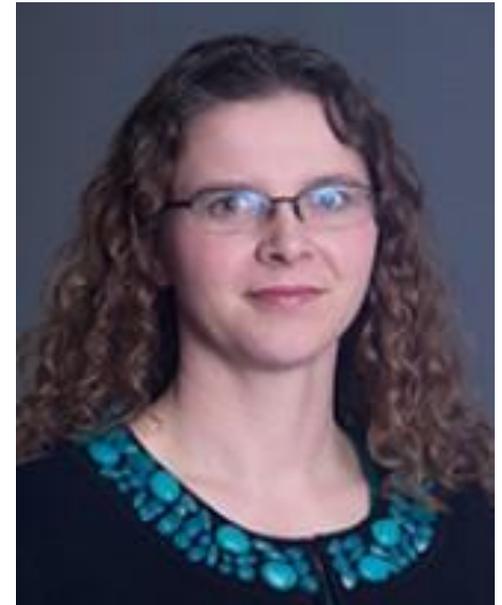


MARKET UPDATE



Canadian Beef Market Update & Outlook

December 2020
Brenna Grant
Canfax Research Services





- African Swine Fever (ASF)
 - Asia - Production impact
 - Europe - Trade impact
- COVID Wave 1, 2, 3?
 - Supply disruptions
 - Demand shocks
 - ST – shift to retail
 - MT – foodservice recovery?
 - LT – disposable income?



Macro-economics: 2020 to end in recession

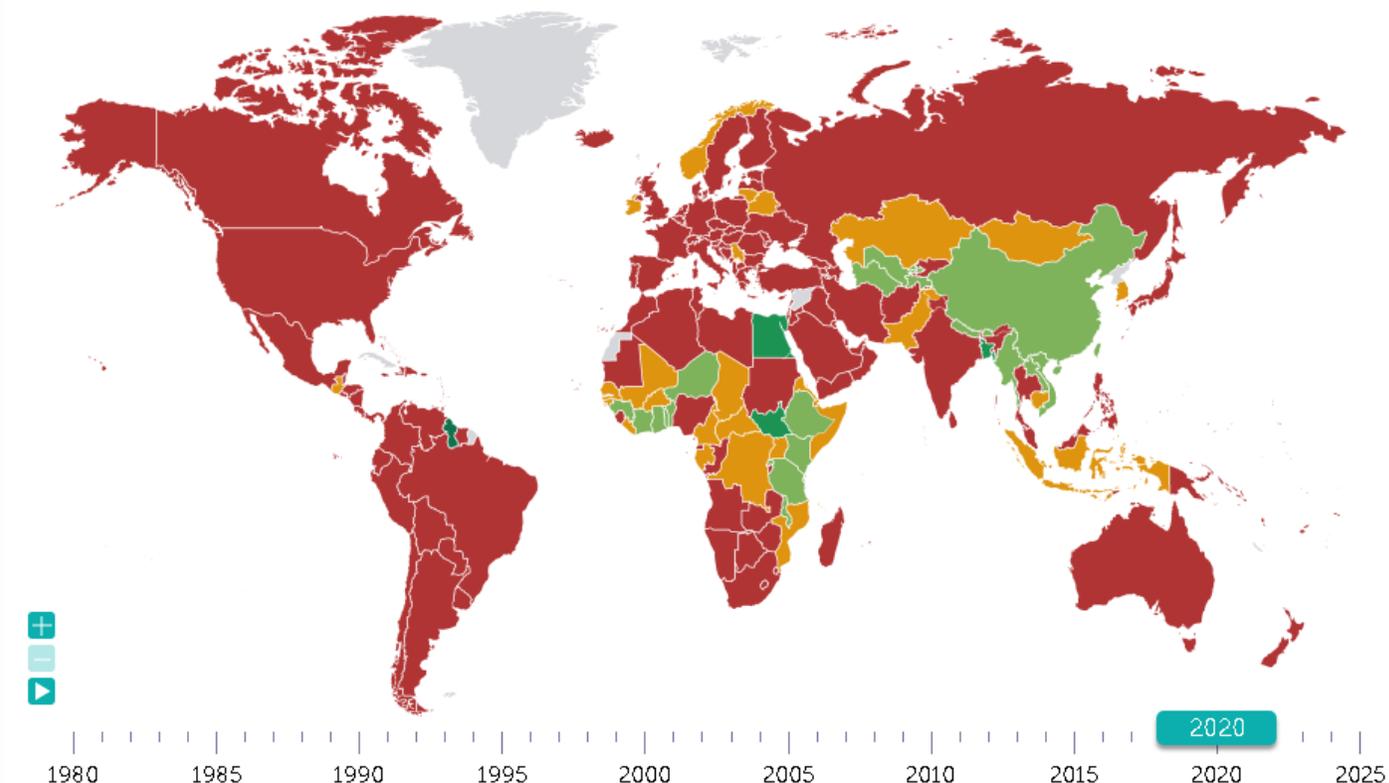
- Canadian **real GDP** forecast to **contract 5.6%** in 2020*
 - down from the pre-COVID-19 projection of 1.7% growth
- **Unemployment rate** forecast to be **9.5%** for 2020*
 - improved from Q2 lows at 13.7% but greater than 2019 at 5.7%
- **Consumer confidence**** in September **83.6**, ranging around 80 points for four straight months
 - 37 points below pre-pandemic levels

*rbc.com (Nov 2020)

**conferenceboard.ca (Sept 2020)

Annual % change in real GDP growth by nation

● 6% or more ● 3% - 6% ● 0 - 3% ● -3% - 0 ● less than -3% ● no data



Source: imf.org

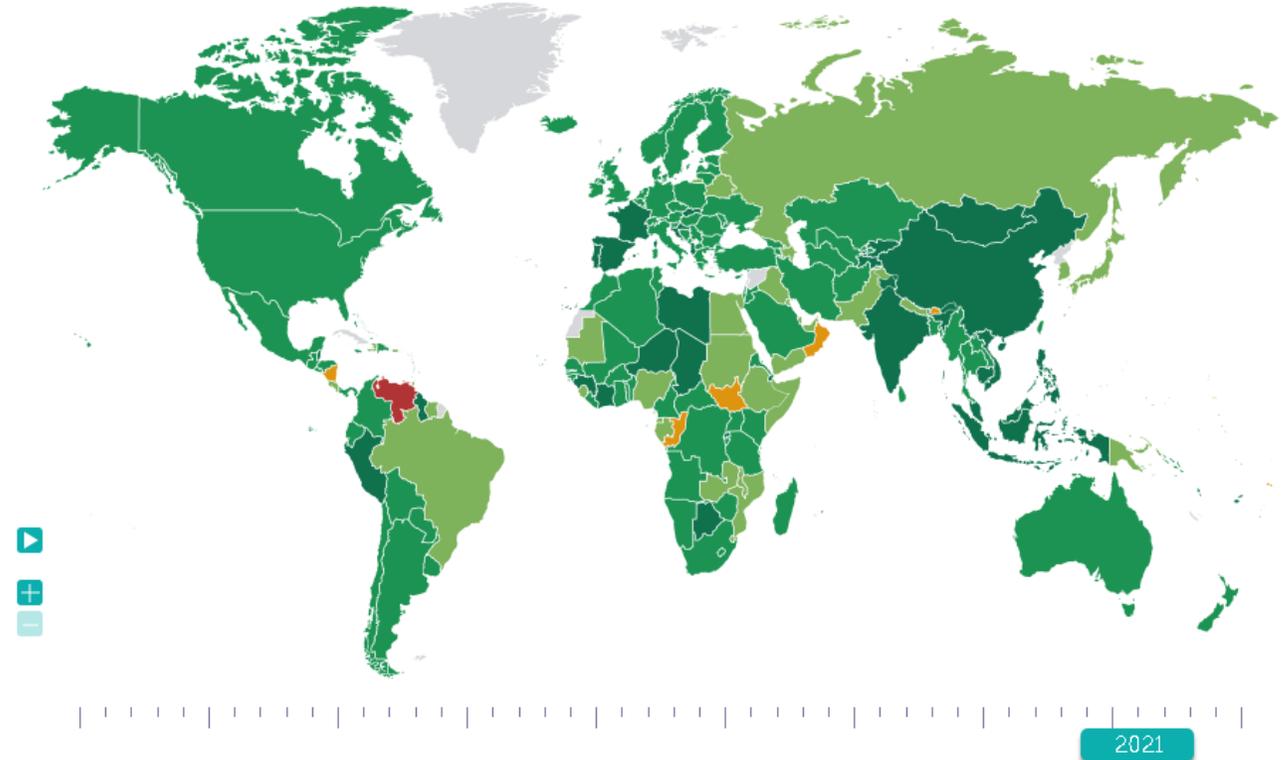


Macro-economics: *Bounce back forecast for 2021*

- 2021 year-over-year real GDP forecasts **4.5% growth***
- Some aggressive quarter-over-quarter growth forecasts for Canada in 2021: Q1 (+3%), Q2 (+5%), Q3 (+4.5%) , Q4 (+4.5%)*
- Others project the pace of recovery to flatten between now and mid-2021
- Unemployment still to lag at 7.6% for 2021*

Annual % change in real GDP growth by nation

● 6% or more ● 3% - 6% ● 0 - 3% ● -3% - 0 ● less than -3% ● no data



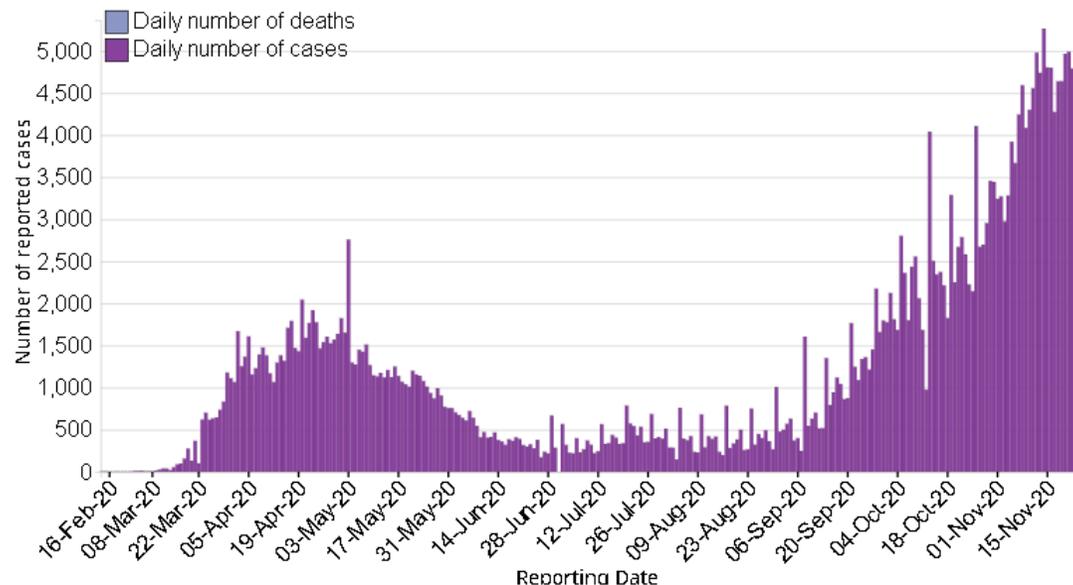
*rbc.com (November 2020)

Source: imf.org



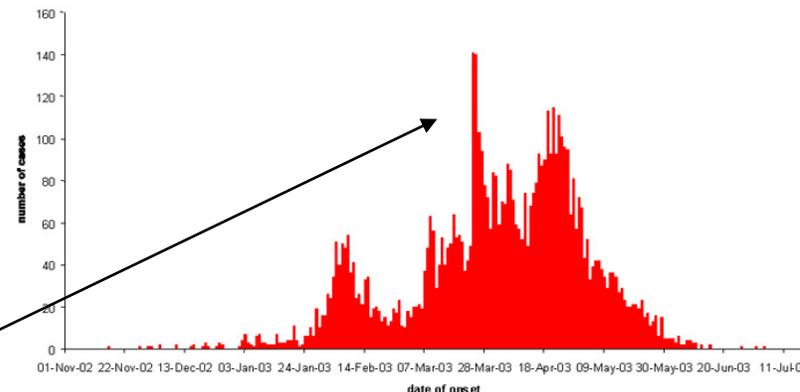
Second wave

COVID-19 cases (n=303,415) in Canada by reporting date ()



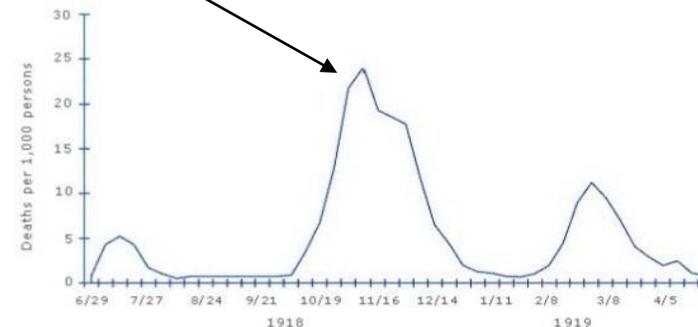
← **Second Wave**

Probable cases of SARS by week of onset
Worldwide* (n=5,910), 1 November 2002 - 10 July 2003



* This graph does not include 2,527 probable cases of SARS (2,521 from Beijing, China), for whom no dates of onset are currently available.

