

Canadian Pork Market Report



Kevin Grier

Market Analysis and Consulting Inc.

Make Informed Decisions

November 30, 2020

The Markets at a Glance

	Last Yr	21-Nov-20	28-Nov-20	% chg Year
CME Constructed (U.S. \$/cwt)	58	69	67	16%
Dec Futures (U.S. \$/cwt)	62	64	66	6%
Apr Hog Futures (U.S. \$/cwt)	74	68	70	-5%
Manitoba (C\$/ckg)	159	174	173	9%
Quebec (C\$/ckg)	182	175	170	-6%
US Slaughter week F.I. (000)	2,322	2,711	2,350	1%
US Slaughter latest 52 week (000)	128,080	130,088	130,113	1.6%
Cdn Slaughter latest 52 week (000)	21,608	22,219	na	2.8%

Canadian Market Developments

Made in Canada Hog Price

There is an ongoing discussion of a “made in Canada” hog price. The question remains of what made in Canada price to use. The consensus is to use a pork cutout for at least two reasons. One is the belief that the cutout is a good measure of the value of the hog. Another reason is that the U.S. hog price that has been used as a reference in Canadian hog formulas, is based on a very thinly traded market. Both of those are good reasons.

Ideally there would be a Canadian pork cutout to be used as a reference, but there is no such price reported publicly. The closest that is available is the “Chisholm Sheet” that is published by R.A. Chisholm. That quotes or estimates the value of Canadian bone-in pork primals, among other cuts. That report is valued as a price guide for those cuts and for overall direction. That report, however, does not purport to fully capture the value of the total cutout.

Does the USDA Cutout Represent Canadian Value?

The question then becomes whether the USDA daily and weekly reported cutout is a good guide for the market in Canada. Looking at the Chisholm sheet relative to the USDA cutout can provide some indication. From 2016-2019 on a monthly basis, there was a 90% correlation between a cutout derived from the Chisholm primals and the USDA report. That indicates a very strong statistical relationship between Canadian and U.S. market trends and direction. In 2020 that relationship has become very poor. That is due to the Chinese delistings and the



severe market disruptions of the spring. It is best not to look to 2020 for this type of assistance regarding markets.

Beyond the Chisholm sheet, it is simple common sense that the Canadian pork market will be like the U.S. market. Pork moves across the borders almost seamlessly. Canada and the U.S. are important destinations for each other. In addition, export customers such as China, Japan and others in the Pacific rim are similarly important to both Canadian and U.S. packers. Furthermore, Canadian packers and their customers domestically and internationally use the USDA sheet to price product. The U.S. sheet is a formula or contract tool for Canadian packers and their customers.

As such, the U.S. cutout is a good guide to what might be derived if all packers were to average out their results into a Canadian cutout. There could, however, be a need to have a distinct Canadian market influence imposed on the USDA cutout. One way to get a Canadian market influence on the U.S. cutout would be to utilize Canadian and U.S. export values. Canada exports over 60% of production so export values are highly reflective of packer value. The U.S. is exporting over 25% of its production. The ratio of Canadian export values to U.S. export values could be applied to the U.S. cutout. That would give a good indication of a “Canadian cutout,” in lieu of an actual report.

In that regard, it is noted that in 2019, the average value of Canadian pork exports, not including offal, amounted to nearly C\$3,500/tonne. U.S. exports amounted to C\$3,600/tonne. The ratio of the Canadian export value to the U.S. value was about 96% in 2019. For added interest, the ratio for product to Japan was 99% and for Mexico it was 76%. Thus far in 2020 the overall export value ratio is running at 99% with Japan at 101%.

In 2019, the U.S. cutout averaged US\$77/cwt. The assertion based on the argument above is that the Canadian cutout would have probably been close to C\$216/kg. That is applying the 96% export price ratio as well as the exchange rate and metric conversion.

Supply and Demand Will Determine Value

From that point the most important issue would be what percentage of the cutout would the hog price be based upon. Frankly, basing on a Canadian cutout could deliver a very poor result or a very good result for hog sellers. It all depends on the percentage of the new Canadian cutout used. Ultimately, unless there is a body such as the Regi in Quebec that decides based on producer-packer arguments, the issue of the share of the cutout will be based on supply and demand, as always. In other words, a made in Canada price is no guarantee that margins will be any better or worse for producers.





Canadian Pork Products

The following is based on information provided by Ronald A. Chisholm Ltd., Toronto.

