Canadian Pork Market Report

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Market Analysis and Consulting Inc.
Make Informed Decisions

June 10, 2024

The Markets at a Glance					
		Last Yr	1-Jun-24	8-Jun-24	last wk % chg Year
CME Lean Hog Index	(U.S. $/cwt)	83	91	92	11%
Nearby Futures	(U.S. $/cwt)	88	94	93	5%
Third Month Hog Futures	(U.S. $/cwt)	84	97	92	9%
Cdn Slaughter week F.I & P.I.	(000)	429	412	415	-3%
Cdn Slaughter latest 52 week	(000)	21,644	21,370	21,357	-1%
US Slaughter week F.I.	(000)	2,355	2,375	2,376	1%
US Slaughter latest 52 week	(000)	125,358	127,935	127,956	2%

Canadian Market Developments

HyLife Chronology

HyLife's daily runs at Neepawa have been just over 9,100 on two shifts. The company has been operating at that rate consistently for over a year. That daily volume represents the culmination of steady, planned growth which began in 2008.

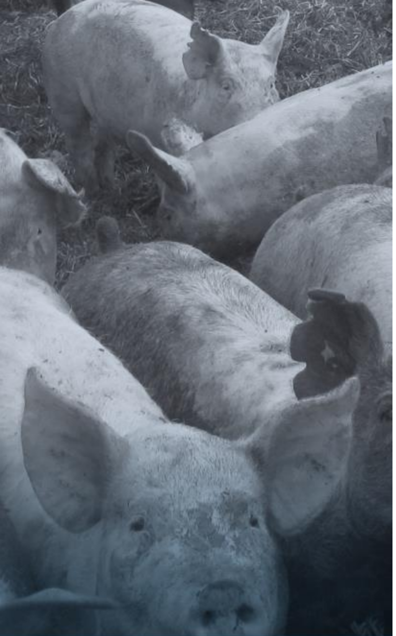
HyTek and Springhill

In late 2007, HyLife, which was then a large hog production company called Hytek Ltd., purchased the former Springhill Farms plant. Hytek assumed full operations in January 2008. At that time, the Canadian Pork Council had Springhill listed at a capacity of 3,600-3,700 per day. In the spring of 2008, Hytek was killing about 3,200 per day and cutting 1,600.

In 2012, the newly renamed HyLife Foods completed a series of upgrades to allow for a second shift. That brought capacity to 5,600-5,800 per day. They got to about 3,700 on the first shift and just under 2,000 on the second. The plant had been at 3,600/day prior to that expansion. By 2013 HyLife was executing another planned expansion to 6,300 head. The added hogs were a combination of HyLife hogs and purchased hogs.

Investing Again

In mid-2016 the plant had been doing 6,500 per day. It then went to 6,700 per day in September 2016. In late 2016, RealAgriculture.com reported that HyLife Foods was investing up to $125 million at Neepawa and new finishing barns to supply it. At that time, the company planned to move to a "full" double shift at Neepawa. The company had been running two shifts but not



to the full capability of the plant or to the future plans of the company. That required construction of new hog finishing capacity. The expansion also included plans for another feed mill which was on the heels of the grand opening of a 5,000 tonne/week feed facility at Randolph. (realagriculture.com)

The plan with the expansion was to get two full shifts to a total of 7,500 per day or about 1.9 million per year. At that time, HyLife had ownership of about 80% of its current kill at Neepawa. Most of the hogs that were to get the plant to 7,500 are pigs that would have been born in Manitoba would but would have gone to the U.S. for finishing.

By 2018 with the expansion to 7,500 completed, HyLife reached its goal to become a fully integrated feed, hog and pork production model. In June of 2022 the plant was at 8,500. They started 2023 at just under 9,000. The present 9,100 rate probably represents the maximum for that plant as currently configured.

Nearly 100,000 Sows

With the 2020 purchase of ProVista, HyLife has ownership of over 89,000 sows and another 9,750 under contract for a total of over 99,000, in Canada. It weans just under 2.9 million pigs per year of which about 1.8 million are market hogs through the plant. The remaining nearly 1 million are sold as weaners in the U.S. market. There are about 18,000 sows which are committed to the isowean market. In addition, there is surplus production from the sows committed to Neepawa which are exported as weaners. Those surplus pigs are a production buffer in addition to contributing to barn asset utilization.

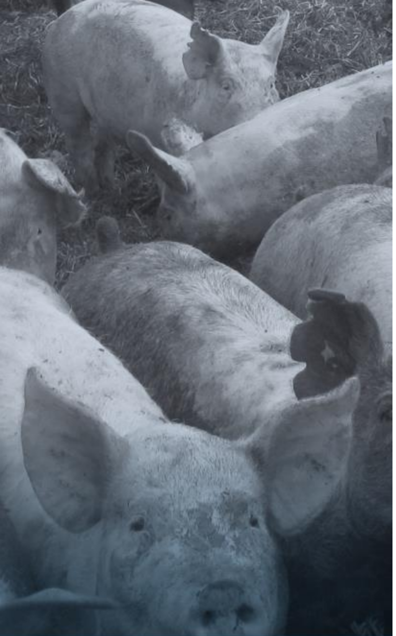
Of the 2.4 million head harvested annually at Neepawa, 73% are owned hogs and another 5+% are owned hogs within joint ventures. The remaining 20+% are joint venture partners or long standing 3rd party producer hogs. The third party producers are mostly the original colonies that were supplying the Springhill plant when it was purchased in 2008. Those relationships have always been a priority.

Of the total tonnage from the plant, about a third of the hog goes to China. Another third goes into their fresh-chilled program to Japan. The remaining third is marketed in Canada, the U.S. and Mexico.

Market Forecasts

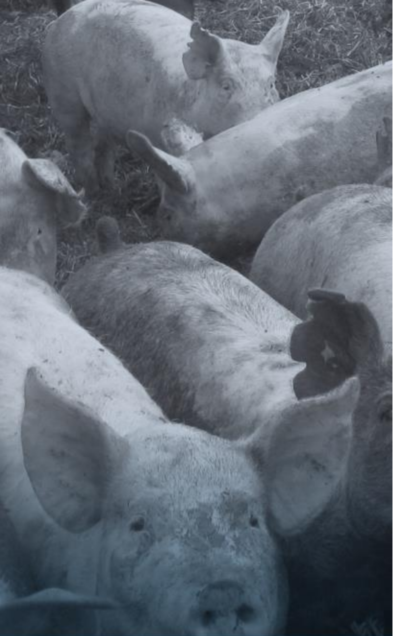
News and Other Analysts' Opinions

- "The Barchart Trading Guide is a Sell Signal with an Average Signal Strength," for the June futures, Barchart.com, June 10.



