



Economic outlook for the cattle and beef markets

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August 2011**

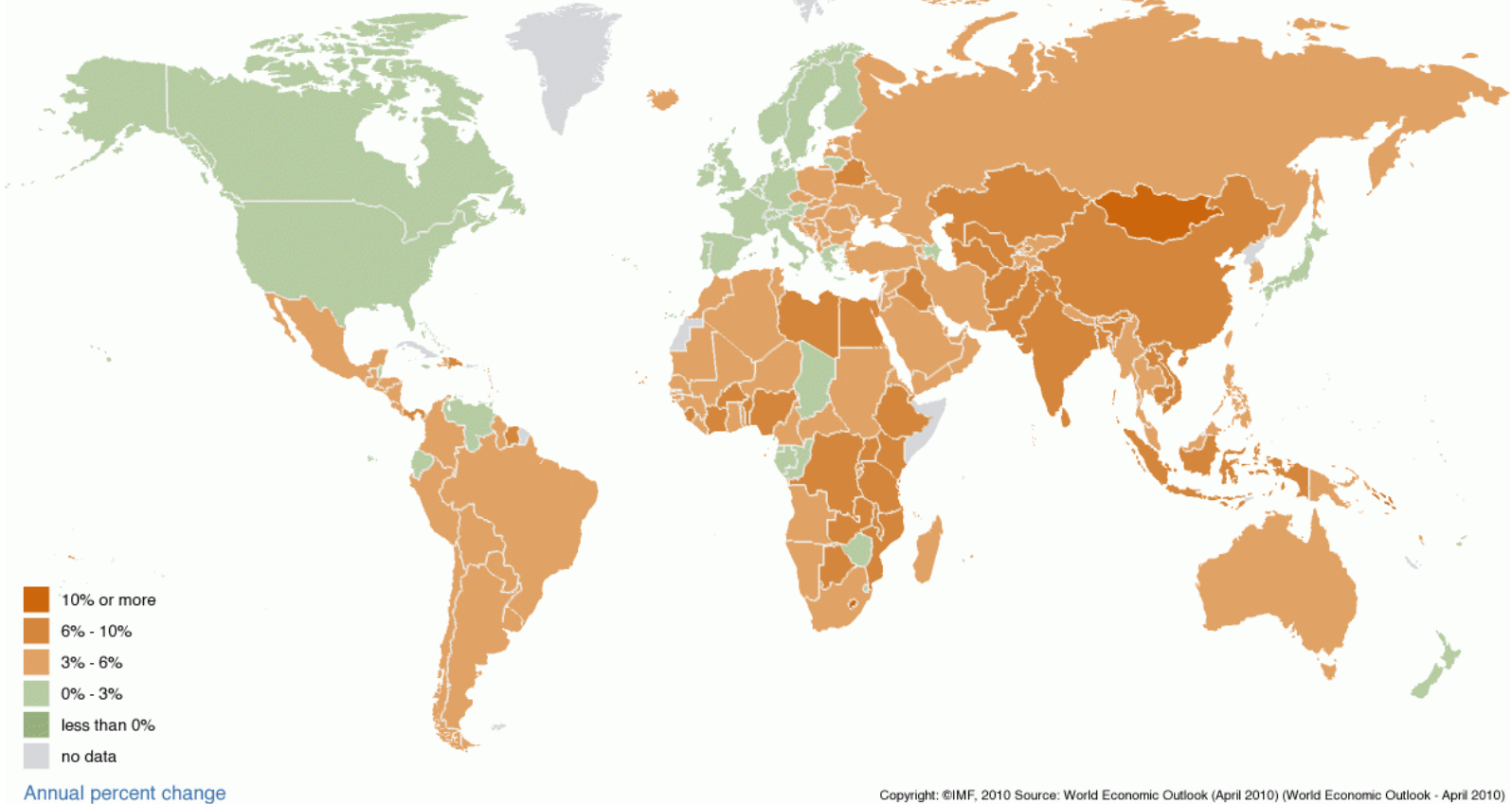
Outline

- **World drivers**
- **Canada's competitiveness**
 - **Currency**
 - **Feedgrains**
 - **Volatility**

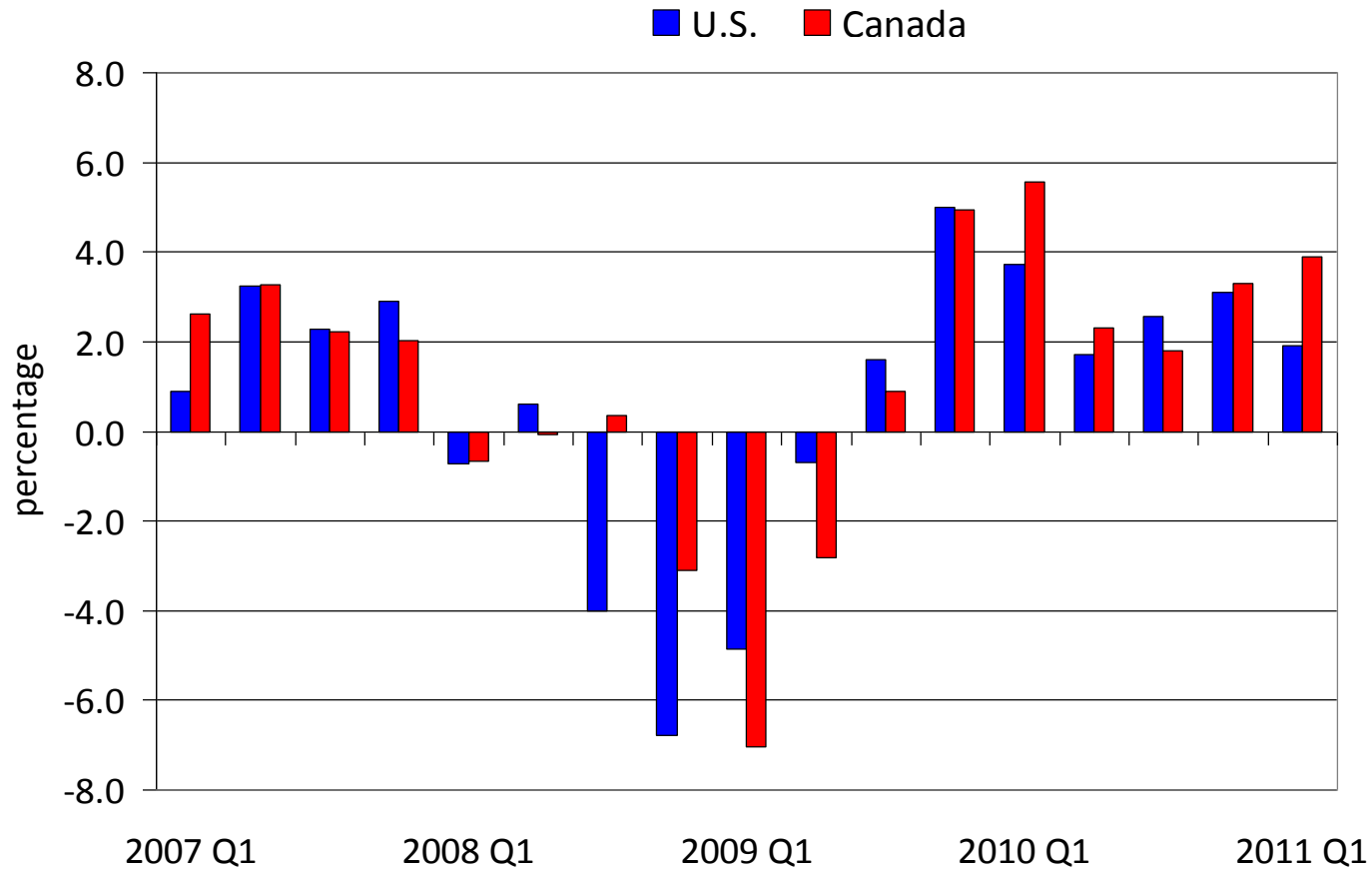


GDP Growth forecasts higher in less developed nations

IMF Data Mapper
Real GDP growth 2015

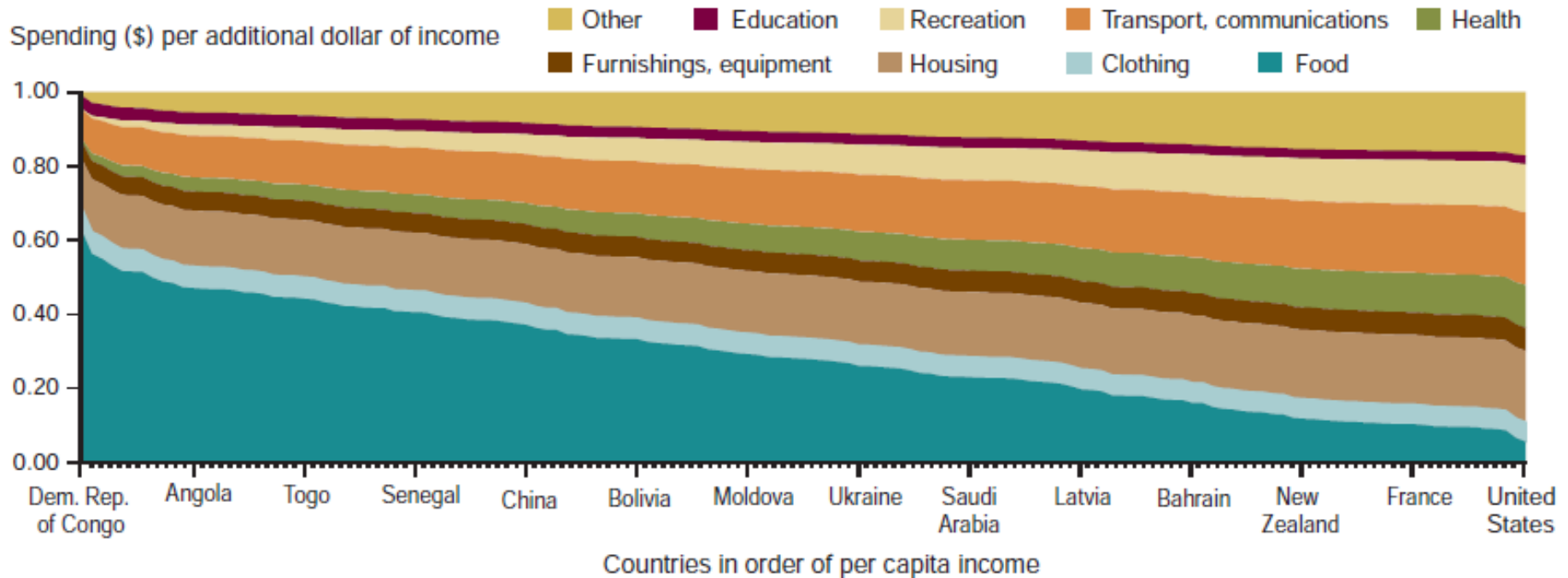


GDP Growth Canada / US



Source: Statistics Canada and US BEA

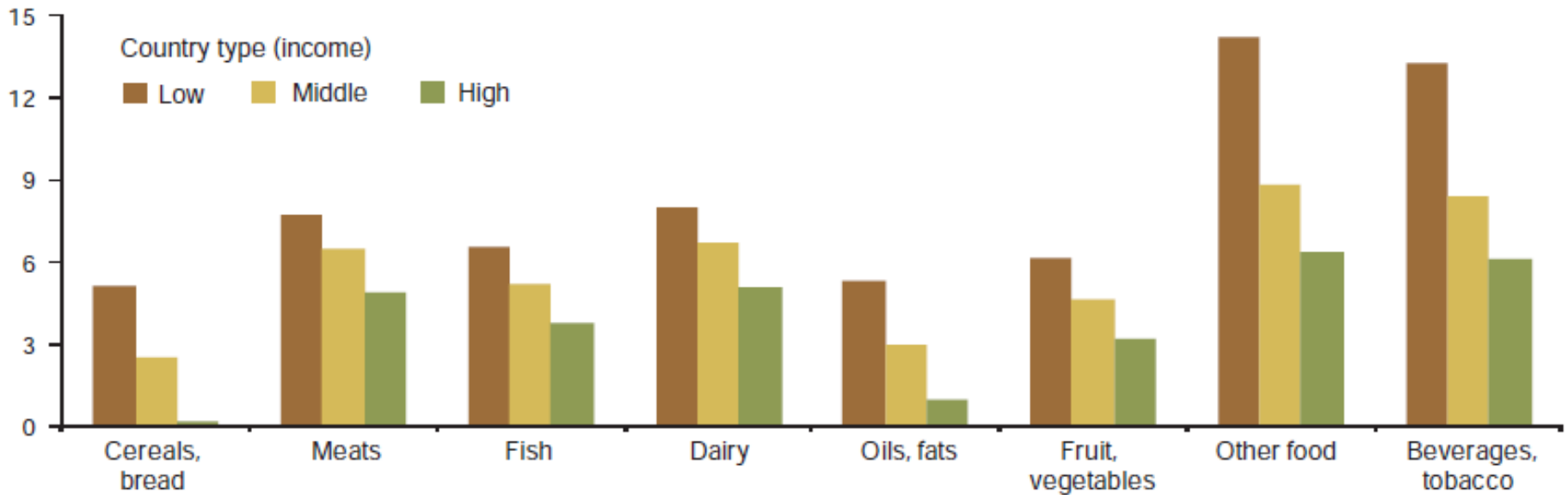
Why is the source of income growth important for food demand?



