

Hog Margin Outlook

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Thursday, September 10, 2020

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Forward contract prices opened higher this morning. US cash reference markets are all higher, but the negotiated WCB region has seen some notable strength, coming in \$4.52 USD/cwt higher relative to the previous day. The move now places the WCB cash level at the three-year average trend line for the *first time this calendar year*. It also provides some fuel to the argument that hogs are not nearly backed up as badly thought earlier when the height of Covid-19 plant closures shuttered plants and made US producers hold back on deliveries. If the trend in the WCB is maintained, it could suggest that hogs are not backed up as a regional trend. To be sure, there are likely some producers still holding on to animals longer than they would like, but those issues could merely be a regional phenomenon as opposed to a more systemic issue. There is currently no consensus on the amount of backed-up hogs and it is debated on both sides. Formula prices are all higher today, but on a much more modest tack; ISM formula is up \$0.59 while both National variants including the cutout adjusted base is higher by \$0.31 USD/cwt. But the real news today was the announcement that German officials have found a wild boar test to be positive with ASF. It marks the first time a positive ASF test has been found in Germany and futures markets already appear to be pricing in a worst-case scenario which would include an outbreak in pork plants and pork ban by export partners. So far, there is no outbreak in any commercial pork plant as of this writing, but South Korea has already announced that it will ban pork from Germany as of September 10 (pork already enroute will be subject to testing when the product lands in S. Korea). German pork accounts for about 18% of S. Korea's pork imports. Nearby futures rallied immediately at the opening and the three front-month contracts (October, December, and February) all closed limit higher. A cursory analysis of price movement shows an approximate \$7.00+ CAD/kg premium at this morning's opening price in the front months, relative to the closing values on Wednesday. How much further will markets rally? No one ever knows the answer to that, but the consensus is that some follow through support will be seen, at least, in the early session tomorrow. China has so far not announced any bans of German pork. This is an ongoing development that will be closely watched. Additional bans would likely provide additional support. The weekly Export Sales report that was delayed due to Labor Day will be released tomorrow morning (Friday).

Canadian delivered soymeal prices opened higher this morning. US soybean futures are appearing to consolidate at current levels after witnessing a steady increase in day over day gains since August 10 and an up sloping trendline since the beginning of May. China demand for beans remains intact and some dryness in important growing regions as well as some recent reductions in yield estimates are keeping the support levels in place. Somewhat sliding under the radar is the September WASDE report which will be released tomorrow mid-trade.

US corn futures opened higher this morning. The nearby US corn futures contract is approaching technical resistance levels as market participants position themselves ahead of the September WASDE report that will be released late morning (Central time) tomorrow. Pre-report estimates ahead of the release suggest analysts are expecting a reduction in yield to 178.3 bpa from the 181.8 bpa estimate in the previous report according to Allendale analysis. Dryness and derecho damage are the main influencers of the expected reduction in yield estimates.

US Slaughter	
484,000	Wednesday
490,000	Year Ago
Daily Prices	
WCB	\$50.34
National	\$63.82
Nat'l Cutout Adj	\$71.32
Signature 4	\$149.22
BP4/TCP4	\$140.00
HyLife Cash	\$158.69
HyLife Cutout	\$177.34
BoC Rate (Noon) prev. day \$1.3173 CAD / \$0.7591 USD	
Cash Prices Week Ending September 5, 2020	
Signature 4	139.22/63.15
h@ms Cash	137.22/62.24
HyLife Cash	147.97/67.12
HyLife Cutout	164.36/74.55
BP4/TCP4	140.00/63.50
OlyWest 2020	133.40/60.51
OlyWest 2021 (Cutout)	156.50/70.99
2020 Top-Up (YTD Rolling Est.) \$19.54 CAD/kg	
ISO Weans \$19.86 US Avg.	
Feeder Pigs \$27.13 US Avg.	

Forward Range (at opening)	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
Maple Leaf Sig 4		149.04 153.54	146.94 149.04	146.94 148.34	141.78 151.59	155.09 157.19	152.40 159.64	159.17 167.38	160.61 170.64	174.37 182.76
Soymeal Delivered Wpg/S.Man	489									

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