

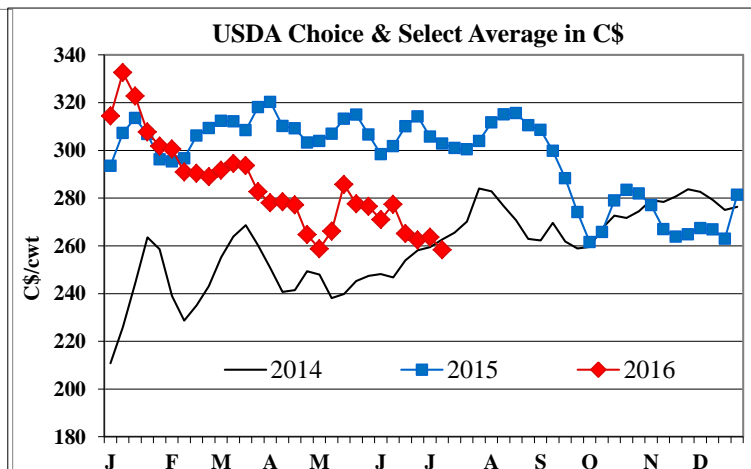
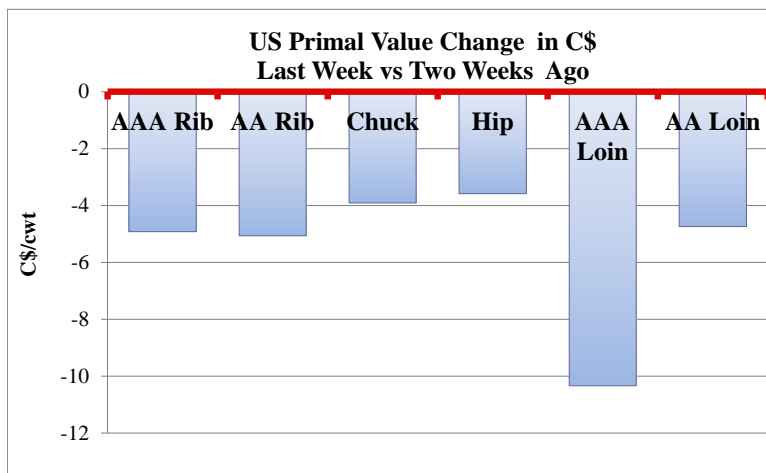


**Kevin Grier**

Market Analysis and Consulting Inc.

Make Informed Decisions

July 18, 2016



## Market Call for this Week: LOWER

There is a market balance but pricing is definitely going to continue lower

### Current Canadian Market Situation

#### Market Comment

Pricing slid last week as all major primals last ground. In fact within the major primals there were very few sub-primal cuts that did not slide. The only stronger points were 50's, Eyes and Tenders although Chuck Rolls were also showing some strength. Overall the market movement appeared to have a sense of stability as beef penetration increases, movement improves and availability becomes more predictable. Despite the lower pricing, packers are going with the flow and showing no signs of panic on pricing.

#### Spot Two Week Availability

Once again there should be no challenges for buyers getting the product they need in the quantities that they want. Middles are still clean but again, buyers should not have trouble.

#### Canadian Buyer Activity

Buyers were holding to their guns on prices and once again just buying what they needed as they watched the board meander at low levels and heard tales of lower cash cattle. The big retailers appear to increasingly want beef on the flyers and demand is improving as a result. Distributors are deciding on whether the lows are in and whether to start to take positions. The big retailers have been calling for some fill-in needs. The first half of August is all put to bed on features and some are done their Labor Day buys. Featuring for the rest of the summer will see a better balance of cuts rather than grinds and the odd middle as was the case last year. Foodservice buyers are starting to kick the tires for storage but are in no rush.

#### Forward Pricing Four + Weeks Compared to Current Levels

Chucks and hips are being priced higher while the middles are lower. Buyers are mostly just waiting and watching so business out front has been minimal.

