

# Canadian Boxed Beef Report

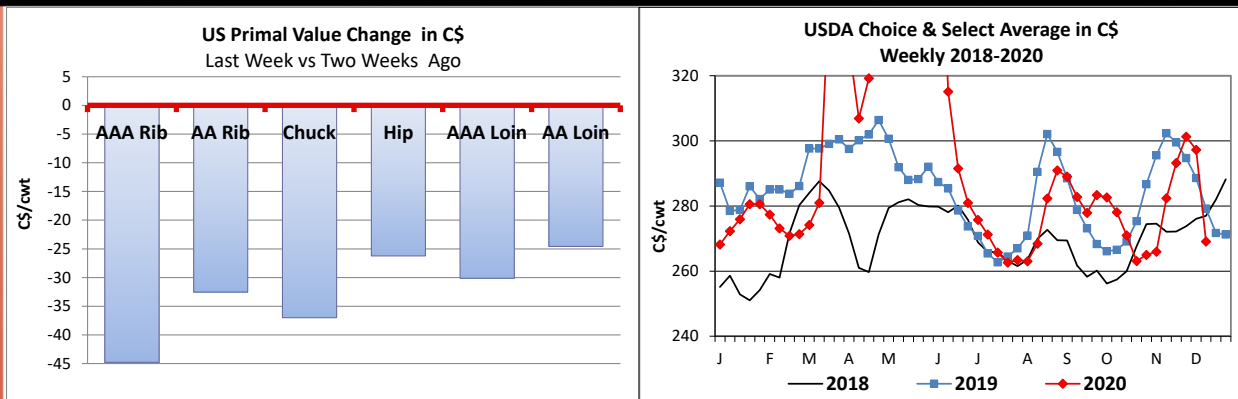


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Market Analysis and Consulting Inc.

Make Informed Decisions

December 14, 2020



## Market Call for This Week: **LOWER**

Packers have work to do on inventories and supplies are still going to be ample this week. Packers will need to keep product moving. U.S. Call: -4/cwt.

## Last Week in Review

### Overview

The U.S. market fell hard last week and the Canadian market followed. Packers in Canada priced product to move. Demand in Canada continues to be uninspiring. In many respects this market level feels more like normal. The big surge of a few weeks ago was the market that felt abnormal. In any event the big jump caused the big fall as buyers wanted no part of those prices and production kept coming. The trouble with the big run-up in November was that it put beef out of the merchandising equation for early in 2020. That means that even though prices are back down, the run-up could have lasting impacts.

### Spot Market Canadian Product Availability

Cargill in High River worked on Saturday and continued to put through big weekly numbers. Production in Guelph continue to be less than they would have liked given labor shortages due to the virus. They are going to work this Saturday to get production back. JBS did not work Saturday but they have been moving large volumes. Buyers should be able to get what they need but there is not an over abundance of product. Cargill seems cleaner than JBS.

### Canadian Buyer Activity

As noted demand has been weak in Canada. Foodservice has of course been terrible, but even retailers are cutting back on orders. Fill in business was not noted.

### Forward Pricing Six Weeks Out (W/E January 23) Compared to Current

Packers are trying to hold the line on chucks. Asking prices are modestly lower on hips. Ribs and tenders are lower. Butts are firmer and strips are asked steady.

### Market Call Last Week:

“LOWER. I am running out of bullish arguments. Production will be large at a poor demand time of year and prices are still high. U.S. cutout call: -4/CWT. GRADE ON THE CALL: “C.” The lower call was easy, but prices dropped a lot more than I expected.

