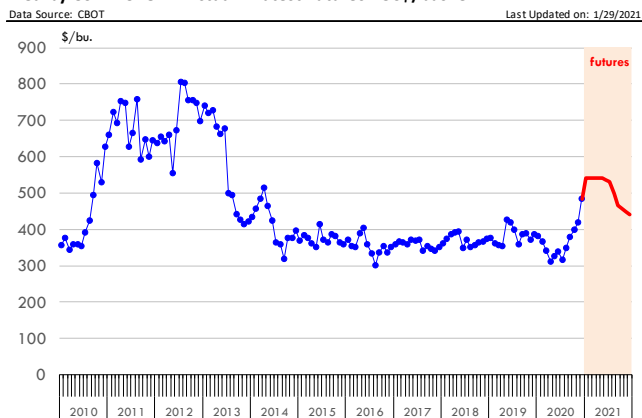


**Feed costs surged higher in the second half of 2020 and they are now hovering at the highest point since the fall of 2013.** Corn prices are up across the Midwest even as price increases vary greatly depending on location. The price of #2 yellow corn, Omaha Basis, was quoted this week at \$5.15 per bushel, **36% higher than a year ago.** In the Texas triangle, the average price was \$5.77, up 39% from last year and in Colorado the average price of \$5.55 was up 47%. Soybean meal prices, Central IL basis, were quoted at \$426 per ton, **up 45% from last year** while the price of **DDGs is now almost 50% higher** than last year, reflecting the reduction in ethanol production and strong demand. Hedges have likely protected producers until now and they may continue to provide some protection in the near term. Still, not everyone is 100% hedged and eventually the higher feed costs will catch up with livestock producers. Futures are pointing to +\$5 corn and +\$400 soybean meal at least into the next crop year.

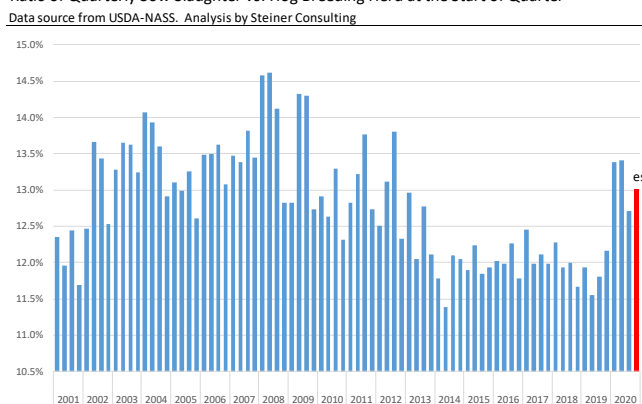
As we have noted previously, export demand has been a key factor driving prices until now and USDA export data released yesterday morning added more fuel to the fire, reporting another 1.7 million MT of new sales to China. This brings total new sales for this week alone to a little over 4 million MT or the equivalent of 157 million bushels. This big jump in sales follows the 1.850 million MT in net sales reported the previous week. In addition to China, Japan, Mexico and a number of other markets are currently chasing US corn. Total US export shipments through January 14 were 19.021 million MT or 749 million bushels. Another 29.7 million MT (1.169 billion bushels) was sold but not shipped yet. The combined volume represents about 75% of the exports USDA last forecasted for all 2020-21. And if we add the sales booked this week, then the total is over 80% of US forecasted exports with more than half the year still to go. The point being, feed prices may decline but the odds don't look so good.

**Higher feed costs may further pile on pressure on producers to rein in any expansion plans and, more likely, encourage further liquidation.** Sow slaughter in December was 11% higher than the previous year but that was in part because of an extra marketing day. In January there will be two fewer marketing days so even as weekly slaughter has been up the last two weeks, the total for the month will likely be lower than last year. Our forecasted sow slaughter for the Dec-Feb quarter (using the quarters that correspond to the hog inventory) currently stands at 816k head, 29k head or 3.7% higher than the previous year. More importantly, the ratio of quarterly sow slaughter to the breeding herd inventory on December 1 is currently projected at 13%. One has to go back to 2011 and 2012 to find a similar ratio, likely not a coincidence given grain market trends. As for producer profitability, that is always a tough thing to figure out given all the different ways in which producers price hogs as well as the ability of hogs to hedge or integrate hogs in their overall production. IA State runs a producer profitability model and for a farrow/finish operation they calculate that in 2020 producers lost an average of \$2/head/month. Using their model as a base, we calculate that \$5.25 corn and \$425 soybean meal pushes hog breakevens over \$80/cwt. Consider that when you think about why futures are currently pricing 2021 hogs at an average \$79/cwt, 42% higher than the previous year.

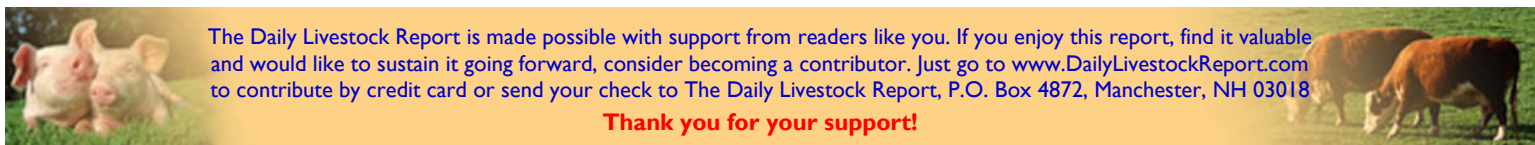
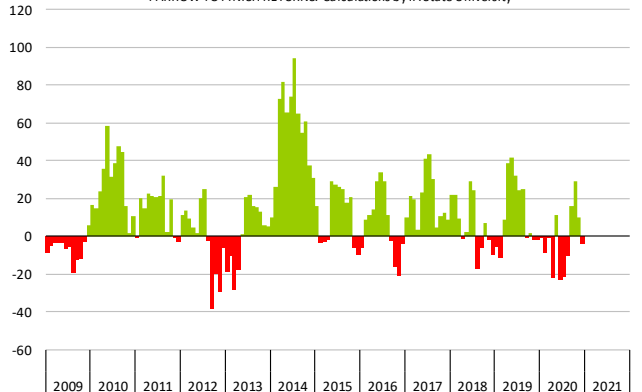
Nearby Corn. CBOT. Actual + Latest Futures. US\$/bushel



Ratio of Quarterly Sow Slaughter vs. Hog Breeding Herd at the Start of Quarter



HOG PRODUCER PROFITABILITY. Total Returns \$/head FARROW TO FINISH RETURNS. Calculations by IA State University



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