



CanFax Research Services

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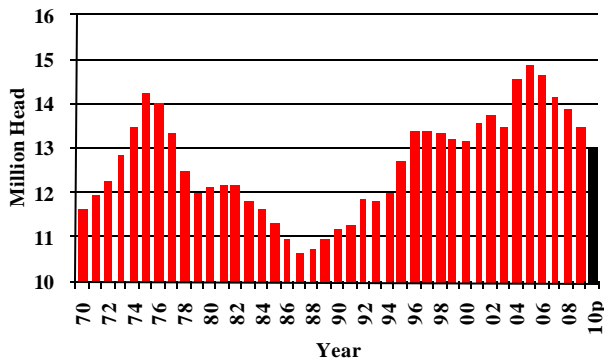
March 2009

Quarterly Report

INVENTORY

The most recent inventory report released by Statistics Canada provides January 1, 2009 numbers. Canada's national herd declined for the fourth consecutive year, with declines occurring in most provinces. Cattle inventories were down 5.1 per cent or 715,000 head to 13.18 million head. Inventories are now 12 per cent below the 2005 peak and two per cent below 2003 (pre-BSE) levels. Significant market uncertainty, rising input costs, and costs associated with the implementation of mandatory country of origin labeling in the U.S. have all encouraged the continued liquidation of the national herd in 2008.

**Canadian Total Cattle & Calves
January 1**

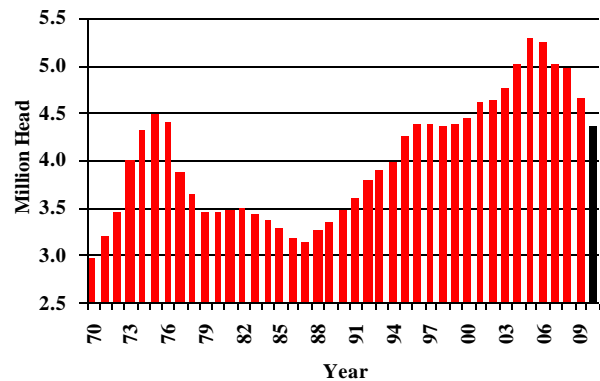


Source: Statistics Canada

Beef cow inventories are down 6.6 per cent from 2008 and are now two per cent below 2003 levels. With 2008 representing the first full year of slaughter cow exports to the U.S., total slaughter cow marketings increased 30 per cent. Beef cow inventories declined in most provinces, with the largest decline seen in B.C. where numbers decreased 15 per cent. This was followed by an 8.4 per cent decline in Ontario, 7 per cent in Alberta, 6.4 per cent in Manitoba and 6 per cent in Saskatchewan. Beef cow inventories increased five per cent in Quebec. Part of the difference

between provinces can be attributed to movement of cows in 2004 and 2005 due to feed availability.

**Canadian Beef Cow Numbers
January 1**



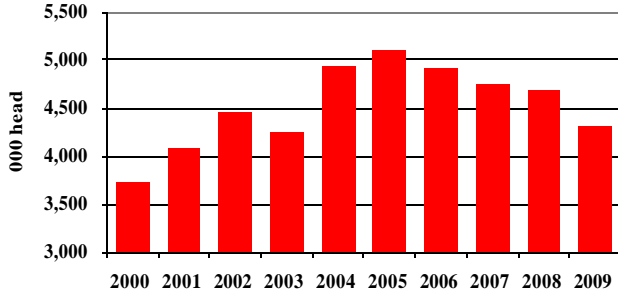
Source: Statistics Canada

The number of steers (>1yr) were down four per cent, while calf numbers (<1yr) were down 2.3 per cent. This is partly due to record large feeder exports in 2008. Inventories on feed declined 9.7 per cent to 1.88 million head from 2.08 million in 2008. The largest reductions were seen in the heavier (>1100 lb) and lighter weight (<900 lb) categories with larger decreases for heifers. Lower on feed numbers have persisted even though Canada's cost of gain declined through the second half of 2008 to be similar to the U.S. cost of gain. Feedlot inventories will continue to fluctuate as cost of gain advantages become clear and U.S. packers announce, which plants will be accepting Canadian feeder and fed cattle and how often.

