

## Things to Consider....

August 9, 2022

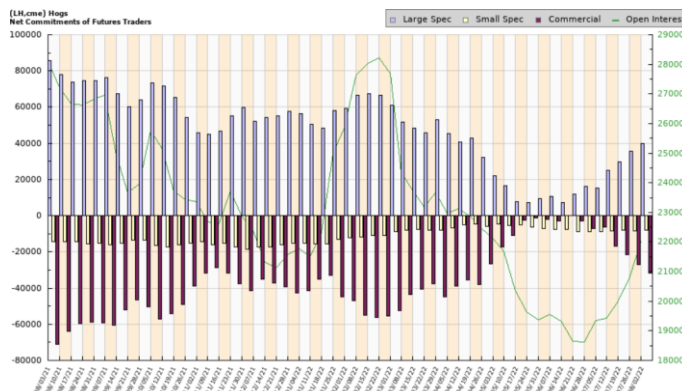
Over the last month lean hog futures have given producers something to look forward to, as remaining 2022 and early 2023 contracts returned to annual highs. With August expiry just days away, October will assume the lead month position and although it carries a steep \$22 US per cwt discount to August, it traded to a new high this week topping \$100.95 US per cwt, a price not seen since March 31, 2022, when it traded at \$100.85.

A key factor to consider in the current rally is the level of open interest traded in lean hogs since mid-June. Open interest represents the number of contracts open at a specific point in time (in this case weekly), not to be confused with trade volume which is the number of trades that are completed for a specific contract on a given day or week. As an example, the same contract could be traded 10 times in a day which would mean open interest would be 1, trade volume would be 10.

Open interest is an indication of “interest” in a specific commodity. When open interest rises, it typically means there are more individuals seeking to participate in the commodity. In the graph shown above, it appears the interest is on the buying side from the large specs. The Commitment of Trader’s graph illustrates that the net long position for the large spec had dwindled from February to May alongside a crashing open interest number, however since May both open interest and the net long position for large specs have risen.

As of this week speculative buying appears to continue providing the underlying support. Producers now need to decide when a good time may be to pull the trigger on selling a portion of their 2022 and 2023 production. Contract highs are providing a profitable hedge value for most Canadian hog producers and should be considered for those who currently do not have any previous protection or for producers looking to extend coverage for the end of the year.

Although further upside is expected likely for another week or 2, the current rally will eventually see selling pressure as packer margins again reverted to negative levels with firm cash colliding with a stable pork complex.



August 2022 Lean Hogs



October 2022 Lean Hogs



December 2022 Lean Hogs



# Weekly Hog Price Recap

Regional and national cash hogs varied as rises early on offset later declines, with Tuesday and Wednesday especially higher. Alternatively, CME cash improved more moderately with declines recorded mid-week. Wholesale pork primal values were mixed however heavier declines in butts and ribs weighed US pork cutout \$0.69/cwt under the previous week's average.

| USD Cash Price   | Weekly Averages |           |        |           |        |       |
|------------------|-----------------|-----------|--------|-----------|--------|-------|
|                  | Head            | 05-Aug-22 | Head   | 29-Jul-22 | w/w    | % Chg |
| ISM pm           |                 | \$128.49  |        | \$125.02  | \$3.47 | 2.8%  |
| WCB pm           |                 | \$128.34  |        | \$126.03  | \$2.31 | 1.8%  |
| Nat pm           |                 | \$123.95  |        | \$121.81  | \$2.13 | 1.8%  |
| CME Index*       |                 | \$121.62  |        | \$120.07  | \$1.55 | 1.3%  |
| Sows, 300-449lbs | 11,838          | \$80.66   | 11,085 | \$73.02   | \$7.65 | 10.5% |
| Sows, 500+ lbs   | 10,979          | \$85.31   | 11,120 | \$76.21   | \$9.10 | 11.9% |
| BoC Exch         |                 | 1.2874    |        | 1.2853    | 0.0021 | 0.2%  |

\* Represents Friday-Thursday average

Canadian market hog values improved generally \$4-\$6 per hog on the week. The OlyW 21 rose \$6.80/hog, while the OlyW 20 was up \$5.85/hog and BP/TC improved \$4.85/hog. The ML Sig 4 rose \$6.10/hog, followed by hog values out of Quebec were up \$5.35/hog. Hog values out of Hylife improved \$4.60/hog while those out of Ontario were up \$3.60/hog. In the US, Tyson slipped \$0.65/hog lower while JM rose \$4.80/hog from week ago levels.