Source: ERS/USDA

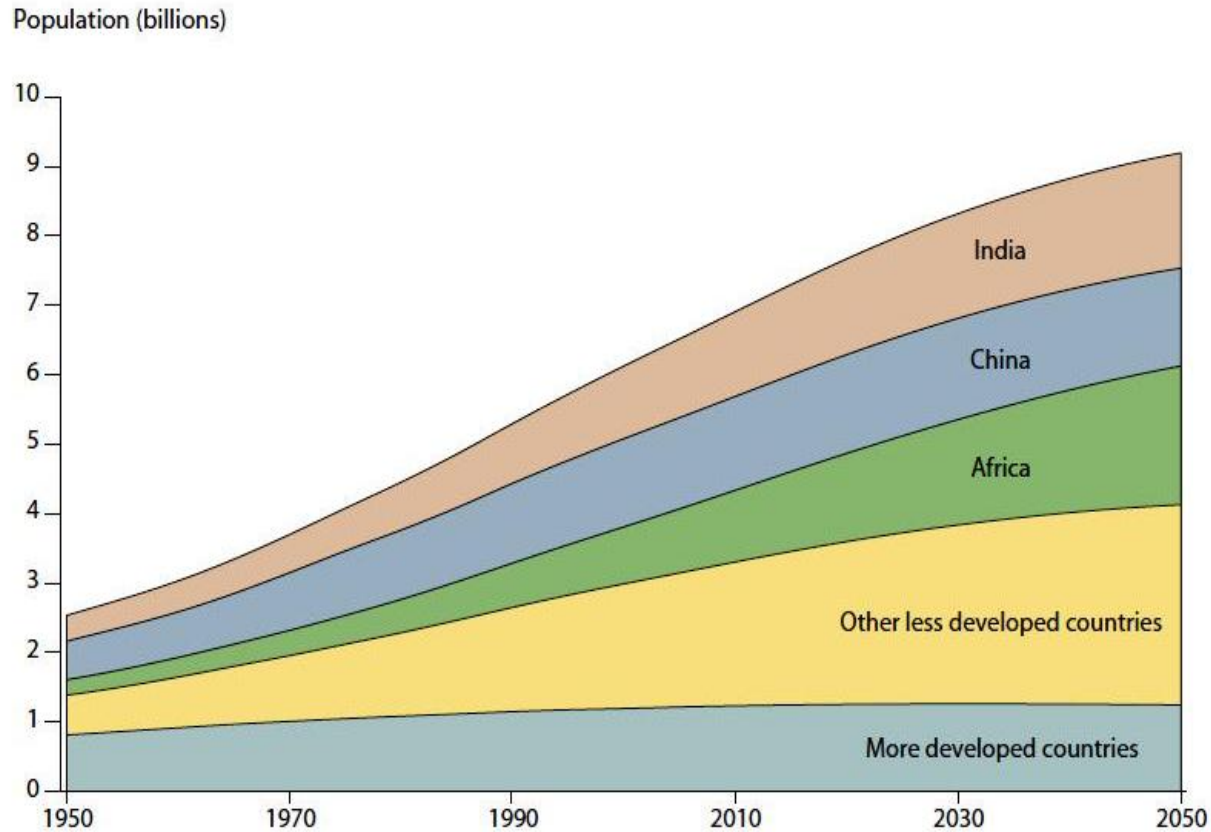
What are the sectors for which demand is expected to grow?

Percent change in consumption in response to a 10-percent increase in income



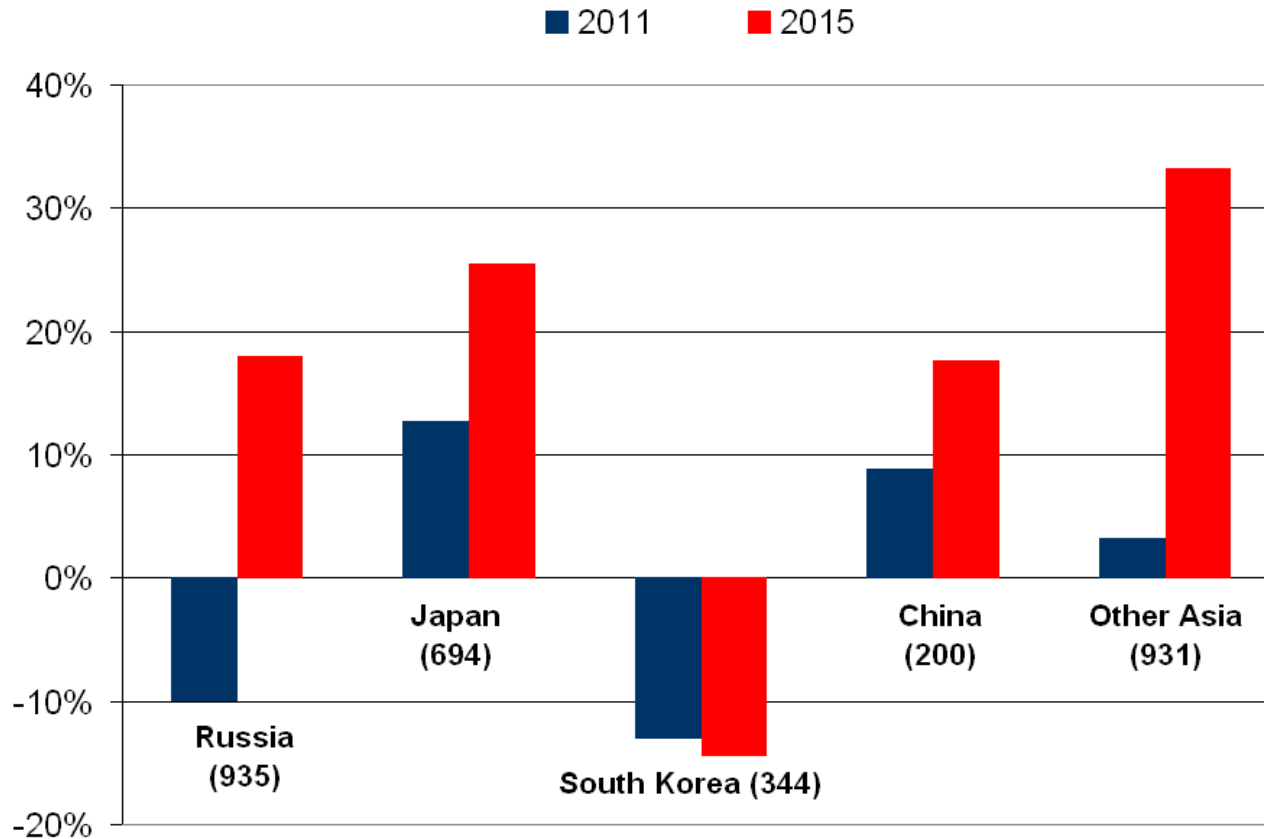
Source: ERS/USDA

97% of the world population growth will be coming from less advanced countries



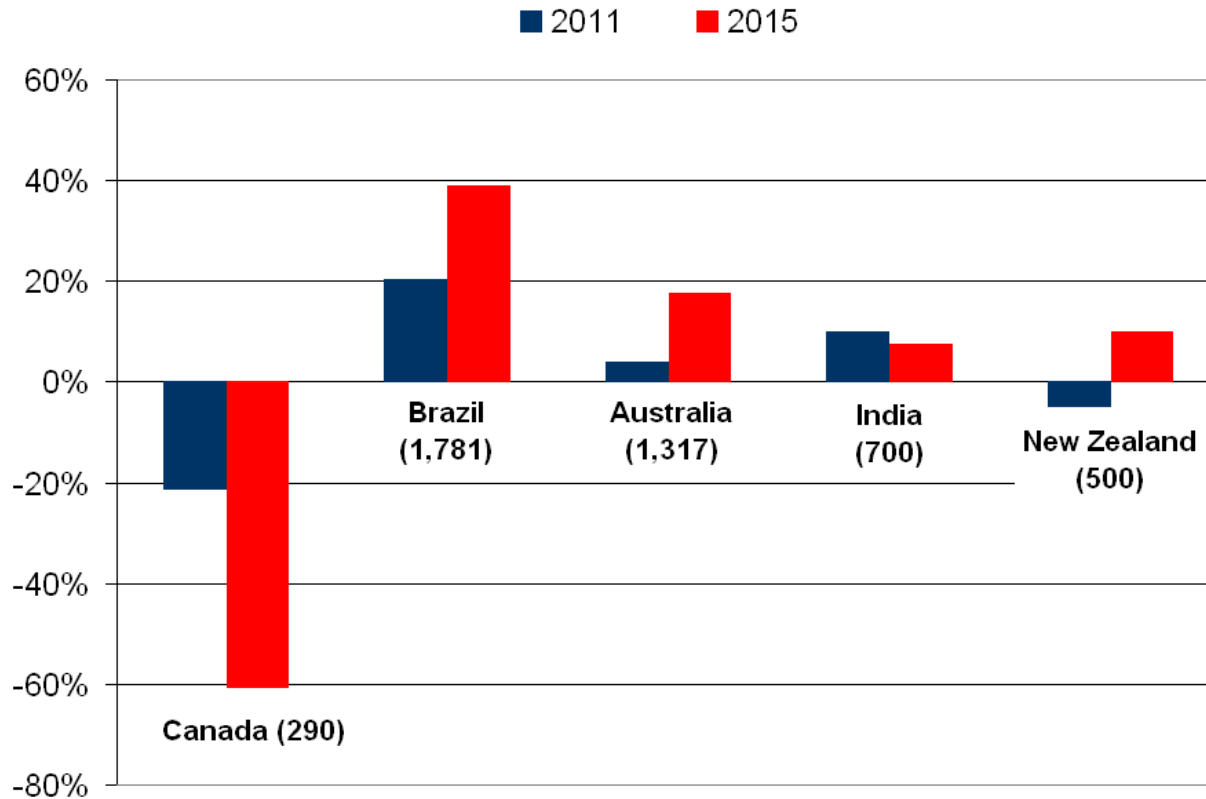
ADAPTED FROM: UN Population Division, World Population Prospects: The 2006 Revision, Medium Variant (2007).

How does this growth translates into higher beef demand?



Source: FAPRI

Will Canada benefit from increased beef demand?



