

Canadian Chicken Market Review

Market Analysis for the Canadian Chicken Industry

May 2010

The Market Argument

The arguments for the direction of chicken pricing May through July

Bullish

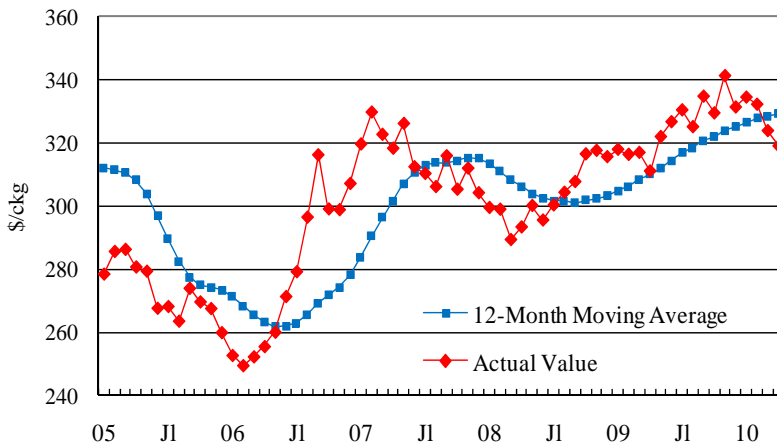
- The US market has a very buoyant undertone.
- Retailers have been featuring chicken very aggressively.
- Seasonal trends are higher.
- US and Canadian stocks are staying under control.
- Beef and pork prices are stronger.
- Chicken is no longer much more expensive than the other meats.

Bearish

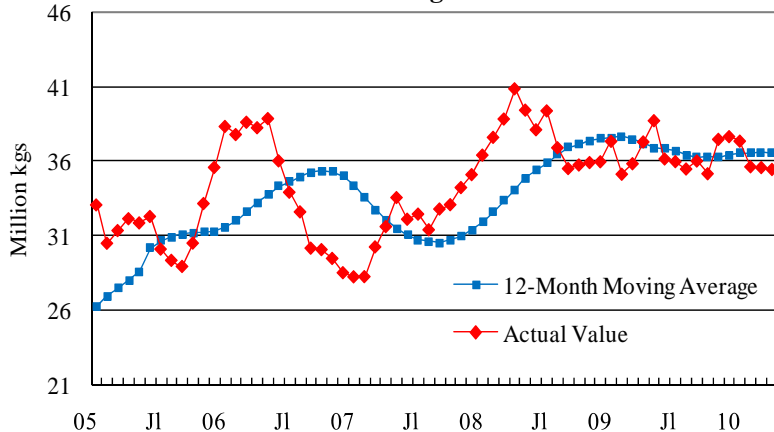
- Demand is showing signs of weakness in Canada.
- The overall market appears to be sluggish in Canada.
- Canadian production increases are aggressive.
- The C\$ will keep imported costs down.
- Imports are bound to begin to surge.
- Export markets remain very uncertain.

Bottom line: Pricing on breasts should increase more or less on seasonal norms.

Chicken Composite Cutout Value



Chicken Storage Stocks



The Key Charts and Indicators

The first chart on this page shows the Chicken Farmers of Canada Composite Cutout value. The composite cutout is the average value of the various cuts of chicken such as legs and breasts, brought back to the carcass basis. The composite is an index measure of the overall value. The graph shows the rolling 12 month average value, as well as the current actual value for the month. The second graph shows storage stocks on a 12 month rolling average and the actual value for the given month.

