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A Balancing Act of High Feed Costs and Improved Market Demand

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Report Highlights:
The cattle and hog sectors continue to decline in 2011, although at a lower than expected rate. Larger than anticipated calf and pig crops in 2010 brought inventories above forecasted levels. Feed costs continue to dominate producers' concerns, despite positive market demand signals. Cattle and hog exports remain within estimated levels. While domestic consumption is not expected to change from a year earlier, supplies of beef and pork stay tight preventing an increase in red meat exports.

Executive Summary:

- At 12.46 million head, cattle inventories exceeded earlier forecast due to a larger than anticipated calf crop in 2010. Despite a smaller beef cow herd, Post adjusted upwards the 2011 calf crop estimate, prompted by indications of increased heifer retention and improved optimism in the industry. Exports of cattle remain pegged at 1.1 million head. Feed barley prices have not increased as much as corn prices, creating the premise for a comparative advantage in finishing cattle in Canada. Post adjusted upwards the total slaughter number for 2011, which now stands just above 3.8 million head.

- Similar to the cattle situation, a larger than expected pig crop in 2010 resulted in increased hog inventories at the beginning of 2011. Now at 11.9 million head, Canada's swine heard is actually above the 2010 level, a reverse in trend that had not been anticipated. In addition, the sow herd has not seen the expected decline either, prompting Post to revise upwards the 2011 pig crop. The sustained demand and improved prices will help producers remain in business and deal with high cost challenges, but at this point prices are not high enough to trigger an expansion.

- Given the reduced numbers of animals available for slaughter, compared to previous years, supplies of both beef and pork continue to remain tight. Wholesale and retail red meat prices are anticipated to rise in 2011 and the market will probably bear them, in the context of the overall economic recovery. With the additional cattle and hog inventories Post slightly adjusted upwards beef and pork production while revising downwards the level of imports. Due to limited meat supply, Post expects exports to remain relatively flat, however Canada may see the benefits of increased pork exports to South Korea where FDM (foot and mouth disease) decimated the hog herd.

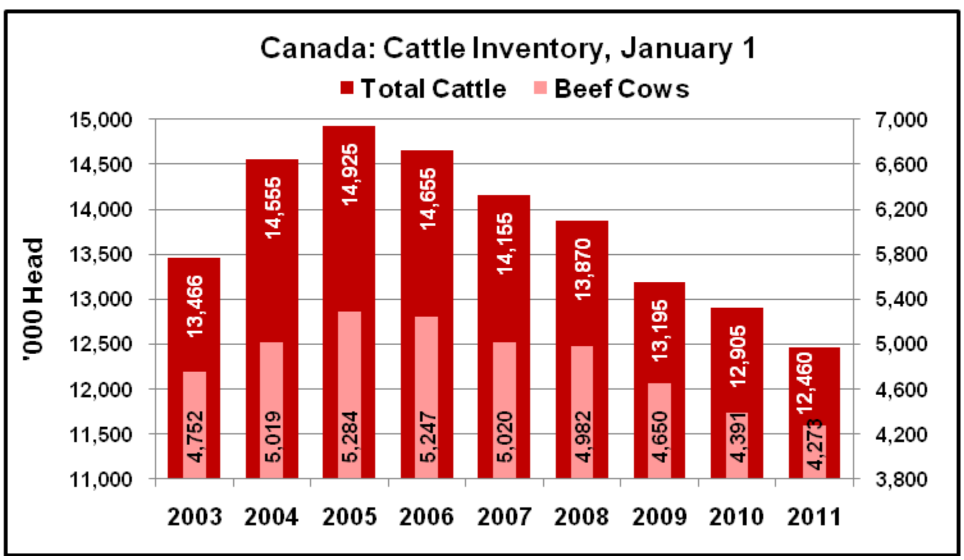
CATTLE:

NOTE: "NEW Post" data reflects Post's assessments and are NOT official USDA data.