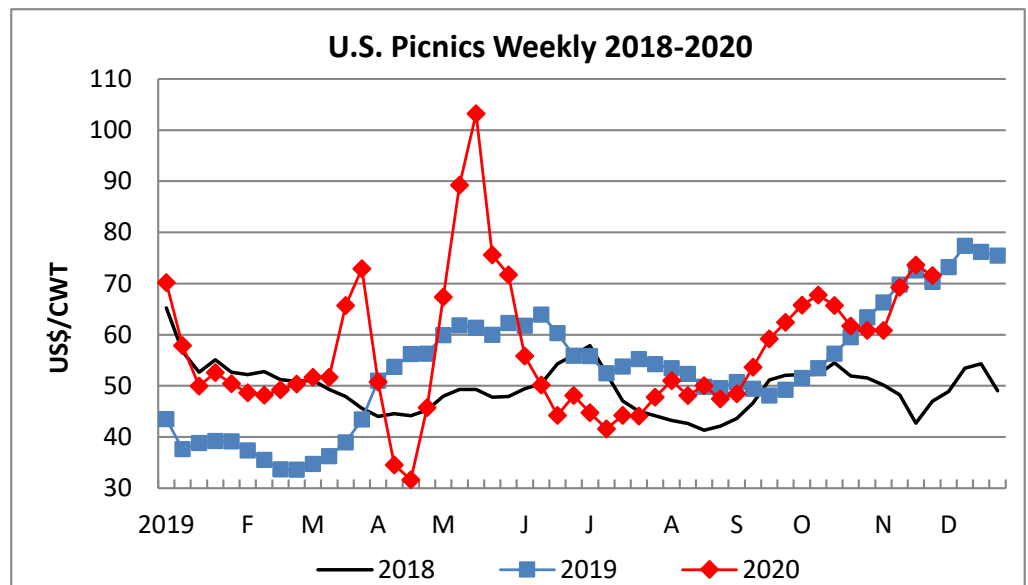
The Overall Market Tone

The North American market has been quiet, particularly last week, the U.S. Thanksgiving. Export markets were active. Canadian packers that are not able to ship to China have been focused on liquidating product that normally would have gone there. There will be a push to keep product moving in the next two weeks. After that business will slow in the latter half of December.

Cuts

- Hams were down, but should make a final move higher for Christmas business. That drive higher will be short lived before settling.
- Butts and picnics were both stable and can be expected to stay steady. U.S. picnics on the other hand have been enjoying strength in recent weeks (see graph below).
- Loins were the same picture, though they should start to gain strength as early January retail buying takes hold.
- Bellies were down, but seem to be making a move to steady or higher. They are likely to gain strength.
- Trims are coming down, pulled lower in part due to product that was destined for China that cannot go. Seasonally trims are not strong this time of year anyway, but the China issue is a further burden.

Pork Cut Profile





Price Forecasts and Market Forces

Drivers and Other Analysts' Opinions

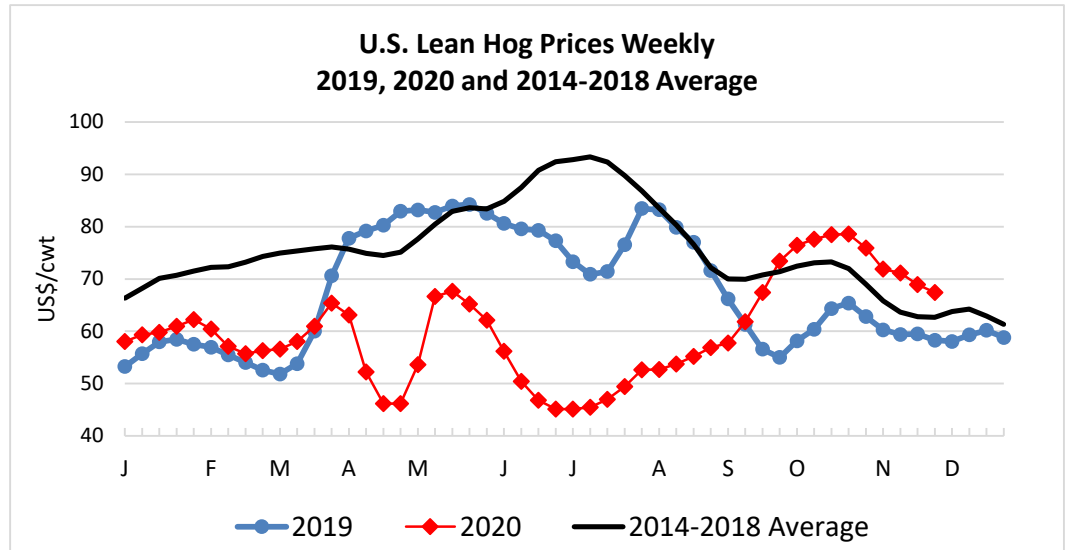
- "The Barchart Trading Guide is a Sell Signal with a Weak Signal Strength, "for the December futures. (Barchart.com, November 27).
- NationalHogFarmer.com, November 24 notes that the U.S. Meat Export Federation reports that year-to-date, total chilled imports into Japan are up 2%. The U.S. chilled pork volume is off slightly at 1% below last year, while Canada has actually increased 3% year-over-year." They note, however, that Canadian production this year is up 4.6%, with multiple plants delisted for China. As such, "they are under tremendous pressure to keep chilled pork moving to Japan and we expect a continued battle at the retail case." However, the United States still holds the largest market share in chilled pork to Japan, currently around 48%.
- The USDA's World Agricultural Supply and Demand Estimates (WASDE) for November is calling for 2021 U.S. pork production to be up by 1% compared to 2020.
- Rabobank's [Global Animal Protein Outlook 2021](#) says that industry supplies will again test U.S. packing capacity and consumer demand. North American pork supplies are expected to grow 1.6% in 2021. In 2020, the China-U.S. Phase One Trade Deal has seen China's agriculture imports from the U.S. grow substantially, particularly on pork and poultry. Although Rabobank does not expect China to fully meet its obligations under the deal, they do see the U.S. remaining a major origin for China's pork, poultry, and seafood imports in 2021.