Statistics Canada reported feeder and calf supplies outside of feedlots down 8 per cent from 2008 to 4.32 million head. This is the lowest inventory outside of feedlots since 2003. With fewer cattle coming to market in the first half of 2009 and a smaller calf crop expected across North America fed supplies are expected to tighten in the second half of 2009 supporting prices. Overall, decreasing inventories and production should support cattle prices in coming years.

However feed costs and consumer demand will be the largest factors in determining what level Canadian inventories fall to before stabilizing. Weakening consumer demand has and will continue have a negative impact on cutout values. Over the near term limited upside potential is expected, as consumers continue to reduce expenditures.

Canadian Feeder and Calf Supply Outside of Feedlots - Jan 1 (Beef only)



Lower fed and feeder cattle prices due to softer local demand by packers and feedlots as production costs increased led to lower fed and feeder cattle prices and encouraged liquidation. In addition higher cow prices, due to strong trim demand, have made producers willing sellers. Cow slaughter is expected to remain steady to slightly lower in 2009. With beef heifer replacement numbers down 10 per cent, inventory numbers are expected to continue to decline in 2009. It is expected that total inventories could be down another three per cent over the next year. Of course with a smaller cow herd, the 2009 calf crop is expected to be down an equal amount.

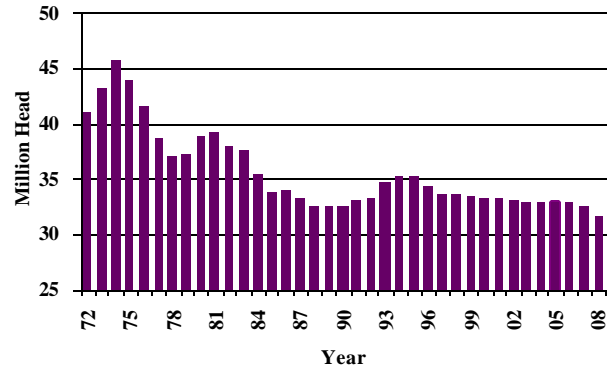
(Breakdown of Provincial cattle inventories is available on page 7)

U.S. CATTLE INVENTORY

Expectations were that U.S. cattle inventories would continue to decline in 2008. With the release of the January 1 report, USDA revised cattle inventories back to July 2007 and inventory declines were shown to be larger than estimated. Total inventories for January 1, 2009 were down 1.6 per cent from revised 2008 levels to 94.5 million head. This was down 2.2 per cent from the original 2008 inventory and puts U.S. cattle inventories at the smallest since 1959. Producers responded strongly to the generally negative year in 2008. Large losses in the cattle feeding sector pressured calf prices down and signaled cow/calf producers to reduce the national herd. Continued drought conditions, high feed costs and market uncertainty resulted in large beef cow slaughter in 2008, which was up 12 per cent from 2007.

Beef cow numbers declined 2.4 per cent to 31.67 million head. This is the smallest inventory since 1990. Beef replacement heifer numbers were also down two per cent to 5.5 million head. The calf crop in 2008 was 36.1 million head down two per cent from 2007 and the smallest since 1951. With reductions in the cow herd and heifer numbers the 2009 calf crop is expected to be smaller yet. This points to significant contraction in U.S. beef output for the next two to three years if current trends of large cow slaughter persist and will result in a smaller U.S. herd going into 2010.

U.S. Beef Cow Inventory January 1



Source: USDA, CattleFax

How much will the U.S. herd contract? Recessionary pressures in the U.S. are expected to impact the beef industry more than other proteins as it is the highest priced protein. Strong demand for trim product has been observed throughout 2008 and is expected to continue in 2009. Consumption and beef prices will be large factors determining what level of liquidation occurs in the U.S. cattle herd. Therefore, the length and duration of the economic woes in the U.S. will have a large and sustained impact on the U.S. beef industry.

| | 2008 | 2009 | 09 as % of 08 |
|------------------|--------|--------|---------------|
| Bulls | 2,207 | 2,184 | -1.0% |
| Beef Cows | 32,435 | 31,671 | -2.4% |
| Dairy Cows | 9,257 | 9,333 | +0.8% |
| Dairy Heifers | 4,415 | 4,410 | -0.1% |
| Beef Hfrs (brd) | 5,647 | 5,526 | -2.1% |
| Beef Hfrs (sltr) | 9,793 | 9,650 | -1.5% |
| Steers | 17,163 | 16,774 | -2.3% |
| Calves | 15,118 | 14,943 | -1.2% |
| Total | 96,035 | 94,491 | -1.6% |

