Canadian Pork Market Report

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Market Analysis and Consulting Inc.
Make Informed Decisions

June 24, 2024

The Markets at a Glance					
		Last Yr	15-Jun-24	22-Jun-24	last wk % chg Year
CME Lean Hog Index	(U.S. $/cwt)	90	91	91	0%
Nearby Futures	(U.S. $/cwt)	91	91	92	1%
Third Month Hog Futures	(U.S. $/cwt)	80	90	76	-5%
Cdn Slaughter week F.I & P.I.	(000)	399	409	420	5%
Cdn Slaughter latest 52 week	(000)	21,661	21,357	21,378	-1%
US Slaughter week F.I.	(000)	2,368	2,380	2,419	2%
US Slaughter latest 52 week	(000)	125,378	127,842	127,893	2%

Canadian Market Developments

Stellar 2023 Demand

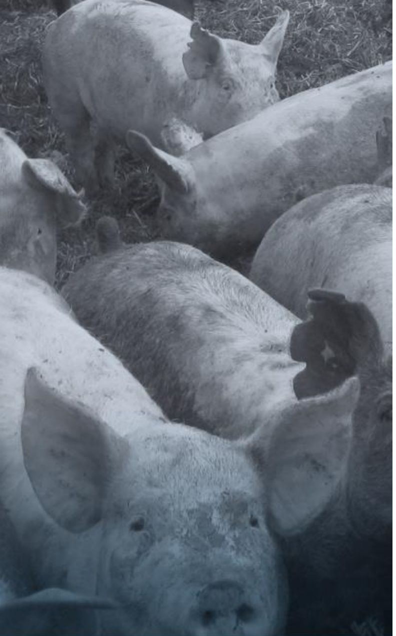
Huge Consumption Increase

Statistics Canada recently released the per capita consumption data for 2023. Pork per capita consumption increased by over 14% last year to hit just under 23 kilograms per person on an eviscerated basis. That is the largest consumption since 2015 which was just over 23 kilograms. The 2023 consumption was the second largest since 2010. In the United States, pork consumption was down by 1% in 2023 compared to 2022.

Canadian beef per capita consumption declined by 7% in 2023 and chicken consumption was unchanged. The decline in beef consumption is a reflection of the decline in production and the stage of the cattle cycle in Canada and the United States. Chicken production in Canada increased nearly 4% last year; the stable per capita outcome reflects the large population growth

Consumer Price Declines

During 2023, Canadian retail pork prices increased by 1% compared to 2022 according to the Statistics Canada Consumer Price Index (CPI) for pork. Consumer beef prices increased nearly 8% while chicken was up 9%. In the United States, consumer pork prices declined 1% in 2023 compared to 2022. U.S. beef prices were up 4% last year compared to 2022 and chicken prices were up 2%. Pork therefore had a comparative consumer price advantage compared to the competing meats in both countries, especially in Canada.



Excellent Demand in 2023

When price and consumption are combined it provides a picture of demand. The combination of pork price changes and consumption gains meant that pork demand increased by more than 10% in 2023. That is the biggest demand increase on record going back to 1984. The overall demand value, the product of price times consumption was the second largest on record going back to 2004. In the United States, by contrast, pork demand declined by 6% in 2023.

Merchandising Support at Retail

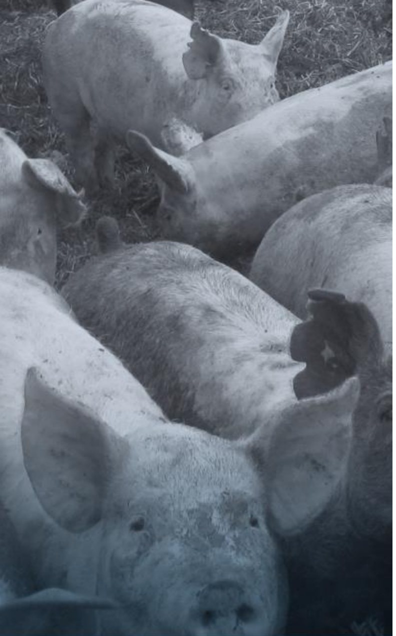
Part of the reason for the increase in pork demand in Canada was the high prices and greater inflation of the competing meats. As a result of that pork advantage, retailers placed strong merchandising focus on pork. Based on my tracking of 25 grocery flyers across Canada, fresh pork was featured on the front page of flyers much more frequently in 2023. It also gained a larger share of fresh meat features. Between 2019-2022, the fresh pork feature frequency rate on the front page of flyers was 39%. That is to say, over that time, fresh pork was on 39% of flyer front pages. During 2023, the frequency rate was 47%. In other words, during 2023, pork was much more likely to be on the front page of a flyer. It also gained share of space in the flyer in comparison to beef and chicken.

Increased Imports and Reduced Exports

The pork consumption increase occurred despite a tepid 1% increase in production in 2023. The increase in consumption availability occurred through an increase in imports of 13% and a decrease in exports of 6%. Normally that combination of increased imports and decreased exports would be a cause for concern. In the case of 2023, however, imports surged to Canada because of strong domestic demand. Furthermore, with regard to exports, domestic production stayed home to satisfy domestic demand rather than moving to other countries.

Rough Start to 2024

Demand in 2024 can only be reasonably assessed through April. That is because April is that latest month for the import and export data. That data is needed along with production to get an idea of consumption. January - April production in Canada decreased by 3%. Exports in January through April were up 15% year over year while imports were down 7%. That blend of production and trade means that consumption in the first four months of 2024 is down significantly compared to 2023. In addition, retail pork prices in Canada were steady to lower according to Statistics Canada's CPI. That combination of price and consumption means that Canadian pork demand is off to a rough start in 2024.



