

MARKET UPDATE



Canada Beef Quarterly Market Update

September 23, 2021

Presented by: Canfax Research Services

www.canfax.ca

Publications

- Canada Beef Performs E-Newsletter
- Global Market Intelligence Report
- Domestic Market Intelligence Report
- Canadian Beef Trade

cdnbeefperforms.ca/market-reports



CANADA BEEF PERFORMS

CANADIAN BEEF

DOMESTIC MARKET REPORT | SEPT 2020

REPORT FROM CANADA BEEF

Retail Sector in Canada

It has been an impressive year for grocery sales in Canada, up 13% from January to May. With more opportunity to work and attend classes from home, grocery sales are likely to remain 3 to 5% above 2019 levels for the rest of the year.

Explosive retail demand and temporary supply squeezes in March and April were slow to impact retail beef prices. The retail price of beef rose sharply to CDN\$22.82/kg into June to be 8% higher than May 2020, and 16% higher than June 2019. The price decreased 4% from June to CANS\$21.54/kg in July.

In July 2020, the retail beef price was up 12.9% over July 2019. All index cuts showed year over year increases: boneless blade roast was up 20.5% at CANS\$18.49/kg, stewing beef was up 18.1% at CANS\$18.31/kg, ground beef was up 15.1% at CANS\$12.50/kg and prime rib roast was up 12.5% at CANS\$27.09/kg. Salmon steak was up 10.3% at CANS\$34.45/kg and round steak was up 4.5% at CANS\$18.39/kg.

The struggling chicken price sharply contrasted the surging beef price, presenting risk of switching to retail. Chicken prices



Canada AAA + Prime as % of all A Grades

— 3 yr avg — 2017 — 2020

CANADA BEEF | Global Market Intelligence Report

September 2020: US, Japan, China, Hong Kong, Mexico, Taiwan, and Korea

Presidential Office Building in Taipei, Taiwan

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Updates on Canada Beef activities in Japan, China, Mexico and other international markets.

Market Development Activities in Canada and highlights from the Canadian Beef Centre for Excellence.



CANADIAN BEEF TRADE

Update

Canadian Beef well contained the fresh beef market in 2019 and has had no more than four weeks of price volatility. Inspections on products remains strict with no faults found in samples.

In June, China beef value (US\$/kg) fell 10% drop, (-77%) on 15 beef sales benefitting from supply with Canadian beef and is, as well as China's will bring opportunity to contain the 3rd wave and the daily new slits. The government (COVID-19) on Sept. 1 two weeks in the hope of patients in the economy to revive and

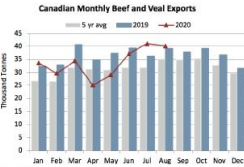
Indicator	Change	Last 3 Mth	Prev 3 Mth
Consumer Confidence	115	115	122
Currency (Yuan = US\$)	6.96	7.11	4.26
Inflation (%)	2.53	3.85	3.95
Interest Rates (%)	5.76	6.03	6.03
Unemployment (%)	3243	2826	2826
Stock Market (SCI)	2826	2826	2826

REPORT FOR AUGUST 2020 YTD TRADE

August Exports Stabilize Slightly Above 2019

Canadian beef exports for August 2020 were 40,151 tonnes (\$278 Million), up 2.5% in volume and up 1.1% in value from August 2019. Federally inspected slaughter numbers in August were down 2.7% from last year. Fed cattle slaughter was down 1% from 2019 numbers, while non-fed slaughter was down 14%. Beef exports seem to have peaked in July with a slight decrease in August but remain slightly above 2019 exports. On the domestic front, foodservice continues to recover with growing food traffic and other economic activities are a positive influence.

Year to date, January through August 2020 beef exports at 270,152 tonnes valued at \$2.09 billion were down 8% in volume and down 1% in value from the same period in 2019.



Canadian Monthly Beef and Veal Exports

— 5 yr avg — 2019 — 2020

Canadian Domestic Exports of Beef and Veal Products									
Country	Year \$ Canadian \$ (000)		Year MT	Volume (MT)		Year \$/kg	Price (\$/kg)		Year %
	2019	2020		2019	2020		2019	2020	
USA	4.9%	1,522,789	1,597,680	1	4.5%	211,611	202,089	1	9.9%
Japan	-8.9%	231,716	211,112	2	-9.2%	32,450	29,454	2	0.4%
Hong Kong	-24.4%	92,529	69,993	3	-4.9%	9,033	8,587	3	-20.4%
Mexico	-29.1%	83,373	59,150	4	-26.7%	10,539	7,722	4	-3.2%
China	-41.1%	98,412	57,998	5	-50.4%	11,475	5,890	5	11.8%
Korea, South	-8.3%	26,889	24,607	6	1.3%	3,559	3,604	6	-9.4%
Viet Nam	266.0%	4,285	15,686	7	336.6%	622	2,717	7	-16.2%
Taiwan	-18.6%	16,344	13,307	8	-15.6%	1,978	1,669	8	-3.5%
United Kingdom	14.6%	9,255	10,610	9	12.2%	772	865	9	2.2%
Saudi Arabia	64.9%	4,339	7,139	10	76.2%	319	562	11	-6.4%
Netherlands	68.9%	3,001	5,065	11	168.0%	134	276	12	-18.1%
Italy	1084.2%	291	3,442	12	952.1%	19	204	14	12.0%
Philippines	-54.2%	5,162	2,363	13	-78.1%	1,560	342	12	108.7%
United Arab Emirates	-51.3%	3,970	1,932	14	-51.9%	351	169	15	1.3%
Angola	-0.2%	1,820	1,816	15	-0.5%	1,874	1,896	8	10.3%
Other	-22.7%	14,970	11,576	16	-27.3%	6,533	6,201	16	4.4%
Grand Total	-1.2%	2,117,317	2,091,698	7	-7.8%	202,955	210,152	7	7.1%

Source: Statistics Canada and AAFC

CANADIAN BEEF EXPORTS



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Supply Outlook

North American Drought Monitor

August 31, 2021

Released: Friday, September 10, 2021

<https://www.ncdc.noaa.gov/temp-and-precip/drought/nadm/>

Analysts:

Canada - Trevor Hadwen
Alyssa Klein
Mexico - Minerva López
Yenifeer Loranca
U.S.A. - David Simeral
Brad Rippey*
Mark Brusberg

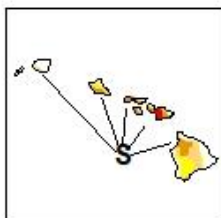
(* Responsible for collecting analysts' input & assembling the NADM map)

Intensity:

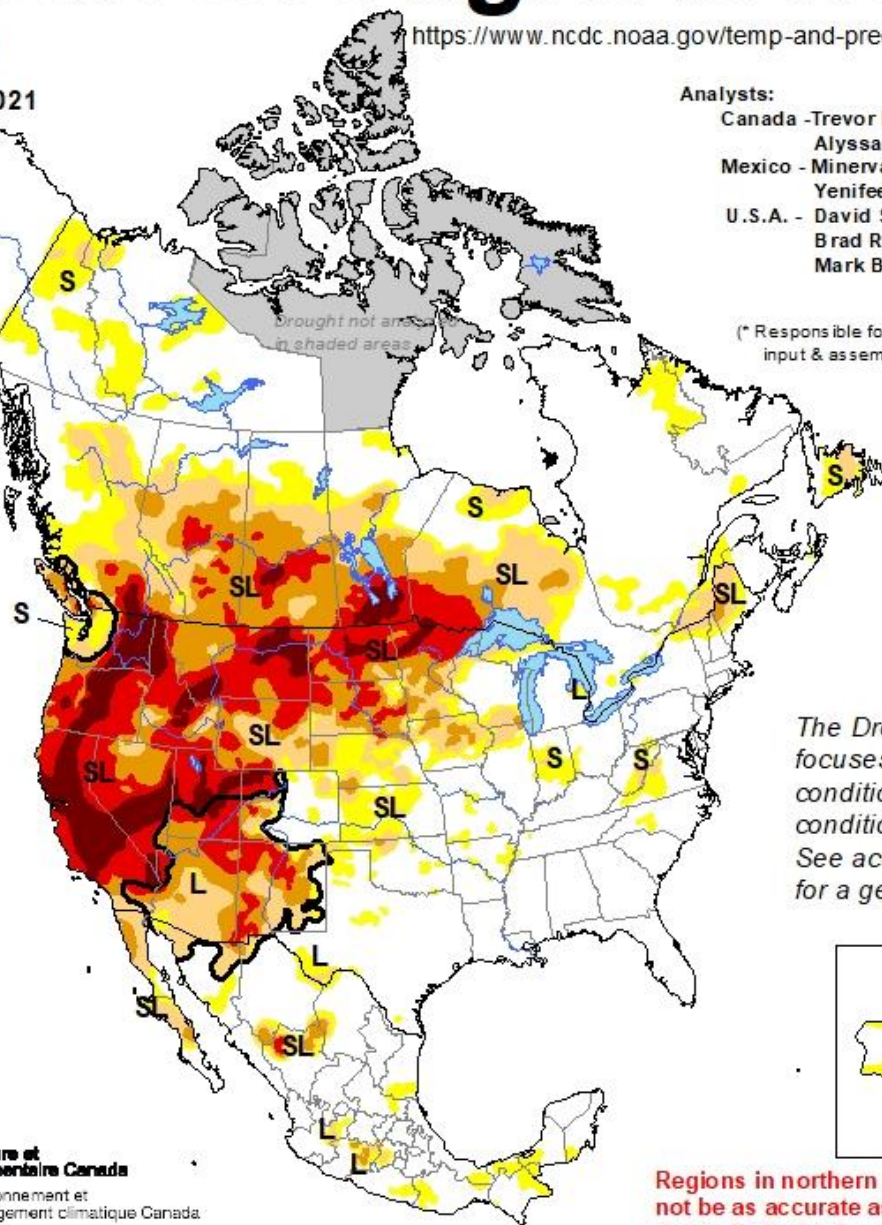
- D0 Abnormally Dry
- D1 Drought - Moderate
- D2 Drought - Severe
- D3 Drought - Extreme
- D4 Drought - Exceptional

Drought Impact Types:

- Delineates dominant impacts
- S = Short-Term, typically <6 months
(e.g. agriculture, grasslands)
- L = Long-Term, typically >6 months
(e.g. hydrology, ecology)



Environment and Climate Change Canada
Environnement et Changement climatique Canada



The Drought Monitor focuses on broad-scale conditions. Local conditions may vary. See accompanying text for a general summary.



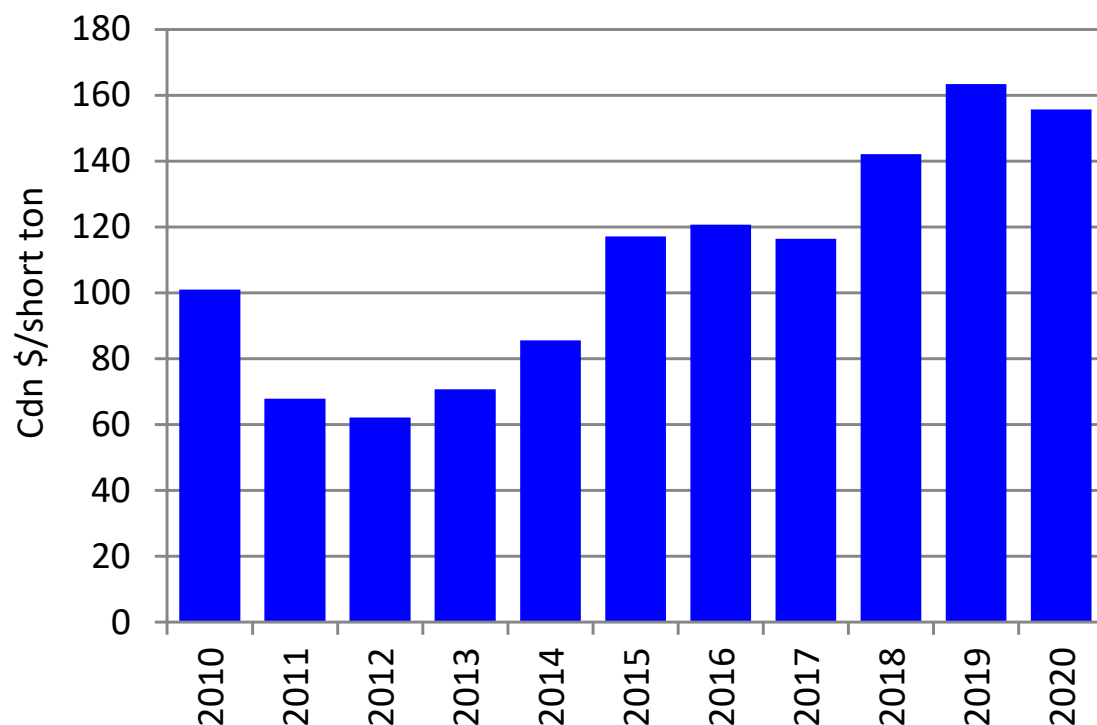
Regions in northern Canada may not be as accurate as other regions due to limited information.





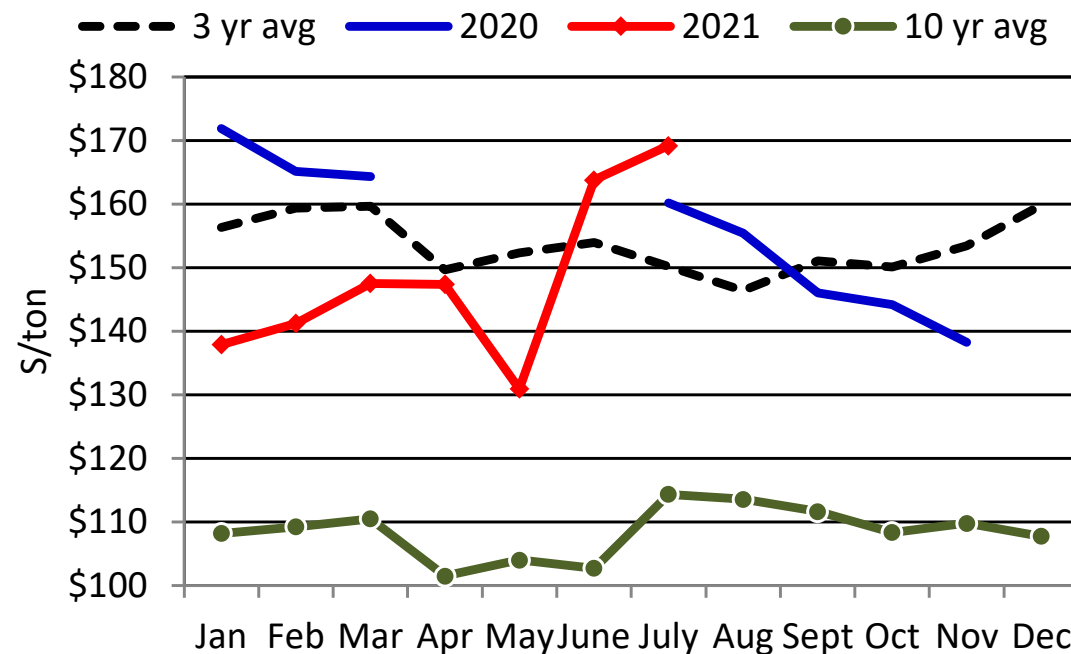
AB Hay prices jumped in June and July to be back at the Q1 2020 levels: *Reports have been as high as \$200/ton*

Alberta Hay Prices



Source: Alberta Agriculture

Alberta Hay Prices



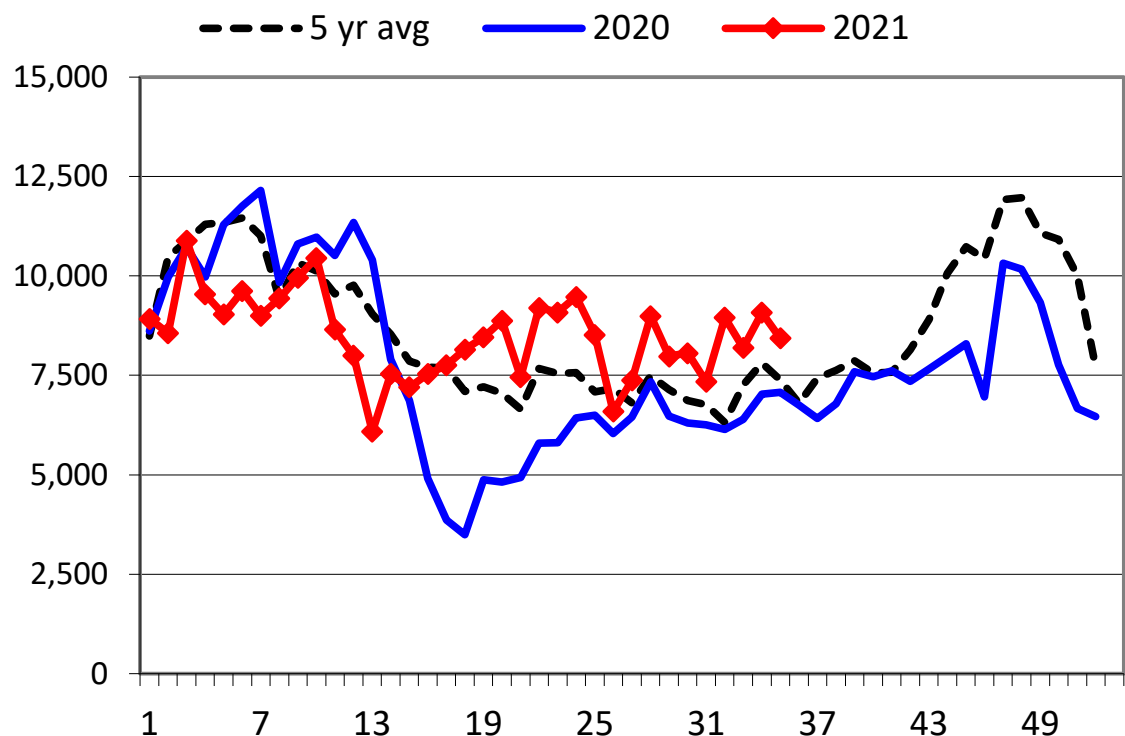
Source: Alberta Agriculture

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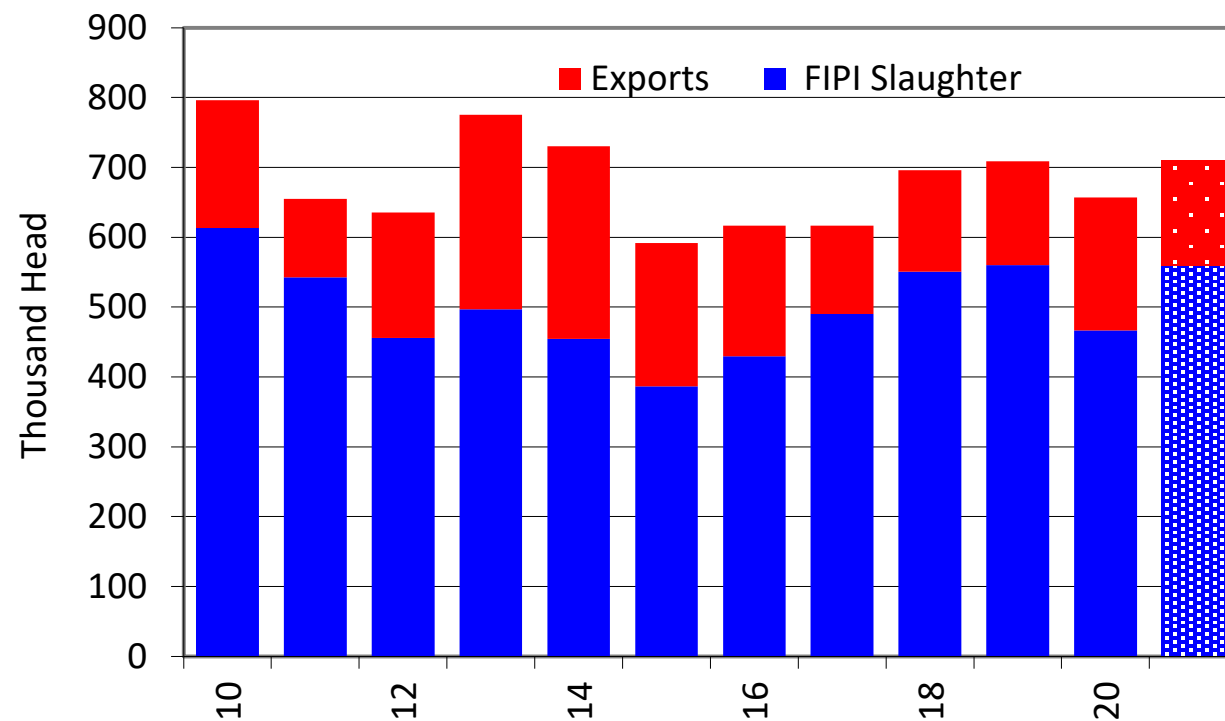


