



Cattle Market Update

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Risk, Uncertainty, Volatility

- Volatility has declined in Canadian markets
- Risk remains elevated, but can be managed
- Uncertainty on the rise? Many variables, with many unknown outcomes
 - Markets don't like Uncertainty...
- Current market sentiment –
 - Big picture generally bullish red meat markets, uncertain about cattle markets



Supply and Demand

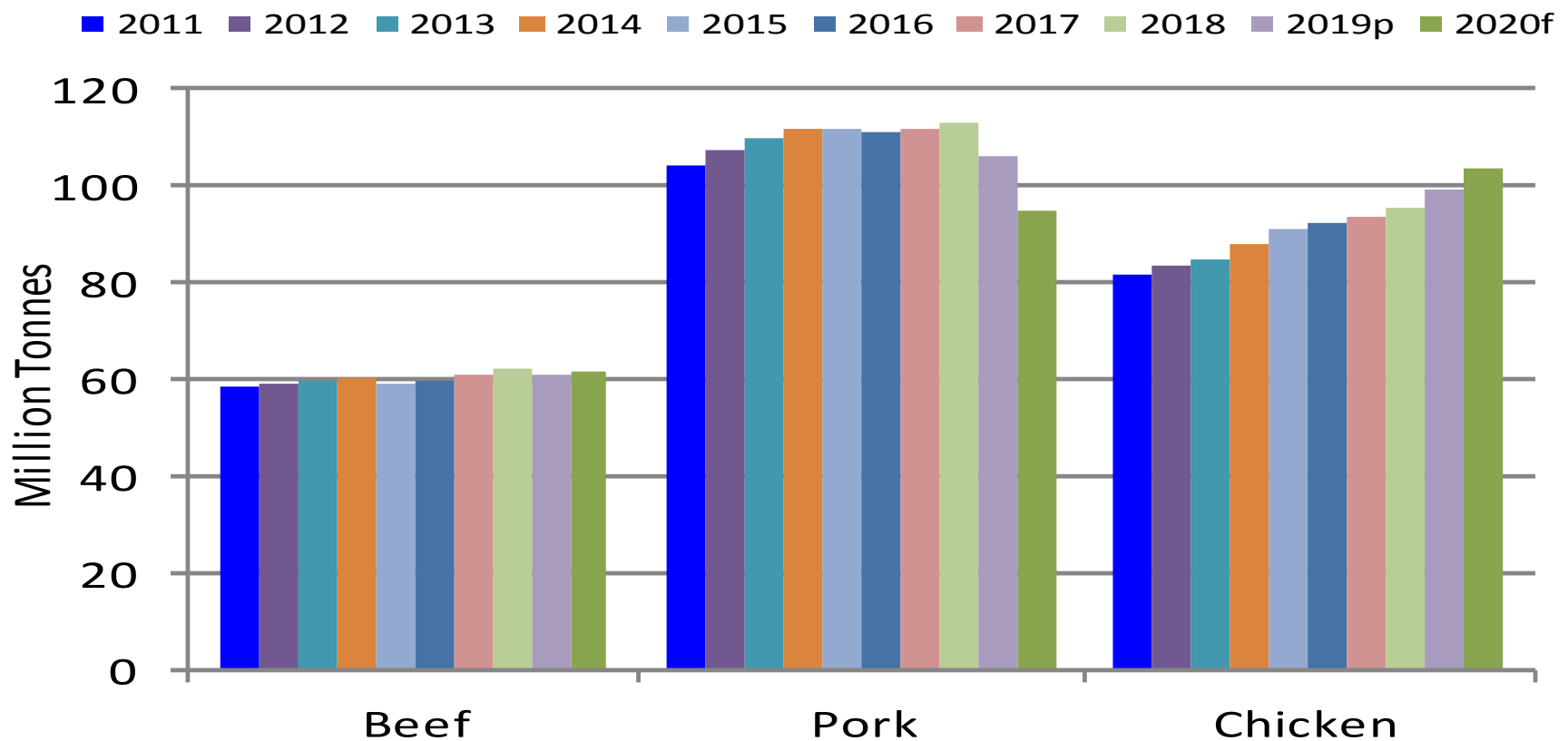
- Demand is Strong
 - Canadian per Capita beef consumption stable
 - Record Export Values
- Canadian beef production is increasing
 - 2019 production Up 5% YoY 25% from 2015
 - Faster growth rate than the US....competitive
- *Current market sentiment* –
 - Big picture generally bullish red meat markets, uncertain about cattle markets



African Swine Fever (ASF)

The Global Meat Shortfall

Global Meat Production

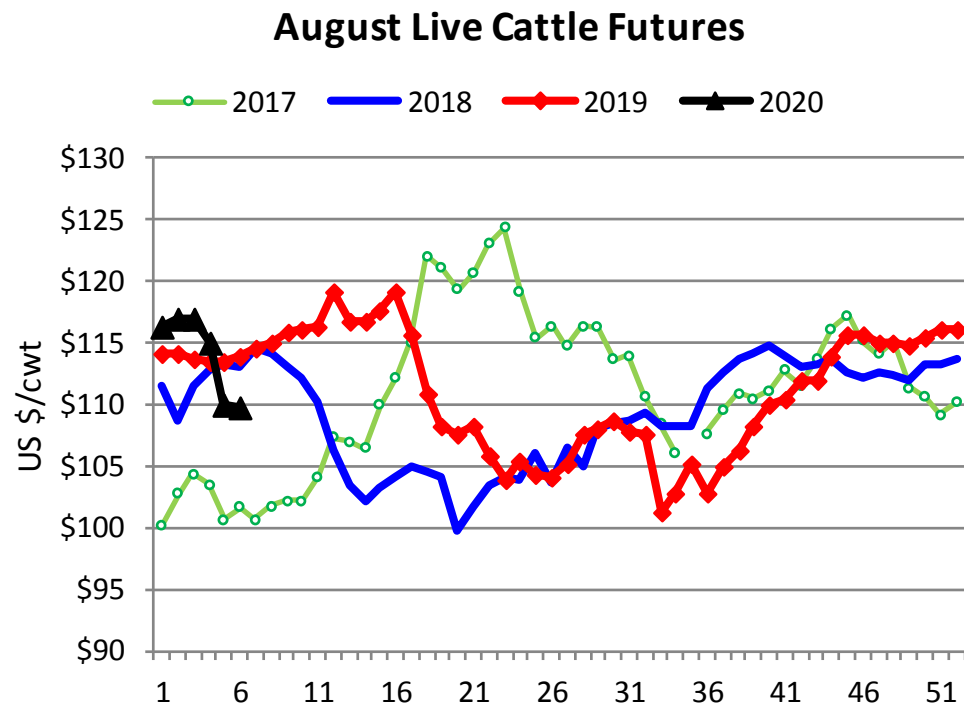


Source: USDA, FAS



Coronavirus more questions than answers

- 800 cases Jan 23rd
- ~ 2% mortality rate
- Limited cases outside of China
- Slow-down and bottlenecks at Chinese Ports?
- Global economic impacts?



