



# *Canadian Hog Pricing 101*

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**COMMODITY  
PROFESSIONALS**  
MARGIN MANAGEMENT SYSTEMS

# Prelude

- ▶ Over the years there has been plenty of discussion on the topic of Canadian hog prices and the methodology behind them
- ▶ In the last half decade as facilities become older and new construction has been minimal the topic has escalated to try to spur growth
- ▶ What are the reasons behind more recent discussion?
- ▶ Does price inequality actually exist?
- ▶ Are there other options for Canadian markets?

# Agenda

- ▶ Overview of Canadian market pricing
  - ▶ Current Methodology
    - ▶ Market Hogs
    - ▶ How are prices created in AB compared to the rest of Canada
    - ▶ How are we doing with price, are we competitive?
    - ▶ Weekly Report Price Review
  - ▶ Overview of Canadian and US trade
    - ▶ Hogs & Pork
    - ▶ How closely are we linked to the US market?
  - ▶ Current Methods
    - ▶ What reports are being used?
    - ▶ Why do prices differ between regions?
    - ▶ Have prices changed?
  - ▶ What else is available or being done?
  - ▶ Is there a right answer?

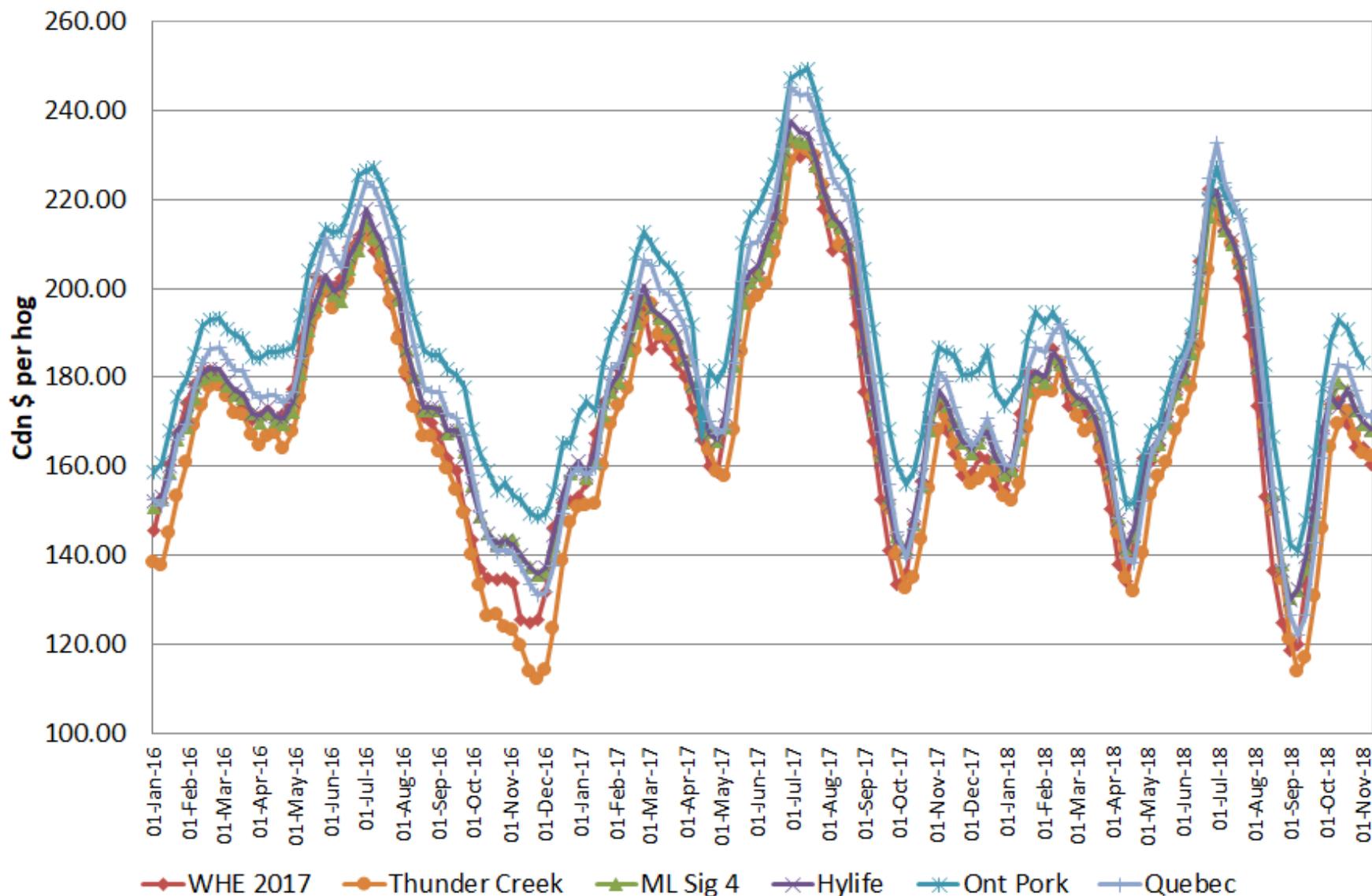
# Pricing- Majority

- ▶ A) US Base Price \*
- ▶ B) Conversion Factor
  - ▶ 74/80 or 92.5% \*
  - ▶ 2.2046/
  - ▶ Denominator also referred to as the divisor (discounter of premiums) \*
- ▶ C) Foreign Exchange

