

Canadian Chicken Market Report

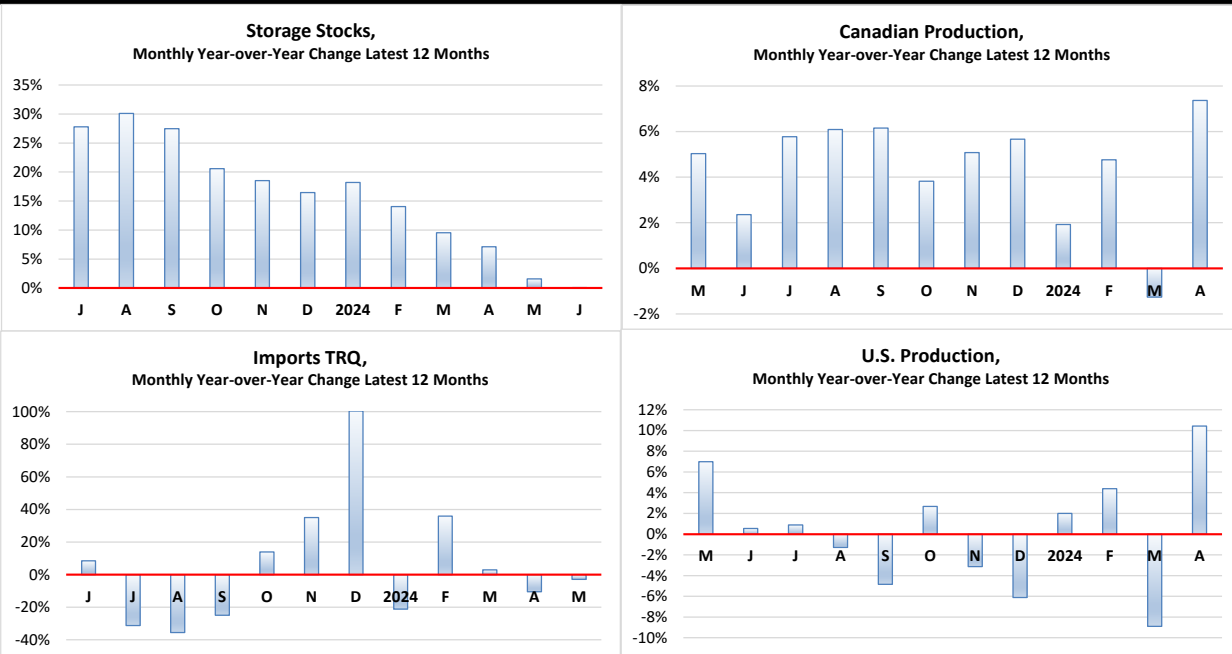


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Market Analysis and Consulting Inc.

Make Informed Decisions

May 2024



The Market Argument

Canadian Chicken Prices through August 2024

The Bullish Case

1. Demand remains robust.
2. U.S. and Canadian prices have rebounded.
3. Demand seasonally peaks in August/September.
4. Chicken is competitively priced compared to beef.
5. Chicken is performing well at retail on sales and margins.
6. Stocks are coming under control.

The Bearish Case

1. Imports will need to increase in the second half.
2. Year over year supplies of white meat will be very large in August.
3. Spring to summer increase in production will be more than normal.
4. U.S. production is forecast to increase.

Larger than normal supplies in the late summer will be matched with excellent demand. The net result will be normal seasonal performance for chicken prices.

Forecast Follow-up

In the February edition of this report the price forecast May was as follows:

“Leg prices will increase at seasonal levels from a very high starting point. Breasts will increase at less than seasonal levels due to ample stocks and plentiful domestic production. Wings will struggle.”

Feb through May 2023 Price Change		
	Forecast	Actual
Breast	11%	10%
Wing	0%	-5%
Leg	12%	8%

Very good call on the breast. Wings were projected to struggle but not as badly as they did struggle. The leg increased but not as much as expected.

GRADE ON THE CALL: “B.”

Current Market Conditions

	% Change Yr over Yr	Canada		United States	
		Month	12 Month	Month	12 Month
April	Production	7	4	10	0
	Imports	-11	0		
Latest	Storage Stocks	0	15	-11	1
	Exports			-12	-4
May	Egg Sets			1	0
	Placements			1	-1
	Breast value	-9	-12	12	-19
	Wing value	-12	-10	160	44
	Leg value	4	5	18	2
	Beef cutout value	3	14		
	Pork cutout value	22	1		

Canadian Market Commentary

Demand for chicken remains predictably robust. The CFC Nielsen data continues to show retail tonnage gains for chicken while the other two main meats decline. At foodservice, as patrons and menus trade down from higher priced beef items, chicken becomes a preferred option.

Beef wholesale cutout values remain very high. Chicken wholesale values are much more cost competitive relative to historical relationships to beef. Retailers struggle to put beef on the flyer at a price point that is going to attract consumers. Retailers have been actively featuring pork ribs, tenderloins and chops but pork does not draw traffic

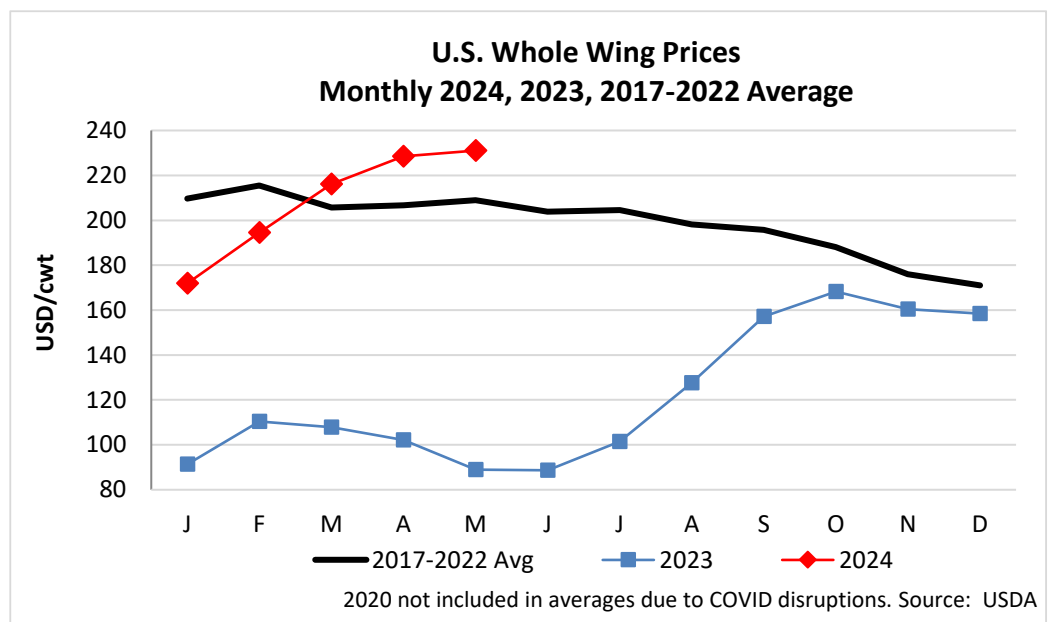
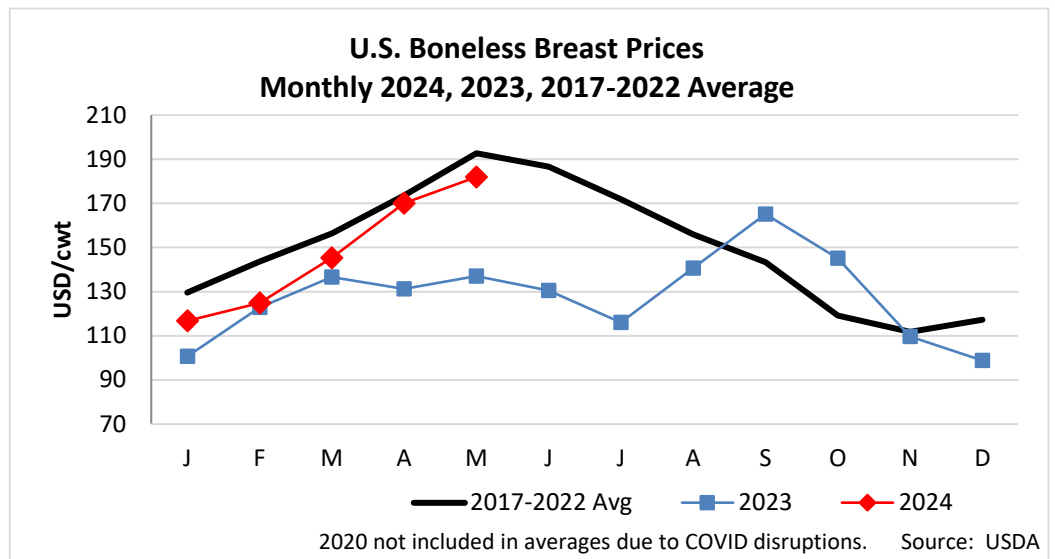


