

Hog Margin Outlook

Meeting Your Marketing Needs

Friday, November 20, 2020

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Forward contract prices opened mostly mixed this morning. Daily US cash markets are mixed to finish the week. The negotiated WCB region is up \$0.43 as is the National cutout-adjusted base which is higher \$1.39 USD/cwt relative to the previous day; the 'traditional' National base is down \$0.29. Despite some variance in the daily trends, all weekly cash bases are lower for week ending November 21 relative to week ago. WCB is down \$1.64, National is \$1.37 lower, the National cutout-adjusted price is down \$3.41, and the USDA cutout-formula base is lower by \$0.67. A drop of close to \$3.00 is expected in the USDA cutout-formula next week due to the way price discovery is conducted in Red Deer. What stands out today is the relationship between cutout-based pricing and the other formulas. *All* USD base prices used in Western Canada are within one another by under \$3.00 USD/cwt with the USDA cutout formula the highest at \$73.14 and the traditional National the lowest at \$70.47. The National cutout-adjusted base came in at \$71.27 this week and a far cry from the levels seen at the height of the Covid-19 plant disruptions witnessed earlier this year. The point to note is that while 'cutout pricing' does provide premiums compared to other variants when averaged over the year *at the base level*, the premium is not always significantly wide. In other words, cutout pricing only provides substantial premiums when the value of the carcass is strong. Today, the net cutout is at its lowest level since the beginning of September and the daily value is under \$80.00 for the first time in 10 weeks. Domestic demand concerns in the USA will likely keep pressure on the carcass value in the short-to-mid terms despite lower cold storage stocks. Lean hog futures are higher as of this writing and have almost made up for the losses seen in yesterday's session. A relatively poor export sales report (in terms of new commitments) and ideas that China is actively making progress on rebuilding their domestic herd were factors weighing on the trade yesterday. Some key technical indicators were approached in yesterday's session and could be responsible for the turn-around this morning, but there is certainly no fundamental news to push markets substantially higher in the short term and gains will likely be limited for now. In the meantime, futures values when averaged out to October 2021 are statistically equal with the five-year cash average seen over the same period of time. The trend was for the market to move lower this week – today, February, June, and July contracts are trading at a discount relative cash benchmarks even with the turn-around this morning.

US soybean futures opened higher this morning. US soybean futures continue to make incremental gains and push toward \$12.00 USD/bu – at one point this morning, the nearby contract was within pennies of breaching the \$12.00 level. Better than expected rainfall in north and central Brazil after a period of dryness is keeping the upside in check, but ongoing demand in export markets is providing the rationale to move higher.

US corn futures opened higher this morning. Like beans, US corn futures are higher to finish the week but have not yet pushed above the highs seen in the Wednesday session. There is some talk that ethanol demand will likely improve if a vaccine for Covid-19 is in wide circulation in the spring of 2021 (and travelling starts to open up), but there is nothing concrete yet and it does not appear the market is pricing in a vaccine at this time.

US Slaughter	
491,000	Thursday
484,000	Year Ago
Daily Prices	
WCB	\$58.88
National	\$69.81
Nat'l Cutout Adj	\$71.30
Signature 4	\$162.12
BP4/TCP4	\$162.12
HyLife Cash	\$171.90
HyLife Cutout	\$175.56
BoC Rate (Noon) prev. day \$1.3083 CAD / \$0.7644 USD	
Cash Prices Week Ending November 21, 2020	
Signature 4	163.78/74.29
h@ms Cash	161.78/73.38
HyLife Cash	N/A
HyLife Cutout	N/A
BP4/TCP4	166.23/75.40
OlyWest 2020	165.80/75.21
OlyWest 2021 (Cutout)	181.20/82.19
2020 Top-Up (YTD Rolling Est.) \$17.72 CAD/ckg	
ISO Weans \$38.01 US Avg.	
Feeder Pigs \$48.24 US Avg.	

FC Range (at opening)	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug
Maple Leaf Sig 4	140.20	129.86 140.05	142.60 145.61	141.48 147.74	147.04 156.17	152.92 167.31	169.86 178.44	175.89 178.91	171.72 182.38
Soymeal Del Wpg/S.Man									

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Wednesday, November 11 for Remembrance Day. Forward contracting will be suspended and the HMO and Opening Price information will not be published.

Normal business resumes on Thursday, November 12.