The main message of the first graph is mixed. **The rolling average is at a record high.** The latest two months, March and April, however, dipped below the rolling average for the first time in nearly a year. In addition **the composite has declined for three months in a row.**

Storage stocks are remarkably stable at around 36 million kilograms for the past 12 months. Recent months have seen consecutive month to month declines. **Stocks as a share of production are below average for this time of year.**

Current Market Developments

Gold'n Plump

Gold'n Plump announced that construction has begun at its Arcadia, Wisconsin chicken plant. The \$38M project **will add 15% production capacity to the facility, which currently process 830K birds per week.** The expansion is expected to be completed in late 2010. This specific project is expected to add less than 0.1% to total US capacity. (Commodity Nuggets, April 27)

Pilgrim's Pride

Although Pilgrim's Pride announced a net loss of \$45.5 million on net sales of \$1.6 billion for the first quarter ended March 28, **it plans to re-open its chicken processing plant in Douglas, Ga., by January 2011 as well as two other idled facilities** – one by mid-2011 and the other by spring 2012. As a result, the re-opening of these three plants will result in a production increase of 10%, or approximately 3.5 million birds per week. Pilgrim's Pride believes demand for chicken is increasing. (MeatPoultry.com, May 6)

TRQ Thoughts and Speculations

Imports have been coming in at above pro-rata levels for the last few weeks but **the year to-date level is still well behind pro-rata.** I think that imports will keep coming in at or maybe even slightly above pro-rata for the next little while and throughout early summer. An important factor is wholesale breast meat prices in the US (and related to this, prices of beef and pork). If they start going up quickly importers will likely hold off until later this year in anticipation of lower prices at that time, but if they stay where they are and Canadian prices stay where they are importers may want to import sooner rather than later. Also, Canadian production is set to increase quite a bit compared to last year in the second half of summer **so importers may import more during the first half.**

New Brunswick Dispute

Olymel and Groupe Westco have moved to assemble more land and buildings for their planned poultry plant in northwestern New Brunswick. The companies, operating under a partnership dubbed Sunnymel, **plan to spend \$30 million building a poultry slaughtering, cutting and deboning plant** that would supply the entire Maritimes region. Obstacles" include a provincial order in January that designated Nadeau Poultry Farm, a subsidiary of Ontario meat company Maple Lodge, as the lone federally-inspected plant for processing of chickens raised in New Brunswick. The province's order blocked Sunnymel from shipping Westco chickens out of New Brunswick to be slaughtered at Olymel facilities in Quebec, as the two companies arranged to do while work continues on the project. The Sunnymel partners, reportedly plan to challenge it in a New Brunswick court. (Farm Business Communications, April 7)

Sanderson Farms Expansion

Sanderson Farms, the fourth-largest chicken integrator in the U.S., announced plans last week to build a new poultry complex near Goldsboro, N.C., to complement production at its complex outside Kinston, N.C. The complex would be a \$94 million undertaking and would involve an expansion of the Kinston feed mill, a new hatchery and a new processing plant dedicated to "big birds." **It would have a capacity to handle 1.25 million chickens per week. Big birds are big-breasted chickens that weigh an average of about 7.5 lb. each,** about 2 lb. more than the industry average. The plant would employ 1,100 people and require approximately 150 contract growers. The company said it would begin construction early next year, with a target to begin operations in the third quarter of 2012. (feedstuffs.com, April 5)

