

Canadian Boxed Beef Report

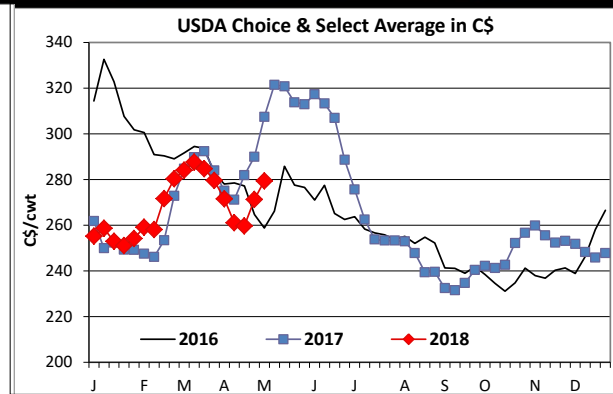
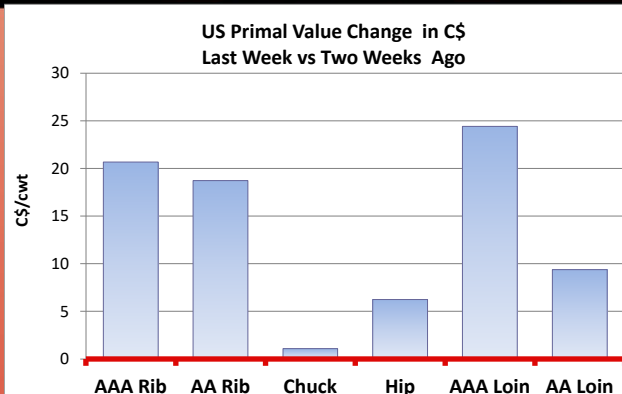


Kevin Grier

Market Analysis and Consulting Inc.

Make Informed Decisions

May 7, 2018



Market Call for this Week: **HIGHER**

I expect the boxes to go higher although I am less confident than I was last week.

Demand should drive prices higher but it is not a slam dunk. Packers are not as clean as they were last week and supplies are building.

Last Week in Review

Overview

The cutout jumped about \$5/cwt in the U.S. last week on very robust gains on Choice middles. The cutout increased in Canada but by less than in the U.S. The loin did not explode like it did in the U.S. Demand was very good in the U.S. but just ok in Canada. The week started quiet and ended quiet but there was good action on Tuesday and Wednesday.

Spot One Week Canadian Product Availability

Canadian buyers are going to find that the two big packers are in the driver's seat. Packers are in good shape on most items and very good shape on others. AAA middles in particular are tight. Any long suits have been cleaned. AA product is available but in strong hands

Canadian Buyer Activity

Retail demand has finally picked up but there continues to be very little fill in or spot business to fill holes. Foodservice buys are finally showing some strength. Father's Day buying is done and now the focus is Dominion Day. Father's Day should be strong for beef. In fact it appears that June overall is going to be a beef month on the flyers. The expectation is that the Victoria Day beef features are going to be very strong. Nobody wants to be beat on that weekend..

Forward Pricing Six Weeks Out (W/E June 16) Compared to Current Levels

Packers are looking for higher money going out six weeks on the loin compared to current levels. They are also looking for more on the rib, both AA and AAA. Chucks are being priced steady to lower. Hips are mostly asking lower.

Market Call Last Week:

“HIGHER. There is a narrow window for higher prices before kills start going higher still. Buyers need beef, demand is decent and packers are in good shape.” GRADE ON THE CALL: “A+.” Bang on again.

