

# Hog Margin Outlook

Meeting Your Marketing Needs

Friday, May 22, 2020

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**Forward contract prices opened mostly higher this morning.** US cash reference prices are mixed to finish the week; WCB is up \$1.68, ISM Formula is down \$2.98 and both National references are down by \$0.15 USD/cwt relative to the previous day. Weekly base prices for week ending May 23 are likewise mixed after some two-sided action in all regions this week. The weekly National based price ultimately came in \$1.39 USD/cwt lower relative to the previous week marking the first time the region saw prices pressured lower since week ending April 25. There are thoughts that some component weakness in the formulas (cut-out basket for example) is providing some of the pressure and furthermore, that as supply chains become fuller due to a ramping up of production, that more formula weakness is possible. Producers pricing off formula bases in CAD/ckg should not be under the impression that a ramping up of US production will invariably lead to higher cash pricing in the short term simply because formula pricing blurs the supply and demand relationship for live animals. For a more 'fundamental'-based reference, the WCB shows that base prices did come up \$1.94 week over week but the value is at an all time low for this marketing week (\$38.74) representing a massive \$32.07 spread between the negotiated and formula benchmarks and intense pressure for the live market awash in supplies. There is a lot of uncertainty presently and normal supply and demand profiles have not yet been established due to Covid-19 disruptions meaning typical seasonality is quite likely not going to be mirrored this year. Yesterday's cold storage report suggested that Covid-19 plant shutdowns have had an impact. Compared to a normal build up of supplies of approximately 27 million lbs. between March and April, pork inventories in cold storage dropped by about 2 million lbs. to 614.8 million lbs. The drop was not completely unexpected, but it does provide another example of the disruption Covid-19 has had on the industry. Lean hog futures were lower to start the last session before the long weekend in the USA (Memorial Day on Monday May 25) but are recovering somewhat as of this writing. The market remains two-sided and choppy, but not breaking into a new trend either higher or lower just yet. The sideways pattern has been in place for the last seven sessions with little indications that it can confidently break away for now. Using average cash settlement base prices to gauge value in the futures, markets are 24% lower than typical cash histories on average for the remainder of 2020, but only 6% lower for the 2021 futures suggesting the market is pricing in a bit of optimism further out.

**Canadian delivered soybean prices opened higher this morning.** US soybean futures are finishing the week higher but still unable to break out of the recent trend. Beans have consolidated around the \$8.40 USD/bu mark and have been 'around' this value since the middle of April. China purchases showing up this week were supportive but there are concerns further out that a ramping up of hostilities could once again reignite another round of threats and tariff retaliations. US weather remains favourable for the most part and problem areas are expected to be regionally limited for now, but likely highlighted in the local media.

**US corn futures opened lower this morning.** Pressure on US corn remains as the demand picture from all channels has been challenging. The nearby contract is currently trading around the \$3.17 USD/bu level and has been in a relatively tight range since the end of April. There are no 'breaking' news items regarding US corn today although the challenges in the ethanol sector, while improving, have been weighing on the trade as ethanol typically utilizes over 30% of the US corn crop annually. A relatively rapid planting pace has been keeping any upsides in check.

US Slaughter	
39,000	Thursday
46,000	Year Ago
Daily Prices	
WCB	\$41.11
ISM Formula	\$64.47
National	\$69.04
National Adj.	\$76.54
Signature 4	\$170.77
BP4/TCP4	\$170.77
OlyWest 2020	\$163.80
HyLife (prev. day)	\$168.81
HyLife Adjusted	\$200.44
<b>BoC Rate (Noon) prev. day</b>	
\$1.3935 CAD / \$0.7180 USD	
Cash Prices Week Ending	
May 23, 2020	
Signature 4	175.39/79.56
h@ms Cash	173.39/78.65
HyLife	N/A
HyLife Adj.	N/A
BP4/TCP4	179.73/81.52
OlyWest	186.00/84.37
<b>2020 Top-Up (YTD Rolling Est.)</b>	
\$16.57 CAD/ckg	
<b>ISO Weans \$7.20 US Avg.</b>	
<b>Feeder Pigs \$19.03 US Avg.</b>	

Forward Range (at opening)	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb
Maple Leaf Sig 4		154.80 155.30	143.19 145.93	136.64 142.62	131.36 136.59	130.29 136.51	132.03 136.51	130.54 134.52	128.54 142.28	144.76 148.22
Soymeal Delivered Wpg/S.Man	491	496	496	498	501					

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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.