**Market Call Last Week:** LOWER. Any bullish argument that could be made was blown out of the water with Monday’s futures market collapse. Tonnage is not friendly and movement should ease.” **GRADE ON THE CALL:** “A”

**Beef Market Conditions**

<b>Fresh Meat Feature Activity</b>			
<b>July 14-20</b>	<b>Home Page Meat Item</b>	<b>Beef Price Rating</b>	<b>Competing Meat Rating</b>
<b>Maritimes</b>			
Coop	whole bird 1.99	No ad	aggressive
Sobeys	extra lean ground beef 3.99; pork shoulder steak 2.49	aggressive	weak
Superstore	sirloin tip roast 3.44; bone-in breast 2.99	moderate	aggressive
<b>Quebec</b>			
IGA	top sirloin steak 3.99; chicken tournedos 9.99	aggressive	weak
Provigo	whole beef tenderloin 10.88; lamb loin chops 10.88	aggressive	weak
Metro	mdm ground beef 2.99; bnls sknls breast 3.99	aggressive	aggressive
<b>Ontario</b>			
Food Basics	top sirloin steak 4.99; extra lean ground beef 3.49	aggressive	No ad
Foodland	bnls sknls breast 4.99; pork loin chops 2.99	No ad	Moderate
Freshco	whole bird 1.97	No ad	aggressive
Loblaws	whole beef tenderloin 10.88; beef patties 4.88; whole bird 2.49; lamb loin chops 10.88	aggressive	Moderate
Metro	bnls sknls breast 3.99	No ad	aggressive
No Frills	No Fresh Meat	No ad	No ad
Sobeys	top sirloin steak 4.99; drumsticks 2.99	aggressive	weak
Walmart		No ad	No ad
Zehrs	whole beef tenderloin 10.88; bone-in brst 2.99; pork chops 2.44; lamb chop 9.88	aggressive	aggressive
<b>West</b>			
Calgary Coop	top sirln 5.99; lean grnd 2.99; bnls brst 20.00/pkg; back ribs 6.49; pork loin 2.69	moderate	weak
Overwaitea	No Fresh Meat	No ad	No ad
Safeway	striploin steak 8.99; pork loin chops 3.99	weak	weak
Save On Foods	bnls sknls breast 4.45	No ad	Moderate
Sobeys	striploin steak 8.99; pork loin chops 3.99	weak	weak
Superstore	pork back ribs 3.98	No ad	aggressive
Retail Featuring Rating this Week	<b>Average</b>	(Poor, Average, Very Good)	
Retail Meat Business Rating Last Week:	<b>Average</b>	(Poor, Average, Very Good)	
Food Service Business Rating Last Week:	<b>Average</b>	(Poor, Average, Very Good)	