## Canadian Fresh Meat Features and Business Traffic

Fresh Meat Feature Activity on Front Page of Flyers		
Dec 10-16	Beef Products (\$/lb)	Competing Meats (\$/lb)
<b>Yellow highlight means top ad of the week for beef and competing meats</b>		
<b>Maritimes</b>		
Atlantic Superstore	whole tender 10.88; medium ground 2.99	whole picnic 0.99; boneless breast 3.99
Foodland Co-op	sirloin tip roasts 3.99	no ad
Sobeys	top roast 4.99	side ribs 3.99
<b>Quebec</b>		
IGA	no ad	boneless breast 3.77
Maxi	mixed ground beef, pork and veal 2.44	whole bird 1.68
Metro	top roast 4.99	whole turkey 1.99
Provigo	t-bone 6.99; extra lean ground 3.77	half pork loin 1.99
Super C	blade roast 3.77	pork loin 2.44
<b>Ontario</b>		
Food Basics	extra lean 3.44	whole chicken 1.97
Foodland	sirloin tip roasts 4.99	no ad
Freshco	striploin roast 5.99	no ad
Loblaws	whole tender 9.88	no ad
Metro	full tender 10.88	boneless chicken or turkey breast 3.99
No Frills	no ad	drums or thighs 1.97
Sobeys	top roast 4.99	side ribs 3.99
Valu-Mart	striploin 6.99	bone-in picnic roast 0.99
Walmart SC	blade roast 3.77	no ad
<b>West</b>		
Calgary Coop	no ad	back ribs 4.49
Freshco	medium ground 2.77	no ad
No Frills	no ad	drums 1.97
Save On Foods (BC)	top roast 4.99	side ribs 3.99
Sobeys (Safeway)	top roast 4.99	side ribs 3.99
Real Cdn Superstore	sirloin tip 4.48	centre chops 4.98
Thrifty	prime rib roast 9.99	no ad
Walmart SC	blade roast 3.77	no ad
<b>Beef share of front page on surveyed flyers:</b>		<b>84%</b>

- Beef’s ad share of the front pages across Canada very strong this week.
- Retail demand remains disappointing in Canada. Sales are probably above year ago levels by about 5%.
- Full-service foodservice beef tonnage is probably down about 35-40% in Canada compared to last year. Quick service channels are likely equal to or down modestly.

## Competing Meats

### Wholesale Price Trends

- Wholesale pork increased last week.
  - The beef-pork wholesale spread is at the average of the past three years (2017-2019). Beef prices are near the three-year average vs. pork.
- Wholesale chicken was lower last week.





- The beef-chicken spread is close to the three-year average, meaning that beef is priced near the norm relative to chicken.

**Retail Fresh Meat Margins**

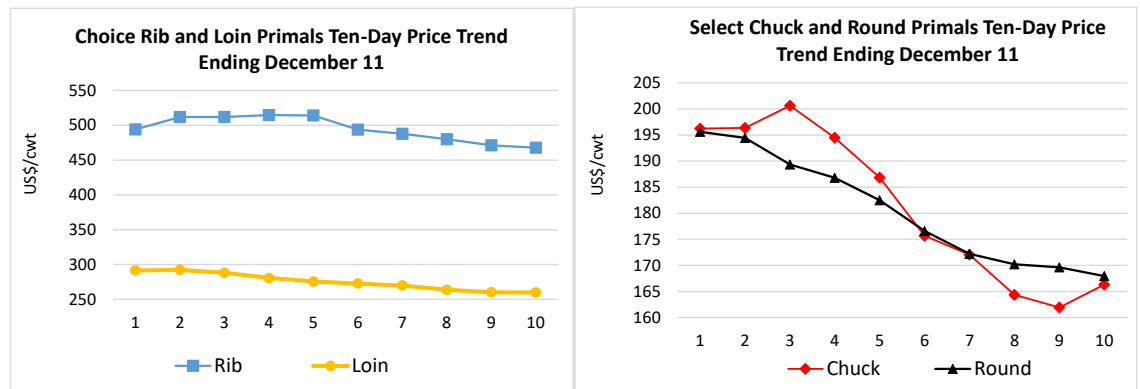
- Beef margins at retail are at the three-year 2017-2019 average.
- Pork fresh product margins at retail are well above the three-year average.
- Chicken margins at retail are well above the three-year average.