US Market

Prices

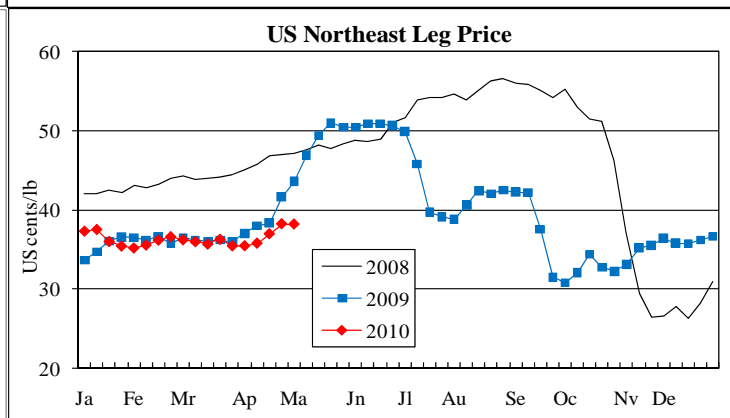
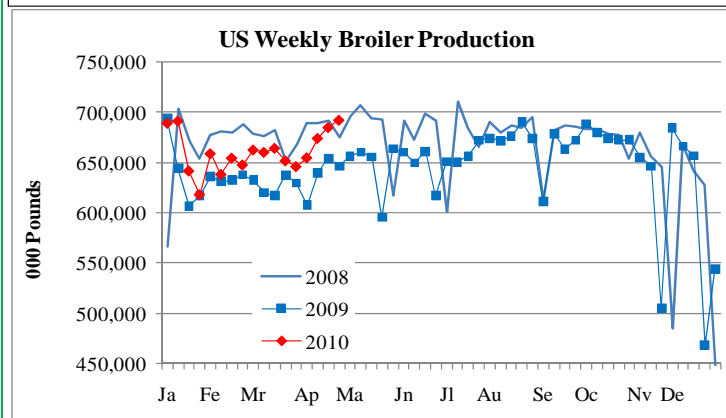
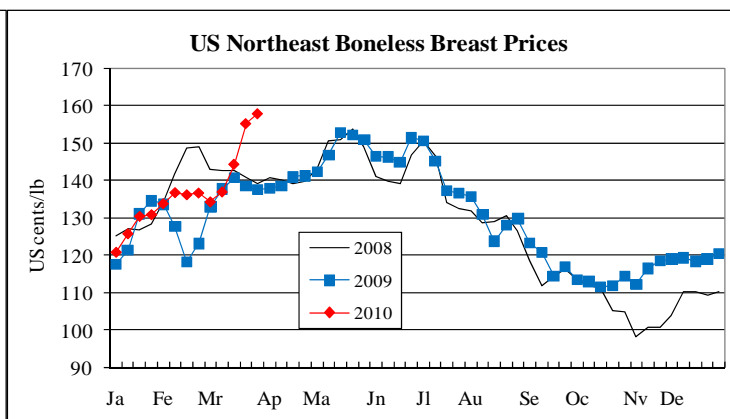
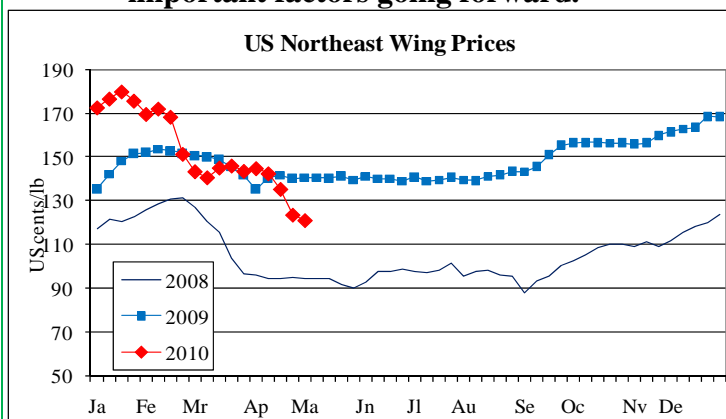
- **US boneless breast prices continued to soar higher during April.** Improving domestic demand, particularly at foodservice and very high beef and pork prices are credited.
- Leg quarter prices continued to move in a sideways direction from January through April at the US\$35-38 cent range. These prices were almost exactly the same as last year. This price level is going to bear close watching given the US trade related problems with Russia and China. **The fact that the legs have held firm at least until now is surprising.**
- US wing prices went into a sharp seasonal slide in April and it looks to have continued into May. It is likely a reaction to the exceptionally strong prices earlier in the year.

US Production, Exports, Margins and Stocks

- Year to date, **US chicken production is up by 4%** year to date through May 2.
- The USDA's April 22 Cold Storage report showed March 31 stocks of chicken were down 1% month to month; and down 2% vs. March 2009.
- Year to date broiler egg sets are up by 1%. Chicks placed were unchanged on a year to date basis. April sets were up 2% and chicks placed were also up 2%.
- US chicken **processor margins are running solidly positive** through April.
- January – February 2010 year over year exports: **-21%**.

