

Hog Margin Outlook

Meeting Your Marketing Needs

Friday, August 7, 2020

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Forward contract prices opened higher this morning. Daily US cash reference markets are mixed to finish the week but the base prices responsible for settlement prices are all higher. The National base is up \$0.24 while the National cutout-adjusted reference is finishing more strongly at \$3.38 USD/cwt higher relative to the previous day. Despite the relative choppiness seen this week, weekly base prices in CAD/ckg made incremental gains for week ending August 8 with National-based prices up \$1.04 CAD/ckg; National cutout-adjusted bases will likely reveal an increase when determined later today and published on Monday. There is not a lot of fundamental news to drive the cash market one way or another in the near term, however. Net cutout values, while also making weekly incremental gains, have stalled out recently suggesting the pork market is well supplied for now and unlikely to provide much support to live prices. Hams whipsawed last week, sometimes revealing daily moves at or near double digits – today, hams are \$9.18 higher than previous day but not before seeing double digit losses earlier in the week. As well, an abundance of live supplies mean US packers will not have to aggressively bid in the short term. There is still a lot of uncertainty in the market and news breaking yesterday suggests there could be more troubled waters ahead. The Trump administration announced the US will reimpose a 10% tariff on Canadian aluminum which was widely criticized on both sides of the border. Canadian officials announced a dollar for dollar response relative to the impact of the tariffs. Traditionally, the Canadian government has targeted important industries for maximum pressure and US pork is typically on the list. To be clear, no announcement on retaliatory pork tariffs have been made yet, but this will be a development to watch closely. So far, lean hog futures have not responded to the speculation, but this is expected as no official announcement on pork tariffs have been made yet either. In more local news, there are confirmed reports that workers at the pork plant in Brandon are testing positive for Covid-19. As of this writing, the eight employees affected *do not* work on the cut floor and are from other unconfirmed operations areas in the plant according to the CBC. Moreover, there are no plans for the plant to stop operations at this time despite some pressure from the union to do so. Producers with additional questions or concerns should consult with their procurement representatives, but to repeat, as of this writing, management has not announced any intention to shut down the processing line at this time. This is an active and ongoing news item.

Canadian delivered soymeal prices opened even this morning. US soybean futures are lower and the nearby contract could test support levels if the trade continues to move in this manner. Yesterday's weekly Export Sales report for week ending July 30 was relatively neutral for physical deliveries and current year intentions, but supportive for new marketing year deliveries. While recently stronger, the export pace will be closely watched as the new crop marketing year approaches in a couple weeks. For now, private yield estimates are coming in higher than the current USDA's numbers and could be pressuring further out.

US corn futures opened lower this morning. Like beans, US corn futures are starting the session off on a lower note. Unlike beans, however, the nearby corn contract is probing for new lows. Despite some positive export news for the new marketing year, the US ethanol sector continues to struggle. Wednesday's EIA Ethanol report showed a drop in production relative to week ago and well off the historical pace. While ethanol stocks numbers are also lower, it is not because of exceptional demand. The ethanol industry was hit particularly hard by Covid-19 demand disruption and has not yet fully recovered.

US Slaughter	
476,000	Thursday
475,000	Year Ago
Daily Prices	
WCB	\$38.77
ISM Formula	\$50.54
National	\$56.54
Nat'l Cutout Adj	\$63.72
Signature 4	\$133.41
BP4/TCP4	\$140.00
OlyWest 2020	\$122.59
HyLife Cash	\$141.35
HyLife Cutout	\$159.29
BoC Rate (Noon) prev. day \$1.3292 CAD / \$0.7523 USD	
Cash Prices Week Ending August 8, 2020	
Signature 4	133.52/60.56
h@ms Cash	131.52/59.66
HyLife Cash	n/a
HyLife	n/a
BP4/TCP4	140.00/63.50
OlyWest 2020	128.40/58.24
2020 Top-Up (YTD Rolling Est.) \$19.55 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	May
Maple Leaf Sig 4		123.81 127.37	122.35 127.41	125.04 127.41	125.04 126.46	124.80 137.39	141.18 143.31	142.79 149.42	149.42 156.55	154.31 164.45
Soymeal Delivered Wpg/S.Man	453	453								

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