

Canadian Chicken Market Report

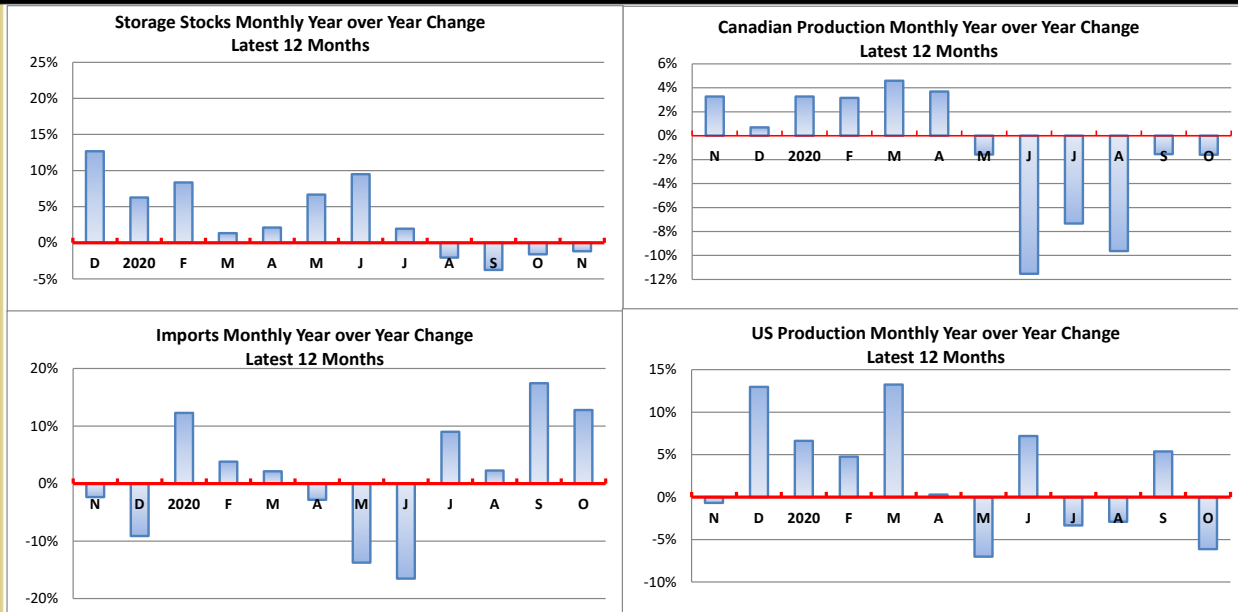


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Market Analysis and Consulting Inc.

Make Informed Decisions

November 2020



The Market Argument

Canadian Chicken Prices through February 2021

The Bullish Case

1. Production cuts will keep buyers active on the spot market.
2. U.S. production will be below year ago levels.
3. Beef prices have been very strong.
4. Features will stay above average for the rest of the year.
5. Chicken is still priced lower than beef compared to average.
6. Chicken is generating above average returns for grocers.
7. Wing stocks are tight.
8. Demand is showing signs of improving.

The Bearish Case

1. Demand is still not where sellers need it to be for spot trades.
2. U.S. breast and leg prices are very weak.
3. Foodservice demand will weaken with the lockdowns and negative virus news.
4. Breast and leg stocks are indicating a movement challenge.
5. The 0.78 dollar will make imports easier and lower the price impact on breasts.

The market tone has improved modestly, but the supply and demand are balanced at low spot market levels. Prices should trade sideways mostly through February.

Current Chicken Market Conditions

| % Change Yr over Yr | | Market Factors | | | | |
|---------------------|-------------------------|----------------|----------|---------------|----------|--|
| | | Canada | | United States | | |
| | | Month | 12 Month | Month | 12 Month | |
| October | Production | -2 | -1 | -6 | 2 | |
| | Imports | 13 | 1 | | | |
| | Exports (Latest) | | | 9 | 3 | |
| | Storage Stocks (Latest) | -1 | 3 | -4 | 4 | |
| November | Egg Sets | | | -1 | 1 | |
| | Placements | | | -2 | 0 | |
| | Breast | -6 | -5 | -1 | -7 | |
| | Wing | 17 | 4 | 30 | -1 | |
| | Leg | -6 | 3 | -23 | -18 | |
| | Beef Cutout | -4 | 10 | | | |
| | Pork Cutout | -12 | -9 | | | |

Forecast Follow-up

In the August edition of this report the forecast for the July through November price change was as follows:

“The only positive for chicken this fall is the production cuts. That is a big important factor, and it will keep prices from eroding seriously given the demand side problems.”

| July through Nov 2020 Price Change | | |
|------------------------------------|----------|--------|
| | Forecast | Actual |
| Breast | -16% | -22% |
| Wing | 3% | 4% |
| Leg | -18% | -23% |

GRADE ON THE CALL: “A-.” The forecast called for big declines in the breast and the leg, but the market fell even more. Good call on the wing. Overall, the call was good pointing to demand as the challenge facing the market.

Canadian Market Commentary

Processor gross margins continued to run below average for spot market trades in November which is an indication of weak demand. Actual consumption and pricing for the month of October also provided evidence that chicken demand is sub-par and a big part of the market problem. That is not surprising given the fact that food service was likely about 30% lower than year ago levels, at least at full-service venues. That, of course, was due to the increase in lockdowns and less patio dining as weather cooled. Quick service outlets probably saw business 0-5% lower than year ago during November. That did not seem to hurt wing demand, which had soaring prices, but the rest of the cutout was weighed down by the foodservice slowdowns.



On the positive side for chicken, it became the most competitive meat relative to beef and pork in comparison to historic norms. It was also a very strong margin maker for retailers. Chicken features were still lackluster at retail, but they were picking up. The bottom line for demand is that it was not where sellers needed it to be, but it has started to improve.

U.S. News Watch

- **Tyson Foods** reported fourth quarter and fiscal 2020 results. Fourth quarter sales amounted to \$11.5 billion and total year at \$43.2 billion, up 5% and 2% respectively. Operating income of 1.0 billion in the fourth quarter was up 68%! Full year operating income of \$3.1 billion was up 10%. Tyson's fourth quarter chicken sales were \$3.43 billion this year compared to \$3.45 billion last year. Total year chicken sales were \$13.2 billion compared to \$13.3 billion in 2019. Fourth quarter chicken operating earnings were \$86 million this year compared to \$90 million last year. Full year operating income was \$122 versus \$621 million last year.

