

# Hog Margin Outlook

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Monday, May 11, 2020

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**Forward contract prices opened mostly mixed this morning.** US cash markets are mixed to start the week with the WCB negotiated region up \$0.43, while the two formula-based regions (ISM and National) are down by \$1.20 and \$0.33 USD/cwt, respectively. A backing up of live animals is pressuring the negotiated markets while strength in the cut-out is providing a support to markets that use the pork cut-out values as a variable in their formulas as the ISM formula and National regions do. The pork cut-out continues to show strength as the reduction in processing capacity due to Covid-19 plant closures and other disruptions constrain the amount of pork produced on the meat side. The net value of the carcass was 21% higher for week ending May 8 than the previous week, and presently at the highest level for this marketing week on record in the new report format used since 2013. Loins and bellies are at all-time highs while butts, picnics, and ribs are only outpaced by values seen in 2014; only hams have struggled to make any significant gains and are trading at the lower end of seasonal values. The carcass is not at the highest value ever, (i.e. August 2014 with exceptional values also seen in March and October of the same year), but it does represent a sharp turnaround relative to just four weeks ago when the net value was at all time lows. Processing capacity is estimated to be about 40% lower than last year and until such time it can be somewhat normalized, meat values are likely to remain high and a subject to scrutiny. Lean hog futures are off to an uncertain start. Futures contracts were initially higher at the open but backed off about a half hour later with all of them moving lower. As of this writing, the market is trading mixed with equal amounts of contracts moving higher as lower. The two-sidedness and choppiness in the futures seen over the past few sessions will likely be a feature of the trade until more certainty becomes evident. For now, the market is in a wait-and-see patterns as some previously closed plants reopen and there is much speculation on the likelihood of secondary Covid-19 outbreaks as regional economies start to open back up.

**Canadian delivered soymeal prices opened higher this morning.** Tomorrow, the USDA will release the May WASDE report mid-trade. Analysts expectations ahead of the report show the market expecting 488 million bu. in ending stocks for the old crop and 430 million bu. for the new crop. The May WASDE report is one of the first looks market participants get to see official numbers on the new crop. In terms of new crop, there is not much consensus on the average; the range of estimates is 299 million bu. at the low end and 635 million bu. at the high end.

**US corn futures opened lower this morning.** Like bean traders, US corn traders will be looking to the May WASDE report released at 11:00 AM Central tomorrow for clues on direction. Using ending stocks as a gauge on price movements, old crop is expected to come in 752 million bu higher on average compared to the April report. New crop numbers, like beans, are wide; the range of estimates for new crop corn is as low as 2.665 billion bu. and as high as 4.295 billion bu. Current old crop increases are due to the sudden drop in corn demand from all channels but especially in the US ethanol sector.

US Slaughter	
1.768 mil.	Last Week
2.332 mil.	Year Ago
Daily Prices	
WCB	\$38.09
ISM Formula	\$72.07
National	\$71.81
National Adj.	\$79.31
Signature 4	\$177.61
BP4/TCP4	\$177.61
OlyWest 2020	\$184.73
HyLife (prev. day)	\$177.13
HyLife Adjusted	\$209.53
<b>BoC Rate (Noon) prev. day</b>	
\$1.3934 CAD / \$0.7180 USD	
Cash Prices Week Ending	
May 9, 2020	
Signature 4	168.72/76.53
h@ms Cash	166.72/75.62
HyLife	171.41/77.75
HyLife Adj.	203.46/92.29
BP4/TCP4	142.14/64.47
OlyWest	154.80/70.22
<b>2020 Top-Up (YTD Rolling Est.)</b>	
\$14.07 CAD/ckg	
ISO Weans \$7.04 US Avg.	
Feeder Pigs \$22.65 US Avg.	

Forward Range (at opening)	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan
Maple Leaf Sig 4		155.98 158.47	155.12 155.62	142.19 153.38	138.22 140.20	136.48 137.47	133.00 134.99	132.01 135.48	128.42 138.56
Soymeal Delivered Wpg/S.Man	502	506	506	508	510				

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