Source: FAPRI

The challenges come from:

1. Canadian dollar



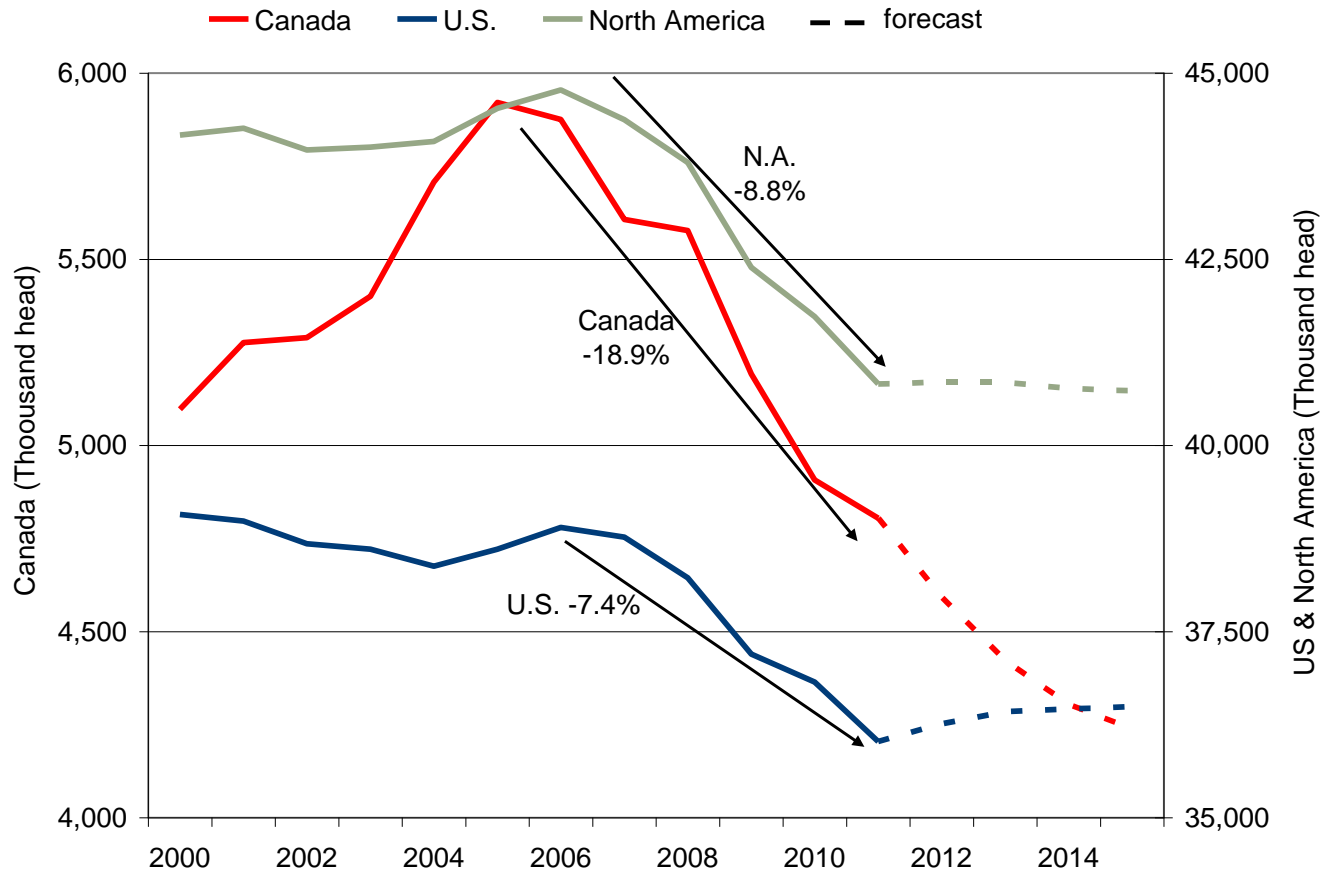
2. Relative feed costs



VS.

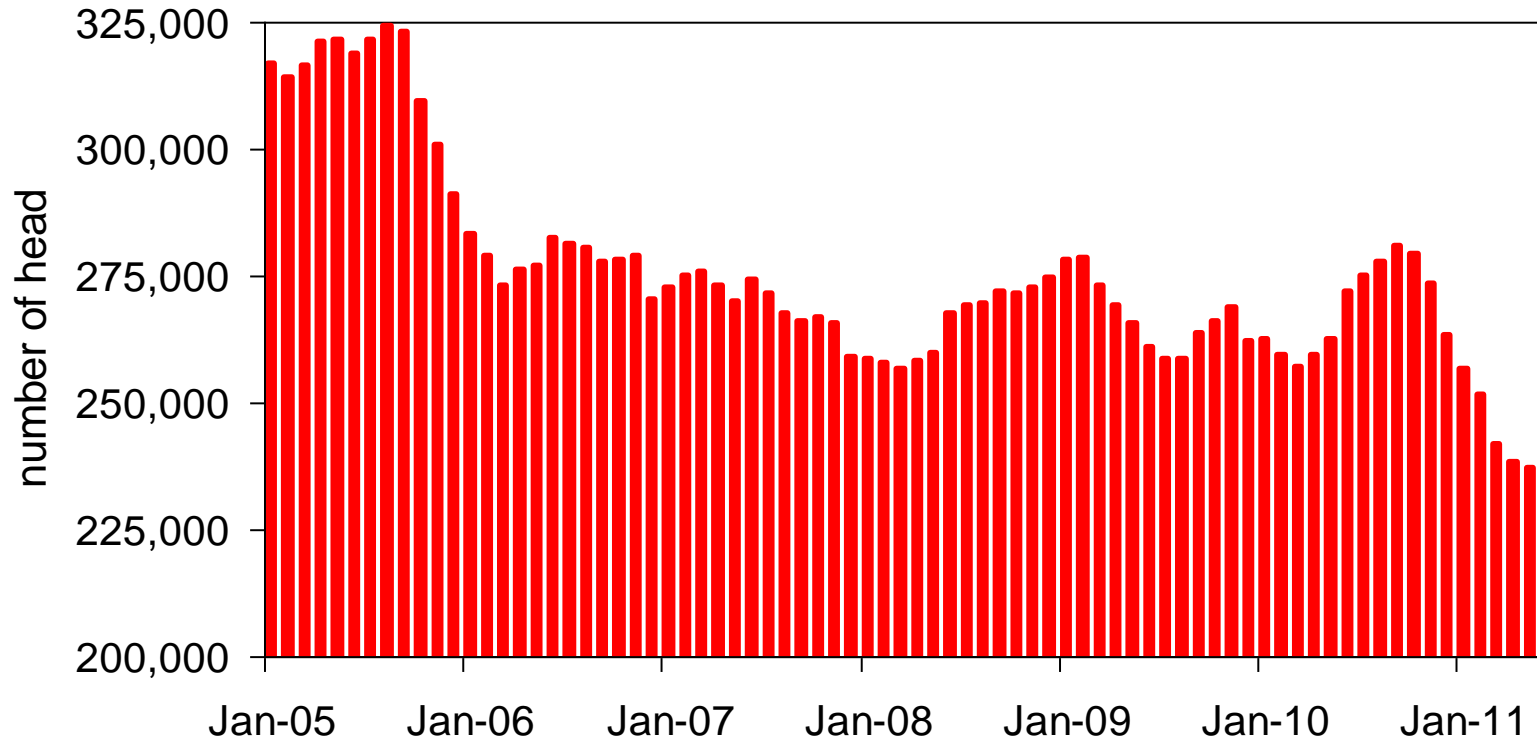


Canada, U.S. and North American beef cow and replacement heifers



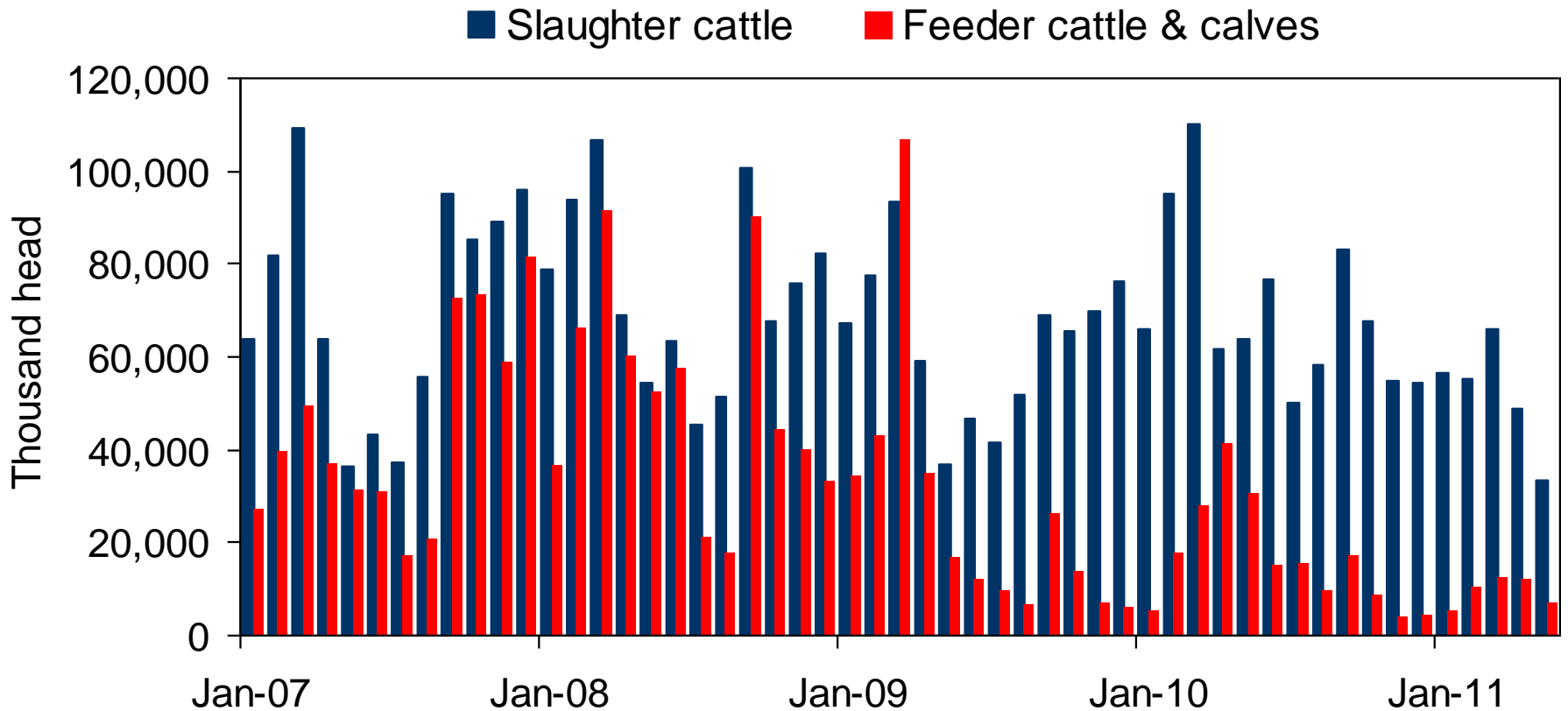
Source: Statistics Canada and USDA, compiled by FCC Portfolio and Analysis. Forecasts by FAPRI

Federally inspected slaughters



Source: Agriculture & Agri-Food Canada

Does COOL have an impact on Canadian cattle exports to the U.S.?



