Canadian Cattle Market Report

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Make Informed Decisions

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Cattle Market Highlights							
5-Dec	Alta Steers Live	Ont Steers Rail	Texas Steers US$	Alta-Tex Spread C$	Alta 8-9 wt	US Slaughter	Cdn Slaughter
This week	137	232	111	-6	215	667,000	64,000
Last week	136	232	111	-9	215	564,000	62,643
Four week avg	135	230	110	-8	213	632,250	64,245
Last year	154	238	119	-3	187	682,077	57,770

Last Week in Review

Last week's action in the U.S. was unusual. Cattle feeders were mostly looking for $112 to start the week, about a dollar higher than the previous week. Early week packers bought what they could at $110, but that amounted to nothing in the south and dribs and drabs elsewhere. There appeared to be strength or upward momentum in the market as of mid-week. Mid-week sales ranged around $110-112 in the south and $172-174 in the north. At week's end, however, the market took back what it gave. Late week sales fell back to the low end of the range. A likely reason behind the late week softness was the turn of the futures on Thursday and the beginning of the day on Friday. Perhaps traders were watching the price of beef fall and were expecting cattle to react accordingly. Whatever the reason, that turned the lights out for the week.

The first action that most saw last week in Alberta was Cargill and JBS trying to be at $229. There was no clear evidence of U.S. interest. Both Cargill and JBS eventually went to $230, but trade volumes for the week were very light. No seller was happy with those levels.

With the modest break in the cutout last week, Alberta packer margins eased back but they remain at extraordinary levels. While the margins are much lower than the virus-driven levels of the spring, they are historic by any other benchmark. Last week's gross margins, not including operating costs were probably close to $700/head. That is down from the previous week, but almost three times the 2014-2018 average.

In Ontario, $232 has been the trade for two weeks, up from $228 in early November. Delivery of the cattle is from one to three weeks out. Cargill pulled their bid on Friday, likely given their ample supply. They are also very well bought on cows with inventory across southern Ontario. Once again JBS Souderton was not a factor in the market. They were getting close, but the stronger dollar pulled that option fast.

Canadian Market Developments

Weekly Canadian A Grade Mix Percent and Steer Wts				
	Prime	AAA	AA	Steer Carcass Wt.
4 week avg	5%	69%	25%	955
52 Wk Avg	4%	66%	29%	915
Last Year 4 week	5%	67%	27%	931
Canadian Slaughter				
	Steer	Heifer	Cow	Total
4 week avg	39,951	15,006	8,935	64,245
52 Wk Avg	33,075	16,774	7,957	58,062
Last Year 4 week	33,718	17,944	11,944	63,972

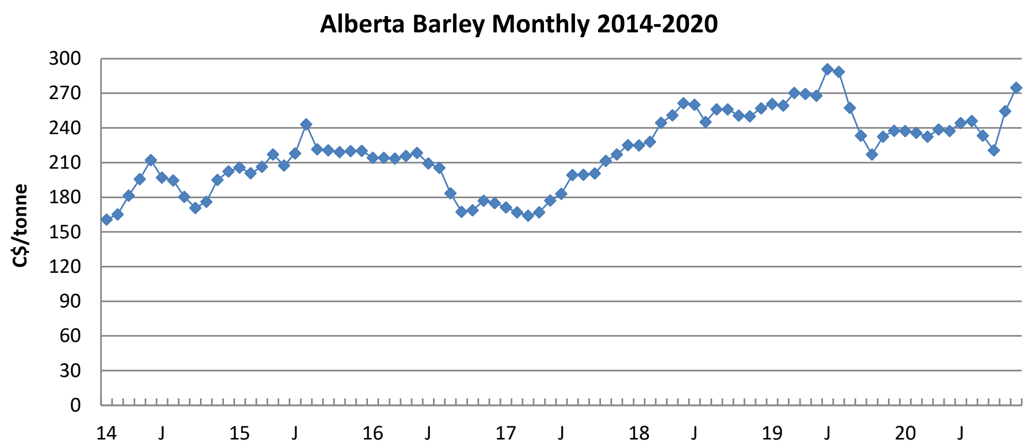
Latest week ending November 28, 2020. Source: Canfax

Tough Fundamentals for Cattle Feeders

The calf run is mostly over except a few remaining sales. For the most part, ranchers were likely pleasantly surprised at price levels. Clearly, things could have been much worse given the fundamentals in the background.