Current Market Conditions

Canadian Fresh Meat Features and Business Traffic

Fresh Meat Feature Activity			
May 3-9	Front Page Meat Item	Beef Price Rating	Competing Meat Rating
Maritimes	\$/pound		
COOP	bnls sknls breast 3.99	No ad	aggressive
Sobeys	cross rib steak 3.99; pork sirloin chops 1.99	weak	aggressive
Superstore	cross rib roast 2.99; extra lean ground beef 2.99; drumsticks 1.99	aggressive	weak
Quebec			
IGA	mdm ground beef 2.79; pork loin chops 2.79	aggressive	Moderate
Provigo	bone-in striploin steak 5.88; mdm ground beef 2.99; whole bird 2 for 12	aggressive	aggressive
Metro	beef tournedos 3.99; chicken legs 0.99; pork loin chops 3.99	moderate	aggressive
Ontario			
Food Basics	lean ground beef 3.44	moderate	No ad
Foodland	pork back ribs 2.99; pork tenderloin 2.99	No ad	aggressive
Freshco	eye of round roast 2.77	moderate	No ad
Loblaws	sirloin tip roast 3.99; bnls sknls breast 5.44	weak	weak
Metro	top sirloin roast 4.88; bone in breast 2.99	aggressive	aggressive
No Frills	lean ground beef 2.00	aggressive	No ad
Sobeys	pork loin chops 1.99; whole bird 1.99	No ad	aggressive
Walmart	Whole bird 1.77	No ad	aggressive
Zehrs	top sirloin roast 4.99; bnls sknls breast 3.99	aggressive	aggressive
West			
Calgary Coop	pork loin halves 1.99; bnls sknls breast 3.99	No ad	aggressive
Walmart	No Fresh Meat	No ad	No ad
Sobey/Safeway	top sirloin steak 4.99	aggressive	No ad
Save On Foods	pork tenderloin 3.49	No ad	aggressive
Thrifty	t-bone steak 8.99; pork back ribs 4.49	weak	Moderate
Superstore	whole bird 1.98	No ad	aggressive
Retail Featuring Rating this Week	Average	(Poor, Average, Very Good)	
Retail Meat Business Rating Last Week:	Very Good	(Poor, Average, Very Good)	
Food Service Business Rating Last Week:	Poor	(Poor, Average, Very Good)	

- Featuring was just average this week on the front page of Canadian flyers based on ad space and price points. Loblaw made a nice effort on the bone-in strips at Provigo in Quebec. The most interesting aspect of the flyers though was that Loblaw in Ontario put a boneless breast on the front of the flyer at \$5.44. Normally a price that high would be on the inside of the flyer. It makes me wonder whether they are signaling for a truce on flyer intensity.
- Featuring activity on beef in the United States was running above the rolling three year average and above year ago levels according to the USDA [National Retail Report – Beef](#), May 4.
- Retail beef demand in Canada is generally average but turning stronger with product and dollars beginning to exceed budget.





- Restaurant sales of beef have weaker than expected. A number of factors have been a play but there is hope for a weather related turn around.

Implications:

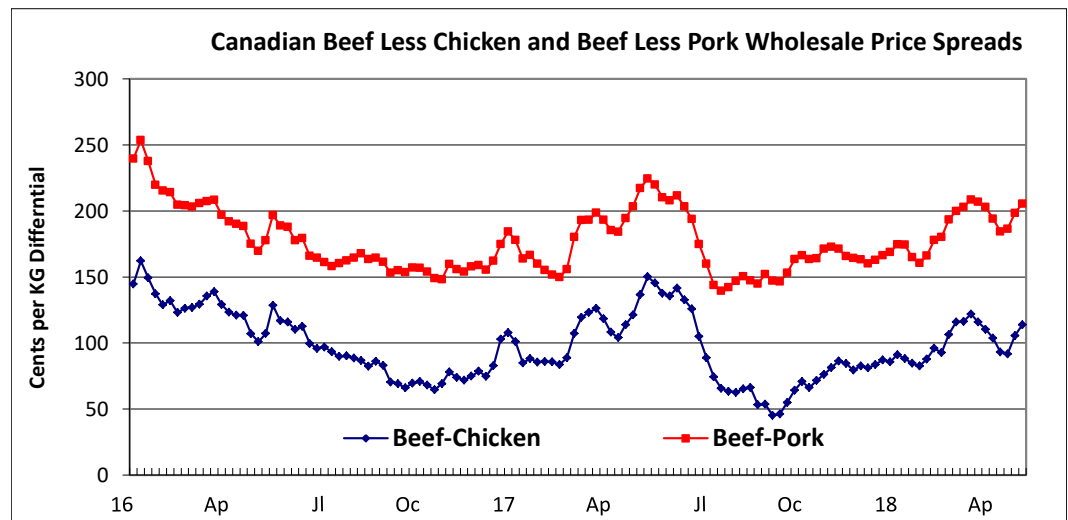
Features should move above average quantities of beef in Canada and the the U.S.

Competing Meats

Wholesale Price Trends

- Wholesale pork was higher last week.
 - The beef-pork spread is higher than the average of the past three years (2014-2016). Beef is priced more than the three year average versus pork.
- Wholesale chicken was steady last more than the three year average, meaning that beef is priced higher than the three year norm relative to chicken.