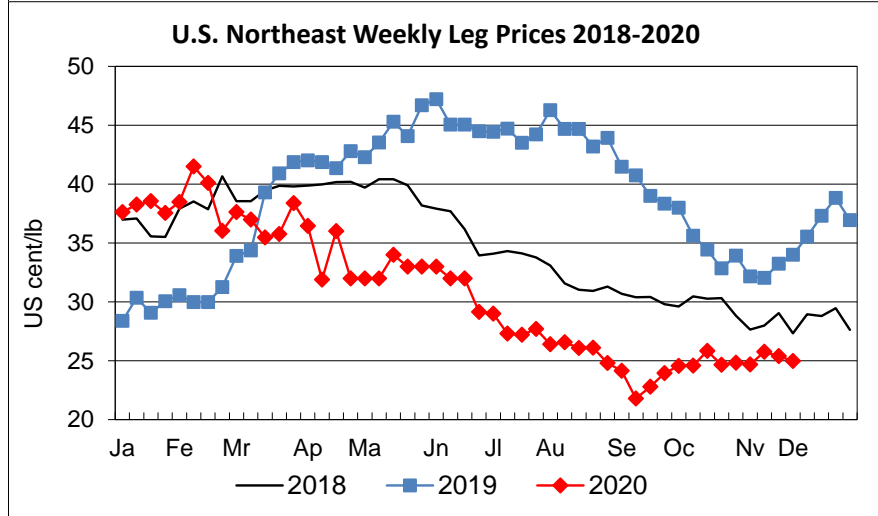
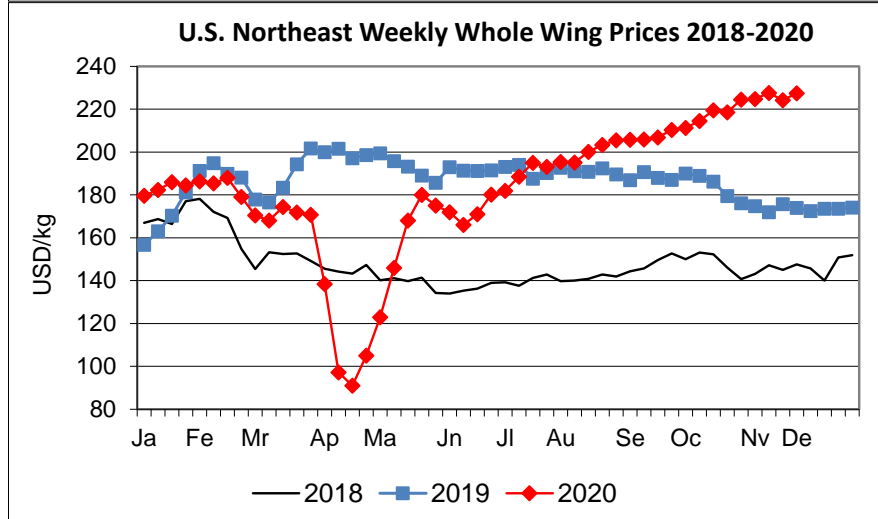
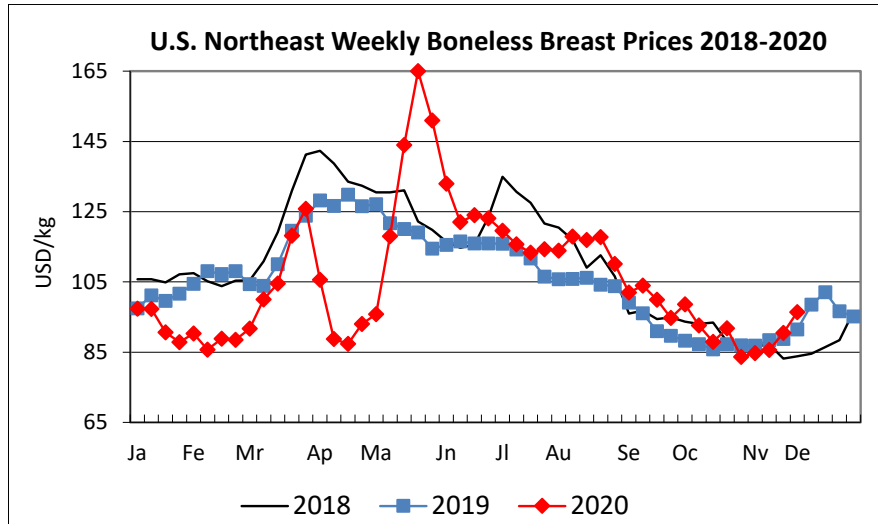
The company said that for chicken, sales volumes were impacted due to lower production throughput associated with the impact of COVID-19 during portions of fiscal 2020 and lower foodservice demand. The lower foodservice demand was "partially offset by increased retail demand." Average sales price decreased primarily due to weaker chicken pricing as a result of market conditions. Operating income decreased primarily from market conditions, unfavorable product mix, as well as production inefficiencies and direct incremental expenses related to COVID-19. Operating income was further impacted by \$34 million and \$21 million in restructuring costs incurred in fiscal 2020 and fiscal 2019, respectively.

- Separately, **Tyson** announced plans to build new production facilities in China and Thailand, and expand its facility in the Netherlands. The latest expansions, adding over 100,000 metric tons of fully cooked poultry capacity, builds on the company's global growth strategy to become the leader in protein by serving emerging markets and strategic customers. "Global population and income growth will continue to drive an increased need for protein," said Dean Banks, president and CEO of Tyson Foods. "These investments allow us to increase our in-country operations and global export capabilities, helping us bring more safe, high-quality protein for consumers in these countries as well as for customers in other parts of the world."
- **Pilgrim's Pride** reported fiscal third quarter results during November. Net revenues were \$3.1 billion which was up 11% compared to last year. Adjusted earnings before interest, taxes and depreciation was \$305 million, up 18%. The company said that in the U.S., demand continues to recover, mainly in Retail and quickservice restaurants business with volumes stronger than a year ago, though volatility and challenging conditions in commodity segments still remaining.
- **Rabobank's [Global Animal Protein Outlook 2021](#)** says that accelerating digitalization offers opportunities to poultry, which has a shorter and more responsive chain than other species. In addition the economic downturn can benefit poultry relative to other species due to its lower price point. The bank says that disappointing margins and rising feed costs will limit production growth in the first half of 2021. The forecast is for 0.9% production growth for all of 2021 for North American poultry.





