Cattle Market Highlights							
12-May	Alta Steers	Ont Steers	Texas Steers US$	Alta-Tex Spread C$	Alta 8-9 wt	US Slaughter	Cdn Slaughter
This week	157.77	152.40	121.00	3.20	176.50	645,000	62,000
Last week	163.83	150.45	126.00	1.77	174.40	647,000	58,085
Four week avg	159.76	147.41	121.94	4.39	172.09	628,068	58,643
Last year	180.02	178.20	138.01	-9.14	200.42	619,327	51,285

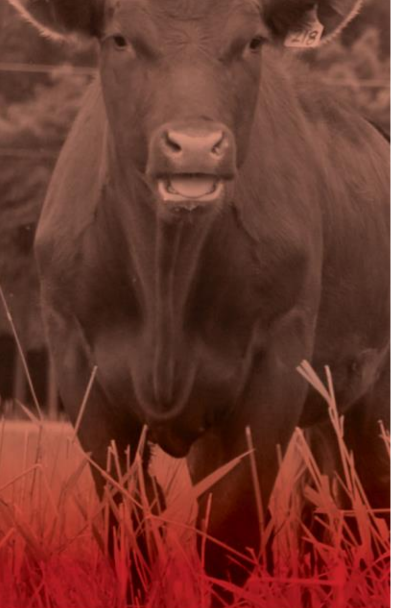
Last Week in Review

The U.S. market was at a stand-off for the week. The large volumes of purchases two weeks ago were followed by extremely low sales volumes last week. Packers were offering $122 but feeders were having none of it. Overall the market might be called at $121-122 on the limited business that was done. The confidence of the cattle feeder in the face of the June contract trading at $108 is impressive. Basis levels are usually wide at this time of year but this year is exceptional. For their part, packers bought major volumes on the cash market two weeks ago and did not need much last week. Hence the standoff last week.

Kills in the United States are growing and packers have the margins to want to keep the kills big. My estimate of cash packer margins is nearly $150/head. Overall beef demand appears to be good with the cutout gaining nearly $4.

Alberta prices averaged about $158 on a live basis. That was a big drop from the previous week's estimated average. Nevertheless if we use $121 as a rough average for the U.S., the Alberta market still gained in comparison to the U.S. Both packers and feeders were active on the cash trade with the Canfax volume tally reaching the highest level in years over the past two weeks. At the start of the week the big two in the province, Cargill in particular, looked like they were in need of cattle. At the beginning of the week the market was at about $270. After getting some bought at that level they both backed off real quick and offer prices dropped to $265 then $262 and ended the week at $255. Both packers wanted to buy cattle but the level of competition was pulled back a notch compared to recent weeks. Both are buying but not aggressively trying to take cattle away from the other guy. Bids went in but if they were not bought that was ok, at least last week.

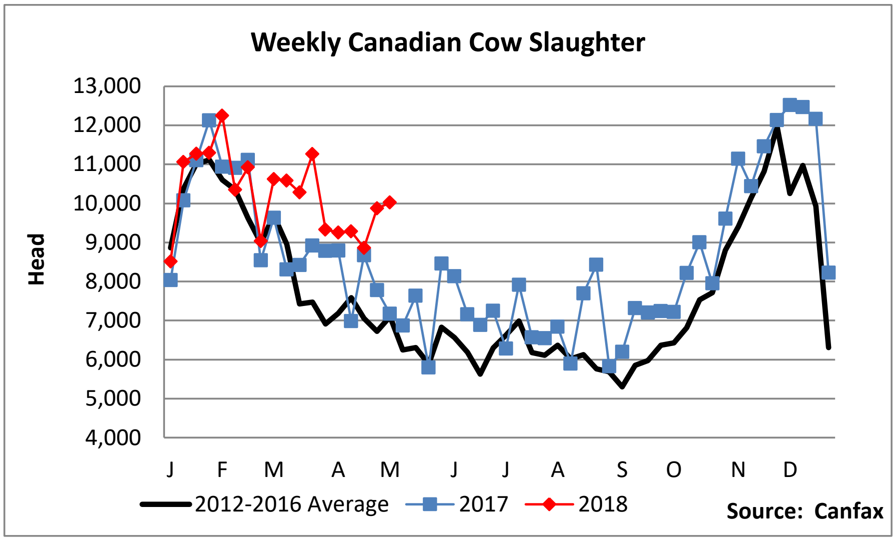
The Ontario average last week was $254 for cattle delivered this week and next. Prices have gained about $10 over the last two weeks. That was likely an attempt to get some cash cattle put away before farmers turned full attention to field work.



