

Hog Margin Outlook

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Wednesday, May 6, 2020

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Forward contract prices opened mostly lower this morning. US

cash markets are mixed mid-week with ISM and WCB regions down by \$1.08 and \$1.06, respectively, while the National reporting region is up \$0.95 USD/cwt relative to the previous day. Negotiated regions continue to push lower while regions priced off a formula continue to see some strength. There is a logic to this as recent strength in the pork cut-out has been supportive to a formula-based price. Recall that aside from a strict 'cut-out' based formula, the National reporting region already prices in elements of the cut-out in a 'basket' category (Swine or Pork Market Formula) that includes cut-out values, hog purchase, and/or slaughter data. This basket makes up approximately 28% of all animals constructing the National price of which 40-50% are estimated to be from the cut-out category (there are no solid data on this point). As such as the cut-out value increases, National prices are 'pulled up', all else equal. The net value of the cut-out today is currently at record highs including 2014 when compared to the weekly average for this marketing week. Extreme demand and supply chain disruption due to Covid-19 is responsible for the rapid increase that was at all time lows only four weeks ago. Volatility is extreme in all markets currently. Lean hog futures are trading lower this morning as the futures market has not been able to generate follow through buying interest that started earlier in the week. At first glance, the market appears very gloomy, but on closer inspection, there is some positivity on the horizon. While the summer month contracts are at all time lows, the contracts further out including October, December, and February are less negative. To be sure, all contracts available to forward contract against are still trading at a discount to the cash average benchmarks (used as a device to determine relative value), but the deferreds are much less pessimistic and the April contract (not yet available for forward contracting) is actually at a slight 4% premium. The silver lining, therefore, is that the market is pricing in a shorter term Covid-19 event but as has been proven again and again recently, the conditions upon which futures are valued could change very rapidly.

Canadian delivered soymeal prices opened higher this morning.

US soybean futures are lower with not much to offer support. There is evidence that China is continuing to buy US beans but little reason for the market to rally as there is considerable uncertainty on the horizon especially as Trump threatens to retaliate or seek other reparations from China related to Covid-19 which could impact the bean trade. While a bit too early to make any conclusions, planting pace remains good so far this year and a large production this year could keep pressure on the trade assuming current planting pace, normal growing and harvest conditions.

US corn futures opened lower this morning. US corn futures remain pres-

sured on weak demand and ideas that exceptional production could be realized this year. Planting pace, while not at the all-time high, remains so far above trendline in a sharp contrast to last year when wet and inclement weather limited progress. A private analytics firm has further suggested that ending stocks for the 2020/21 crop year could be as high as 3.525 million bu placing the stocks to use ratio at 24.4% which is exceptionally high. A high stocks-to-use ratio pressures prices and anything above 12% is considered bearish, generally.

US Slaughter	
298,000	Tuesday
470,000	Year Ago
Daily Prices	
Iowa/S. MN.	\$36.47
W. Corn Belt	\$36.47
National	\$64.56
Signature 4	\$165.78
HyLife (prev. day)	\$165.00
TCP/BP2	\$129.79
BP4/TCP4	\$165.78
BoC Rate (Noon) prev. day \$1.4032 CAD / \$0.7130 USD	
Cash Prices Week Ending May 2, 2020	
Signature 4	142.14/64.47
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		154.54 162.56	158.09 158.60	149.37 160.27	145.36 147.37	143.39 145.89	141.89 143.89	140.89 144.39	137.40 149.60
Soymeal Delivered Wpg/S.Man	499	503	503	505	507				

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