

Canfax Market Update

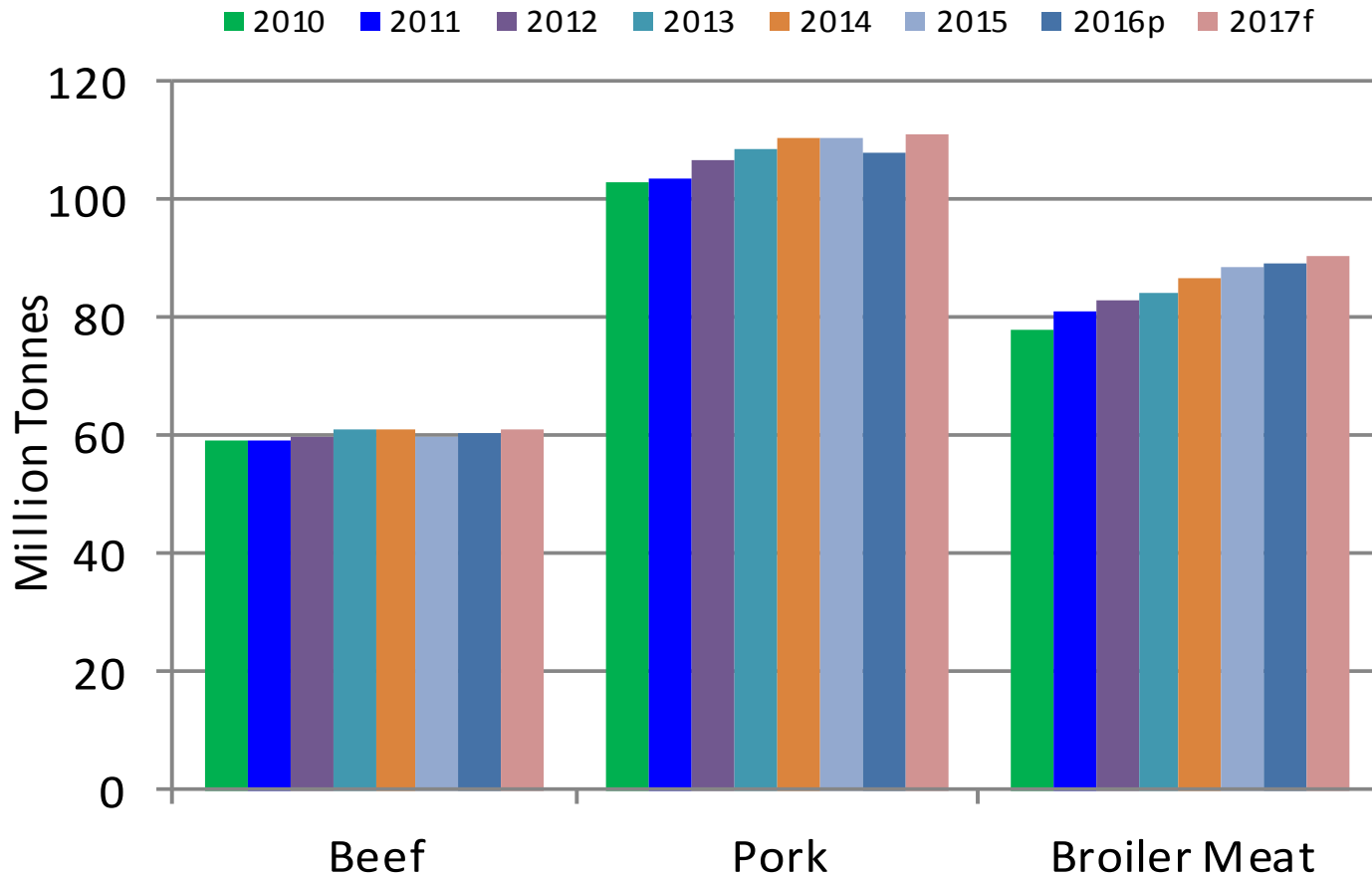


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Flat Global Beef Supplies

Global Meat Production





Global Dynamics

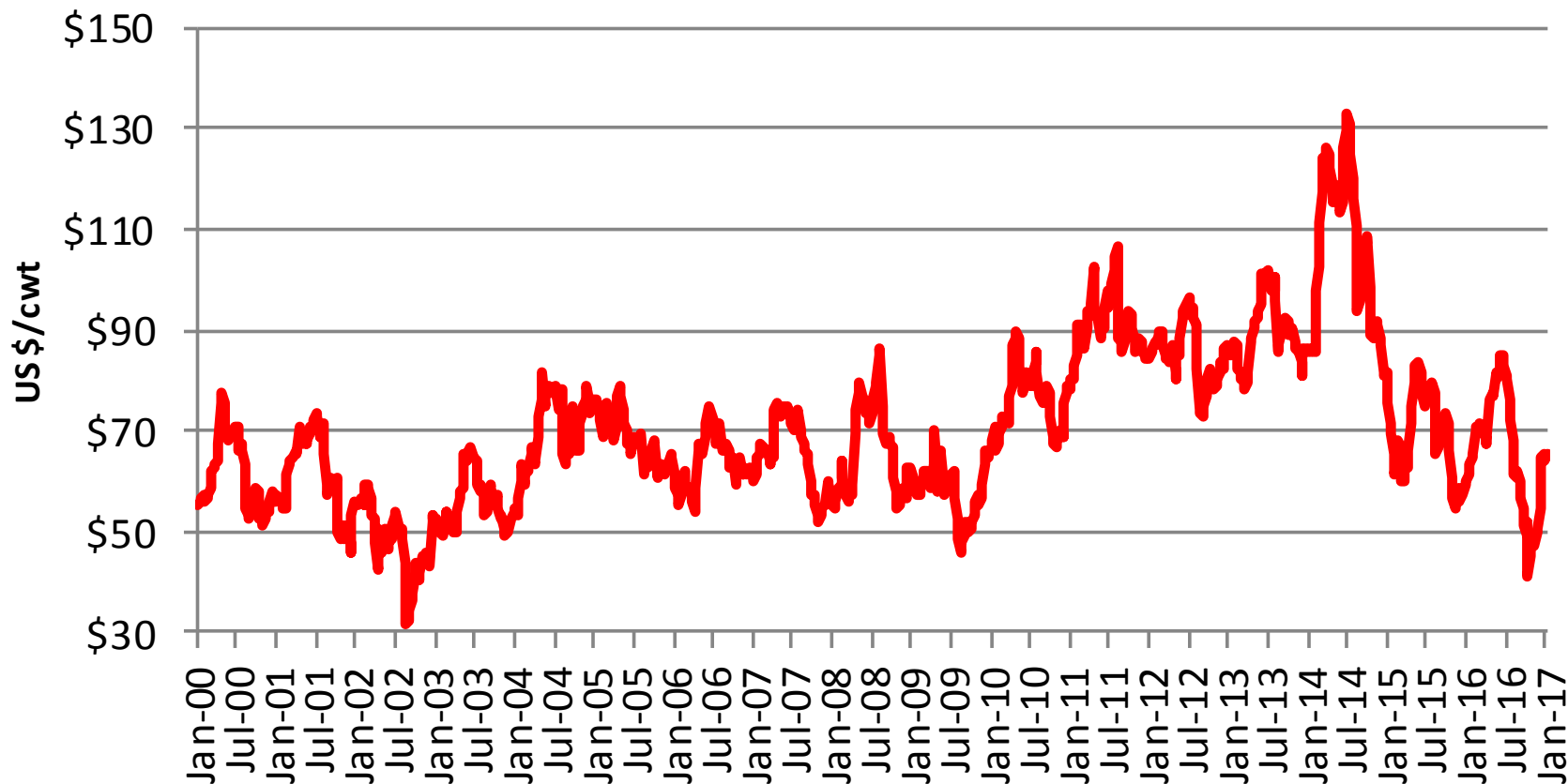
- Global markets critical to maximize value and for industry competitiveness
 - Not a get rich quick scheme
- Demand is driven by wealth not population
- Consumers start with Chicken and Pork
- Countries often look to Import Beef needs
- Value from Lips, Livers and Tongues, etc.
- The world is very efficient at producing more food, as soon as margin exists



