

# Hog Margin Outlook

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Tuesday, July 9, 2019

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## US Slaughter

479,000 Monday  
443,000 Year Ago

## Daily Prices

Iowa/S. MN. \$67.11  
W. Corn Belt \$67.66  
National \$72.26

ML Signature 5 \$165.00  
HyLife (prev. day) \$166.58  
TCP/BP2 \$165.00  
BP4/TCP4 \$167.77

**BoC Rate (Noon) prev. day**  
\$1.3081 CAD / \$0.7645 USD

## Cash Prices Week Ending July 6, 2019

Signature 3 163.91/74.35  
Signature 4 172.24/78.13  
Signature 5 168.07/76.24  
h@ms Cash 170.24/77.22  
HyLife 170.28/77.24  
TCP/BP2 176.66/80.13  
BP4/TCP4 182.30/82.69

## Cumulative Top-Up Estimate

\$3.41 CAD/ckg

ISO Weans \$31.92 US Avg.

Feeder Pigs \$51.76 US Avg.

## Forward contract prices opened mostly lower this morning.

US cash markets remain under pressure with the ISM and National regions coming in lower than previous day by \$0.66 and \$0.65 USD/cwt, respectively. The WCB regional price was not reported due to confidentiality. While massive supplies mean packers do not have to aggressively bid for production needs, they are also not motivated to do so either. The value of the cut out remains under pressure and according to data from the USDA, the value of the pork cut out has been lower than the average net price for a couple weeks suggesting packer margins are razor thin if not even negative. Packer profitability will depend on product mix, which is widely unreported, so the metric is a very broad one. But the development stands in stark contrast to a profile that saw positive margins since about the beginning of 2015 with only one brief dip in negative territory in June of last year. A weak cut out is in part a function of weak demand and to date, demand has not been enough to clear the market at current values. Lean hog futures were under pressure yesterday, and once again the Q4 2019 contracts were flirting with limit lows at the close. The market has since turned around, although recent 'bounces' have been attributed to short covering activity. However, and except for the nearby (July) contract (which expires on the 15th), values at the close yesterday were still higher than post-2014 closing averages. The February and April contracts in 2020, for example, retain a 25% and 26% premium over the historical expiration average, hinting that the market is still a bit optimistic ASF-related demand could appear further out despite seeing a 15% to 17% drop in value since the April highs. The remainder of the contracts hover between a 5% and 15% premium and most are of the view the market is anticipating the next sign of supportive news as almost no one thinks ASF will not have an impact some degree. Market participants will simply have to wait.

## Canadian delivered forward contract prices opened even this morning.

While the developments (or lack thereof) of the China/USA trade talks simmer, there is some chatter suggesting that the long-range impacts could cause some issues with future demand. As well, some improving weather and an ample supply are pressuring the trade. Thursday's WASDE report is expected to show ending stocks estimates come in 812 million bu. against last month's 1,045 million bu estimate. Crop progress showed beans at 97% complete and the condition at 53% good/excellent for the crop that has emerged (71% GTE last year).

## US corn futures opened lower this morning.

The market is under pressure ahead of Thursday's WASDE report which is not expected to change all that much relative to the previous month. For example, pre-report ending stocks estimates ahead of the release are coming in at 1.692 billion bu on average against 1.675 billion bu in last month's report. The impact of the prevent plant acreage is not expected to show up until the August report, next month. The Crop Progress report showed conditions were at 57% good/excellent compared to the 73% GTE rating seen last year.

Forward Range (at opening)	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr
Maple Leaf Sig. #5		170.68 175.72	157.63 163.07	154.08 156.99	146.76 153.33	145.89 148.65	147.65 157.41	160.24 163.06	161.60 163.60	167.74 177.11
Soymeal Delivered Wpg/S.Man	453	453	457	462	465	466				

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