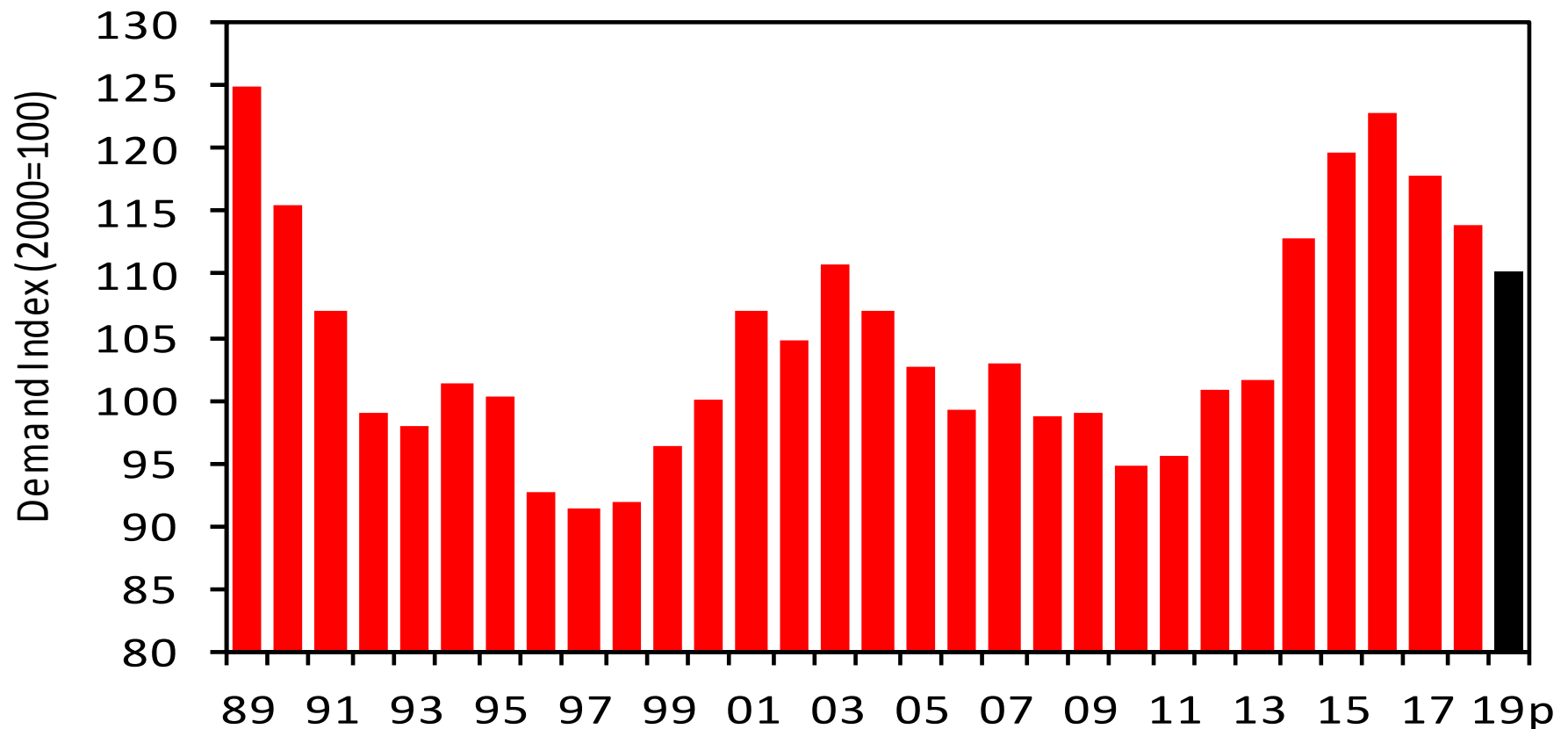
Source: CME, LMIC



Solid Beef Demand - Beef consumption up, slightly softer retail prices

Canadian Retail Beef Demand Index

Index 2000=100



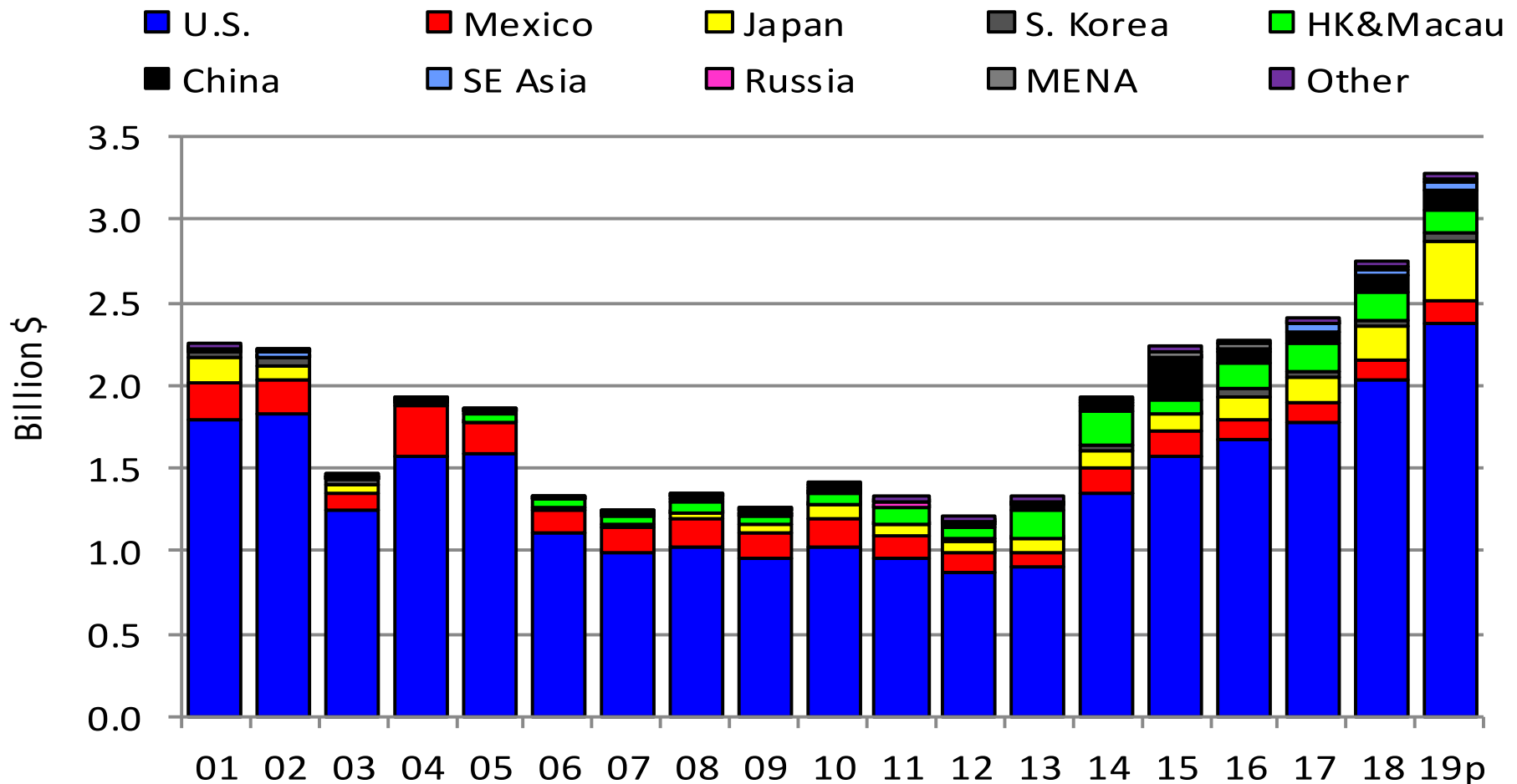
Source: Statistics Canada, CanFax, US Beef Demand Study Group



Strong Canadian Exports

Selling more product & at higher prices!