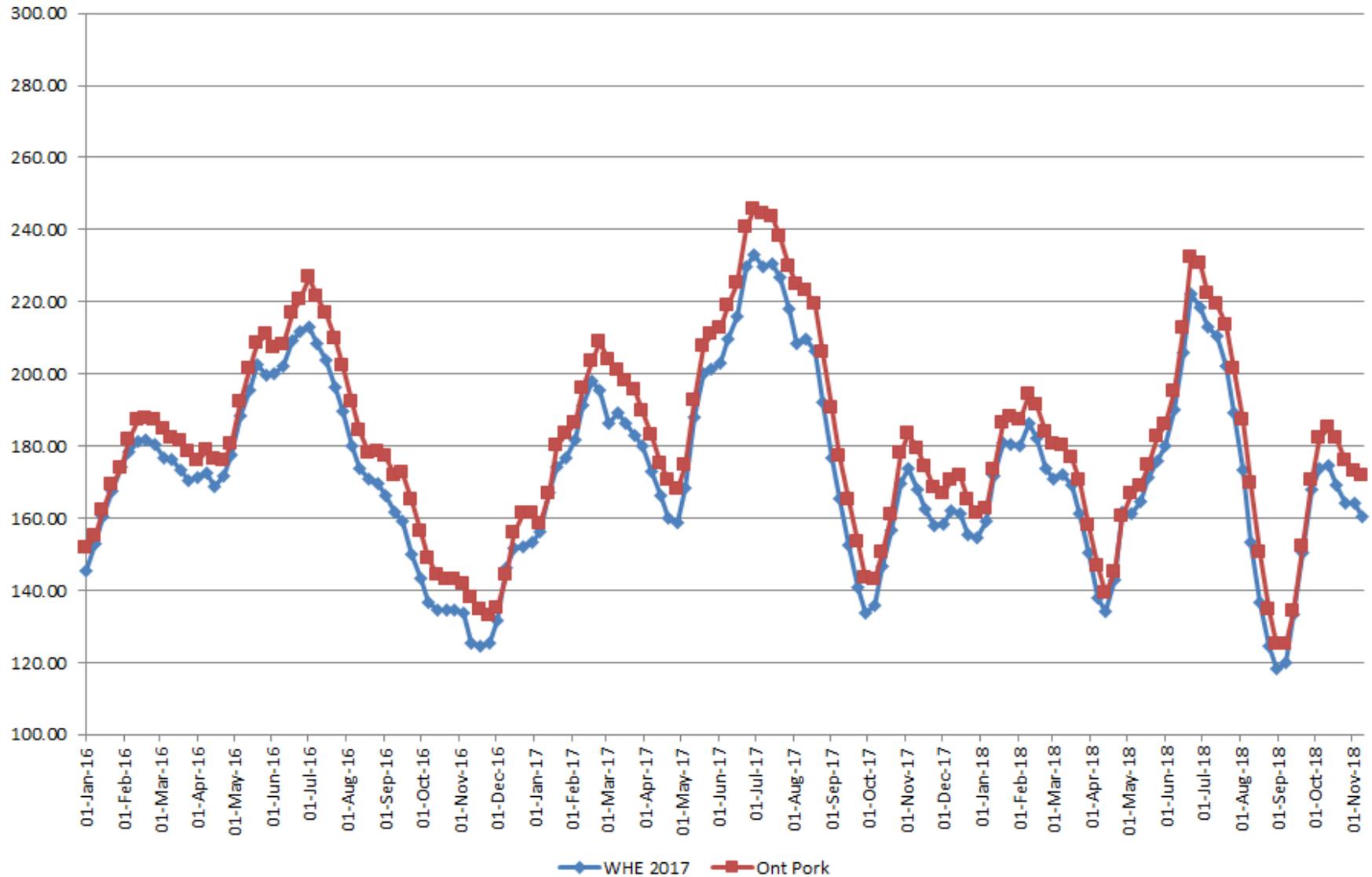
# Pricing- Majority

- ▶ A)US Base Price \* B)Conversion Factor \* C)FX
- ▶ A)\$62.00 \* B)1.8250 \* C)1.3105 =
  - ▶ \$148.28 per ckg
  - ▶ \$1.4828 per kg
- ▶ The calculation above has an influence on regionalized difference
- ▶ However what happens after this calculation is also creating differences in pricing across the country

