

Annual General Meeting

An Interconnected World:
Preparing the Ontario Pork
Sector

March 19-20, 2019
Delta Guelph Hotel and
Conference Centre

U.S. Hog and Pork Pricing Situation



ONTARIO PORK

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Livestock Mandatory Reporting (LMR)

Nearby CME Hog Futures, Monthly Jan. 1990 - Dec. 1998



>65% price decline in 18 months “raises questions” !
(July 1997 – Dec. 1998)

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- USDA AMS implemented LMR on April 2, 2001
- LMR Act must be reauthorized every 5 years
 - 2006 Act separated reporting requirements for sows/boars from barrows/gilts
 - 2010 Act added mandatory reporting of wholesale pork cuts
 - 2015 Act added definition & reporting requirements for negotiated formula & late-day purchases
 - Current LMR authority expires Sept. 30, 2020

USDA AMS Barrow & Gilt Price Reporting - 4

1. Negotiated in the Spot Market (e.g. hog priced “directly”)
2. Swine/Pork Market Formula (e.g. hog priced on USDA hog or pork cutout values)
3. Other Market Formula (e.g. hog priced using CME or other base)
4. Other Purchasing Arrangements (catch-all category)

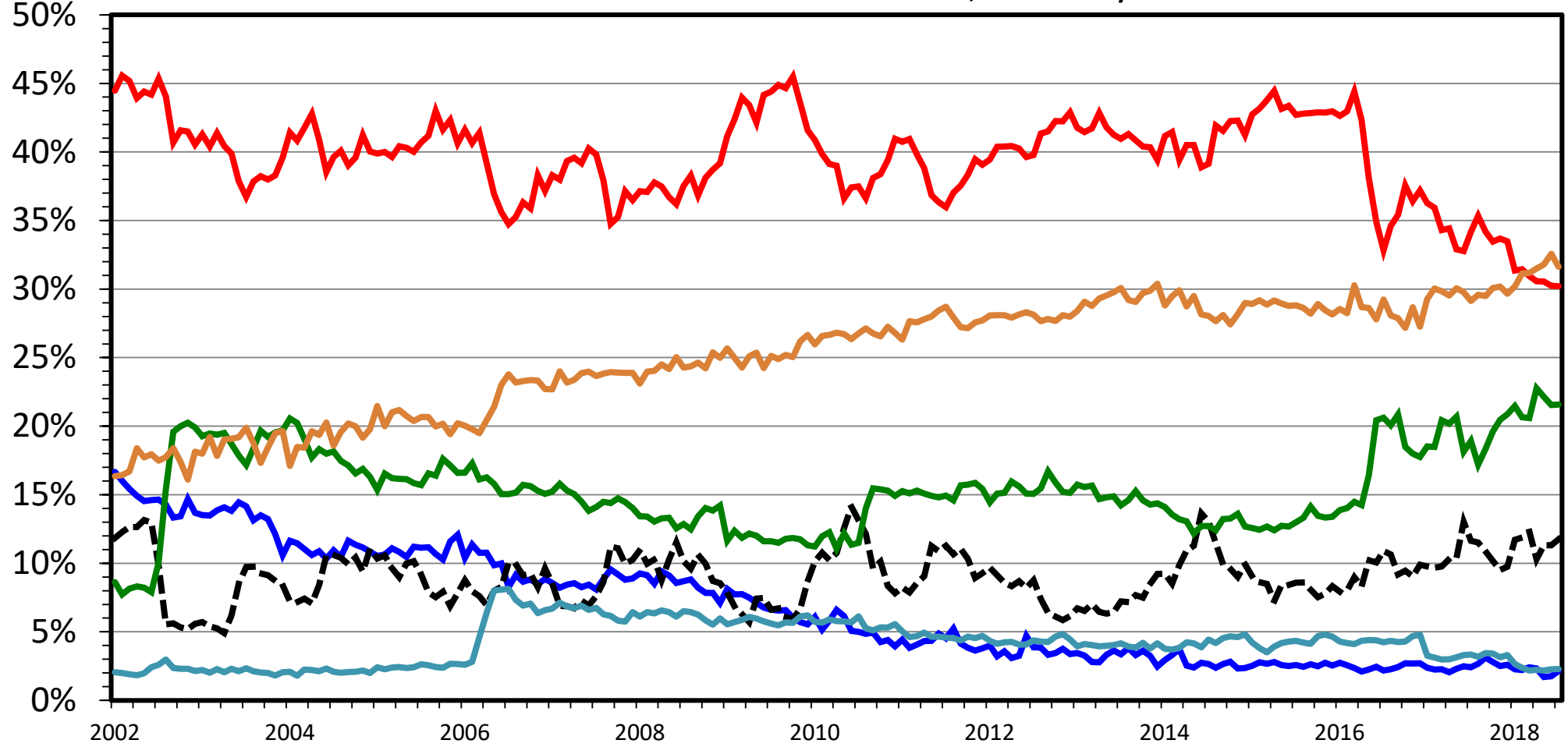
Data Source: USDA-AMS

Livestock Marketing
Information Center

HOGS SOLD BY TRANSACTION

National, Monthly

Percent



- Negotiated Purchases
- - - Other Market Formula
- Swine or Pork Mkt Formula
- Other Purchase
- Packer Sold
- Packer Owned