Cow slaughter is up 11% YTD, expected to increase throughout fall: *Cow marketings projected to be back at 2019 levels*

Canadian F.I. Cow Slaughter



Canadian Slaughter Cow Marketings

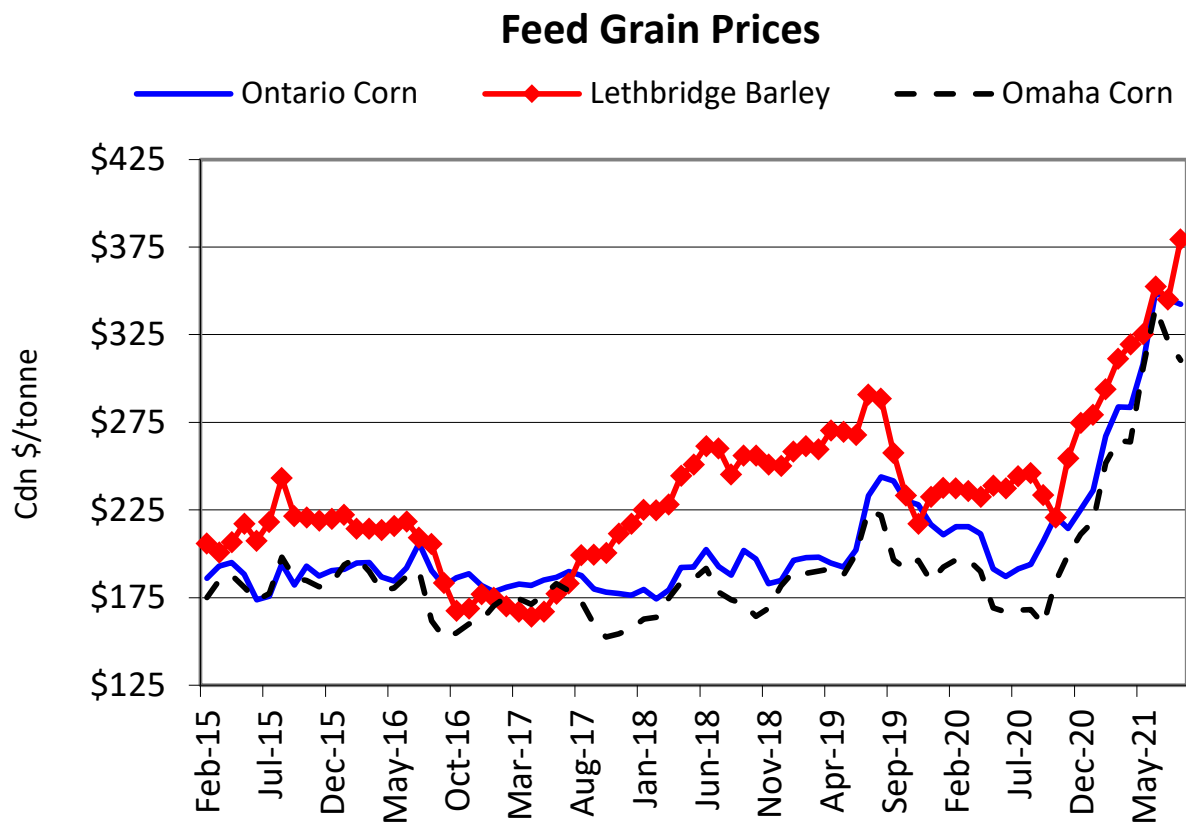


Source: CBGA

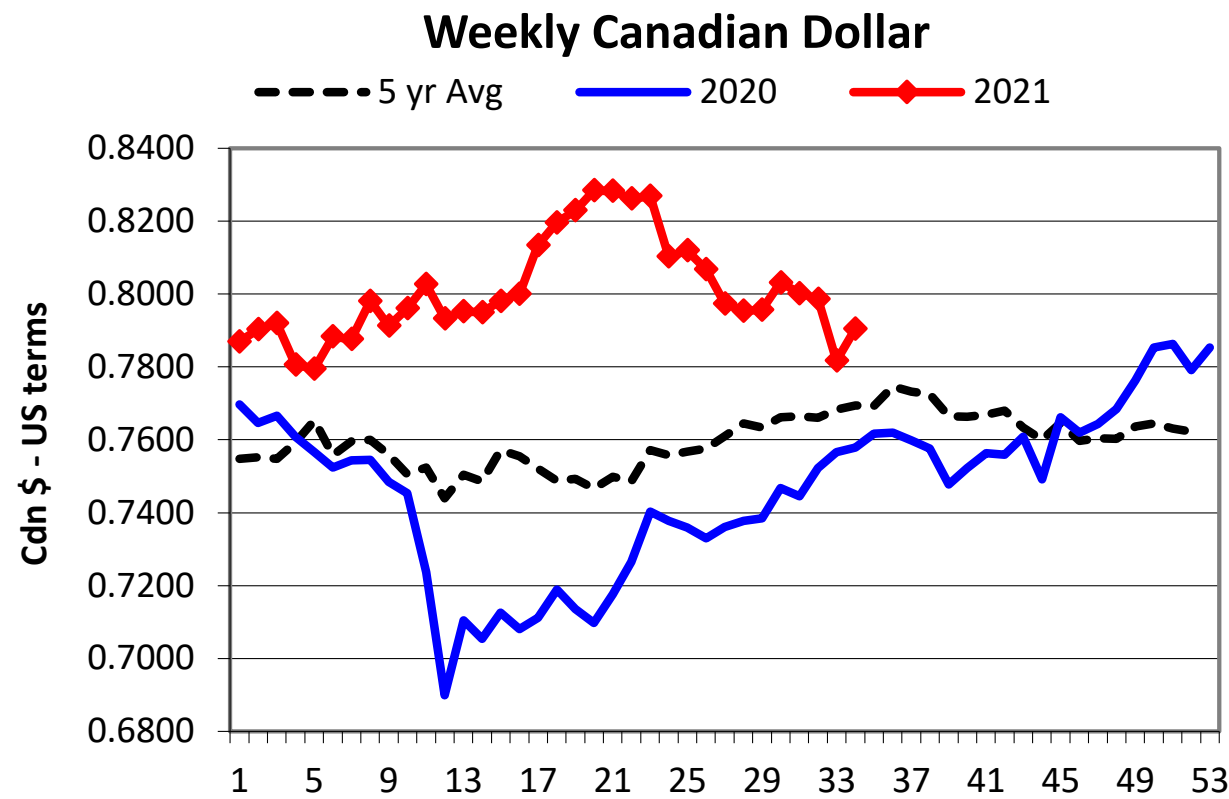
Source: CBGA, AAFC, Statistics Canada

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Barley up 80.5% at \$421/tonne, Ontario corn up 67% at \$346/tonne and Omaha corn up 95% at CDN\$333/tonne



Source: Cattle-Fax, BFO



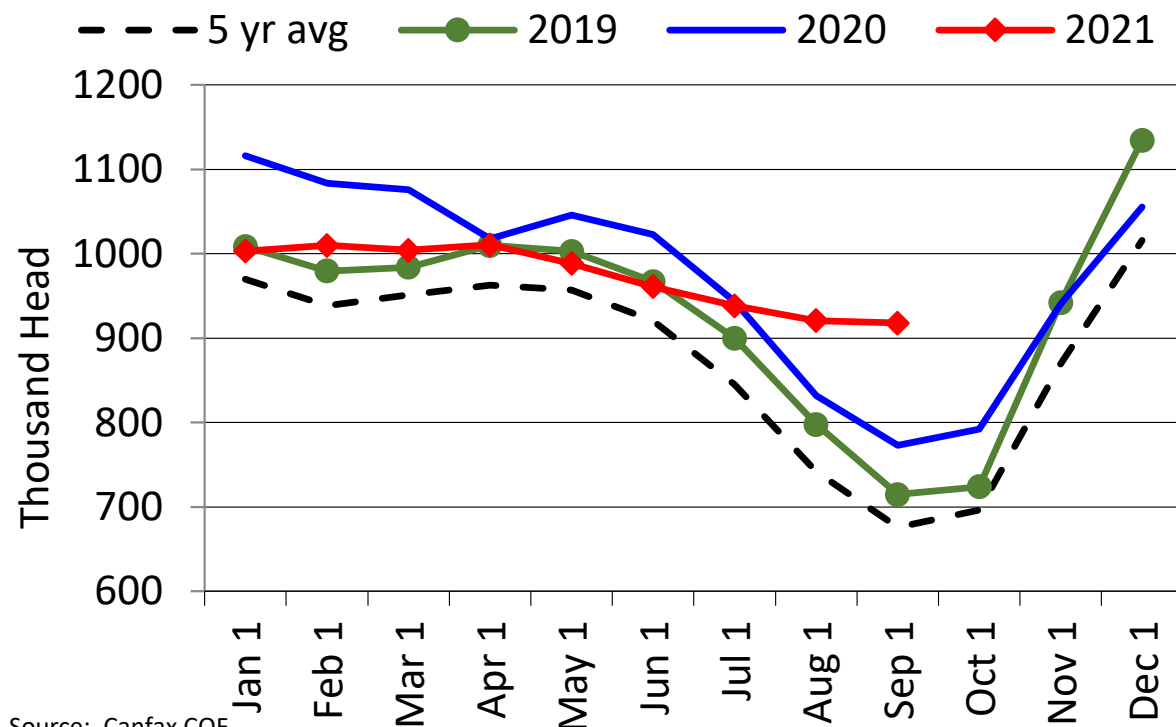
Source: Bank of Canada

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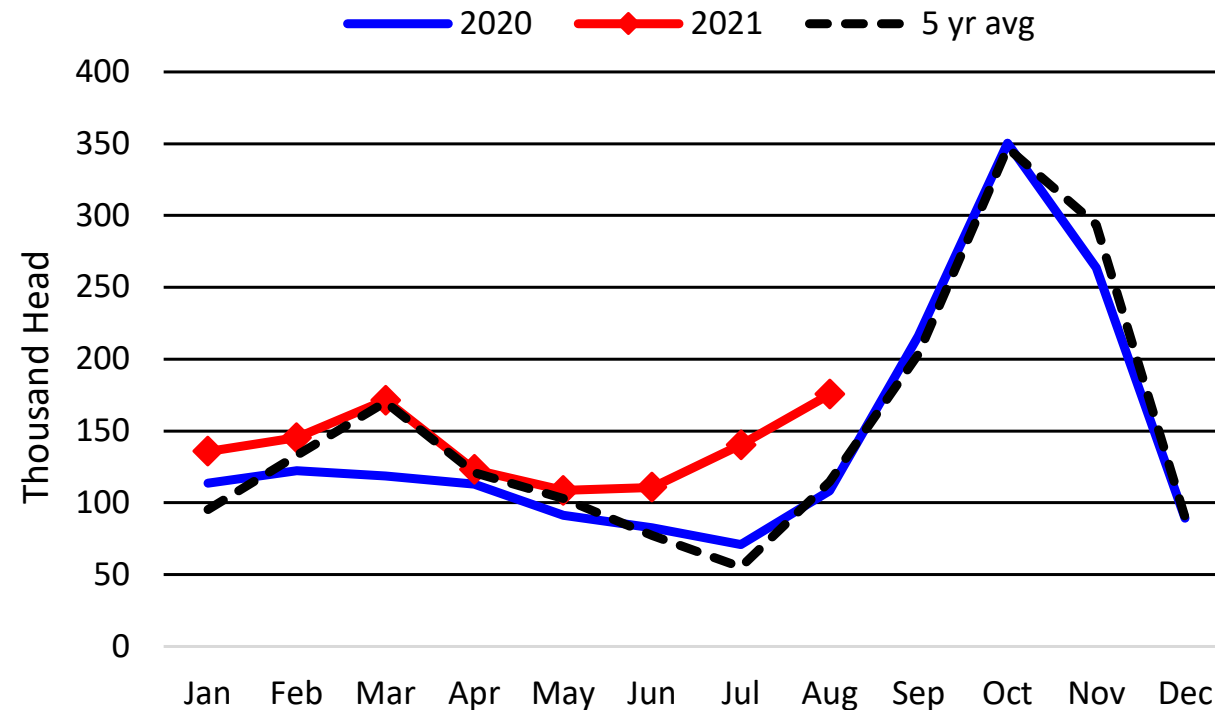
September 1 COF up 19% or 145,000 head from last year and up 242,100 head from the 5 yr avg