My Opinions

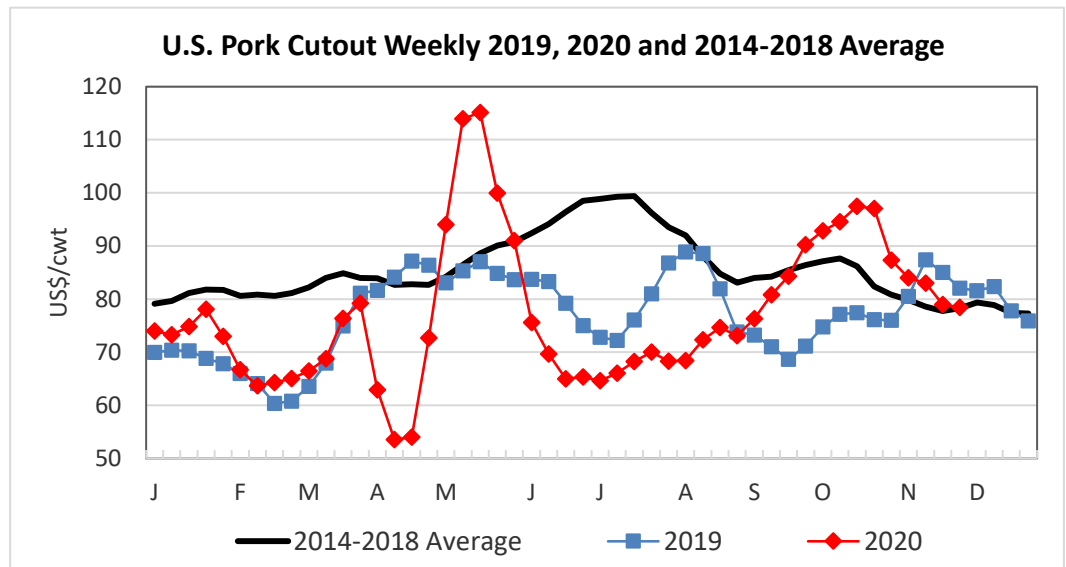
On the United States Market

- Weekly average lean hog prices averaged just over US\$67/cwt last week. That is the fifth week in a row of declines.
- Using the Iowa State hog budget for farrow to finish operations, the \$67/cwt would likely have generated a margin of about \$12/head.
- Dressed weights for all producer hogs slaughtered continued to move higher, averaging just over 215 pounds. Dressed weights last week were about a pound heavier than last year at the same time. Packer owned hogs, on the other hand, are running very heavy at 224 pounds last week. As noted in the last report, those heavy hogs are likely on the eastern seaboard. There are big harvesting problems there and it is showing in the packer hog weights.
- Other than in the east, producers are generally in good shape on marketings. They are staying current not wanting to be caught with hogs in the event of more virus-related slowdowns.