Canadian Beef Export Value

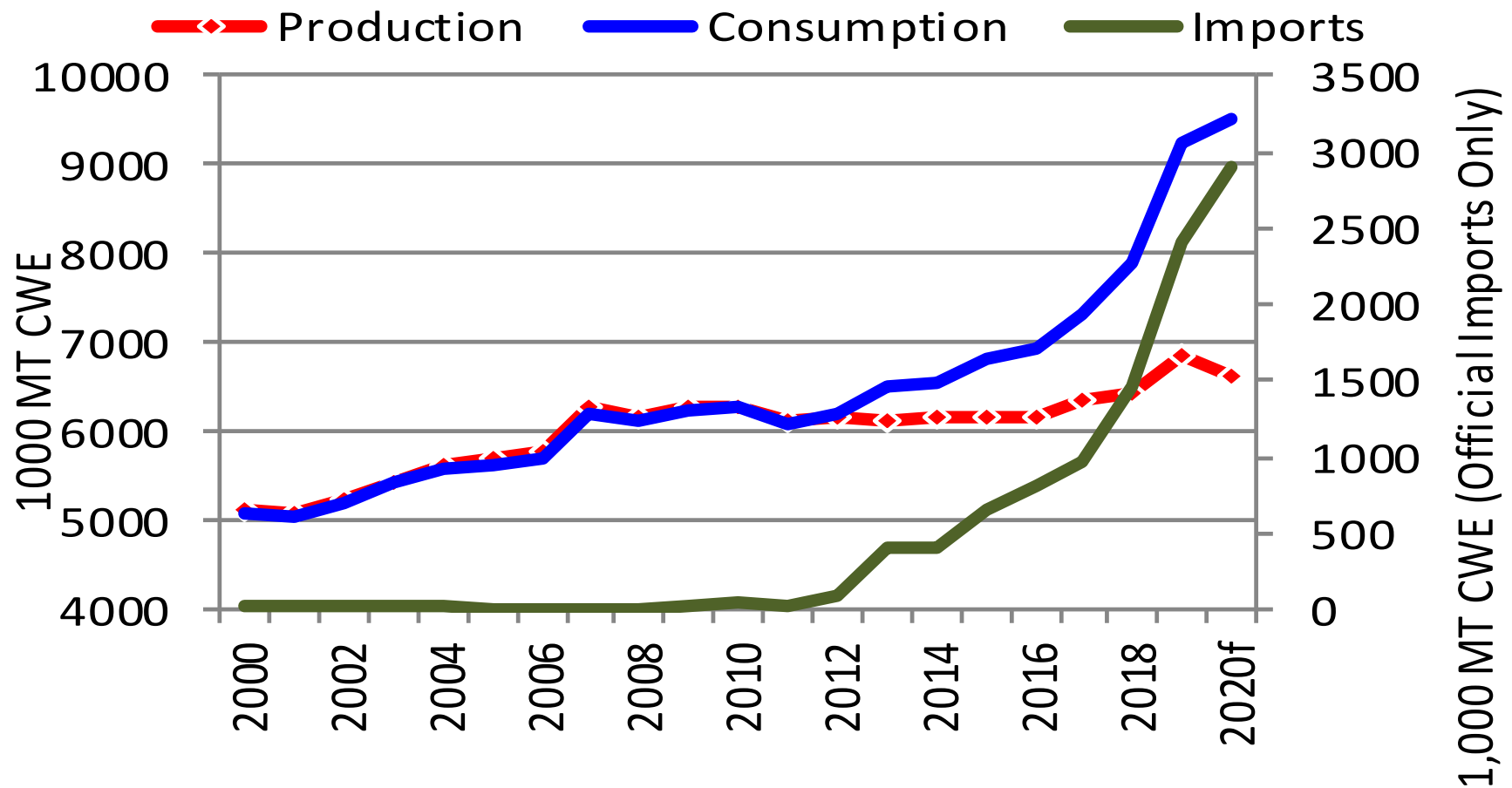


Source: Statistics Canada, CFIA



China Beef Import Growth

China Beef Disposition



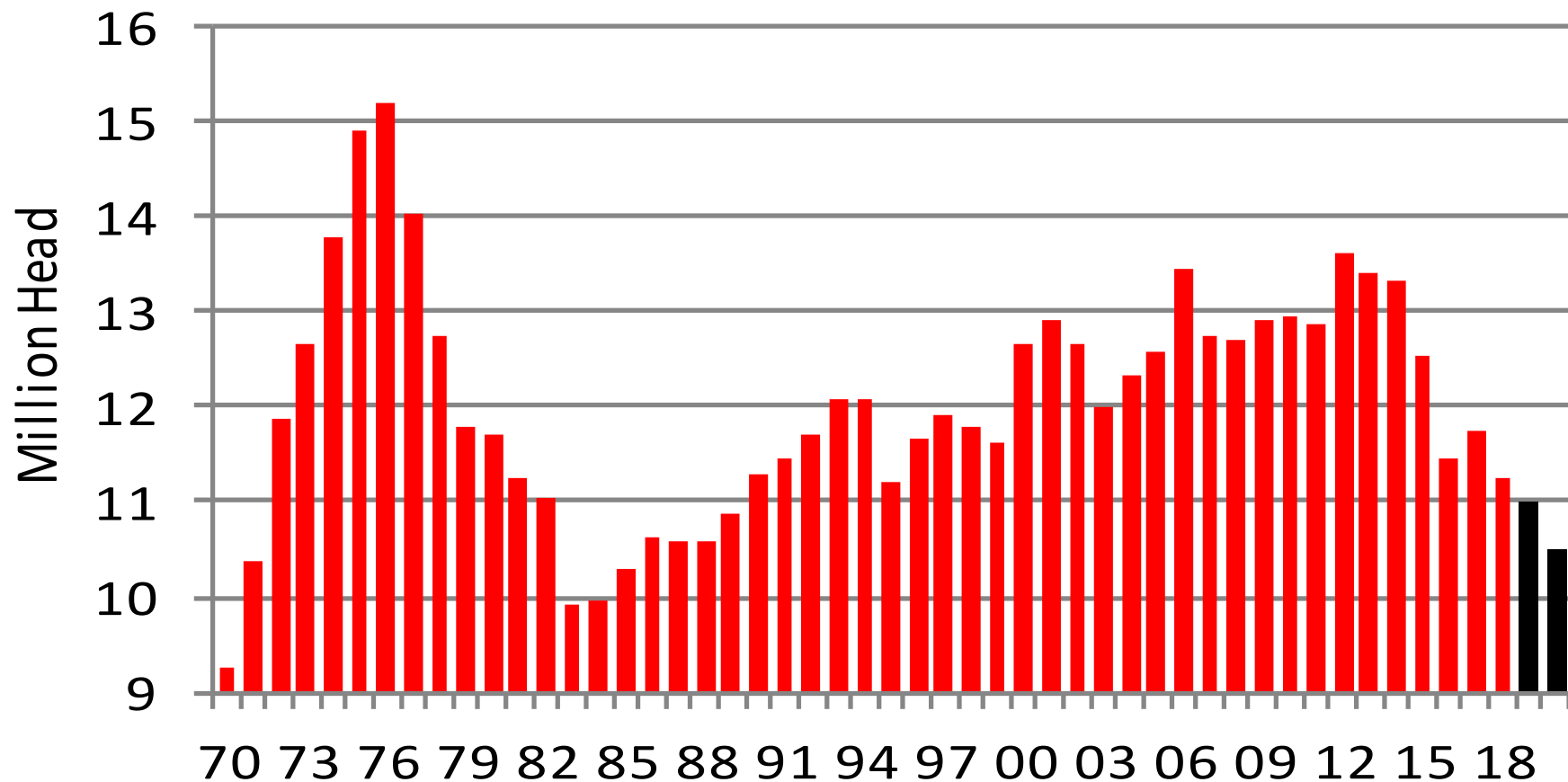
Source: USDA, FAS, PSD



Smallest Cow Herd since mid 1980's

Can not maintain export pace

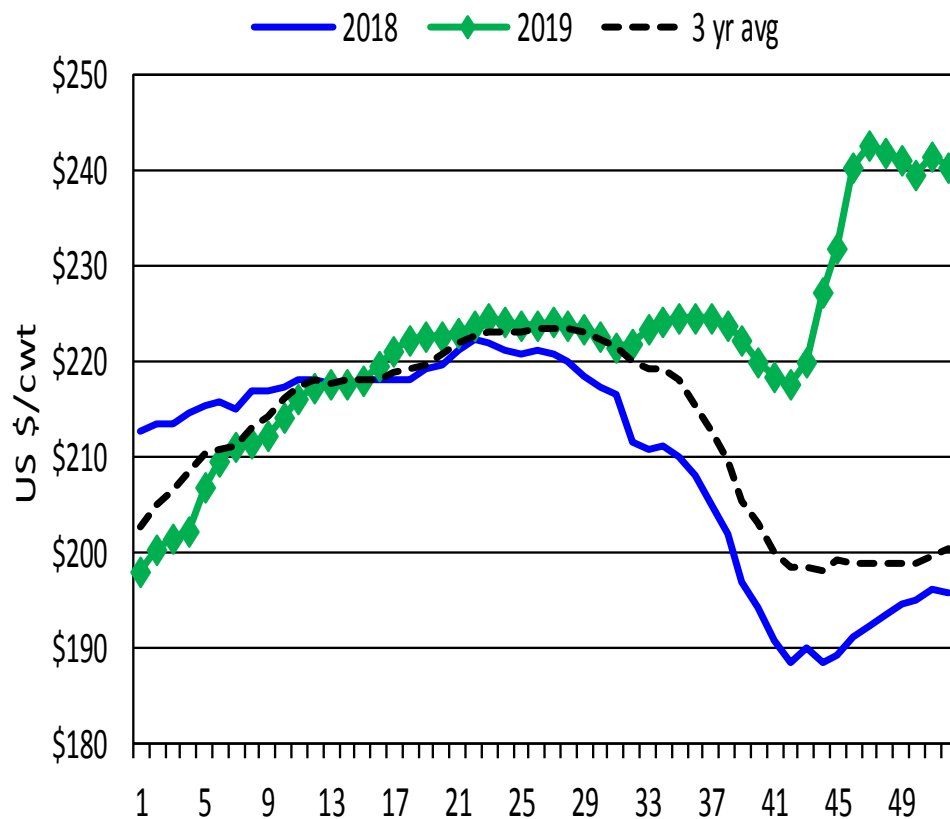
Australia Beef Cow Numbers





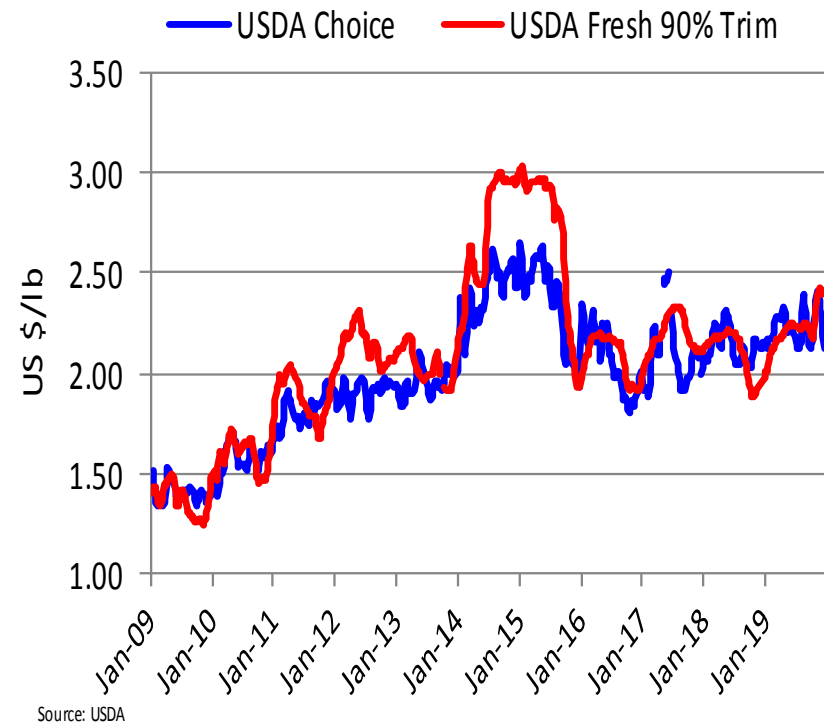
Global Market Supporting Trim Prices

US 90% Fresh Trimmings



Source: USDA

US Choice vs. 90% Trim



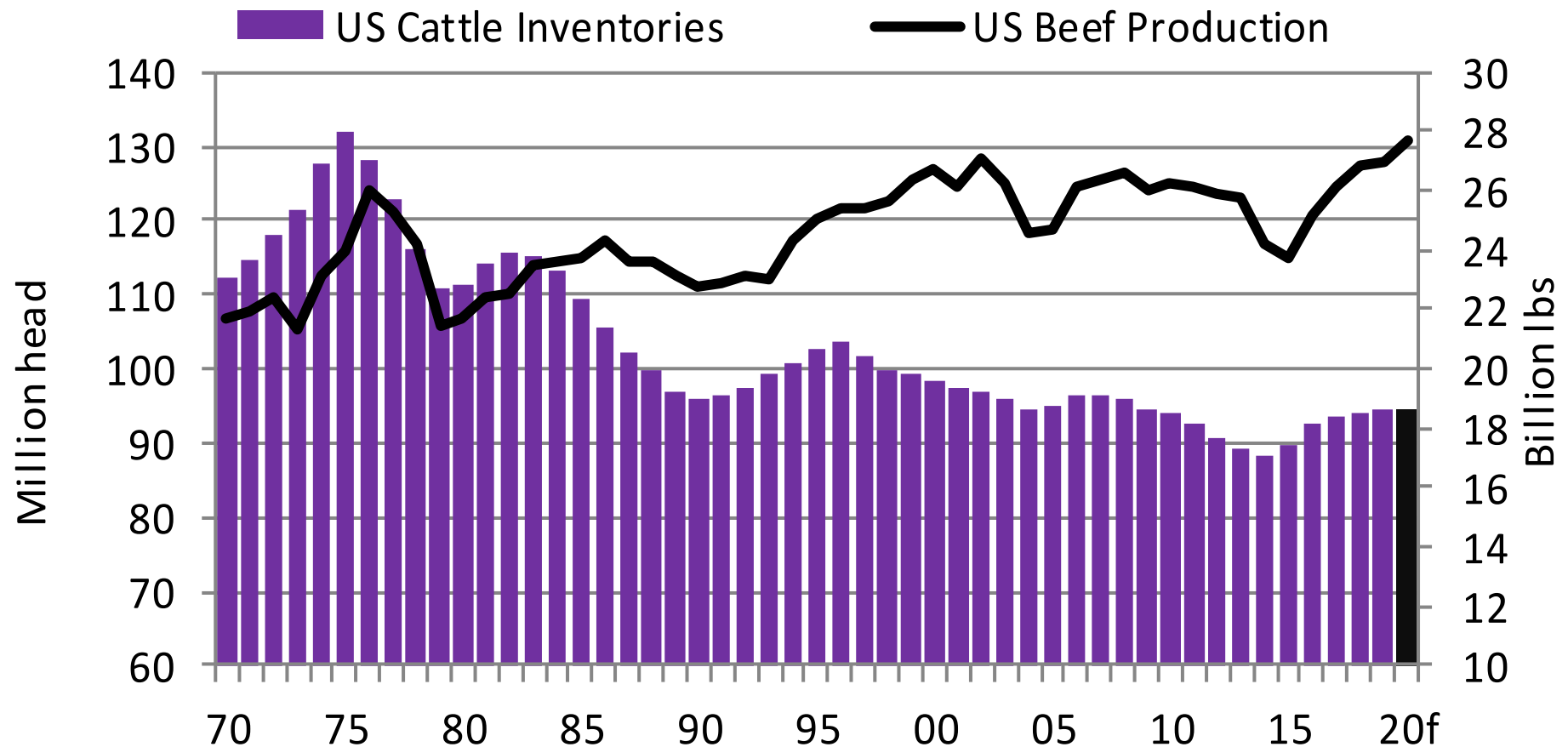
Source: USDA



US Production will continue to grow

Beef Cow Herd Peaked?

US Cattle Inventory vs. Beef Production



Source USDA, CattleFax



Beyond Meat

- Veggie Burgers really aren't new
- Global demand for Protein growing rapidly..
- Challenges are:
 - Negativity toward beef consumption, health and environmental impact