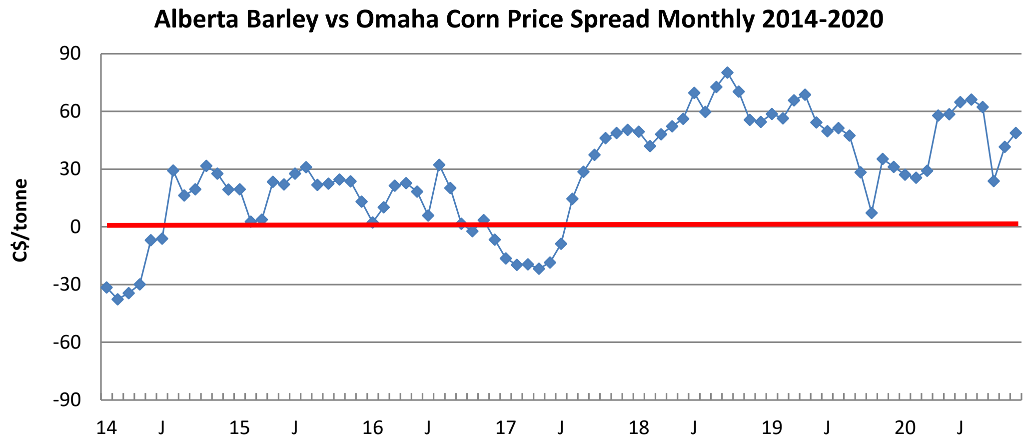
Feed Problems

Canfax's weekly barley quote was $275/tonne last week. The quote was steady since the end of October, but up 34% from the 2020 low in early September. The increase from that low has been stark, but the $275 level still falls short of the monthly average of just short of $300 in mid-2019.



The USDA's November World Agricultural Supply and Demand Estimates said that the corn outlook is for lower production, reduced feed and residual use, larger exports, and smaller ending stocks. Corn exports, if realized, would be record high. With supply falling and use increasing, corn ending stocks, again if realized, would be the lowest since 2013/14. USDA has increased its forecasted price for the 2020/21crop year to $4.00/bushel compared to $3.56 for the 2019/20 crop year.

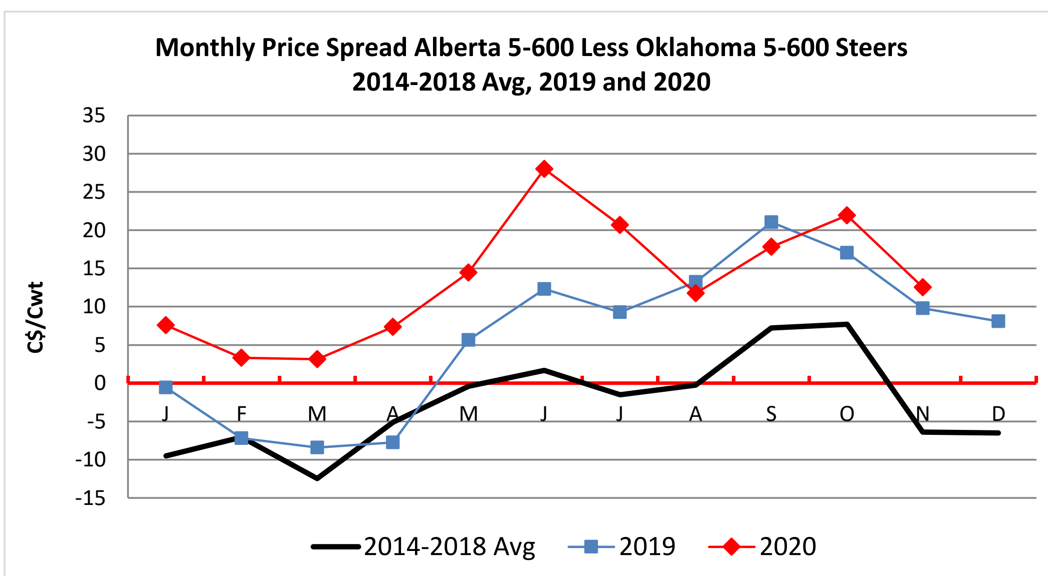
Just as important as the absolute price, is the relative price of barley compared to U.S. corn. That is the critical measure of a region's feeding competitiveness. That price spread compared to U.S. corn has put the Alberta feeding sector at a disadvantage for most of the past three years.



As such, the western livestock sector is faced with two big challenges: higher feed costs and a continued competitive disadvantage.

Feeder Spreads were Unusually Good

Despite the cost disadvantage relative to historic norms, the feeder basis on the prairies has been very strong. Both the 5-6 and 8-9 weights in Alberta have been running far higher than normal versus their Oklahoma counterparts.



Fed Cattle Spread

As noted here often, the postiive feeder basis is built upon the unusual occurance of the strong fed cattle basis or spreads of 2015-2019. In the ten years prior to 2015 the spread of Alberta against Texas was C$-11/cwt. In 2015-2019 the spread was C$-3/cwt. The strong basis has been explored and puzzled over, unsuccessfully, in this report for five years. I could never understand the rationale behind it. The reasons for a negative fed basis in the west are the same now as they were 20 years ago. Those reasons are the following:

1. Alberta produces more fed cattle than it slaughters.
2. The U.S. floor price is determined by the cost of freight and logistics to the alternative market.
3. Canada is a surplus beef producer.
4. Canadian beef is still a lower priced option than U.S. product.
5. Alberta packer operating costs are higher than in the U.S.

