

Hog Margin Outlook

Meeting Your Marketing Needs

Tuesday, April 21, 2020

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Forward contract prices opened mostly lower this morning. The National base price came in \$0.37 USD/cwt higher relative to the previous day while negotiated regions (ISM and WCB) did not post a price citing confidentiality yesterday. Cash markets for live hogs remain at historical lows and could likely reside amid the lows until the impacts of plant closures due to Covid-19 become more certain. A JBS plant in Worthington, Minnesota (the third largest hog plant in the USA) is the most recent closure adding to the list of hog plants already closed including facilities owned by Smithfield and Tyson. There is anecdotal evidence that some producers are being asked to reduce delivery at others. In a normal marketing environment, market watchers could usually look at values of the pork cut-out for clues on direction. And there is some optimism in the data today; all primals are turning higher in recent days and lifting of the lows put in place two weeks ago. However, there is a complete disconnect between the two markets currently. Demand disruption and plant closures are impacting the meat trade but the market for live animals is less strong simply because producers have limited delivery options. Indeed, hogs are now 'backing up' and resulting in an oversupply in an already heavily supplied market. Simply put, lower prices for live animals could quite likely materialize more strongly *even if the pork cut-out sees strength*, which will be increasingly likely if meat supplies become constrained due to production problems as a result of the virus outbreak in the USA where Canadian base prices are set. Lean hog futures are mixed this morning after seeing some early morning strength yesterday. The support did not last, however, and most futures contracts backed off by about half the initial rally by the close. The market is trading in a 'sideways' pattern since April 13 and the extent to which plant closure uncertainty is priced in remains to be seen. In the meantime, it should be noted that markets haven't fallen even lower after the recent plant closure announcements although it is too early to determine if a bottom has been reached.

Canadian delivered soymeal prices opened higher this morning. US soybean futures continue to push lower and test the support levels that were first established in the middle of March. The ongoing pressure is a function of an increasingly gloomy economic outlook that is impacting commodity markets. Furthermore, there is a 'risk off' sentiment in the agriculture commodities as investors either park money in cash or flee to traditional safe havens such as gold. Early crop progress reports are starting to be published but it is too early in the season and there is too much noise in the marketplace for them to have an impact today.

US corn futures opened lower this morning. Like bean, US corn futures continue to be pressured in successive sessions. The nearby contract is now trading at \$3.07 USD/bu after seeing some brief technical support late last week. Energy markets continue to see unprecedented weakness and crude oil futures even went negative in yesterday's session (!). In practical terms, the weakness in oil is pressuring ethanol and subsequently corn, but broader than that it highlights the extraordinary marketing environment seen in all asset classes recently.

US Slaughter	
370,000	Monday
327,000	Year Ago
Daily Prices	
Iowa/S. MN.	N/A
W. Corn Belt	N/A
National	\$50.05
ML Signature 5	\$104.70
HyLife (prev. day)	\$123.66
TCP/BP2	\$104.70
BP4/TCP4	\$125.15
BoC Rate (Noon) prev. day \$1.4086 CAD / \$0.7100 USD	
Cash Prices Week Ending	
April 18, 2020	
Signature 3	91.39/41.45
Signature 4	128.73/58.39
Signature 5	110.06/49.92
h@ms Cash	126.73/57.48
HyLife	125.98/57.14
BP4/TCP4	143.70/65.18
2020 Top-Up (YTD Rolling Est.) \$11.68 CAD/ckg	
ISO Weans \$5.60 US Avg.	
Feeder Pigs \$20.17 US Avg.	

Forward Range (at opening)	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan
Maple Leaf Sig 4		114.22 114.72	117.74 129.31	134.89 138.67	140.18 149.85	134.89 138.17	131.32 134.60	127.29 129.31	126.78 130.31	123.25 135.88
Maple Leaf Sig 5		99.09 100.62	105.02 116.65	123.21 126.49	121.24 138.10	114.59 118.60	112.59 120.07	104.77 109.00	107.39 110.79	104.00 120.10
Soymeal Delivered Wpg/S.Man	506	506	511	511	512	513				

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