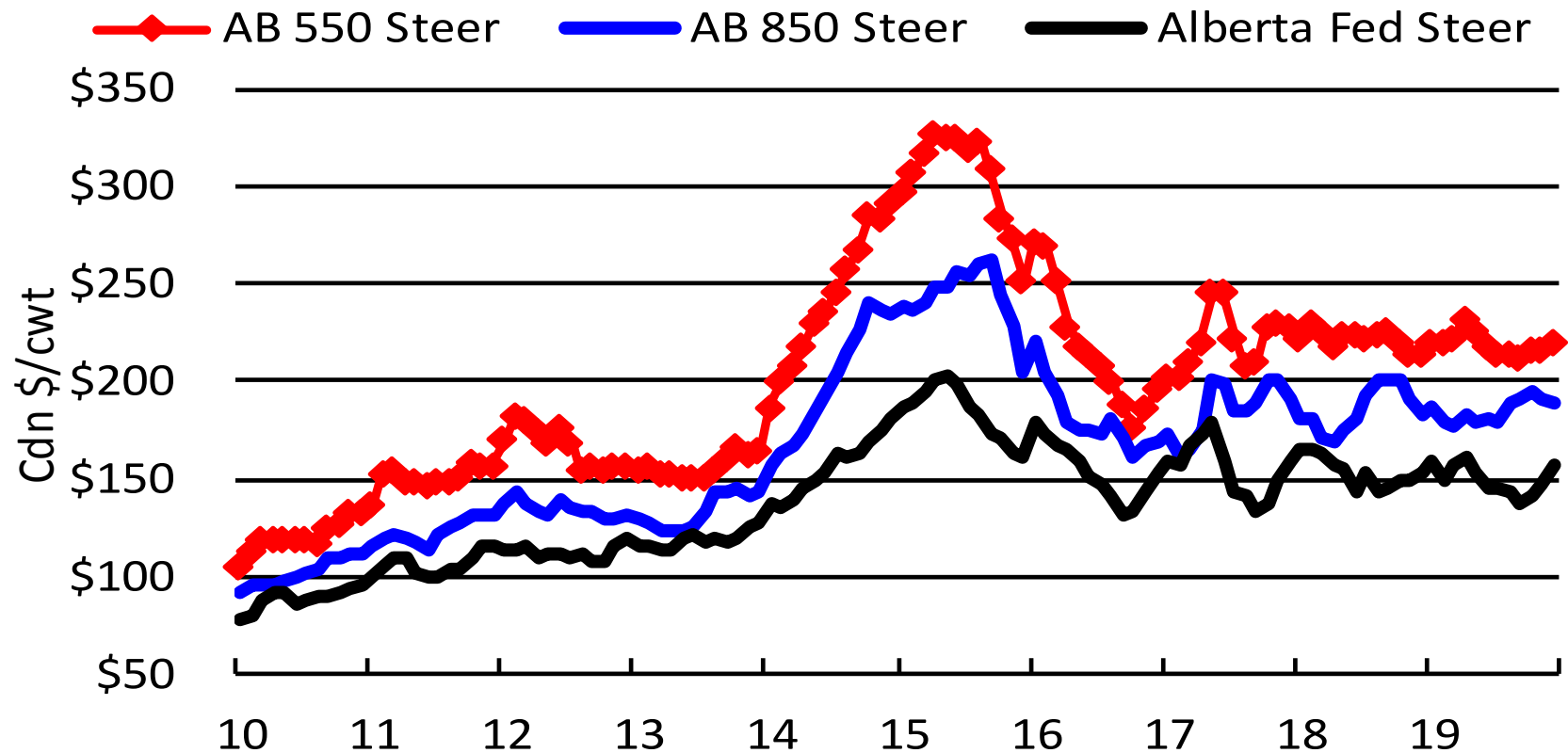


Canada



Prices holding despite larger supplies

Alberta Cattle Prices

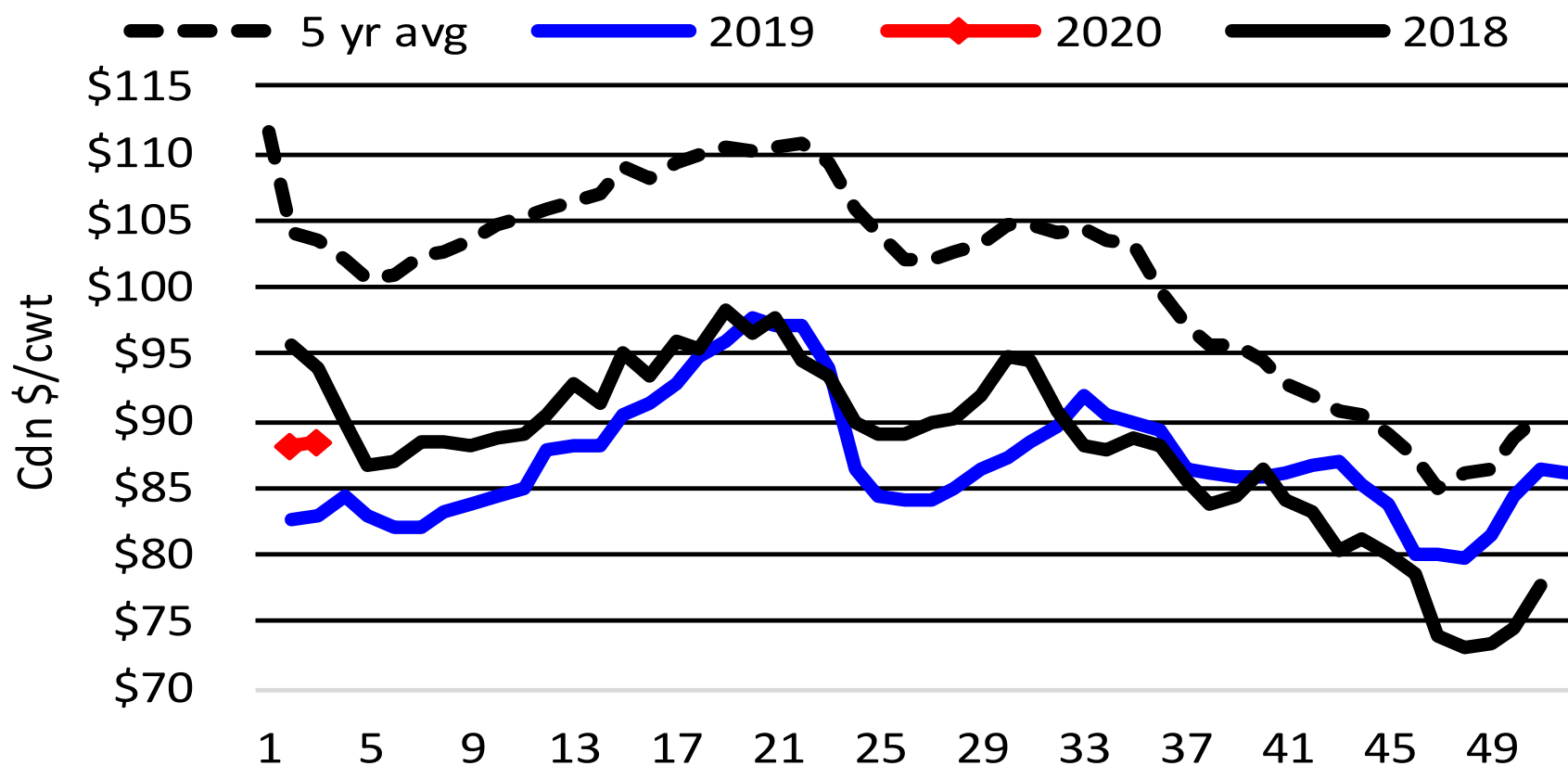


Source: Canfax



Cows Seasonal Strength for later spring

Alberta Weekly D2 Cow Price



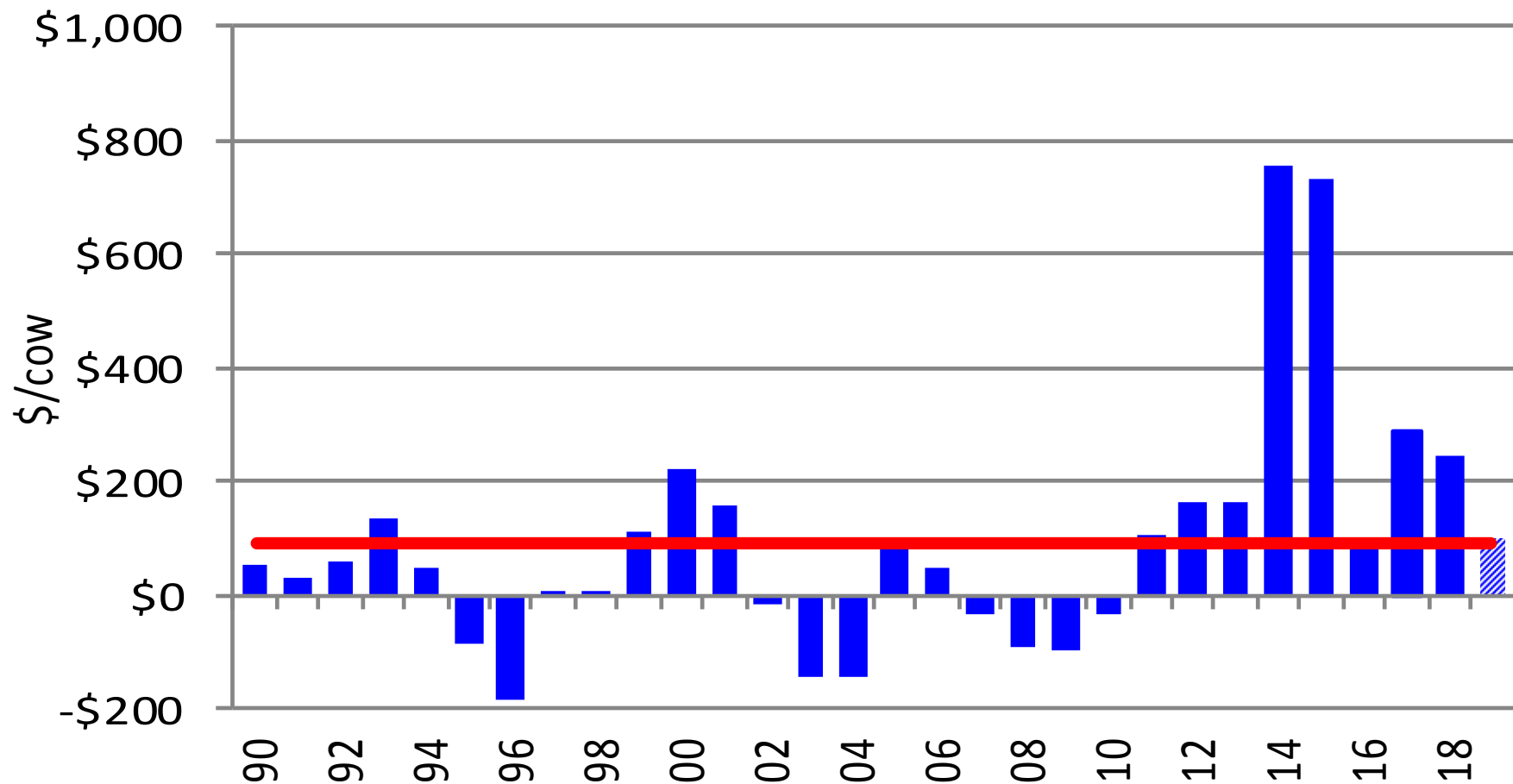
Source: Canfax



Cow-calf producers profitable

Profits Shrinking

Cow/Calf Returns

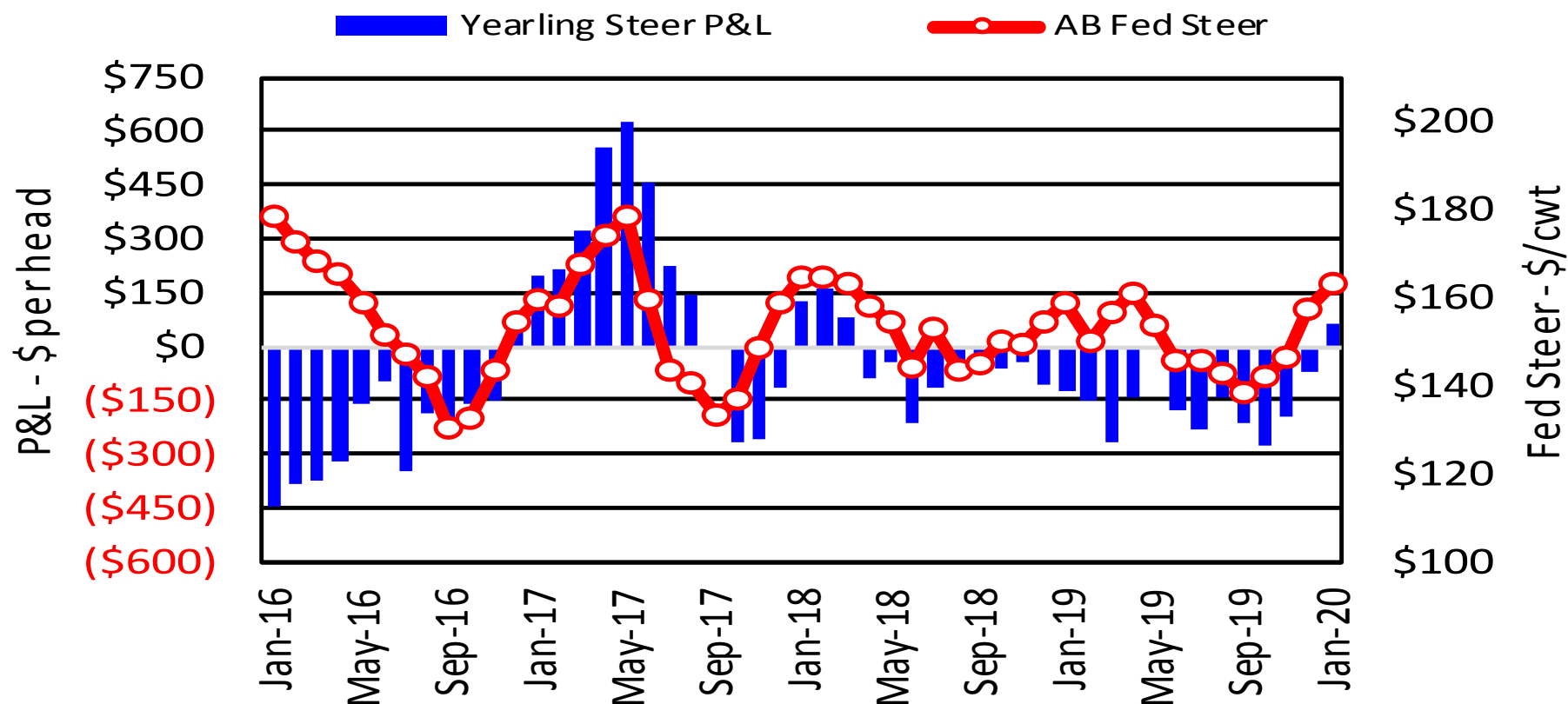


Source Canfax Research



Feedlots finally seeing some profits Or are they gone again?

