



Canfax Research Services

A Division of the Canadian Cattlemen's Association

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Quarterly Report

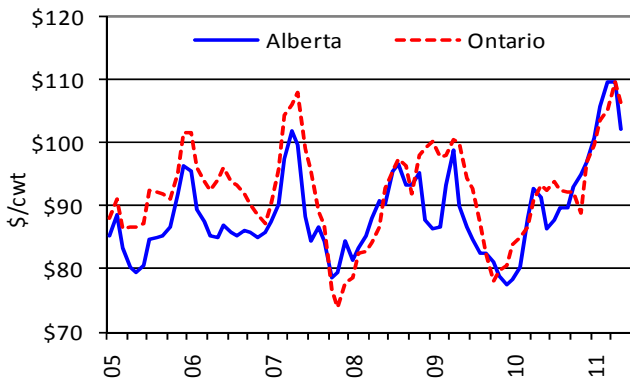
PRICES

FED CATTLE

Alberta fed steer prices increased 9% from January to April peaking at \$109.70/cwt the highest monthly price since March 2003 when fed prices averaged \$110/cwt. The biggest difference between now and then has obviously been the exchange rate, which has traded above par for all of 2011. A high of \$1.05 was reached at the end of April. This high surpassed the previous monthly high of \$1.028 reached in October 2007 and is in stark contrast with the exchange rate in 2003 of \$0.67. Fed prices have since fallen from the April peak to average \$102/cwt in May. Prices are \$11 higher than May 2010.

Prices seasonally decline 14% from the spring high to summer low which is expected in July or August, but can be as much as 19% in years when the spring high is over \$97/cwt. Ontario fed steer prices increased 10% from January to April peaking at \$109.77/cwt before declining to \$106/cwt in May.

Alberta vs Ontario Fed Steer Price

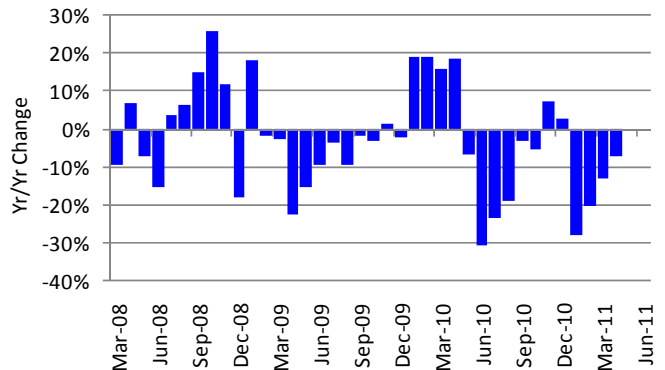


Source: OCA, CanFax

The Alberta/Ontario price spread was negative from last October until March before it became positive again in April. In May Alberta saw a \$4/cwt premium. This positive spread is expected throughout the summer with it not turning seasonally negative again until October.

US fed cattle prices reached a peak of \$119.43/cwt in April and have since declined to \$110/cwt in May. US prices are expected to be pressured downward going into the summer as larger supplies become available. Cattle on feed placements have been 4% larger than year ago in the first four months of 2011. In fact US cattle on feed numbers have been recording year over year increases since June 2010. May 1st on feed numbers were 7.2% larger than 2010 and 1.3% larger than the five year average. Larger on feed numbers are expected to challenge feedlots over the summer as they try to keep current. Despite diligence on the feedlots part along with a positive basis and high feed costs encouraging aggressive marketing, carcass weights have averaged 9 lbs higher YTD. As supplies increase going into summer it will be difficult for them not to creep higher yet.

Alberta & Saskatchewan Placements

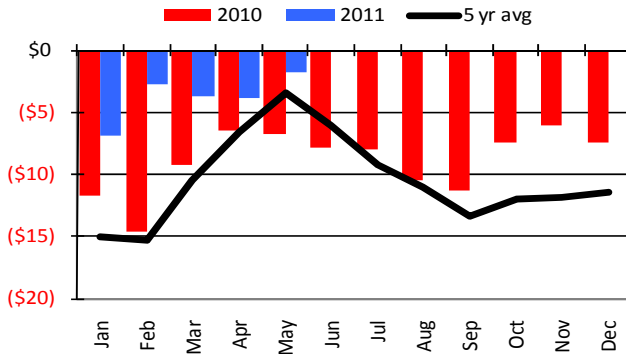


Source: Canfax, COF

In contrast, Alberta and Saskatchewan's cattle on feed numbers have been smaller than year ago since February and were 2.6% below 2010 on May 1st. Placements have averaged 17% smaller in 2011, which will keep supplies manageable over the summer period; providing price support and the basis at historically tight levels. Smaller supplies have also meant that feedlots are able to keep extremely current, with green cattle being pulled ahead on occasion. Canadian steer carcass weights YTD are 11 lbs smaller than 2010 at 844 lbs.