US Summary

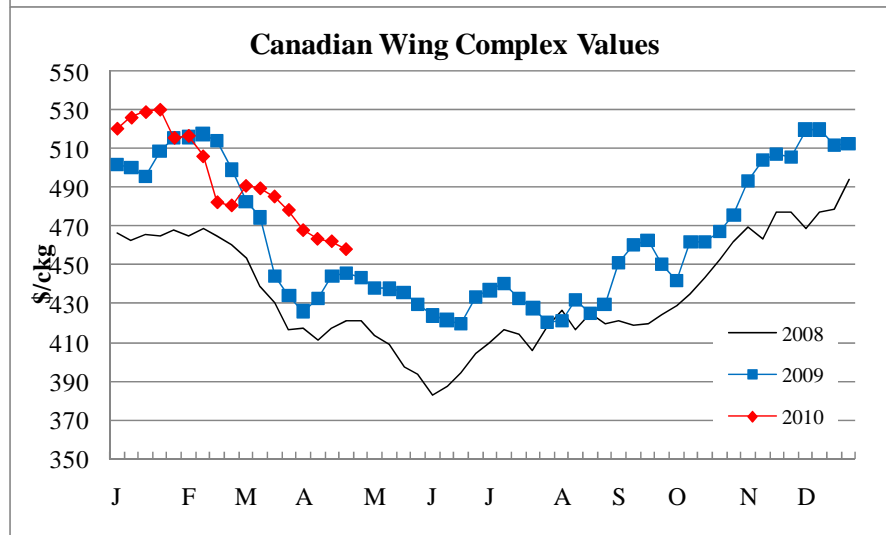
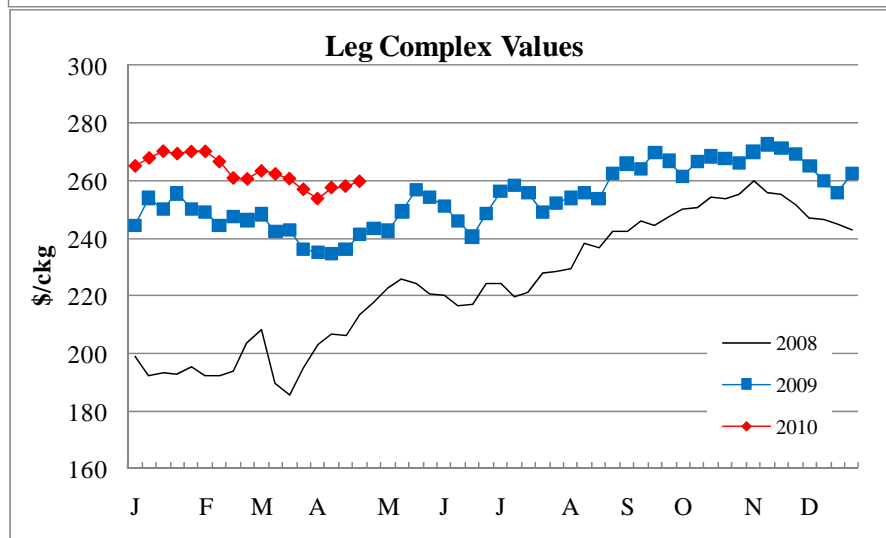
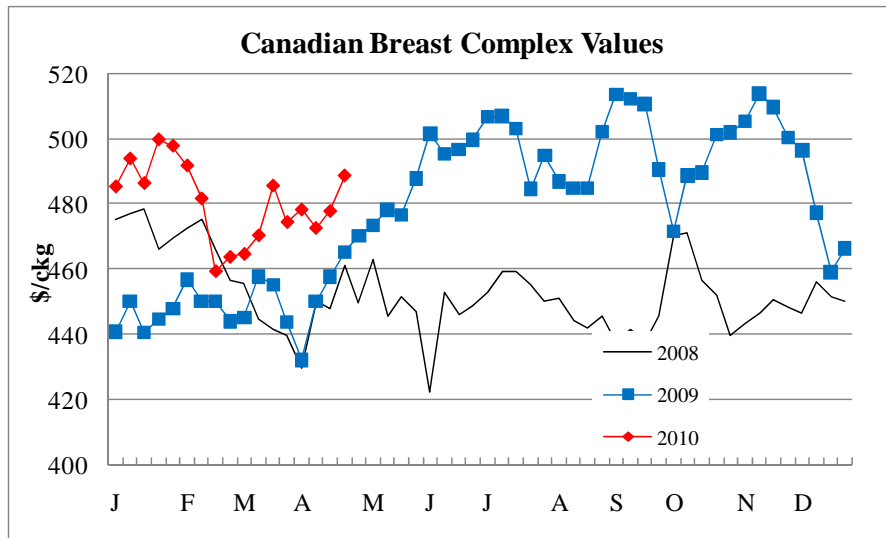
Same story as last month, as US prices are stabilizing or increasing despite the first notable increases in production in several months. The Russian and Chinese trade situations have the ability to disrupt prices and markets going forward. **The trade developments are the most important factors going forward.**



