

Hog Margin Outlook

Meeting Your Marketing Needs

Thursday, May 21, 2020

For details call: (204)235-2237 or visit www.hamsmarketing.ca

Forward contract prices opened mostly higher this morning. US

cash reference markets are all lower relative to the previous day. The negotiated regions remain under pressure while the formula regions are seeing some inter-day weakness due to a softening of some components in the formulas (i.e. cut-out for example). The spread between negotiated and formula base regions remains historically wide (\$29.76 USD/cwt, today) but with the National base showing some softness, the spread is narrowing, albeit by a very small amount. Average annual spreads between the WCB and National reference prices has crept up over the years but typically did not see values in the double digits in the last five years. Of course, there were some seasonal outliers, but only since last year has the spread in base prices been more than \$20 going back to 2015, and only for a brief period. At the end of the year, average spreads have been approximately \$4.20, \$5.40, \$5.90, \$7.40, and \$8.20 in USD/cwt for 2015, 2016, 2017, 2018, and 2019, respectively. The broader trend of widening, but especially highlighted today, is ushering in some price discovery discussions along with criticisms that the current methods do not represent 'the market' in the USA. The extent to which price discovery in the USA becomes re-envisioned remains to be seen, but so long as spreads remain wide, it is quite likely more criticism will be discussed on both sides of the border. Lean hog futures gapped higher at the open but are levelling off somewhat as of this writing. Even with this morning's support, however, futures values are still ~23% lower than the five-year average cash benchmark (referenced to assess 'value' in the futures). This morning's weekly Export Sales report may or may not have been behind the initial strength. Physical deliveries were up 128% compared to week ago (when seasonal low volumes were reported) with China taking 38% of the 49,700 MT volume which was a marketing week high. However, new net sales were disappointing and have added to the uncertainty. A large cancellation of 12,600 MT by China more than offset any new net sales in other markets and even if China didn't cancel (or simply committed to no new orders), the weekly net sales number would have still come in at only ~6,800 MT representing the smallest new commitments for this calendar year. While the market typically looks at this report on Thursdays as a gauge for direction, this week's numbers left more questions than answers and likely ushered in more uncertainty over the longer term.

Canadian delivered soymeal prices opened lower this morning.

This morning's Export Sales report showed physical deliveries up by 10%, completely in line with seasonality, and mimicking the trend that has been in place since the beginning of March. New net sales came in at 1.2 MMT or ~84% higher than week ago. The volume is a calendar year high and only the second time since the beginning of January that commitments have been over 1 MMT. The increase was primarily due to China who committed to 737,400 MT for marketing week ending May 14.

US corn futures opened lower this morning.

Physical deliveries of 1.26 MMT were ~13% higher than week ago for US corn and at the upper end of the recent trend. The trend, however, is lower than in other years on average so far this year highlighting ongoing demand challenges for US corn. New net sales were unremarkable, coming in at 884,000 MT and completely in line with seasonality. If normal trends persist, new net sales back off heading into the end the new crop year while physical deliveries also see some weakness. US corn futures are lower this morning.

US Slaughter	
397,000	Wednesday
468,000	Year Ago
Daily Prices	
WCB	\$39.43
ISM Formula	\$67.45
National	\$69.19
National Adj.	\$76.69
Signature 4	\$170.60
BP4/TCP4	\$170.60
OlyWest 2020	\$171.38
HyLife (prev. day)	\$169.17
HyLife Adjusted	\$200.83
BoC Rate (Noon) prev. day	
\$1.3892 CAD / \$0.7200 USD	
Cash Prices Week Ending	
May 16, 2020	
Signature 4	179.73/81.52
h@ms Cash	177.73/80.62
HyLife	178.25/80.85
HyLife Adj.	210.72/95.58
BP4/TCP4	168.72/76.53
OlyWest	179.00/81.19
2020 Top-Up (YTD Rolling Est.)	
\$15.49 CAD/ckg	
ISO Weans \$7.20 US Avg.	
Feeder Pigs \$19.03 US Avg.	

Forward Range (at opening)	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb
Maple Leaf Sig 4		150.92 151.41	141.90 144.61	135.77 141.70	130.66 135.85	129.68 135.28	130.84 135.28	129.35 133.30	127.38 142.26	144.73 148.18
Soymeal Delivered Wpg/S.Man	483	487	487	490	493					

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h@ms Marketing Services Forward Contracting will be closed Monday, May 25 for Memorial Day in the USA. Forward contracting will be closed and the HMO and Opening Price reports will not be published. The main office will remain open per usual on Monday May 25.

Normal business resumes on Tuesday, May 26.