

Hog Margin Outlook

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Monday, September 21, 2020

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

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US Slaughter

2.587 mil. Last Week

2.601 mil. Year Ago

Daily Prices

WCB \$59.89

National \$70.17

Nat'l Cutout Adj \$77.67

Signature 4 \$164.24

BP4/TCP4 \$156.87

HyLife Cash \$174.61

HyLife Cutout \$193.27

BoC Rate (Noon) prev. day
\$1.3186 CAD / \$0.7584 USD

Cash Prices Week Ending

September 19, 2020

Signature 4 156.87/71.16

h@ms Cash 154.87/70.25

HyLife Cash 169.02/76.67

HyLife Cutout 186.69/84.68

BP4/TCP4 147.47/67.01

OlyWest 2020 150.00/68.04

OlyWest 2021 (Cutout) 172.00/78.02

2020 Top-Up (YTD Rolling Est.)

\$19.06 CAD/ckg

ISO Weans \$25.22 US Avg.

Feeder Pigs \$34.57 US Avg.

Forward contract prices opened mixed this morning. Daily US cash markets priced off a formula are showing some strength to start the week with ISM Formula up \$1.71 and both National variants including the cutout-based price coming in \$0.84 USD/cwt higher relative to the previous day. Some strength in the value of the cutout is providing some support which has averaged out at \$84.33 net carcass for week ending September 18 and is at \$87.53 today. This is only the second week in a row that the cutout has been valued over \$80 USD/cwt since Covid-19 production disruptions and a run on the meat case that peaked in May. Negotiated prices are seeing a notable drop, however. The WCB has posted a one-day drop of \$4.46 that is raising some eyebrows. While the region is still trending higher and tightening the spread between it and the formula regions, it does question the idea that packers are bidding up due to a shortage in supply – perhaps the more recent aggressive bidding is due to meat marketing and positioning ahead of the holidays rather than any shortage per se. Of course, there is no way to know for sure and the chatter remains rampantly speculative. For every argument suggesting there is a shortage, there is another claiming the opposite. Regardless, cash markets remain at or near seasonal highs and even with the turnaround in the daily WCB value, it is still trading near the \$60 USD/cwt mark. Due to the late Labour Day holiday this year, slaughter numbers are a bit more difficult to compare; for example, the 11.4% increase over week ago merely addresses the difference between the holiday-shortened drop and a return to a more normal pace. This week's value compared to week ago, however, is essentially equal with year ago levels (but it is 0.53% lower) and also lower than the Hog and Pig estimates in the June report. There could be any number of reasons for this and the numbers will be closely watched from here to the end of the year for clues. Typically slaughter levels increase consistently as a trend after Labour Day but it is too early to determine if that trend is in place today. The Quarterly Hogs and Pigs report will be closely watched for clues on direction. Lean hog futures have started the week off on a lower note and are called steady with a bias lower until the release of the Hogs and Pigs report on Thursday. Friday could be a very big day in the futures markets, especially if the USDA releases 'surprises'. For now, the consensus is that numbers will be adjusted somewhat lower in the Kept for Breeding category which could tighten supplies in the spring of next year. However, individual weight categories could vary drastically – there are thoughts that while culling and euthanasia did take place, it was not as widespread as first feared. Lean hog futures could be very volatile on Friday.

Canadian delivered soymeal prices opened lower this morning.

Although the US soybean market has turned lower this morning, the news remains mostly bullish for the trade. Speculation that Brazil could be short on beans is making the rounds this morning on claims that Brazil is buying from Argentina in a move that is counter-seasonal and a bit unusual. Daily flash reports show China in the US market almost every day. Lowering yield estimates are supportive as is talk that managed money is once again in the market. However, US beans have been overbought in the futures since August 26 and analysts have been calling for a correction for weeks. Today's move might be a part of that correction.

US corn futures opened lower this morning.

Like beans the US corn trade is trending lower this morning after seeing a steady move upward since the August 10 derecho that swept across the Midwest. It appears the trade has run out of steam for now though. While China is buying US corn, the crop is still suffering from poor demand in all channels. Last weeks support saw the nearby contract at values not seen since last April, but it has yet to breach \$3.80 USD/bu. and has backed off after reaching technically overbought conditions on Friday.

FC Range (at opening)	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug
Maple Leaf Sig 4		148.49 152.91	143.30 146.37	143.30 144.71	140.34 150.49	153.08 156.15	153.32 159.46	158.99 167.47	161.89 173.67	176.27 184.99	179.80 185.70	173.45 184.27
Soymeal Del Wpg/S.Man	521											

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