

Iowa State University (ISU) released their estimated farrow-to-finish monthly hog profitability estimates for October (reports are available [here](#)). October's profit was slightly negative (-\$1.96 per head sold including the manure value credit), but was improved compared to August and September. For a finished hog sold a year earlier (October 2017), the profit per animal sold also was slightly negative (-\$1.18). Over the last two years, the average profit was \$2.72 per head, with the highest sale month (July 2017) at \$47.62, and the lowest occurred in August of this year (-\$40.71 per head). Thirteen of the last 24 months had negative profits.

The ISU calculations put the most recent three-month average breakeven selling price on a carcass basis at \$61.45 per cwt. Breakeven levels are expected to remain near that level for the balance of this year. So, for the next few months, red ink will be larger than October's, but likely less than in August.

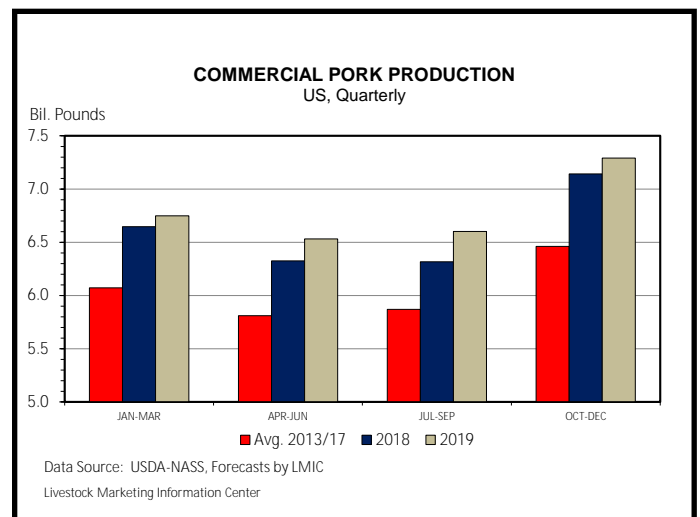
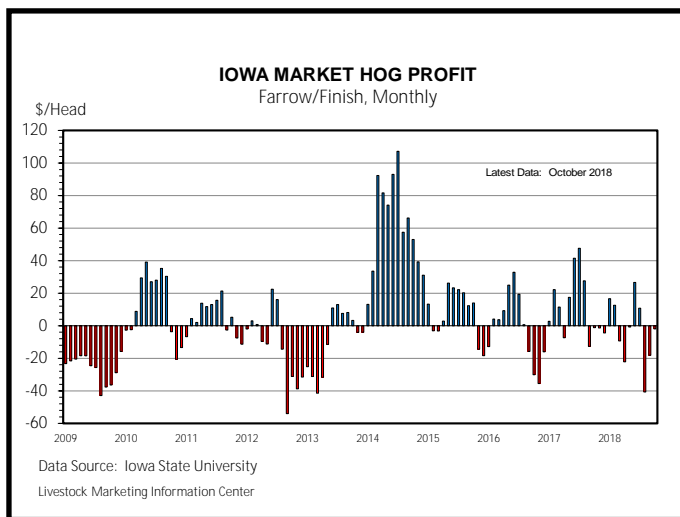
Futures market prices (CME's Lean Hog Contract) yesterday were higher. The February 2018 contract closed at \$63.75 per cwt. A typical stronger spring and summer market was priced-in with May at \$74.63, and July at \$84.03. Normal seasonal price erosion was built-in for October's contract (\$67.38 per cwt.). Breakeven sales prices are likely to remain in the lower \$60's per cwt. (carcass base), producers can now locked-in profits using the futures market, especially for next spring and summer.

Now, let's take a look back at how prices unfolded last year. As of November 15, 2017, the February contract was \$67.45, which is \$3.70 per cwt. above yesterday's. A year ago, the May and July contracts were at \$77.30 and \$81.47, respectively. As of

February 5, 2018, the February contract was at \$75.82, so it had risen compared to back in mid-November 2017. However, during the first week of the month of contract expiration, prices were much lower in May 2018 compared to where that contract was in mid-November 2017. On May 4, 2018, the nearby May contract actually closed at \$67.07, that was a decline of over \$7.00 per cwt. from mid-November 2017. The July 2018 (as of July 5, 2018) was at \$83.30, \$1.83 per cwt. above November 15, 2017.

Note that yesterday the July 2019 contract settled at \$2.56 per cwt. above a year ago. So, we ask the question, what looks to be different in the 2019 U.S. hog market compared to 2018's? On the heels of record-large U.S. pork production in 2018, more output is expected in 2019. USDA, in their latest WASDE forecasts, had annual 2019 U.S. pork production at 27.7 billion pounds, compared to 26.3 projected for 2018. That is a surge of about 5%. The Livestock Marketing Information Center has output rising nearly 3% year-over-year (see graphic below). We are not aware of any analyst forecasting a drop in 2019 U.S. pork production. Further, analysts expect increased pork production in Europe and Brazil.

It's clear that the futures market is expecting wholesale pork demand and hence demand for slaughter hogs to improve significantly in 2019. The source of that expected improvement is growth in U.S. pork exports. However, those expectations are strictly tied to the potential for direct and indirect increases that may happen due to the African Swine Fever issues in China, and to a much lesser extent parts of Europe. If you read this as a cautionary note, you are correct.



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