

Hog Margin Outlook

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Tuesday, August 18, 2020

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Forward contract prices opened lower this morning. US cash reference markets are higher relative to the previous day with WCB, ISM Formula, and both National references ('traditional' and 'cutout') up by \$0.07, \$0.96, and \$0.51 USD/cwt, respectively. For negotiated regions such as the WCB, it doesn't amount to much and merely represents a recovery of sorts which remains below the higher values that were seen a couple weeks ago. For the formula regions, however, the tack represents a continuation of a modest trend higher that began in mid-June for National and the end of April for a cutout-adjusted variant. Take note: that is to say the cutout-adjusted price was lower than the National price in April just before the retail hoarding started to develop in the USA. In other words, a cutout price formula is not always higher, nor does it always protect from the lows as a feature of the formula. To be clear, a cutout price formula has shown to be higher than regional bases when prices have been low in the past such as during the fall, but producers should also recall that pig biology and seasonality is more of a contributor at these times of year (the fall). Meat prices don't have to move a by a nickel and the spread between carcass values and regional base pricing becomes wider by default by virtue of having large supplies to choose from. In any event, that's when the cutout formula premiums start to reveal themselves more prominently. Premiums do not automatically show up just because prices are low as was evident just prior to the Covid-19 outbreak and other times over history when live hog and carcass values were both low. Cutout formula *base* pricing is higher today because the net value of the carcass exceeds the value of the regional 'base' price by enough to trigger a cutout premium – and it doesn't necessarily mean producers get more *per pig* (!). Lean hog futures plunged lower at the open and have given back all the gains seen over the past three sessions. Despite the drop, the trade remains very technical and range bound. The high seen last Monday was subsequently reversed on Tuesday and today we see pressure after some support developed last week. All eyes will be on this week's export sales report for clues on direction, but if it is anything like last week's report, modest new commitments from all export partners will not be enough to break out of the current range(s).

Canadian delivered soymeal prices opened higher this morning. Yesterday's Crop Progress report showed a reduction in the good/excellent category by 2% (to 72%) which was expected by market watchers ahead of the report. The average yield is now pegged to come in at 52.8 bpa against 53 bpa last week. The Pro Farmer Crop Tour now underway is starting to release regional updates and will provide some colour to the statistical models. They have started in the east in Ohio and in the west in South Dakota. The majority of any derecho damage will likely not be reported on until later in the week when the tour starts to get into Iowa and Illinois where the storm impacts were comparatively greater.

US corn futures opened lower this morning. Pro Farmer Crop Tour is suggesting the areas visited so far look promising, but they have not yet reached areas where last week's derecho storm was the worst. Initial assessments in South Dakota, for example, are coming in with a 184.6 bpa average yield estimate compared to 152.8 last year – the USDA currently pegs average corn yield at 181.8 bpa. Yesterday's Crop Progress report saw a 2% reduction in the good/excellent category (to 69%) compared to a 3-4% expected reduction.

US Slaughter	
480,000	Monday
478,000	Year Ago
Daily Prices	
WCB	\$37.78
National	\$53.41
Nat'l Cutout Adj	\$65.48
Signature 4	\$135.92
BP4/TCP4	\$140.00
HyLife Cash	\$144.81
HyLife Cutout	\$163.54
BoC Rate (Noon) prev. day \$1.3207 CAD / \$0.7572 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
2020 Top-Up (YTD Rolling Est.) \$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		125.44 126.85	123.86 128.12	125.78 128.12	125.78 127.18	125.54 137.04	140.78 142.89	141.88 148.44	148.44 156.18	153.14 163.21
Soymeal Delivered Wpg/S.Man	467	467								

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