Canadian Market Developments

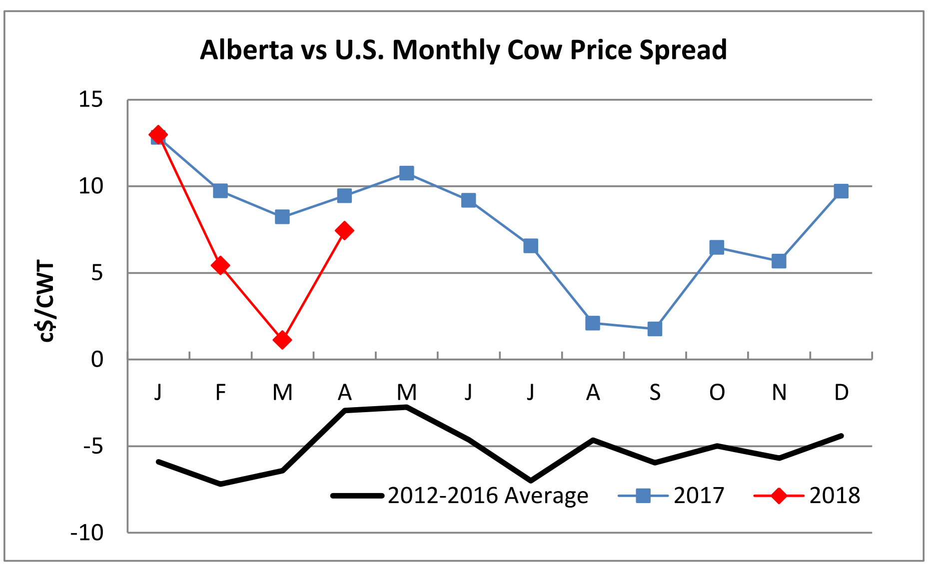
Alberta Alone on Cows Too

U.S. cow slaughter was about 1.6 million head in the first quarter, up nearly 8% from 2017's first quarter. Canadian cow slaughter of 137,000 was also up about 8% in the first quarter.

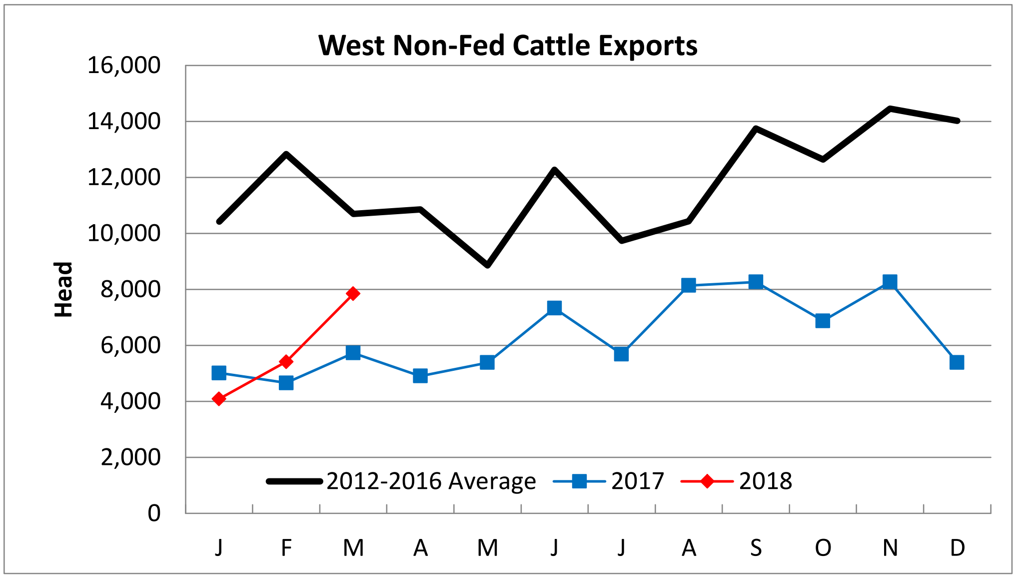


About two thirds of Canadian cow kill is in Alberta at Cargill, JBS and also at Harmony. Harmony began killing cows roughly at the beginning of March this year. Experienced buyers and sellers have noted that Harmony, has made a pricing difference in the markets in which it is active. The two big plants kill cows on the second shift daily. Eastern kill is concentrated mostly at Cargill in Guelph of course but Ryding Regency and St. Helen's also run cows. There are typically 2,000 cows slaughtered each week in the east versus 6-9,000 in the west.

Perhaps not surprisingly, Alberta cow prices have been generally running stronger than normal in comparison to the United States. It is not surprising given that every type of cattle is running higher than normal versus the U.S.



