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DATE: January 24, 2020

TO/ À: Directors, Alternates and Managers

FROM/ DE: Sateesh Singh, Chair – Turkey Market Advisory Committee (TMAC)

RE/ OBJET: TMAC Report: 2020/21 Control Period Commercial Allocation

Set out below is a Turkey Market Advisory Committee (TMAC) report on the state of the turkey market taking into account January 1, 2020 inventories and 2019/20 control period to-date domestic disappearance, production and CPEPC wholesale volume movement & price data. Included in this report are supply and disappearance forecasts to the end of the 2019/20 control period and the entirety of the 2020/21 control period.

Please note that the figures in the tables and in the written text may not add exactly due to rounding.

Overall State of the Turkey Market

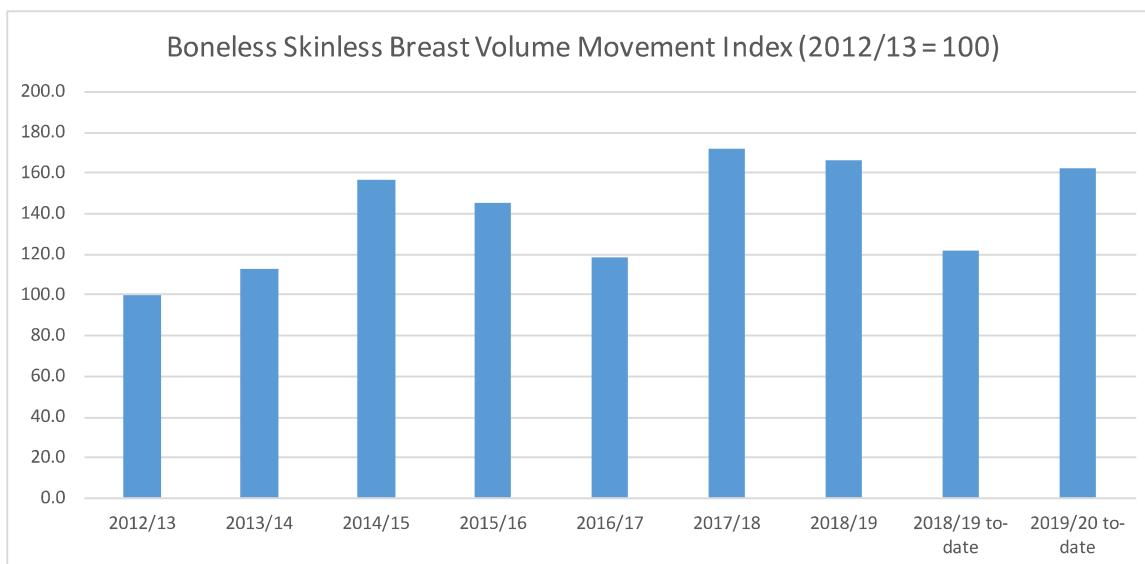
Data from CPEPC regarding volume movement on whole birds and breast meat parallel the retail data from Nielsen with respect to the long term trend on whole bird and breast meat movement.