Alberta and Saskatchewan Cattle on Feed



Source: Canfax COF

Alberta and Saskatchewan Feedlot Placements



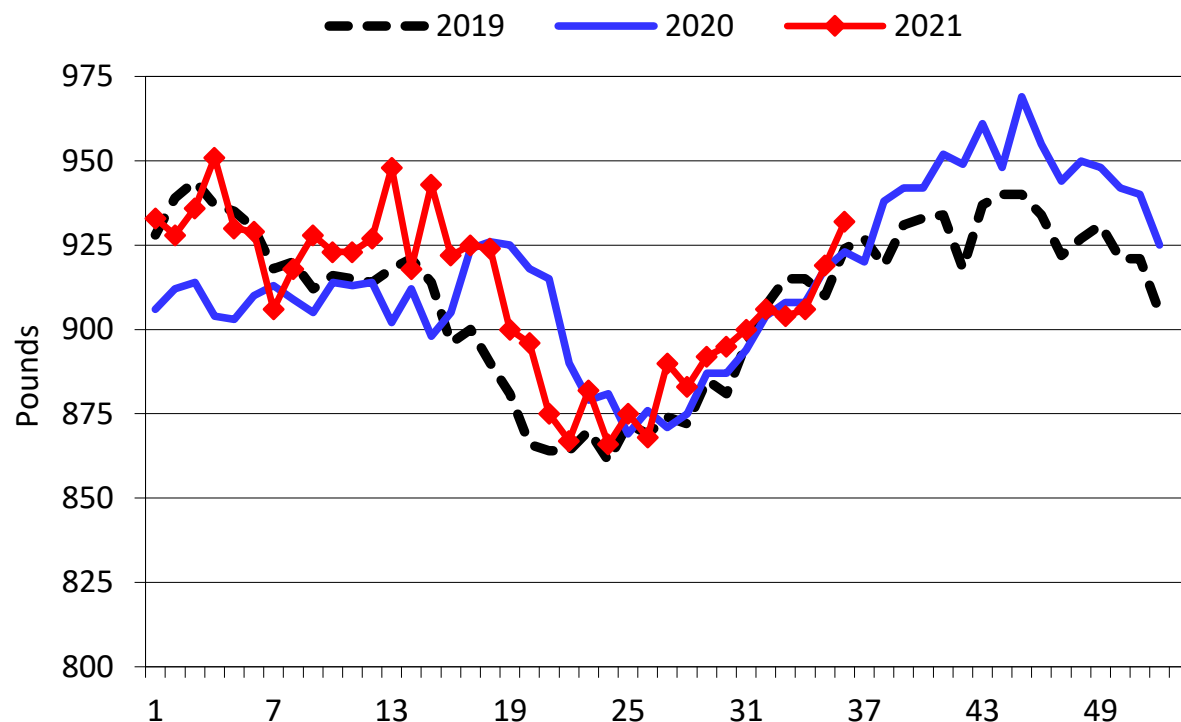
Source: Canfax COF



Carcass weights generally current going into Q4

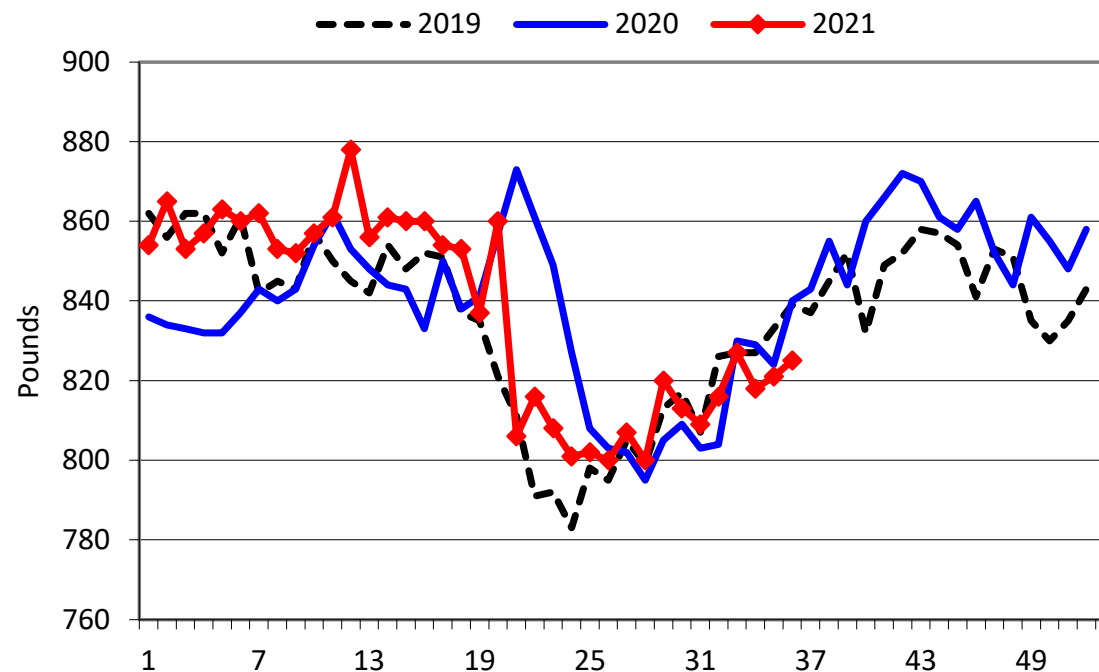
Supported by good feeding conditions

Canadian Weekly Steer Carcass Weights



Source: CBGA

Canadian Weekly Heifer Carcass Weight

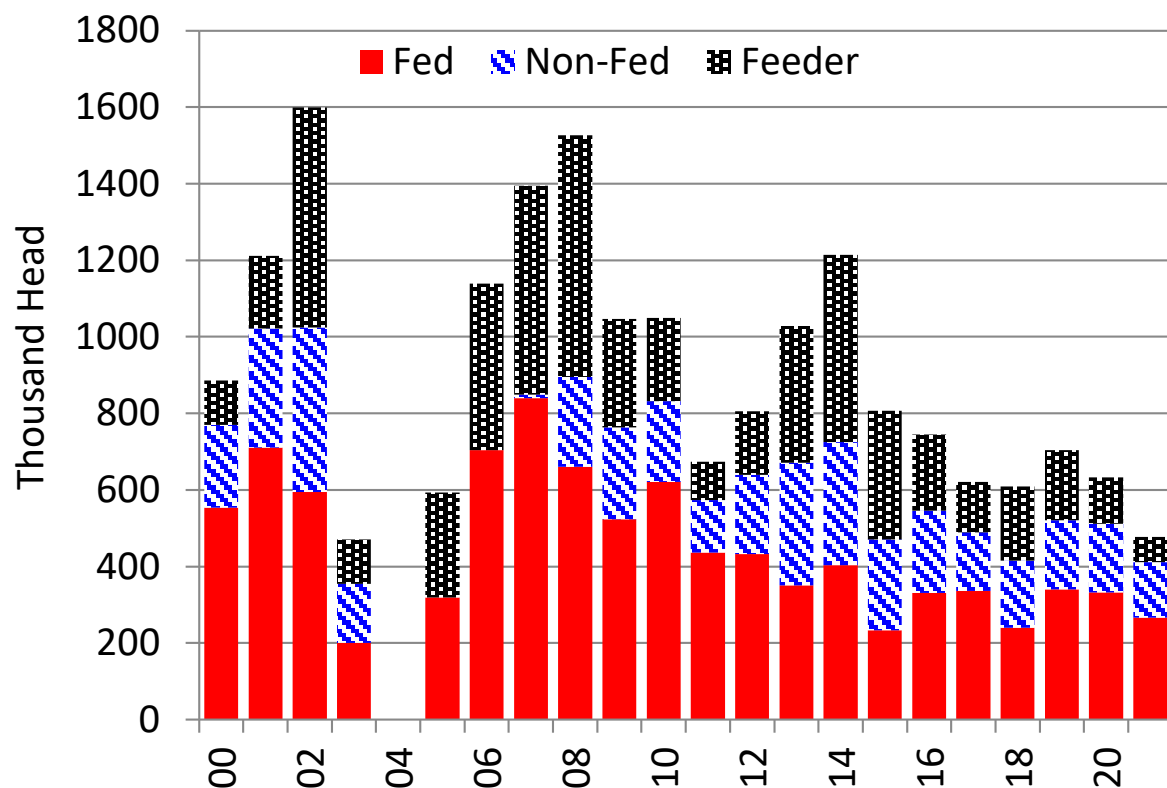


Source: CBGA



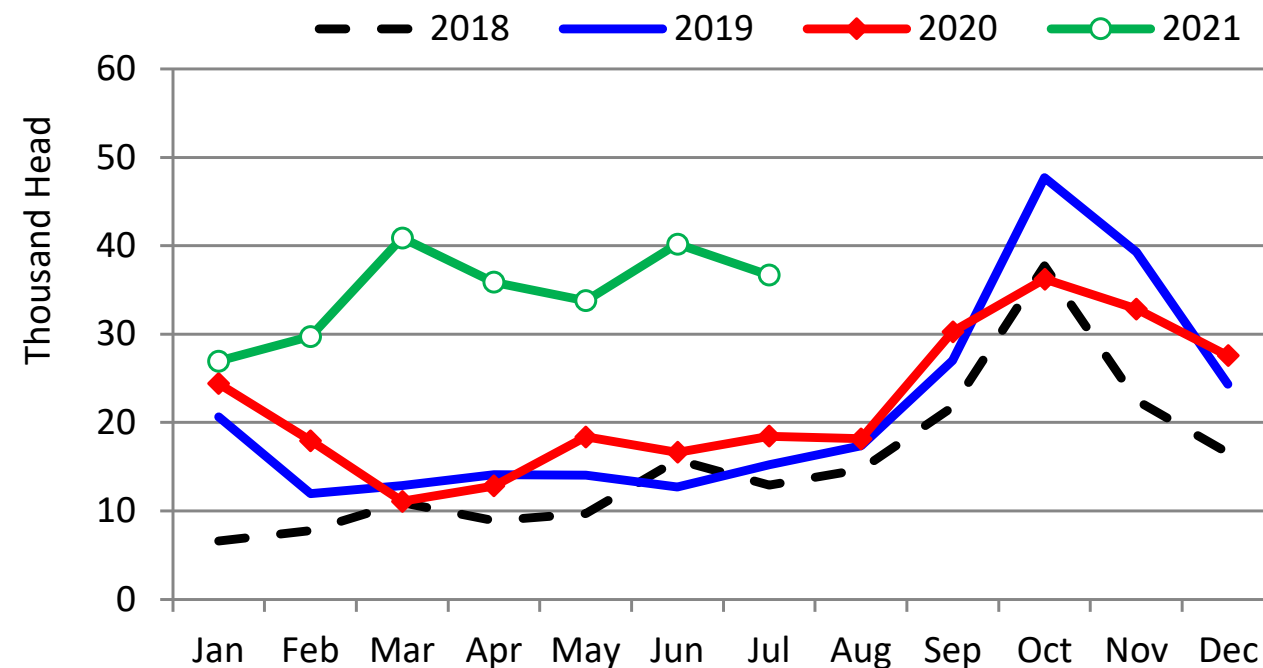
Cattle Exports Have Shrunk to a projected 477,000 head YTD Net feeder importer of 166,000 feeders

Live Cattle Exports



Source: Statistics Canada

Live Beef Cattle Imports (excluding pure-bred breeding) from the United States

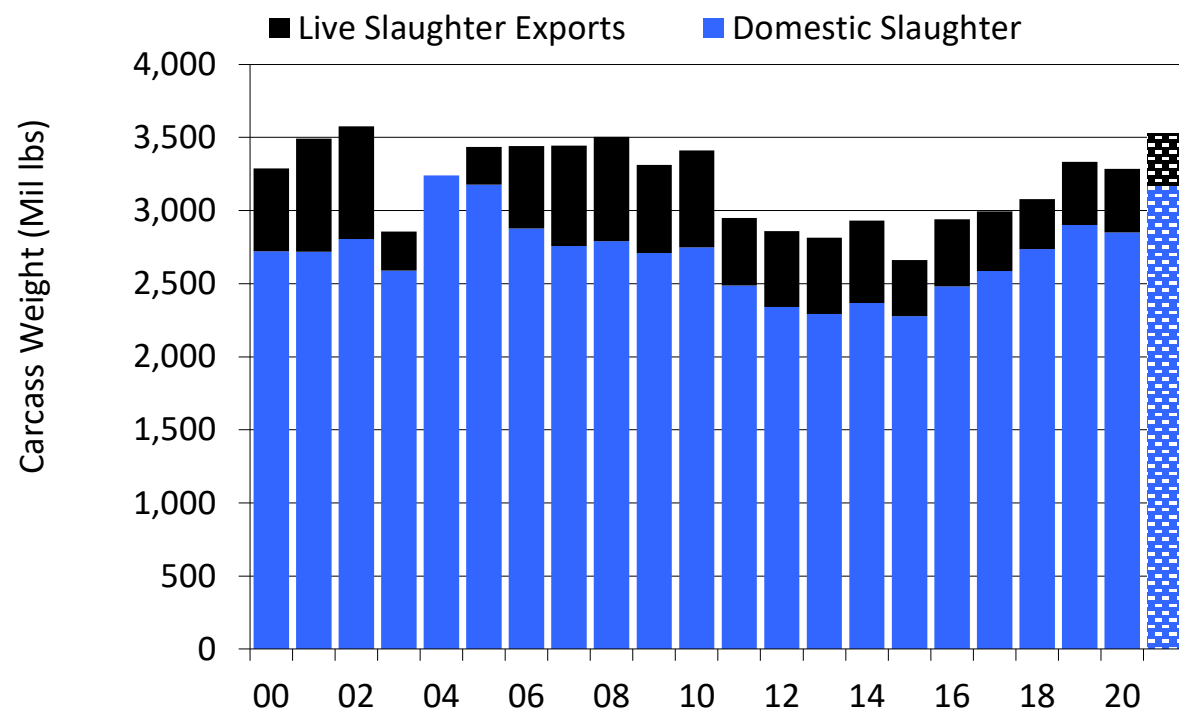


Source: Statistics Canada

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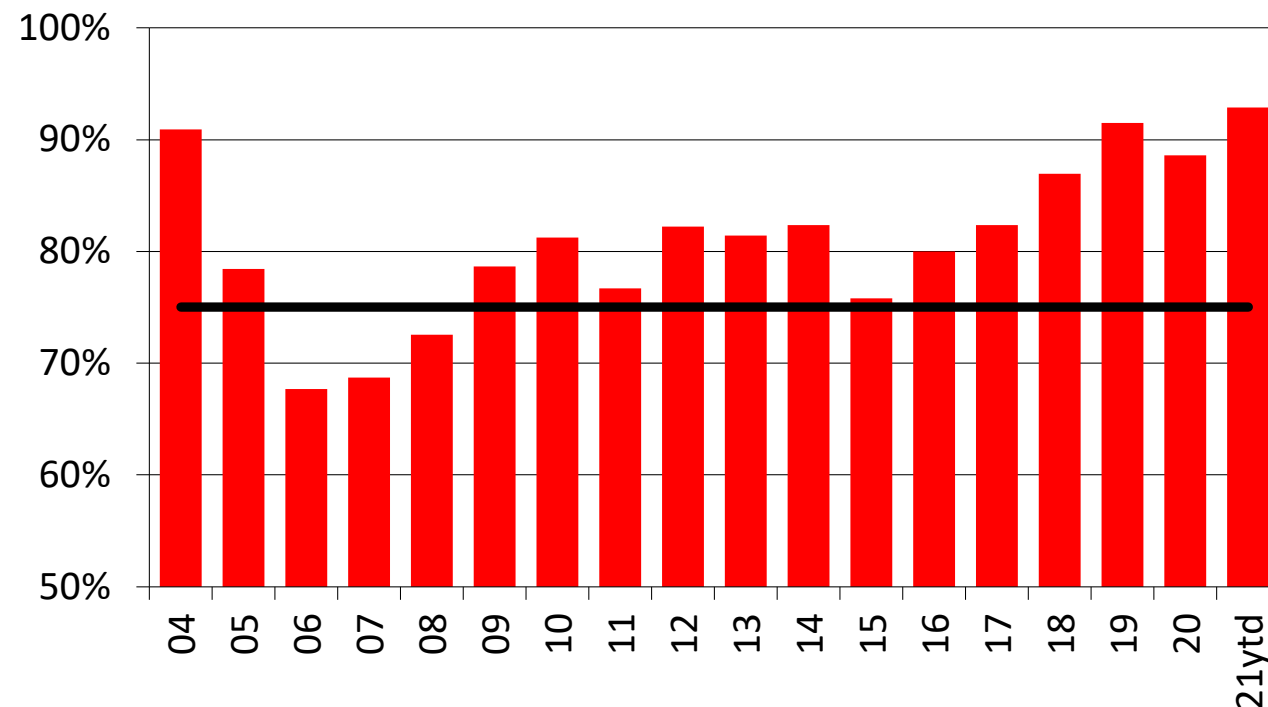
Total Beef production is projected to be up 7.4% in 2021
Feedlot expansion and increased packer utilization (93%) driving production

Canadian Beef Production



Source: CanFax Research Services

Canadian Federally Inspected Slaughter
Estimated Utilization Rate

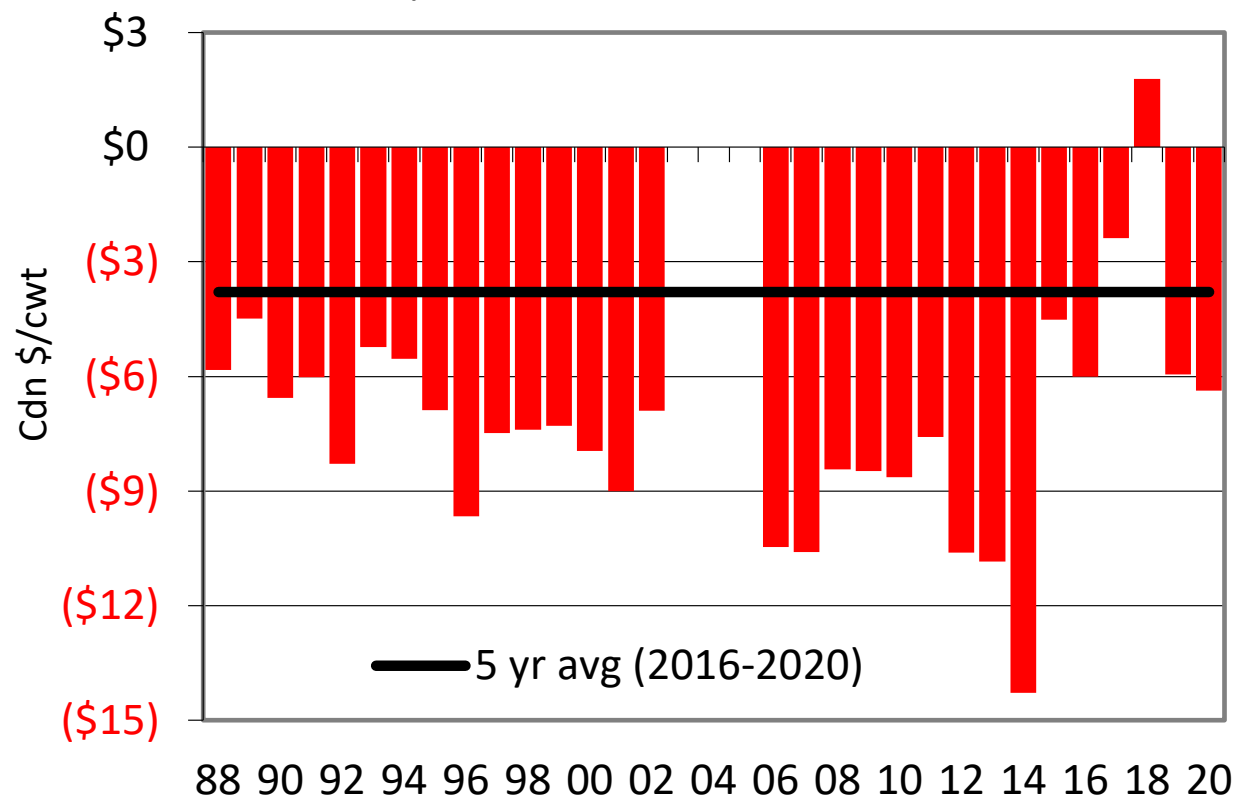


Source: Canfax Research, CBGA



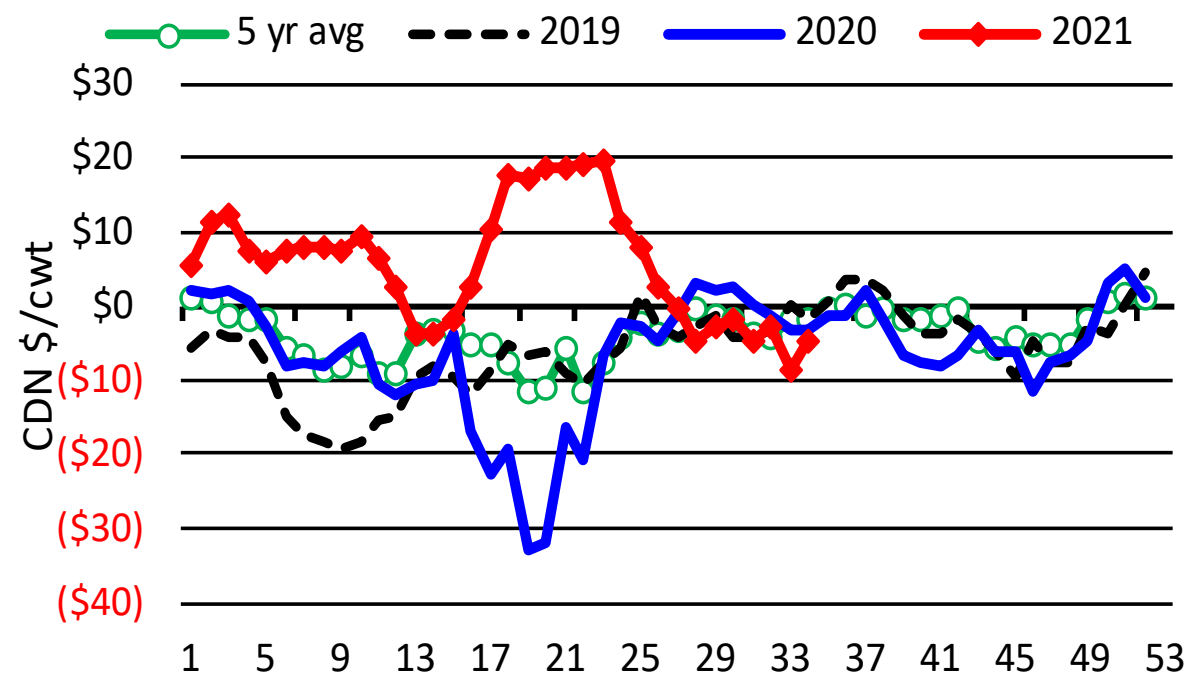
Strong basis levels: *Fed Basis Levels Back to Normal?*