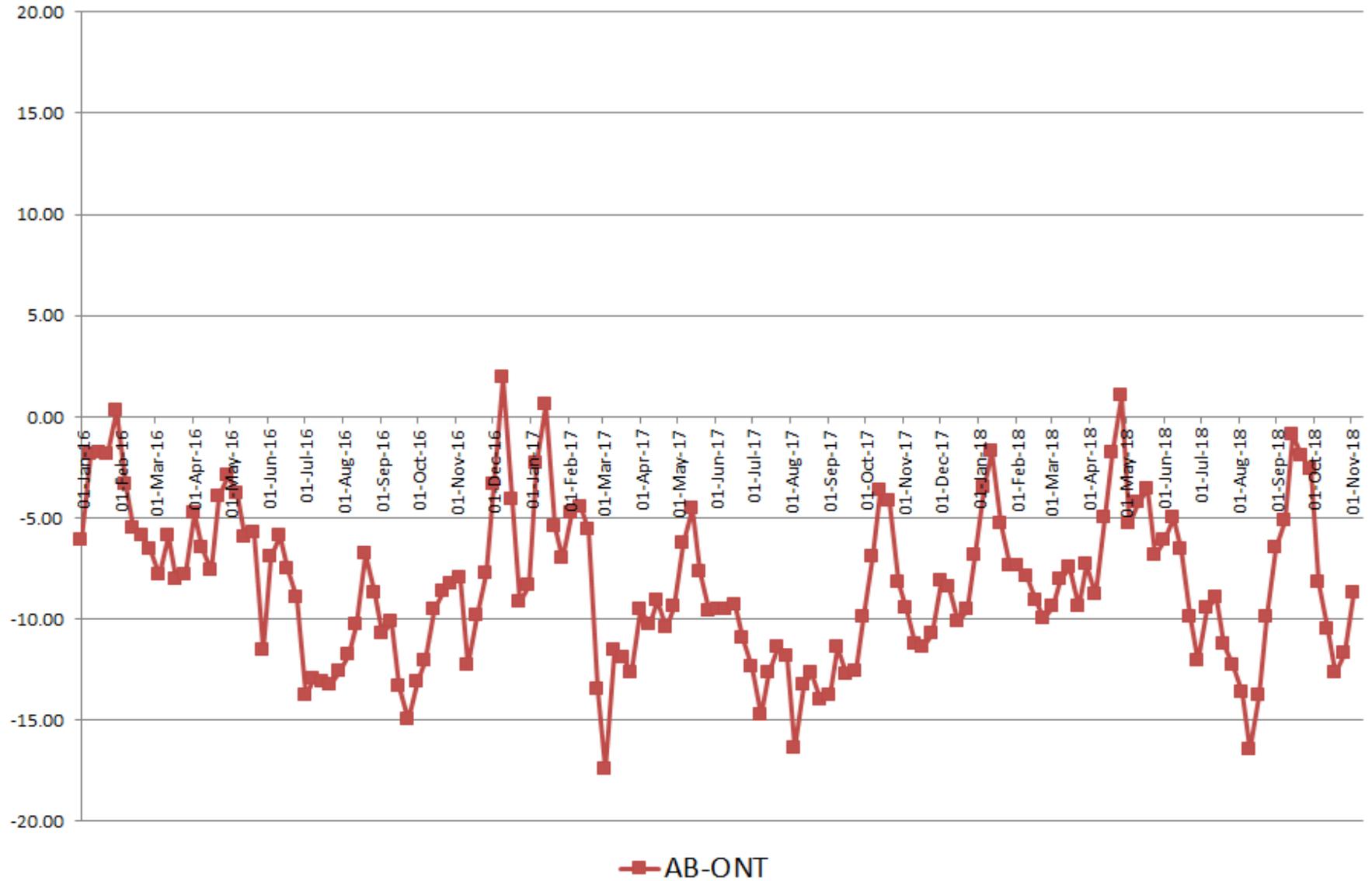
# All Canadian Markets 2016-2018



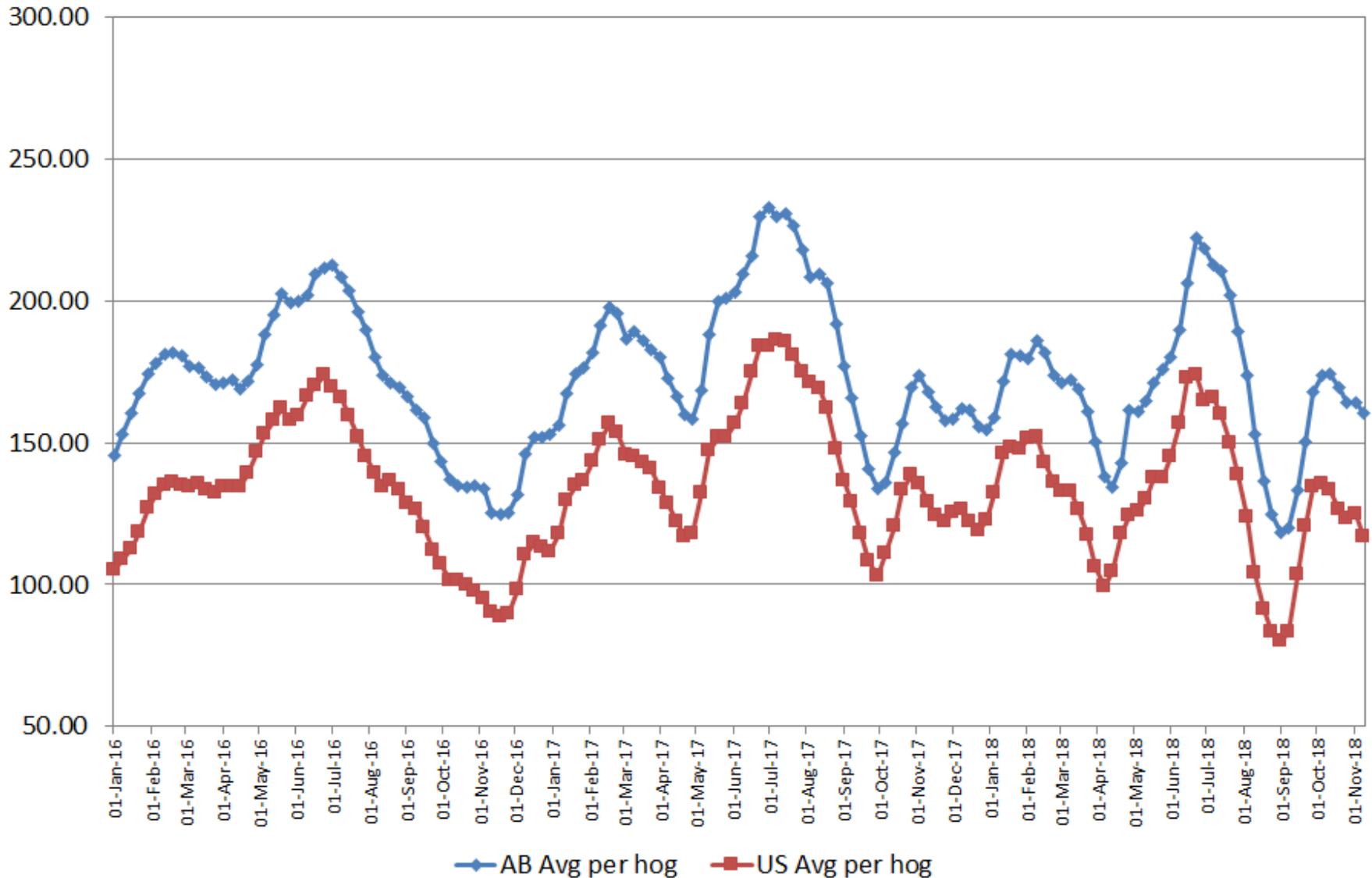
# Average AB vs ONT market hog



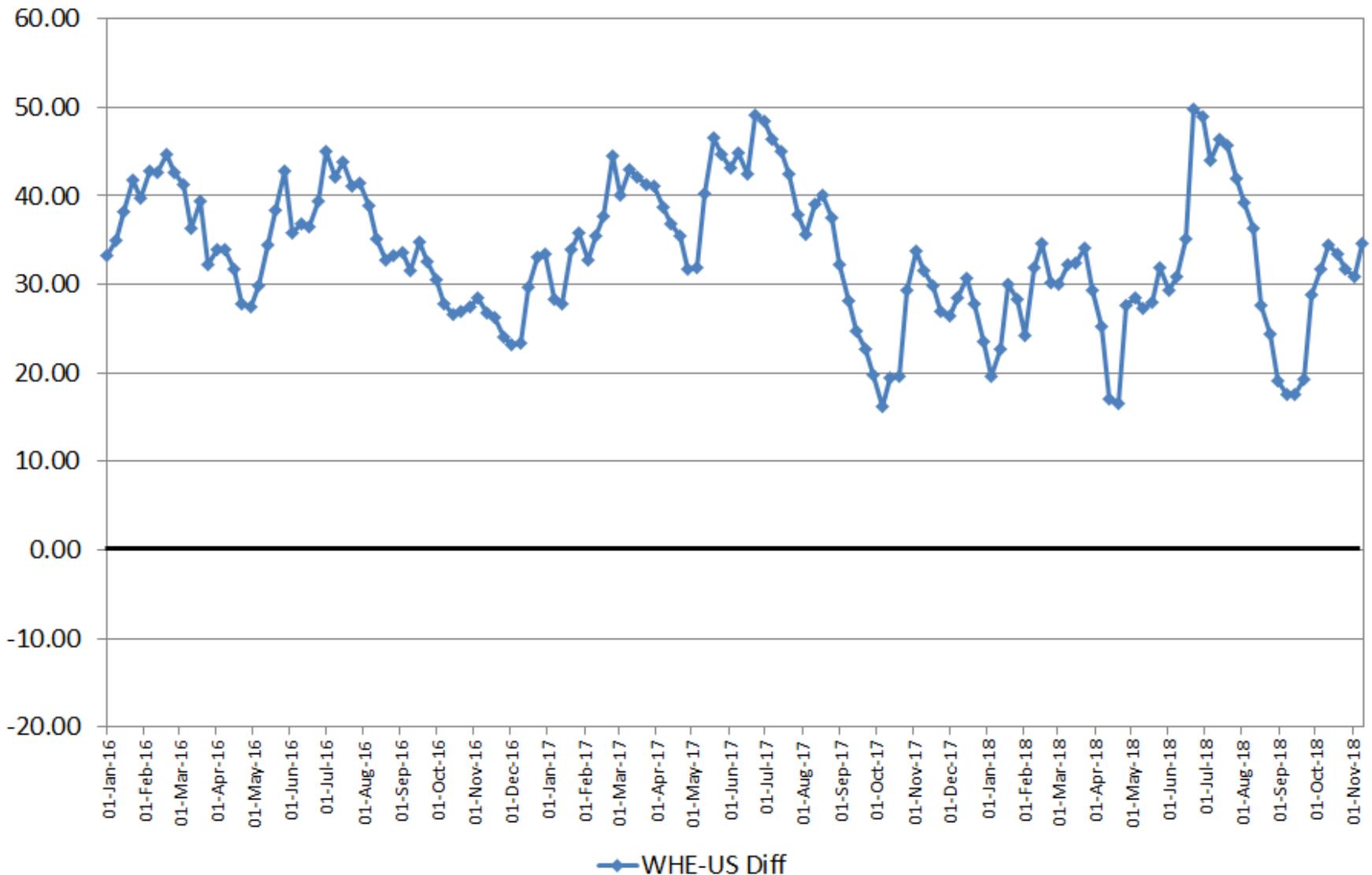
# AB-ONT



# North American Hog Prices 2016-2018



# Avg AB price minus US per hog 2016-2018



# Are we Competitive in AB?

- ▶ Yes and No
- ▶ Other Canadian Regions vs US regions
- ▶ Studies and Discussions have targeted
  - ▶ Formulas
  - ▶ Conversion Factors
  - ▶ Regional Discounts
  - ▶ Freight Costs
  - ▶ Yields (74/80) (75/81)
  - ▶ Divisors or Denominators (premium removal)
  - ▶ Foreign Exchange