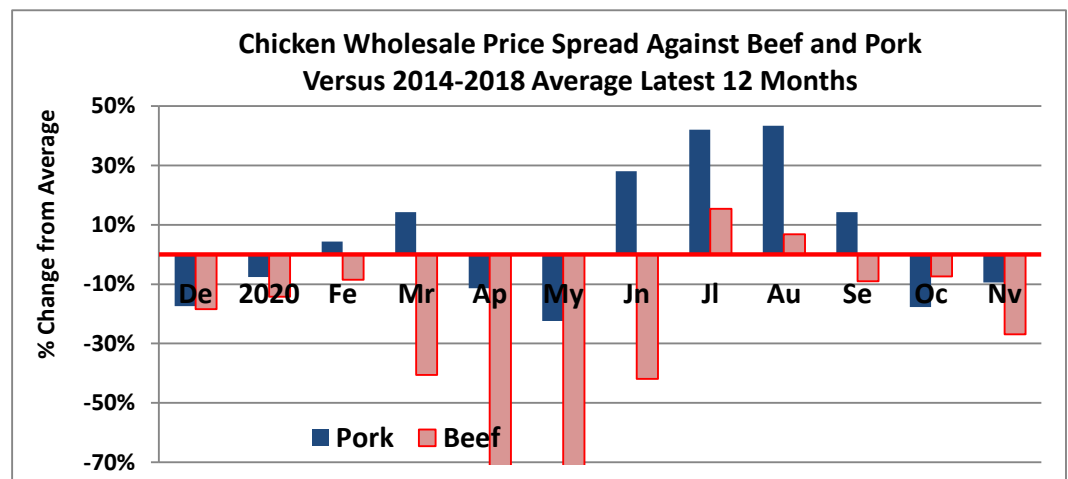
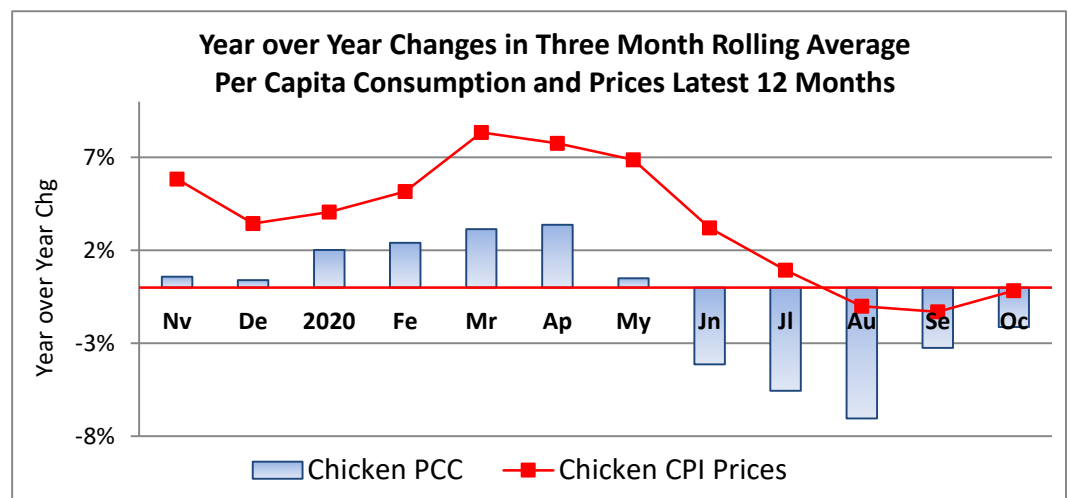
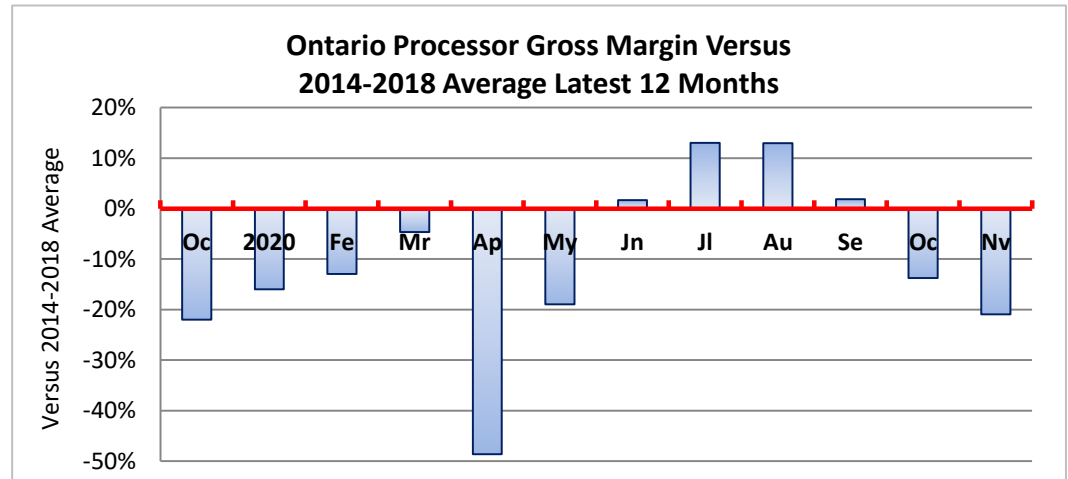
U.S. Prices