Alberta Annual Fed Steer Basis
Alberta/Nebraska in Cdn \$ - Cash to Cash



Source: CanFax

Alberta Fed Steer Basis
Alberta/Nebraska in Cdn \$ - Cash to Cash

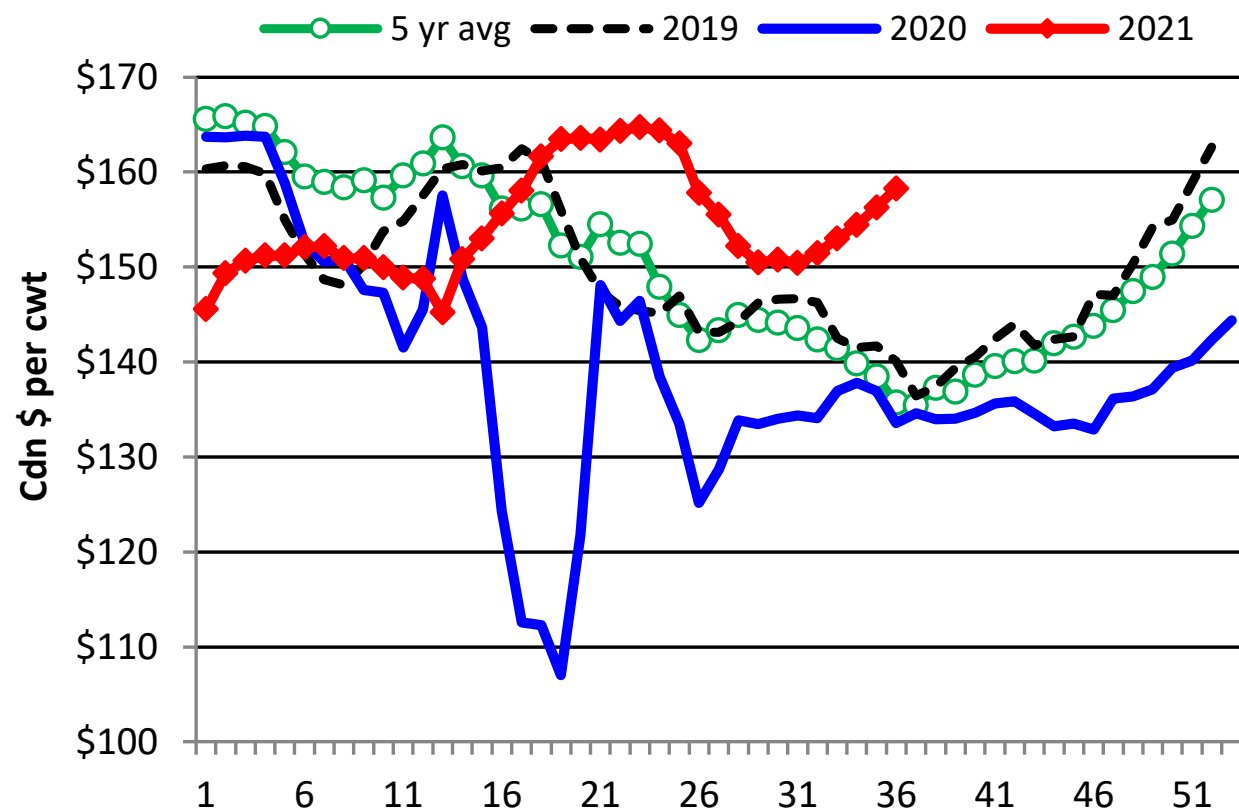


Source: Canfax

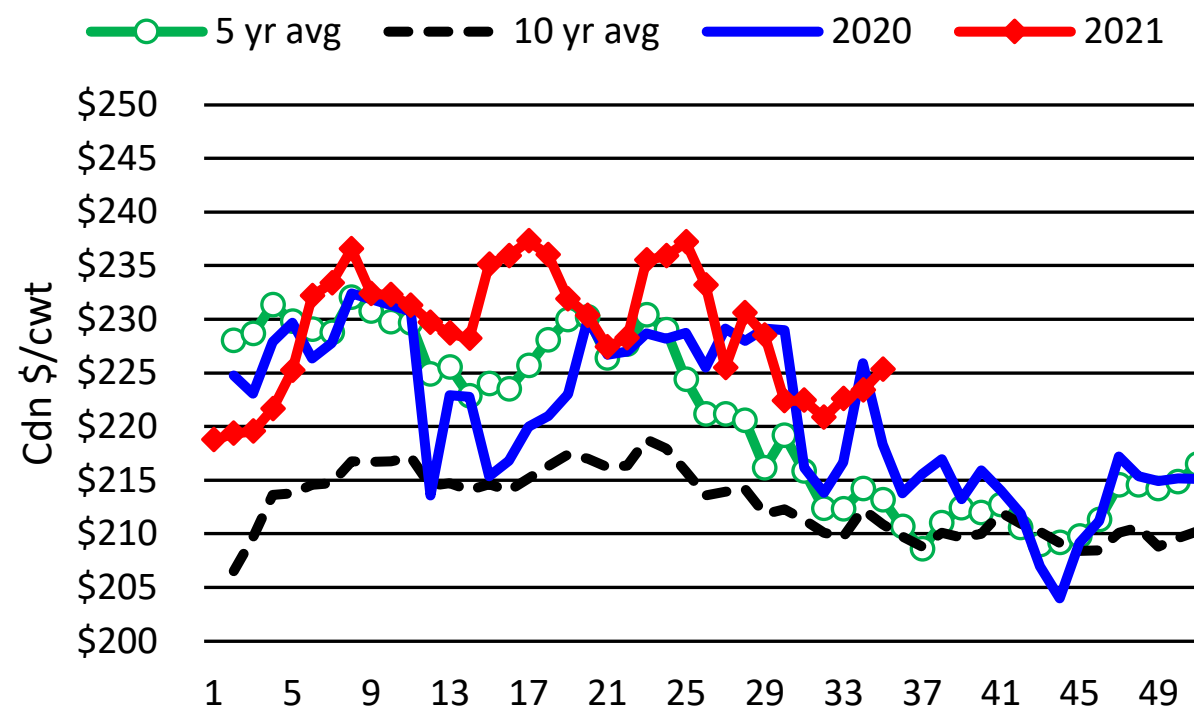


Fall Price pressure: *Drought expected to bring more calves to market*

Alberta Weekly Fed Steer Price



Alberta Weekly 5-600 lb Steer Price



Source: Canfax

Source: Canfax



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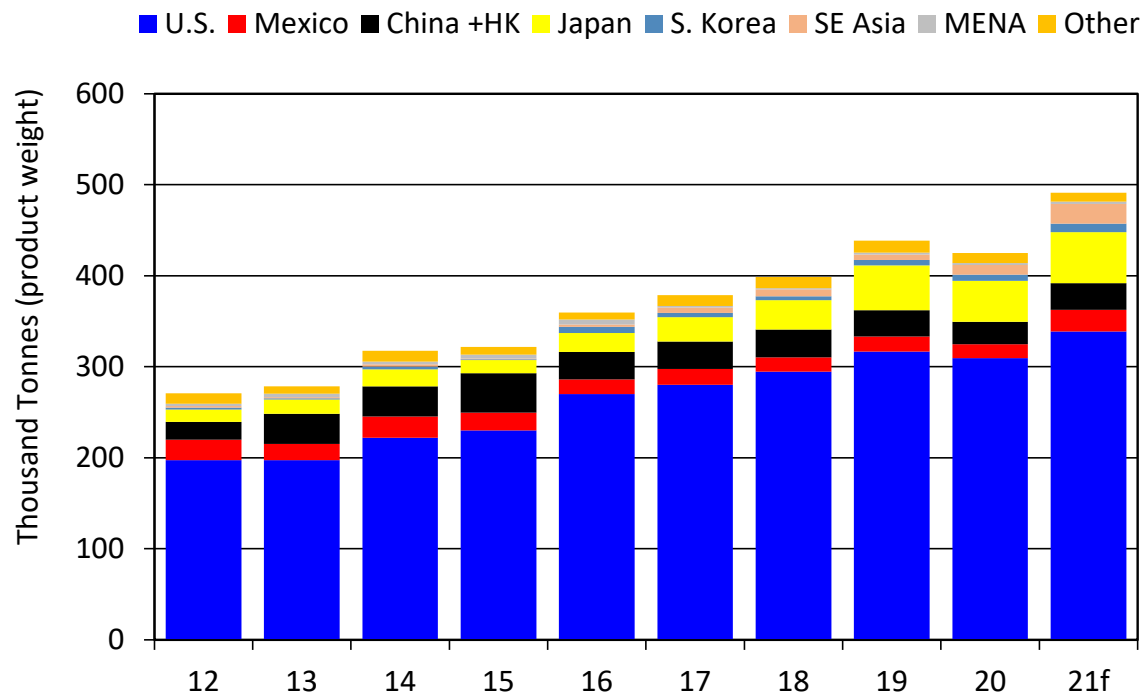


Beef Trade



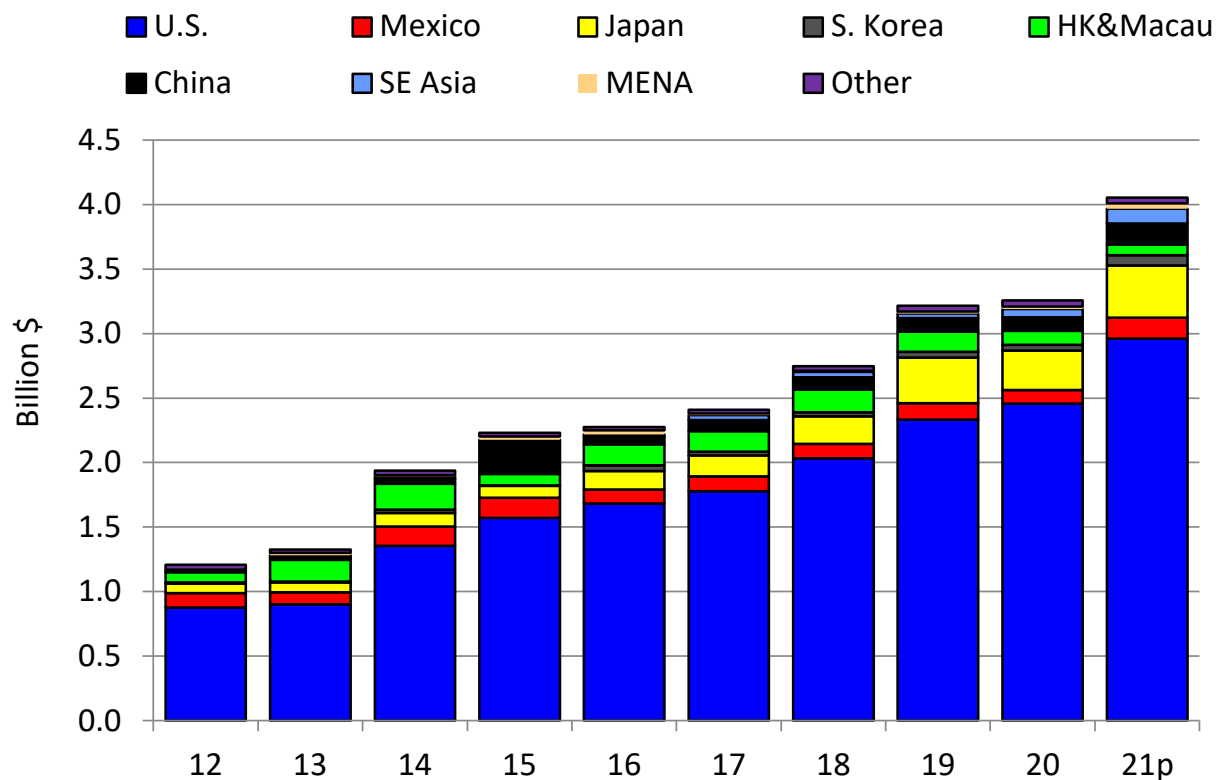
Beef Exports up 24% in volume and 28% in value from Jan-July 2021

Canadian Beef Export Volume



Source: Statistics Canada, CFIA

Canadian Beef Export Value



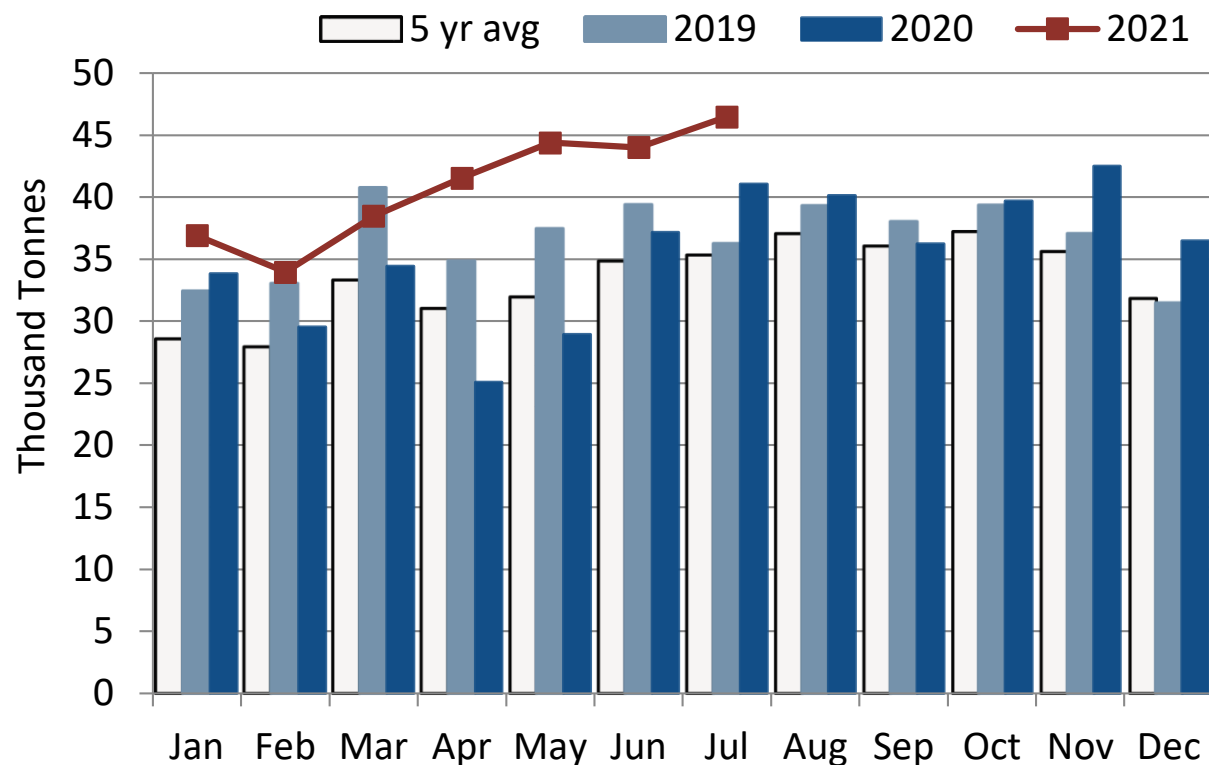
Source: Statistics Canada, CFIA

Export volumes increased to the U.S. (15%), Japan (31%), Mexico (102%), mainland China (134%), SE Asia (382%), South Korea (71%), the EU (56%), and MENA (60%). Year-to-date exports declined to Hong Kong and Macau (-30%), Taiwan (-48%), and the UK (-19%).



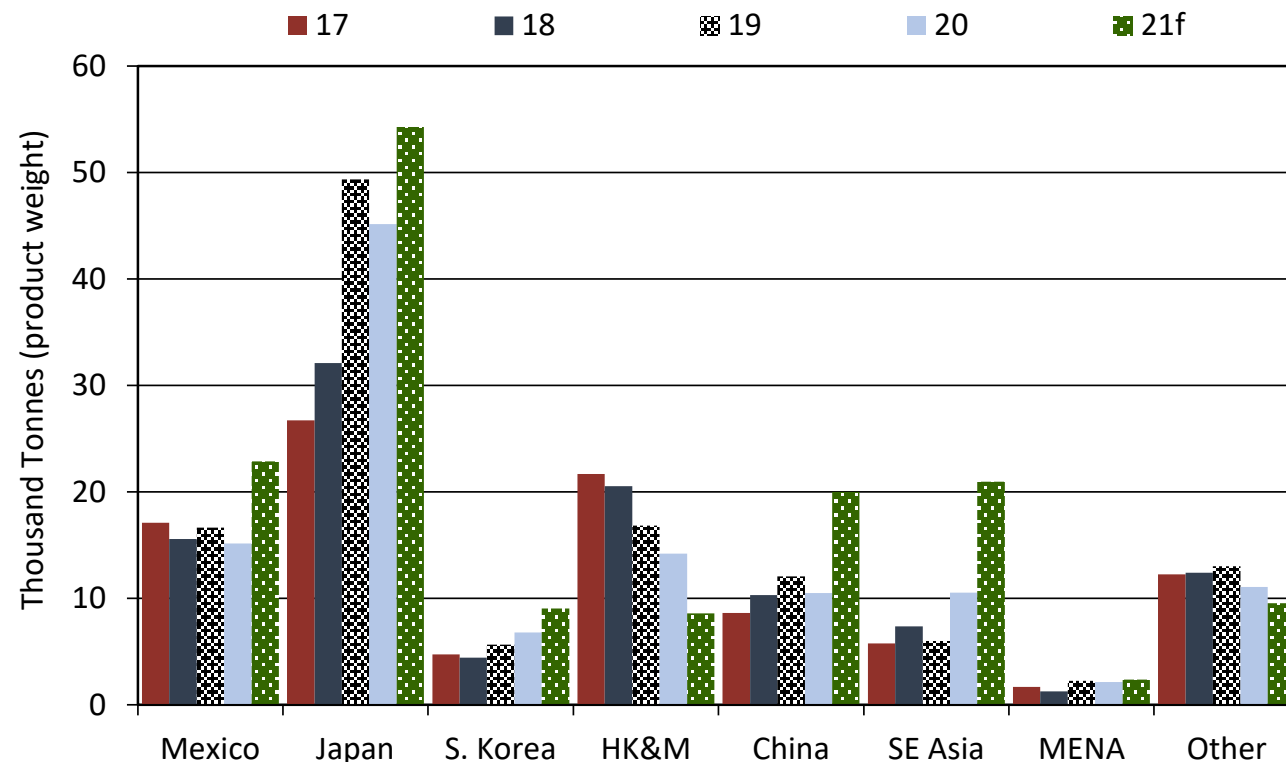
Strong monthly volumes supported by growth to Japan, China, SE Asia (Vietnam, Philippines) and South Korea

