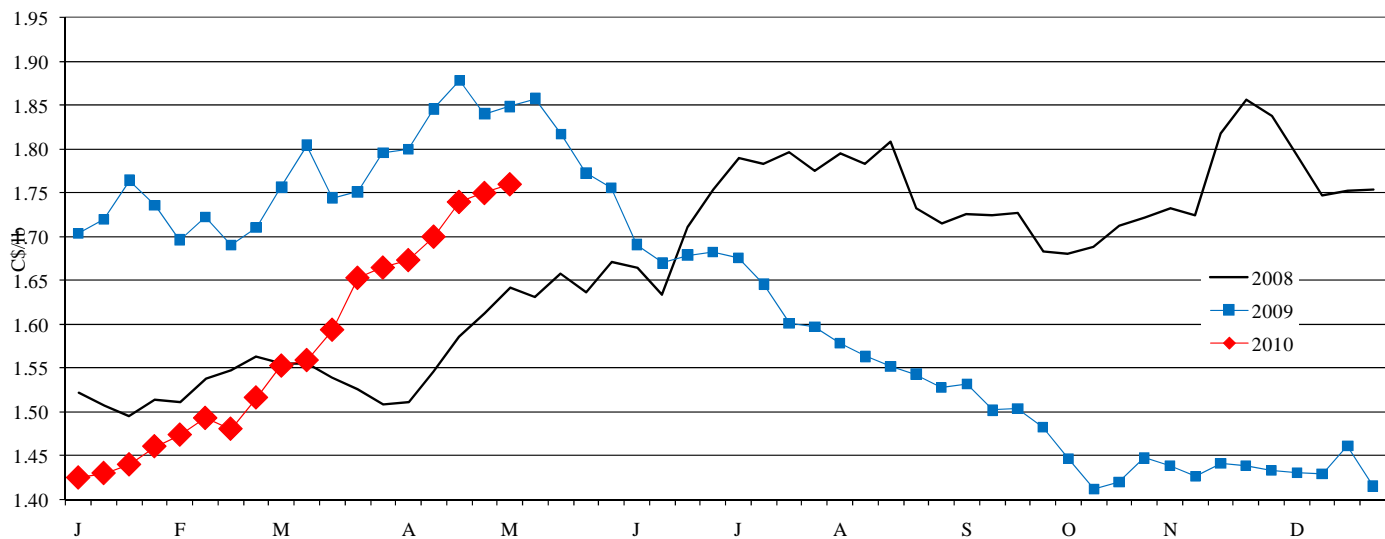


Current Market Situation

<u>Week Ending May 8</u> US US\$	Last Year	Two Weeks Ago	Last week	<u>Canada</u> C\$/cwt*	Last Year	Two Weeks Ago	Last week	Cda-US Differential Last Week
Choice Cutout/cwt	146.10	170.08	170.71	AAA Cutout	178.35	168.88	169.84	-9.80
Select Cutout/cwt	143.51	167.13	167.56	AA Cutout	171.80	165.98	166.95	-9.38
Texas Panhandle Steers/cwt	84.00	98.35	99.91	Alberta Steers	91.48	90.46	91.59	-13.55
Choice Previous 4 Week Moving Avg/cwt			167.37	AAA Previous 4 Week Moving Avg/cwt			165.57	
Select Previous 4 Week Moving Avg/cwt			164.79	AA Previous 4 Week Moving Avg/cwt			164.40	
Texas Steer Previous 4 Week Moving Avg/cwt			98.98	Alta Steer Previous 4 Week Moving Avg/cwt			92.83	

Canadian AAA Boxed Beef Cutout Values

Source: Canfax FOB Plant



The Market Re-Cap:

US Market:.. steady to firm on light to moderate demand and offerings. Prices seemed to level off this week, but higher volumes were sold by midweek,. (USDA, AMS, nw_ls850.txt)

Canadian Retail/Foodservice Procurement Activity: Ad interest has slowed slightly, as some buyers are struggling with indecision as buying into June, particularly on middle cuts, is a tough call to make. Buyers are also struggling with sticker shock in the pork market.

Canadian Supplies: Clean and mostly under control. US and Canadian kill levels are increasing meaning US supplies are going to start showing in Canada.

