

Quebec Hog Breeders Annual Assembly

Quebec City, Quebec | November 8, 2018

U.S. Hog and Pork Pricing Situation

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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)

Livestock Mandatory Reporting (LMR)

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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)

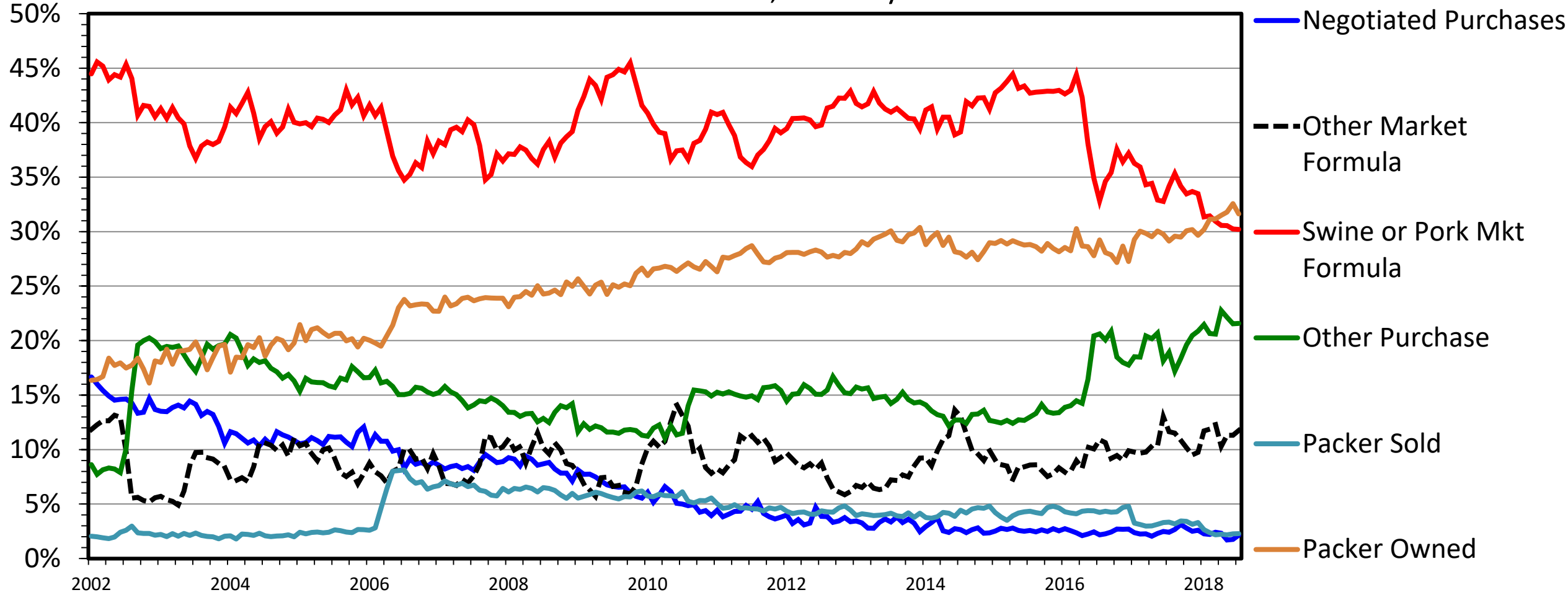
Data Source: USDA-AMS

Livestock Marketing
Information Center

HOGS SOLD BY TRANSACTION

National, Monthly

Percent

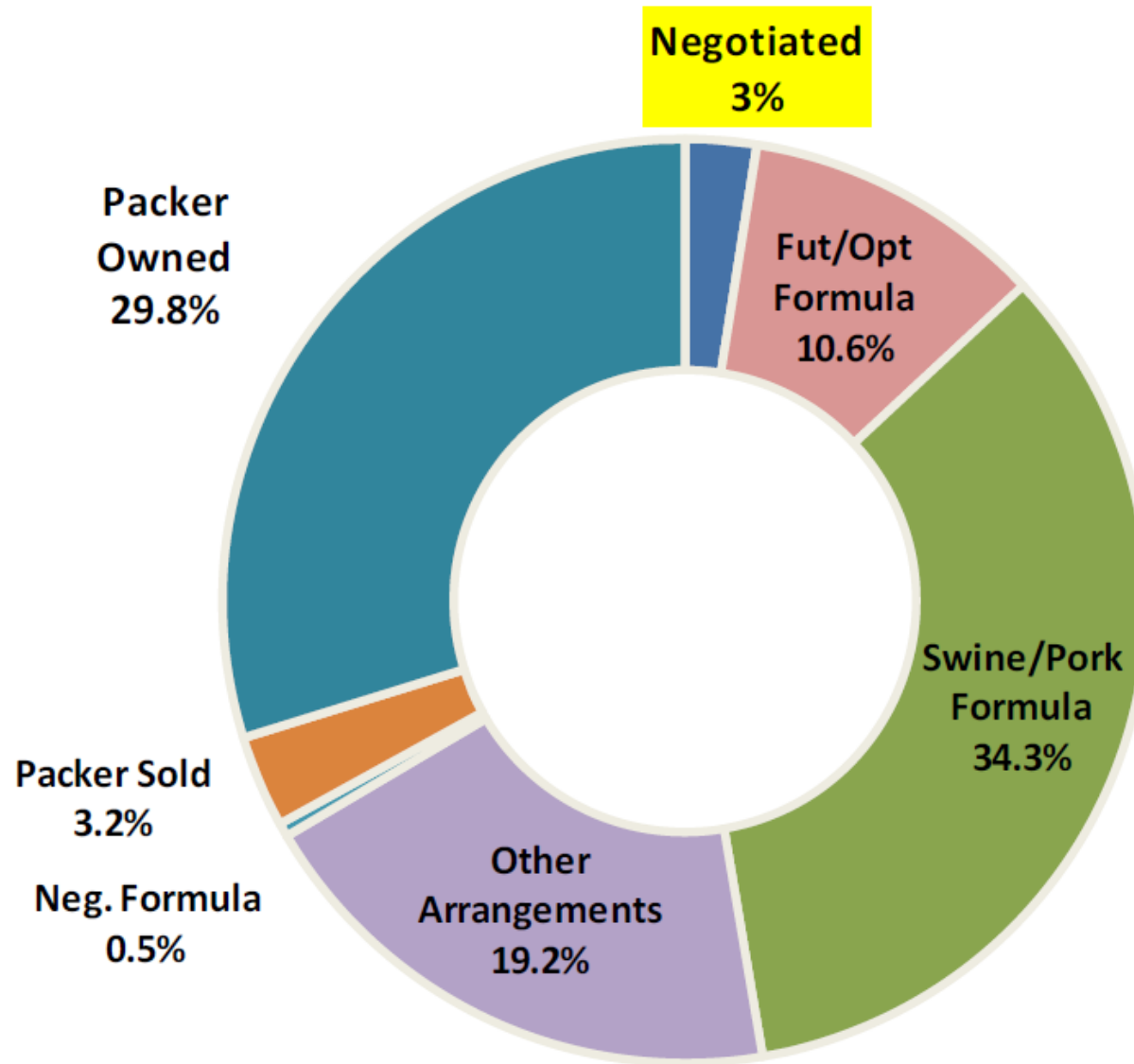


Mieux comprendre pour se positionner et agir

Share of Barrows and Gilts Sold in 2017 by Purchase Type

Data source: USDA/AMS Mandatory Price Reporting

From DLR 02-18-18



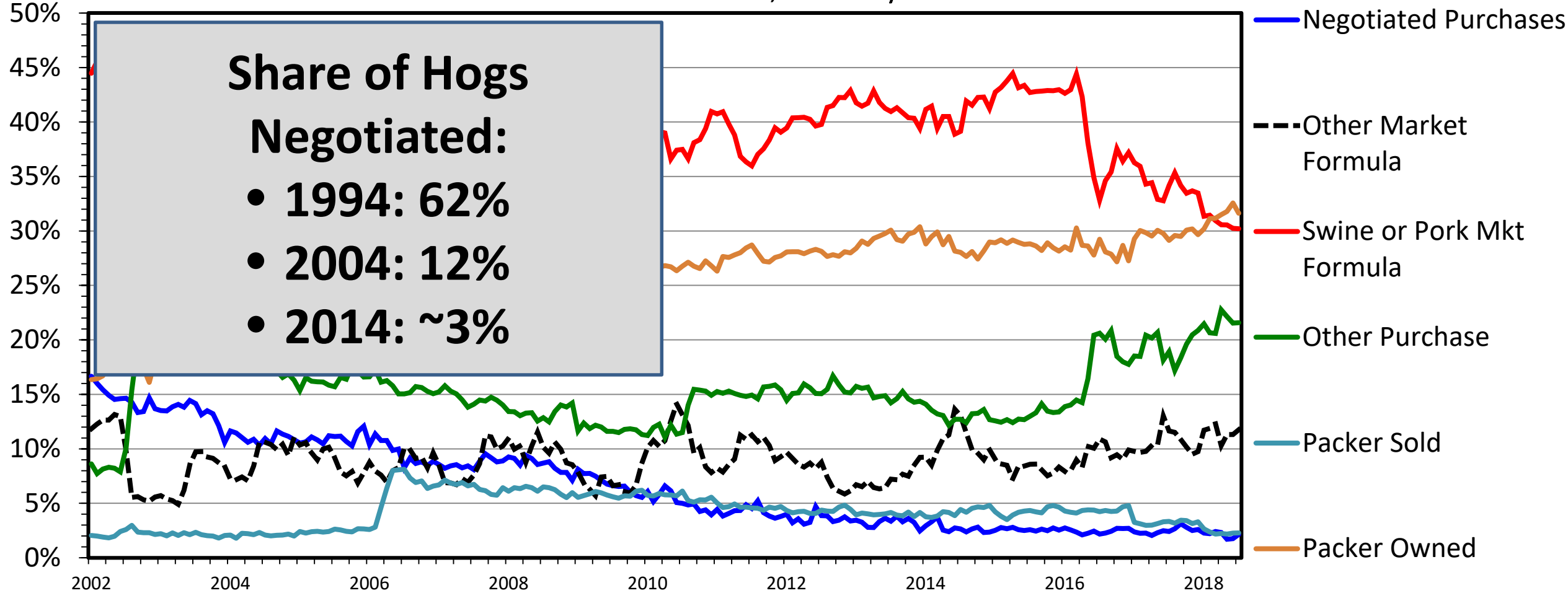
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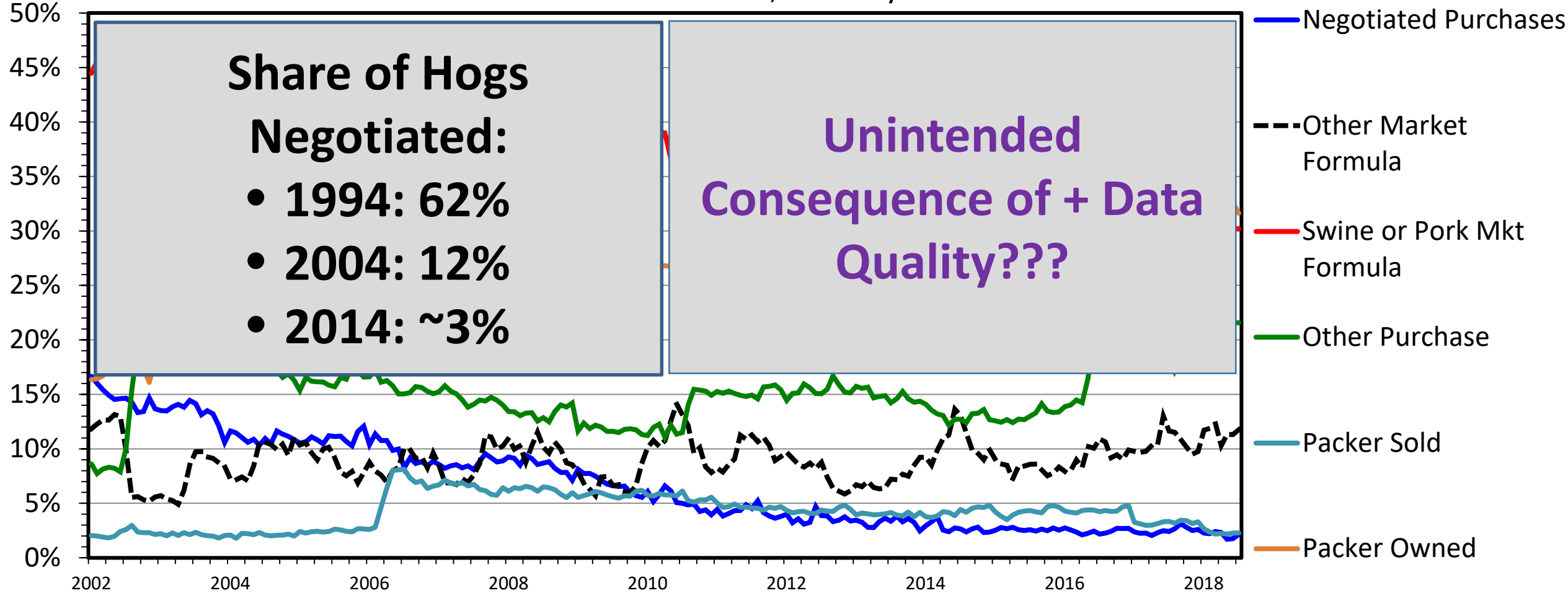


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 - ❑ USDA can't reveal firm-specific information / Can limit reported info

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>

Livestock Mandatory Reporting (LMR)

Confidentiality Guidelines for the Livestock Mandatory Reporting Program

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The **3/70/20 confidentiality guideline** requires the following three conditions:

- At least three reporting entities need to provide data at least 50 percent of the time over the most recent 60-day time period.
- No single reporting entity may provide more than 70 percent of the data for a report over the most recent 60-day time period.
- No single reporting entity may be the sole reporting entity for an individual report more than 20 percent of the time over the most recent 60-day time period.

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

Livestock Mandatory Reporting (LMR)

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

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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!