- United Food and Commercial Workers Union Burlington employees voted in favor of the negotiated agreement on Sunday. That averted a potential strike at that very important hog slaughter plant.
- Bruce Ginn writes in his Cattle and Pork Comments, June 7, that the closure of the Tyson Perry, Iowa, plant, slated for the end of June, will have little impact on the market. Production will be absorbed in other facilities. "The minimal volume of the Perry Ia. plant should be easily absorbed," he says. Ginn is forecasting the July lean hogs monthly average at $97. He calls for a fourth quarter low of $77 for the November average.
- J.S. Ferraro released The Pork Wrap, June 7, which reminds us that the Dec/Feb pig crop, which targets June to August markets, was estimated to be up about 2% YOY. That means not much relief is coming from the supply side this summer, so if prices are going to move higher, it is going to have to come from improving demand, says Rob Murphy. This summer seems to be shaping up as one where patience will be key for the bulls because any summer rally might get a late start. If it happens, it probably won't be an explosive rally, simply because hog supplies look ample, says Murphy.
- Dennis Smith writes in NationalHogFarmer.com, June 3 that other than the weaker peso and heavy hog weights, he sees nothing but positive fundamentals for hogs moving into the middle of the summer. Hog numbers are dropping off. Demand for bacon should improve. Exports to Mexico should continue. U.S. pork remains cheap and competitive on the world market. U.S. pork exports should remain strong. Domestically, pork should be a tough competitor with beef for the U.S. consumer dollar. Regarding the July hog contract, Smith says that "I'm expecting the first line of major resistance to come in near $104. In my opinion, unless there's a bullish surprise in the Hog & Pig report, the April highs ($1.10-$1.11) will not be challenged this summer."
- In answer to the question, "what's your pork outlook for 2024, Christine MacCracken of Rabobank says that "We are looking for a good year for packers and producers with both segments profitable for the year. While it is still early in the year, the supply and demand of pork are in balance which is supportive to price and allowing the industry to rebuild balance sheets. Lower feed costs have also made a huge difference for producers." McCracken warns, however, with the Mexican election in June, and a change in administration, there is some risk that the market could soften in the second half of the year. (PorkBusiness.com, June 3).

  Separately, regarding the upcoming H&P Report, McCracken says that she expects continued productivity gains to surprise yet again in the June report. The industry continues to see the benefits of genetic improvement and better herd health, which should again drive the pigs saved number higher yet again. "The focus, however, should be on the

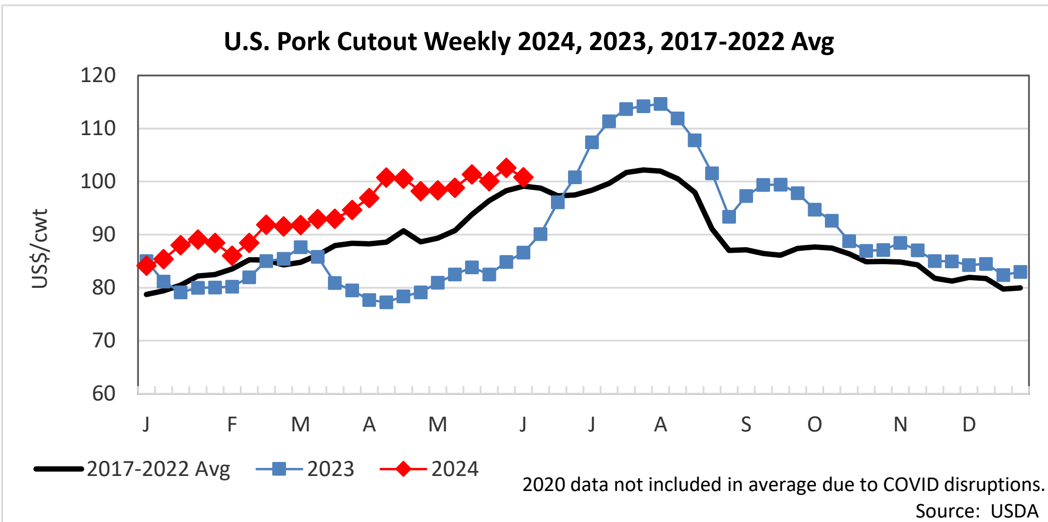


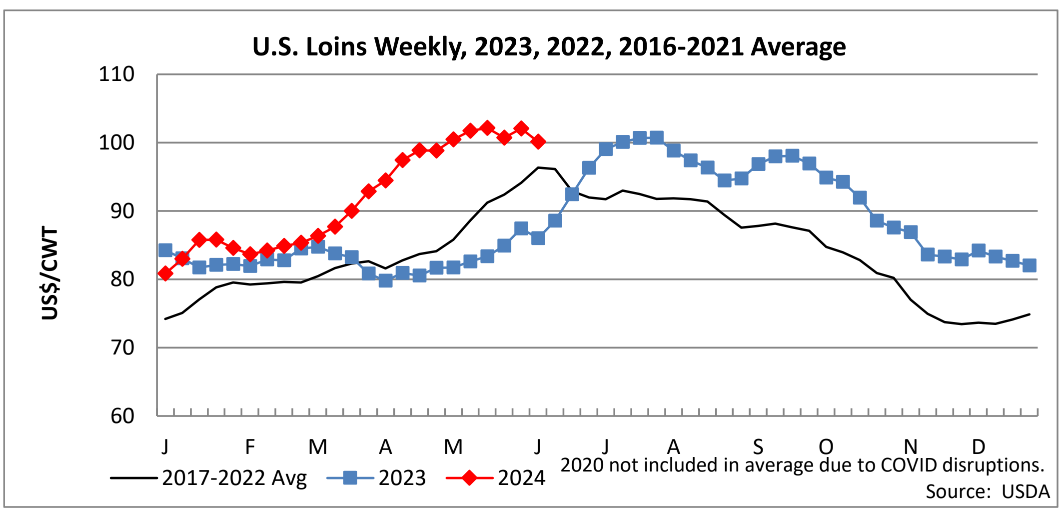
size of the sow herd – as there are still some in the country questioning whether prior estimates will be revised," says McCracken. (PorkBusiness.com, June 5).

