



Ontario Hog Market Information Newsletter – December 2009
By University of Guelph-Ridgetown Campus

Ontario Market Hog Prices

Ontario average market hog prices for the week ended December 12, 2009 were up when compared to the previous week but down compared to one year ago (Table 1). The pool price is up \$3.30 compared to last week but down \$0.85 vs. last year. The pool plus price is up \$6.70 from a week ago but down \$9.35 from a year ago. The average standard contract price was estimated to be \$117.91, an increase of \$11.36 vs. the previous week and down \$8.69 compared to a year ago. Prices are about \$5-\$10 lower when compared to the previous four year average for this time of year. Ontario prices have risen over \$20 since mid-October. The strong Canadian dollar is putting downward pressure on Canadian hog prices but higher U.S. wholesale pork cutout values in recent weeks have supported higher U.S. hog prices.

Ontario Hog Marketings

Ontario hog marketings were 97,202 head for the week ended December 12, 2009 (Table 2). This is a decrease of 449 head compared to the previous week and a decrease of 2,589 head vs. a year ago. The 13 week average prior to the week ending December 12 was 100,092 head. This is down 4,000-5,000 head from the same period last year. Total hog marketings for 2009 year-to-date are down 7%. U.S. figures show hog marketings down 2% for 2009 year-to-date.

Live Pig Exports to the U.S.

Total live pig exports to the U.S. through Michigan and New York border crossings were 19,998 head for the week ending November 28, 2009 which included the U.S. Thanksgiving holiday (Table 3). This is 3,680 head lower compared to the previous week and 4,848 less than a year ago. Trends for 2009 year-to-date show that feeder pig exports are down 14% while slaughter hog exports are down 66%. COOL has contributed to a decline of about 4,000-5,000 weekly live pig exports to the U.S. for the most recent 13 week period compared to the same period in 2008. Year-to-date cull sow/boar exports are up 49,788 head (or 23%) compared to a year ago.

Table 1 Ontario Market Hog Prices

Price (\$/100 kg dressed)	Week Ending		
	Dec 12- 2009	Dec 5- 2009	Dec 13- 2008
Standard Contract	117.91*	106.55	126.60
Pool Plus	115.79	109.09	125.14
Pool	119.15	115.85	120.00
Weighted Average	117.76*	107.16	126.17

Source: Ontario Pork.

Note: *Standard contract and weighted average prices not finalized as of December 14, 2009. Price for standard contract is the 100% Formula Price for the week ending December 12, 2009 and is used in the calculation for the weighted average price.

Table 2 Ontario Hog Marketings

Volume (head)	Week Ending		
	Dec 12- 2009	Dec 5- 2009	Dec 13- 2008
Contract	84,300	84,482	84,723
Pool Plus and Pool	12,902	13,169	15,068
Total	97,202	97,651	99,791

Source: Ontario Pork.

Table 3 Live Pig Exports through Michigan and New York Border Crossings

Volume (head)	Week Ending		
	Nov 28- 2009	Nov 21- 2009	Nov 29- 2008
Feeder Pigs	12,804	13,765	12,275
Slaughter Hogs	7,194	3,889	7,715
Sows/Boars	4,116	6,024	4,856
Total	19,998	23,678	24,846

Source: AAFC, USDA.

Ontario Pig Production Distribution

Table 4 shows the current weekly estimate of Ontario's pig production distribution. Total Ontario hog slaughter figures for 2009 year-to-date are running over 1% lower than 2008. Federally inspected slaughter is down 1% while the decrease in provincially inspected slaughter represents the remainder. Total provincially inspected slaughter is 5% lower than a year ago. Total Ontario produced hogs slaughtered in Canada for 2009 year-to-date are 1% lower than a year ago. Exports of live feeder pigs through Michigan and New York border crossing points year-to-date are approximately 11% of Ontario's total pig production. Comparable year-to-date figures for 2008 showed live feeder pig exports were 12% of Ontario's total production.

Total estimated production for Ontario is currently about 120,527 head/week and for 2009 year-to-date is 9% lower than 2008.

