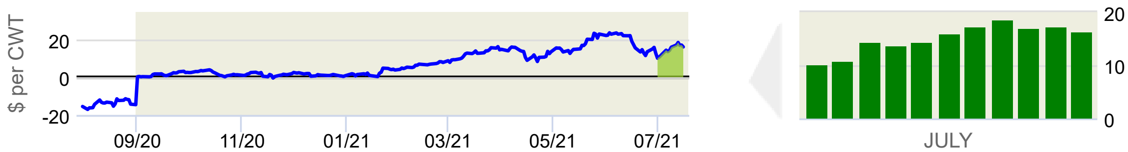
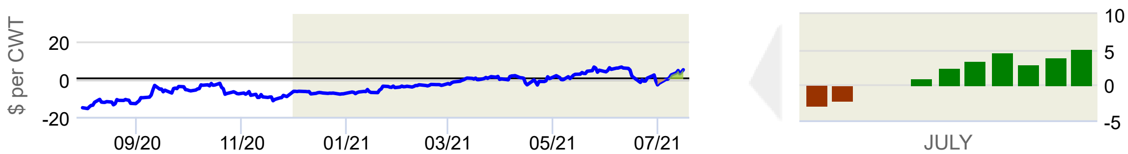
Hog Margin Watch: July

Margins improved over the first half of July following a combination of higher hog prices and lower feed costs. Strength in the pork cutout has been supportive of Lean Hog futures, which have climbed about $5/cwt. since the beginning of the month in the spot August contract. The pork cutout, currently at $119.94/cwt., is up from $113.77/cwt. at the end of June and about 29% higher than the 10-year average for this week of the year. A combination of lower hog harvest weights and weekly slaughter run will limit pork availability near-term and should continue to be supportive for the pork cutout. The June Consumer Price Index (CPI) was up 0.9% from May and 5.3% higher than last year as well as the largest year-over-year increase in consumer prices since 2008. Feed prices meanwhile have weakened recently as better weather outlooks and recent rainfall across previously dry areas of the Northwestern Corn Belt have taken premium and volatility out of the futures market. December Corn futures dropped to $5.07/bushel before finding support and are now trading in the mid-$5.00 area. December Soybean Meal futures are likewise trading about $15/ton above recent lows at $347/ton. It may be difficult for either corn or meal to take out previous highs in May without actual confirmation of lower yields and crop production through the remainder of the growing season. This will probably contain the market to a trading range for the time being while we wait for the USDA August WASDE report. Our clients are taking advantage of the recent improvement in forward margins to extend coverage through the first half of next year with flexible strategies to allow for further margin improvement over time.

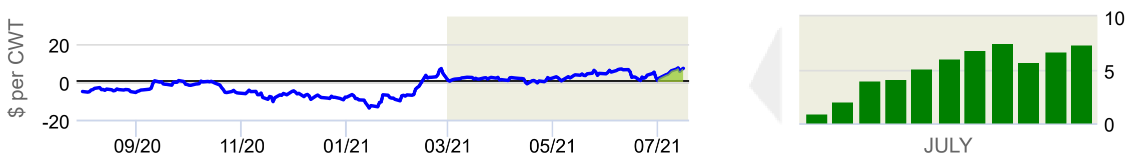
3rd Qtr '21 ☐ 2020 ☐ 2021 Q3 2021: HIGH **$23.94** LOW **-$0.27** LAST **$16.38** 10YR PERCENTILE **90.8%**



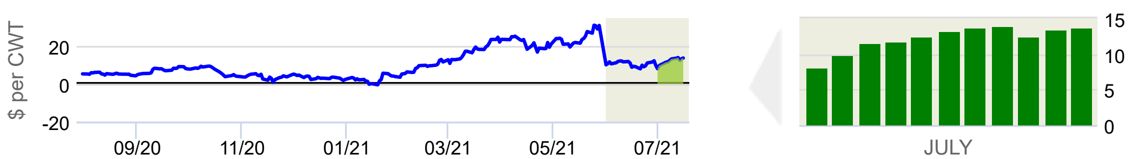
4th Qtr '21 ☐ 2020 ☐ 2021 Q4 2021: HIGH **$6.67** LOW **-$7.84** LAST **$5.21** 10YR PERCENTILE **82.8%**



1st Qtr '22 ☐ 2021 ☐ 2022 Q1 2022: HIGH **$7.61** LOW **-$0.88** LAST **$7.37** 10YR PERCENTILE **80.8%**



2nd Qtr '22 ☐ 2021 ☐ 2022 Q2 2022: HIGH **$14.11** LOW **$8.12** LAST **$13.88** 10YR PERCENTILE **75.4%**



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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