Hit 5 year lows in 2015

Hit 14 year lows in 2016

US Nearby Lean Hog Futures

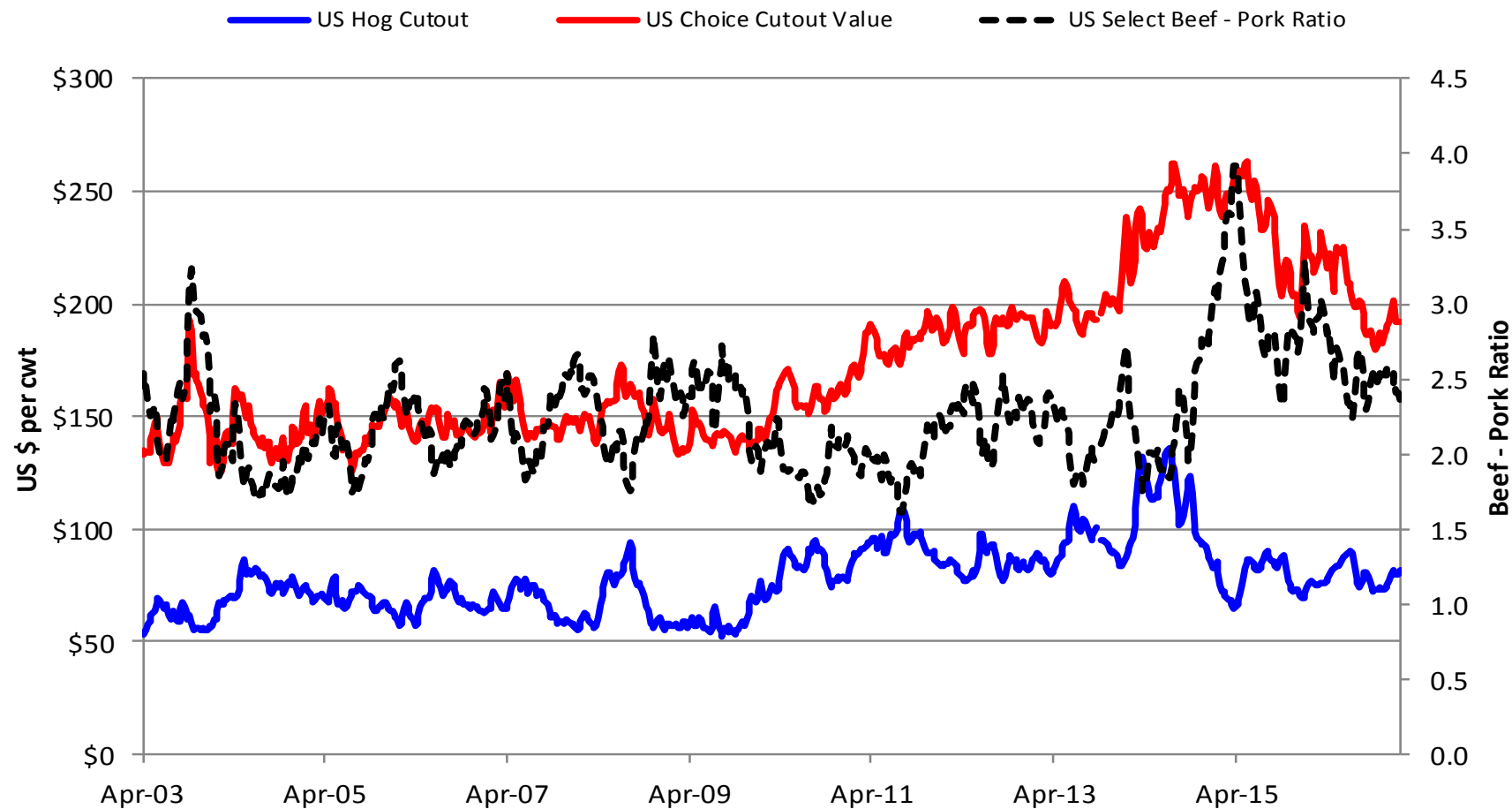


Source: CME, LMIC



Beef Prices- high end of historical range

US Beef and Hog Cutout Values

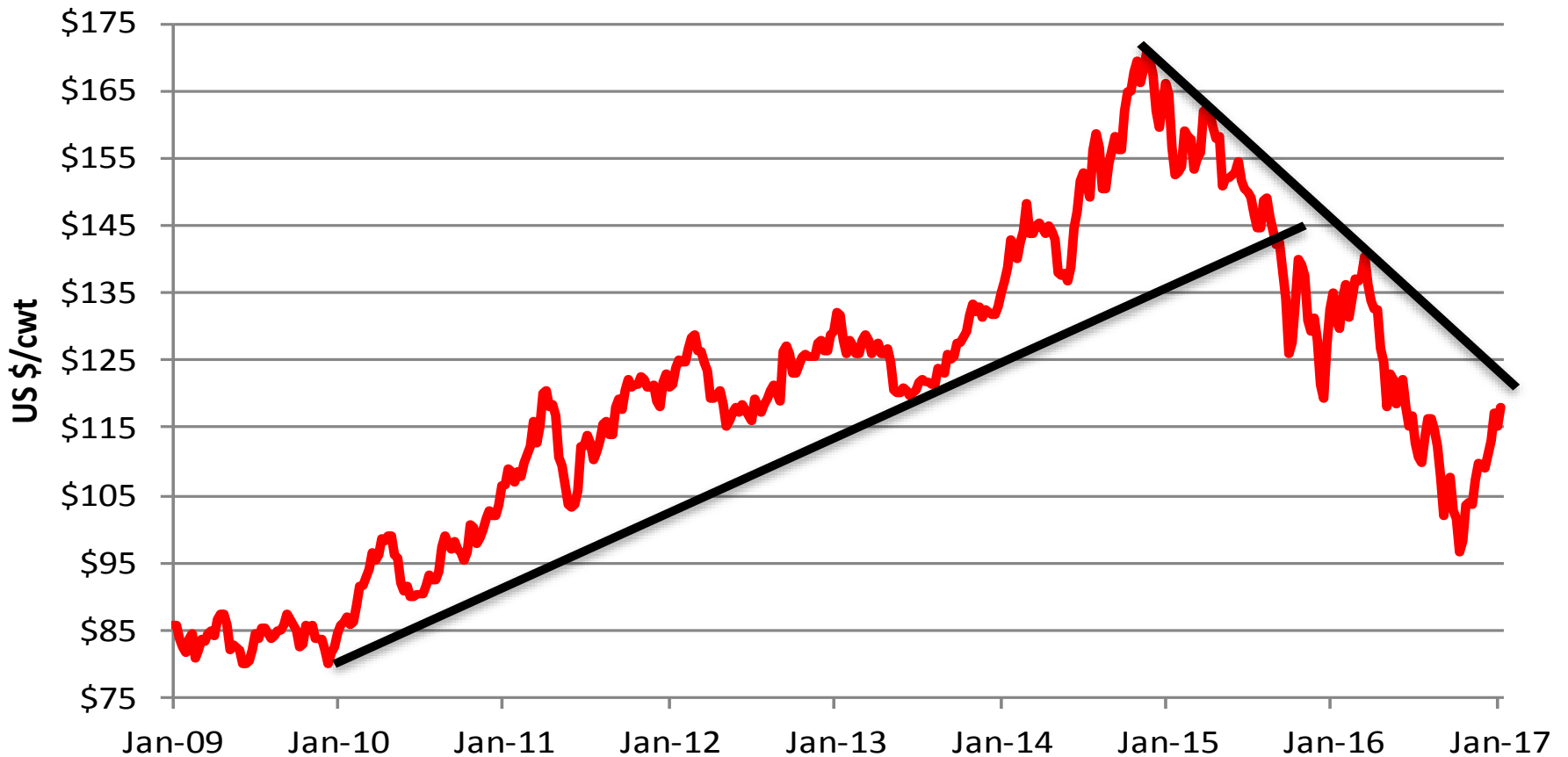


Source, USDA AMS



A bottom is not always clear...