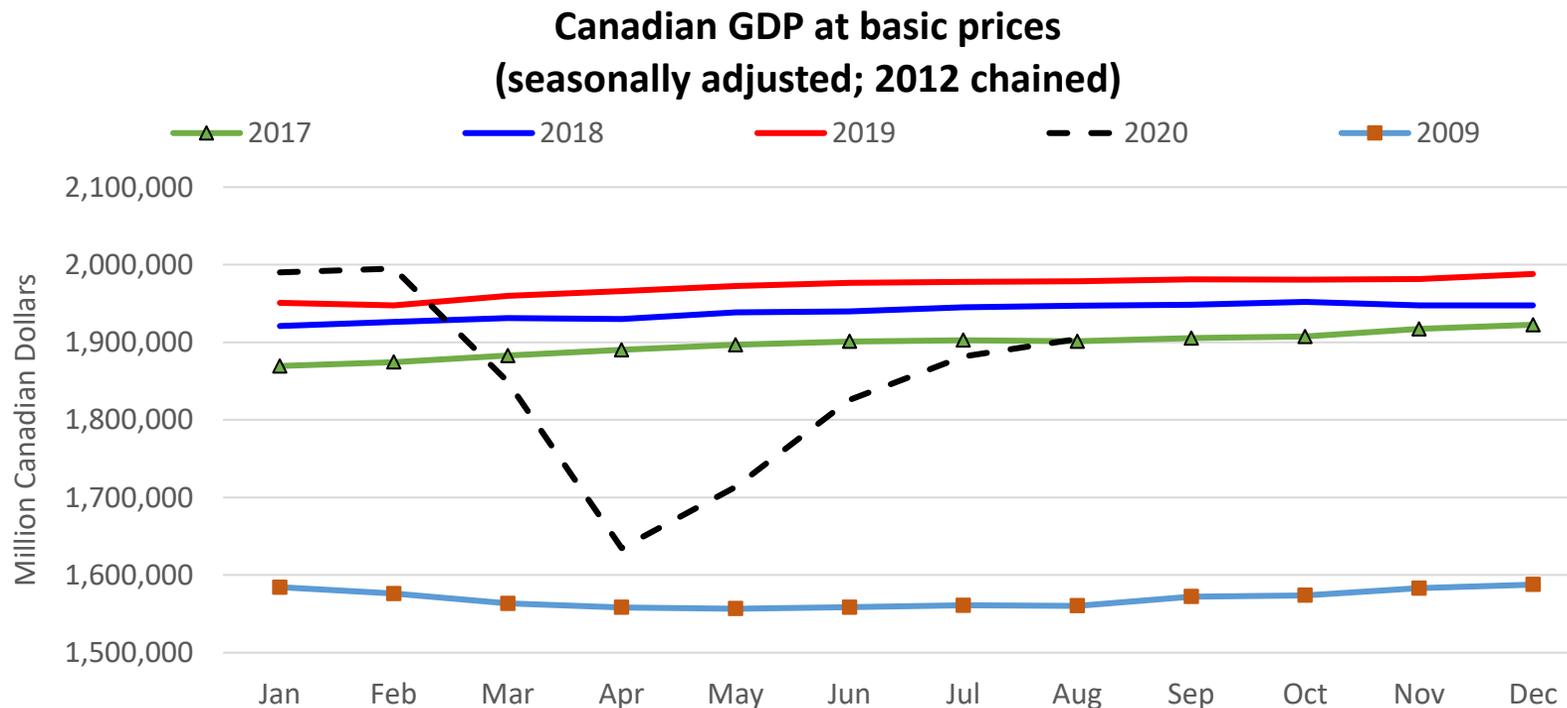
Pandemic Waves (1918-1919)



Source: CDC Emerging Infectious Diseases · Vol. 12, No. 1, January 2006
Link: <http://www.cdc.gov/ncidod/EID/vol12no01/05-0979.htm>



Second wave impacts: *v-recovery prolonged (Nike swoosh with a flatter tail)*



Source: [Statistics Canada](https://www150.statcan.gc.ca/n1/pub/54-60-0000/20201200101-eng.htm)



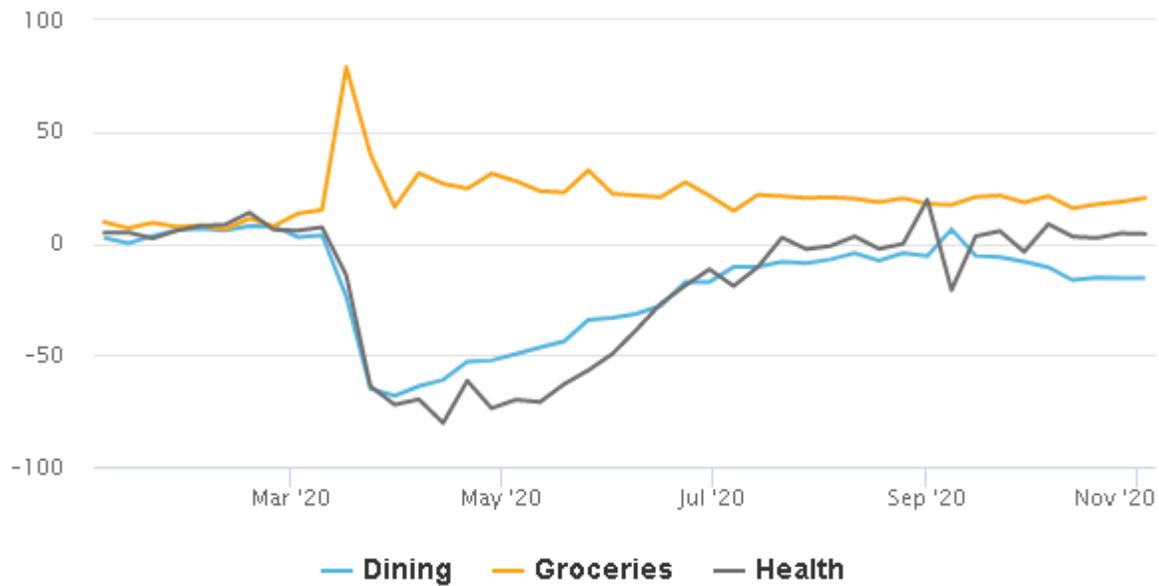
Second wave impacts: *Consumer spending firmly within retail versus food service*

- Dining spending down 15.6% Nov. 3



Source: RBC Economics, RBC Data & Analytics

- Grocery spending up 20% (yr/yr % change)



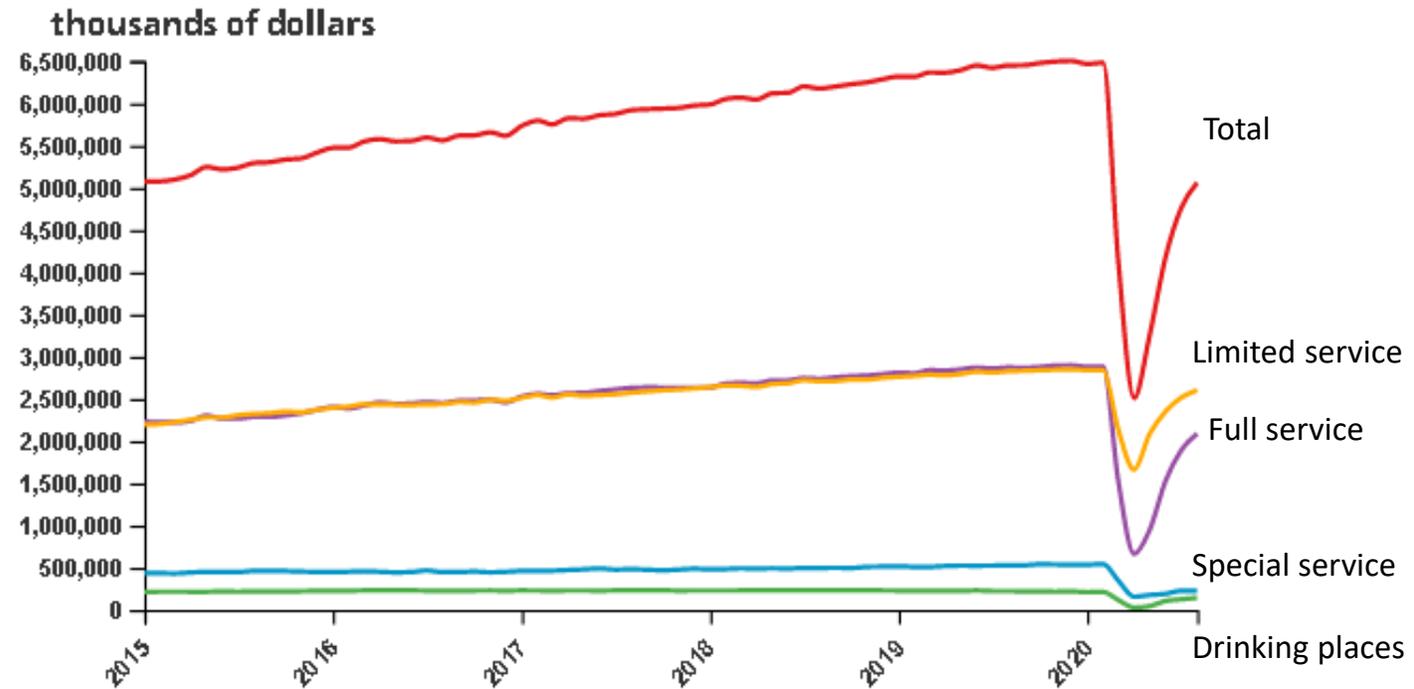
Source: RBC Economics, RBC Data & Analytics



Foodservice: *YoY contraction with considerable increases MoM*

- Total YoY sales in **August 2020** still 22% lower than August 2019
- Limited service down 8% YoY (August)
- Full service down 27% YoY (August)
- Special service down 57% YoY (August)
- Drinking places down 35% YoY (August)

Food services and drinking places sales

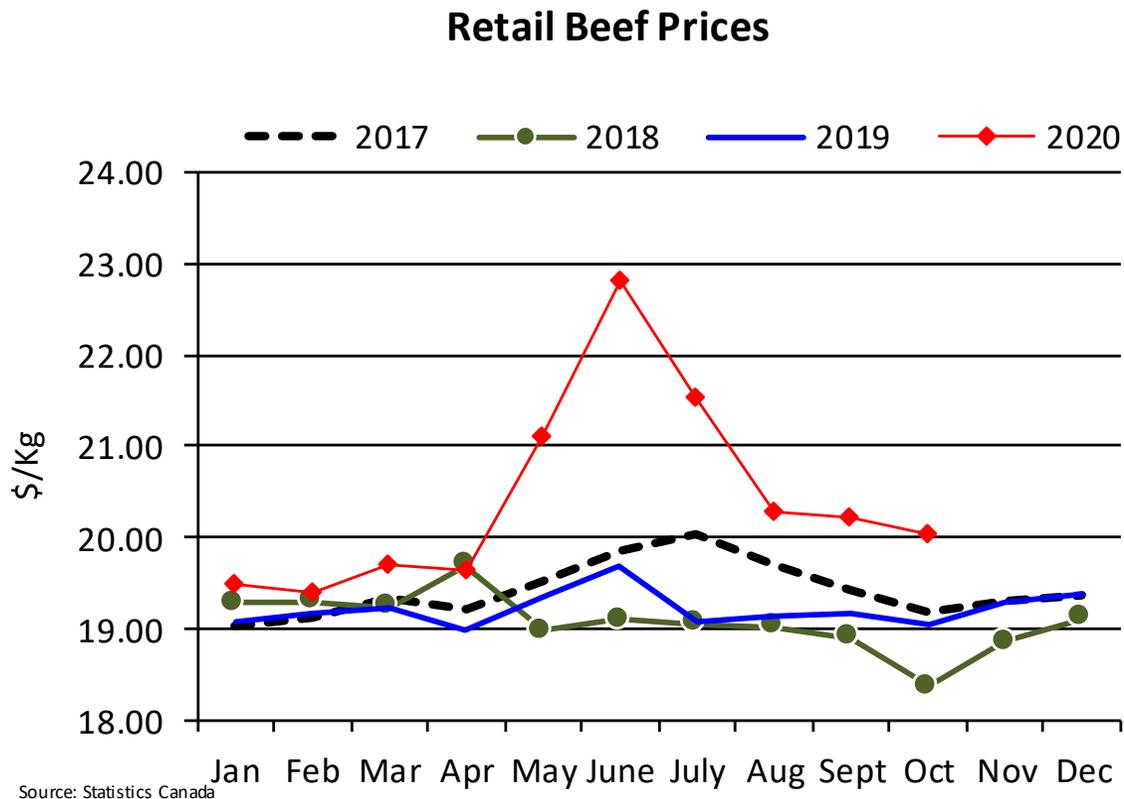


Source: [Statistics Canada](#)



2020 retail beef prices remain elevated over 2019

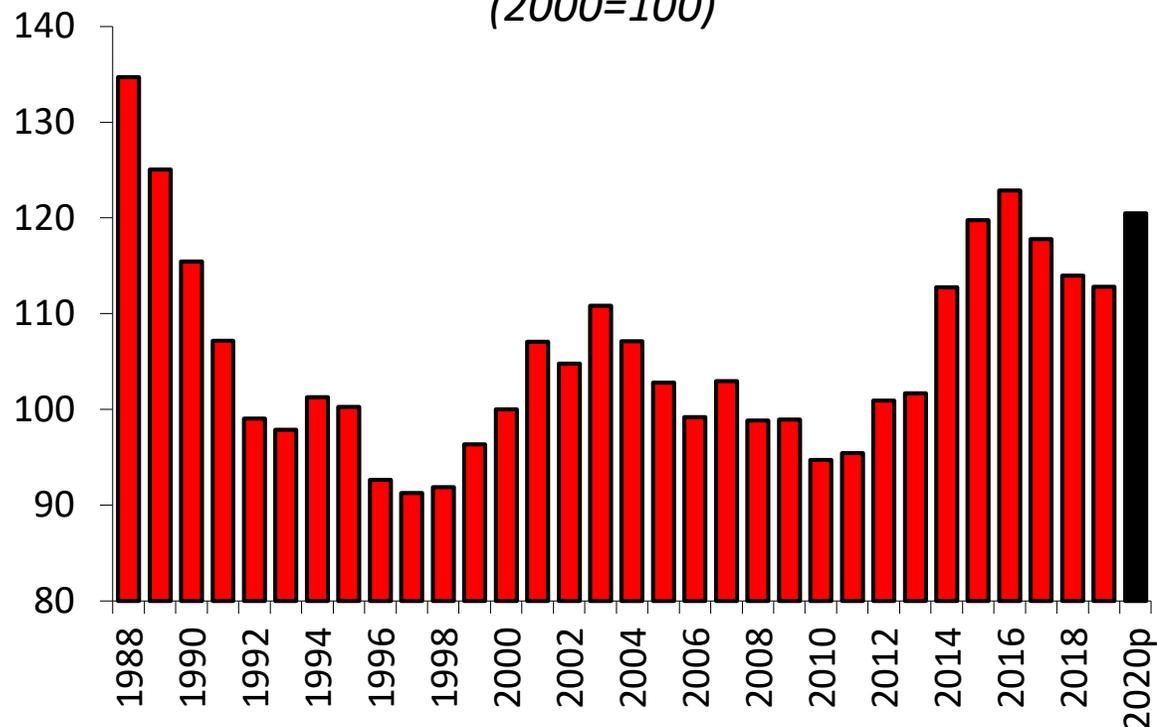
- Year to date (Jan-Oct) retail prices up 6% over 2019
- At CDN\$20.04/kg in October, prices down 1% from September but up 5% from October 2019





Beef is still a favourite: *Retail beef demand is projected to be up 6.8% in 2020*

Canadian Retail Beef Demand Index
(2000=100)



Source: CanFax Research

The highest since 2016.