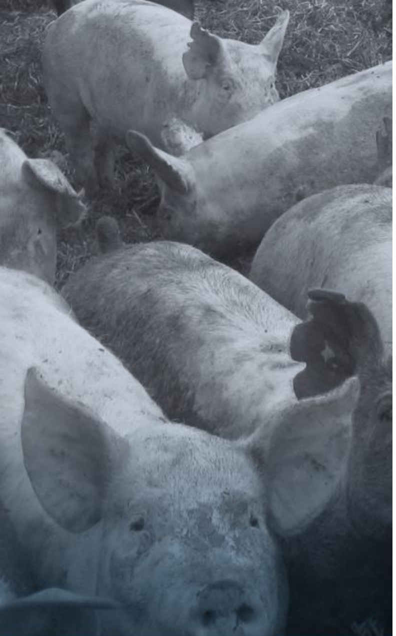
Market Forecasts

News and Other Analysts' Opinions

- "The Barchart Trading Guide is a Sell Signal with a Soft Signal Strength.," for the July futures, Barchart.com, June 24.
- Bruce Ginn is looking at the bright side in his Cattle and Pork Comments, June 21. Ginn says that the market is dealing with larger numbers than anticipated and heavier weights. He says supplies therefore should be burdensome, BUT prices are relatively firm. Demand has proven to be better than expected a factor that will be pivotable later this year and next, Ginn says.
- J.S. Ferraro released The Pork Wrap, June 21, in which Rob Murphy says he thinks this week's Hogs & Pigs Report will show a slight year over year increase in total swine inventories even though the breeding herd is expected to be reported down 3-4% from last year's level. Murphy says, "If my estimates are close to what the survey reveals, I don't think futures traders will view that very positively." His current fundamental forecast has the July LHI at expiration near $89, and "if that happens, we will have the July contract expire below the April contract. It is an odd year indeed, says Murphy.
- NationalHogFarmer.com, June 11,notes that there has been double digit declines in major hog producing nations across Europe and European pork exports dropped 24% last year. Brett Stuart from Global Agri-Trends doesn't anticipate any real recovery in size this year. In fact, the EU Commission is forecasting another export decline this year and expects that number to drop every year for the next 10 years. "It's all about climate policy and animal welfare and general 'do-goodery,' and they're really committed," Stuart says.

  Stuart believes the Proposition 12 situation has been more painful than the industry realizes. A meat trader in California recently told him fresh pork sales in California have been cut in half. While Stuart doesn't think sales are down that much statewide, he notes there are very few pork features or ads running right now in California.

  "The preliminary data shows that retail pork prices in California are up 20%. So, you've got 38 million Americans now paying 20% more for pork. The obvious answer is they're going to consume less," Stuart says. "California typically took about 13% of our net pork supplies. So, a -25% reduction in that puts another 3% into the other 49 states, and maybe that helps explain where we're sitting from a supply perspective. I think it's really a major factor."

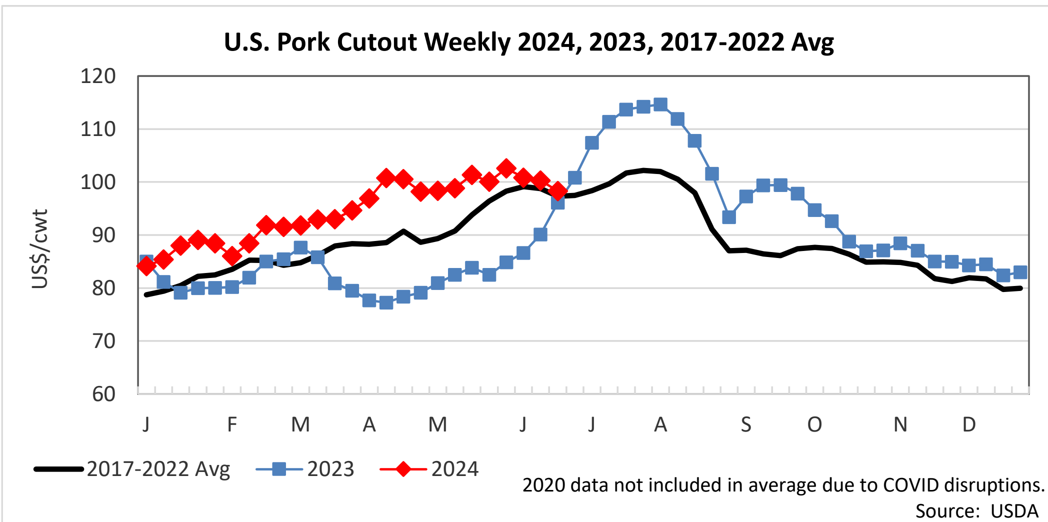


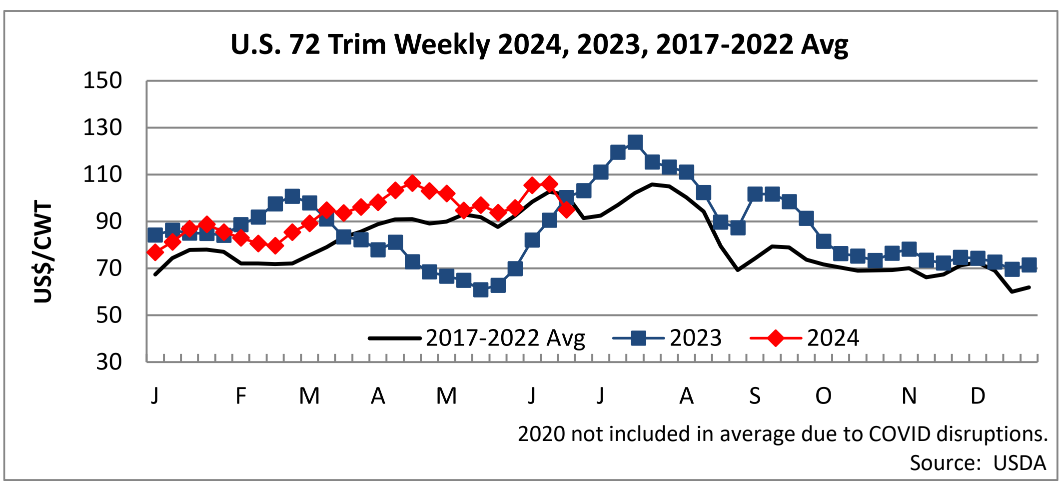
Pork Market

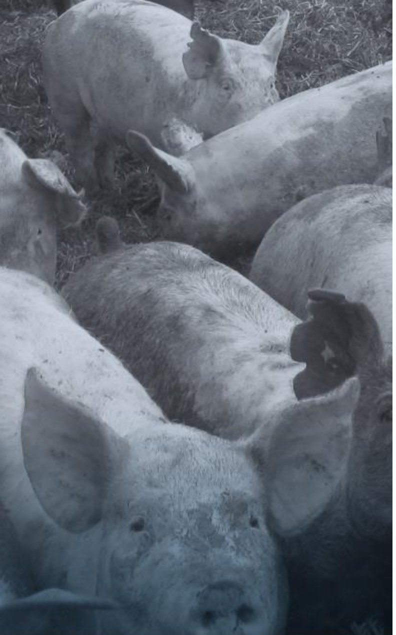
Commentary by Rob Murphy, The Pork Wrap, June 21, J.S. Ferraro.

