

Hog Margin Outlook

Meeting Your Marketing Needs

Wednesday, June 10, 2020

For details call: (204)235-2237 or visit www.hamsmarketing.ca

Forward contract prices opened mostly lower this morning. US

cash reference markets are mixed mid-week with WCB recovering from the highly unusual sub-\$30.00 value to 31.10 (up \$1.23), ISM Formula down by \$1.07, and both National reference prices up \$0.50 USD/cwt relative to the previous day. Slaughter capacity over the past couple days is currently estimated to be around 85% relative to pre-Covid-19 levels and until such time throughput recovers to numbers seen before the virus disruption, pressure will remain on the negotiated cash markets. Plant utilization is increasing more swiftly than first estimated, but it is still well off the pace seen earlier and of course, overlooks the current backlog of hogs on farms that also needs to be addressed. Cutout values are once again lower compared to previous day (-\$1.62), led by loins that saw one day drop of \$6.21. Using marketing week 20's weekly average cutout price as the high-value benchmark, and comparing it to today's data, the cutout is 39.8% lower than four weeks ago. It is no coincidence that the formula-based regions have seen a notable drop in pricing as well, but this issue is a little more complicated to articulate than the 'simpler' supply and demand relationship for negotiated hogs. Yes, the ongoing back-up of hogs is (and was) having a pressuring effect on formula regions too. But the rapid increase of the cutout value for *pork* as it became scarce due to a reduction in processing capacity and logistics issues initially provided support for formula prices that at first appeared counterintuitive relative to the pressure seen in the negotiated regions. Formulas using cutout components in their price discovery saw rising values when the negotiated cash regions were under extreme pressure and widened the spread between the regions to unprecedented levels. Today, the spread between the WCB and the National region is getting narrower, but it is still very wide at \$25.57 USD/cwt. It is expected that as plants ramp up production, and the availability of *pork* is replenished, further weakness in the formula regions will be a likely result until full plant utilization (or a reduction in the availability of live hogs) develops. Lean hog futures are seeing some volatility this morning. At the open, the trade turned immediately lower for all offered contracts, but has recovered somewhat as of this writing. With no bullish news on the horizon, futures markets have no real rationale to lift significantly from the current lows that were established in April. The only notable event futures markets appear to be pricing in is a potential return to a more normal marketing environment in 2021, but of course, that is highly speculative today.

Canadian delivered soymeal prices opened mixed this morning.

Tomorrow, the USDA will release the June WASDE report at 11AM, Central time. Average estimates of ending stocks by analysts ahead of the release show the market is expecting old crop ending stocks to come in at 577 million bu. (580 million bu. last month) while new crop ending stocks are pegged at 426 million bu. compared to last month's 405 million bu. While old crop numbers are slightly lower than the previous month, 577 million bu. still represents a well-supplied market.

US corn futures opened lower this morning. Old crop ending stocks estimates by analysts coming out ahead of the June WASDE report are estimated to be 2.148 billion bu. on average representing an increase relative to the 2.098 billion bu. revealed in last month's report. New crop is expected to come in at a whopping 3.360 billion bu. against 3.318 billion bu. in last month's report. Generally speaking, anything over 2 billion bu. is typically considered to be quite large for US corn.

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US Slaughter

450,000	Tuesday
472,000	Year Ago

Daily Prices

WCB	\$31.11
ISM Formula	\$50.78
National	\$56.17
Nat'l Cutout	\$62.33

Signature 4	\$133.82
BP4/TCP4	\$133.82
OlyWest 2020	\$124.29
HyLife (prev. day)	\$133.48
HyLife Cutout	\$157.25

BoC Rate (Noon) prev. day
\$1.3423 CAD / \$0.7450 USD

Cash Prices Week Ending

June 6, 2020

Signature 4	150.51/68.27
h@ms Cash	148.51/67.36
HyLife	146.01/66.23
HLF Cutout	173.12/78.53
BP4/TCP4	164.68/74.70
OlyWest	157.10/71.26

2020 Top-Up (YTD Rolling Est.)

\$17.93 CAD/ckg

ISO Weans \$5.11 US Avg.

Feeder Pigs \$14.65 US Avg.

Forward Range (at opening)	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr
Maple Leaf Sig 4		130.12 131.55	134.52 140.48	132.67 136.95	131.24 135.88	132.07 135.88	129.45 133.50	129.45 140.22	144.02 145.92	146.56 152.98	152.98
Soymeal Delivered Wpg/S.Man	463	465	470	473							

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