

Hog Margin Outlook

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Wednesday, July 15, 2020

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Forward contract prices opened mostly lower this morning. US cash reference markets are higher mid-week with WCB up \$2.14, ISM Formula higher by a dollar, and both National reference base prices up \$0.76 USD/cwt relative to the previous day. Seasonally, cash markets should be witnessing the highest prices of the year but complications due to Covid-19 plant shutdowns are still being felt even though daily (and weekly) slaughter levels have improved faster than initial estimates on the pace of recovery. The issue is that there are abundant supplies of hogs exacerbated by thoughts that there are a lot of animals still backed up on farms. Critics of this idea (suggesting that the backlog is not as 'bad' as current estimates) point to decreasing live weights as evidence that the backed-up hogs argument is overstated. However, a prominent ag economist suggests this seeming disconnect is entirely possible if producers are feeding hogs maintenance or other diets to prevent weight gain. Furthermore, there is anecdotal evidence that US producers are willing to take any shackle space they can get. If US producers are eager to secure shackle space, and those hogs have been fed alternative diets, it is not unreasonable to expect delivery weights to be unconventional. Unfortunately, death loss reports by the USDA are only issued annually, so it will likely be into next year before market watchers know what the impacts of culling and euthanasia have had on the pig crop. In the meantime, cash markets are suggesting that packers do not have to aggressively bid for live supplies which points to an abundance of available market hogs whether they are backed up on farms or not. Until supplies start to subside, pressure on cash markets will likely remain. Looking forward, there are a number of estimates circulating supporting the idea that the fourth quarter will almost certainly see processing capacity limits reached once again which will also keep pressure on prices. Lean hog futures continue to see-saw back and forth in the intraday sessions but are generally trading sideways and unable to rally off the lows. Yesterday, the nearby contract saw initial strength only to give back all the gains in the morning session and close lower on the day. Futures markets appear to be pricing in an abundance of live supplies for the foreseeable future which can be reconciled with the sentiments expressed above, especially if true. In the meantime, only the 2021 futures are pricing in a bit more optimism, albeit at levels still below value benchmarks.

Canadian delivered soymeal prices opened lower this morning. High temperatures in major growing regions are expected heading into the weekend, but moderating temperatures into the following week are keeping ideas of heat stress at bay. There is talk that the improving weather forecast is keeping China purchase news in check, but China has not really entered the US market with force despite almost daily reports of new commitment activity. Tomorrow's Export Sales report will provide some clues on the extent of recent purchase activity, but China doesn't typically ramp up significant purchase activity until the end of August.

US corn futures opened mixed this morning. Big news in the US corn market was making the rounds yesterday with China purchasing the fourth highest volume of corn on record at 1.762 MMT. Yesterday's numbers won't make it on tomorrow's Export Sales report, but it was news the corn market needed. Curiously, US corn futures turned lower on the day which was being sharply criticized by market watchers although the trade is likely waiting to see follow through buying before mounting more optimism. As well, commitments are not sales per se, and tensions between China and the USA likely have traders cautious for now.

US Slaughter	
475,000	Tuesday
473,000	Year Ago
Daily Prices	
WCB	\$31.27
ISM Formula	\$46.40
National	\$51.04
Nat'l Cutout	\$58.54
Signature 4	\$123.36
BP4/TCP4	\$140.00
OlyWest 2020	\$115.13
HyLife (prev. day)	\$121.88
HyLife Cutout	\$149.71
BoC Rate (Noon) prev. day	
\$1.3616 CAD / \$0.7344 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		127.28 131.49	125.96 130.53	124.50 129.91	125.82 129.91	123.41 127.27	123.41 138.58	142.43 144.35	146.28 152.54	152.54
Soymeal Delivered Wpg/S.Man	465	465	469							

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