

# Canadian Pork Market Review

Market Analysis for the Hog and Pork Industry

May 7, 2010

THE MARKETS AT A GLANCE			
	Last Yr	April 30	May 7*
<b>National Base Lean**</b>	54.73	83.67	86.20
<b>Nearby Hog Futures</b>	61.12	89.82	88.60
<b>2<sup>nd</sup> Deferred Hog Futures</b>	70.77	87.37	85.95
<b>USDA Pork Cutout</b>	57.10	89.75	90
<b>Canadian Pork Cutout***</b>	145	179	180
<b>Sask (SPI)</b>	113.50	152.73	159.78
<b>Manitoba (Man Agric)</b>	121.89	151.59	158
<b>Ontario (100% formula)</b>	119.17	153.95	162.64
<b>Quebec</b>	128.55	155.04	161.44
<b>US Slaughter</b>	2,016,000	2,028,000	1,992,000
<b>Cdn Slaughter</b>	403,000	397,000	NA
*Estimated. **51-52% Lean. ***Primal values/ckg at standard industry yields. (US slaughter is FI; Cdn is FI and PI)			
<i>Note: Due to the wide variety of price reporting and collection methods, it is misleading to compare prices between regions.</i>			

## Canadian Market Developments

### Isoporc and ASTA

Isoporc is one of the biggest hog producers in Canada with around 30,000 sows. The company is based around Montérégie, east of Montreal. Isoporc is an integrator, including feedmills, mainly operating in southern Quebec and Ontario. They also own a packing plant that kills sows and market hogs. The L. G. Hébert, plant is located in Ste-Hélène-de-Bagot. That plant can kill about 2,500 per week. They wanted to turn their plant to market hog slaughter only, but the changes to the marketing agreement, and changes to ASRA (and other factors) put a halt to this plan.

Last October, Isoporc bought 10% of Aliments ASTA shares. The center piece of ASTA's business is its pork packing plant. ASTA is based in St. Alexandre with a weekly capacity of 19,000 head. It is located about 50 kilometers east of Montreal. That is not far from Isoporc's base of operations. ASTA was formerly called Abattoir St-Alexandre. They may have changed the name to make it easier for the English customers. Now the partnership between Isoporc and **Aliments ASTA is going further, with ASTA buying 50% of Isoporc**. The two companies will now be involved together in all aspects of the supply chain, from feedmills, to hog genetics and production, to slaughter. They believe that it will enable them to be more competitive and profitable.

It will be interesting to see how they will be more competitive as a result of the alliance. **They will now be able to develop new products** (relating to genetics and feed), something they could not do easily

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before, and in higher volumes. ASTA used to have an omega-3 hog, with small farms. Before, for a new type of hogs, ASTA would have had to go through the process of developing a specific hog contract, having it approved by the FPPQ and then getting producers interested to sign it. **Now that it owns Isoporc, they will avoid some transaction costs** for that from now on.

### **Government “Help”**

**The Federal Ag Minister has been busy making announcements doling out dribs and drabs of money** to hog processors and packers. The money is coming from the Slaughter Improvement Program (SIP), which apparently is part of Canada’s Economic Action Plan. The Government of Canada's \$50-million Slaughter Improvement Program makes federal loans available to support “sound business plans aimed at reducing costs, increasing revenues and improving operations of red meat packing and processing operations in Canada. SIP’s objectives are to strengthen the competitiveness of the red meat industry by providing interest-free, conditionally repayable contributions.” These “contributions” will support investments to enhance slaughter capacity in regions that have a regional gap that is constraining growth. **Nobody in the meat industry is too sure what “conditionally repayable contributions” means.**

The federal government recently announced an “investment” of \$1.6 million to help Cambridge Meat Packers from SIP. This loan will allow the company to construct a water-treatment facility and finance the purchase and installation of new equipment. In addition, there was the recent “investment” of \$70,000 which will help Antigonish Abattoir upgrade their plant equipment and data tracking software and improve their traceability system. Then there was the recent “investment” of \$567,500 in Country Meat and Sausage, Blumenort, Manitoba. "This investment will allow [it]...to expand...production and pursue niche markets..."

Back in the 90’s Bill Clinton was the first to use the term “investment” when describing government spending. The premise of course is that if it is an investment, then there is something in return instead of just typical government spending. It appears that federal and provincial governments recently latched onto that Clinton-speak misnomer in a robust way. In fact it sometimes seems that all government spending is now re-glossed as an “investment.”

On May 1 Agriculture Minister Gerry Ritz and Member of Parliament Gary Schellenberger (Perth-Wellington) announced an investment of nearly \$4.5 million to help Great Lakes Specialty Meats of Canada improve and expand its facility allowing the company to pursue new niche markets. This funding will be used by Great Lakes to improve plant capabilities to produce high quality value added products using modern and efficient equipment and technology such as the leading traceability systems for improved food safety.

