

Hog Margin Outlook

Meeting Your Marketing Needs

Monday, June 1, 2020

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Forward contract prices opened mostly lower this morning. US

cash reference markets are mixed to start the week. The WCB is down \$0.89, ISM Formula is a dime higher, and the two National base prices are down by \$2.69 USD/cwt. Ongoing pressure in the negotiated regions (WCB for example) likely highlights ongoing challenges regarding present Covid-19 production issues. Weekly slaughter levels came in at 1.966 million head for week ending May 30 which was 8.4% lower compared to last year. The 'ramp-up' phase has so far been building at a pace faster than earlier projections, and last week's numbers, despite falling below the 2 million benchmark, could also be viewed as optimistic considering last week was a 'short week' due to the Memorial Day holiday last Monday. Regardless, processing capacity needs to continue increasing if the backlog of hogs is so be worked through and a more normal supply chain is to be reestablished. Pressure in the formula regions reflect a cut-out value that has been backing-off from the recent highs. Week over week values show the net value of the carcass has dropped 21% since week ending May 16 and 8% from the week prior. The trajectory is very much trending lower as production ramps up and alleviates some of the supply chain pressures that were previously supporting prices at all-time highs only three weeks ago. It is important to remember that the current increase in processing capacity does not and has not alleviated the backlog issues that American hog producers are facing today. In fact, the state of Iowa (the USA's largest hog producer) has announced financial aid to farmers unable to harvest hogs due to plant closures; the supply issue on the hog side of the production chain is far from over. Lean hog futures gapped lower at the open reflecting some negativity on the horizon. An article appearing in Bloomberg has reported that the Chinese state-owned enterprises Cofco and Sinograin have been ordered to suspend purchases of US soybeans and perhaps cancel an amount of US pork that has yet to be revealed. The news follows the diplomatic spat between the two countries where it was announced last week that the USA would no longer observe special status to Hong Kong and apply other diplomatic pressure on China. The US announcement responds to the Chinese government's new security law on Hong Kong which is widely believed to be a move to reign in the territory and the first step in dissolving the 'one country/two systems' approach that has been in practice since the 1997 handover of Hong Kong to China following the 100-year lease to the United Kingdom. Hong Kong residents previously enjoyed much more freedoms than mainland Chinese and was considered a financial centre.

Canadian delivered soymeal prices opened lower this morning.

US soybean futures are higher to start the week, but the ability of the trade to attract new buying activity is very much in question. The start of the month typically brings 'new money' into the market which could be taking place today. But the increasing diplomatic hostilities between China and the USA and the above-mentioned announcement by state buying entities could put a damper on sustained sales in the short to mid-terms.

US corn futures opened lower this morning. US corn futures are starting

the week off on a lower note. China has never been a large US corn buyer relatively speaking but the recent tensions have put into question the previous idea the China may buy corn and ethanol under Phase One commitments. Follow-through buying has failed to gain steam after some gains were made on Thursday where the trade briefly eclipsed the \$3.30 USD/cwt level for the first time since the April 23 session.

US Slaughter	
1.966 mil.	Last Week
2.131 mil.	Year Ago
Daily Prices	
WCB	\$37.09
ISM Formula	\$62.12
National	\$64.35
National Adj.	\$71.85
Signature 4	\$157.48
BP4/TCP4	\$157.48
OlyWest 2020	\$156.37
HyLife (prev. day)	\$155.89
HyLife Adjusted	\$186.42
BoC Rate (Noon) prev. day	
\$1.3787 CAD / \$0.7253 USD	
Cash Prices Week Ending	
May 30, 2020	
Signature 4	164.68/74.70
h@ms Cash	162.68/73.79
HyLife	162.06/73.51
HyLife Adj.	193.18/87.63
BP4/TCP4	175.39/79.56
OlyWest	168.20/76.30
2020 Top-Up (YTD Rolling Est.)	
\$17.30 CAD/ckg	
ISO Weans \$7.05 US Avg.	
Feeder Pigs \$17.47 US Avg.	

Forward Range (at opening)	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb
Maple Leaf Sig 4		136.28 138.95	132.28 139.07	125.26 130.35	124.73 128.13	123.76 128.13	122.30 126.19	120.35 132.10	134.53 137.93
Soymeal Delivered Wpg/S.Man	480	480	482	484					

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