

Hog Margin Outlook

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Tuesday, July 7, 2020

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Forward contract prices opened mostly mixed this morning.

US cash reference markets are mixed with the negotiated WCB region up \$0.83, ISM formula \$2.50 higher, National up by \$0.90, while the National Cutout-adjusted reference base is down \$0.23 USD/cwt. US cash regions have been maintaining a steady and sideways pattern over the past couple weeks, neither significantly higher or lower when averaged over the course of the week to establish the weekly settlement price. While daily values have often swung one way or the other (the \$2.50 noted above is a relatively large daily move), the trend has been to see some sort of correction later in the week. The net result has been a cash price that has hovered around the low to mid \$50s for the National since marketing week 26 and the WCB to remain in the high \$20s since marketing week 25. Of course, US cash reference prices are well-off the historical trend that typically sees values quite a bit higher than current – today's National price is 36% lower than the seasonal trend and the WCB is a whopping 63% lower than the five-year average. The exceptional number of hogs on farms and plentiful amount of supplies according to the last USDA report means packers do not have to aggressively bid to shore up production schedules. While US packing plants have resumed a more normal processing capacity for the most part, the issues regarding oversupply have not been offset by increased packing capacity yet. Looking forward, demand for pork will also need to be strong in order to pull up the price of live hogs. To date, the processing sector is merely working through the oversupply exacerbated by Covid-19 complications and it will likely take some time for sustained cash support on the live hog side to develop. Packers, nonetheless, are motivated to keep hooks full due to good margins. Lean hog futures are lower to start the session after seeing some modest support on Monday. There is simply not enough bullish fundamental news to mount a recovery off the lows today. The remaining 2020 contracts remain at historically low values and are also relatively 'flat' across contracts which is highly unusual especially comparing July to December, for example. In fact, the July contract is currently trading at values *lower* than the December offering which is extremely rare (i.e. summer futures are lower than the autumn values). Forward contract values to the end of the year are subsequently poor and offer almost no value for the hedger today although 2021 values are hovering around the historical averages in April representing some optimism further out.

Canadian delivered soymeal prices opened mixed this morning.

Yesterday's Crop Progress report showed US beans in good/excellent condition at 71% which was identical to last week. At this time last year, the crop was rated 53% good/excellent although significant challenges were behind the low numbers. Beans are likely to trade at current levels for the foreseeable future after pricing in the Quarterly Grain Stocks and Acreage numbers last week. The market is now waiting for China to ramp up purchases for support. The other thing that could provide support would likely be a sub-50 bpa yield estimate/projection according to some analysts, but the weather, while hot and dry in some areas, is not threatening yet.

US corn futures opened lower this morning.

The US corn crop is in good/excellent condition for 71% of the crop according to the USDA for week ending July 5. The rating is 2% lower than the previous week as some heat and dryness is impacting some growing areas. For the most part, commentators are suggesting there is enough moisture in the ground for now, but an extended period of hot and dry weather could take a toll. Like beans, last years numbers were particularly poor coming in at only 57% good/excellent due to late planting and excessive moisture in many areas.

US Slaughter	
452,000	Monday
483,000	Year Ago
Daily Prices	
WCB	\$28.66
ISM Formula	\$46.14
National	\$51.54
Nat'l Cutout	\$57.91
Signature 4	\$123.91
BP4/TCP4	\$140.00
OlyWest 2020	\$114.48
HyLife (prev. day)	\$123.06
HyLife Cutout	\$148.07
BoC Rate (Noon) prev. day	
\$1.3543 CAD / \$0.7384 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 Range (at opening)	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr
Maple Leaf Sig 4		123.75 128.57	123.03 127.61	121.37 129.79	125.70 129.79	123.29 127.14	123.29 140.28	114.13 146.06	148.82 155.08	155.08
Soymeal Delivered Wpg/S.Man	481	483	487							

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