**Implications**

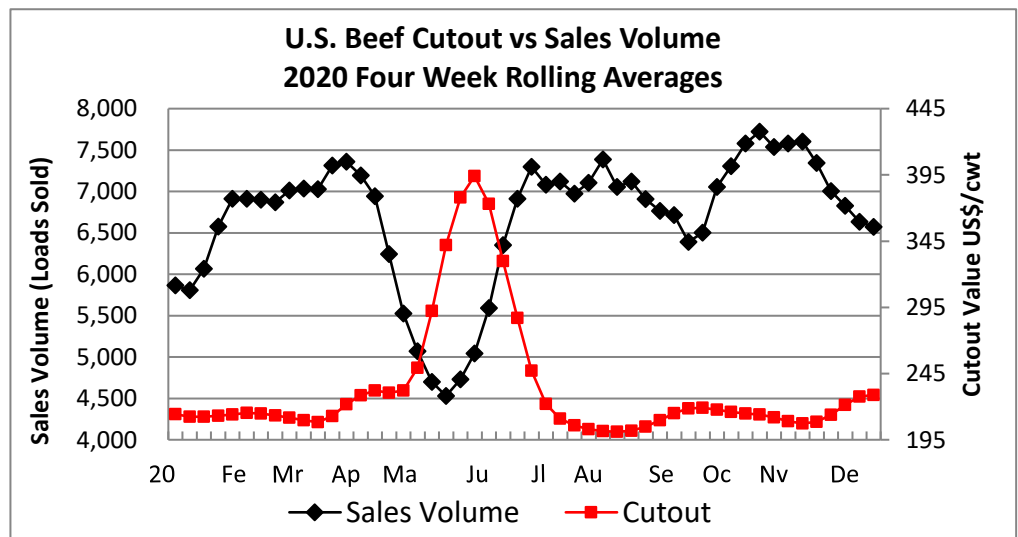
The sharp decline in beef prices has made beef suddenly competitive again.

**Packer Sales and Margins**

**Price and Sales Trends**



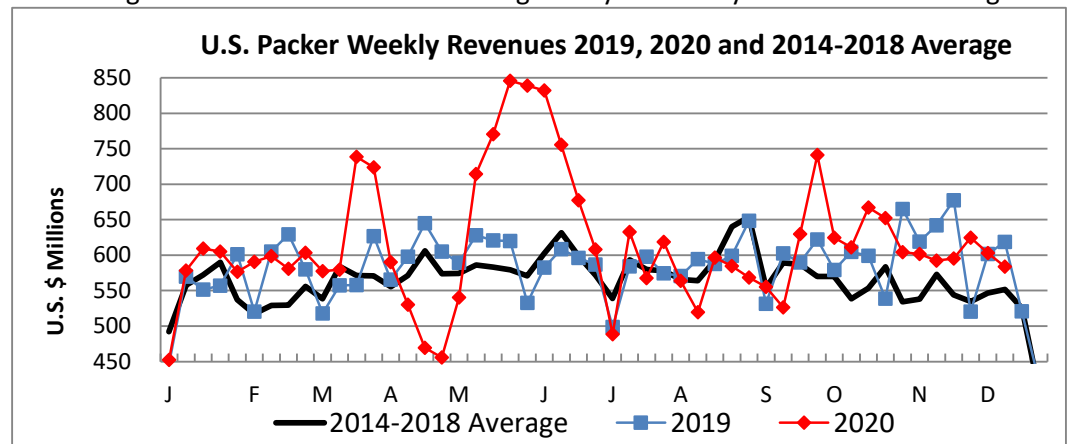
The graph below shows a clear picture of steady if not strong demand. The sales tonnage has been declining while the cutout has firmed. Rising prices at a time of lower volumes is a typical demand expectation. With that noted given the decline in tonnage prices might have been expected to increase more. Overall, this is a picture of stable demand for beef.





