

# Hog Margin Outlook

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Friday, June 26, 2020

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## Forward contract prices opened mostly lower this morning. US

cash reference markets are all higher to finish the week with WCB, ISM Formula, National, and the National Cutout-adjusted base prices up \$1.03, \$0.72, \$0.45, and \$0.95 USD/cwt, respectively. However, cash markets are likely poised for more pressure in the short to medium terms. Yesterday's Quarterly Hogs and Pigs report was considered bearish by the trade as almost all categories came in with more animals in their respective categories than analysts' pre-report expectations. One of the biggest surprises was revealed in the 120-179 lb. category which came in 11.8% higher than last year and well above the 5.2% increase that was expected. At least one analytics firm has suggested that these hogs were farrowed after the Covid-19 outbreak and likely put on rationed diets as had been suggested farmers may do after the virus broke out. One of two categories that came in lower than pre-report expectations was the number of hogs in the 180+lb. category but even though the numbers were 3.8% lower than what the market expected, the number of hogs are still 12.8% higher than year-ago. In sum, there are a lot of pigs coming to market and the fourth quarter could be an especially challenging time this year. Contextualized against an expected ~2.7 million hogs per week processing capacity, there are some estimates suggesting supply could overshoot that capacity by some 100,000-200,000 pigs per week in Q4.

Analysts' Expectations vs. June Quarterly Hogs and Pigs Report			
	Range of estimates (% of 2019)	Avg. Pre-report	USDA Report
All hogs	102.1-105.1	103.7	105.2
Breeding	97.4-98.8	98.1	98.7
Marketing	102.4-105.7	104.2	105.8
>180 lbs.	102.2-126.8	116.6	112.8
120-179 lbs.	104.0-106.3	105.2	111.8
50-119 lbs.	98.0-106.3	102.6	103.4
<50 lbs.	87.8-104.2	97.8	99.8

Source: citing Reuters in DLR; USDA-NASS

Lean hog futures reacted negatively to the report, gapping lower at the open and trading with a heavy bias to the downside in the early morning trade. Especially hard-hit have been the contracts in the remainder of the year with August, October, and December flirting with limit lows as of this writing. Remaining 2020 contracts are over 32% lower than benchmarks while 2021 contract are down by a more modest 8% on average. The Hogs and Pigs report is mute on the impacts of a potential economic slowdown and/or slow return of foodservice demand as economies slowly reopen. None of this is a recipe for higher prices in the short to medium terms and supply contractions are not expected until 2021.

## Canadian delivered soymeal prices opened lower this morning.

US soybean futures are lower to finish the week as renewed fears on second wave Covid-19 outbreaks in the US appear to be starting to materialize in some of the southern states. While beans typically see (more) support from the export market, commodities in general are lower on fears of a prolonged economic slowdown. In terms of exports, though, all eyes on China to see if and/or when Phase One (or any) purchase activity ramps up. So far exports have been 'seasonal', and China does not typically enter the market until the end of August.

## US corn futures opened mixed this morning.

The mixed trade in US corn is a function of the uncertainty that is presently a feature of commodity markets. Ongoing fears of a slowing or prolonged economic recovery and second outbreaks are pressuring. On Tuesday, the Quarterly Grain Stocks report will be published by the USDA. Pre-report expectation are for 4.951 billion bushels of corn stocks and acreage to come in at 95.2 million acres.

US Slaughter	
472,000	Thursday
477,000	Year Ago
Daily Prices	
WCB	\$29.37
ISM Formula	\$44.14
National	\$50.98
Nat'l Cutout	\$58.48
Signature 4	\$123.48
BP4/TCP4	\$123.48
OlyWest 2020	\$109.73
HyLife (prev. day)	\$121.95
HyLife Cutout	\$149.82
<b>BoC Rate (Noon) prev. day</b> \$1.3645 CAD / \$0.7330 USD	
Cash Prices Week Ending	
June 27, 2020	
Signature 4	122.63/55.62
h@ms Cash	120.63/54.72
HyLife	N/A
HLF Cutout	N/A
BP4/TCP4	127.61/57.88
OlyWest	111.20/50.44
2020 Top-Up (YTD Rolling Est.)	
\$19.02 CAD/ckg	
ISO Weans \$6.38 US Avg.	
Feeder Pigs \$14.80 US Avg.	

Forward Range (at opening)	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr
Maple Leaf Sig 4		119.78	121.12 126.66	121.07 125.69	119.58 128.38	124.24 128.38	121.81 125.70	121.81 136.44	140.31 142.25	144.12 150.41	150.41
Soymeal Delivered Wpg/S.Man	459	462	466	468							

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Hams Marketing Services will be closed Wed, July 1 for Canada Day.

Risk Management will be closed one hour early on Thurs, July 2 and all day on Fri, July 3 for Independence Day (USA). Main office is open on the 2<sup>nd</sup>

and 3<sup>rd</sup>. The HMO and morning price reports will not be published on the national holiday days.