Source: USDA

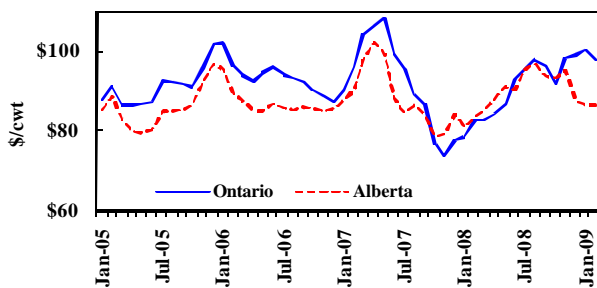
PRICES

FED CATTLE

In February fed cattle prices averaged \$86.50/cwt in Alberta and \$97.75/cwt in Ontario. This is \$3 and \$15 higher than last February when prices were only just recovering from record lows. Prices in Ontario have strengthened with tight supplies, while Alberta prices continue to struggle due to weaker demand. The Alberta-Ontario spread went back to being strongly negative (-\$11/cwt) in the last three months after being positive between October 2007 and November 2008. This was the longest period of the spread being positive and the first time since January 2005 that it had been positive. The negative spread has resulted in increased fed cattle from Manitoba and Saskatchewan moving into Ontario in the first part of the year.

Weaker prices in Alberta were due to instability in the stock market and soft demand from one plant that appeared to be cleaning out its coolers. This resulted in producers holding out for better prices. Since cattle were not quite ready they were able to do this handily, reducing volumes. Alberta fed slaughter in February was down 8.5 per cent from January and steady with a year ago. Supplies are expected to tighten further in March and April as feedlots have finished with yearlings and calves are not quite ready yet. Tighter supplies and increased packer competition has pushed prices up in March to \$95/cwt this week.

FED STEER PRICES
Alberta & Ontario - Jan/05 - Feb/09

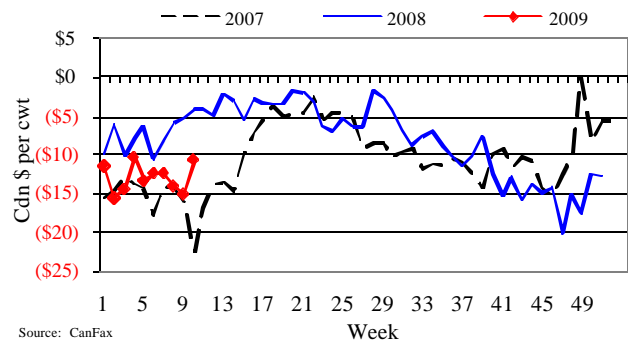


Source: CanFax

Fed cattle prices are expected to follow a more seasonal trend in 2009 after being counter-seasonal in 2008. Tighter supplies in the first quarter will support prices moving into the spring when grilling demand starts. Then tighter supplies across North America moving into the fourth quarter are expected to keep prices strong. However, the main factor impacting fed cattle prices in 2009 will be consumer demand, both domestically and internationally.

Fed cattle exports were down 21 per cent to 661,000 head in 2008. Exports are expected to continue to fall in 2009, as large feeder exports have reduced available supplies and COOL has reduced U.S. packer interest. Fed exports are down 38 per cent year to date from 2007 and 2008. Packers kept more fed cattle in Canada in 2008 with fed slaughter up 0.8 per cent despite the tighter supplies and this trend has continued into 2009 with fed slaughter up 12 per cent year to date. Canadian packers have seen an improved position with an easing labour situation, increased utilization rates and a lower dollar. With the implementation of country of origin labeling in the U.S., domestic packers have also seen reduced competition for Canadian cattle, which has further improved their position. At the same time weak cutout demand and reduced by-product values will continue to limit substantial improvements in margins over the near term.