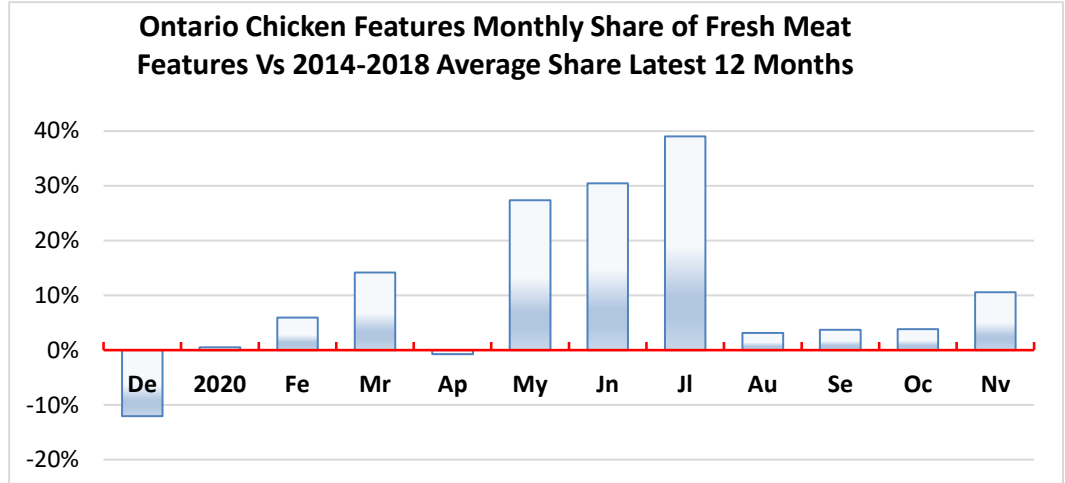
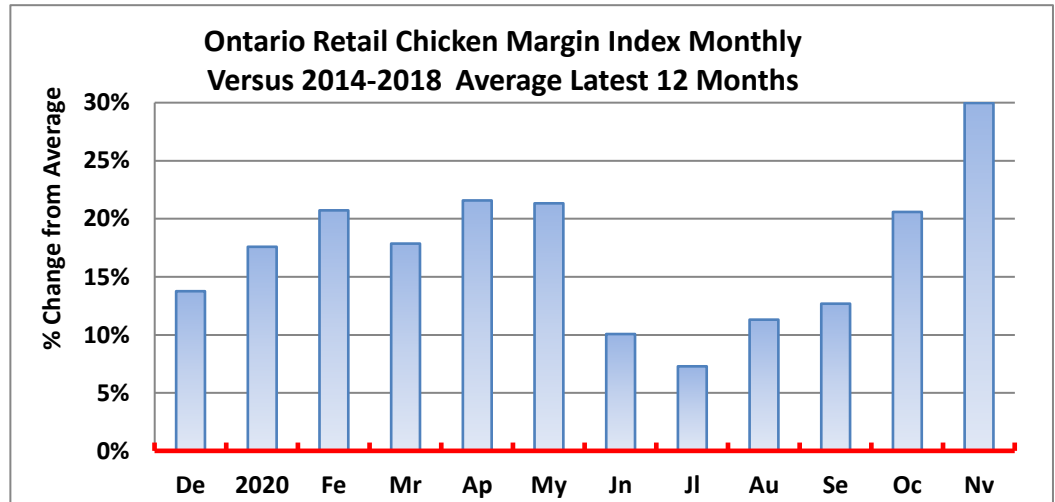




Chicken Demand

The following are graphics and summary points of key demand drivers of consumption; retail prices; competing meats; features and retail margins.





- Processor margins are running negative on spot market transactions indicating weak wholesale demand.
- Consumer prices are finally beginning to firm up in Canada. Consumption has increased for two months in a row after four months of declines. *Demand is still weaker than year ago and is still a problem, but it is starting to improve.*
- Chicken is cheaper than beef and pork relative to the normal historic relationship. *Chicken is the most cost competitive meat.*
- *Chicken retail margins are probably the best performer in the meat case*
- Chicken features are above average and starting to grow in share.

Key Demand Message

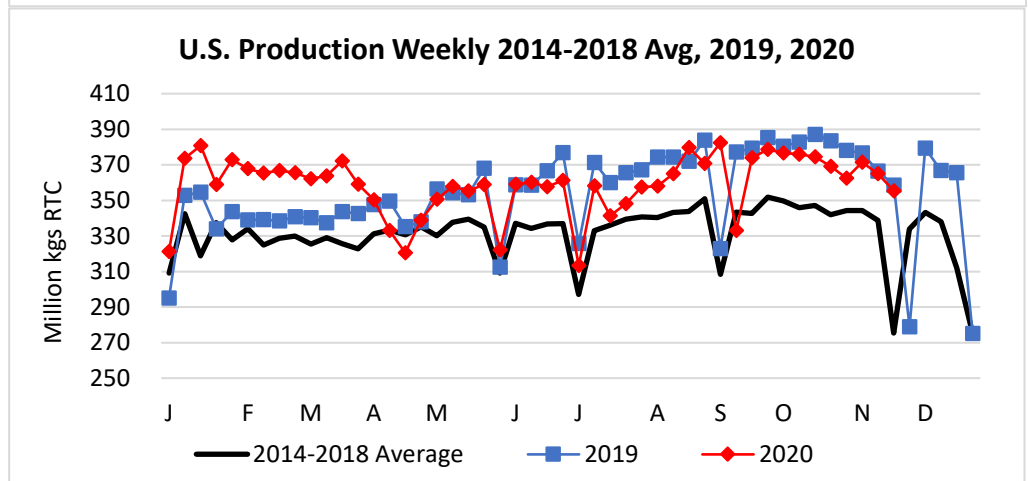
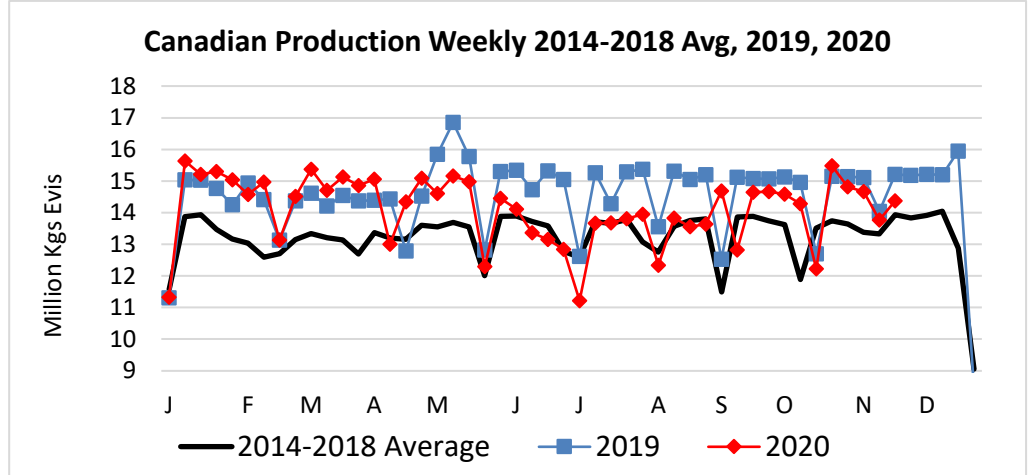
Demand for chicken is still weak and still a negative factor for wholesale pricing. The government virus lockdowns have been a major component of this negative demand. There are indications of improving demand conditions, including strong retail margins and very competitive costing against beef and pork. The demand message is turning positive, but will be subdued due to ongoing government lockdowns of foodservice.





