

Hog Margin Outlook

Meeting Your Marketing Needs

Thursday, February 27, 2020

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Forward contract prices opened mostly lower this morning. Day over day price movements in the US cash markets were modest with ISM and WCB up by \$0.13 and \$0.09, respectively, while the National region was down by \$0.11 USD/cwt. When the reports are released later this afternoon, weekly cash settlement prices reported for week ending February 29 will likely reflect the recent trend. On balance, cash markets are not at the lowest of the lows (seen most recently in 2019) for this marketing week but they are at historically low values; WCB is approximately 18% lower than the five-year average and National is approximately 10% lower. Exports, while good (see below) have not been enough to clear the market of the abundant supplies and complications due to the ongoing spread of Covid-19 will likely keep any potential cash upside in check in the short term. Lean hog futures are likewise under pressure as Covid-19 concerns work their way through the trade. The situation is dynamic, and the news will be closely watched for clues on reactions of the spread. For the time being, containment initiatives, while likely helpful, have not stopped the disease in its tracks and there are new reports surfacing daily about new cases in countries outside of China including Iran, South Korea, France, Germany, Japan, Italy, Thailand, Taiwan, the USA, and Canada, to name but a few of the 48 countries reporting so far. Investors, anticipating a slowdown in global economic activity for a variety of reasons, have moved capital into safer havens and commodities, such as lean hogs, have been impacted. As well, there are more practical reasons such as ideas pipelines will be disrupted which are also weighing on the trade. On that note, this morning's Weekly Export Sales report showed a 63.9% increase in net new sales relative to last week but with China only committing to 7,200 MT which, while higher than the recent trend, is still off the pace needed to spark interest in the futures. Physical sales remain at their record pace and are 94.1% higher than the five-year average for this marketing week. Of the 42,500 MT in deliveries, China took approximately 15,700 of that or 36.9% of the total volume shipped last week. The export pace remains good, but it will need to be much better in order for stocks to be drawn down in the US enough to usher in price support and return optimism to the futures. For now, Covid-19 will likely remain a pressuring influence and is arguably behind the brunt of today's weakness.

Canadian delivered soymeal prices opened higher this morning. This morning's Weekly Export Sales report showed net sales of 339,900 MT which is somewhat seasonal for this time of year but among some of the lowest values seen (only 2014 was lower going back to 2010) and 33.5% lower than last week's committed volumes. Physical deliveries were down 37.6% relative to the previous week, 39.9% lower than the five-year average and the lowest value for the marketing week going back to 2010 at 597,900 MT. Covid-19 uncertainty continues to weigh on the trade as well and bean futures are down this morning.

US corn futures opened lower this morning. Like beans, US corn futures are lower on ongoing Covid-19 uncertainty and a Weekly Export Sales report that was also bearish. Net sales (new commitments for this marketing year) were 30.7% lower than week ago and 22.5% lower than the same time this year at 864,600 MT. Physical deliveries did come in ~11% higher than last week but were 22.6% lower than the same marketing week's five-year average at 844,600 MT. Accumulated exports are amid the lowest on record and 33.6% off the average pace.

US Slaughter	
495,000	Wednesday
476,000	Year Ago
Daily Prices	
Iowa/S. MN.	\$49.69
W. Corn Belt	\$49.64
National	\$59.97
ML Signature 5	\$131.36
HyLife (prev. day)	\$140.17
TCP/BP2	\$131.36
BP4/TCP4	\$141.64
BoC Rate (Noon) prev. day \$1.3307 CAD / \$0.7515 USD	
Cash Prices Week Ending February 22, 2019	
Signature 3	119.44/54.18
Signature 4	139.41/63.24
Signature 5	129.42/58.70
h@ms Cash	137.41/62.33
HyLife	138.43/62.79
TCP/BP2	130.93/59.39
BP4/TCP4	142.92/64.83
2020 Top-Up (YTD Rolling Est.) \$11.55 CAD/ckg	
ISO Weans \$38.60 US Avg.	
Feeder Pigs \$57.79 US Avg.	

Forward Range (at opening)	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov
Maple Leaf Sig 4			141.49 145.99	153.06 167.99	172.02 179.84	179.98 182.36	166.06 184.56	155.85 160.60	152.89 159.61	147.20 150.05
Maple Leaf Sig 5			133.09 139.88	148.03 163.44	168.21 175.80	175.22 176.42	150.09 178.79	141.21 145.79	136.95 149.49	128.63 133.10
Soymeal Delivered Wpg/S.Man	457	460	467	467	475	475				

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STRENGTH IN NUMBERS

