



Hog Margin Outlook

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Monday, July 13, 2015

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

Forward contract prices opened lower this morning. US cash markets are expected to trade steady to lower this week, reflecting the abundant hog supply that US packers currently benefit from. Last week's slaughter was estimated at 2.08 million hogs, the lowest non-holiday slaughter that we have seen so far this year. However, hog numbers have been trending about 12% higher than year ago levels, significantly higher than the latest USDA's Hogs and Pigs report projections. The heavy hog supply has led to abundant wholesale pork supplies, which have caused counter-seasonal weakness in the pork cut-out. The higher valued cuts such as ribs and loins have not been able to sustain their high values and have experienced a 10% and 5% decline over the last week. As a result of the cash market weakness, the prospect for higher forward contract prices looks limited. Fall month futures are not expected to make any gains as some traders are questioning whether slaughter capacity could be met in some weeks, resulting in precipitous declines in cash prices. Producers without protection in the Sep-Dec timeframe should consider pricing up to 50% of their hog supplies at current prices, while those with protection in this timeframe should refocus on the 1st Quarter of 2016.

Canadian delivered soymeal prices opened lower this morning. Fundamental news could add support that includes a 32% increase over May in Chinese exports (26.6% higher than last year), the ongoing weather issues with forecasts for more rain, and an expectation of a 1-2 million acre loss for the 2015/16 crop. However, a widely expected yield reduction estimate in Friday's WASDE did not materialize, and ending stocks came in higher than average expectations, providing some pressure that has carried into this morning's trade.

US corn futures opened mixed to higher this morning. The mixed trade is a function of expected volatility regarding new crop supply as currently, the difference between WCB and ECB is significant. There are thoughts that *IF* the ECB dries out, national averaged yield expectations could recover. As well, there is also talk that the better crop conditions in the north and west could offset yield losses in the ECB. Friday's WASDE report indicated ending stocks above expectations, providing initial pressure on Friday afternoon.

US Slaughter	
2.079 mil.	Last Week
1.861 mil.	Last Week (year ago)
W. Corn Belt	\$77.49
National Price	\$79.10
Daily Sig 3	\$180.60
Daily Sig 4	\$178.52
Thunder Creek	\$180.43
4-Month Fwd.	\$ 134.23
B of C Ex. Rate (Noon)	
\$1.2715 CAD/ \$0.7865 USD	
Cash Prices Week Ending July 11, 2015	
Signature 3	180.50/81.87
Signature 4	175.30/79.52
h@ms Cash	179.00/81.19
Hylife	174.36/79.09
Thunder Creek	171.10/77.61
ISO Weans	\$22.58 US Avg.
Feeder Pigs	\$41.87 US Avg.
#1 Export Sows (Tagged) \$33.50 cwt. (+500lbs.)	

July WASDE Report vs. Analysts' Estimates (bil. bu., except yield in bpa)					
		Low	High	AVG	WASDE
Soy-beans	Old Ending	0.251	0.330	0.287	0.255
	New bpa	43.5	46.1	44.96	46.0
	New Ending	0.193	0.450	0.370	0.425
Corn	Old Ending	1.726	1.880	1.811	1.779
	New bpa	163.0	169.0	165.39	166.8
	New Ending	1.263	1.910	1.540	1.599

Source: Reuters, DLR, USDA

Fixed Forward Range (at opening)	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr
Maple Leaf Sig. #3		145.29 159.49	137.08 141.18	124.37 137.79	117.92 122.61	123.19 127.30	123.19 136.07	134.31 140.17	142.05 147.91	147.91 153.34
Maple Leaf Sig. #4		152.04 162.17	140.69 151.59	132.70 142.41	123.84 129.75	128.16 131.80	128.16 136.53	139.26 142.44	146.53 151.30	150.30 155.04
Soymeal Winnipeg Delivered	552	537	530	521	520	520				
Corn	Local delivered price available on request									

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