Feedlot - Profit/Loss Margin YEARLING STEER

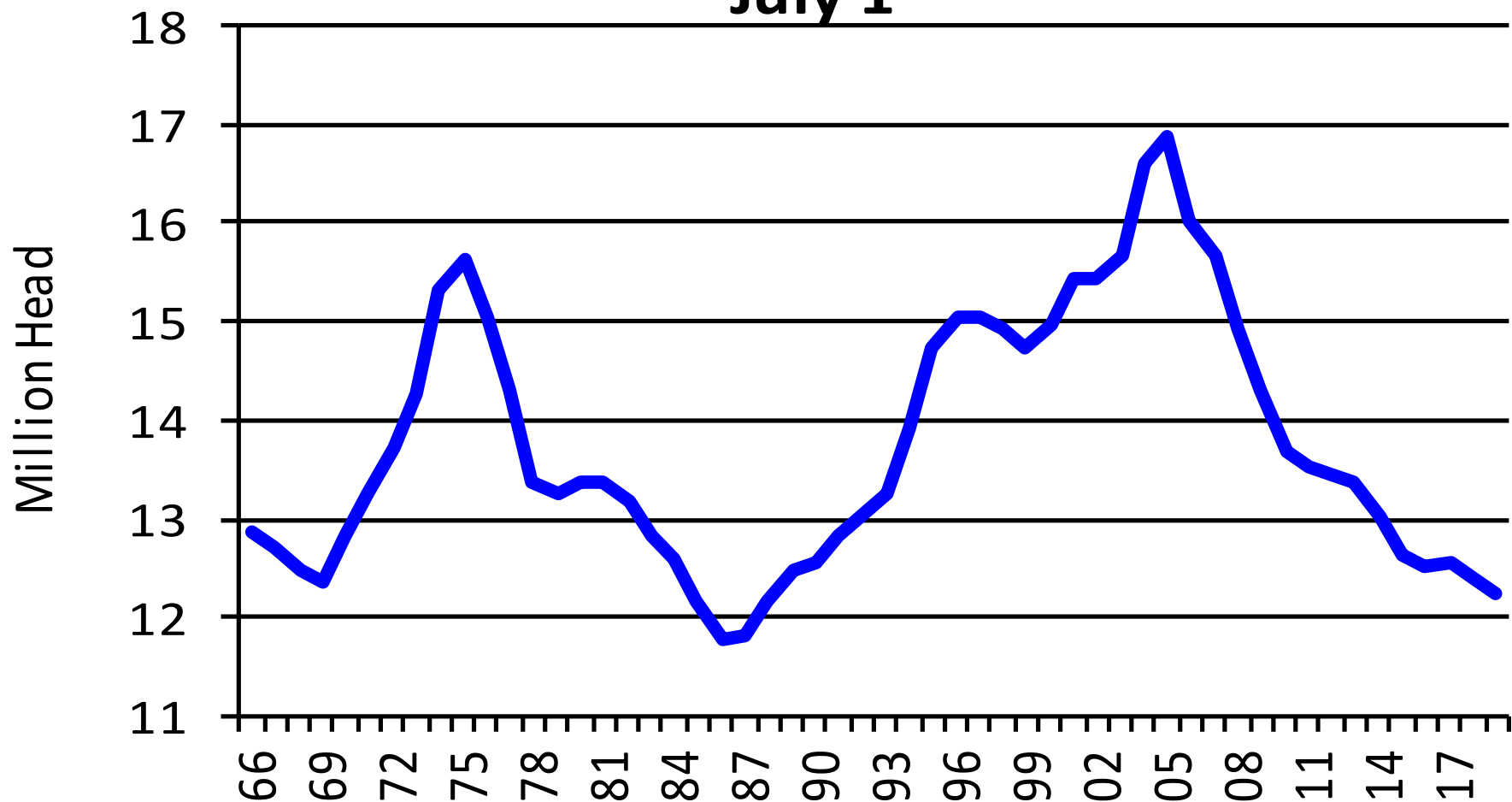


Source: Canfax Trends



Shrinking herd smallest since 1988

Canadian Total Cattle & Calves July 1

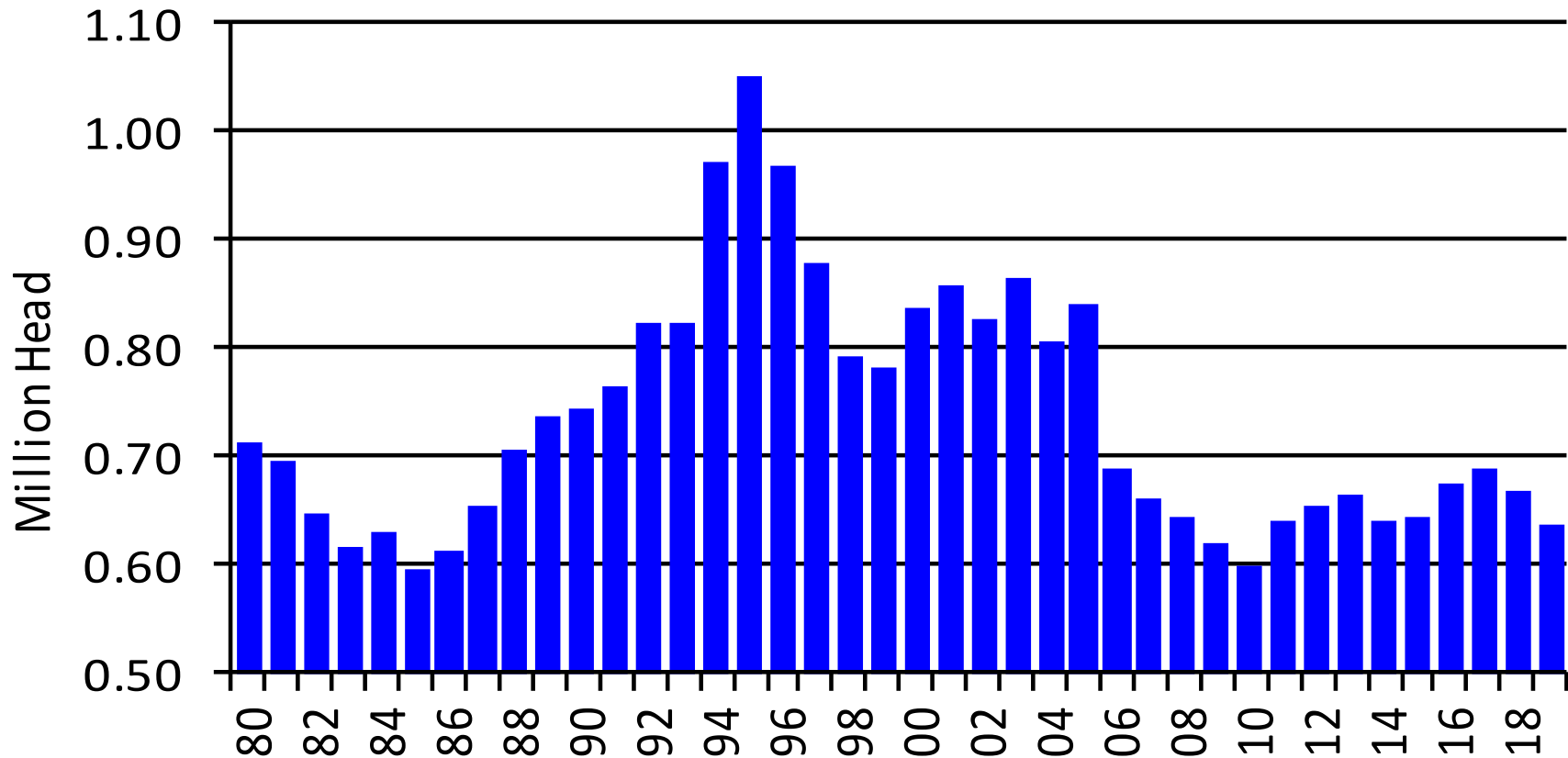


Source: Statistics Canada



Limited Appetite for Expansion Lower in West – Impact of dryness

Canadian Beef Heifers (Breeding) July 1



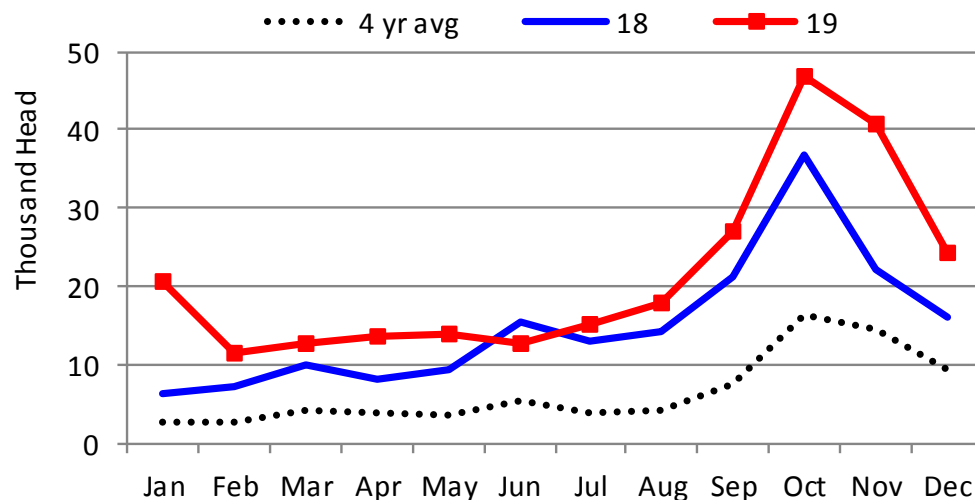
Source: Statistics Canada



Canada a net Importer of Feeder Cattle

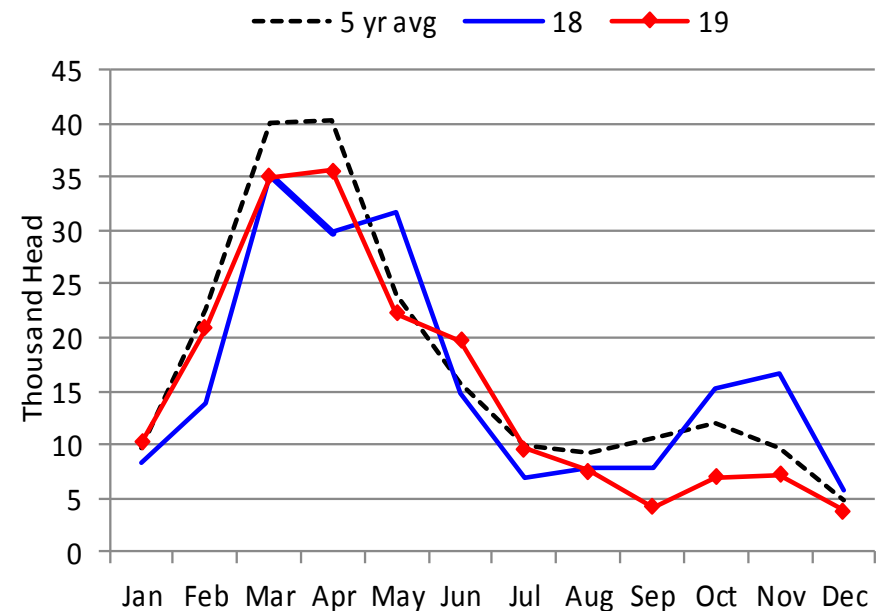
74,000 net feeder imports