Current total Canadian federal and provincial slaughter is 446,514 head/week and for 2009 year-to-date is about 3% higher than 2008. Recent U.S. federally inspected slaughter is averaging under 2.3 million head/week and is running about 2% year-to-date lower than 2008.

Feed Grain Prices

Prices for corn, soybean meal and dried distillers grain (DDGS) for the week ending December 12, 2009 showed Ontario having higher corn (+13%), soybean meal (+14%) and DDGS (+15%) prices than Iowa (Table 5). Ontario corn has decreased about 5% compared to a year ago while DDGS prices have increased 7%. Ontario soybean meal prices are up 12% compared to a year ago.

The second largest corn and largest soybean crops in U.S. history have resulted in price projections for the 2009/10 crop year to be 5-15% lower than last year.

Table 5 shows that estimated feed grain costs for a farrow-to-finish operation show Iowa currently having an advantage by approximately \$8/head which is down \$1 from the previous week. Iowa had a \$7/head advantage a year ago.

It should be noted that these estimated feed grain costs are dependent upon several assumptions including market hog weight, ration, productivity, and which locations are used for corn and soybean meal prices. This comparison is meant to show the approximate relative differences in the raw corn and soybean meal costs only to raise a pig from birth to 115 kg live market weight and individual producer costs may vary significantly from these figures.

Table 4 Ontario Pig Production Distribution

Volume (head)	Week Ending		
	Nov 28-2009	Nov 21-2009	Nov 29-2008
Ontario F.I. Slaughter	91,045	90,363	98,968
Ontario P.I. Slaughter	8,088	8,073	9,050
Hogs Slaughtered in Ontario	99,133	98,436	108,018
Exports to other Provinces*	5,512	5,306	1,362
Total Ontario Hogs Slaughtered in Canada	104,645	103,742	109,380
Exports to U.S. -Slaughter Hogs	3,078	3,889	7,715
Exports to U.S. -Feeder Pigs	12,804	13,765	12,275
Total Estimated Production*	120,527	121,396	129,370
Canada F.I. & P.I. Slaughter	446,514	445,297	453,126
U.S. F.I. Slaughter	2,042,286	2,320,701	2,046,366

Source: AAFC, USDA.

Notes: F.I. = Federally Inspected; P.I. = Provincially Inspected; *Estimated; Complete figures not yet available for weeks ending December 5 and 12, 2009.

Table 5 Ontario and Iowa Feed Grain Prices

Value (\$C/tonne)	Week Ending		
	Dec 12-2009	Dec 5-2009	Dec 13-2008
<u>Ontario</u>			
Corn (No. 2)	160.25	167.33	168.08
Soybean Meal (48%)	422.07	440.98	375.34
DDGS	155.00	158.00	145.50
F-F Feed Grain Cost (\$C/head)*	69.24	72.31	68.24
<u>Iowa</u>			
Corn (No. 2)	142.27	147.74	150.11
Soybean Meal (48%)	369.44	381.15	344.21
DDGS	134.95	135.04	154.55
F-F Feed Grain Cost (\$C/head)*	61.13	63.32	61.53
Exchange Rate (\$C/\$US)	0.9475	0.9518	0.8018

Source: Farm Market News, University of Guelph, Ridgetown Campus, OMAFRA, USDA, Iowa State University.

Note: Feed grain costs only include raw corn and soybean meal costs. There has been no cost added for grind, mix and transportation charges;

*Estimated; F-F = Farrow-to-Finish

Estimated Gross Margin Profitability Indicators

Table 6 shows estimated gross margin calculations for Ontario pork processors and producers based on a market hog weighing 115 kg live. Producers continue to lose money. The OMAFRA monthly swine budgets have shown a loss for 36 consecutive months. It appears that processors currently are losing money as well. U.S. wholesale cutout values have increased \$35 per head since early October which has supported U.S. hog prices. However, a stronger Canadian dollar has dampened that impact on Canadian wholesale pork values.

For processors, the gross margin is the wholesale cutout value less the hog value. Cutout values are down \$18/head compared to a year ago while hog values are down \$9/head. The gross margin is currently \$12/head which is down \$6/head compared to a week ago and down \$9/head vs. a year ago. The estimated industry standard cost to process a hog into primals that are ready for the cut floor is about \$20/head.