CANADA Animal Numbers CATTLE ('000 head)	2009		2010		2011	
	USDA Official Data	NEW Post Data	USDA Official Data	NEW Post Estimates	USDA Official Data	NEW Post Estimates
Total Cattle Beg. Stocks	13,180	13,195	13,013	12,905	12,288	12,460
Dairy Cows Beg. Stocks	979	979	981	981	980	987
Beef Cows Beg. Stocks	4,650	4,650	4,471	4,391	4,325	4,273
Production (Calf Crop)	5,081	4,958	4,645	4,886	4,550	4,675
Total Imports	54	54	50	55	55	55
Total Supply	**18,315**	**18,207**	**17,708**	**17,846**	**16,893**	**17,190**
Total Exports	1,067	1,067	1,100	1,065	1,100	1,100
Cow Slaughter	643	643	620	610	510	500
Calf Slaughter	299	299	250	250	200	200
Total Slaughter	3,705	3,705	3,820	3,739	3,790	3,815
Loss	530	530	500	582	475	475
Ending Inventories	13,013	12,905	12,288	12,460	11,528	11,800
Total Distribution	**18,315**	**18,207**	**17,708**	**17,846**	**16,893**	**17,190**

Cattle Production: A Case of Lost and Found Calves

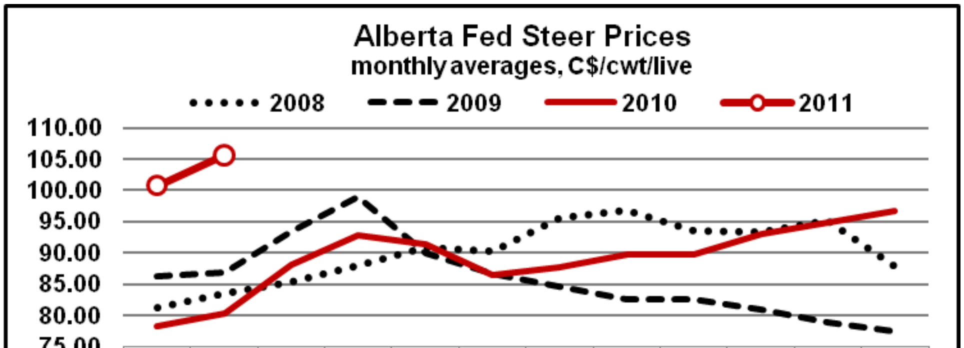
New data made available by Statistics Canada for January 1 included a revised calf crop for 2010 which resulted in a larger than expected cattle inventory. Now at 12.46 million head, this 2011 cattle inventory exceeds by 1.4 percent the USDA estimate. Six months earlier, Statistics Canada surprised audiences with a much lower than expected calf crop estimate for the first half of 2010.



Source: Statistics Canada

Despite a lower than anticipated beef cow herd, Post adjusted upwards the 2011 calf crop based on indications of increased heifer retention by ranchers. At this point, Post estimates ending cattle inventories for 2011 at 11.8 million head, a number 2.4 percent greater than previously forecasted.

Tight cattle supplies continue to fuel high prices, helping ranches through this period of equally high feed costs. In Canada, the alternative feed to corn is barley, whose price has not climbed as sharply as corn's. Post expects that a larger number of feeder cattle will be finished locally in 2011.