# Weekly Report

Regional Pricing, \$/hog								
Packer/Region	3 Year	Difference to WHE	2018 YTD	Difference to WHE	Last 13 weeks	Difference to WHE	Ending 16-Nov-18	Difference to WHE
WHE 2017	\$172.05		\$168.62		\$151.84		\$152.85	
ML Sig 3	\$164.67	-\$7.38	\$159.02	-\$9.60	\$139.88	-\$11.97	\$138.00	-\$14.85
ML Sig 4	\$175.06	\$3.02	\$171.74	\$3.12	\$158.06	\$6.22	\$162.84	\$9.98
ML Sig 5	\$169.88	-\$2.17	\$165.38	-\$3.24	\$148.97	-\$2.88	\$150.41	-\$2.44
Thunder Creek **	\$167.96	-\$4.09	\$165.17	-\$3.45	\$147.50	-\$4.34	\$157.63	\$4.78
Hylife	\$176.09	\$4.05	\$172.58	\$3.96	\$158.46	\$6.61	\$162.07	\$9.22
Ontario	\$180.42	\$8.38	\$176.36	\$7.74	\$159.70	\$7.85	\$164.88	\$12.02
Québec	\$178.84	\$6.80	\$174.63	\$6.01	\$157.35	\$5.51	\$165.94	\$13.09
Tyson (USD)	\$139.29	-\$32.76	\$137.13	-\$31.49	\$120.42	-\$31.42	\$122.22	-\$30.64
John Morrell (USD)	\$132.78	-\$39.26	\$129.79	-\$38.83	\$113.46	-\$38.39	\$109.51	-\$43.34

\*\*Thunder Creek reported with a 1-Week lag

# Are we Competitive in AB?

- ▶ Using today's methodology when comparing to **US markets**, the key influencer is
  - ▶ Foreign Exchange
- ▶ Our nations competitiveness (on market hogs) depends not entirely but largely on the value of the Exchange Rate applied to price
- ▶ Although this is not new to everyone, recent declines in the CAD (0.7600 US/CAD), have shown how great an impact it can have



# Are we Competitive in AB?

- ▶ Using today's methodology when comparing to other **Canadian markets**, there exists more than one key influencer
  - ▶ US Base Price
  - ▶ Negotiated Factor
  - ▶ Regional premiums
- ▶ Competitiveness (on market hogs) between
  - ▶ East/West
  - ▶ Packer A/Packer B
  - ▶ Packer A Location 1/Packer A Location 2

depends not entirely but largely on the value of the Factor that is multiplied to a US base price and regional premiums
- ▶ When comparing prices within Canada, Foreign Exchange is no longer an influencing variable as everyone uses the same rate, commonly the Bank of Canada Noon rate.

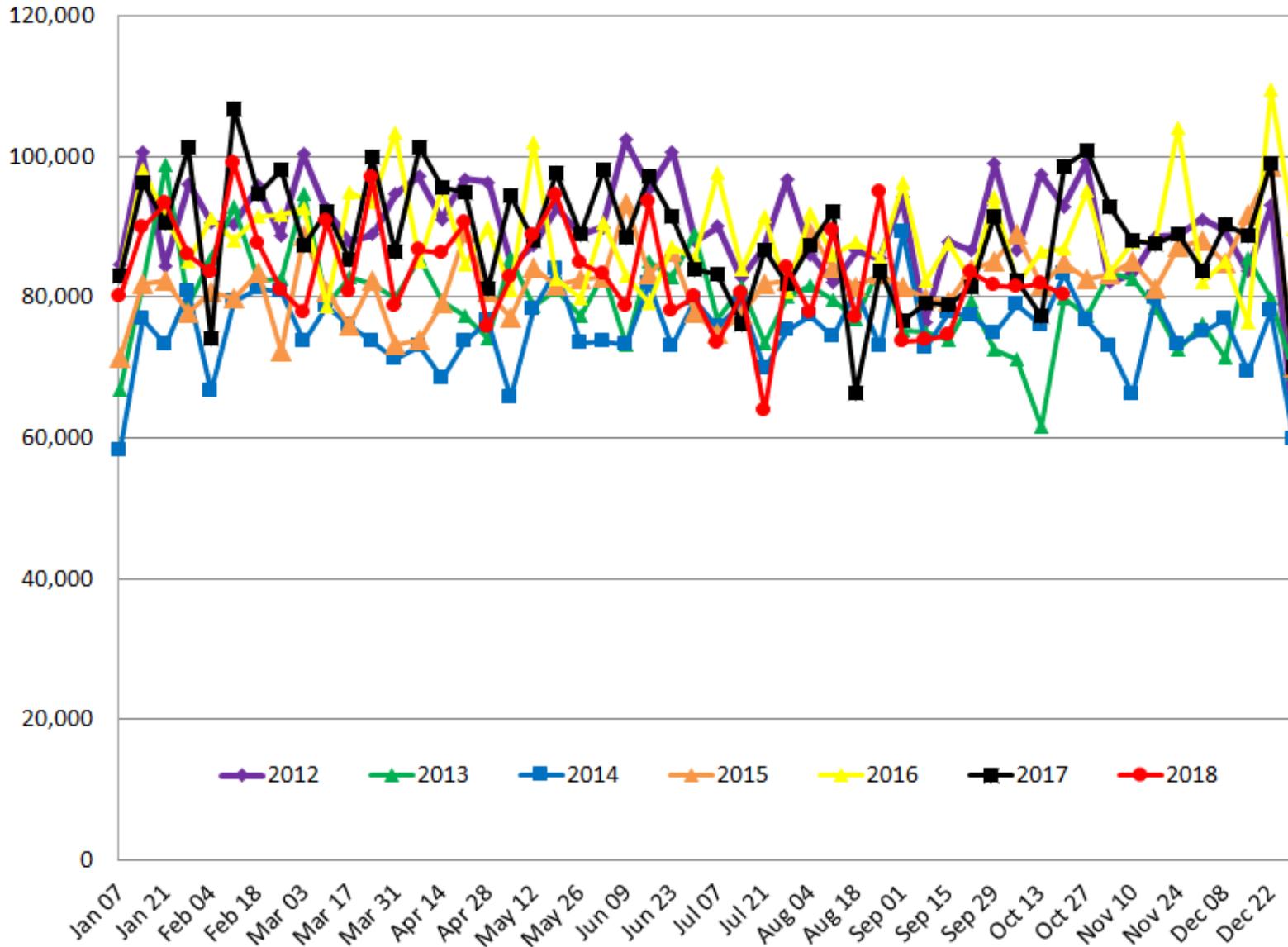
# Questions asked all the time?

- ▶ Why are hogs worth more in one part of the country than another?
- ▶ Analogy could be: Why is canola or wheat worth more in one part of the country than another?
  - ▶ Canola prices vary from elevator to elevator which are 50 miles apart. Why? Access to rail, access to different markets, same product.
- ▶ Localized factors influence localized prices.
- ▶ Is it fair?
  - ▶ Depends who you ask

