

Hog Margin Outlook

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Wednesday, August 5, 2020

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Forward contract prices opened mostly mixed this morning. US

cash reference markets continue to show signs of counter seasonal weakness after seeing a bit of a reprieve from the lows in June. Only the National base price was higher relative to the previous day, but only by \$0.28 USD/cwt. Settlement prices for this week using National as the base will likely come in slightly higher than last week's pricing but only if National sees higher prices tomorrow. The remainder of the reference regions were all lower relative to the previous day with WCB, ISM Formula, and the National Cutout-adjusted references down \$1.25, \$1.39, and \$1.15, respectively. Negotiated regions are under pressure due to the ample live supplies available. All formula cutout prices are taking a hit due to ongoing weakness in the value of the pork cutout which is once again flirting with the lows seen in late June/early July. Values are not yet as low as seen in April, but the pork market is under pressure. Meat buyers simply do not have to bid aggressively for pork as plants return to levels that could be considered full capacity under the new normal for operating in a Covid-19 environment. Daily kills are typically in the mid -470,000s implying a weekly slaughter of around 2.56 million head. Reduced industry capacity has been estimated to be around 2.61 million; either way, there will be no shortage of pork at these levels especially as the general American public remains under some form of Covid-19 lockdown or other restriction. Foodservice and restaurant sectors remain particularly hard hit and a study by The Kansas City Federal Reserve shows that retail (grocery) *has not* filled the foodservice or restaurant spending gap. In order for pork demand to return more fully, foodservice and restaurant business will need to resume. In the meantime, abundant supplies on the live hog side mean packers don't have to aggressively bid to keep hooks full. So, the producer is facing pressure in both 'markets' – lots of hogs mean negotiated prices remain low while lots of pork means formula prices using a portion of the cutout in its calculation are also under pressure. Lean hog futures continue to see-saw back and forth in the daily trade but are maintaining a sideways pattern with no reason to move out of the established ranges. It means forward contracting levels also remain low and opportunities extremely limited especially for the remainder of 2020. While exports remain relatively good, they certainly cannot show any signs of weakness moving forward. Domestic disappearance concerns remain a very large challenge and is in part one of the reasons futures values continue to be so weak

Canadian delivered soymeal prices opened lower this morning.

US soybean futures are lower for the third session in a row this week even though the recent evidence has shown China to be a large buyer of beans. The problem is, it's not enough and Phase One commitments still appear to be a lofty goal. Further out, a private estimate has suggested large bean yields could add to the new crop balance sheet and assuming present demand profiles, new crop ending stocks could come in near 800 million bu. Tomorrows export sales report will be watched for clues on direction but a disappointing number will likely add to the pressure.

US corn futures opened higher this morning.

While US corn futures are trading higher, it appears to be a technical bounce off the lows reached yesterday. New crop yields have been estimated at over 182 bpa by a private firm in a report that was making the rounds yesterday and if it turns out to be true, the US will be awash in corn supplies. Like pork, US corn needs a positive demand story to mount a firmer recovery. In the meantime, the nearby futures reached a contract closing low yesterday at \$3.08 2/8 USD/bu.

| US Slaughter | |
|----------------------------------|--------------|
| 474,000 | Tuesday |
| 474,000 | Year Ago |
| Daily Prices | |
| WCB | \$38.28 |
| ISM Formula | \$50.94 |
| National | \$56.33 |
| Nat'l Cutout Adj | \$58.95 |
| Signature 4 | \$133.69 |
| BP4/TCP4 | \$140.00 |
| OlyWest 2020 | \$124.88 |
| HyLife Cash | \$142.32 |
| HyLife Cutout | \$148.95 |
| BoC Rate (Noon) prev. day | |
| \$1.3372 CAD / \$0.7480 USD | |
| Cash Prices Week Ending | |
| August 1, 2020 | |
| Signature 4 | 132.48/60.09 |
| h@ms Cash | 130.48/59.19 |
| HyLife Cash | 141.34/64.11 |
| HyLife | 155.24/70.42 |
| BP4/TCP4 | 140.00/63.50 |
| OlyWest 2020 | 121.90/55.29 |
| 2020 Top-Up (YTD Rolling Est.) | |
| \$19.57 CAD/ckg | |
| ISO Weans \$9.35 US Avg. | |
| Feeder Pigs \$16.28 US Avg. | |

| Forward Range (at opening) | Aug | Sep | Oct | Nov | Dec | Jan | Feb | Mar | Apr |
|-----------------------------|-----|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| Maple Leaf Sig 4 | | 120.65 124.18 | 119.20 124.13 | 121.78 124.13 | 121.78 123.19 | 121.55 133.97 | 137.73 139.85 | 139.43 146.01 | 146.01 154.90 |
| Soymeal Delivered Wpg/S.Man | 452 | 452 | | | | | | | |

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