

# Hog Margin Outlook

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Friday, May 1, 2020

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## Forward contract prices opened mostly higher this morning. US

cash markets are higher to finish the week with ISM, WCB, and National regions up \$2.40, \$1.95, and \$2.97 USD/cwt, respectively. The weekly cash average benchmarks for week ending May 2 have come in higher than previous week for the first time since week ending March 28 which subsequently saw the largest week over week drops in the following weeks since August 2015. This week, the National base price was \$5.67 higher than week ago while the WCB was up by \$1.49 standing in sharp contrast to the unprecedented pressure seen in all of April that pushed prices to counter-seasonal lows. A backing up of live supplies as packers either shuttered plants and/or slowed line speeds was behind the initial pressure. Today, there is anecdotal evidence that supply chain disruption is causing some meat sourcing issues in the US and providing some support to live hog prices in certain locales where formula pricing is getting some support with improvements to the cut-out. On that note, there has been a remarkable turnaround on the meat side where the daily carcass cut-out was valued over \$1.00 USD/lb yesterday for the first time this year and not seen since summer of 2017. A high carcass value is also tied to issues of meat sourcing where local and regional shortages are providing underlying support for certain primal cuts. Shortages, to the extent that they could represent a more widespread 'food security' issue, have not yet developed across the USA, but there is evidence of regional issues that appear in mainstream and social media sources. This is not to downplay the issue, but it does stand in sharp contrast to stories of US farmers culling market-ready animals amid the crisis which is very severe for the American hog producer. The complete fallout has yet to be revealed, but with packing capacity down between 30% and 40% according to some estimates, US hog producers likely have some tough times ahead in the coming weeks. For now, Western Canadian hog processors have not had the same experience as their American counterparts and are generally operational with Covid-19 protocols in place to protect staff. Lean hog futures are higher to finish the week with the front month contracts trading at limit up as of this writing. Strength is starting to return to the futures, but the market is extremely volatile, unpredictable, and sensitive to news items. The extent to which the market is pricing in more systemic shortages further out as a result of the recent culling remains to be seen but there are ideas that a short-term bottom could have been reached in the middle of April...for now.

## Canadian delivered soymeal prices opened higher this morning.

US soybean futures have backed off yesterday's strength following reports that President Trump has once again ratcheted up the rhetoric on China. Reuters and other news outlets are reporting that the president is increasingly displeased with China's handling of the Covid-19 outbreak and will once again threaten tariffs or other reparation payment requests. Markets took the news as negative with analysts already wondering if the Phase One part of the trade deal could once again be in jeopardy.

## US corn futures opened lower this morning. Like beans, US corn futures are

lower on ideas that another trade war could be flaring up following the remarks from President Trump yesterday. Ideas that China could buy cheap US corn to help replenish state reserves and furthermore that they may buy ethanol are very much under question presently. Subsequent weekly export sales reports will be closely watched to see if there was any consequence (mostly for beans, but also for corn) and also if the president maintains the stance expressed yesterday.

US Slaughter	
288,000	Thursday
469,000	Year Ago
Daily Prices	
Iowa/S. MN.	\$38.70
W. Corn Belt	\$39.22
National	\$61.47
ML Signature 5	\$125.89
HyLife (prev. day)	\$150.62
TCP/BP2	\$125.89
BP4/TCP4	\$151.78
<b>BoC Rate (Noon) prev. day</b> \$1.3970 CAD / \$0.7160 USD	
Cash Prices Week Ending May 2, 2020	
Signature 3	93.10/42.23
Signature 4	142.14/64.47
Signature 5	117.62/53.35
h@ms Cash	140.14/63.57
HyLife	N/A
BP4/TCP4	129.12/58.57
OlyWest	126.40/57.33
<b>2020 Top-Up (YTD Rolling Est.)</b> \$12.83 CAD/ckg	
ISO Weans \$3.97 US Avg.	
Feeder Pigs \$17.66 US Avg.	

Forward Range (at opening)	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan
Maple Leaf Sig 4	154.47	157.47 168.98	159.79 163.54	155.05 166.53	149.80 153.05	147.37 149.49	143.37 145.37	142.87 146.37	139.37 152.57
Maple Leaf Sig 5	141.11	145.48 157.05	148.63 151.88	136.53 155.18	129.93 133.91	129.08 135.35	121.33 125.52	123.92 127.30	120.56 137.16
Soymeal Delivered Wpg/S.Man	506	510	510	511	513				

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### Some Important Phone Numbers

Main Office: 204-233-4991

Toll Free: 1-800-899-7675

Logistics: 204-235-2225

Risk Management: 204-235-2237

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