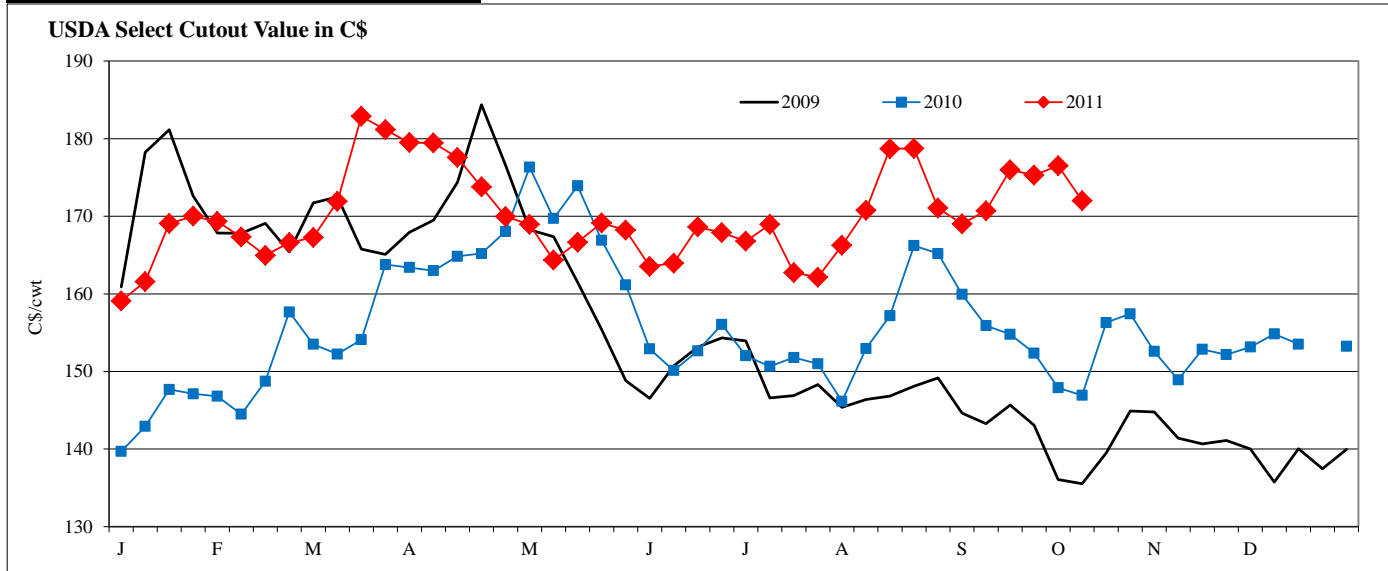




Current Market Situation



The Market Re-Cap for Last Week:

US Market... mixed this session, with Choice firm and Select weak on light to moderate demand and offerings. By Thursday the Choice/Select spread approached \$18.00, remaining historically wide for this time of year. (USDA NW_LS850)

Canadian/Retail/Foodservice Procurement Activity: Foodservice buyers continue to actively fill orders and look for fill-in needs. They are shopping for next spring’s middle meats with limited success as pricing remains outside their trigger range. Seasonally this is the prime time to attain loin meat at lowest levels and that is the main item of interest. Foodservice buyers continue to work to fill in Christmas and holiday needs although pricing differences are wide and deals are slow. Grocery buyers are also beginning to fill in Christmas Rib orders but again bid and ask are wide apart. Normal turn business has improved and fill in orders are prevalent. Outfront features are the usual hip meat items and occasional Loin product.

Canadian Supplies: Most cuts are generally available although Ribs are very tight.

Canadian Cutout Value: Lower on firmer dollar and weaker US market.

