

Hog Margin Outlook

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Monday, January 11, 2021

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Forward contract prices opened higher this morning. Daily US cash markets are higher to start the second marketing week of 2021 with WCB up \$1.55 USD/cwt, National \$0.36 higher, and the National cutout-adjusted base up \$1.06; the weekly USDA cutout-formula base used in Red Deer will be determined later today. Despite the moves, a trajectory has not yet been firmly established and doesn't follow any of the historical trends on balance. The WCB region, for example, is still 10% below the average seen in this week while National and National cutout-adjusted daily prices are both 6% above their respective benchmarks. However, the National region is so far approximating the profile seen in 2018 where strength at the beginning of the year saw prices steadily rise 14% into mid-February only to turn around and give back 24% by April before the seasonal spring rally into the summer. But history is not really any gauge of future performance and this year does not have identical features as 2018. This year, there are potentially some supportive factors in place including historically low cold storage stocks, talk of reductions in supply due to a smaller breeding herd, and China demand as the country rebuilds from ASF being the main ones. The market is waiting to see if these bullish factors outweigh the bearish ones which currently include a lot of pork production and high slaughter numbers (2.849 million head last week (!) and the highest ever on record), ongoing processing and labour issues due to new Covid-19 protocols at the plant level, and a very uncertain US domestic demand as economies remain in a state of flux. Lean hog futures opened lower this morning but are still residing near the upper levels since strength returned in mid-December. Future prices are still outperforming cash average benchmarks by 10% as of this writing, however, and the market has been trading in a two-sided pattern for weeks. It remains to be seen if the new live hog futures market in China will have any influence on lean hog futures in the US (indirectly or otherwise), but China live hog futures are making the news this morning (which are only trading for the second day ever) as contracts were headed to limit-lower on ideas that a herd rebuild is underway.

US soymeal futures opened lower this morning. The January WASDE report will be released mid-trade tomorrow and analysts, on average, are expecting US ending stocks to come in at 139 million bu. which would be the second lowest number in recent memory for the January report; only 2013 was lower at 135 million bu. To put this into perspective, the average January ending stocks estimate is approximately 300 million bu. going back to 2010 – last year's January estimate came in at 475 million bu.

US corn futures opened lower this morning. Like beans, US ending stocks of corn are expected to come in lower in tomorrow's WASDE report but not nearly by the same magnitude. Average estimates ahead of the report are coming in at 1.599 billion bu. which is almost exactly the average going back to 2010. Last year, ending stocks were pegged at 1.892 billion bu. and the December report came in at 1.702 billion bu.

US Slaughter	
2.849 mil.	Last Week
2.695 mil.	Year Ago
Daily Prices	
WCB	\$53.47
National	\$66.31
Nat'l Cutout Adj	\$72.90
Signature 4	\$149.54
BP4/TCP4	\$149.54
HyLife Cash	\$158.84
HyLife Cutout	\$174.62
BoC Rate (Noon) prev. day \$1.2705 CAD / \$0.7871 USD	
Cash Prices Week Ending January 9, 2021	
Signature 4	147.11/66.73
h@ms Cash	145.11/65.82
HyLife Cash	156.81/71.13
HyLife Cutout	169.94/77.08
BP4/TCP4	143.07/64.90
OlyWest 2020	138.90/63.00
OlyWest 2021 (Cutout)	160.00/72.58
2020 Top-Up (Estimated Final) \$17.16 CAD/ckg	
ISO Weans \$51.58 US Avg.	
Feeder Pigs \$68.80 US Avg.	

FC Range (at opening)	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct
Maple Leaf Sig 4		146.99 148.36	147.49 155.90	155.90 164.89	162.85 175.65	178.15 186.57	184.72 187.02	179.31 189.76	161.50 170.36	158.54 161.50
Soymeal Del Wpg/S.Man	n/a									

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