

The Market Argument

The arguments for the direction of chicken pricing from November through January.

Bullish

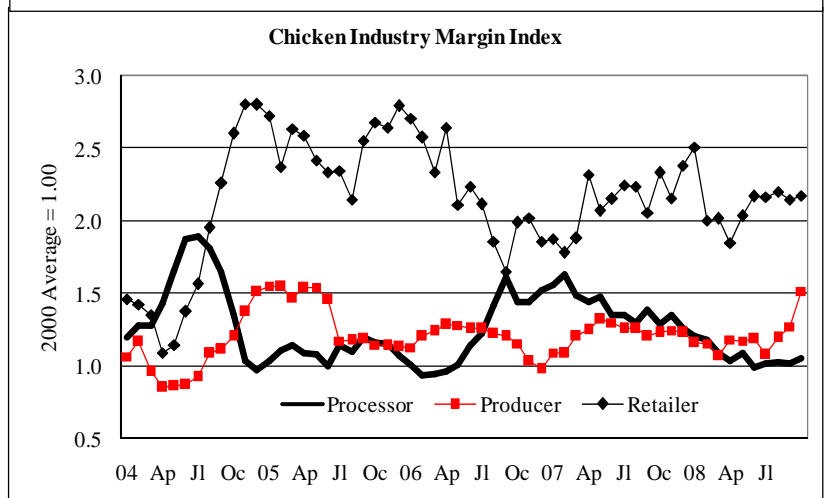
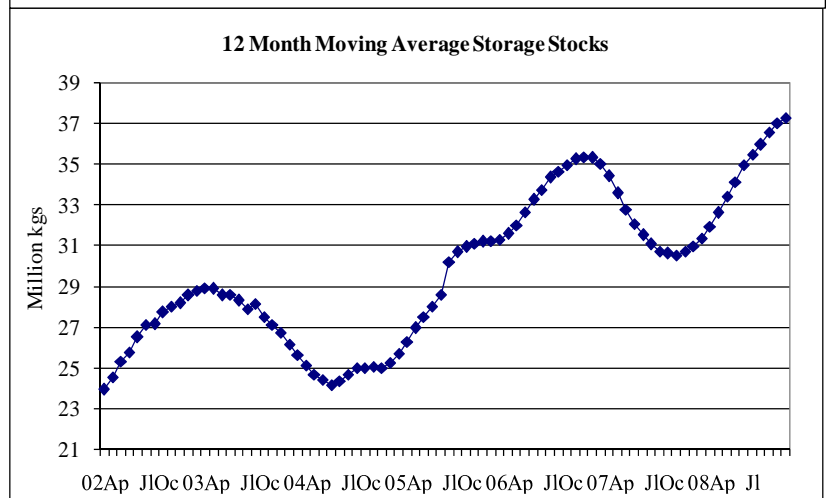
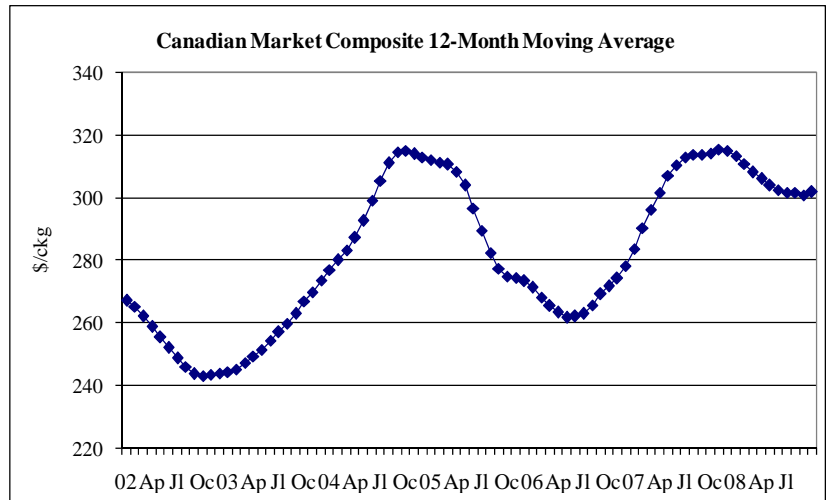
- The C\$ depreciation looks to be holding or accelerating.
- Production cuts in Canada will continue through January.
- Retail chicken margins are strong, which will encourage features.
- US markets are expected to strengthen.
- US production will decline in the fourth and first quarters.
- Chicken demand appears strong.
- Higher live prices may push wholesale higher.