The pork cutout went on the defensive this week as price weakness in the bellies and loins helped the cutout lose $1.99 on a weekly average basis in moving to $98.30. I am certainly concerned about the apparent inability of belly prices to advance, but even more concerning is the softness that was seen in some of the retail items this week. Loins, in particular, saw significant price weakness at times this week. Just judging by the calendar, it is time for the hams to turn higher, but I'm concerned that they might continue to struggle. Ham movement into Mexico looks a bit subdued based on the weekly FAS sales/shipments and the peso has lost value relative to the dollar, making US hams more expensive for Mexican buyers.

Both the 42s and 72s trims moved lower this week and the 72s had a particularly nasty print on Friday at 88 cents after trading at $1.14 on Monday. If the 72s are in trouble, that doesn't bode well for the hams or even the cutout. We will need to keep a close eye on that.



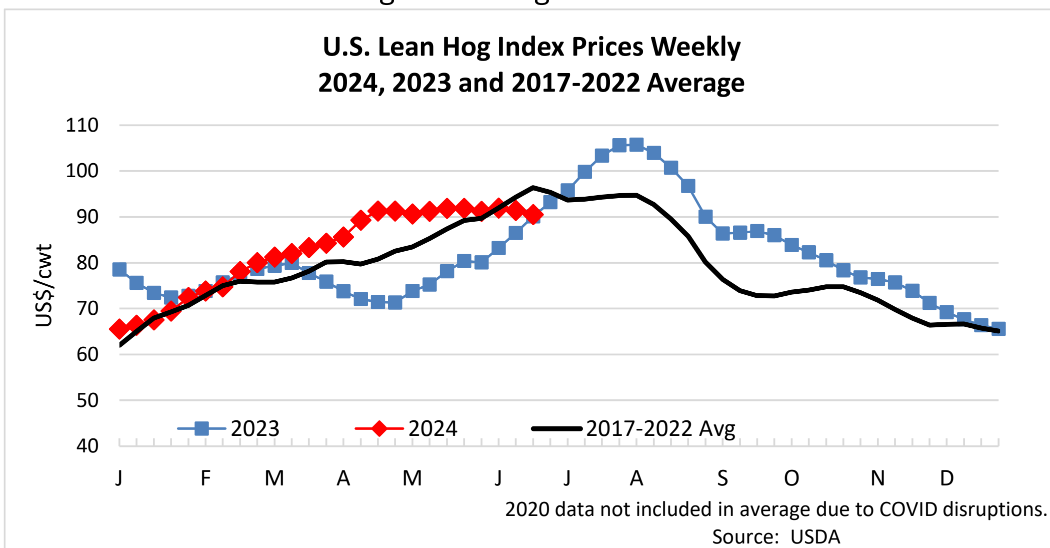




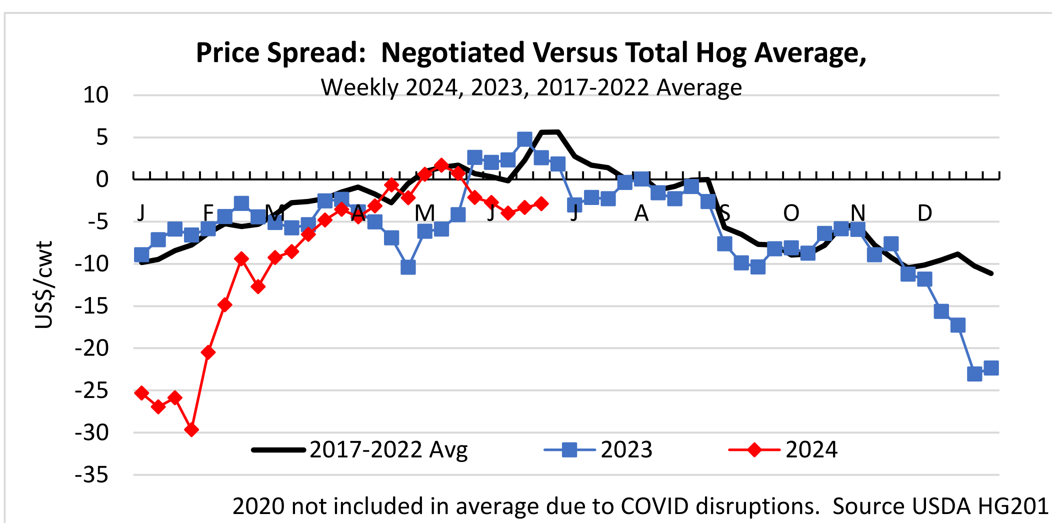
Hog Market Analysis

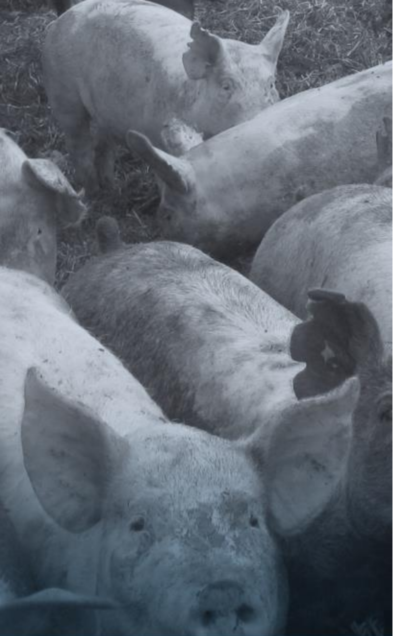
The United States Market

- The CME lean hog index (LHI) averaged about $90.50/cwt last week. Prices continue to meander sideways since mid-April, foregoing most of the normal seasonal uptrend. The LHI is reflecting the tepid performance of the cutout and the negotiated hog trade.