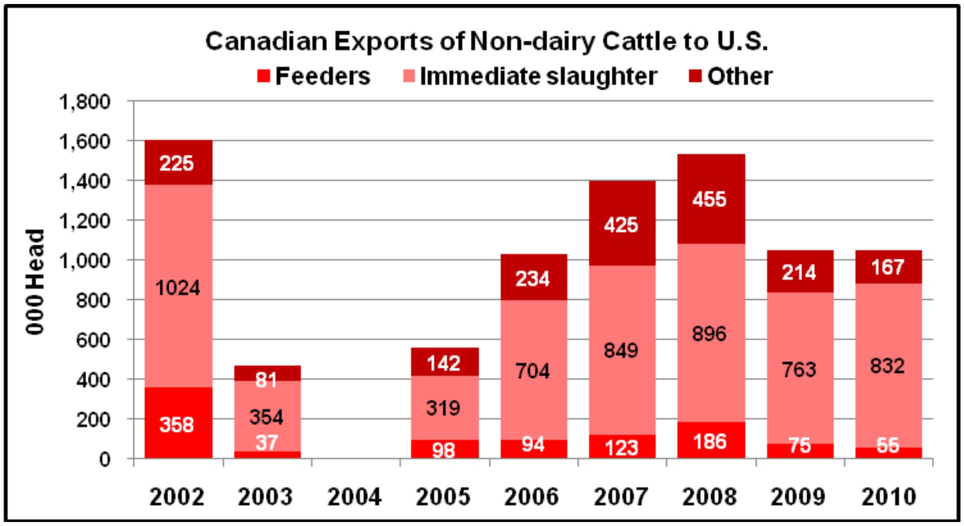


	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2008	81.27	83.42	85.29	87.93	90.86	90.18	95.55	96.71	93.42	93.36	95.16	87.69
2009	86.30	86.83	93.38	98.85	89.85	86.68	84.59	82.58	82.62	80.98	78.76	77.49
2010	78.34	80.39	88.04	92.86	91.34	86.34	87.77	89.62	89.62	92.99	94.92	96.78
2011	100.7	105.6										

Source: Statistics Canada

Cattle exports remain flat

Post continues to estimate the 2011 total cattle exports at 1.1 million head. A strong Canadian dollar and tight supplies will not sustain an expansion in exports. However, the comparatively cheaper feed source in Canada – barley – will likely translate into increased exports of fed cattle, as opposed to feeder cattle.



Source: Global Trade Atlas

BEEF:

NOTE: "NEW Post" data reflect Post's assessments and are NOT official USDA data.

CANADA Meat BEEF and VEAL	2009		2010		2011	
	USDA Official Data	NEW Post Data	USDA Official Data	NEW Post Estimates	USDA Official Data	NEW Post Estimates
Slaughter (Reference)	3,705	3,705	3,820	3,739	3,790	3,815
Beginning Stocks	34	34	37	37	35	35
Production	1,255	1,255	1,285	1,270	1,275	1,280
Total Imports	247	247	235	243	245	240
Total Supply	**1,536**	**1,536**	**1,557**	**1,550**	**1,555**	**1,555**
Total Exports	480	481	525	524	530	530
Total Dom. Consumption	1,019	1,018	997	991	995	995
Ending Stocks	37	37	35	35	30	30
Total Distribution	**1,536**	**1,536**	**1,557**	**1,550**	**1,555**	**1,555**

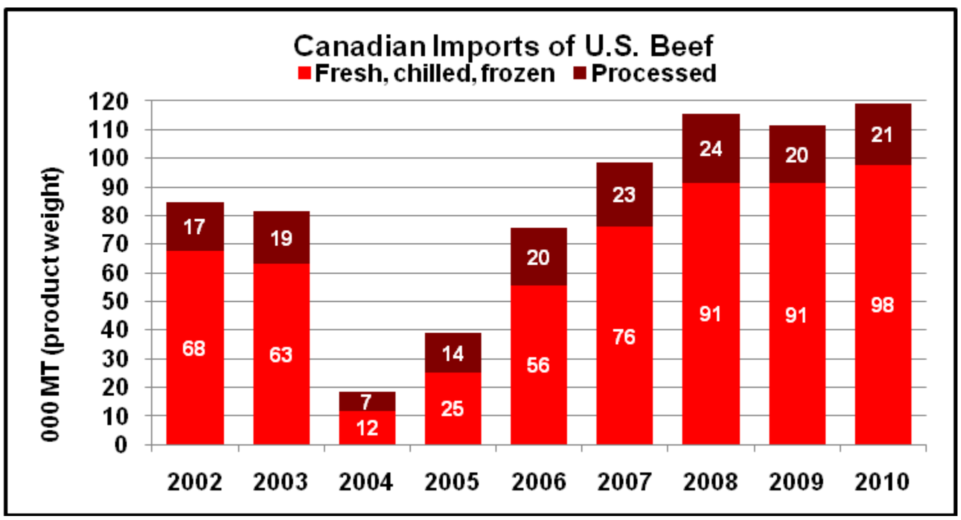
Beef Supplies Continue to Remain Tight

Based on larger than expected inventories in 2011, Post adjusted the slaughter number slightly upwards, now pegged at about 3.8 million head. Consequently, Post now estimates beef production to be just above the previously forecasted level, at 1.28 million metric tons (MT). Despite this, beef supply remains very tight with retail prices in Canada expected to increase throughout the year, while consumption remains flat or declines marginally.