**Canadian Fresh Meat Features and Business Traffic Indicators**

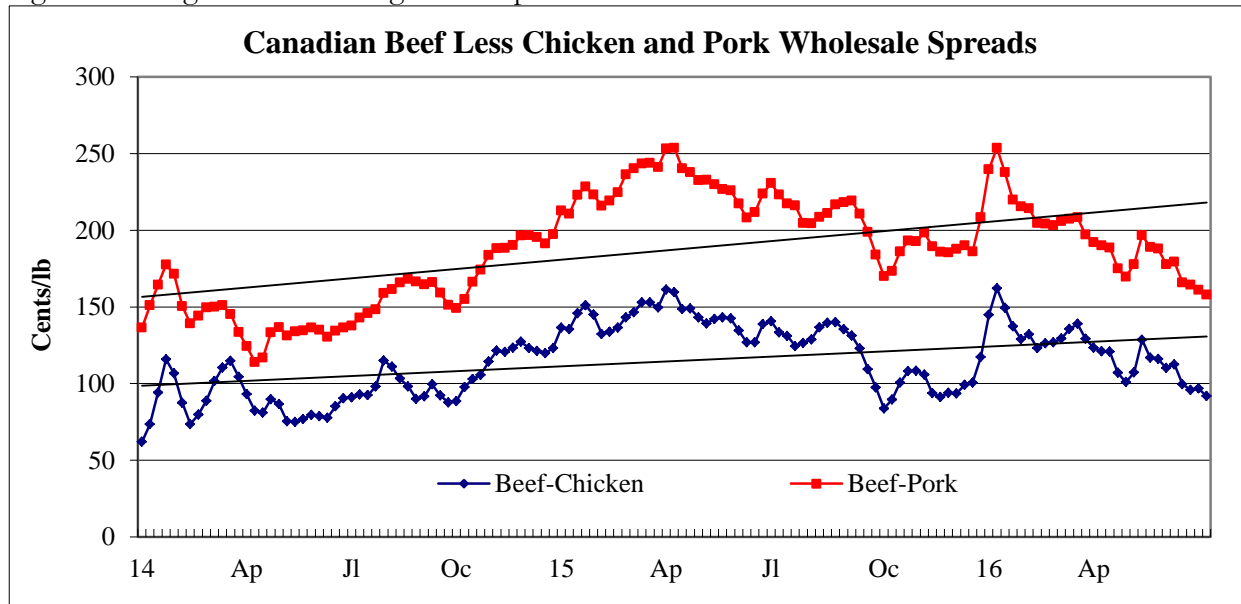
- Canadian beef features on the front page of flyers across the country were average this week. The share of beef was average on the front page but the ads themselves were encouraging to the industry. The cuts featured were varied across the cutout and the price points have become increasingly more competitive.
- U.S. beef features remain below average but this week’s activity moved above year ago levels, according to the USDA National Retail Report – Beef, July 15. The gradual move to increase features to more than year ago levels is evident in the U.S.
- Beef movement at retail is improving and has been mostly better than last year over this time.
- Restaurant traffic is good.

**Implications:** Beef features should be supportive to tonnage movement in both Canada and the U.S.

**Wholesale Price Trends**

- Wholesale pork was lower last week.
  - The beef-pork wholesale spread was less than the average of the past two years (2014-2015). The beef-pork price relationship is lower than the norm of the past two years.
- Wholesale chicken was steady last week.
  - The beef-chicken spread is below the two year average, meaning that beef is priced lower than the two year norm relative to chicken.

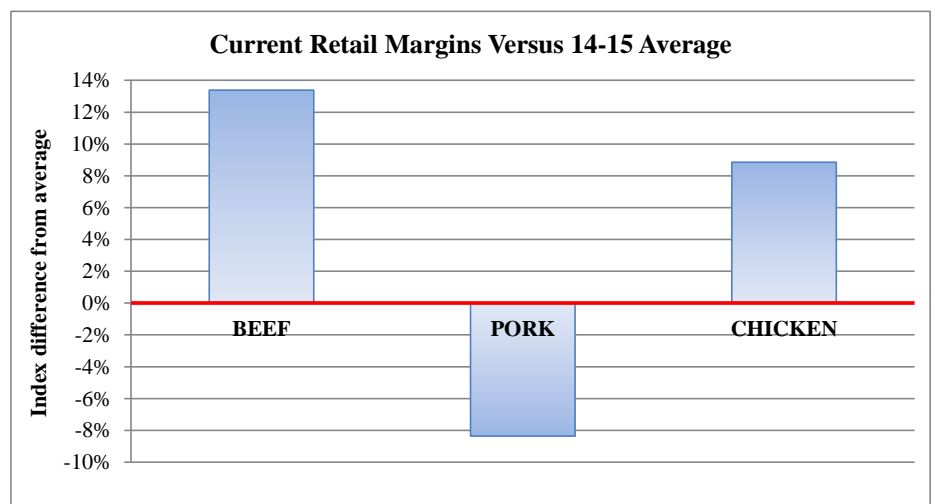
The following graph shows the spread between wholesale beef cutout prices and wholesale chicken and pork cutout prices (wholesale beef – wholesale pork; wholesale beef – wholesale chicken).<sup>1</sup> A higher trending line means a higher beef price relative to the other meat and vice versa.



