

Hog Margin Outlook

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Friday, April 3, 2020

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Forward contract prices opened mostly lower this morning. US

cash markets are lower with ISM, WCB, and National regions down \$7.17, \$7.11, and \$1.17, respectively, in USD/cwt. That is not an error: negotiated regions are down by over \$7.00 relative to the previous day. Headwinds are starting to develop in the cash markets despite a spike in demand from the retail sector that appeared last week. While no conclusions can currently be made regarding a shift in the demand profile (i.e. that retail demand will offset foodservice and restaurant weakness), another issue has surfaced that will likely pressure cash prices for live animals in the short-to-medium terms. There is anecdotal evidence (but not official communique yet) that US packers, in an effort to keep production lines moving, are implementing Covid-19 suppression initiatives (such as work reorganization and extra cleaning) to help prevent a virus outbreak on the assembly line. As such, the speed with which hogs can be processed has slowed as employees take on additional tasks and spread out in the plant. There is increasing talk that the demand for live animals will be lowered as the plant, effectively, slows down. Couldn't plants simply 'double shift' for a net neutral change on production? It is thought that some will make this attempt, but labor issues in the US are still preventing full capacity utilization and there is not enough space in this column to explain 'why' people currently employed can't simply be moved to the 'night shift'. The sharp drop in the negotiated regions (ISM and WCB) is likely a result of some of this added to the idea that demand shifts between retail and restaurants are complicating matters as different products are typically demanded from each sector, broadly speaking. Weekly cash prices for week ending April 4 are lower than the prior week with the National region \$0.48 lower but statistically equal with historical five-year average prices while the WCB region saw a \$5.57 USD/cwt drop relative to the previous week marking a stark contrast to the previous trend upward. The WCB is once again lower than the five-year averages by double digits (12%) and US cash markets could see additional pressure in the coming weeks. Lean hog futures once again gapped lower at the open and the June and July contracts are currently locked at the expanded limit-low for the second session in a row. Covid-19 demand disruption, expectations of historically high amounts of live animals, and recession concerns are all weighing on the trade. 'The bottom' has not yet been discovered in the futures.

Canadian delivered soymeal prices opened lower this morning. US

soybean futures are mixed at the open as the market attempts to reconcile global demand disruption, global recession outlooks, logistics complications, and US planting intentions that could usher in large supplies. Some recent 'events', such as logistics concerns and a reduction in production estimates coming from the Buenos Aires Grains exchange are keeping the downside in check, but volatility will likely be a feature of the markets for the foreseeable future. Argentine production estimates have been dropped to 49.5 MMT against a previous 52.0 MMT estimate and the USDA's 54.0 MMT.

US corn futures opened higher this morning. US corn futures are starting

the last session of the week higher but support in US corn futures has been fleeting. The trade is currently trading amid contract lows after seeing pressure earlier in the week and bumping up against key support levels. Despite some support yesterday, the nearby contract has closed lower by trading day end over the past four sessions and it will take a significant demand story (or a negative supply one) to influence a consistent recovery.

US Slaughter	
488,000	Thursday
470,000	Year Ago
Daily Prices	
Iowa/S. MN.	\$43.62
W. Corn Belt	\$43.68
National	\$64.21
ML Signature 5	\$137.57
HyLife (prev. day)	\$160.68
TCP/BP2	\$137.57
BP4/TCP4	\$161.61
BoC Rate (Noon) prev. day \$1.4179 CAD / \$0.7053 USD	
Cash Prices Week Ending April 4, 2020	
Signature 3	137.57/62.40
Signature 4	166.28/75.42
Signature 5	151.92/68.91
h@ms Cash	164.28/74.52
HyLife	N/A
BP4/TCP4	169.58/76.92
2020 Top-Up (YTD Rolling Est.) \$10.64 CAD/ckg	
ISO Weans \$16.09 US Avg.	
Feeder Pigs \$46.36 US Avg.	

Forward Range (at opening)	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Maple Leaf Sig 4		88.50 104.28	108.53 116.80	124.91 127.41	123.95 135.72	120.32 125.33	121.27 126.37	120.34 123.35	119.84 123.35
Maple Leaf Sig 5		81.98 98.27	103.31 111.33	118.81 120.08	113.52 128.66	104.15 108.98	108.90 113.35	100.09 104.81	102.69 106.09
Soymeal Delivered Wpg/S.Man	513	513	512	512	509	509			

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