Bearish

- Pork will remain very abundant and cheap.
- Canadian and US stocks continue to be burdensome.
- Chicken remains expensive relative to competing meats at wholesale.
- Imports should rapidly increase through the end of the year.
- Foodservice demand remains sluggish.
- Demand seasonally weakens in the fourth quarter
- Russian barriers are already hurting exports and leg pricing.
- All commodities are under pressure.

Bottom line: The composite cutout will ease lower in a gradual seasonal decline.

The Key Charts



Markets and Demand

Retail¹

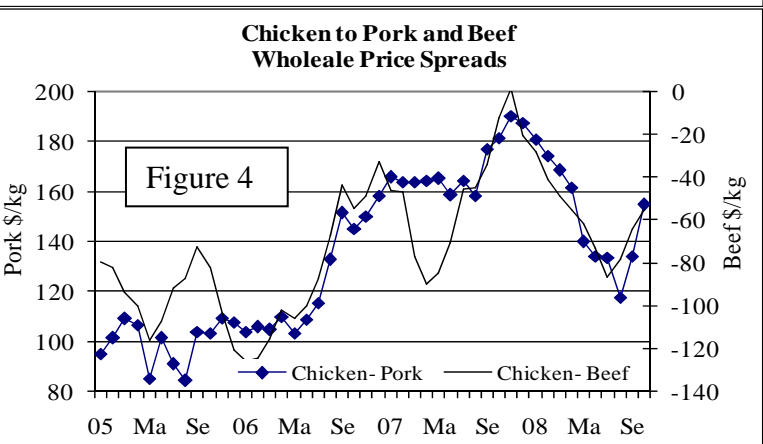
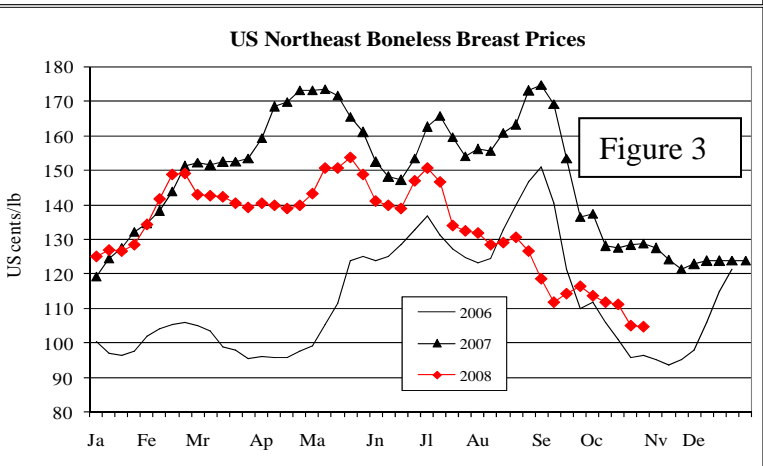
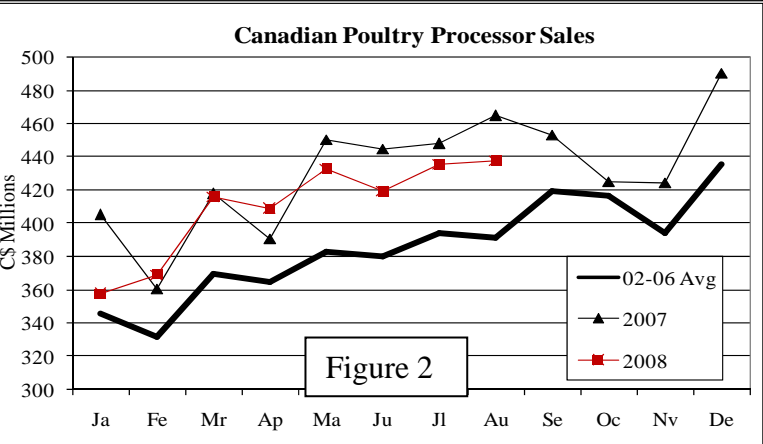
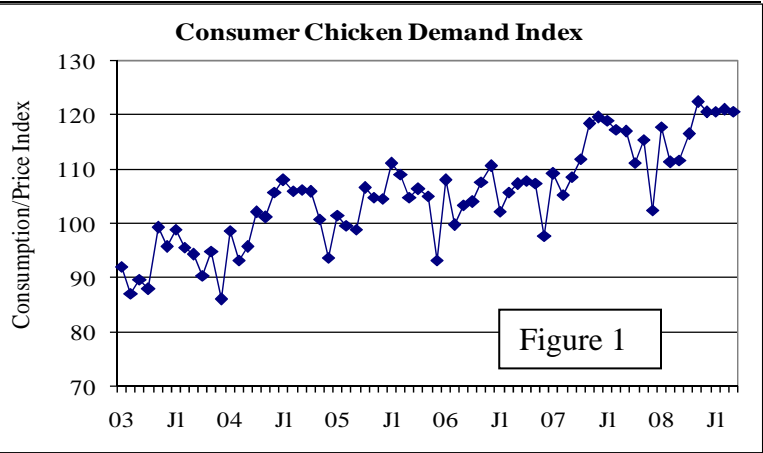
- During October chicken ads comprised 19% of fresh meat feature space in Ontario grocery flyers.
 - Five year average chicken share: 25%
 - Thanksgiving ads took space away from chicken.
- August supermarket total sales YOY: +5%
 - YTD sales through Aug: +4%
- Aug foodservice total sales YOY: +5%
 - YTD sales through Aug: +5%
- Sep YOY change in the Consumer Price Index for chicken: +4%.
 - Sep YOY 5-year average CPI change: +5%
- Canadian consumer demand for chicken was steady in September compared to August.
 - Sept demand was 3% more than Sep 2007.
- Figure 1 illustrates the index of consumer demand for chicken through September 2008.
- Oct price spread on Ontario grocery retail bone-in breast prices less CFC wholesale breast complex: \$4.70/kg
 - Sept retail bone-in breast spread: \$4.64
 - 2003-2007 average spread: \$4.32/kg