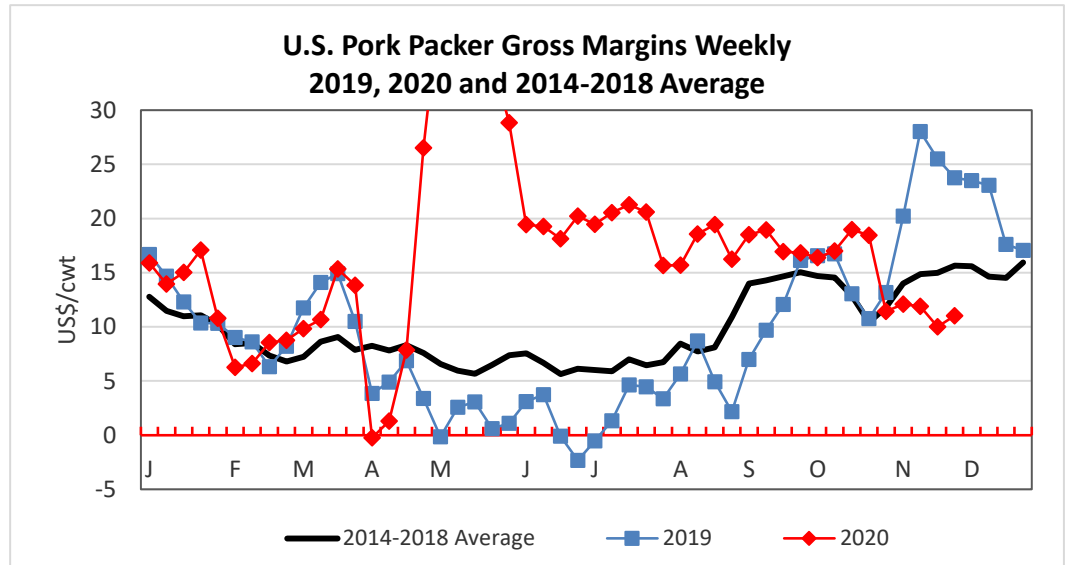


- There is a general supply and demand balance. Supplies are ample, but running right around where packers are needing. No packers are chasing hogs, but nobody can bid the market lower.
- The U.S. cutout slid modestly last week after four weeks or more of pronounced declines. The cutout is lower than last year, but it is right around the previous five-year average. The belly was leading the cutout lower, but that may have turned the corner.

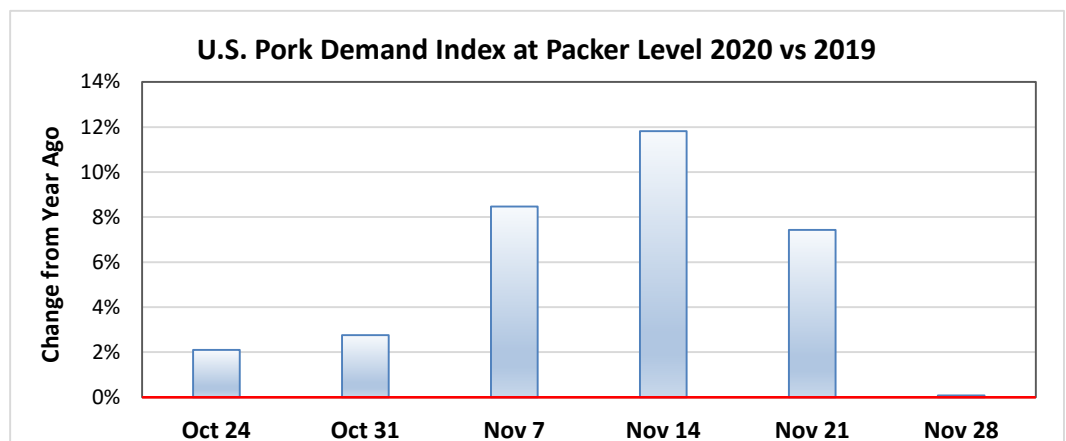


- Packer gross margins continue to trade sideways at lower than average levels and well below year ago. Margins at these levels will not encourage big kills in the remaining weeks of the year. Based on price levels and weights, it is likely, however, that huge year-over-year kills are not as necessary as once thought. Nevertheless, margins are not going to encourage packers to top up kill levels or chase numbers.



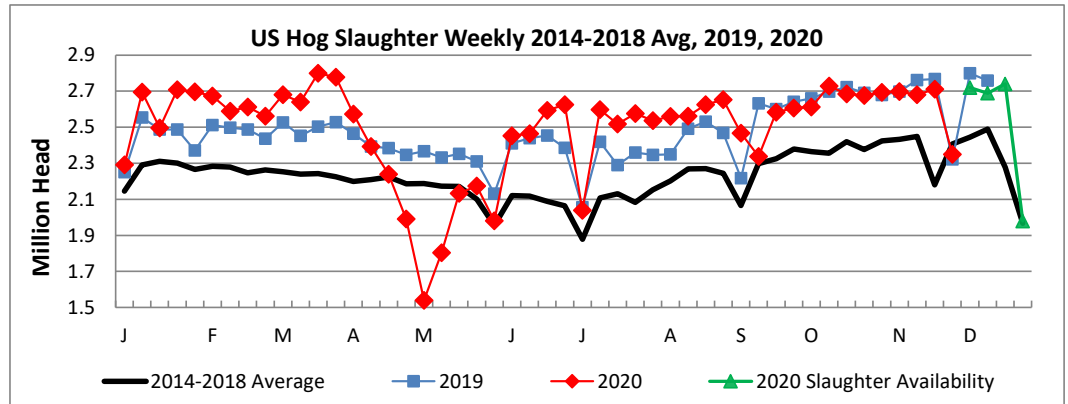


- U.S. pork demand can be roughly measured at the packer level by the combination of the cutout value and the number of loads moved (graphed below). Demand has been weakening in recent weeks as both the cutout and load counts fell. As with the margin discussion above, there is nothing about current demand levels that indicate packers are going to be chasing hogs to fill profitable orders. Demand is not shaping up as a positive for hog prices to finish the year.