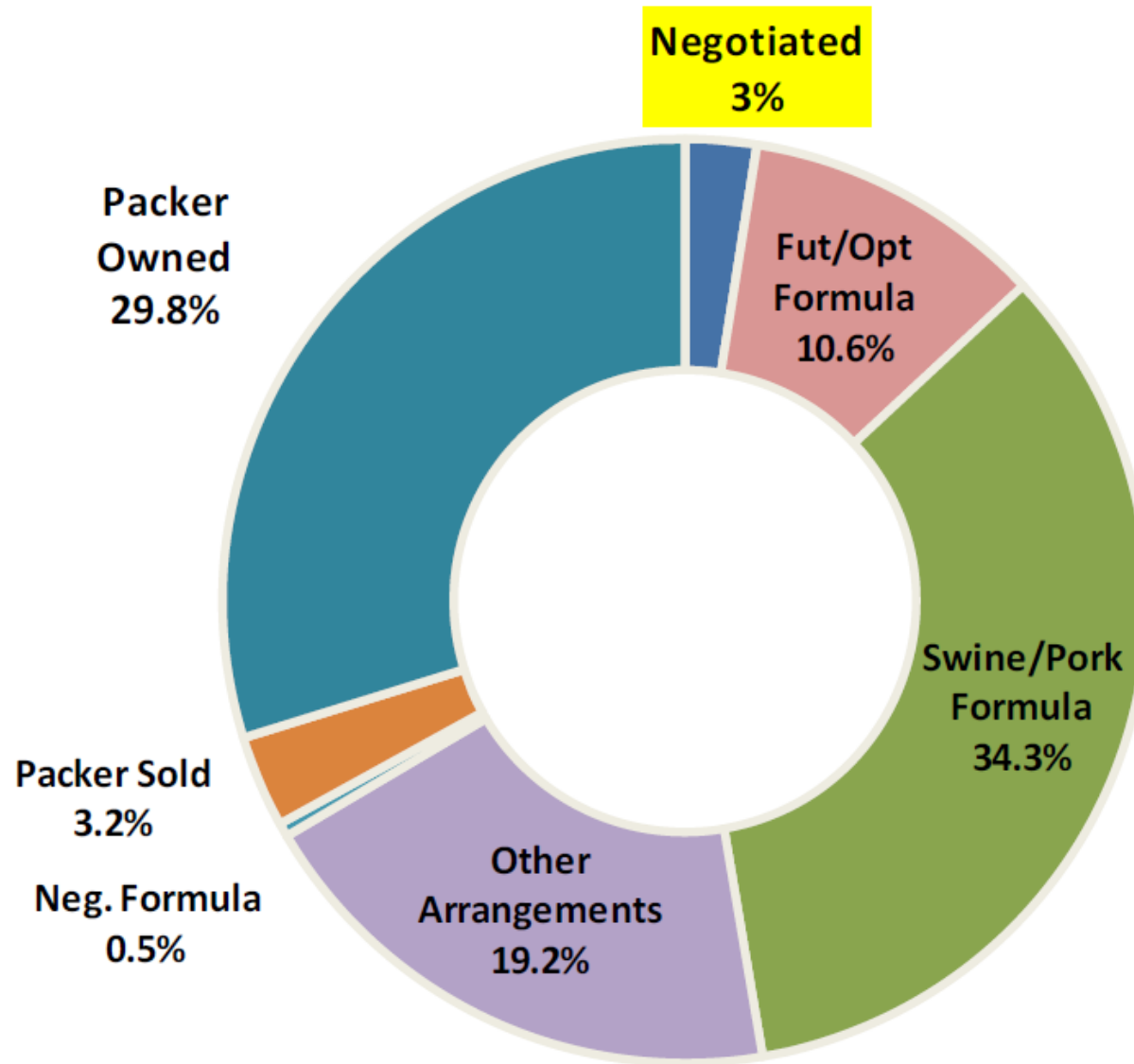
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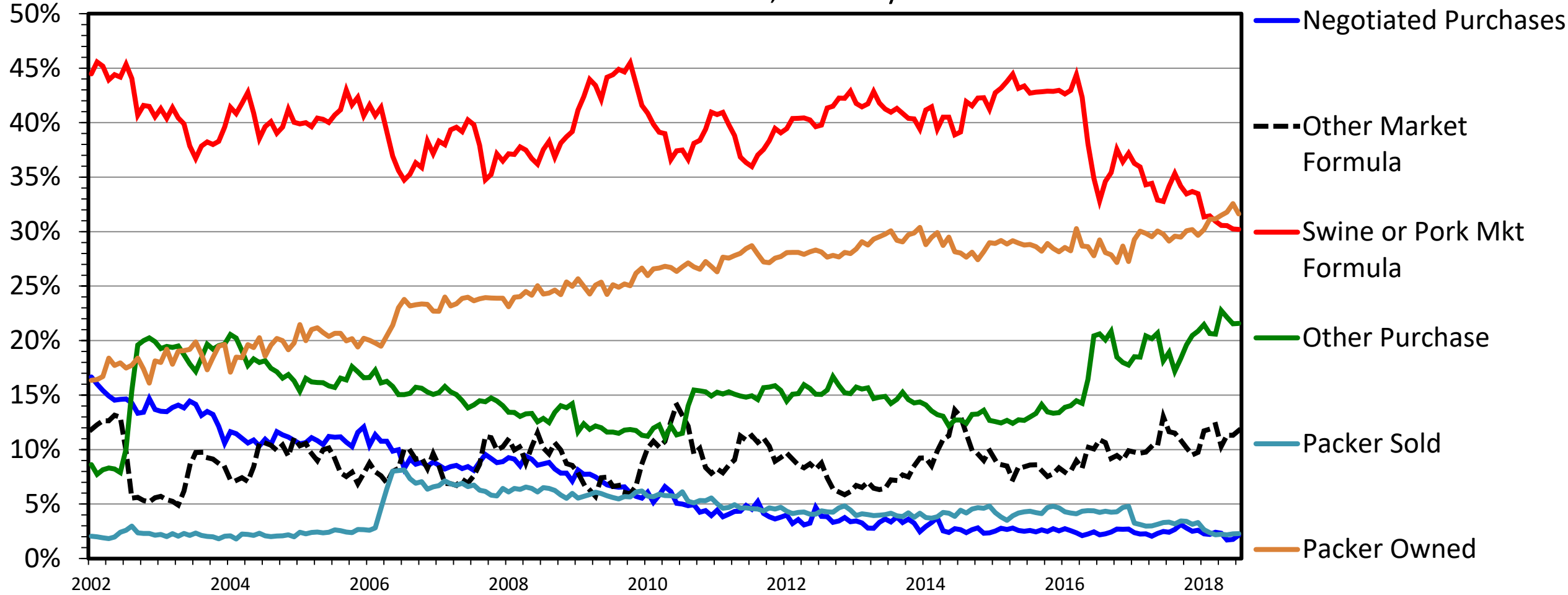
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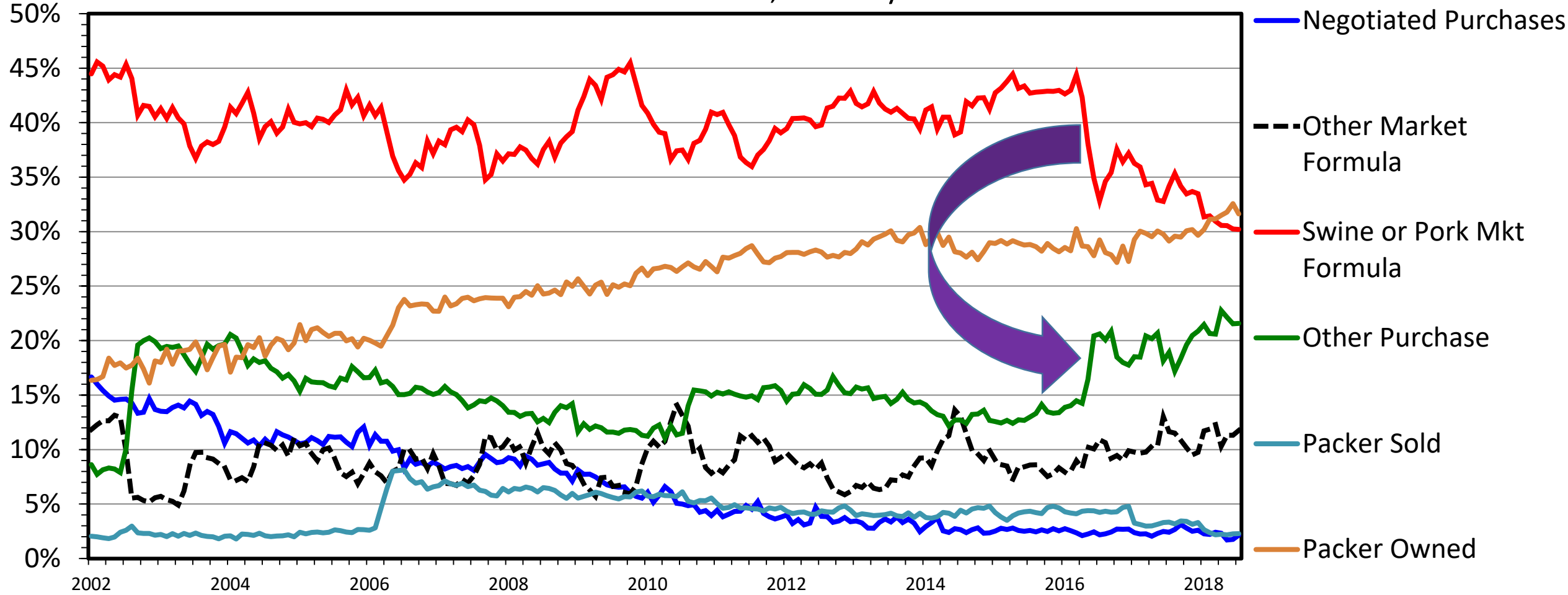
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USDA AMS Barrow & Gilt Prices – Oct. 18, 2018

