

# Hog Margin Outlook

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Monday, July 13, 2020

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**Forward contract prices opened mostly mixed this morning.** Daily US cash reference prices are lower to start the week. Weekly cash settlement base prices were higher than week ago for week ending July 11 and for the first time since week ending May 19, but if the pressure seen today remains on the dailies, it could push weekly settlement base prices lower once again for this week (w/e July 18). There is no hint that any significant rally is developing even if the worst of the pressure \*may\* be over. Historical weakness in the negotiated cash markets (the WCB for example) has been attributed to producers having difficulty finding shackle space who are not on formula contract pricing according to an article circulating this morning and the trend of decreasing numbers of hogs on negotiated terms has been likewise highlighted. The authors go on to note that the Covid-19 plant disruptions has hit independent producers on negotiated pricing the hardest and suggest some structural changes in the USA may be coming. Indeed, the WCB has not traded above \$30 USD/cwt since week ending June 13. While no packer in Western Canada uses the WCB as a component in establishing weekly settlement prices any longer (for prices published here), negotiated hogs are included in the basket of animals used to establish base pricing by four of the larger processors so the impacts of negotiated pressure, albeit minimized due to the low volumes in the weighted average, are still being felt. Last week's slaughter was 7.7% higher than year ago and many commentators are now of the view that the US processing sector will likely, more or less, continue to operate at pre-Covid-19 levels provided new plant closures are avoided. Large Saturday kills are still a feature of the recent weekly slaughter, coming in with numbers not typically seen since the end of November. There is usually one large Saturday kill following Labour Day, but otherwise, Saturday numbers over 250,000 hogs are not seen until the fall. The average Saturday processing number has been ~289,000 hogs on average since the beginning of June and suggests packers are actively working through the hogs that were backed up due to Covid-19 plant closures. Lean hog futures are starting the week off on a mixed note and still residing amid contract lows for the remainder of 2020. Average futures values are ~29% lower than benchmarks until December while 2021 offerings are ~6% lower compared to five-year cash averages (a metric used to determine value). Neither period represents 'good' value, relatively speaking, although the conservative hedger may elect to target some prices in the spring while values hover at or near benchmarks.

**Canadian delivered soymeal prices opened lower this morning.** Friday's WASDE report used the June acreage numbers and trendline estimates for yield. As such, new crop ending stocks are now pegged at 425 million bu, up from the 395 million bu June estimates and near the middle of the 355-572 million bu. range. New crop numbers were considered neutral relative to expectations despite the increase over the previous month. Old crop numbers were considered bearish with a 620 million bu in ending stocks estimates which was at the upper end of the pre-report range and higher than the 585 million bu. in the June report.

**US corn futures opened lower this morning.** Like seen in beans, the USDA used June acreage and trendline yield estimates for The July WASDE report released mid-trade on Friday. New crop ending stocks estimate were lowered to 2.648 billion bu compared to June's 3.323 billion bu. estimate but the move was considered neutral relative to pre-report expectations that ranged between 2.400 billion and 3.010 billion bu. Old crop ending stocks in Friday's report were pegged at 2.248 billion bu., up 145 million bu. from the June numbers but also considered neutral relative to expectations.

US Slaughter	
2.606 mil.	Last Week
2,419 mil.	Year Ago
Daily Prices	
WCB	\$29.88
ISM Formula	\$43.64
National	\$50.72
Nat'l Cutout	\$58.22
Signature 4	\$122.39
BP4/TCP4	\$140.00
OlyWest 2020	\$108.18
HyLife (prev. day)	\$121.01
HyLife Cutout	\$148.77
BoC Rate (Noon) prev. day	
\$1.3594 CAD / \$0.7360 USD	
Cash Prices Week Ending	
July 11, 2020	
Signature 4	122.50/55.57
h@ms Cash	120.50/54.66
h@ms Cash	120.50/54.66
HyLife	121.38/55.06
BP4/TCP4	140.00/63.50
OlyWest	110.80/50.26
2020 Top-Up (YTD Rolling Est.)	
\$19.47 CAD/ckg	
ISO Weans \$5.01 US Avg.	
Feeder Pigs \$13.64 US Avg.	

Forward Range (at opening)	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr
Maple Leaf Sig 4		124.82 130.78	125.26 129.82	124.07 131.29	127.20 131.29	124.79 128.64	124.79 139.30	143.16 145.09	145.86 152.13	152.13
Soymeal Delivered Wpg/S.Man	467	468	471							

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