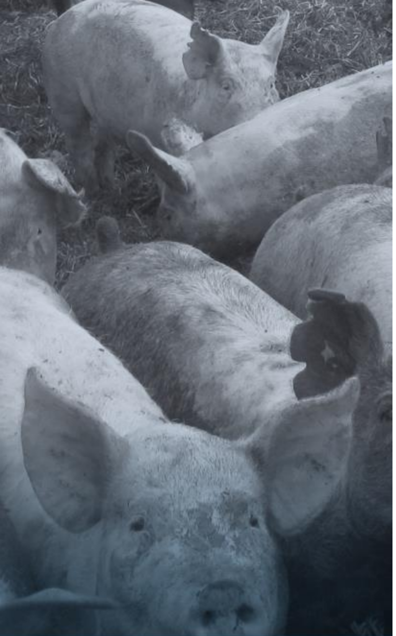
Pork Market

Commentary by Rob Murphy, The Pork Wrap, June 7, J.S. Ferraro.

The Mexican peso has weakened recently against the US dollar and that might slow ham sales to that important destination. There isn't much evidence of that yet, but it bears watching. The retail items looked soft this week, but I chalk that up more to big volumes rather any significant erosion in demand. The forecast has loins regaining some upward momentum in the next couple of weeks while the butts trade mostly sideways near current levels. As usual, the bellies are the holy grail for summer cutout rallies. If they could get some traction and move moderately higher then the summer cutout target of $108 should be easily achievable.



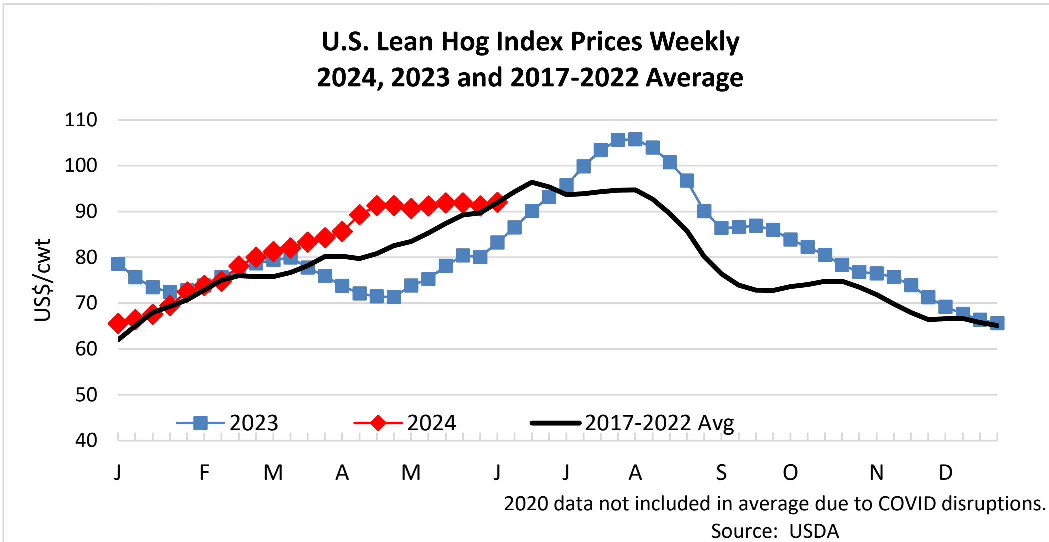




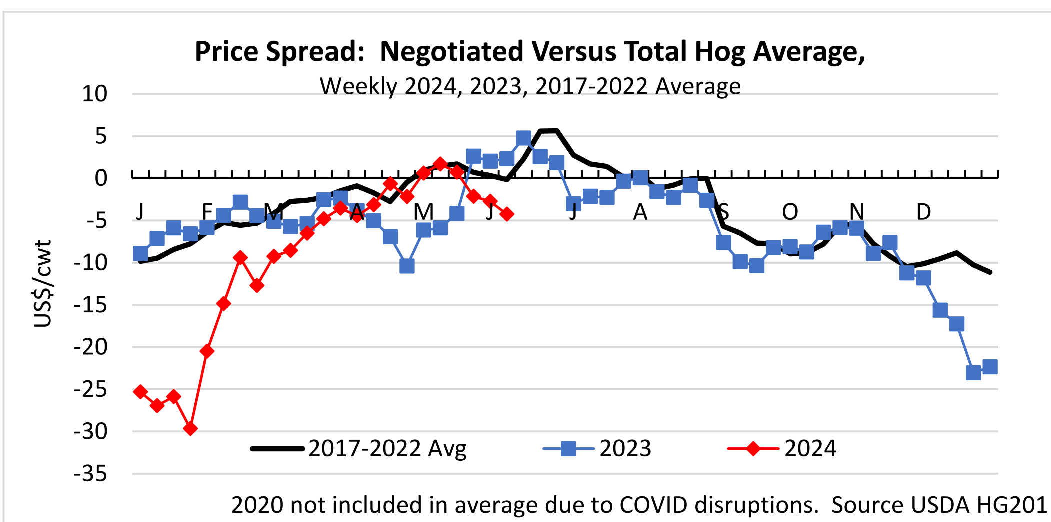
Hog Market Analysis

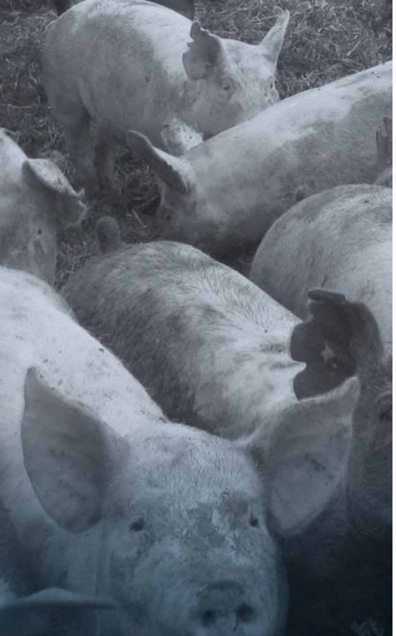
The United States Market

- The CME lean hog index (LHI) averaged about $92/cwt last week. Prices have trended mostly sideways since the beginning of April. Prices have missed the seasonal uptrend this spring. The LHI has mostly mirrored the sluggish cutout and the slack open market hog trade.