Producer Sold	Negotiated	Other Market Formula (Fut/Opt)**	Swine or Pork Market Formula	Other Purchase Arrangement	Totals/Wtd Avg
Head Count	4,646	24,512	132,890	76,434	238,482
Base Price	59.16	56.71	64.45	68.32	64.79
Head Count %:	2%	10%	56%	32%	
Base Price vs. Negotiated:	\$ -	\$ (2.45)	\$ 5.29	\$ 9.16	\$ 5.63

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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Not many producers received \$59.16

\$64.79 is a “more representative” estimate of price received

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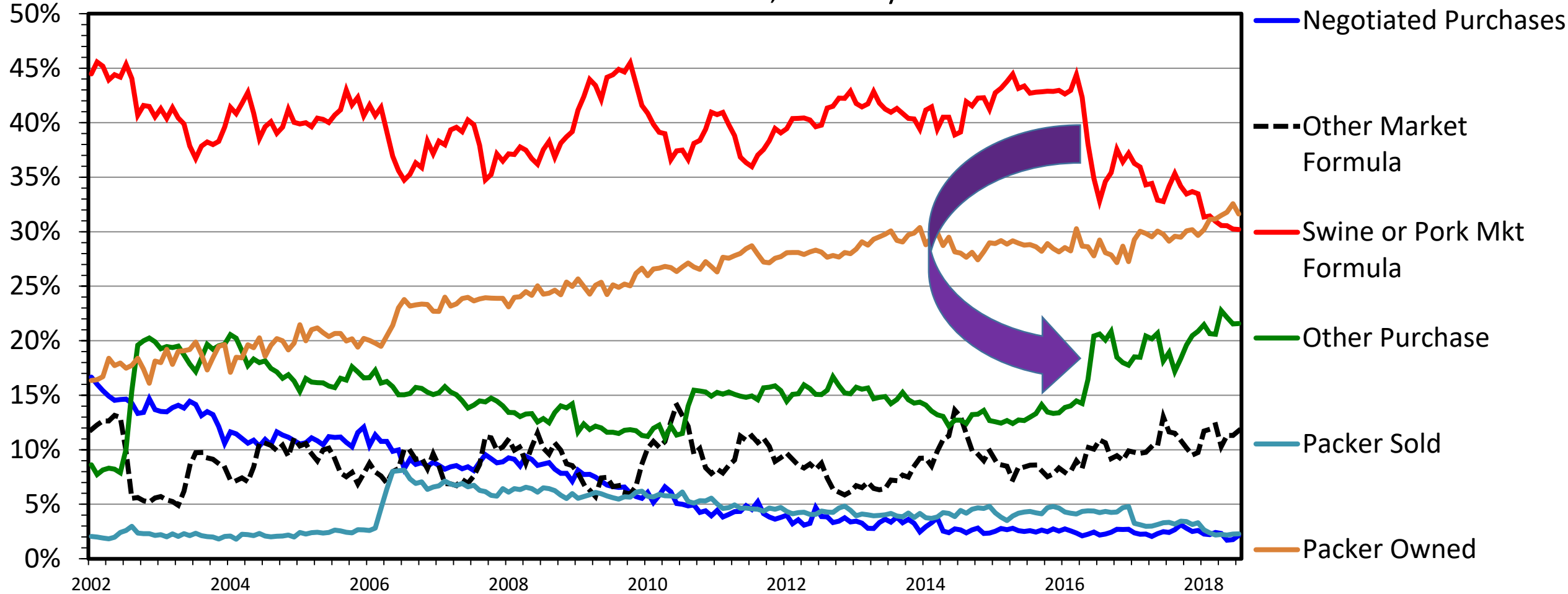
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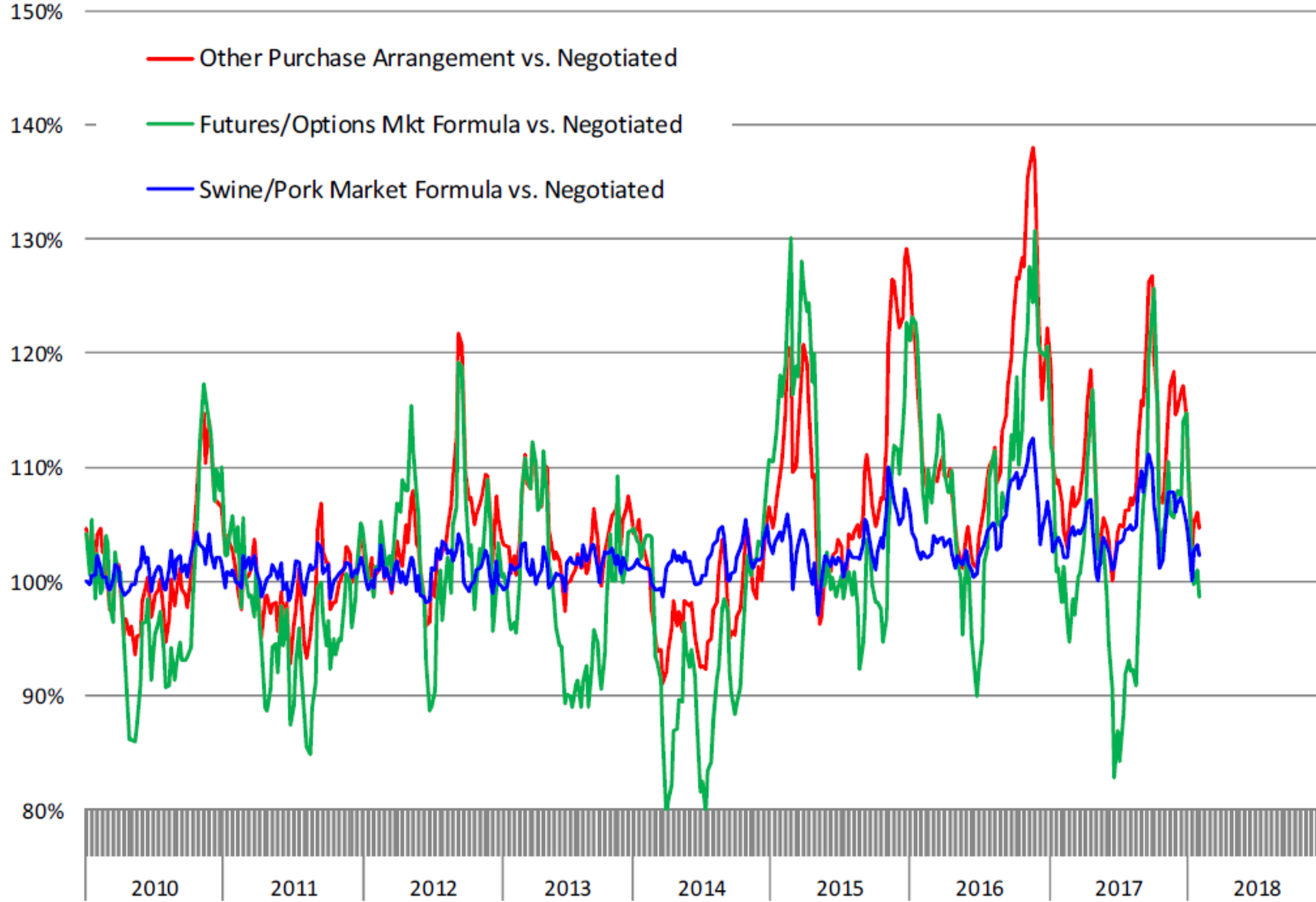
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PREMIUM OF BARROW/GILT MARKETING ARRANGEMENTS VS. NEGOTIATED MARKET