In 2020, beef has been a top performer in volume and sales among the grocery aisles as spending shifted drastically from foodservice to retail.



Supply Outlook

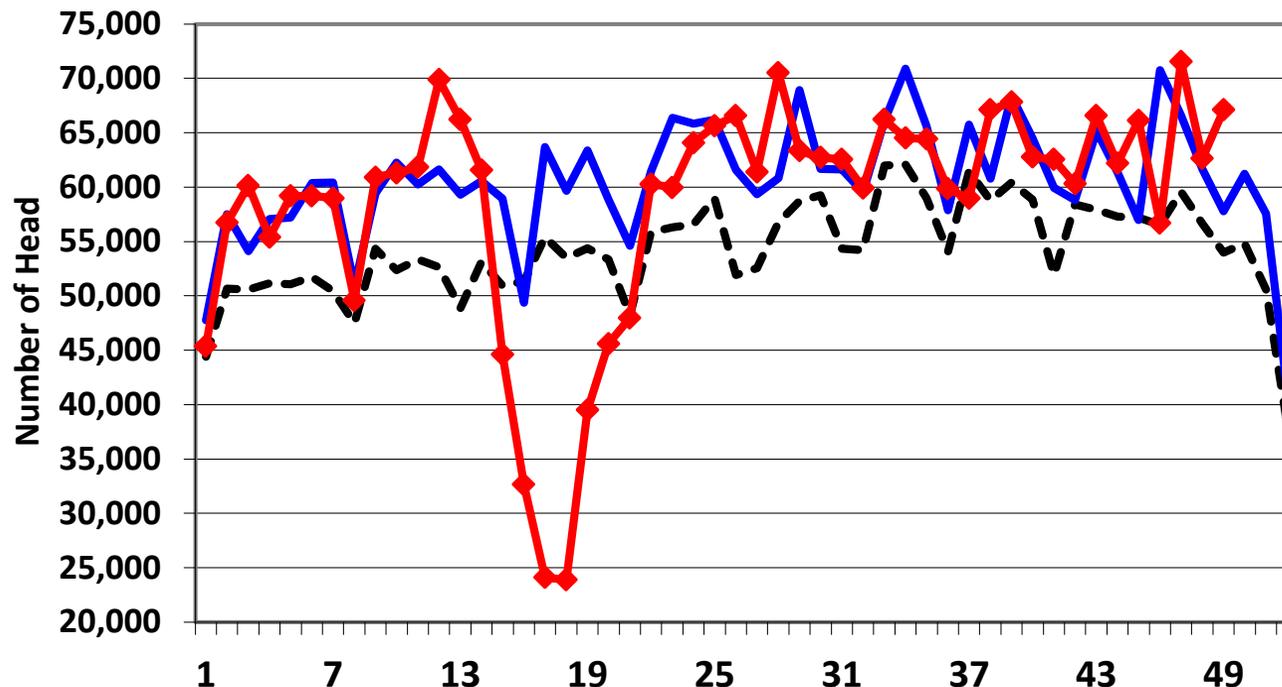




Slaughter rates since June have avg 63,500 hd/week up 0.5% from last year

Canadian Weekly F.I. Slaughter

--- 5 yr avg — 2019 —◆— 2020

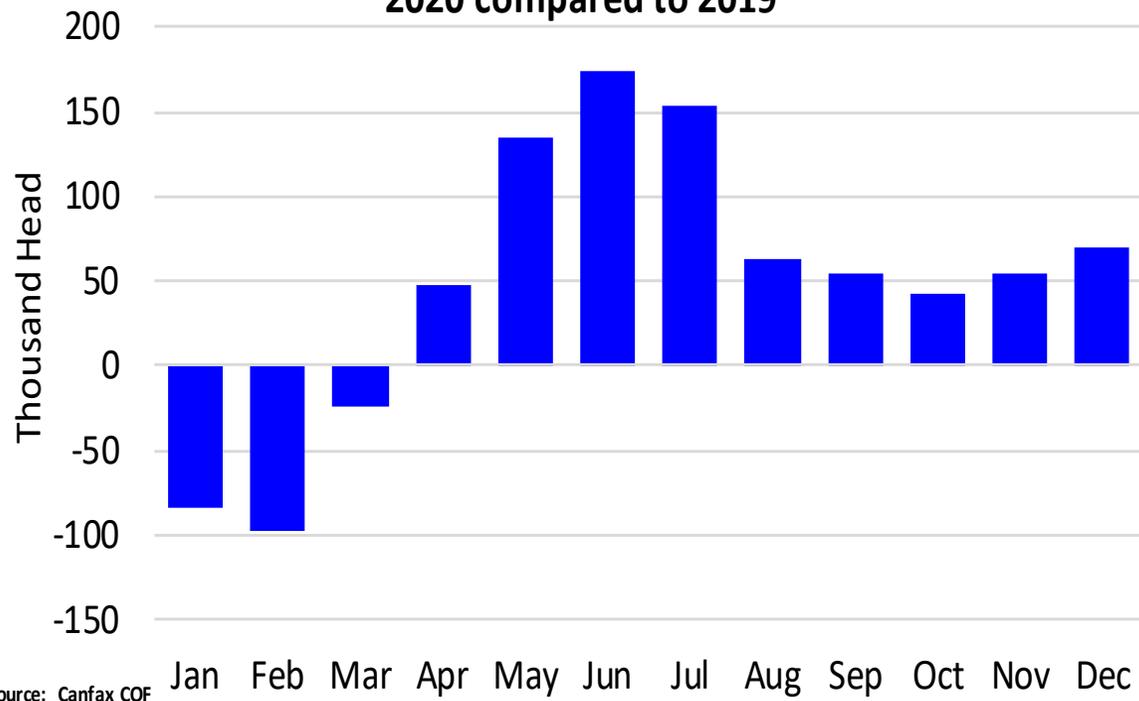


Source: CBGA



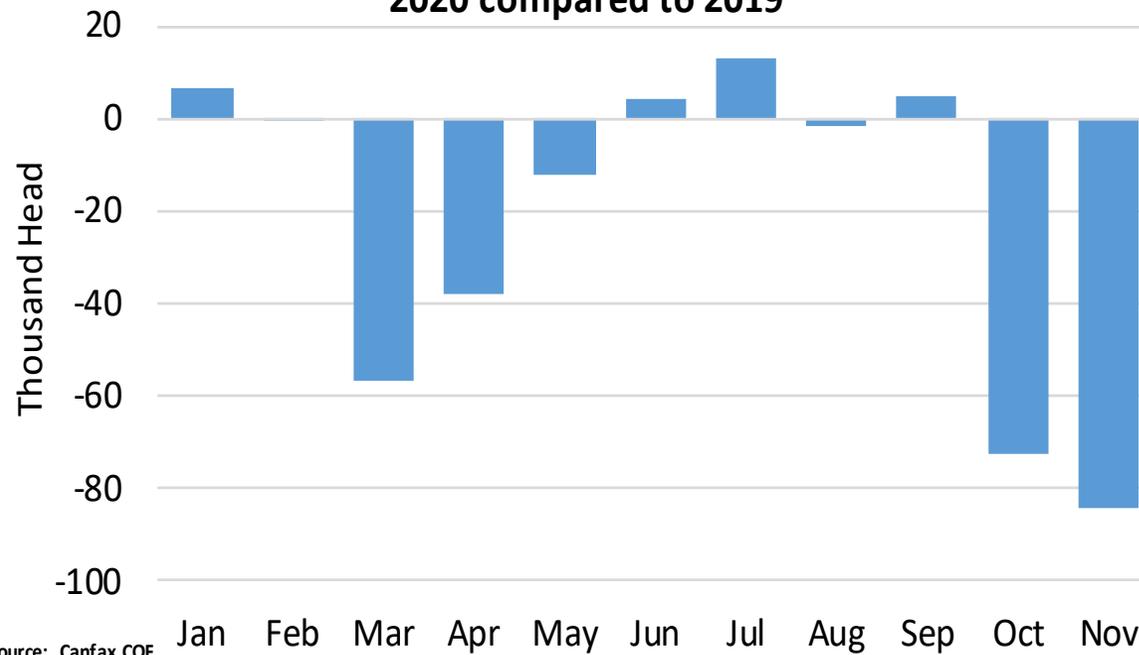
Dec 1 COF down 7% from year ago (79K head) *Cattle on Feed 120+ days up 48,000 head from 5yr avg*

Alberta and Saskatchewan Cattle on Feed 120+ Days
 2020 compared to 2019



Source: Canfax COF

Alberta and Saskatchewan Placements
 2020 compared to 2019



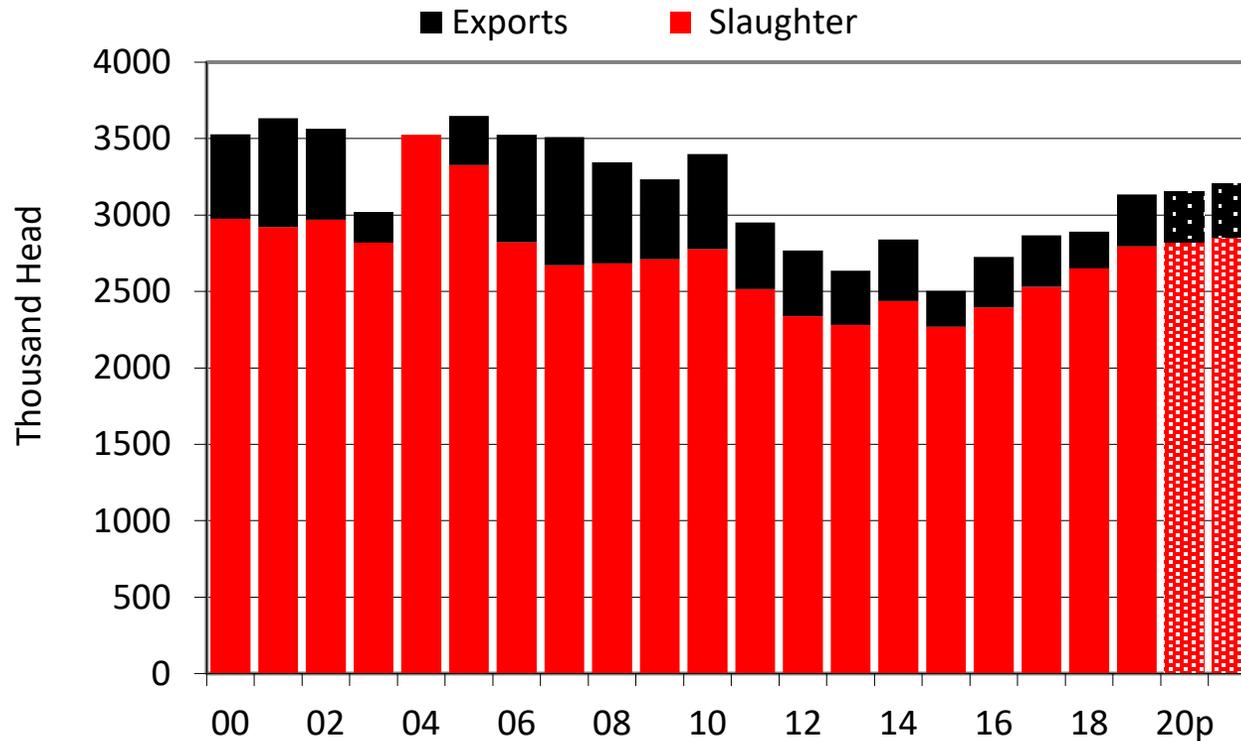
Source: Canfax COF



Fed cattle slaughter prioritized:

projected to be down 0.4% in 2020 with provincial & uninspected slaughter

Canadian Fed Cattle Marketings

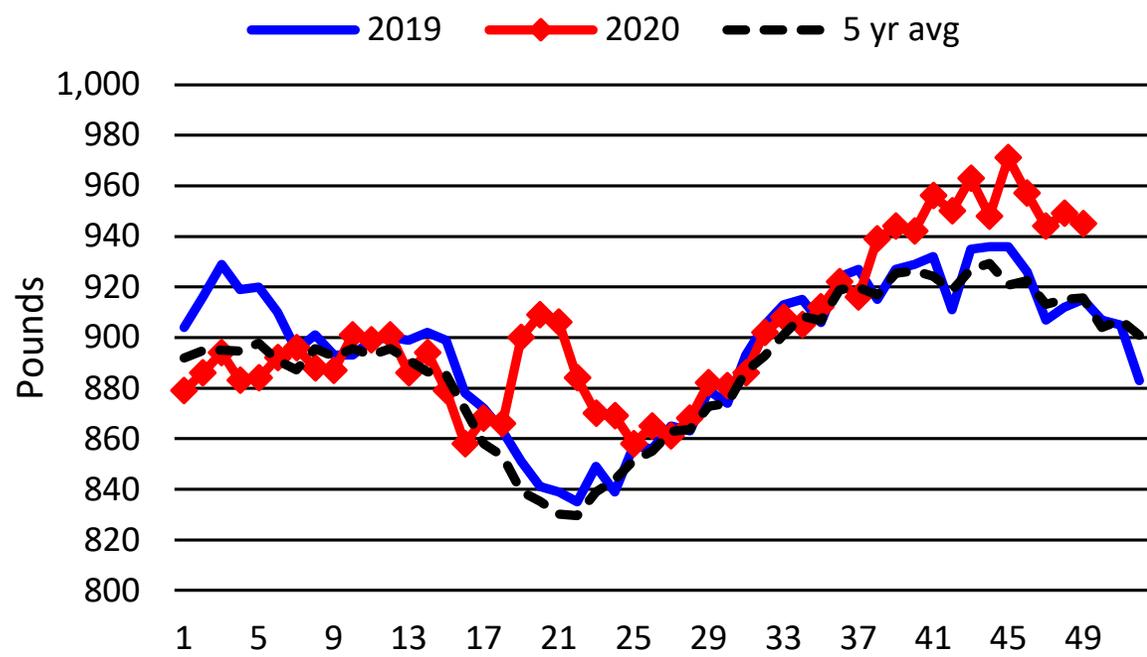


Source: CBGA, AAFC, Statistics Canada



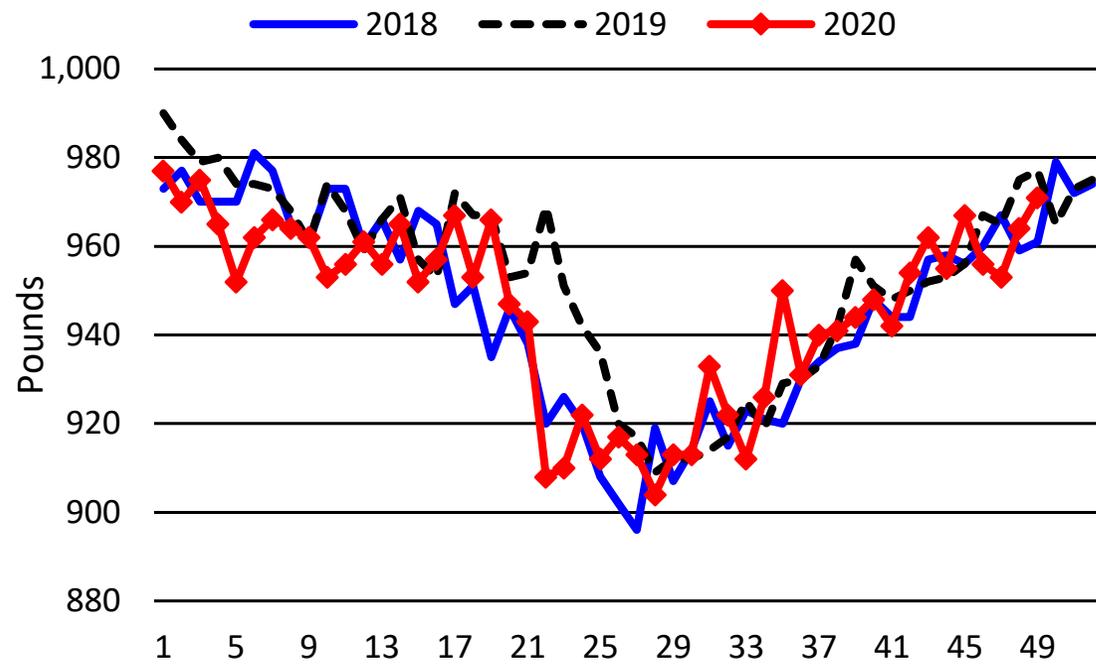
Carcass weights at 955 lbs are up 21 lbs from last year

Western Canada Steer Carcass Weight



Source: CBGA

Ontario Steer Carcass Weight

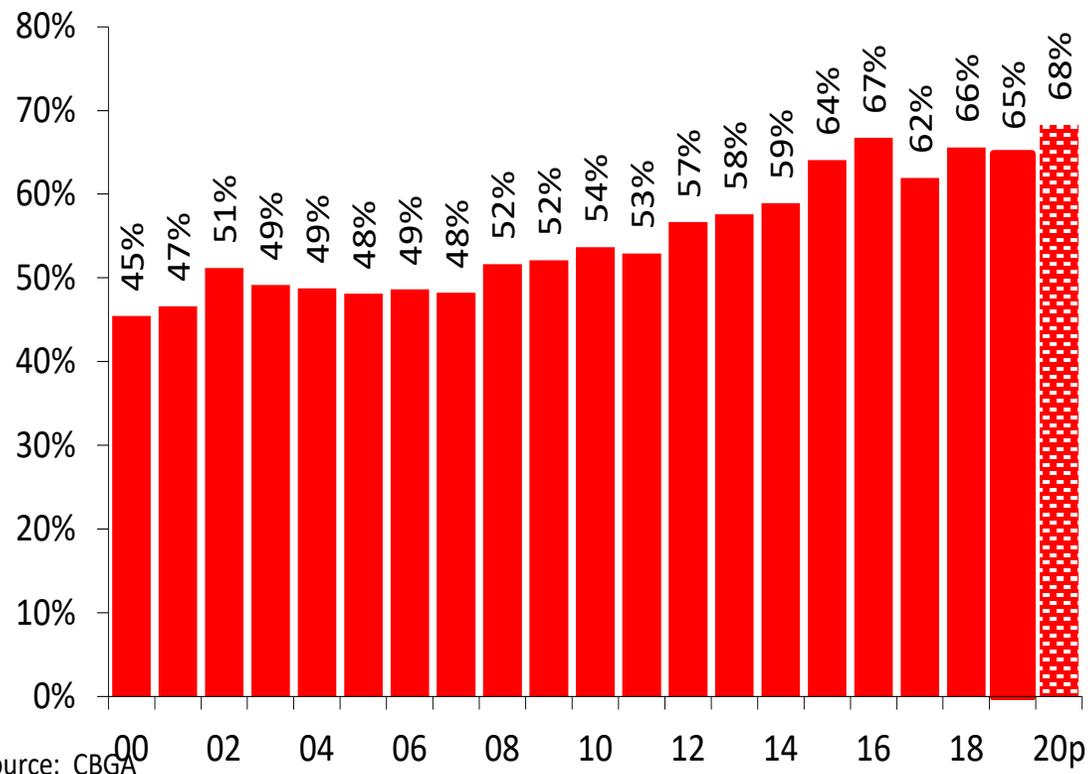


Source: CBGA

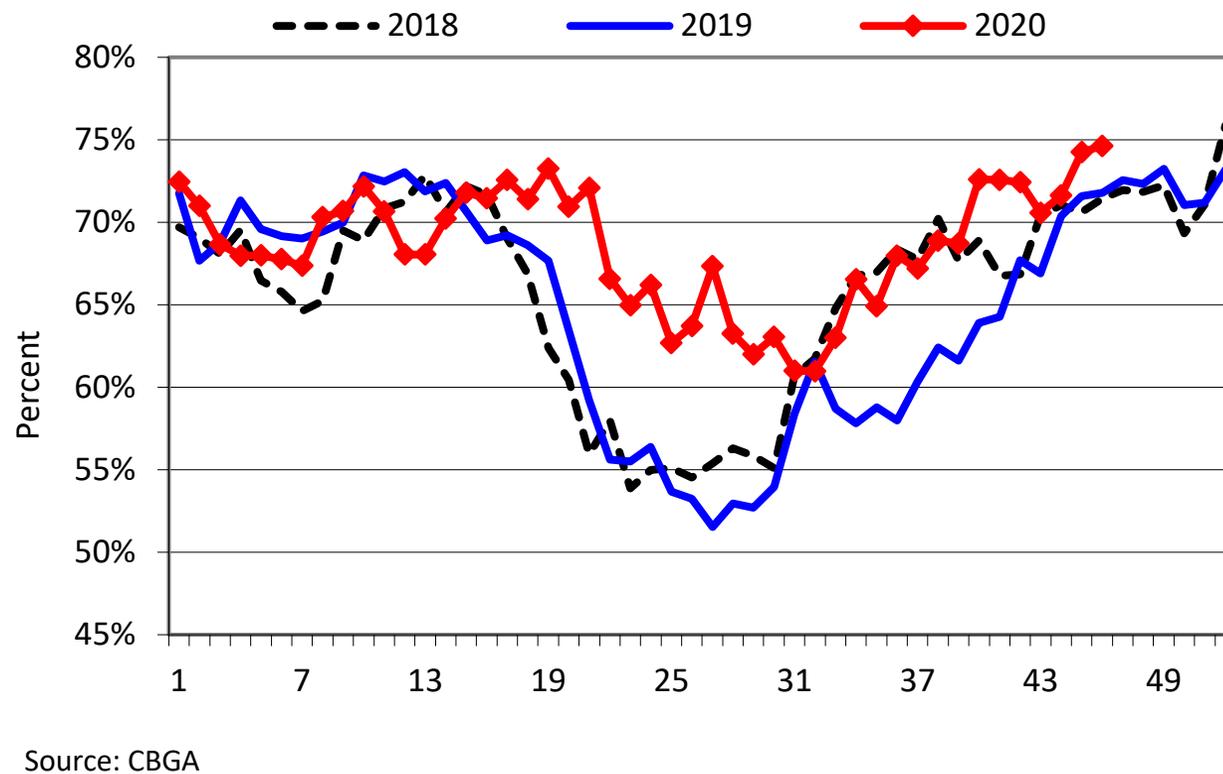


Prime + AAA as a percentage of all grades up 3.4% YTD

Canadian AAA + Prime as a % of all A Grades



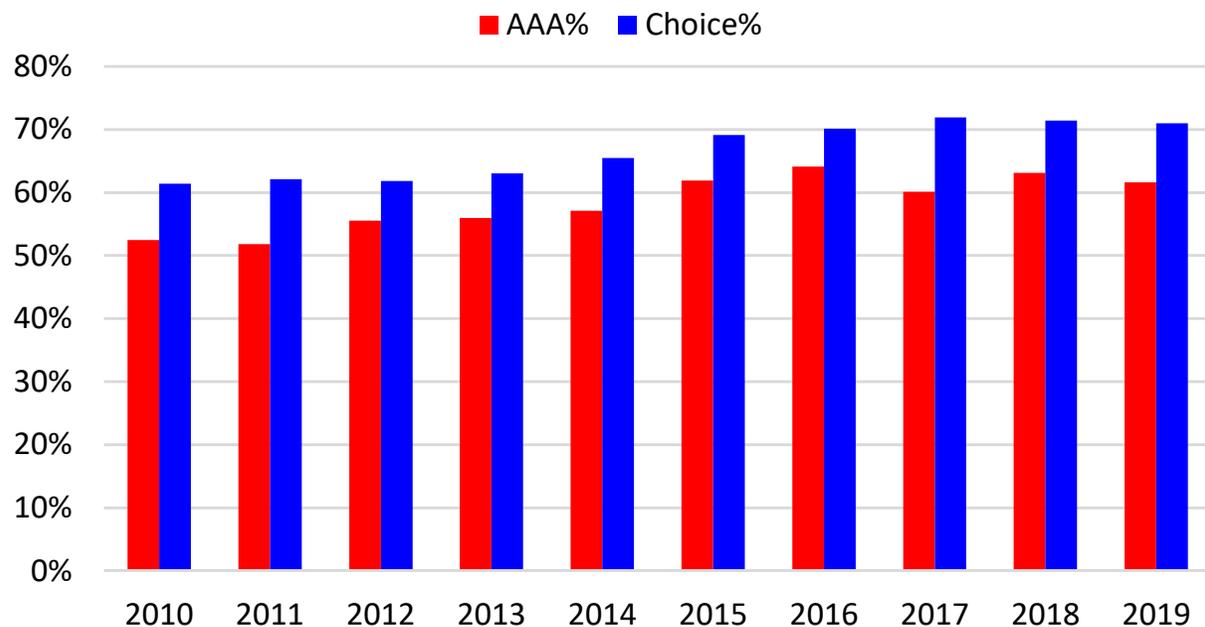
Canadian AAA+Prime as % of all A Grades





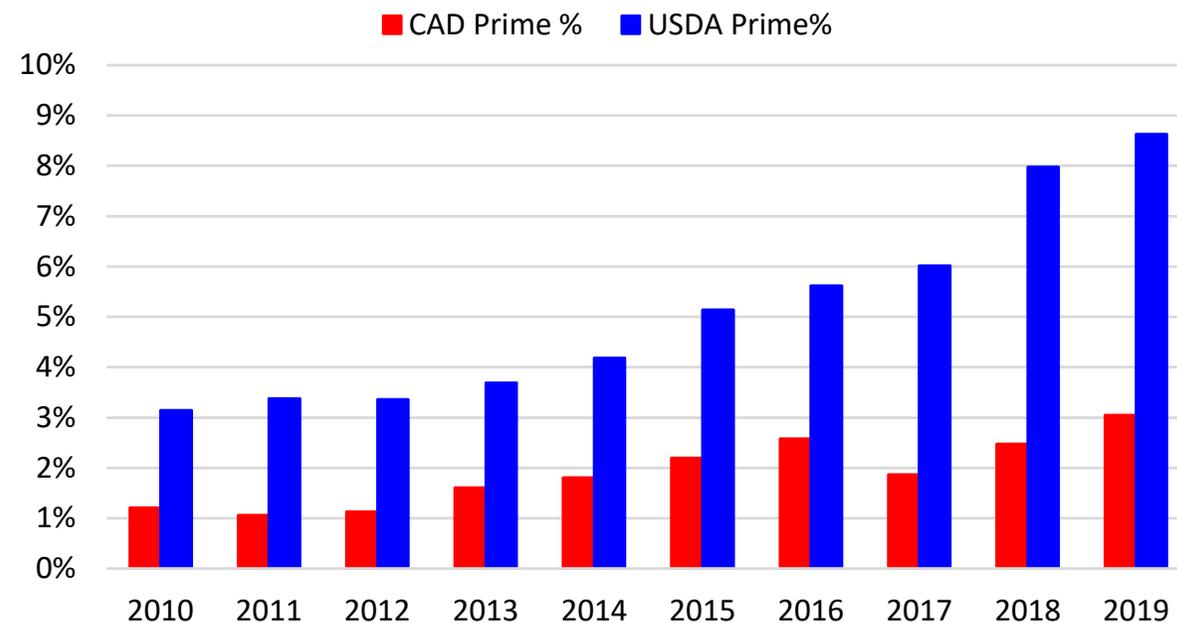
Canada lags behind on grading for a variety of reasons: *price spread is smaller, less British influence, grading system change, grading more stringent in Canada*