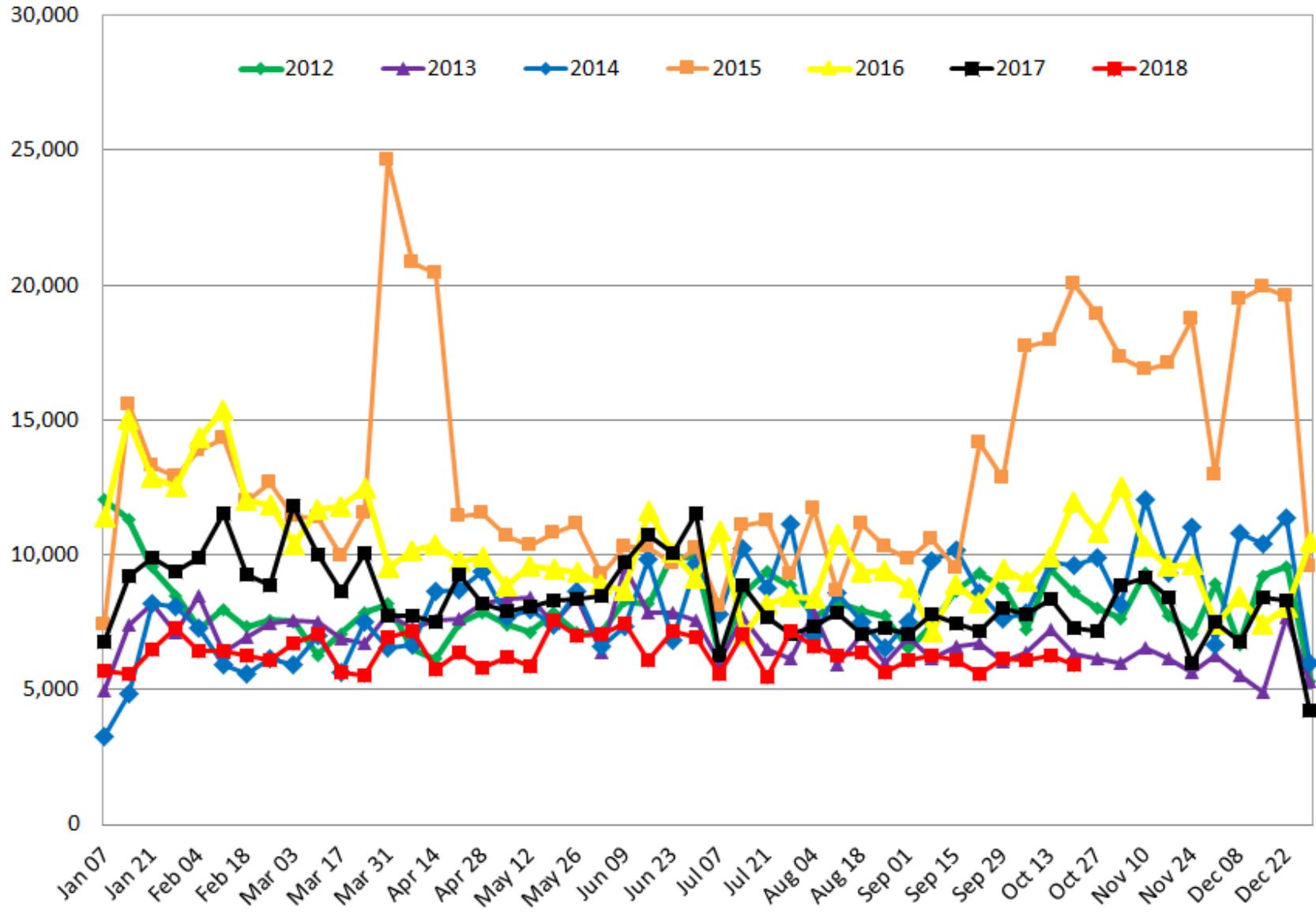
# Canada US Trade

- ▶ Live exports have experienced significant change post COOL
- ▶ Although true, the US remains a major market for both live animals and pork
- ▶ As well Canada remains a very large market for US pork
- ▶ US and Canadian pork compete for the same markets