Source: Agriculture & Agri-food Canada

Continuous appreciation of the Cdn dollar with respect to the USD

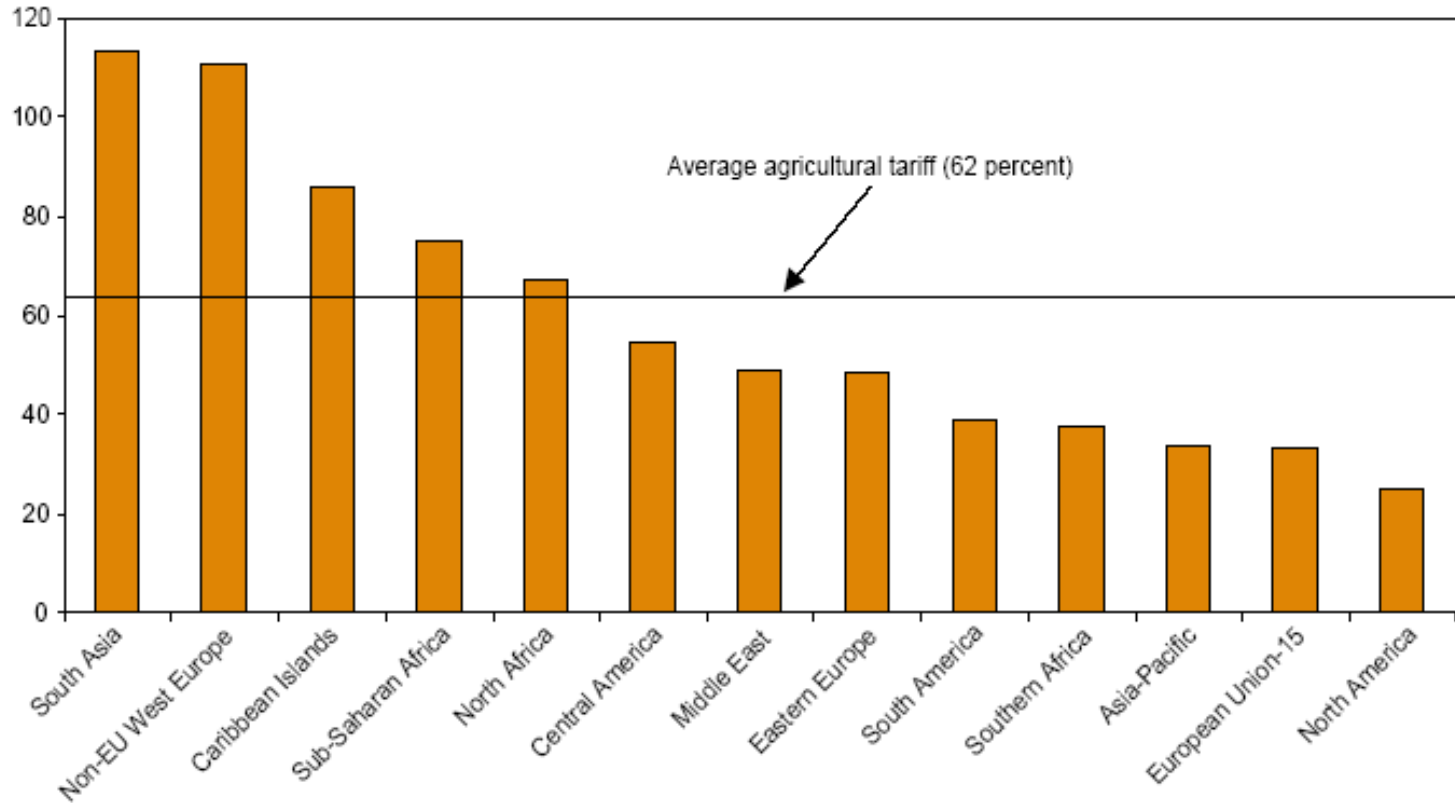


Source: Bank of Canada

Market access across regions

World agricultural tariff averages, by region¹

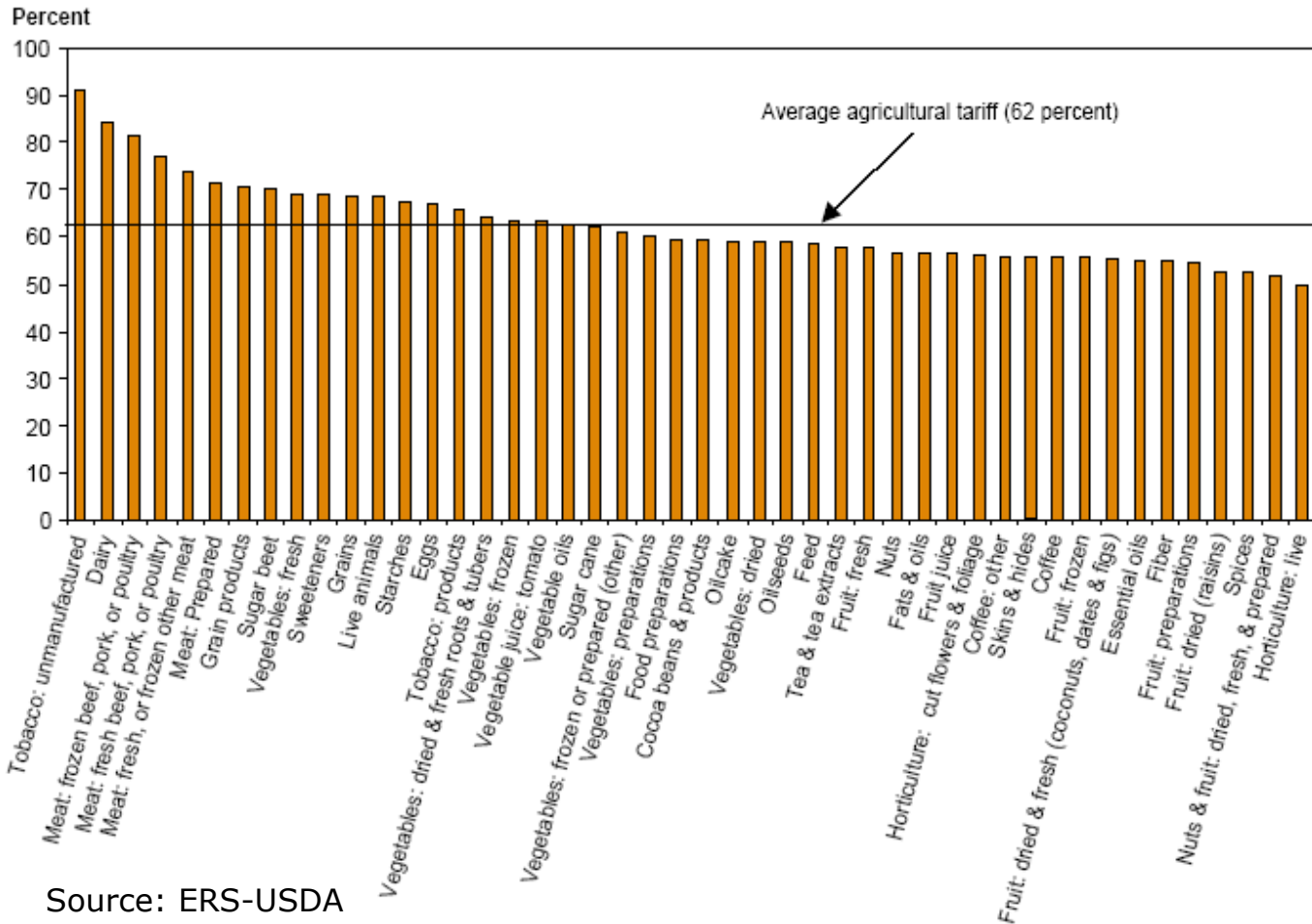
Percent



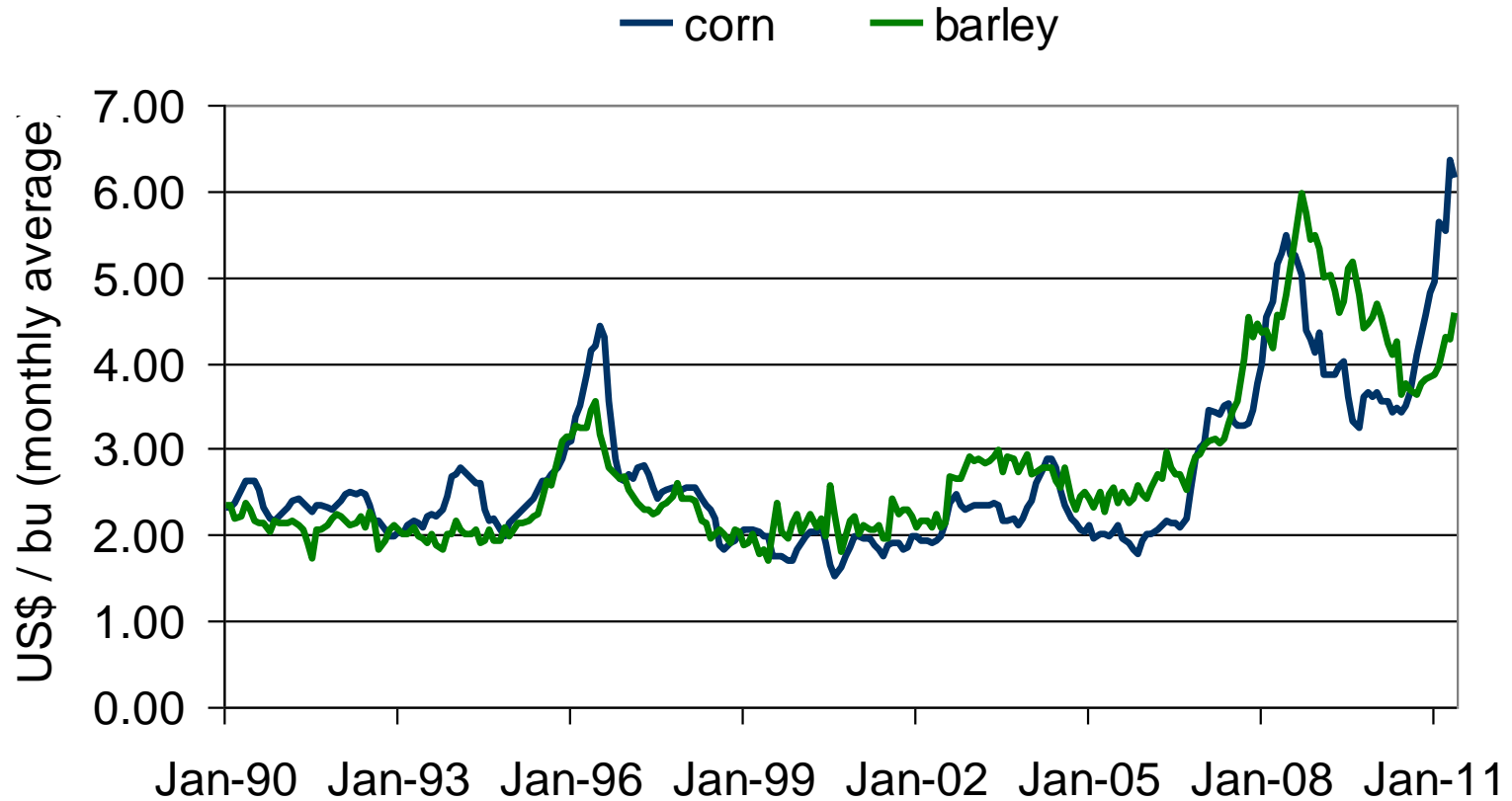
Source: ERS-USDA

Market access across commodities