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



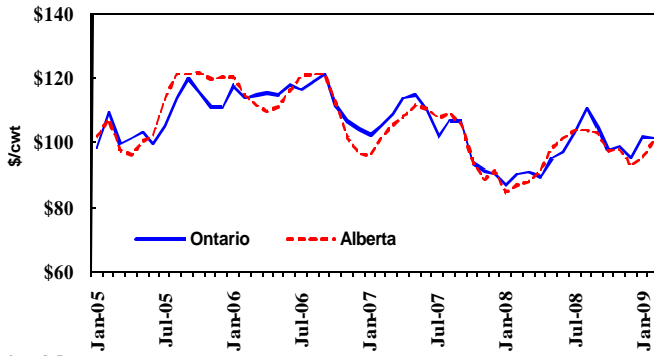
Source: CanFax

The Alberta to Nebraska cash basis averaged -\$15/cwt in fourth quarter of 2008, \$5 wider than 2007. The basis has averaged -\$13/cwt so far in 2009. This is \$5.50 wider than 2008 and \$3 narrower than 2007. The basis which reflects local supply and demand situations implies that there was weaker demand throughout the fourth and first quarters in Alberta. This is partly because of reduced U.S. packer interest as plants were designated for Canadian fed and feeder cattle and receiving cattle on limited days. While more U.S. plants are bidding on Canadian fed and feeder cattle in 2009 after the final COOL Rule was published and implemented on schedule, some plants continue to discount prices due to higher costs. The strength of the basis in fourth quarter 2007 and first quarter 2008 was partly due to increased competition and interest in non-fed cattle after the U.S. border opened to over-30-month cattle. This tightened domestic supplies of slaughter cattle and competition for fed cattle, narrowed the basis.

FEEDER CATTLE

Alberta and Ontario 750 lb feeder steer prices averaged \$101/cwt and \$102/cwt in February. This is \$13 and \$11 above 2008 prices. Alberta 750 lb feeder steer prices averaged \$96/cwt in 2008, down from \$103/cwt in 2007. Prices increased from \$85.50/cwt in January to peak in August at \$105/cwt before falling to \$93 in December. Prices have increased in the first part of the year with strong interest in grass cattle increasing prices to \$96/cwt and \$101/cwt in January and February. Interest in grass cattle has expanded outside the typical weight ranges.

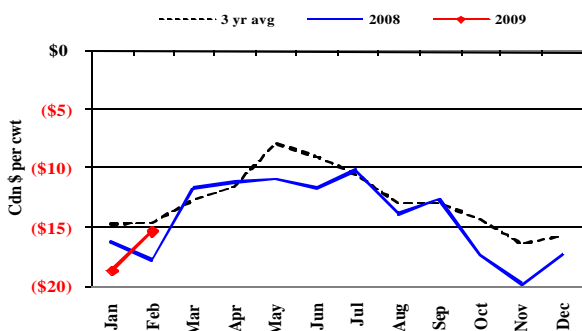
7-800 LB FEEDER STEER PRICES
Alberta & Ontario - Jan/05 - Feb/09



Source: CanFax

Ontario feeder steer prices averaged \$97/cwt in 2008, down from \$104/cwt in 2007. Prices increased from \$87/cwt in January 2008 to peak in August at \$111/cwt before falling to \$88/cwt in December. Stronger fed cattle prices have supported the feeder market in the first part of 2009 increasing prices to \$102/cwt in January and February. Supplies of feeder cattle are expected to tighten through 2009 supporting prices.

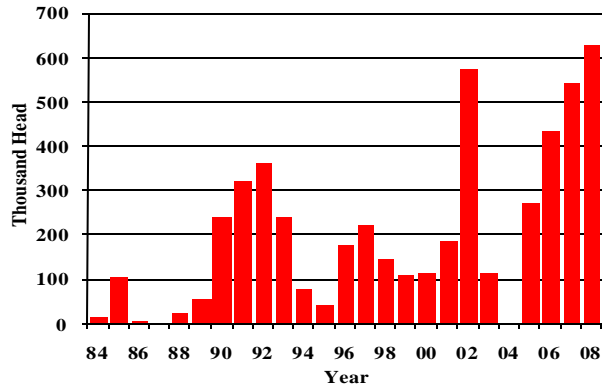
Alberta 750 lb Feeder Steer Basis



Alberta 750 lb steer feeder basis continues to be historically wide at -\$14/cwt in 2008 compared to a 3yr average of -\$13/cwt (06-08 average) and a historic average of -\$2.50/cwt (00-02 average). The wider basis can be attributed to strong U.S. demand in recent years, which is reflected in the record high exports over this

period. In addition, higher feed costs, a volatile market and negative feeding returns have reduced domestic demand. The basis has averaged -\$18.50 and -\$15 in January and February, \$4 and \$1 wider than the 3yr average for those months.