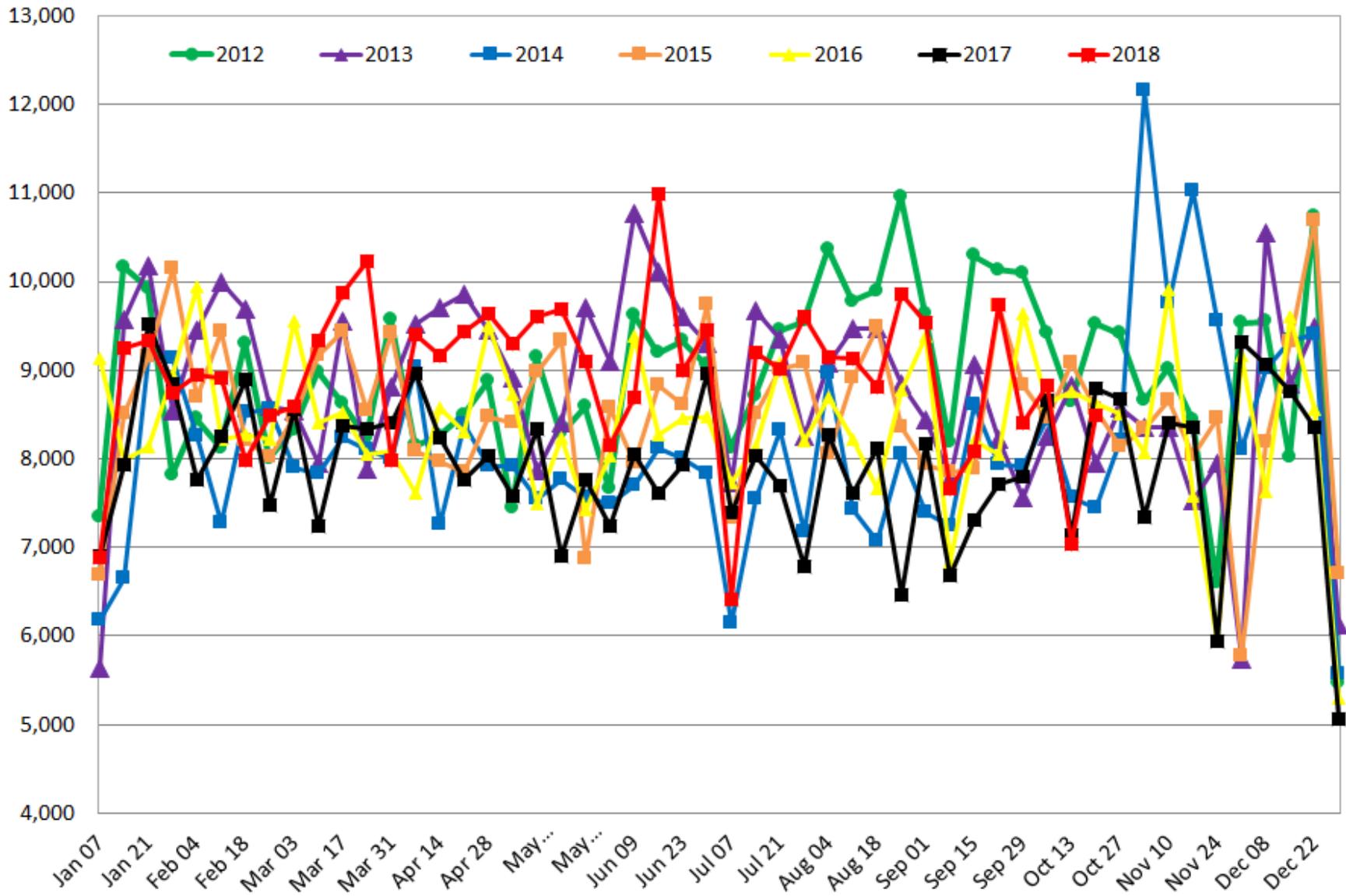
# Canadian Feeder Pig & Isowean Exports



# Canadian Market Hog Exports

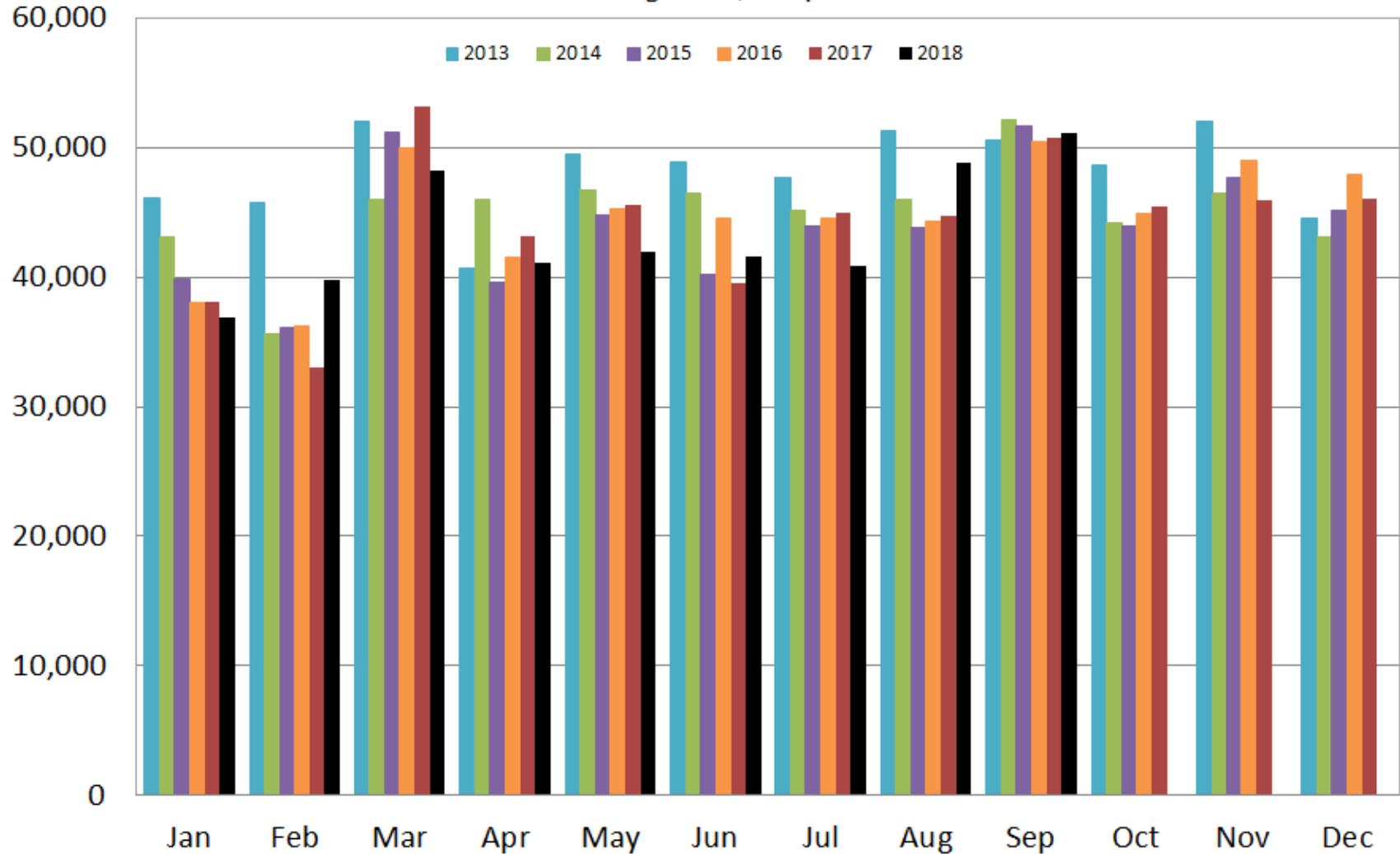


# Canadian Sow & Boar Exports



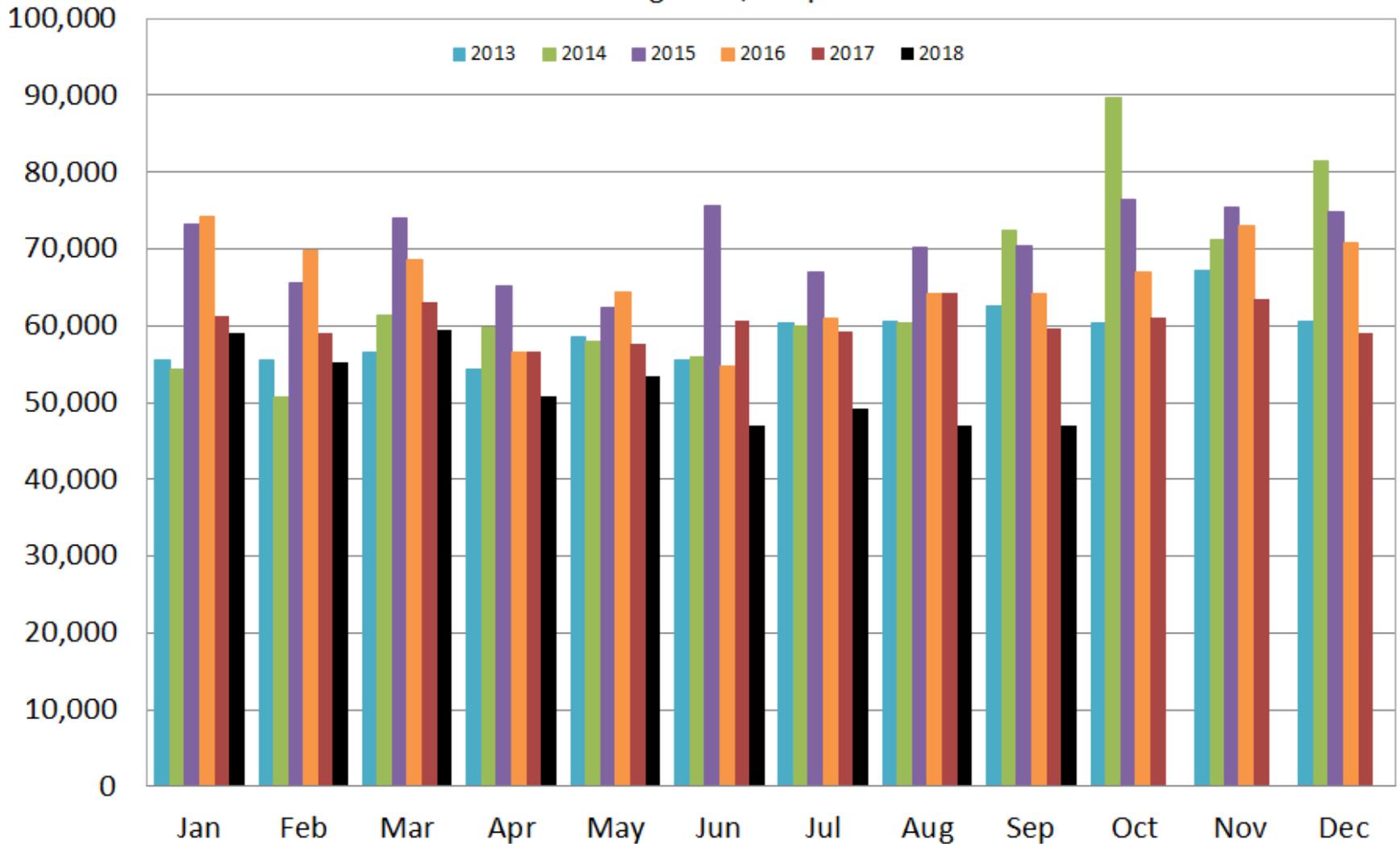
# Total US Pork Exports to Canada

Carcass Weight 1,000 pounds

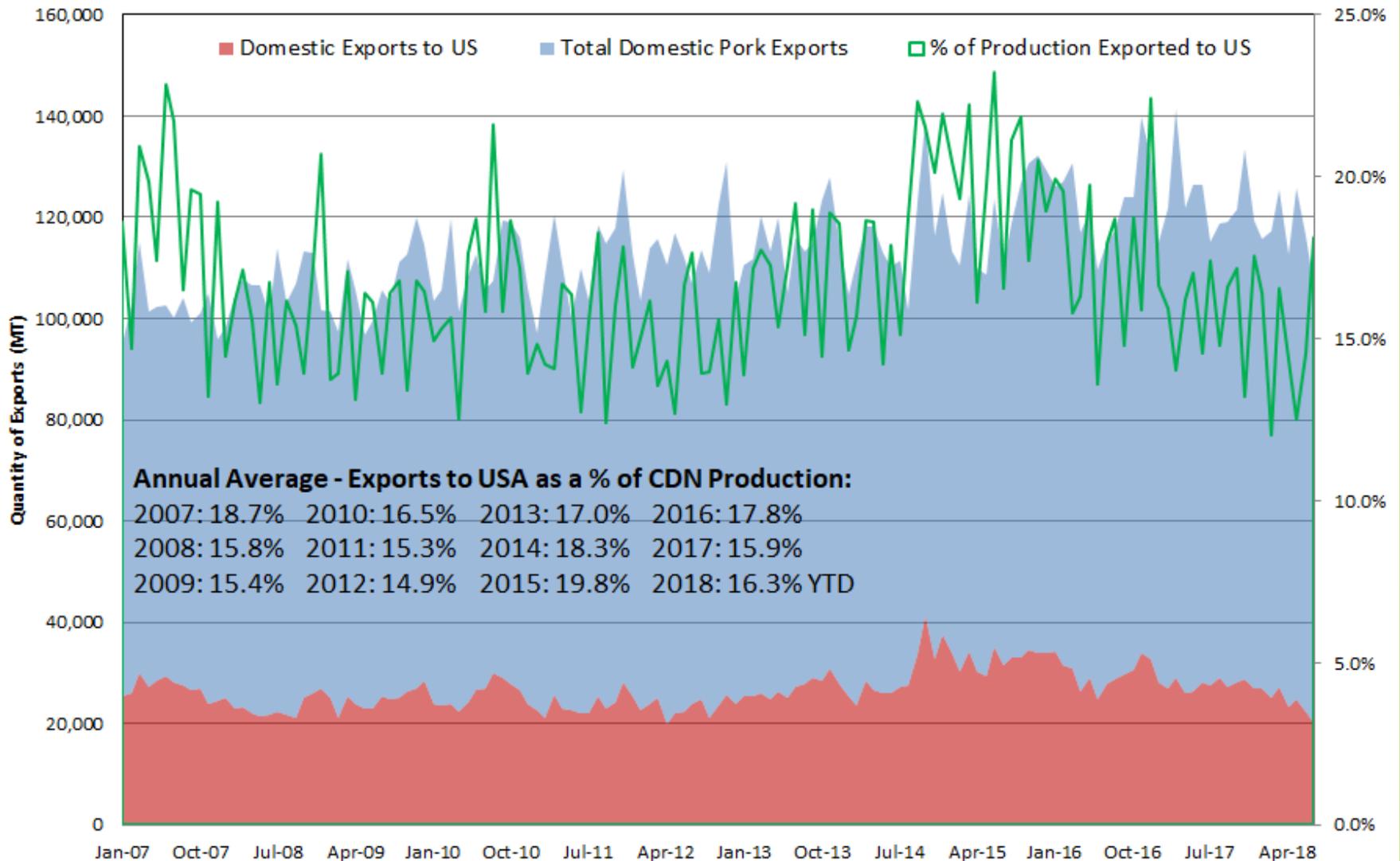


# Total Pork Imports from Canada

Carcass Weight 1,000 pounds



# Total Canadian Domestic Pork Exports



# Current Methodology

- ▶ US Base price
- ▶ Factor
  - ▶ Yield calculation
  - ▶ Conversion to kilos from pounds
  - ▶ Denominator or divisor
- ▶ Exchange Rate
- ▶ Following all that apply individual plant differences, index, weight, premiums, grid

# Current Methodology

<b>CANADIAN Variables</b>		ML Sig 3	ML Sig 4	WHE	Ontario	HyLife	Quebec	T.Creek	ML Sig 5
		LM_HG	LM_HG	LM_HG	LM_HG	LM_HG	LM_HG	LM_HG	LM_HG
USDA Report number		212	201	204 & 206	201	201	201	206 & 201	212 & 201
Live Weight (lbs)	275.5	276	276	276	276	276	276	276	276
Carcass Weight(ckg)	1.000	1.002	1.002	1.002	1.002	1.002	1.002	1.002	1.002
Cdn Yield	0.80								
Metric	2.2046								
Conversion Factor	Range from 1.7600 to 1.8330								
US Base price Adj					-\$ 0.56		-\$ 0.56		
Index		1.090	1.090	1.100	1.110	1.120	1.105	1.090	1.090
Loin Premium		\$ 2.00	\$ 2.00	\$ 2.00	\$ 2.00	\$ 2.00	\$ 2.00	\$ 2.00	\$ 2.00
Health Premium									