- Chucks were steady to lower as a firm US market was not enough to keep prices from sliding in Canada. Retail orders have been sluggish on Chuck meat and outside business was slower.
- AAA Ribs were firmer on good demand and strong increases in the US. AA product was barely steady as a weaker US Select kept eastern Canadian buyers interested and demand started to ease back.
- Loins were steady to lower as grocers worked hand to mouth on normal turn orders. Short Loins were under modest downward pressure while AAA Butts were also sluggish.
- Hips were steady as all the main sub-primals saw steady orders at steady pricing
- Fat trimmings were stronger on good demand.

Pricing Call for this Week

Prices should be higher as futures are going to provide plenty of support to back up higher asking prices.

Beef Market Conditions

| Fresh Meat Feature Activity | | | |
|---|---|-------------------|----------------------------|
| Oct 16-22 | Home Page Meat Item | Beef Price Rating | Competitive Meat Rating |
| Maritimes | \$/lb | | |
| Coop Atlantic | Sirloin Tip \$2.99 | moderate | weak |
| Sobeys | Inside Round \$3.00; Side Ribs \$2.00 | moderate | aggressive |
| Superstore | Boneless Blade \$2.77; Whole Bird \$1.99 | moderate | aggressive |
| Quebec | | | |
| IGA | Boneless Breast \$2.99 | weak | aggressive |
| Loblaws | Bone-in Breast \$1.99; Side Ribs \$1.99 | weak | aggressive |
| Metro | Lean Ground \$1.99; Pork Chops \$1.88 | aggressive | aggressive |
| Ontario | | | |
| Food Basics | Eye of Round \$1.97 | aggressive | weak |
| Foodland | Sirloin Tip \$3.97; Whole Bird \$1.97 | moderate | aggressive |
| Freshco | Boneless Breast \$3.44 | weak | aggressive |
| Loblaws | Striploin \$5.99; Drumsticks \$1.99 | aggressive | moderate |
| Metro | Lean Ground \$1.99; Pork Chops \$1.88 | aggressive | aggressive |
| No Frills | Boneless Pork Loin \$1.87 | weak | aggressive |
| Sobeys | Boneless Centre Cut Chops \$2.39 | weak | aggressive |
| Walmart | Not Available this week | | |
| Zehrs | Top Sirloin \$2.99 | aggressive | weak |
| West | | | |
| Calgary Coop | No Fresh Meat | weak | weak |
| Overwaitea | Pork Tenderloin B1G1 | weak | aggressive |
| Safeway | Boneless Blade \$2.99; Boneless Breast \$4.99 | moderate | moderate |
| Save On Foods | Boneless Breast \$4.99 | weak | moderate |
| Sobeys | T-Bone \$5.99 | aggressive | weak |
| Superstore | Lean Ground \$1.98 | aggressive | weak |
| Retail Beef Feature Rating Last Week: | | Very Good | (Poor, Average, Very Good) |
| Retail Meat Business Rating Last Week: | | Very Good | (Poor, Average, Very Good) |
| Food Service Business Rating Last Week: | | Very Good | (Poor, Average, Very Good) |

Canadian Fresh Meat Features and Business Traffic Indicators

- Beef features were plentiful this week as strong lean ground pricing and decent loin meat pricing were prevalent across the country. Sharp boneless and bone-in breast pricing will pull traffic away from beef in Ontario and Quebec with Sobey being very aggressive at their IGA banner in Quebec and Freshco in Ontario.
- Retail grocery business has picked-up sharply during the past week.
- Foodservice activity was much better than average for the time of year.
- US beef feature activity increased sharply this week compared to last. (source: *USDA Weekly Retail Beef Feature Activity report*, October 14).

Implications: Features should have a positive impact on movement this week.