As shown in the graph¹, beef has been steadily increasing in costs or price relative to both pork and chicken since October 2017. The graph shows that beef is becoming increasingly expensive relative to the two competing meats.



Retail Fresh Meat Margin Indicator²

- Beef margins at retail are above the three year average.
- Pork margins at retail are well above the three year average.
- Chicken margins at retail are above the three year average.

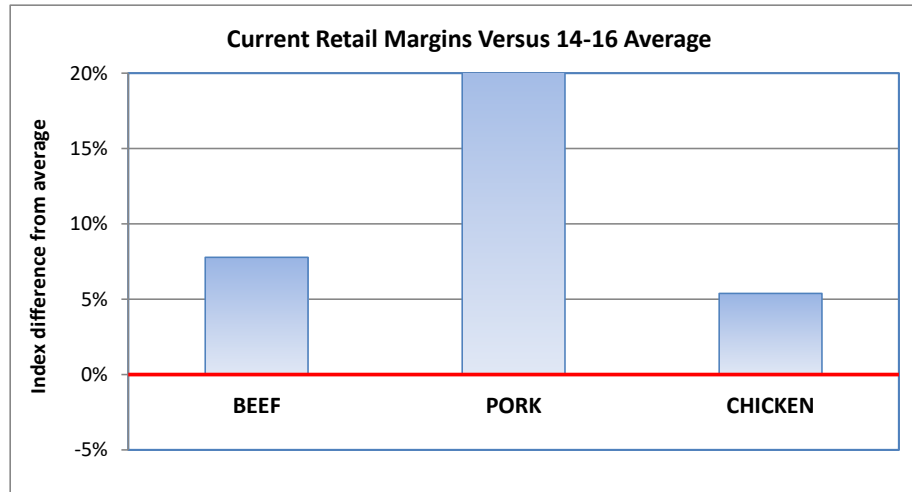
¹ The graph shows wholesale cutout beef less wholesale chicken and pork cutout prices. Chicken prices are supplied by the Chicken Farmers of Canada. Pork prices are Chisholm Sheet Ontario and beef prices are USDA converted to Canadian dollars.

² Retail margins are calculated as average retail prices in Ontario as a ratio of Canada-wide wholesale prices for beef, Canada-wide for chicken (Chicken Farmers of Canada) and Ontario for pork (Chisholm Sheet).





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Canadian Boxed Beef Report, May, 2018



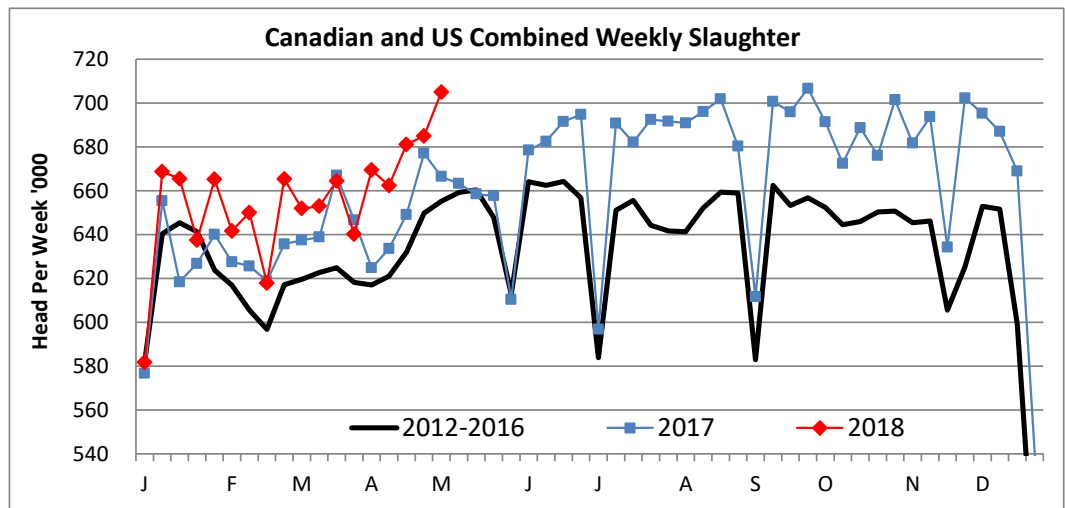
Implications

Beef is becoming the expensive meat in comparison to the other two main meats. At the same time it is not out of line and all three meats appear to be pulling their weight in terms of margins.