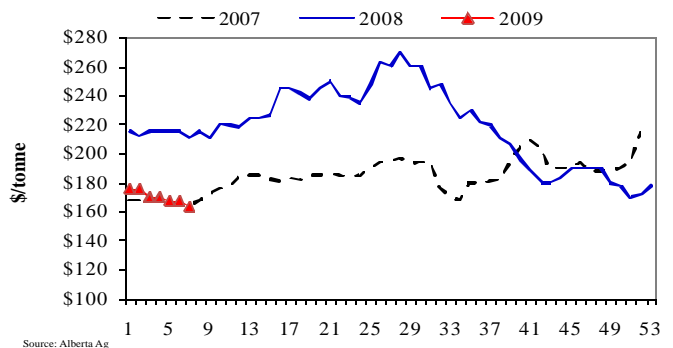
Canadian Feeder Cattle Exports



Source: Statistics Canada

Feeder exports were record large in 2008 at 630,000 head up 16 per cent from 2007. Feeder exports are down 46 per cent year to date from 2008; but only down 15 per cent from 2007 and 2006. While exports to the U.S. have declined to more historical levels in the first part of 2009 increased interest from eastern Canada may simply result in a shift of destination at least over the near term. Tighter supplies in the U.S. are expected to keep feedlot demand there strong while a cheaper cost of gain in Canada is expected to keep more cattle at home.

Weekly Average Lethbridge Barley Prices



Source: Alberta Ag

Barley prices have been falling since peaking last July. In February Lethbridge barley cost \$167/tonne (\$3.64/bu) while Omaha corn cost \$185/tonne (\$4.70/bu). The lower cost of gain in Canada should increase feeder prices in coming months as long as corn prices do not increase dramatically with spring acreage expectations and ethanol production expectations. Corn used for ethanol is expected to increase to 33 per cent of production in 2009 from 30 per cent in 2008. This will keep competition for acres strong in the coming year.

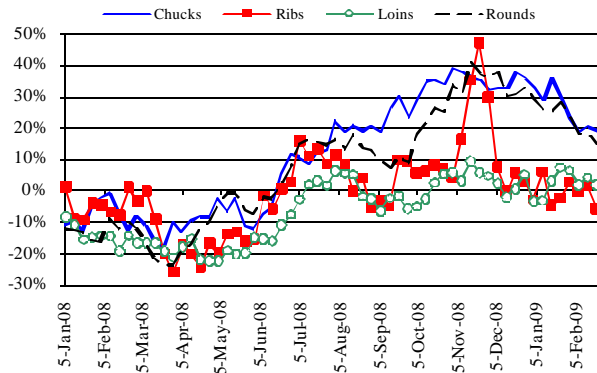
RETAIL BEEF PRICES

Over the past several months consumers have been scaling back on their consumption of all products, including beef. Consumers have shifted towards lower priced proteins, such as pork and poultry, as well as moving away from higher priced products or cuts towards lower priced products within proteins. In addition to the shift that has been seen away from foodservice towards retailers, as consumers tighten their budgets, the continued economic challenges have consumers starting to purchase more fresh meats and move away from more expensive heat-and-serve entrees.

Weak consumer demand is expected to limit any spring rally in beef and fed cattle prices. Middle meats have been hit especially hard, which is an issue in that while they only represent 30 per cent of total volumes, they account for over 50 per cent of the value of the cutout. Whereas the value of chucks and rounds has been relatively strong, but these primal only contribute 38 per cent of the value. Trim products, which have seen strong demand in light of a weakening economy and consequently stronger prices, only contribute 12 per cent to the cutout value. In 2009 rib primal values are down six percent, while loin primal values are up two per cent compared to a year ago. At the same time chuck and round primal values are up 19 and 15 per cent respectively. However the large increases in the chuck and round prices only contribute to a small

dollar increase to the overall cutout value. Cutout values are currently up \$10-15/cwt from last year's lows but down \$2-4/cwt from the same time period in 2006 and 2007. Moving forward in 2009, advances in the cutout will be hard to come by.