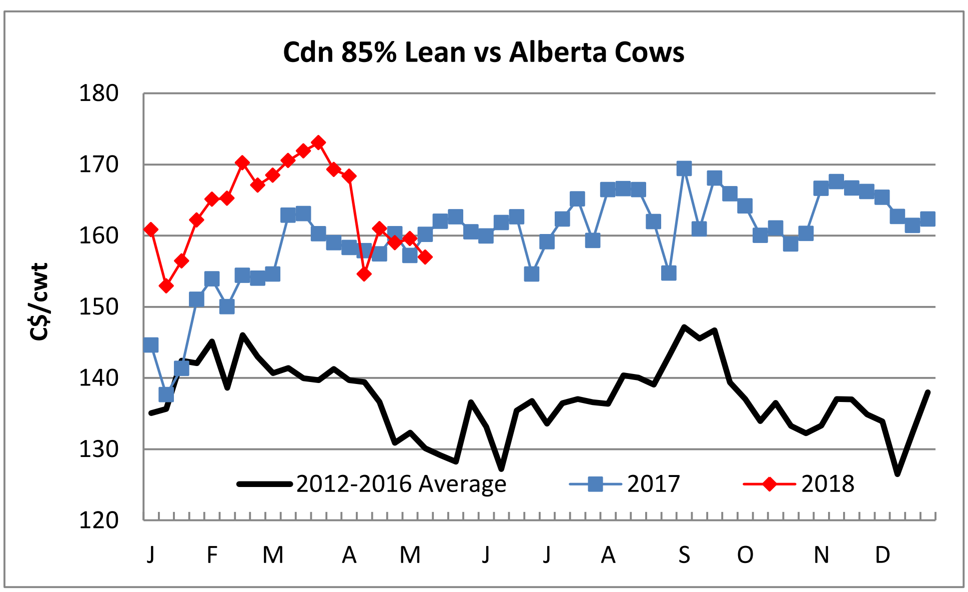
The stronger spread in Alberta for cows in turn has not surprisingly resulted in fewer cows going south for slaughter in the northern tier U.S. plants.

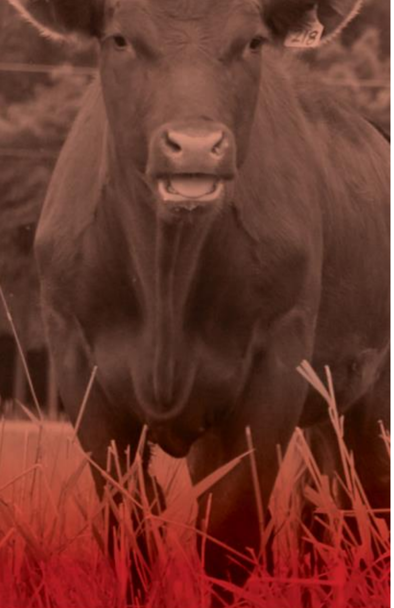


While total Canadian slaughter is up the last few weeks, as shown on the first graph above, the overall seasonal trend is lower. The lower kill trend is a function of reduced supplies in the summer months and typically better fed cattle slaughter margins at the same time.

Cow Slaughter Margins Tumble

A very crude idea of packer cow margins can be gleaned from the differential of 85% lean trimmings and the live cow price. The 85% lean trim beef is a decent bellwether for the overall cow meat revenue. As shown on the graph below, that margin between the 85's and the cow price generally falls in the summer, although last year was an exception. This year, the cow margins looked very strong in the winter but have taken a tumble in recent weeks





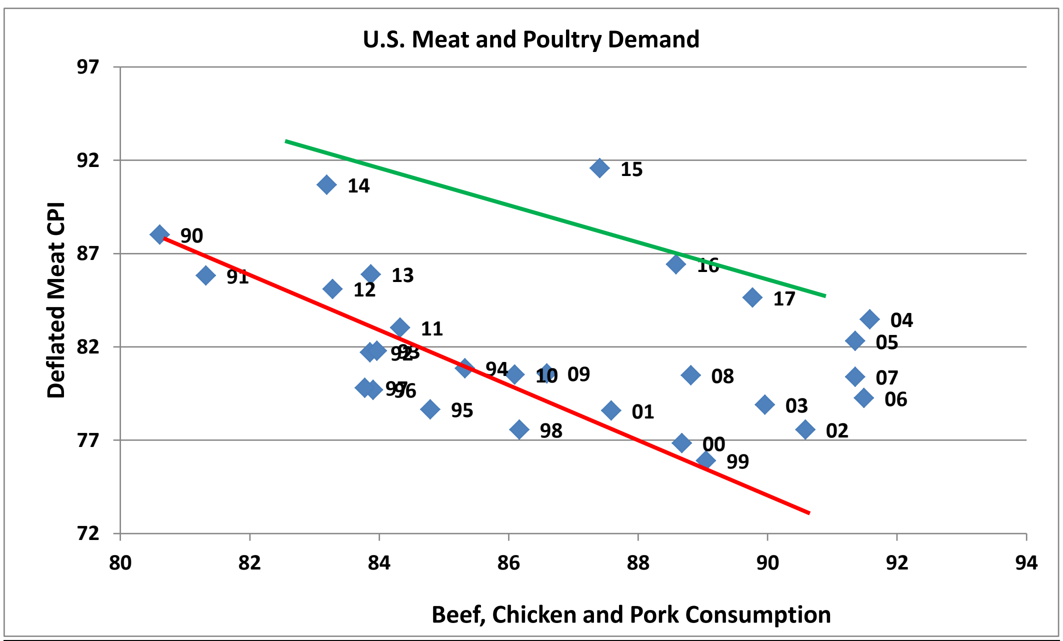
This is a good explanation for lower seasonal cow kill in the summer in addition to the reduced availability; perhaps a chicken and egg type question.

