

# Hog Margin Outlook

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Wednesday, July 22, 2020

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## Forward contract prices opened mostly mixed this morning. US

cash reference prices are higher with WCB up \$0.32, ISM Formula up \$0.81, and both National base prices \$1.75 USD/cwt higher relative to the previous day. Formula pricing is seeing some strength return as cutout values improve over recent days. Recall that even the traditional National reference (as distinct from a National cutout-adjusted one) still has elements of cutout values in its construction. A National cutout-adjusted price (or any cutout-adjusted price for that matter) typically contains a more prominent cutout influence on the price but they are not all constructed identically. In any event, formula pricing has, in recent days, seen a bit of support from the value of the carcass with ham values contributing a lot to the move. The ham primal is responsible for about 25% of the net value of the carcass; as such, moves in hams will typically have a greater impact than, say, butts or picnics, for example. Despite the support, however, cash values remain at counter seasonal lows. The negotiated WCB region appears to be holding above \$30 USD/cwt for the time being but ~57% lower than the five-year average for this marketing week; the National region is ~31% lower than the same benchmark. The nearby lean hog futures contract (August) gapped higher at the open this morning but the move appears to be technical in nature. As well, the rapid move to the upside immediately met some key resistance levels and moderated after bumping up against them. This suggests some technical repositioning may be afoot as the fundamental picture has not drastically changed. In fact, it could be getting worse. News developed overnight that US officials have ordered the Chinese consulate in Houston, Texas closed in an apparent escalation of diplomatic tensions. For the time being, China remains to be an important US pork customer taking in the largest volume of US pork for the month of May according to the most recent customs data available and more than double the volumes of either Mexico or Japan that until last year were consistently the number one and two markets by volumes. The weekly Export Sales report will thusly be closely watched for clues on direction. If the recent diplomatic tensions initiate a 'response' from China, however, they likely will not be revealed until next week's report as weekly data is lagged by one week. In the meantime, Chinese officials have threatened to order closed the US embassy in Wuhan which appears to be the only consequence of the Houston event so far.

## Canadian delivered soymeal prices opened higher this morning.

US soybean futures are lower this morning but not significantly varying from the recently established range. New resistance levels appear to be developing in the very low \$9.00 USD/bu area but have not recently breached \$9.05. Tomorrow's Export Sales report is expected to reveal some relatively large numbers for the market week, but the market has likely already priced in some of this expectation as private seller reports have shown consistent sales over the last six days. Follow-thorough activity and private daily reports showing consistent buying will be needed to move the market significantly.

## US corn futures opened higher this morning. High volumes of US corn

are expected in tomorrow's Export Sales report but US corn futures values are currently residing amid the lows that have been a feature of the market since mid-April. There is a lot of US corn in the marketplace and stronger demand will be needed to spark some buying interest once again. This morning's EIA Ethanol report showed ethanol production was down 2.5% relative to previous week and lower for the first time in thirteen weeks. Ethanol utilizes over a third of the US corn crop annually on average and is therefore very important to US corn market watchers.

US Slaughter	
478,000	Tuesday
476,000	Year Ago
Daily Prices	
WCB	\$32.46
ISM Formula	\$48.65
National	\$54.74
Nat'l Cutout Adj	\$62.24
Signature 4	\$130.64
BP4/TCP4	\$140.00
OlyWest 2020	\$120.51
HyLife Cash	\$139.74
HyLife Cutout	\$158.88
<b>BoC Rate (Noon) prev. day</b> \$1.3446 CAD / \$0.7440 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
<b>2020 Top-Up (YTD Rolling Est.)</b> \$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		127.94 128.65	123.88 127.46	122.45 127.53	123.48 127.53	120.86 124.91	120.86 137.08	140.90 143.04	144.95 151.63	151.63 159.51
Soymeal Delivered Wpg/S.Man	465	465	465							

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