Canadian Market Conditions

Cut Values

The following graphs show the breast, leg and wing complex values as compiled by the CFC. These values are the composite values of prices of the various parts that comprise each of these chicken primals.

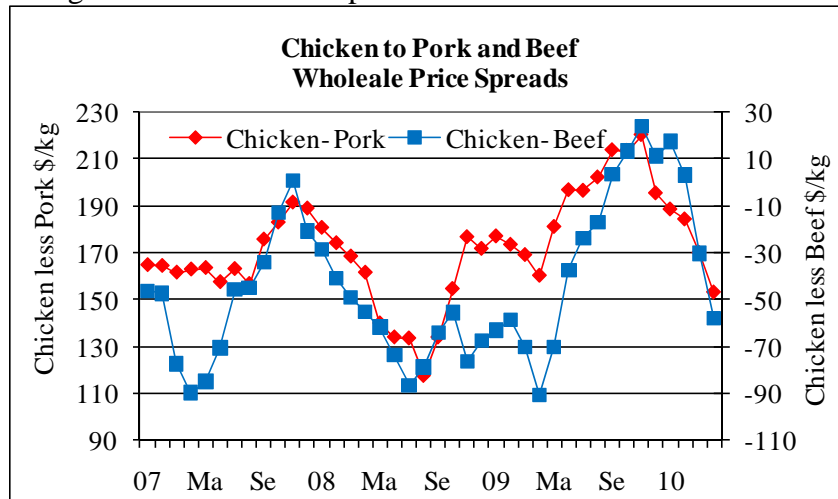


The three main primals have all been trending much firmer than in 2009. Nevertheless, **there is a weaker undertone to the market compared to earlier in 2010**. Breast prices have been very erratic and have only begun to recover from their dramatic decline in February. Legs and wings have been performing almost exactly along seasonal expectations. The overall pricing trend has been weaker during late winter/early spring. **Recent breast strength is serving to temper the overall weaker undertone.**