Price Forecasts

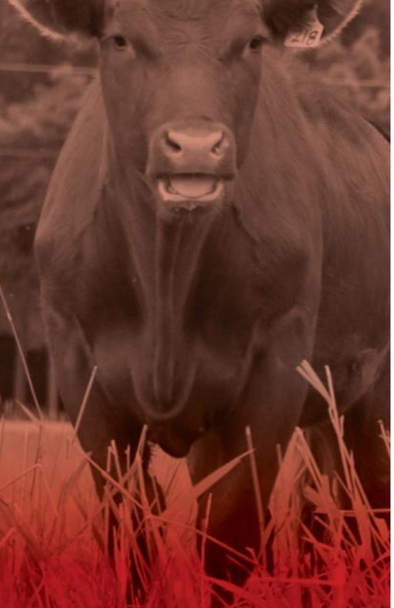
Demand: Make or Break

In the last seven years, U.S. cattle prices have averaged $130/cwt while production averaged 25.3 billion pounds. In the previous seven years the cattle price averaged $89 while production was only modestly higher at 25.8 billion. The explanation for higher prices despite similar production is demand. In recent years, demand has been the most important driver for the good of the meat and poultry industry in decades.

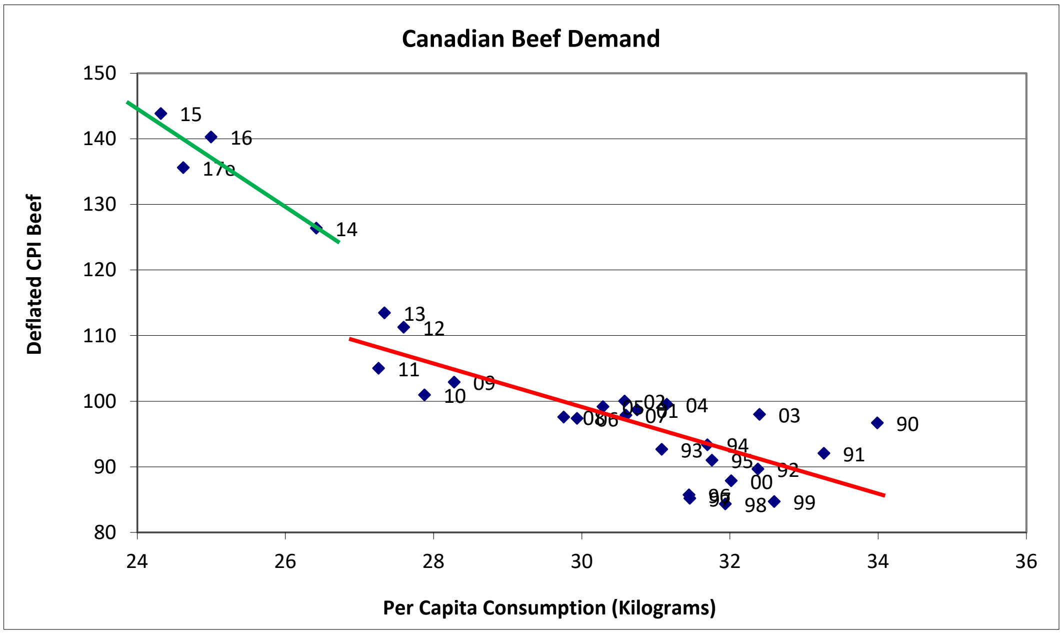
The following graph shows the combined consumption of beef, chicken and pork on the horizontal axis and the deflated weighted average price index of the three meats, in the United States. The points on the graph are the years in which the consumption and prices occurred. For example in 2014 the deflated price index was about 91, while Americans ate about 83 kilograms of beef, chicken and pork.



The red line on the graph shows that over the 1990's and early 2000's, Americans ate more meat and poultry when prices were lower and they ate less when prices were higher. That is just as could be expected. That red line represents meat demand for that period. Into the 2000's and 2010's, Americans were eating more meat at higher and higher prices. That is the definition of increasing demand. That new level of demand is represented by the green demand curve. The point is that North America is at a new, higher or stronger level of meat and poultry demand. More meat is being consumed at higher price levels for consumers. That is a positive development for the industries.



In Canada, beef demand has been very strong since 2014. Canadians have been eating less beef, because there has been less available in North America. With that said, the volume of beef that has been consumed, has been consumed at very high price levels. The net result is a whole new level of very strong beef demand in Canada moving from the red demand to the green demand levels. As with the overall meat and poultry demand, Canadian beef demand has increased and that is positive for the industry.

