September 2016 – Livestock Market Update
Public Policy Department
Budget & Economic Analysis Team

All Eyes on Hogs and Pigs

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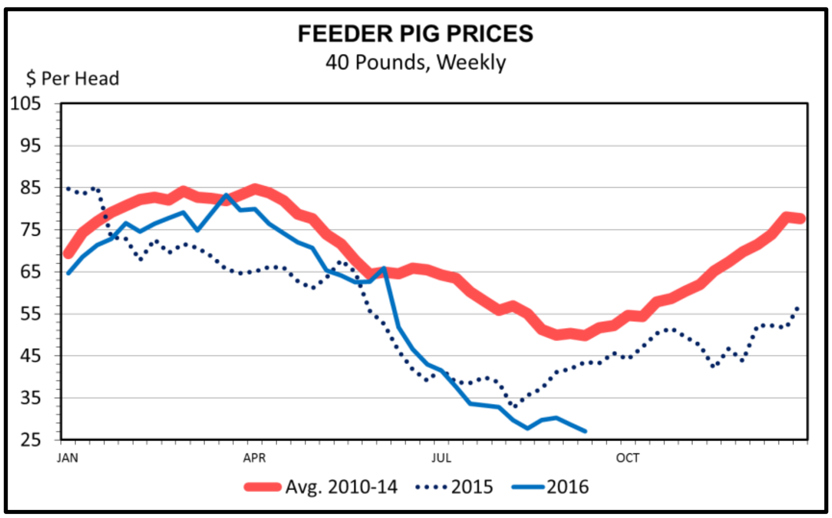
Market participants in the hog sector are eager to look at the Hogs and Pigs report due to be released on Sept. 30, 2016 after prices have fallen dramatically across the hog complex over the last 11 weeks. The Iowa-Minnesota carcass base price has slipped over $23 per cwt since July, while national weighted average carcass base prices have tumbled $18 per cwt. In conjunction with this dramatic drop, 40lb feeder pig prices have been moving aggressively lower since late May, losing about $38 per head. This is well beyond traditional seasonal price moves for feeder pigs. The five year average shows a decline around $15 per head over May through August/September. With the decrease in corn prices, we would usually expect to see an increase in feeder pig prices. Over the last several years the correlation between 40lb feeder pigs and corn prices has been -0.25.

Figure 1: National 40 Lb Feeder Pig Prices, weekly
Source: USDA-AMS, compiled by LMIC



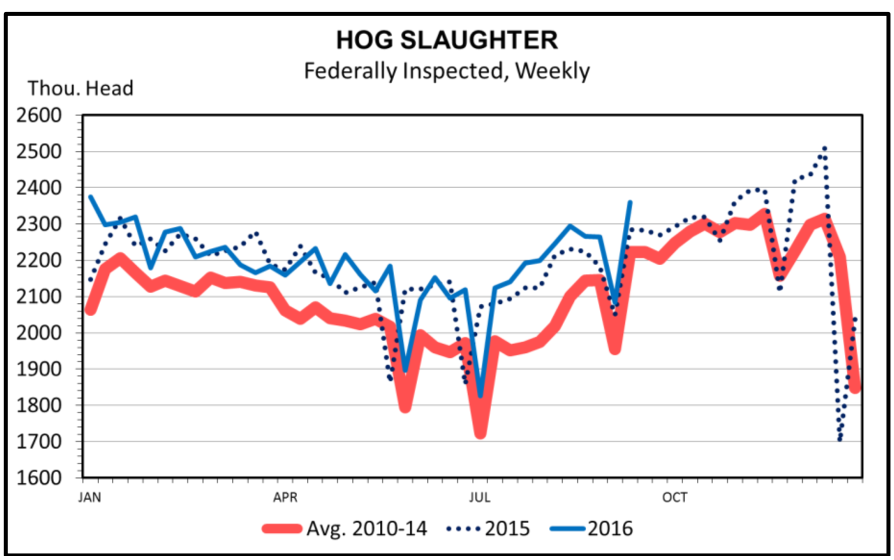
Not only that, the supply of feeder pigs being sold is down this year. The USDA AMS National Direct Delivered Feeder Pig report posts the formula and cash volume and prices. Year to date the number of head in the 40lb weight category has been down about 20 percent compared to a year ago. For those pigs changing hands at smaller weights, 10-12lbs, the number of feeder pigs year to date compared to last year has increased, up 183 thousand or 7 percent. Both figures include some feeder pigs originating in Canada. The U.S. hog industry imports over 4 million feeder pigs from Canada every year, representing about 4 percent of commercial hog slaughter, and it is a critical piece of the feeder pig supply. This year Canadian imports have been ahead of last year, contributing 9 percent more animals through mid-September.

Some explanation for the disjoint between prices and supply is the National Direct Report only includes feeder pigs that are changing ownership. All involved know the hog industry is increasingly integrated with specialization in farrowing, feeding and finishing hogs. In many cases hogs are not changing ownership and move through the system under contract arrangements, similar to those in poultry where the grower owns the facilities and is responsible for managing the herd but inputs and animals are the responsibility of the owner. This is part of the reason the USDA NASS Quarterly Hogs and Pigs inventory report is so important in that it is a sector-wide survey and provides context to AMS reporting such as slaughter numbers and feeder pig sales.