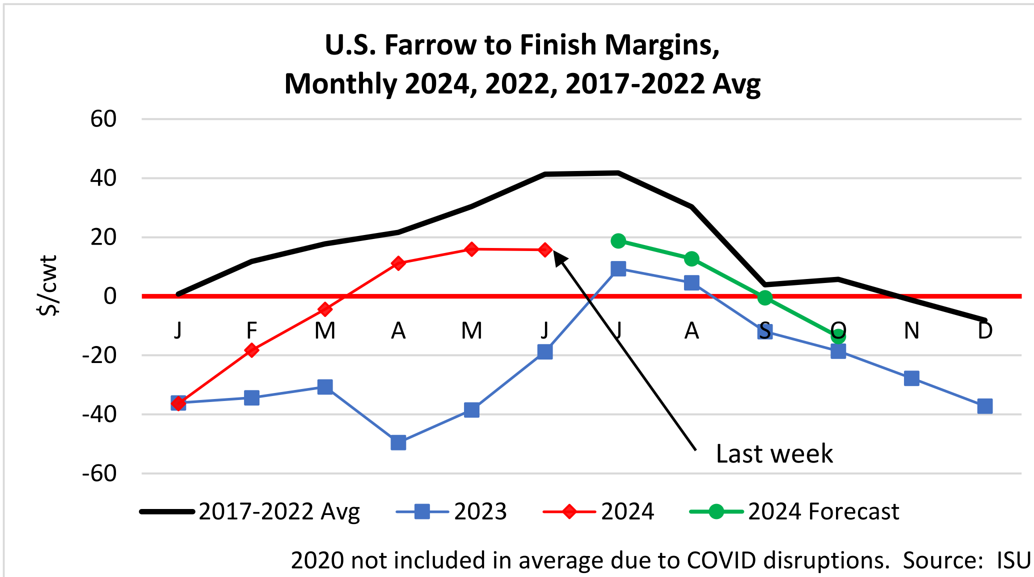


- The weekly average of the thinly traded negotiated hog market increased less than a dollar in the last two weeks. The open market hogs are trading a few dollars less than last year.
- The spread between the total producer trade hog price (overall average) and the negotiated trade price remains below the 2017-2022 average and below 2023 levels. It indicates a lackluster packer demand for hogs.

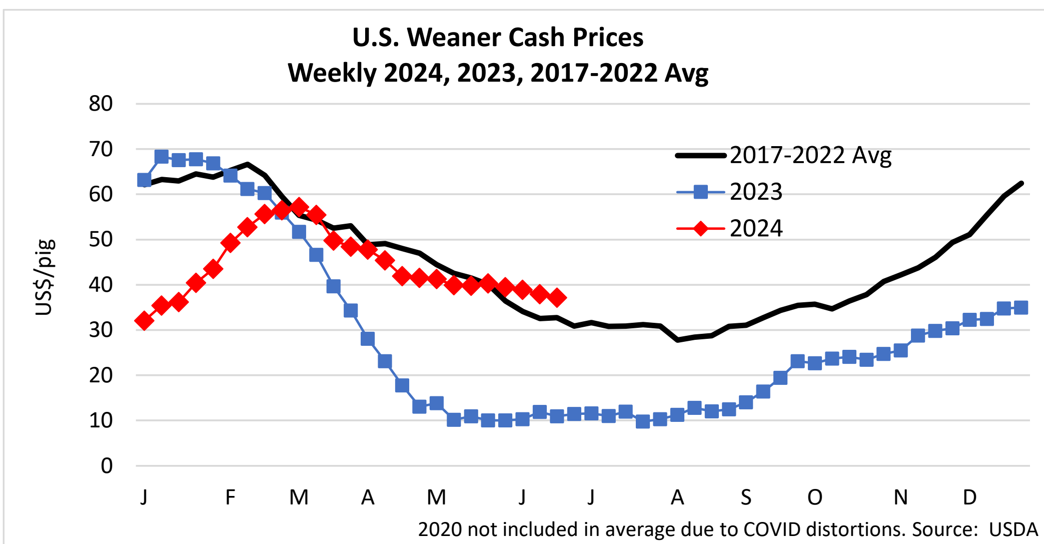


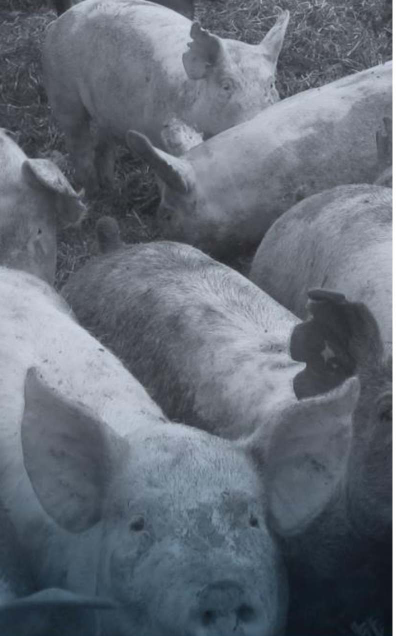


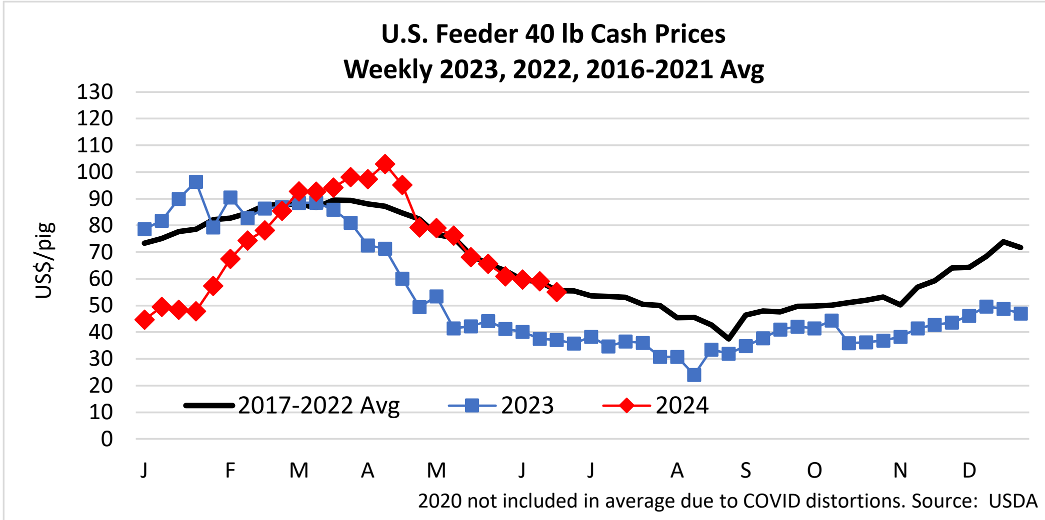
- Based on the Iowa State University (ISU) hog budget for farrow-to-finish operations, current prices $91/cwt (LHI average last week) would be positive by $14-16/head. The graph below shows estimated margins through October 2024 (using hog futures and estimated feed costs, based on the ISU model).