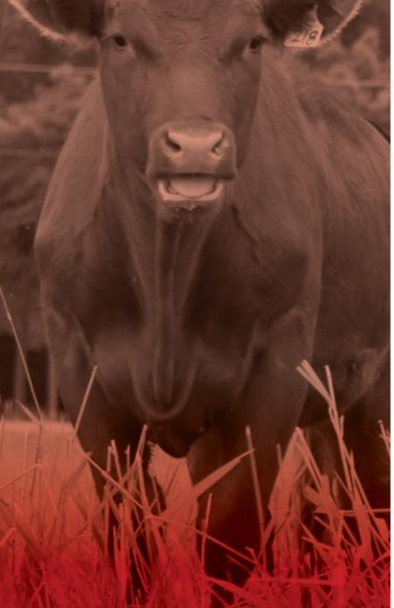


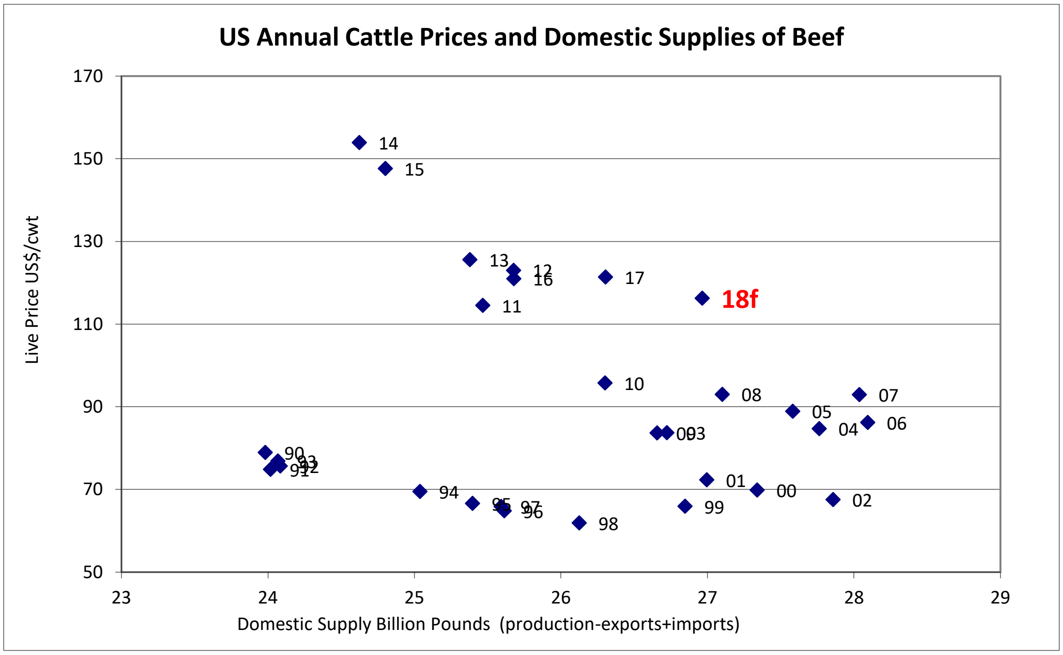
Can Demand Hold Up?

Slaughter is going to be increasing sharply in the coming months. I am expecting total production of beef to be up by 2.5% to 3% this year, but most of the increase is coming in the second and third quarters. My annual price forecast is $115-118/cwt. The coming months and quarters forecasts are on the table on page 9. That annual forecast of $115-$118 is assuming the same level of strong demand, both domestic and export as has been the case for the past five years.

The U.S. annual live price levels and beef supplies are shown on the following graph. If my production forecasts for 2018 are right, and if if prices are to perform at the levels I am forecasting, it is going to depend on continuing strong demand in North America. This is not to say that demand will not improve even more than it has in recent years, but that would not be a prudent assumption.

If steady demand is assumed, the wild card for the year will be the fourth quarter. I am expecting only a modest increase in slaughter in the fourth quarter. That will come after a second and third quarter that see a combined total slaughter increase of about 4%. As seen on the table on page 9 I am forecasting $113 for Q4 while the futures are at $110. There could be much more upside in the fourth quarter. If slaughter is less than I expect and if demand stays strong, packers are going to be looking for cattle that aren't there. For now I am three dollars over the futures but I see the futures increasing.



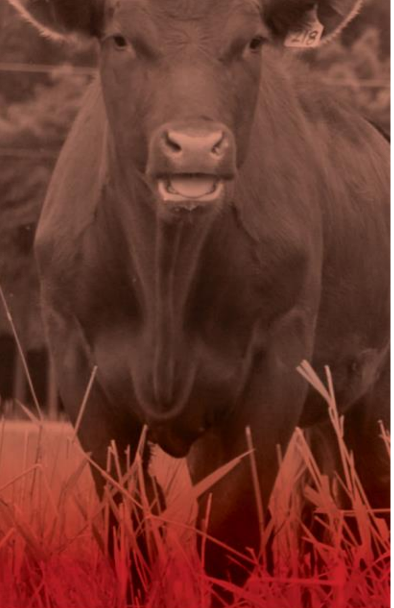


Market Makers and Other Analysts' Opinions

Weekly Canadian A Grade Mix Percent and Steer Wts				
	Prime	AAA	AA	Steer Carcass Wt.
4 week avg	4%	66%	29%	881
52 Wk Avg	2%	61%	35%	896
Last Year 4 week	2%	62%	33%	875
Canadian Slaughter				
	Steer	Heifer	Cow	Total
4 week avg	26,727	22,079	9,507	58,643
52 Wk Avg	29,376	17,035	8,937	55,706
Last Year 4 week	25,837	14,524	10,048	50,694

