

# Hog Margin Outlook

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Wednesday, July 29, 2020

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## Forward contract prices opened mostly lower this morning.

Daily US cash reference markets are mixed mid-week with WCB \$0.91 lower, ISM-Formula up by \$1.83, National \$1.93 higher, and the National cutout-adjusted reference price up \$0.73 USD/cwt relative to the previous day. Only the WCB has seen any remarkable moves, with the daily price now over 50% higher than the lows put it at the end of June and posting a price over \$40.00 USD/cwt for the last couple days which is the first time the WCB has been over \$40 since the second week in April. Firming bids could be the result of a hog supply returning more to normal but there is no consensus on that idea just yet. Formula based prices continue to move in an unremarkable pattern but are exhibiting signs of a slight bias to the upside in recent weeks. While they are showing a more modest recovery, the extent and longevity of which is yet to be revealed. Daily values in the National region are residing in the mid-\$50s for now and about 10% higher than the lows seen in June. The National Cutout-adjusted base is in the low \$60s and about 7% higher than the lows seen so far this year. The average premium between the cutout-adjusted and non-cutout adjusted base price observed here is sitting at approximately 11% today. Lean hog futures continue to trade in a sideways and rangebound pattern with no new fundamental news to tip the market significantly in any one direction. The brunt of the pessimism appears to be priced in for now, so a significant downside move may not be in the works in the short term, but the ability for a rally to develop, especially in the remaining 2020 contracts, appears to be remote under the current marketing environment. Generally, the only time the futures market moves is when values bump up against, or past, technical indicators; oversold indicators initiate new support, overbought indicators push the market back down again. There is no basis upon which to conclude that 'the technicals' are driving the market today, but it certainly appears that way, especially when no market-moving fundamental news appears to be developing. In the meantime, uncertainty for the remainder of 2020 continues to be a feature of the futures trade. For example, the August contract is only at a 6% premium to the October when a 19% premium is more common (five -year average). In sum, the market remains relatively 'flat' to the end of the year and only the 2021 contracts are near values considered remotely 'normal'.

## Canadian delivered soymeal prices opened lower this morning.

US soybean futures are trading lower this morning after reaching the upper end of the newly established range late last week. A reporter from Reuters has noted that daily 'flash' sales have so far not been announced this week standing in sharp contrast to the seemingly daily announcements over the previous two weeks that revealed record commitments from China. While it is too early to draw any conclusions on the lack of reporting, it will be closely watched. Tomorrow's Export Sales report will show the daily commitments from last week. If buying does not pick up for the remainder of this week, those numbers will not be revealed until August 6.

## US corn futures opened lower this morning.

US corn futures are once again probing for new lows and have reached key support levels this morning. The nearby contract is trading at \$3.16 USD/bu representing a 40-cent drop from the highs put in at the end of June when the acreage report showed much less planted acres than anticipated. Regardless, the focus has shifted back to one of demand (as opposed to supply) and US corn really needs a positive demand story to make another move higher and has not been getting any 'help' in this regard lately.

US Slaughter	
475,000	Tuesday
468,000	Year Ago
Daily Prices	
WCB	\$42.57
ISM Formula	\$52.72
National	\$56.17
Nat'l Cutout Adj	\$62.47
Signature 4	\$133.32
BP4/TCP4	\$140.00
OlyWest 2020	\$128.99
HyLife Cash	\$141.64
HyLife Cutout	\$157.53
<b>BoC Rate (Noon) prev. day</b> \$1.3373 CAD / \$0.7480 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
<b>2020 Top-Up (YTD Rolling Est.)</b> \$19.72 CAD/ckg	
ISO Weans \$7.87 US Avg.	
Feeder Pigs \$16.84 US Avg.	

Forward Range (at opening)	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr
Maple Leaf Sig 4		127.14	123.11 126.66	121.65 125.28	122.91 125.28	122.91 124.33	122.67 136.43	140.23 142.36	143.50 150.13	150.13 157.98
Soymeal Delivered Wpg/S.Man	464	464	464							

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