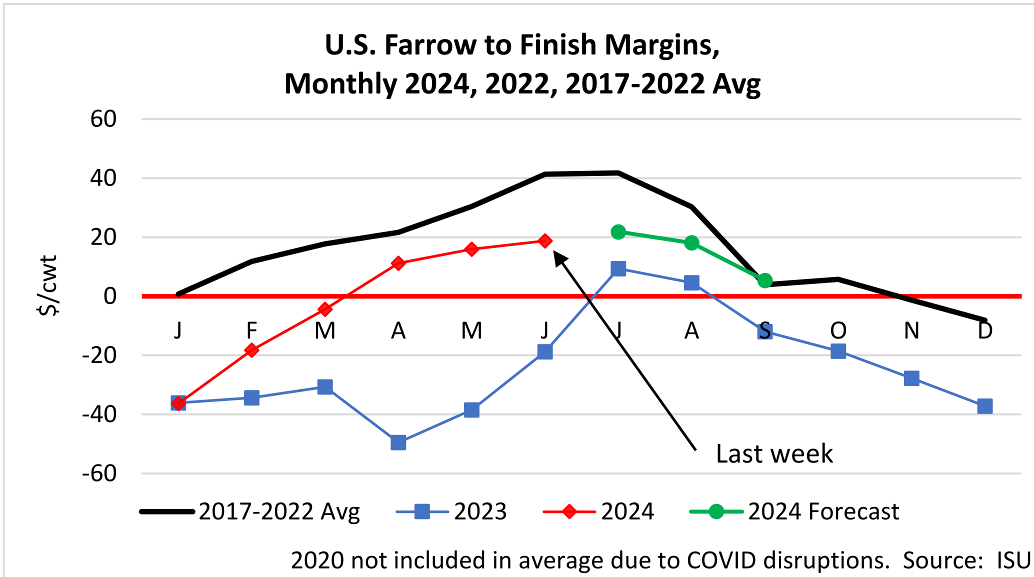


- The weekly average of the thinly traded negotiated hog market decreased $2/cwt in the last two weeks. The open market hogs are trading at price levels like last year.
- The spread between the total producer trade hog price (overall average) and the negotiated trade price remains below the 2017-2022 average and 2023 levels. It indicates a lackluster packer demand for hogs.

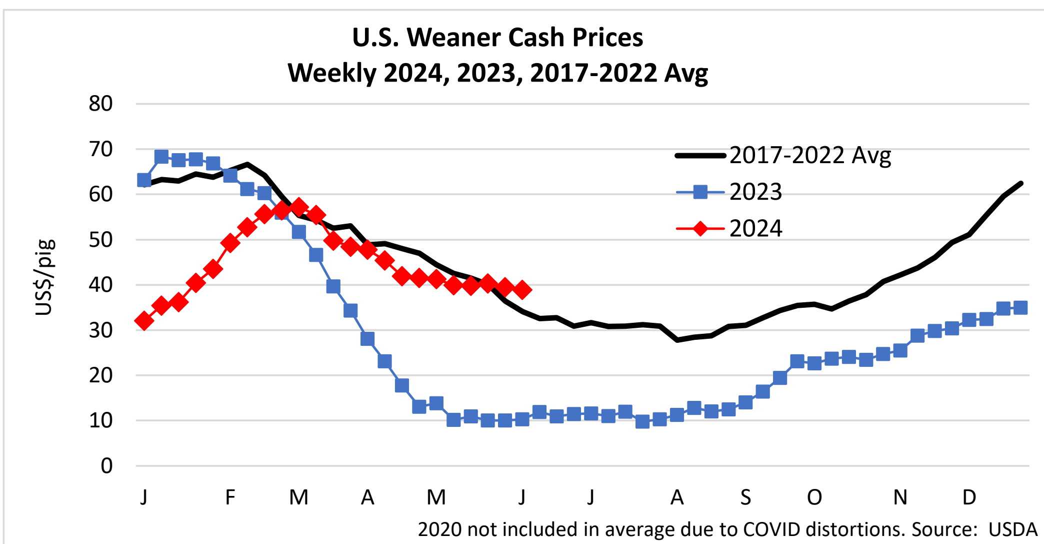


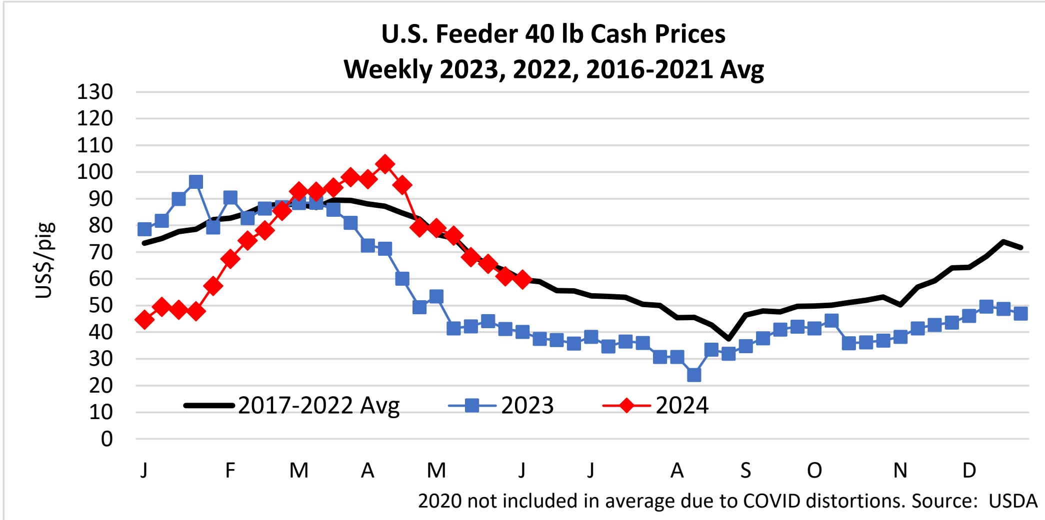


- Based on the Iowa State University (ISU) hog budget for farrow-to-finish operations, current prices $92/cwt (LHI average last week) would be positive by $15-20/head. The graph below shows estimated margins through September 2024 (using hog futures and estimated feed costs, based on the ISU model).