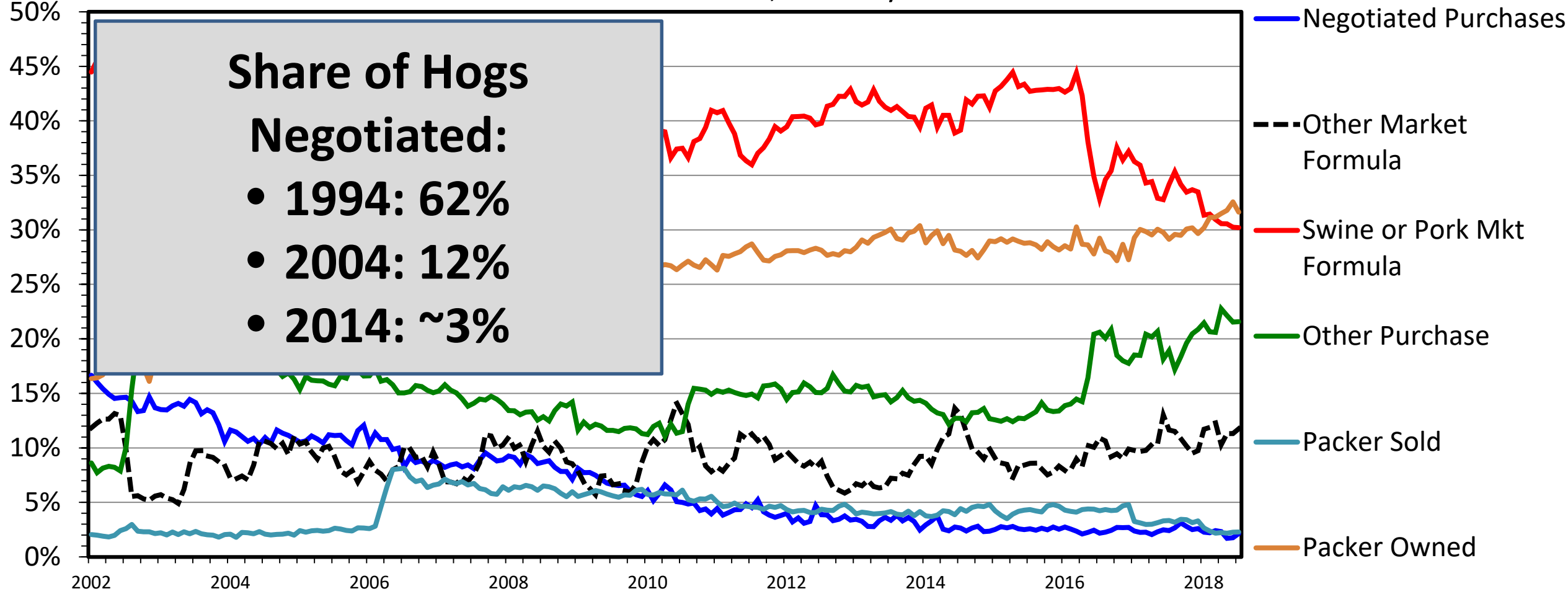
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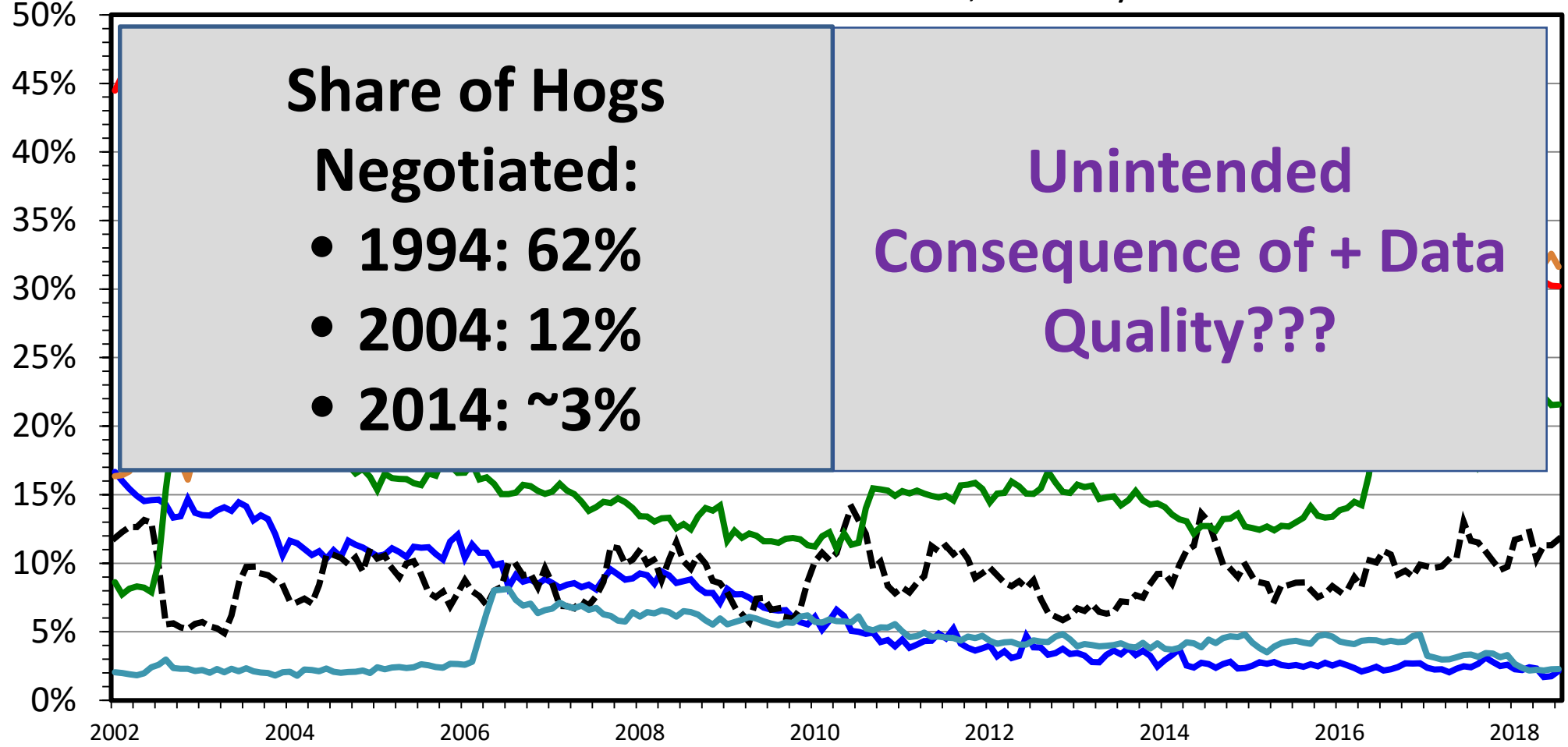
Percent