Source: Canfax

- Barchart.com, May 11, technical opinion calls the June contract a "WEAK BUY." Technical signals are modestly bullish.
- John Harrington writes in Feel of the Market, May 11, that "Needless to say, I continue to find spot June too cheap. Apparently, a trainload of technical and commercial traders disagree. We've all seen years when cash sales drop like a bag of bowling balls the week after Memorial Day. Market history does indeed repeat itself now and then. Yet something tells me that this year's rearguard action in the last half of the second quarter will be less brutal than summer bears are currently dreading."
- AgCenter.com, May 12 says that with regard to the replacement markets, lower cash prices followed the feeder futures to begin the week. Many feedyards are full and passing on new cattle offerings. The loss of interest from buyers is offset by smaller supplies of replacement cattle running through the end of this month. Seasonally feeder cattle prices work higher



into summer following the May movement off winter pasture, but much will depend on the extent of the fall in fed prices.

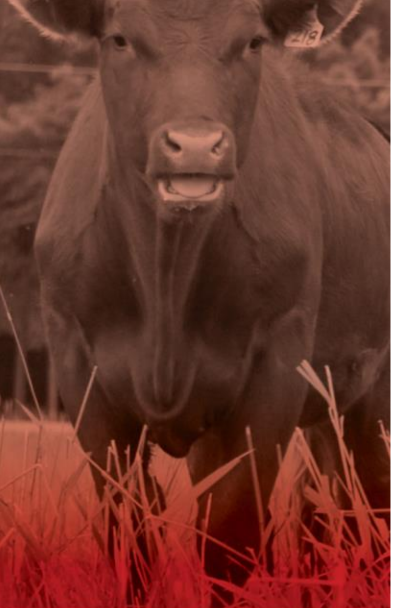
- Cattle Buyers Weekly, May 14 quotes Andrew Gottschalk, HedgersEdge.com as saying that producers this summer will begin to defer some marketings to capitalize on the evolving premium futures price structure post-summer. This will limit selling pressure during the summer but defer the positive benefit from reduced placements this spring, says Gottschalk. The average price decline from the spring high to the summer low is about 15%, for a price objective of $110. The price decline this summer is likely to exceed the average decline, with a target price of $101-$103, he says.
- **Tyson Foods** reported their second quarter results on May 7. Total sales were $9.8 billion while operating income was nearly $500 million, up 7.6% and down 12% respectively. Beef sales were at $3.7 billion, up nearly 2%. Beef operating income was $92 million, down from $126 million in last year's second quarter. The company says that sales increased due to improved availability of cattle supply, stronger demand and increased exports.
- According to data released by USDA and compiled by the U.S. Meat Export Federation (USMEF), beef exports set a new monthly value record in March. March beef export value was up 18 percent year-over-year and topping the previous high set in October 2014. Export volume was up 6 percent from a year ago.
- Canadian beef exports were up by 12% in value and 8% in volume during March according to StatsCan data. Tonnage to the United States increased by 14% in March while exports to Hong Kong increased by 20%. There were big declines to Mexico and China while Japan tonnage fell 1%. The U.S. represented 80% of total exports in the quarter compared to 78% for all of last year.

  Total Canadian imports were unchanged this March compared to last in terms of volume. Import tonnage from the U.S. was down by 17% in March.
- Bruce Ginn's Weekly Livestock and Meat Comments for May 11 says that production will continue large into summer. With even higher retail prices, movement will slow and price spreads will widen even further. Ginn says that the uptrend in product has about run the course while cattle prices are declining. Packer margins are very strong and look to be even better.

My Opinions

On the U.S. Market

- In the last edition of this report, on April 30, I said that "I do not see serious resistance to a slow climb in the near term. I see a slow and cautious increase in the next two weeks to finish at $109." June did increase the last two weeks but slower than I expected. It finished last week at $107.62. I see the slow steady increase continuing in the next two weeks to finish at $109.
- The basis continues to be very strong with cash at least $13 over the June close. This is normally the high time of the year for the basis but this year



and last year have been out-performers. Last year, cash went on a six dollar ride higher as of this point in May to the first week of June. Hedged cattle feeders that placed cattle late last year will do well on the futures trade. The hedges would result in profits that are more than two times the likely loss on the cash trade. The bottom line is that the futures and cash structure continue to dictate timely marketings.

