

Hog Margin Outlook

Meeting Your Marketing Needs

Monday, June 29, 2020

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Forward contract prices opened mostly mixed this morning. US

cash reference markets are mixed to start the week with the WCB negotiated region down \$0.41 relative to the previous day, ISM Formula up \$0.11, and both National reference regions lower by \$0.04 USD/cwt. Despite the pushes lower in most regions once again, today's base prices are actually 'leveling out' compared to the weekly benchmark. In fact, today is the first time that the daily WCB price is up relative to the weekly base price since week ending May 30 and the National is 'only' down \$0.04. The extent to which this marks the defining of a bottom very much remains to be seen as the weekly cash trajectory has been lower since the end of May. But there could be some processing relief on the way. Weekly slaughter levels came in once again higher than last year at 2.641 million head or 10.7% higher than year ago. While there are still some regional challenges with labour and full plant capacity, Saturday slaughter numbers not typically seen until the fall are helping with the backlog of animals and there are some suggesting that if no secondary virus outbreaks on processing lines develop, the worst *could* be behind the sector. But there remains a lot of live supplies to work through *not including* the unknown number of backed-up animals. The results of the Quarterly Hogs and Pigs report are re-published here today for two reasons: 1) to correct for an error that initially showed 2018 as the comparable year (it should have been 2019), and 2) to remind all producers of the size of the pig crop estimated by the USDA. While there still is a lot of uncertainty on the total impact of culls and other hog destructions, if one takes the results of these producer surveys at face value, farrowing intentions won't be reduced until subsequent quarters meaning any real supply contraction is not likely to develop until 2021. The idea that a supply hole will materialize in the fourth quarter is highly unlikely. Current market-ready culls only bring supply levels below processing capacity and death loss (where other euthanasia may be captured) is only reported annually in the spring. Lean hog futures remain amid contract lows to start the week with the remainder of 2020 contracts down 31% compared to benchmarks as of this writing.

| 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

US Slaughter

2.641 mil. Last Week

2.386 mil. Year Ago

Daily Prices

WCB \$28.96

ISM Formula \$44.25

National \$50.94

Nat'l Cutout \$58.44

Signature 4 \$123.66

BP4/TCP4 \$123.66

OlyWest 2020 \$110.42

HyLife (prev. day) \$122.34

HyLife Cutout \$150.31

BoC Rate (Noon) prev. day
\$1.3676 CAD / \$0.7312 USD

Cash Prices Week Ending

June 27, 2020

Signature 4 122.63/55.62

h@ms Cash 120.63/54.72

HyLife 121.64/55.18

HLF Cutout 148.52/67.37

BP4/TCP4 127.61/57.88

OlyWest 111.20/50.44

2020 Top-Up (YTD Rolling Est.)

\$19.02 CAD/ckg

ISO Weans \$6.07 US Avg.

Feeder Pigs \$14.25 US Avg.

Canadian delivered soymeal prices opened lower this morning.

The market will be looking forward to the Quarterly Grain Stocks report that will be released tomorrow. Acreage numbers for beans are expected to come in at 84.7 million acres and for 1.392 billion bu. in stocks. But the market appears to be more preoccupied with attempting to discern what China is doing. The recent request for Covid-19-free certifications is prompting inconsistent responses from exporters. Some are rumored to sign them; some are providing their own letters of assurance. To date, there are no reports of rejections at ports...yet.

US corn futures opened higher this morning.

Pre-report estimates by analysts for tomorrow's Grain Stocks report is coming in with 95.2 million acres as an average acreage number, while stocks are pegged at 4.951 billion bu. The acreage number is 5.5 million below the March estimate but still higher than year ago. With all that is happening in the world today, it is almost easy to forget that the new NAFTA agreement (known as CUSMA in Canada and USMCA in the USA) goes into force on Wednesday, July 1.

| Forward Range (at opening) | Jun | Jul | Aug | Sep | Oct | Nov | Dec | Jan | Feb | Mar | Apr |
|-----------------------------|-----|-----|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|--------|
| Maple Leaf Sig 4 | | | 124.20 128.09 | 121.65 126.26 | 119.90 127.46 | 123.34 127.46 | 120.91 124.79 | 120.91 135.31 | 139.39 141.33 | 142.96 149.96 | 149.26 |
| Soymeal Delivered Wpg/S.Man | 455 | 457 | 463 | 465 | | | | | | | |

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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 2nd

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