Nielsen Retail Sales

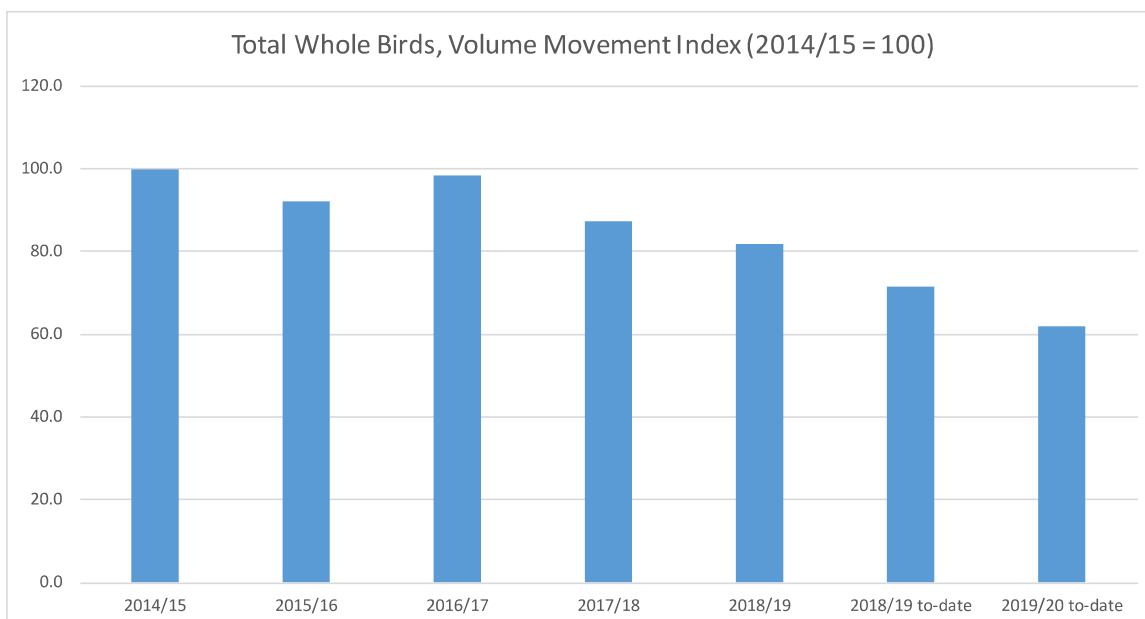
Calendar Year	Whole Birds		Breast Meat Items	
	Volume (Mkg)	% Change	Volume (Mkg)	% Change
2016	49.5		2.9	
2017	45.9	- 7.3%	3.2	+ 10.3%
2018	44.1	- 3.9%	3.4	+ 6.3%
2019	40.6	- 7.9%	3.6	+ 5.9%
Change (2016 to 2019)	- 8.9	- 18%	+ 0.7	+ 24.1%

As illustrated in the chart below and as reported by CPEPC, external boneless skinless bulk breast meat sales to retailers, foodservice and independent further processors

have increased by 66% between 2012/13 and 2018/19; and, are up 34% control period-to-date 2019/20 versus 2018/19.



Also as reported by CPEPC, sales of all whole birds (fresh and frozen including value added products such as basted whole birds) has decreased by 18% between 2014/15 and 2018/19; and, have decreased by 14% control period-to-date 2019/20 versus 2018/19.



The above data reinforces the long term trend for the industry that growth in turkey sales and consumption will be in the further processed sector of the market. As

consumers have decreased their purchase of whole birds there has been an increase in the purchase of further processed items and this trend is anticipated to continue. Unfortunately, the growth in breast meat disappearance has not been sufficient to offset decreased whole bird disappearance. This assessment of the long term trends underlies the remainder of this TMAC report and recommendations.

TMAC Commercial Allocation Recommendation

Based on its observations and deliberations, TMAC recommends that the national commercial allocation for the 2020/21 control period not be set below 136.0 Mkg. As detailed in the remainder of this report, this figure of 136.0 Mkg is comprised of a Further Processed allocation of not less than 82.0 Mkg and a Whole Bird allocation of 54.0 Mkg.

The commercial allocation in 2019/20 is 146.6 Mkg. Therefore, a national commercial allocation of 136.0 Mkg for 2020/21 is equal to a decrease of 10.6 Mkg or - 7.2%

Whole Bird (WB) Market

Background: In TMAC's November 2019 report, the committee forecasted domestic disappearance for the remainder of the control period (November to April) to parallel actual domestic disappearance in 2018/19. This included Christmas disappearance holding steady at 28.5 Mkg.

This was not the case. Domestic disappearance for Christmas 2019 was 26.4 Mkg (minus 2.1 Mkg or – 7.4% relative to the 2018 figure of 28.5 Mkg). Note: 2018 Christmas whole bird disappearance relative to 2017 (30.9 Mkg) was down 2.5 Mkg or – 8%. In total Christmas WB disappearance is down 4.5 Mkg since 2017 or – 14.6%.