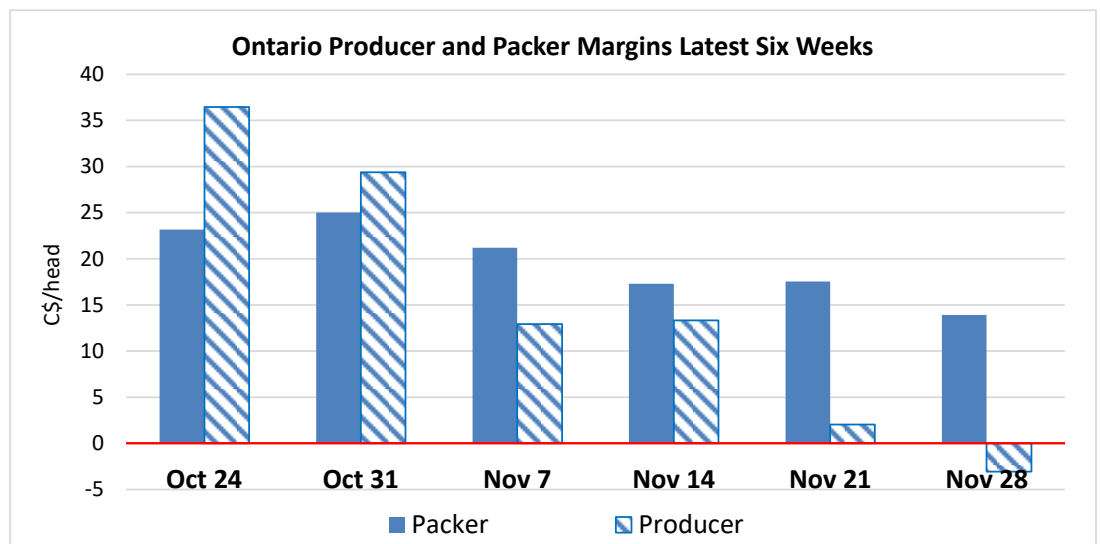
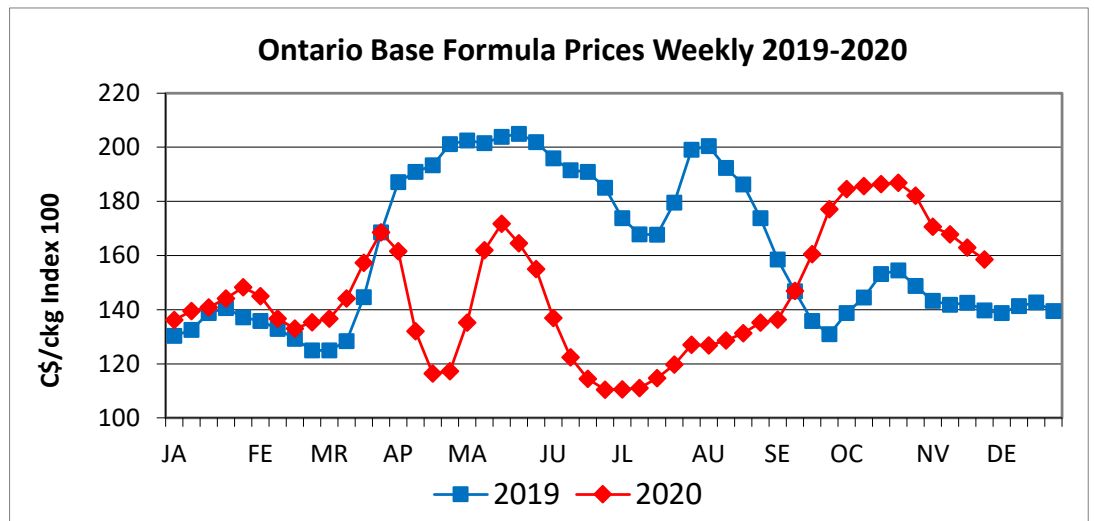


