog producer clients have been strengthening feed coverage while scaling into new margin protection in Q2 with flexible strategies that will benefit from margin improvement over time.



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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