

Hog Margin Outlook

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Friday, July 10, 2020

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Forward contract prices opened mostly mixed this morning. US cash reference markets are higher to finish the week with WCB up \$1.33, ISM Formula \$1.13 higher, and both National reference base prices up by a dime in USD/cwt. Weekly settlement base prices are higher for week ending July 11, with all monitored regions posting week over week gains for the first time since week ending May 9 or two months ago. The WCB weekly settlement base is \$0.94 higher while the National base is up by \$0.17 relative to the previous week, but it could represent the end of the worst. Of course, this is not guaranteed as second wave virus outbreaks could prove to be problematic especially if another packing plant is required to shut down again. But prices have been relatively flat since week ending June 27 and if packing plants remain open and the US economy recovers in a somewhat consistent trend, the bottom this summer may have been defined...for now. Expectations for large supplies (and backed-up hogs to work through) in the fourth quarter (i.e. the time of year when prices are typically weak), remain present and live supplies will likely exceed capacity utilization in the fall. While pricing is poor now, it could very much get worse before the year is over. Lean hog futures are finishing the week off on a lower note with no real fundamental news to entice follow-through buying on the support that developed earlier in the week. While the export sales report provided some optimism yesterday, there were also some developments to keep an eye on. China cancelled 4,500 MT in new commitments which will be concerning if the trend is maintained. Some diplomatic issues with the US could be behind the issue as there was talk Chinese state owned enterprises have been directed by officials to avoid US ag products including pork and soybeans. On a more positive note, China is still buying and Mexico was 'first place' in new commitments for week ending July 2 which could be ramped up under the new NAFTA deal that came into force on July 1. Until recently, Mexico was the number one destination for US pork by volume. While foodservice remains operating at a very limited capacity, the US pork industry cannot afford to have China back off from purchasing activity and really needs Mexico to increase purchase activity. There is no food shortage in the USA today and there likely won't be any time soon – export markets remain vitally important for the health of the US pork industry.

Canadian delivered soymeal prices opened lower this morning. US soybean futures are mostly lower to finish the week. The nearby contract has seemingly topped out just under the \$9.00 USD/bu level and is consolidating in the high \$8.90s. Today's WASDE report will be watched for clues on direction. Old crop soybean ending stocks are expected to come in just under last month's 585 million bu estimate. New crop ending stocks are expected to be raised and yield will be closely watched. Anything below 50 bpa is expected to provide support and potentially lower ending stocks estimates for 2020/21.

US corn futures opened lower this morning. US corn futures are trading lower ahead of the release of the July WASDE report that will be released later this morning. New crop yield will be closely watched with a current range suggesting between 176.4 and 180.5 bpa is possible. But some analysts are pointing out that yield is not typically adjusted in the July report, with that only happening in only 4 of the past 20 years for corn. Regardless, ending stocks for both new and old crops are expected to be relatively large with pre-report estimates coming in at 2.77 billion bu for old crop and 2.683 billion for new crop on average.

US Slaughter	
469,000	Thursday
478,000	Year Ago
Daily Prices	
WCB	\$30.44
ISM Formula	\$44.14
National	\$50.79
Nat'l Cutout	\$58.29
Signature 4	\$122.20
BP4/TCP4	\$140.00
OlyWest 2020	\$109.30
HyLife (prev. day)	\$121.02
HyLife Cutout	\$148.75
BoC Rate (Noon) prev. day \$1.3555 CAD / \$0.7380 USD	
Cash Prices Week Ending	
July 11, 2020	
Signature 4	122.50/55.57
h@ms Cash	120.50/54.66
HyLife	N/A
HLF Cutout	N/A
BP4/TCP4	140.00/63.50
OlyWest	110.80/50.26
2020 Top-Up (YTD Rolling Est.) \$19.47 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		126.35 131.97	126.42 131.00	124.96 131.83	127.73 131.83	125.32 129.18	125.32 139.32	143.17 145.10	145.58 151.84	151.84
Soymeal Delivered Wpg/S.Man	477	480	484							

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