



Hog Prices: ↓ **Soymeal:** ↓ ↑
Corn: ↔ **CDN Dollar:** ↓

Hog Margin Outlook

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Wednesday, July 23, 2014

Forward contract prices opened lower this morning. US

cash markets are called steady to lower again this morning as packers pull back their bids as they are all aware of the tight hog supplies. In order for this to happen, packers need to reduce their slaughter schedules, with most focusing on Friday's activity which explains why the last 3 Friday's have averaged 280,000 hogs killed, a 30% reduction from the other weekdays. Heavy carcass weights have made a significant dent in offsetting the supply reductions, but yesterday USDA reported a drop in average carcass weights to under 213 lbs, the first time this year. USDA released its June 30th Cold Storage report yesterday showing supplies down 5% from year ago levels. Interestingly, supplies of pork bellies (the primal cut used for bacon production) were twice as large as year ago levels, explaining why they have not made a significant contribution to the gains in the pork cut-out. Forward contract prices appreciated in value yesterday, reflecting a sharp rally in the nearby Lean Hog Futures, as traders had difficulty reconciling the large discount that they held to the cash market.

Canadian delivered soymeal prices opened mixed this morning.

The soybean complex remains focused on crop conditions and the potential for record production. The yield potential for Soybeans hinges heavily on the weather experienced in August, but traders have been influenced by recent improvements in crop conditions and the bearish trend that has dominated corn prices over the last month.

Canadian delivered corn prices opened even this morning.

Corn futures continues to lose value as traders are become more confident about this year's crop potential. As a result, new crop futures have traded as low as US\$3.60/bushel, with some analysts suggesting that we could see prices drop under US\$3.00/bushel. This bodes well for the medium term hog producer profitability, with potential feed costs dropping to levels not seen in 5 years.

| US Slaughter | |
|----------------|-----------------------|
| 398,000 | Tuesday |
| 400,000 | Tuesday (year ago) |
| W. Corn Belt | \$125.97 |
| National Price | \$129.53 |
| Daily Sig 3 | \$248.11 |
| Daily Sig 4 | \$247.04 |
| Thunder Creek | \$247.65 |
| 4-Month Fwd. | \$199.14 |

| B of C Ex. Rate (Noon) | |
|----------------------------|--|
| \$1.0745 CAD/ \$0.9306 USD | |

| Cash Prices Week Ending July 18, 2014 | |
|--|---------------|
| Signature 3 | 116.82/257.55 |
| Signature 4 | 113.10/249.33 |
| h@ms Cash | 112.41/247.83 |
| Hylife | 112.30/247.57 |
| Thunder Creek | 115.94/255.60 |

| | |
|--------------------------|---------------------|
| ISO Weans | \$77.77 US Avg. |
| Feeder Pigs | \$118.90 US Avg. |
| #1 Export Sows (+500lbs) | \$76.00/cwt. tagged |

| Fixed Forward Range (at opening) | Jul | Aug | Sep | Oct | Nov | Dec | Jan | Feb | Mar | Apr |
|-------------------------------------|-----|--------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| Maple Leaf Sig. #3 | | 226.77 | 210.51 218.89 | 205.33 213.72 | 183.72 193.59 | 185.20 191.62 | 181.96 181.96 | 174.19 183.45 | 174.19 175.67 | 176.55 181.51 |
| Maple Leaf Sig. #4 | | 223.80 | 204.71 218.64 | 202.47 207.06 | 180.40 193.39 | 185.17 188.81 | 179.27 179.66 | 172.32 181.57 | 172.32 173.09 | 172.50 177.49 |
| Soymeal Winnipeg Delivered | 537 | 537 | 540 | 441 | 437 | 437 | | | | |
| Corn Wpg. Delivered | 182 | | | | | | | | | |

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