CPEPC Wholesale Prices/Volume Movement: As noted earlier in the report, sales of all whole birds (commodity birds and value added birds) decreased by 14% on a control period-to-date basis in 2019/20 versus 2018/19. With respect to commodity birds only (fresh and frozen) external sales decreased by 25%, on wholesale pricing that was up 4%.

The slightly higher wholesale pricing on commodity birds is reflected in the wholesale-live price differential index *for frozen commodity whole birds under 9 kg*, which for January to December 2019 is up relative to 2018 and slightly higher than in 2013 and 2014. Note: The Index of 100 equals the average wholesale-live price differential for the 2011 to 2013 period. The index does not reflect processor margins, as increases in processing costs (other than live price) that have occurred over the last 6 years are not captured.

Supply and Disappearance Forecast: the table below illustrates TMAC's WB forecasting for January to April 2020 and for the total 2019/20 control period.

Supply and Disappearance – Whole Bird (MKG)						
	2018/19			2019/20		
	M-D	J-A	Total	M-D	J-A*	Total*
Opening Stocks	18.8	9.8	18.8	18.2	11.4	18.2
Production	48.3	17.5	65.8	45.4	17.0	62.3**
Imports	0.0	0.0	0.0	0.0	0.0	0.0
Total Supply	67.2	27.3	84.6	63.6	28.4	80.6
Total Disappearance	57.4	9.0	66.4	52.2	9.0	61.2
Exports	0.2	0.0	0.3	0.3	0.0	0.3
Domestic Disappearance	57.2	9.0	66.1	51.9	9.0	60.9
Closing Stocks	9.8	18.2	18.2	11.4	19.4	19.4
PCC			1.77			1.59

Numbers may not add exactly due to rounding.

*Forecast

**Forecast bagging for 2019/20 of 62.3 Mkg is estimated to consist of 59.0 Mkg of eviscerated whole bird production, 3.0 Mkg of seasoning and stuffing (5.5 % of production), 0.3 Mkg of production for exports. This results in production being lower than the WB allocation of 60.5 Mkg by approximately 1.5 Mkg (i.e., 60.5 Mkg allocation minus 59.0 Mkg of eviscerated whole bird production = 1.5 Mkg).

Rationale for 2019/20 Forecast:

- With May-December 2019/20 WB production (including the weight of basting and stuffing) below 2018/19 actual, with the same allocation, TMAC is forecasting bagging for the January to April period to also be lower than the previous year. This results in a total WB production forecast of 62.3 Mkg for 2019/20, minus 3.5 Mkg relative to 2018/19.
 - The WB production forecast is related to the January 1, 2010 inventory level of 11.4 Mkg being significantly higher relative to 2018 (+ 1.6 Mkg or + 16%).
 - TMAC is expecting processors to under-bag to avoid May 1st storage stocks in excess of 20.0 Mkg. Also, there was 2.0 Mkg of additional WB production in 2018/19 that is not expected to occur in 2019/20.

- Under-bagging results in additional cut-up and breast meat production, which appears in the forecasting for further processing/breast meat, further in this report.
- The January to April domestic disappearance forecast of 9.0 Mkg parallels 2018 actual and is in line with the long term average. Historical data since 2011/12 supports a January to April disappearance in the range of 8.0 to 11.0 Mkg for this 4-month period.

2020/21 Whole bird Supply and Disappearance Forecast: With forecast May 1, 2020 opening inventories of 19.4 Mkg, and factoring in:

- 1) A further reduction in whole bird domestic disappearance of minus 1.5% or 0.9 Mkg in 2020/21;
- 2) The inherent uncertainty around retail featuring activity; and,
- 3) An allowance for under-bagging in 2020/21 of 1.2 Mkg (i.e., flexibility, to account for unanticipated circumstances) (Note: this allowance is explained further within this WB section of the report and under the FP section of this report);

TMAC is arriving at 2020/21 closing inventories on May 1, 2021 of 15.0 Mkg, based on:

- WB domestic disappearance of 60.0 Mkg;
- Production requirement (including basting and stuffing) of 55.8 Mkg (including 0.3 Mkg for exports); and,
- **Resulting in a domestic WB allocation requirement of 54.0 Mkg.**

Supply and Disappearance – Whole Bird (MKG)								
	15/16	16/17	17/18	18/19	2019/20			2020/21
	Total	Total	Total	Total	M-D	J-A*	Total*	Total*
Opening Stocks	18.2	24.9	21.0	18.8	18.2	11.4	18.2	19.4
Production	76.8	69.4	66.0	65.8	45.4	17.0**	62.3	55.8**
Imports	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Supply	95.3	94.3	87.0	84.6	63.6	28.4	80.6	75.3
Total Disappearance	70.4	73.3	68.2	66.4	52.2	9.0	61.2	60.3
Exports	0.2	0.4	0.2	0.3	0.3	0.0	0.3	0.3
Domestic Disappearance	70.3	72.9	67.9	66.1	51.9	9.0	60.9	60.0
Closing Stocks	24.9	21.0	18.8	18.2	11.4	19.4	19.4	15.0
PCC	1.96	2.01	1.85	1.77			1.59	1.55

*Forecast

****Note**, that the allowance for under-bagging of 1.2 Mkg in 2020/21 is to allow for a further shift in consumer demand between whole birds and further processed products (i.e., substitution effect) within the control period.

****A** total production figure of 55.8 Mkg, less 0.3 Mkg for exports and less 5% for basting and stuffing equals a domestic allocation requirement of 53.0 Mkg, plus a 1.2 Mkg allowance for under-bagging, equals the TMAC recommendation for a 2020/21 WB allocation of 54.0 Mkg.

The WB allocation for 2019/20 is 60.5 Mkg. The recommendation for 2020/21 of 54.0 Mkg represents a decrease of 6.5 Mkg or - 11.0%. This allocation reduction is slightly higher than the forecast drop in disappearance between 2018/19 and 2019/20 of minus 5.2 Mkg or 7.9%. The reason is the necessity to reduce storage stocks during the 2020/21 control period.

The closing inventories on May 1, 2021 of 15.0 Mkg is equal to a stock to-use ratio of 25%. A 20% stock to-use ratio would be equal to 12.0 Mkg.

Further Processed (FP) Market

FP Commercial Allocation Sources:	2018/19	2019/20	2020/21
FP Reference Allocation	67.7	67.7	67.7
FP Requests	20.1	17.7	14.3
Additional/Under Bagging	-2.0	1.5	0
Total Forecast Commercial FP Production =	85.8	86.9	82.0

CPEPC Wholesale Prices/Volume Movement: Boneless Skinless Breast (BSB) meat wholesale prices (fresh and frozen) for 2019/20 control period to-date (May to December) were up 8%. However, on a dollar per kilogram basis, BSB prices are still 14% below 2016/17 pricing, which CPEPC Turkey Primary Processors would likely consider more sustainable. Boneless Skinless Thigh (BST) meat (fresh and frozen) pricing was 7% higher on higher volume movement of 19%. BST pricing has steadily increased since 2016/17, up 14% in total.

2019/20 and 2020/21 Control Period Breast Meat Forecast:

With breast meat stocks on January 1, 2020 at 2.6 Mkg, basically unchanged since May 1, 2019 and up 0.3 Mkg from November 1st, TMAC anticipates slightly lower wholesale prices between January and April relative to the previous 8 months, resulting in domestic disappearance of 8.9 Mkg for this 4-month period. This would equal an increase of 0.2 Mkg or + 2.3% relative to the same period in 2019.

Breast meat production of 8.8 Mkg for January to April is higher than initial forecasting based on FP allocations, due to forecast under-bagging of 1.5 Mkg whole bird equivalent or 0.4 Mkg of breast meat. As a result, May 1, 2020 stocks are forecast at 2.5 Mkg.