In June, June-August farrowing intentions were estimated to decline relative to last year by 2.3 percent, followed by the September-November quarter estimated to be down a 1.7 percent. It takes two months for a piglet to grow to feeder pig weight, meaning those year-on-year declines in farrowings for June-August are felt now. Importantly, Canada's hog sector reported a 1.8 percent increase in the number of pigs born through the end of June. Neither of these figures support the substantial decrease in the price of feeder pigs. For the Sept. 30 Quarterly Hogs and Pigs, analysts will likely be looking at revisions to the June-August farrowing number, reducing the decline in farrowings and eagerly looking for an update in the Sept-Nov farrowing projections.

Large decreases in the base price also would lead analysts to look for a possible revision in the number of sows farrowed earlier this year. Slaughter figures exceeded expectations based on the number of indicated market hogs available. For 10 straight weeks weekly hog slaughter has shown increases in the 1-4 percent range, and applying downward pressure on slaughter prices. The most recent estimated week, ending Sept. 24, 2016, slaughter is expected to be just under 2.4 million head. The quarterly report should shed some light on some of these issues and go a long way to help the market find a bottom to these prices.

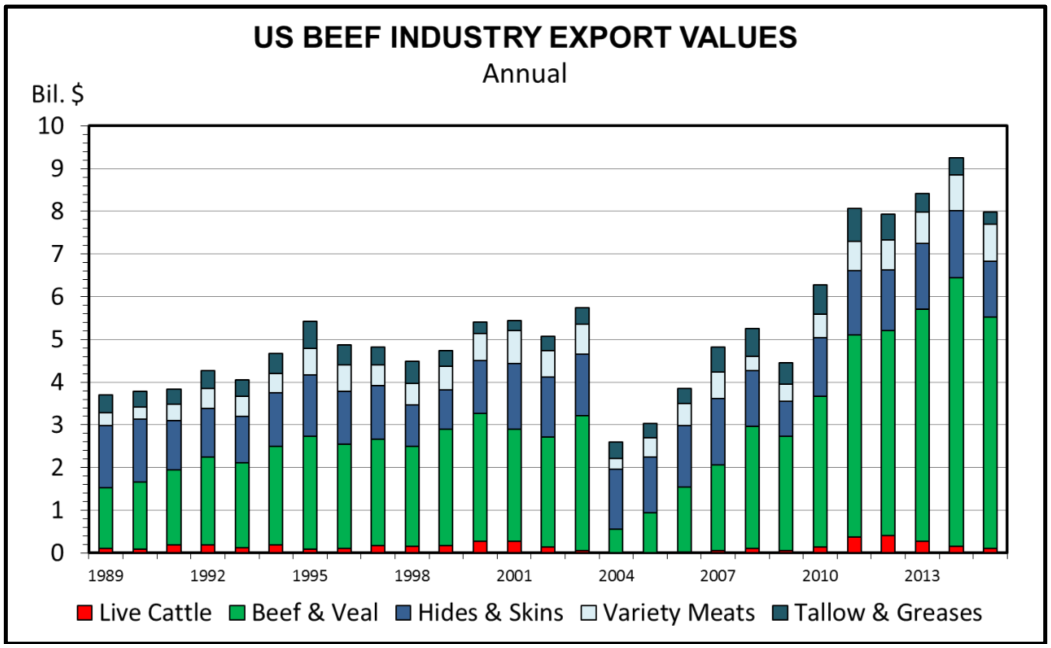
Figure 2: Weekly Federally Inspected Hog Slaughter
Source: USDA AMS, compiled by LMIC



China Lifts Import Ban on U.S. Beef

China announced last week it will resume importing U.S. beef from cattle under 30 months of age. The ban has been in place for 13 years was due to a case of Bovine Spongiform Encephalopathy, commonly referred to as BSE. The initial outbreak of BSE led to many countries closing their borders to U.S. beef and a stigma that has taken over a decade to break. Beef exports have recovered since 2003, as shown in Figure 3.

Figure 3: U.S. Beef Annual Export Values
Source USDA-FAS; compiled and analyzed by LMIC



At that time, China was only importing about 11,500 tons compared to 473,800 tons in 2015. This increase has primarily been supplied by Australia, New Zealand, Uruguay and Brazil. Plenty of U.S. beef has still made its way to China via Hong Kong over the last decade. The U.S. exported 111,954 metric tons of beef to Hong Kong in 2015, and lifting the trade ban will allow for more meat to enter China through conventional paths. Re-opening this market should also increase demand for U.S. beef producers who are experiencing the lowest prices in six years, but there are some caveats.

The Chinese announcement is on the heels of the U.S. and Brazil lifting bans on each other's beef earlier this year. However, similar to the case of Brazil, several more steps stand between the announcement and reality. There are several outstanding issues. 1). Quarantine protocols and new sanitary protocols that need to be put in place ahead of beef arriving in China. There was no timeline accompanied by the announcement, so this could take months or happen relatively quickly. 2). Currently, China bans the use of hormone growth promotants (such as ractopamine). The production of U.S. beef without the use of these is estimated to be rather small relative to the overall size of the herd. 3). China lifted the ban on Brazil beef imports in 2015, and in the same announcement as the U.S. lifted its ban on certain Canadian beef products. China/Hong Kong is on its way to be the largest beef market in the world by 2017 and it is critical for the U.S. to have access. However, given the supply constraints of beef raised without hormones, this change may have little effect in the short term.

Figure 4: Chinese imports of beef
Source: GTIS