World agricultural tariff averages, by commodity¹

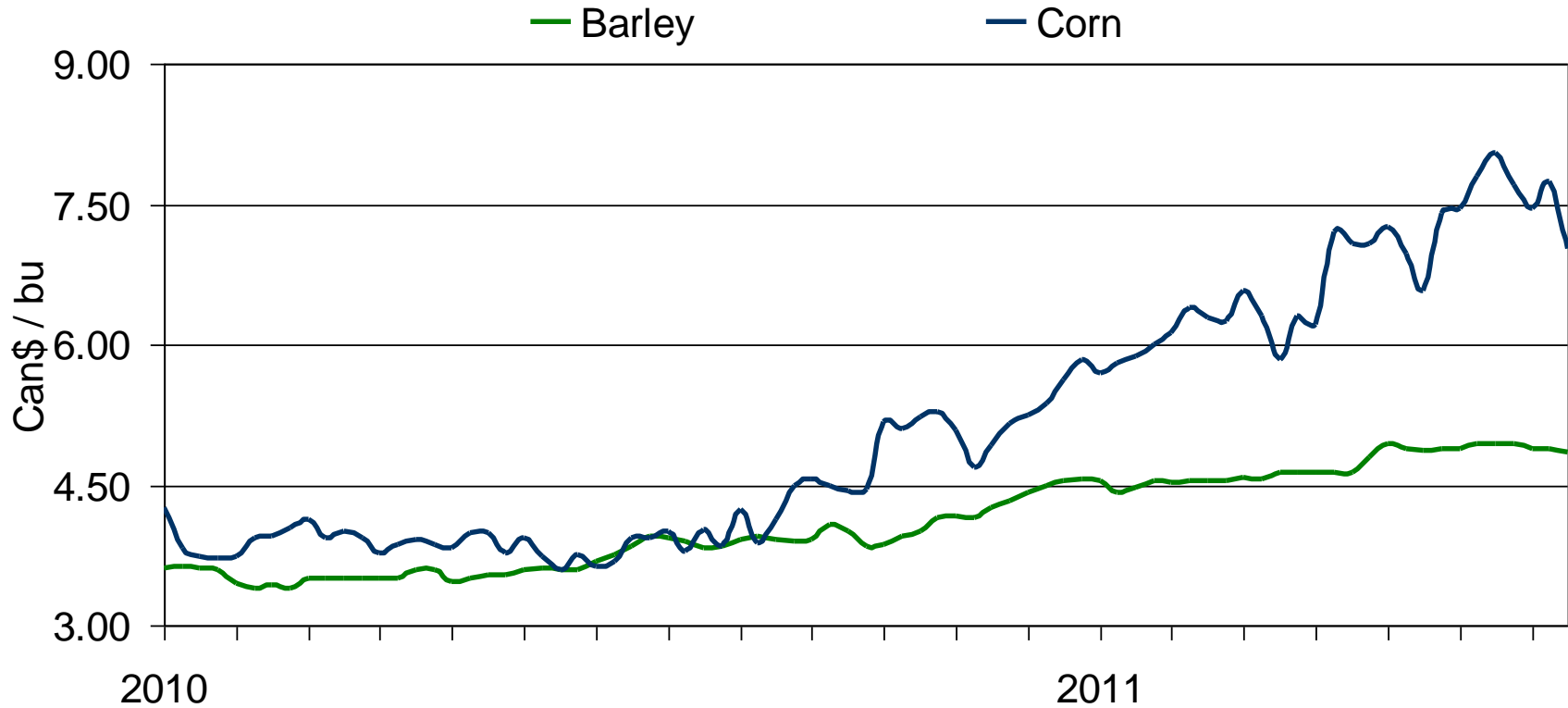


Corn and barley prices



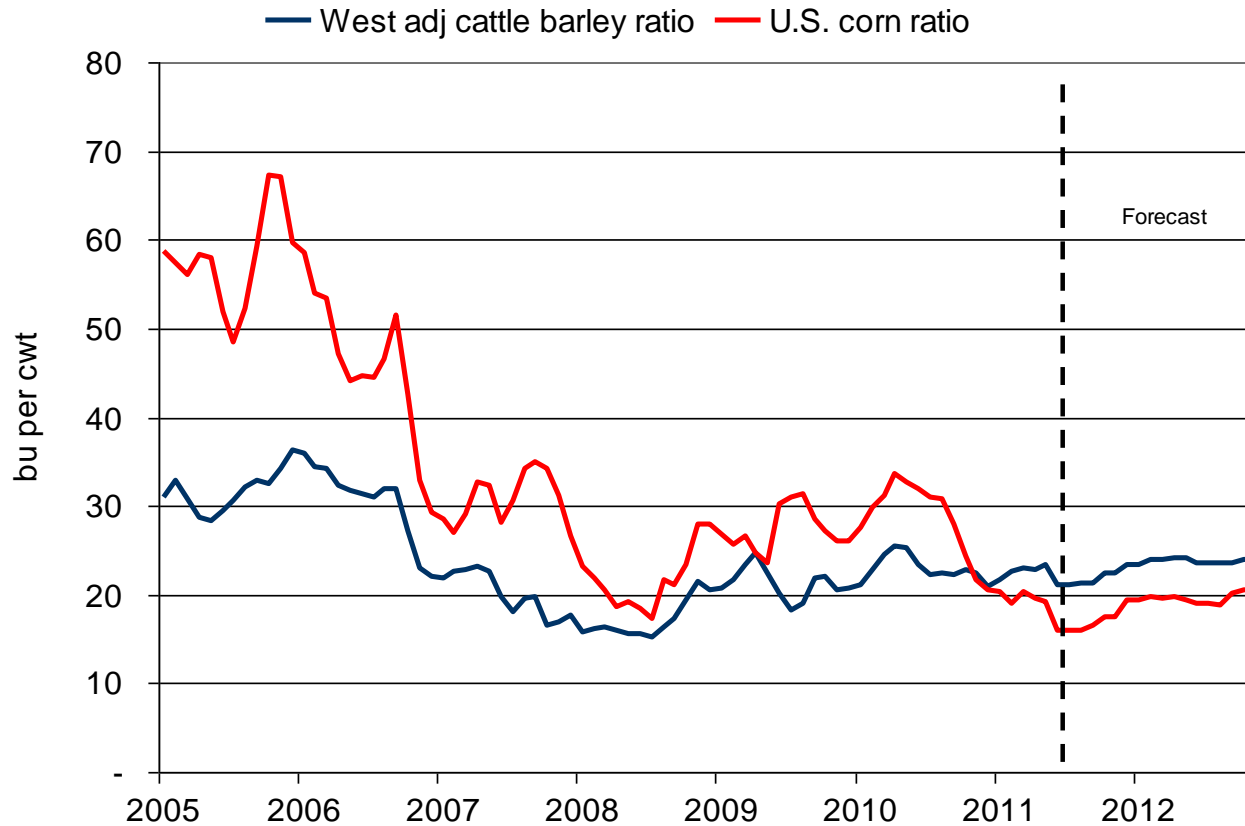
Source: USDA

Barley and Corn Prices



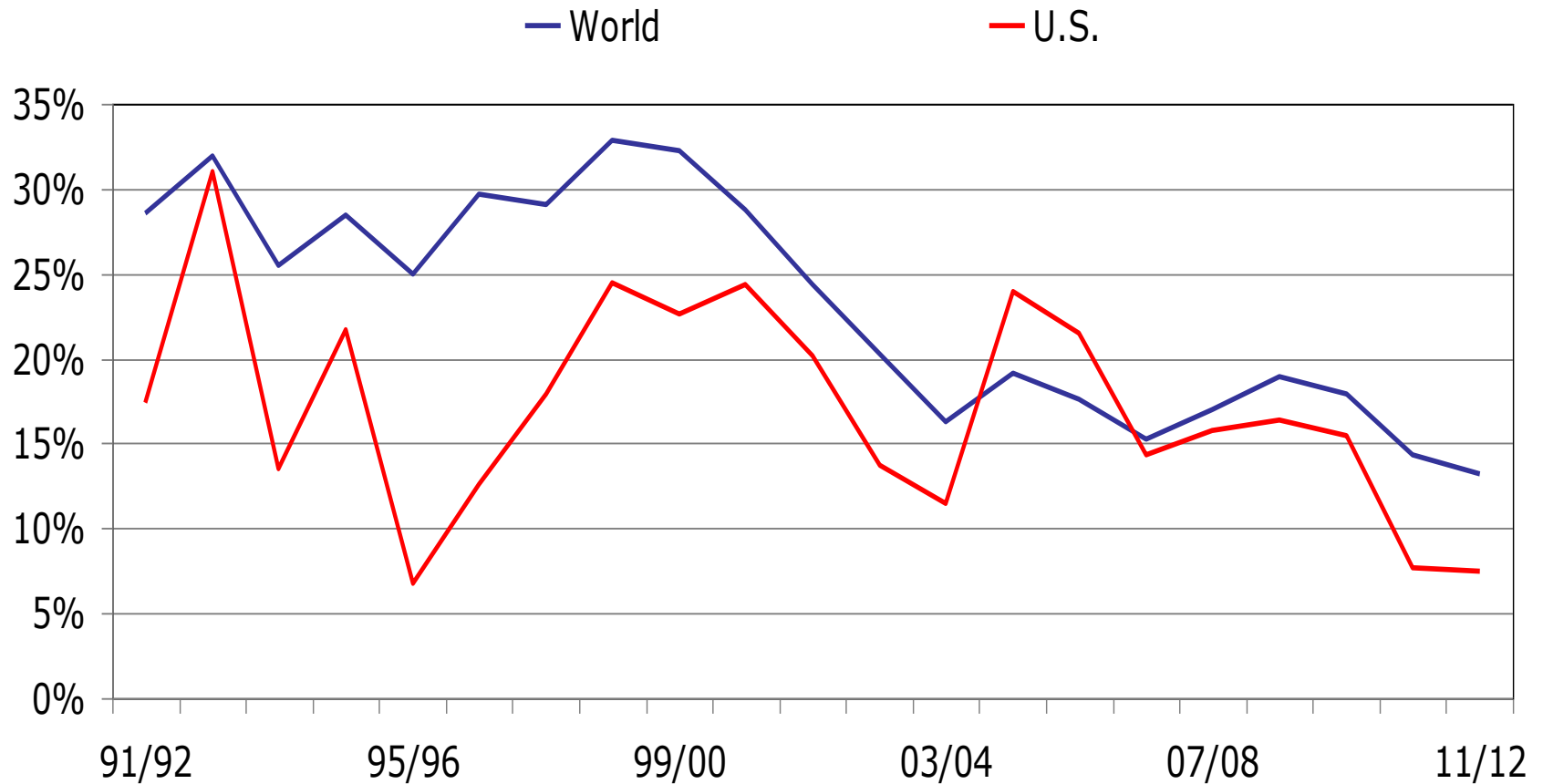
Source: Canfax

Profitability in cattle sector: corn vs. barley



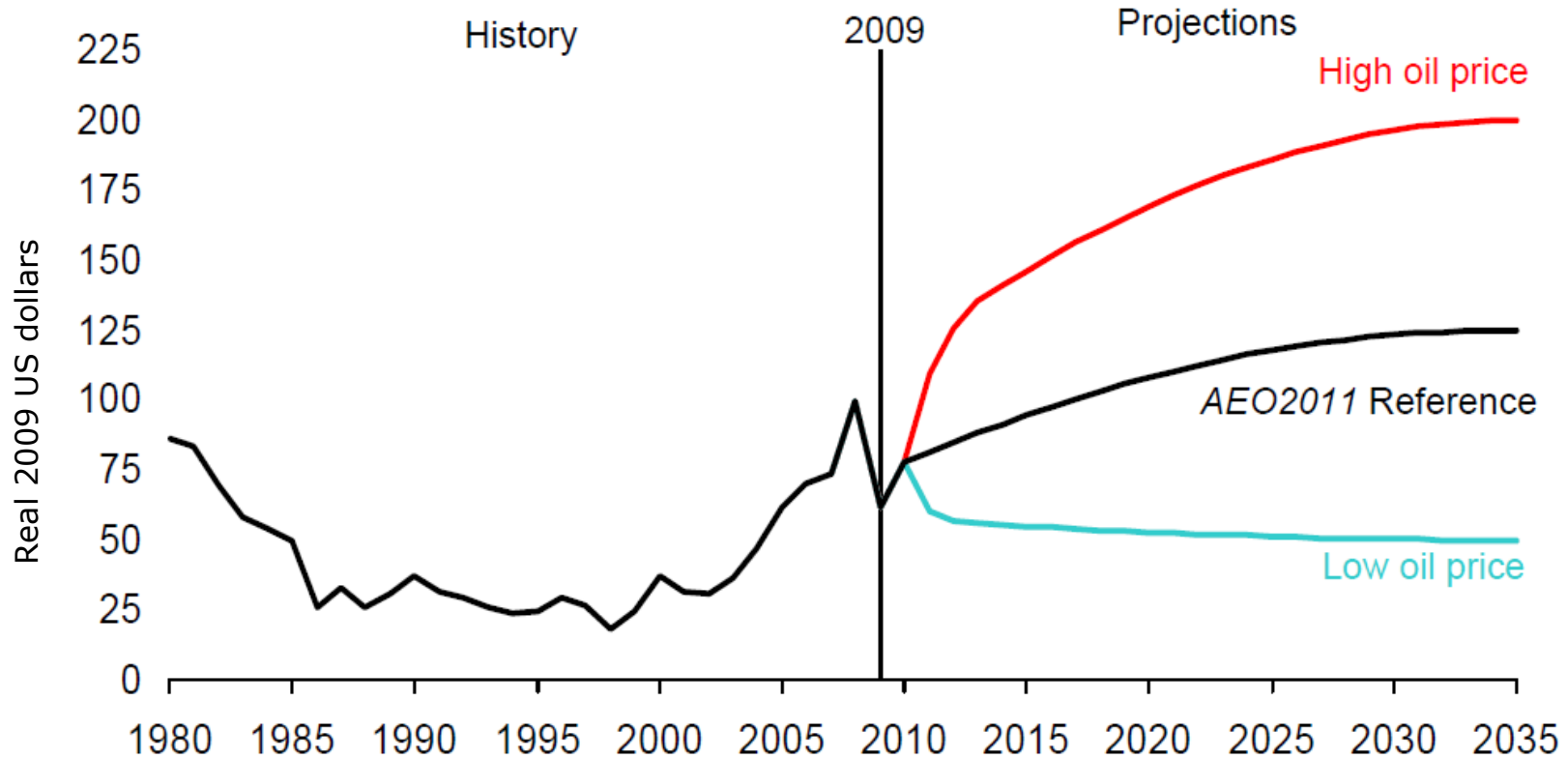
Source: Compiled by FCC Portfolio Analysis & Modeling

