Hog Margin Outlook

Meeting Your Marketing Needs

Monday, July 6, 2020

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

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US Slaughter	
N/A	Last Week
N/A	Year Ago
Daily Prices	
WCB	$27.83
ISM Formula	$43.64
National	$50.64
Nat'l Cutout	$58.14
Signature 4	$121.94
BP4/TCP4	$140.00
OlyWest 2020	$108.43
HyLife (prev. day)	$121.10
HyLife Cutout	$148.09

BoC Rate (Noon) *prev. day*
$1.3565 CAD / $0.7372 USD

Cash Prices Week Ending July 4, 2020	
Signature 4	122.86/55.73
h@ms Cash	120.86/54.82
HyLife	121.66/55.18
HLF Cutout	148.62/67.41
BP4/TCP4	140.00/63.50
OlyWest	109.70/49.76

2020 Top-Up (YTD Rolling Est.)
$19.02 CAD/ckg

ISO Weans $5.55 US Avg.

Feeder Pigs $14.52 US Avg.

Forward contract prices opened mostly higher this morning. *Weekly cash reference markets are levelling out for the time being, but the idea that there is any certainty or that further counter seasonal activity is behind us is not remotely being suggested. While prices are at historical lows, there appears to be a settling into the 'new' marketing environment after the brunt of the disruption following Covid-19. As examples, base prices in USD/cwt for the WCB (a proxy for the negotiated regions) are up by a dime for week ending July 4 while the National region (a proxy for the formula regions) is 'only' down by $0.14 week over week. These movements compare to the average $2.07 and $3.99 per-week drop for the WCB and National, respectively, over the prior five weeks. Improved processing capacity has influenced the value of the weekly cutout down from the highs seen during the retail hoarding and stockpiling phase at the beginning of the outbreak as pork product supply starts to recover, and like the cash regions, cutout levels are also seeing some convergence. Weekly slaughter was a whopping 30% higher over year ago, but market watchers are reminded that the US Independence Day holiday on Friday skews observations, and this week, no Saturday volumes have been reported (July 4 was a Saturday this year). A superficial assessment, however, may suggest that packers are attempting to diligently work through the backlog of live supplies believed to be backed up on farms. In any event, the July 4 week is a poor one to draw conclusions from and the year over year difference in weekly slaughter will likely be much lower than 30% moving forward. Having said that, the trend of plants returning to more normal processing capacities should remain in place unless a new outbreak at a plant forces another shutdown. The issue is far from over and Covid-19 has highlighted the disconnect between the live hog market and the pork market when the industry suffers a structural breakdown in efficiency. Lean hog futures are higher to start the week, but futures are a long way from showing signs of a sustained rally. Despite this morning's move, 2020 contracts are ~30% lower than average benchmarks normally seen at this time of year and well out of a range that most producers would find to be an attractive hedging opportunity especially in Q4. However, 2021 contracts are faring better and are 'only' ~5% lower than historical cash average settlements seen into the spring suggesting there is at least a bit more optimism for the hog market in 2021 today.*

Canadian delivered soymeal prices opened higher this morning. *US soybean futures continue to follow through on the buying that developed last week following the bullish Quarterly Grain Stocks report. On June 30, markets rallied 20 cents and are over $9.01 USD/bu as of this writing. The market is looking for new levels following the report but there are still some headwinds to look out for. Principle among them is a concern that China will come in less aggressive than typical when they normally start buying near the end of August. Almost all current assessments suggest China cannot meet Phase One commitments despite their current official stance that they intend to do so.*

US corn futures opened higher this morning. *Like beans, US corn futures continue to see follow through buying that was sparked on June 30. There are some talking about $4.00 corn once again, but the market is still a way off from those levels that were last seen consistently at the end of 2019. Regardless, the 25-cent rally is a welcomed one for US corn producers where, in some circles, values in the high $2.00 range were being talked about not than long ago. While the nearby contract briefly eclipsed $3.50 on July 1, US corn is trading at $3.46 USD/bu as of this writing.*

Forward Range (at opening)	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr
Maple Leaf Sig 4		125.60 129.85	124.32 128.89	122.78 131.19	127.11 131.19	124.70 128.55	124.70 140.60	144.45 146.37	148.41 154.66	154.66
Soymeal Delivered Wpg/S.Man	481	485	488							

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