Nearby Live Cattle futures



Source: CME

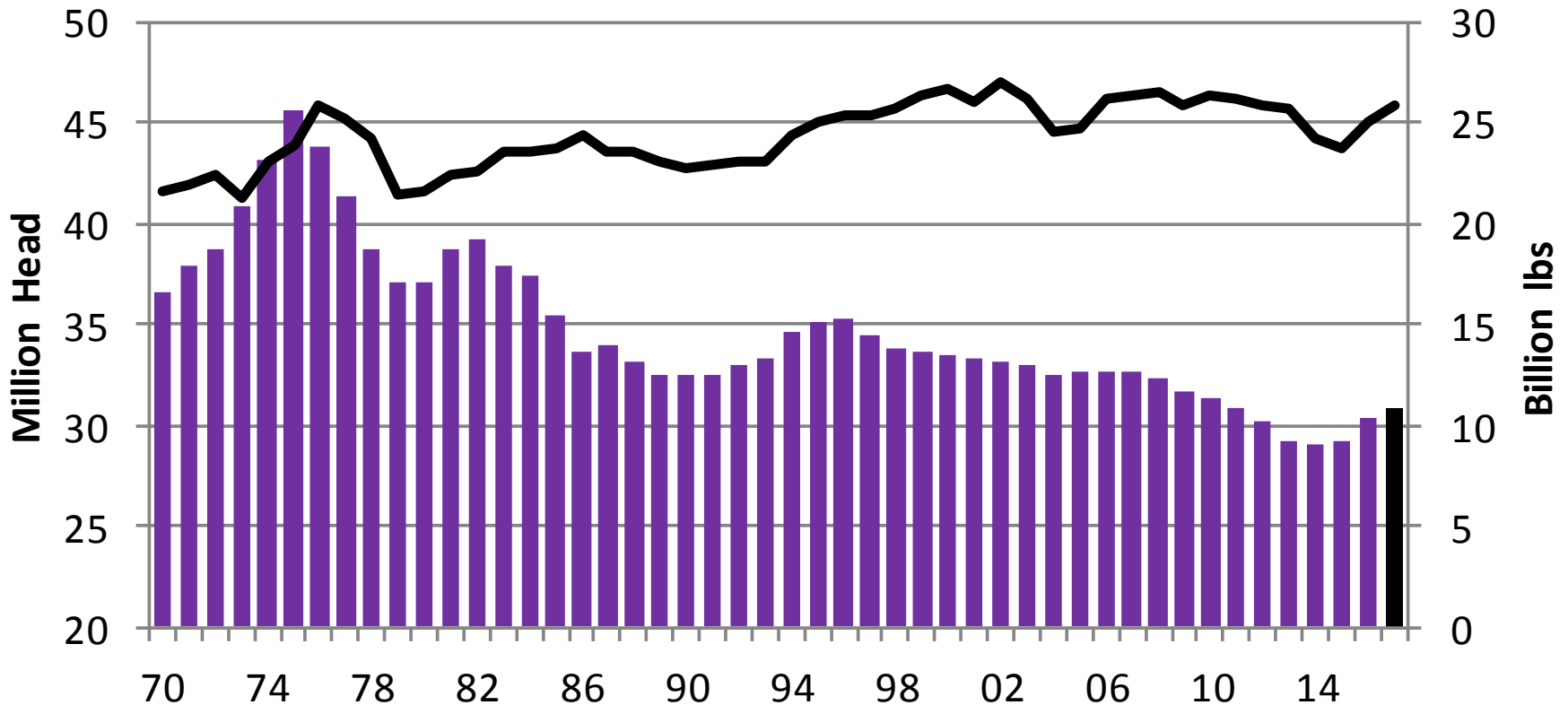


US Herd Expansion

2017 –1.6% more cows-5% more beef

US Cow Inventory vs. Beef Production

■ US Beef Cows — US Beef Production

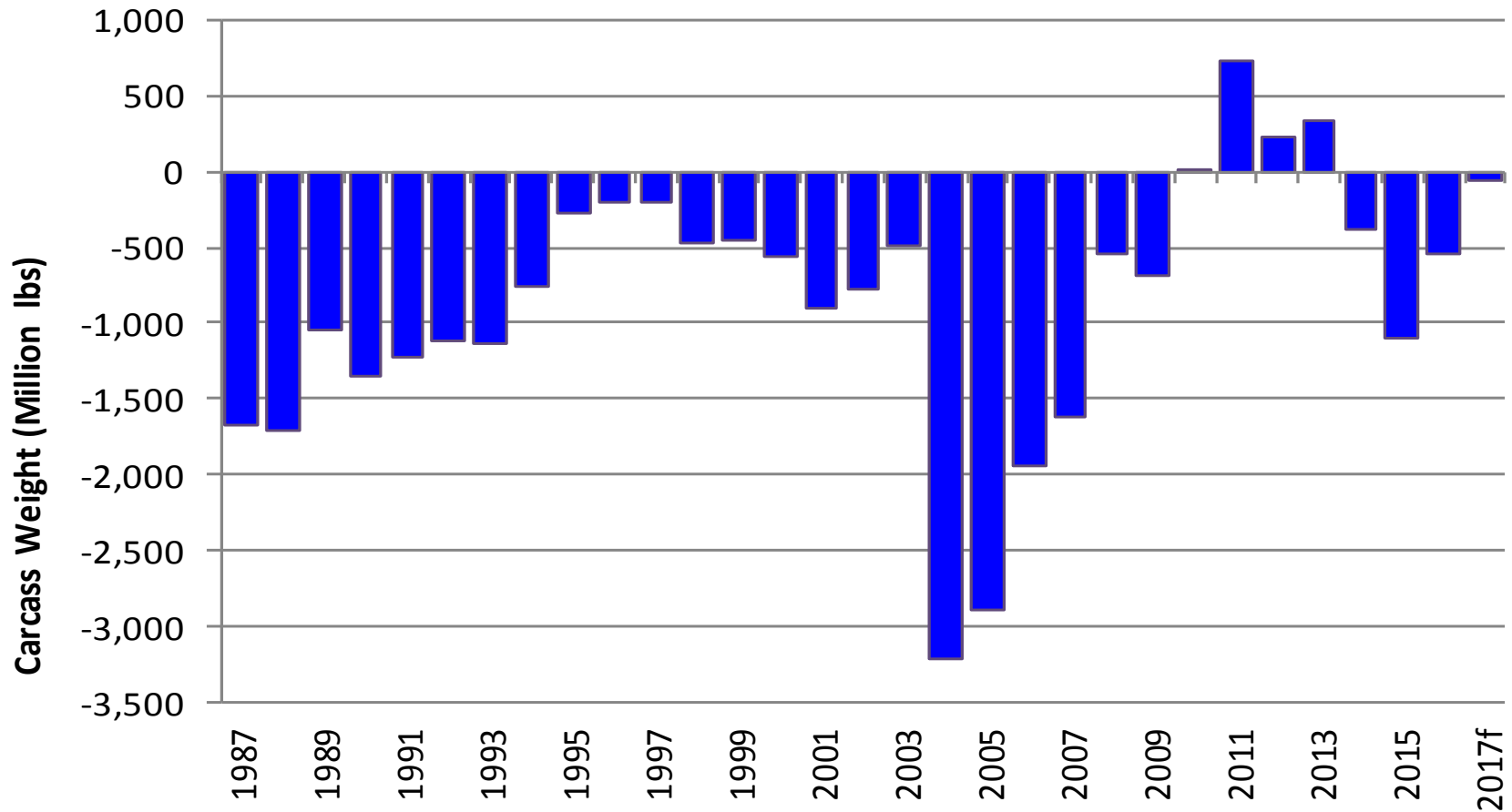


Source: USDA, Cattlefax



Shift in Trade Balance

Total US Beef Trade Balance



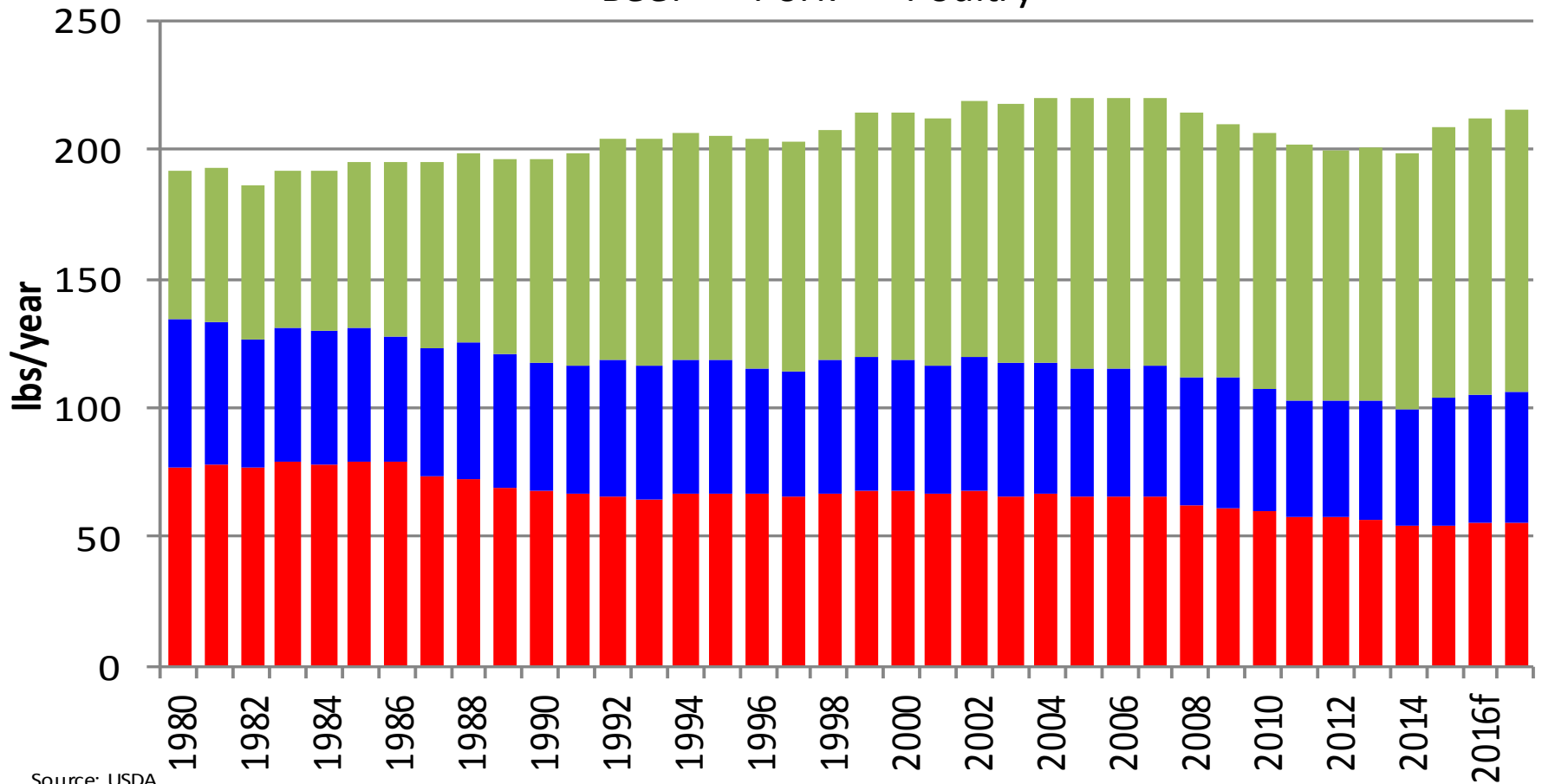
Source: USDA



Most meat per capita since 2008 12 lbs more meat than 2014

US Per Capita Meat Consumption

Beef Pork Poultry





Last time the US dollar was this high The Canadian dollar was 65 cents





Key Drivers on US Market Correction

- US herd expansion
- Record Meat supplies
- Stronger US dollar
- Trade Balance
- Cheap Grain
 - Advantage to Poultry and Pork
- Leverage
- Theory of Inelastic demand

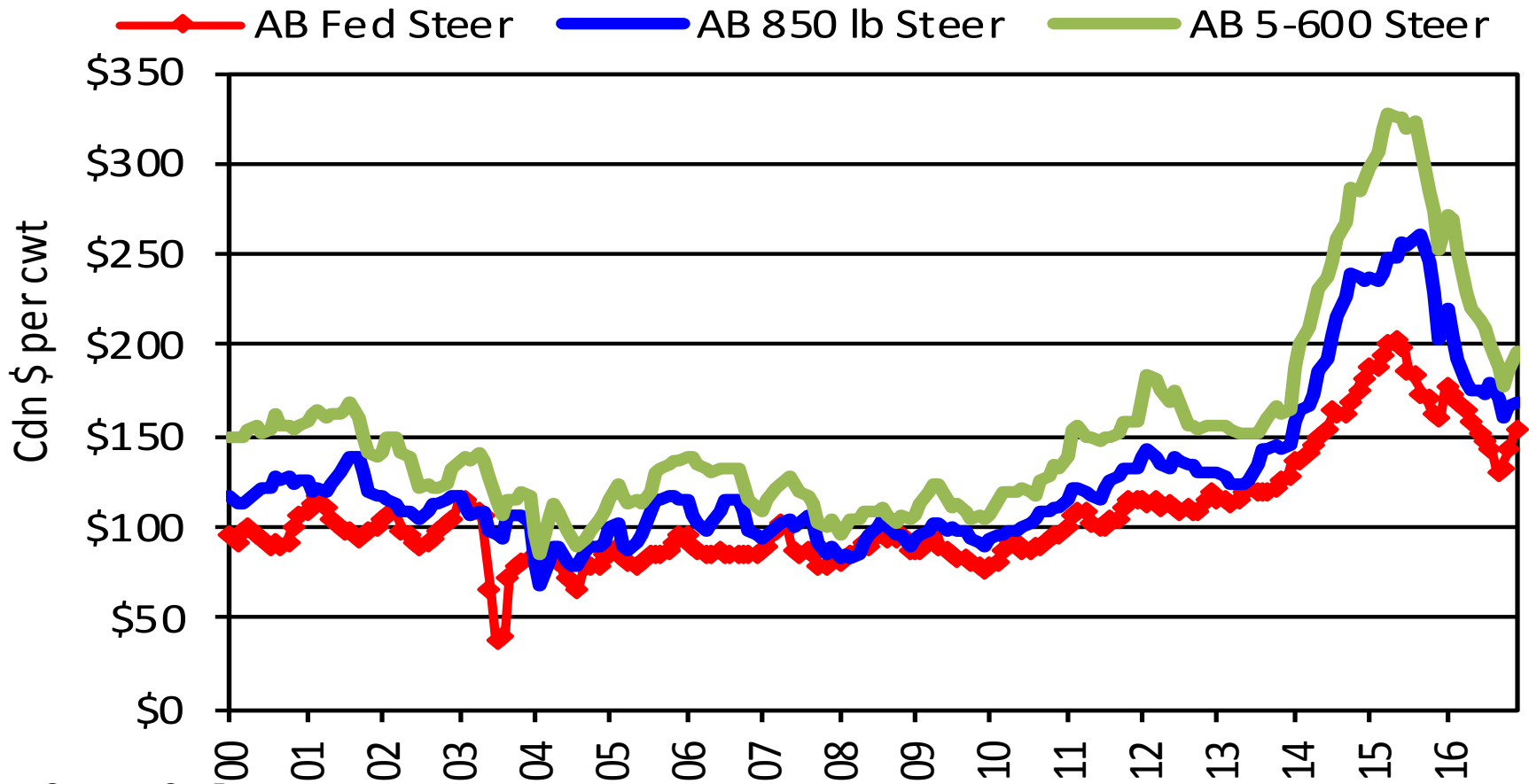


Canada



Have we just had the most unexciting 25% rally in prices??