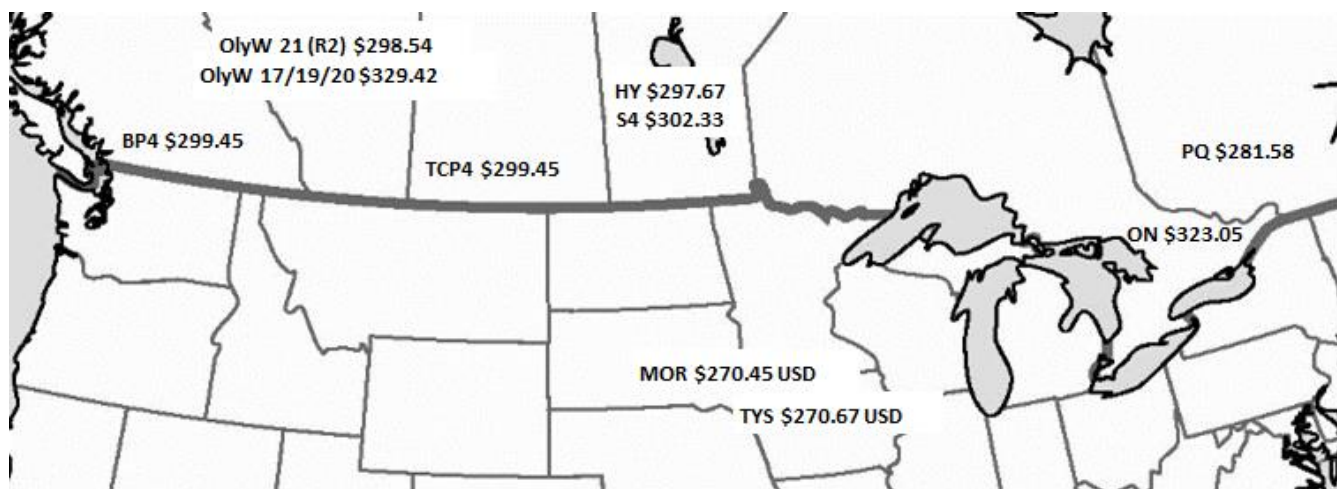
| Regional Pricing, \$/hog |          |                      |          |                      |               |                      |                  |                      |
|--------------------------|----------|----------------------|----------|----------------------|---------------|----------------------|------------------|----------------------|
| Packer/Region            | 3 Year   | Difference to OlyW21 | 2022 YTD | Difference to OlyW21 | Last 13 weeks | Difference to OlyW21 | Ending 05-Aug-22 | Difference to OlyW21 |
| OlyW 2021 (R2)**         | \$214.22 |                      | \$249.13 |                      | \$267.97      |                      | \$298.54         |                      |
| OlyW 17/19/20*           | \$210.52 | -\$3.70              | \$270.98 | \$21.84              | \$298.68      | \$30.71              | \$329.42         | \$30.89              |
| ML Sig 4                 | \$209.49 | -\$4.72              | \$252.48 | \$3.35               | \$275.73      | \$7.76               | \$302.33         | \$3.80               |
| BP4/TCP4                 | \$210.53 | -\$3.69              | \$251.55 | \$2.42               | \$275.24      | \$7.26               | \$299.45         | \$0.91               |
| Hylife                   | \$214.07 | -\$0.15              | \$252.61 | \$3.47               | \$272.46      | \$4.49               | \$297.67         | -\$0.87              |
| Ontario***               | \$212.21 | -\$2.01              | \$264.81 | \$15.67              | \$292.79      | \$24.82              | \$323.05         | \$24.51              |
| Québec                   | \$220.03 | \$5.81               | \$241.13 | -\$8.01              | \$249.31      | -\$18.67             | \$281.58         | -\$16.95             |
| Tyson (USD)              | \$161.56 | -\$52.66             | \$224.26 | -\$24.88             | \$254.83      | -\$13.14             | \$270.67         | -\$27.87             |
| John Morrell (USD)       | \$155.02 | -\$59.19             | \$223.35 | -\$25.78             | \$253.76      | -\$14.22             | \$270.45         | -\$28.09             |

\*3 Year average uses actual OlyW'17, OlyW'19 and OlyW'20 for respective weeks. Starting Jan 2020 prices includes \$0.06 per kg proximity bonus

\*\* 13 week average and the latest week uses the OlyW'21 including the floor price

\*\*\* Ontario pricing does not include any pork or cutout based formulas for market hogs

To Note: OlyW and BP4/TCP4 are nearly a full 1 week lag to Sig 4, Hylife, Ontario & Quebec



# Weekly Hog Margins

Monitored Canadian hog margins strengthened on strongly improved hog values and a pullback in feed costs. Canadian farrow-to-finish feed costs declined \$0.70/hog, while those in the monitored US region slipped \$0.20/hog from the week previous.