Source: USDA Mandatory Price Reporting. Weekly National Direct Swine Report

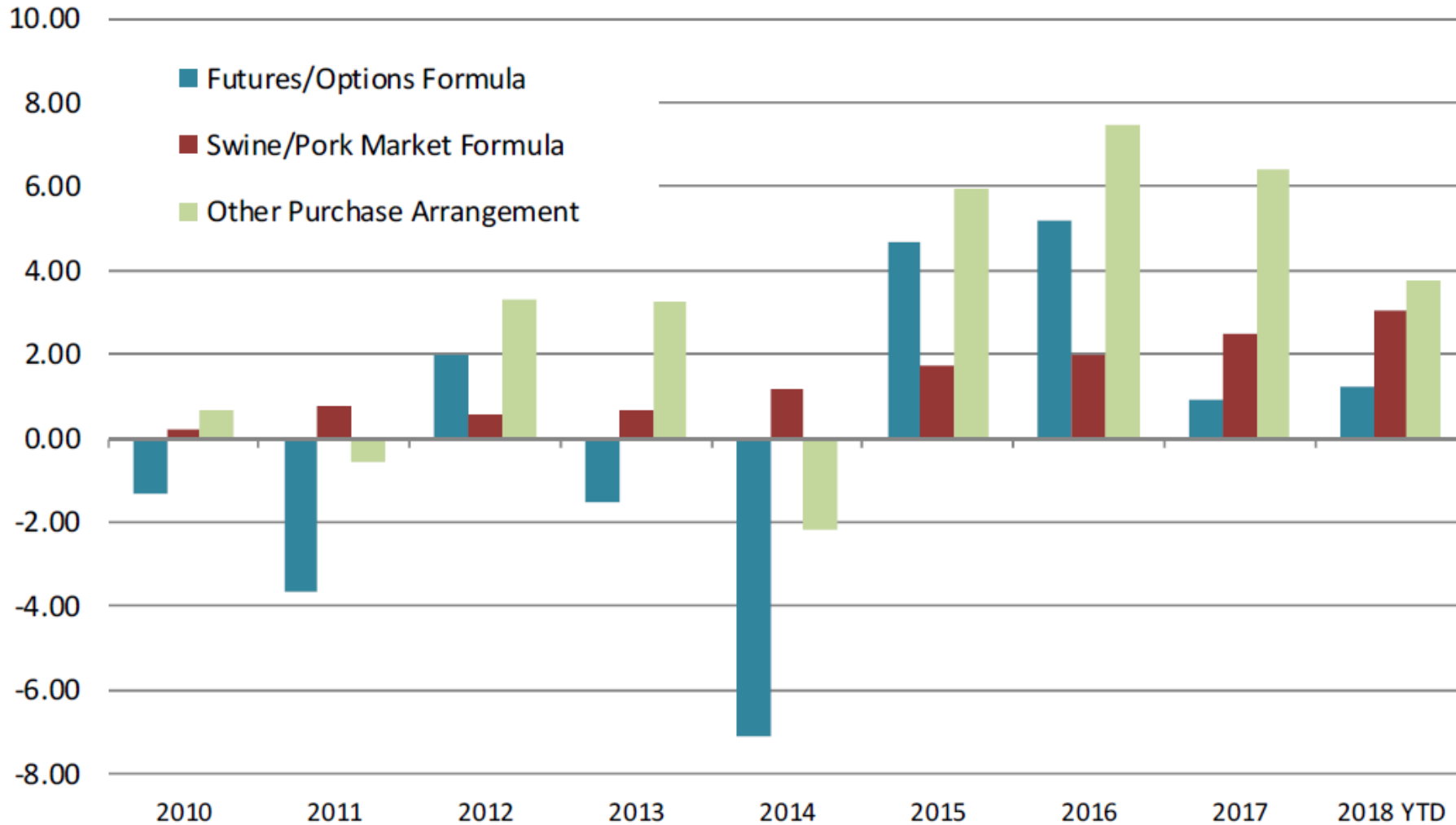


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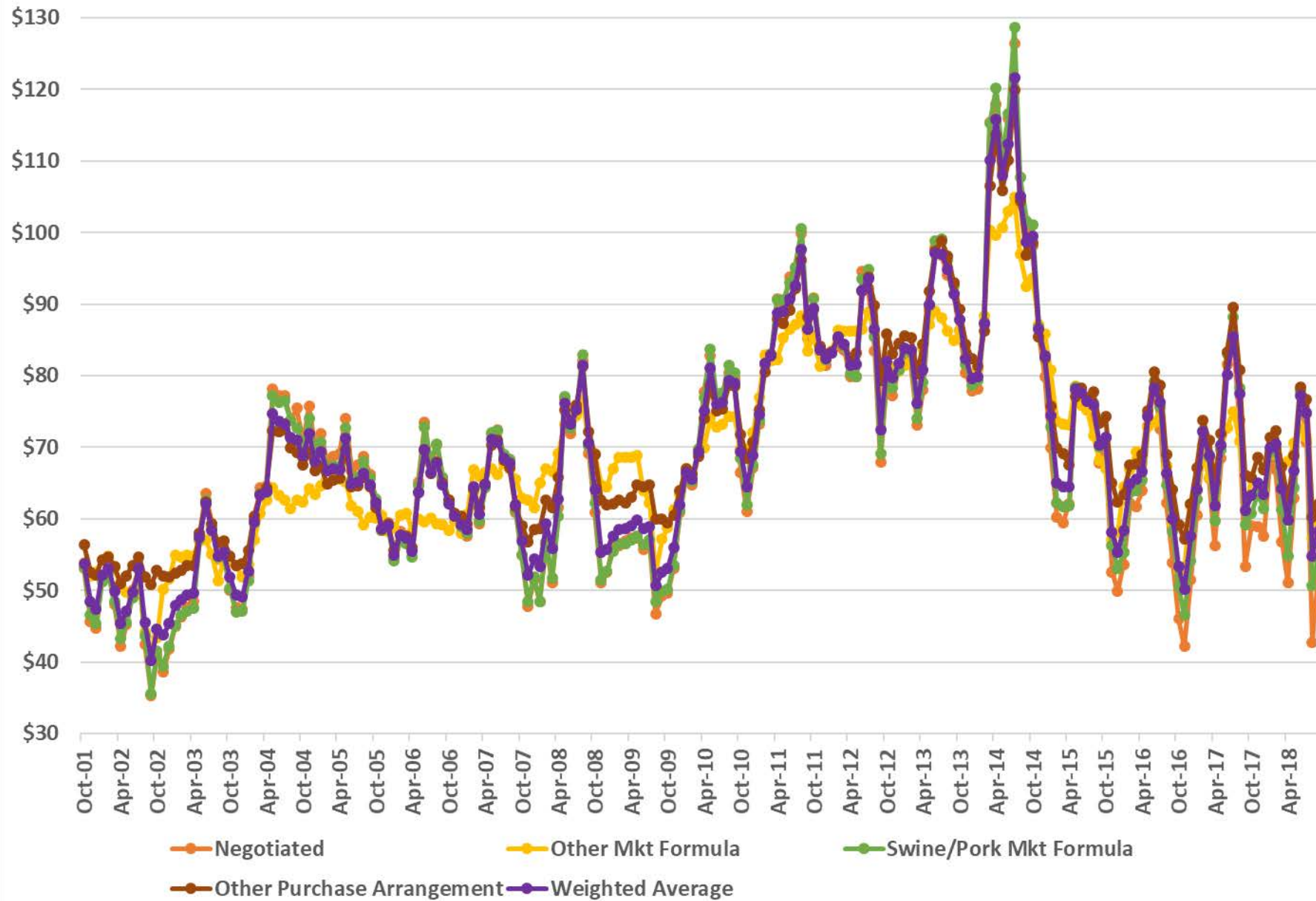
\$/cwt Premium of Various Purchase Agreement Prices vs. Negotiated Price