Alberta Cattle Prices

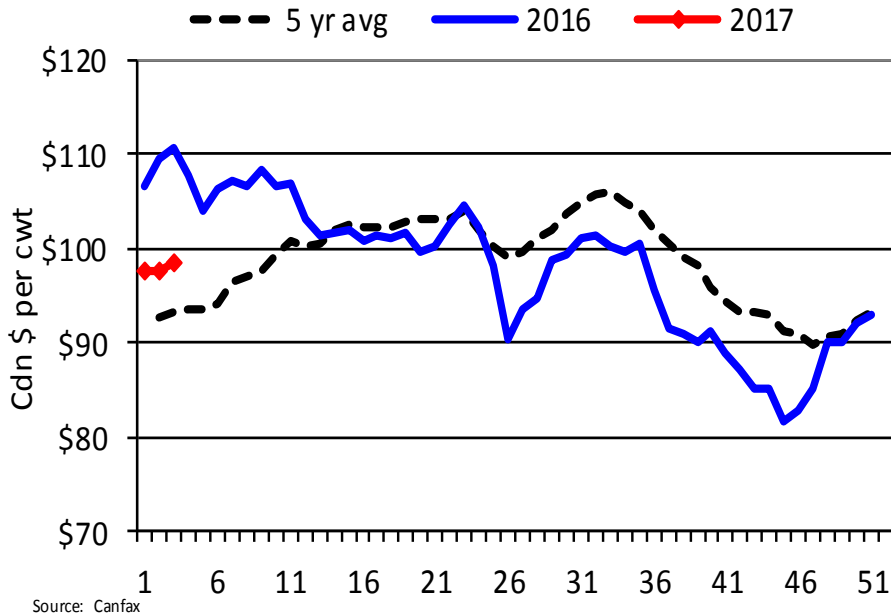


Source: CanFax

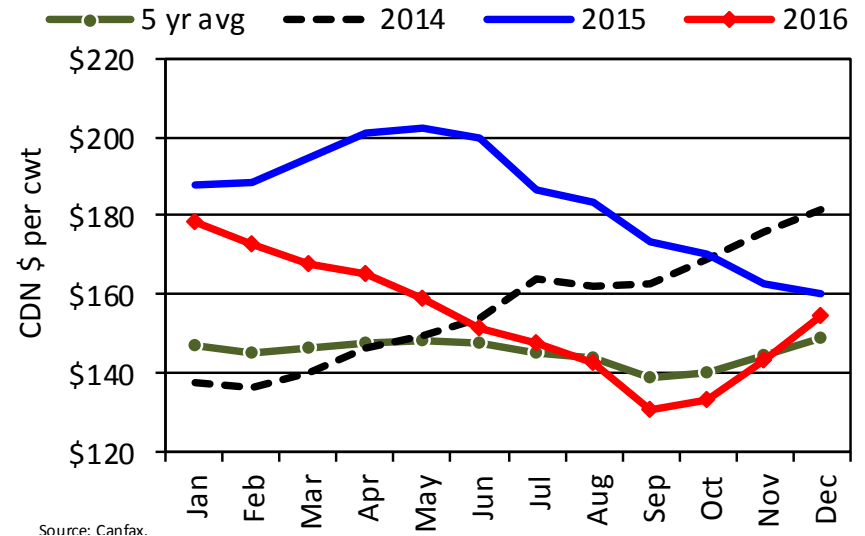


Return to Seasonality?

Alberta Weekly D1,2 Cow Price



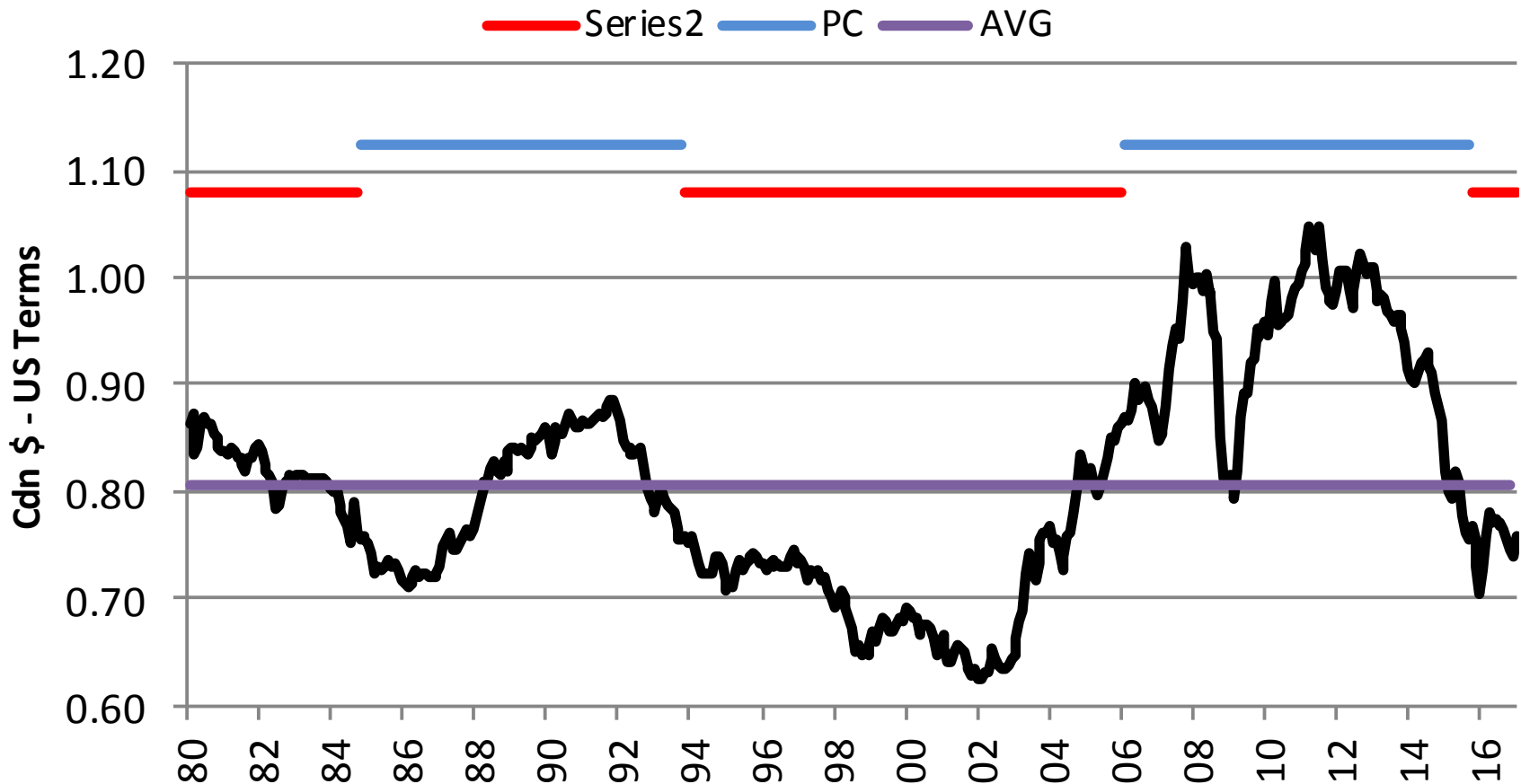
Alberta Fed Steer Price





National Leadership Impact? US Dollar? Commodities?

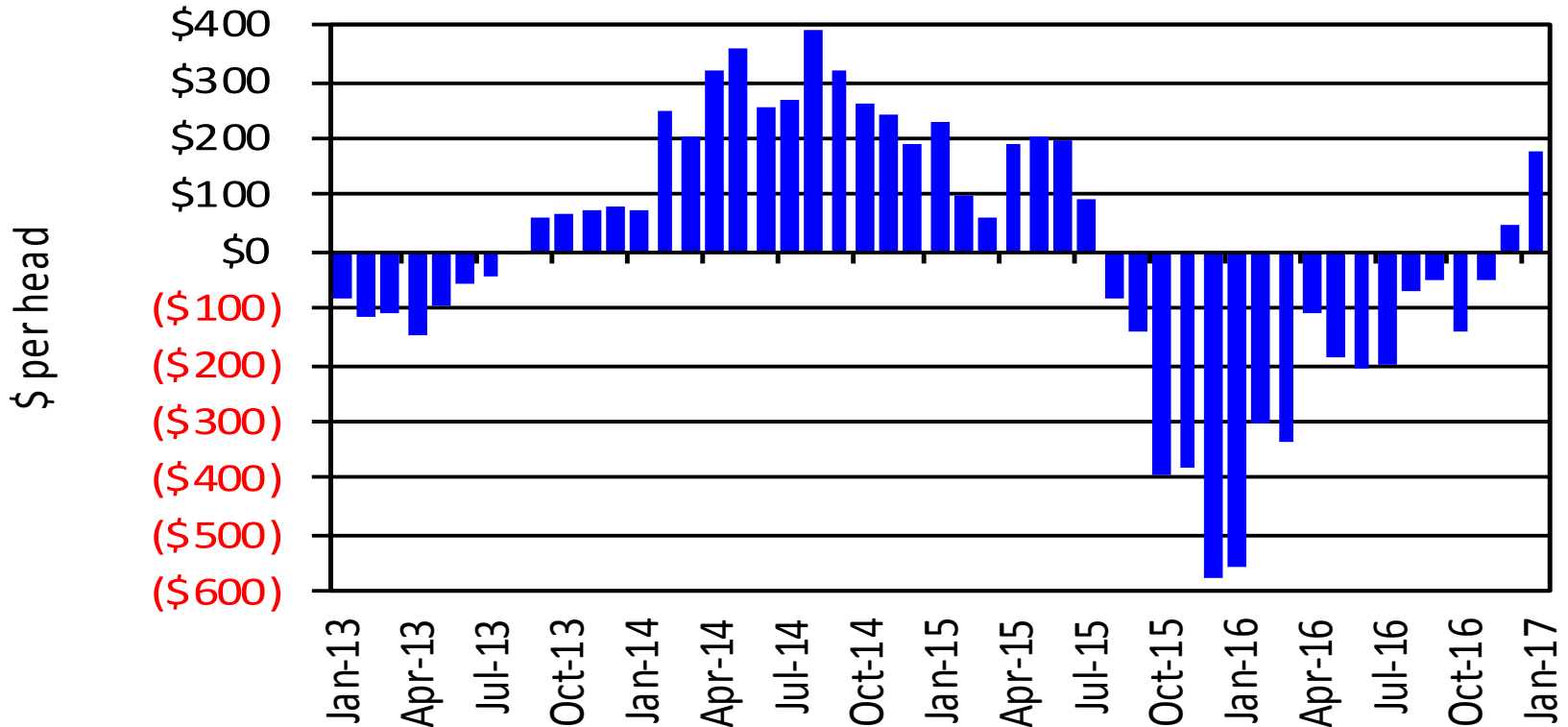
Monthly Canadian Dollar





Lost a lot of equity Understanding your customers...

