

Hog Margin Outlook

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Monday, April 27, 2020

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Forward contract prices opened mostly higher this morning. US

cash markets are mixed to start the week with ISM and WCB regions down \$2.64 and \$2.66, respectively, while the National reporting region is up \$1.31 USD/cwt. For the National region, the move could represent a turning around or weakening of the recent pressure but *only if the pattern is sustained further out*. Of course, there is simply no way to tell that at this point and market watchers will simply have to wait and see if the market maintains a course of upward momentum or succumbs to pressure once again. Some strength in the cut-out seen recently could be in part responsible for the 'recovery' in the National-base price as the cut-out is a fractional component in the National price make up. The WCB region, on the other hand, continues its downward trajectory lower and while the intensity of the day-to-day price drops has not been as intense in recent days, the negotiated regions remain under pressure, nonetheless. Weekly slaughter levels came in 6.6% higher than year ago in stark contrast to the ~20% drops in the daily kill seen recently but this can be explained quite easily as Easter Monday appeared in marketing week 17 last year (which was last week) and merely represents a statistical curiosity. Daily slaughter is still well below earlier expectations and maintaining that 20% difference; Friday's kill was estimated at 361,000 head and an ongoing reminder of the disruption Covid-19 has had on the processing sector. Lean hog futures gapped higher at the open this morning but likely not on any optimism per se. The market appears to be attempting to price in supply shortages if the anecdotal evidence and chatter is to be believed this morning. There are already stories surfacing of producers starting to destroy hogs unable to be delivered due to plant closures or slowdowns, but these stories are not widespread yet. Iowa senator Jodi Earnst has issued a statement on "Plans to Support Iowa Pork Producers Affected by Plant Closures" on Saturday that includes coordinating with the USDA's Animal and Plant Health Inspection Service (APHIS). It is almost certain that some hog producers will not have animals to deliver when processing returns more to normal suggesting there will be less supplies of hogs when Covid-19 is either brought under control or considered 'over' and the market appears to be making an attempt to price that uncertainty this morning. A sustained upward momentum, however, is not guaranteed.

Canadian delivered soymeal prices opened lower this morning. US

soybeans are once again trading lower this morning, maintaining the pressure that developed on Friday and the market is once again testing the support levels that were put in last month. Exports remain relatively weak and certainly weak against Phase One expectations, but there is talk Chinese buyers entered the US last week; Thursday's export sales report will be closely watched for evidence of the buying. In other news, the Rosario Grain Exchange is reporting that ships are loading 'light' due to abnormally low water levels on the Parana River due to drought.

US corn futures opened lower this morning. Like beans, US corn futures are

lower to start the week. There is not much in the news to support a bullish case for US corn with low export activity, potential domestic US feed demand loss due to animal culling, and extremely weak demand in the ethanol sector that make up more than 30% of corn utilization. There are private estimates suggesting old crop ending stocks could eclipse 2 billion bu this year and perhaps venture toward 4 billion for the new crop but the USDA has not released new crop estimates yet.

US Slaughter	
1.995 mil.	Last Week
2.347 mil.	Year Ago
Daily Prices	
Iowa/S. MN.	\$34.21
W. Corn Belt	\$33.91
National	\$55.20
ML Signature 5	\$112.82
HyLife (prev. day)	\$136.63
TCP/BP2	\$112.82
BP4/TCP4	\$138.06
BoC Rate (Noon) prev. day \$1.4090 CAD / \$0.7100 USD	
Cash Prices Week Ending April 25, 2020	
Signature 3	90.01/40.83
Signature 4	129.12/58.57
Signature 5	109.56/49.70
h@ms Cash	127.12/57.66
HyLife	130.77/59.32
BP4/TCP4	128.73/58.39
2020 Top-Up (YTD Rolling Est.) \$12.14 CAD/ckg	
ISO Weans \$3.97 US Avg.	
Feeder Pigs \$17.66 US Avg.	

Forward Range (at opening)	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan
Maple Leaf Sig 4		135.86	138.85 150.34	146.65 150.40	148.33 158.26	143.09 146.33	139.91 142.71	135.92 137.91	135.42 138.91	131.92 146.26
Maple Leaf Sig 5		122.23	126.59 138.14	135.29 138.54	129.71 146.78	123.12 127.10	121.52 128.47	113.78 117.97	116.37 119.74	113.02 130.75
Soymeal Delivered Wpg/S.Man	500	500	505	505	505	507				

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STRENGTH IN NUMBERS