Simple Annual Average Calculated from Weekly Data. Data source: USDA/AMS Mandatory Price Reporting

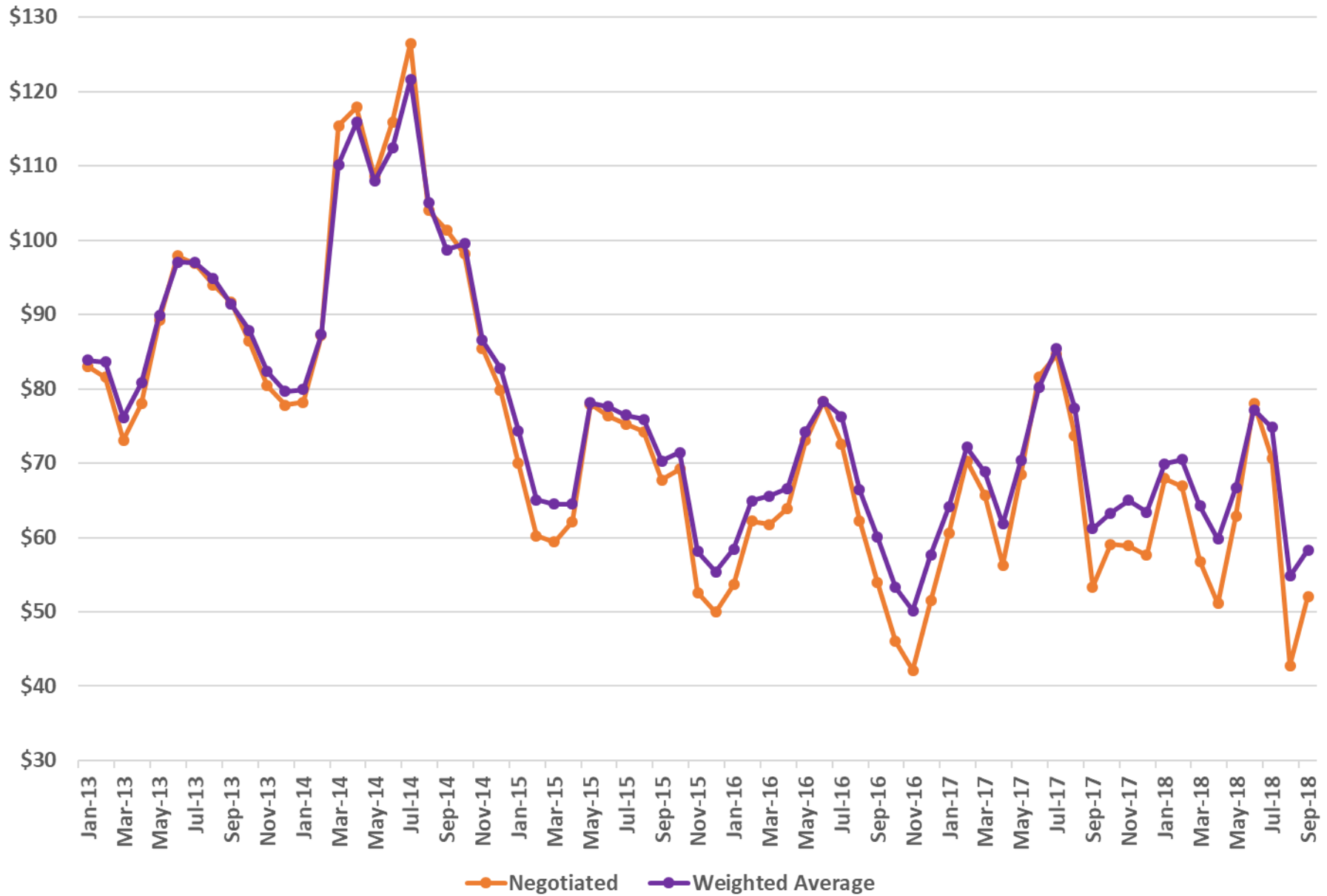
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Hog Prices by Pricing Method, Monthly October 2001-September 2018



Negotiated vs Weighted Average Prices, Monthly January 2013-September 2018



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

Price Relationships – Literature Insight

- Roe, Sporleder, and Belleville (2004 AJAE)
 - Surveyed Eastern Cornbelt hog producers in 2000
 - Identified preferences for hog marketing contracts
- Key Findings, Producers Value:
 - Higher Ceiling more than Higher Floor
 - Contracts offered by cooperatives (vs. feed company or packer)
 - Shorter duration contracts
 - Fewer minimum head delivery requirement
 - Quality premiums were insignificant
- *This work needs to be updated!*

Price Relationships – Literature Insight

- Franken, Parcell, and Tonsor (2011 JAAE)
 - Used voluntary (pre-MPR) & mandatory data, 1992-2009
- Key finding:
 - Terminal markets react to IA-MN price *more quickly* post-MPR

Price Relationships – Literature Insight

- Ajewole, Schroeder, and Parcell (2016 JAAE)
 - Used daily transaction-level MRP data
 - 67,814 negotiated transactions totaling over 10 million hogs
- Key finding:
 - Hog prices are sensitive to which plant buys hogs on a given day
 - Prices are *not* normally distributed – be cautious interpreting prices