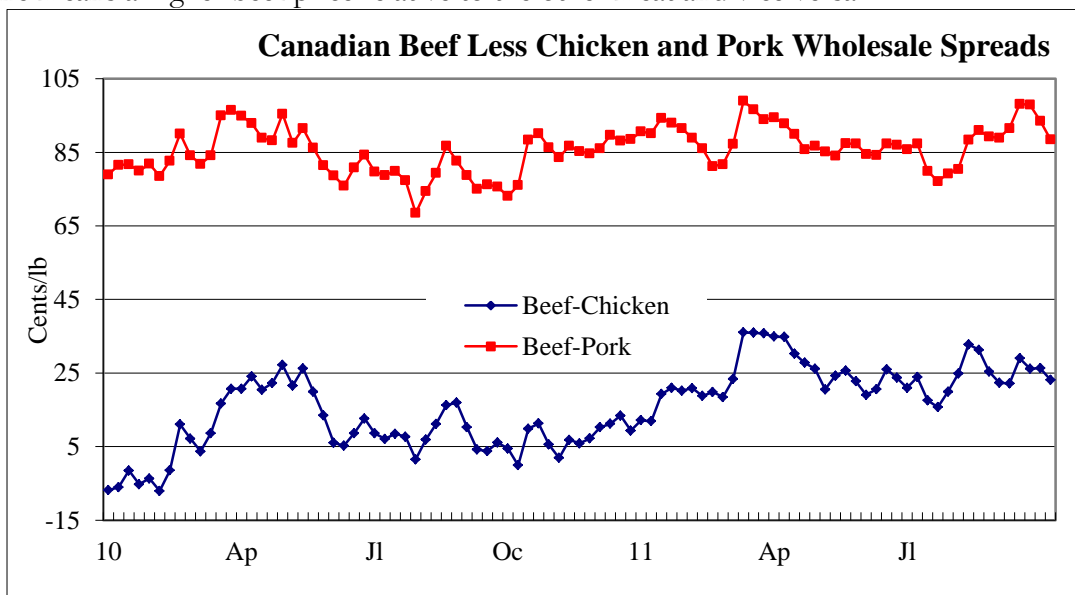
Competing Meats

Wholesale Price Trends

The following is a comparison of the wholesale price spread between beef and pork (beef price – pork price) and between beef and chicken (beef price – chicken price).

- Wholesale pork was higher last week.
 - The beef-pork wholesale spread is around the average of the past five years, meaning that beef is priced at the norm compared to pork.
- Wholesale chicken was steady last week.
 - The beef-chicken spread is above the five year average, meaning that beef is priced higher than the norm relative to chicken.

The following graph shows the spread between wholesale beef cutout prices and wholesale chicken and pork cutout prices (wholesale beef – wholesale pork; wholesale beef – wholesale chicken).¹ A higher trending line means a higher beef price relative to the other meat and vice versa.



Implications: Beef and pork are trending higher meaning chicken looks best to retail buyers.

Retail Fresh Meat Margin Indicator²

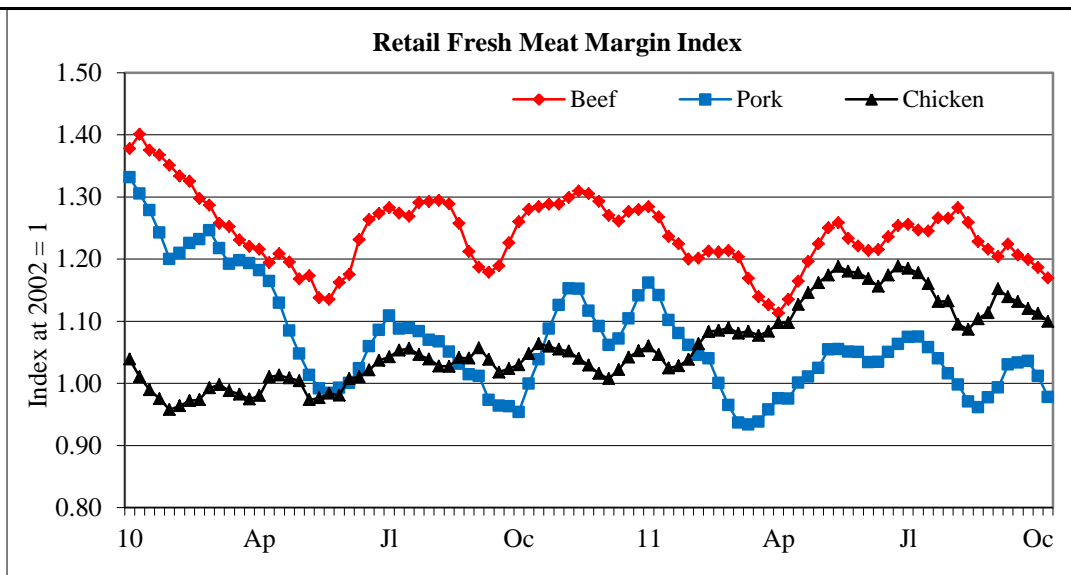
The following graph shows weekly indexes of fresh beef, pork and chicken margins at retail from January 2010 to last week. The indexes show the direction of retail margins compared to the Q2-Q4 2002 average. The higher the line goes the stronger the margin and vice versa.