Live Beef Cattle Imports (excluding Pure-Bred Breeding) from the United States



Source: Statistics Canada

Canadian Feeder Cattle Exports



Source: Statistics Canada

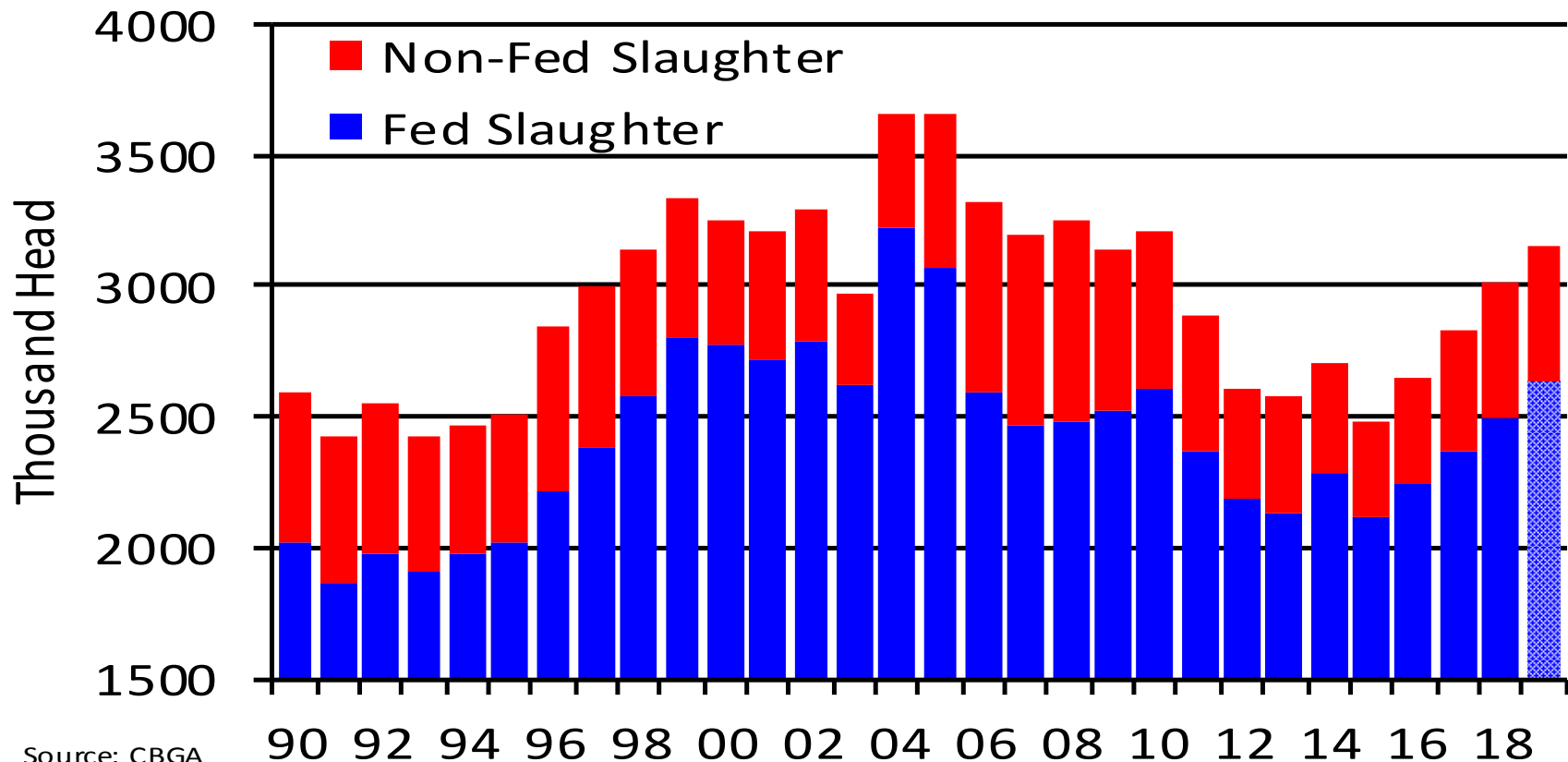


Cattle slaughter up 5% in 2019

5% in West, 1% in East

Canadian Slaughter

Federally Inspected Packing Plants





Market Drivers



Dollar always a major factor

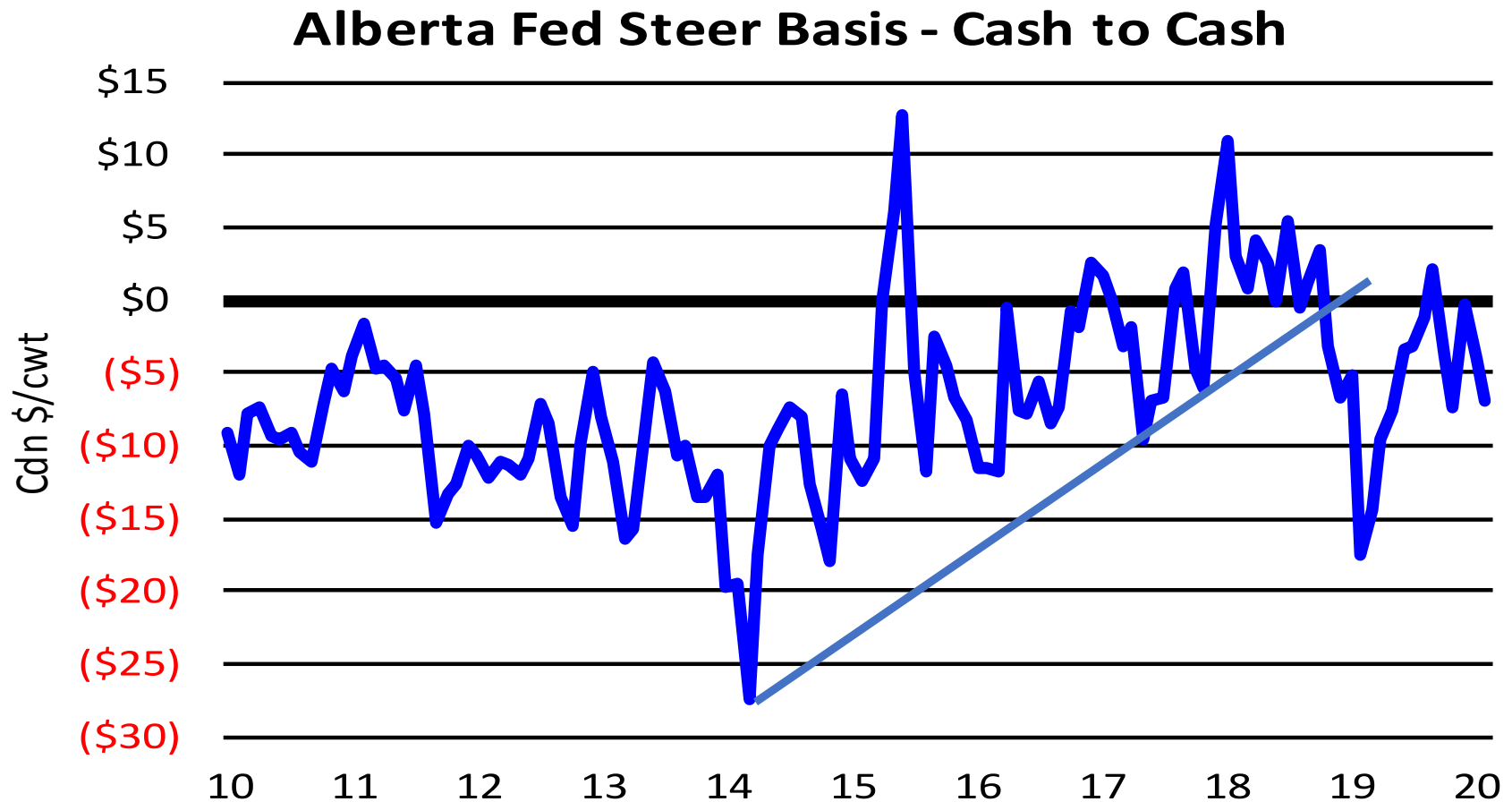
Monthly Canadian Dollar



Source: Bank of Canada



Basis Volatility

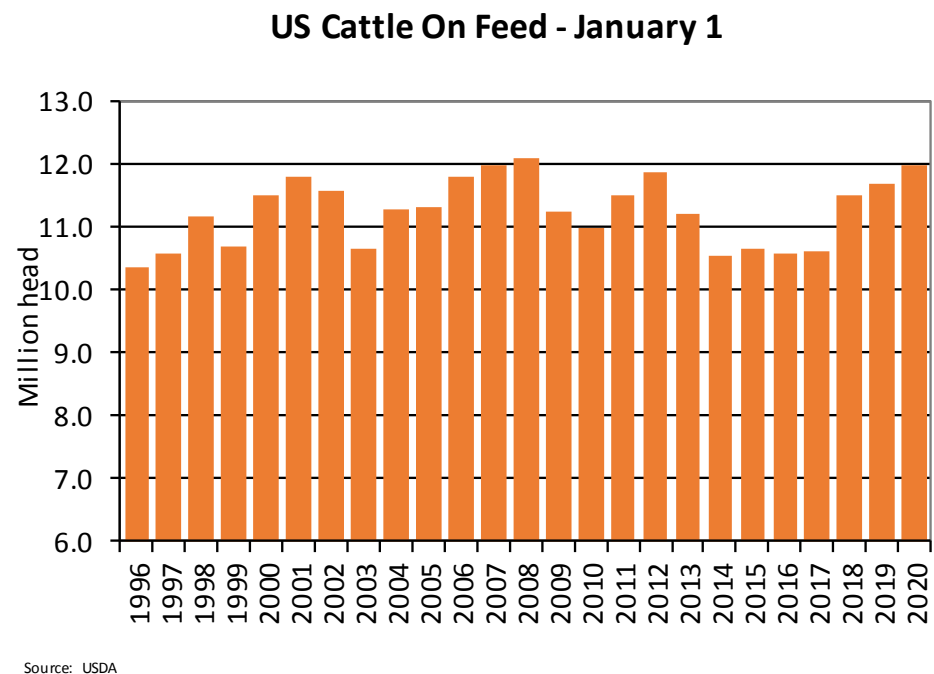
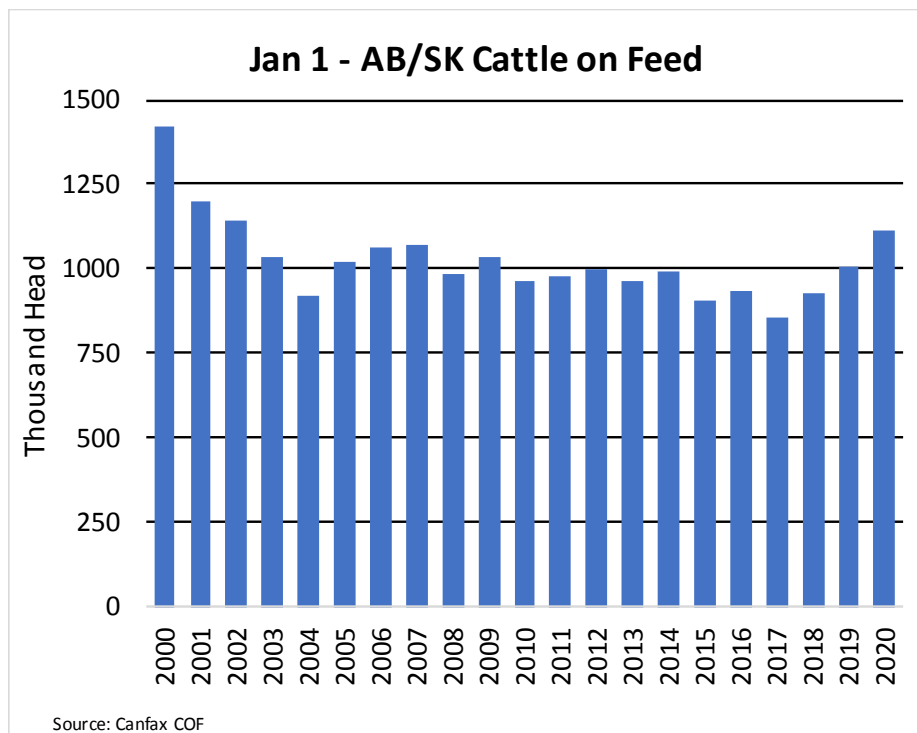