Canadian Cutout Value: Higher

- Chuck pricing continues to be a pleasant surprise. Pricing is getting a big help from export markets. Firm trim puts a floor under some of these cuts, particularly chuck tender and many cuts are being bought to grind.
- Ribs continue to be firm to modestly higher. Supplies are tight but demand is starting to wane.
- Loins were steady to slightly lower. Loins and ribs are benefiting from good seasonal demand.
- Hips are seeing unusual resiliency as buyers and sellers are surprised at how firm some cuts remain at this time of year. Export markets are helping goosenecks and so is the soaring trim market.
- Trimming prices are putting an exceptionally strong undertone to the entire carcass. US 50's increased by nearly \$9/cwt last week alone to average near \$115/cwt.

Beef Market Conditions

Fresh Meat Feature Activity		
May 7 - 13	Home Page Meat Item	Main Meat Item Inside
Maritimes		
Coop Atlantic	Top Sirloin \$3.99	chicken, pork
Sobeys	Striploin \$5.99	beef, pork
Superstore	Rib Steak \$4.99; Pork	beef, chicken
Quebec		
IGA	T-bone \$5.99	3+ item mix
Loblaws	Prime Rib Steak \$4.99; Chicken	beef, chicken
Metro	Tenderloin \$9.99	3+ item mix
Ontario		
Food Basics	T-bone \$4.97	3+ item mix
Foodland	Boneless Breast \$3.47	beef, pork
Loblaws	Chicken	beef, chicken
Metro	Boneless Rib Steak \$5.99	3+ item mix
No Frills	Chicken; Rib Steak Cap Off \$4.88	pork
Sobeys	Outside Round Roast \$1.99	beef
Zehrs	Pork; Chicken	beef, chicken
West		
Calgary Coop	Rib Steak \$5.99 cap off	3+ item mix
Overwaitea	Pork	beef, chicken
Safeway	Boneless Breast \$4.99; Pork	3+ item mix
Save On Foods	No Fresh Meat	beef, pork
Sobeys	Boneless Breast \$3.99; Pork	3+ item mix
Superstore	No Fresh Meat	beef, pork
Retail Beef Feature Rating Last Week:	Average	(Poor, Average, Very Good)
Retail Meat Business Rating Last Week:	Average	(Poor, Average, Very Good)
Food Service Business Rating Last Week:	Average	(Poor, Average, Very Good)

Canadian Fresh Meat Features and Business Traffic Indicators

- Beef features were average this week. Very strong activity in the Maritimes and Quebec with excellent price points on very high profile cuts. Metro in Quebec chose to go strong on tenderloin as a Mother's Day attraction. In Ontario Foodland is going to be drawing plenty of traffic with its rock bottom boneless breast feature. Food Basics is looking to generate traffic with an attractive price on the T-Bone while both Metro and No Frills were working with ribs. In the west the emphasis was mostly on proteins other than beef. For its part, Loblaws chose to spend ad space to highlight and explain its Tender and Tasty beef program.
- Retail volume activity last week was average.
- It appears that there is some return to normalcy at restaurants across the country although weather in both the east and west is not helping seasonal pickup.
- In the US, overall beef feature activity is up modestly this week compared to last week according to the USDA Weekly Retail Beef Feature Activity report, May 7. (USDA AMS)

Implications: Features are not going to generate an average beef volume this week.

Competing Meats

Wholesale Price Trends

The following is a comparison of the wholesale price spread between beef and pork (beef price – pork price) and between beef and chicken (beef price – chicken price).

- Wholesale pork was steady to slightly higher last week.
 - Beef prices are right around their historical price relationship with pork prices (the beef-pork spread last week is at the five year average).
- Wholesale chicken increased last week.
 - Beef is priced right around its long term normal pricing relationship to chicken (the beef-chicken spread is near the average of the last five years).

Implications: Relative prices are right around the norms of the past five years.

Retail Fresh Meat Margin Indicator

- Beef margins at retail are average.
- Chicken margins at retail are a little stronger than average.
- Pork margins at retail are below average.

Implications: Retailers will be relatively indifferent between the three main meats.

