

Hog Margin Outlook

Meeting Your Marketing Needs

Friday, October 2, 2020

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

US Slaughter

485,000	Thursday
487,000	Year Ago

Daily Prices

WCB	\$65.19
National	\$76.67
Nat'l Cutout Adj	\$84.17
Signature 4	\$180.89
BP4/TCP4	\$180.89
HyLife Cash	\$192.78
HyLife Cutout	\$211.64

BoC Rate (Noon) prev. day
\$1.3292 CAD / \$0.7523 USD

Cash Prices Week Ending

October 3, 2020

Signature 4	179.85/81.58
h@ms Cash	177.85/80.67
HyLife Cash	N/A
HyLife Cutout	N/A
BP4/TCP4	170.94/77.54
OlyWest 2020	177.60/80.56
OlyWest 2021 (Cutout)	196.40/89.09

2020 Top-Up (YTD Rolling Est.)

\$18.59 CAD/ckg

ISO Weans \$27.26 US Avg.

Feeder Pigs \$41.47 US Avg.

Forward contract prices opened higher this morning. Weekly US base prices used in the construction of pricing Canadian live hogs are higher relative to the previous week. The National base is \$3.46 higher, National cutout-adjusted is up \$3.34 and the USDA cutout formula used in Red Deer is higher by \$5.02. While the WCB is not used in price discovery for any program in Western Canada, it is used as a gauge to monitor hog pricing not on contract and, it too, is higher by \$0.21 USD/cwt relative to week-ago. Formula pricing typically is determined using a weighted average of hogs that include, negotiated, cost-plus, futures, ABF premium, and cutout components, for example, but the WCB only monitors negotiated hogs. While the number of animals in the negotiated regions are much smaller than what is seen in the formula baskets, it still does provide some information, such as, how aggressive packers may need to be to secure uncommitted animals. The recent strength the WCB strongly suggests that more aggressive bidding needs to take place and there could be any number of reasons for that but one reason making the rounds is that there really isn't a backlog of hogs to be concerned with. To be sure, US producers have been very resourceful and there was an article in the Wall Street Journal highlighting a story about an Iowa producer who bought 'old barn' space to put finishers in while feeding them ration diets so as to not euthanize animals. Anecdotal evidence on social media suggest many producers are getting their hogs out of the barn as quickly as they can in an effort to keep current just in case more complications arise. Does this explain the low weights? Has this been widespread? Does it still mean there are a lot of animals backed up on farms? These are questions the market is currently grappling with but in the meantime, cash prices remain 19%-22% above seasonal benchmarks with no indication they are in jeopardy of falling substantially – the WCB is 'slowing down' a bit but has not turned around just yet. We are of the view that the issue of backed up animals is likely more regional than widespread and less intense than first thought, partially explaining the strength in cash. In the meantime, lean hog futures opened higher this morning, but they still haven't regained the losses that were put in on Tuesday. The futures have been trading in a two-sided and sideways pattern since September 18 and there is little indication that this pattern will be abandoned anytime soon. The German pork ban rally was priced in two weeks ago and the reaction to the Hogs and Pigs report was priced in last Friday. Futures are currently about 4% higher than the five-year cash average bases seen over comparative timeframes. Forward contract prices could be considered 'fair value' in the current marketing environment.

Canadian delivered soymeal prices opened higher this morning. US soybean futures appear to be consolidating at current levels but still trading above \$10 USD/cwt. The lower grains stocks number in the quarterly report provided some rationale to move higher recently, but the market has now priced in that information. Strong demand from China continues to support. In other news, Argentine officials have announced they are temporarily dropping the export tax from 33% to 30% on soybeans and soy products.

US corn futures opened lower this morning. Like beans, US corn futures got a boost earlier in the week when a bullish Quarterly Grains Stocks report was published by the USDA. Also like beans, that news was priced into the market by Thursday at the close and the market is now starting to show signs of levelling out for now. A private estimate on corn yield by Stone X (FC Stone) has lowered their yield estimate to 179.0 bpa from 179.6 bpa in their earlier projection.

FC Range (at opening)	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug
Maple Leaf Sig 4		151.66	146.46 149.54	146.46 147.88	142.71 152.87	155.47 158.54	157.83 163.98	163.50 171.65	166.90 178.67	181.26 189.97	184.84 190.68	177.73 188.56
Soymeal Del Wpg/S.Man	544											

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STRENGTH IN NUMBERS