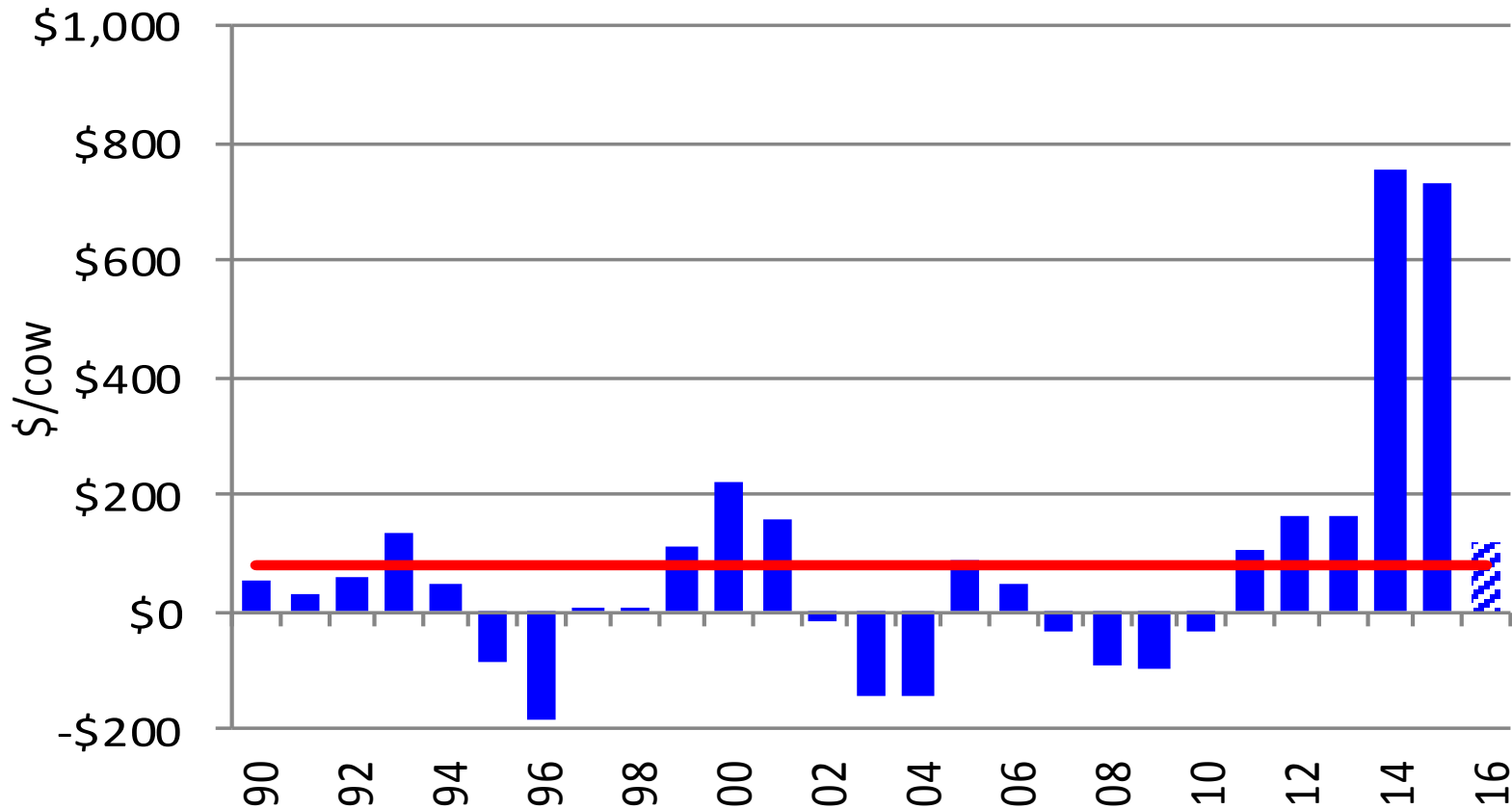
Feedlot - Profit/Loss Margin SHORTKEEP STEER





Biting into cow-calf profits

Alberta Cow/Calf Returns



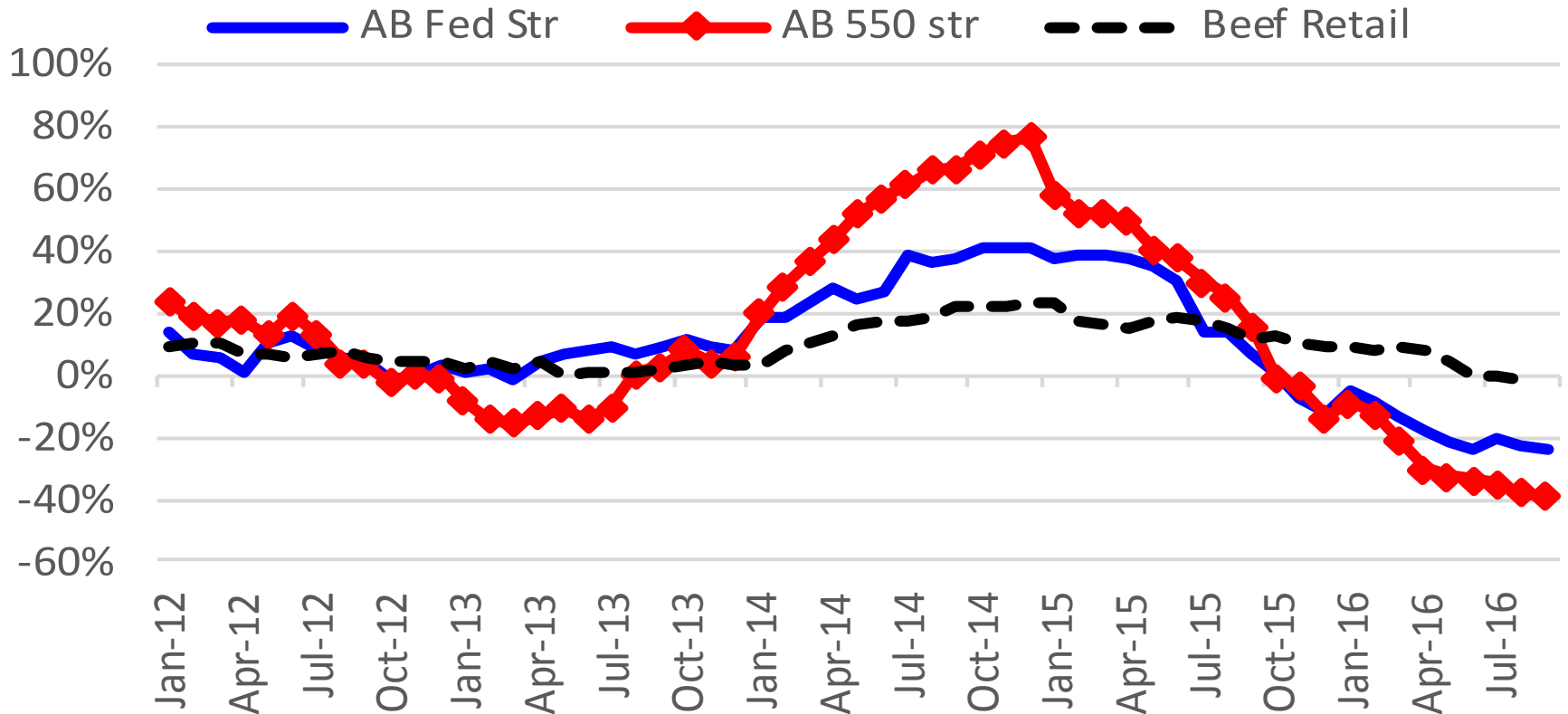
Source Canfax Research



Leverage Shift...