Weight Bonus									
Freight Bonus									
Loyalty Payment									
Contract Signing Bonus									

# Pricing Example- Same US Base

## ▶ Packer A

- ▶  $\$65.00 \text{ US/cwt} * 1.8000 * 1.3000 \text{ FX} / 100 = \$1.521 \text{ CDN/kg}$
- ▶  $\$1.521 \text{ CDN/kg} * 1.11 \text{ Index} * 102 \text{ KG Carcass}$
- ▶ **\$172.20 per hog before premiums**
- ▶  $+\$1.50 \text{ Loin} + \$1.00 \text{ Health} + \$3.00 \text{ Weight} + \$2.25 \text{ Freight}$
- ▶ **\$178.95 per hog take home**

## ▶ Packer B

- ▶  $\$65.00 \text{ US/cwt} * 1.8250 * 1.3000 \text{ FX} / 100 = \$1.542 \text{ CDN/kg}$
- ▶  $\$1.542 \text{ CDN/kg} * 1.095 \text{ Index} * 102 \text{ KG Carcass}$
- ▶ **\$172.23 per hog before premiums**
- ▶  $+\$2.00 \text{ Loin} + \$1.00 \text{ Health} + \$1.00 \text{ Loyalty}$
- ▶ **\$176.23 per hog take home**

# Has Pricing Changed over the last 3-5 Years?

- ▶ Yes
- ▶ All regions are getting more competitive
- ▶ Premiums/top ups/Bonuses are more common
- ▶ Most regions have gravitated to slaughter data vs. purchase data
- ▶ National data vs. regional data
- ▶ Or a function of US National slaughter data



# ISM Prior Day (LM\_HG 204)

LM\_HG204

Des Moines, Iowa

Fri, Nov 16, 2018

USDA Market News

IOWA/MINNESOTA DAILY DIRECT PRIOR DAY HOG REPORT BASED ON STATE OF ORIGIN  
PLANT DELIVERED PURCHASE DATA FOR Thursday, November 15, 2018