**Retail Fresh Meat Margin Indicator<sup>2</sup>**

The following graph shows weekly indexes of fresh beef, pork and chicken margins at retail compared to the 2014-2015 average.

- Beef margins at retail are above the two year average.
- Pork margins at retail are below average.
- Chicken margins at retail are above average



**Implications**

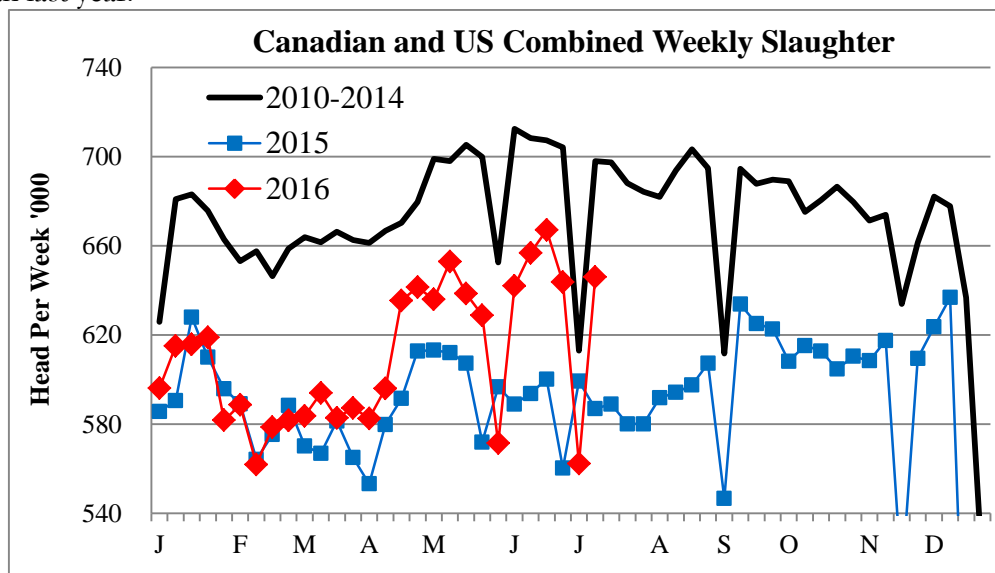
Beef continues to transition to a more balanced and profitable offering and consideration for retailers and food service operators.

<sup>1</sup> 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.

<sup>2</sup> Retail margins are roughly 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).

## Slaughter and Grading

The summer slaughter rates remain sharply above year ago levels. U.S. beef production is running nearly 4% above year ago levels from January through last week, while slaughter is running 3% more than last year.



Weekly Canadian A Grade Mix Percent					
		Prime	AAA	AA	A
4 week avg		1%	54%	42%	2%
52 Wk Avg		3%	64%	32%	2%
Last Year 4 week		2%	58%	39%	2%
Canadian Slaughter					
	Steer	Heifer	Cow	Total	Steer Carcass
4 week avg	31,925	12,167	5,952	50,214	889
52 Wk Avg	27,273	13,816	7,008	48,330	920
Last Year 4 week	28,159	10,288	5,622	44,344	859

Source: Canfax

Implications: Slaughter is ample and tonnage is up at a time of seasonally weakening demand.

## Beef Packer Margins and Sales

### Margins

- Alberta packer margins are very positive.
- US packer margins are very positive.

### US Packer Sales Positions

According to the July 18 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 below the five year average and above the rolling four week average. (USDA AMS, LM\_XB463 REPORT)

Implications: Packers are in decent shape but nothing unusual with regard to inventories that will either gain or lose them market leverage this week.

