

Hog Margin Outlook

Meeting Your Marketing Needs

Friday, July 17, 2020

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Forward contract prices opened mostly lower this morning.

Daily US cash reference markets are mixed to finish the week (some values of which are actually used in the construction of *next* week's price depending on the program). WCB is down \$0.46, ISM Formula is \$0.33 higher, while the National and National Cutout-reference base prices are both up \$0.23 USD/cwt. Weekly base prices for week ending July 18 are higher but nowhere near where they are typically at this time of year. Using the National region as proxy for 'formula' pricing, the base price for hog settlement this week come in at \$51.30 USD/cwt which is 36% lower than the five-year average seen in this marketing week. Normally, we would be discussing the looming seasonal weakness after the summer highs. This year, however, those highs failed to materialize in any way and the last time cash markets looked normal or followed seasonality somewhat was between the beginning of the new year and early March - before the Covid-19 pandemic created massive market disruptions. Modelling suggests markets turn approximately 12% lower from current values into the fall in a normal marketing year. But we are not in a normal marketing year nor are we suggesting we see a 12% turn lower from today's levels as a baseline. But if the supplies that are currently expected to materialize in the fourth quarter are realized and processing capacity becomes overshot again, cash markets will see pressure, perhaps even more so than the current modelling suggests. Lean hog futures are lower to finish the week after seeing some support yesterday. The August contact approached limit up levels and the remainder of the contracts observed also saw strength and closed higher on the day. But there is not enough to support follow-through buying at present, and the market will likely maintain the trend of consolidating at or near current levels. Yesterday's rally (August) did break the trade from the lowest of the lows, but the reversed action this morning could represent the beginning of an attempt to define the upper level of a new range. Generally, futures were unable to break above some technical resistance levels yesterday which could explain the backing off this morning, especially in the absence of any fundamental news that would otherwise push the market higher. In short, there is no reason for the market to move higher than current levels amid current marketing conditions and futures values remain quite poor for the remainder of 2020 contracts.

Canadian delivered soymeal prices are unavailable this morning.

US soybean futures are maintaining levels within the new range that was established after the bullish Quarterly Grain stocks report that was published last month. The market is also a bit optimistic on daily talk of ongoing Chinese buying activity. Export numbers aren't revealed until Thursdays and the volumes represent the week-prior so there is a bit of a lag in the data, but despite ongoing tensions between the USA and China, China is apparently still buying US product. Follow through volumes will be closely watched for.

US corn futures opened higher this morning.

Two massive sales of corn to China that will likely show up in next week's Export Sales report provided US corn futures with some underlying support this week but market watchers were a bit stymied by the lack of a significant reaction following the news. It is likely due to ideas that market is waiting for follow through buying and/or a continuation of the trend. One or two weeks of large sales will not be enough to lift the US corn futures market much more than current levels, which, incidentally, have backed off from the earlier Grain Stocks report rally and are currently trading in the mid \$3.30s USD/bu.

US Slaughter	
468,000	Thursday
472,000	Year Ago
Daily Prices	
WCB	\$31.42
ISM Formula	\$46.10
National	\$52.37
Nat'l Cutout Adj	\$59.87
Signature 4	\$125.90
BP4/TCP4	\$140.00
OlyWest 2020	\$114.10
HyLife Cash	\$133.61
HyLife Cutout	\$152.75
BoC Rate (Noon) prev. day \$1.3543 CAD / \$0.7384 USD	
Cash Prices Week Ending	
July 18, 2020	
Signature 4	123.58/56.06
h@ms Cash	121.58/55.15
HyLife Cash	N/A
HyLife	N/A
BP4/TCP4	140.00/63.50
OlyWest 2020	109.60/49.71
2020 Top-Up (YTD Rolling Est.)	
\$19.61 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		130.40 131.96	127.86 131.48	126.40 130.98	126.88 130.98	124.23 128.33	124.23 138.41	142.26 144.43	144.91 151.65	151.65 159.64
Soymeal Delivered Wpg/S.Man	N/A	N/A	N/A							

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