HOGS SOLD BY TRANSACTION

National, Monthly

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**Share of Hogs
Negotiated:**

- **1994: 62%**
- **2004: 12%**
- **2014: ~3%**

**Unintended
Consequence of + Data
Quality???**

- Negotiated Purchases
- - - Other Market Formula
- Swine or Pork Mkt Formula
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Livestock Mandatory Reporting (LMR)

Confidentiality Guidelines for the Livestock Mandatory Reporting Program

...

The Livestock Mandatory Reporting Act of 1999 requires USDA to publish mandatory data on livestock and meat price trends, contracting arrangements, and supply and demand conditions in a manner that protects the identity of reporting entities and preserves the confidentiality of proprietary transactions.

<https://www.ams.usda.gov/sites/default/files/media/ConfidentialityGuidelines.pdf>

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3. Differentiation
 - Reflects consumer demand / Can thin & censor reported info

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 - ❑ USDA can't reveal firm-specific information / Can limit reported info
3. Differentiation
 - ❑ Reflects consumer demand / Can thin & censor reported info
4. Some past “heavy negotiating” producers becoming packer owners

Price Relationships

- How a producer's price is established matters!
- Furthermore, if using formulas - Which reference value used matters!

USDA AMS Barrow & Gilt Prices (Producer Sold)

March 4, 2019

	Negotiated	Other Market Formula (Futures/Options)	Swine or Pork Market Formula	Other Purchase Arrangement	Negotiated Formula	Totals/Wtd Avg
Head Count	6,157	48,855	124,039	102,978	320	282,349
Base Price	\$ 44.90	\$ 60.56	\$ 49.91	\$ 61.19	*	\$ 55.70
Head Count %	2.2%	17.3%	43.9%	36.5%	0.1%	
Base Price VS Negotated	\$ -	\$ 15.66	\$ 5.01	\$ 16.29		\$ 10.80

https://www.ams.usda.gov/mnreports/lm_hg200.txt



MARKETING

A primer on hog prices

Just what goes into the hog price these days? Here's a look at the factors involved

Steve Meyer | Sep 03, 2018



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- Hogs are NOT homogeneous, Sold at different times, & nobody has full/perfect info.
- *So why do we expect "One Price" ?*



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- Hogs are NOT homogeneous, Sold at different times, & nobody has full/perfect info.
 - So why do we expect “One Price” ?
- Prices under different transaction types vary
 - Variation often extreme during large supply or demand shocks

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Apr CME LH:
-\$14 since
early October
2018

Likely higher
cost of
production:
ABF, Beta-
agonist free,
Stall-Free, etc...