## Near Term Outlook

### Beef Seasonality

	July 18 to Two Months Out Seasonal Performance Trend		July 18 to Two Weeks Out Seasonal Performance Trend
	<u>Low</u>	<u>High</u>	
<b>Carcass Cutout</b>	mid July	mid Aug	sideways
<b>AA Chucks</b>	mid July	mid Aug	higher
<b>AAA Ribs</b>	late July	mid Aug	sideways
<b>AAA Loins</b>	mid Sept	mid Aug	sideways
<b>AA Hips</b>	mid July	mid Aug	higher
<b>50% Trim</b>	mid Sept	mid Aug	higher

#### Implications:

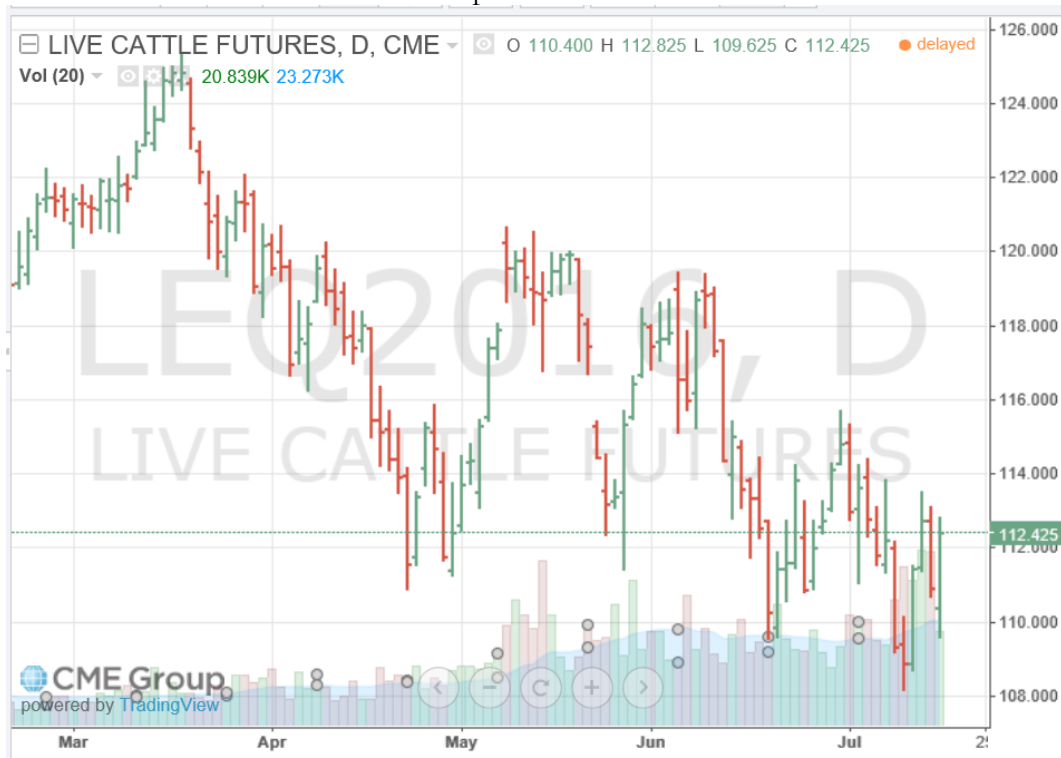
Seasonally the ends begin their long half year seasonal climb higher.

### Live Cattle Two Week Forecast

W/E July 15, August futures closing prices: \$110.92, -1.30; October \$109.85, -2.47.

The following is the August Live Cattle Futures as of end of day July 18 (source: cme.com)

- [Barchart.com](http://Barchart.com) opinion is bearish on the August contract.
- Live cattle prices declined by U.S. \$3/cwt last week after declining sharply the week prior.
- Futures remain far lower than live cattle prices.