The Alberta cash to futures basis has been historically narrow in 2011 with the first quarter averaging -\$4.47/cwt compared to -\$12 in 2010 or the five year average of -\$14. This is the narrowest first quarter basis since 2003 when it was -\$5.52/cwt. The basis is expected to stay historically narrow throughout the summer with smaller volumes north of the border supporting prices compared to the US where they are expecting seasonally large volumes.

**Alberta Fed Steer Basis
Cash to Futures**



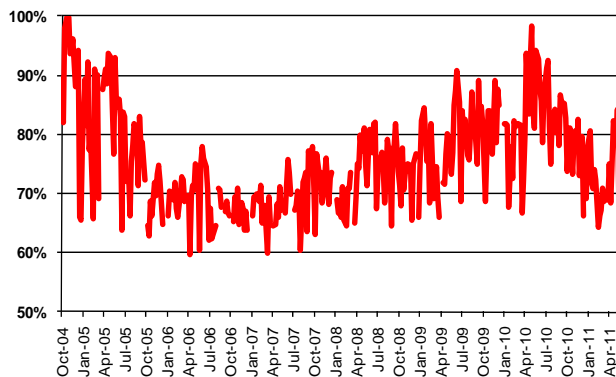
Source: CanFax

A narrow basis has discouraged exports, which are down 38% YTD. Weekly export volumes have dropped below 5,000 head which has not occurred over the last four years, except on shortened holiday weeks.

SLAUGHTER & UTILIZATION LEVELS

Canadian slaughter is down 11 per cent year to date with steers down 13 per cent, heifers down 8 per cent, cows down 14 per cent and bulls up 5 per cent. Eastern slaughter has declined a modest 3 per cent, while Western slaughter is down 14 per cent.

Canadian FI Slaughter Est Utilization Rate



Reduced supplies have resulted in packers operating four day weeks for most of the year. With slaughter levels reaching lows of 49,859 head per week at various times,

utilization levels have fallen to 69 per cent in February and March. This is down significantly from the high levels seen in May 2010 of 90 per cent. With XL Calgary closing in the beginning of May utilization levels have bounced back to 77% as a result of reduced total capacity. It is critical that packers maintain utilization levels as efficiencies are necessary for positive margins. Labor costs remain high compared to US counterparts, as they have not yet adjusted to the higher exchange rate. It will take several years before labor contracts are adjusted to the par dollar.

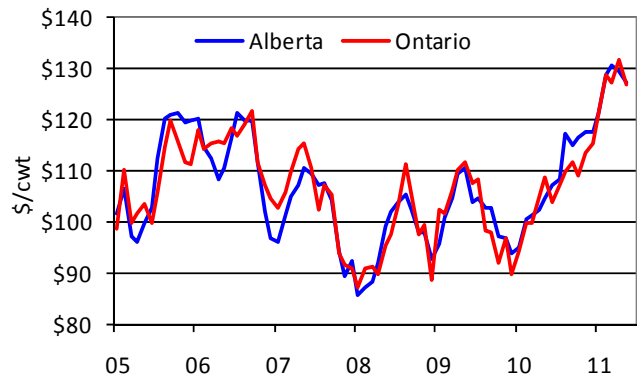
FEEDER CATTLE

Alberta 750 lb feeder cattle prices averaged \$127/cwt in May down from \$130.50/cwt in March but still \$23 higher than last year. Ontario 750 lb feeder cattle prices averaged \$127/cwt in May down from \$132/cwt in April but still \$18 higher than last year.

Competition for grass cattle has been strong in recent years as producers who have liquidated their cow herds still have grass to manage. Grass cattle placed the beginning of May could have been locked in at CDN\$123.50/cwt (\$1142/head at 925 lbs) with the feeder futures at US\$132/cwt, the dollar at \$102.80 and a seasonal basis of \$5/cwt for August/September.