Price Premium Insights

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

Price Premium Insights

NATIONAL WEEKLY DIRECT SWINE NON-CARCASS MERIT PREMIUM

FOR WEEK ENDING Saturday, October 13, 2018

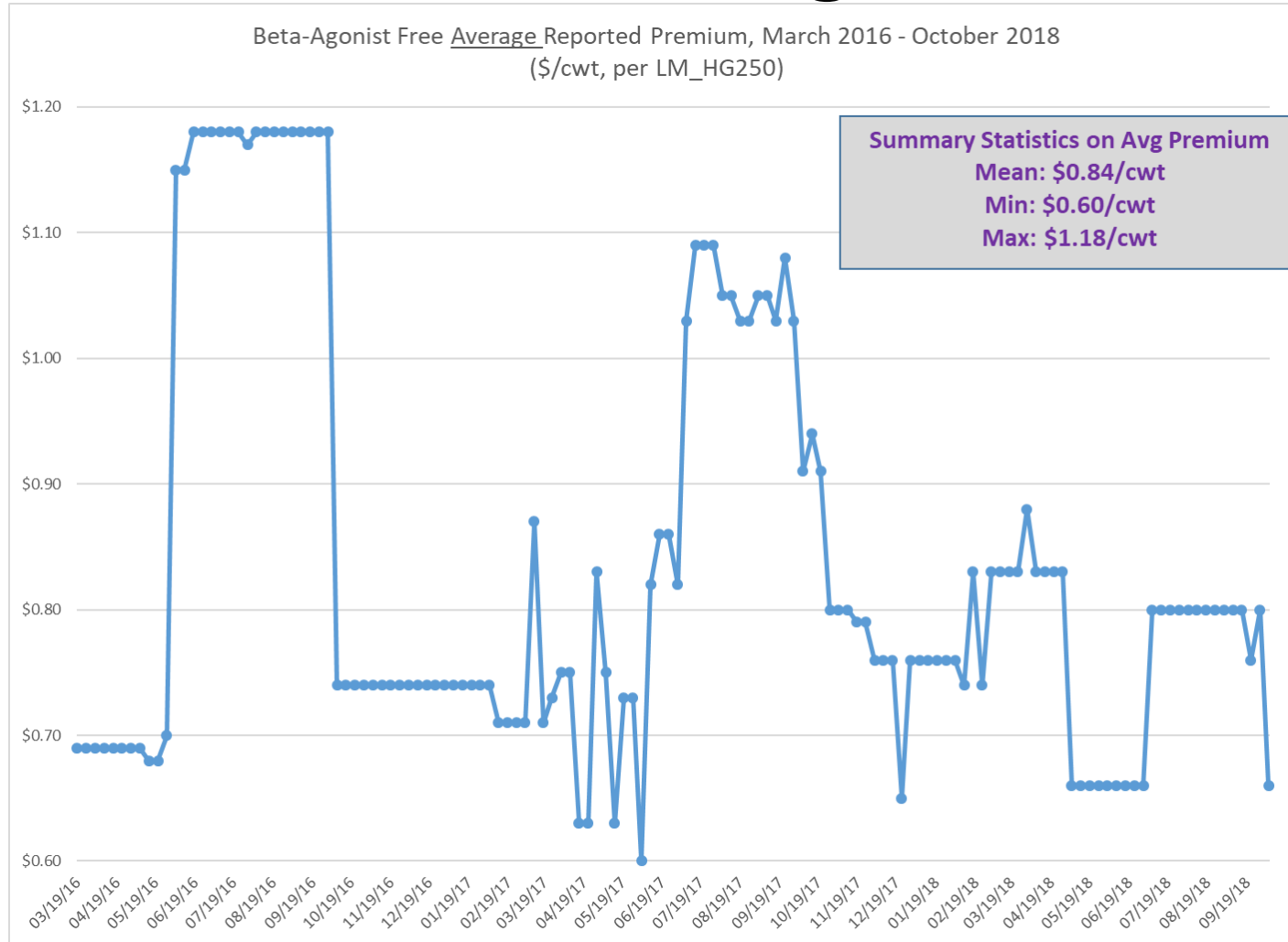
	Value Range*	Average*
VOLUME	0.00 - 0.00	0.00
TRANSPORTATION	0.45 - 3.10	1.78
DELIVERY TIME	0.25 - 3.15	0.83
BREED	0.00 - 0.00	0.00
PORK QUALITY ASSURANCE	0.00 - 0.00	0.00
BETA AGONIST FREE	0.30 - 1.50	0.66
OTHER **	0.03 - 15.00	3.55

Added Aug 2017, per industry request to USDA AMS

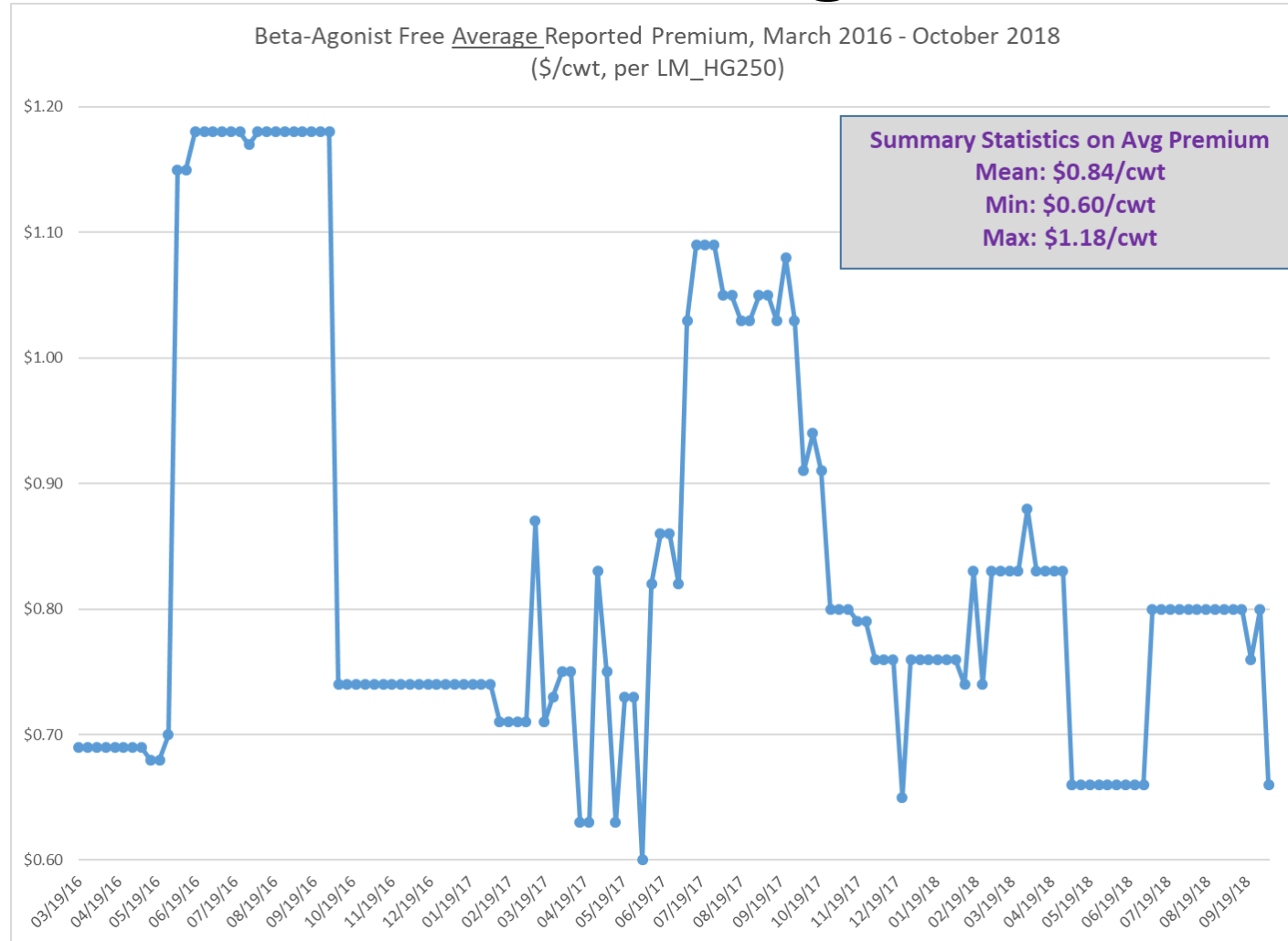
* Prices reported per hundred pounds carcass basis

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

Price Premium Insights



Price Premium Insights



➤ **-0.20** corr with Chicago Corn (\$/bu)