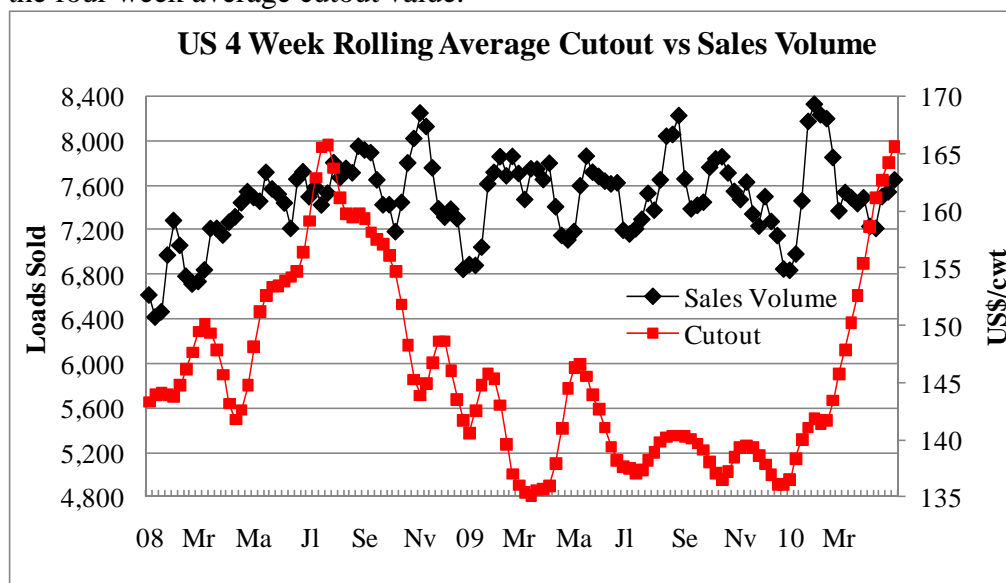
Beef Packer Margins and Sales

Margins

- Alberta packer margins were extraordinarily strong last week. The dip in cattle prices two weeks ago combined with the higher beef and by-product prices made profits soar.
- US packer margins were also exceptionally strong last week.

US Packer Sales Positions¹

The following graph shows the four week rolling average total US packer sales by load count as well as the four week average cutout value.

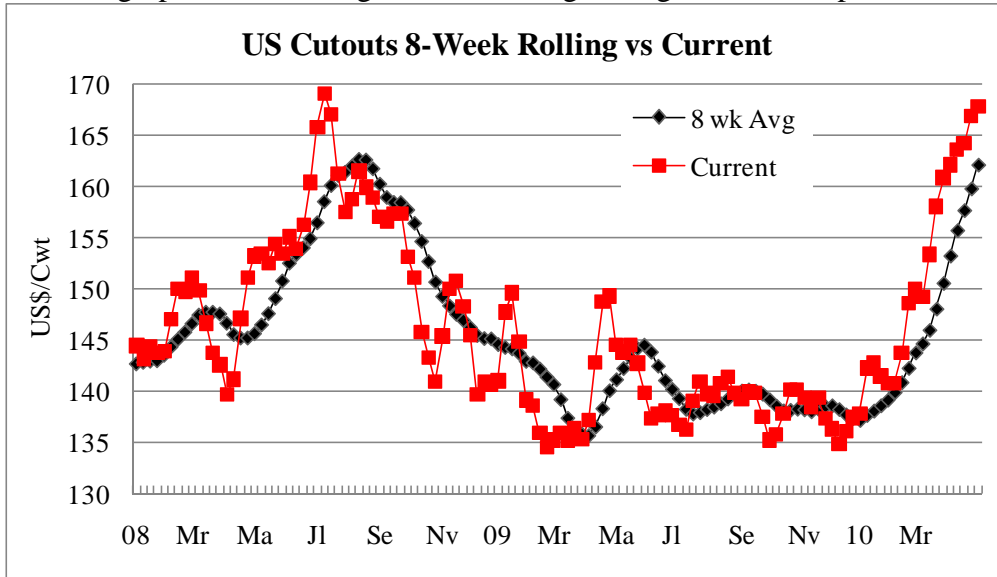


- The cutout has increased dramatically over the past several weeks. This increase occurred at a time in which the sales volumes have been relatively unstable, first rising and then falling. In the most recent weeks, however, it appears that the higher cutout is

being sustained at a steady to higher volume. Taken all together it appears that the US demand is fairly strong.

¹ 1 All data is from NATIONAL COMPREHENSIVE BOXED BEEF CUTOUT - ALL FED STEER/HEIFER SALES www.ams.usda.gov/mnreports/LM_XB463.txt. Sales are on a load basis. Forward sales include forward contracts.

The next graph shows the eight week moving average cutout compared to the current cutout.