Yr/Yr % Change in Various Beef Primal Values



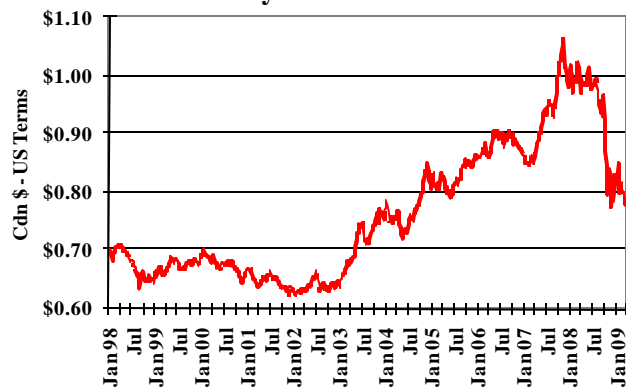
Historically a spring rally in beef prices is based upon increased demand for beef middle meats as consumers start up the grilling season in April. The rally may be limited this year as consumers' trade steak for hamburgers on the grill. At the same time higher priced cutouts may come from reduced supplies as protein production is scaled back. However any upward movement due to reduced supplies is expected to be short-lived, as moving into summer beef supplies are expected to increase pressuring cutouts downwards.

THE EXCHANGE RATE

As an export oriented industry the value of the Canadian dollar has always played a direct role in the price of Canadian cattle, beef and grain - which are heavily influenced by U.S. prices because of the ability to arbitrage in an open North American market. Research has shown that as the exchange rate appreciates by one per cent, cattle and beef prices decrease by one per cent. At the same time, research demonstrates that the exchange rate does not have a direct impact on the volume of beef and cattle traded. While this is contrary to popular belief that a depreciating currency results in larger exports and an appreciating currency results in less exports, the strength in live cattle exports and beef trade throughout periods of an appreciating dollar support the research findings. Instead, exchange rate impacts are directly reflected in prices in the domestic market with an appreciating dollar resulting in lower Canadian cattle and beef prices. At times when the exchange

rate is relatively steady, its role has seemed small compared to other market factors. However due to the increased value and volatility in the dollar recently, any change in the dollar is almost immediately felt in the cattle and beef markets.

Weekly Canadian Dollar

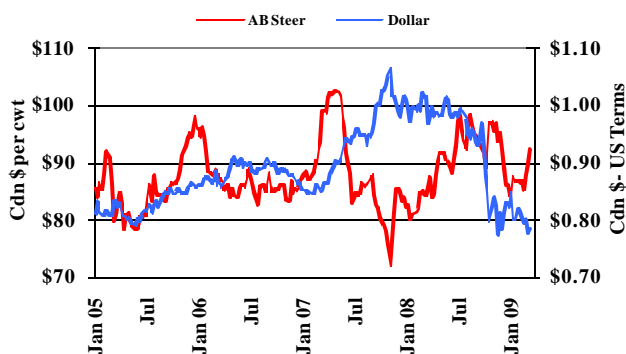


Source: Bank of Canada

Recent Events

The Canadian dollar has seen rapid changes over the last couple of years. After appreciating from 0.85 to parity in 2007 it ranged between 0.98 and 1.02 from January to July of 2008 before declining to 0.82 by the end of the year. The dollar is directly linked with fluctuating oil prices, which have been pressured lower with declining world demand as the financial markets slumped. Volatile financial markets have had wide ranging impacts with tightening credit limiting global economic growth. Demand for oil, raw materials, food and feed sources have all softened. A weaker outlook for global demand is expected to drag on the Canadian economy which depends on exports.

**Weekly AB Fed Steer Price
vs Canadian Dollar**



Source: Canfax, Bank of Canada

A lower dollar in the fall of 2008 has supported fed and feeder cattle prices, however not to the level expected. **Historically a one per cent decrease in the exchange rate would increase domestic cattle prices by one per cent.** But the decline in the Canadian dollar since July has not seen a corresponding increase in Canadian cattle prices, as a result of country of origin labeling (COOL) and growing economic concerns that have negatively impacted consumer demand and limited upside potential for cutout values.