Processor Situation and Wholesale Prices

- Aug YOY change in dollar sales of poultry processors in Canada (see figure 2): -6%
 - 5-yr Aug average YOY growth rate: +7%
- Sep-Oct change in the monthly average Canadian wholesale market composite² chicken values: +3%.
 - Leg complex: +3%
 - Wing complex: +5%
 - Breast complex: +4%.
- Oct average US boneless breast price: US\$1.09/lb
 - US Oct avg price in C\$ = C\$2.82/kg
- The Oct monthly average exchange rate of 0.8525 depreciated nine cents from the Sept average.
 - Impact: the Canadian currency increased imported costs by C\$0.27/kg or 11%.
- Ontario processor margins on commodity product in Oct: \$1.08/kg
 - Sept margin: \$1.04/kg
 - Average 2003-2007: \$1.29/kg

Competing Meats

- Sep-Oct wholesale beef price trend: Steady
- Sep-Oct wholesale pork price trend: lower
- Oct wholesale chicken-pork price spread: +\$1.54/kg
 - 5-year chicken-pork spread: +\$1.24/kg
- Oct wholesale chicken-beef price spread: -\$0.56/kg
 - 5-year chicken-beef price spread: -\$0.83/kg
- Chicken is more expensive than the other meats relative to the historic normal relationship.
- Figure 4 shows the relationship of wholesale chicken to pork and beef prices from 2005 through Oct 2008.³



¹ Data on the Consumer Price Index for chicken as well as poultry processor sales are sourced from Statistics Canada and are latest available. George Morris Centre collects data on grocery feature activity direct from grocery advertising flyers.

² CFC and EMI data series

³ The graph shows chicken less beef and pork wholesale prices. Chicken prices are CFC and EMI data series. Pork prices are Chisholm Sheet Ontario and beef prices are FOB the plant by Cdn Meat Council and Canfax.

Production and Supply

Live Markets

- Ontario live price for A-87 (Sep 14-Nov 8): \$1.5380/kg.
 - \$1.472 last period; \$1.281 last year.
- The following were the feed cost trends in Ontario⁴:
 - Last week of Oct to last week of Sep: -12%
 - Oct average: +1% from avg six months ago.
 - Oct average: +23% from Oct average last year.
- Oct Ontario producer gross margins: 62 cents
 - Sep margins 52 cents
 - Five year average: 48 cents
- Figure 5 shows Ontario feed cost/kg live weight basis.