On the premise of increased beef supplies domestically, Post adjusted downwards the volume of imports, now at 240,000 MT.

CANADA: Total Beef Imports (*Quantity in metric tons, CWE)**						
	1995	**2000**	**2005**	**2008**	**2009**	**2010**
World	**268,309**	**290,280**	**151,000**	**230,009**	**247,034**	**243,312**
United States	146,221	128,553	60,360	171,226	163,798	175,174
New Zealand	60,192	29,602	42,265	30,866	42,146	31,576
Uruguay	157	34,493	27,144	6,832	16,803	15,734
Australia	56,038	55,268	11,395	13,173	16,955	11,725
Brazil	2,085	4,125	7,383	5,764	5,663	7,427
Argentina	3,439	38,168	2,315	2,061	1,603	1,625
All other countries	177	71	138	87	66	51
Import Market Shares						
United States	54.5%	44.3%	40.0%	74.4%	66.3%	72.0%
New Zealand	22.4%	10.2%	28.0%	13.4%	17.1%	13.0%
Uruguay	0.1%	11.9%	18.0%	3.0%	6.8%	6.5%
Australia	20.9%	19.0%	7.5%	5.7%	6.9%	4.8%
Brazil	0.8%	1.4%	4.9%	2.5%	2.3%	3.1%

Source: Global Trade Atlas / *Conversion to carcass weight equivalent (CWE) at 1.4 for fresh, chilled and frozen meat, and at 1.79 for salted and processed meat



Source: Global Trade Atlas

Despite a sustained demand for beef and high price levels, Post maintains the beef export forecast at 530,000 MT. Limited supplies and a strong Canadian dollar are the major reasons for this trend. Hong Kong, Japan and Russia are expected to continue capturing an increasing share of Canadian beef exports.

CANADA: Total Beef Exports (*Quantity in metric tons, CWE)**						
	1995	**2000**	**2005**	**2008**	**2009**	**2010**
World	**265,033**	**566,218**	**597,265**	**494,899**	**481,265**	**523,999**
United States	249,126	471,843	516,479	403,042	390,068	415,147
Mexico	197	43,741	57,125	48,489	48,063	49,447
Hong Kong	116	947	13,037	10,049	12,665	21,127
Japan	8,890	22,188	7	6,905	11,313	17,932
Russia	89	0	0	513	1,084	5,859
Taiwan	743	2,338	0	1,907	3,926	3,239
All other countries	5,872	25,161	10,617	23,994	14,146	11,248
Export Market Shares						
United States	94.0%	83.3%	86.5%	81.4%	81.1%	79.2%
Mexico	0.1%	7.7%	9.6%	9.8%	10.0%	9.4%
Hong Kong	0.0%	0.2%	2.2%	2.0%	2.6%	4.0%
Japan	3.4%	3.9%	0.0%	1.4%	2.4%	3.4%
Russia	0.0%	0.0%	0.0%	0.1%	0.2%	1.1%

