Hog Margin Outlook

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Tuesday, June 23, 2020

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

US Slaughter	
458,000	Monday
449,000	Year Ago
Daily Prices	
WCB	$27.56
ISM Formula	$44.36
National	$50.99
Nat'l Cutout	$58.36
Signature 4	$122.60
BP4/TCP4	$122.60
OlyWest 2020	$110.23
HyLife (prev. day)	$121.94
HyLife Cutout	$149.46
BoC Rate (Noon) prev. day	$1.3545 CAD / $0.7382 USD
Cash Prices Week Ending June 20, 2020	
Signature 4	127.61/57.88
h@ms Cash	125.61/56.98
HyLife	125.37/56.87
HLF Cutout	149.69/67.90
BP4/TCP4	133.52/60.56
OlyWest	119.20/54.07
2020 Top-Up (YTD Rolling Est.)	$18.74 CAD/ckg
ISO Weans $6.38 US Avg.	
Feeder Pigs $14.80 US Avg.	

Forward contract prices opened mostly higher this morning. *US cash reference markets are mixed with the negotiated region represented by the WCB down $0.52, while the formula bases are higher with ISM Formula up $1.02, National up $0.15, and the National Cutout-adjusted reference base price $0.18 USD/cwt higher relative to the previous day. Normally at this time of year, commentary would start to shift to pricing trends heading out to the end of the year which typically see some weakness after reaching the summer highs. However, this year cash reference markets are at counter seasonal lows with the National formula region flirting with the September 2018 lows while the WCB negotiated region is at all time lows and 65% off the value usually seen in this marketing week. If cash markets generally head lower after the summer, it begs the question if a similar trend could develop this year too even though cash values are already historically weak? The short answer is that it is not impossible. Backed up hogs on farms due to earlier plant closures and a processing capacity that, by current outlooks, could be overshot by supplies in the fourth quarter will pressure prices if those issues are still present when animals are ready to be delivered for processing. Moreover, a weak macroeconomic outlook or deep recession and a slow post-Covid-19 economic re-opening could challenge pork demand as well. Producers should likely consider the notion that these values could be present from now into the fall which while not guaranteed to perform in this manner, is still a distinct possibility. There is talk that a live hog supply hole might materialize as a result of current 'culling' initiatives, but there is no clear data on how widespread or deep the culls actually are and the usual proxy indicators (i.e. delivery weights) do not seem to be supporting the idea that a back-up is widespread. Of course, these are not normal times, however, and the market will simply have to wait and see for evidence to materialize. The Quarterly Hogs and Pigs report released on Thursday will be closed watched for clues, but the report may not be as clear as market participants would like. Recall that in 1998, evidence of industry contraction did not materialize until subsequent and later reports. In any event, we remain optimistic that Thursday's report will provide at least some useful information. Lean hog futures are higher this morning but lacking enough strength to sustain a recovery per se. The nearby contract (July) was trading at contract lows in the early morning session and the recent support has only lifted July off the lows. The contract is 43% off seasonal benchmarks and atypically lower than the August, October, and December values. Markets are likely to remain under this intense pressure until more certainty or normalcy returns.*

Canadian delivered soymeal prices opened mixed this morning. *Yesterday, Peter Navarro, the US Director of Trade and Manufacturing Policy, was reported by Fox News of saying the president had decided to terminate the China/USA trade agreement after replying "it's over" to a question on the trade deal. He later said his comments were taken "wildly out of context" and the president followed up by tweeting that the deal is "fully intact". The statements sent initial shockwaves through the market though, and US beans, while higher this morning are harboring a defensive tone and remain amid the lows.*

US corn futures opened lower this morning. *US corn futures are backing off from the past couple sessions that saw some strength, but the activity appears to be more technical than fundamentally related. US corn continues to linger amid the lows and the nearby contract only traded above the $3.30 USD/bu. mark briefly two sessions ago. US Corn futures desperately need a positive demand story to develop before the negative tone can be shaken off.*

Forward Range (at opening)	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr
Maple Leaf Sig 4		121.56	129.34 133.18	127.55 132.10	126.18 131.69	127.62 131.69	125.22 129.05	125.22 137.51	141.35 143.27	144.95 151.19	151.19
Soymeal Delivered Wpg/S.Man	464	467	471	472							

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