

Hog Margin Outlook

Meeting Your Marketing Needs

Monday, May 4, 2020

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Forward contract prices opened mostly higher this morning.

The National region continues its tack upward following on the support that developed last week coming in \$2.04 USD/cwt higher relative to the previous reporting day. The USDA did not publish daily numbers in the ISM and WCB negotiated regions citing confidentiality as is often the case when volumes are so low as to identify the parties involved. Weekly slaughter numbers are 34.7% lower compared to year ago when the Saturday estimates are included (1.545 million head compared to 2.366 million head last year). When Saturday is omitted, the Monday to Friday kill is 40.1% lower than year ago. The drastic reduction in processing numbers highlights the extent that plant closures and slower line speeds in the US are having on operations. There are reports that additional plants continue to close (pork and beef) as Covid-19 outbreaks appear, but there are also stories of plant re-openings and ideas are starting to surface that a baseline could become established in this new marketing environment. Of course, this idea assumes that the level of plant closures is balanced with re-openings (albeit at a reduced processing capacity) and there are no further 'second outbreaks' of the virus or stricter shelter in place orders. In the meantime, there are ongoing articles in the US highlighting regional meat shortages and tragic culling of market-ready animals is still making the rounds which will likely remain in the public spotlight for now. The extent to which the cash market has priced in the confluence of events remains to be seen, but if the present tack remains, cash markets may have seen the worst of pricing two weeks ago although this is certainly not guaranteed. Lean hog futures are also starting the week off on a higher note with all monitored contracts showing strength in the early morning trade. Some states (and provinces) are loosening personal movement restrictions and some small businesses are allowed to open up once again, but with some restrictions in place depending on the jurisdiction. The market could be pricing in a tightening of supply against expectations of slightly stronger demand, but that very much remains to be seen. For now, the market is 'only' 11% lower than the five-year average cash settlement base price in USD/cwt (a metric used to establish relative value) which, while still not great, represents a vast improvement over the more than 30% discount seen only a few weeks ago.

Canadian delivered soymeal prices opened lower this morning.

US soybeans are trading lower to start the week with President Trump once again ramping up the rhetoric on China tariffs. There were already questions if China could live up to its 'Phase One' commitments in the first place, and now that Covid-19 has developed, a slowing down of the economy looks to pressure demand further out. But now, investors are increasingly bearish on beans as history has shown production deficits in China don't translate immediately into increased US export activity (beans and pork at front and centre) so a cooling trade relationship once again likely means less sales for US farmers if tensions escalate.

US corn futures opened lower this morning.

Like beans, US corn futures are lower to start the week. While China has never been a large US corn importer in the past (relatively speaking) ideas that Chinese buyers would look to US corn to fill Phase One commitments and also to US ethanol for the same goal appears to be waning amid ideas that the trading relationship could turn frosty once again. The US market needs a positive demand story (or negative supply one) to turn the trade around

US Slaughter	
1.545 mil.	Last Week
2.366 mil.	Year Ago
Daily Prices	
Iowa/S. MN.	N/A
W. Corn Belt	N/A
National	\$63.51
ML Signature 5	\$129.84
HyLife (prev. day)	\$155.48
TCP/BP2	\$129.84
BP4/TCP4	\$158.56
BoC Rate (Noon) prev. day	
\$1.4066 CAD / \$0.7110 USD	
Cash Prices Week Ending May 2, 2020	
Signature 3	93.10/42.23
Signature 4	142.14/64.47
Signature 5	117.62/53.35
h@ms Cash	140.14/63.57
HyLife	144.98/65.76
BP4/TCP4	129.12/58.57
OlyWest	126.40/57.33
2020 Top-Up (YTD Rolling Est.)	
\$12.83 CAD/ckg	
ISO Weans \$5.91 US Avg.	
Feeder Pigs \$16.06 US Avg.	

Forward Range (at opening)	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan
Maple Leaf Sig 4		164.96 176.47	166.19 169.94	159.74 170.99	154.49 157.74	151.84 153.88	147.84 149.84	147.34 150.84	143.84 157.19
Maple Leaf Sig 5		153.09 164.66	155.12 158.37	141.27 159.69	134.67 138.66	133.63 139.83	125.89 130.08	128.48 131.85	125.13 141.88
Soymeal Delivered Wpg/S.Man	498	503	503	504	506				

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