Underlying drivers of grain markets are pretty strong



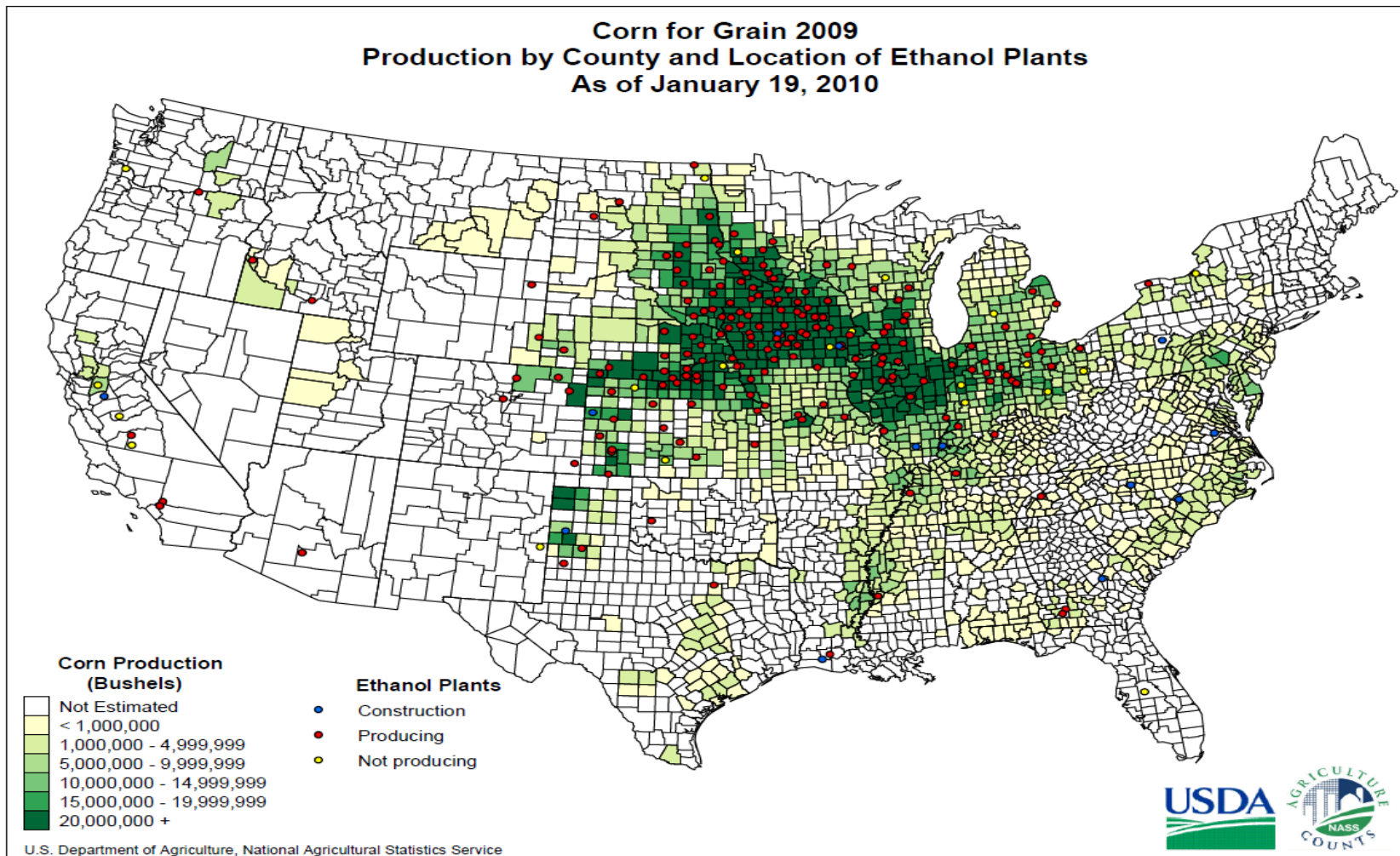
Source: FAS/USDA

Forecast is for oil demand to increase



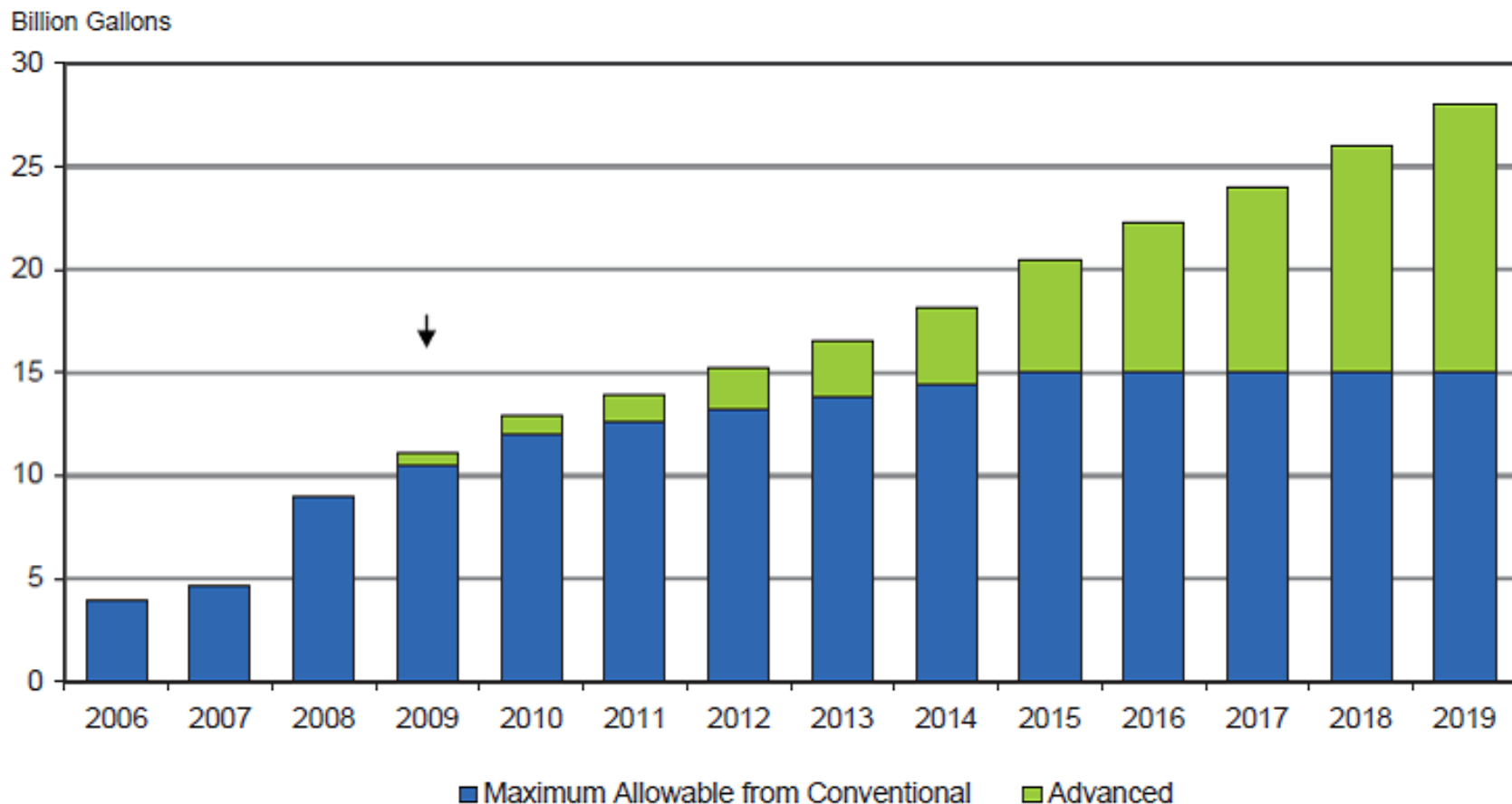
Source: EIA, *Annual Energy Outlook 2011*