Source: Canfax



A lot of Cattle on Feed

Summer Price Risk

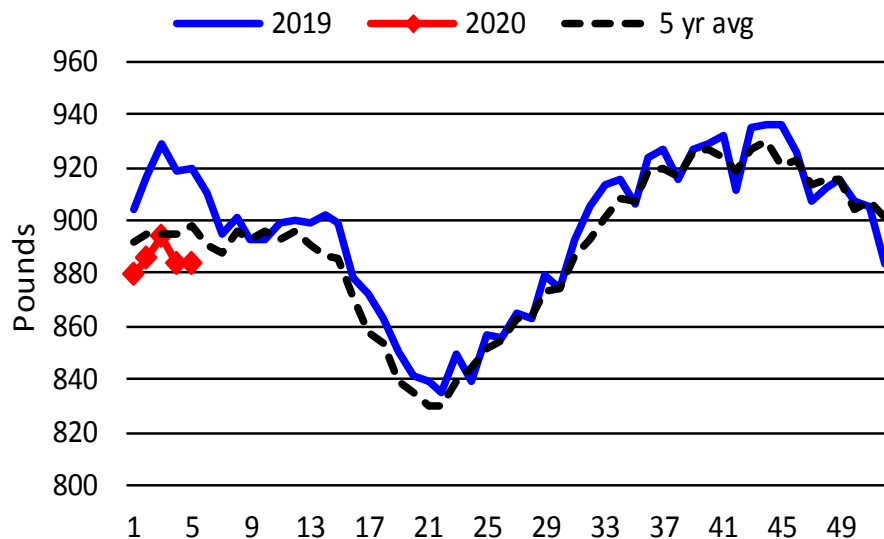




Steer Carcass Weights

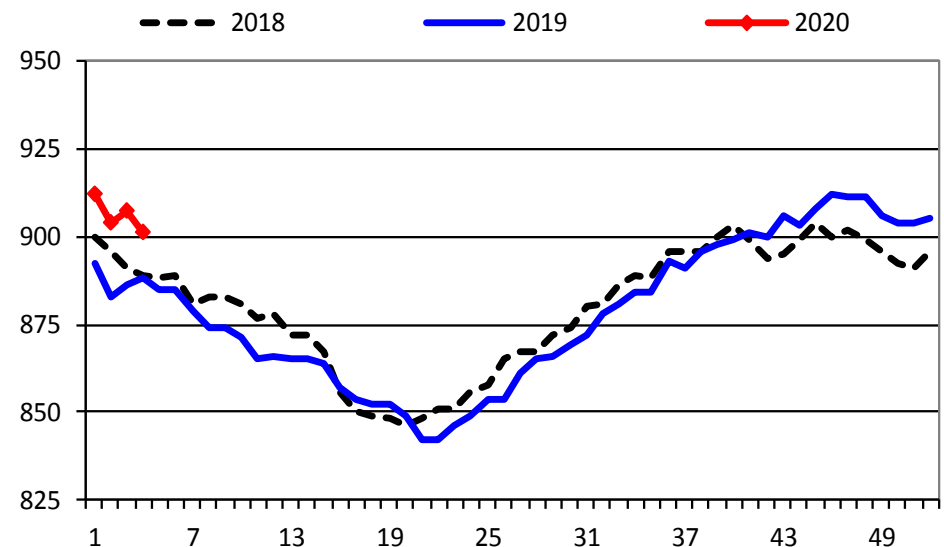
Two Different Stories

Western Canada Steer Carcass Weight



Source: CBGA

US Weekly Steer Carcass Weights



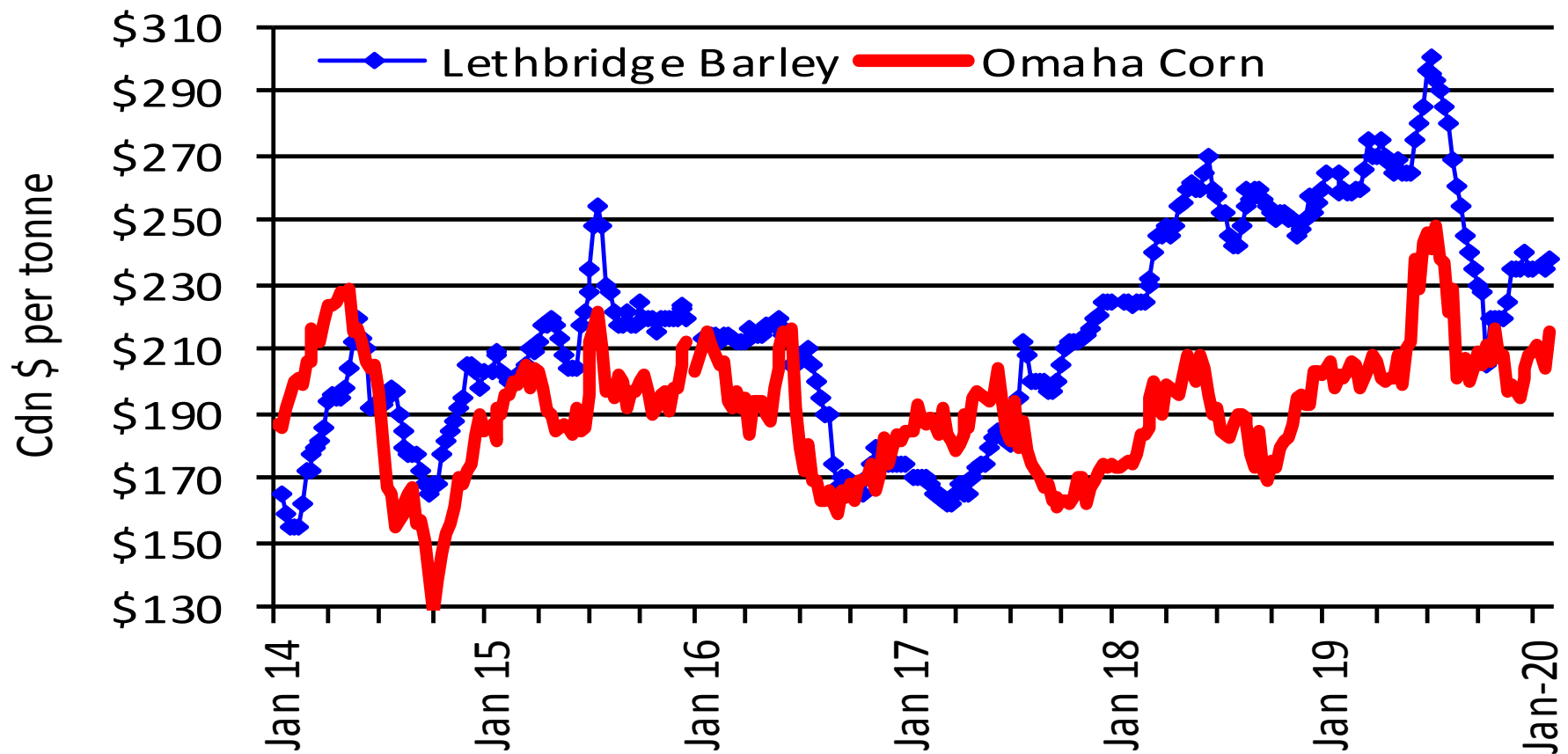
Source: CBGA



Feed Costs Picked Back Up Maybe Levelling off?

Feed Grain Prices

Lethbridge and Omaha in barley equivalents

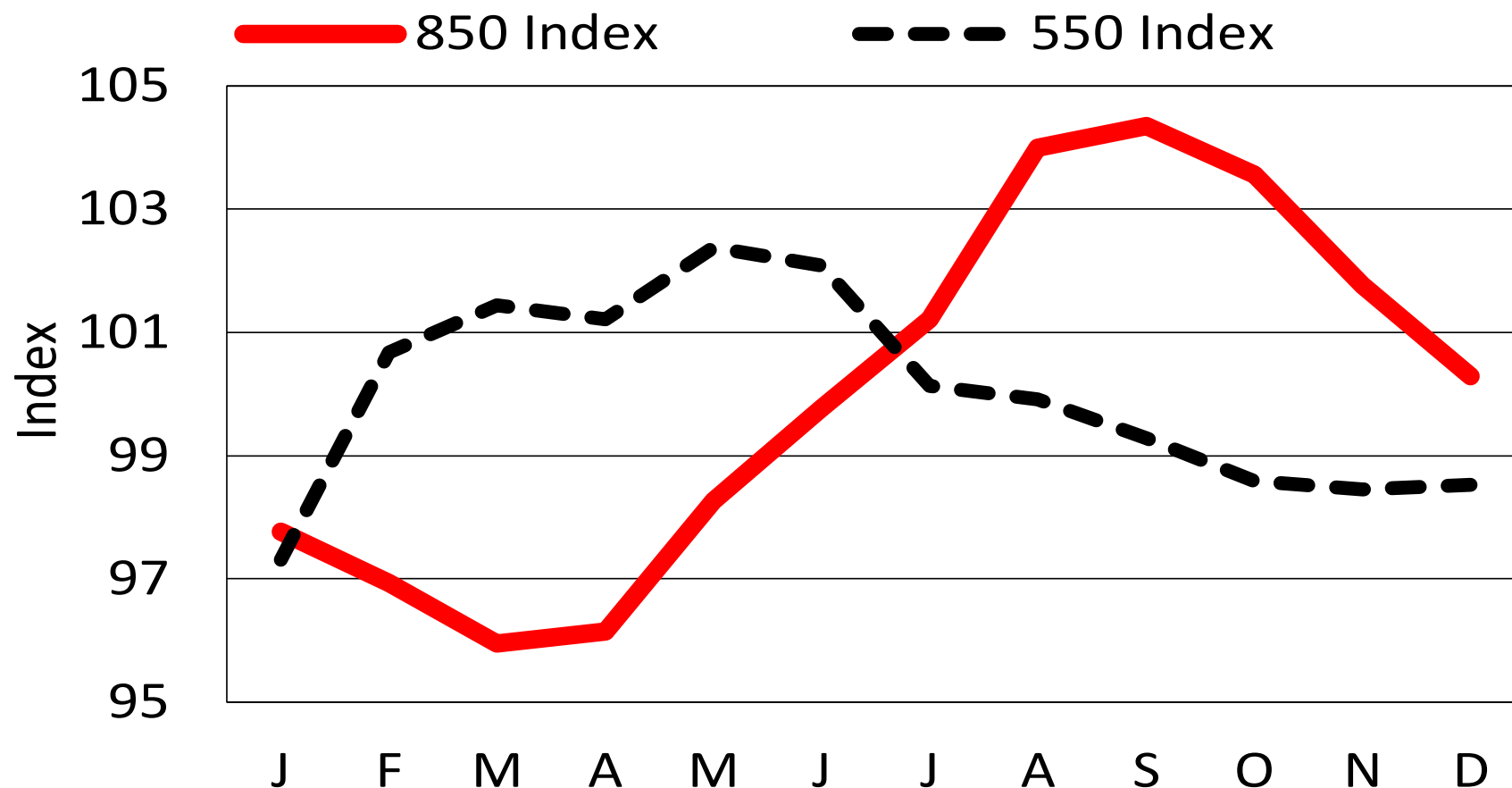


Source: Alberta Ag, OCA



Know your Seasonals...