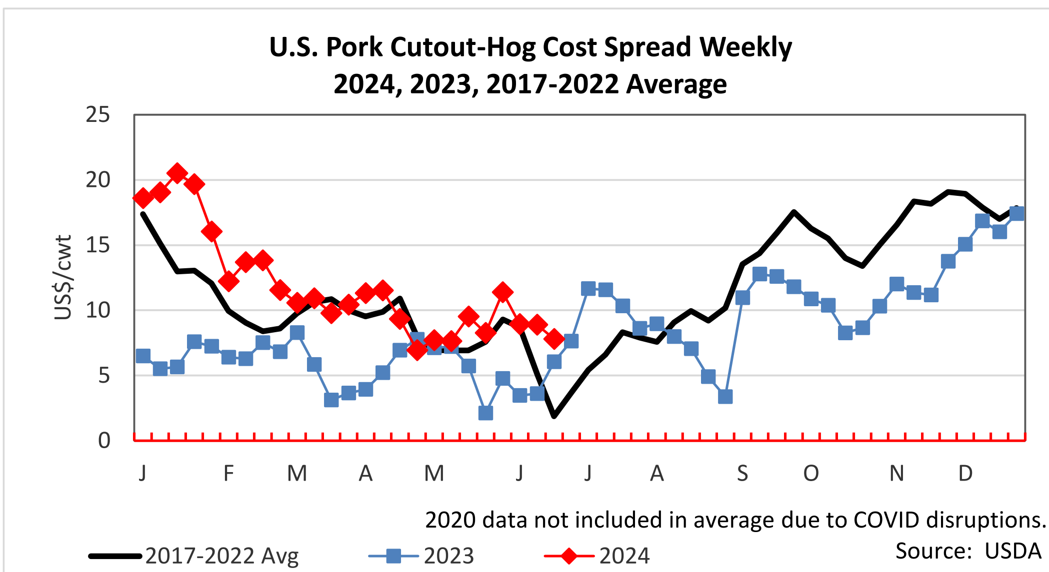
- Weaner prices continued their seasonal downtrend but at a slower than normal rate in the last couple of weeks. Feeder prices are trending down right around average levels.



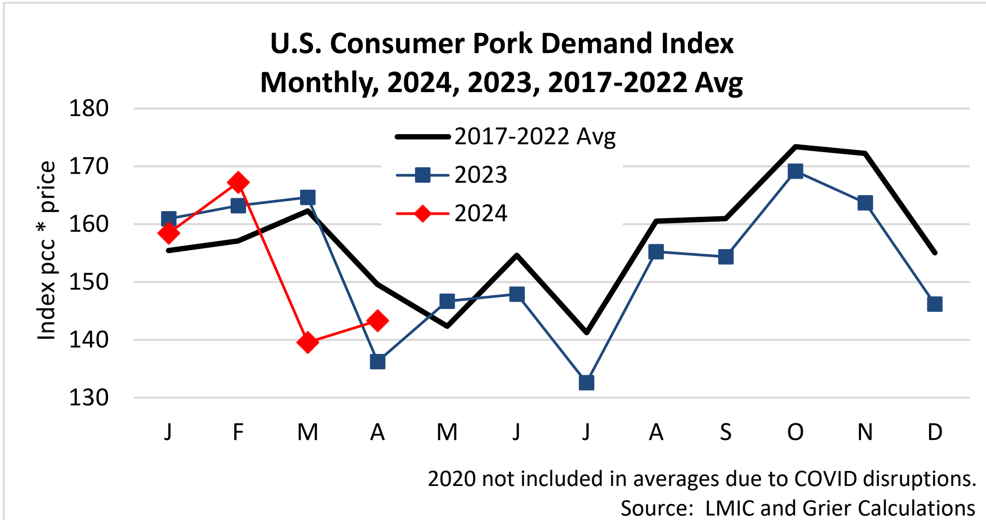




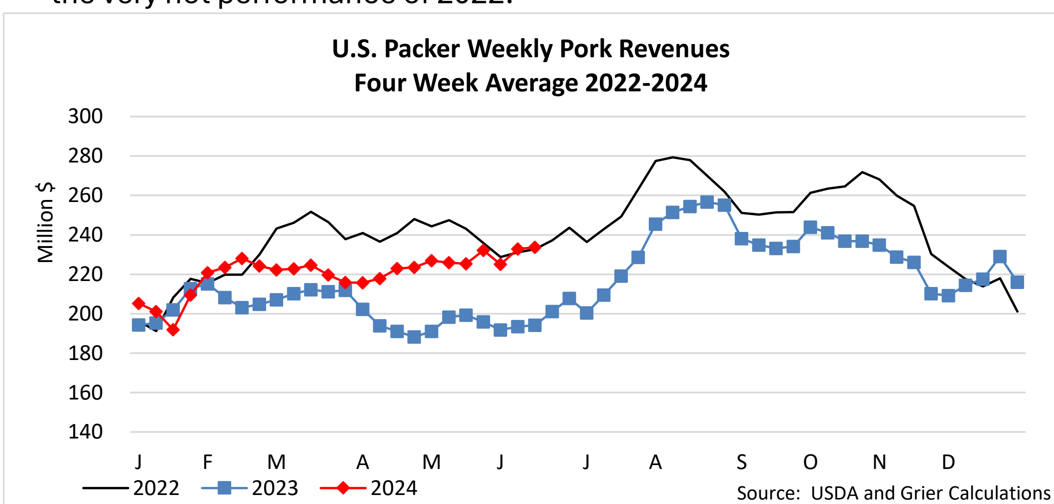
- The packer spread between the pork cutout and the hog cost (not including by-product credits and operating costs) has trended seasonally lower this year but remains well above average. HedgersEdge.com puts net margins at US$13/hog compared to $17 two weeks ago.



- 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.

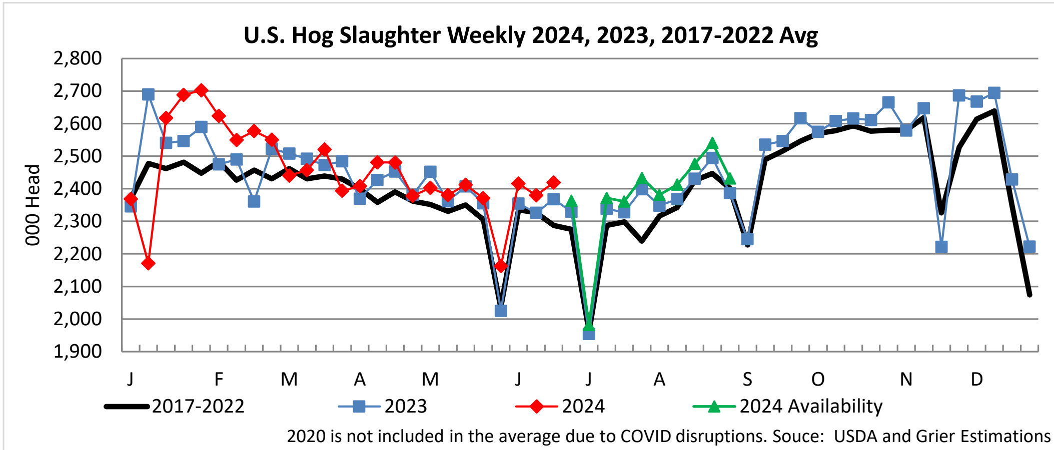


- Pork demand at the packer level can be inferred and estimated as the total loads sold for the week by packers multiplied by the cutout value. Based on that method, demand looks to have continued to slowly improve in May. It looks to have finished May and into June right around the very hot performance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