CAD AAA % vs. USDA Choice %



Source: CBGA, USDA

CAD Prime % vs. USDA Prime %

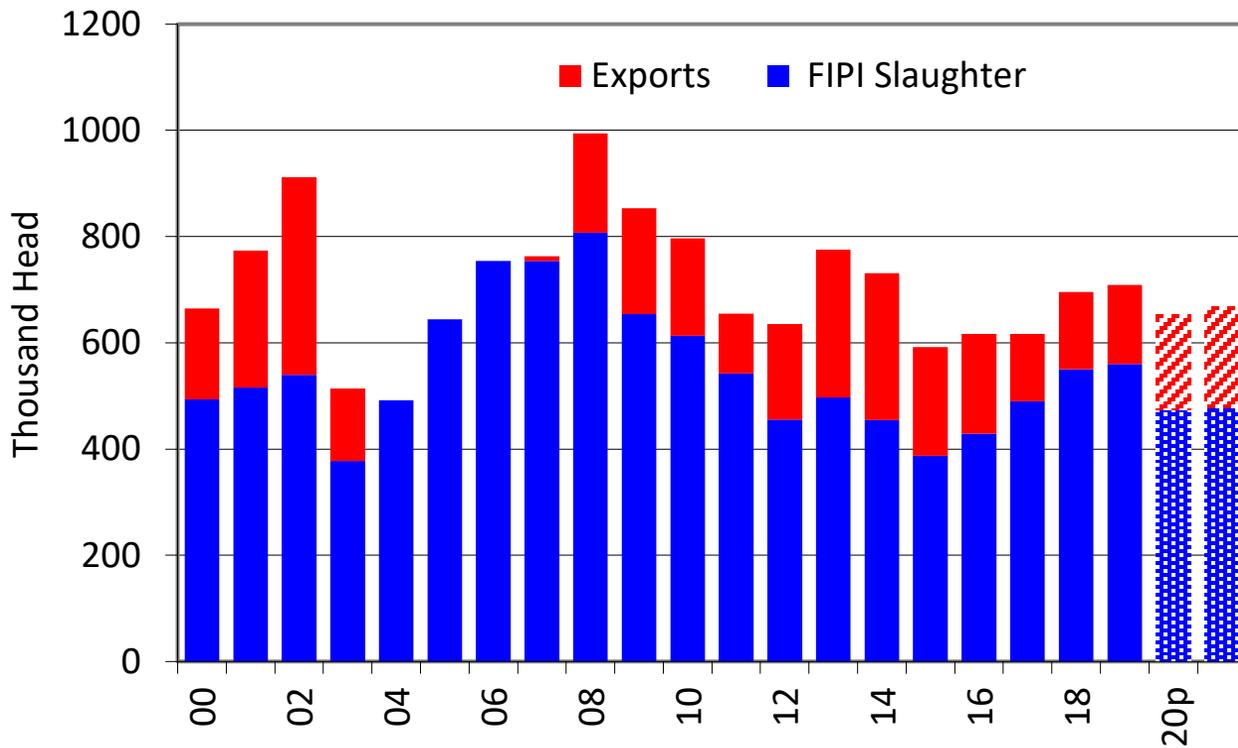


Source: CBGA, USDA



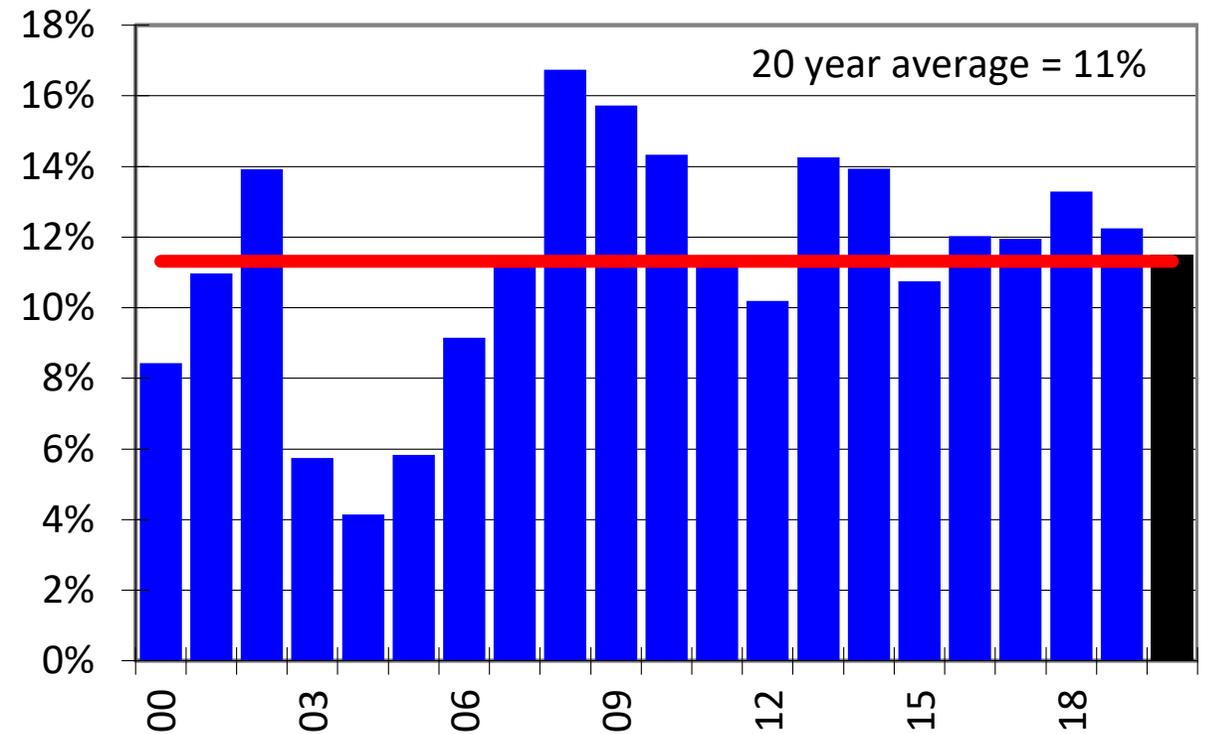
Cow marketings -11.5%; Culling rates drop to 11.5%

Canadian Slaughter Cow Marketings



Source: CBGA, AAFC, Statistics Canada

Canadian Beef Cow Culling Rate

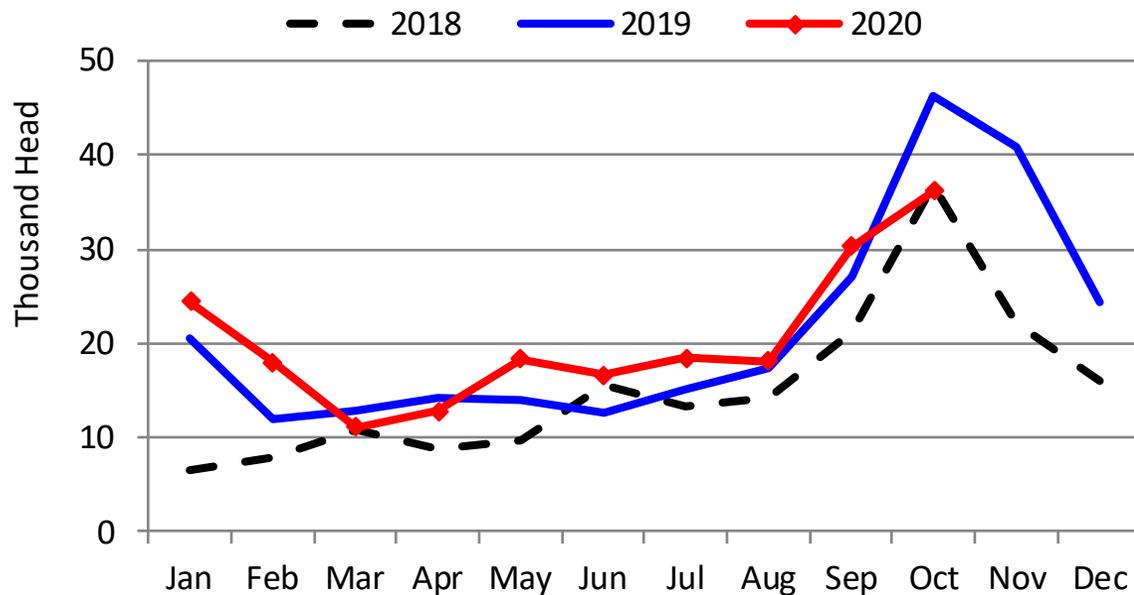


Source: Canfax Research



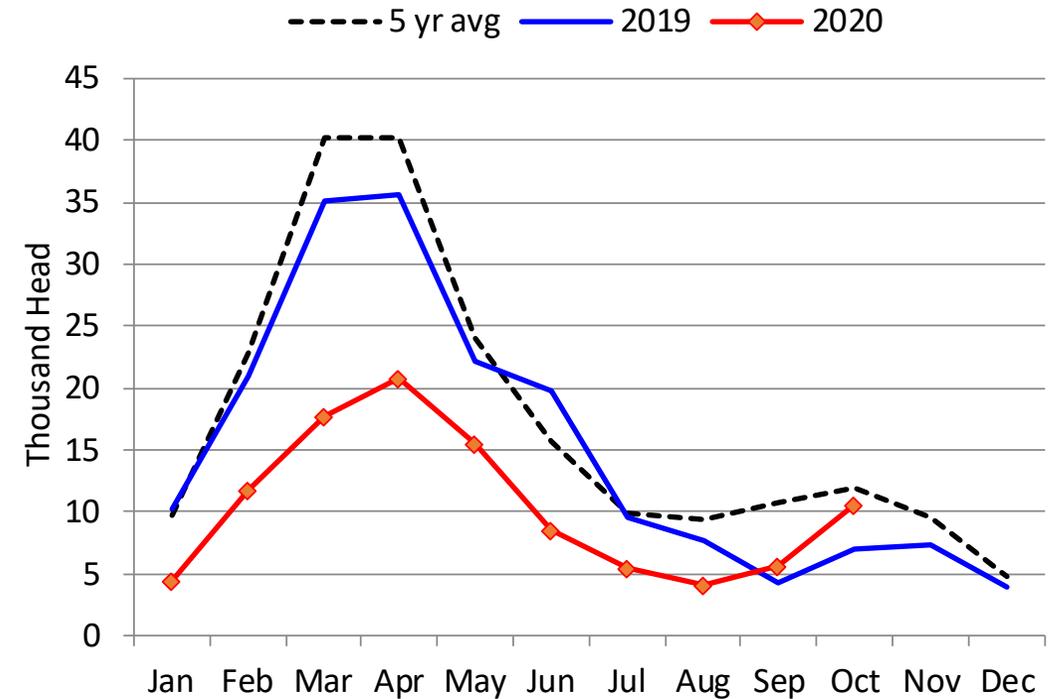
CDN feeder exports -43% to 104,000 head US feeder imports +6% to 273,500 head

