Made in Canada Hog Price

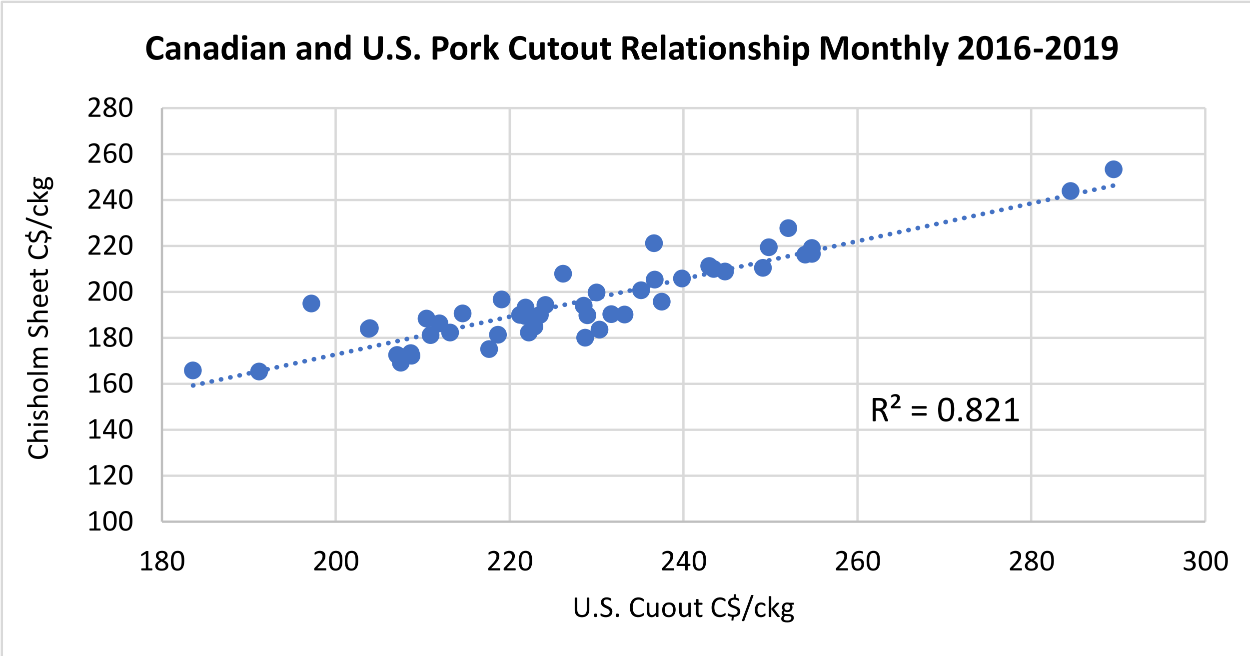
There is an ongoing discussion of a "made in Canada" hog price. The question of what made in Canada price to use, however is far from certain. The consensus is to use a pork cutout for at least two reasons. One is the belief that the cutout is a good measure of the value of the hog. Another reason is that the U.S. hog price that has been used as a reference in most 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 monthly, there was a 90% correlation and an R-squared of 0.82 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, or much else regarding year-to-year relationships for that matter.



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.

Canadian Influence

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/ckg. 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 Canadian hog price be based upon. Frankly, basing Canadian hog prices 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.

With that said, it is still likely worth pursuing for the reasons stated at the beginning of this note: the thinly traded U.S. market base and the cutout as a reflection of value.

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