Competing Meats

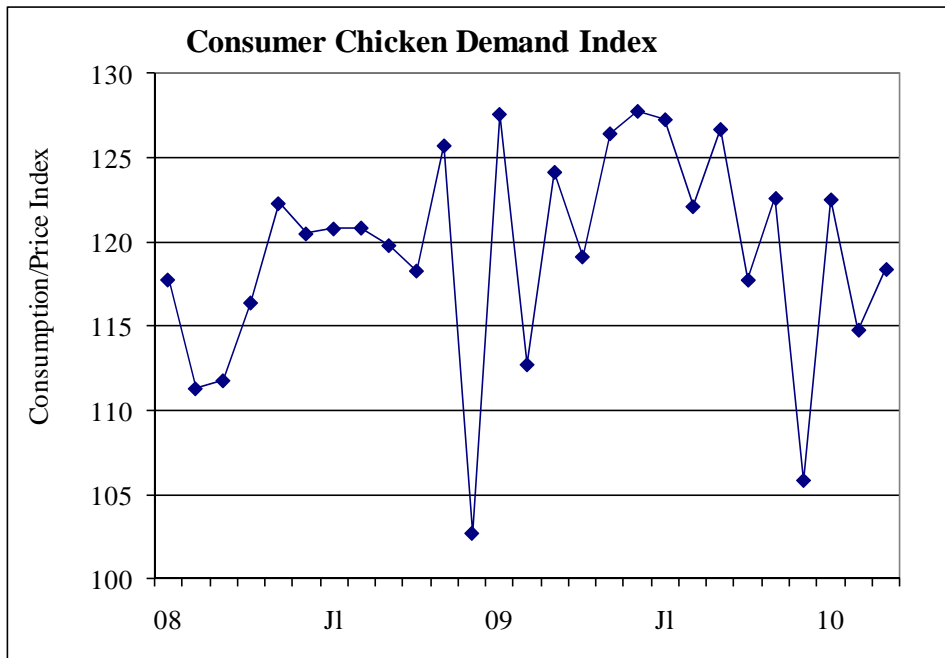
- Beef pricing was 6% lower in April than last year. Recent trends in beef pricing, however, have been sharply higher.
- Pork is 15% more than last year at the same time. **Pork has been showing exceptional strength in recent weeks.**

The graph below shows wholesale price spreads between chicken and beef, and chicken and pork from 2007 through April 2010*. When the line trends upward, it means that chicken is costing increasingly more relative to the competing meat. Conversely, a decline in the trend line represents a declining chicken cost as compared to the costs of the other two meats.



- Retail chicken margins on breasts are below average compared to five year norms. The two other main proteins are around the average for retail margins.
- Processor margins on commodity product are above the previous five year average. Processors appear to be going through an extended streak of decent margins.

The graph provides an estimation of Canadian consumer chicken demand from January 2008



through the GMC estimate for March 2010 (latest available data). The graph indexes the Statistics Canada Consumer Price Index for Chicken and the CFC estimation of domestic chicken consumption in order to estimate chicken demand.

- March 2010 demand is 5% less than March 2009.
- **January-March 2010 demand is 2% less than January-March 2009.**

Canadian Imports

- January to May 1 year to date imports: -14%:
 - boneless breasts: -20%; wings: -28%; and further processed: -15%.

Canadian Chicken Price Forecasts

Non-Chicken Market Drivers

Competing Meats

Pork: During the spring and summer North American pork production should be about 2-3% lower than 2009 at the same time. Pricing should be 35% stronger in the spring of 2010 compared to the same months in 2009.

Beef: North American beef production in 2010 should be about 2-3% less than in the spring and summer of 2009. Beef pricing should be 10% higher than in 2009 at the same time.

Competing meat summary: **Competing meat pricing will be supportive to chicken pricing.**

Exchange Rate

Despite the uncertainty and confusion caused by the situation in Europe during April and May 2010, 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)

Exchange Rate Implications: **The exchange rate will make US import costs fairly volatile in the short term.** By July, the situation should stabilize around par placing modest downward pressure on import costs.

Chicken Market Conditions

Canadian Production

- Total allocations for A-97 (Mar 28-May 22): +2.8%. Domestic allocations: +2.6%; and
- Total allocations for A-98 (May 23-July 17):+2.1%. Domestic allocations: 1.7%.
- Total allocations for A-99 (July 18- Sep 11):+4.6%. Domestic allocations: +3.9%.