A 650 lb steer the beginning of May was worth \$140/cwt (\$910/head). With a \$0.50/lb cost of gain on grass for 275 lbs the breakeven is \$113.24/cwt (\$1047.50/head). This gives a margin of \$10.26/cwt (\$94.50/head). This explains the strong competition for grass cattle and how the current high prices are being sustained.

Alberta vs Ontario 750 Feeder Steer Price



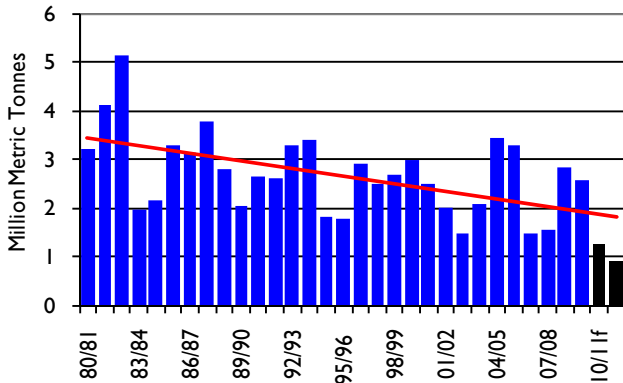
Source: OCA, CanFax

The Alberta 550 lb steer/heifer price spread is seasonally widest in the spring. In May the spread was the widest on record at \$19/cwt. The previous high of \$16.88/cwt was set in March 2009. Despite the steer/heifer price spread

being extremely narrow for fed cattle over the last decade, the 550 lb steer/heifer prices spread has actually been wider over the last 5 years at \$13.80/cwt since 2006 compared to \$10.50/cwt from 2001-05.

While grass looks to be ample this year, rain has significantly delayed seeding with many areas flooded in Manitoba and eastern Saskatchewan. Despite this Agriculture Canada is estimating seeded area for barley in the 2011/12 crop year to be up 13%. Production is forecast to increase 13% with increased yields. However supplies are expected to be down 3% due to small carry in stocks, which are estimated at 1.25 million tonne – the smallest on record and 16% below the previous low of 1.48 million tonne set in 2002. Ending stocks are projected to be down another 36% in 11/12 to make another record low of 800,000 tonnes.

Canadian Barley Ending Stocks



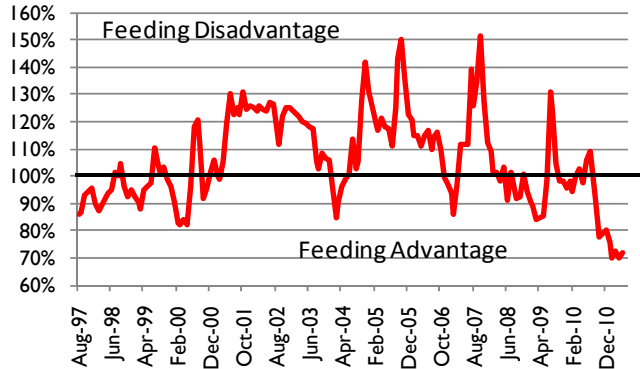
Source: AAFC, Statistics Canada

USDA is estimating 2011/12 corn production to reach 13.2 billion bushels, up 6% from 2010 and surpassing previous records of 13.09 billion bushels set in 2009. However seeding has been slow in the US with the bulk of corn acres seeded about 2.5 weeks later than last year and one week later than the five year average. As of June 6th 94% of expected corn acres had been planted. The larger concern is how many acres have been lost due to wet conditions and flooding. It is estimated that 3.75 million acres have not been seeded, with 450,000 acres expected to be corn in the Missouri Valley. Lost acres to crops other than corn will keep grain prices strong. Close attention will be paid to weather conditions until harvest.

Omaha Corn prices have increased 98% since last April to average CDN\$292/tonne in May 2011. In contrast, Lethbridge barley prices have only increased 43% from their low last spring to average \$210/tonne in May. This has given Alberta a cost of gain advantage. As such Alberta calves have traded at a premium to the US since

last September, which has discouraged exports. Feeder exports are down 62% YTD.