Production

- November 8 year to date production: -1%
- Total allocations for A-87 (Sep 14 to Nov 8): -3.9%
 - Domestic allocations: -5%
- Total allocations for A-88 (Nov 9 to Jan 3): -2.2%
 - Domestic allocations: -2.5%
- Total allocations for A-89 (Jan 4 – Feb 28): -1.9%
 - Domestic allocations: -2.8%
- The following are the *percentage* change YOY provincial production allocations for three near term periods.

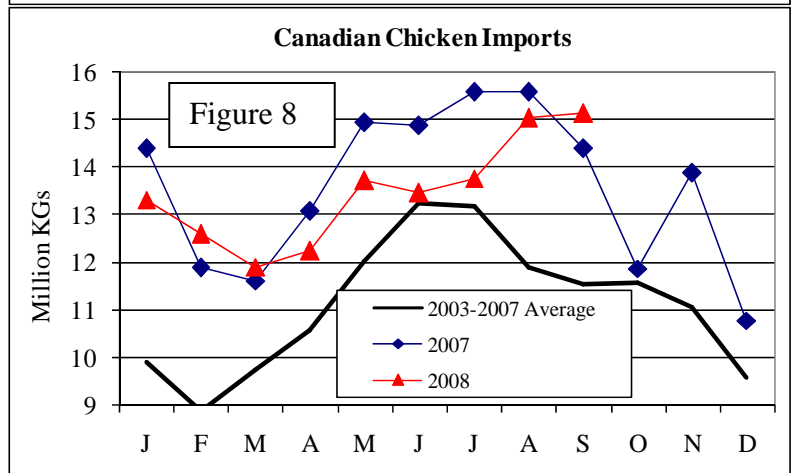
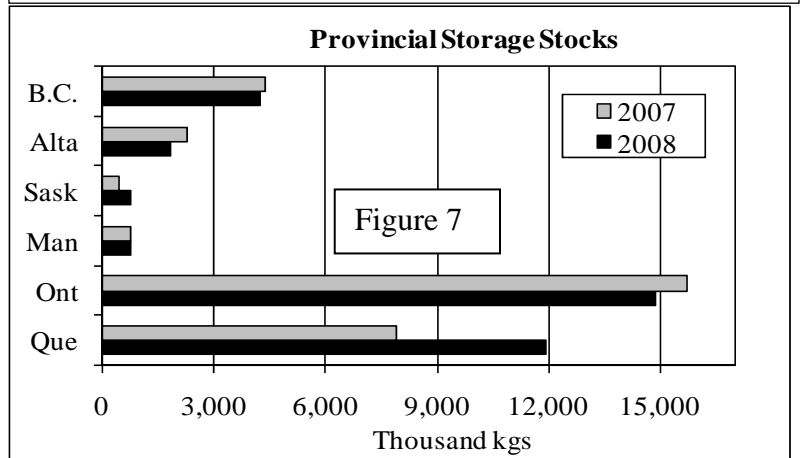
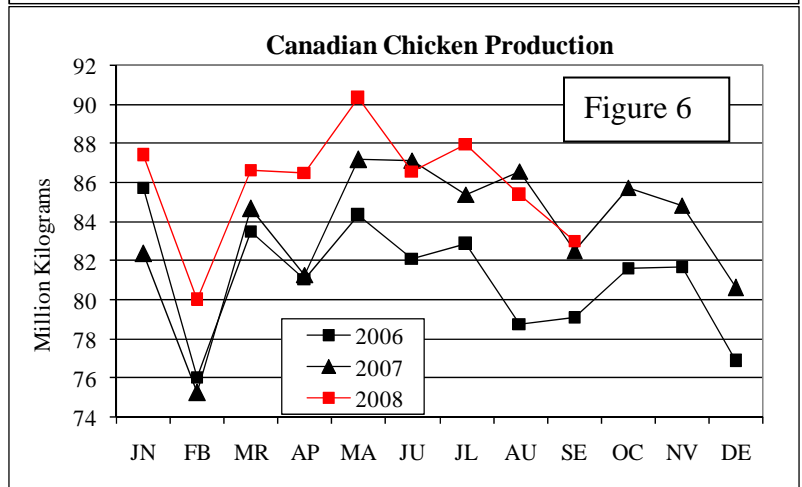
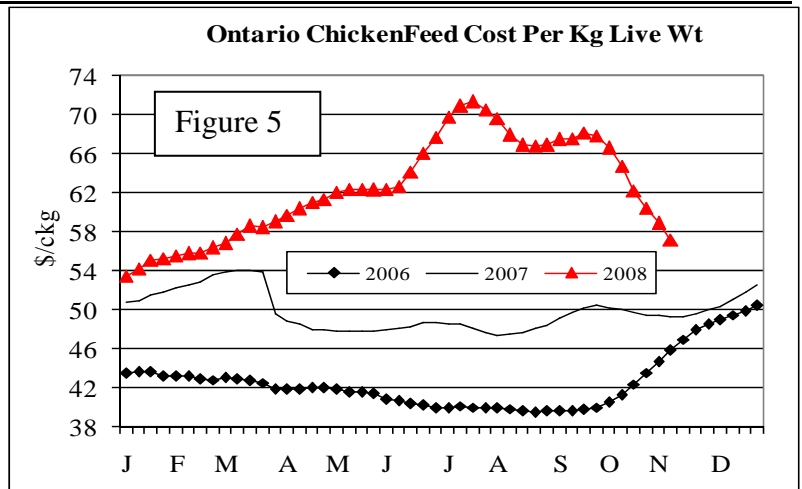
% YOY	A-87	A-88	A-89
BC	-3.7	-2.5	-1.1
Alta	-4.4	-1.7	-0.4
Sask	-4.8	-6.6	-4.3
Man	-1.3	-6.1	-1.2
Ont	-4.7	-4.5	-1.6
PQ	-2.7	+1.9	-3.2
Atl Cda	-6.3	-2.6	-1.7