Live Beef Cattle Imports (excluding Pure-Bred Breeding) from the United States



Source: Statistics Canada

Canadian Feeder Cattle Exports



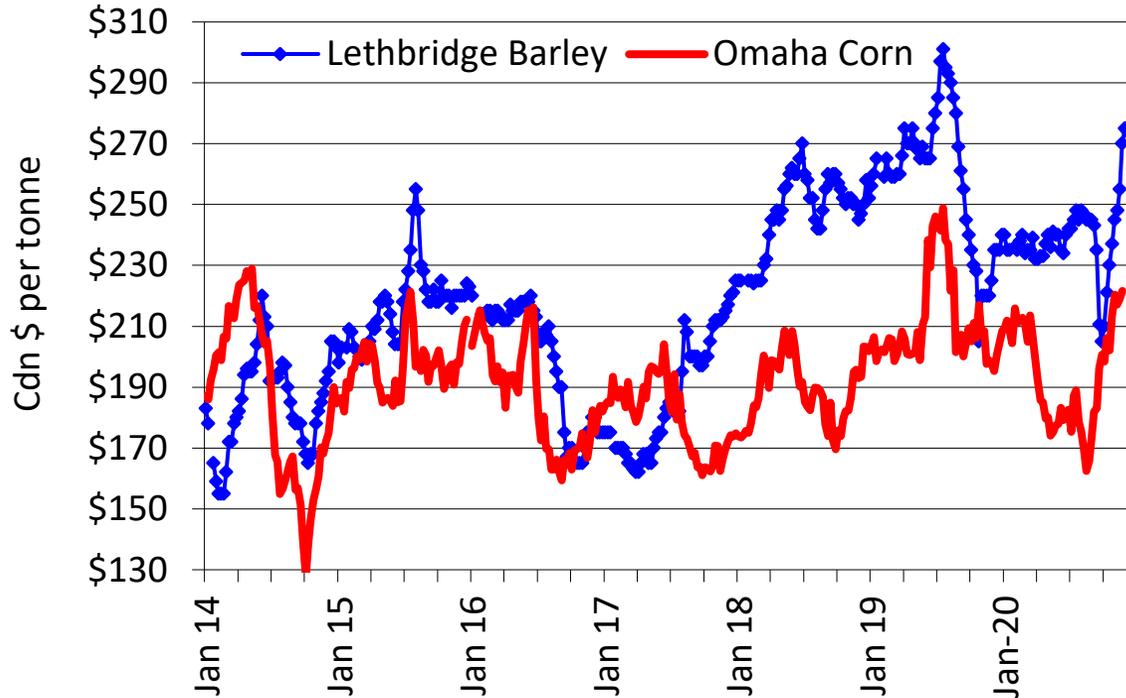
Source: Statistics Canada



Feeder basis was stronger in 1H; softer in 2H but still stronger than 5 yr avg

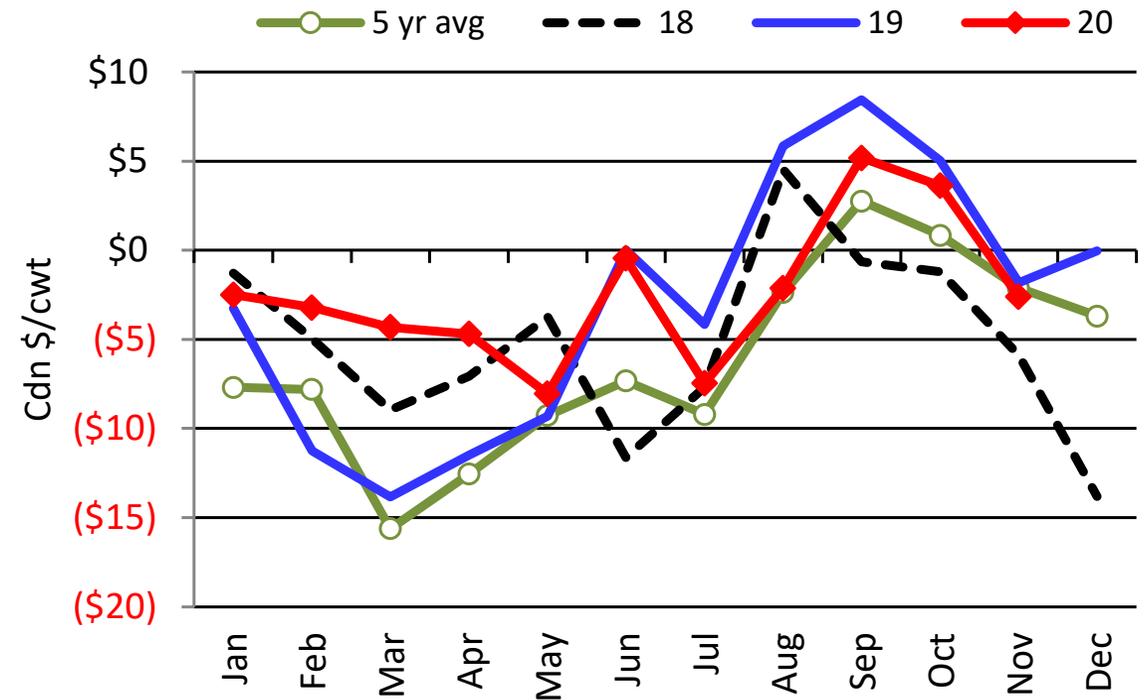
Feed Grain Prices

Lethbridge and Omaha in barley equivalents



Source: Alberta Ag, OCA

Alberta Feeder Basis, 850 lb Steer



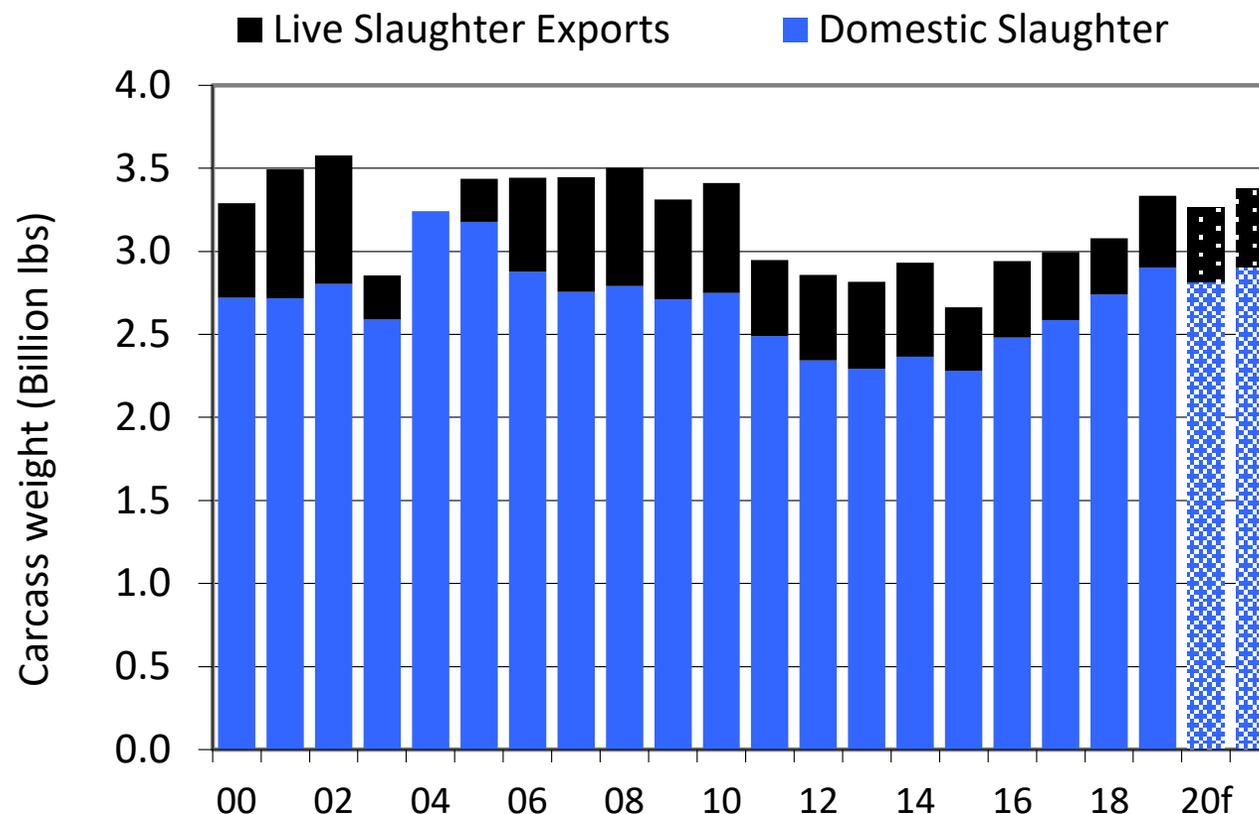
Source: Canfax



Production Outlook

- 2020p **-2.1%** Total Production (-2.9% Domestic, +3.1% Exports)
- 2021f **+3.4%** Total Production (+3.1% Domestic, +5.7% Exports)
- Will have large supplies going into Q1 2022; but small placements in Oct/Nov will shift supplies going into summer.

Canadian Beef Production

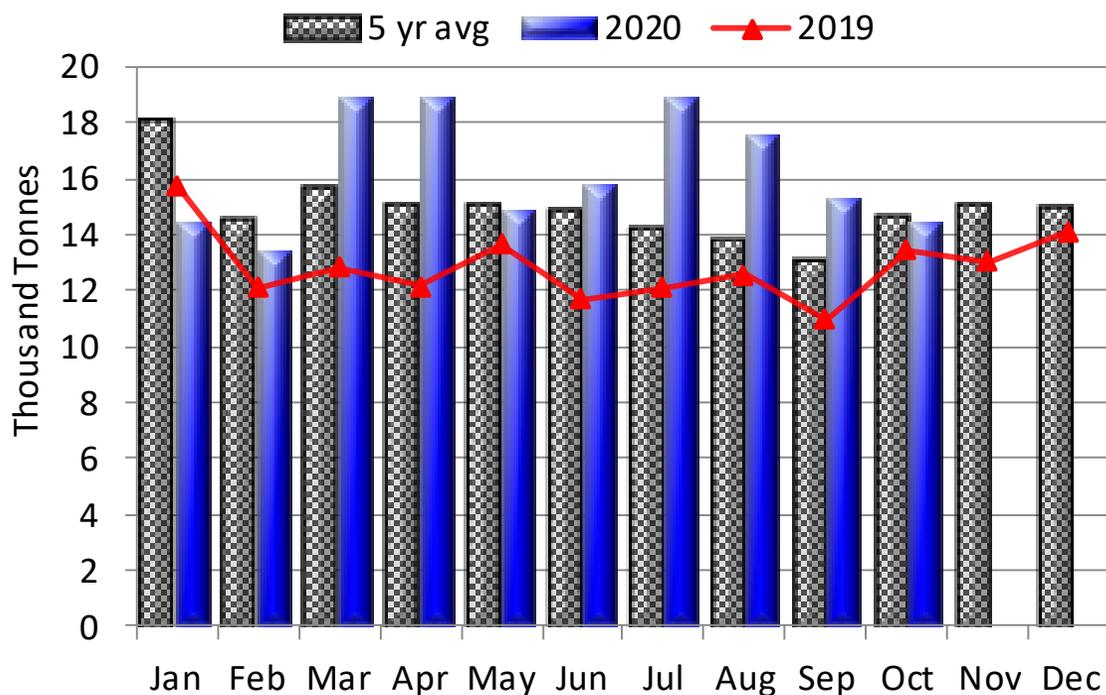


Source: Canfax Research



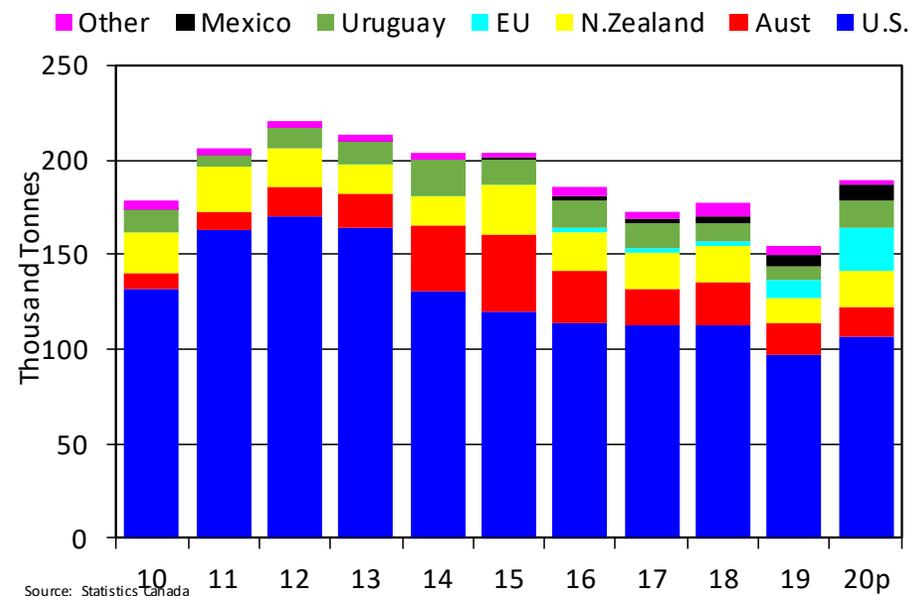
Jan-Oct imports up 27.5% in volume: projected to end the year around 189,000 tonnes slightly above the five-year average