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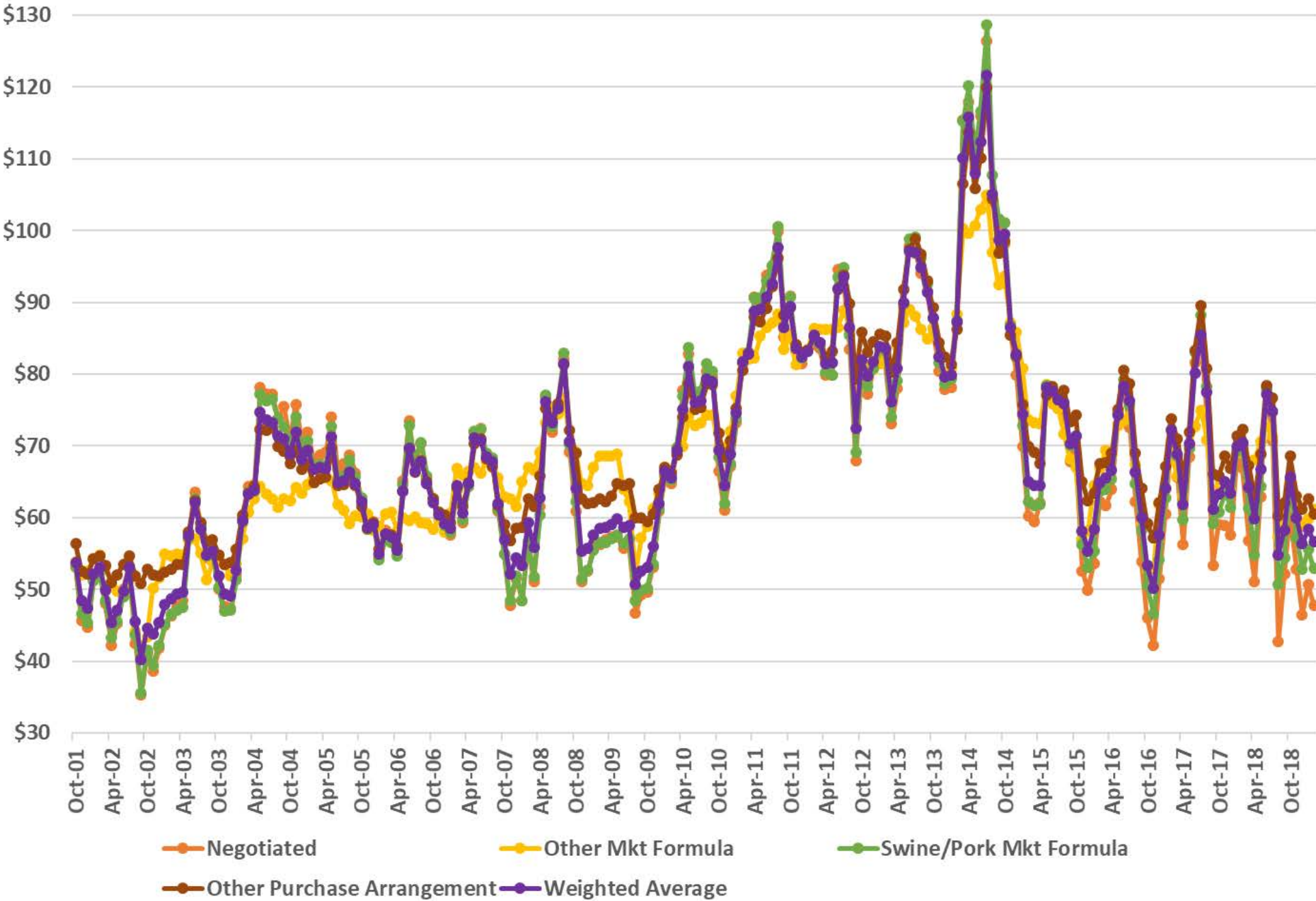
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Not many producers received \$44.90

