

# Hog Margin Outlook

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Friday, June 12, 2020

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**Forward contract prices opened mostly higher this morning.** Daily US cash reference prices are under pressure to finish the week with WCB down \$0.42, ISM Formula \$0.73 lower, National down \$0.99, and the National Cutout-adjusted base \$0.17 USD/cwt lower relative to the previous day. The weekly base prices for week ending June 13 likewise came in lower than the previous week with the National region posting its second largest week over week drop in value since the issues associated with Covid-19 developed. The reason for the pressure is in part a function of weakness in the cutout which will likely reveal another weekly drop in net carcass value when published later today. Since the highs seen in marketing week 20, today's carcass value represents an almost 40% drop or \$45.66 which is an exceptional amount in such a short period of time. The WCB settled at \$30.81 which is the lowest weekly value on observable record and likely not seen since 1998. All regions are seeing counter seasonal weakness when typically, cash markets rally at this time of year. On average, marketing week 25 (i.e. next week) represents the highest value for market hogs in the summer, but that is not going to happen this year as both regions have seen sustained pressure since week ending May 30. Moreover, this week the National base is 30% lower than the five-year average while the WCB is 61% lower than the same metric. Lean hog futures were higher at the open, but the market is not 'rallying' per se and there is still a lot of room to go before values approach historical value benchmarks especially out to the end of the year. The remainder of 2020 contracts are 23% lower compared to the five-year average cash prices over the same timeframe (a benchmark used to determine relative value). The futures market does appear to be pricing in some optimism further out, however. Futures values for 2021 contracts are 'only' 4% lower relative to the cash averages suggesting the market is pricing in a more normal marketing environment in the new year. Of course, that very much remains to be seen and the difference in values could simply be 'market psychology' today. Regardless, cash and futures markets will likely bias more to the lower side until such time slaughter levels return to normal, pipelines become re-established, the backlog of hogs starts to clear up, and demand picks up once again (looming economic recession and potential diplomacy issues with China notwithstanding). Potential supply holes due to ongoing culling and euthanasia appear to be remote in the short-term, but the Quarterly Hogs and Pigs report released at the end of the month will be closely watched for evidence of reductions in numbers.

**Canadian delivered soymeal prices opened higher this morning.** Yesterday's WASDE report showed old crop soybean ending stocks at 585 million bu. compared to an average pre-report estimate of 577 million bu. and against a 497 million to 630 million bu. range. The June report added 5 million bu. to the numbers released in May. New crop is currently pegged at 395 million bu. against a pre-report average estimate of 426 million and the 405 million bu. estimated for May. New crop numbers represent a slightly bullish outlook relative to old crop and to expectations.

**US corn futures opened higher this morning.** US corn ending stocks for the 2019/20 crop year came in at 2.103 billion bu. in yesterday's WASDE report against a 2.150 billion bu. pre-report expectation and was considered neutral for the old crop. New crop ending stocks estimates were likewise neutral relative to expectations, but the 3.232 billion bu. estimate is the highest estimate on observable record and will represent an extremely well supplied market if that level is realized in the final analysis. New crop corn ending stocks were revised higher relative to the May report.

US Slaughter	
450,000	Thursday
479,000	Year Ago
Daily Prices	
WCB	\$30.03
ISM Formula	\$47.81
National	\$54.29
Nat'l Cutout	\$61.79
Signature 4	\$130.60
BP4/TCP4	\$130.60
OlyWest 2020	\$117.09
HyLife (prev. day)	\$127.94
HyLife Cutout	\$155.96
<b>BoC Rate (Noon) prev. day</b> \$1.3553 CAD / \$0.7380 USD	
Cash Prices Week Ending	
June 13, 2020	
Signature 4	133.52/60.56
h@ms Cash	131.52/59.66
HyLife	N/A
HLF Cutout	N/A
BP4/TCP4	150.51/68.27
OlyWest	135.20/61.33
<b>2020 Top-Up (YTD Rolling Est.)</b> \$18.39 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		133.84 135.28	136.08 142.10	136.20 140.53	134.59 137.88	134.03 137.88	131.39 135.48	131.39 141.73	145.60 147.53	148.37 154.89	154.89
Soymeal Delivered Wpg/S.Man	471	474	478	481							

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