Canadian Monthly Beef and Veal Imports



Source: Statistics Canada

Canadian Beef Imports

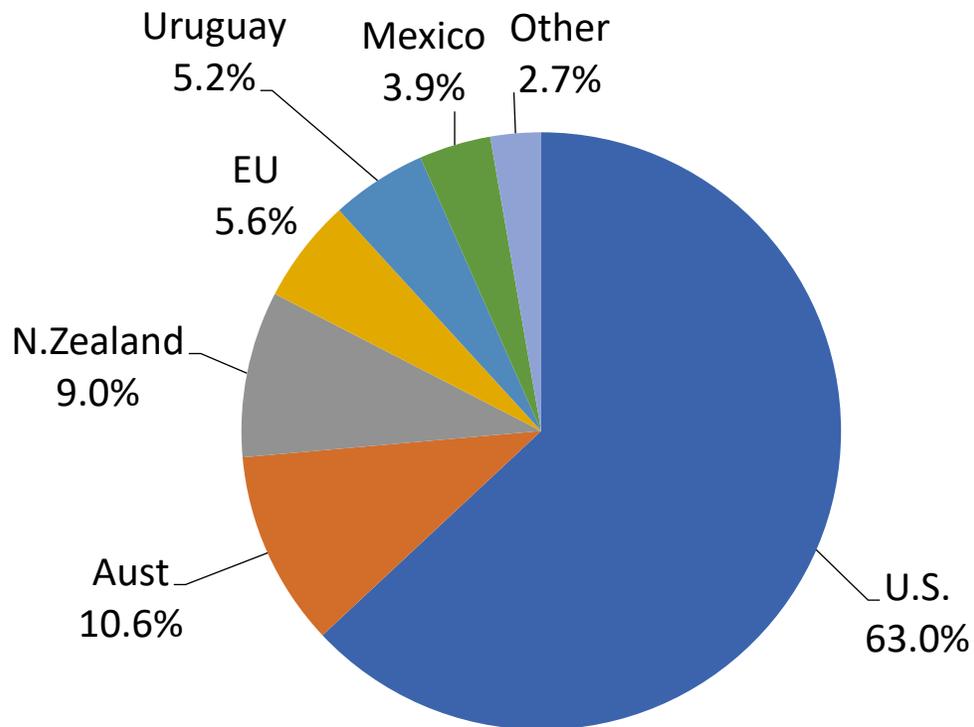


Source: Statistics Canada



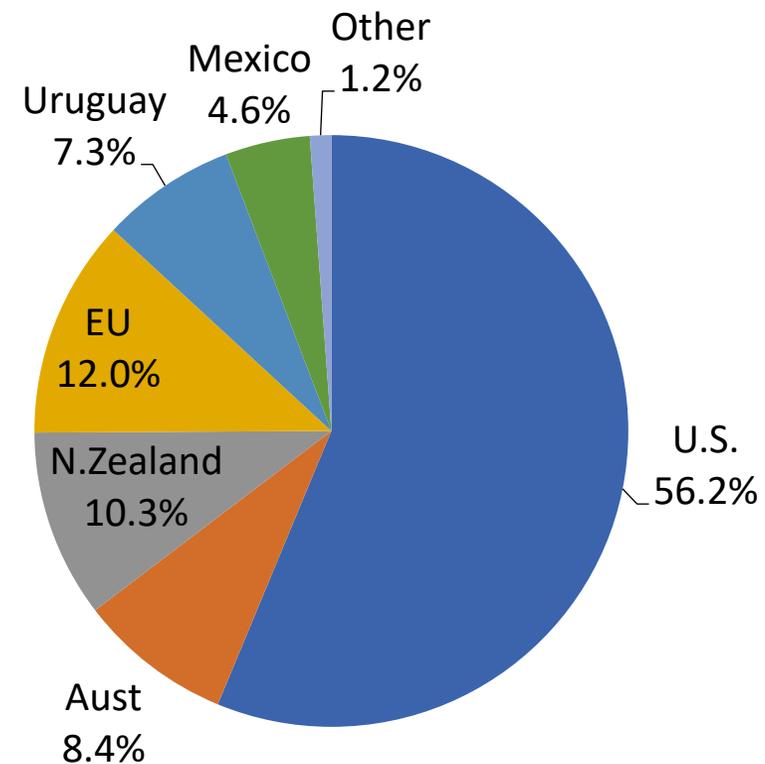
Shifting Import Suppliers

Canadian Beef Imports 2019



Source: Statistics Canada, CFIA

Canadian Beef Imports 2020



Source: Statistics Canada, CFIA



PORTS



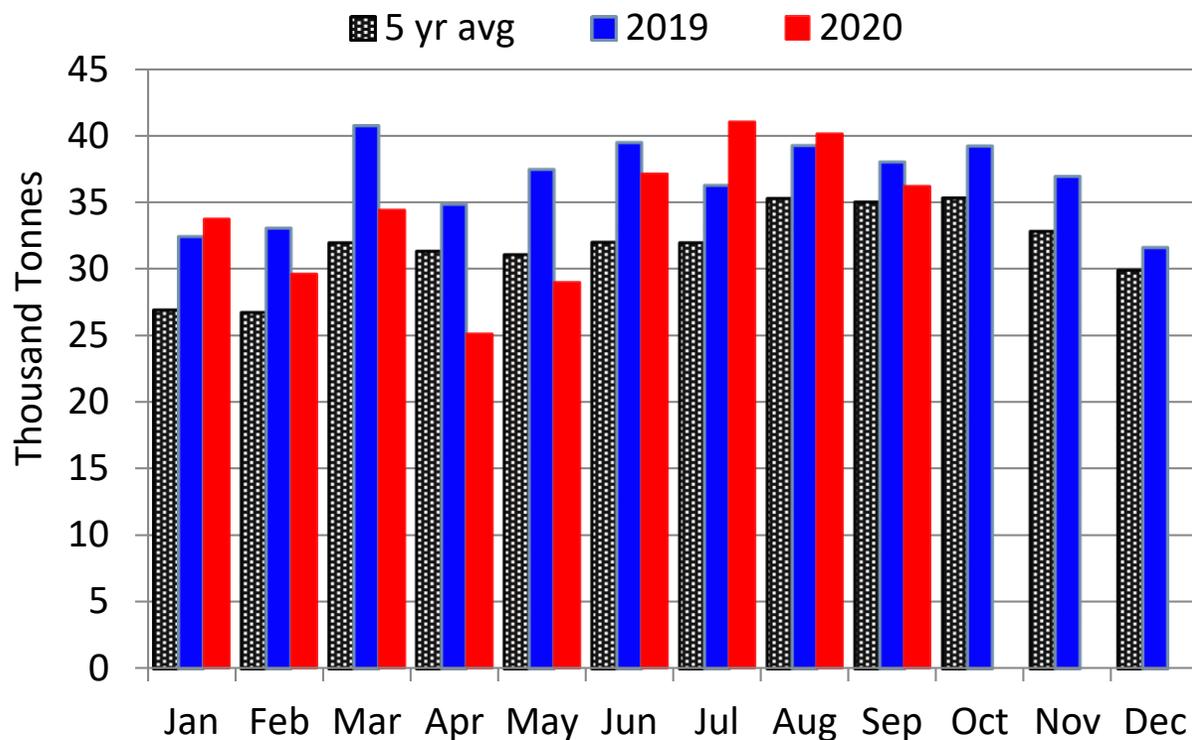
Export Markets





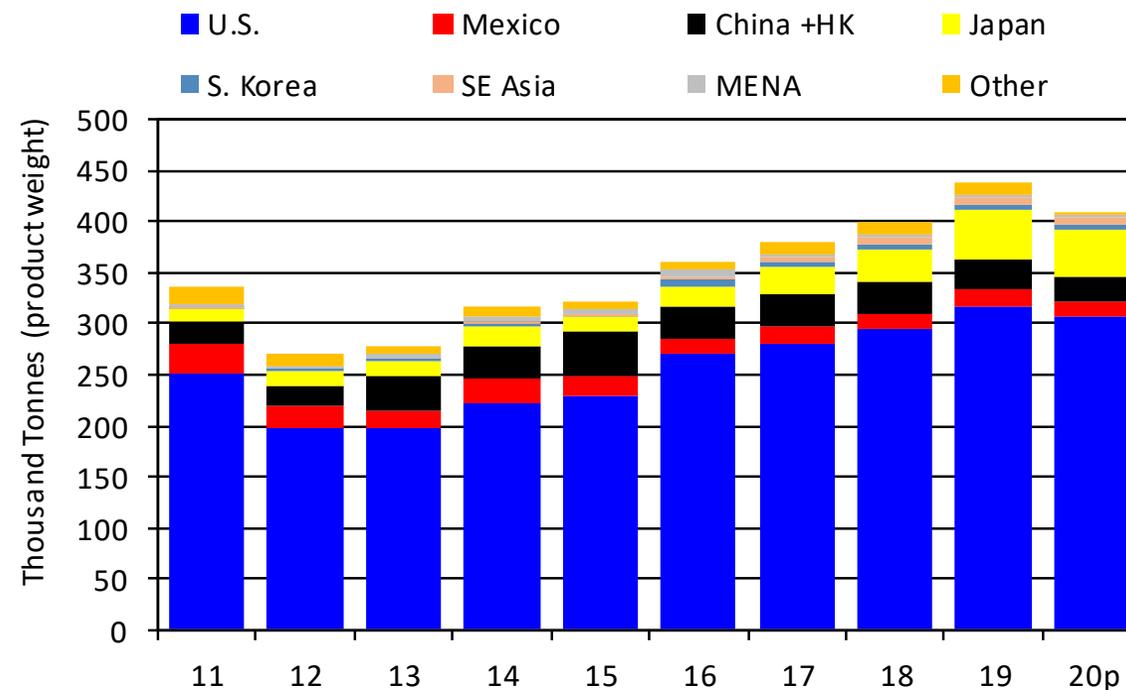
Jan-Oct Canadian beef exports -6.5% in volume and -1.2% in value

Canadian Monthly Beef and Veal Exports



Source: Statistics Canada

Canadian Beef Export Volume

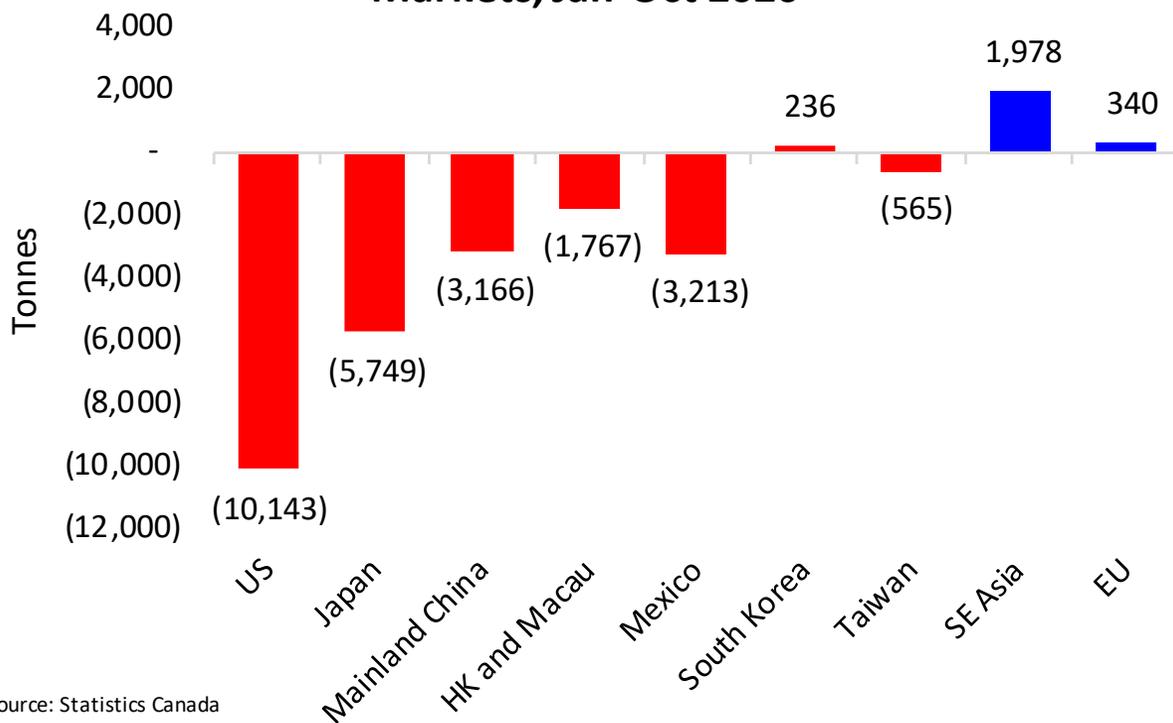


Source: Statistics Canada, CFIA



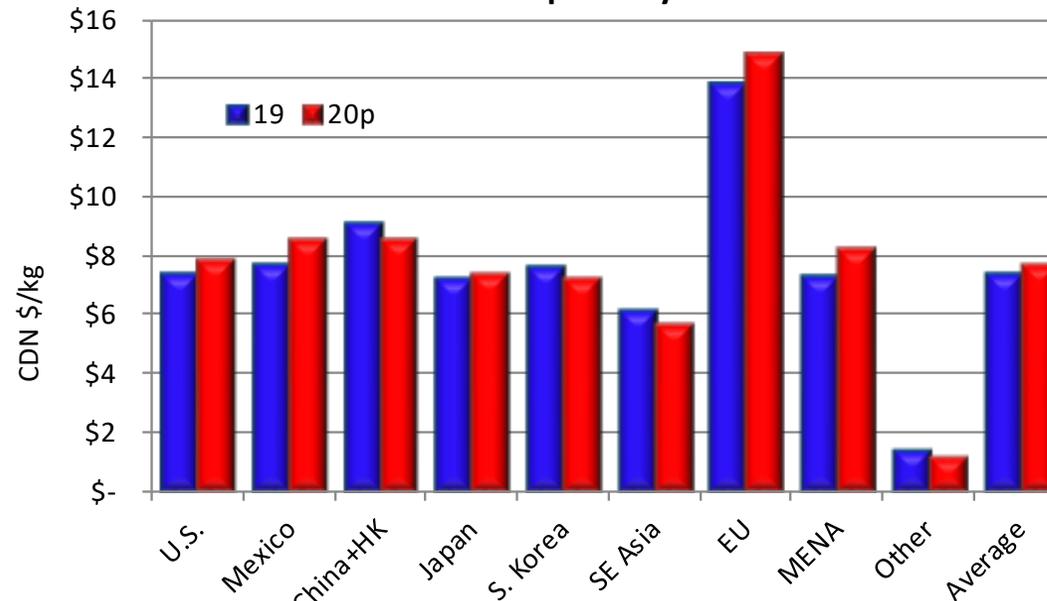
Slight increase in the per unit export price

Year over Year Change in Export Volumes to Major Markets, Jan-Oct 2020



Source: Statistics Canada

Per Unit Value of Exports by Destination

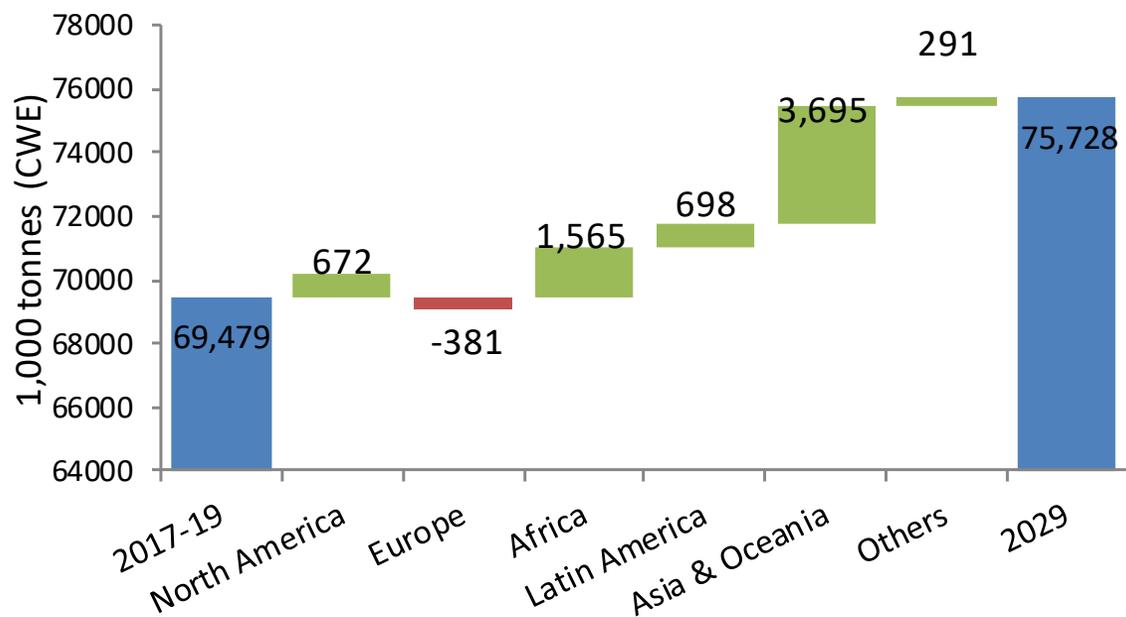


Source: Statistics Canada, CFIA



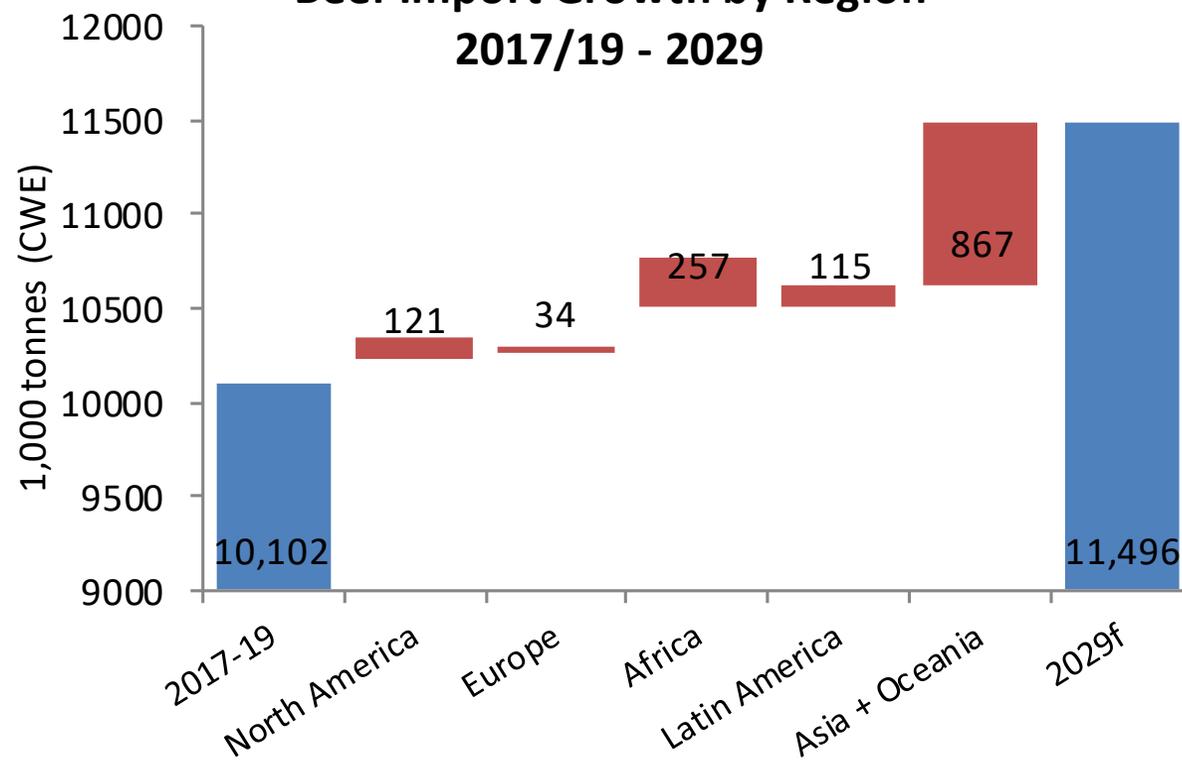
Over the next decade global beef consumption and imports are projected to grow