US biofuels policy uncertainty



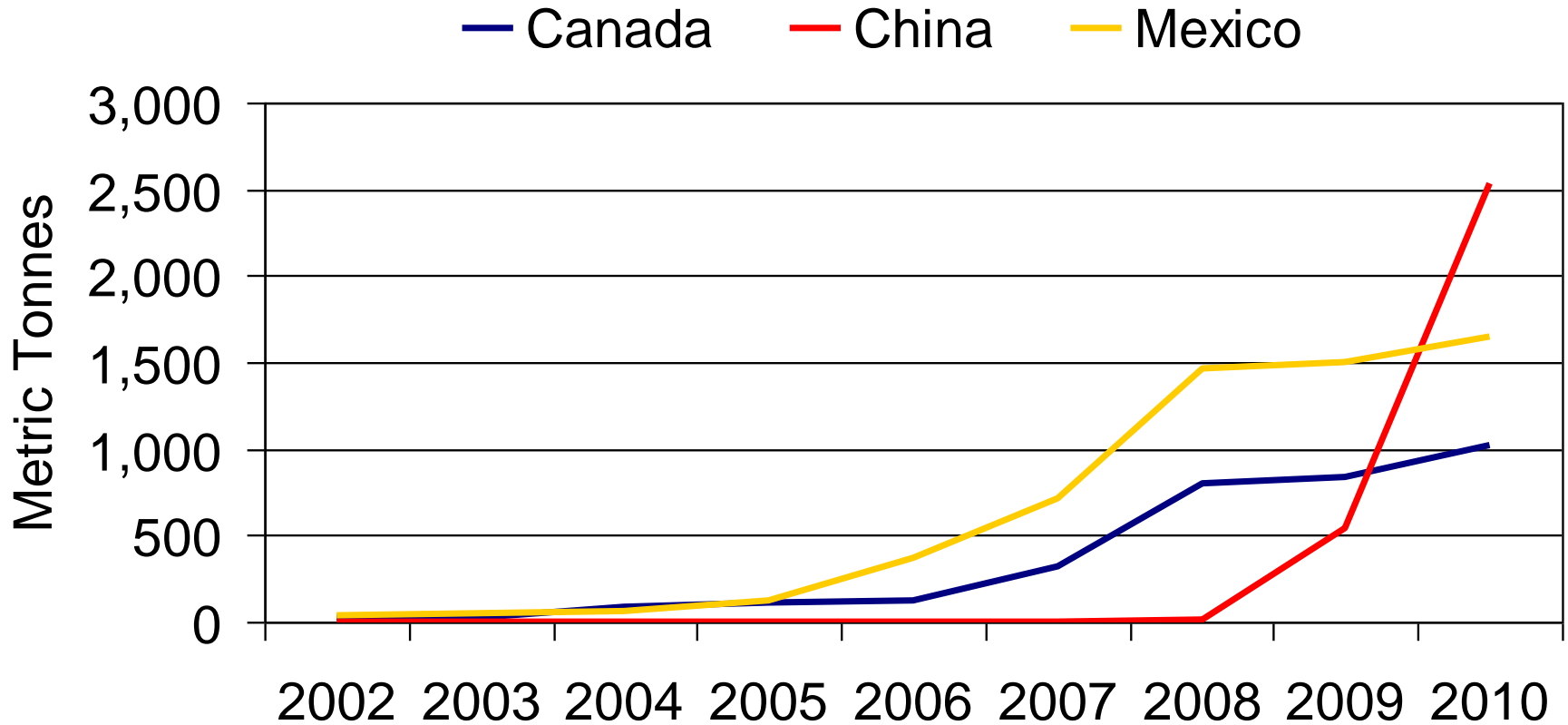
Source: USDA

U.S. biofuels mandate



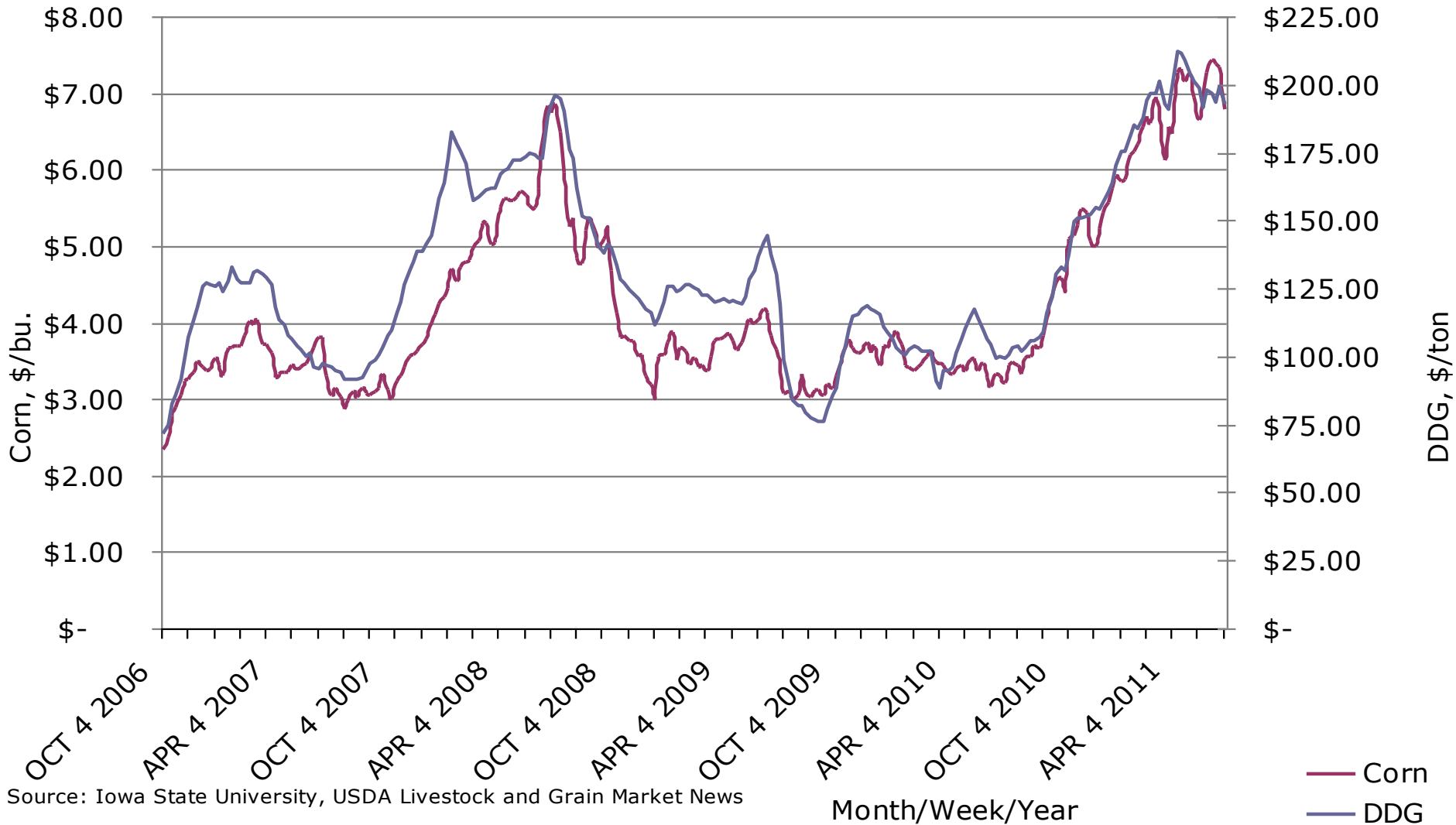
Source: FAPRI

U.S. Exports of DDGS



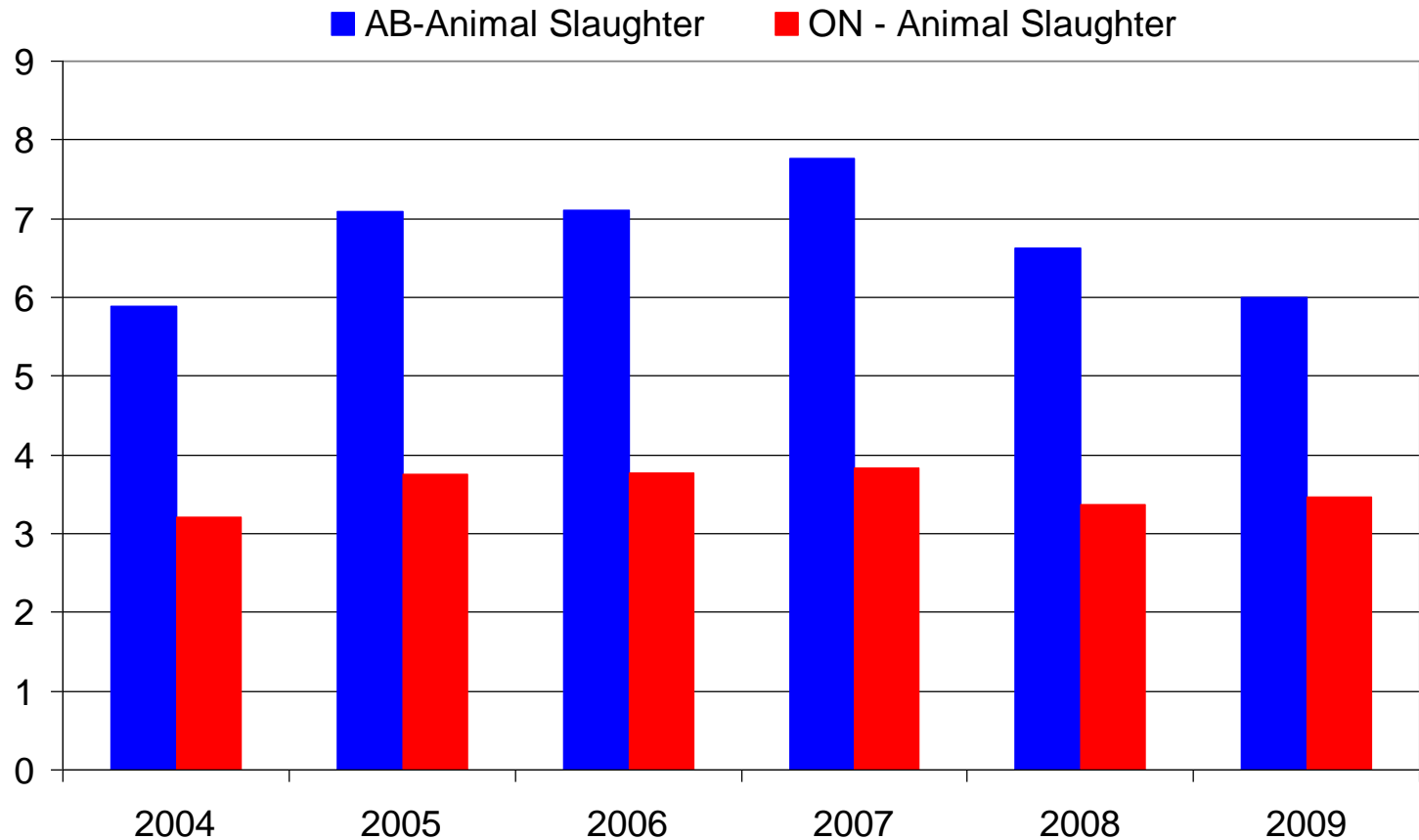
Source: World Bank

Iowa Corn Price and Dried Distillers Grain Price October 2006 - Present



Source: Iowa State University, USDA Livestock and Grain Market News

Labour productivity is higher in Alberta, but apparent decline lately

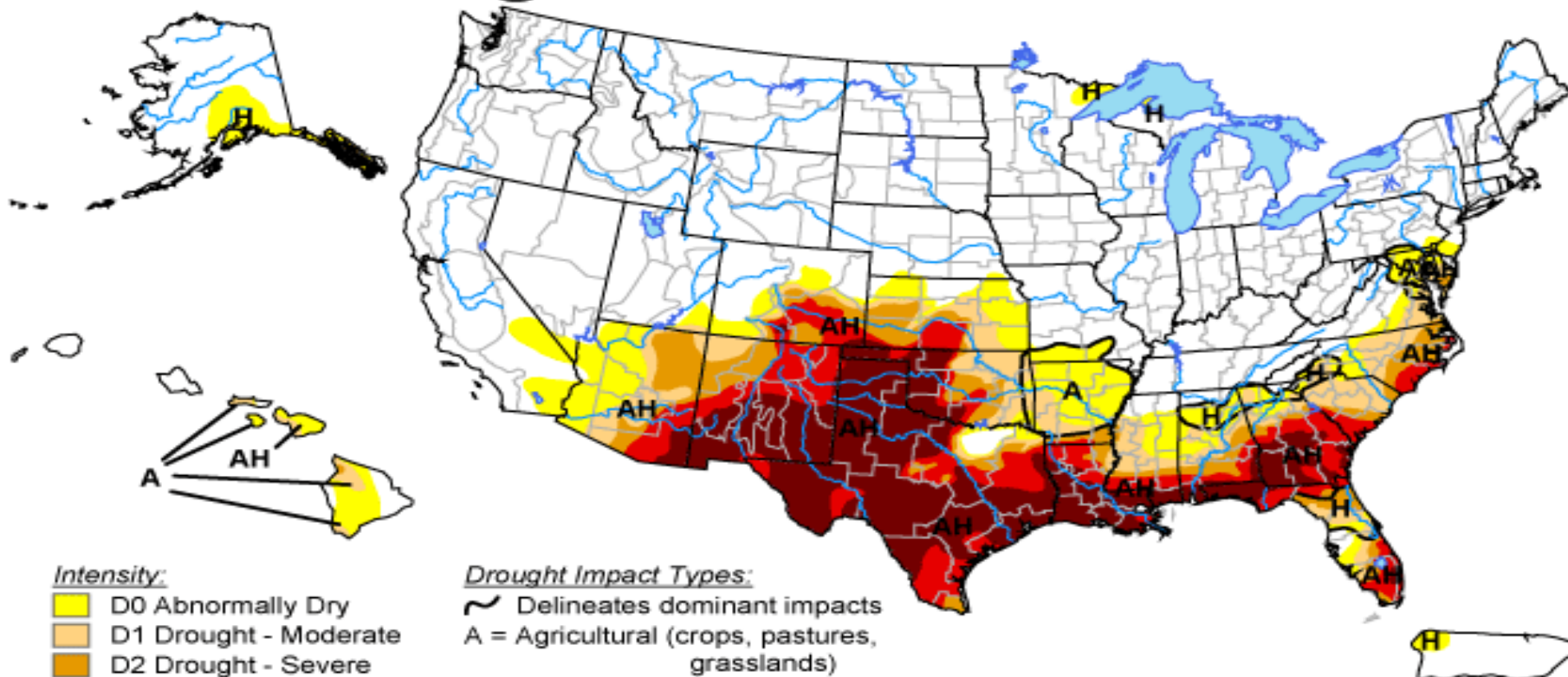


Source: Statistics Canada






U.S. Drought Monitor

July 5, 2011


Valid 8 a.m. EDT



Intensity:

-  D0 Abnormally Dry
-  D1 Drought - Moderate
-  D2 Drought - Severe
-  D3 Drought - Extreme
-  D4 Drought - Exceptional

Drought Impact Types:

-  Delineates dominant impacts
- A = Agricultural (crops, pastures, grasslands)
- H = Hydrological (water)

The Drought Monitor focuses on broad-scale conditions. Local conditions may vary. See accompanying text summary for forecast statements.