Canadian Monthly Beef and Veal Exports



Source: Statistics Canada

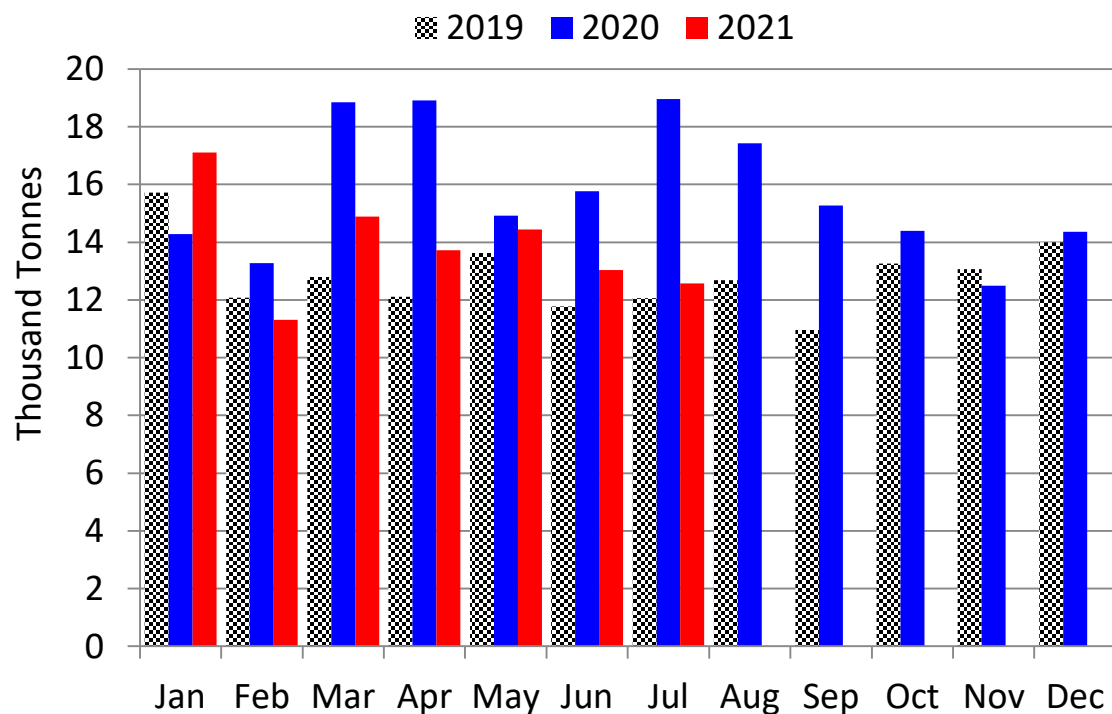
Canadian Beef Export Volume



Source: Statistics Canada, CFIA

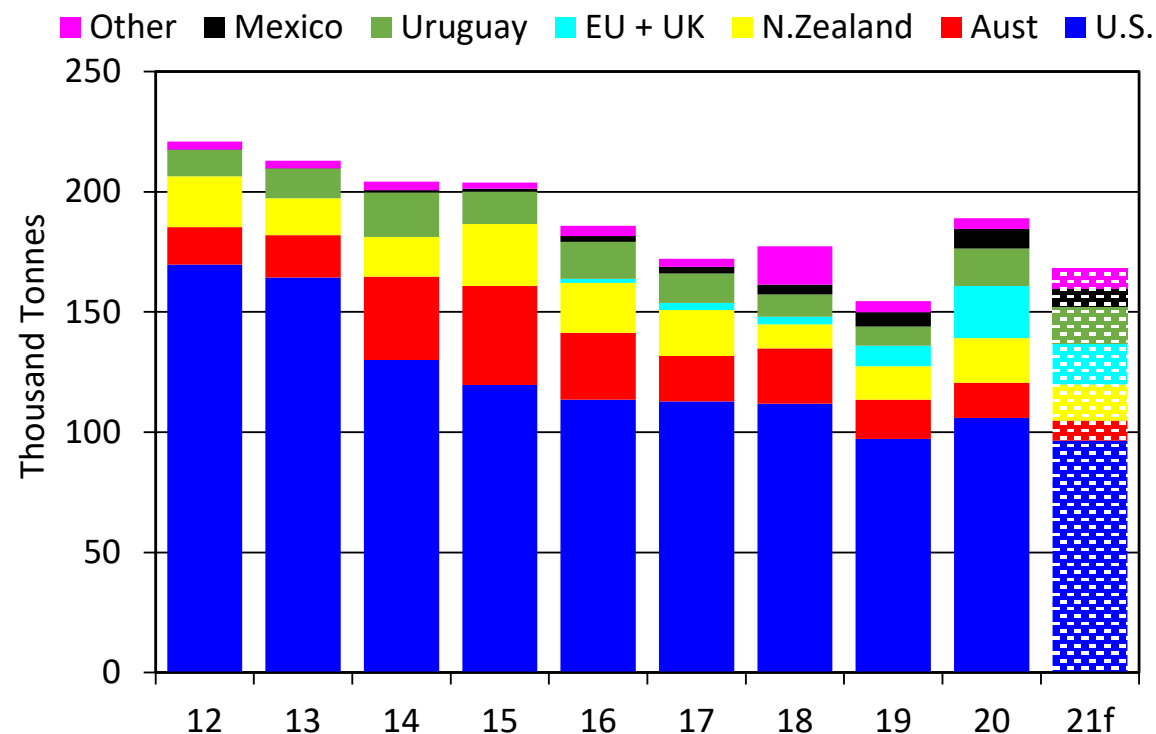
Imports down 16% from 2020 and up 8% from 2019 (Jan-July): *Volumes in 2020 were to backfill lack of cow slaughter*

Canadian Monthly Beef and Veal Imports



Source: Statistics Canada

Canadian Beef Imports



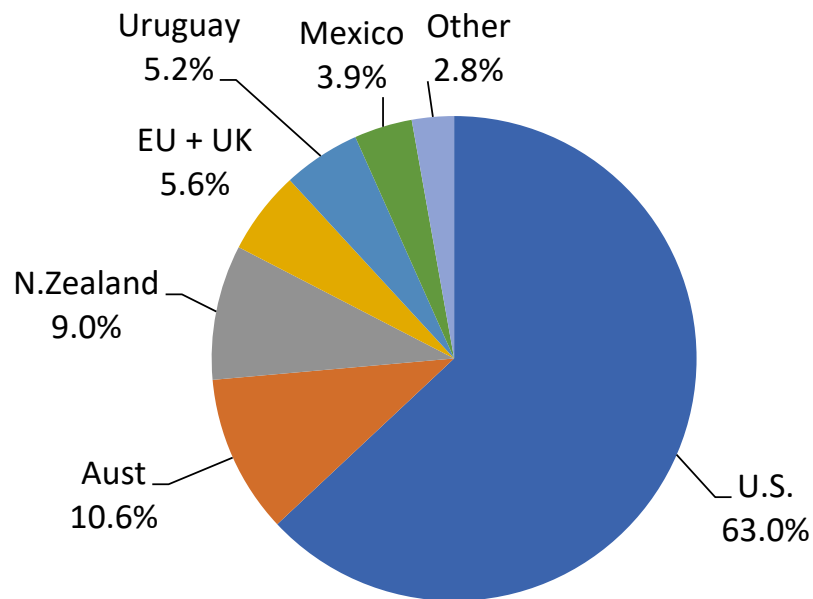
Source: Statistics Canada

Import volumes declined from the U.S. (-10%), the EU (-6%), the UK (-40%), New Zealand (-23%), Uruguay (-27%), Australia (-47%), and Brazil (-13%). Import volumes increased from Mexico (3%) and Argentina (2478%).



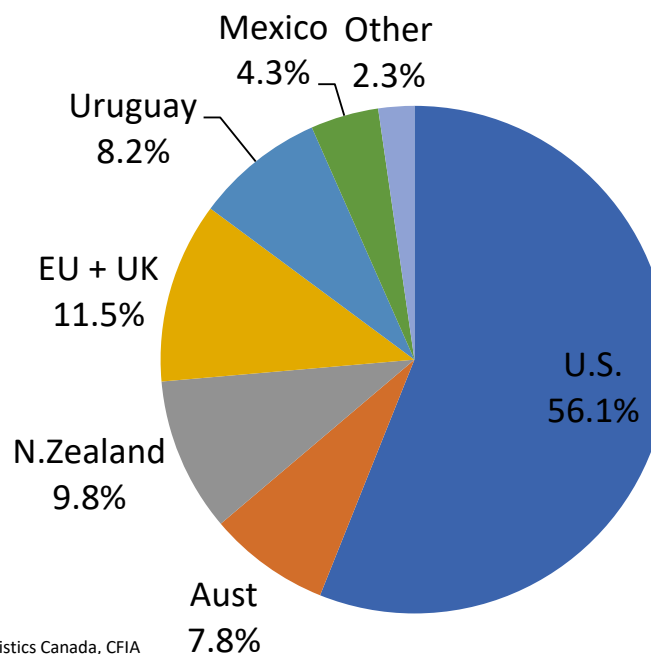
Import market share have shifted: away from the US and Australia, towards the EU, UK, Uruguay and others

Canadian Beef Imports 2019



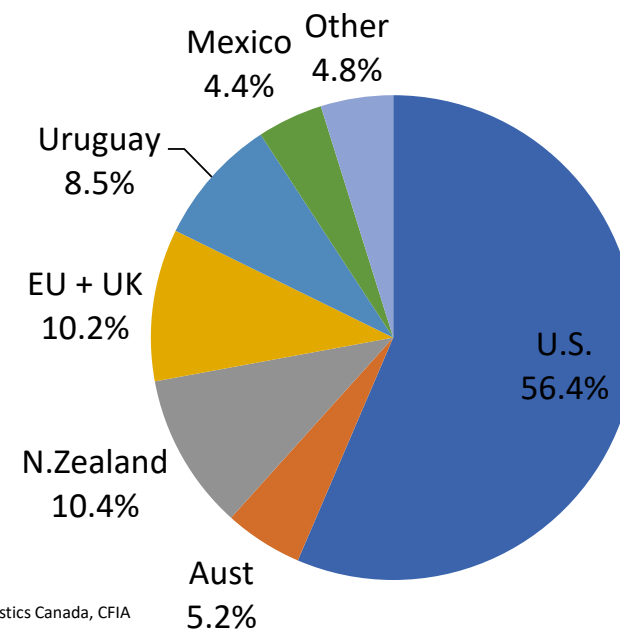
Source: Statistics Canada, CFIA

Canadian Beef Imports 2020



Source: Statistics Canada, CFIA

Canadian Beef Imports 2021 YTD



Source: Statistics Canada, CFIA



Tight Global Beef Supplies & Market Access issues

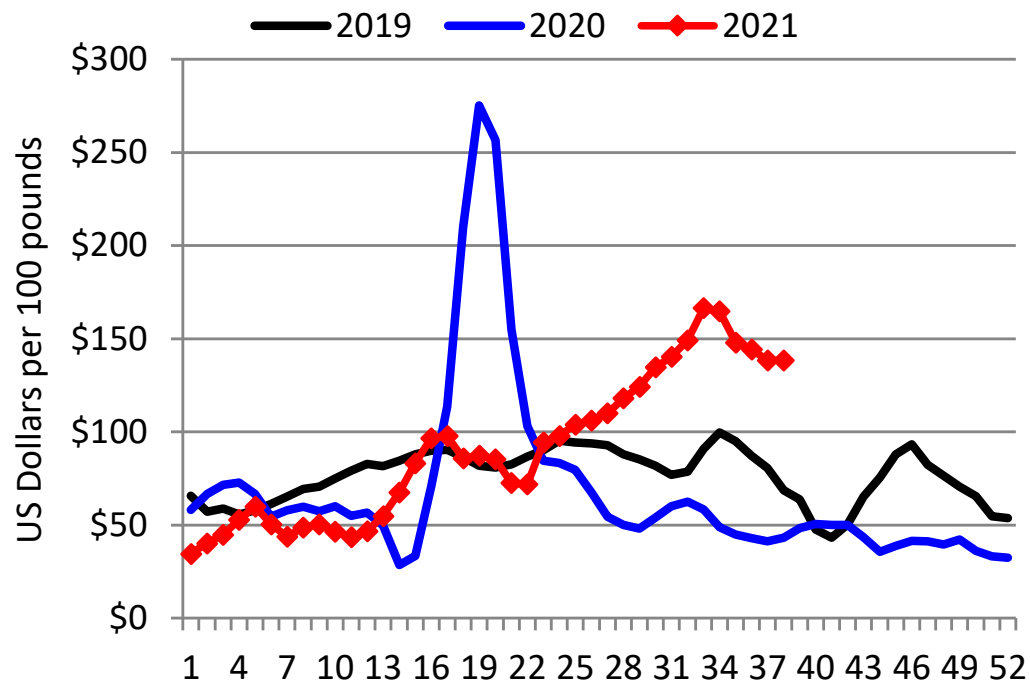
- U.S.
 - Beef Production +3.4% YTD
 - Strong exports +21%
 - Per capita beef supplies steady
- Brazil
 - Slaughter -8% YTD
 - Production -5.4% '21p & Exports -5.5%
- Australia
 - Slaughter -27% YTD
 - Exports -19% 1H 2021
 - Cattle prices reached new highs
- Argentina – Export ban
 - Cap at 50% of 2020 levels
- Brazil – Atypical BSE Case
 - Bans by: China (48%), Egypt (3%), Philippines (2%), Saudi Arabia (2%), Russia (1%), Indonesia (1%)
 - Issue of disputed product on water (will it be accepted?)
- UK – BSE case (Sept 20)
 - Had resumed exports to US in Sept 2020

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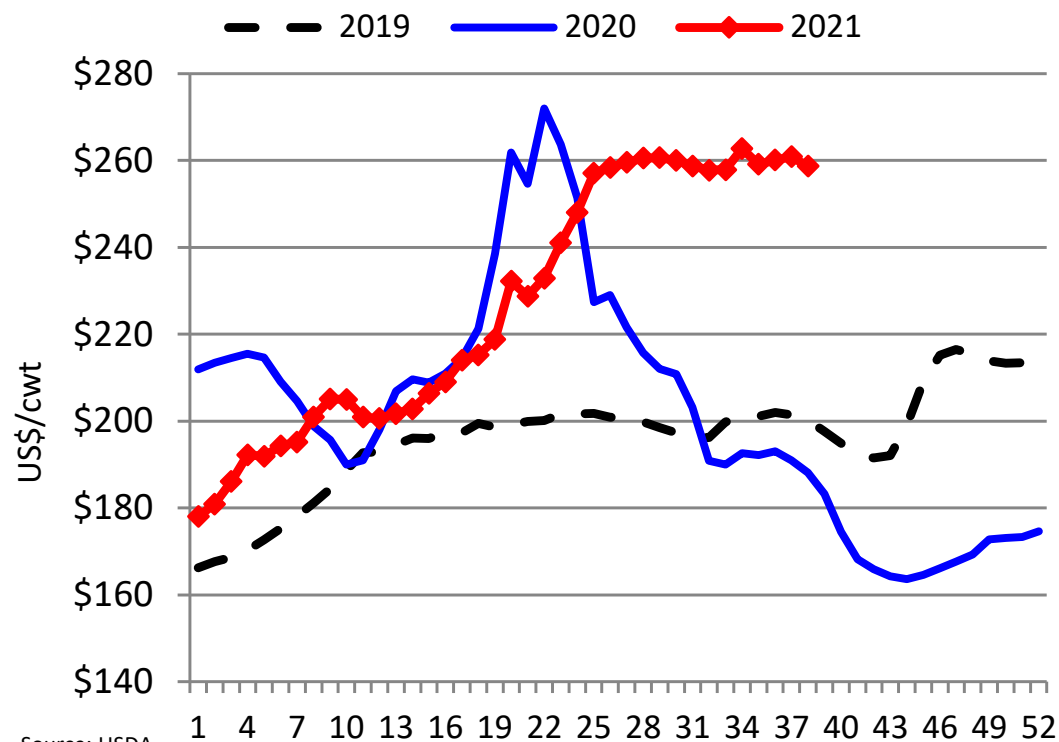
50% Trim at \$138/cwt is 220% higher than last year's \$43/cwt
85% Trim at \$258/cwt is 37% higher than last year's \$188/cwt

US Weekly 50% Trim Values



Source: USDA

US Weekly 85% Trim Values



Source: USDA



Summary

- Drought is going to result in liquidation of the cow herd
 - Larger supplies short term (3 months)
 - Tighter supplies long-term (2023 and beyond)
- Total Beef Production +7.4% 2021p
 - Domestic production +11.4% & Live Slaughter Exports -19%
 - Supported by US feeder imports & packer utilization levels
- Net Beef Exports supported by larger production & strong international demand
 - Tight global beef supplies and market access issues limiting imports