**“This loan is very important** because it will allow us to make this facility, from a processor of mainly lower-value, quality pork products to one that’s efficient, modern and capable of producing higher-value-added products for the domestic and international markets,” **David Schwartz, president of Great Lakes and Quality**, Toronto. (Stratford Beacon Herald,

It is interesting that one of the goals is to increase capacity in regions that are short of capacity. Of course most regions of Canada are not short of capacity, they are short of hogs. The fact is that **the last thing this industry needs is added capacity**. Pork packers in Ontario and on the prairies are struggling to keep their plants running at capacity. In Ontario weekly marketings are down to the 80,000 head range compared to 92,000 last year at this time. Supplies seem particularly tight at Burlington. With tighter restrictions on Quebec’s ASRA program, it is likely that there will be over -capacity in Quebec within a couple of years. **As usual the government is a tad late in its timing.**

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More power to the companies that are getting the cash...why not. Nevertheless, if the Minister was to actually ask the industry if they would like some sort of quasi financial assistance or changes to operating bodies like the CFIA, the response would be overwhelming. **If the minister really wanted to make constructive change, he could start with the CFIA on areas such as inspection, market access and packaging approvals.** In addition, the main thing that packers need is an abundant supply of livestock. The federal and provincial government's support for an unsustainable ethanol industry will curb that livestock supply and permanently damage the industry. There will be no press releases for that kind of work but that is what the meat industry really needs.

## **Pork Products**

**US Market Insights** *The following is direct from the USDA's National Carlot Meat Trade Review, Week Ending May 6.*

Retail cuts led the way this week as retailers appeared to be caught short, allowing packers to receive significantly higher prices for loins and boston butts. Higher prices were reported for both immediate and next weeks' shipment. Spareribs also ended the week higher as the grilling season is just beginning. Again this week the harvest rates continued to be light which left practically no surplus to offer for the spot market as processing cuts experienced the fallout from this reduction. At the same time, Packers attempted to slow the price decent to a more gradual pace. Late in the session bone-in hams and trim inventories began to accumulate which pressured price levels lower in-spite-of the lighter harvest. Seedless belly price levels remained steady as raw product is in fairly good shape. Slicers are working through these high prices while some have scaled back production or utilizing frozen to offset these higher price levels.

**Canadian Market Insights** *The following is based on information provided by Ronald A. Chisholm, Limited, Toronto.*

The market has been relatively quiet and demand is showing signs of weakness. Buyers are adjusting to sticker shock and there are limited forward positions. Nevertheless packers are in good shape, largely on the strength of limited hog supplies. The loin has been very strong supported by excellent retail demand in both Canada and the US. Boneless product however is starting to seem problematic as price points are getting too high to entice movement. Hams were flat on US weakness but there is still a firm undertone to the market. Bellies were strong on very tight supplies. Butts saw their normal May run-up, but again the boneless market is running into some trouble given price levels. Ribs enjoyed their normal seasonal ride. Trimming were clean and product has been very buoyant in Canada compared to the US.

## **Market Drivers and Outlook**

- Both beef and pork cutouts have been on the rise recently and products that have typically been exported have been leading the charge, according to the U.S. Meat Export Federation (U.S.M.E.F.). "We've seen a lot of strength coming from those export items, particularly hams. Prices are essentially double what they were one year ago. So, the ham cutout is nearly 80 cents a lb. Picnics are about 68 cents a lb. on the primal level -- and that's up 78% from last year. For hams, Mexico is by far the largest market and we've seen exports through February up 22% into Mexico. And that's on record growth last year. Japan remains our largest value market. Loins are a big item for that market. Loin values are up almost 40% over last year." (source: MeatPoultry.com, May 4)
- Glenn Grimes & Ron Plain University of Missouri, May 7, ask "Are this week's hog prices the highest ever? Because of changes in price reporting systems (and my limited data), it is difficult to say exactly when hog prices were the highest. During the week ending on June 2, 1990, the terminal market live price for barrows and gilts averaged \$64.59/cwt. The 51-52% lean live price averaged \$63.30/cwt for the month of August 1996. The Mandatory Price Reporting system (MPR) daily peak was \$67.80/cwt on a live basis and \$86.83/cwt on a carcass basis, both on August 11, 2008. Wednesday's national MPR average price for barrows and gilts bought on a live weight basis was \$69.22/cwt and the average carcass price was \$86.43/cwt. John Lawrence at Iowa State University

estimates the average market hog was sold at a profit of \$29.39 per head in April. That makes April the most profitable month since August 2006 and only the fourth profitable one in the last 31 months. Dr. Lawrence estimates cost of production at \$50.91/cwt live, the lowest since December 2007. (source: [agebb.missouri.edu/mkt/bull1c.htm](http://agebb.missouri.edu/mkt/bull1c.htm))