Feeding Advantage
Lethbridge Barley vs. Omaha Corn

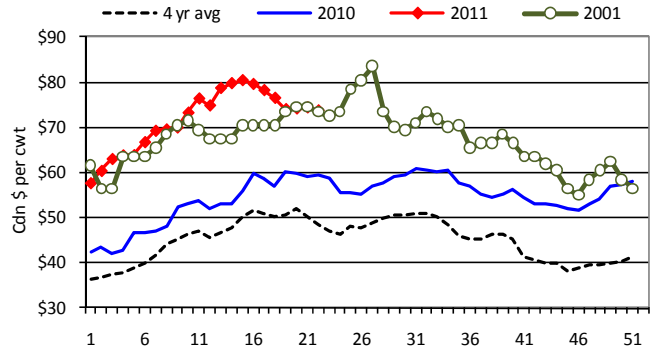


Source: Alberta Ag. CattleFax

COW PRICES

Beef cow culling rates declined to 11.8% in 2010, from 12.8% in 2009 and are anticipated to decline again in 2011. Domestic cow slaughter is down 14% and cow exports are down 30% YTD. Cow slaughter in the west is down 20%, while slaughter in east is up 2%. Indicating producer in Eastern Canada are still liquidating.

Alberta Weekly D1,2 Cow Price

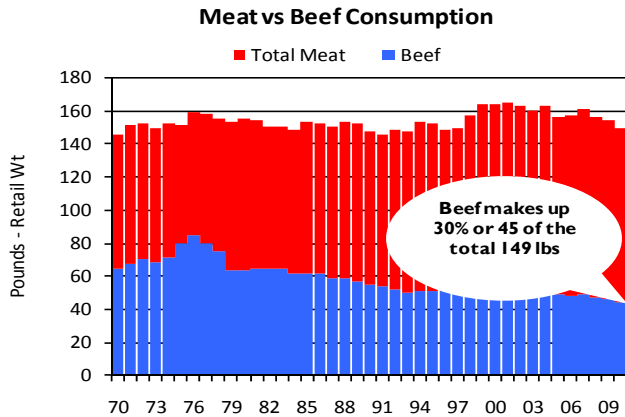


Source: Canfax

Cows have already seen a spring peak of \$80/cwt, which has not been seen since 2001. Given the seasonality developed over the last 8 years with a double peak we can expect to see \$80/cwt again in August. Cow prices have been supported by reduced supplies and strong North American 85% trim prices, which have averaged 22% higher than 2010 so far this year. Trim prices are support by small non-NAFTA imports into North America. Non-NAFTA imports in the first quarter were down 41% coming into Canada and down 21% going into the US. Smaller imports have been due to strong international competition as exporters put product into the highest valued markets they have access to.

CONSUMPTION

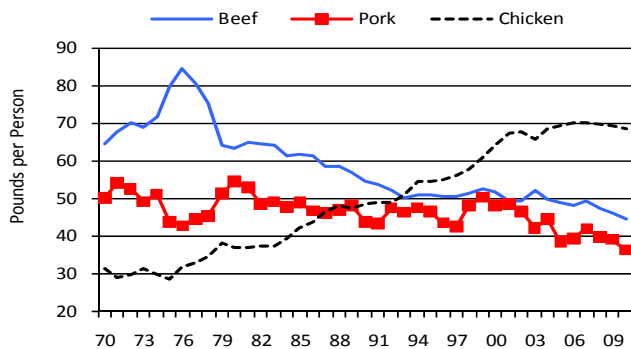
Following the trend established in 2009, total meat consumption fell again in 2010 down 2.7% to 75.2 kgs/capita. This is only 2% above the record low of 73.7 kgs set in 1991 and is the same as consumption in 1997. The difference being that in 1997 beef consumption was 23.0 kgs versus 20.2 kgs in 2010.



Source: Statistics Canada

Canadian consumers continued to feel the pressure as the government started increasing interest rates in December 2009 and continued to do so throughout 2010. A higher interest rate exposed those who had taken advantage of lower prices and interest rates and had increased household debt loads. As such, consumers continue to be cost conscious and careful with spending. Per capita beef consumption in 2010 was down 3.1% to 20.2 kgs/capita. This is a new low. Pork consumption was down the most at 7.2% to 16.5 kgs/capita. This is the smallest pork consumption number on record, with the previous low being 17.5 kgs/capita in 2005. Poultry saw the smallest decline being down only 0.8% to 31.1 kgs/capita.

