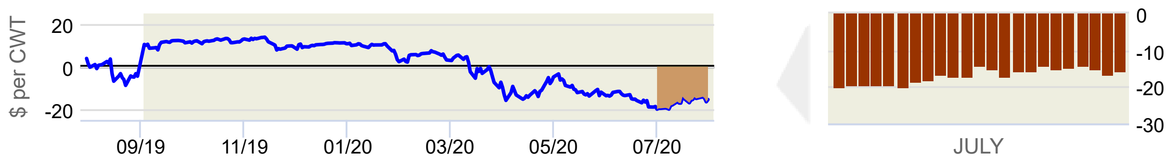
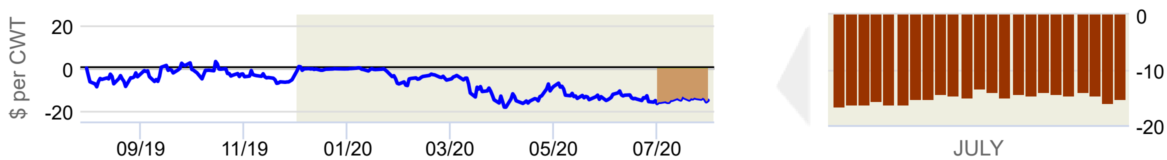
Hog Margin Watch: July

Margins were flat to slightly weaker over the second half of July, with lower trade in hogs and feed markets largely offsetting one another. While hog futures prices have been largely flat, cash hog markets have recently improved, with the negotiated net price on USDA's 201 report rising from $28.47/cwt. at the beginning of the month to $37.59/cwt. by the end of July. While much continues to be made of the backlog of animals on farm that still need to be processed, it appears that a recent decline in producer-sold hog weights and steady demand may have limited the number of head available to purchase on the open market. Dressed weights are down nearly 4% since mid-May as producers have become more current and adapted feed rations to slow down maturation and better manage inventory levels. Unfortunately, the backed-up supply hasn't disappeared though which may make things more challenging later this fall. Demand meanwhile remains supportive which also is helping to support cash hog prices. USDA's Cold Storage report showed total pork inventories of 464.4 million pounds on June 30, down 25.0% from a year ago and similar to the 25.6% drop in inventories experienced during May. Declines were noted across all the primal cuts and indicate that supply was still moving through both retail and export demand channels over the months of May and June despite COVID-19 related market disruptions. Concerns remain over Chinese demand given recent deterioration in relations with the U.S., with outstanding sales down 14% from this point last year, although net new sales last week of 17,775 MT were up 129% from the prior 4-week average. Our clients are looking to increase protection in Q4 and Q1 with strategies that would preserve the opportunity for positive margins to still be realized. Extending feed coverage also appears attractive at current levels.

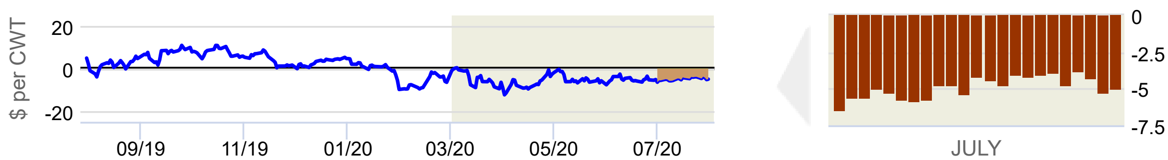
3rd Qtr '20 2019 2020 Q3 2020: HIGH **$13.86** LOW **-$19.95** LAST **-$15.44** 10YR PERCENTILE **2.3%**



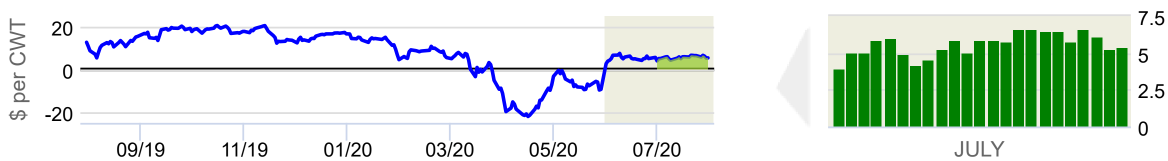
4th Qtr '20 2019 2020 Q4 2020: HIGH **$0.71** LOW **-$18.30** LAST **-$15.09** 10YR PERCENTILE **6.9%**



1st Qtr '21 2020 2021 Q1 2021: HIGH **$0.38** LOW **-$12.35** LAST **-$4.98** 10YR PERCENTILE **20.2%**



2nd Qtr '21 2020 2021 Q2 2021: HIGH **$7.53** LOW **$2.71** LAST **$5.42** 10YR PERCENTILE **30.7%**



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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