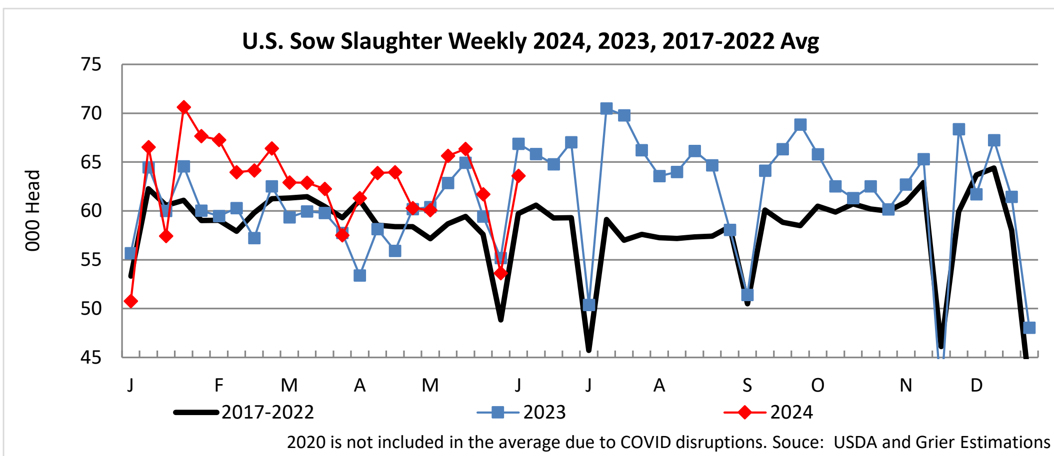


- Slaughter in the last two weeks averaged 2.4 million head, 2% more than the same weeks last year.
- Based on the pig crop from six months ago combined with the hog weight breakdown from the March Hogs & Pigs Report, slaughter from March 1 through last week was expected to be roughly steady to slightly higher with the same weeks last year. Actual slaughter has been running nearly 1% more than last year since March 1. The March report was a little on the light side in terms of slaughter availability. The next H&P Report is scheduled for June 27th.

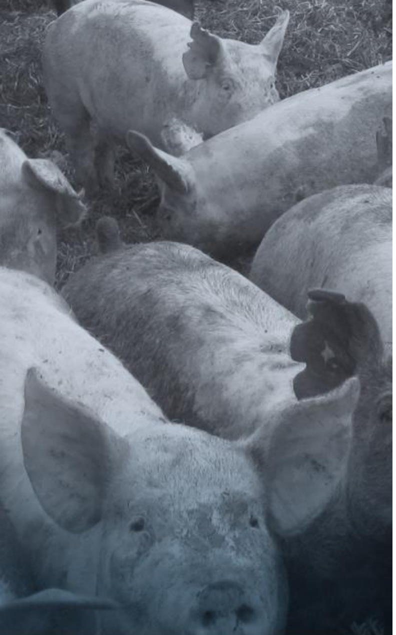
- Based on the March H&P report, June slaughter should increase by 1-2% over last year. July and August should be up closer to 2%.

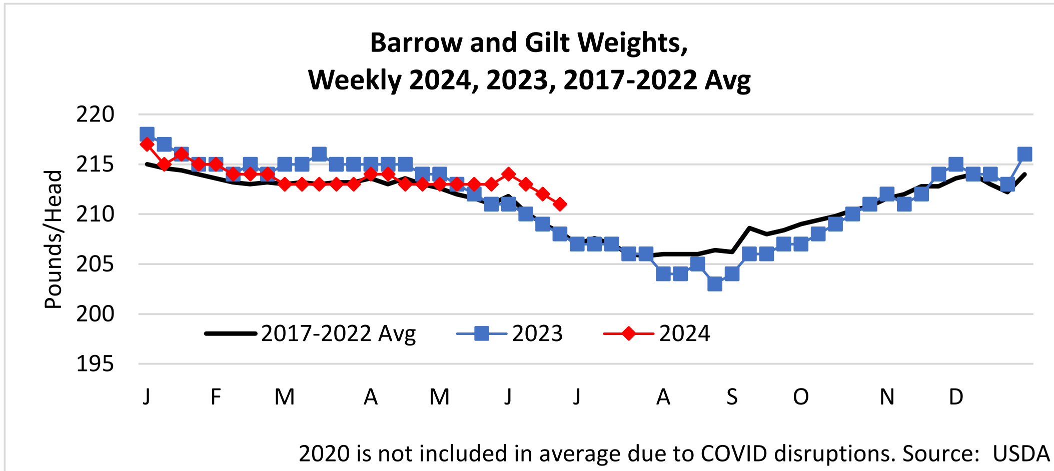


- Sow slaughter for the week ending June 8 (latest), was 63,600 head. That was down 5% with the same week last year. The rolling four-week average was flat with last year.



- Carcass weights for barrows and gilts for the week ended June 8 (latest) averaged two pounds more 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 3 pounds.
- 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>U.S. Market Takeaways</u>

- ✓ 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 continues to be weaker than average and even weaker than last year. That is a sign that packers are not in search or in need of open market hogs to fill kill needs.
- ✓ Producer farrow to finish margins remain in the black but well below average. Futures prices will put margins at breakeven in September and red by October.
- ✓ Weaner and feeder prices continue to trend seasonally lower.
- ✓ Packer gross margins are in the black as they trend seasonally lower and much stronger than the 2017-2022 average.
- ✓ Consumer demand increased in April off a disappointing March.
- ✓ Preliminary indicators for May and June indicate that pork demand improved 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 bottom soon.
- ✓ Sow slaughter has slowed.
- ✓ 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.