- Beef margins at retail are below average.
- Pork margins at retail are very below average.
- Chicken margins at retail are above average.

Implications: Chicken should be seeing more aggressive features while pork gets less.

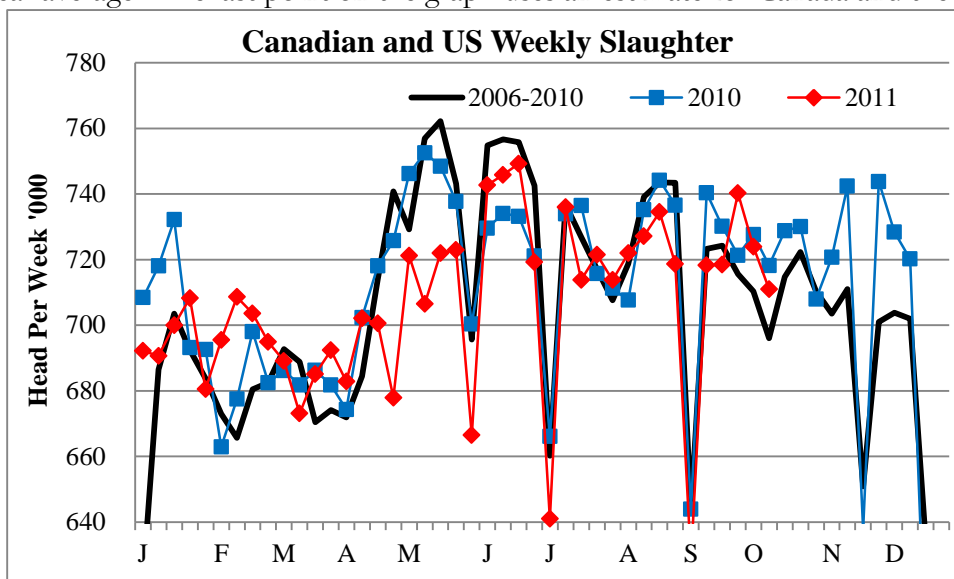
¹ The graph shows wholesale cutout beef less wholesale chicken and pork cutout prices. Chicken prices are supplied by the Chicken Farmers of Canada. Pork prices are Chisholm Sheet Ontario and beef prices are FOB plant by Cdn Meat Council.

² Retail margins are roughly calculated as average retail prices in Ontario divided by wholesale prices in Alberta for beef (Canfax), Canada-wide for chicken (Chicken Farmers of Canada) and Ontario for pork (Chisholm Sheet). These margins are 4-week rolling averages and are arbitrarily indexed to the average margin for 2002. The index provides relative direction, and does not indicate relative magnitude.



Slaughter

The following graph shows combined Canada and US weekly slaughter for this year, last year and the previous five year average. The last point on the graph uses an estimate for Canada and the US.