Packer Slaughter, Margins and Sales

Slaughter

Slaughter in the U.S. hit just under 650,000. That is the biggest of the year.



Weekly Canadian A Grade Mix Percent and Steer Wts				
	Prime	AAA	AA	Steer Carcass Wt.
4 week avg	3%	67%	28%	887
52 Wk Avg	2%	61%	35%	896
Last Year 4 week	2%	64%	31%	886
Canadian Slaughter				
	Steer	Heifer	Cow	Total
4 week avg	25,834	22,284	9,316	57,736
52 Wk Avg	29,406	16,989	8,882	55,637
Last Year 4 week	22,647	19,560	8,054	50,648

Source: Canfax



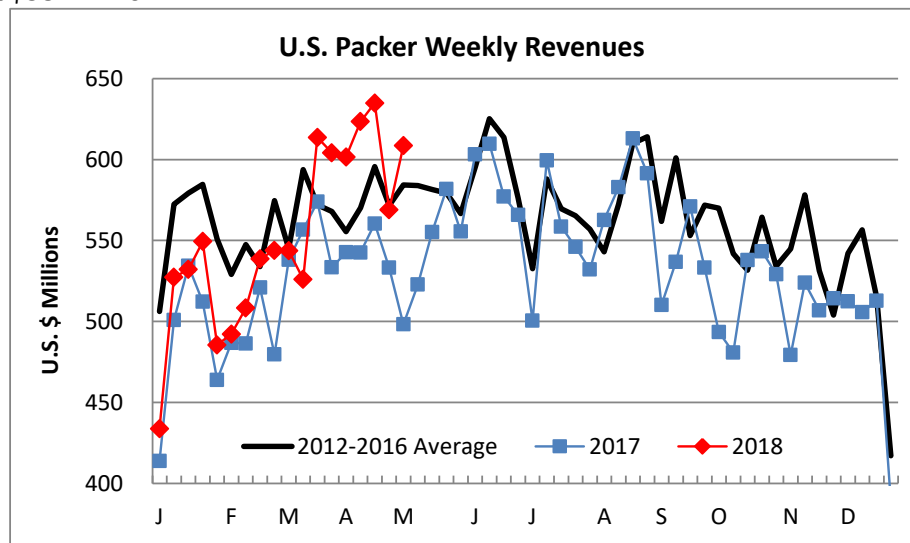
Margins

- Alberta packer margins have turned to the black modestly.
- US packer margins are very good.

US Packer Sales Positions

According to the May 7 USDA National Comprehensive Boxed Beef Cutout report, US packers have sold an average share of the previous week's kill. That is, packers' sales load counts are at an average level relative to the prior week's kill tally. U.S. packer sold ahead position is average. Packers have sold ahead an average amount of what they normally do relative to the previous week's kill totals. Total sales volumes last week were above the five year average and below the rolling four week average. (USDA AMS, LM_XB463 REPORT)

Based on load counts and the cutout value, sales at the packer level in the U.S. last week were around \$609 million. That is above last year and above the five year average of about \$584 million.



Implications

U.S. beef demand appears strong based on kill levels beef sales. Packers are in a decent sold position going into this week.

