

# Hog Margin Outlook

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Tuesday, April 28, 2020

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## Forward contract prices opened mostly higher this morning. US

cash markets are lower with ISM, WCB, and National regions down \$1.84, \$1.48, and \$0.31 relative to the previous session in USD/cwt. Negotiated regions continue to experience pressure while the National region, which had been seeing some off again/on again support is once again heading lower. The massive disruption to the industry as a result of the Covid-19 outbreak has shifted patterns far from what is normally seen at this time of year. The value of the cut-out has seen some massive shifts as well in recent weeks and the price profiles clearly stand out when compared against other years. For example, at the beginning of April, the value of the cut-out saw its steepest decline on record (22% lower week over week) and was immediately followed by the second largest decline on record (15%) the following week. This move was a function of the massive demand disruption as foodservice and restaurants shut down on official orders to limit the spread of the virus. Last week, however, the net value of the carcass was up over 33% (!) as individual primals started to see some violent seesawing on the retail side. The net result of all moves is that the daily value of the carcass is at its highest level for the marketing year so far (compared to weekly averages) and at the highest value for this marketing week going back to 2014. However, this has not translated into higher demand for live supplies from the hog producer – well, not exactly. The demand would likely be ‘there’ if packing plants were not shuttering operations or slowing line speeds to help prevent the spread of Covid-19. In short, the pork market (finished primals) is disconnected from the live hog market as the processing sector faces a reduction in capacity that has been estimated as high as 25% in present time. Unfortunately, it could get worse and there are expectations that most US plants will be closed at some point. To date, there have been no massive closures in Western Canada. Lean hog futures continue to see follow-through buying today that started in yesterday’s session and the market is trading in expanded limits in the front months as of this writing. The net result is a futures trade that sees values ‘only’ 15% lower than the five-year average ‘National’ cash settlement prices that is used as a benchmark to determine relative value in the futures; only a few weeks ago, that difference was over 30% to the downside.

## Canadian delivered soymeal prices opened lower this morning. US

soybeans are once again trading lower to start the session and once again approaching, but so far not yet breaching, support levels that were seen in the middle of March. The trade continues to reside amid contract lows but, as implied, values have been lower in recent history. Crop Progress reports will be closely watched with farmers now running planters and ramping up activity. While it’s still much too early to draw any conclusions, US bean planting was estimated at 8% against the 4% five-year average and 2% last year.

## US corn futures opened mixed this morning. US corn futures are trading

mixed to start the session as the market once again ventures into technically oversold territory. The market remains under extreme pressure despite any movement upward and bouts of support are likely more technical in nature as the fundamentals remain quite poor. Corn planted according to the Crop Progress report yesterday showed 27% as at week ending April 26 compared to 7% last week and against the 20% five-year average. Last year, only 12% was planted at this time.

US Slaughter	
318,000	Monday
468,000	Year Ago
Daily Prices	
Iowa/S. MN.	\$32.37
W. Corn Belt	\$32.43
National	\$54.89
ML Signature 5	\$110.23
HyLife (prev. day)	\$136.12
TCP/BP2	\$110.23
BP4/TCP4	\$136.91
<b>BoC Rate (Noon) prev. day</b> \$1.4053 CAD / \$0.7120 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
<b>2020 Top-Up (YTD Rolling Est.)</b> \$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		146.59	149.56 160.96	155.99 159.71	155.75 166.40	150.54 153.76	147.25 150.05	143.29 145.27	142.79 146.26	138.32 153.23
Maple Leaf Sig 5		133.25	137.58 149.04	144.88 148.10	137.40 155.15	130.86 134.81	129.15 136.07	121.47 125.62	124.04 127.38	120.71 137.99
Soymeal Delivered Wpg/S.Man	494	494	499	499	500	502				

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