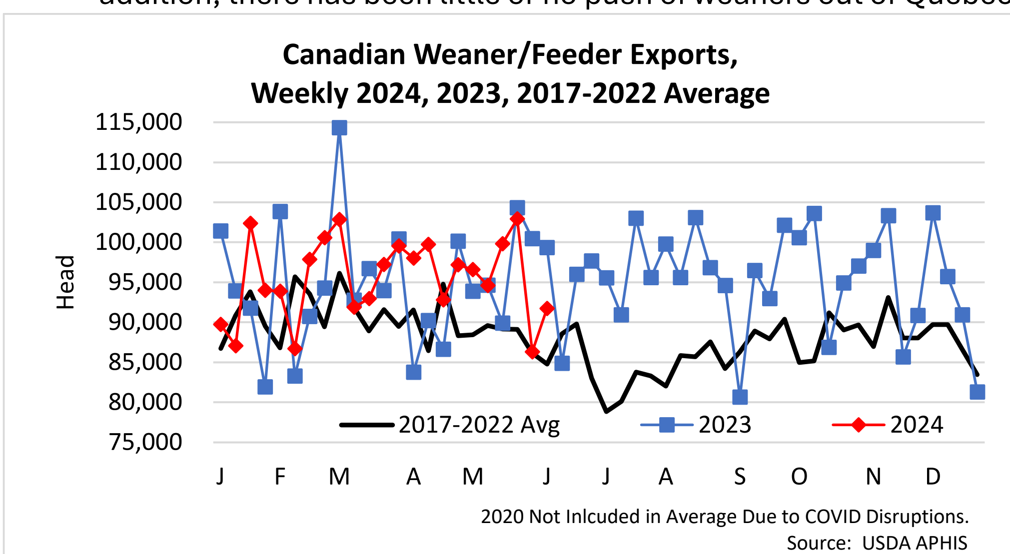
The Canadian Market

- Prairie weaner producers are probably right around breakeven. That compares to a 52-week rolling average loss of about $6 and a 2022 average profit of C$22/head.

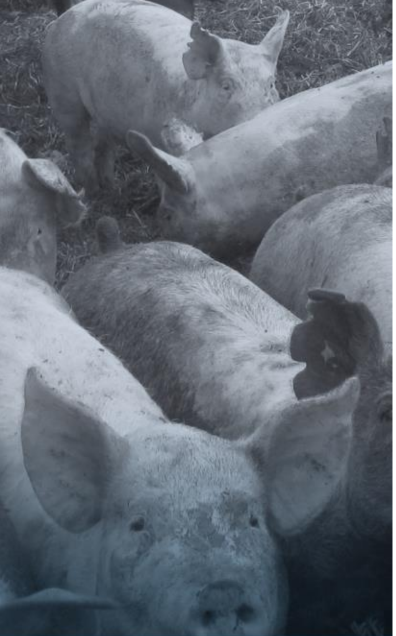
Four Week Average Weaner/Feeder Exports		
Port of Entry	**vs. Last Year**	**vs. 2017-22 Avg**
Michigan	-20%	12%
North Dakota	-8%	-5%
All Ports	-11%	9%

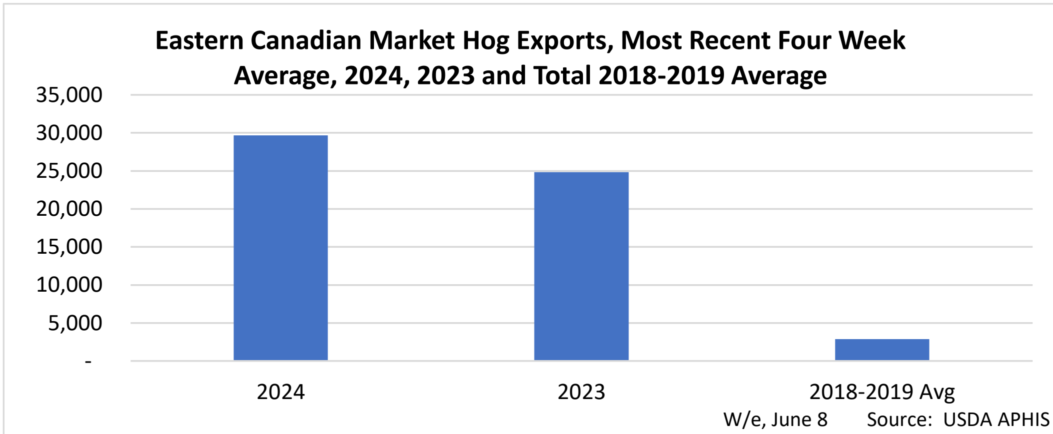
week ending June 8. Source USDA APHIS

  - U.S. demand for weaners is robust. Last year at this time weaners were trading for US$10-11/head and the December board was at $77. Now weaners are trading at $37, and the December futures are at $72. Lower feed costs can explain some of that, but tight supplies in the U.S. are the biggest reason. Robust sow cull in the fall and early winter plus PRRS has cleared up available weaner numbers. In addition, more U.S. business is going back to contracting which is taking numbers out of the cash market.
  - The decline in weaner numbers going through Michigan is in part a reflection of strong domestic demand keeping volumes in Ontario. In addition, there has been little or no push of weaners out of Quebec.