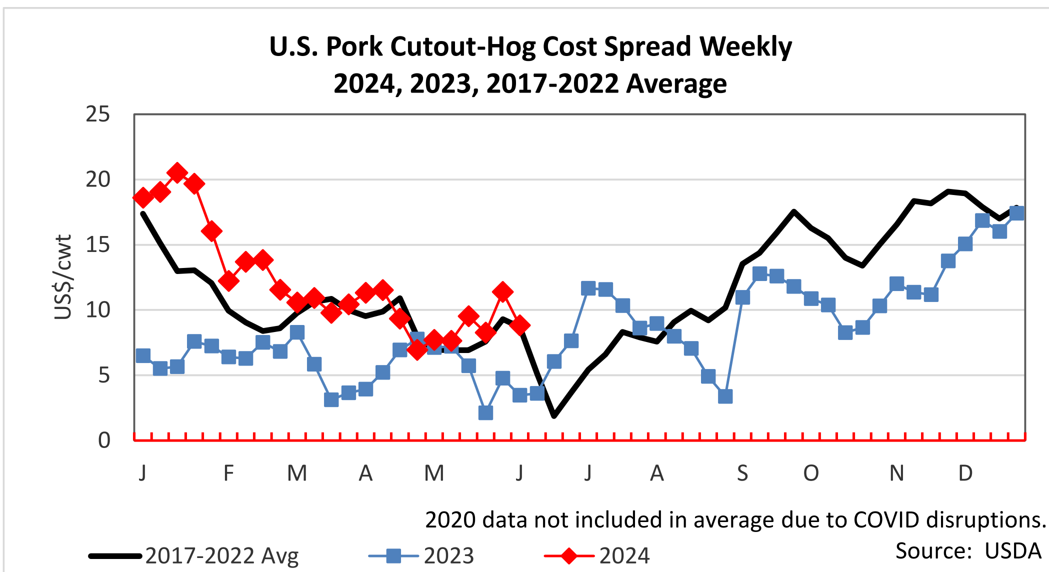


- Weaner and feeder prices resumed their seasonal downtrend. Weaner prices have moved above average and of course are well above last year. At current levels, weaners are penciling out finishing losses of more than US$15/head in December.

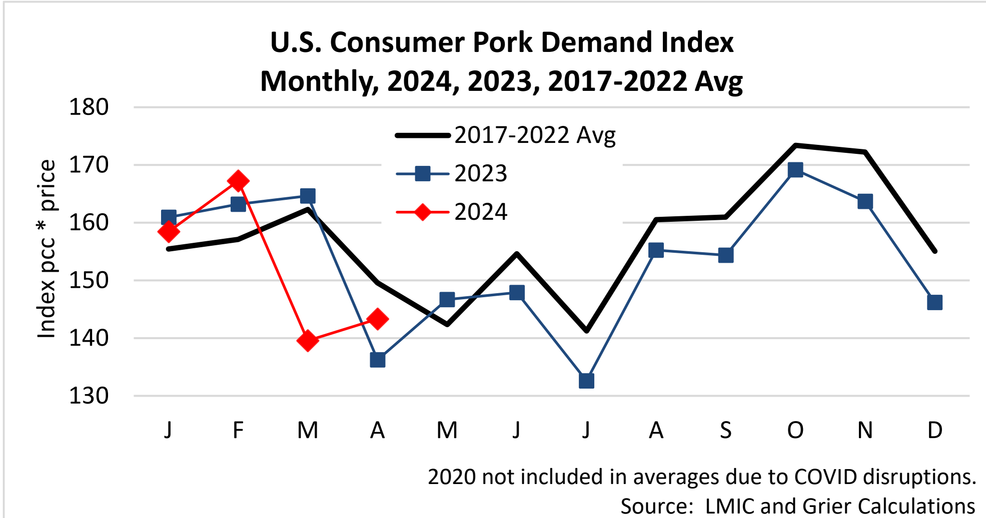




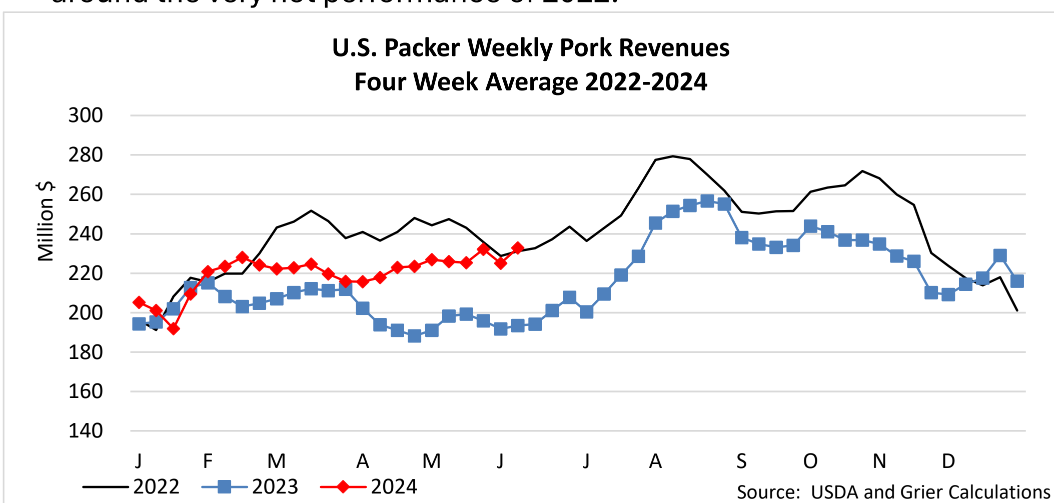
- The packer spread between the pork cutout and the hog cost (not including by-product credits and operating costs) is right around the 2017-2022 average. HedgersEdge.com puts net margins at US$17/hog.



- Demand at the consumer level can be measured by combining retail pork prices and per capita pork availability. Both pork availability and prices can be measured through April (latest available trade and production data). Dailly domestic disappearance was up 8% in April while pork prices were up 1% year over year. Based on that data and computation, April demand was about 5% more than the same month in 2023. Demand in the 12 months ending April 2024 is down 5% compared to the prior 12 months.



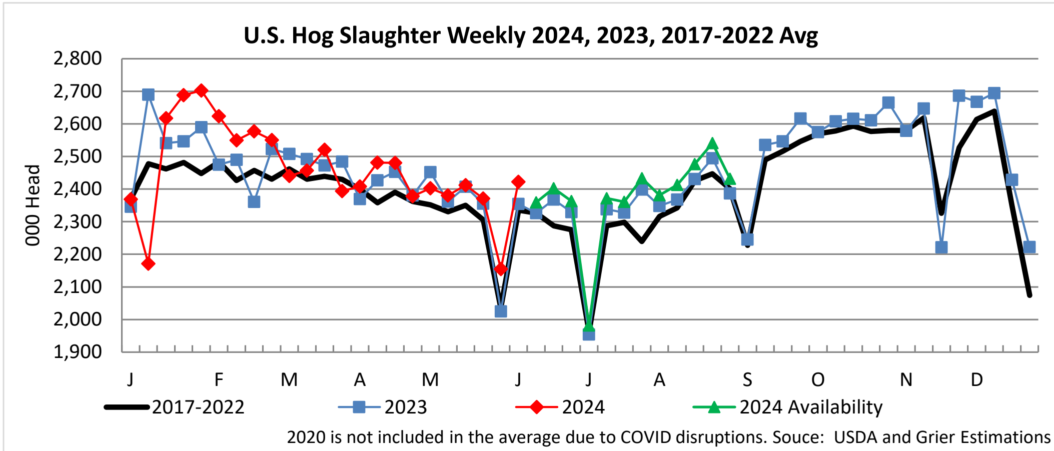
- Pork demand at the packer level can be inferred and estimated as the total loads sold for the week by packers multiplied by the cutout value. Based on that method, demand looks to have continued to slowly improve in May. It looks to have finished May and entered June right around the very hot performance of 2022.