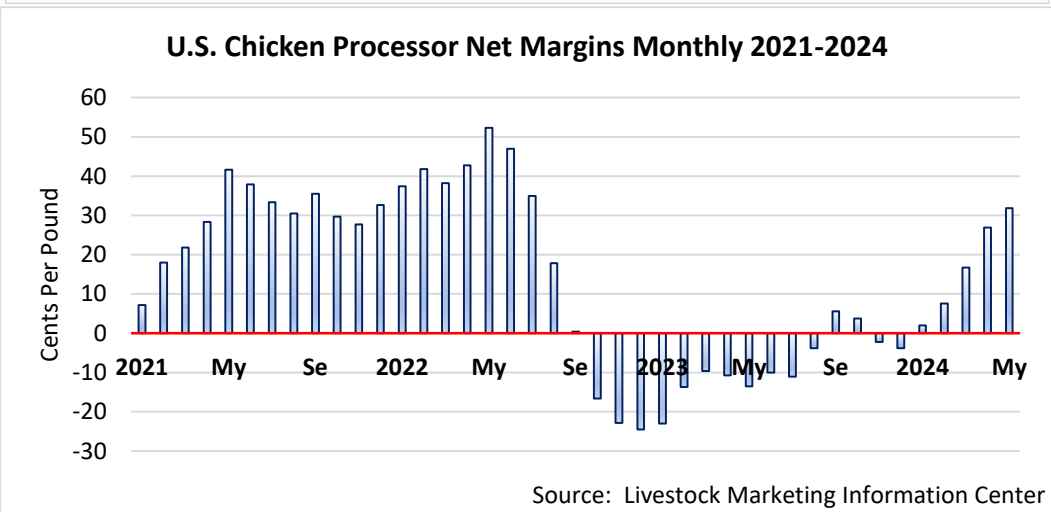
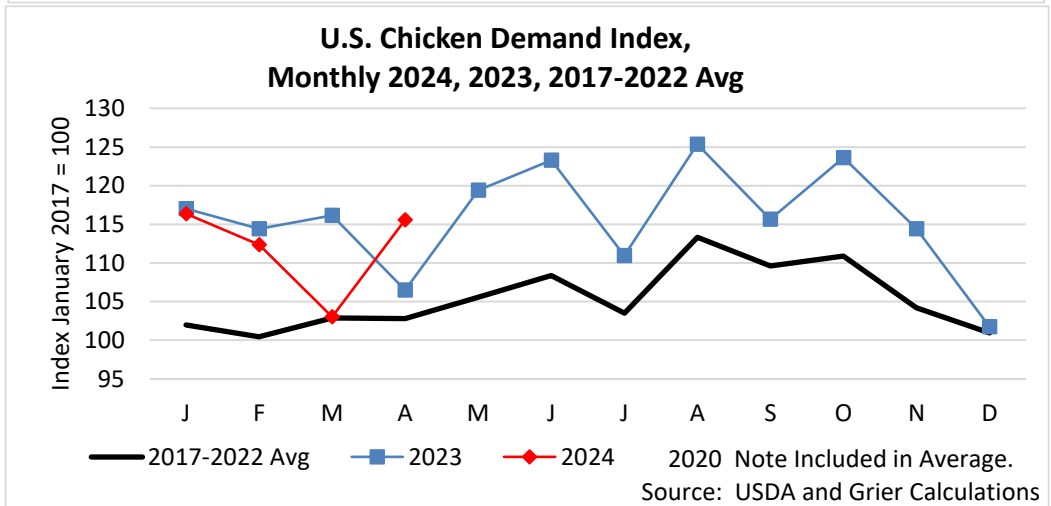
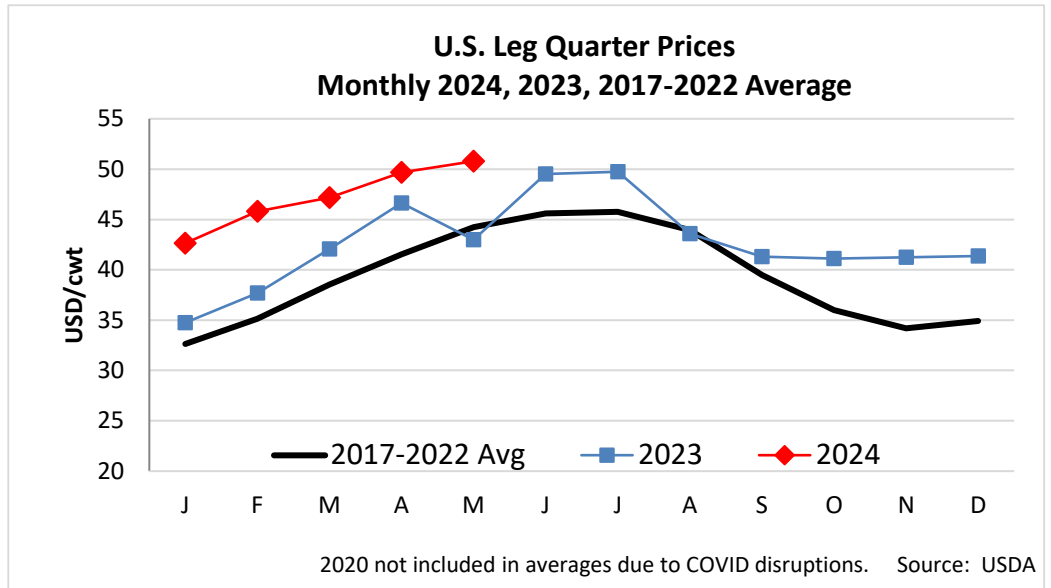


as much as beef. Chicken breasts and low-priced dark meat has become the go-to option for retailers.

Within that larger context, the leg deserves added attention. As retailers seek to promote lower priced items, the leg has been the main beneficiary. Leg prices are trading at far greater levels than the 2017-2022 average. Leg prices have even managed to exceed year ago records. For its part, the wing, which also has benefited from trading down, has finally managed to get out of its late winter funk. Breast prices have been trending in a predictable seasonal pattern and are finally showing a late spring boost.

