

Hog Margin Outlook

Meeting Your Marketing Needs

Tuesday, September 15, 2020

For details call: (204)235-2237 or visit
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US Slaughter

486,000 Monday
 490,000 Year Ago

Daily Prices

WCB	\$60.91
National	\$66.06
Nat'l Cutout Adj	\$71.74
Signature 4	\$154.49
BP4/TCP4	\$147.74
HyLife Cash	\$164.20
HyLife Cutout	\$178.31

BoC Rate (Noon) prev. day
 \$1.3175 CAD / \$0.7590 USD

Cash Prices Week Ending

September 12, 2020

Signature 4	147.74/67.01
h@ms Cash	145.74/66.11
HyLife Cash	157.74/71.55
HyLife Cutout	176.32/79.98
BP4/TCP4	140.00/63.50
OlyWest 2020	136.80/62.05
OlyWest 2021 (Cutout)	161.00/73.03

2020 Top-Up (YTD Rolling Est.)

\$19.54 CAD/ckg

ISO Weans \$22.29 US Avg.

Feeder Pigs \$33.06 US Avg.

Forward contract prices opened lower this morning. A massive one-day move upward in the negotiated WCB region raised some eyebrows when the USDA published the \$11.13 difference higher relative to the previous day. When converted to the base price Western Canadians use in price discovery, the move equates to \$7.77 USD/cwt and narrows the spread between the WCB and the National formula base to \$5.15 which is the narrowest it has been all this year. Prices in the WCB no longer reflect the lowest values for this marketing week on record and are trading at the second highest level since 2015 in a sharp contrast to the historical lows seen only a couple weeks ago. It also lends support to the argument that some packers (i.e. in the Western Corn Belt) are having to bid more aggressively to shore up supplies further suggesting that a backup of hogs has either been worked through or was overstated in earlier analyses. The issue of hogs backed up on farms is still debated with no consensus on the issue. Regardless, it is a welcome move for US producers pricing off the WCB and not on a formula. Formula pricing was mixed with ISM up \$1.53, National \$0.77 higher and the National cutout-adjusted base lower by \$1.05 USD/cwt. The weakness in the cutout formula is a function of some weakness in the daily carcass value that saw a one day drop of \$1.54, led by bellies which were \$6.10 lower. Lean hog futures gave back all of Friday's gains in a reversal that puzzled many in the industry especially as the German pork ban uncertainty has yet to be revealed more clearly. We still say the Thursday and Friday rally was more speculative in nature as the market attempted to price in the potential of new export demand from South Korea, Japan, and China, all of whom have placed pork bans on Germany, a major supplier to both China and South Korea. But the reversal appeared to be a bit overdone; was it a function of some massive hedge move? There is no concrete evidence that points to the 'why' of the move today although technical traders will note the action did 'fill the gap' between the Thursday's close and Friday's open. Today, the trade is mixed and appears to be consolidating at current levels. In other words, the uncertainty is priced in for now and represents some potential hedging opportunities. Despite individual contract moves lower this morning, as of this writing, all futures contracts are higher than their historical cash averages, a metric used to determine value. Remaining 2020 contracts are 3% higher and 2021 contracts are 2% higher on average.

Canadian delivered soymeal prices opened higher this morning.

US soybean futures initially surpassed the psychological \$10.00 USD/bu level this morning in the early trade, but have since backed off, unable to generate further follow-through, and are 6 cents lower as of this writing. All contracts are lower with the pull-back being attributed to technical indicators that reveal the bean trade was oversold at current levels. While demand from China remains good and the supply side of the balance sheet could be tightened further on reduced yield estimates, the reversal seen this morning was largely expected by the technical traders.

US corn futures opened lower this morning.

While no where near the oversold levels seen in beans, US corn nevertheless has also made a move lower this morning. Global slowdown of ethanol production and challenges in the energy (oil) sector are weighing on the trade as is the perennial and general demand challenges that have plagued US corn for most of this year.

Forward Range (at opening)	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
Maple Leaf Sig 4		148.83 154.68	146.95 148.83	146.95 148.36	143.49 153.32	156.82 158.69	153.62 160.87	160.40 168.80	162.37 172.19	176.16 184.58
Soymeal Delivered Wpg/S.Man	497									

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