

Hog Margin Outlook

Meeting Your Marketing Needs

Thursday, July 30, 2020

For details call: (204)235-2237 or visit
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US Slaughter

477,000	Wednesday
472,000	Year Ago

Daily Prices

WCB	\$42.09
ISM Formula	\$52.92
National	\$56.84
Nat'l Cutout Adj	\$61.12

Signature 4	\$134.80
BP4/TCP4	\$140.00
OlyWest 2020	\$129.43
HyLife Cash	\$143.29
HyLife Cutout	\$154.07

BoC Rate (Noon) prev. day
\$1.3360 CAD / \$0.7490 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 contract prices opened mostly lower this morning. US daily cash reference markets are mixed with the negotiated WCB region \$0.48 lower, National base \$0.67 higher, and the National cutout-adjusted reference market *down* \$1.35 USD/cwt relative to the previous day. How is that possible? Isn't cutout pricing going to always be moving at least as much as the traditional National base? No, it is not. The only thing cutout pricing does is pay out a premium when the conditions on the formula allow for it, albeit which is often. Covid-19 highlighted this issue as the value of the cutout was at a significant and unprecedented premium relative to the National base price in recent history. Normally, the cutout premium (determined by estimating US gross packer margin by comparing cutout value on the USDA's *lm_pk602* report to some 'base' hog price, in this case, the National) is not as high as seen over the Covid-19 pandemic and is typically more modest especially when averaged over the marketing year. So, today's cutout-adjusted base reference moved lower relative to the National base due to weakness showing up in the value of the pork cutout. This is entirely expected, especially as plant throughput starts to return to normal and pork scarcity on the 'meat side' subsides. While Canadian converted cutout-adjusted reference prices are better today and will likely pay out a premium relative to other pricing options this year *at the base level*, the conditions that allow for this may not always be in place – recall, the cutout value was at a discount to cash values just before the Covid-19 rally and has been in the past too. To be clear, 'cutout pricing' may be an attractive option for some hog producers depending on the program they are on, but all producers should manage their expectations on what a cutout price actually does. It is not always going to (or guaranteed to) be higher by some pre-determined amount, and like today, sometimes it moves lower even though the National is seeing some strength. Lean hog futures are trading lower this morning after getting no real help from the Weekly Export Sales report. Physical deliveries were down 12% relative to the previous week but still 55% higher than the five-year average which has been relatively stable since the middle of May. New commitments were 24% higher than week-ago but entirely in line with the trend established in early June and see-sawing around the low to high 30,000 MT mark week over week, also since early June. Australia committed to more US pork for the next marketing year, same as last week, but also like last week, the very modest 400 MT will not do much to influence futures values one way or another.

Canadian delivered soymeal prices opened higher this morning. Physical exports of US soybeans were higher than week ago by 44% but entirely in line with the five-year average for this marketing year. 2020 commitments were at the lowest level since the beginning of the year, but 2021 net sales were exceptional. China committed to almost 2 MMT while another 1.2 MMT were earmarked for 'unknown destinations' also believed to be China. While China has a long way to go to meet Phase One commitments, today's follow-through from last week is supportive for beans.

US corn futures opened higher this morning. Unlike beans, the export picture for US corn was less bright. New marketing year net sales backed off from last week's spike. Physical sales were just 'ok', coming in near recent trendlines but 8% lower than previous week and 13% lower than the five-year average. US corn cancellations by Canada, Mexico, El Salvador, and Panama pushed new net sales for 2020 a net, weekly reduction of 29,000 MT. Cancellations by Canada and Mexico will likely be 'picked back up' in subsequent reports, but this morning's report did not provide any bullish news today.

Forward Range (at opening)	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr
Maple Leaf Sig 4		126.69	122.63 126.22	121.15 124.45	122.06 124.45	122.06 123.49	121.82 134.79	138.58 140.72	141.74 148.38	148.38 156.22
Soymeal Delivered Wpg/S.Man	465	465	465							

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