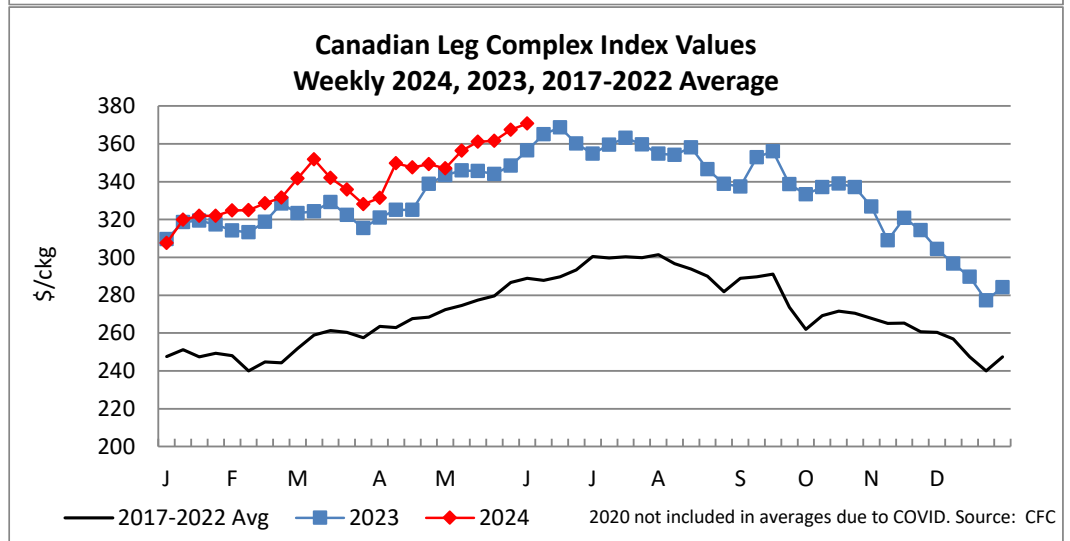
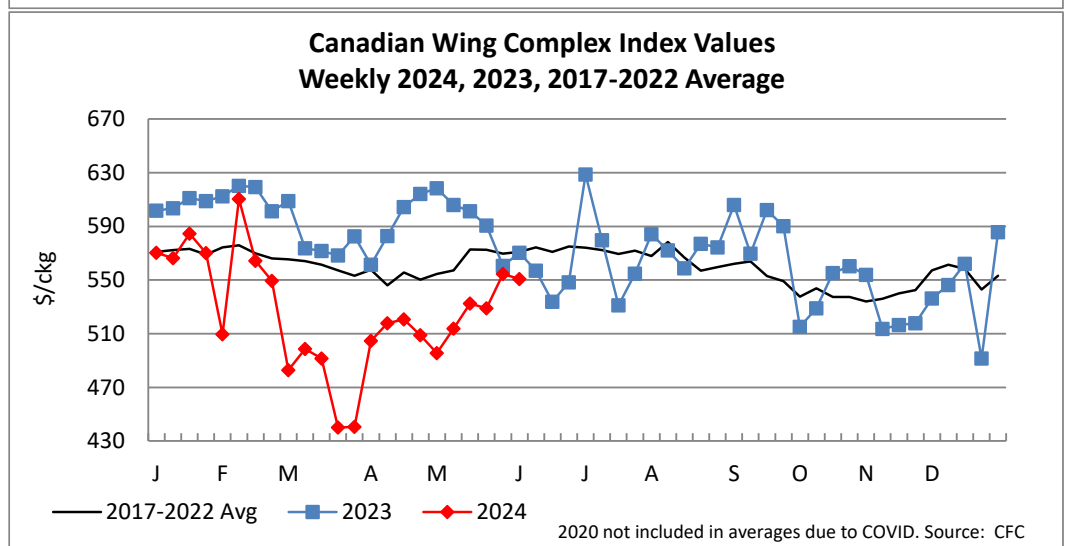
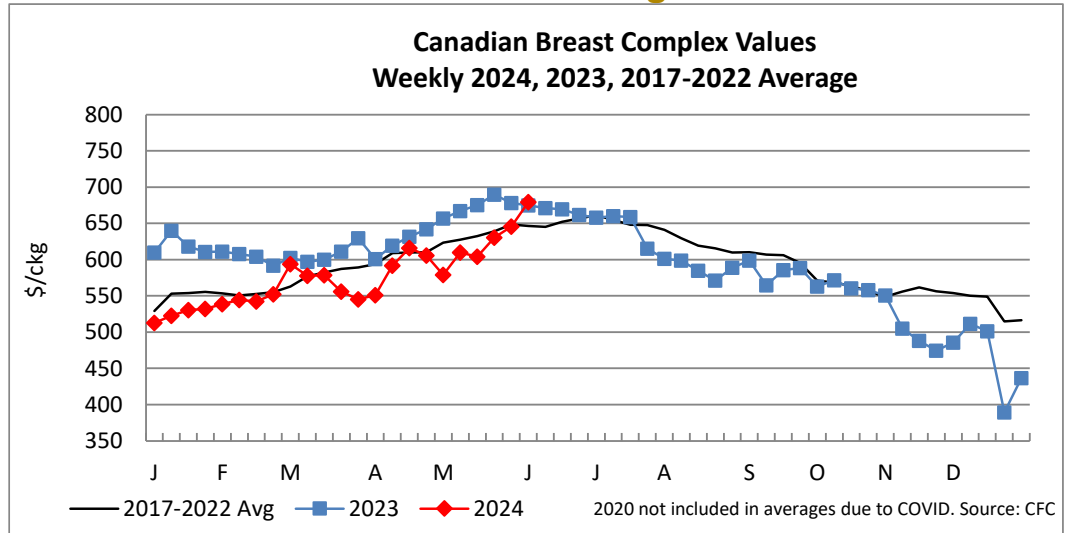
U.S. Prices, Demand and Processor Margins

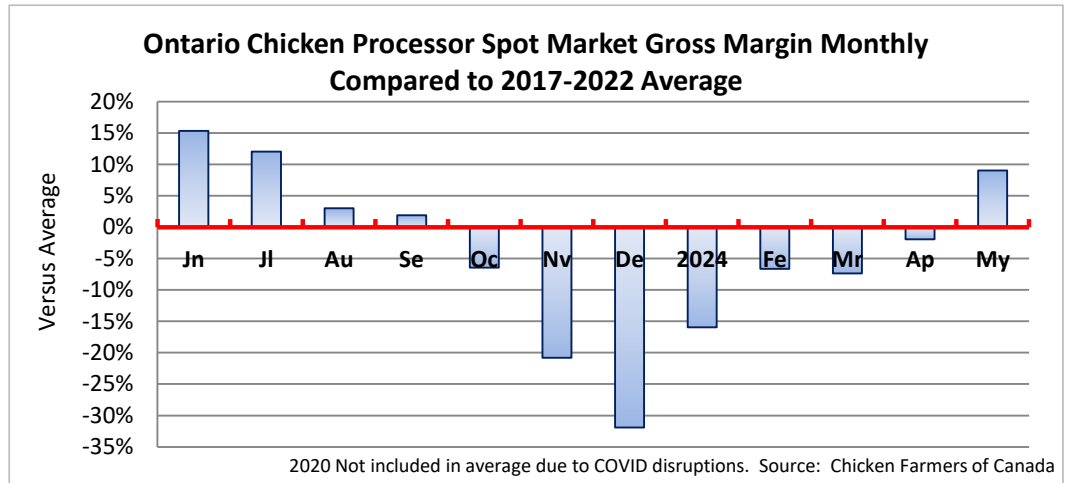






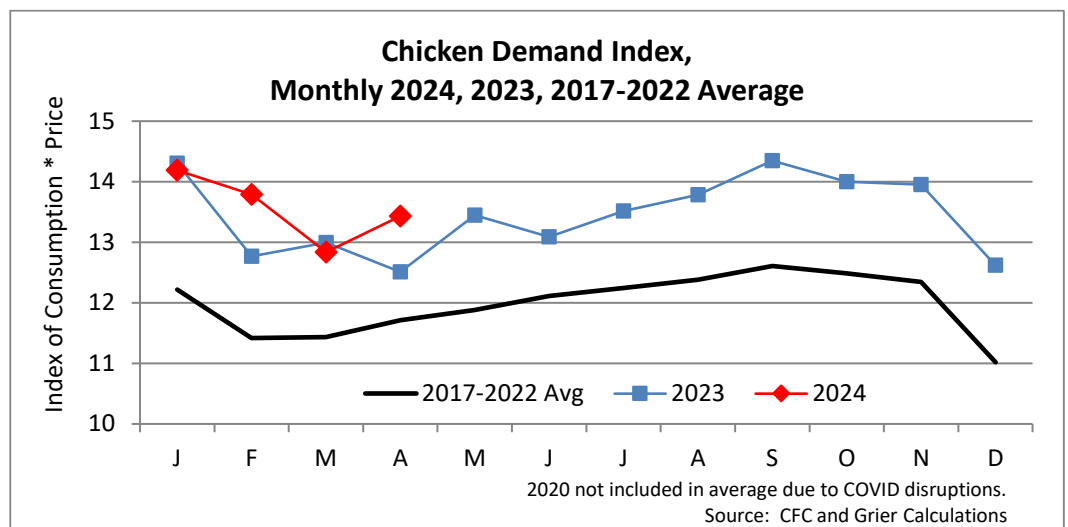
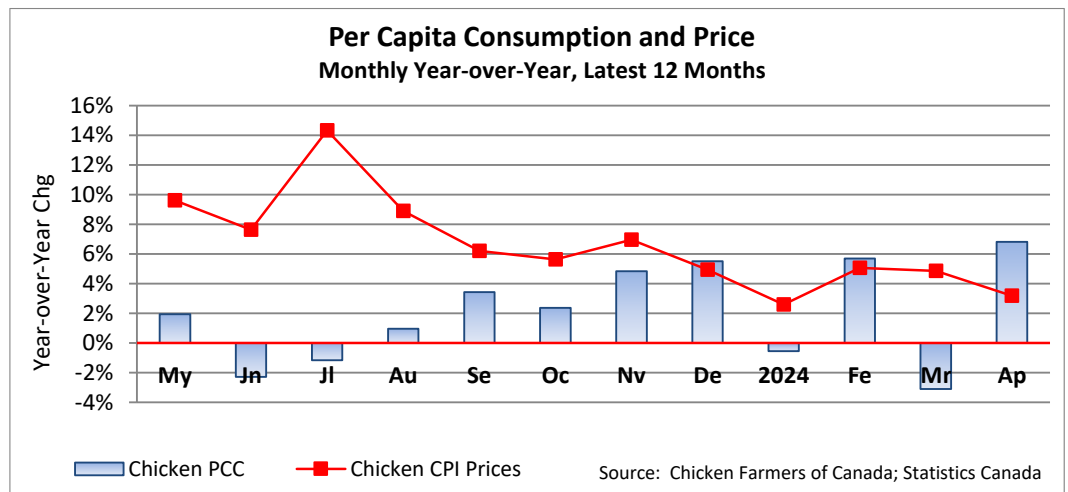
Canadian Prices and Processor Margins