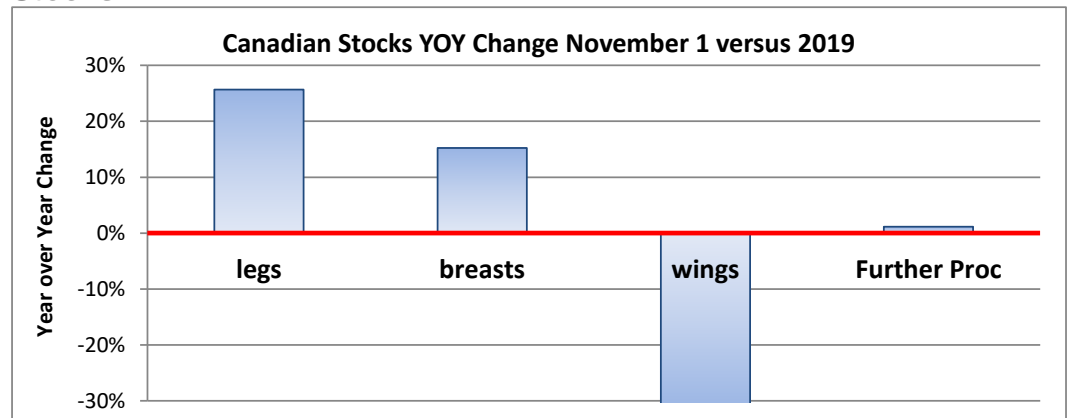
Canadian and U.S. Supply

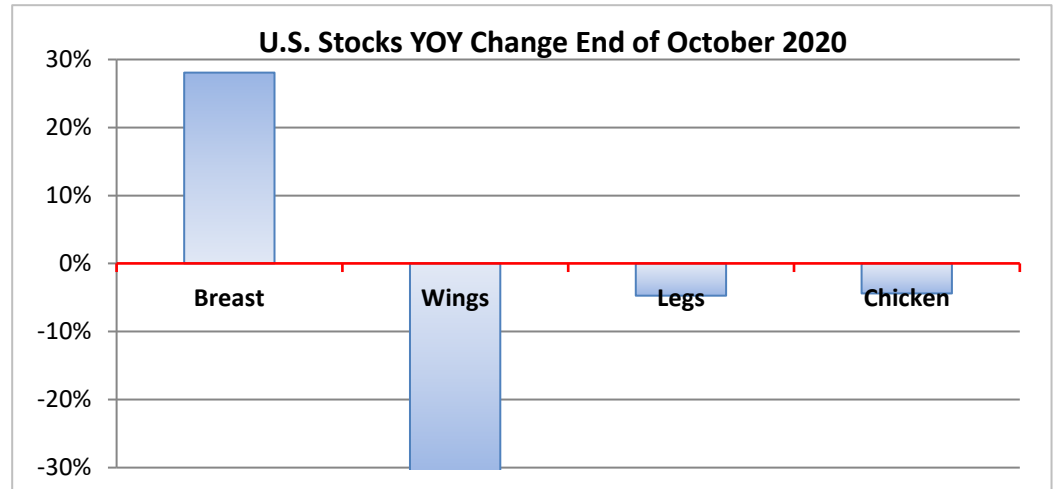
Production



- Canadian production during the latest four weeks ending November 21 is down 3% year over year. U.S. production is down 2% latest two weeks.

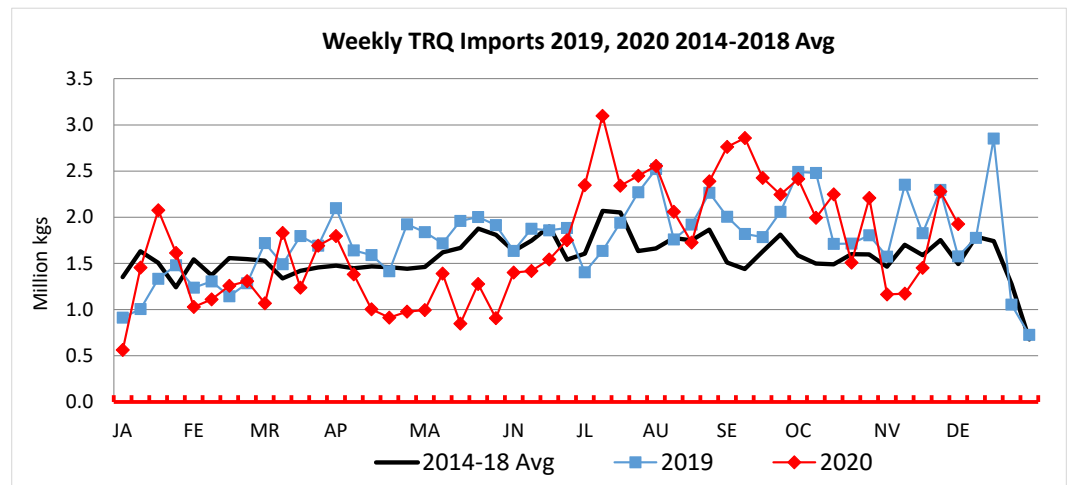
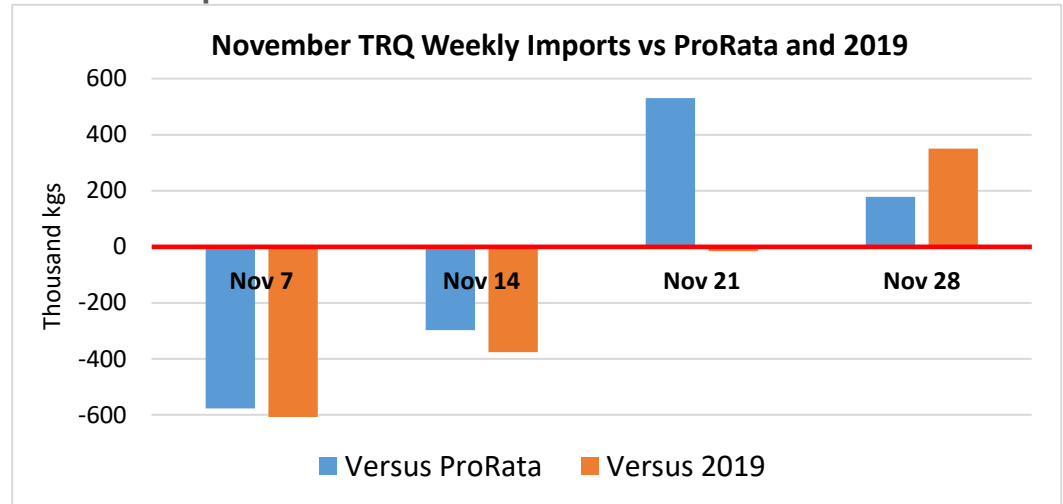
Stocks

