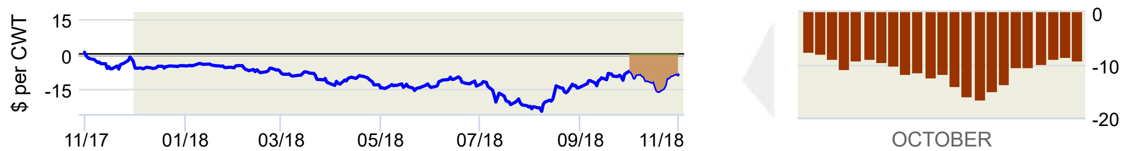
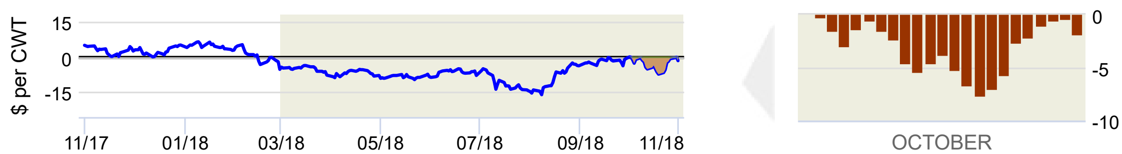
Hog Margin Watch: October

Margins improved over the last half of October on a combination of higher hog prices and lower feed costs, reversing trends during the first half of the month. With the exception of Q2, hog margins remain below average from a historical perspective, though positive in the second half of 2019. Hog prices recovered as ideas continue growing about the prospect of large Chinese imports due to expanding ASF discoveries. Moreover, September production and cold storage data were considered somewhat bullish. Total pork production in September was estimated at 2.013 billion pounds, down 7% from last year. While Hurricane Florence and one less slaughter day were responsible for most of that decline, it appears that the lower supply availability during the month may have been responsible for the recent price recovery with ideas that the August selloff in hogs and pork was overdone. USDA reported the total supply of pork in Cold Storage at the end of September at 588.9 million pounds, up 1.3% from August compared to an average build of 3.6% over the past five years. The current inventory of pork in cold storage is 4.8% smaller than it was last year, and 3% smaller than the five-year average. The lower supply of pork should help support the market as production increases moving further through Q4. Feed costs meanwhile remain in check, and the soybean market has been under particular pressure as sales to China are down substantially from last year. Our clients continue to focus on targets to add new coverage in deferred periods as margins improve. Flexible hog positions are favored that will allow producers to participate in higher prices given the ongoing uncertainty surrounding China and ASF.

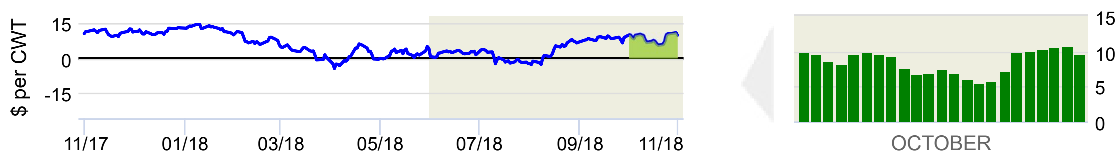
4th Qtr '18 2017 2018 Q4 2018: HIGH **($4.03)** LOW **($24.88)** LAST **($9.12)** 10YR PERCENTILE **21.7%**



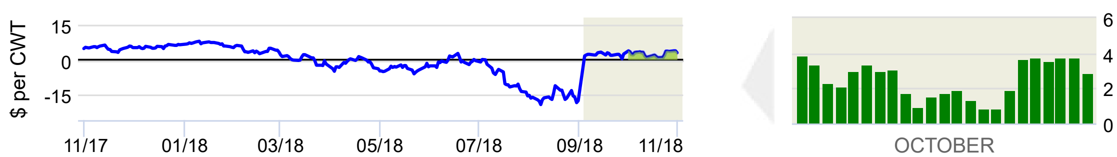
1st Qtr '19 2018 2019 Q1 2019: HIGH **($0.05)** LOW **($16.43)** LAST **($1.77)** 10YR PERCENTILE **43.8%**



2nd Qtr '19 2018 2019 Q2 2019: HIGH **$10.84** LOW **($3.00)** LAST **$9.67** 10YR PERCENTILE **66.1%**



3rd Qtr '19 2018 2019 Q3 2019: HIGH **$3.85** LOW **$0.36** LAST **$2.95** 10YR PERCENTILE **38.6%**



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.

Commodity & Ingredient Hedging, LLC
120 South La Salle St, Suite 2200 ▪ Chicago, IL 60603 ▪ 1.866.299.9333