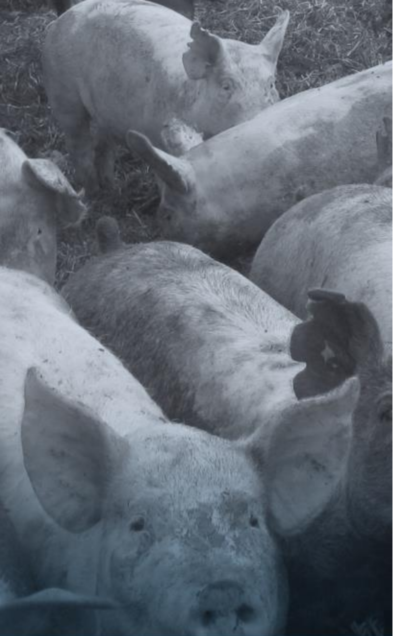


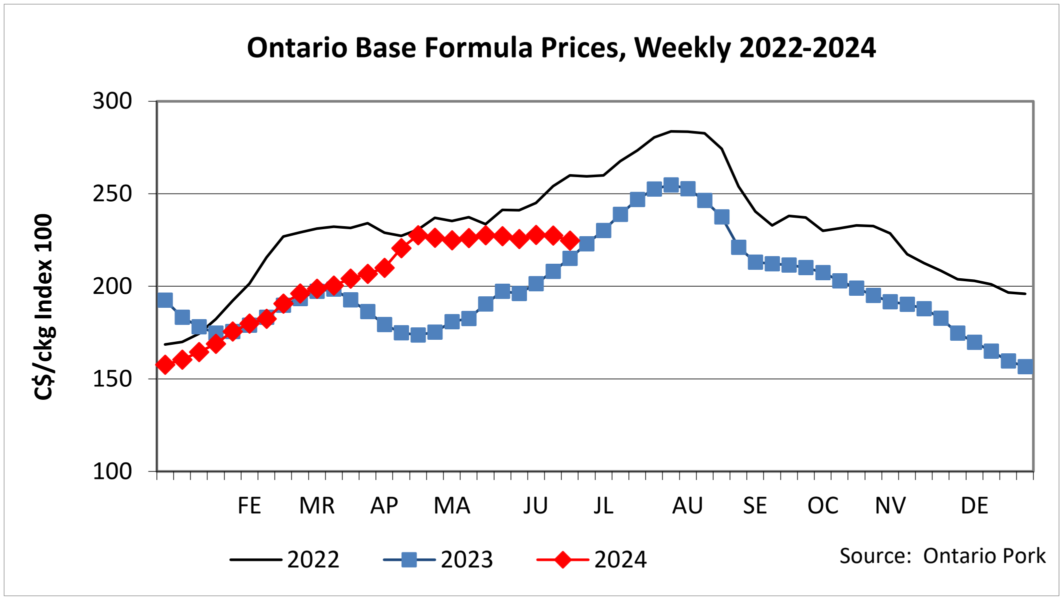
- Daily numbers of Canadian market hogs purchased by U.S. packers in the last 30 days ending June 20 averaged 5,600/day. That compares to a 5,600 average for the same 30 days last year. Daily numbers have been averaging roughly 4,900 per day since October 2022.

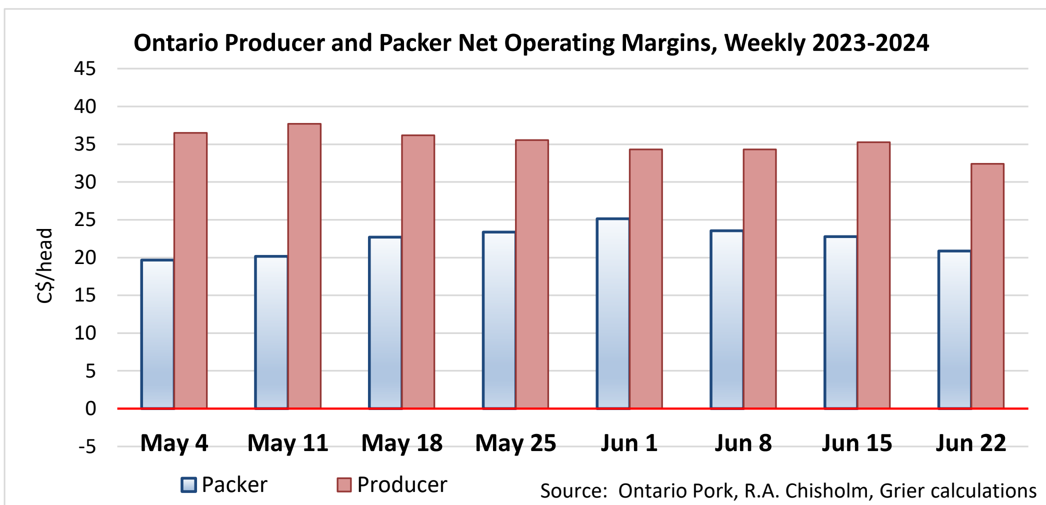




- **Conestoga**, Breslau, has been harvesting about 9,000 per day. They did not work on Saturday.
- **Sofina,** Burlington, averaged 8,000 per day last week. They cut back kills about 1,000 due to the heat. The plant is unlikely to put in a Saturday until the fall.
- Market hog availability is tightening in Ontario, especially with the recent heat.
- **Britco**, Langley is estimated at about 1,100/day. That is down about 200 from earlier this year.
- **Thunder Creek** in Moose Jaw is at about 1,100/day.
- **Maple Leaf**, Brandon, bumped up to 15,000 per day from 14,000 or less in recent weeks. Maple Leaf Lethbridge is at 1,550.
- **HyLife** In Neepawa, was at 9,100+. They did not kill 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. Yamachiche is usually under 4,000, St-Esprit tends to run at 7,000-7,400 and Ange-Gardien at 6,800.
- **Olymel**, Red Deer, is running about 7,500.
- **Breton** in Rivière-du-Loup is estimated at 3,200/day.
- Fewer hogs have moved from Alberta to Manitoba this year compared to last. Last year in the first half of the year, about 70-80,000 hogs moved from Alberta to Manitoba for slaughter. This year it looks as if the half year tally will be about 40-50,000 head.
- The number of hogs going from Saskatchewan to Manitoba is up in the first half of this year compared to last. In 2023 about 235-245,000 head went east to Manitoba. This year it looks like that number could be up to 270-280,000.

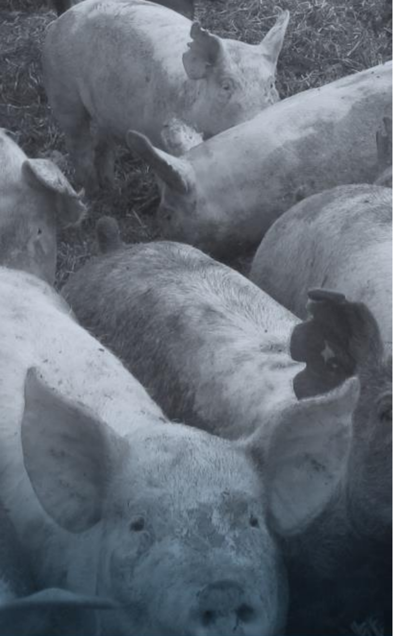






Quarterly or Monthly Forecast Review

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 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."** The actual two-week average was about $91. The market did not see even a slowed down seasonal climb. I should have listened to my own bearish argument. GRADE ON THE FORECAST: "D."

The Next Two Weeks

Neither the cutout nor the hog market has been able to gain any seasonal traction during May and June. Meanwhile this is the time of year that the hog market tops out. The weakness in the cash market shows that packers are not in the hunt. Numbers will be ample going into a holiday-shortened kill week. **U.S. Call: steady to lower; two-week average, $90/cwt.**

U.S. LEAN HOG INDEX PRICE FORECASTS AND FUTURES					
	Next 2 weeks	August	September	Q4	'25 Q1
Futures	92	89	--	74	75
Grier	90	90	85	78	79

Implications/Actions

Canadian pork demand was excellent last year but off to a tepid start this year. Competing meat prices are going to continue to be suppportive to pork, particularly beef. Beef prices will continue to increase as the industry begins to rebuild the herd and hold back heifers this year and next. Pork should be able to make share gains in both Canada and the United States.

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.

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