

Hog Margin Outlook

Meeting Your Marketing Needs

Tuesday, July 28, 2020

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Forward contract prices opened mostly mixed this morning.

Daily US cash reference markets are mixed – the ISM Formula base is \$0.36 higher while both National reference bases are lower by that exact same amount (\$0.36 USD/cwt). But the real notable movement has been in the negotiated cash regions where the WCB has come in \$4.53 higher relative to the previous day. The move stands in contrast to price action in the formula regions where the day-over-day price activity has been relatively flat in comparison. All regions have seen a recovery off the lows put in at the end of June, but the WCB is 53% higher when comparing today's cash price to the weekly low base value reached back then. If the trajectory is maintained for the remainder of the week, the WCB could see a week over week change by over \$10.00 which would represent the second highest one-week increase in value going back to 2015. Western Canadian base pricing does not use the WCB in any of its price discovery, so why pay attention to it? Simply put, the WCB represents a more 'boots on the ground' price as the hogs are negotiated for delivery in 14 days and not on any formula. The volumes of animals in the category are extremely low, hence calls from many US and Canadian producers for packers to cease using any negotiated market in modern price discovery. Regardless, there are still hogs traded in this manner and a rapid increase in the value of pigs in the negotiated market could represent more normalcy returning to the WCB in terms of animals backed up on farms. It could also be the case that the packers generally do not want to 'lose' this category as it has recently provided a cheaper supply of hogs to the plants even before the Covid-19 crisis. This idea cannot be completely dismissed – there is talk today that the reason the WCB did not collapse more during the height of the Covid-19 plant disruption was because US packers were somewhat 'supporting' levels in the negotiated regions to a certain degree and trying to 'get to' all producers. To be clear, the prices were not great (\$29.35 at their lowest average), but they were also not zero which they could have been. The truth will likely not be known for some time, and there is much speculation on the movements today, but the relatively rapid increase in the value of the WCB will be something to keep an eye on. Follow-through support will be key in determining if the oversupply situation is coming under control. Today, that conclusion cannot be made. Lean hog futures are trading in the same sideways pattern as they have since the end of June. The trend reveals a slight bias to the upside, but when key technical levels are reached, the market tends to back off or retract somewhat. A vastly improved fundamental story (i.e. based on supply and demand) will be required before the market can move significantly higher.

Canadian delivered soymeal prices opened lower this morning.

The USDA estimated the soybean crop at 72% in good/excellent condition which was a 3% increase relative to the previous week. The move higher was a bit of a surprise as market watchers prior to the report were expecting a 'flat' value relative to week ago and some even suggesting a downgrade was possible. Increasing diplomatic tensions between China and the USA will be closely watched. A decrease in export activity to China combined with a large crop will keep any potential for upside rallies in check.

US corn futures opened lower this morning.

Like soybeans, the US corn crop was also estimated to show an increase in the good/excellent condition by 3%. Also like beans, equal numbers relative to week ago or a slight downgrade to the overall crop was expected. Corn in the pollination phase was pegged at 82% compared to a 75% five-year average. Conversely, last year saw pollination come in at 51% but the crop was very late getting in the ground and inclement weather proved to be challenging to development.

US Slaughter

477,000	Monday
450,000	Year Ago

Daily Prices

WCB	\$43.48
ISM Formula	\$50.89
National	\$54.24
Nat'l Cutout Adj	\$61.74
Signature 4	\$128.80
BP4/TCP4	\$140.00
OlyWest 2020	\$124.92
HyLife Cash	\$137.22
HyLife Cutout	\$156.20

BoC Rate (Noon) prev. day
\$1.3378 CAD / \$0.7475 USD

Cash Prices Week Ending

July 25, 2020

Signature 4	128.86/58.45
h@ms Cash	126.86/57.54
HyLife Cash	138.02/62.61
HyLife	157.07/71.25
BP4/TCP4	140.00/63.50
OlyWest 2020	115.80/52.53

2020 Top-Up (YTD Rolling Est.)

\$19.72 CAD/ckg

ISO Weans \$7.87 US Avg.

Feeder Pigs \$16.84 US Avg.

Forward Range
(at opening)

Maple Leaf
Sig 4

Soymeal
Delivered Wpg/S.Man

	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr
Maple Leaf Sig 4		128.58	124.54 128.11	123.08 126.77	124.39 126.77	124.39 125.82	124.15 137.45	141.24 143.37	144.19 150.82	150.82 158.91
Soymeal Delivered Wpg/S.Man	468	468	468							

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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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