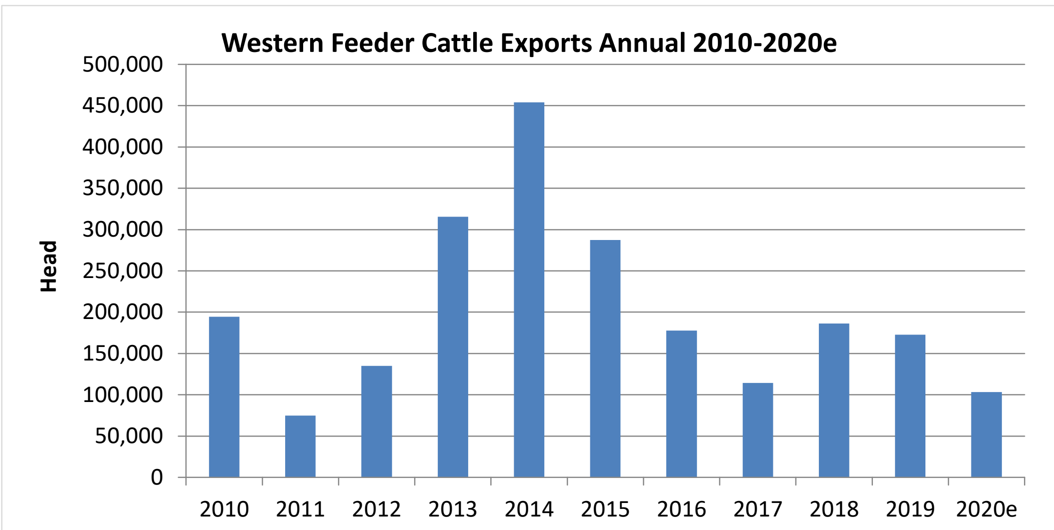
Alberta cattle feeders can be pleased about the fact that the big two packers in the province chose to be tougher on each other than they were on their suppliers. In addition, good packer margins in recent years meant less focus on cattle costs.

The 2020 basis of about C$-7/cwt is perhaps worth ignoring given the impact of the virus on production. Nevertheless, in price planning, it is probably best to consider the 2015-2019 as bonus years rather than the normal for the future.

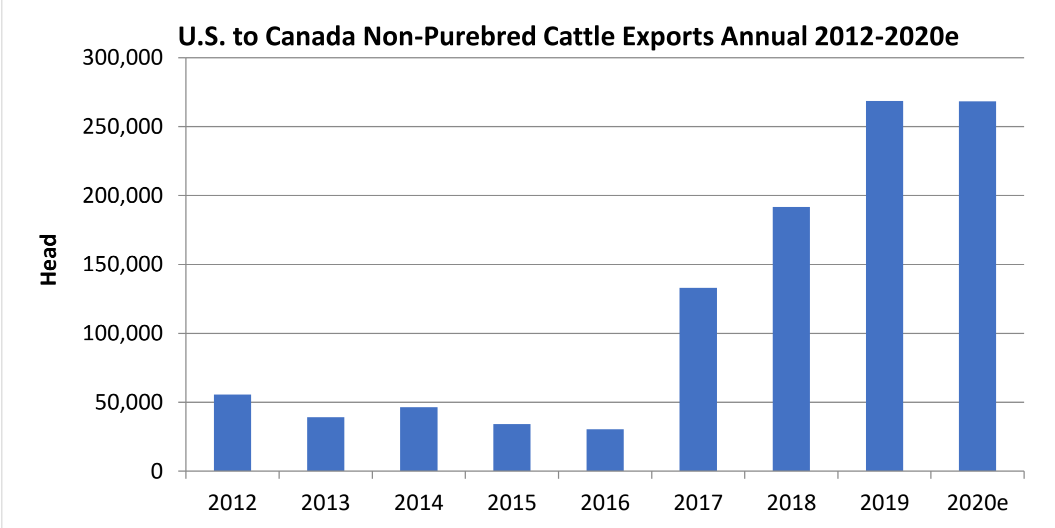
Demand Keeps Cattle North

Again, the reason for a strong feeder basis is strong feedlot demand. That demand was generated by the strong fed cattle basis. In addition to that, there has been notable feedlot expansion in the west in recent years. I expect that when Canfax publishes its feedlot capacity data early next year, that the total for Alberta will go from 1.59 million head in January 2020 to at least 1.65 million, an increase of about 50-70,000 head.

That strong feeder basis or feedlot demand is keeping feeder cattle north, as could be expected. Based on data through October, this year will be the lowest western feeder export total since 2010.



Even more interesting is that the west is a net importer of feeder cattle, despite the feed problem. Based on the data available, which is not great, it appears that the U.S., has increased its shipments of feeder cattle to Canada by a factor of 9 since 2016. The data do not breakout any further but the assertion here is that they are in large measure Holsteins going to western feedlots.



