

# Hog Margin Outlook

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Thursday, May 14, 2020

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**Forward contract prices opened mostly mixed this morning.** The two monitored US negotiated cash regions did not report prices yesterday citing confidentiality. Base prices in the formula-based regions were mixed with ISM down \$2.58 while the National and National Adjusted were both up by \$1.79 USD/cwt. There is some evidence that the re-opening of US pork plants is allowing for more production to be realized. Recent USDA data shows that pork production was record low for marketing week 18 (week ending May 2) coming in at 329.7 million lbs. For context, this is the lowest production on record for that marketing week going back to 2005 (the 'first year' we keep on file) and only the 'July 4' week in 2005, 2006, and 2007 were lower. Last week, however, pork production increased by some 15% suggesting throughput is increasing. US administration officials have gone so far to suggest that pork plants will be back up to 100% in as little as ten days, but most analysts and industry professionals see a slower ramping up and that even if plants are open at '100%', capacity utilization may only reach about 85% as plants incorporate the latest Covid-19 safety protocols which invariably slows down line speeds. In any event, the ramping up of production is a good sign for American hog producers who have had to make some very challenging decisions recently and the numbers will be closely watched, not the least of which, evidence of potential secondary virus outbreaks as local economies open up in a patchwork of state to state approaches. Lean hog futures are mixed at the open following a day of pressure in the previous session. Daily moves have been mixed to lower since reaching the (relative) highs on May 4 which were still well off the pace of values typically seen this time of year. Summer month contracts are 28% lower than the five-year average cash settlement levels which is used to gauge value in the futures. Bottlenecks at the plant level are backing up hogs on the farm and creating a surplus of animals that the futures market currently is pricing in well into the summer. With the May contract expiring today, it will be interesting to see how the new front month contract (June) responds. There is currently an ~\$15 USD/cwt spread between the June contract and the cash market in favour of the cash. And while cash markets have recovered off the lows in recent weeks, futures and cash values must converge by the June futures expiration date which is now only four weeks away.

**Canadian delivered soymeal prices opened lower this morning.** US soybean futures are showing some sign of life after trading lower yesterday. The market is still residing amid recent lows, however, and aside from statements from China suggesting they are still committed to purchasing US beans (and some evidence of recent purchases), US beans are facing more downward pressure than up. Ending stocks in the May WASDE report came in higher than expectations and 100 million bu. higher than the previous month. And while Brazil continues to ship to China at a record pace, Chinese buyers have not yet entered the US market in force.

**US corn futures opened lower this morning.** US corn futures remain under pressure despite some indications that the ethanol sector is lifting off the lows. Two weeks ago, ethanol production reached record lows as demand for the fuel collapse amid travel restrictions due to Covid-19 at the same time record low crude oil prices crushed the energy sector. While yesterday's EIA ethanol report showed the sector increasing production somewhat, production still remains approximately 40% lower than last year at this time. Ending stocks estimates over 2 billion bu. for old crop and over 3.3 billion bu. for new crop are also weighing on the trade.

US Slaughter	
373,000	Wednesday
457,000	Year Ago
Daily Prices	
WCB	N/A
ISM Formula	\$72.74
National	\$74.00
National Adj.	\$81.50
Signature 4	\$184.85
BP4/TCP4	\$184.85
OlyWest 2020	\$186.44
HyLife (prev. day)	\$182.53
HyLife Adjusted	\$215.31
<b>BoC Rate (Noon) prev. day</b>	
\$1.4073 CAD / \$0.7110 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	
<b>ISO Weans \$7.04 US Avg.</b>	
<b>Feeder Pigs \$22.65 US Avg.</b>	

Forward Range (at opening)	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb
Maple Leaf Sig 4		147.76 150.25	149.40 150.89	140.42 149.77	136.43 138.43	134.77 135.76	131.41 133.40	130.41 133.90	126.93 137.86	145.09 148.59
Soymeal Delivered Wpg/S.Man	498	503	503	505	506					

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