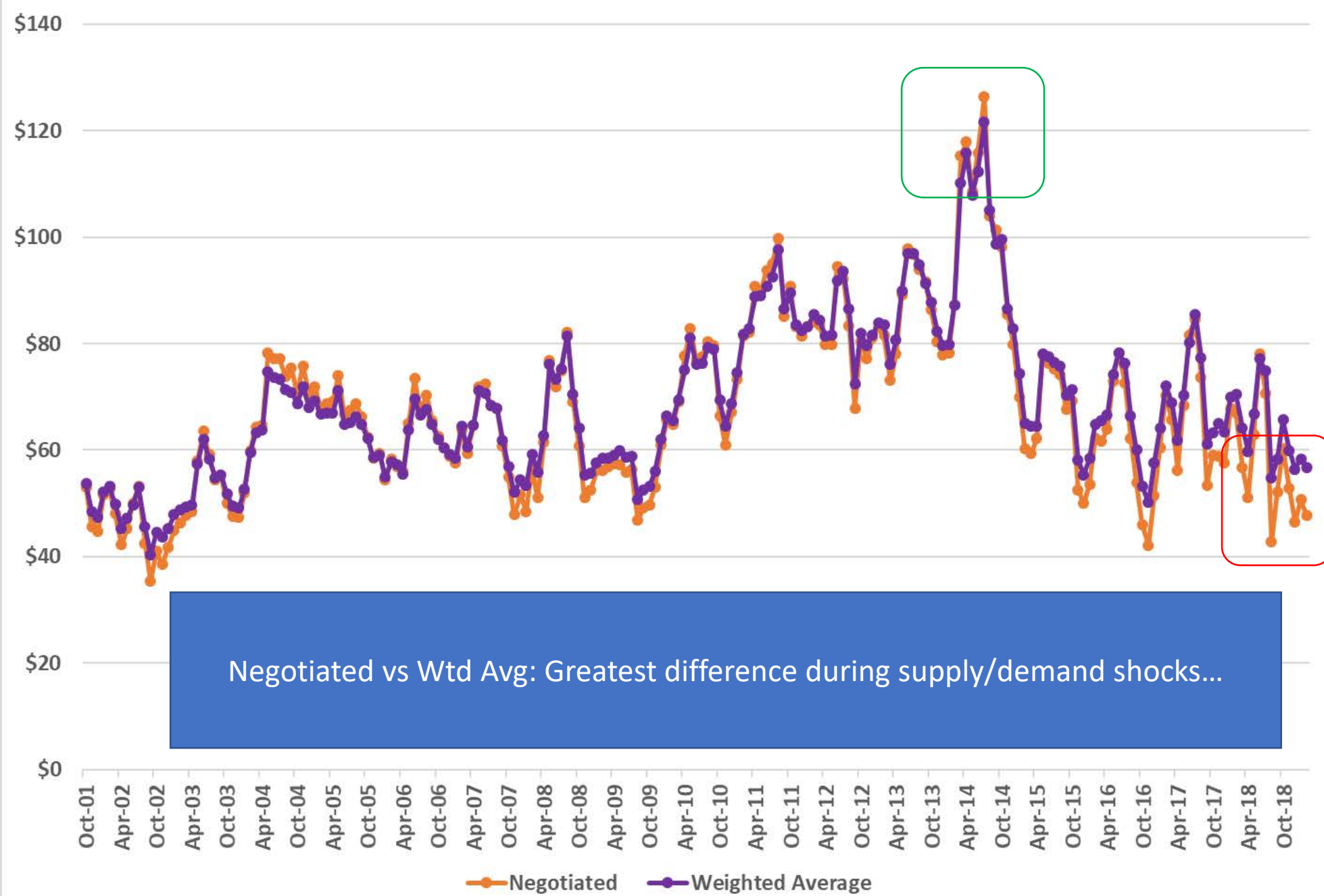
\$55.70 is “more representative” of price received

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Hog Prices by Pricing Method, Monthly October 2001-February 2019