Weaker USD?

Another issue of concern for 2021 is the value of the C$. Global investors are under no illusions about the merits of Canada, or lack thereof. As such, the issue is not so much a stronger C$. Instead, the issue may become a weaker USD. In addition, it is likely that resources will catch more global investment which could be positive for the C$.

The Canadian dollar has traded in a pretty tight trading range for the last five years. Cattle feeders should at least plan for it to trade in the upper end of that trading channel. There also has to be an acknowledgement of the risk that it breaks out to the upside and finds a new trading range.

Counterintuitive

The big question for cattle feeders is the level of discipline used in the Canadian feeder market. This is especially the case given the effect on the live cattle basis in Canada with greater numbers of imports and a significant reduction in feeder exports. This counter-intuitive strength in the feeder market will probably continue until there is substantial losses felt across the Canadian industry.

Price Forecasts

Market Makers and Other Analysts' Opinions

- "The Barchart Trading Guide is a Sell Signal with a Weak Signal Strength," for the December futures (Barchart.com, December 4).
- TheBeefRead.com, December 3 says, "With cattle feeding weather superb and January cattle coming on like gang busters, cattle feeders are feeling pressure to keep cattle moving. Weights have topped, but the weather will keep them elevated even as they decline." Cassie Fish goes on to say that slaughter levels Christmas week are already being widely advertised as bearish, with talk it could be one of the smallest on record, which happened

to be 390k in 2014. The reason for the small kill this year is a gesture to workers because of the difficult year due to COVID.

- Brian Perillat writes in the December 4 Canfax Weekly Market Outlook and Analysis, that on November 1st there were just over 50,000 more cattle on feed 120 days or longer compared to a year ago, a 34% increase. Lower placements this spring and continued large processing rates will help work through these supplies, but with early placed yearlings starting to come to market soon, fed supplies will remain ample. The fed cattle backlog, combined with good feedlot performance this fall pushed carcass weights to record levels, and they continue to be record large for this time of year in western Canada.

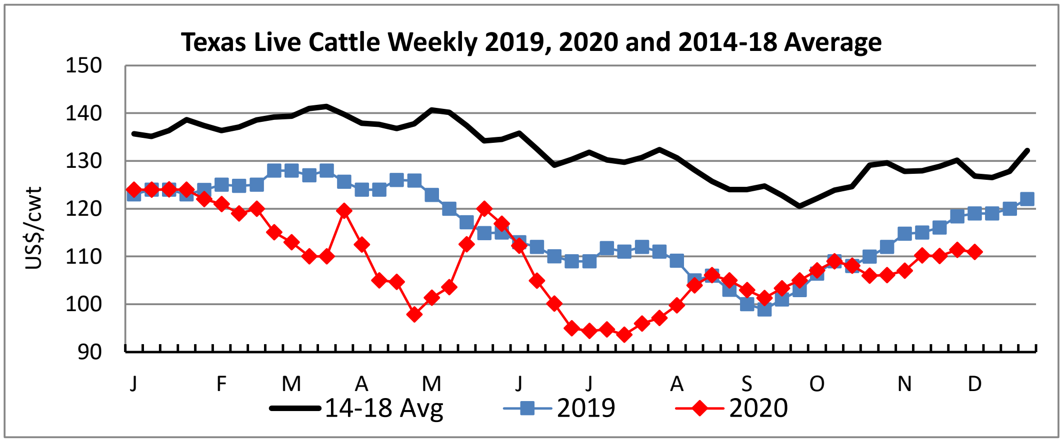
  Scott McKinnon notes in the same report that, packer delivery dates are 5-6 weeks out. The number of cattle accepted on the Set-Aside program for the month of November is expected to total around 41,000 head and will be eligible for deferred slaughter during the month of January.
- Cattle Buyers Weekly, December 7 says that, U.S. meat and poultry processors have spent more than $1 billion since March to protect their workers and make them feel safe about returning to plants. Nevertheless, most beef companies cite labor shortages and worker protection as the number one issue facing the industry. Tyson has invested hundreds of millions of dollars ($540M in fiscal 2020) to transform its facilities and implement strategic testing to stay ahead of the virus.
- Agcenter.com, December 5 said that calf and feeder prices are supercharged, not from a historical standpoint, but in relationship to grain and next year's fed prices as they are represented in the CME live cattle contract. The price structure for all classes of cattle is signaling a vulnerability for sustainability.