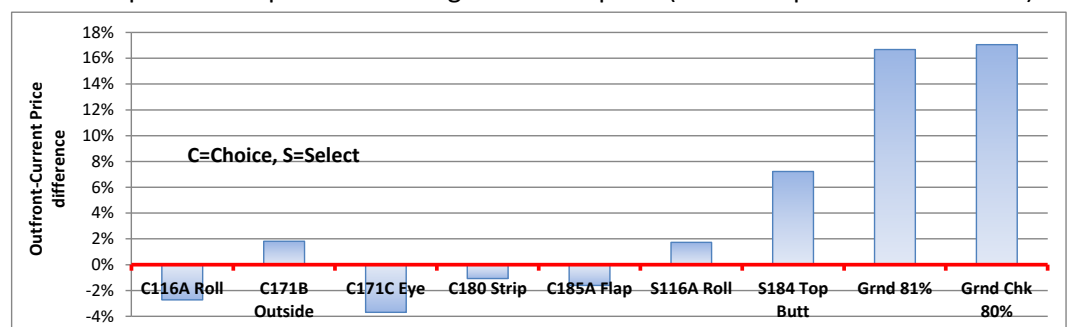
The USDA National Comprehensive Boxed Beef Cutout report December 14 shows:

- Packer sales volumes as a share of the previous week's kill are below average for this time of year. Packers sold a below normal load count share of the previous week's kill total compared to previous years.
- U.S. packers sold ahead position is normal for this time of year. That is, the sold ahead share of total sales is average.
- Sales volumes last week were right around the five-year average and right around the rolling four-week average.
- Sales revenue as measured by the cutout value and the tonnage moved was about \$584 million last week. That is less than last year and more than the 2014-18 avg.
- Rolling four-week revenues are running steady with last year and above average.



### Out-Front Sales

The graph shows the % difference between U.S. sales for delivery within 22-90 days and current spot market prices according to USDA reports (out-front price minus current).



- Of the nine out-front items reported, four were priced lower and five higher.

### Margins

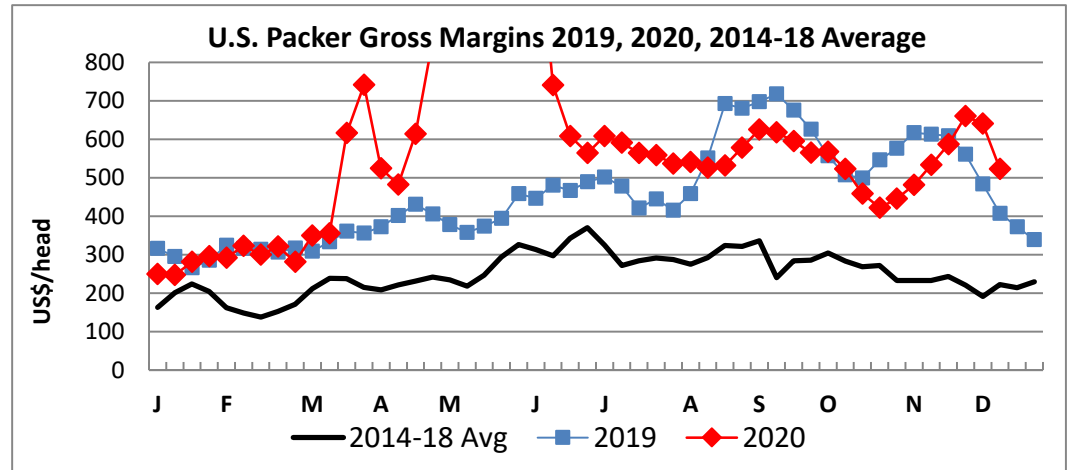
- U.S. gross margins are probably in the US\$500/head range (see chart next page).
- Alberta packer gross margins are positive by about C\$480/head.
- Net margins after costs are very profitable for both Alberta and U.S. packers.

### Implications

- Prices have downward momentum.
- U.S. beef demand is steady and generally supportive to pricing.
- Packers have spot market inventories to move.



