

Hog Margin Outlook

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Tuesday, January 26, 2021

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Forward contract prices opened higher this morning. US cash markets are mixed with the WCB region down \$0.48 USD/cwt, National higher by \$0.39, and the National cutout-adjusted reference price \$0.64 lower relative to the previous day. Daily cash variability remains mixed, but the trend remains biased to the upside since the beginning of the year. There are expectations that the 'early Easter' this year will lead to an earlier than normal increase in the demand profile and support the cutout. As well cold storage volumes remain at historical lows and the December Cold Storage report released yesterday revealed that freezer stocks are not yet being replenished. Good export volumes and a strong demand over the holidays have kept the pipeline flowing with not much going into the freezer so far. Despite exceptional pork production numbers (2.7% higher than year ago in December), total net pork in storage was 21.4% lower than the five-year average (29.6% lower than year ago). Ham and belly stocks are likewise record low coming in 37.6% and 54% lower, respectively, compared to their five-year averages. Lean hog futures are trading higher this morning after a choppy start that saw an initial pull back in the early morning trade. Supportive factors include news of a new strain of ASF in China, the first reported outbreak of 'old' ASF in China in about three months, low cold storage inventories, a breeding herd that is estimated to be 3.3% lower than year ago, and a general sense of optimism on returning demand after Covid-19 restrictions are lifted. Thursday, the market will be looking toward the weekly Export Sales report for continued export demand.

US soymeal futures opened higher this morning. Strength once again returns to the US soybean trade with the front two contracts once again inching toward \$14.00 on the second consecutive 'up day' this week. China is still in the US market and will likely be so for the foreseeable future. While it will help, it has almost nothing to do with Phase One commitments that were all the rage a few months ago (and still being discussed occasionally today). China demand is more practical and the exceptional demand for beans will likely continue until the hog herd stabilizes.

US corn futures opened higher this morning. Like beans, the US corn future trade is higher for the second consecutive session this week with the front three months all trading above \$5.00 USD/bu. as of this writing. There is talk that China is also buying US corn and expectations the country will import record volumes this year in order to shore up domestic needs. Weak ethanol demand and improving weather in South America are factors keeping the upside in check but support at these levels is coming from both the supply and the demand side today.

US Slaughter	
486,000	Monday
499,000	Year Ago
Daily Prices	
WCB	\$54.59
National	\$68.34
Nat'l Cutout Adj	\$73.91
Signature 4	\$154.52
BP4/TCP4	\$154.52
HyLife Cash	\$163.82
HyLife Cutout	\$177.18
BoC Rate (Noon) prev. day \$1.2738 CAD / \$0.7851 USD	
Cash Prices Week Ending	
January 23, 2021	
Signature 4	152.94/69.37
h@ms Cash	150.94/68.47
HyLife Cash	162.63/73.77
HyLife Cutout	171.53/77.81
BP4/TCP4	152.31/69.09
OlyWest 2020	150.50/68.27
OlyWest 2021 (Cutout)	169.00/76.66
2020 Top-Up (Estimated Final) \$17.16 CAD/ckg	
ISO Weans \$52.37 US Avg.	
Feeder Pigs \$70.33 US Avg.	

FC Range (at opening)	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct
Maple Leaf Sig 4			156.59 164.48	164.48 171.57	169.69 181.19	183.44 191.10	188.24 191.55	182.34 191.80	165.33 173.44	162.62 164.88
Soymeal Del Wpg/S.Man	n/a									

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