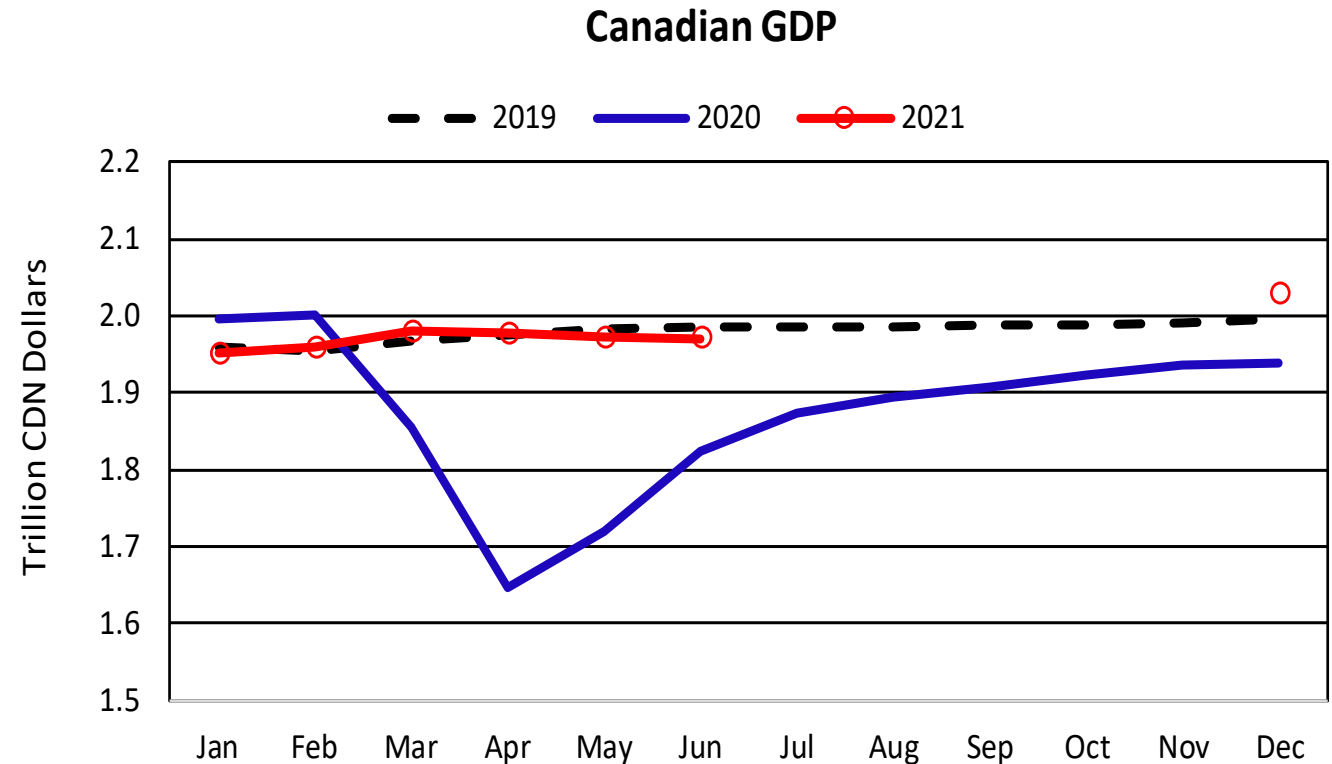


Domestic Market



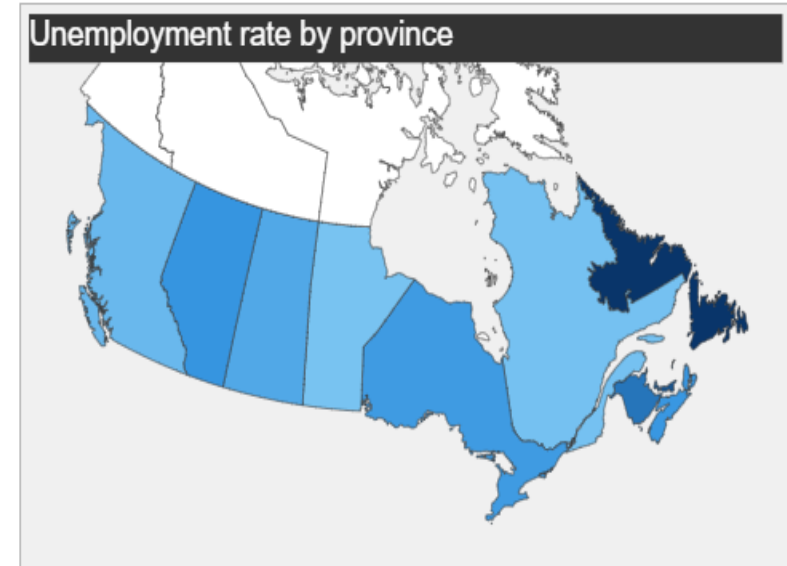
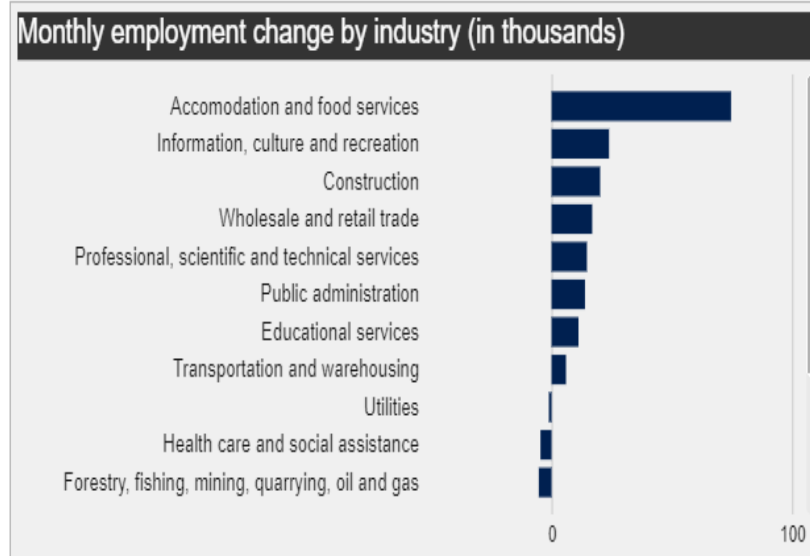
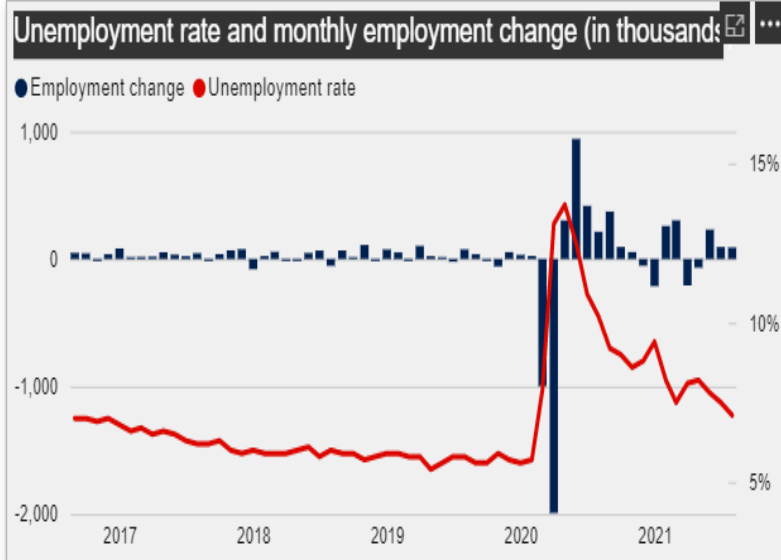
Real Gross Domestic Product: Q2 2021 contraction (-2%) compared to Q2 2019

- Contraction in house sales, and exports of auto parts
- GDP is expected to be up 6.3% in 2021
 - But down 5.3% in 2020
 - So **up 1% from 2019**