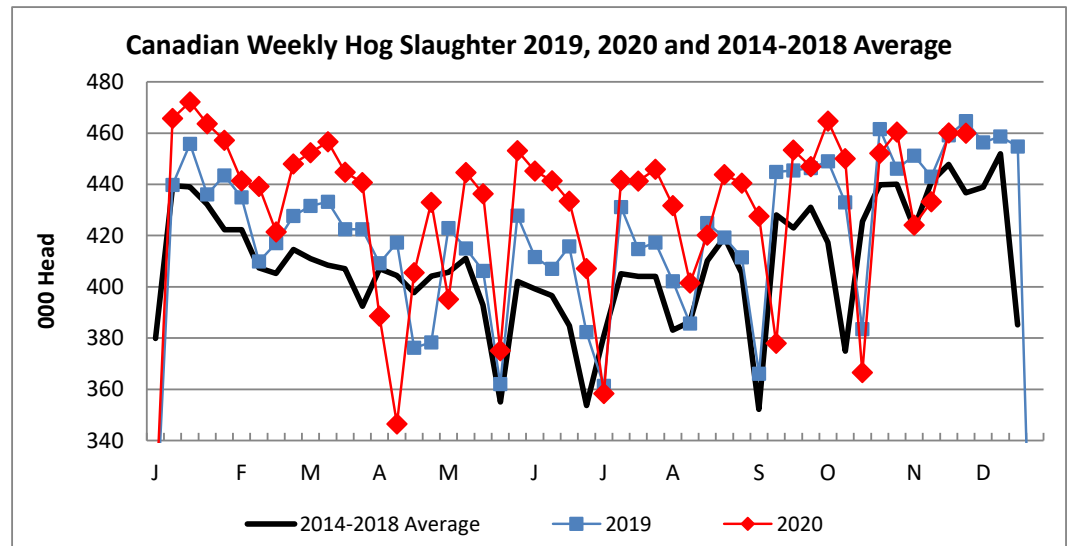
- Slaughter last week was up 1% from last year's U.S. Thanksgiving week. Sow slaughter is up 7% on a rolling four-week basis versus last year.
- The graph below shows actual slaughter as well as numbers available for slaughter for the remainder of the year. Availability is based on the six-month prior pig crop and the weight categories in the H&P report. The data indicate that slaughter should be about 3% less than year ago in December.



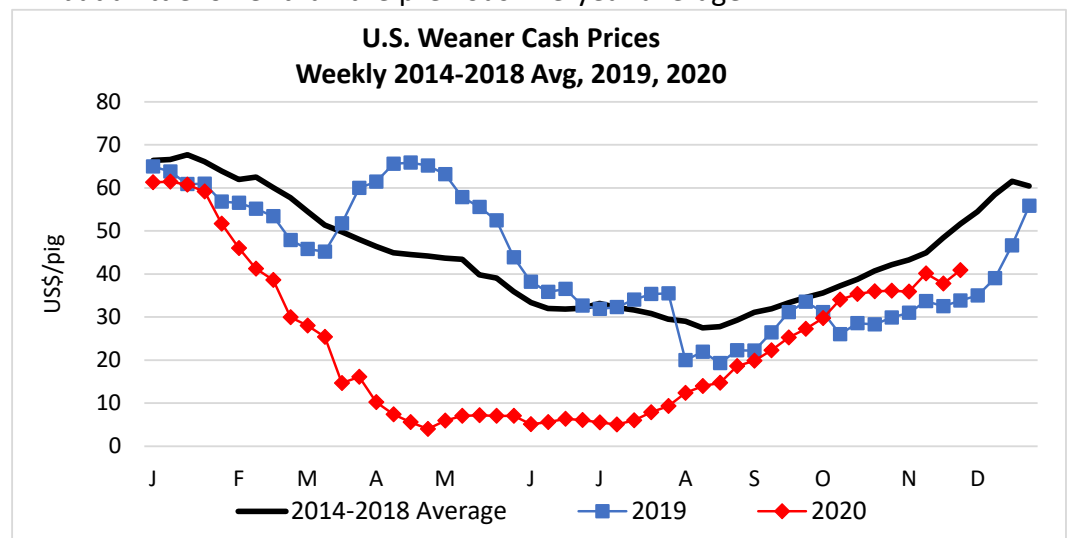


On the Canadian Market





- Weaner cash prices increased about three dollars last week to get back above US\$40/head once again. Cash prices remain above year ago levels, but a little lower than the previous five-year average.



- Prairie weaner producers were probably making around \$10-15/head on cash marketings last week.
- Weaner demand from the United States has been very strong as a greater number of buyers look to the prairies for increased supplies. Reports of heightened cases of PRRS in the U.S. may be prompting increased demand for prairie pigs. In addition, there are more empty barns. Finishers are dealing with the impacts of extra hard culling that likely went on during the summer due to the virus backlog.
- The Éleveurs de porcs du Québec, the Quebec hog board, has noted that the number of backlogged market hogs has probably been declining from its estimated 95,000 head noted a couple of weeks ago. It also noted that the





Quebec plants are working at 90% of capacity except Olymel Yamachiche which has had some breakdowns.