Canadian per Capita Meat Consumption

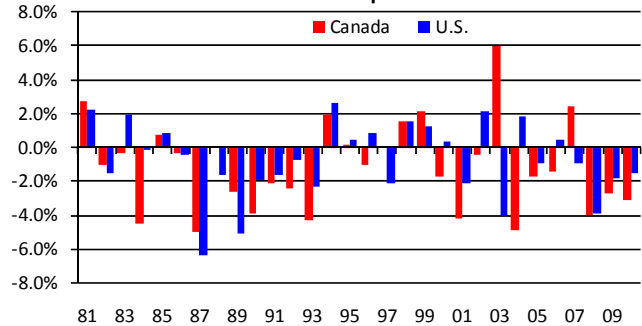


Source: Statistics Canada

US meat consumption was also down 1% to 94 kgs/capita. This is 5.8% below 2007 levels, while Canadian meat consumption is 6.4% below 2007 levels.

US beef consumption declined 1.5% to 27.5 kgs/capita. 2010 represents the third consecutive year of declining per capita beef consumption in both the US and Canada. Smaller North American production, reduced non-NAFTA imports and strong export demand has meant declining net beef supplies. Since 2007 per capita beef consumption has declined 10% in Canada and 7% in the US. Pork consumption in the US saw the most significant decrease, down 3.3% at 22 kgs/capita. Poultry consumption was steady at 44.5 kgs/capita.

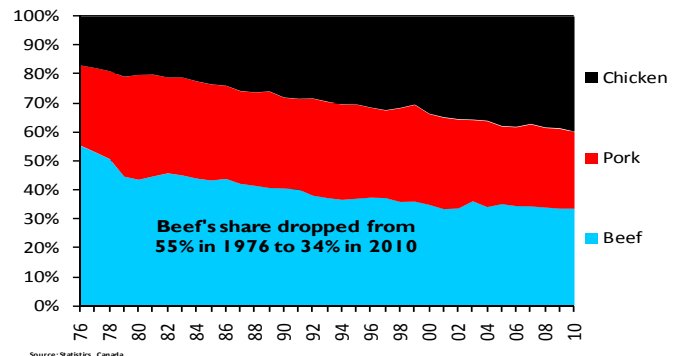
Percent Change in Canadian & U.S. Per Capita Beef Consumption



Source: Statistics Canada, USDA

Beef maintained its market share in Canada at 33.6%, while pork lost share going from 27.5% in 2009 to 26.3% in 2010. Poultry gained what pork lost moving up to 40.1% from 38.9%. In the 1980s and 1990s, beef lost 3% and 5.7% of market share respectively. Over the last 10 years beef has done a better job of maintaining market share – losing only 1.3% of market share compared to pork which has lost 5% of market share. Poultry has been the big winner gaining 6.3% market share. Since 2004 beef market share has been steady around 34%. Note the 1990s were a better decade for pork, which maintained steady market share after losing 5% in the 1980s.

Market Share of Total Meat Consumption

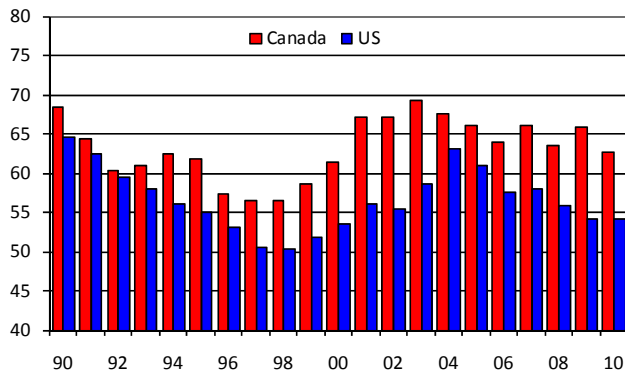


Source: Statistics Canada

While smaller beef consumption is disappointing it is important to consider the dynamics between consumption and retail beef prices. The beef demand index is calculated using Statistics Canada's per capita

consumption and retail beef prices adjusted for inflation. This index evaluates changes in consumer's willingness to pay for beef. When smaller beef consumption is combined with deflated retail beef prices, which were down 3% at \$7.16/kg, Canadian retail beef demand was down 5%. As a luxury item, beef demand is also an indication of general economic recovery. It is frequently said that when the US sneezes, Canada catches a cold. US beef demand was steady in 2010 with consumption down 1.5% and deflated retail beef prices up 1.5%. Making a reversal of the situation in 2009 when Canadian beef demand increased and US beef demand declined. Since 2008 beef demand has declined 6.5% in the US compared to Canada where beef demand has declined 4.9% supporting the general commentary about a more stable economy in Canada.