Source: Statistics Canada

MARKET UPDATE



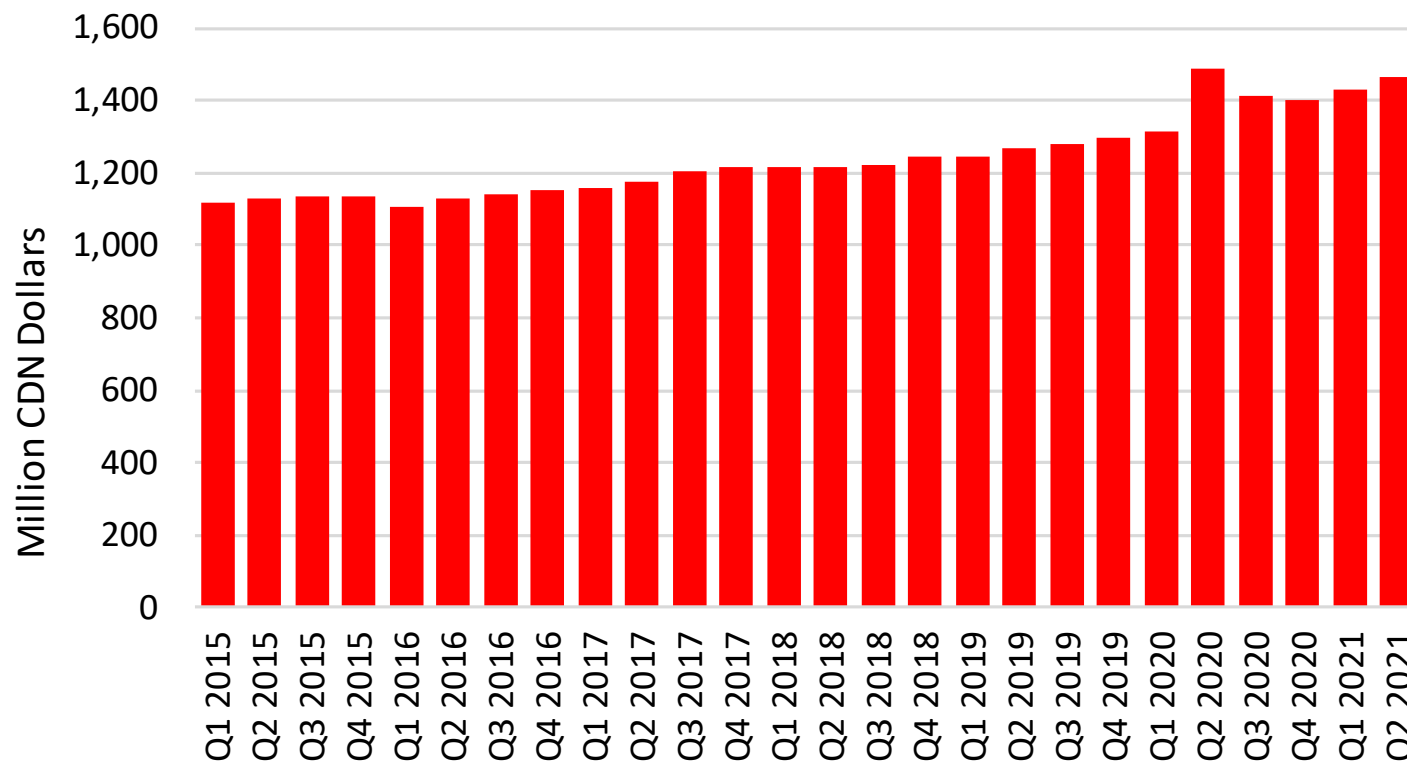
Source: Statistics Canada



Household Disposable Income: +2.2% from July to August 2021

Every 1% increase in disposable income leads to a 0.54% increase in beef demand

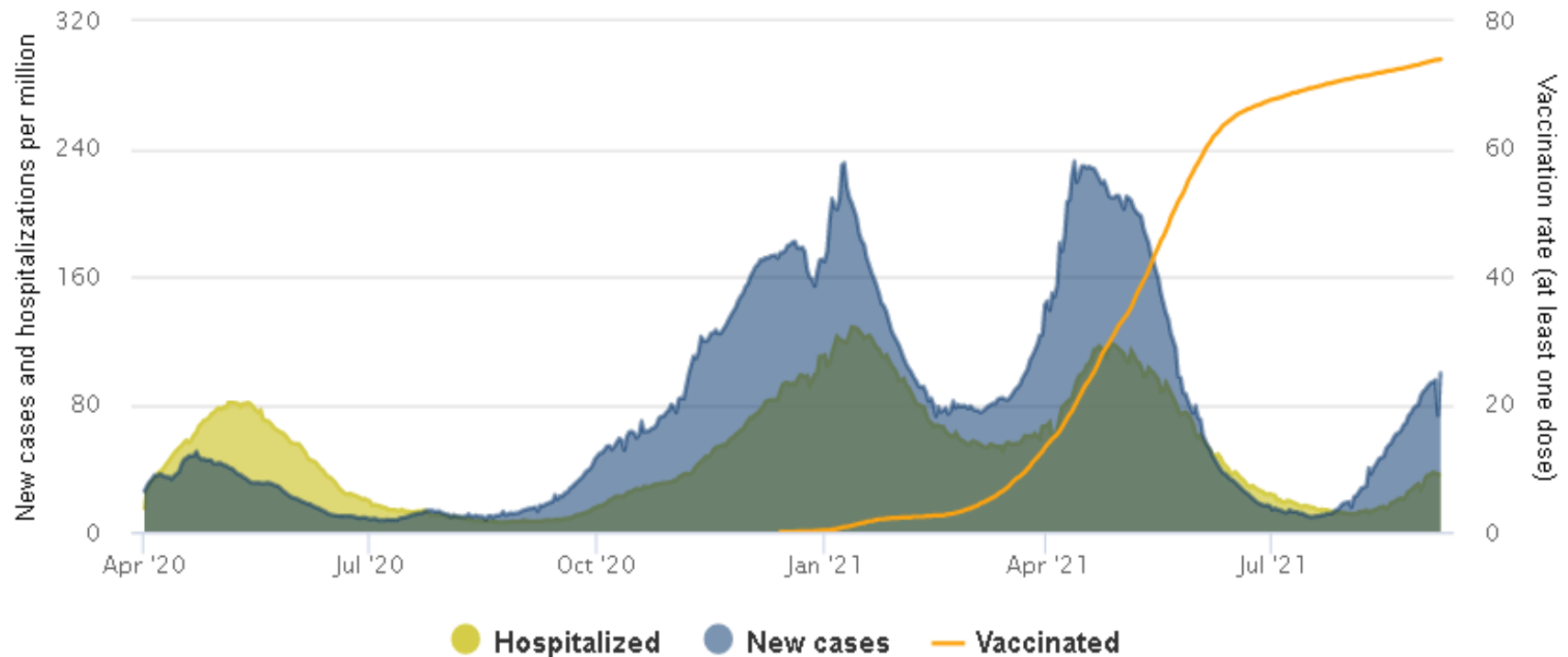
Canadian Household Disposable Income





Consumer Confidence and the Fourth Wave

Canada COVID cases vs hospitalizations

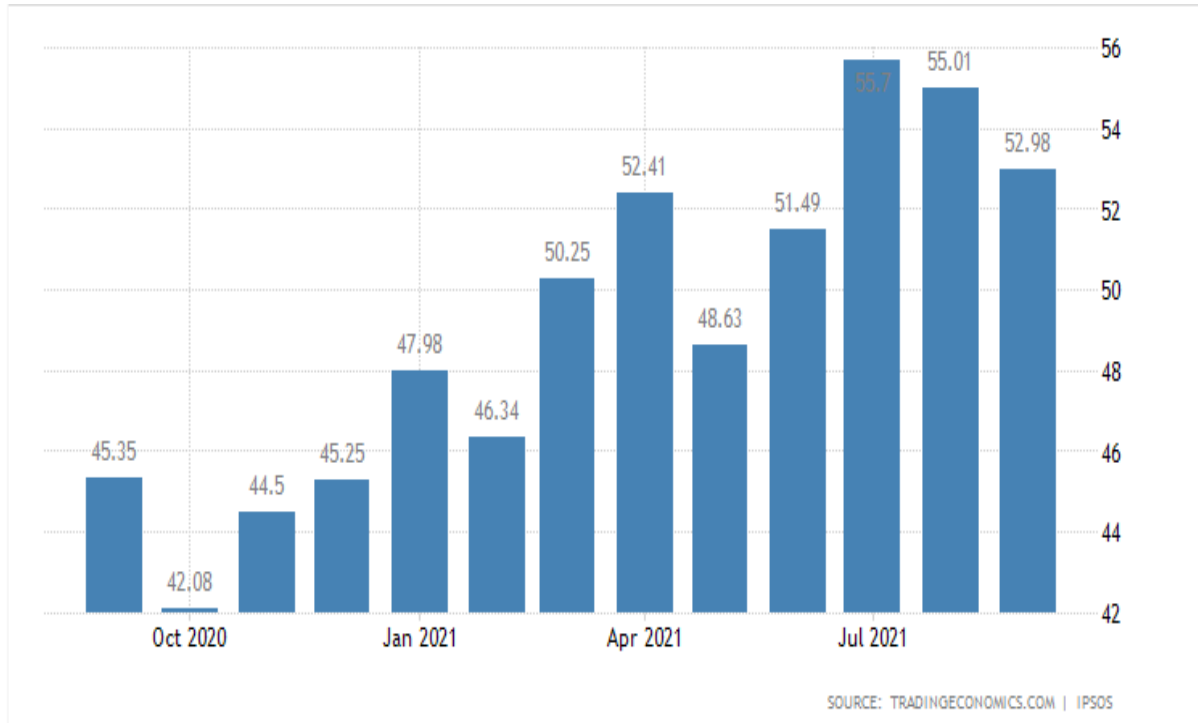


Source: Our World in Data, RBC Economics

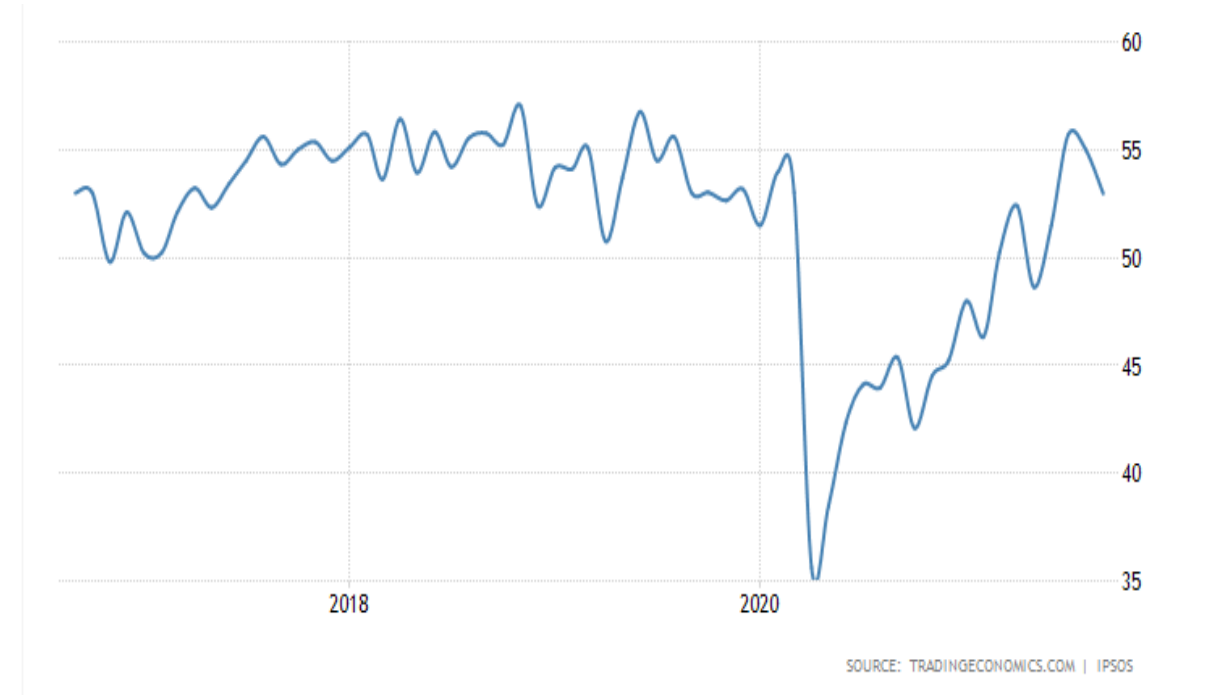


Consumer Confidence: Peaked in July, trending down through Q3

One year



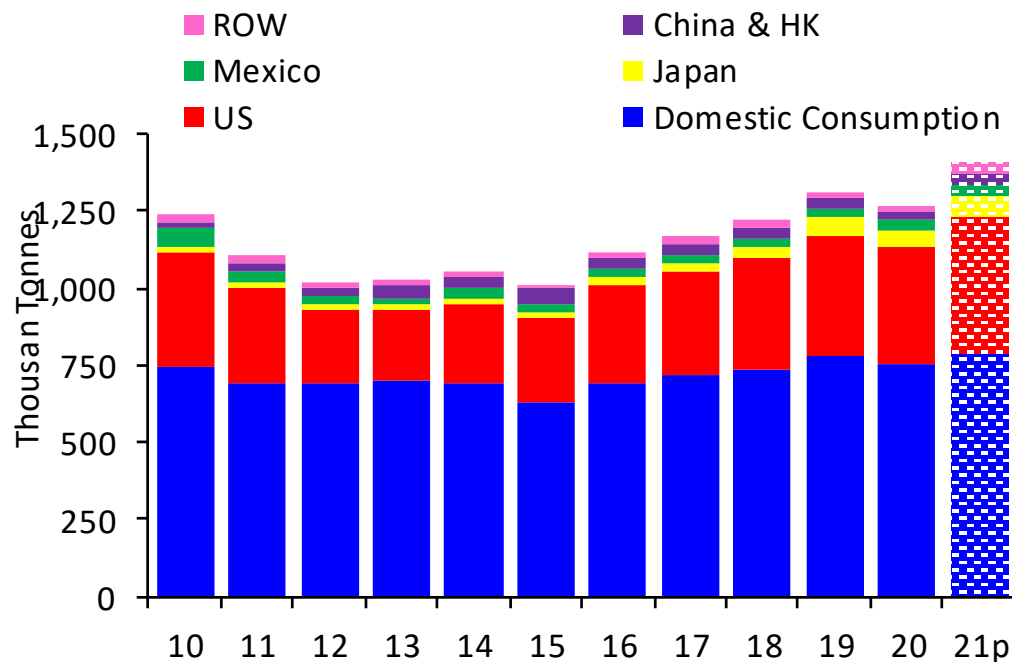
Five year





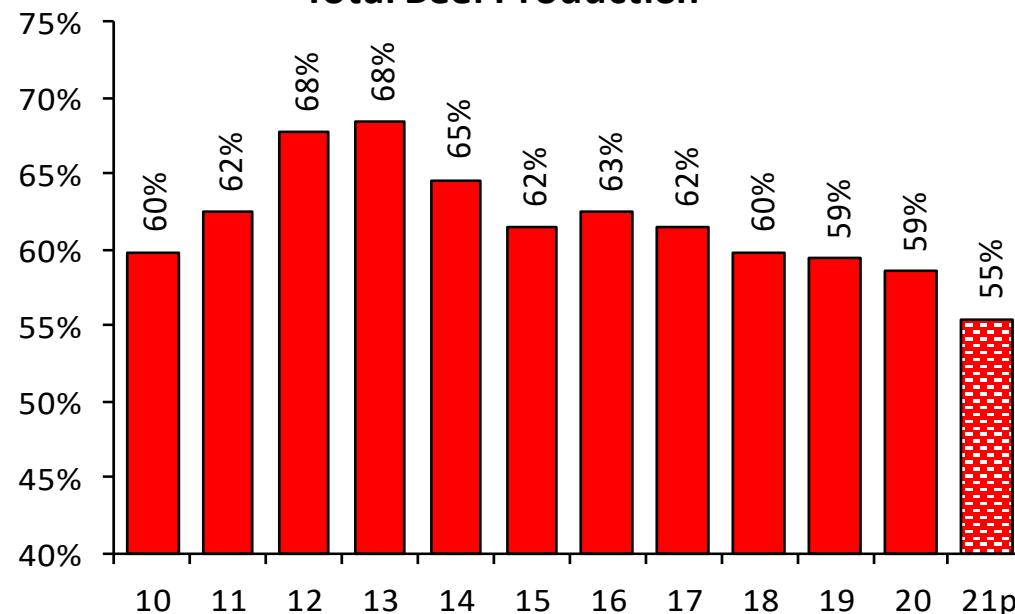
Beef Disposition: Domestic beef production projected to be +11.4%!

Disposition of Canadian Beef



Source: Statistics Canada, CRS

Consumption of Canadian Beef as a % of Total Beef Production



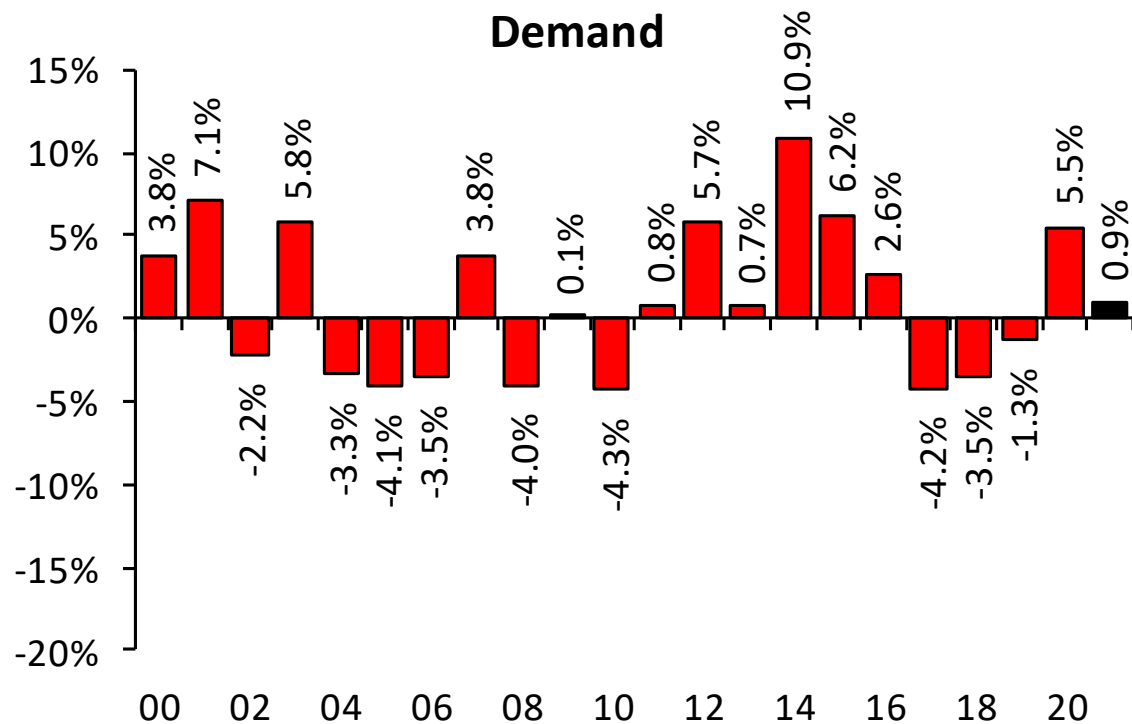
Source: Statistics Canada,

1.7% increase projected for domestic consumption, which would be the sixth consecutive year of increase
The percentage of production going to the domestic market is down 4 percentage points from 2020



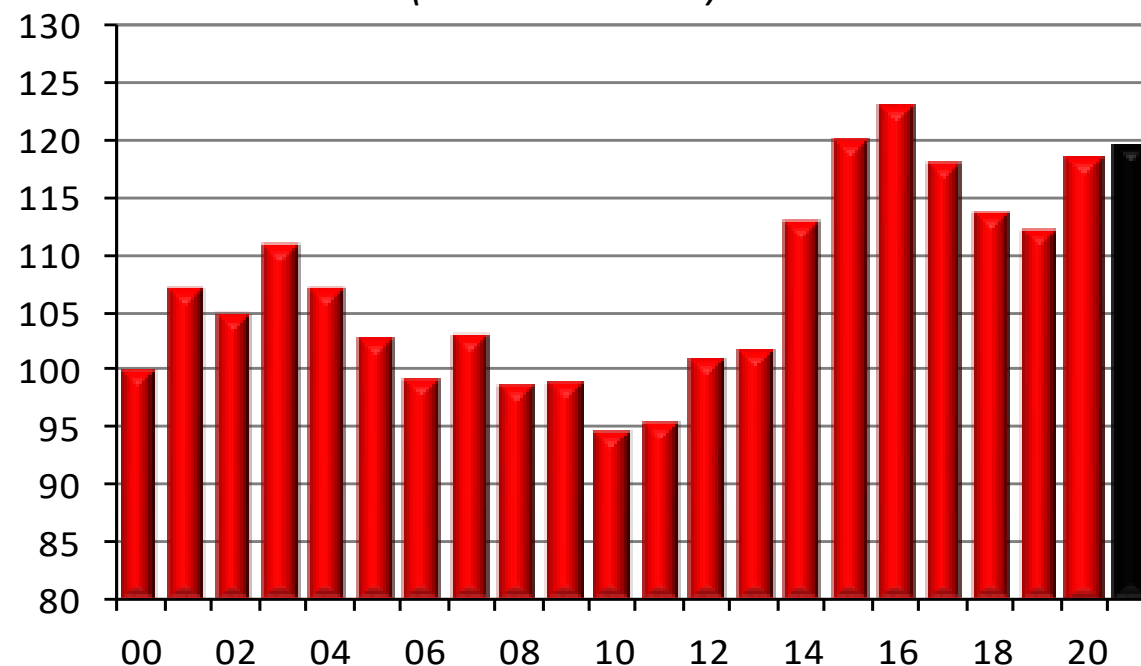
Beef Demand: Domestic beef demand projected to be +0.9%

Yr/Yr % Change in Canadian Retail Beef Demand



Source: CanFax Research

Canadian Retail Beef Demand Index
(Index 2000=100)

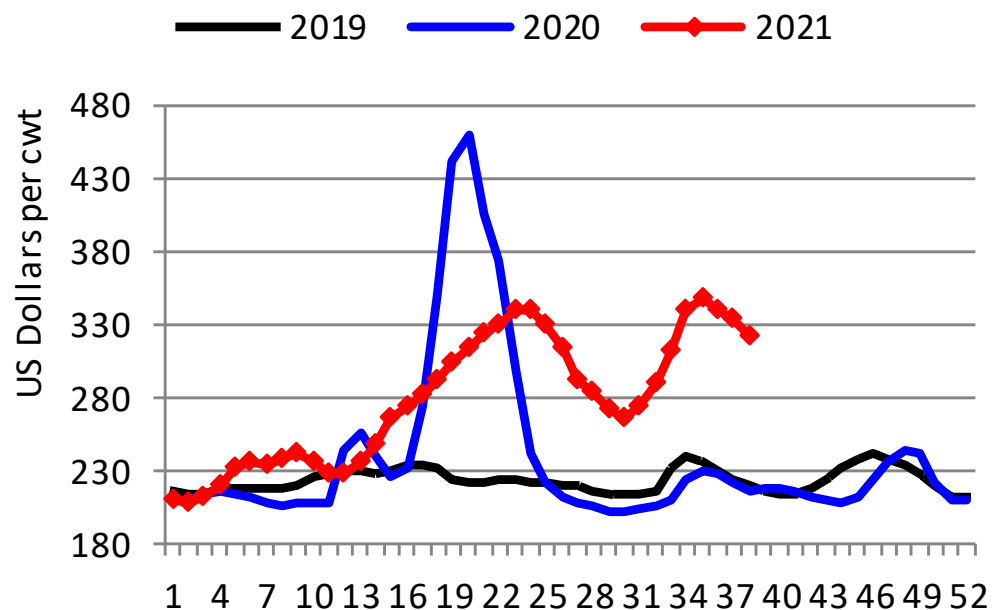


Source: CanFax Research



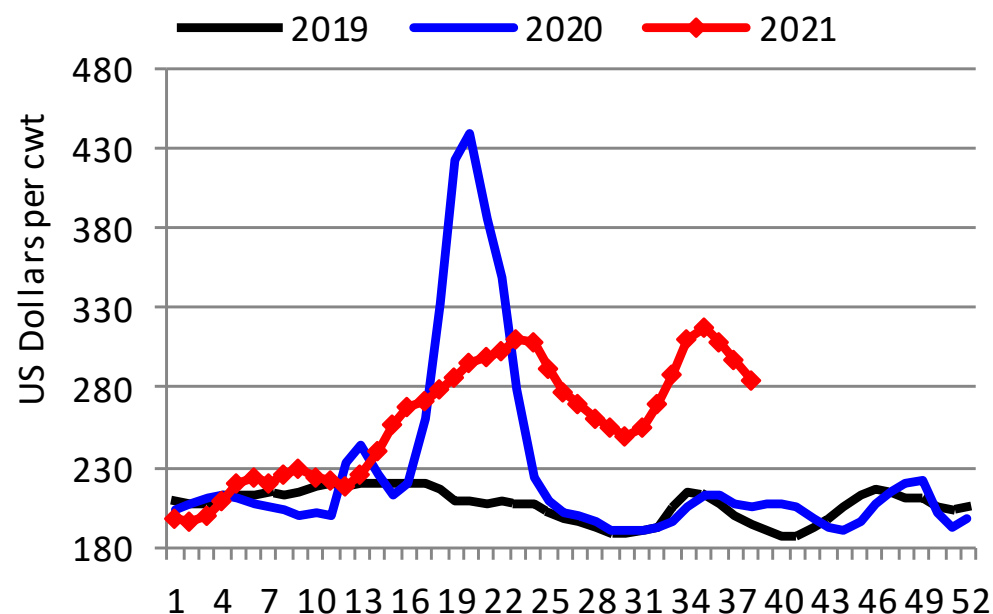
Wholesale Demand: Choice and Select cutouts up 39% from the three-year average YTD for Q3 (July and August)

US Weekly Choice Cutout Values



Source: USDA

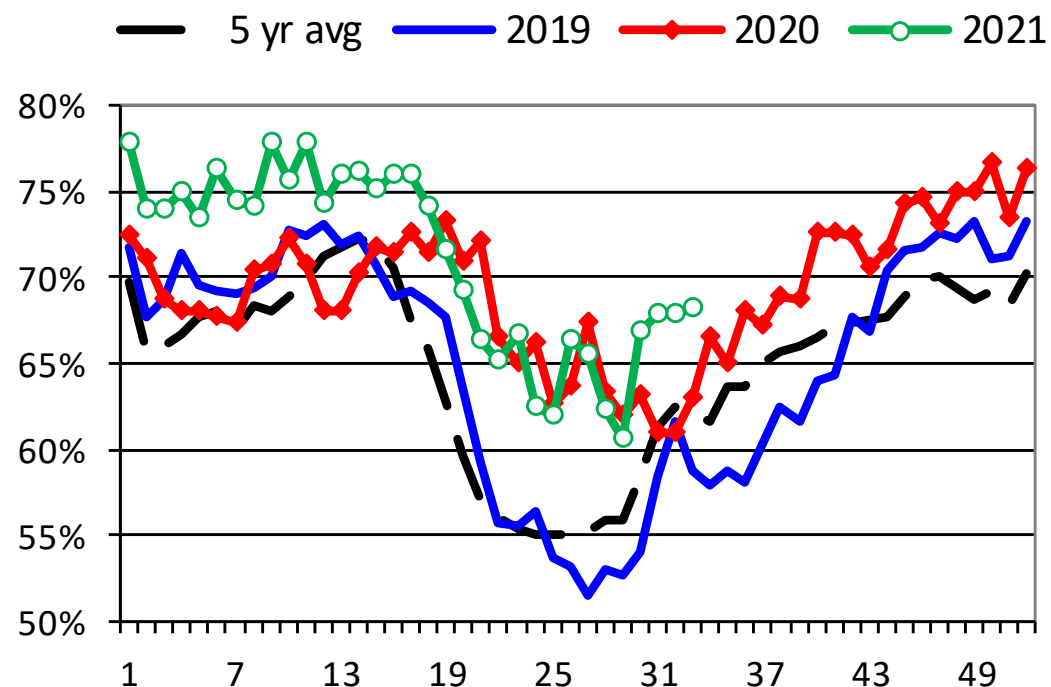
US Weekly Select Cutout Values



Source: USDA

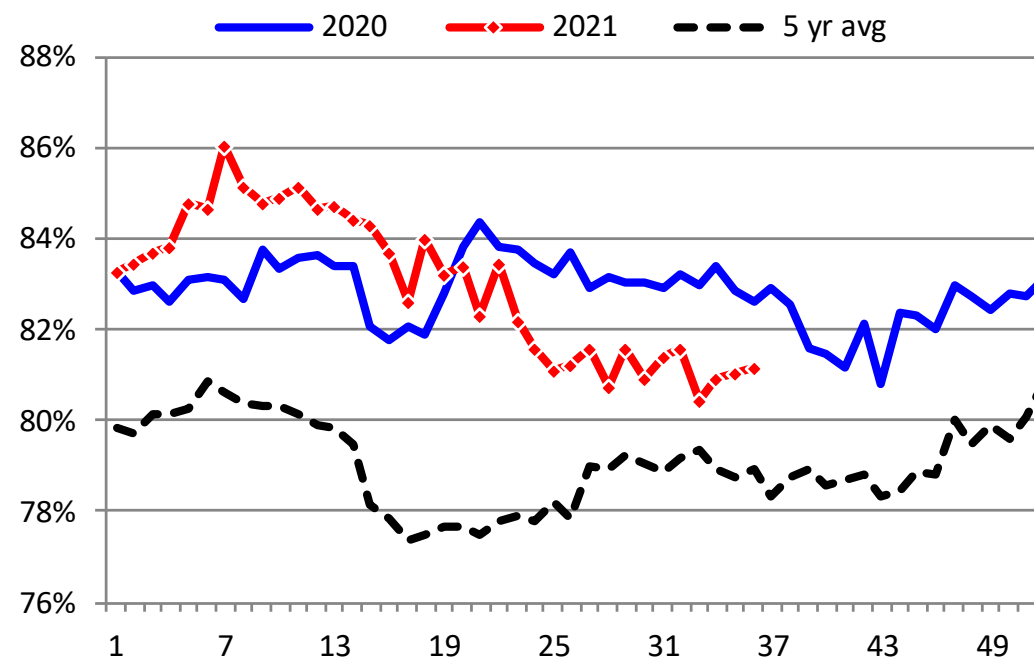
Slaughter and Grading: January through July production of Prime+AAA is up 11% from same period 2019.

