

Hog Margin Outlook

Meeting Your Marketing Needs

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Forward contract prices opened mostly lower this morning. US

cash reference markets continue to exhibit signs of weakness and move in a counter-seasonal direction lower. ISM Formula is down \$2.13 while both National reference prices are down \$1.09 USD/cwt; the WCB once again was not reported due to confidentiality. Negotiated regions (WCB, for example) continue to see pressure due to the oversupply of hogs relative to current processing capacity and there are still thoughts that the amount of culls/euthanasia/destructions needed to bring levels low enough to process the remaining hogs could be between 5-7 million in the second half of the year. Formula prices are moving lower due to the influence of the cutout which has fallen quite sharply recently as formula base prices contain a 'basket' of live hogs priced off that value. The net value of the carcass is \$74.37 USD/cwt today, compared to the \$115.12 weekly average value three weeks ago. Daily pressure on wholesale pork prices is mounting as plants ramp up Covid-19 plant production which, while relieving the pressure in the wholesale (and retail) pork markets, subsequently makes supplies on the meat side more available thus pressuring the value of the cutout. Yesterday, all primal cuts were lower relative to the previous day with loins, butts, and ribs showing double-digit losses and it would appear that the pork market has not yet stabilized at a 'new' level just yet. As the value of the cutout comes down, producers on programs pricing live hogs off the formula base price should expect more weakness until the cutout value levels off. Lean hog futures once again gapped lower for the third session in a row this week. There is not yet much positive news on the horizon and the idea that China could cancel pork commitments due to the ongoing diplomatic spat between the USA and China is weighing on the futures market as are thoughts that there will still be an oversupply of hog out to the end of the year. As well, the value of the Canadian dollar has climbed almost 2 cents (USD) since May 26 against a weakening US dollar the results of which equate to an approximate \$4 CAD/kg 100-index base price lower than what could have been realized without the strength in the CAD. The lowering lean hog futures and a strengthening CAD have pressured the net value of forward contracts fall by approximately \$7.50 CAD/kg since the end of May on a '9-month' contract and it will likely take some time for a recovery to mount in the present marketing environment. Nothing today would suggest a rally in the hog markets is looming at present.

Canadian delivered soybean prices opened higher this morning.

US soybean futures continue to trade higher as earlier news that Cofco and Sinograin (China's state-owned enterprises) were apparently ordered by officials to not buy from US origins appears to not be materializing...for now. Daily orders have been reported for China everyday this week so far which is providing underlying support especially since a stoppage in purchase activity was expected. Despite this, the nearby contract is still trading amid contract lows and has not broken out of the range that has been in place since the end of April.

US corn futures opened lower this morning. Weakness in US corn futures

continues to be a feature of the trade as demand from all channels remains a challenge. While China 'needs' US beans, and their ongoing buying of soybeans appears to be reinforcing that idea, the same cannot be said for US corn (or ethanol). As such, hopes that China would buy more corn and ethanol to satisfy Phase One commitments appears to be fading especially considering state officials have recently told state buyers to avoid US products. While picking up somewhat, the ongoing weakness in domestic demand for US ethanol continues to weigh on the trade.

US Slaughter	
417,000	Tuesday
478,000	Year Ago
Daily Prices	
WCB	N/A
ISM Formula	\$59.99
National	\$62.90
National Adj.	\$70.40
Signature 4	\$150.89
BP4/TCP4	\$150.89
OlyWest 2020	\$149.54
HyLife (prev. day)	\$150.88
HyLife Adjusted	\$180.87
BoC Rate (Noon) prev. day	
\$1.3515 CAD / \$0.7400 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/kg	
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		133.17 135.80	132.33 138.85	125.38 130.41	124.82 129.34	125.01 129.34	123.57 127.42	121.65 134.77	137.17 140.53
Soymeal Delivered Wpg/S.Man	476	476	479	482					

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