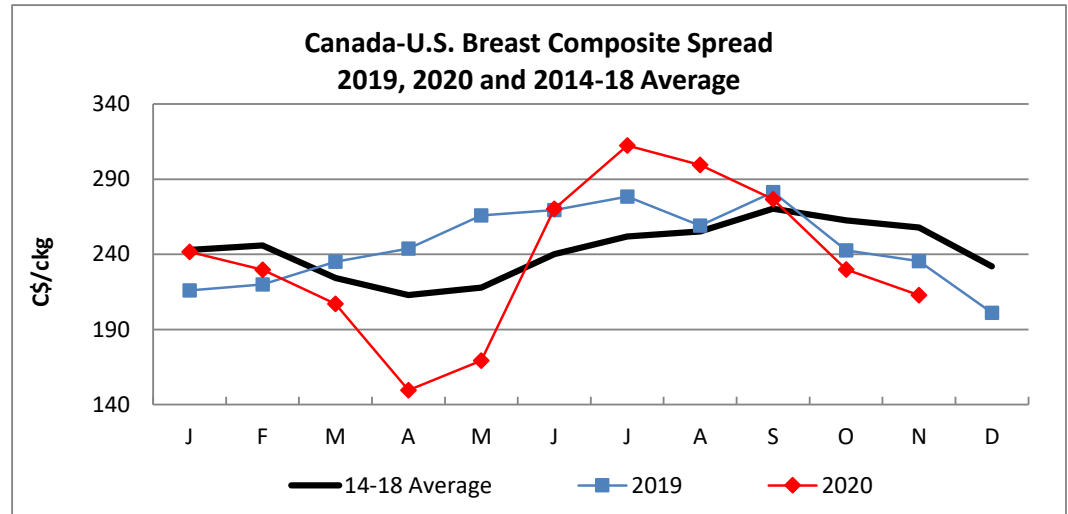




- Serious increases month to month in Canadian leg stocks indicate processors may be having difficulty moving the product. Canadian breast stocks are coming under control, but their levels are likely a function of a slower market.

Canadian Imports





- November TRQ imports were 2% below prorata.
- November TRQ imports were down 15% compared to last year.
- The industry is running very close to prorata year to date through November 28.
- Canadian breast values were not encouraging imports.
- The whole bird market went into a free fall in early November in part due to the virus-related problems at Exceldor West. TRQ values fell along with it. It lasted two weeks, and then came back to normal levels. Quota traded at around 1.10-1.15 and finished the month at 1.30.

Canadian Chicken Price Forecasts

Competing Meats

| Production and Pricing of Beef and Pork | | | |
|---|--------|--------|--------|
| % Change Year over Year | Q3' 20 | Q4' 20 | Q1' 21 |
| North American Beef Production | 3 | -2 | 1 |
| North American Pork Production | 5 | 0 | -2 |
| Canadian Wholesale Beef Prices | 0 | -3 | -2 |
| Canadian Wholesale Pork Prices | -14 | 2 | 2 |

- Beef prices have finished the year on a very strong note. Prices in the first quarter will be modestly below year ago, but year ago prices were very high.
- Both pork and beef prices will be modestly supportive to chicken for December through February.

U.S. Chicken Forecasts

Production

- Based on placements in November, production in December and early January should be 2% less than year ago levels.
- Given eggs and the layer supply flock, first quarter 2021 production should be about 1-2% lower than 2020.