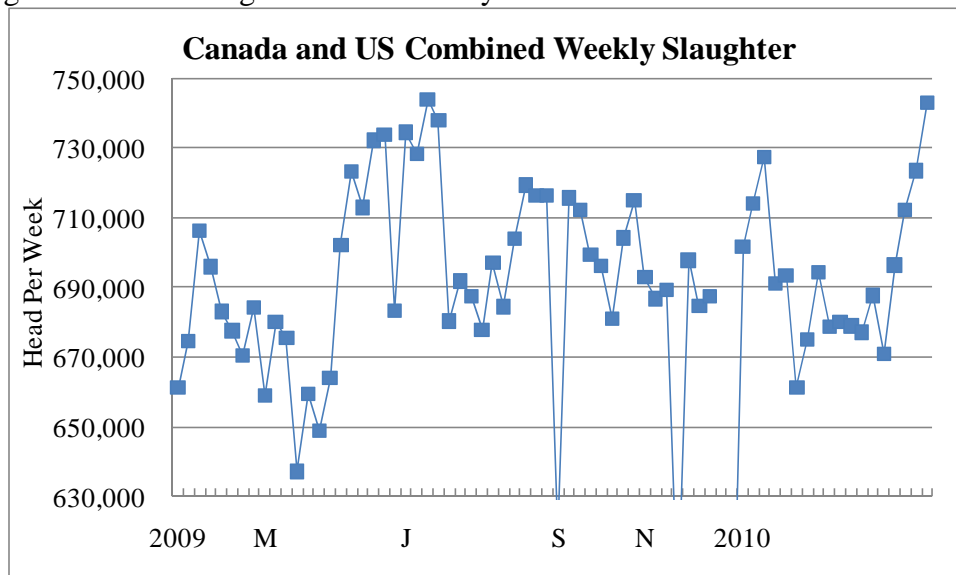
- The current price is well above the eight week trendline. The eight week trendline is on a fairly sustained upward trend. That and the fact that the current is well above the trend indicates that there is solid upward momentum in the market.

The data from the Comprehensive Boxed Beef Cutout report for May 10 indicates that total packer sales volumes as a share of the previous week's kill is above average for this time of year. That means that packers moved an above average load count relative to kill levels. US packer sold ahead position was average. That is, packers sold ahead position is what it normally is for this time of year.

Implications: Packers are reasonably well sold and in good shape on inventories. That will help sales leverage. Demand is supportive.

Slaughter

The following graph shows weekly slaughter levels for Canada and the US combined through May 8. Brooks and High River both slaughtered on Saturday.



Implications: US and Canadian packers are responding to the very high margins. Supplies are going to be building and us product will be more available in Canada.

Cdn \$

The Canadian dollar futures technicals are exceptionally weak. Despite the uncertainty and confusion caused by the situation in Europe, Canadian fundamentals remain comparatively strong.

The Bank of Montreal, May 7 is forecasting third and fourth quarter exchange rates of US¢/C\$0.99 and 1.01 in the third and fourth quarters respectively. Their second quarter forecast is for an average of .98. (source: bmonesbittburns.com/economics/forecast/ca/cdamodel.pdf)

Near Term Outlook (2-3 weeks)