Impact on Producers

The volatility of the Canadian dollar has been a large factor influencing fed cattle prices over the last couple years. Since the time between placing the animal on feed and actual selling the finished animal is several months the dramatic swings in the dollar can result in significant changes in the final price received. With a generally static fed cattle supply and plant utilization, there has been no other market factor in recent years that influences the market from week to week like the Canadian dollar. In the fall of 2007 a rapid appreciation in the dollar resulted in 10 per cent less

dollars going to Canadian producers. With an average Alberta fed cattle price of \$88.50 in 2008, a \$0.10 move in either direction of the Canadian dollar would result in a \$9/cwt or \$121.50/head change in the fed cattle market in the opposite direction. Feeder cattle and beef prices are similarly impacted. Consequently, local prices and overall industry profitability are greatly influenced if and to what level the dollar moves.

Outlook

After Canada unexpectedly had a trade deficit in December for the first time since March 1976, Canadian economic growth was negative in the fourth quarter of 2008. The Canadian economy is not as rosy as initially was thought. When oil and gas export volumes are examined, it is seen that they have actually declined 20 per cent since 2002. It is only because of strong commodity prices that there has been a trade surplus in recent years. With what looks to be more bad news in first quarter of 2009 the dollar is expected to continue to struggle. Economic activity in Canada is projected to decline further in 2009 before rebounding in 2010, as the global economy and commodities slowly recover. The dollar is expected to fall to \$0.76 in the second quarter before firming in the fourth to end the year at \$0.80. The speed at which things happen is subject to a high degree of uncertainty and will depend on the U.S. economy and how successful government stimulus in North America is at stabilizing the economy. While it is likely to take longer to get back to a par dollar, as a country rich with scarce resources demanded by the world the loonie could be back at par with the U.S. dollar in a couple of years.

With the Canadian dollar so closely linked to oil prices there is no other market fundamental in the near future expected to influence the dollar like oil. However while oil prices are determined by a roller coaster stock market there is little information available in the way of economic forecasting over the short term.

Risk Management Options

Cattle feeders deals with many forms of risk from the cost of feeder cattle, the cost of gain, currency risk, the price of fat cattle and basis. Producers have tools available to them for managing risk at all of these points in the production chain. However, the cost of using some of these tools is substantial. The initial payment for buying a hedge or the margin calls on a futures contract, as well as the expertise required in managing these transactions, limit the use of some of the risk management tools. The volatility in the dollar has impacted profitability and in some cases their ability to

use some of these tools. By not managing currency risk, producers are vulnerable to the risk of being exposed to losses as a result of an appreciating dollar, but at the same time also open to all the gains available in a depreciating dollar.

Hedging the dollar provides some level of risk management. This involves taking offsetting positions so that you end up with the known currency value that you originally hedged. If the currency has been hedged, for example, a December dollar is bought at \$0.80 and the dollar rises to \$1.00 before being sold, then the \$0.20 gain in the currency counters losses in the fed cattle price. Remember that the one to one ratio is a historic average and does not always match, therefore additional gains or losses may be made on any one transaction. While most risk management strategies are aimed towards managing an appreciating dollar, it is important to remember that this strategy

limits the opportunities for gains made when the dollar depreciates. For example, if a December dollar is bought at \$1.00 and the dollar falls to \$0.80 before being sold, as it did in 2008, then any gain in the fed cattle cash market is lost in the currency change.

Conclusion

The exchange rate has a direct impact on Canadian cattle prices and hence the profitability of the industry as a whole. Recent fluctuations in the dollar have increased the risk producers are exposed to. The dollar is expected to continue to be volatile in the coming years as the global economies demand for commodities continues to decline before rebounding. While a variety of risk management tools are available to producers they can be very expensive, limiting the number of producers using them and need to be evaluated as to how they fit within the context of each individual operation.