Source: Global Trade Atlas / *Conversion to carcass weight equivalent at 1.4

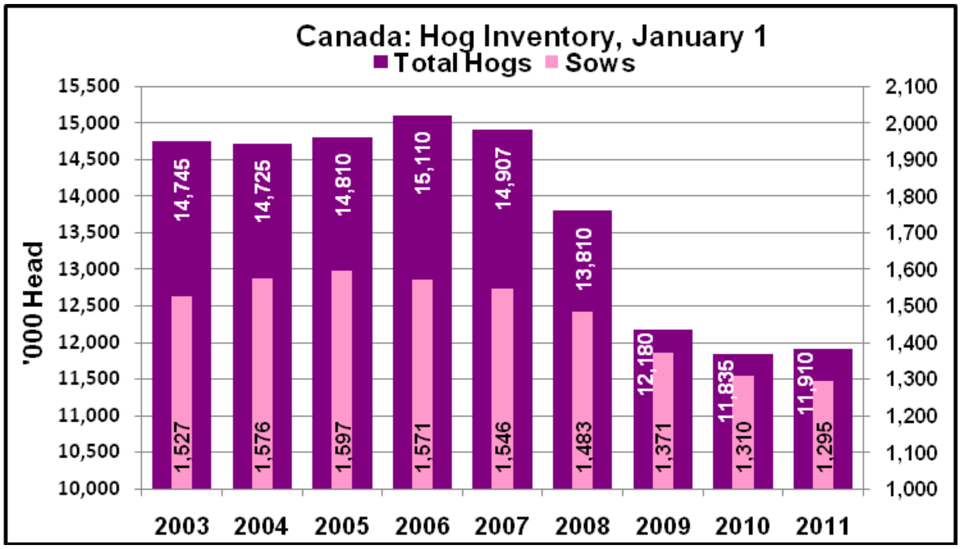
HOGS:

NOTE: "NEW Post" data reflect Post's assessments and are NOT official USDA data.

CANADA Animal Numbers SWINE ('000 head)	**2009**		**2010**		**2011**	
	USDA Official Data	**NEW Post Data**	**USDA Official Data**	**NEW Post Estimates**	**USDA Official Data**	**NEW Post Estimates**
Total Beginning Stocks	12,180	12,180	11,835	11,835	11,357	11,910
Sow Beginning Stocks	1,371	1,371	1,310	1,310	1,280	1,295
Production (Pig Crop)	29,301	29,297	28,000	28,503	27,400	28,170
Total Imports	3	3	2	3	2	2
Total Supply	**41,484**	**41,480**	**39,837**	**40,341**	**38,759**	**40,082**
Total Exports	6,376	6,376	5,760	5,761	5,900	5,850
Total Slaughter	21,810	21,810	21,250	21,270	20,850	20,950
Loss	1,463	1,459	1,470	1,400	1,325	1,382
Ending Inventories	11,835	11,835	11,357	11,910	10,684	11,900
Total Distribution	**41,484**	**41,480**	**39,837**	**40,341**	**38,759**	**40,082**

Hog Production: Surprisingly High Inventories

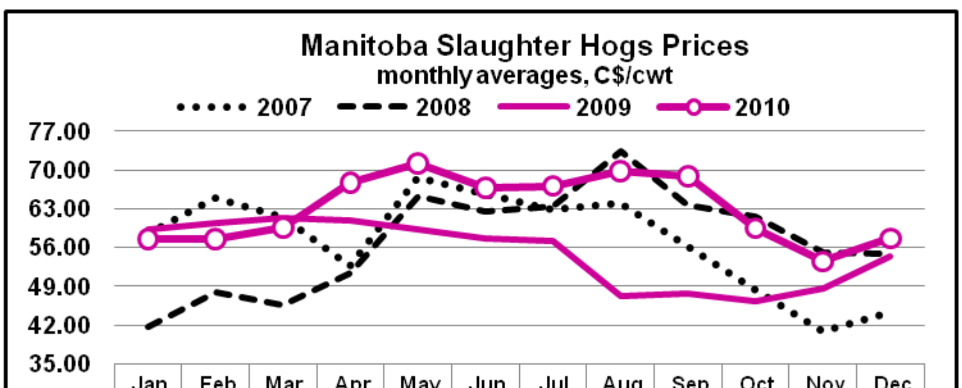
In a development similar to the cattle story, the newly released data from Statistics Canada for January 1 showed a larger than anticipated pig crop for 2010 which translated into increased hog inventories. Now at just over 11.9 million head, hog inventories are actually larger than one year ago, and represent a 4.9 percent increase over the previous USDA estimate.



Source: Statistics Canada

The Canadian sow herd has also not been declining as steeply as previously anticipated by Post. It now stands at just under 1.3 million head, one percent larger than expected. Based on this fact, Post has revised upwards by almost 3 percent the 2011 pig crop which is now pegged close to 28.2 million head. In this new context, Post reviewed upwards the 2011 hog ending inventories, which are now more than 11 percent higher than previously estimated.

