

Hog Margin Watch: December



Margins improved slightly over the second half of December with limited price movement in both hogs and feed markets as trading was largely flat heading into the year-end holidays. USDA released the December quarterly Hogs and Pigs report which was mostly in line with market expectations. The headline numbers came in very close to the average of pre-report estimates, with all hogs and pigs as of December 1 up 3.02% from last year at 77.338 million head versus the average estimate of a 2.9% increase. The kept for breeding inventory of 6.461 million sows was 2.14% higher than 2018 compared to expectations for a 1.6% increase on average. By weight category, the number of hogs in the 180 pound plus and the 120-179 pound ranges were above market expectations, while those under 50 pounds were below. Many analysts feel that these lighter weight hogs were under-counted; and given the larger breeding herd and the continued growth in breeding efficiency as measured by pigs saved per litter, larger farrowing numbers are a definite possibility in upcoming reports. President Trump announced January 15 as a signing date to seal the phase one trade agreement between the U.S. and China, which should help boost pork exports in the new year. Most U.S. packers are now demanding that all hogs shipped be ractopamine free as of January 1st, which likewise should smooth the way for increased shipments. Chinese pork imports were sharply higher in November from all origins, and the country has been releasing more state reserves ahead of their Lunar New Year holiday in January. U.S. supplies hold a significant price advantage over EU origin pork, although technically the prohibitive 60% tariff remains in place. Our clients continue monitoring targets to build deferred coverage in 2020, as well as making recent adjustments to existing hog hedges to allow greater upside price flexibility.



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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