

# Hog Margin Outlook

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Wednesday, September 23, 2020

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**Forward contract prices opened mixed this morning.** US cash markets are generally higher mid-week with the negotiated WCB region up \$1.81, National base \$0.53 higher, and the National cutout-adjusted reference up by \$0.30 USD/cwt relative to the previous day. Other regions such as the ISM are seeing some weakness and down \$0.04 on the day, but that price is only used for analytical purposes and is not used as the base price for any price currently offered in Western Canada. Neither is the WCB, but the WCB provides an excellent benchmark by which to gauge activity for pricing not on a formula. The spread between the negotiated and formula regions (WCB and National for example) is still much narrower than seen in recent memory leading some to conclude that the back up of animals initially thought to exist due to Covid-19 plant disruptions is not as bad as first feared. In fact, all cash pricing is showing some strength with all daily values surpassing the weekly average for this marketing week in recent memory. Lean hog futures continue to trade in a sideways pattern but with a slight bias higher as a trend compared to Monday September 14, which saw a big correction lower after moving steadily higher since the beginning of the month. Regardless, the day-to-day action has been relatively flat and with the exception of the strength being witnessed currently, the trade has seen just as many 'up days' as 'down days' in the last eight sessions. This pattern of choppiness will likely be ended on Friday. The Quarterly Hogs and Pigs report will be published on Thursday after trading, so the first day for the market to react will be on Friday, September 25. Market watchers are waiting patiently for the analysts estimates to be revealed tomorrow or later today which will provide some clues on what to expect. No one knows what the market reaction will be on Friday. No one. But if the USDA comes in with values lower than market expectations, support will likely be seen – if the numbers are higher, pressure is a likely result. If a producer hedges today, they will likely be disappointed no matter what happens; if markets move higher, money will have been left on the table - if markets move lower, locking in more hogs at present values would have been a better idea. In either case, market participants should likely brace for a potentially volatile day on Friday. This is a big report that is only released four times a year and it will likely set the tone in the market for the rest of the year.

**Canadian delivered soymeal prices opened higher this morning.** US soybean futures are 'taking a break' from their steady tack higher and trading lower as of this writing. The action marks a notable reversal from the earlier trend which was to see steady support since August 10. Derecho damage, decreasing yield estimates and ongoing buying activity from China has been providing the rationale for the support but the market turned around two sessions ago after multiple days of residing in overbought territory amid the technical traders who have been calling for a turnaround since the beginning of the month. Despite the correction, the nearby contract is still trading over \$10.00 USD/bu

**US corn futures opened lower this morning.** US corn futures are following the other grains and are also trading lower in today's session as of this writing. The initial items sparking the move lower in corn (which were felt by most crops too) are slightly improving crop conditions and a weather forecast that is mostly favorable across most of the Midwest for the remainder of the week. Regardless, US corn is still facing demand challenges and will likely struggle to make any sort of substantial recovery until evidence of stronger demand (or a negative supply shock) develops.

US Slaughter	
485,000	Tuesday
470,000	Year Ago
Daily Prices	
WCB	\$64.39
National	\$72.52
Nat'l Cutout Adj	\$79.79
Signature 4	\$171.34
BP4/TCP4	\$156.87
HyLife Cash	\$181.73
HyLife Cutout	\$199.94
<b>BoC Rate (Noon) prev. day</b> \$1.3310 CAD / \$0.7513 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
<b>2020 Top-Up (YTD Rolling Est.)</b> \$19.06 CAD/ckg	
ISO Weans \$25.22 US Avg.	
Feeder Pigs \$34.57 US Avg.	

FC Range (at opening)	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug
Maple Leaf Sig 4		152.03 160.49	146.82 149.90	146.82 148.24	142.73 152.92	155.53 158.61	156.24 162.40	161.92 170.46	165.19 177.02	179.62 188.38	182.99 189.09	181.18 187.31
Soymeal Del Wpg/S.Man	534											

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