

Hog Margin Outlook

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Wednesday, June 17, 2020

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Forward contract prices opened mostly lower this morning. US cash reference markets are mixed mid-week with the WCB region down \$0.63, ISM Formula down \$1.77, National \$0.34 higher, and the National Cutout-adjusted base lower by \$1.07 USD/cwt. While the traditional National reference has 'leveled out' somewhat in recent days, the new National Cutout-adjusted reference continues to see ongoing pressure principally because it uses a direct cutout component in the construction of the formula. To be clear, the old National base price also includes some cutout-priced hogs in its formula too, but it is typically a fraction of the entire volume contained in one of the three categories that make up the reference price and therefore the degree of influence, while still there, is limited relative to a 'cutout'-based price. US cutout values dropped again relative to the previous day, led by bellies that posted a one day drop of \$8.93 to pressure the net value of the cutout to \$64.27 in the Tuesday report. Compared to the high value seen in marketing week 20 in the middle of May, the move reflects a \$50.85 loss in value or a 44% move lower contrasted against the panic buying that cleared shelves and product availability became constrained due to Covid-19 related plant closures earlier this year. The re-opening of plants is replenishing those pipelines and subsequently resulting in more supplies available for wholesalers who now do not have to aggressively bid to secure supplies. Interim concerns will be for restaurant and foodservice demand and the extent to which they are able to open in a more normal capacity. Lean hog futures are once again lower this week but trading in a sideways pattern after seeing near limit low moves in the front month contracts yesterday. Although nothing has fundamentally changed broadly speaking, traders could be positioning for weakness further ahead. The domestic versus export debate continues to simmer in some circles (i.e. that exports are 'taking away' from food insecure Americans), but the USA does not have a food shortage and domestic pork pipelines are returning more to normal. The economic impacts of a drop in any export market will be viewed as bearish for the trade and with tensions presumably ramping up between the USA and China (who has so far been taking record numbers of exports so far), tomorrow's export sales report will be watched very closely for clues on direction.

Canadian delivered soymeal prices opened lower this morning. Fears of more demand softness due to trade tensions between the USA and China and some concerns over second wave Covid-19 outbreaks are weighing on the trade. Some dry weather in the USA, which would normally be supportive, is currently being overshadowed by the ongoing demand concerns. New waves of outbreaks are currently being reported in both China and the USA, the degree to which remains to be seen. In the meantime, US beans continue to trade in a sideways and rangebound pattern seen since the middle of April.

US corn futures opened lower this morning. Despite ideas that the ethanol sector is recovering somewhat, US corn futures continue to trade under pressure on historically low ethanol production numbers (that appear to have bottomed out in late April). The US ethanol sector typically utilizes between 30% and 40% of the US corn crop which is generally why energy markets more broadly can impact US corn prices more acutely than, say, beans, for example. Massive new crop ending stocks estimates and historically large old crop numbers are weighing on the trade in the absence of stronger demand from all channels.

US Slaughter	
458,000	Tuesday
478,000	Year Ago
Daily Prices	
WCB	\$29.08
ISM Formula	\$46.42
National	\$53.39
Nat'l Cutout	\$57.84
Signature 4	\$128.49
BP4/TCP4	\$128.49
OlyWest 2020	\$115.49
HyLife (prev. day)	\$127.84
HyLife Cutout	\$148.33
BoC Rate (Noon) prev. day	
\$1.3558 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	130.37/59.14
HLF Cutout	157.28/71.34
BP4/TCP4	150.51/68.27
OlyWest	135.20/61.33
2020 Top-Up (YTD Rolling Est.)	
\$18.39 CAD/ckg	
ISO Weans \$5.60 US Avg.	
Feeder Pigs \$13.22 US Avg.	

Forward Range (at opening)	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr
Maple Leaf Sig 4		125.14 126.59	129.36 135.39	128.28 132.62	126.45 130.13	126.29 130.13	123.64 127.73	123.64 135.82	139.67 141.60	143.33 149.84	149.84
Soymeal Delivered Wpg/S.Man	465	468	471	473							

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