- The Quebec board is also supporting producers in the province that can sell weaners into the United States. This move of anywhere from 40-80,000 head is likely meant to provide room for hogs that are expected to be backed up over the Christmas period. Already, at least 4,000 head have moved south to very willing buyers.
- **Sofina**, Burlington is getting back up near where they want to be, with kills hitting the 8,800 mark recently. They ran the last three Saturdays, but will take this coming Saturday off.
- **Conestoga**, Breslau, has been doing their steady 8,000 per day and they did work on Saturday.
- Hog numbers are abundant in Ontario. About 5,000 per week are making their way to **Olymel**, Red Deer from Ontario hog farms. Depending on the week there may be about 1,000 going to **Maple Leaf**, Brandon.
- So far this year, from January through mid-November, Ontario marketings are up about 250,000 head. Of that total, about 100,000 fewer have gone to Quebec. About 130-140,000 additional hogs, however, have gone to the three prairie provinces, including **Thunder Creek** in Moose Jaw. Meanwhile, despite all the virus issues, **Conestoga** and **Sofina** have done yeoman's work putting through an additional 200-220,000 head so far this year.
- **HyLife** in Neepawa is keeping its numbers well over 8,000 a day despite labor shortages. It has been doing overtime and it did harvest on Saturday.
- **Maple Leaf**, Brandon, has been doing about 16,000 a day with overtime and a single shift on Saturday.
- **Olymel** Red Deer announced changes to its western pricing at the Alberta Pork annual meeting. Included in the changes is the introduction of a floor base price to the OlyWest 2021. The Floor Base Price will be the lower of \$1.60/kg or 100% of the pork cutout formulation. Over the last 2 years they have made some significant changes. If there is anything close to consensus among Alberta producers, it is that Olymel is looking much better as a customer. That solid floor price concept is very promising for producers.

Previous CPMR Forecast

"Prices seasonally weaken at the U.S. Thanksgiving period. This year is likely not going to be an exception. Packers are well bought, and producers are willing sellers. Look for another \$4 decline in the lean index." GRADE ON THE FORECAST: "A+." The market slid as expected for the reasons cited; a well-deserved grade.





The Next Two Weeks

Supplies are ample and packers are not hungry. Margins and the cutout are sloppy. Look for another \$1-2 lower.

Implications/Actions

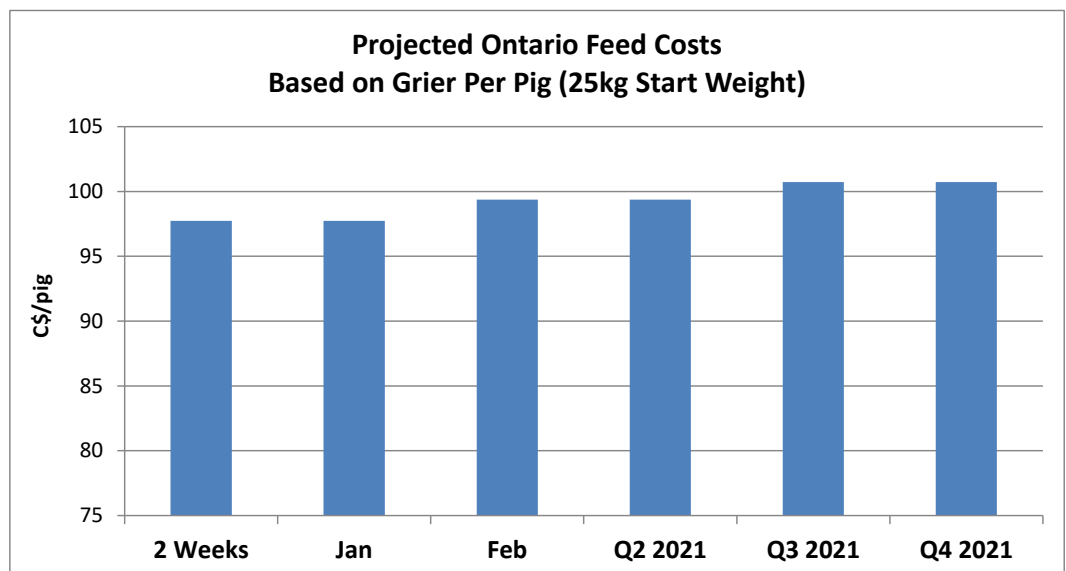
As noted above, a made in Canada hog price is desired by producers, but it is no guarantee of margins. Supply and demand and market leverage determine relative pricing and margins between Canadian producers and packers. In the case of Quebec, of course, what matters is the regulatory outcome. In either case, the selected reference price is of secondary importance.