Breakdown of Provincial Cattle Inventories as noted on page 2

| PROVINCIAL CATTLE INVENTORY - JANUARY 1, 2009 (1,000 HEAD) | | | | | | | | | | | |
|--|------|-------|-----------|------------|---------------|--------------|----------------|---------------|---------------|----------|-------|
| | Year | Bulls | Beef Cows | Dairy Cows | Dairy Heifers | Beef Hfr Br. | Beef Hfr Sitr. | Steers > 1 Yr | Calves < 1 yr | Total | |
| Nfld/Lab. | 2008 | 0.1 | 0.7 | 6.7 | 2.1 | 0.1 | 0.1 | 0.1 | 2.6 | 12.5 | |
| | 2009 | 0.1 | 0.7 | 6.6 | 2.2 | 0.1 | 0.1 | 0.1 | 2.5 | 12.4 | |
| P.E.I | 2008 | 0.7 | 13.0 | 13.0 | 7.1 | 1.5 | 9.4 | 12.5 | 19.8 | 77.0 | |
| | 2009 | 0.6 | 12.0 | 12.8 | 7.2 | 1.5 | 9.5 | 14.0 | 18.4 | 76.0 | |
| Nova Scotia | 2008 | 1.5 | 22.0 | 23.5 | 12.5 | 3.4 | 4.9 | 5.9 | 27.3 | 101.0 | |
| | 2009 | 1.6 | 21.7 | 23.0 | 12.0 | 3.2 | 4.5 | 5.8 | 27.2 | 99.0 | |
| New Brunswick | 2008 | 1.0 | 18.7 | 18.8 | 9.4 | 2.5 | 3.0 | 4.1 | 23.5 | 81.0 | |
| | 2009 | 1.1 | 19.1 | 19.0 | 9.2 | 2.7 | 3.4 | 4.7 | 23.8 | 83.0 | |
| Quebec | 2008 | 13.5 | 224.0 | 375.0 | 163.0 | 24.0 | 26.0 | 96.0 | 423.5 | 1,345.0 | |
| | 2009 | 13.0 | 235.0 | 365.0 | 149.0 | 25.0 | 40.0 | 99.0 | 414.0 | 1,340.0 | |
| Ontario | 2008 | 21.5 | 370.0 | 320.0 | 174.0 | 48.5 | 135.0 | 253.0 | 561.5 | 1,883.5 | |
| | 2009 | 22.5 | 339.0 | 320.0 | 171.0 | 42.5 | 110.0 | 200.0 | 499.6 | 1,704.6 | |
| Manitoba | 2008 | 27.0 | 614.5 | 44.0 | 19.5 | 62.0 | 52.0 | 49.0 | 487.0 | 1,355.0 | |
| | 2009 | 26.0 | 575.0 | 45.0 | 23.0 | 69.0 | 38.0 | 45.0 | 459.0 | 1,280.0 | |
| Saskatchewan | 2008 | 65.5 | 1480.0 | 29.0 | 12.5 | 176.0 | 48.0 | 83.0 | 976.0 | 2,870.0 | |
| | 2009 | 67.0 | 1,390.0 | 29.0 | 13.0 | 155.0 | 32.0 | 86.0 | 878.0 | 2,650.0 | |
| Alberta | 2008 | 101.5 | 1990.0 | 83.5 | 36.0 | 245.0 | 690.0 | 575.0 | 1839.0 | 5,560.0 | |
| | 2009 | 98.0 | 1,850.0 | 89.0 | 37.0 | 210.0 | 575.0 | 580.0 | 1,941.0 | 5,380.0 | |
| British Columbia | 2008 | 14.5 | 249.0 | 70.0 | 35.0 | 32.0 | 14.5 | 23.0 | 172.0 | 610.0 | |
| | 2009 | 13.0 | 212.0 | 69.0 | 32.0 | 28.0 | 12.0 | 23.0 | 166.0 | 555.0 | |
| CANADA | 2008 | 246.8 | 4,981.9 | 983.5 | 471.1 | 595.0 | 982.9 | 1,101.6 | 4,532.2 | 13,895.0 | |
| | 2009 | 242.9 | 4,654.5 | 978.4 | 455.6 | 537.0 | 824.5 | 1,057.6 | 4,429.5 | 13,180.0 | |
| % change CANADA | | 09/08 | -1.6% | -6.6% | -0.5% | -3.3% | -9.7% | -16.1% | -4.0% | -2.3% | -5.1% |

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