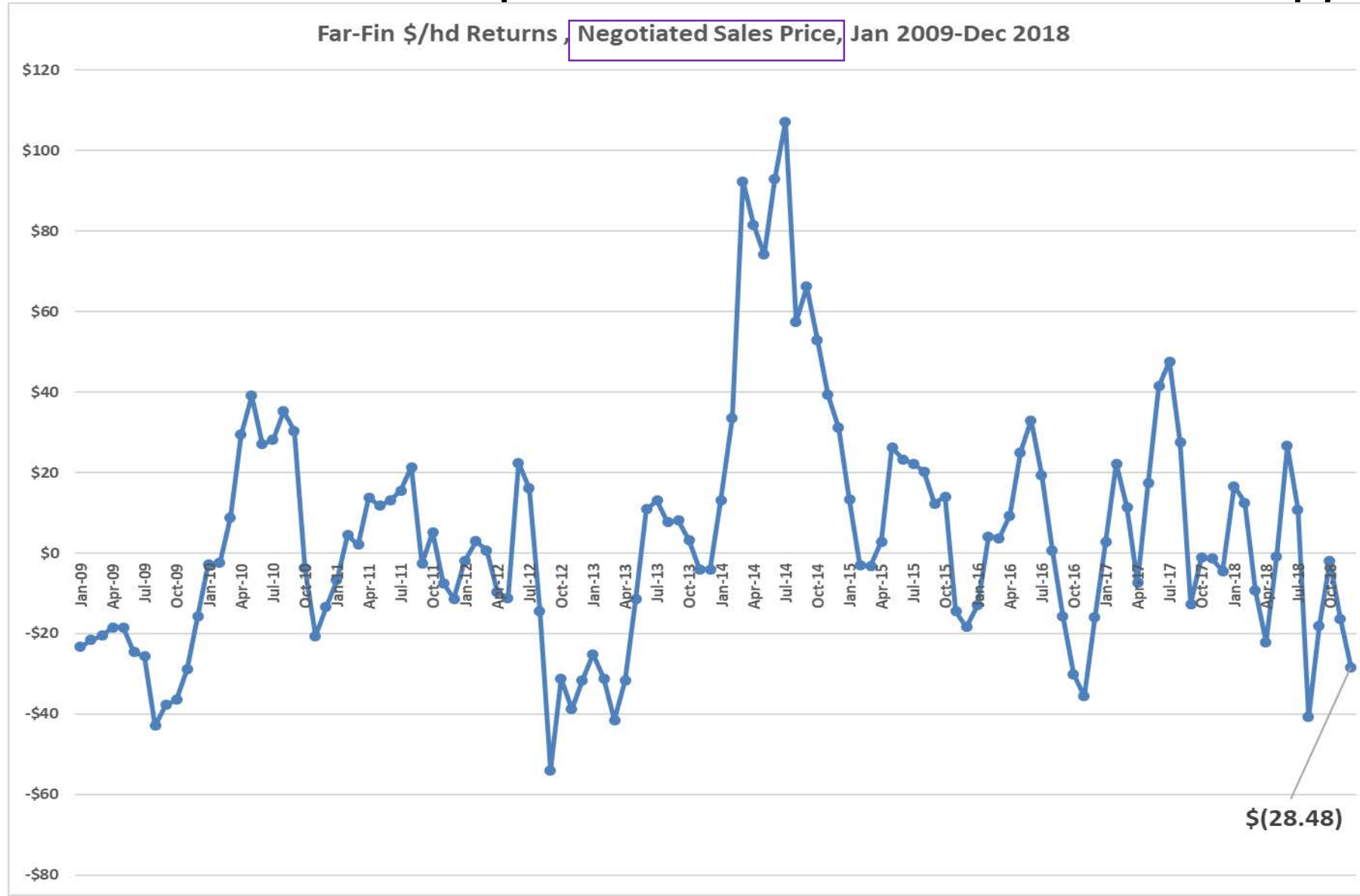
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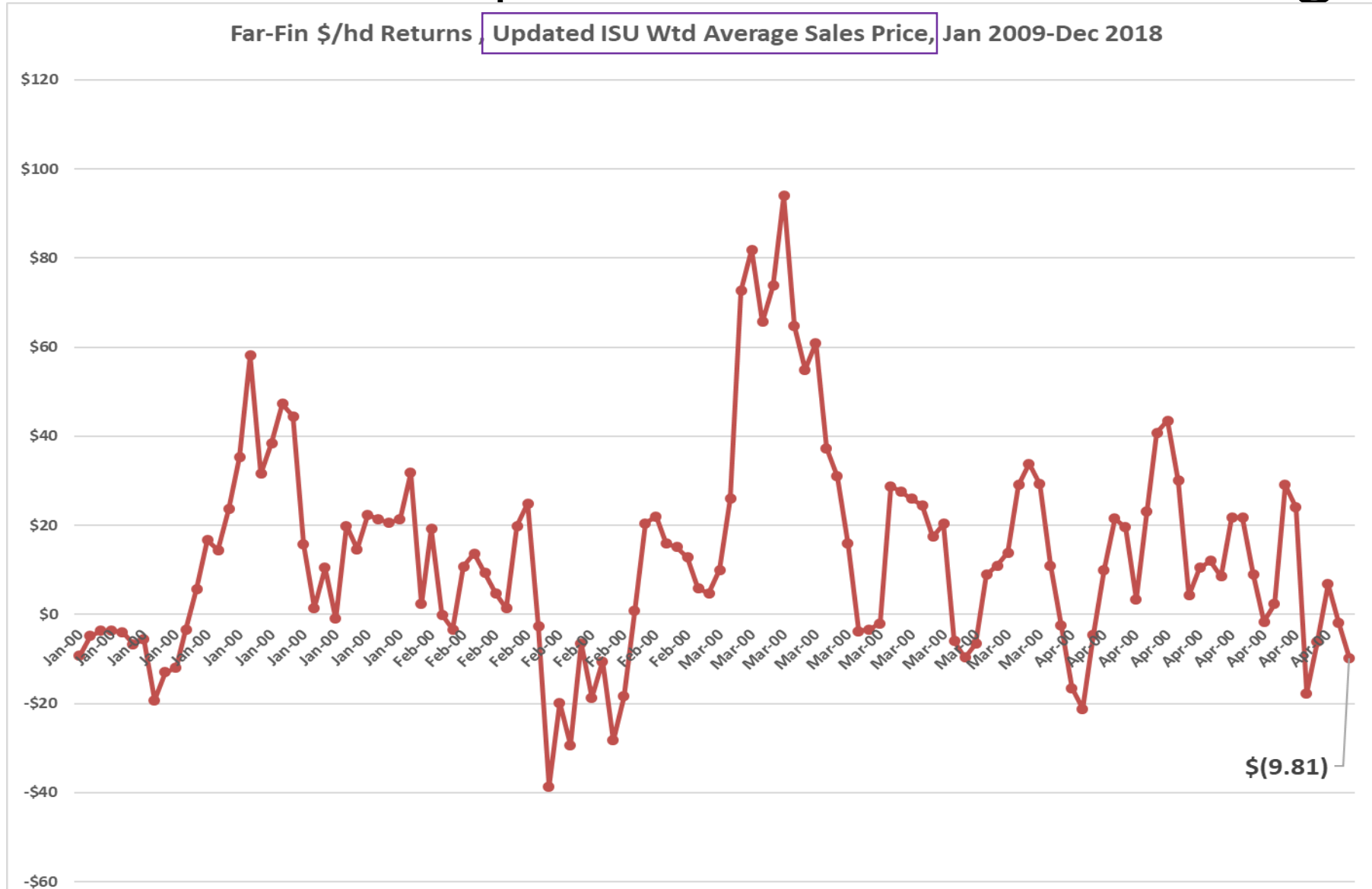
Price Relationships

- Pork prices now impact formula priced hogs more than in the past
 - Anecdotally, 30-35% of formula priced hogs are priced using the cutout (CME DLR, Sept. 21, 2018)
- Note “Other Purchase Agreement” category is a catch-all for hogs not fitting other 3 buckets (Negotiated, Pork Market Formula, Other Market Formula)
 - Includes production cost factors, non-carcass premiums, racto-free, etc.
 - Market share grew in early 2016 w/ shift from Swine/Pork Formula