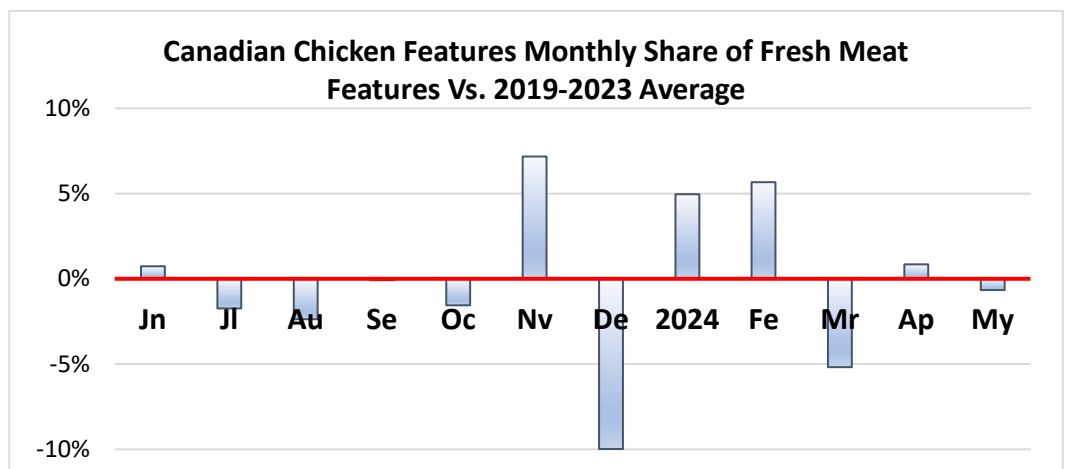
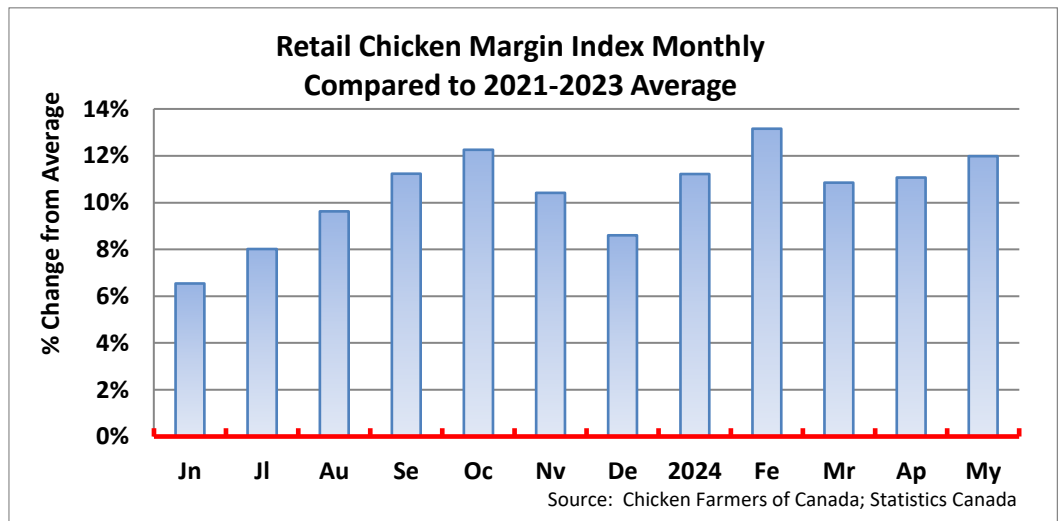
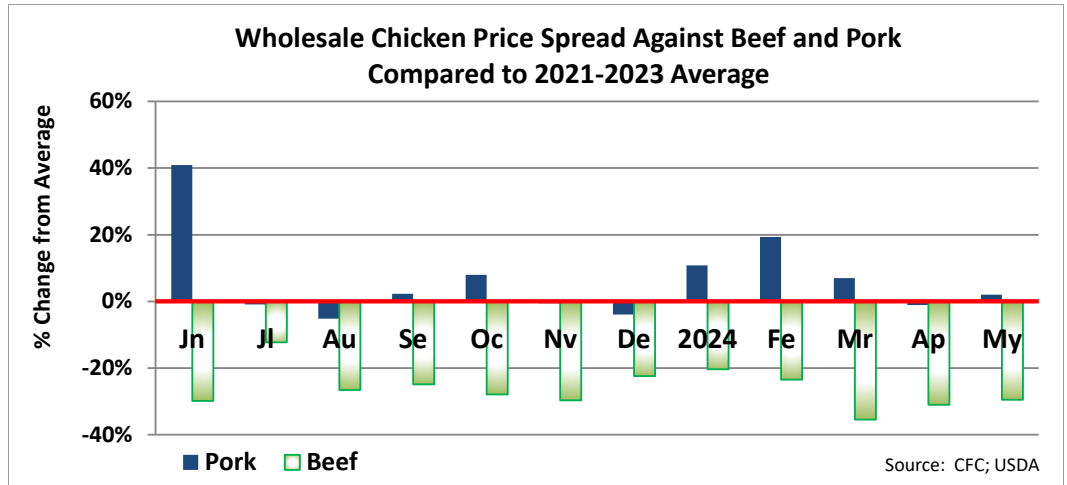


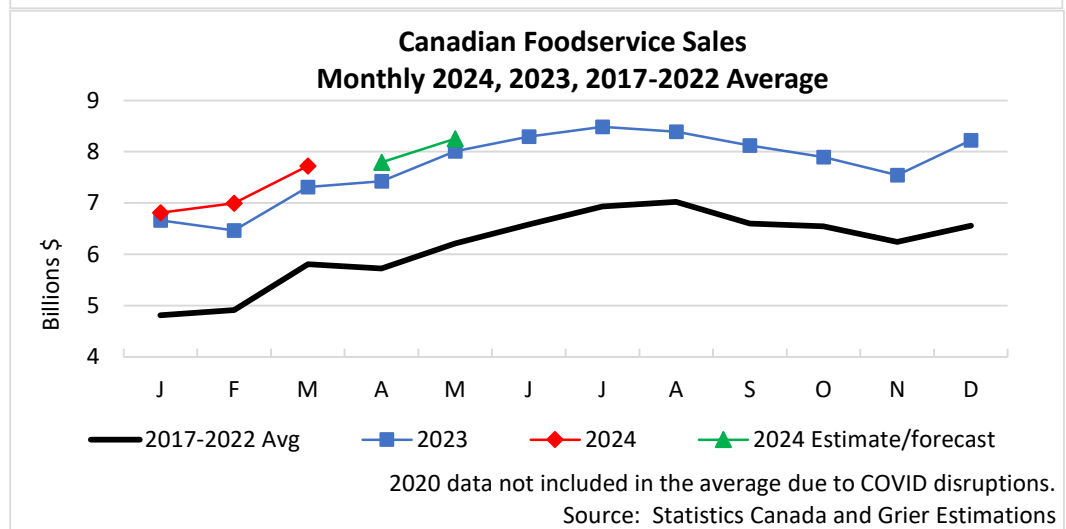
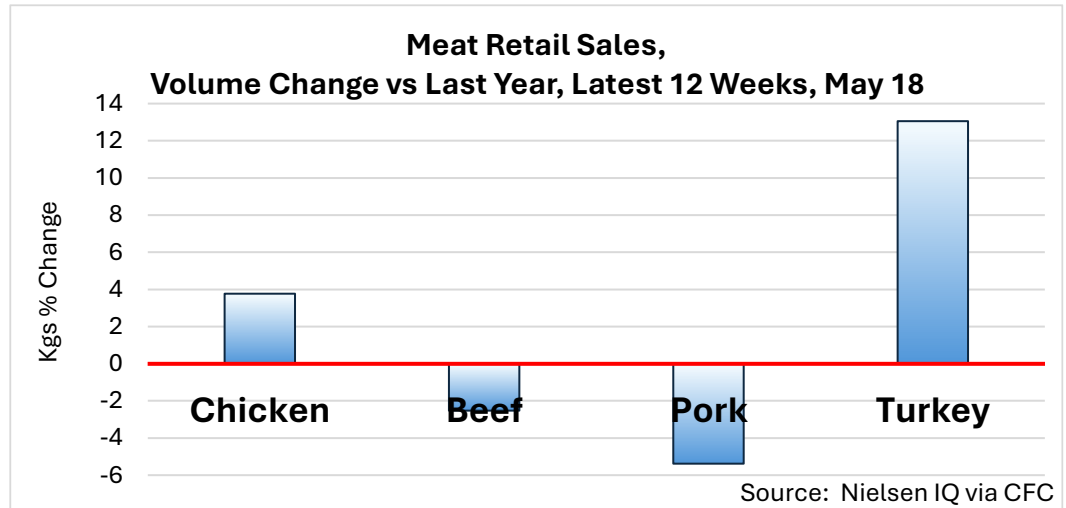