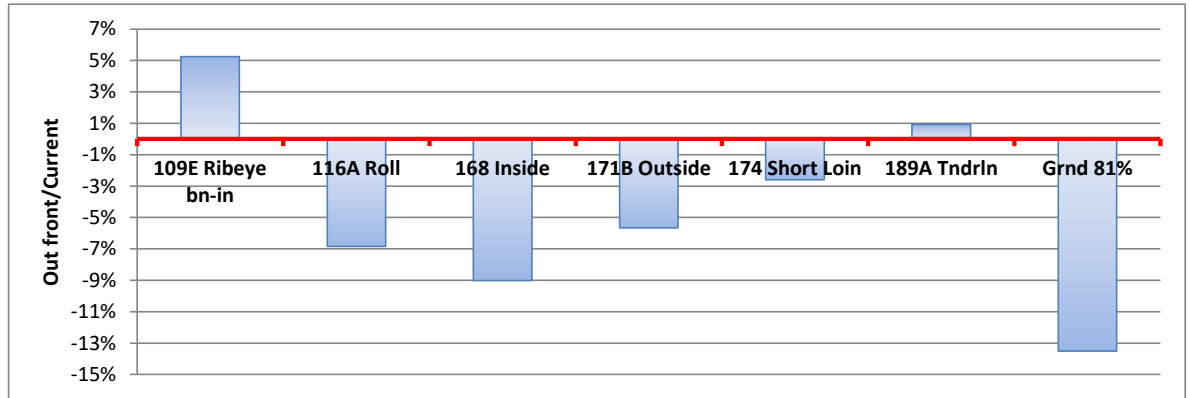
Beef Seasonality

	May 7 to Two Months Out Seasonal Performance Trend		May 7 to Two Weeks Out Seasonal Performance Trend
	Low	High	
Carcass Cutout	early July	late May	higher
AA Chucks	mid June	early May	lower
AAA Ribs	early July	mid June	higher
AAA Loins	early July	late May	higher
AA Hips	mid June	late May	higher
50% Trim	early May	early July	higher



Out Front Sales

The following graph shows the % difference between U.S. negotiated sales for delivery within 22-90 days and current spot market sales according to USDA reports.



Implications

Actual out-front sales are not surprising on the ends but the shortloin and grinds are surprising. My expectation would be that actual sales on the loin and the grinds should be higher going forward.

Live Cattle

W/E May 4, futures closing prices: June \$106.05, -0.95; August \$105.07, -0.90.
The following is the June Live Cattle Futures as of May 8 (source, Barchart.com).



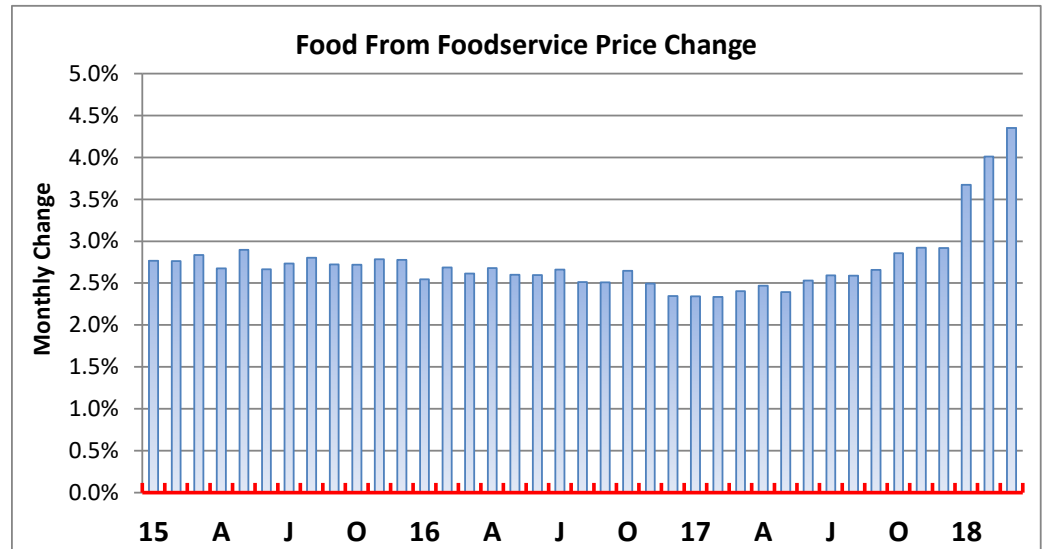
- Barchart.com, April 23 rates the June Live Cattle technical opinion as "SELL."
- Live cattle prices gained \$2 last week to settle at \$126 in the U.S.

Implications

The live market continues to defy gravity. Futures are screaming lower but the cash market is saying not now. Beef buyers are seeing this and are bound to be confused about direction. They will likely say the message is to wait and buy later.



Statistical Highlight: Foodservice Prices Soar



The minimum wage change is having an impact on menu prices at restaurants. Food from restaurant prices increased by nearly 4.5% in March.

Boxed Beef Outlook Arguments for this Week

Bullish

- Beef margins are good at retail.
- The market tone has seasonal momentum.
- Demand appears to be good in the United States.
- Canadian retail demand is improving.
- Features are expected to stay aggressive.
- The big beef holidays for May are just around the corner.
- Live prices are strong.

Bearish:

- Numbers of live cattle are building.
- Beef is losing its competitive edge against pork and chicken.
- Good U.S. packer margins should encourage large kills.
- Beef production should grow sharply in the coming month.
- Competing meats production will be very large in the coming months.

The Market Call for this Week: **HIGHER**

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