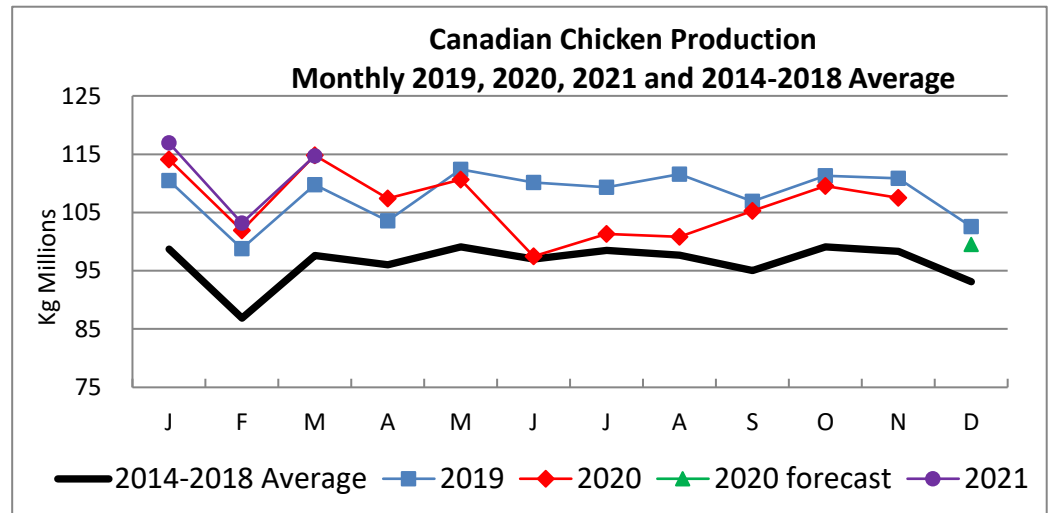


U.S. Price Forecast

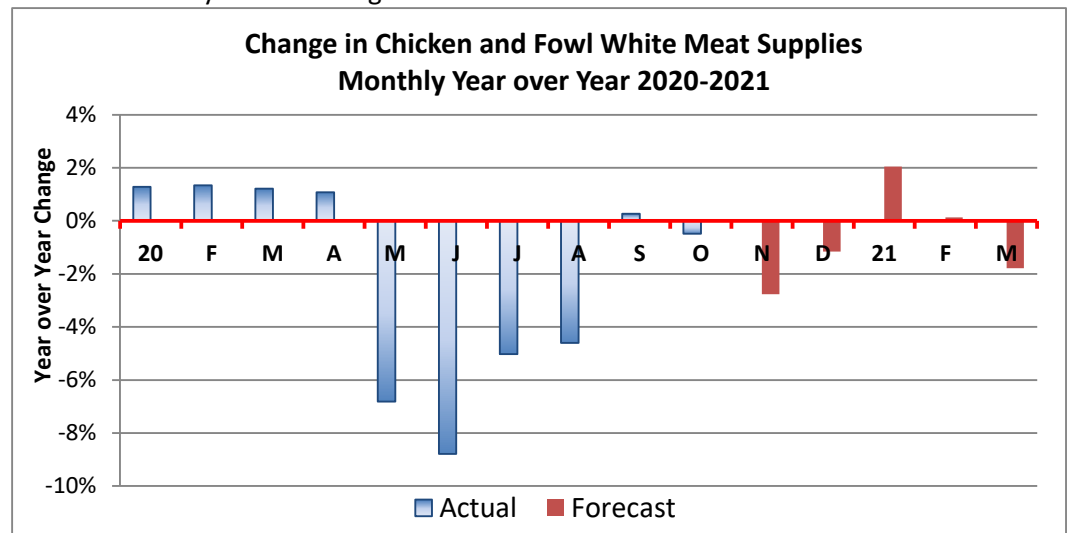
| US\$/cwt | Current | Feb 2020 | Feb 2021 |
|--------------|---------|----------|----------|
| Bnls Breasts | 89 | 89 | 100-105 |
| Whole Wings | 226 | 174 | 210-215 |
| Leg Qtrs | 25 | 33 | 28-32 |

Canadian Forecasts

Production



- Total allocation for A-166 (Oct 25-Dec 19): -4.2%. Domestic allocations: -4.6%.
- Total allocation for A-167 (Dec 20-Feb 13): +2.5%. Domestic allocations: +2.0%.
- Total allocation for A-168 (Feb 14-Apr 10): -0.1%. Domestic allocations: -0.3%.
- Chicken daily production during February 2021 is allocated to average 1% less than the November 2020 average daily production.
 - Normally, during the past decade, production is down 2% over that time.
 - That means that the production change between now and February will be modestly above average.

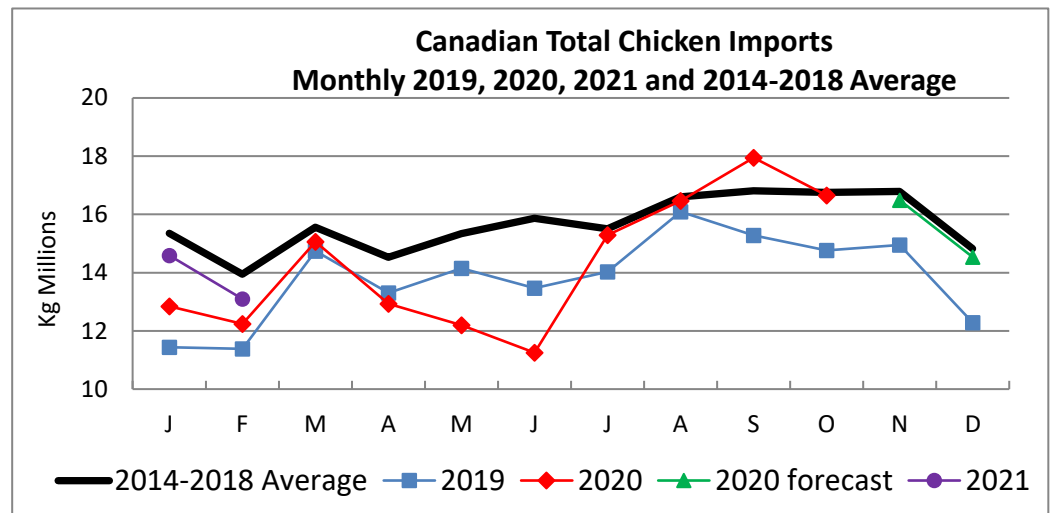




- Supplies of chicken and fowl white meat are slated to range between 1% below year ago for December and 1-2% higher in the first two months of 2021.
(That estimate is based on allocated production, and estimated fowl and global imports, according to Jan Rus, Chicken Farmers of Canada calculations.)

Imports

- TRQ imports would normally need to come in above prorata for December, given the state of imports versus quota. This year there is no penalty for underutilization so the imports will not be forced into the market to end the year.
- Total imports, TRQ, further processed, re-exports, etc., seasonally decline in December through February.
- Total import levels should trend below average levels through the end of the year and into February.



TRQ Value

- Quota holders will finish the year with the option of not selling so quota should finish the year at the \$1.30 level.
- There will be less TRQ available next year which will support values
- Look for quota to trade at \$1.55-1.60 early in the New Year.

Price Seasonality of Main Cuts

The following is a summary of the average seasonal changes in pricing from 2015 through 2019 for Canadian breasts, wings, legs, and the total composite from November through February:

- Breasts: 1%
- Wings: 3%
- Legs: -1%
- Composite Cutout: -1%



Price Forecasts for Main Cuts

Beef goes into December on a very high note on a very rapid rise. At the same time, beef is suddenly not competitive relative to chicken. Beef is set to fall from its late November peaks, but it will remain relatively expensive compared to chicken. At the very least, chicken will not be encumbered by beef during the next two months. A large share of Canadian pork production has been delisted from exporting to China. As such pork availability is no longer a problem for pork buyers. Nevertheless, feature plans to finish the year and start the New Year likely are short on pork.

