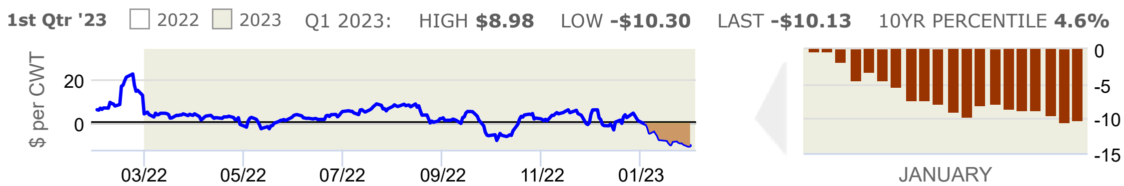
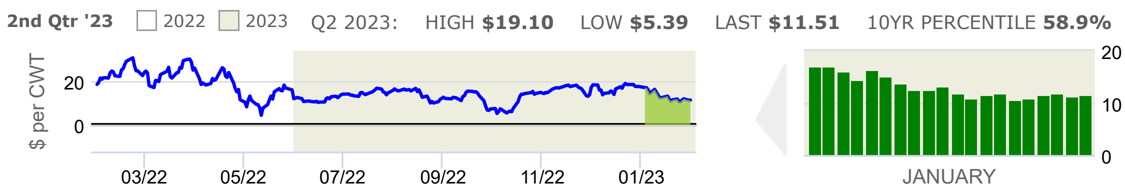
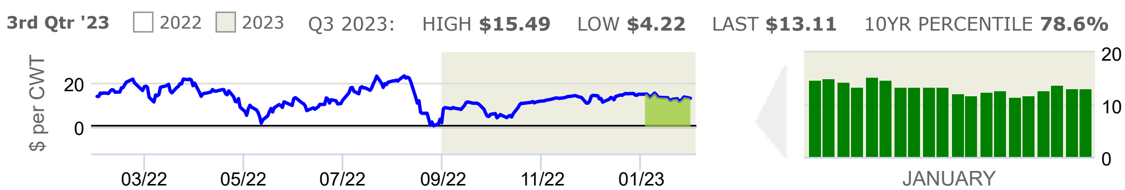
Hog Margin Watch: January

Margins were mixed over the second half of January, deteriorating further in spot Q1 while holding steady to improving in deferred marketing periods. Nearby margins have been under pressure as hog slaughter and pork production are running higher than expected through January. The latest quarterly data in the December Hogs and Pigs report suggested that supply would be down from 2022 through spring, running some 2% below last year. Hog slaughter between December 3 through the end of January has instead increased 0.3% relative to a year ago, estimated at 21.704 million head. It appears that high feed costs and uncertainty over the economic outlook combined with pressure on the pork cutout have incentivized producers to be very current with their marketing. The pork cutout at the end of last week was $79.30/cwt., down $17 or 18% from a year ago. Weakness in bellies has been a big weight on the pork cutout as belly prices are down 35% from last year, but loins, butts and ribs are also down year over year. USDA's monthly Cold Storage report showed belly inventory at the end of December was 65.6% higher than last year and 45% higher than the five-year average at 63.1 million pounds. By contrast, ham inventories at the end of December were down 13% from a year ago and 25% below the five-year average at 53.4 million pounds. Total pork inventory in cold storage of 458.1 million pounds was up 15.6% from last year. Chicken inventories in cold storage of 931.8 million pounds were up 25% from last year and increased 2% during December versus an average seasonal drawdown of 2% from November. This supply is also pressuring the pork cutout. Our clients continue to target levels for adding new margin protection in deferred marketing periods with flexible price strategies.







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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