Continues to move down supply chain

Year/year Percent changes

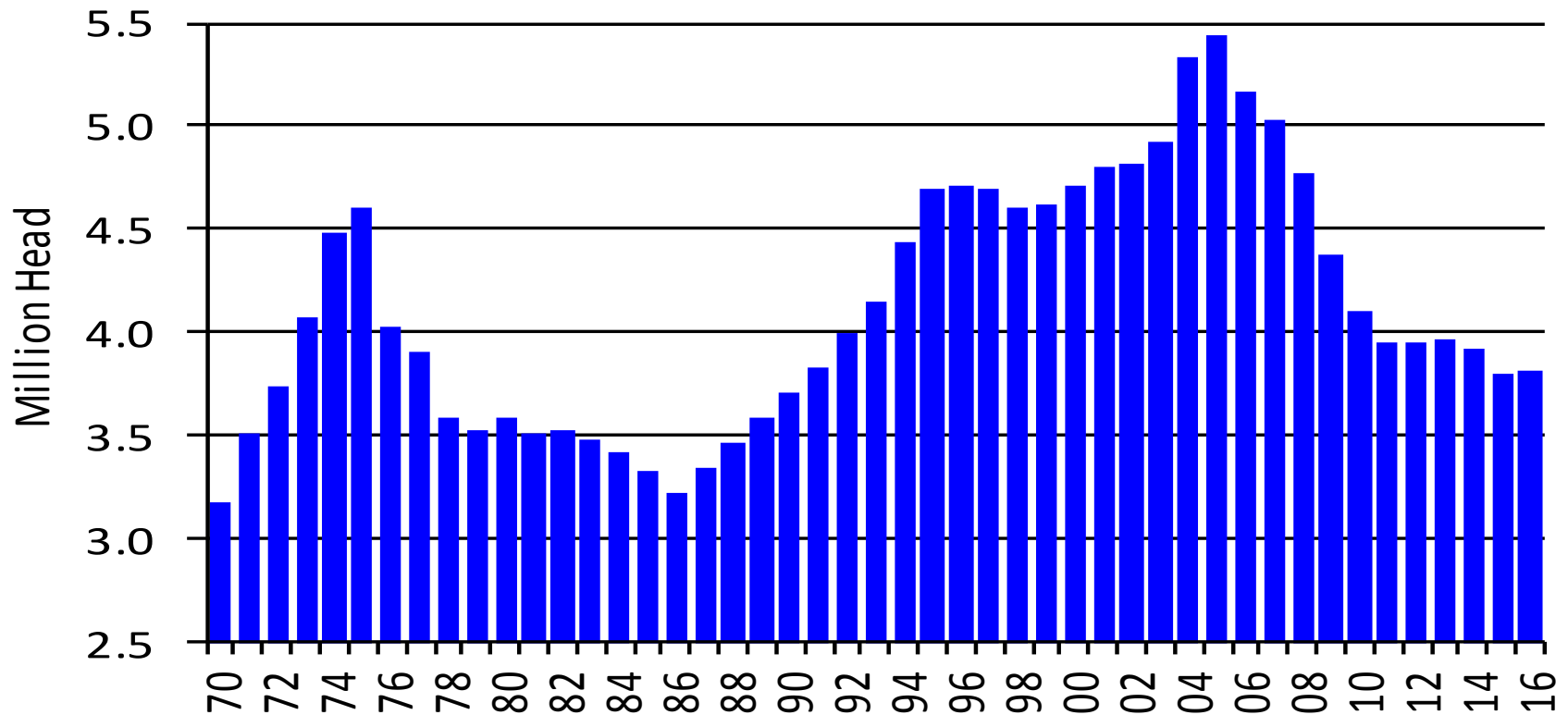


Source: Canfax, Stats Can



Will Canada expand?