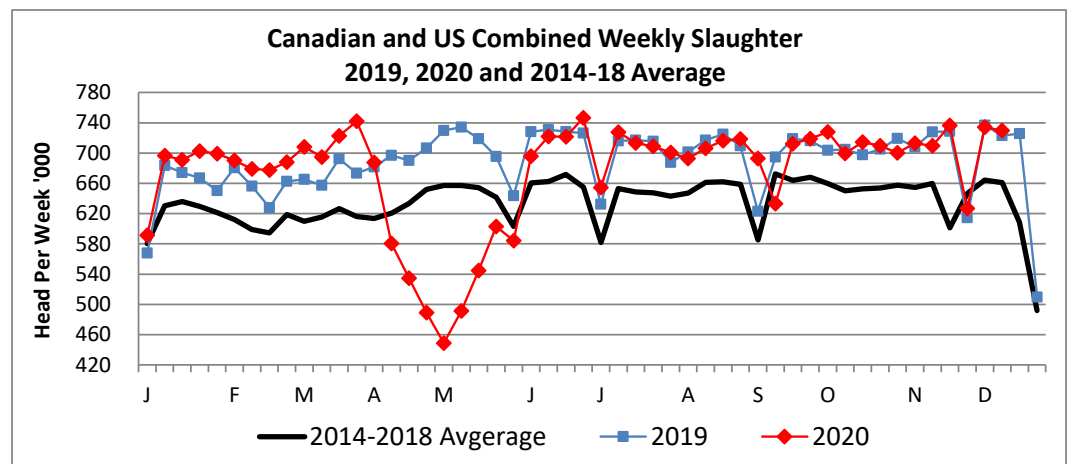




### Canadian Beef Production and Availability

Weekly Canadian A Grade Mix Percent and Steer Wts				
	Prime	AAA	AA	Steer Carcass Wt.
4 week avg	5%	69%	25%	949
52 Wk Avg	4%	66%	29%	915
Last Year 4 week	5%	68%	26%	929
Canadian Slaughter				
	Steer	Heifer	Cow	Total
4 week avg	39,668	15,288	9,194	64,487
52 Wk Avg	33,310	16,771	7,905	58,242
Last Year 4 week	33,010	18,320	12,457	64,176

Latest week ending December 5, 2020. Source: Canfax



- Slaughter rates in Canada should continue equal to or above year ago through December and January. Canadian cattle supplies are ample, and packers should be able to produce continually above year ago levels, especially given the generous margins. Canadian production should be plentiful.



- U.S. beef supplies are likely to run right around year ago levels for the next few weeks before going above year ago levels in January and February.

#### Implications

Canadian slaughter is likely to remain at or above year ago levels as very good margins encourage large production over the next month. U.S. supplies should be similar to year ago. Beef supplies will be ample in the coming weeks.

### Live Cattle Prices

- Live U.S. cattle costs were lower by \$3 last week to hit \$108.
- Cattle costs should be steady for the next week.

#### Implications

Cattle costs continue to be totally detached from beef prices.

### Boxed Beef Outlook Arguments for this Week

#### **Bullish**

- Beef demand is solid and supportive to pricing.
- Production will be cut due to holidays in the next two weeks.
- Packers are likely to ease off production to protect margins.
- Beef is competitive on pricing again after the big fall.

#### **Bearish:**

- Regular retail prices are still very high.
- Packers have work to do on inventories.
- Pricing momentum is declining
- Beef is likely to have fallen from favor for merchandising given its high costs over the past month.
- Beef margins at retail are poor compared to the other meats.
- Demand seasonally weakens in December
- Government lockdowns are impacting foodservice sales again in Canada.
- Packers are going to keep the chains and the sales moving at profitable levels.

### The Market Call this Week: **LOWER**

Packers have work to do on inventories and supplies are still going to be ample this week. Packers will need to keep product moving. U.S. Call: -4/cwt.

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