Canadian vs. U.S. Beef Demand
(1980 = 100)



It should be remembered that current high prices are being driven by tight supplies. But long term price outlooks are dependent upon consumer demand. International demand is strong and is anticipated to be a driving factor for fed cattle prices throughout 2011. However the domestic consumer continues to be cautious particularly with higher prices at the pump, and possible further increases in interest rates eating into their disposable income.

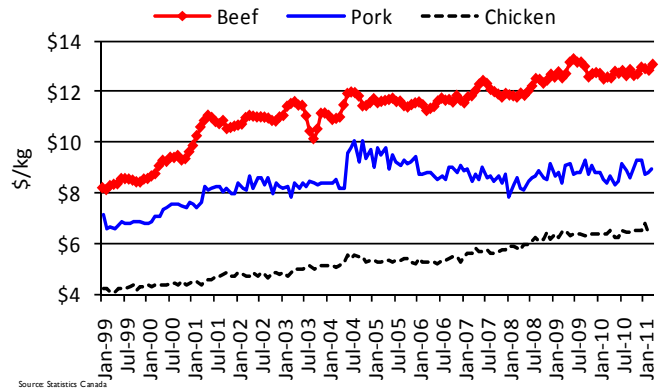
RETAIL PRICES

There has been considerable interest and concern about rising retail prices in 2011; particularly for proteins. US retail beef prices increased 3.1% from US\$4.26/lb in 2009 to US\$4.39/lb in 2010. March prices at US\$4.74/lb were up 10.2% from year ago. Overall first quarter prices have averaged 9.5% higher than 2010. Canadian retail beef prices are not showing the same trend. In 2010 retail beef prices averaged

1.2% lower than 2009. March prices at \$13.07/kg were up 4% from year ago, but still below the high of \$13.26/kg seen in June 2009. And first quarter prices have averaged a modest 2.7% higher than year ago as they keep up with general inflation.

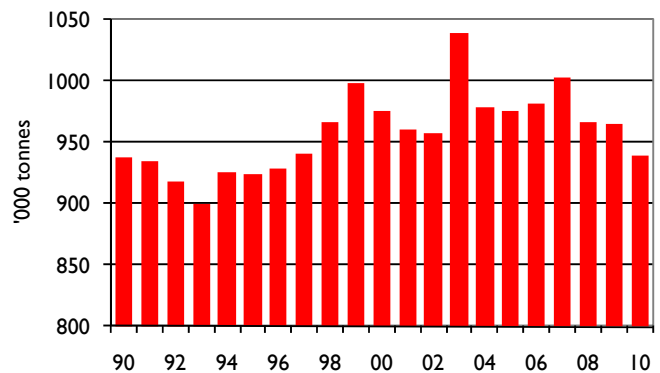
Retail Meat Prices in Canada

(Canadian 26 city average)



One of the main contributors to the rise in price is the fact that per capita net beef supplies have declined in each of the past four years in both the US and Canada. Canadian net beef supplies peaked in 2007 at 1,003,136 tonnes (carcass weight) and have since declined 6.4% to 938,700 tonnes in 2010. On a per capita basis this represents a reduction of 2.1 kgs per person. With demand flat since 2006 smaller supplies are being rationed with higher prices. Smaller beef production is expected to reduce net beef supplies for the fifth year in 2011 and push prices higher yet.

