Hog Margin Outlook

Meeting Your Marketing Needs

Friday, June 19, 2020

For details call: (204)235-2237 or visit
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US Slaughter	
460,000	Thursday
479,000	Year Ago
Daily Prices	
WCB	$28.53
ISM Formula	$44.42
National	$52.54
Nat'l Cutout	$58.51
Signature 4	$126.72
BP4/TCP4	$126.72
OlyWest 2020	$110.12
HyLife (prev. day)	$125.33
HyLife Cutout	$149.50
BoC Rate (Noon) prev. day	$1.3589 CAD / $0.7360 USD
Cash Prices Week Ending June 20, 2020	
Signature 4	127.61/57.88
h@ms Cash	125.61/56.98
HyLife	N/A
HLF Cutout	N/A
BP4/TCP4	133.52/60.56
OlyWest	119.20/54.07
2020 Top-Up (YTD Rolling Est.)	$18.39 CAD/ckg
ISO Weans $5.60 US Avg.	
Feeder Pigs $13.22 US Avg.	

Forward contract prices opened mostly higher this morning. *Daily US cash reference markets are mixed to finish the week, but the pressure and bias lower remains. The WCB is $0.39 lower, ISM Formula is down $0.94, National is a dime higher, while the National Cutout-adjusted base is down by $0.41 USD/cwt. Weekly cash references for week ending June 20 are also lower; the National region (used as a proxy for formula base pricing) is $3.05 lower compared to the previous week while the WCB base (used as a proxy for negotiated regions) is down $1.46 marking the fourth and third consecutive (and counter seasonal) drop for the regions, respectively. While the intensity of week-to-week drops and weakness in the pork cutout seen over the past couple weeks has likely passed for now, cutout prices still remain pressured as pork pipelines become replenished suggesting a bit more pressure on formula prices will still be seen. The ongoing backup of live hogs on farms and a slaughter capacity that, while improving, still falls below the level needed to process the full supply of live animals is weighing more prominently in the negotiated regions but impacts all. Next Thursday, the USDA will release the Quarterly Hogs and Pigs report which will be closely watched by all industry participants. The jury is out on expectations, however, with some suggesting the 'as of' methodology that is supposed to report on supplies as of June 1 *could* capture the extent of recent culls and other producer intentions impacted by Covid-19 disruptions via surveys. However, following the 1998 crisis, industry contraction numbers did not really materialize until subsequent reports that are released at three-month (i.e. quarterly) intervals. The point is, this report *may not* reveal what many are hoping for in terms of clear information which could add more pressure to futures markets and reveal more uncertainty, not less. Pre-report expectations will be reported on next week. In the meantime, lean hog futures are mixed to finish the week. While 2021 contracts are reflecting a more normal marketing environment projections (albeit discounted), the remaining 2020 contracts are pricing in a lot of pessimism and uncertainty. For example, the difference in value between the July and August contract is about $3.00 USD/cwt on average favoring June; the difference between August and October is roughly $10 on average favoring August. Today, June is at a $4.15 *discount* to August and the August premium over October is only $2.05 as of this writing - all remaining 2020 contracts are about 26% lower than seasonal benchmarks. These and other indicators suggest the 2020 marketing period will be anything but normal and historical metrics will likely be of little value in a predictive sense other than to highlight the unusualness of the current marketing environment.*

Canadian delivered soymeal prices opened mixed this morning. *On Wednesday, the US Secretary of State, Mike Pompeo, met with Chinese trade officials (in Hawaii) and reported that China will step up Phase One agriculture purchases. However, China so far has yet to enter the US market in force and the market has not yet priced in any real optimism yet. There is always some caution and skepticism in China/USA relations so the market will simply have to wait and see if China makes good on Secretary Pompeo's pronouncement. US soybeans are lower to finish the week.*

US corn futures opened higher this morning. *The US corn futures market (July contract) is trading at the upper end of the range seen since the beginning of May, but the value is still residing amid contract lows. Since May, the nearby contract has been trading between about $3.10 to $3.30 for an approximate 20 cent range that has not been breached so far. It will likely take a major fundamental story to break the recent trend which, despite seeing some recent strength, remains under pressure.*

Forward Range (at opening)	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr
Maple Leaf Sig 4		124.24 125.68	129.90 135.92	127.97 132.31	126.47 131.46	127.61 131.46	124.96 129.05	124.96 136.44	140.29 142.22	144.45 150.95	150.95
Soymeal Delivered Wpg/S.Man	465	468	472	473							

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