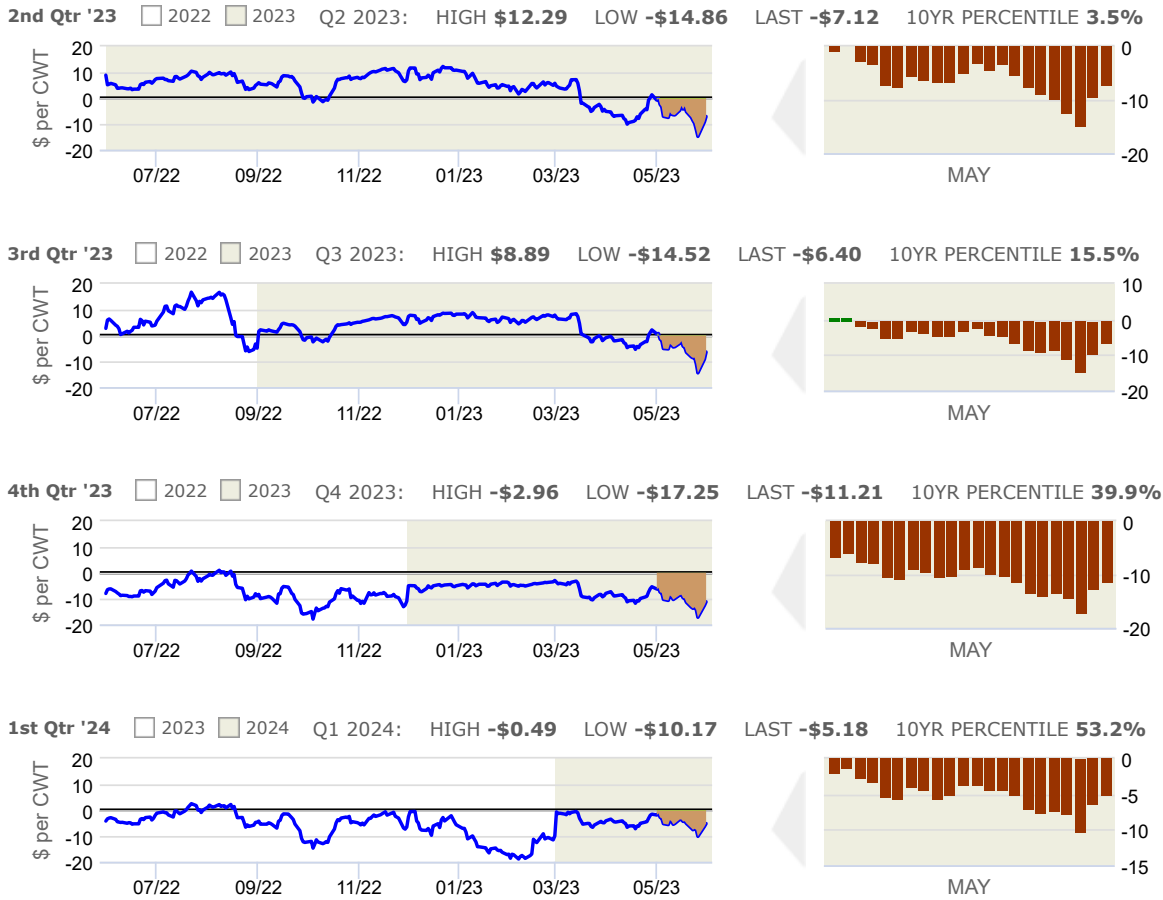


# Hog Margin Watch: May



Margins plummeted over the second half of May as a continued drop in hog prices more than offset weaker feed costs. The hog market did manage to recover somewhat on ideas that prices have become significantly oversold, although margins remain deeply negative and well below most producers' cost of production. Confusion over implications from California's Prop 12 ruling and how that will impact pork markets moving forward continues to exert pressure. The general assumption is that non-compliant pork will have to be cleared through other domestic channels once the new law takes effect July 1 which will exert downward price pressure over the near-term. A similar law in Massachusetts that likewise governs pork sold in that state may also have an impact on how supplies in cold storage are moved through domestic channels. There are indications that producers may be accelerating the pace of their marketing to get ahead of any further weakness. Through the four weeks ending May 27, commercial hog slaughter was about 65,000 head of 0.7% ahead of last year at this time versus the latest Hogs & Pigs report suggesting that the supply should have been roughly the same. The average weight of all barrows and gilts which includes packer-owned hogs was 213.7 pounds in the latest week, down 3.6 pounds or 1.6% from a year ago. USDA reported pork supplies in Cold Storage at the end of April totaled 565.48 million pounds, up 31.6 million or 5.9% from March and up 6% from last year. By primal, bone-in hams and bellies are up the most on a year-over-year basis by 44% and 39%, respectively. Our clients are actively game planning for a near-term recovery in the hog market to add defensive coverage in forward production periods.



The Hog Margin calculation assumes that 73 lbs of soybean meal and 5.3 bushels of corn are required to produce 100 lean hog lbs. Additional assumed costs include \$44 per cwt for other feed and non-feed expenses.

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