

Pork Commentary: US PED Continues to Have Ramifications

10 December 2013

US - This past week the spread of PED continued with it now in Nebraska. PED is cutting production, leading to greater demand for cash early wean and feeder pigs, according to Genesis CEO Jim Long.

This past week US Cash early weans averaged \$79.56 (\$69-87) while cash 40 lb. feeder pigs averaged \$82.25 (\$73.50-89). To contrast the cash market you only need to look at early wean prices on contract with a formula price \$47.63 (\$38-77.87). The average price difference of \$25 is big. We expect there has been times in the past when the contract price was \$25 per head higher than cash. Very volatile situation and business.

Question: At what price do early weans reach the ceiling price? When we see \$87.00 as a top last week, we have a hard time figuring how they will make money with those pigs unless you figure barns at no value.

If the cash early wean price is a true reflection of market supply and demand (it is) we sure wonder how high market hogs will reach next summer. No one is bidding early weans to these high prices because they don't want to pay that much. The reality is they have to pay it to get them. When we think about what the early wean price means about current pig supply we certainly won't be surprised to see US market hogs reach \$1.10 next summer.

Closeout Performance

Dr Tom Stein, Chief Innovations Officer, Executive Chairman and Chairman of the Board of Directors at Meta Farms (That's a long title) recently penned an article and provided data from what Meta Farms (provides software systems to help manage livestock data) has seen on finishing pig closeouts.

Meta Farms Closeouts Quarter 3 - 2013		
	Finishing	Wean to Finish
Closeouts	1,882	396
Total Pigs Started	3,345,426	913,662
Average Initial Weights (lbs.)	53 (24 kg)	13.3 (5.95 kg)
Mortality %	4.29	6.69
Avg. out weight (lbs.)	269.1 (122.2 kg)	268.6 (122 Kg)
ADG/lb.	1.77 (0.804 kg)	1.54 (0.7 kg)
Feed Conversion	2.84	2.60
ADFI (lb.)	5.02 (2.28 kg)	3.99 (1.81 kg)
Avg. Days of Finishing	120.4	165.4

As a famous New York football coach once said, "The score doesn't lie". We look at these numbers as we see feed conversion in finishing of 2.84 not 2.5 as many in the industry crow they have, 1.77 ADG is not 2. Mortality in finishing is 4.29 per cent not 2 per cent. Facts are hard and cruel. It's just like the number of hogs per sow per year.

As of last Saturday the USDA estimates that the US has marketed 103,907,000 hogs. There are three more marketing weeks in 2013. If we divide 103,907,000 by 49 weeks we have an average of 2,120,000 hogs marketed per week. Now take that to 52 weeks, a projected number for 2013 total 110,240,000. The USDA inventory of breeding herd in September 2012 was 5,788,000.

Canada will send about 4 million early weans and feeder pigs to the US in 2013, for farmer math sake take 3.5 million hogs from the US number to compensate for their entering the US. That take US origin market hogs down to 106,750,000 approximately; divide that by 5,788,000 breeding herd we come up with 18.44 market hogs per breeding animal per year. 18.44 average means half of industry is below that. Adjust the breeding herd 100,000 or market hogs by a million it barely moves the average.

18.44 is a fair estimated average, makes us realize why so few producers ever will share their real data with their name on it. Bell curve 18.44 and you probably have few herds over 23 hogs per breeding animal. Bottom line – our industry has lots of room for improvement. With the reality hog production is hard to be real good at.

Gilts

It will be interesting in the coming months as hog prices improve and demand for gilts increases how much PED will affect gilt availability. There already has been breaks in several gilt multiplier herds (Touch wood, no Genesis herds). When the breaks happen we suspect the industry will not accept gilts from such herds. Will they be depopulated? How short will gilt supply be? Some genetic companies with gilt multiplication in concentrated areas are more prone to a break? Already gilt prices are being increased due to the purchase of Genetiporc by PIC. The effects of PED could have a long tail?

Summary

More and more as we look at cash price of early weans and feeder pigs we believe the US summer hog market could reach \$1.10 lean a lb. or more. We believe it ourselves and have put several thousand more pigs on feed. Maybe we are wrong but our skin is in the game. Time for us all to make some more money