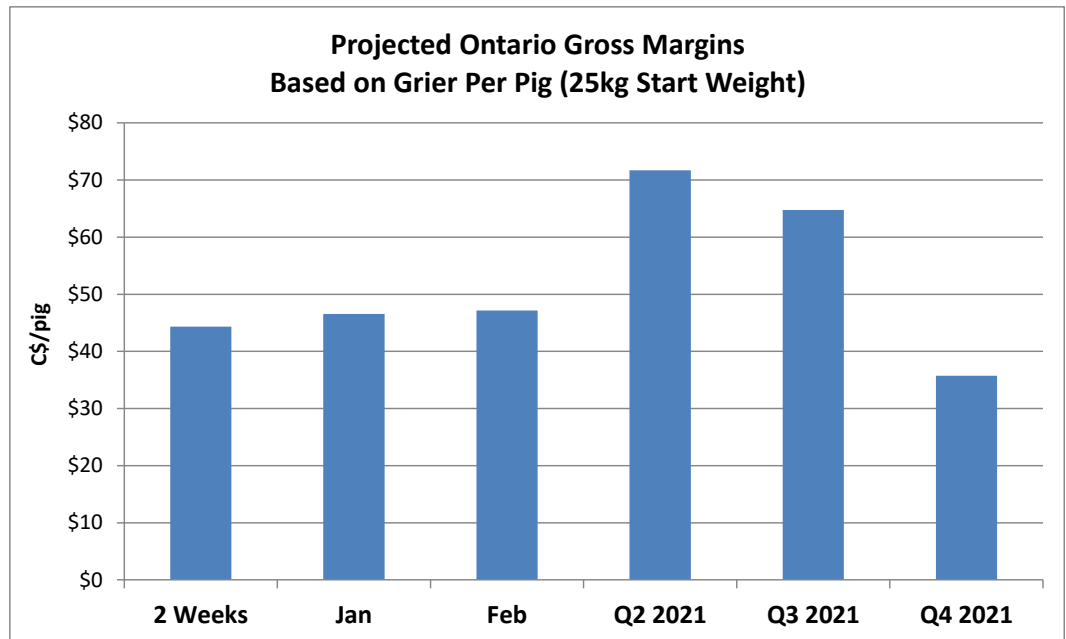
Gross Margin and Feed Costs

The following Gross Margin and Feed Cost modeling is presented by Drew Woods of Trouw Nutrition Canada.

Lean Carcass Market Price US\$/cwt			Canadian Market Prices C\$/100kg @C\$1.30					
Period	Futures	Grier	Futures			Grier		
			Ontario	West	Quebec	Ontario	West	Quebec
2 Weeks	66	66	\$157	\$157	\$158	\$157	\$157	\$158
Jan	NA	67				\$159	\$160	\$160
Feb	67	68	\$159	\$160	\$160	\$161	\$162	\$162
Q2 2021	75	76	\$178	\$179	\$179	\$180	\$181	\$182
Q3 2021	79	75	\$188	\$188	\$189	\$178	\$179	\$179
Q4 2021	67	64	\$159	\$160	\$160	\$152	\$153	\$153

Canadian Values Derived from Watson.S® Predictions





*All numbers reflect the grid and pigs used. Different genotypes would convert feed differently and have an impact on the outcomes. Grids will also influence as the sweet spots and bonus structures will drive the numbers. For this we use an average genotype (duroc cross) and the most popular grid in Ontario. To calculate our gross margin, we simply take the revenues from selling the pigs on the grid with hog prices based on Grier forecasts. From that point **we subtract the cost of feeding the pigs in grow/fin as well as the cost of feeding them and the sow from birth and through nursery**. Their lifetime feed costs are subtracted from the sales revenue to get a GROSS MARGIN. $Gross\ Margin = Sale\ price\ of\ hog(\$ / pig) - finishing\ feed\ costs(\$ / pig) - sow\ feed\ costs\ (\$ / pig\ weaned) - nursery\ feed\ costs(\$ / pig)$. We do not use fixed or variable costs.*

**Watson.S[®] is a swine management tool developed and owned
by Trouw Nutrition Canada.**

Disclaimer: Trouw Nutrition Canada and Kevin Grier present this report as a snapshot of single scenarios in the Canadian swine market using current information at the time of the report. This table is an example of the dynamic relationship between hog prices, feed prices and the marketing strategies for pigs, and do not represent a guarantee of return to be earned. Individual scenarios are available upon request.

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Kevin Grier Market Analysis and Consulting Inc.

79 Pheasant Drive, Guelph, Ontario Canada

T: 519 823 9868 C: 519 240 8779 kevin@kevingrier.com www.kevingrier.com