## CURRENT VOLUME BY PURCHASE TYPE BARROWS & GILTS LIVE AND CARCASS BASIS

	Actual Prior Day	Actual Week Ago	Actual Year Ago
Producer Sold			
Negotiated	2,346	777	2,546
Other Market Formula (Futures/Options)	18,007	15,768	16,602
Swine or Pork Market Formula	78,944	76,331	84,946
Other Purchase Arrangement	41,974	33,570	26,694
Negotiated Formula	467	249	489
Packer Sold (all purchase types)	10,264	8,460	11,709

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	NEGOTIATED	OTHER MARKET FORMULA (FUT/OPT)**	SWINE OR PORK MARKET FORMULA	OTHER PURCHASE ARRGMENT	NEGOTIATED FORMULA	TOTALS/ WTD AVG
Barrows & Gilts (carcass basis):						

Producer Sold						
Head Count	1,881	18,007	78,154	41,850	0	139,892
Base Price	50.92	55.10	56.08	60.97	*	57.35
Packer Sold						
Head Count						10,264
Base Price						54.52

# ISM PM (LM\_HG 206)

LM\_HG206

Des Moines, Iowa

Fri, Nov 16, 2018

USDA Market News

IOWA/MINNESOTA DAILY DIRECT AFTERNOON HOG REPORT BASED ON STATE OF ORIGIN  
PLANT DELIVERED PURCHASE DATA FOR Friday, November 16, 2018  
(Includes information from 1:30 PM to 1:30 PM.)

## CURRENT VOLUME BY PURCHASE TYPE BARROWS & GILTS LIVE AND CARCASS BASIS

	Estimated Today	Actual Today	Actual Week Ago	Actual Year Ago
Producer Sold				
Negotiated	3,072	3,072	1,756	1,729
Other Market Formula (Futures/Options)	27,983	27,983	16,311	14,365
Swine or Pork Market Formula	84,601	84,601	79,113	76,654
Other Purchase Arrangement	41,705	41,705	39,154	23,690
Negotiated Formula	0	0	0	165
Packer Sold (all purchase types)	6,423	6,423	7,090	9,504

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### NEGOTIATED PURCHASE (Including Packer Sold)

Barrows & Gilts (carcass basis): 3,040

Compared to Prior Day's closing weighted average (LM\_HG204), 0.32 higher

Base Price Rng \$47.00 - \$51.50, Wtd Avg \$51.24, 5 Day Rolling Avg \$50.98

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# Base Price Breakdown

## ▶ Negotiated

- ▶ Cash or spot market purchase by a packer of livestock from a producer under which the base price for livestock is determined by seller-buyer interaction and agreement on a delivery day. The livestock are scheduled for delivery to the packer **no more than 14 days after** the date on which the livestock are committed to the packer.

## ▶ Other Market Formula

- ▶ A purchase of swine by a packer in which the pricing mechanism is a formula price based on any market other than the market for swine, pork, or a pork product. The term “other market formula purchase” includes a formula purchase in a case which the price formula is based on 1 or more futures or options contracts.

# Base Price Breakdown

## ▶ Swine or Pork Market Formula

- ▶ A purchase of swine by a packer in which the pricing mechanism is a formula based on a market for swine, pork, or a pork product, other than a future or option for swine, pork, or a pork product. (WCB pm + \$1.75) or (Cutout - \$9.00)

## ▶ Other Purchase Arrangement

- ▶ A purchase of swine by a packer that is not a negotiated purchase, swine or pork market formula, or other market formula; and does not involve packer owned swine. (COP, Corn price matrix)

# National (LM\_HG 201)

LM\_HG201  
Des Moines, Iowa

Fri, Nov 16, 2018

USDA Market News

NATIONAL DAILY DIRECT HOG PRIOR DAY REPORT - SLAUGHTERED SWINE  
Slaughter Data for Thursday, November 15, 2018

Barrows and Gilts (Live and Carcass Basis): 441,976

	NEGOTIATED	OTHER MARKET FORMULA (FUT/OPT)**	SWINE OR PORK MARKET FORMULA	OTHER PURCHASE ARRGMENT	NEGOTIATED FORMULA	TOTALS/ WTD AVG
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Producer Sold:

HEAD COUNT	9,966	40,578	135,584	101,491	1,037	288,656
CARCASS BASE PRICE	54.08	54.19	56.51	63.27	*	58.53
AVERAGE NET PRICE	55.78	57.08	59.07	64.28	*	60.59
LOWEST NET LOT	43.54	44.18	43.86	40.60	*	43.66
HIGHEST NET LOT	60.40	68.50	70.12	82.62	*	70.57
AVERAGE LIVE WT	262.36	284.52	283.53	282.83	*	282.73
AVERAGE CARCASS WT	193.83	214.59	213.10	211.88	*	212.33
AVERAGE SORT LOSS	-1.27	-1.64	-1.58	-1.18	*	-1.44
AVERAGE BACKFAT	0.59	0.62	0.64	0.72	*	0.66
AVG LOIN DEPTH (LD)	2.30	2.73	2.68	2.51	*	2.63
LEA (LD Converted)	6.90	8.21	8.05	7.54	*	7.91
AVERAGE LEAN PERCENT (Packer Buying Programs)	54.08	56.26	56.10	55.33	*	55.87



# Purchase vs. Slaughter DATA

## ▶ PURCHASE DATA

- ▶ Regional reports are all purchase data, ISM, WCB, ECB
- ▶ Bought by packers on a given day
- ▶ Not processed so no knowledge of carcass characteristics, premiums/discounts
- ▶ Base Price only
- ▶ Different leanness and weights
- ▶ Look forward in TIME
- ▶ LM\_HG 206

## ▶ SLAUGHTER DATA

- ▶ Slaughtered on a given day which were purchased over the last 2 weeks
- ▶ Contain more data than purchase data
- ▶ Include base price, net price, live weight, carcass weight, sort loss, backfat, loin muscle depth
- ▶ Standardize % lean
- ▶ Look backwards in TIME
- ▶ LM\_HG 201



# What is Available

- ▶ US purchase data
- ▶ US slaughter data
- ▶ US pork carcass data
- ▶ US pork export data (quantity & value)
- ▶ US pork retail data
- ▶ CME lean hog futures
- ▶ CAN pork export data (quantity & value)
- ▶ CAN pork retail data
- ▶ Do we really need to change or do we just need to simplify the process

# Made in Canada Pricing?

- ▶ **Is this the answer?**
- ▶ What issues could it address?
  - ▶ Possibly disconnect Canada from US initiated price fluctuations
  - ▶ PED in 2014
  - ▶ Trade issues in 2018
  - ▶ Do Canadian pork values really differ from US pork values?
- ▶ What issues would it NOT address?
  - ▶ Price disparity between regions
  - ▶ Packers will always be able to have different prices in different regions

# Is a higher price the answer?

- ▶ Of course everyone wants a higher price
- ▶ Does a higher price stimulate growth?
- ▶ Does a higher price satisfy the lenders needs?
- ▶ Does a higher price get finishing barns built?
  
- ▶ If the focus is GROWTH and REJUVINATION
- ▶ Should we not focus on ways to build the industry
- ▶ Reduced Volatility
  - ▶ Price minimums
  - ▶ Window Pricing
  - ▶ Cost of Production Pricing



# Summary

- ▶ Is the current pricing system in Canada broken?
  - ▶ Not really
- ▶ Would a Made in Canada Price solve the current regional price differences?
  - ▶ No
- ▶ Do we all want higher prices?
  - ▶ Yes
- ▶ Is life always fair?
  - ▶ No
- ▶ If a packer offered you a higher price or a price minimum, which would you take?
  - ▶ Both