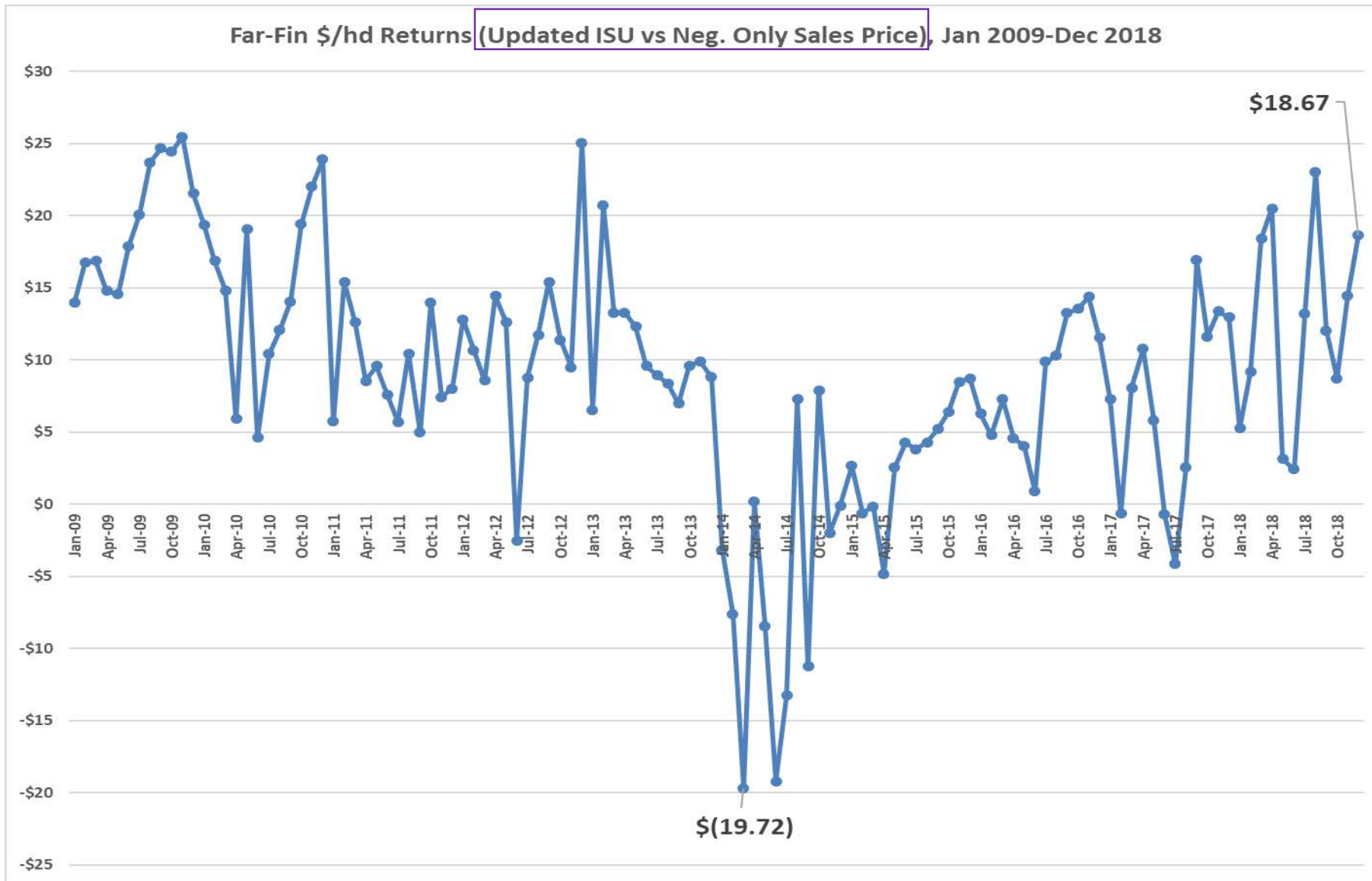
Sales Price impact on Far-Finish Margins...



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Price Premium Insights

- USDA began reporting non-carcass premiums March 2016 (LM_HG25 ; weekly Monday report)

Price Premium Insights

LM_HG250

Des Moines, Iowa Mon, Feb 25, 2019 USDA Market News

NATIONAL WEEKLY DIRECT SWINE NON-CARCASS MERIT PREMIUM

FOR WEEK ENDING Saturday, February 23, 2019

	Value Range*	Average*
VOLUME	0.00 - 0.00	0.00
TRANSPORTATION	0.16 - 3.05	1.47
DELIVERY TIME	0.25 - 3.15	0.82
BREED	0.00 - 0.00	0.00
PORK QUALITY ASSURANCE	0.00 - 0.00	0.00
BETA AGONIST FREE	0.30 - 1.50	0.67
OTHER **	0.30 - 15.00	3.84