Chicken Demand

The following are graphics and summary points of key demand indicators.







Demand Summary Points

- Consumption increased sharply in April (latest).
- The consumer price index for chicken continued to increase in April (latest) but at a slower pace.
- Demand for chicken (price and quantity combined), increased notably in April to well above last year and well above average.
- Chicken is much cheaper than normal relative to beef at the wholesale level.
- Chicken is priced right around the average compared to pork at the wholesale level.
- Chicken margins at retail are running above average.
- Chicken feature share of total fresh meat features have been right around normal levels in April and May.
- Chicken tonnage at retail has been increasing while beef and pork decline.

DEMAND TAKEAWAYS:

- *Chicken demand is robust.*
- *Chicken is a cost competitive meat relative to beef and is at its normal competitive costing against pork.*
- *Chicken is expanding retail volume sales while beef and pork decline.*



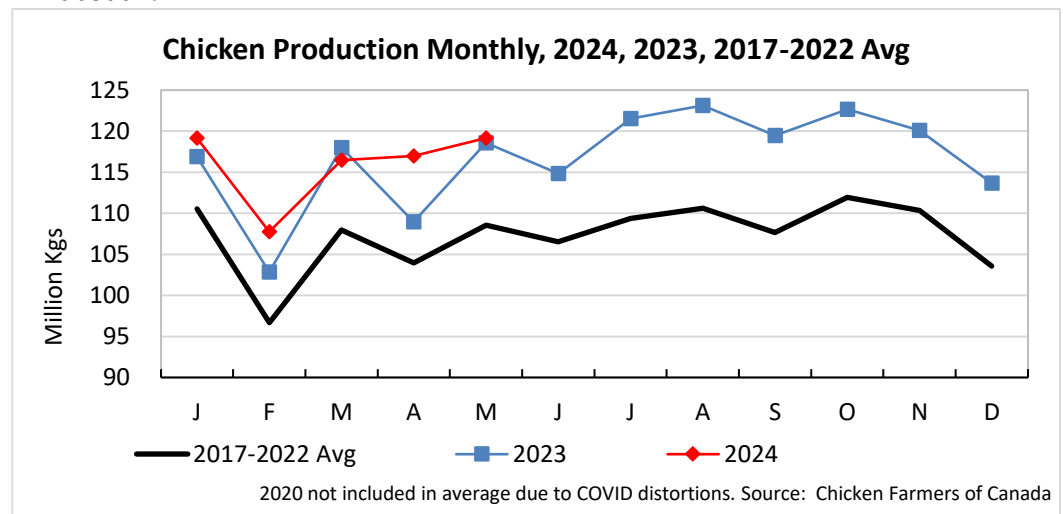


- *It is likely generating better than average retail margins for grocers.*
- *Chicken has garnered an average share of Canadian flyer front pages in the past 12 months.*

Chicken Supply

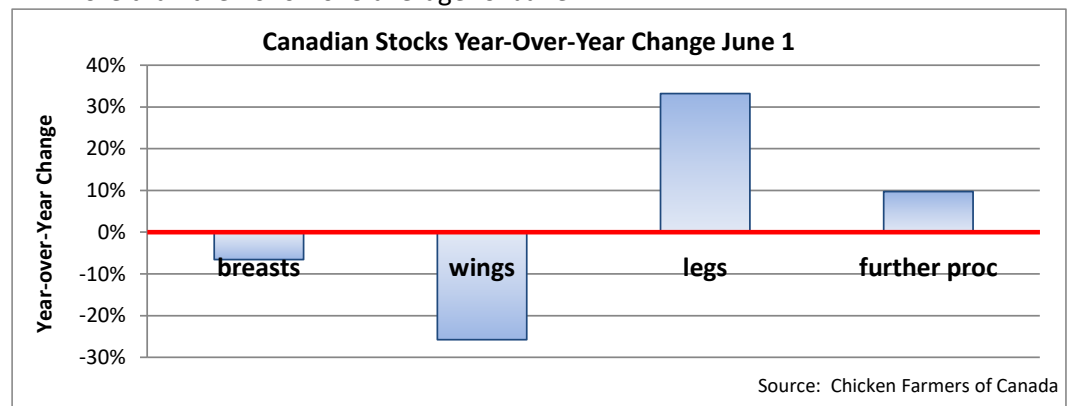
Production

- Year-over-year production was up 7% in April. Preliminary results for May look to be steady to higher than last year
- Production for the most recently completed period A-188 (May 4), was one percent lower than final allocation. The reduction relative to allocation follows four prior periods in which production exceeded allocation.
- Production in the first half of the current period is also falling short of allocation by about 1%.



Stocks

- Chicken stocks were unchanged on June 1 compared to last year. Stocks are 13% more than the 2020-2023 average for June 1.

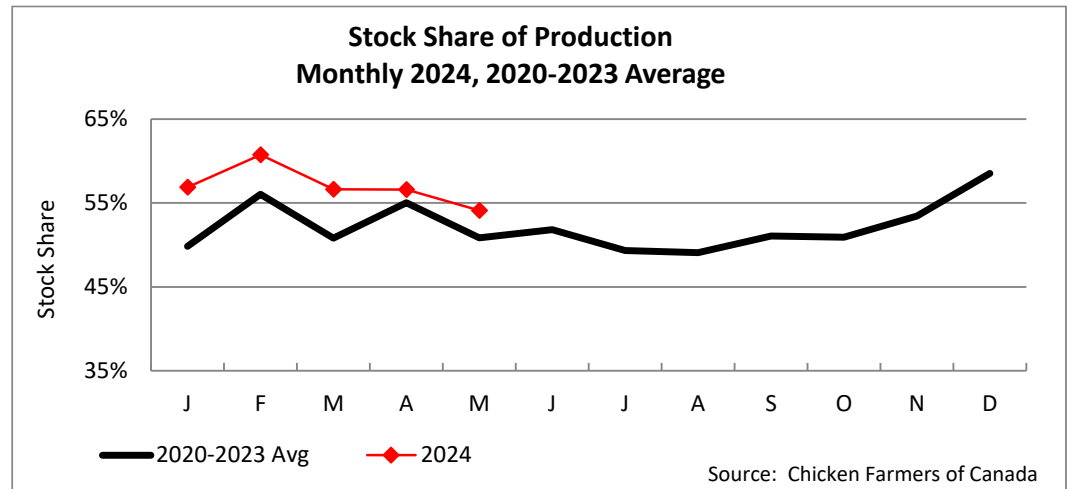


- Stocks share of May production was 54% vs. 51% May average for 2020-2023.
- Breast stocks fell below year-ago but are far above the 2017-2022 average.
- Wing stocks remain greatly above average but are trending rapidly lower.
- The legs are above last year's but are just at average levels.





- Stock levels are easing but continue to be very high relative to history.
- Further processed stocks are always the biggest component but in recent months the share has been notably increasing. That is likely more of a strategic decision rather than a reflection of market conditions.