  This year has been very desirable for weather and cattle performance has been exceptional. Many January cattle are being pulled into December to market ahead of the February glut predicted by most market services. The ability of cattle owners to dodge anticipated heavy numbers is always something to watch and can contradict expectations for pricing.
- The latest USDA World Agricultural Supply and Demand Estimates (WASDE) for November says that total U.S. beef production for 2021 should increase by a half percent over 2020. The 2020 production is estimated to be mostly unchanged from 2019.
- JBS USA has implemented a number of policies at its Greeley, plant in response to a new COVID-19 outbreak. There have been 32 new COVID-19 infections among the 3,500-person Greeley workforce. In response, JBS has voluntarily removed 202 Greeley team members from “vulnerable populations” and will give them full pay and benefits during their leave. Nationwide, JBS has removed vulnerable workers from its other facilities, accounting for about 8% of their workforce. (meatingplace.com, December 4).
- J.S. Ferraro recently released its monthly Read Meat Outlook: Cattle & Beef for December. In that report, Rob Murphy says that in January and February, the market will have to deal with growing numbers of market-ready cattle

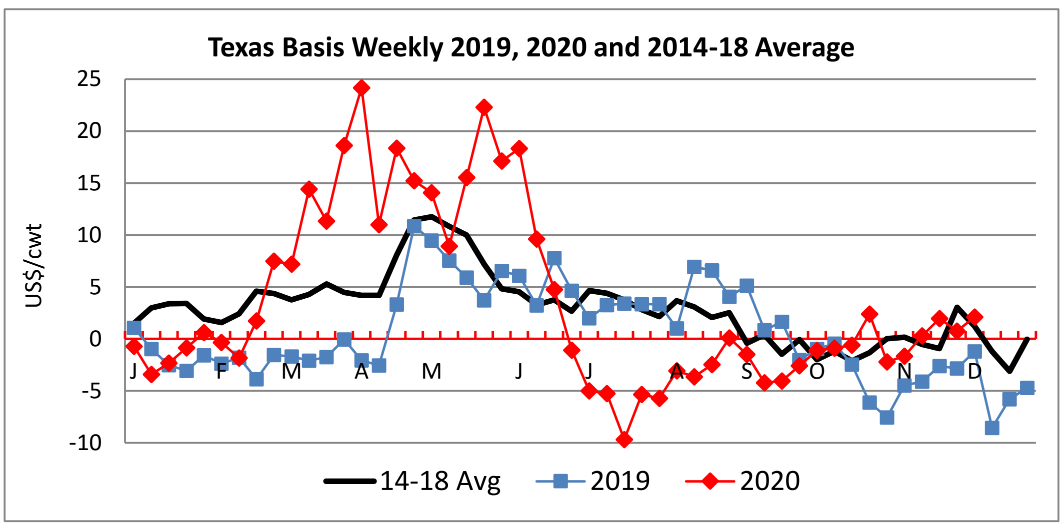
created by strong placements last summer. Given that beef supplies will be ample and Q1 typically sees depressed demand, price levels are likely to soften considerably in the Jan/Feb period. He looks for cattle to go to $109 to finish this year before going back to $110 in mid-January.

