

Hog Margin Outlook

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Wednesday, August 12, 2020

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US Slaughter

458,000 Tuesday
475,000 Year Ago

Daily Prices

WCB \$36.97
ISM Formula \$52.46
National \$57.42
Nat'l Cutout Adj \$63.35

Signature 4 \$135.47
BP4/TCP4 \$140.00
OlyWest 2020 \$128.13
HyLife Cash \$144.55
HyLife Cutout \$159.47

BoC Rate (Noon) prev. day
\$1.3291 CAD / \$0.7524 USD

Cash Prices Week Ending

August 8, 2020

Signature 4 133.52/60.56
h@ms Cash 131.52/59.66
HyLife Cash 141.40/64.14
HyLife 154.16/69.93
BP4/TCP4 140.00/63.50
OlyWest 2020 128.40/58.24

2020 Top-Up (YTD Rolling Est.)

\$19.55 CAD/ckg

ISO Weans \$12.40 US Avg.

Feeder Pigs \$15.47 US Avg.

Forward contract prices opened mixed this morning. While the daily US negotiated cash regions are showing some weakness once again, formula base prices are higher mid-week; ISM Formula, National, and the National cutout-adjusted reference prices in USD/cwt are up by \$0.64, \$0.89, and \$0.29, respectively. Cash market movements have generally tacked higher since the lows witnessed in mid-June but as a trend, all regions are well-off the pace normally seen at this time of year. By way of example, the National region is 23% lower than the three-year average today, while the cutout-adjusted variant is 16% lower. Interestingly, both of the National regions could surpass the weekly settlement base prices seen in 2018 for week ending August 15 when calculated later this week, but producers are well aware that the 2018 August values were likewise much lower than seasonal averages, and the 2018 benchmark is more of a statistical curiosity than representing any milestone or fundamental shift in price trends per se. While US hog producers may be more current than at first thought as discussed in this column yesterday, packers still do not have to aggressively bid to keep their *reduced* production schedules full, and the cutout has recently not provided the boost to the formulas seen over the height of the first round of plant closures despite being higher than non-cutout formulas today. Follow through buying on the nearby lean hog futures contracts has all but evaporated with the October and December giving back all the gains seen on Monday as of this writing. There was talk that the initial spike in values on Monday was sparked by more aggressive packer bidding in the negotiated cash markets and lighter hogs potentially hinting at tighter supplies in the near term, but the market has completely corrected in the early trade this morning and there is almost certainly no acute shortage of hogs in the near term. Supply holes due to limited weanling supply or other euthanasia activities continue to make the rounds from time to time, but there is no indication that a live supply hole large enough to move futures or cash pricing in the near term is present today. Of course, evidence of reduced hog supplies could materialize and the outlook will likely change when that evidence is revealed, but for now, the market is generally more concerned with the amount of hogs coming through the pipeline, potential capacity constraints in the fourth quarter, and ongoing domestic demand concerns as Covid-19 economic shutdowns remain. As well, the WH Group (Chinese ownership of Smithfield) has projected slower pork exports in the second half of this year for the company in an article surfacing yesterday in Reuters. Very little bullish news is presently on the horizon.

Canadian delivered soymeal prices opened lower this morning.

Later today the USDA will release the August WASDE report mid-trade. The impacts of the derecho storm event will not make it on this month's report which was prepared before the storm hit on Monday but will likely be addressed in the September issue. For now, pre-report estimates are suggesting 51.2 bpa average yields could produce 4.254 billion new crop bushels (range: 4.135-4.399 billion bu,) leaving a new crop carryout of 616 million bu which is slightly lower than the July estimate on some increased export activity seen recently.

US corn futures opened lower this morning.

Pre-report estimates for the new US corn crop ahead of the August WASDE are coming in with an average yield of 180.4 bpa (177.5-183.3 bpa range), 15.170 billion bu in new crop production (14.195-15.401 billion bu range) and an average ending stocks estimate at 2.265 billion bu. (2.150-2.325 billion bu range). The carryout estimate is slightly higher than the July report which came in at 2.248 billion bu.

Forward Range (at opening)	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May
Maple Leaf Sig 4		124.97 128.49	123.54 128.73	126.08 128.43	126.08 127.49	125.84 137.57	141.35 143.48	141.94 148.56	148.56 155.95	154.06 164.20
Soymeal Delivered Wpg/S.Man	451	451								

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