

Hog Margin Outlook

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Tuesday, July 21, 2020

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US Slaughter

477,000	Monday
471,000	Year Ago

Daily Prices

WCB	\$32.14
ISM Formula	\$47.84
National	\$52.99
Nat'l Cutout Adj	\$60.49
Signature 4	\$127.39
BP4/TCP4	\$140.00
OlyWest 2020	\$118.77
HyLife Cash	\$135.59
HyLife Cutout	\$154.78

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	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/pkg

ISO Weans \$6.03 US Avg.

Feeder Pigs \$10.90 US Avg.

Forward contract prices opened mostly lower this morning. All US cash reference markets are higher with WCB, ISM Formula, and both National references up \$0.46, \$0.56, and \$0.68 USD/cwt, respectively. Trendlines are biasing slightly to the upside perhaps hinting at a bit of relief from the unseasonal and historically low prices witnessed over the past couple months. But the hog market is not out of the woods yet, not by a long shot. While pork processing capacity is returning more to normal on the hog-side of the equation, market watchers now look to the pork demand side for clues on further direction. Many states are proceeding with next phases of their re-opening plans, but for the most part, foodservice and restaurant capacities remain very limited or face new closure orders when Covid-19 flare ups develop in certain locales (California and Florida, for example). Major league baseball resumes but with players playing to empty stands. Other than the initial demand spike due to hoarding, retail has not picked up the slack that developed in restaurant and foodservice sectors nor will it. The point is domestic market pork demand indicators are bleak in the short term and/or the absence of a viable and commercially available vaccine. Analysts, therefore, look to the export market for support. However, storm clouds are on the horizon here too as news was starting to make the rounds over the weekend that port capacity at China's ports were at or near capacity due to an increase in Covid-19-related product inspections. There is talk that some shippers are facing increased costs as cargoes get rerouted to alternative ports that may have additional (or some) refrigerated container space available. The conclusion by many, therefore, is that China volumes could actually slow down, despite rising pork prices in the country and an ASF situation that continues to smolder. While Mexico used to be the largest importer of US pork by volume, according to the latest trade data, Mexico was in third place in April and virtually tied with Japan for second in May. China is by far and away the largest importer of US pork by volume today, so any weakness in the region will be regarded as particularly troubling. All told, there is more pressure than support and both cash and futures markets are reflecting these dynamics. Only deferred futures are showing any signs of fair value, and even they are depressed relative to history. News on vaccine development will likely be prime drivers on direction as Covid-19 has proven to be a resilient and complex issue to deal with. And the market still has to contend with ideas that slaughter capacity could be reached once again in the fourth quarter.

Canadian delivered soymeal prices opened lower this morning.

Yesterday's Crop Progress report pegged the US soybean crop at 69% good/excellent condition which was a 1% increase relative to the previous week while the pre-report expectation was for a 1% decline. Daily export numbers indicate China is still buying beans, but the market commentary that typically follows appears to be overly optimistic and citing Phase One as the rationale; despite the talk, China still has not yet entered the US market in force.

US corn futures opened lower this morning.

The USDA pegged the US corn crop also at 69% in good/excellent condition which was unchanged from the previous week and against a pre-report expectation, like beans, to show a 1% decline. Yield potential and lack of demand currently is the most challenging two issues for US corn even though China made some record purchases last week. The market will be looking for follow through commitments before the futures can really lift off the lows.

Forward Range (at opening)	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr
Maple Leaf Sig 4		125.28 127.31	123.25 126.83	121.70 127.79	123.73 127.79	121.11 125.16	121.11 136.54	140.36 142.51	143.99 150.68	150.68 158.49
Soymeal Delivered Wpg/S.Man	464	464	464							

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Some Important Phone Numbers

Main Office: 204-233-4991

Toll Free: 1-800-899-7675

Logistics: 204-235-2225

Risk Management: 204-235-2237

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