My Opinions

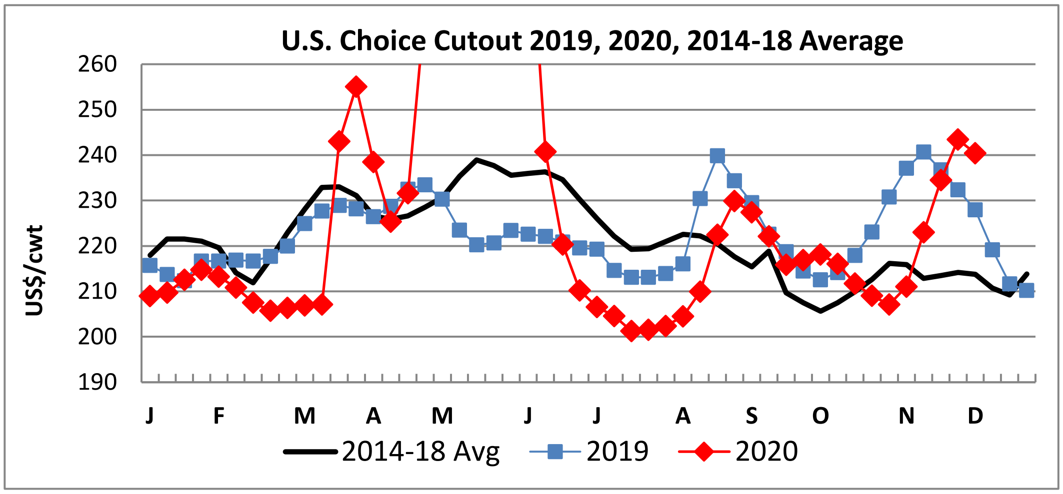
On the U.S. Market



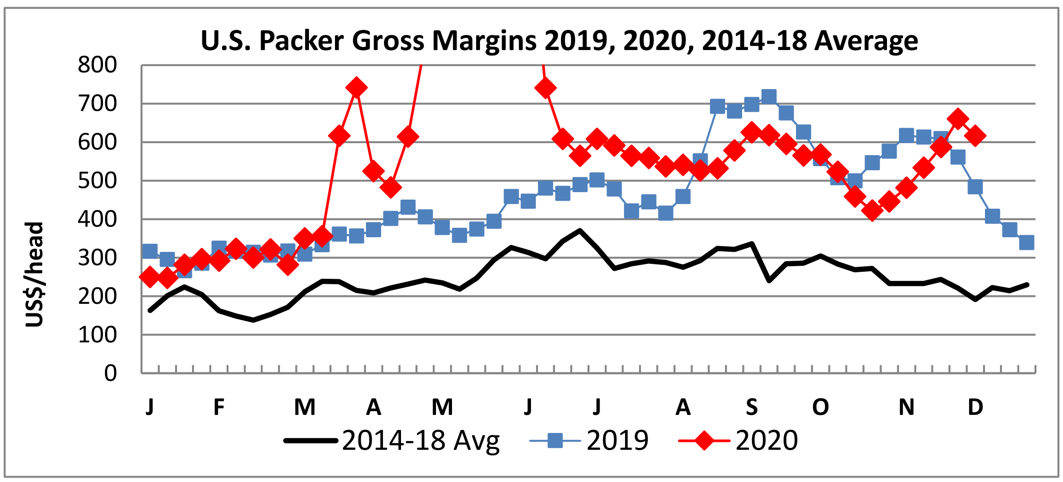
- Cash margins for 750-pound yearlings placed in mid-late June 2020, resulted in margins back in the red by $20/head last week. In a matter of weeks, feed prices have turned a solid profit into a loss.



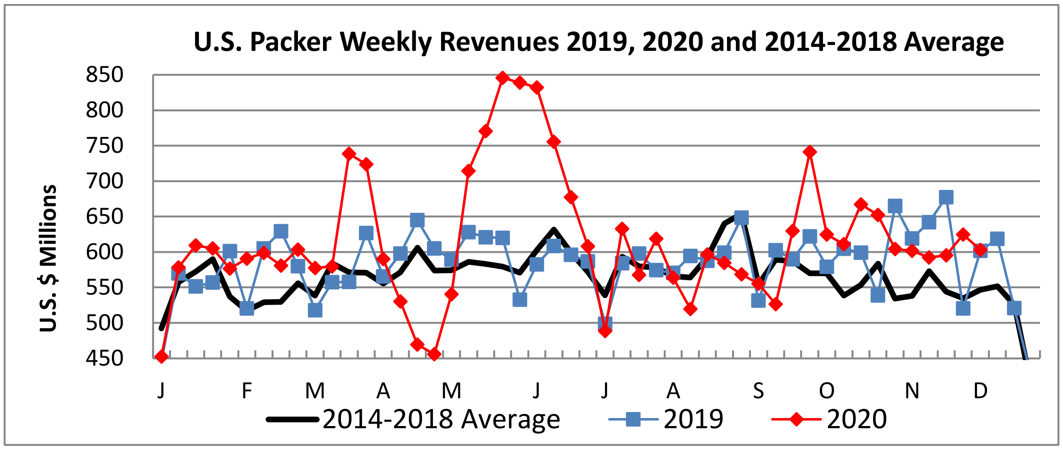
- The High Plains basis has stayed modestly positive and close to the 2014-2018 average. Basis is not likely playing any role in marketing decisions.
- The U.S. choice cutout took a step back from its prodigious fall rally last week. While most of the trade talk is of the cutout peaking, the reality is that even with a decline through the end of the year, it will still likely stay well above average.



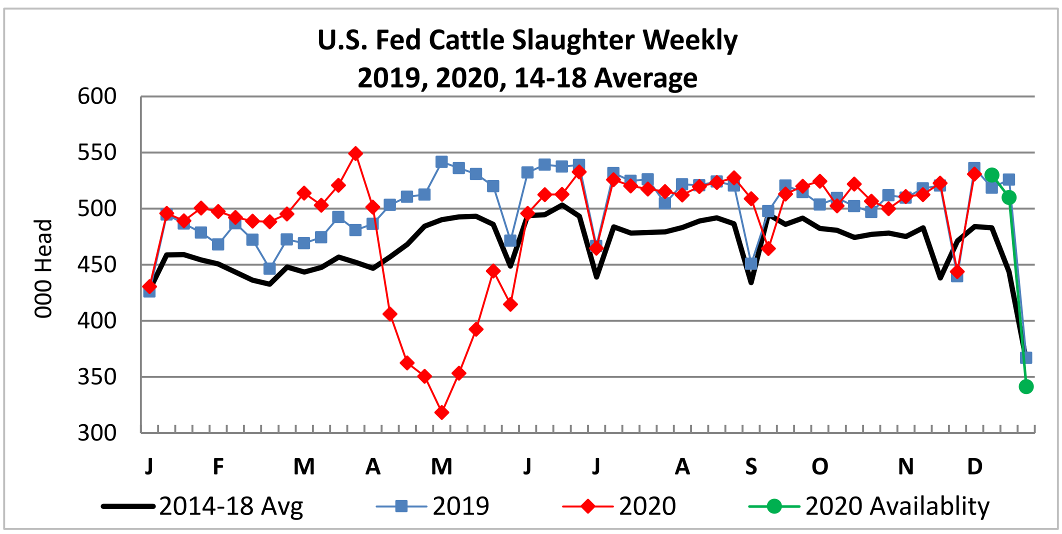
- Packer gross margins (beef cutout revenues plus by-products less prior week cattle, not including operating costs) took a small step back along with the cutout. Regardless of the modest set back, the margins are enormous and should encourage large kills.