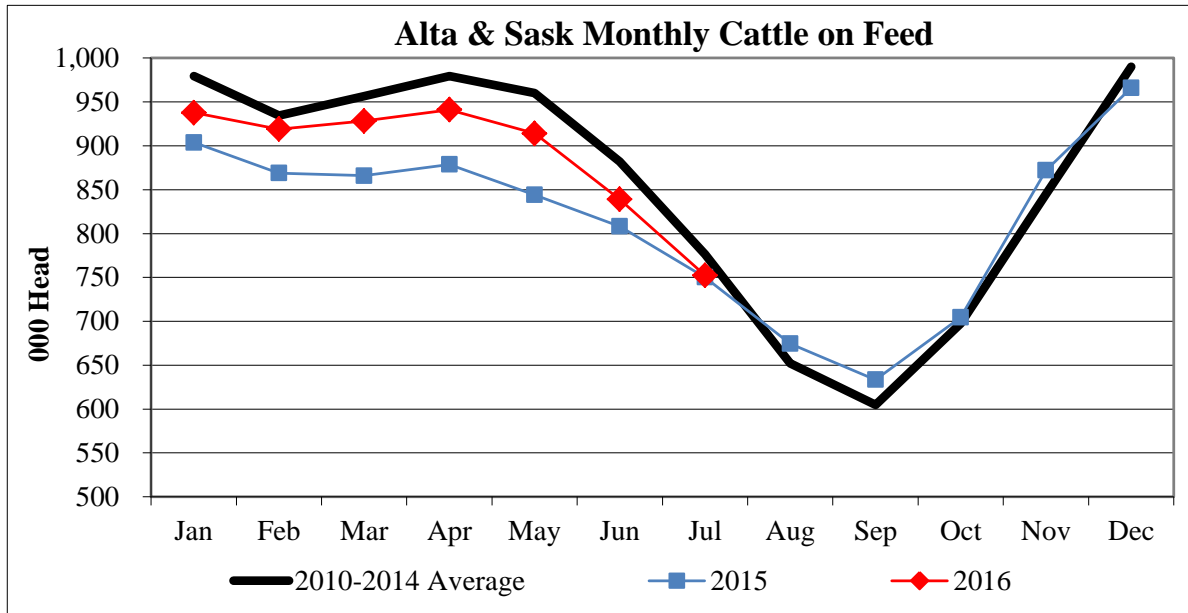
Implications: Cattle futures have likely found a bottom which should provide some stability to the beef market.

### Cdn \$ Prospects

Bank of Montreal's Canadian Economic Outlook, July 15 sees the third quarter C\$ averaging 0.764 (1.310) and the fourth quarter at 0.761 (1.315).

## Statistical Highlight

Canfax released its July Cattle on Feed Report for Alberta and Saskatchewan. Canfax noted that this is the 12<sup>th</sup> month in a row that on feed inventories have been above year ago levels. Marketings during June were up by 3% compared to last year. Placements during June were the third smallest placement volume since reporting began. June was the second month that placements were below year ago levels. Interestingly, heifer placements were larger than steers in June.



## Boxed Beef Outlook for the Next Two Weeks

### Beef Market Arguments

#### Bullish:

- Retail margins on beef are finally improving.
- Beef's relative costs are improving.
- Beef featuring is improving.
- Beef is competitive with the other meats
- Weights should keep falling sharply.
- Cattle marketings should be lower than year ago levels.
- Futures look bottomish.

#### Bearish:

- Slaughter has been large by recent history standards.
- Great packer margins will keep the chains moving.
- Discounted futures will keep cattle coming to market.
- Movement at retail remains constrained.
- The dog-days of summer begin with no holidays in sight.
- Live cattle prices will stay weak.
- Seasonal weakness should take hold.

### **The Market Call for this week: LOWER**

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