

# Hog Margin Outlook

Meeting Your Marketing Needs

Monday, August 17, 2020

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**Forward contract prices opened higher this morning.** US cash reference markets are mixed to start the week. The negotiated WCB region is once again coming in under the \$40 USD/cwt mark and more or less maintaining a sideways pattern. There was no negotiated price reporting from the USDA on Thursday and Friday due to confidentiality issues and today's value is only \$0.04 higher than the weekly reference price – negotiated markets continue to see pressure amid ample supplies and thoughts that a backlog of hogs still remains on farms. To be clear, there is no consensus on this issue. People with generally good industry knowledge \*do not\* agree on backlog estimate numbers with some suggesting there isn't much of a backlog at all while numbers eclipsing 3 million hogs are suggested on the other side. But price is still a good indicator of what processors are facing in terms of sourcing animals and today it does not appear that they are having much of an issue at all. Weekly slaughter came in 2.96% higher than year ago and 1.2% higher than last week, and with the exception of the July 4 long weekend in the USA, weekly kills have been consistently above the 2.5 million head mark since the end of June. Saturday slaughter slipped slightly from week ago to 219,000 head but has remained over the 200,000 head market since the beginning of June with the exception of holiday weekends. It is important to note that the 200k mark is not consistently exceeded until about the end of September suggesting packers \*are\* working through excessive supplies meaning there is likely at least some back-up of animals on farms. But it also implies that the backlog may be getting drawn down while packers keep (relatively) aggressive Saturday kills as they have since the beginning of June. We estimate that approximately 2.4 million more hogs have been processed since June \*on Saturdays alone\* compared to last year and the five-year average. A backlog exists - there are just no good ways to determine what the actual number is presently. Lean hog futures started the morning off higher but have backed off somewhat and are once again trading in a sideways pattern in the early session; nearbys are showing a slight bias lower compared to the deferreds which are flatter. No major news impacting the global or domestic pork trade broke over the weekend, so markets remain unremarkable to start the week. The Canadian dollar has moved a little over a full cent higher compared to last Monday meaning approximately \$1.90 of the value in a forward contract (on average) has disappeared compared to the beginning of last week, all else equal.

**Canadian delivered soymeal prices opened higher this morning.** The six-month Phase One review that was widely publicized last week between Chinese and US officials have been indefinitely suspended due to 'scheduling conflicts' but there is talk other issues such as US sanctions and recent technology 'bans' have clouded the agenda. Regardless of reason, the market will have to wait to see how the two sides articulate current progress and what will be required moving forward. While bean sales for new marketing year have improved markedly over the past couple weeks, broader Phase One targets are well off the pace needed to be considered reached.

**US corn futures opened higher this morning.** US corn continues to trade higher, largely, on damage concerns related to last week's derecho event that leveled corn fields across eight states with wind gusts eclipsing 100 miles per hour by the time the storm reached Wisconsin. Pictures of collapsed grain bins and flattened corn fields across the Midwest are commonplace on social media and elsewhere. Damage estimates, therefore, are making the rounds both in terms of damage to standing crops and storage capacity but concrete numbers other than the most speculative have not been factored into current production estimates. Crop tours starting this week will likely be commenting on the extent of the damage.

US Slaughter	
2.565 mil.	Last Week
2.491 mil.	Year Ago
Daily Prices	
WCB	\$37.71
National	\$57.47
Nat'l Cutout Adj	\$64.97
Signature 4	\$135.16
BP4/TCP4	\$140.00
HyLife Cash	\$143.86
HyLife Cutout	\$161.86
<b>BoC Rate (Noon) prev. day</b> \$1.3250 CAD / \$0.7547 USD	
Cash Prices Week Ending	
August 15, 2020	
Signature 4	133.39/60.51
h@ms Cash	131.39/59.60
HyLife Cash	142.49/64.63
HyLife Cutout	160.01/72.58
BP4/TCP4	140.00/63.50
OlyWest 2020	124.40/56.43
OlyWest 2021 (Cutout)	149.00/67.59
<b>2020 Top-Up (YTD Rolling Est.)</b> \$19.59 CAD/ckg	
ISO Weans \$13.97 US Avg.	
Feeder Pigs \$18.04 US Avg.	

Forward Range (at opening)	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May
Maple Leaf Sig 4		129.34 130.75	127.90 131.37	129.03 131.37	129.03 130.43	128.85 138.94	142.70 144.81	142.75 149.32	149.32 157.36	154.30 164.41
Soymeal Delivered Wpg/S.Man	466	466								

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