

Hog Margin Outlook

Meeting Your Marketing Needs

Friday, August 28, 2020

For details call: (204)235-2237 or visit www.hamsmarketing.ca

US Slaughter

482,000	Thursday
488,000	Year Ago

Daily Prices

WCB	\$41.32
National	\$60.30
Nat'l Cutout Adj	\$65.50
Signature 4	\$140.53
BP4/TCP4	\$140.00
HyLife Cash	\$149.54
HyLife Cutout	\$162.43

BoC Rate (Noon) prev. day
\$1.3129 CAD / \$0.7617 USD

Cash Prices Week Ending

August 29, 2020

Signature 4	139.21/63.15
h@ms Cash	137.21/62.24
HyLife Cash	N/A
HyLife Cutout	N/A
BP4/TCP4	140.00/63.50
OlyWest 2020	131.20/59.51
OlyWest 2021 (Cutout)	157.40/71.40

2020 Top-Up (YTD Rolling Est.)

\$19.61 CAD/ckg

ISO Weans \$14.75 US Avg.

Feeder Pigs \$20.42 US Avg.

Forward contract prices opened mixed this morning. While the negotiated WCB region saw a \$1.27 daily drop in value yesterday, the trend remains moving incrementally higher. Formula based regions saw daily strength as well but if the trend remains, the momentum to the upside could be starting to level off. Weekly settlement base prices for week ending August 29 in all regions are higher than week ago with WCB up \$3.17, National \$1.35 higher, and the USDA/cutout formula (used as a base price reference for Red Deer) higher by \$1.54 USD/cwt. When the National cutout-adjusted price is calculated today, it will likely reveal a slight increase relative to last week; so far it is on pace to be up by \$0.13.

While the Red Deer cutout base price made larger gains than National cutout formula (used in Neepawa), the National cutout-adjusted price will still be valued higher. Regardless, the National cutout-adjusted formula has backed off somewhat due to some week over week softness in the value of the carcass. Since marketing week 26 (week ending June 27), aggregated and incremental moves in carcass value have improved by approximately 14%. This week, the cutout is on pace to see a flat -to-lower weekly move when published on Monday. Pressure in the ham, rib, picnic, and loin primals have offset some upward momentum in bellies and ribs. Inconsistency in hams (the largest component in the value of the carcass) has significantly muddied the waters in terms of value assessments and is still trending amid historical lows. Lean hog futures gave up all the gains made yesterday this morning and are trading notably lower as of this writing. Compared to Thursday, forward contract values in Canadian dollars are as much as \$4-\$5 CAD/kg lower today depending on the week observed. Strength in the CAD has exacerbated the losses. The trade in lean hogs remains generally rangebound, but also choppy. In other words, large a daily trend higher does not imply follow through to the upside or the beginning of a consistently rally – on the other hand, moves lower do not likewise hint at a sustained trend lower. For now, the outlook is bearish; live supplies remain plentiful and the export picture, while making headlines, is merely steady and likely not strong enough to offset domestic demand weakness due to Covid-19 restrictions. This fall, the market could be looking at processing capacity limits. If the news changes substantially, we will adjust our outlook appropriately. In the meantime, producers should probably manage expectations on sustained moves upward much beyond levels seen over the past two months – interim rallies are likely hedging opportunities for the active risk manager in the present marketing environment.

Canadian delivered soymeal prices opened higher this morning.

New marketing year commitments made over the past six weeks of 14.3 MMT (which will change to the current marketing year next week) are almost two and a half times higher than the 10-year average over the same timeframe (5.8 MMT). This combined with dry August weather and derecho damage (although not nearly as bad as for US corn) are supportive. US harvest could pressure once yield estimates start rolling in but for now, there is enough fundamental news on both supply and demand sides to support the trade at levels not seen since last February.

US corn futures opened lower this morning.

US corn futures have once again backed off from earlier strength which saw six consecutive sessions of upward momentum. The trade, however, struggles from demand concerns even though a wide 150-500 million bu damage estimate has been applied as a result of the August 10 derecho - Iowa currently sees only 50% of the crop in good/excellent condition as of last Sunday. Technically, US corn futures have stalled at current levels over the past couple months (approaching \$3.50 USD/bu) and the trend appears to be repeating itself at the end of this week.

Forward Range (at opening)	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May
Maple Leaf Sig 4			127.33 130.87	128.54 130.87	128.54 129.94	127.26 137.28	141.00 143.10	140.77 147.29	147.29 154.99	152.55 162.56
Soymeal Delivered Wpg/S.Man	468	468								

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Some Important Phone Numbers

Main Office: 204-233-4991
Toll Free: 1-800-899-7675
Logistics: 204-235-2225
Risk Management: 204-235-2237

STRENGTH IN NUMBERS