

Hog Margin Outlook

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Tuesday, January 28, 2020

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US Slaughter	
498,000	Monday
472,000	Year Ago
Daily Prices	
Iowa/S. MN.	\$54.38
W. Corn Belt	\$54.33
National	\$64.56
ML Signature 5	\$141.17
HyLife (prev. day)	\$149.30
TCP/BP2	\$141.17
BP4/TCP4	\$151.06
BoC Rate (Noon) prev. day	
\$1.3182 CAD / \$0.7600 USD	
Cash Prices Week Ending	
January 25, 2019	
Signature 3	123.28/55.92
Signature 4	148.93/67.55
Signature 5	136.10/61.73
h@ms Cash	146.93/66.65
HyLife	148.23/67.24
TCP/BP2	133.54/60.57
BP4/TCP4	145.22/65.87
Cumulative Top-Up Estimate	
\$7.39 CAD/ckg	
ISO Weans \$59.15 US Avg.	
Feeder Pigs \$65.45 US Avg.	

Forward contract prices opened higher this morning. US cash markets are mixed with ISM and WCB up \$0.55 and \$0.88, respectively, while the National region is down by \$0.48 USD/cwt. The mixed nature in the regions has been a feature of the US cash market recently that has nonetheless made incremental gains week over week. The set up is interesting; typically, cash markets see some strength into the middle/end of February followed by some mid/late March weakness before once again heading upward into the seasonal late-spring rally. However, this year cash markets are already at trend lows, especially in the WCB region where values are approximately 14% lower than the five-year average. Last year, values in the WCB region turned lower about this time as well, despite being record-low, as ASF demand had not yet materialized. Could the market be heading in a similar direction this year? So far, the trend suggests there is a bit of support developing and the lows seen in March of last year may not be repeated. On the other hand, daily kills over 490,000 (yesterday's estimate was for 498,000 (!)) could usher in weekly slaughters over 2.7 million hogs - record levels that reveal plenty of supply considering relatively low prices. Record large pork supplies currently in cold storage suggest either demand hasn't developed quite yet or a strategic move to get ahead of expected demand by processors. That will be revealed soon enough, but for now, there is a lot of supply for packers and a lot of pork being processed which will likely keep the cash upside in check in the short term. Lean hog futures are higher than yesterday's close this morning and appear to be working to fill the gap lower that materialized at yesterday's open. The sell-off was mainly due to weak commodity, equity, and indices markets that were anticipating a global economic slowdown due to weak demand amid ongoing coronavirus concerns. The World Health Organization has not yet declared an emergency or pandemic, but there are substantial concerns on the rapidity of the spread and the ability to contain it. Markets will likely be volatile and choppy until more certainty develops on the coronavirus front.

Canadian delivered soymeal prices opened lower this morning. US soybeans futures are still under pressure on ideas of light buying during the Lunar New Year holiday in China (which has been extended by three days) as well as lingering uncertainty due to the spread of coronavirus. The move lower pushes the market near recent support levels that show up near the \$8.80 USD/bu value. Really bad news would likely need to develop to push values lower; in the meantime, the nearby contract is hovering around the \$8.90s and at the lower end of the recently established range.

US corn futures opened higher this morning. US corn futures have recovered somewhat but the nearby March contract is still trading amid the lows and initial support levels. The push lower yesterday stemmed from ongoing thoughts that coronavirus could impact the global economy and the commodity markets subsequently sold off. Today, fears of a widening spread of the disease are still present, but the market is not ready to push to second levels of support just yet and, in fact, have turned a bit higher as of this writing, although the longevity of a broader move higher is not really being anticipated at this time.

Forward Range (at opening)	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct
Maple Leaf Sig 4		148.60	146.03 155.39	162.36 164.70	166.45 180.25	183.29 190.78	190.13 192.94	169.89 192.75	161.46 165.91	161.73 165.24
Maple Leaf Sig 5		139.80	140.51 151.28	157.77 160.44	163.76 177.31	181.54 188.36	186.59 189.92	156.14 189.01	148.21 152.62	152.43 156.36
Soymeal Delivered Wpg/S.Man	461	459	462	466	466	472				

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