Average June and July fresh supplies including production and imports, are expected to increase by about 5% compared to the average fresh supplies of March and April. **This is more than the normal March to July increase which is typically around 2%**

United States Production and Prices

USDA estimates second and third quarter 2010 broiler production should be +2% compared to the second and third quarters of 2009. **USDA is forecasting a modest increase in year over year prices in the spring before increasing 8% in the third quarter.**

Export Market Conditions

USDA says that the annual 2010 forecast for U.S. broiler exports is 5.83 billion pounds, **down 15 percent from the 6.84 billion pounds exported in 2009.** Near term lower forecasts are based on unsettled economic conditions in many countries, trade disputes with both Russia and China, and a reduction in the Russian import quota.

Seasonal Pricing

The following is a summary of the average changes in pricing from 2005 through 2009 for breasts, wings and legs as well as for the total composite from April through July.

- Breasts: +7%
- Wings: -4%
- Legs: +3%.
- Composite Cutout: +2%

Overall, at this time of year the **expectation is for firming prices due to stronger seasonal demand.** The exception is the wing which tends to see it highs during the winter.

George Morris Centre Price Forecasts

The George Morris Centre (GMC) has developed a model that incorporates previous price, supplies, demand, and US chicken prices as explanatory or predictive variables for chicken prices in Canada. The model is based on monthly CFC, Statistics Canada, and GMC data collected over the last ten years.

The following are the George Morris Centre forecasts for April to July:

Breasts

The model is forecasting a 4% increase in breast values. This is less than normal seasonal performance.

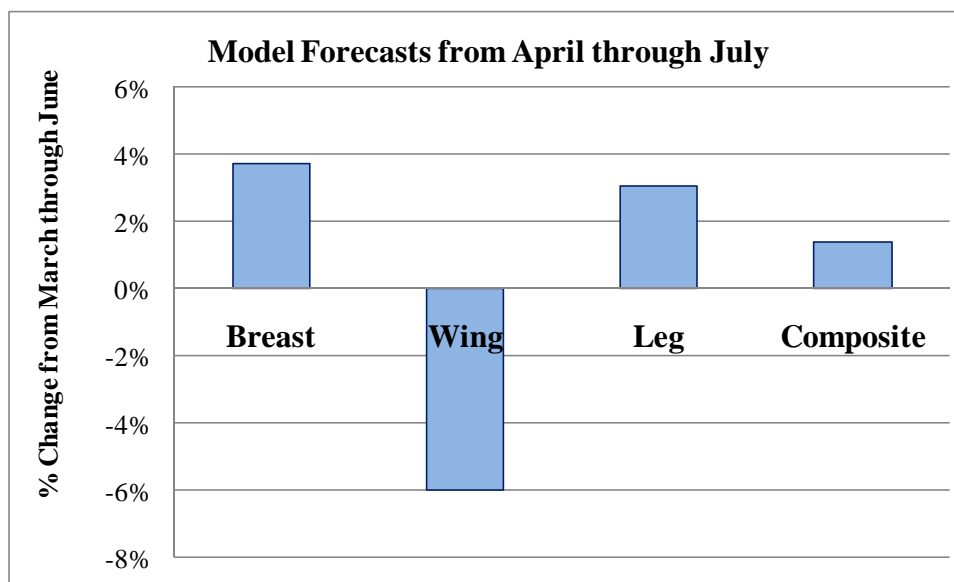
Wings

Wings should decline 6%, which is reasonably consistent with seasonal patterns.

Legs

Legs should increase by about 3%. This is consistent with the seasonal pattern.

The model is forecasting that the overall composite cutout of all cuts should move sideways to slightly higher from April through July. That is, the overall value of chicken should increase modestly through the spring. The following graph shows the forecasted performance of the breast, wing and leg complex as well as the total composite cutout, from April through July, based on the GMC forecasting model. The graph shows the forecasted percentage change of the three cutout values and the total complex from April through July.



The main issues to watch are both on the demand side. **Canadian domestic demand looks to be struggling and that is not supportive to pricing.** The constant deluge of exceptionally priced product at retail will move product but is not supportive to wholesale values. On the export front, there needs to be settlement to the Russian and Chinese disputes or legs will begin to weaken.

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