**Beef Consumption Growth by Region
2017/19 - 2029**



Source: OECD-FAO Agricultural Outlook 2020

**Beef Import Growth by Region
2017/19 - 2029**

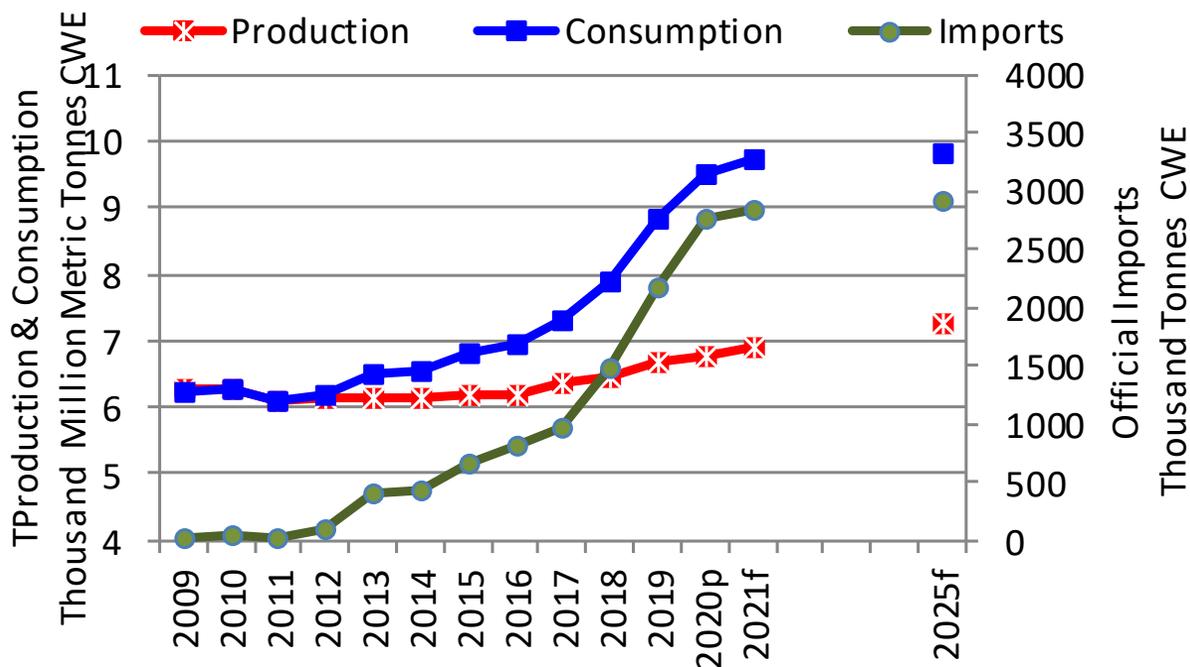


Source: OECD-FAO Agricultural Outlook 2020



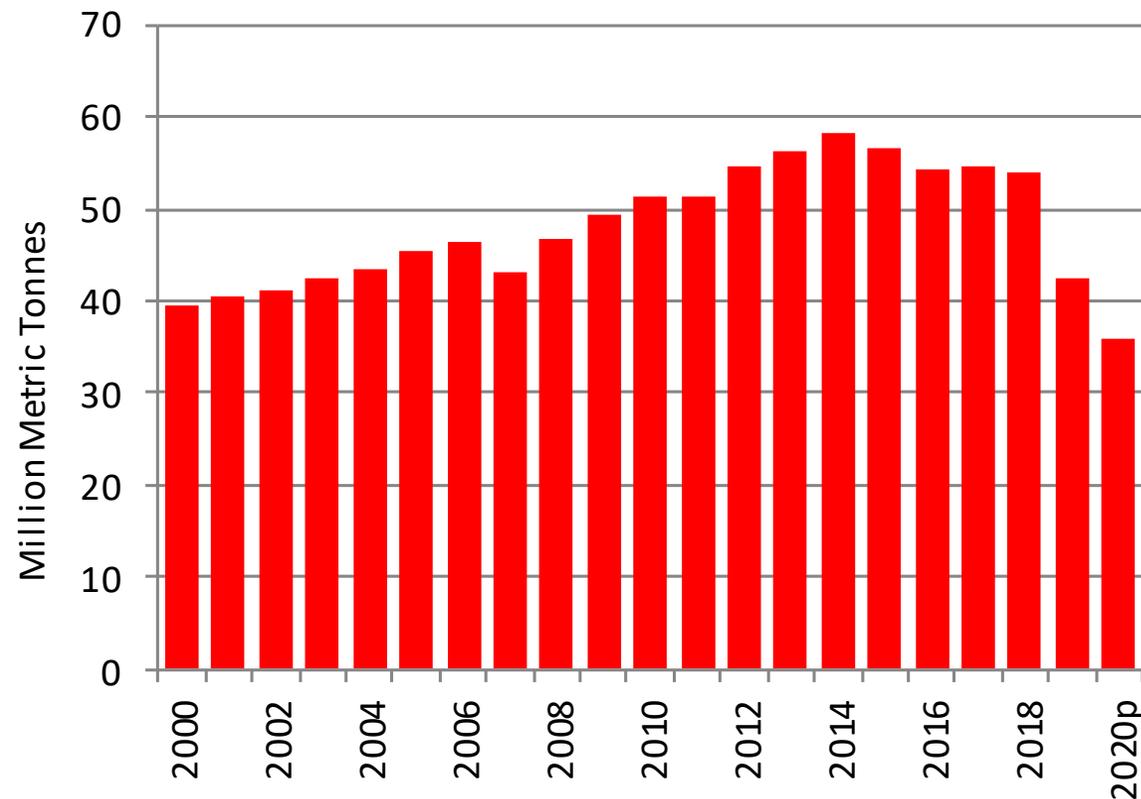
China's Pork production -33% from 2018-20p: *Beef imports up 87% or 1.3 million tonnes; up another 100,000 tonnes in 2021*

China Beef Disposition



Source: USDA, FAS PSD, GIRA

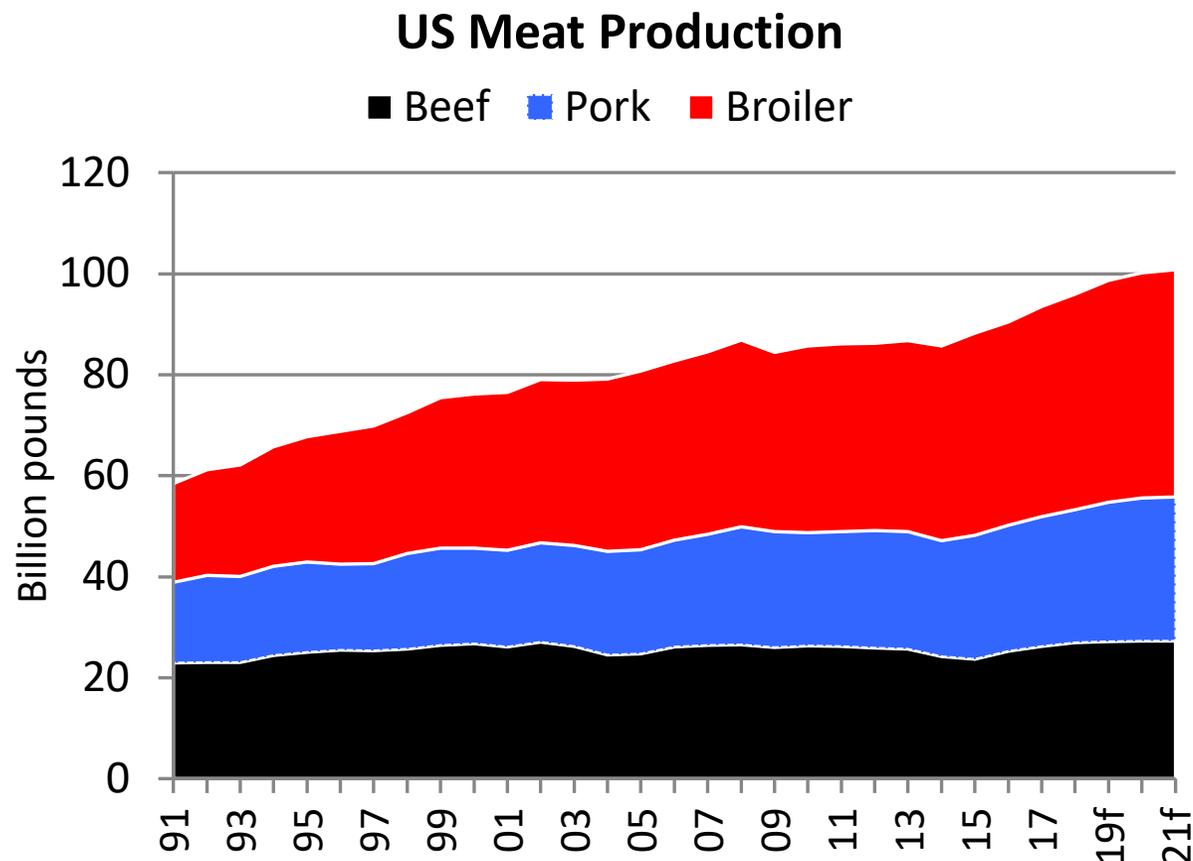
Chineses Pork Production





U.S. – generally stable production, shifts in exports

- Beef production **-0.1% in 2020, +0.8% in 2021**
- Domestic Consumption **+1.6% in 2020, -0.8% in 2021**
- Exports **-4.3% in 2020, +6.3% in 2021**
 - Japan deal – equivalent tariff as CPTPP
 - China Phase 1 deal
- 2021 Pork production **-2% & exports +6%**, resulting in tightest domestic supplies since 2014
- Poultry supplies will be record large



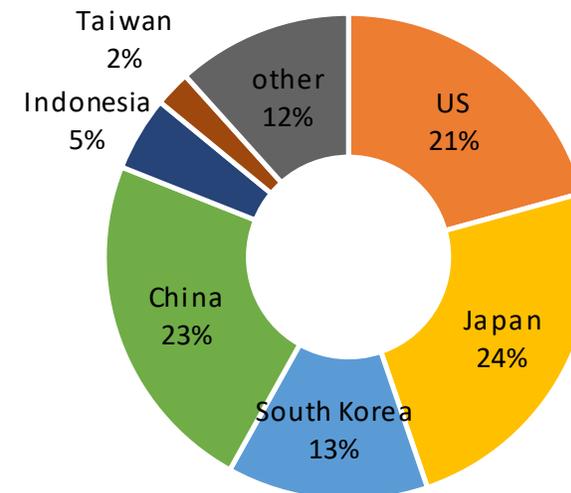
Source: USDA



Australia: production -14% in 2020 will leave a supply gap

- Beef production **-14% in 2020, -1.7% in 2021**
 - production down sharply in August (-24%); exports will be constrained in the second half of the year
 - Plant closures
- Exports **-18% in 2020, -4.6% in 2021**
 - Year to August exports Japan -8%, US -6%, China -16%, South Korea -4%, Indonesia -8%
 - Smaller beef production and exports will support domestic lean trim prices.
- Australia is one of Canada's main competitors in Japan, the US, China and South Korea.

Australia Beef Export Volume, 2019 YTD



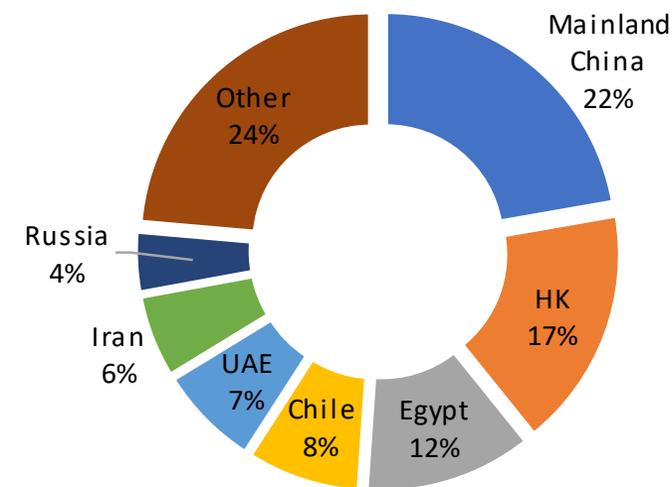
Source: MLA



Brazil – positioned to gain market share

- Beef production **-1% in 2020, +3.7% in 2021**
 - herd expansion continues along with increasing productivity
 - solid exports, especially to China and higher domestic demand
- Beef exports **+10% in 2020 and +4.7% in 2021**
 - Record high exports in 2019
 - Strong growth of 10.7% p.a. since 2016
 - Uncertainties: exchange rate fluctuations & unsustainable agricultural practices in the Amazon
- Domestic Consumption **-4.1% in 2020, +3.2% in 2021**
 - Soft domestic demand and strong pull from China shift product to exports

Brazil Beef Export Volume, 2019 YTD



Source: USDA GAIN



Thank-you