Beef Seasonality

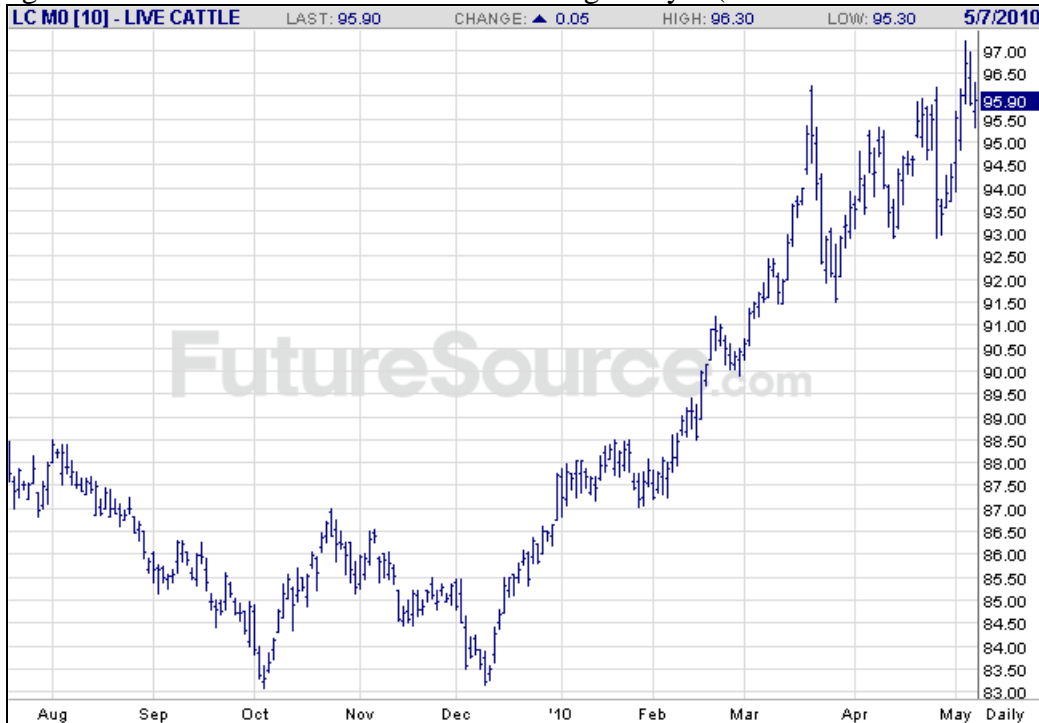
	May 10 to 60 Days Out Seasonal Performance Trend		May 10 to 2 Weeks Out Seasonal Performance Trend
	<u>Low</u>	<u>High</u>	
Carcass Cutout	late June	early May	sideways
AA Chucks	early June	early May	sideways
AAA Ribs	late June	early May	sideways
AAA Loins	late June	early May	sideways
AA Hips	late June	early May	lower
50% Trim	late June	early June	sideways

Implications: Middles still have seasonal strength. Ends should be falling soon.

Live Cattle Futures

Weekly close: June \$95.85, +0.33; August \$94.45, -0.50

The following is the June Live Cattle Futures chart through May 7 (source: futuresource.com)



- This chart still has some modest upward momentum from a technical perspective.

Implications: This chart is keeping a strong undertone under the cattle and beef markets. Buyers looking at this chart are not going to think that the market is headed lower.

Competing Meats Two Week Forecast

- Chicken: Steady to higher.
 - Chicken should be gaining some seasonal strength.
- Pork: Steady
 - Pork has to stop and catch its breath eventually.

Implications: Competing meats are supportive to beef pricing.

Boxed Beef Outlook for the Next Two Weeks

Commentary

Beef and pork prices have been trending higher this spring, in part due to a resurgence in foodservice demand. There are notable signs of improvement. According to the National Restaurant Association the US foodservice industry is again on a growth path. Its monthly National Restaurant Performance index, a tracking index based on a monthly survey of restaurant operators, was sharply higher in March. The jump follows three months of improvements in the overall index, a time that coincides with steady improvements in the overall US economy and a rosier economic outlook.

Indeed, it is this optimism about the future that is currently driving the overall index. The overall index is made up of two subcomponents measuring how restaurant operators assess current conditions as well as their expectations. The current situation index was the highest reading since October 2007. Restaurant operators are by temperament an optimistic bunch but their outlook about the future is one of the best in years. The expectations component of the tracking index is at the highest point since April 2007, well before the start of the current recession. The expectations component is important since it drives future orders, especially the outlook for the summer foodservice business. Combined with the improvements in sales and customer traffic, it helps explain the dramatic rise in beef and pork prices we have seen this spring. (source: Dailylivestockreport.com, May 4)

Beef Market Arguments

Bullish:

- Futures should prompt buyers to get product around them.
- Demand seems to be holding firm
- Seasonal trends are still firm for the cutout.
- Competing meats should be supportive.
- Foodservice is showing signs of life.
- US exports in appear to be very strong which offers support to overall pricing.
- Trim prices are supporting the entire beef complex.
- US fed marketings are going to tighten in the next few months.

Bearish:

- Prices are scaring buyers away.
- Kills are now very high and US product is going to be finding its way into Canada to put a lid on middle values.
- Canadian kill levels are increasing and adding supplies to the market.

The Canadian Market Call for this Week: Steady

Copyright © May 10, 2010 Kevin Grier. This report may not be reproduced or transmitted by electronic, photocopy, or any other means without the permission of the George Morris Centre.