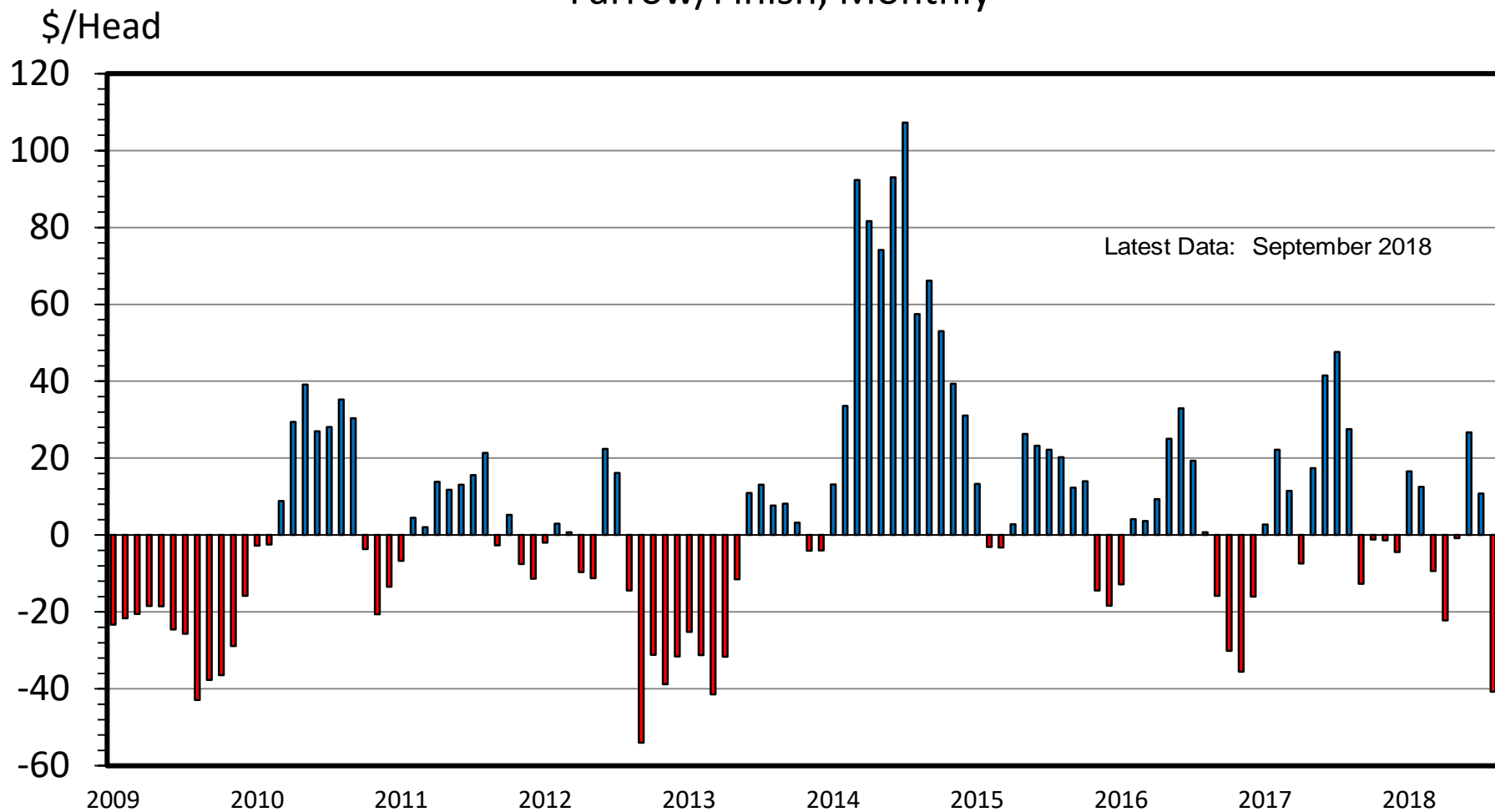
➤ Expect **+** given production cost impact

➤ **+0.25 to +0.39** corr with reported hog prices

➤ **+0.39** corr w/ Producer Sold, Other Purchase Arrangement Wtd Avg Base Price

IOWA MARKET HOG PROFIT

Farrow/Finish, Monthly



Data Source: Iowa State University

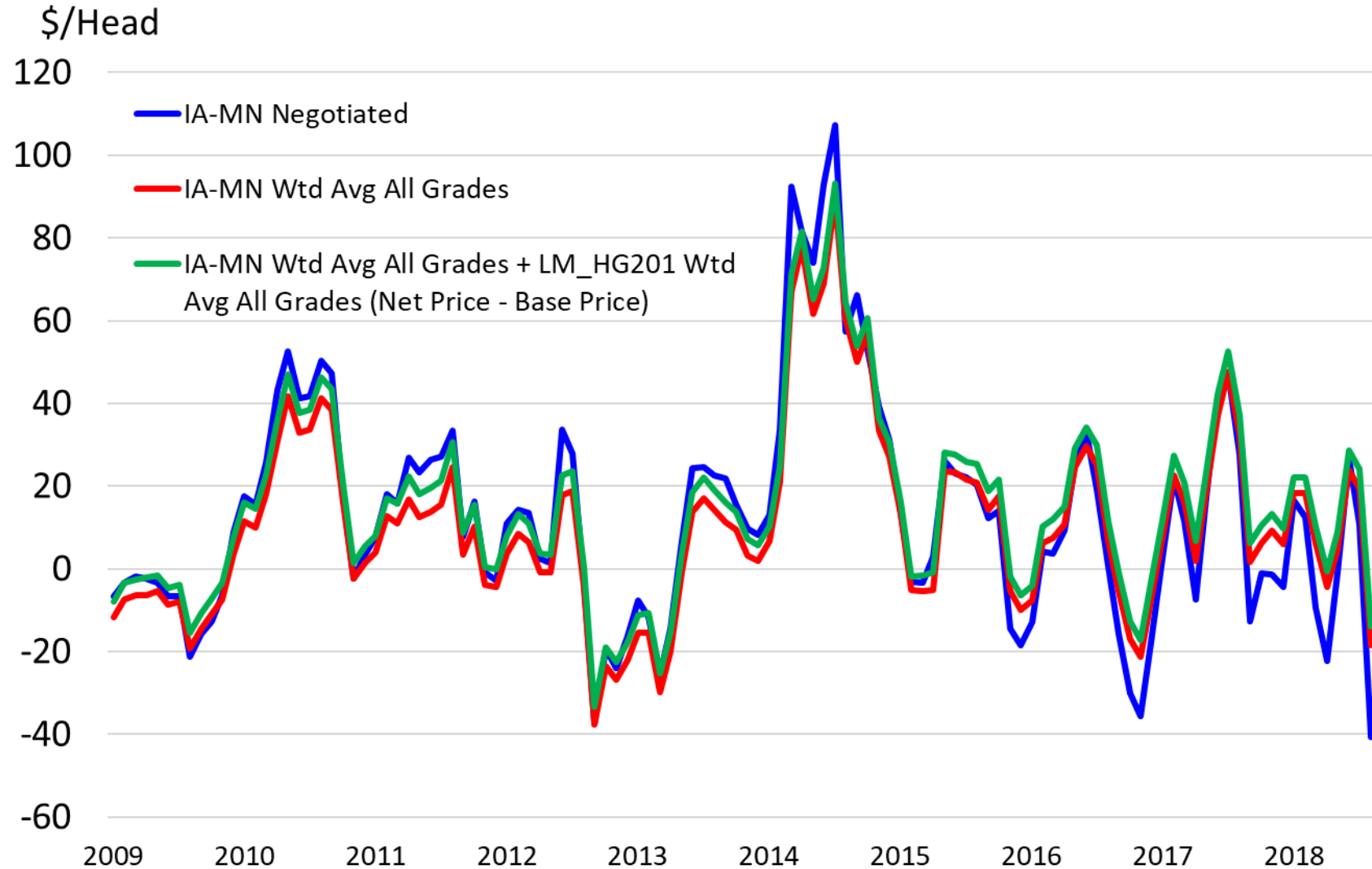
10/11/18

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IOWA MARKET HOG PROFIT

Farrow/Finish, Monthly, Under Alternative Lean Hog Prices



Never a dull day for Glynn or Lee!

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

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 - **ALWAYS more questions than research-based answers**

More information available at:



This presentation will be available in PDF format at:

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

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