Canadian AAA+Prime as % of all A Grades



Source: CBGA

USDA % Choice+Prime

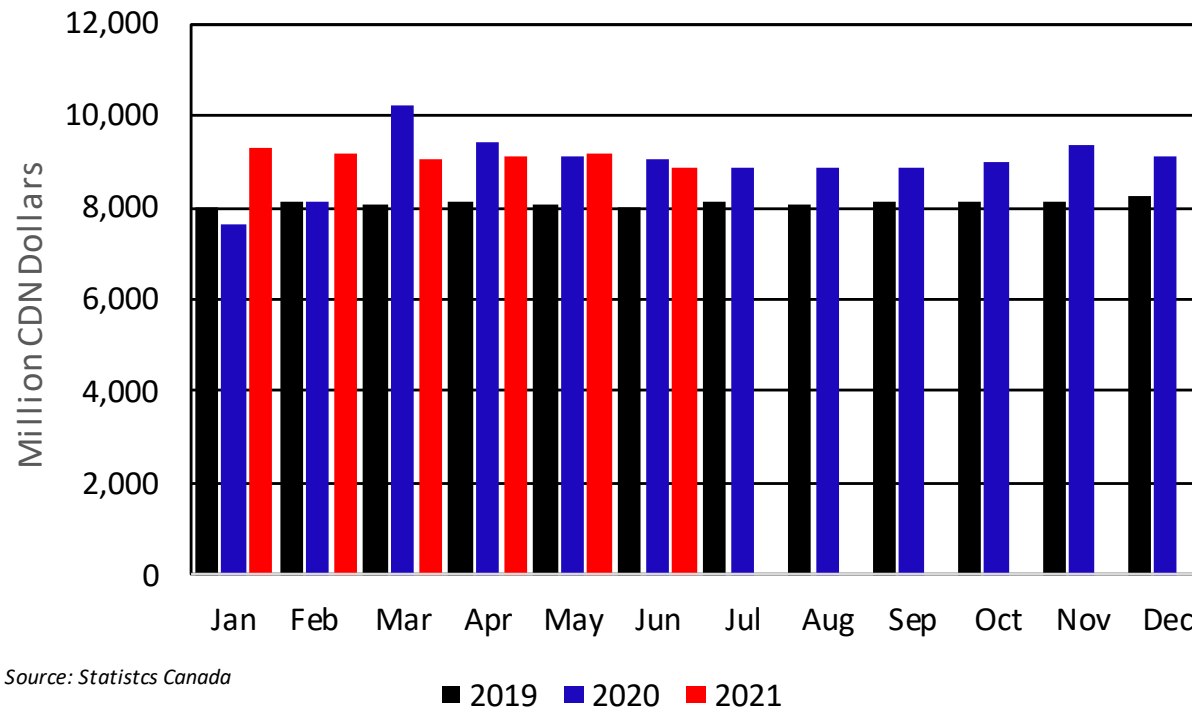


Source: USDA



Supermarket Sales: Demand firmly rooted in retail, +12.2% in the Q2 compared to Q2 2019

Super Markets and Other Grocery

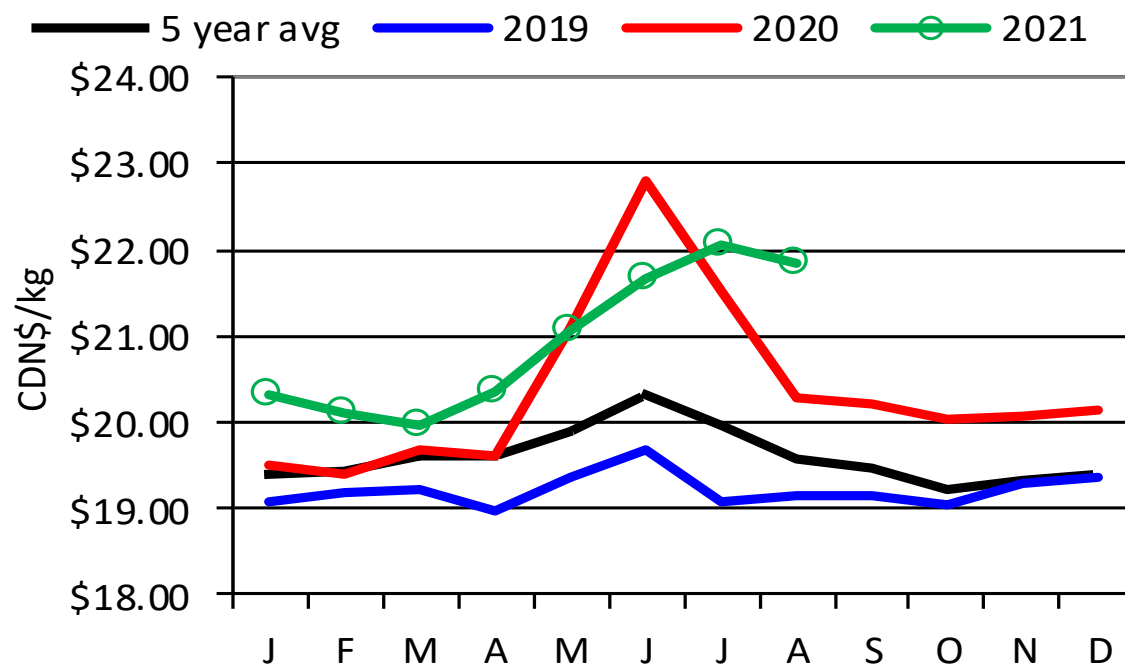


Source: Statistics Canada



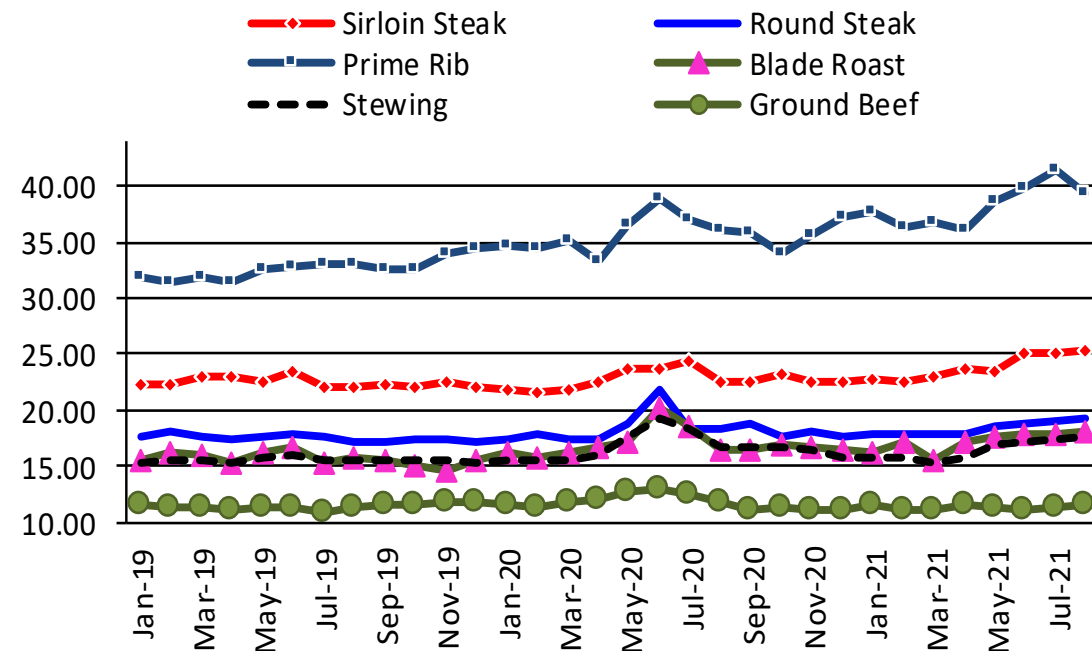
Retail Beef Prices: YTD (July-Aug) retail beef price +2% from 2020 and +9% from 2019

Retail Beef Prices (Not Deflated)



Source: Statistics Canada

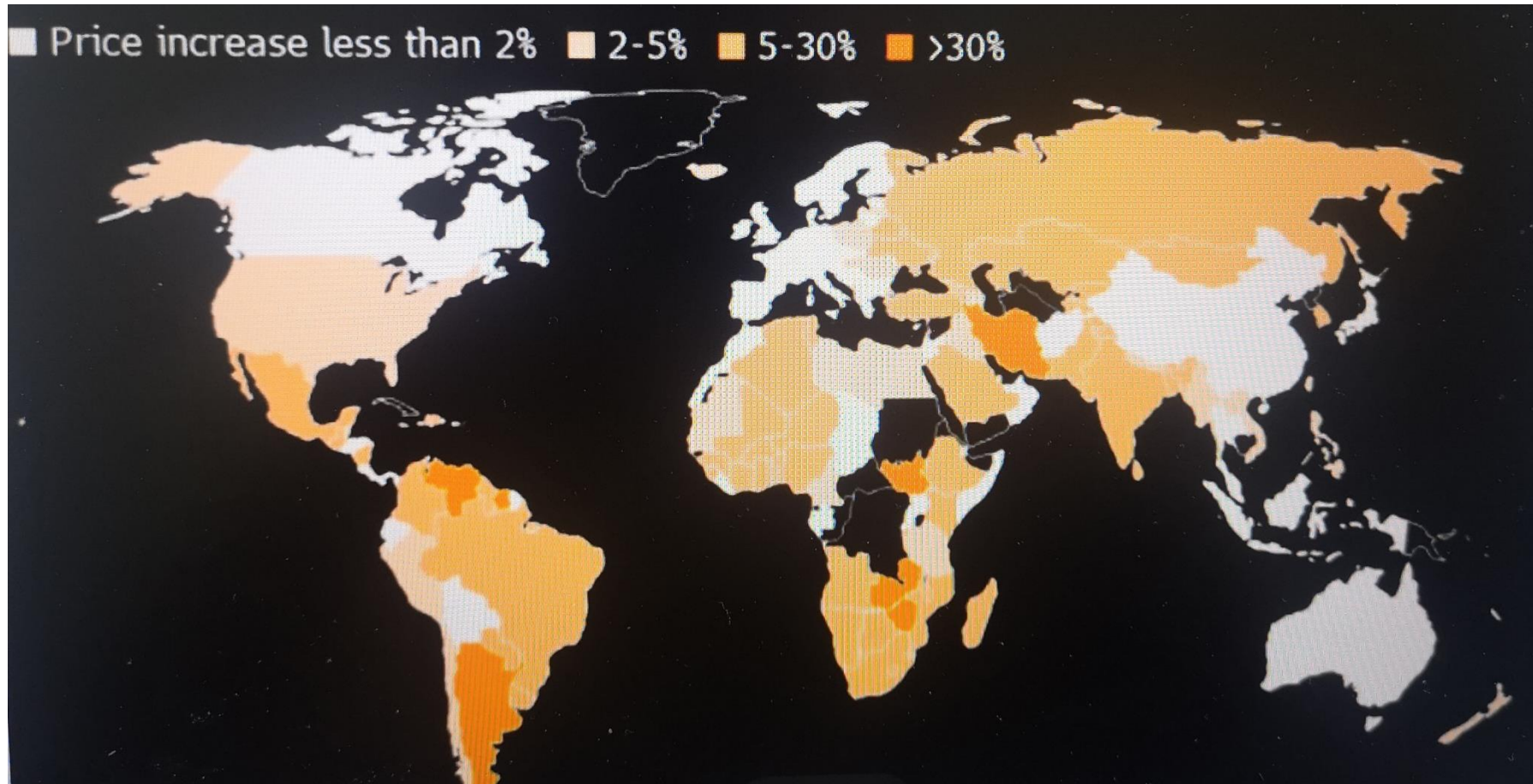
Retail Beef Prices



Source: Statistics Canada



World Food Price Inflation



Source: World Bank, Global AgriTrends

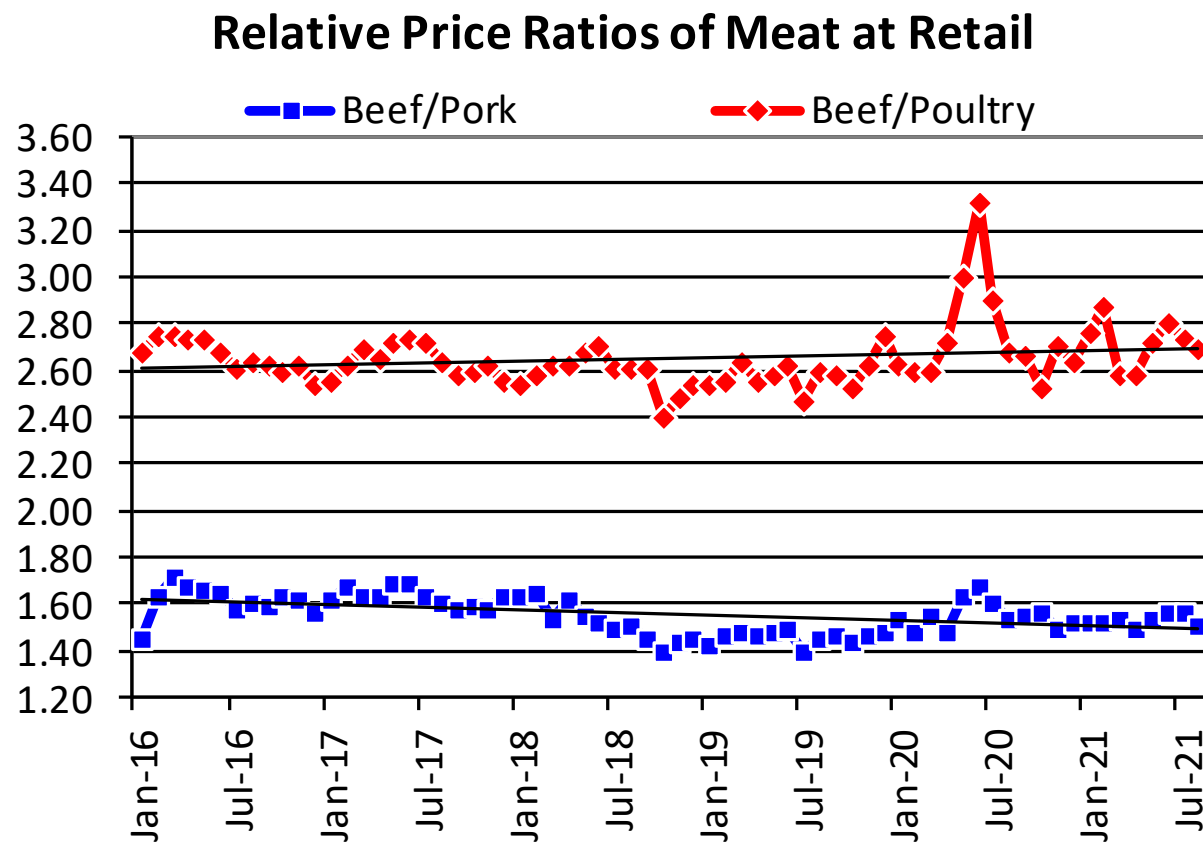


Retail Price Ratios: Moved down in August to normal ranges

Beef:Chicken = 2.69 August 2021 vs. 2.67 August 2020 and 2.59 August 2019

Pork is at it's second highest price on record since 1979, keeping beef:pork relative price ratios in check

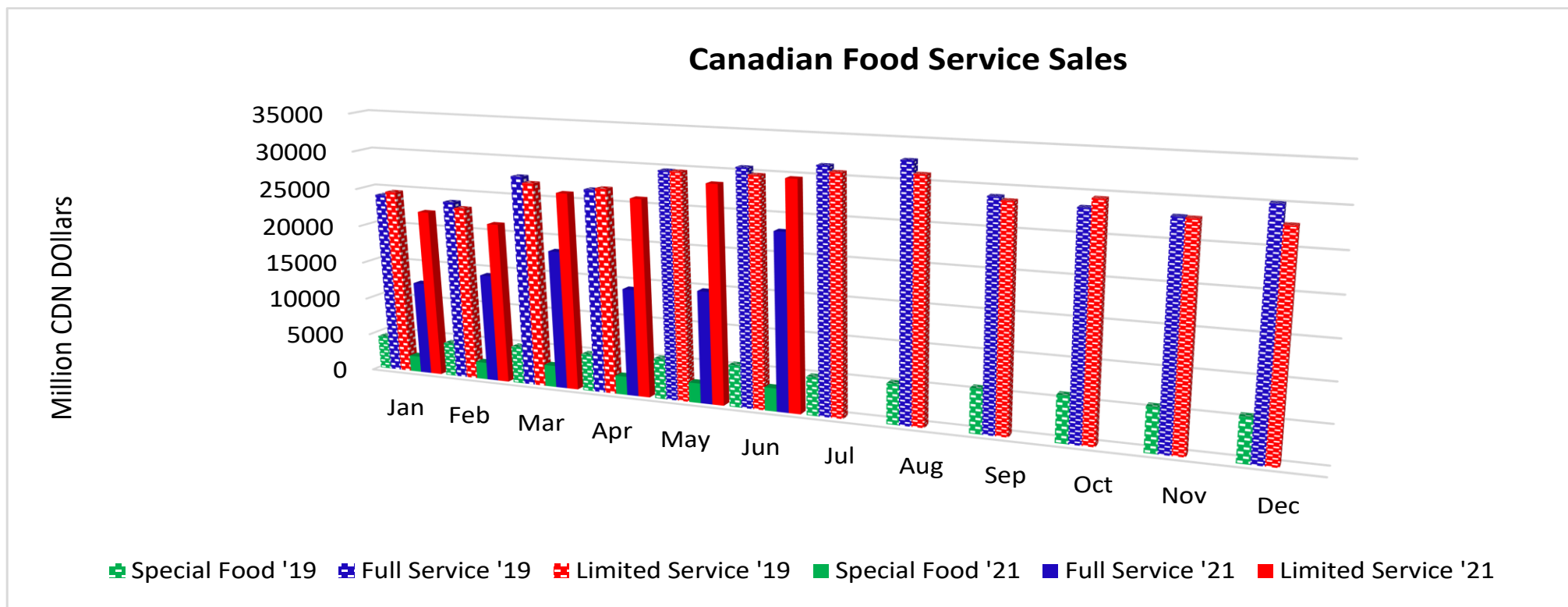
Beef:Pork = 1.51 August 2021 vs 1.53 in August 2020 and 1.44 in August 2019



Source: Statistics Canada



Food service: June 2021 sales up 25% from June 2020, but down 20% from June 2019.





Summary

Bullish

- More money, more people, more middle class consumers
- Nationwide – decreasing hospitalizations
- Capital investment – restocking
- Higher domestic beef demand
- Ample supply of high-value beef
- Retail price ratio decreases

Bearish

- Consumer confidence (4th wave)
- Increased business costs (e.g. labour) driving up prices
- Food service demand – will it be the same
- The end of government transfers?



Thank-you

Questions??