Supply and Disappearance – Breast Meat (MKG)								
	15/16	16/17	17/18	18/19	2019/20			2020/21
	Total	Total	Total	Total	M-D	J-A*	Total*	Total*
Opening Stocks	1.3	1.8	4.1	3.8	2.5	2.6	2.5	2.5
Production	26.6	28.6	28.5	27.1	18.8	8.7	27.6	26.5
Imports	1.6	1.9	1.4	1.1	0.9	0.2	1.1	1.3
Total Supply	29.6	32.3	34.1	32.0	22.3	11.6	31.2	30.3
Total Disappearance	27.8	28.2	30.2	29.5	19.6	9.0	28.7	29.0
Exports	1.6	1.9	0.7	0.4	0.1	0.1	0.2	0.2
Domestic Disappearance	26.2	26.3	29.5	29.1	19.5	8.9	28.4	28.7
Closing Stocks	1.8	4.1	3.8	2.5	2.6	2.5	2.5	1.3
PCC	0.73	0.73	0.80	0.78			0.75	0.74
FP Production	101.4	109.0	108.7	103.2			105.0	100.9

*Forecast

As noted earlier in this report, external bulk breast meat sales by primary and integrated processors to retailers, foodservice and independent further processors have been strong in 2019/20 relative to 2018/19 (+34%). Given the forecast closing stock of 2.6 Mkg this trend is anticipated to continue into 2020/21.

The substitution of whole bird purchases with further processed products is expected to continue. Also, increased consumption is expected from population growth. Therefore, TMAC is expecting per capita consumption (PCC) in 2020/21 to be similar to the forecast for 2019/20. TMAC is conservatively forecasting a breast meat PCC of 0.74 kg in 2020/21, down slightly (1.3%) from 2019/20. However, domestic disappearance volume is expected to be up slightly to 28.7 Mkg (i.e., + 0.3 Mkg or + 1.0%).

Based on all the current FP allocation supply sources (i.e., FP reference and FP request volumes, multiplier and primary breeder allocations and Section 1 export utilizations) FP production would be 99.7 Mkg in 2020/21. However, as noted under the WB section of this report, TMAC has incorporated 1.2 Mkg of additional production from the whole bird allocation (i.e., under-bagging), which is equal to 0.3 Mkg of breast meat. Therefore, total FP production is forecast at 100.9 Mkg, generating breast meat production of 26.5 Mkg. This compares to a forecast production of 105.0 Mkg in 2019/20, down 4.1 Mkg or – 4.0%.

With respect to imports, the modelling used by TMAC is based on zero imports occurring in 2020/21 under CPTPP, as Chile is not expected to ratify the agreement anytime soon due to the political situation in that country. Regarding CUSMA, if Canada implements the agreement in 2020, additional breast imports are forecast at approximately 36,000 kg. Overall, TMAC is forecasting breast meat imports in 2020/21 at 1.3 Mkg, slightly higher than in 2019/20 and 2018/19 at 1.1 Mkg, based on anticipated improvement in inventories over the course of the control period.

Based on the above, closing breast meat inventories on May 1, 2021 are forecast at 1.3 Mkg. This is equal to a forecast stock-to-use ratio of 4.6%. This stock-to-use ratio is comparable to 4.9% in 2012/13 and 7.2% in 2013/14 and 5.0% in 2014/15, when wholesale prices were considered sustainable.

Closing TMAC Observations

- 1) Individual processors will likely opt to move production between whole birds and FP, based on market demand and pricing (i.e., balancing act). TMAC's recommendations are aimed at providing a safety valve on supply in either direction (e.g., FP demand higher than expected or slight turn around on whole bird purchases).
- 2) TMAC is optimistic on the FP market going forward and the impact of the Agency's marketing campaign. If processor FP requests for 2020/21 had TMAC's optimism for this market segment, TMAC's recommendation on whole birds would be lower.
- 3) Despite TMAC's perspective on the FP market, the committee's PCC forecast at 0.74 kg is conservative as it is a decline relative to 2019/20.