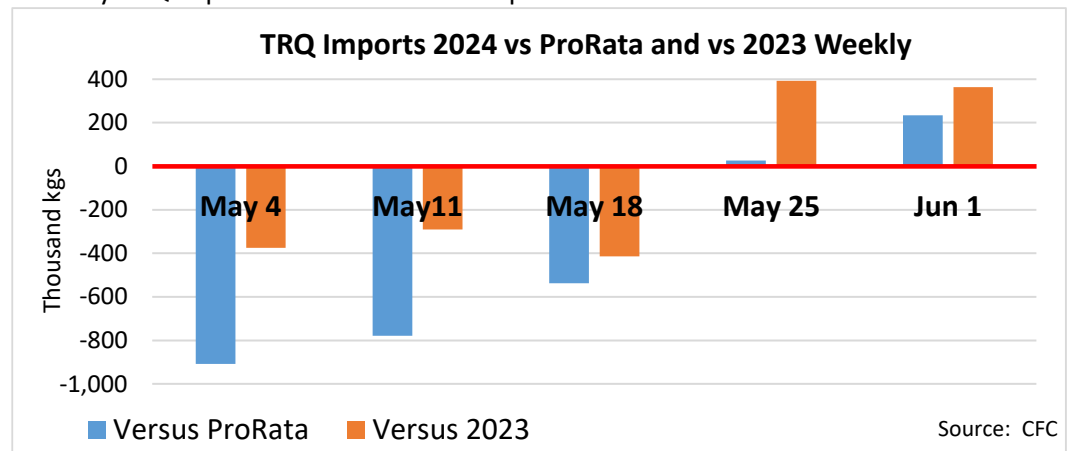


DOMESTIC SUPPLY TAKEAWAY:

Domestic supplies are ample and readily accessible for buyers. Stocks are declining.

Canadian Chicken Imports

- May TRQ imports were 17% less than pro rata for the month.
- May TRQ imports were down 3% compared with 2023.



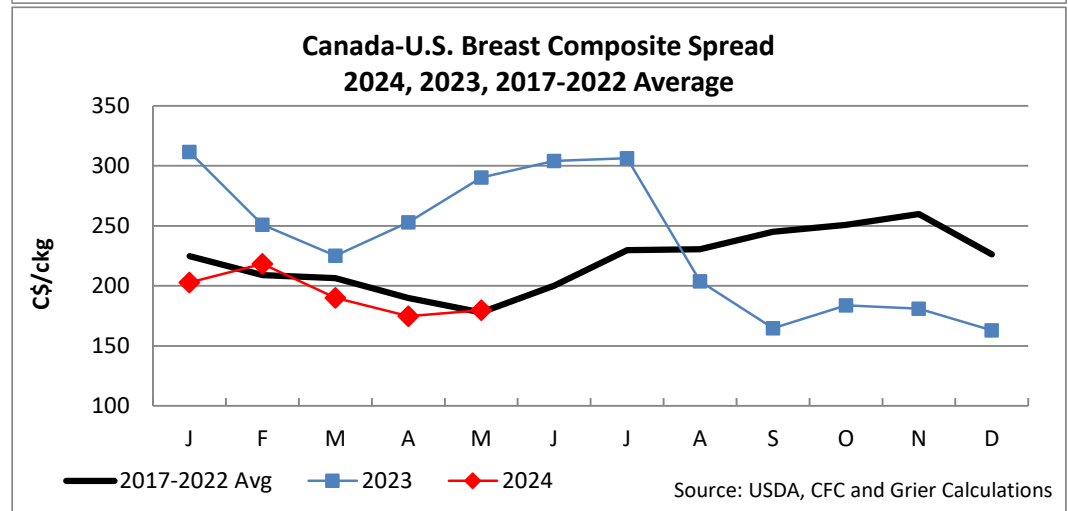
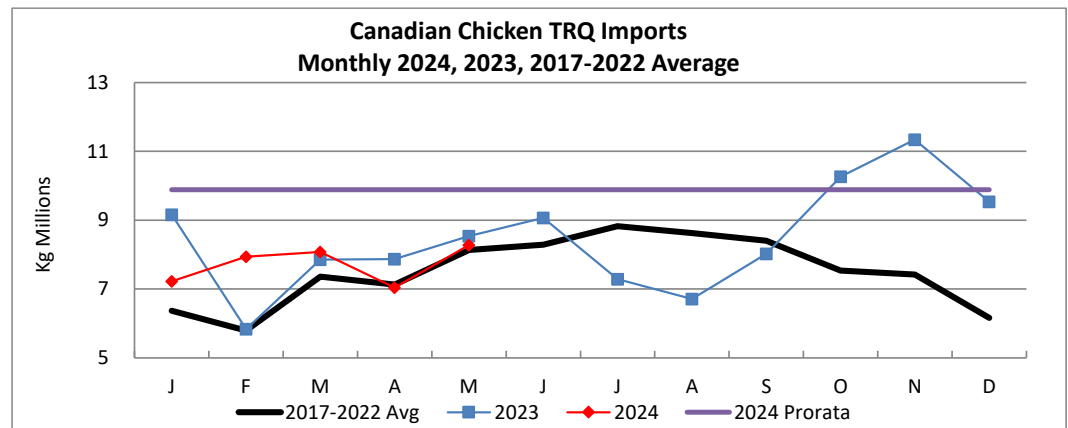
- The Canada-U.S. breast complex price spread is right around the 2017-2022 average. The price spread on breasts is indicating that there is no price-driven reason to import more or less than normal from the United States.
- Relative Canada-U.S. pricing is still weak relative to normal and is not a draw on U.S. wings imports.
- U.S. imports are down 24% year to date but began to spark upward in late May and early June. That was in response to big increases in domestic chicken prices. Domestic availability began to tighten. Suddenly importing made sense. Most of the product that have come in recent weeks is dark meat. That dark meat was for





features as well as normal business filling in. Buyers needed dark meat and the product was available.

- Chilean frozen breast meat product is in strong demand. Buyers continue to give it favorable reviews for quality and versatility for further processors.
- Brazilian imports have been down 5% year to date. They have lost share of breast meat sales to Chile. In addition, the Canadian market has been amply supplied with domestic fresh wing product. Foodservice has been using domestic fresh.
- Thailand imports are down 9% year to date but that is likely due to larger volumes coming into storage late last year.



TRQ Value

- CUSMA quota values during the month of May traded for about \$1.05-1.10. That compared to \$1.00-\$1.10 in April and \$1.15 in March. Trade was about \$1.25-1.30 in February.
- CUSMA values began to bump up higher in late May and early June as demand for U.S. product began to increase. Asking prices went to \$1.25-1.30.
- During May the WTO quota traded for about \$1.50. That has been mostly steady for this year so far. The values tend to be steady because the nature of the business and the product flows tend to be steady. Purchases of the frozen product typically occur months in advance and the product flow are predictable. There is far less spot





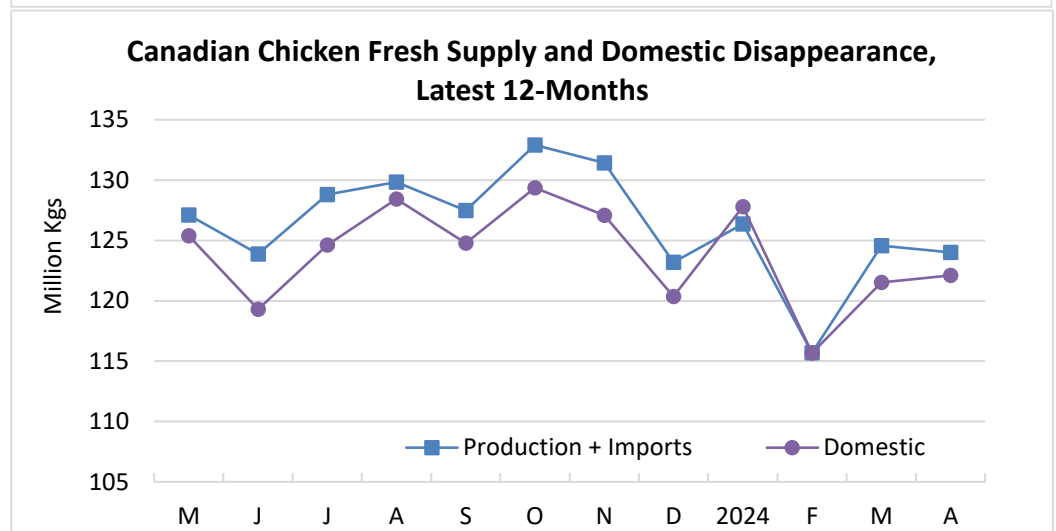
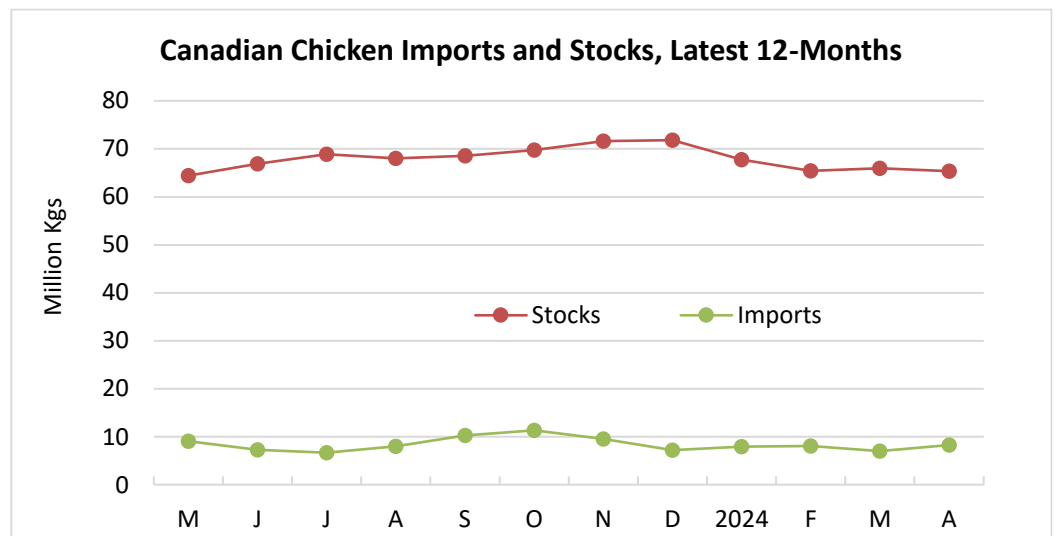
market and speculative purchases of WTO product. That plus the rules of WTO quota use and availability also foster some stability.