As noted in this report since the summer, chicken demand had been waning. Based on chicken's competitiveness on retail margins and relative costing, demand can be expected to pick up at least in the first quarter of 2021. That is particularly the case given beef's price. With that noted, the dark cloud over the industry remains the government shutdowns of the foodservice sector due to the virus. This has not appeared to curb wing demand at least through November. However, it is expected that lockdowns will increase to finish the year. It is doubtful that foodservice tonnage can be maintained even at the weak levels of October and November. As such, while demand will begin to improve, it will remain a challenge for the industry early in 2021.

The following are the forecasted price direction for the primary chicken cuts and the composite for November through February.

- **Breasts: 0% (right around seasonal)**

Breasts will continue to struggle with a lack of foodservice. In addition, February is one of the weakest months of the year for seasonal demand. Given production levels the expectation is for breasts to trend sideways on the spot market.

- **Wings: -6% (weaker than seasonal)**

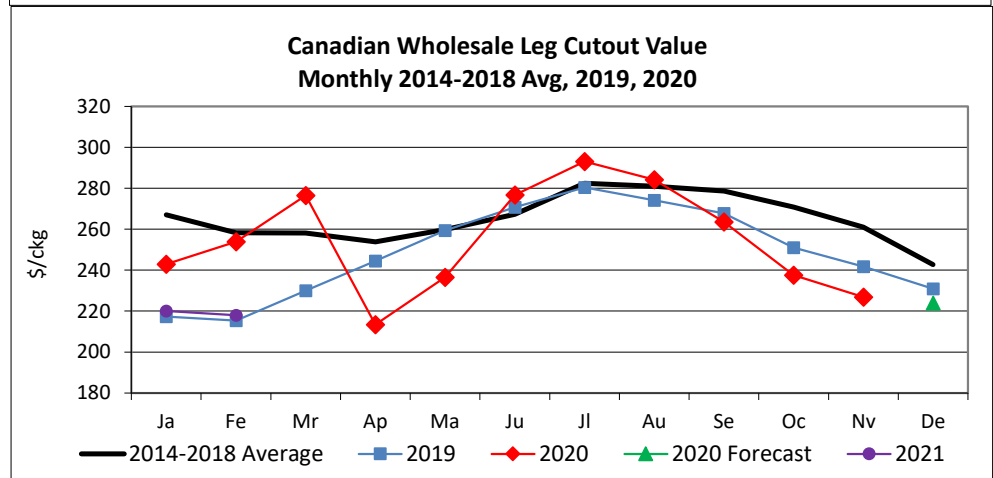
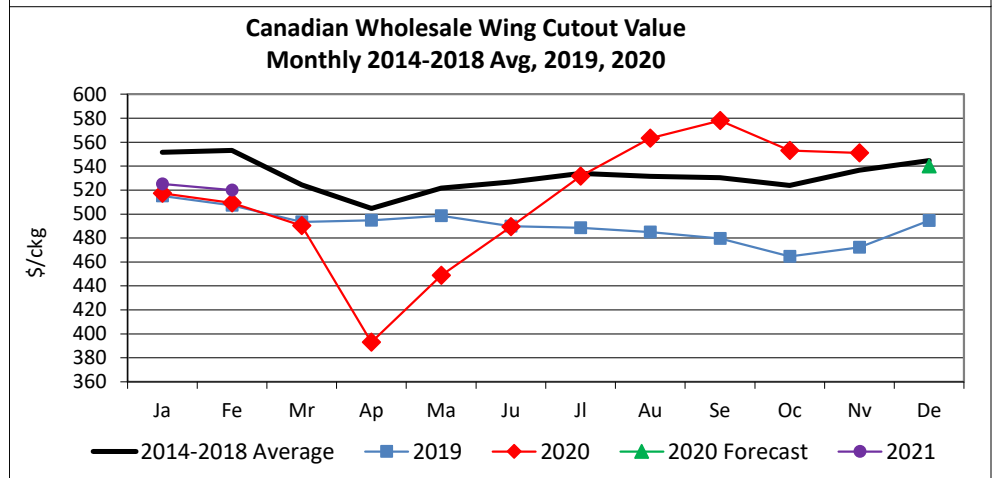
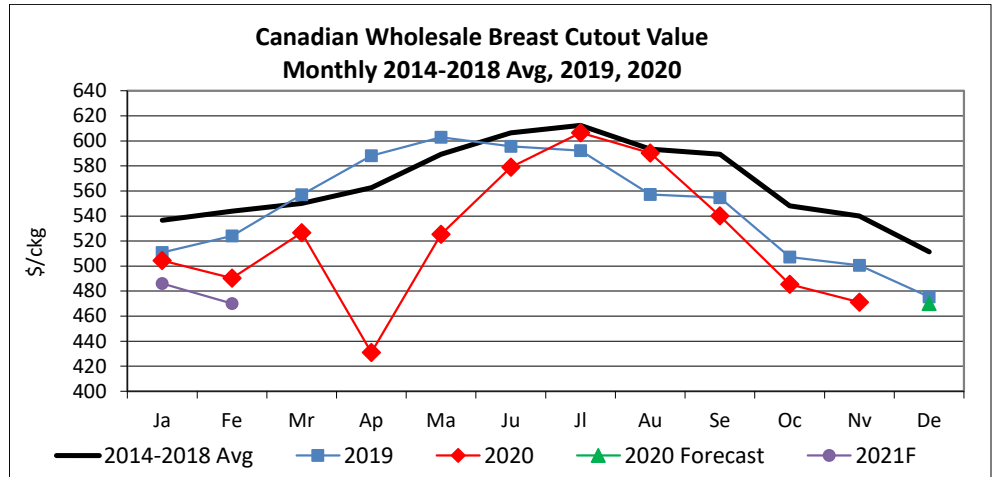
I keep on saying the market is toppy. Wings are in good shape, but with bad news on government lockdowns the pace is not likely to be sustained. Wings should ease off this pace and settle modestly above year ago levels in February

- **Legs: -4% (weaker than seasonal)**

Weak demand hurts the whole cutout, but especially legs. As a result, legs are probably going to find a bottom at these low levels and trade sideways into February.

The graphs below show the trends in the Canadian leg, wing, and breast cutout complexes for 2019 and 2020, the average from 2014-2018, and the forecast for December through February 2021. The data and forecasts on the graphs are based on the CFC index values, not actual prices.





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