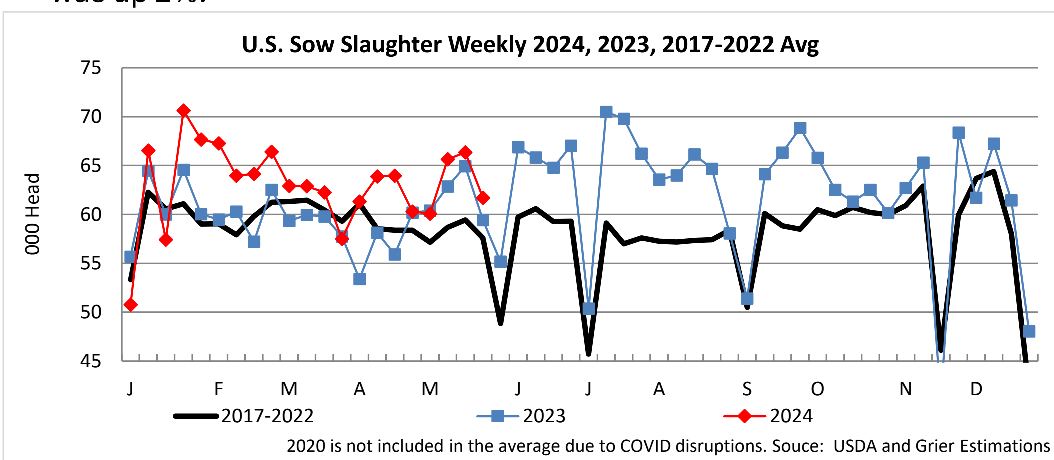
- Slaughter in the last two weeks averaged 2.29 million head, 5% more than the same weeks last year. Last year's Memorial Day week kills were significantly lower than this year's.
- Based on the pig crop from six months ago combined with the hog weight breakdown from the March Hogs & Pigs Report, slaughter from March 1 through last week should be running about steady with the same weeks last year. Actual slaughter from March 1 through last week is running about half a percent more than last year. That means that the March H&P report underestimated the slaughter availability by about half a percent. With that noted, however, all the variability between the report and the

actual kills occurred in the last two weeks. That could be due to Memorial Day kill schedules. As such, the March H&P report should still be considered a good guide to what kills are coming. The next H&P Report is scheduled for June 27th.

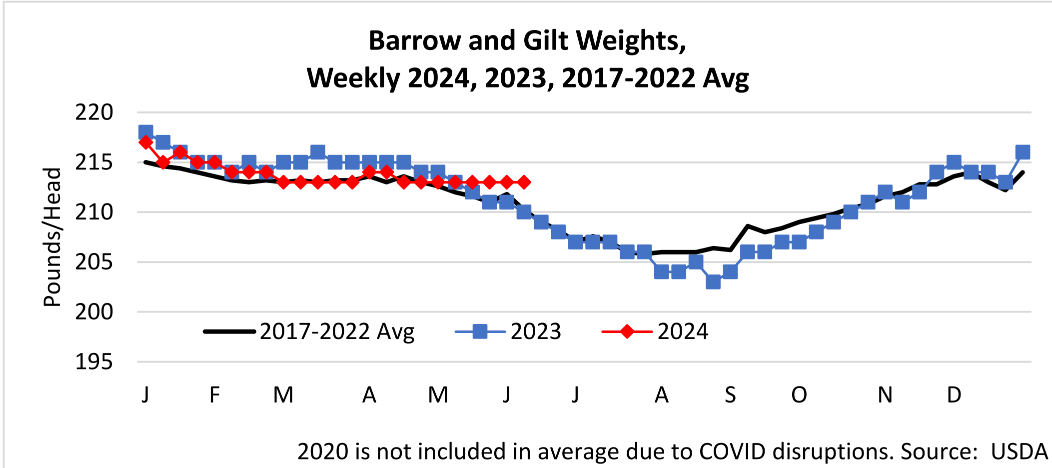
- Based on the March H&P report, June slaughter should increase by 1-2% over last year. July and August should be up closer to 2%.



- Sow slaughter for the week ending May 25 (latest), was 61,700 head. That was up 4% with the same week last year. The rolling four-week average was up 2%.



- Carcass weights for barrows and gilts for the week ended May 25 (latest) averaged half a pound lower than a year ago on a four-week rolling average basis. The last two points on the graph below are estimated barrow and gilt weights based on actual USDA weights for *all hogs* slaughtered the last two weeks. The estimation for the last two weeks is for a year-over-year barrows and gilts carcass weight increase of 2 pounds. The weight trend is sideways when it should be declining.



- Based on packer purchases, going into this week, packer live inventory looks to be below normal for this time of year. Packer inventory as a share of kills looks short for this time of year.

U.S. Market Takeaways

- ✓ Hog prices look to be stuck in a sideways pattern when they are normally trending higher.
- ✓ The spread between all hog prices and the negotiated hogs had has been slipping notably. That is a sign that packers are not in search or in need of open market hogs to fill kill needs. This indicates they are not in the hunt.
- ✓ Producer farrow to finish margins are solidly in the black, but still running below the 2017-2022 average. Third quarter margins will remain in the black but still below average based on current futures and expected grain pricing.
- ✓ Weaner and feeder prices continue to trend seasonally lower, right at the 2017-2022 average. Weaner and feeder prices are far above a year ago. Current weaner prices are likely to generate finishing losses this December.
- ✓ Packer margins are in the black as they trend seasonally lower right around the 2017-2022 average.
- ✓ Consumer demand increased in April off a disappointing March.
- ✓ Preliminary indicators for May indicate that pork demand continued to improve and began to approach 2022's very good levels.
- ✓ June slaughter should increase by 1-2% over last year. July and August should be up closer to 2% according to the March H&P report. The next H&P Report is slated for June 27th.
- ✓ Hog slaughter will seasonally decline through June and into July.
- ✓ Sow slaughter continues to be aggressive compared to last year.