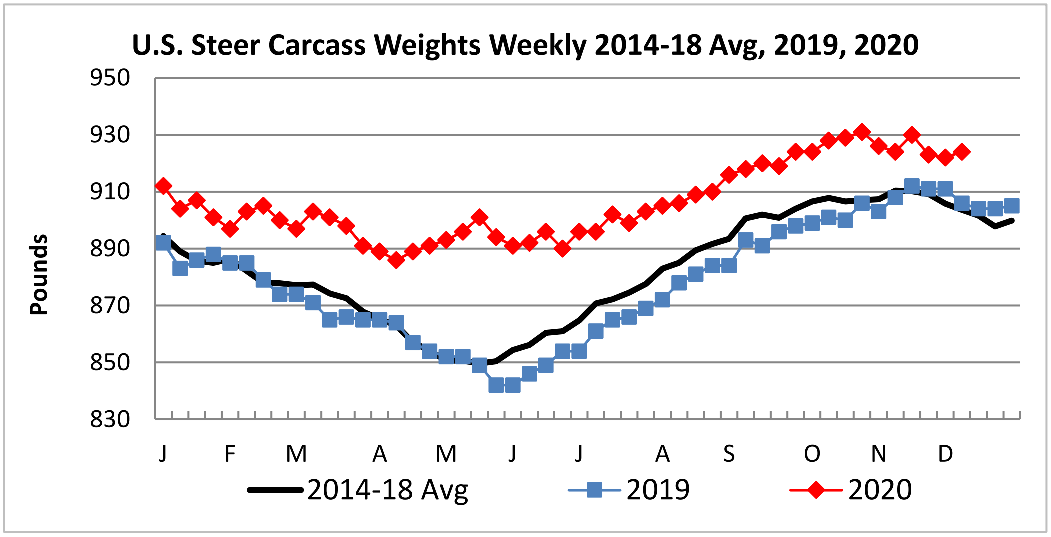
- U.S. beef demand at the packer-wholesale level can be estimated based on boxes sold multiplied by cutout values. That is a good gauge of packer revenues from beef sales and of overall current demand. For the week ending December 5 revenues as described above, were above year ago, and were above average. The four-week rolling average of total revenue, is slightly below year ago, but far above average. Beef demand is a support to cattle prices and to elevated slaughter rates.
- Total cattle slaughter for last week was 667,000 head, about 2% less than the same week last year. The week prior total slaughter was up 2%. U.S. cow slaughter has been running about 2-4% less than year ago levels. Fed slaughter has been mostly steady year over year.



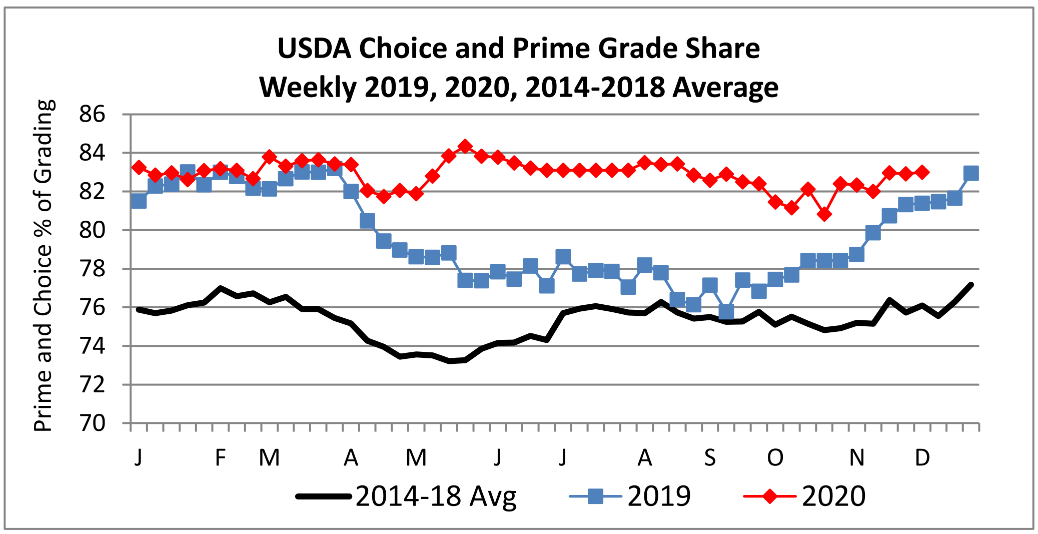
- I had estimated a hole in marketings from mid-November to perhaps mid-January. That was based on my estimation of reduced availabilities between the clearing of the backlog and the marketing of the large number of yearlings placed in July and August. That hole, however, looks to be filling given the excellent feeding conditions and perhaps a desire to avoid first quarter marketings. In any event, it appears availability is now greater than I had stated in previous reports.
- The following graph shows actual fed slaughter and my estimate of the number of fed cattle that are available for slaughter for the rest of the year.