Implications: Slaughter levels were below last year but above average. Supplies should be ample this week.

Beef Packer Margins and Sales

Margins

- Alberta packer margins are probably breakeven to slightly in the red.
- US packer margins are deep in the red.

US Packer Sales Positions

US packer boxed beef sales volumes are at an average share of the previous week’s kill levels. That is, sales volume as a percent share of the previous week’s kill is at an average level for the time of year. US packer sold ahead position is at an above average share of total volumes sold. That is, the packer sold ahead position is more than average relative to total volumes sold. Overall sales volumes are modestly above the four week and five year average for this time of year. (USDA AMS SJ_LS712)

Implications: Packer inventories are in good shape but should not be much of a factor in sales leverage this week.

Cdn \$

RBC Economics Research, Financial Market Forecasts October 2011 is forecasting that the C\$ will remain below par through the fourth and first quarters. The Bank of Montreal's Canadian Economic Outlook, October 14 is also forecasting below par for the fourth and first quarters.

Near Term Outlook

Beef Seasonality

| | October 17 to 60 Days Out Seasonal Performance Trend | | Oct 17 to 2 Weeks Out Seasonal Performance Trend |
|-----------------------|--|-------------|--|
| | <u>Low</u> | <u>High</u> | |
| Carcass Cutout | late Oct | early Dec | higher |
| AA Chucks | early Dec | mid Nov | sideways |
| AAA Ribs | late Oct | early Dec | higher |
| AAA Loins | late Oct | late Dec | sideways |
| AA Hips | mid Dec | early Nov | lower |
| 50% Trim | late Dec | mid Nov | sideways |

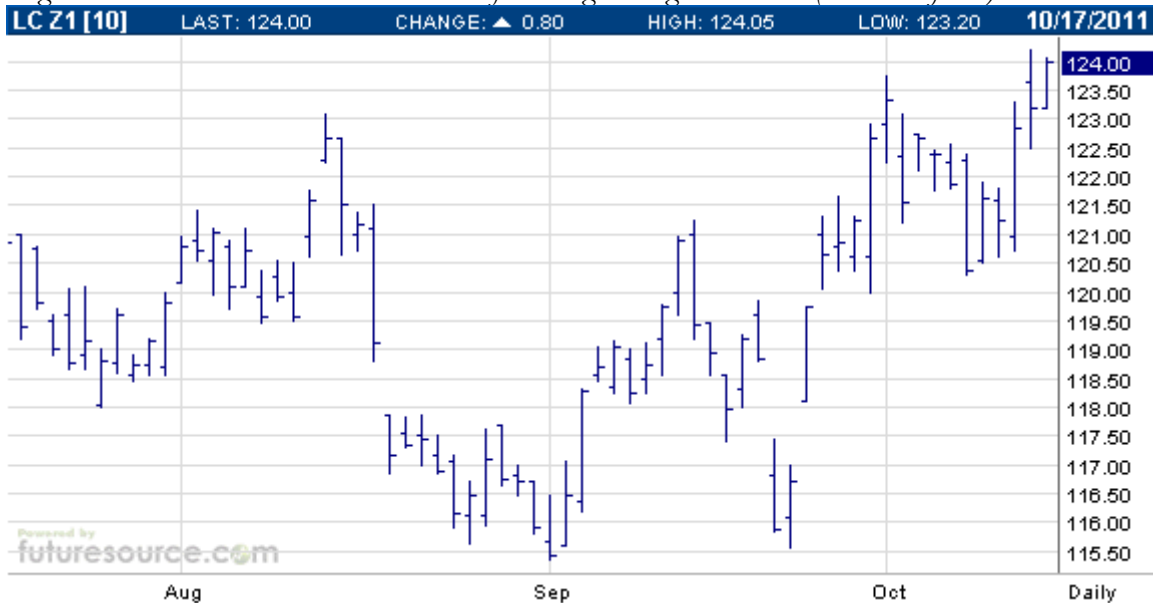
Implications: This is a choppy time of year. Major primals are in a transition period. The only primal that is reasonably predictable at this time of year is the Rib, which typically is in an upswing.