- The TPP quota was valued at about \$0.20 in April, and it stayed in the \$0.15-0.25 range in May. TPP quota was valued at about \$0.15 in March compared to about \$0.05-0.10 in February. Buyers are pleased with the TPP product and demand is resulting in appreciating values. It is mostly Chilean frozen boneless breast.

IMPORT TAKEAWAY:

Import demand has not been strong during the first five months of the year but it has begun to pick-up. This has coincided with a noted firming of the domestic market.

Summary Supply-Demand Graphs



Market Forecasts

Competing Meats

Production of Beef and Pork Quarterly			
% Change Year over Year	Q1	Q2	Q3
U.S. Beef Production	-4	2	0
U.S. Pork Production	0	1	2
Combined U.S. Beef and Pork	-2	1	1

- Beef production in the current quarter has been surprisingly large due to heavy carcass weights and larger than expected cattle on feed in winter. Beef prices remain very high despite large production due to excellent beef demand.
- Pork production is proceeding as expected with modest year over year increases in the second quarter. Pricing has been modestly stronger than last year, but it remains lethargic.
- Red meat production should be up modestly in the third quarter with a 2% increase in pork and no change in beef, year-over-year.

COMPETING MEAT TAKEAWAY:

Beef is very high priced and should be supportive to chicken pricing. Pork is likely to provide tepid competitive pressure. Grocers will continue to run cheap pork chops, back ribs and tenders on the front of flyers into the third quarters.

U.S. Chicken Forecasts

Production

- Based on chick placements and eggs sets, production for late the second half of June and July is forecast to be 1% more than last year's levels.
- Second quarter production should be up 1% compared to 2023 based on broiler eggs in incubators and egg layer inventories.
- USDA is forecasting third quarter production up 1-2% versus 2023.
- The Livestock Marketing Information Center is forecasting third quarter production up 5%.

U.S. Price

The following price points for **August 2024** are based on normal seasonal patterns.

US\$/cwt	Current	Aug-23	Aug-24	Aug 24/23 d%
Bnls Breasts	182	141	147	5%
Whole Wings	231	128	219	72%
Leg Qtrs	51	44	50	16%

Canadian Forecasts

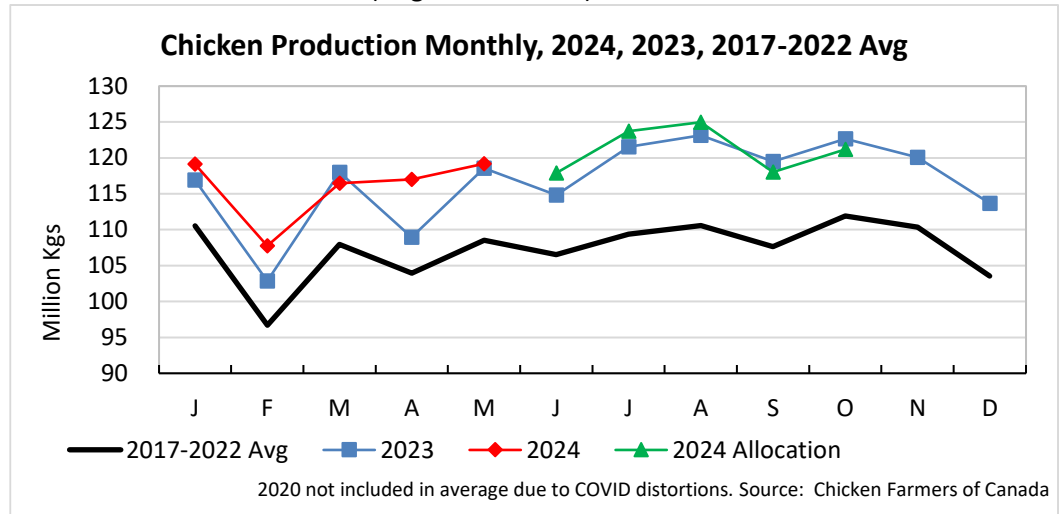
Production

- Total Allocation for A-189 (May 5-June 29): 2.7%. Domestic allocation: 2.1%.
- Total Allocation for A-190 (June 30-August 24): 1.8%. Domestic allocation: 0.9%.



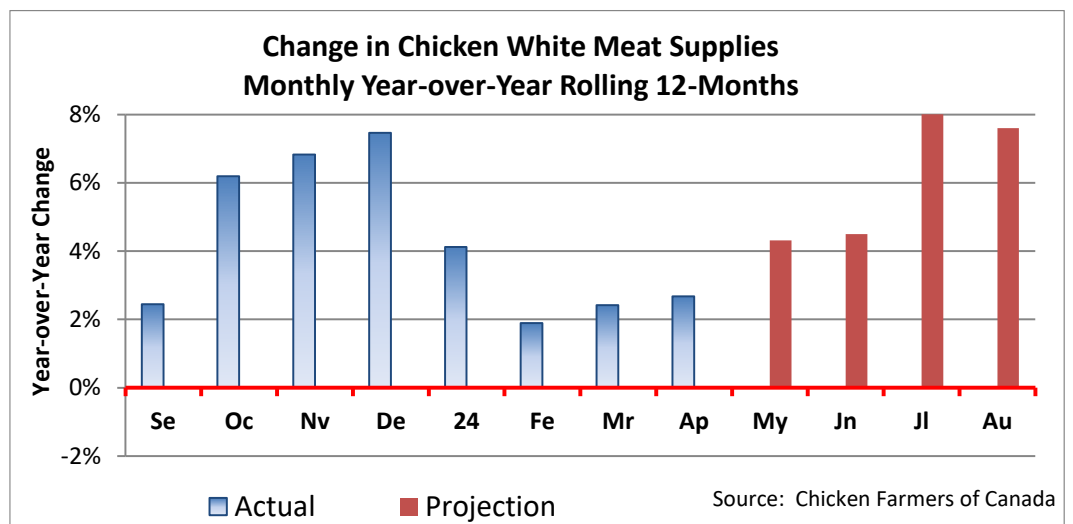


- Total Allocation for A-191 (August 25-Oct 19): -1.2%. Domestic allocation: -2.0%.



- Chicken production during August 2024 is allocated to average 7% more than April 2024 production.
 - During the prior ten years, not counting 2020, production averaged 5% more in August than in April. That means this year's change in production between April and August is going to be more than normal.
- Supplies of chicken white meat (production plus imports) are expected to increase by 8% year-over-year in July and August.

(The graph below showing forecasted chicken white meat supplies is based on allocated production, and estimated imports, according to Jan Rus, Chicken Farmers of Canada's calculations.)



Imports

- Imports seasonally increase from May through July before dipping slightly in August.
- On a year-to-date basis through June 8, imports are running 10.7 million kgs less than prorata. That represents about 20% of prorata. Last year at this time, the industry was running 17% under prorata.