For producers, the gross margin is estimated as current hog value less current feed grain costs (from Table 5). The gross margin is up \$14/head from a week ago and down \$10/head vs. a year ago.

It should be noted that these estimated gross margins do not include all costs for processors or producers and therefore do not indicate if a processor or producer is profitable. These gross margins can be treated as a relative profitability indicator which shows how much margin is left to cover all other costs besides the major costs of hog procurement for the processor and feed grain costs for the producer.

Pig Inventory Figures

The USDA hogs and pigs survey on September 1, 2009 showed the U.S. breeding herd was down 3% from last year and down 2% from June 1. Market pig figures were down 2% from a year ago but up 1% from last quarter. U.S. average weekly sow slaughter numbers in the last half of 2009 have increased compared to the first six months. This trend is expected to continue.

The Statistics Canada October 1, 2009 survey showed Canadian market pig figures were down 8% from a year ago and down 2% from July 1. The Canadian breeding herd was down 5% from last year and down 2% from last quarter. This is the 19th consecutive quarter that the breeding herd figures have declined. Ontario figures showed that the breeding herd was down 2% from last year and down 1% from July 1. Ontario market pig figures were down 6% from last year and down 2% from last quarter.

Table 6 Estimated Processor and Producer Gross Margins

Price (\$/head)	Week Ending		
	Dec 12-2009	Dec 5-2009	Dec 13-2008
<u>Processor</u>			
Cutout Value*	130	125	148
Hog Value	118	107	127
Gross Margin	12	18	21
Hog Value / Cutout Value (%)	91	86	86
<u>Producer</u>			
Hog Value	118	107	127
Farrow-to-Finish Feed Grain Costs*	69	72	68
Gross Margin	49	35	59
Feed Grain Costs / Hog Value (%)	58	67	54

Source: University of Guelph, Ridgetown Campus estimates using data from Ronald A. Chisholm Ltd., Ontario Pork, Farm Market News, University of Guelph, Ridgetown Campus, OMAFRA, and industry sources.

Note: Feed Grain Costs only include corn and soybean meal. *Estimated

Table 7 U.S. and Ontario Pig Inventory Figures

	Head (million head)			
	US (Sep 1)	Canada (Oct 1)	Ontario* (Oct 1)	Ontario** (Sep 1)
Breeding Herd	5.874	1.353	0.356	0.366
Market Pigs	60.752	10.467	2.660	2.909
All Pigs	66.626	11.820	3.015	3.274

Source: USDA, Statistics Canada, University of Guelph, Ridgetown Campus

Note: *Statistics Canada estimate; **University of Guelph, Ridgetown Campus estimate.

The September 1, 2009 survey done by University of Guelph, Ridgetown Campus estimated the Ontario breeding herd at 365,700 head. This is down 1% from June 1, 2009 estimates and down 4% from a year ago. Market pig figures were estimated at 2.909 million head which is down 1% from June and down 10% from a year ago.

Outlook

The USDA September hogs and pigs report and the Statistics Canada October inventory report showed that the North American breeding herd is continuing to contract. U.S. hog prices have strengthened recently with futures prices forecasting potential breakeven or small profitability for U.S. producers in the second and third quarters of 2010. It will be interesting to see how U.S. producers react to this information and if the U.S. breeding herd reduction continues at its current pace.

Canadian producers have just gone through the second tender process of the Hog Farm Transition Program. Tender one in November and tender two in December combined involved \$35 million allotted to 190 successful bids representing 65,959 sows, 145,133 weaners (up to 30 kg) and 184,557 hogs (from 31 kg to market weight) which will be removed from production for three years. Based on the October 1 Statistics Canada inventory figures this production represents about 5% of the national sow herd. The third tender involving \$25 million is scheduled for January 20, 2010 while the fourth and final tender involving \$15 million has not been scheduled yet.

Feed costs have declined slightly since the September newsletter but are slightly higher than a year ago at this time. The USDA has estimated the 2009 U.S. corn crop as the second largest on record and the soybean crop as the largest on record. U.S. corn prices are projected to be 5-20% lower (\$0.20-\$0.80/bushel) for this crop year than last year. Soybean meal prices are projected to be 6-25% lower (\$20-\$90/tonne).