Added Aug 2017, per industry request to USDA AMS

* Prices reported per hundred pounds carcass basis

** OTHER category includes: Animal Welfare, Antibiotic Free, Diet/Feed, Genetics, Meat Quality, Process Verified Program, Sow Housing and Weight

*** Price not reported due to confidentiality, For more information visit:

www.ams.usda.gov/sites/default/files/media/ConfidentialityGuidelines.pdf

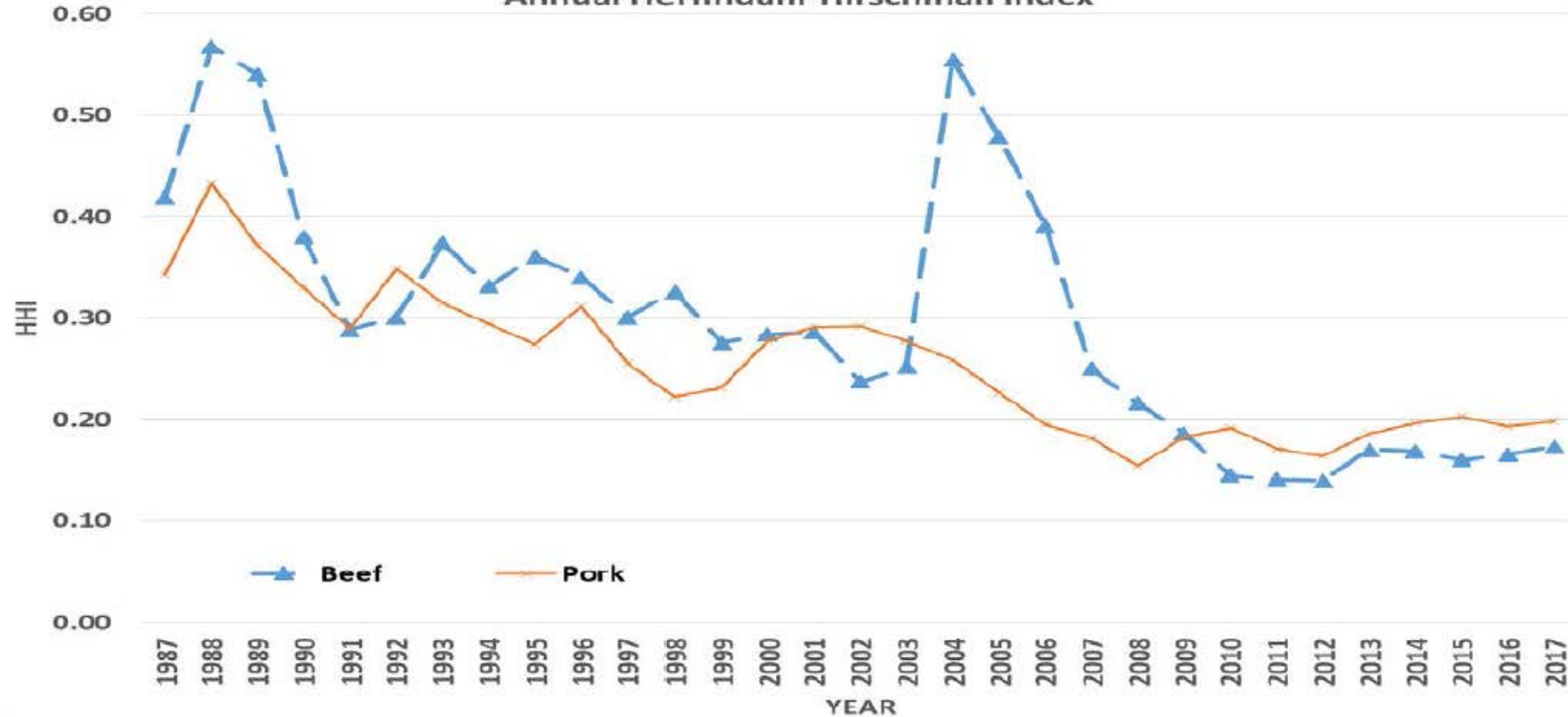
Never a dull day...

- International trade situation is complex & dynamic
- ASF and related concerns persist

<https://www.agmanager.info/livestock-meat/marketing-extension-bulletins/trade-and-demand/concentration-us-red-meat-exports>

Concentration of U.S. Red Meat Exports

U.S. Beef and Pork Exports (Volume-Based), Annual Herfindahl-Hirschman Index



Never a dull day...

- International trade situation is complex & dynamic
- ASF and related concerns persist
- When will U.S./global recession occur?
 - Consumer demand matters!

Consider how much phones have changed...



Sources: <http://imgkid.com/old-rotary-phone.shtml> <http://www.gizmag.com/mobile-phone-40-year-anniversary-photos/25677/> <http://www.cellphonereviews.com/who-invented-the-cell-phone/> <http://science.howstuffworks.com/innovation/inventions/who-invented-the-cell-phone.htm>

Consider how much MORE phones WILL change...



Sources: <http://www.techradar.com/us/news/wearables/apple-iwatch-release-date-news-and-rumours-1131043>

More information available at:



This presentation will be available in PDF format at:

<http://www.agmanager.info/contributors/tonson>

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