Seasonal Price Indices

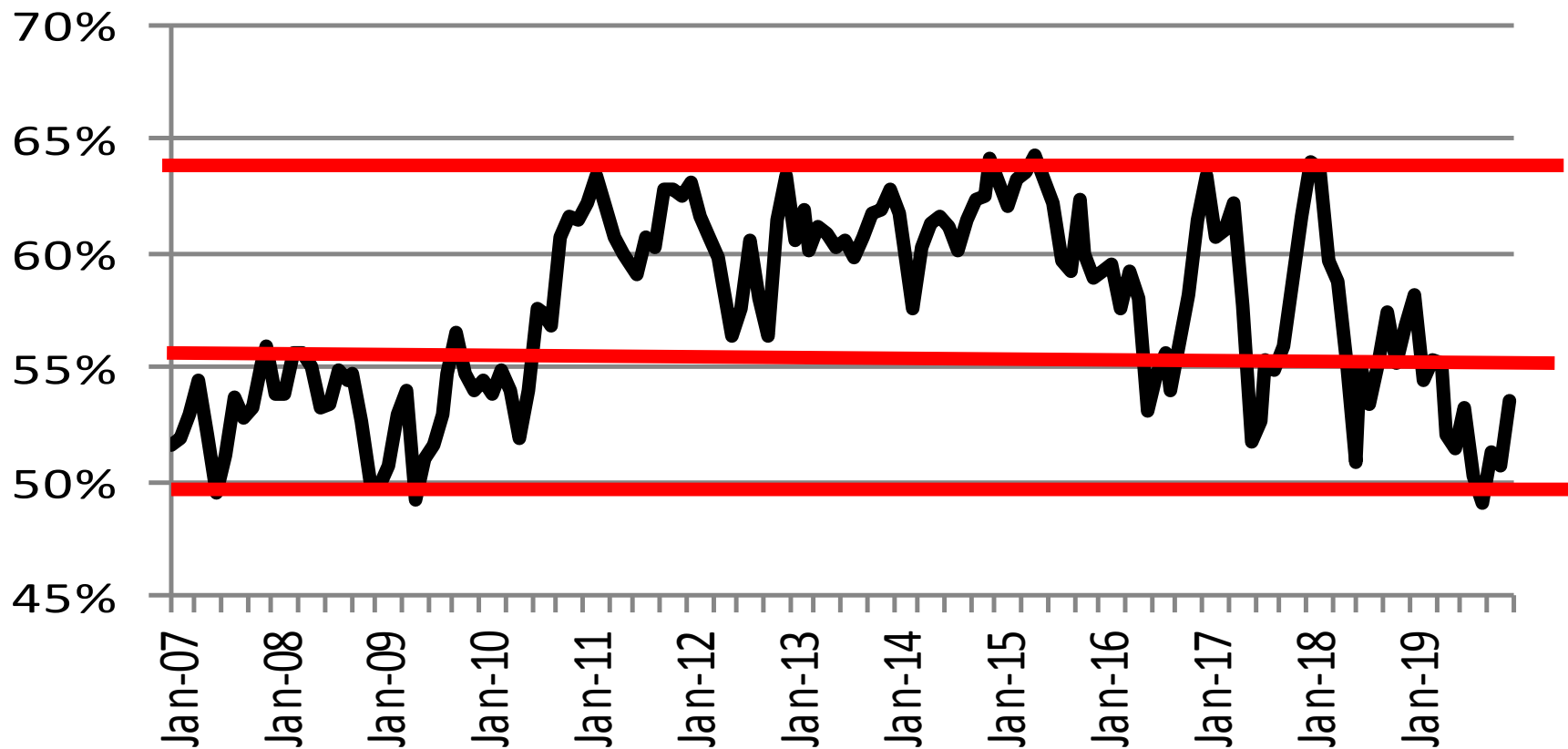


Source Canfax



Can Producers get a little more of the Pie?!

**Alberta Live Fed Steer Price as a % of
AAA Cutout Value**

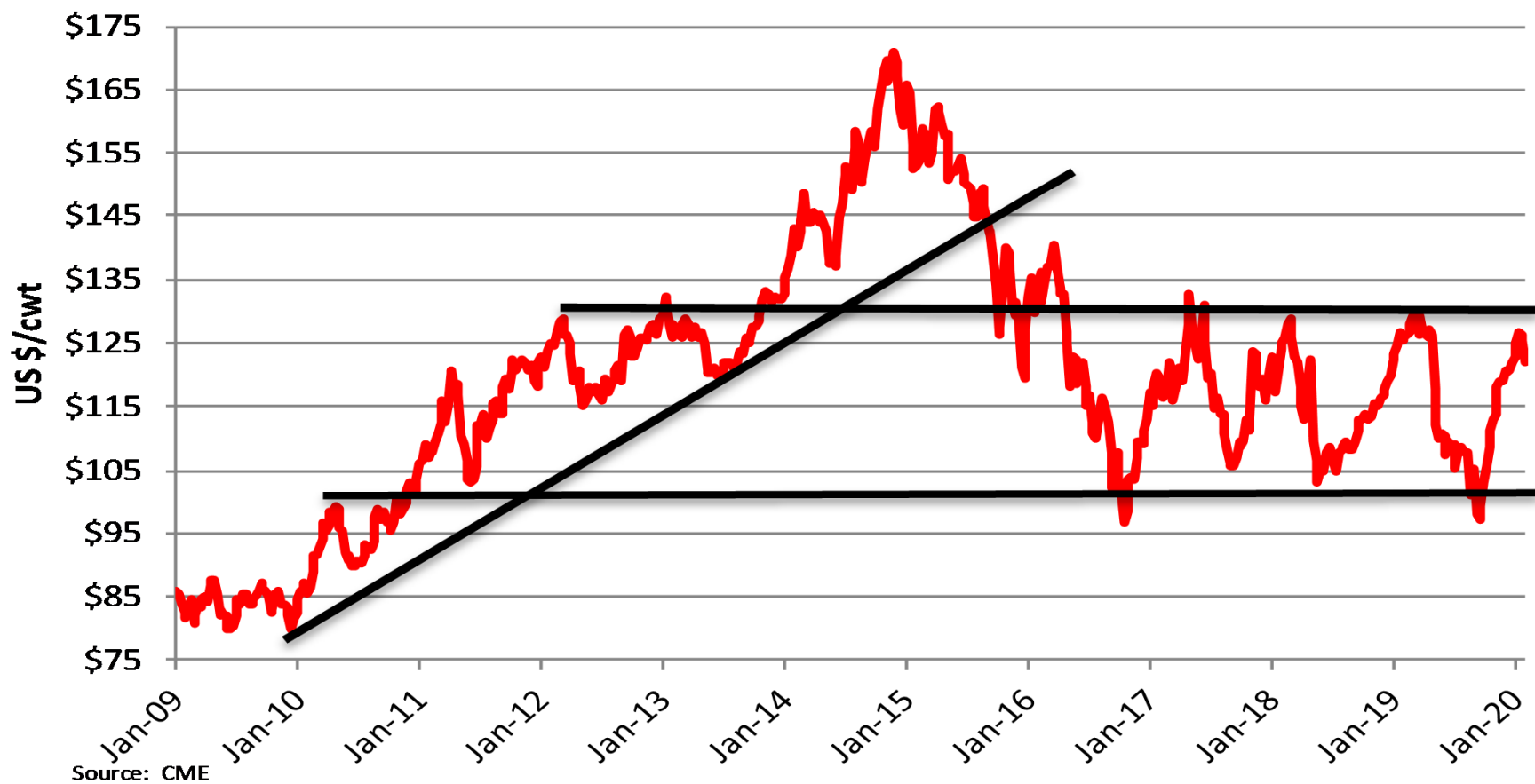


Source: CMC, Canfax



So Where to Now?

Nearby Live Cattle futures





Prices Scenarios for 850 lb Steer

Assumes – 3 basis, \$0.755 CDN Dollar, 1500 lb OW

		Cost of Gain						
		0.85	0.9	0.95	1	1.05	1.1	1.15
Live Cattle Futures	96	\$ 1.54	\$ 1.50	\$ 1.46	\$ 1.43	\$ 1.39	\$ 1.35	\$ 1.31
	100	\$ 1.63	\$ 1.60	\$ 1.56	\$ 1.52	\$ 1.48	\$ 1.44	\$ 1.41
	104	\$ 1.73	\$ 1.69	\$ 1.65	\$ 1.61	\$ 1.57	\$ 1.54	\$ 1.50
	108	\$ 1.82	\$ 1.78	\$ 1.74	\$ 1.71	\$ 1.67	\$ 1.63	\$ 1.59
	112	\$ 1.91	\$ 1.88	\$ 1.84	\$ 1.80	\$ 1.76	\$ 1.72	\$ 1.69
	116	\$ 2.01	\$ 1.97	\$ 1.93	\$ 1.89	\$ 1.86	\$ 1.82	\$ 1.78
	120	\$ 2.10	\$ 2.06	\$ 2.03	\$ 1.99	\$ 1.95	\$ 1.91	\$ 1.87
	124	\$ 2.20	\$ 2.16	\$ 2.12	\$ 2.08	\$ 2.04	\$ 2.00	\$ 1.97



Profit Drivers

Know your Sensitivities

Factor	Change	Profit Impact on Finished str \$/hd
Live Cattle Futures	\$1/cwt	+ \$20/hd
Canadian Dollar	1 cent	- \$30/hd
Basis	\$1/cwt	+ \$15/hd
Barley	\$0.50 per bushel	- \$47/hd
Out Weight	50 lbs	+ \$20 - \$30/hd
Conversion	5% change in feed use	- \$20/hd +
Death Loss	0.5 % (i.e. 1.5% vs. 2% DL)	- \$8 - \$12/hd



Run your Numbers Before Running Hooves...

- What's your market? Backgrounding or Finishing?
- What's YOUR break-even?
 - Need to know costs!
- What's the projected price?
 - What the seasonal expectations?
 - Futures strong or weak? Dollar, cattle, corn?
- What's the Projected Profit
 - Are you comfortable with your assumptions?
 - What is your sensitivity around the variables
- Does the swap make sense?
- What's the cost of risk management?



Factors to Watch

- Canadian Dollar (Positive)
- Basis Levels (negative?)
 - (Cattle Flows)
- Trade deals/trade wars (?)
- Feed costs (?)
- Leverage (added risk)
- African Swine Fever? (Positive?)
- Weather (?)



Cow-Calf Economics

Herd Not Expanding....

	Scenario 1	Scenario 2	Scenario 3
Production Cost/cow	\$ 900	\$ 1,000	\$ 1,100
1st calf weaning weight	550	525	525
Avg Weaning weight	625	575	550
calf price	\$ 1.95	\$ 2.00	\$ 2.00
Salvage value \$/cow	\$ 1,100.00	\$ 1,100	\$ 1,100
cull rate	10.0%	10.0%	10.0%
Death loss Cows	0.5%	0.5%	0.5%
Death loss calves	5.0%	5.0%	5.0%
Expected Rate of Return	5.0%	5.0%	5.0%
Bred Heifer Value	\$ 1,983	\$ 1,174	\$ 460
Calf price for \$2000 cow	\$ 1.96	\$ 2.30	\$ 2.58
Cost/yr for \$2000 cow	\$ 897	\$ 840	\$ 800

- Change calf price 10 cents cows change ~ \$300
- Change cost/yr \$100 cows change ~ \$500!



Market Factors to Watch

- China? - US Agreement Positive?
- How many dollars will transfer to producers?
- Global/US Economy – Demand
- Ryding Regency Still Closed in Ontario
 - Affecting fed and calf market
 - Less Calves going east, Fats coming west
- Ample feed to stabilize or grow Canadian herd?
 - Bred prices relatively lackluster so far..



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Price Projection

☐ Heifer ☒ Steer

Sale Date: 08/16/2018 Sale Weight: 550 Cost of Barley \$/Tonne: 255

Default Numbers

Results

Projected Price: 2.13

Save Price Projection

LC Futures price is as of 07/26/18 at 06:01
CDT and CDN \$ is as of 07/25/18 at 16:00

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Feature articles this week:

- **Market Review and Key Factors** - It was another year of relatively stable cattle prices through 2019 despite the uncertainty regarding weather, and volatility in feed grain costs and basis levels. While there were some market shocks through the year, price movements from high to low for fed and feeder cattle were well within the

Upcoming Release Dates

- 01.24 - Jan 1, USDA Cattle on Feed
- 01.17 - Jan 1, AB/SK Cattle on Feed

What's New?

- 01.09 - **New Amendment to the Canadian Beef, Bison and Veal Carcass Grade Requirements** effective Jan 15, 2020 in **English** or **French**
- 12.20 - **Dec 1, USDA Cattle on Feed**
- 12.13 - **Dec 1, AB/SK Cattle on Feed**
- **Employment Opportunity - CRS Research Analyst**



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