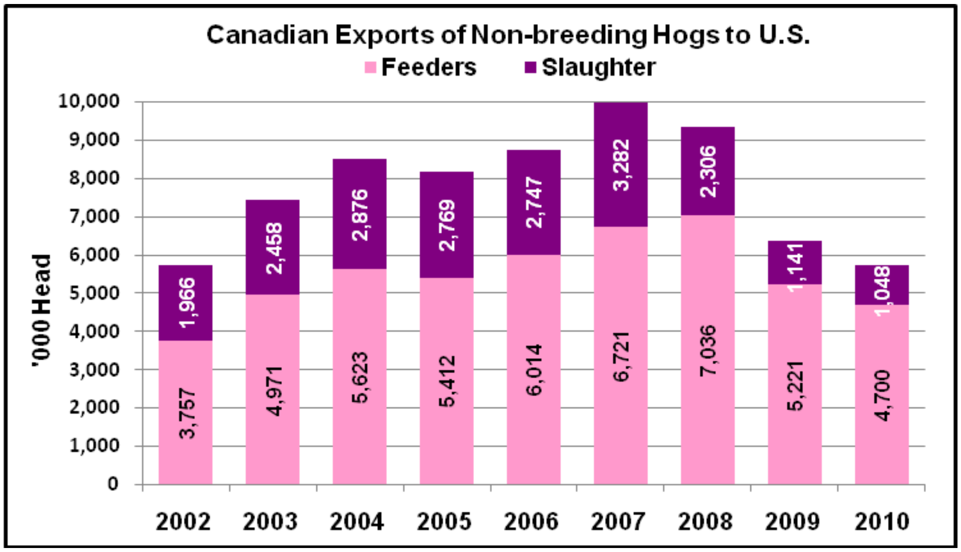
In parallel with high feed costs, hog prices remain relatively high, just enough to keep most farmers in business and make some of them postpone the exit decision, but not nearly high enough to trigger a new expansion. This development is expected despite a sustain demand for pork, both domestically and on export markets.



	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2007	58.55	64.83	61.52	52.67	68.64	65.63	62.75	63.92	56.10	48.35	41.00	44.27
2008	41.70	48.02	45.56	51.40	65.36	62.51	63.42	73.47	63.68	61.56	55.07	54.98
2009	59.28	60.43	61.34	60.93	59.34	57.76	57.25	47.20	47.80	46.29	48.55	54.33
2010	57.53	57.57	59.61	67.68	71.20	66.80	67.13	69.86	68.84	59.48	53.54	57.69

Source: Statistics Canada

Given tight supplies, domestic slaughter opportunities and a strong Canadian dollar, exports of hogs will remain within the forecasted level, which is now pegged at 5.85 million head.



Source: Global Trade Atlas

The Hog Farm Transition Program Has Ended

With only C$1 million to distribute and all tenders over, this program has basically been completed. The table below summarizes the final results of the program as of the end of January, 2011. The C$75 million program has helped famers exit the industry given the requirement that funds were available conditional on producers keeping barns empty for a minimum of three years.

Canada: Hog Farm Transition Program
Final Cumulative Successful Bid Summary (January 31, 2011)

Province	Bids	Total Bid Value C$ mil.	Sows	Up to 30 kgs	Over 30 kgs	Total
British Columbia	12	$4.4	7,945	23,567	25,913	**57,425**
Alberta	63	$10.9	12,661	32,393	102,125	**147,179**
Saskatchewan	15	$7.7	16,748	28,002	24,624	**69,374**
Manitoba	74	$15.6	36,574	45,073	54,734	**136,381**
Ontario	206	$27.2	41,464	105,301	168,401	**315,166**
Quebec	67	$6.1	7,885	20,434	52,280	**80,599**
Atlantic Region	18	$2.1	3,488	9,087	18,832	**31,407**
TOTAL	**455**	**$74.0**	**126,765**	**263,857**	**446,909**	**837,531**

All swine numbers in head.

Source: Agriculture and Agri-Food Canada

PORK:

NOTE: "NEW Post" data reflect Post's assessments and are NOT official USDA data.