The outlook for Ontario hog prices for the next 10 months shows low prices that are below the breakeven well into 2010. Table 8 shows Ontario Pork Forward Contract Prices, the 5 year average basis and the estimated net price for December 2009 to September 2010. The Forward Contract Prices incorporate both the Chicago Mercantile Exchange's lean hog and the Canadian dollar futures prices.

Table 9 shows U.S. forecast prices based on the September USDA hogs and pigs report. Since the September report, futures and cash market prices have increased and currently appear to be on an upward trend.

Farrow-to-finish profitability estimates by Iowa State University for January to November 2009 show that the average loss for Iowa producers was \$US 27/head. OMAFRA estimates Ontario farrow-to-finish losses at \$C 39/head from January to October 2009. The estimated cost for Ontario for December is \$155-\$160/head.

Table 8 Ontario Pork Forward Contract Prices, December 11, 2009

(\$/100 kg dressed, index 100)	Forward Contract Price	5 Year Average Basis	Estimated Net Price
Period			
December 15—January 15, 2010	126.39	-17.18	109.21
January 16—February 14, 2010	126.39	-8.40	117.99
February 15—March 15, 2010	134.64	-9.79	124.85
March 16—April 14, 2010	134.61	-8.87	125.74
April 15—May 15, 2010	144.38	-15.11	129.27
May 16—June 14, 2010	150.62	-1.36	149.26
June 15—July 15, 2010	148.93	-1.09	147.84
July 16—August 14, 2010	146.59	-3.39	143.20
August 15—September 15, 2010	130.58	+8.26	138.84
Average	138.13	-6.33	131.80

Source: Ontario Pork.

Table 9 Forecast Hog Prices Based on September 2009 USDA Hogs & Pigs

Quarter	Forecast Hog Prices		
	Lawrence (\$US/cwt live)	Grimes/Plain (\$US/cwt live)	Ontario Equivalent (\$C/100 kg, index 100)
Period			
October-December 09	34-36	32-35	82-92
January-March 10	40-42	35-38	90-108
April-June 10	48-50	40-43	103-128
July-September 10	43-46	39-42	100-118
Average	41-44	37-40	94-112

Source: September Quarterly Hogs & Pigs Report Summary by Glenn Grimes and Ron Plain; October 2009 Iowa Farm Outlook by Iowa State University (John Lawrence)

Note: Ontario Equivalent based on Ontario Base Price Formula calculation using a \$C 1 = \$US 0.95 exchange rate. Does not include the estimated basis.

Summary

Breeding herd and market pig numbers are below year ago levels and are in a contraction mode. Current prices are well below estimated breakeven levels. Futures prices are currently projecting losses to continue into 2010 with the potential for U.S. producers to breakeven or make small profits in the second and third quarters. The current high value of the Canadian dollar is putting downward pressure on Ontario prices but the potential exists to approach breakeven levels in mid-2010 if current hog price and feed cost trends continue. Further reduction in the North American breeding herd is still needed.

China and What It Means For North America.
(Commentary by Randy Duffy, University of Guelph,
Ridgetown Campus)

Any views or opinions expressed are solely those of the author and do not necessarily represent those of Ontario Pork.

Recently, China announced that it has lifted a ban against Canadian and U.S. pork imports. The ban had been put in place in April 2009 over concerns related to the H1N1 influenza virus. As a result, imports from the U.S. and Canada in 2009 have been down compared to the record import levels seen in 2008. Chinese imports in 2008 were positively influenced by increased pork demand due to the Beijing Summer Olympics and the fact that Chinese hog production had been impacted negatively in 2007/2008 by disease challenges. It is expected that 2009 total Chinese pork imports will be much lower due to increased domestic production. So what does the re-opening of this market mean for North American pork production?

China is the second largest trading partner for both Canada and the U.S.. In terms of pork trade specifically, China and Hong Kong (note: Hong Kong is a special administrative region of the People's Republic of China) represented the second largest export customer for the U.S. in 2008 and the fourth largest customer for the January to September 2009 period. For Canada, it represented the fourth largest export customer in 2008 and third largest customer for the January to September 2009 period.