Canadian Beef Cow Inventory July 1

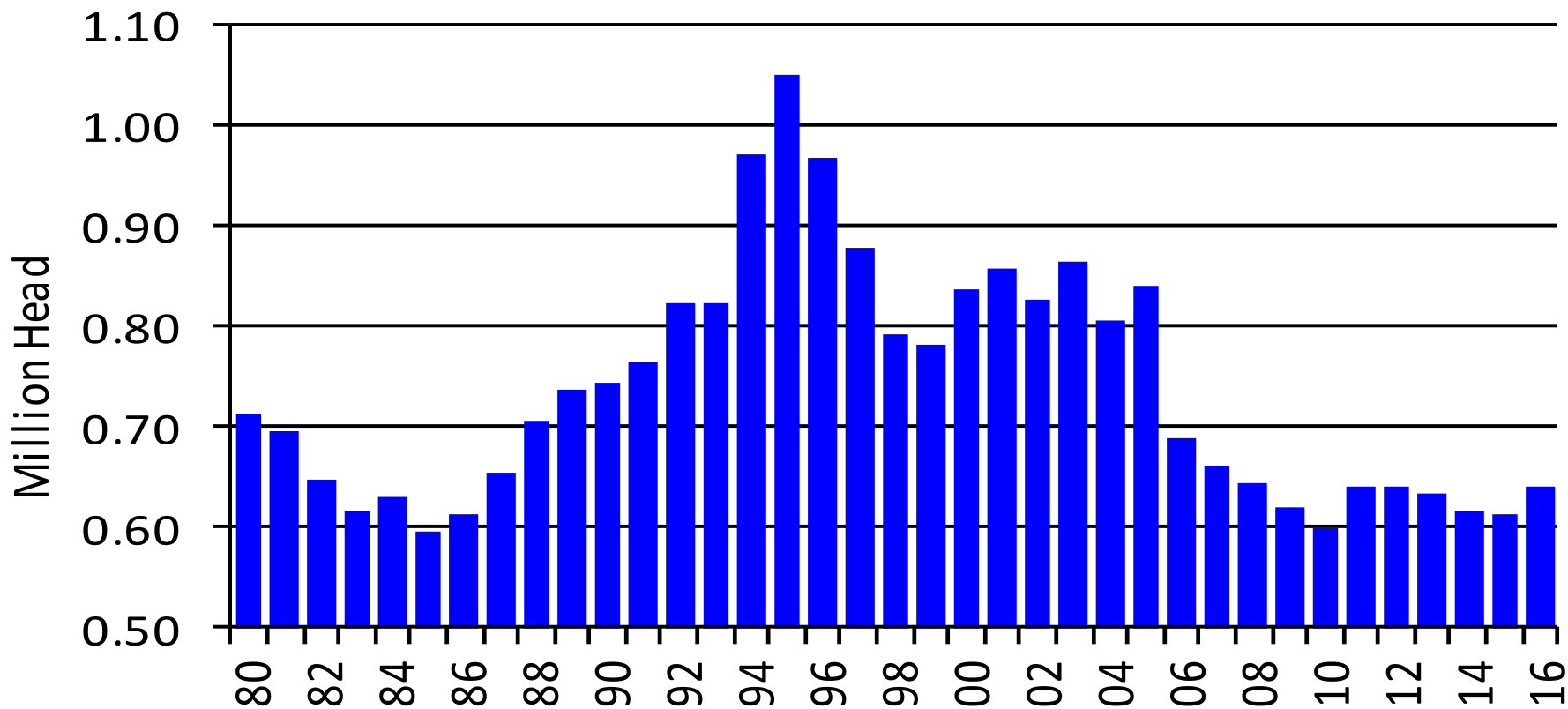


Source: Statistics Canada



Limited Appetite for Expansion

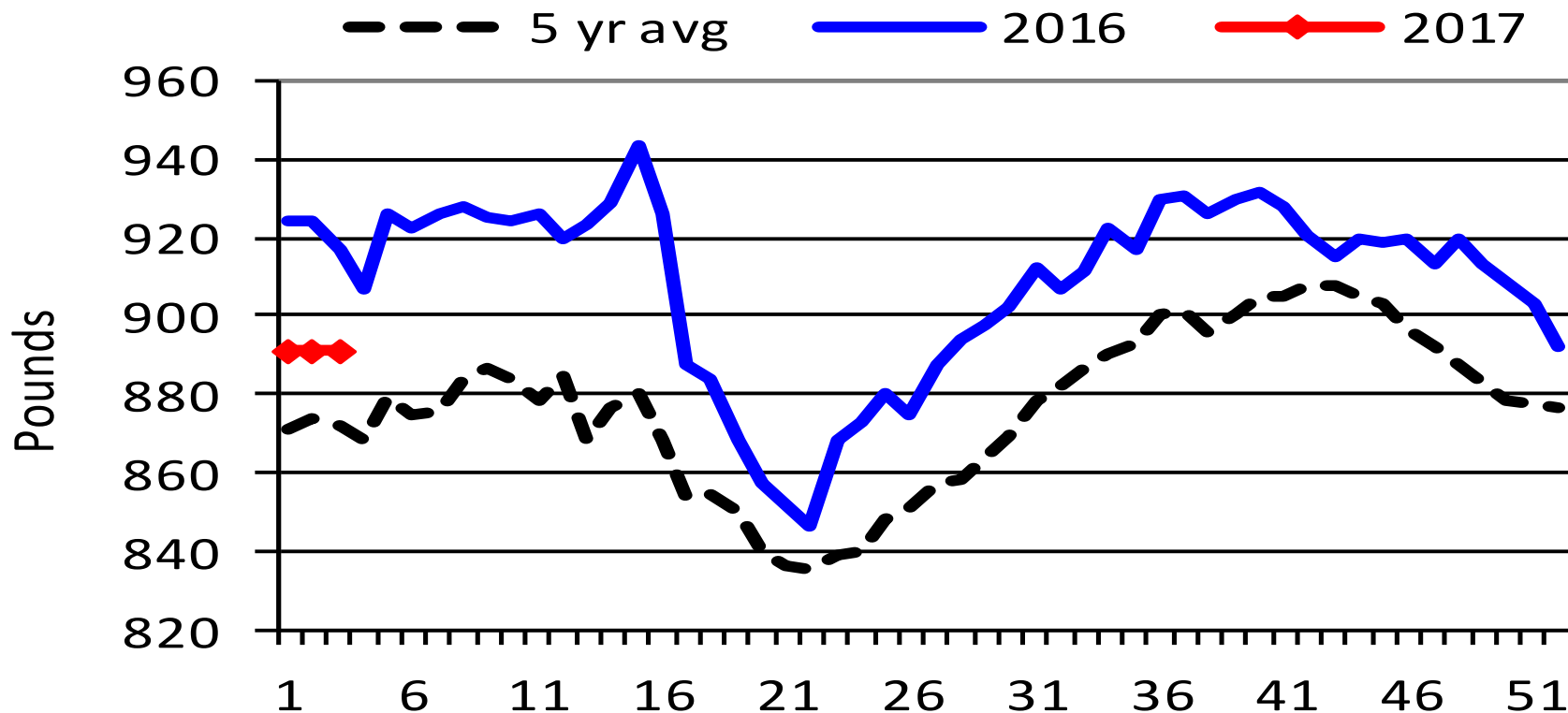
Canadian Beef Heifers (Breeding) July 1





2016 Canadian Slaughter up 7% YTD Beef Production up 10%

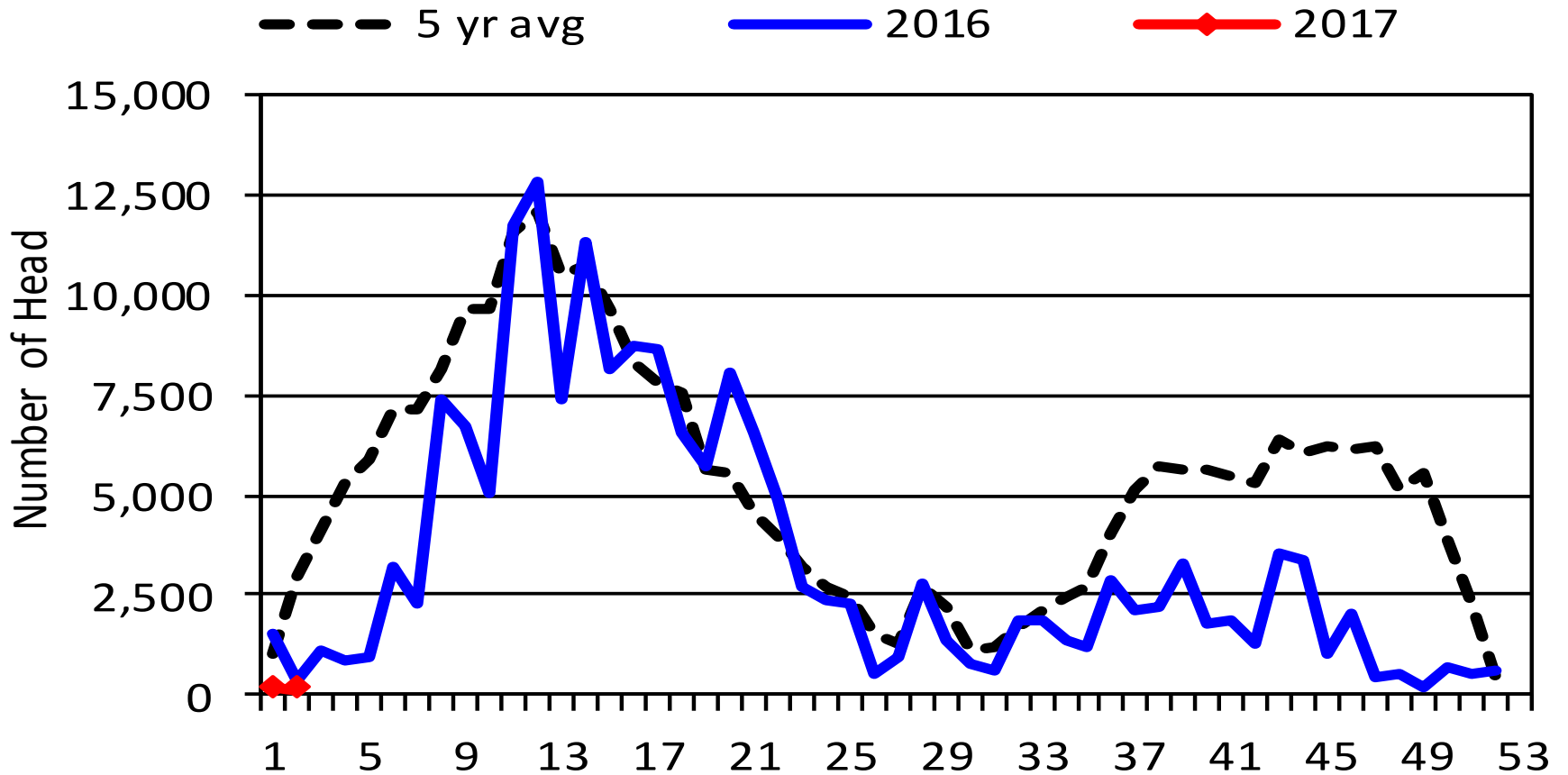
Western Cdn Steer Carcass Weight





Cattle not moving South

Canadian Weekly Feeder Cattle Exports

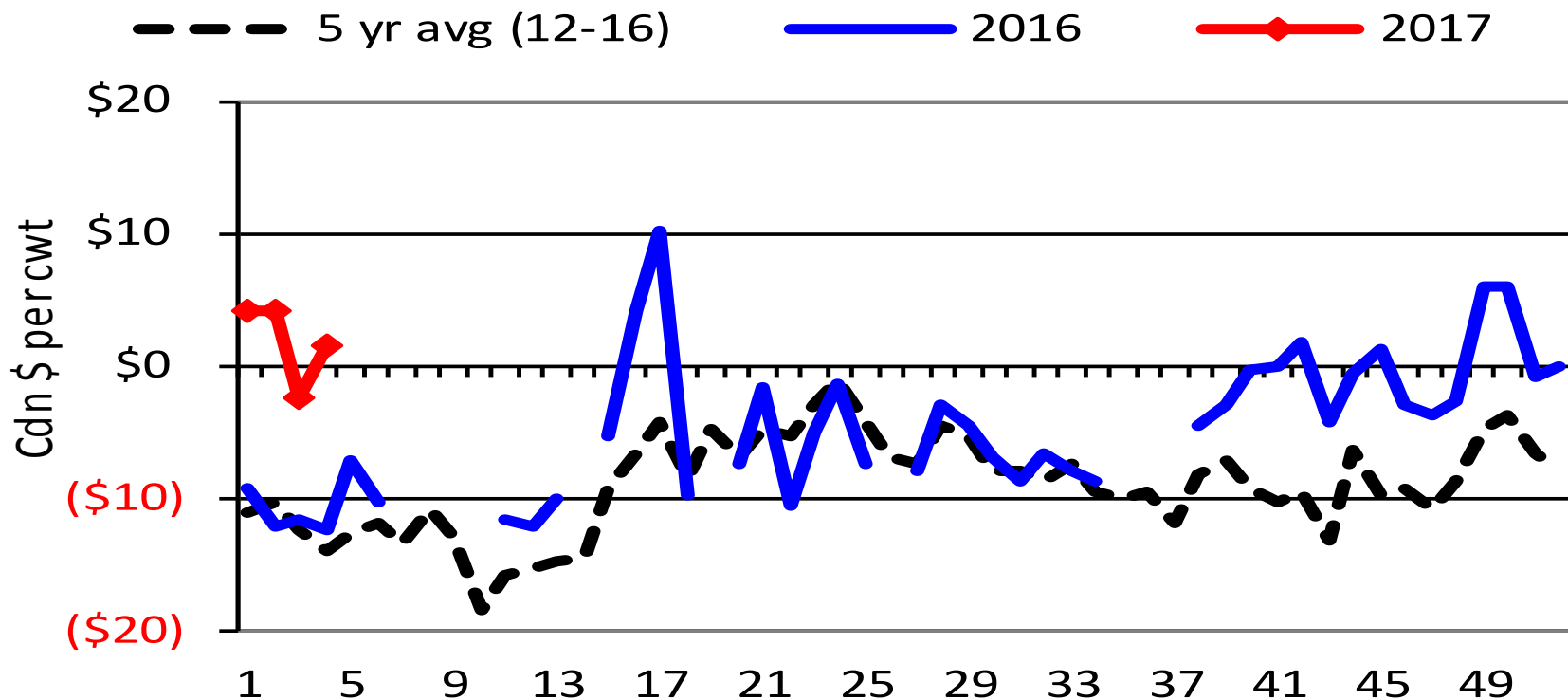




A good news story in a tough market

Alberta Fed Steer Basis

Alberta/Nebraska in Cdn \$ (Cash to Cash)