CANADA Meat SWINE	2009		2010		2011	
	USDA Official Data	NEW Post Data	USDA Official Data	NEW Post Estimates	USDA Official Data	NEW Post Estimates
Slaughter (Reference)	21,810	21,810	21,250	21,270	20,850	20,950
Beginning Stocks	59	59	52	52	40	40
Production	1,789	1,789	1,750	1,760	1,720	1,725
Total Imports	180	180	200	183	230	220
Total Supply	**2,028**	**2,028**	**2,002**	**1,995**	**1,990**	**1,985**
Total Exports	1,123	1,123	1,165	1,159	1,175	1,180
Total Dom. Consumption	853	853	797	796	785	780
Ending Stocks	52	52	40	40	30	25
Total Distribution	**2,028**	**2,028**	**2,002**	**1,995**	**1,990**	**1,985**

Small Production Increase to Fuel Limited Export Expansion

Based on larger inventories, Post has marginally increased the slaughter estimate for 2011 which is likely to translate into slightly larger pork production, now forecast at 1.725 million MT. Pork supplies continue to remain tight, resulting in expected increases in retail prices for most cuts. Domestic consumption is not anticipated to change and, given increased pork production, Post has lowered the import estimate, now at 220,000 MT.

CANADA: Total Pork Imports (*Quantity in metric tons, CWE)**

	1995	2000	2005	2008	2009	2010
World	**31,119**	**67,759**	**139,445**	**193,976**	**179,850**	**183,320**
United States	26,320	61,883	129,818	186,380	173,488	177,435
Chile	0	0	1,027	2,510	3,039	2,262
Denmark	4,443	4,809	6,814	3,008	1,347	1,332
All other countries	356	1,067	1,786	2,078	1,976	2,291
Import Market Shares						
United States	85%	91%	93%	96%	96%	97%
Chile	0%	0%	1%	1%	2%	1%
Denmark	14%	7%	5%	2%	1%	1%

Source: Global Trade Atlas / *Conversion to carcass weight equivalent at 1.3

Post also marginally adjusted the export volume upwards to 1.18 million MT. Despite the strong Canadian dollar, Canada is expected to fare well on international markets given global tight supplies and sustained demand. United States, Russia, China and Philippines will continue attracting an increasing volume of exports. In particular, Canada is likely to take advantage of increased exports to South Korea, where foot and mouth disease (FMD) decimated the hog herd and drastically limited the local production.

CANADA: Total Pork Exports (*Quantity in metric tons, CWE)**						
	1995	**2000**	**2005**	**2008**	**2009**	**2010**
World	**366,189**	**659,814**	**1,083,686**	**1,128,621**	**1,123,043**	**1,159,173**
United States	257,416	420,854	477,899	362,890	382,969	395,559
Japan	51,434	125,661	304,063	262,298	259,273	259,966
Russia	8,819	8,110	25,499	142,790	63,281	99,563
Mexico	1,894	17,049	45,565	29,549	29,097	61,834
Korea South	5,211	14,181	57,708	64,887	67,937	56,065
Australia	3,973	13,496	44,304	45,959	61,651	50,595
Philippines	311	4,714	10,105	32,358	45,312	48,634
China	299	1,929	18,045	23,142	22,687	38,998
Hong Kong	4,717	5,947	4,015	58,837	46,636	31,439
Taiwan	996	6,254	12,262	17,138	34,639	27,120
New Zealand	2,813	10,836	8,688	9,979	12,832	10,861
All other countries	28,306	30,783	75,533	78,794	96,729	78,539
Export Market Shares						
United States	70.3%	63.8%	44.1%	32.2%	34.1%	34.1%
Japan	14.0%	19.0%	28.1%	23.2%	23.1%	22.4%
Russia	2.4%	1.2%	2.4%	12.7%	5.6%	8.6%
Mexico	0.5%	2.6%	4.2%	2.6%	2.6%	5.3%
Korea South	1.4%	2.1%	5.3%	5.7%	6.0%	4.8%
Australia	1.1%	2.0%	4.1%	4.1%	5.5%	4.4%

Source: Global Trade Atlas / *Conversion to carcass weight equivalent at 1.3