- Hog futures technical signals are indicating a sideways pattern. Trendlines also indicate that the uptrend might have seen its last days. Serious resistance is at life of contract highs around \$87.50 for June.
- Corn futures technicals indicate the sideways pattern is likely to continue. Futures are running fairly consistently between 360 and 380.
- The Canadian dollar futures technicals are exceptionally weak. Despite the uncertainty and confusion caused by the situation in Europe, Canadian fundamentals remain comparatively strong. The Bank of Montreal, May 7 is forecasting third and fourth quarter exchange rates of US¢/C\$0.99 and 1.01 in the third and fourth quarters respectively. Their second quarter forecast is for an average of .98. (source: [bmonesbittburns.com/economics/forecast/ca/cdamodel.pdf](http://bmonesbittburns.com/economics/forecast/ca/cdamodel.pdf))

### The Next Two Weeks

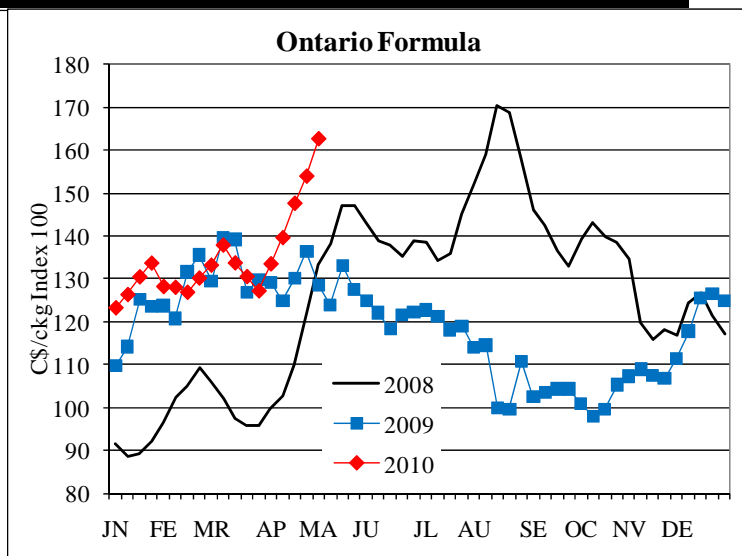
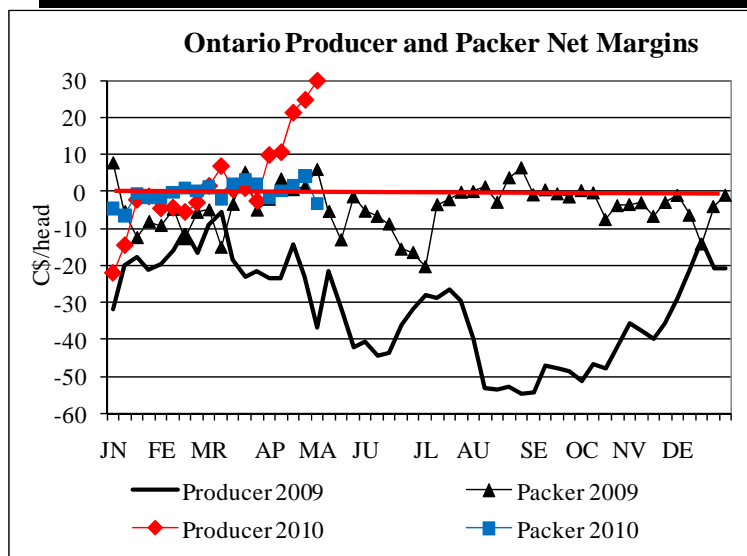
- Supplies continue to be iffy for packers. Prices should stay steady around current levels.

George Morris Centre Hog Price Forecasts*				
Period	National Base Cost	Lean Hog Futures	Ontario C\$/ckg	Alberta C\$/ckg
<b>Next Two Weeks</b>	<b>86</b>	<b>88.60</b>	<b>165-170</b>	<b>160-165</b>
<b>June</b>	<b>84</b>	<b>85.55</b>	<b>160-165</b>	<b>155-160</b>
<b>July</b>	<b>83</b>	<b>85.95</b>	<b>160-165</b>	<b>155-160</b>
<b>August</b>	<b>80</b>	<b>86.15</b>	<b>155-160</b>	<b>150-155</b>
<b>Fourth Quarter '10</b>	<b>74</b>	<b>75</b>	<b>140-145</b>	<b>135-140</b>
<b>First Quarter '11</b>	<b>75</b>	<b>73</b>	<b>145-150</b>	<b>140-145</b>

\* Using a 0.94 exchange rate.

### IMPLICATIONS/ACTIONS

I think futures have peaked...but I have been saying that for a few weeks.



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