

Hog Margin Outlook

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Monday, July 20, 2020

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Forward contract prices opened mostly mixed this morning. US

cash reference markets are mixed to start the week with the negotiated WCB region up \$0.26, ISM Formula \$1.18 higher, and both National reference bases down \$0.06 USD/cwt. Despite the modest move lower in the National regions, price trends have remained relatively flat since the end of June and base settlement values will likely repeat the trend if no major disruptions materialize between now and Friday. While it is much too early to determine if the marketing conditions in the fourth quarter will lead to pressure further out, the bottom may have been defined for now. However, respected analysts caution that slaughter capacity may be reached once again in the fall which could push prices lower from current values; ideas that a live hog shortfall will develop in time enough to provide support to cash prices before the end of the year appear remote and 'hopeful' at best. In the meantime, weekly slaughter came in 9.95% higher than year ago suggesting packers are running more or less at current operating limits. Saturday's estimated kill numbers were higher than usual but lower than the recent record levels for this time of year hinting that the backlog pressure could be subsiding somewhat. However, the recent Saturday trend has been to see a couple notably strong kill days followed up by a lower one and this weekend's number could merely be an extension of the recent trend. Lean hog futures are starting the week off on a lower note. At the open, the market saw some weakness in the nearbys and modest strength (call it a sideways trend) in the deferreds. However, all contracts are lower as of this writing with the nearbys taking the brunt of the pressure. The economic recovery in the USA is looking increasingly bleak and daily record numbers of Covid-19 cases are being reported in some jurisdiction. Increasing cases WILL prompt local authorities to consider re-shutting sectors of their economies and restaurant and foodservice will be particularly hard hit. Of course, restaurant and foodservice are very important disappearance markets for US pork and prolonged restrictions will start to pressure prices as pork availability becomes normalized.

Canadian delivered soymeal prices opened lower this morning.

Isolated thunderstorms notwithstanding, weather across most of the USA's important growing regions is mostly favourable. All eyes will be on Thursday's Export Sales report to find out if the latest China buying activity made it onto the report. Monday's export numbers from private sellers have been showing evidence of China buying activity but the Thursday report is lagged by a week so official numbers on record have not been shown yet. Regardless, commitments are not sales and if the China/USA tensions ramp up once again, commitments can be cancelled.

US corn futures opened lower this morning. US corn futures are lower to

start the week which may appear odd considering all the talk last week of China buying record amounts of corn in relatively quick succession. However, US weather remains favourable for the most part and US corn demand has really not been strong enough to offset ideas that if the crop turns out to be a good one, there will still be a lot of supply – even with current commitments from China. Futures this morning are trading at the lower end of the recently established daily range in the low \$3.60s USD/bu.

US Slaughter	
2.518 mil.	Last Week
2.290 mil.	Year Ago
Daily Prices	
WCB	\$31.68
ISM Formula	\$47.28
National	\$52.31
Nat'l Cutout Adj	\$59.81
Signature 4	\$126.02
BP4/TCP4	\$140.00
OlyWest 2020	\$117.10
HyLife Cash	\$133.53
HyLife Cutout	\$152.67
BoC Rate (Noon) prev. day \$1.3574 CAD / \$0.7370 USD	
Cash Prices Week Ending	
July 18, 2020	
Signature 4	123.58/56.06
h@ms Cash	121.58/55.15
HyLife Cash	132.07/59.91
HyLife	151.25/68.61
BP4/TCP4	140.00/63.50
OlyWest 2020	109.60/49.71
2020 Top-Up (YTD Rolling Est.)	
\$19.61 CAD/ckg	
ISO Weans \$6.03 US Avg.	
Feeder Pigs \$10.90 US Avg.	

Forward Range (at opening)	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr
Maple Leaf Sig 4		127.14 128.29	124.21 127.81	122.93 129.91	125.82 129.91	123.17 127.27	123.17 138.84	142.69 144.86	145.94 152.69	152.69 160.68
Soymeal Delivered Wpg/S.Man	471	471	471							

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