Storage Stocks

- The following were the trends in Canadian storage stocks as of *Oct 1* (AgCda):
 - +9% year-over-year.
 - +1% month-month
- Oct ratio of stocks to monthly production: 43%
 - 5-yr (2003-2007) average ratio of Oct stocks to production: 37%
- The USDA's Oct 22 Cold Storage report showed Sep 30 stocks of chicken were up 1 percent from the previous month and up 16 percent from last year.
- Figure 7 shows Oct 1 provincial stocks.

Imports

- Total YOY imports including imports for re-export to Nov 1: -3%.
 - boneless breasts: +13%
 - wings: -5%
 - Further processed: unchanged
- Figure 8 shows monthly imports through October.



⁴ Based on price reports from Wallenstein Feed and Supply, Wallenstein, Ontario.

Price Forecasting

Competing Meat Three Month Forecast Trend

- Pork: Steady to lower
- Beef: Steady to higher

US Forecasts

- The following are the USDA's Economic Research Service (ERS) estimates of production as of Sep 30:

US	4 th Q 08	1 st Q09	2008
YoY Chg	-1%	-2%	3%

- The ERS is estimating that 2008 chicken prices will average 3% more than 2007.
- **Fourth quarter 2008 pricing should be 13% more than the fourth quarter 2007.**
- **First quarter 2009 pricing should be 5% more than the first quarter of 2008.**
- ERS has been easing its price forecasts lower.

Canadian Seasonal Chicken Price Forecasts

- The following are the *average* 1996-2008 changes in *fresh supplies* and pricing from Sep/Oct through Dec/Jan:

- Fresh supplies: -3%
- Market composite cutout: -5%
- Breast complex: -11%
- Leg complex: -1%

- This year, based on allocations and typical imports, fresh supplies may **decrease 4%** from Sep/Oct through Dec/Jan.