- During the next two to three months, it is reasonable to look for WTO and TPP tonnage to be steady to slightly higher than current levels.
- So far this year the breast price spread between Canada and the United States was near normal levels. The spread was neither an incentive nor disincentive to import.
- Canadian wing spreads continue to run very low relative to the U.S. meaning that relative wing prices were not encouraging U.S. imports.

TRQ Value

- Large CUSMA quota holders are likely to hold out for \$1.25 or more. The view would be either to generate returns on the quota or if it does not sell, then to generate returns from tighter domestic supplies in the summer. Look for CUSMA trades from \$1.20 to \$1.40 in June and July.
- WTO should trade at steady levels, as usual. That would mean values of about \$1.50 in July and August.
- TPP quota is expected to continue to trade around \$0.20-0.25 through July.

PRODUCTION AND IMPORT FORECAST TAKEAWAY:

The change in production between now and August should be more than it normally is for this time of year. Non-U.S. imports will be readily accessed.

Price Seasonality of Main Cuts

The following are the 2016-2021 average seasonal price changes for Canadian breasts, wings, legs, and the total composite from May through August:

- Breasts: -1%
- Wings: 0%
- Legs: +6%
- Composite Cutout: +1%

Price Forecasts for Main Cuts

The following are the forecasted price directions for the primary chicken cuts for May through August.

The summary points this month with regard to demand remains exactly the same as last month: "Chicken demand continues to be price-supportive at retail. Foodservice traffic is slowing but beef is showing the biggest decline in meat sales. Chicken will continue to be merchandised and featured aggressively at both retail and foodservice. That assertion is due to relative costing, particularly compared to beef. Pork is cheap, but it looks to be taking share from beef, not chicken. Chicken is the only major meat that is increasing tonnage year over year in recent weeks".

The big question as with last month is whether demand is strong enough to carry larger than normal tonnage increases between spring and summer. As noted, the change in production between April and August is going to be a couple of percentage points larger than normal. In addition, Jan Rus is estimating year over year availability of white meat is going to be up around 8% this summer. Stocks of further processed product remain ample, which is also a factor.



MAY THROUGH AUGUST PRICE CHANGE FORECAST AND RATIONALE:

Breasts: 0% (seasonal)

Statistical relationships between breast prices and supply suggest that breast prices could show material weakness in the third quarter. With that noted, demand has improved, stocks are less of a factor and U.S. breasts should add support. Demand should prevent notable weakness in August. Prices are forecast to range around seasonal norms.

Wings: 8% (more than seasonal)

Wing prices are a roller coaster, and they are on the upswing now. Wings will outperform seasonal trends due simply to the fact that prices were low in May.

Legs: +5% (seasonal)

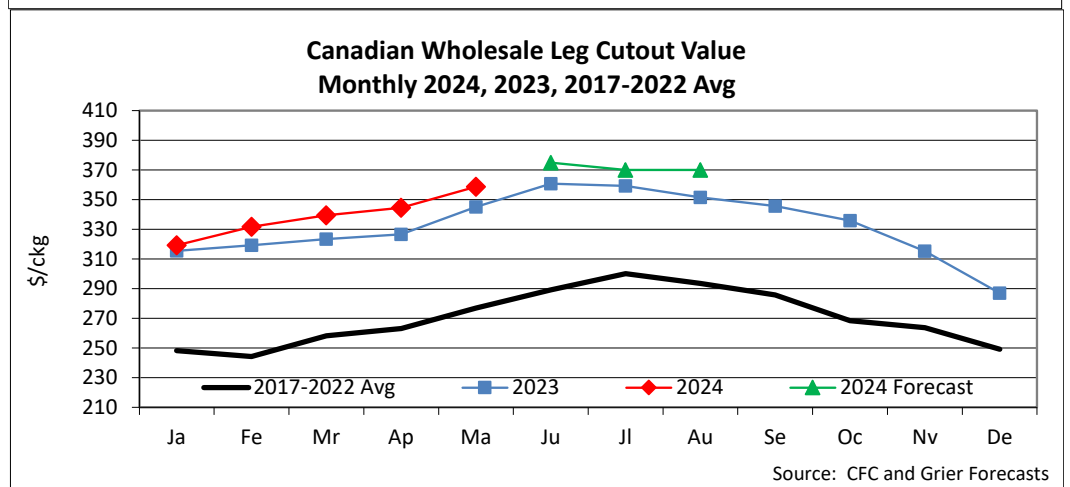
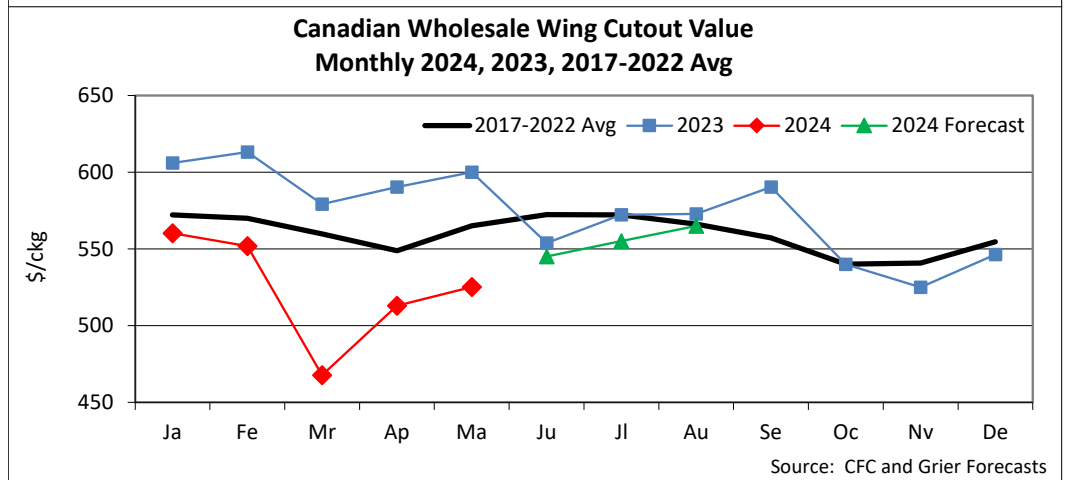
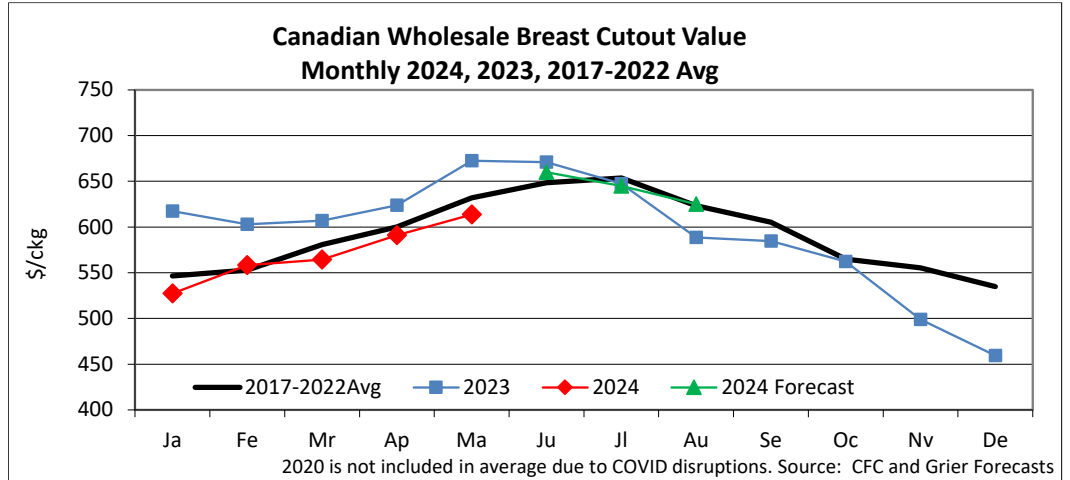
There is a limit to how high legs can go but it is not there yet. Look for normal seasonal performance through August.



*The graphs show the price trends in the Canadian leg, wing, and breast cutout complexes for 2024 and 2023, the average from 2017-2022, and the forecast for **June through August**. The data and forecasts on the graphs are based on the CFC index values for each primal cut. They are not actual market prices.*



If you have any questions, comments, ideas for improvement on content, suggested topics, or if you want discuss any market factor, please contact me at kevin@kevingrier.com, 519-823-9868.



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