Live Cattle Futures

W/E October 14 closing prices and changes from previous week:

– December \$123.20, +1.35; February \$125.37, +2.17

The following is the December Live Cattle Futures as of morning trading October 17 (source: wsj.com)



- The technicals are strong. The chart has broken through upward resistance, trendlines are higher and strength indicators are pointing upward.

Implications: Buyers looking at this chart are going to be nervous. It will send them mixed messages. Some will want to get product before it goes higher while others will want to wait it out.

Competing Meats Two Week Forecast

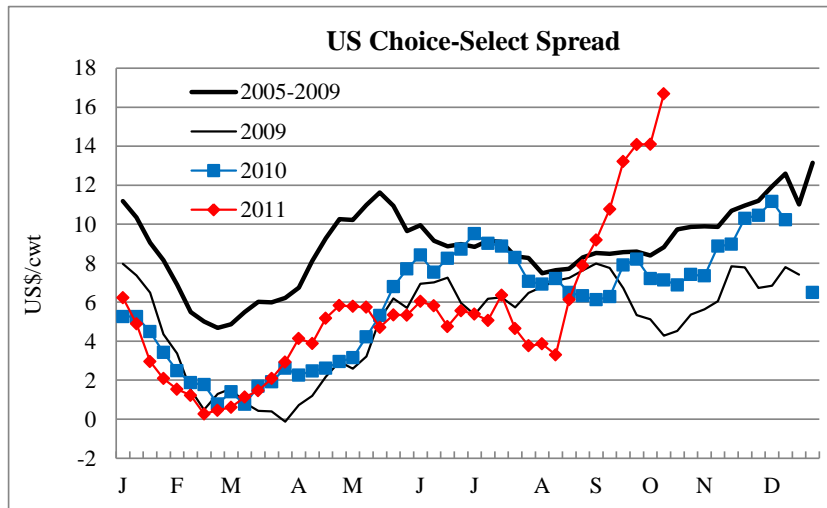
- Chicken: steady to higher
 - Production cutbacks in the US and Canada should help keep breasts firm while wings and legs seasonally increase.
- Pork: steady
 - Pork exports are on fire and keeping prices higher than the season normally dictates.

Implications: Competing meats should be supportive to beef

Statistical Highlight

Choice-Select Spread to Impact Canada?

The following graph shows the Choice-Select Spread for 2009, 2010, 2011 and the 2005-2009 five year average. While it is true that the spread is very wide, it is not record wide. There were weeks in 2006 when the spread was over \$20/cwt. With that said, it is unusual for the time of year. The change was dramatic and surprising.



It appears to be a Wal-Mart issue. The company has begun to focus more on a Choice beef program, buying large quantities of upper 2/3rds Choice beef. Packers are scrambling to meet demand, and at the same time, there is now relatively more Select product on the market than normal. This has not yet appeared to have much impact in Canada, but it should eventually result

in a wider AAA-AA spread here. Choice product will be less available for foodservice purveyors which should increase domestic packer pricing on AAA product. In addition there should be more Select product looking for a home that will be more available for Canadian grocery distributors.

Boxed Beef Outlook for the Next Two Weeks

Beef Market Arguments

Bullish:

- Features are strong in Canada and the US.
- Beef is still offering retailers good profit potential.
- Poor packer margins in the US should result in a slower chain speed.
- There is still seasonal strength in the market.
- Futures are providing a very bullish undertone.
- Competing meats are stronger than usual

Bearish:

- Beef is expensive relative to chicken and chicken is offering the best margins for retailers.
- Production is above average this week.
- The C\$ is firming again which will take the edge off the local market.

The Market Call for this week: Higher

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