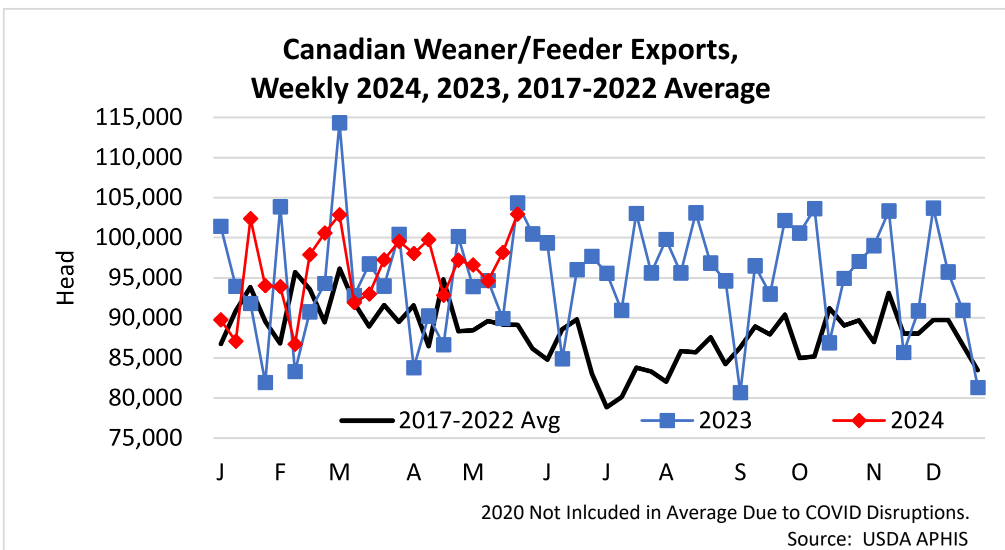
- ✓ Carcass weights are increasing compared to last year. They are showing signs of trending sideways when they should be decreasing.
- ✓ Purchased inventory looks to be on the light side of normal for this time of year. That may not be a sign that packers need open market hogs. It might be a sign that they are in no need of open market hogs.

The Canadian Market

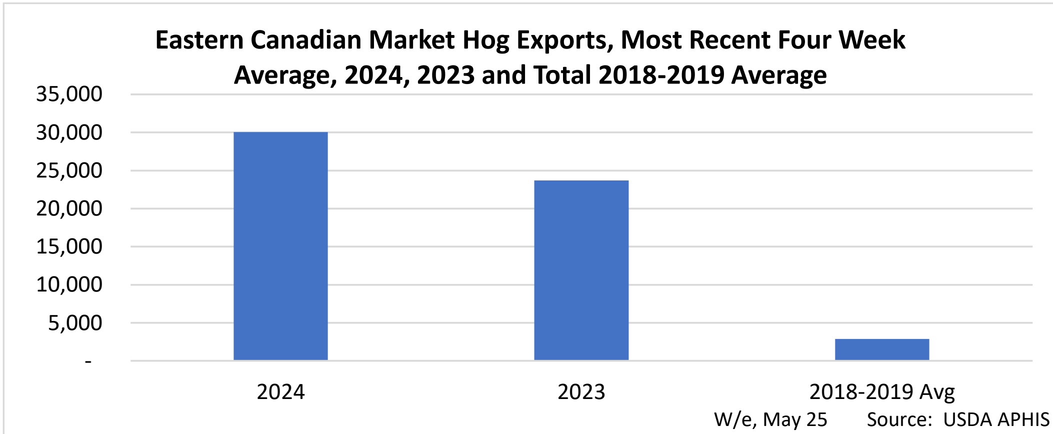
- Prairie weaner producers are probably in the black now by $3/head. That compares to a 52-week rolling average loss of about $7 and a 2022 average profit of C$22/head.

Four Week Average Weaner/Feeder Exports		
Port of Entry	**vs. Last Year**	**vs. 2017-22 Avg**
Michigan	7%	28%
North Dakota	-1%	-8%
All Ports	4%	10%