Released Thursday, July 7, 2011

Author: Richard Heim/Liz Love-Brotak, NOAA/NESDIS/NCDC

<http://drought.unl.edu/dm>

U.S. Drought Monitor

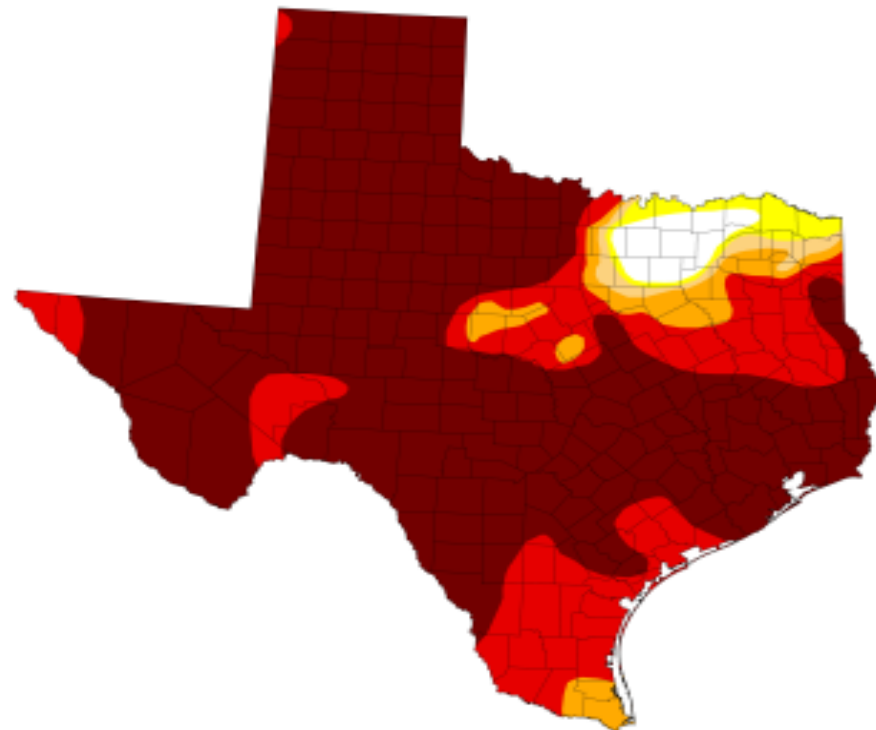
Texas

July 5, 2011

Valid 7 a.m. EST

Drought Conditions (Percent Area)

	None	D0-D4	D1-D4	D2-D4	D3-D4	D4
Current	2.41	97.59	95.73	94.39	90.21	71.30
Last Week (06/28/2011 map)	2.68	97.32	95.71	94.52	90.62	72.32
3 Months Ago (04/05/2011 map)	0.00	100.00	97.99	86.50	60.14	4.81
Start of Calendar Year (12/28/2010 map)	7.89	92.11	69.43	37.46	9.59	0.00
Start of Water Year (09/28/2010 map)	75.57	24.43	2.43	0.99	0.00	0.00
One Year Ago (06/29/2010 map)	71.20	28.80	14.01	3.96	0.00	0.00



Intensity:



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<http://drought.unl.edu/dm>

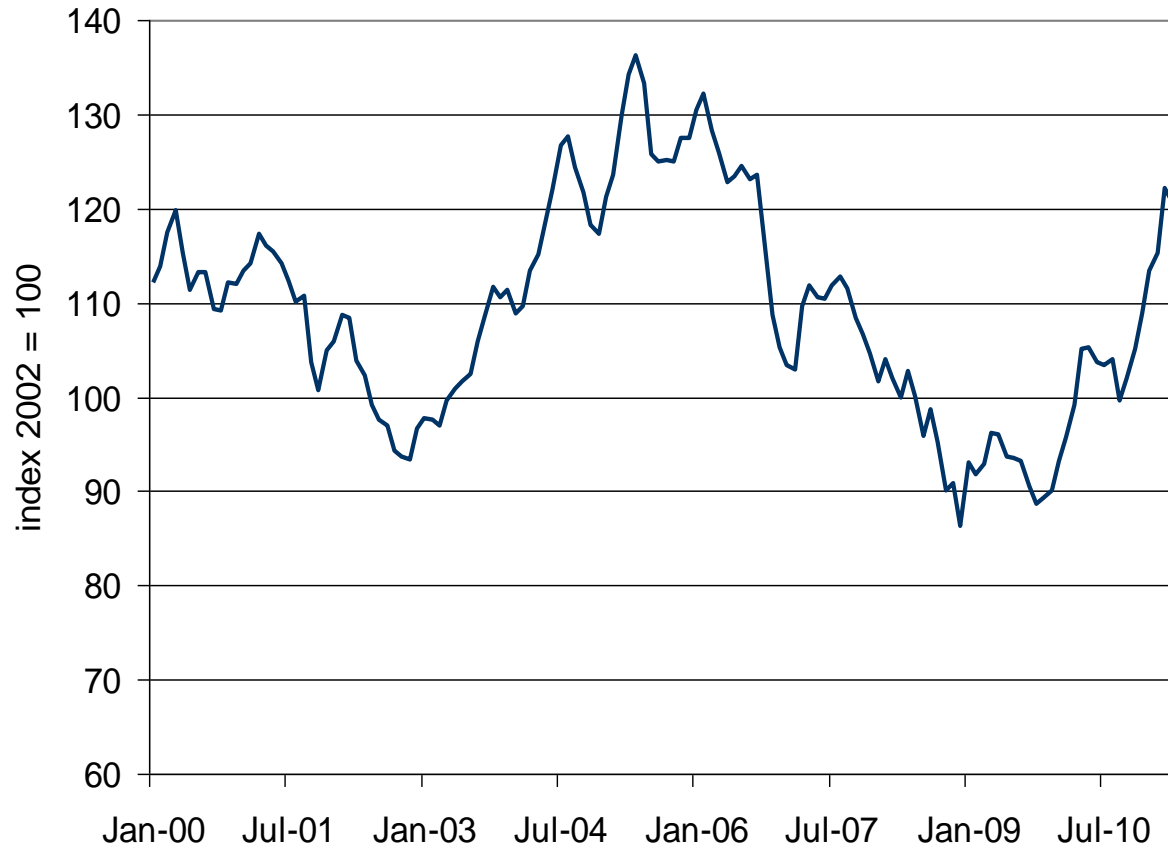


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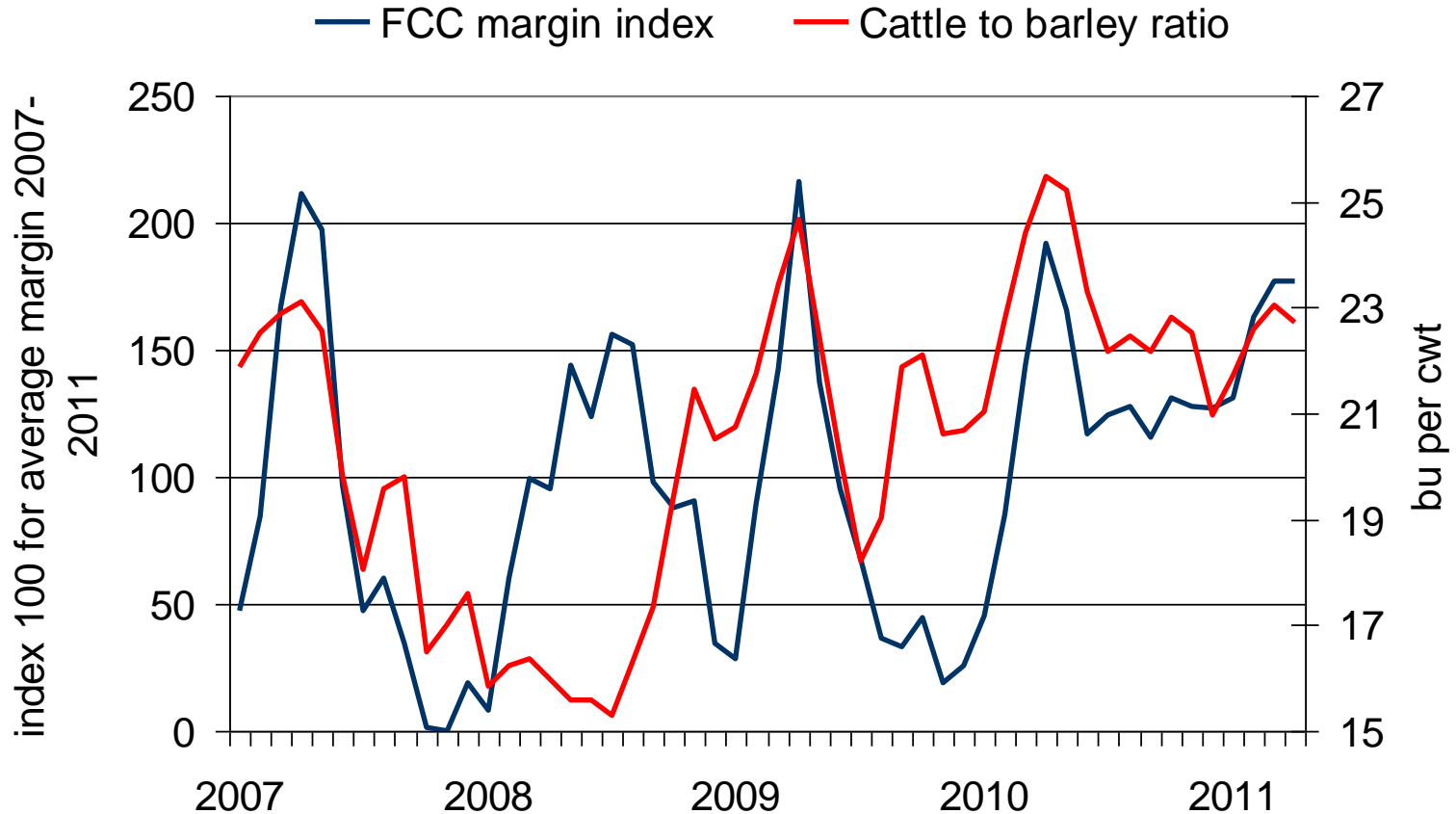
Cattle cycle

Average monthly cattle price in real terms



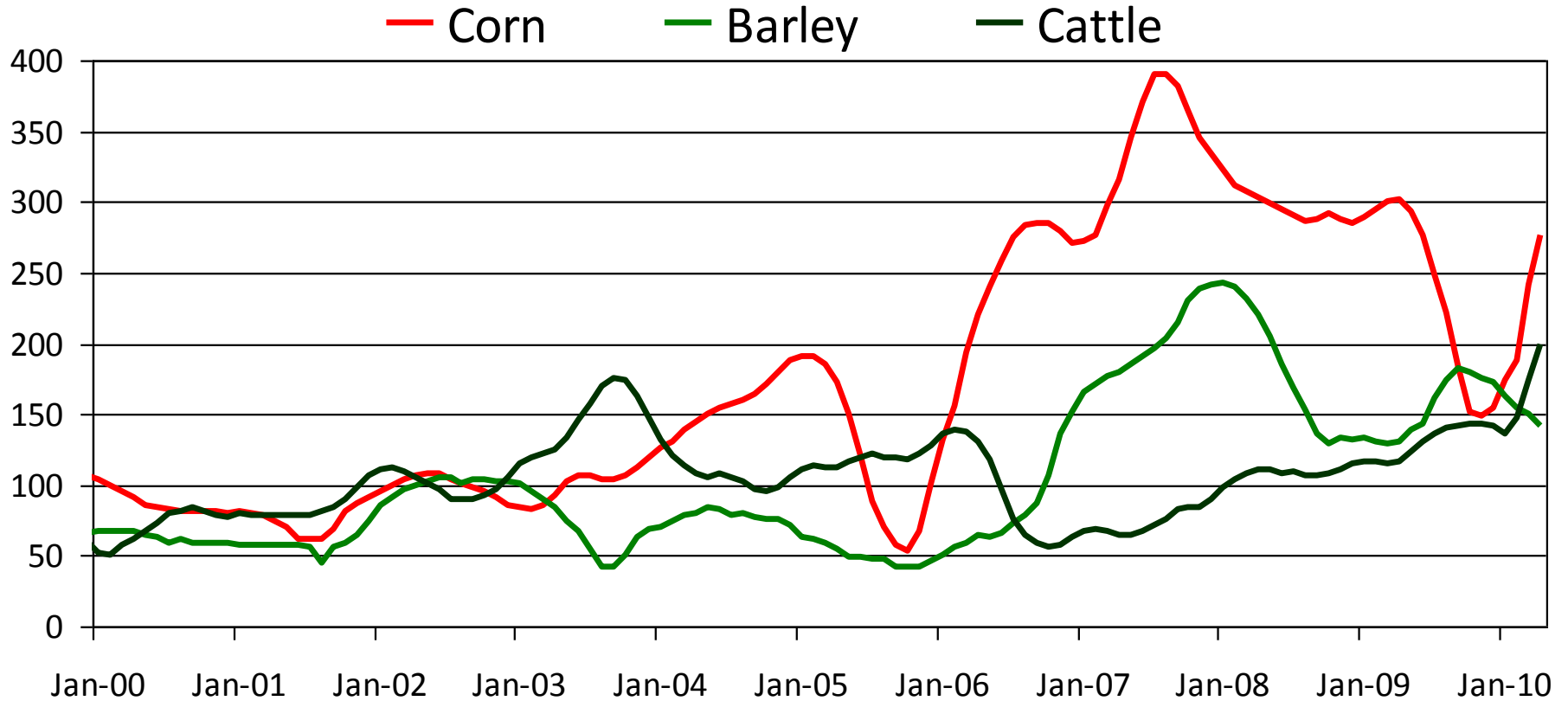
Source: USDA

Profit margins determine profitability, not feed costs alone, and not...



Source: FCC Portfolio and Analysis

Volatility is surging ...



Source: USDA

Summary

- Strong world demand
- High dollar & commodity prices
- Prairie advantage (feed and processing)
- Recent tight (negative) margins has decreased cattle supply
- Positive outlook but high volatility restricts herd expansion



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