

Margins continued to strengthen over the first half of February as a further surge in hog prices more than offset a similar climb in projected feed costs. Both cash hog prices and pork cutout remain supported by weekly slaughter runs that continue to run below what would have been implied by the most recent December quarterly Hogs and Pigs report. Hog slaughter for the week ending February 11 is running 10.0% below last year year-to-date while pork production is down 10.2% from 2021. Based on the over 180 pound and 120-179 lb. weight categories in the December Hogs and Pigs report, supplies were pegged at around 6% below last year. Moreover, despite ongoing labor issues at hog slaughter and pork processing plants, the fact that hog supplies remain tight in the spot market and lower harvest weights both seem to imply that there is no back up at the farm level which also has been price supportive. Meanwhile, domestic pork price inflation has been rampant based on the latest CPI data. Pork retail price inflation was up 14.1% in January much higher than the 7.4% average increase reported for all food items consumed at home. In addition, January fast food price inflation was up 8% from a year ago while a 7.1% increase was reported for full-service restaurants as rising food costs, a tight labor market and increased operational expenses have all contributed to increased inflation for dining establishments. Although USDA's February WASDE report featured smaller cuts to South American crop production relative to trade expectations, feed markets remain supported by ongoing drought issues in the Southern Hemisphere. Our clients have been adding coverage in deferred marketing periods with flexible strategies that will allow for further 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.

The information contained in this publication is taken from sources believed to be reliable, but is not guaranteed by Commodity & Ingredient Hedging, LLC, nor any affiliates, as to accuracy or completeness, and is intended for purposes of information and education only. Nothing therein should be considered as a solicitation to trade commodities or a trade recommendation by Commodity & Ingredient Hedging, LLC. All references to market conditions are current as of the date of the presentation. Futures and options trading involves the risk of loss. Past performance is not indicative of future results. Please visit www.cihmarginwatch.com to subscribe to the CIH Margin Watch report.