- Based on the April 20 USDA Cattle on Feed Report, there should be about 7-10% more fed cattle marketed in May through early July this year compared to last. This is due to double digit placements late last fall and early winter.
- The cutout put in impressive gains last week. It was the third weekly gain after scraping a spring low on April 21. Beef demand, based on the cutout value and the load count appears to be good and supportive to increased kill levels. Further to that point, U.S. packer margins appear to be excellent again. That should also keep kills going strong in the coming weeks.
- While there was not much business done last week, some that were bought on the cash market were actually lifted on Saturday, which is interesting.
- Cattle feeders did not sell for a reason, they feel confident in their currentness and their leverage. Intelligence networks are saying that they can hold the line in the short term. They once again were set in their resolve by the stronger spot market cutout. They want a piece of that action.
- Three of the biggest beef days of the year are within easy sight: Memorial Day, Father's Day and Independence Day.

On the Canadian Market

- Ontario fed cattle slaughter has remained remarkably steady this spring. I estimate total fed kills to be about 10,000 to 10,500 a week since the end of March. That is running about 6-10 loads a week over last year at the same time. Ontario cow slaughter has also been steady at about 2,000 per week. This has been about five loads a week more than last year in the spring.
- Alberta packer margins on the fed kills have been running generally positive this spring. Margins are probably averaging about $10-30/head during April and the first two weeks of May. This of course has occurred despite the fact that the spread against the U.S. market has been positive by about $4/cwt over that time. By comparison, the average spread over the last six weeks from 2012 to 2016 is nearly minus seven. What difference does that make? If the Alberta spread was average over the last six weeks, the margins would have averaged over $100/head. That compares to an actual average estimate of $14/head. Again the contrast between Alberta and their U.S. counterparts has to be noted. While the Canadian plants are profitable, the U.S. plants margins are soaring.
- JBS has responded to the positive margins by going the odd Saturday. The plant was slaughtering on the 12th and may take up a pattern of every other weekend for a while. For its part Cargill has not done any Saturdays but it has been killing at a steadily at a very high rate for the five day week.
- Feeders are tabulating that JBS has taken on a very large inventory. They have taken on a significant volume of cattle at less money further for early to

mid-June. Seems like $260-262 caught notable numbers for deferred delivery. It is likely that they are more comfortable than Cargill, although Cargill will likely see more grid cattle if the market goes lower. In taking on deferred numbers JBS is either concerned about inventories at that time or they simply want to kill cattle. My guess is the latter given that JBS is willing and able to do Saturdays.

- Packers probably killed their first calf-feds about a month ago in Alberta. The calves probably now comprise about one third of the kill mix in Alberta now. Current marketings however are now likely running well over 50% or even two-thirds calves. In the meantime as the yearlings get cleaned up, the heifers continue to make up a disproportionately large share of the kill.
- The Ontario price spread relative to the United States continues to perform at or better than average.
- Surprisingly there are still some cows in the kill mix that were fed over the winter. With that said the majority of the kill are those that lost a calf or with poor calves which is typical. Cow carcass quality is generally good, at least in areas that had feed over the winter. Overall supplies of cows on offer are reasonable for the demand as JBS appears to have cut their cow kill in response to better fed margins. U.S. interest is tepid and limited to those with commitments and working relationships. With that said, prices were stronger in the west last week as Cargill was steady and Harmony continues to provide a boost to its select markets. Looking ahead, numbers will seasonally tighten but I don't expect that is going to result in packers chasing or running prices higher. Numbers will be down but will be adequate for what packers will want.

