

Hog Margin Outlook

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Friday, June 5, 2020

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Forward contract prices opened mostly higher this morning. US daily cash reference markets are lower to finish the week with WCB, ISM Formula, and (both) National reference prices down by \$1.98, \$6.21(!), and \$1.96 USD/cwt, respectively, relative to the previous day. Weekly cash reference prices for week ending June 6 are also lower with the WCB (proxy for negotiated) down \$4.39 while the National region (proxy for formula) is \$4.49 USD/cwt lower relative to the previous week. The National benchmark is now 21% lower than the five-year average while the WCB is 55% lower than values typically seen this time of year. The pressure has resulted in the largest week-over-week drop since week ending April 18 and the move subsequently means prices in CAD/ckg 100-index will also be settled lower relative to week ago representing a counter-seasonal move when strength *should* normally be a feature of the market at this time of year. Interestingly, the spread between the negotiated and formula pricing regions is at \$27.60 USD/cwt and while it is not the largest on record (the widest was \$35.40 for week ending May 9 this year), it is the fifth widest spread in recent memory of which all five have appeared in the last five weeks. Until Covid-19 supply and demand disruption is resolved, producers should not expect *normal* pricing patterns to be revealed in the short to mid-terms. Lean hog futures are higher to finish the week, but the market has a way to go before posting more seasonal values. The past six sessions have seen losses day-over-day and not much news to mount a sustained rally. Too many hogs (even before plant closures), backing-up of animals amid Covid-19 reorganizations, and the potential that China could cancel US pork commitments is weighing on the trade. Customs data for April released yesterday showed China took the largest one-month pork volume on record as ASF supply holes still are an issue for the country. However, the resumption of diplomatic tensions between the USA and China over the handling of Hong Kong produced news earlier this week that Chinese officials have ordered state owned enterprises to stop buying American ag products including pork. Customs data is lagged by two months, and while it is considered 'gold standard' it will take a while for any shunning of US products to show up in the official numbers. In the meantime, the weekly Export Sales report (providing information on only certain primal cuts) will be closely watched for clues on direction. While a larger 'short-term' issue for US producers (and Canadian producers in terms of price) is the backing up of animals due to Covid-19 plant constraints and a limited ramp-up potential, it is critically important that the demand from export markets is also maintained.

Canadian delivered soymeal prices opened lower this morning. Despite ideas that Cofco and Sinograin (China state owned enterprises) may avoid US bean later on, China is still actively buying and accepting US product. The market nonetheless is well behind the pace imagined under a Phase One trade agreement and while US Trade Representative Lighthizer has said that he sees China "stepping up" purchases under the deal, former USDA chief economist Joe Glauber has publicly said there is "absolutely zero chance" of China reaching Phase One commitments this year.

US corn futures opened higher this morning. Following a week and a half of pressure, US corn futures are higher for the second consecutive day in a row. However, both fundamental news and technical indicators are hinting that the support could be relatively short lived. The US corn market desperately needs some positive demand or negative supply story to develop to provide underlying support. In the meantime, and despite the low values, technical indicators are suggesting the market is about to see some resistance once again.

US Slaughter	
437,000	Thursday
470,000	Year Ago
Daily Prices	
WCB	\$32.66
ISM Formula	\$55.91
National	\$59.40
Nat'l Cutout	\$66.90
Signature 4	\$142.41
BP4/TCP4	\$142.41
OlyWest 2020	\$132.82
HyLife (prev. day)	\$141.28
HyLife Cutout	\$171.48
BoC Rate (Noon) prev. day	
\$1.3508 CAD / \$0.7403 USD	
Cash Prices Week Ending	
June 6, 2020	
Signature 4	150.51/68.27
h@ms Cash	148.51/67.36
HyLife	N/A
HLF Cutout	N/A
BP4/TCP4	164.68/74.70
OlyWest	157.10/71.26
2020 Top-Up (YTD Rolling Est.)	
\$17.93 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		132.90 135.52	136.71 142.44	130.20 135.21	129.30 133.79	129.49 133.79	128.06 131.88	126.15 139.69	142.07 145.40
Soymeal Delivered Wpg/S.Man	467	467	471	473					

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