Canadian Net Beef Supply



Food prices are influenced by the underlying commodity price. As was experienced in the 1970s and 80s food price inflation has increased sharply in the recent decade with higher commodity prices. Due to the competitive nature of the Agri-Food industry a sustained increase in input costs will be eventually passed onto the consumer. The impact of rising input costs will vary significantly across the different

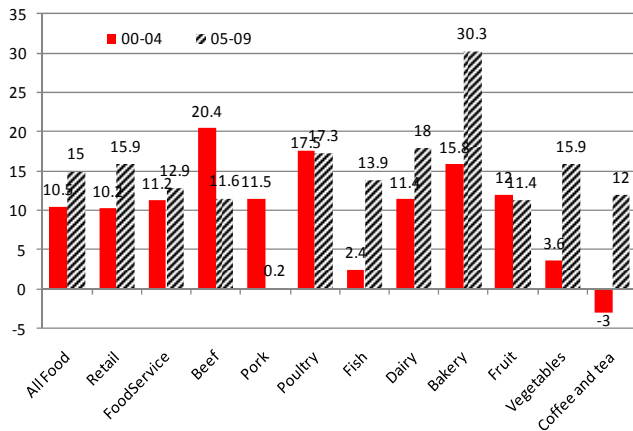
products. When broken down by commodity groups coffee and tea actually saw the largest increase at 12% in the most recent 5 years compared to -3% in the previous 5 years - a difference of 15%. This is followed closely by bakery items at 30% over the last five years compared to 15.8% the previous five years, a difference of 14.5%. This is not surprising given the record high prices wheat has experienced in recent years, with weather impacting global supplies and competition for acres reducing overall supplies for a time. Vegetable and fish prices saw the next largest price increases with growth 12.3% and 11.5% higher between 2005 and 2009. Protein prices actually increased the least between 2005 and 2009, with inflation being smaller than what was seen from 00-04. Pork prices from 05-09 have been basically steady, as the North American industry dealt with over-supply from production advances. Beef price inflation was 8.8% smaller over the last 5 years, while poultry prices grew the same in the first and second half of the decade.

America have been smaller, which combined with smaller domestic production will eventually push prices higher. Manufacturers are currently focused on finding ways to increase prices due to higher commodity costs.

MEAT EXPENDITURES

Total meat expenditures (deflated retail price x total domestic disappearance) declined 4% in 2010 to \$15.1 billion. Canadian's spent \$6.32 billion on beef, down 4.8% from 2009 and the smallest since 2006. Beef represents the largest share of the protein dollar at 42% of all protein spending. Beef expenditures have been relatively stable over the last decade averaging around \$6.5 billion which is slightly higher than expenditures in 1980s after trending around \$5.4 billion annually throughout the 1990s. Pork expenditures were down 8.6% at \$3.56 billion and represent 24% of the protein dollar. Poultry expenditures were steady at \$5.22 billion and represent 35% of the protein dollar.

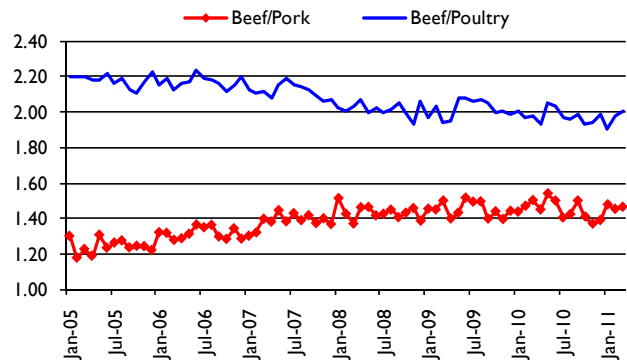
Canadian Consumer Food Price Index



Since 2002 bakery items have seen the most price inflation while vegetables have seen the least. Beef has actually tracked closely with overall food inflation. In 2009 beef, pork and poultry prices did increase by 6.4%, 3.7% and 5.2% respectively, as higher grain prices in 2008 increased costs of production. Prices for these proteins then remained basically steady in 2010. As was the case in 08/09, there can be a significant lag between higher commodity prices and when consumers actually see higher retail prices. As commodity prices increase again in 2010 costs of production increased as well. In addition, tight global supplies of protein mean that imports into North

However, it is not only price which decides where the consumer dollar will be spent but also the price relationship between the proteins.

Retail Meat Ratios



The above chart provides the Beef/Pork and Beef/Poultry price spreads. As the line declines beef becomes cheaper compared to the other protein and when it increase beef is becoming more expensive. Since mid-2008 the beef/poultry relationship has been stable around 2:1 while the beef/pork relationship has inched higher. Smaller supplies of North American pork combined with strong export demand (particularly from South Korea following the FMD outbreak and large hog cull) is expected to push pork prices higher and bring this relationship back to the historical 1.4:1.

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