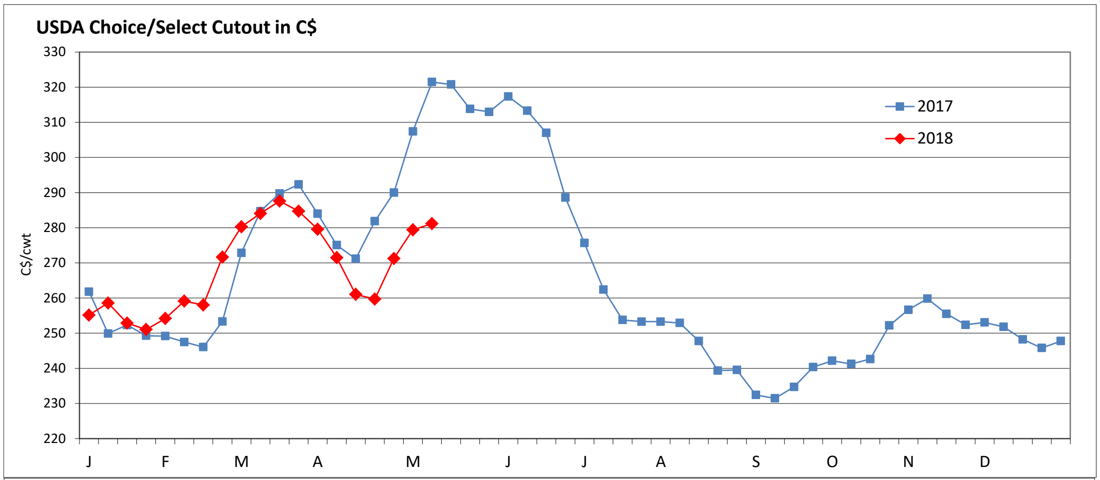
Previous Two Week Forecast

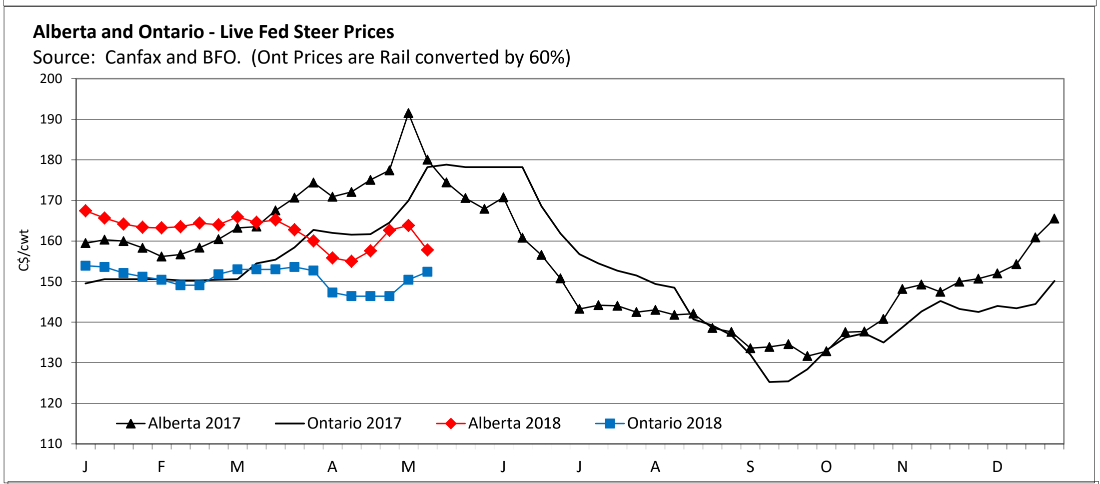
"Cattle feeders are current. Packers had to scramble at the end of last week, Beef demand is likely to pick up steam. Packer margins will encourage larger kills or at least a robust demand for cattle. I expect to see $124 this week on limited trades and then $121 the following week on growing volumes." "GRADE ON THE CALL: "A". The prices calls were bang on.

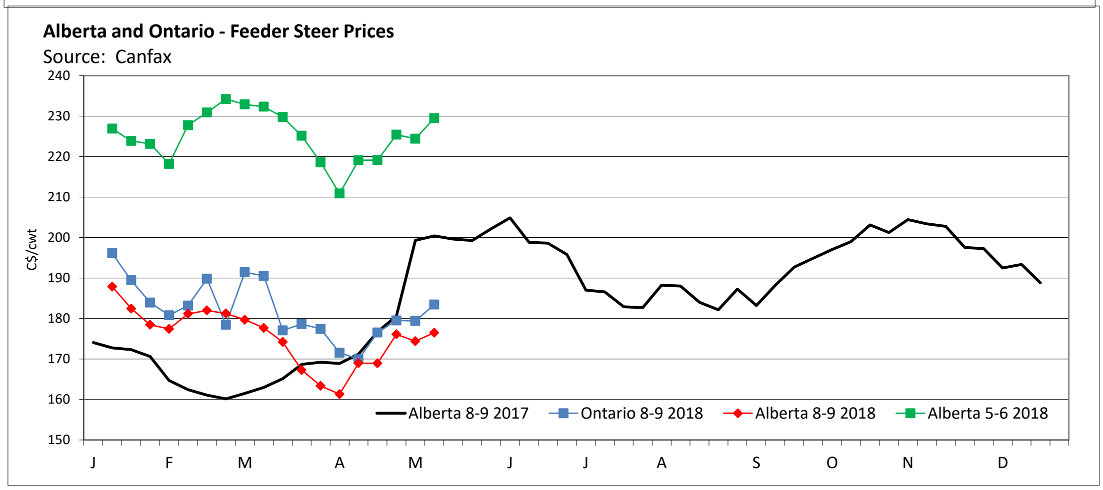
The Next Two Weeks

Packers are going to want to kill large volumes this week and they are going to need cash cattle. Feeders are losing their leverage day by day but it is not gone yet. I see the market trade at $122 this week and $120 the next.

US, Alberta and Ontario Fed Steer Forecasts						
C$ @0.78	Grier U.S. Live Forecast	Live Cattle Futures	Alta-US Live Spread	Ont-US Live Spread	Grier Alberta Live	Grier Ont Rail
Next Two Weeks	120	--	0	-2	154	253
June	114	108	0	0	146	244
July	110	--	-4	0	137	235
August	110	104	-6	-4	135	228
Q4 2018	113	110	-2	-12	143	221
Q1 2019	118	115	-2	-8	149	239







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