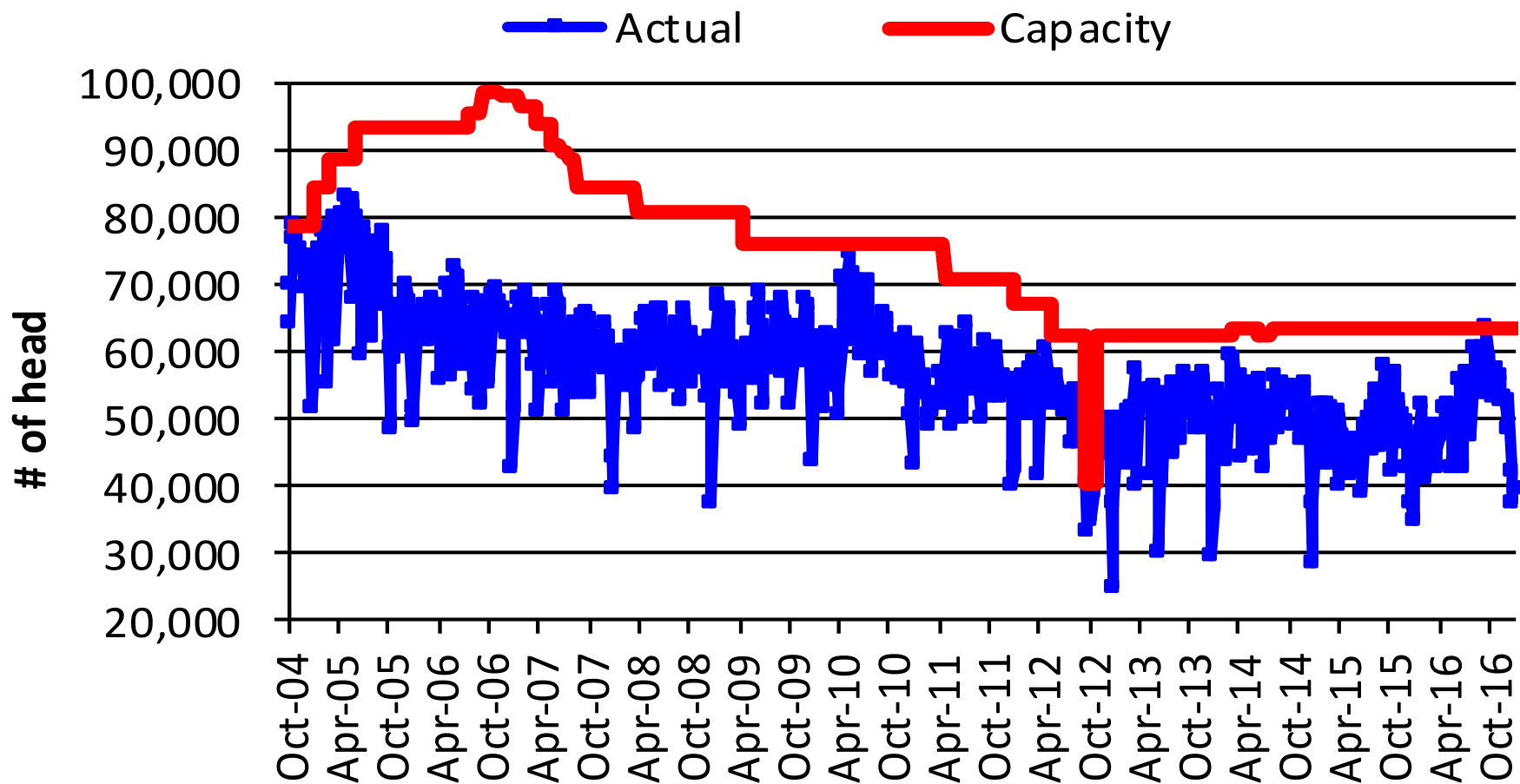


Source: Canfax



Slaughter rates hit 5 year highs

Canadian FI Slaughter vs Capacity

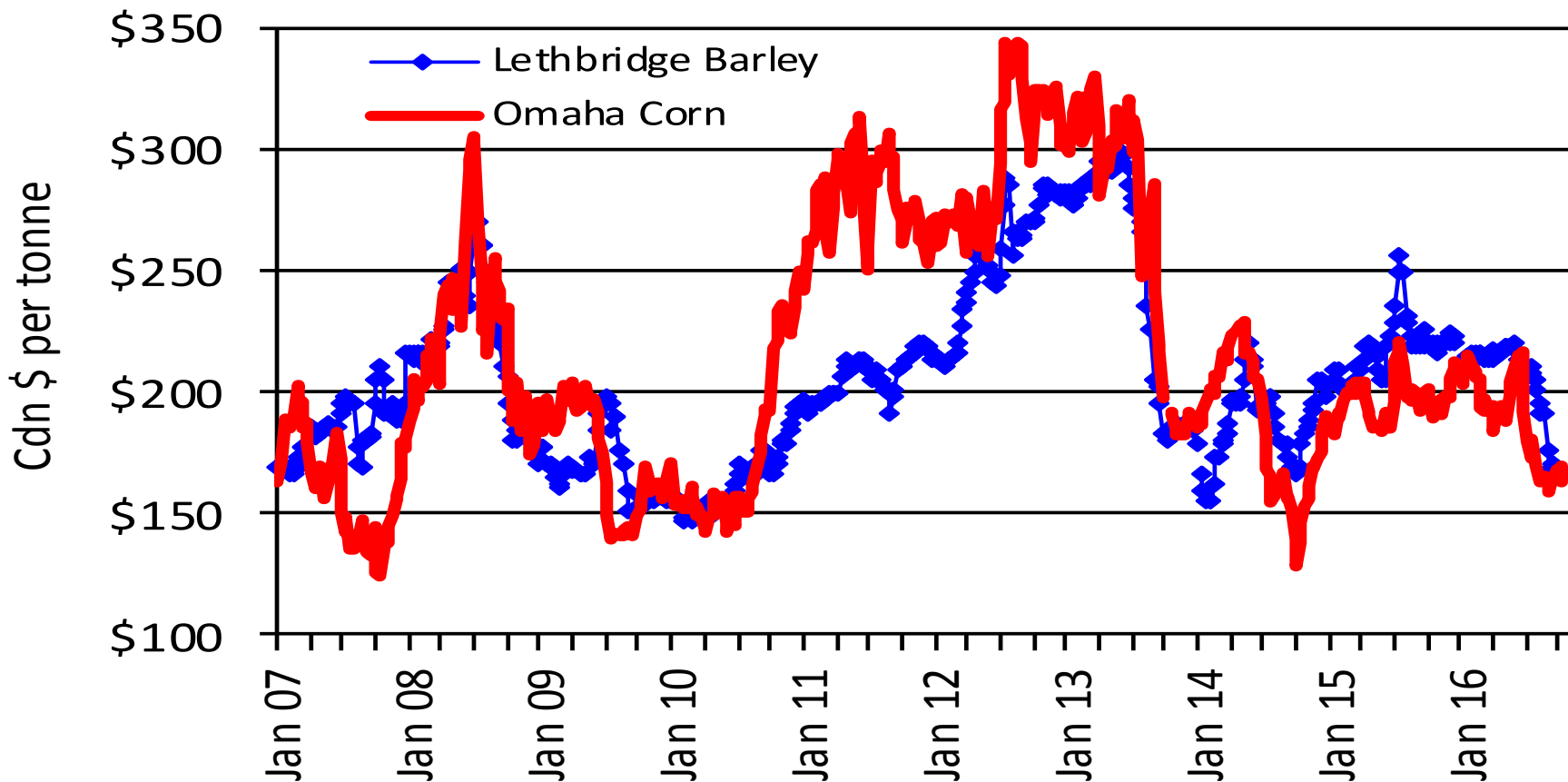




Feed cost advantage in Alberta

Feed Grain Prices

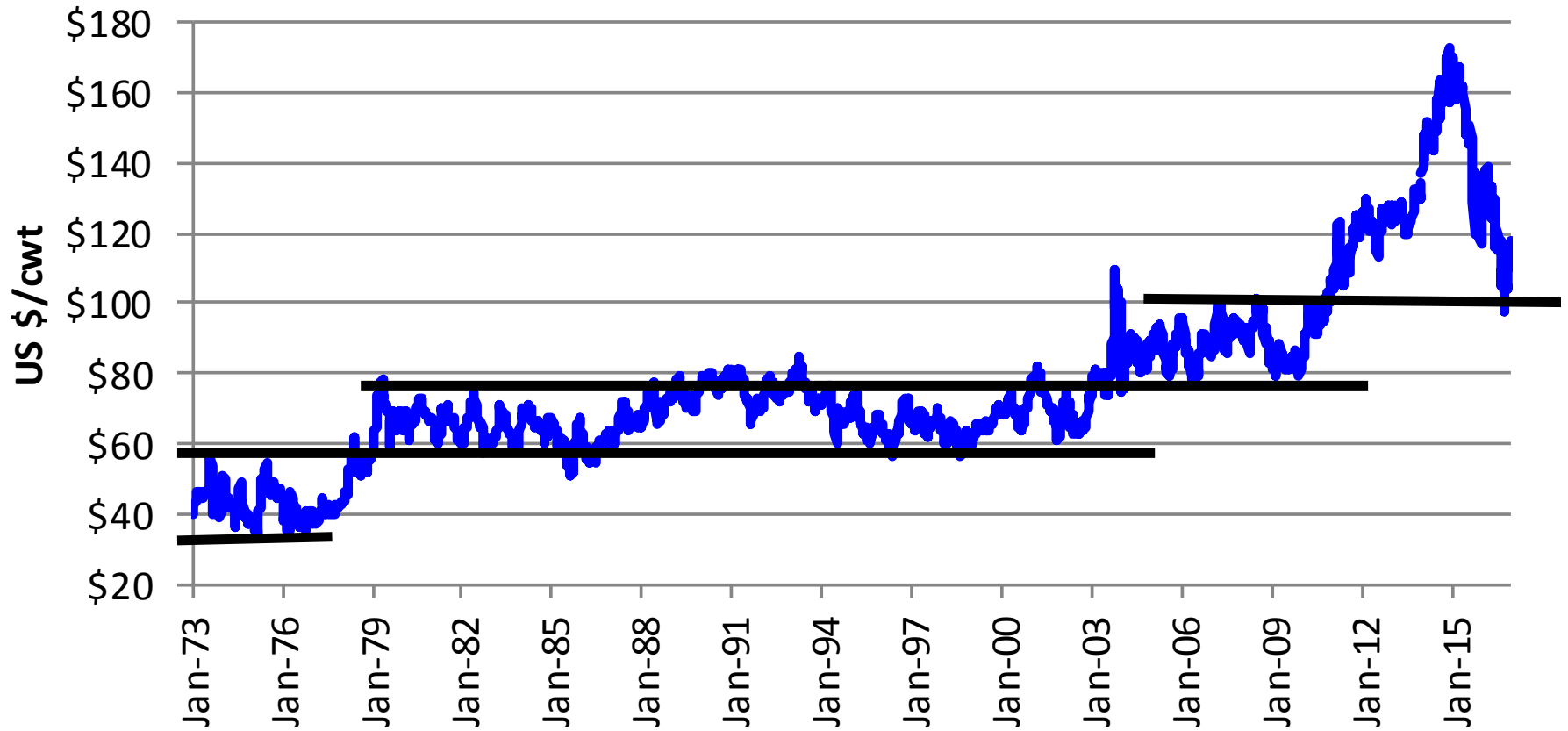
Lethbridge and Omaha in barley equivalents





So Where to Now?

Weekly US Fed Steer Price



Source: USDA
Source: Cattlefax



Scenarios

- Assuming a -8 basis, and \$0.85/lb COG – calf price

Price Projections for a 550 lb Steer Calf

- **100** US fed price, and a **72** cent dollar – **\$2.02**
- **100** US fed price, and a **82** cent dollar – **\$1.59**
- **89** US fed price, and a **72** cent dollar – **\$1.63**
- **89** US fed price, and a **82** cent dollar – **\$1.25**
- **91** US fed price, and a **76.1** cent dollar – **\$1.53**



Market Drivers....

Factor	Change	Price Impact on 550 lb steer
Live Cattle Futures	\$1/cwt	+ \$3.20/cwt
Canadian Dollar	1 cent	- \$4.00/cwt
Basis	\$1/cwt	+ \$2.50/cwt
Barley	\$0.50 per bushel	- \$10/cwt
Out Weight	50 lbs	+ \$2.50/cwt
Conversion	5% change in feed use	- \$4/cwt
Death Loss	1 % (i.e. 1% vs. 2% DL)	- \$3/cwt



Trade

- OTM Beef to Mexico
- EU Trade Deal awaiting ratification and technical barriers.
- TPP uncertainty with Trump
- 5 Biggest export markets (Total volume up 12%)
 - US, Hong Kong, Japan, Mexico, South Korean
- 5 Biggest Imports from (Total volume down 9%)
 - US, Australia, New Zealand, Uruguay, Brazil
- Renegotiate NAFTA?
- Reintroduce COOL?



Medium Term

- Cattle on feed below a year ago
- US Carcass weights dropping
- Heading into spring in good shape
 - Potential for spring rally
- **Demand? & 17.5% Declined Priced in**
- Packers slowing chain speeds
- Fed cattle coming from Eastern Canada
- More feeder cattle coming forward
- Limited cattle export opportunities
- Large cow kills...



Bigger Picture

- Increased meat production and consumption
 - Done at lower prices
- 2+ more years of beef production growth?
- Estimates of a 2.2 million increase in feeders outside of US feedlots from Jan 1, 2015 to 2017
- Beef Industry continues to lose market share
- Prices are in a downtrend
- Profitability advantages come from cost management
- NA meat exports will be critical



New Canfax Price Reporting

- Cash still critical
- Now Collecting Contract and Formula Prices

Committed		Dec 14	Jan 15	Feb 15	Mar 15
Oct	Average Contract Price	171.50	184.00	177.00	175.00
Nov	Average Contract Price	175.00	187.25	178.50	177.50
Oct	Average Basis	-4.25	-3.10	-4.90	-3.70
Nov	Average Basis	-3.96	-2.80	-4.60	3.00
Oct	Volume	1005	1,740	2,560	2,300
Year to Date	Volume	11,005	14,426	15,660	11,800

- Seasonal basis tendencies, year over year changes, basis trends as approach delivery month
 - Total volumes committed
- Reporting Feedlots only



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The CAN FAX CFX Pro logo, featuring a white maple leaf outline behind the word "CAN" in blue and "FAX" in red, with "CFX Pro" in white below it.

CFX Pro

*The app is available free of charge thanks to
our industry partners: ALMA, Saskatchewan
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- 04/22 - **Apr 1, US Cattle on Feed**
(USDA)
- 04/15 - **Apr 1, AB/SK Cattle on Feed**
(Canfax)

What's New?

- 03/25 - **US Hogs and Pigs Report**

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