

Hog Margin Outlook

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Thursday, May 28, 2020

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Forward contract prices opened mostly lower this morning. US

cash reference regions are higher with WCB, and ISM Formula up \$1.66 and \$1.31, respectively, while both National reference prices are higher by \$0.33 USD/cwt relative to the previous day. Despite the move, the National based prices are poised to come in lower week over week when the base prices for week ending May 30 are calculated later today. The WCB is still tracking under \$40.00 USD/cwt as it has since the second last week in April. Any thoughts that the usual May/June rally will develop this year have all but completely evaporated. The ongoing challenges with Covid-19 are still very real for hog producers who do not have a plant to deliver to even though plants are starting to reopen. The market will need to work through the current supply of hogs that have been backed up before any meaningful support can return to cash markets. For now, the available number of hogs vastly overshoots the slaughter capacity in the US and there are some very real concerns today that even with a 90% plant utilization rate (widely considered to be the upper limit of throughput in the short term and even out to the end of the year), supplies in the fourth quarter could still exceed processing limits. While it is not impossible that the industry will contract at some point in the future, that 'event' will likely not be revealed until later. In the meantime, and purely from a pricing perspective, the market will need to see more productive sow culls and young pig/piglet euthanasia in order for any supply holes to develop. Unfortunately, there is no solid data on euthanasia taking place (aside from sow numbers) and producers should recall that current stories of market hog destructions that are starting to make the rounds in more prominence merely bring slaughter numbers below existing capacity limits. Market hog destructions do not and will not create any supply holes further out. Lean hog futures turned abruptly lower this morning, erasing all the gains that developed over the course of this week. The 'reason' at publishing time is unclear but there was an article surfacing yesterday suggesting that the WH Group (China-based owners of Smithfield) are 'rethinking' their global strategy following issues related to ASF (which is still a concern) and Covid-19 plant shutdowns. This news item will be closely watched. The weekly export sales report is delayed until tomorrow due to the observance of Memorial Day (US) on Monday.

Canadian delivered soymeal prices opened lower this morning.

US soybean futures are lower and unable to breakout of the recent range that was established in the middle of April. There is no fundamental news breaking today as the weekly export sales report typically released on Thursdays has been delayed to tomorrow due to Memorial Day in the US. Despite talk that China/USA tensions are escalating once again, the official word from China so far is that they intend to make good on Phase One commitments, and while there have been some decent volumes reported, the consensus is that China will not really start substantially buying until the end of August/beginning of September as they normally do.

US corn futures opened higher this morning.

US corn futures, like beans, continue to trade in a sideways pattern with no real moves either higher or lower day over day while also unable to break out of the current range. US corn futures remain amid contract lows, residing in the low \$3.20 USD/bu range and there is not much supportive news on the horizon. US crop progress is pegged at a relatively good pace and demand for US corn desperately needs to ramp up from all channels if the trade is to lift off the lows.

US Slaughter	
415,000	Wednesday
461,000	Year Ago
Daily Prices	
WCB	\$39.30
ISM Formula	\$64.85
National	\$66.56
National Adj.	\$74.06
Signature 4	\$162.81
BP4/TCP4	\$162.81
OlyWest 2020	\$163.72
HyLife (prev. day)	\$161.71
HyLife Adjusted	\$192.71
BoC Rate (Noon) prev. day	
\$1.3780 CAD / \$0.7260 USD	
Cash Prices Week Ending	
May 23, 2020	
Signature 4	175.39/79.56
h@ms Cash	173.39/78.65
HyLife	171.65/77.86
HyLife Adj.	203.61/92.36
BP4/TCP4	179.73/81.52
OlyWest	186.00/84.37
2020 Top-Up (YTD Rolling Est.)	
\$16.57 CAD/ckg	
ISO Weans \$7.04 US Avg.	
Feeder Pigs \$18.80 US Avg.	

Forward Range (at opening)	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb
Maple Leaf Sig 4			140.84 143.52	135.63 141.50	129.89 135.02	128.82 133.22	128.82 133.22	127.36 131.26	125.40 138.71	141.16 144.58
Soymeal Delivered Wpg/S.Man	477	482	482	485	488					

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