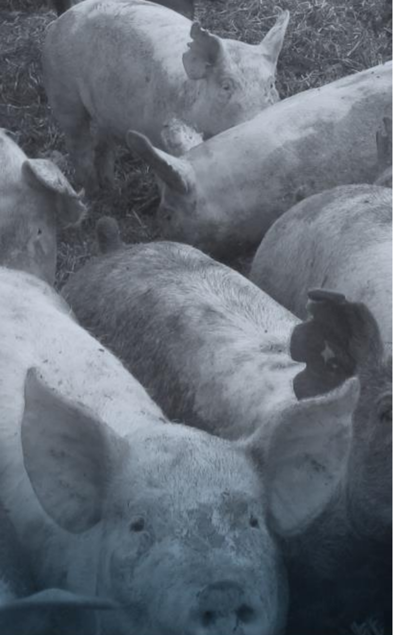
week ending May 25. Source USDA APHIS

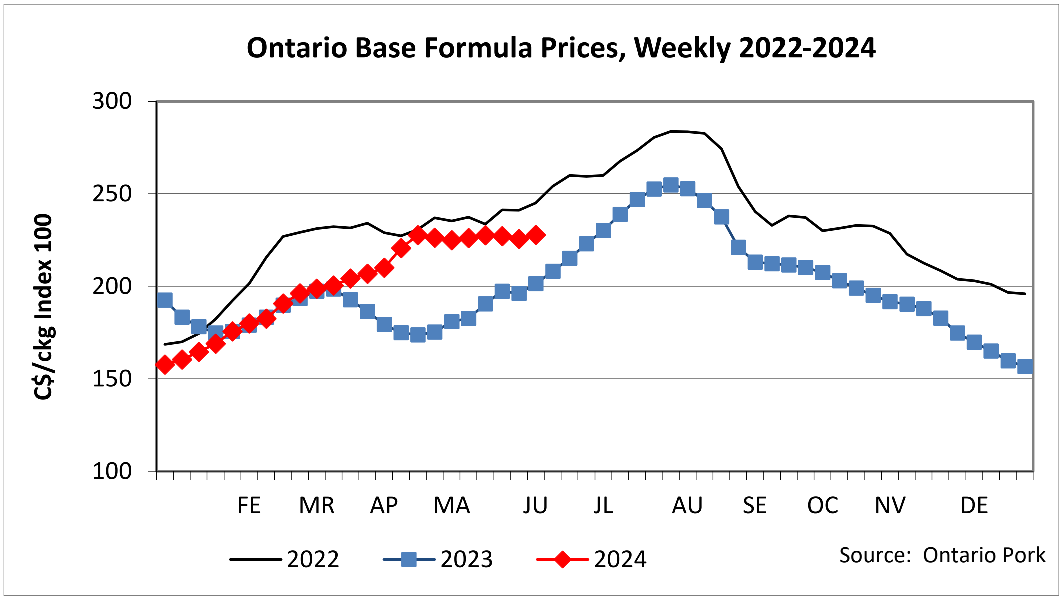


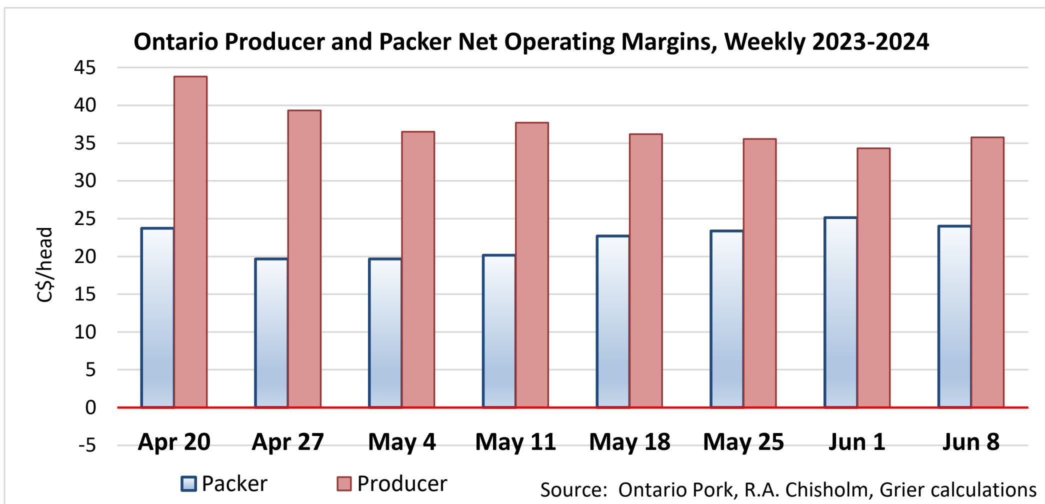
- Daily numbers of Canadian market hogs purchased by U.S. packers in the last 30 days ending June 7 averaged 5,600/day. That compares to a 5,550 average for the same 30 days last year. Daily numbers have been averaging roughly 4,900 per day since October 2022.



- **Conestoga**, Breslau, has been harvesting about 9,000 per day. They did work on Saturday.
- **Sofina,** Burlington, had a breakdown one day last week and lost the day's production. Other than that day, production averaged 8,500.
- **Britco**, Langley is estimated at about 1,100-1,200/day.
- **Thunder Creek** in Moose Jaw is at about 1,100-1,200/day.
- **Maple Leaf**, Brandon, is running about 13,800, which is much lower than where they want to be.
- **HyLife** In Neepawa, was at 9,100. They killed on Saturday.
- **CBCO Alliance**, Les Cedres is harvesting about 1,900/day.
- **Aliments Asta**, Saint-Alexandre-de-Kamouraska, was at about 4,100.
- The three **Olymel** plants in Quebec have been running about 17-18,000 per day in total. The week ending June 1 they averaged over 23,000 with overtime at St-Esprit and Ange-Gardien.
- **Olymel**, Red Deer, is running about 7,500. They are likely to stay around that tally after spending most of the last few months closer to 7,200. Most of the workers that were temporarily laid off are making their way back. There were about 130 workers laid off starting in January.
- **Breton** in Rivière-du-Loup is estimated at 3,300/day.
- About 5,100 market hogs per week have made it from Ontario to Quebec in recent weeks. That compares to about 9,500 for the same weeks last year and 27,000 in 2019.
- About 4,000 per week have moved from Ontario to Manitoba in recent weeks, compared to 3,000 last year.





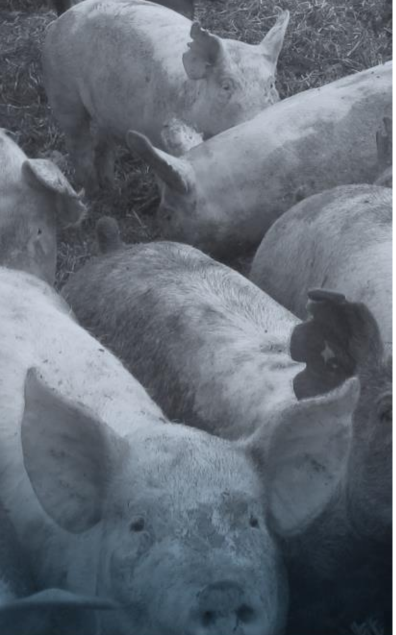


Quarterly or Monthly Forecast Review

The January 29 edition of this report was the first to have a forecast for May. The forecast was for May to average $85/cwt (LHI). The actual price for May was $91. At the time of the forecast prices were $69. As was the case with my April forecast, I was on the light side. Even then I was looking for a much stronger than seasonal move higher, but the market significantly outperformed even my elevated expectations. May futures were at $88 at the time, so they were lower than the actual price but not as much as me. GRADE ON THE FORECAST: “C-.”

Previous Two-Week Forecast

“Packers are signaling that they are not in the hunt and the cutout has been sluggish. Post Memorial Day will see shorter production, but likely a



breather in terms of demand. Watch for higher prices at a normal pace for this time of year. **U.S. call: two-week average, $93.50."** The actual two-week average was less than $92. The market over the past two weeks is more sluggish than I expected. GRADE ON THE FORECAST: "D."

The Next Two Weeks

Packers do not seem to need or want open market hogs. The cutout is sluggish. Hog numbers suddenly look to be more than anticipated. Futures start the week in the red. Those are arguments for tepid hog pricing. Yet demand seems good, and supplies are still going to be seasonally declining. Exports are also supportive. I look for hogs get off the sideways track and start a slowed-down seasonal climb. **U.S. call: +$1.00; two-week average, $93.00.**

U.S. LEAN HOG INDEX PRICE FORECASTS AND FUTURES						
	Next 2 weeks	July	August	September	Q4	'25 Q1
Futures	92	93	90	--	75	76
Grier	93	98	96	84	78	81

Implications/Actions

It is difficult to see where the negativity in the futures is coming from. It is true that the devaluation of the peso is a big concern regarding the critical Mexican shipments. Nevertheless, exports have been surprisingly robust and domestic demand shows no signs of weakening from current levels. Supplies have been more than expected in recent weeks but that is likely just a blip. I am more bullish than the futures across the board.

If you have any questions, comments, ideas for improvement on content, suggested topics, or if you want to talk about any market factor, please contact me at **kevin@kevingrier.com**, 519-823-9868.