

Hog Margin Outlook

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Wednesday, April 22, 2020

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Forward contract prices opened mostly mixed this morning. US

cash markets are higher mid-week with the National region up \$1.19 USD/cwt relative to the previous day. The WCB us up \$1.15 compared to two days ago as the region did not report yesterday due to confidentiality; the ISM is still unreported also on confidentiality. Negotiated regions (ISM and WCB) already have low daily volumes, and disruptions to buying interest in those regions will likely result in less pricing information if packers do not turn to negotiated cash markets. This is increasingly likely if, for example, more plant shut downs are announced due to Covid-19 outbreaks, for cleaning and maintenance, or slowing line speeds as virus protocols are put into place on the assembly line (extra cleaning, physical distancing, etc.). The impacts of the recently shuttered and slowing plant throughput in the USA can already be observed. Daily slaughter numbers are coming in at lows not seen in the past 10 years and likely longer than that (internal data capture only goes back 10 years); yesterday's 354,000 head estimate was 25% lower than year ago and followed Monday's 365,000 which was 21% lower than 2018 (In 2019, Easter Monday was seen 'this week' skewing a year-ago comparison so it was not used). Adjusting for Easter week-ends and some large Saturday kills, daily slaughter is down by 15% over the past 10 days and not for lack of supplies - the weakness in daily cash markets can be explained by this 'event'. Lean hog futures are trading in a sideways pattern over the past 7 sessions moving neither significantly higher nor lower over the course of the trading day *relative to the previous session*. While relatively stable (using the 'day' as a unit of analysis, the session is often quite volatile), the trade is still residing amid historical lows, but making modest day-to-day gains recently. Regardless, the market is still at a significant discount relative to historical cash market benchmarks (27% lower on average), but some of the deferred contracts are starting to see some signs of returning to the averages; the April 2021 contract, for example, is 'only' 4% lower as of this writing. It is much too soon to call for any 'bottom' but the market has not breached support levels in the past 7 days which implies some stability for now. However, the market could be immediately disrupted once again if more bad news materializes or intensifies.

Canadian delivered soymeal prices opened lower this morning. US

soybeans are trading higher, but mostly on technical grounds as a key indicator was reached yesterday. Relative Strength Index approached oversold levels as beans plunged under \$8.10 in yesterday's session (nearby contract). Today, beans are trading at \$8.33 but still at the lower end of the trend and in no danger of rallying significantly. The lack of significant China buying is keeping any potential upside in check.

US corn futures opened higher this morning. Like beans, US corn futures

start to see some strength after approaching or venturing into oversold territory, but unlike beans, US corn is under much more pressure than beans. The energy price collapse and ethanol woes are weighing on the trade that has seen values below 30% on the RSI in the past six consecutive sessions; 30% is considered oversold. There is talk China could issue more tariff waivers on US corn especially amid the low prices but it will likely provide only fleeting support if the talk materializes.

US Slaughter	
354,000	Tuesday
478,000	Year Ago
Daily Prices	
Iowa/S. MN.	N/A
W. Corn Belt	33.78
National	\$51.24
ML Signature 5	\$108.56
HyLife (prev. day)	\$127.02
TCP/BP2	\$108.56
BP4/TCP4	\$129.17
BoC Rate (Noon) prev. day \$1.4203 CAD / \$0.7041 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		119.33 119.84	122.85 134.41	134.69 138.45	140.09 147.17	134.81 138.08	133.12 134.12	129.23 131.24	128.73 132.24	125.22 140.41
Maple Leaf Sig 5		104.31 105.84	110.23 121.85	123.04 126.31	121.20 135.42	114.57 118.58	114.66 119.68	106.89 111.10	109.49 112.88	106.13 124.70
Soymeal Delivered Wpg/S.Man	504	504	509	509	510	511				

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