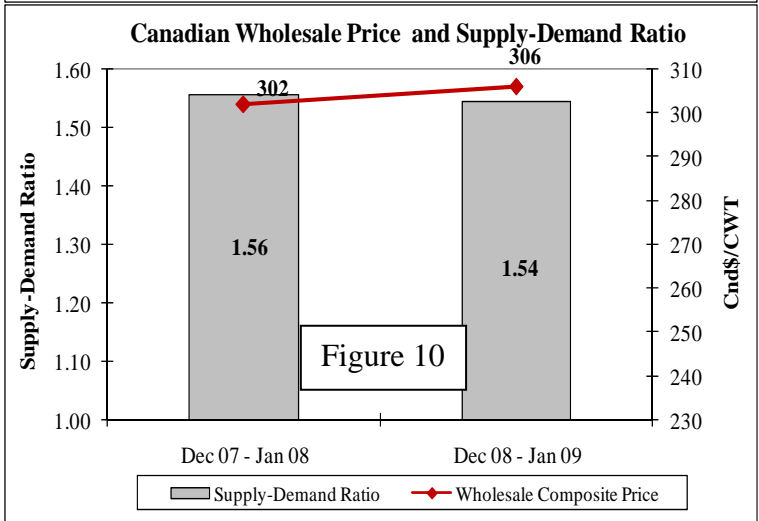
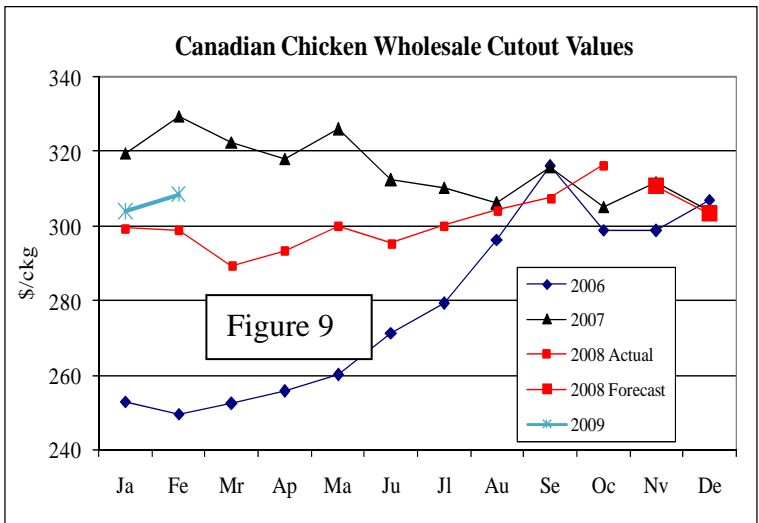
- Over the last 14 years through 2007, Oct breast complex prices have averaged 99% of their annual average (Oct is usually 1% below the annual average).

- Breast prices hit 0.91% in Dec and 93% in Jan.

- Figure 9 shows the actual CFC's *Market Composite Cutout* value for 2006, 2007, and Jan-Sep'08 as well as *seasonally-based* forecasts for Nov '08-Feb '09.

- Based on *normal seasonal performance*, the market composite could be in the \$304/ckg range in Dec/Jan.

- Based on *possible seasonal performance*, prices could range as low as \$287 to as high as \$329 in Dec/Jan.



Canadian Supply and Demand Forecasts

	Two Month Avg Total Supply	Two Month Avg Demand
Dec 07 - Jan 08	131,946,354	84,834,752
Dec 08 - Jan 09	130,603,357	84,687,559
Change	-1.0%	-0.2%

- The following table shows the *total supply* and demand for chicken during Dec07/Jan08 in comparison to the expected total supply and demand in Dec 2008/Jan 2009.⁵
- As can be seen from the table, total supplies are likely to decrease by -1% YOY while demand should be flat. The ratio of total supply to demand is expected to decrease -1%.
- Based on the expected supply and demand conditions, the

George Morris Centre Chicken Price Forecasting Model⁶ suggests an average composite cutout value of \$306 in Dec/Jan. That is **about 1% higher than last year at the same time.**

- Figure 10 shows the relationship between the supply and demand ratio and pricing for last year compared to expected this year.

Seasonality and Supply/Demand Forecast Conclusions

- Seasonality suggests a composite cutout of about \$304/ckg in Dec/Jan. The GMC supply and demand model indicates about \$306. The model and normal seasonal patterns are in agreement. Pricing should decline from the late fall into early winter on a normal seasonal pattern. Wild cards on the bearish side include Russian trade barriers on legs that are already resulting in lower pricing psychology. Bullish drivers include the possibility of even deeper production cuts in the US resulting in firmer pricing.

Copyright © November 13, 2008 Kevin Grier. This report may not be reproduced or transmitted by electronic, photocopy, or any means without the permission of the George Morris Centre.

⁵ Forecasted **Total Supply (Open Stocks + Production + Imports)** = GMC estimate. Forecasted demand (domestic disappearance) = CFC estimate.

⁶ The ratio of supply and demand, as well as the expected performance of the US market, and level of lagged Canadian price form the basis of the GMC Chicken Price Forecasting Model.