Hog margins out the OlyW20 strengthened \$6.55 to \$109/hog profits on the week, followed by those out of Ontario which improved \$4.30 to shy of \$103/hog profits. Hog margins out of the ML Sig 4 strengthened \$6.80 to \$85.50/hog profits and Hylife margins were up \$5.30 to \$80.85/hog profits, while OlyW 21 margins strengthened \$7.50 to \$78.10/hog profits and those out of Quebec improved \$6 to \$61.20/hog profits. In the US, Tyson margins weakened \$0.45 to \$107.55/hog profits while JM strengthened \$5 to \$109.05/hog profits from the previous week.

| Regional MARGINS, \$/hog |           |          |          |         |           |               |
|--------------------------|-----------|----------|----------|---------|-----------|---------------|
| Packer/Region            | 05-Aug-22 |          |          |         | Total COP | Weekly Margin |
|                          | Hog Price | Feed*    | Variable | Fixed   |           |               |
| OlyW 20/Alberta          | \$329.42  | \$156.93 | \$41.45  | \$22.05 | \$220.43  | \$108.99      |
| OlyW 21 (R2)/Alberta     | \$298.54  | \$156.93 | \$41.45  | \$22.05 | \$220.43  | \$78.11       |
| ML Sig 4/Manitoba        | \$302.33  | \$153.73 | \$41.54  | \$21.55 | \$216.82  | \$85.51       |
| Hylife/Manitoba          | \$297.67  | \$153.73 | \$41.54  | \$21.55 | \$216.82  | \$80.85       |
| Ontario                  | \$323.05  | \$151.66 | \$42.71  | \$25.76 | \$220.13  | \$102.92      |
| Québec                   | \$281.58  | \$154.23 | \$42.50  | \$23.65 | \$220.38  | \$61.20       |
| Tyson (USD)/Iowa         | \$270.67  | \$113.86 | \$30.70  | \$18.57 | \$163.13  | \$107.54      |
| John Morrell (USD)/ND    | \$270.45  | \$112.13 | \$30.70  | \$18.57 | \$161.40  | \$109.05      |

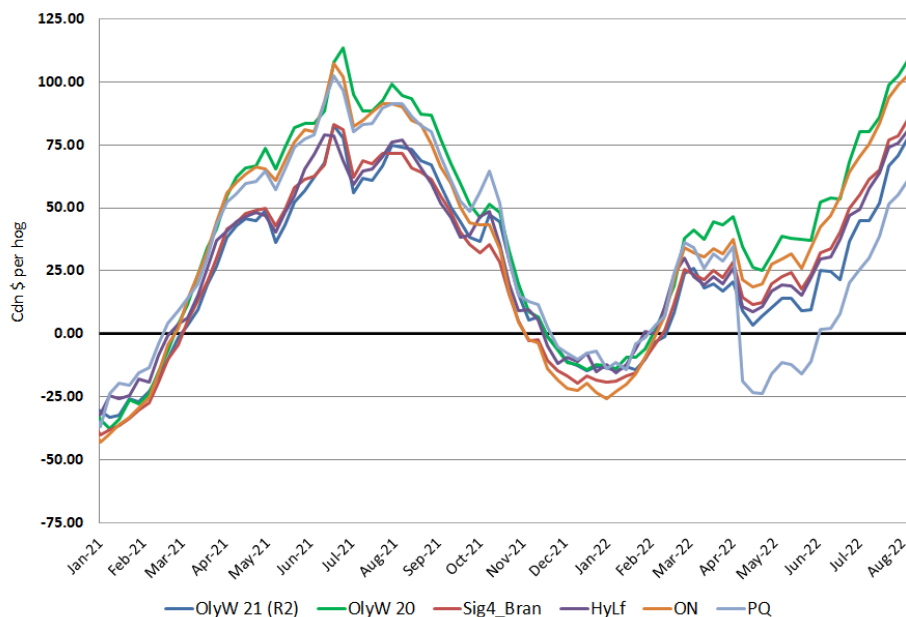
\* Feed cost variables- 285 lb hog, 1.57 F:G nursery, 2.89 F:G feeder-finish, \$20 GMD

\* Feed cost fixed expenses updated the week of April 8, 2022 onward

\* Variable and Fixed Costs updated as of April 15, 2022

Tyson: \$107.54 USD x 1.288 = \$138.51 CAD  
 Morrell: \$109.05 USD x 1.288 = \$140.46 CAD

## Canadian Margins 2021-2022



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