China and Hong Kong imported 776,000 metric tonnes of pork in 2008. This represented about 1.7% of their domestic consumption. This was up from 500,000 tonnes imported in 2007 (or 1.2% of domestic consumption). The U.S. exported 386,174 tonnes and Canada exported 123,531 tonnes to China/Hong Kong in 2008. These figures were up from 161,048 tonnes and 63,102 tonnes respectively for the U.S. and Canada in 2007. In terms of dollar value, the U.S. accounted for 40.1% while Canada accounted for 10.5% of the U.S. \$1.1 billion of total Chinese imports in 2008. The U.S. was the top exporter to China while Canada was the fourth largest after Denmark and France.

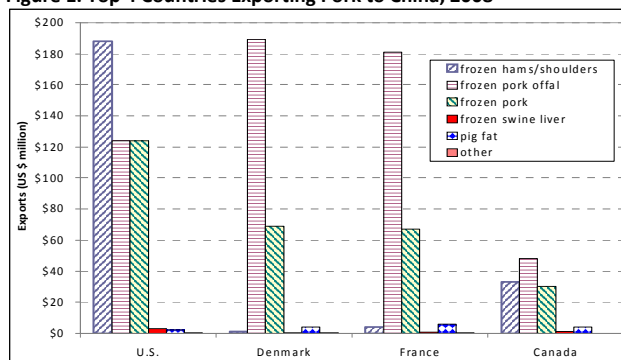
Figure 1 shows the top four exporting countries to China in terms of dollar volume by product category. Approximately 50% of China's imports fall into the frozen edible pork offal category of which Denmark and France are the two largest suppliers. The U.S. is the largest supplier of frozen pork, frozen hams and shoulders, frozen swine livers and prepared pork. Canada exported U.S. \$48 million in frozen pork offal, \$33 million in frozen hams and shoulders and \$30 million in frozen pork. Figure 2 shows the U.S. and Canadian market shares of total pork exports to China by category in 2008.

From an Ontario perspective, in 2008 Ontario exported C\$10.5 million and 7,889 tonnes worth of pork products to China and a further \$15.5 million and 9,970 tonnes to Hong Kong. Compared to five years ago, Ontario has made positive inroads into China and Hong Kong. 2003 figures showed \$4 million and 4,585 tonnes exported by Ontario to China and \$2.1 million and 2,012 tonnes to Hong Kong. Based on a 92 kg hog carcass, these export volumes represented 72,000 hogs in 2003 and 194,000 hogs in 2008, an increase of 171%.

Per capita consumption of pork in China and Hong Kong shows that consumption is on the rise in both regions. China saw an increase of 4% from 34.6 kg/person in 2005 to a projected 36.1 kg/person in 2009. Hong Kong meanwhile consumes almost double that of China. Hong Kong saw an increase of 9% from 59.6 kg/person in 2005 to a projected 65.1 kg/person in 2009.

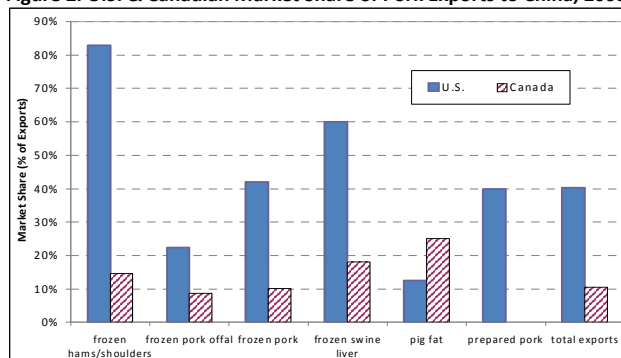
China and Hong Kong are important export markets for North America. Exports from the U.S., Canada and Ontario have increased over the past few years. Small inroads into these markets provide significant positive impacts on North American exports and pork prices. Increases in per capita consumption along with the recovery and growth of these export markets provide one opportunity for North America and a positive influence on pork demand given it's current slump.

Figure 1. Top 4 Countries Exporting Pork to China, 2008



Source: AAFC

Figure 2. U.S. & Canadian Market Share of Pork Exports to China, 2008



Source: AAFC

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