- Steer carcass weights posted by the USDA through November 21 (latest) are running 16 pounds above year ago levels. Preliminary indicators for the last two weeks show the weight trend steady at very heavy levels. The last two points on the graph below are steer weight estimates based on total reported U.S. cattle weights through last week.



- The Choice and Prime share of total gradings through November 21 (latest) is trending steady to higher. Gradings still indicate cattle that have been on feed for an extended period. The last two points on the graph below are estimates for the weeks ending November 28 and December 5.

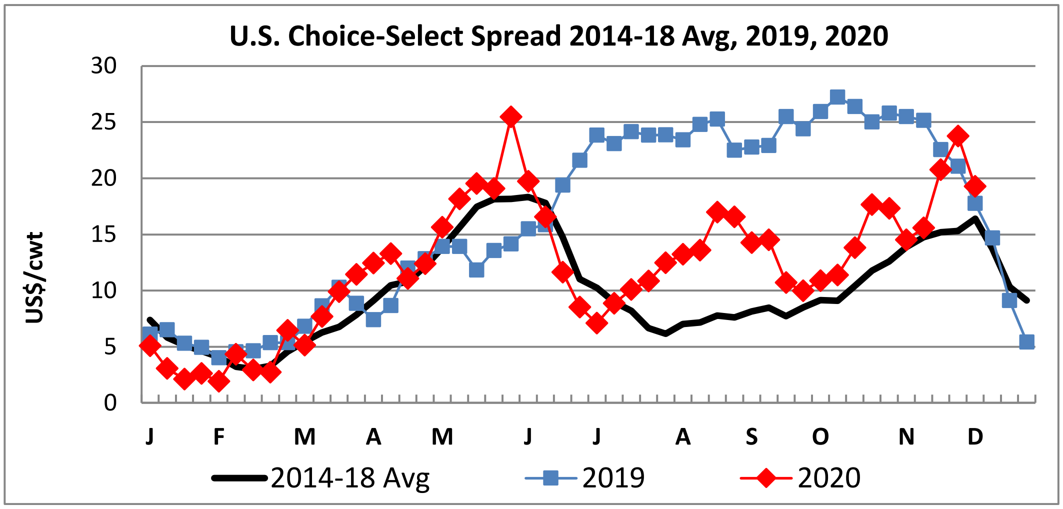


- The Choice-Select Spread remains very wide. The spread may be an indication of increased cattle currentness, although it is not supported by the weights or grading percentage noted above.

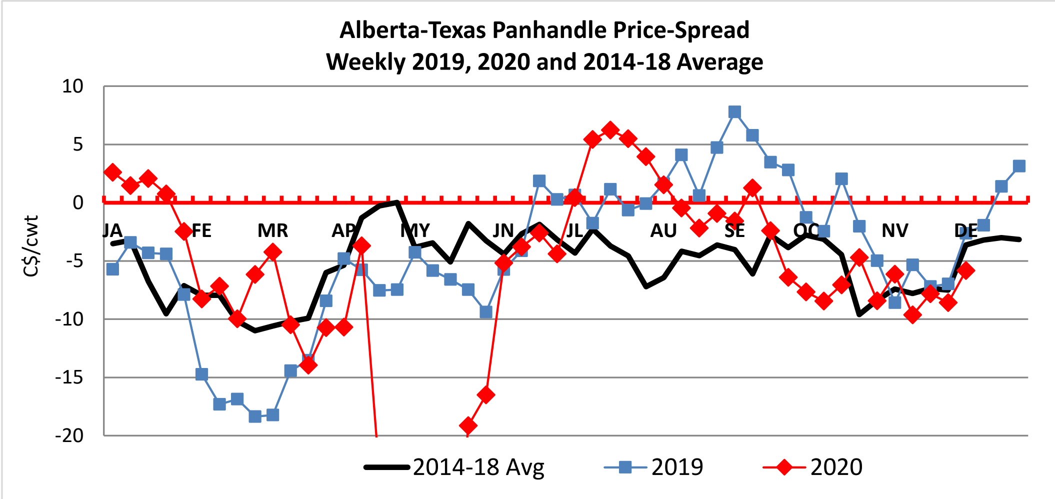
High Plains Cattle Feeder

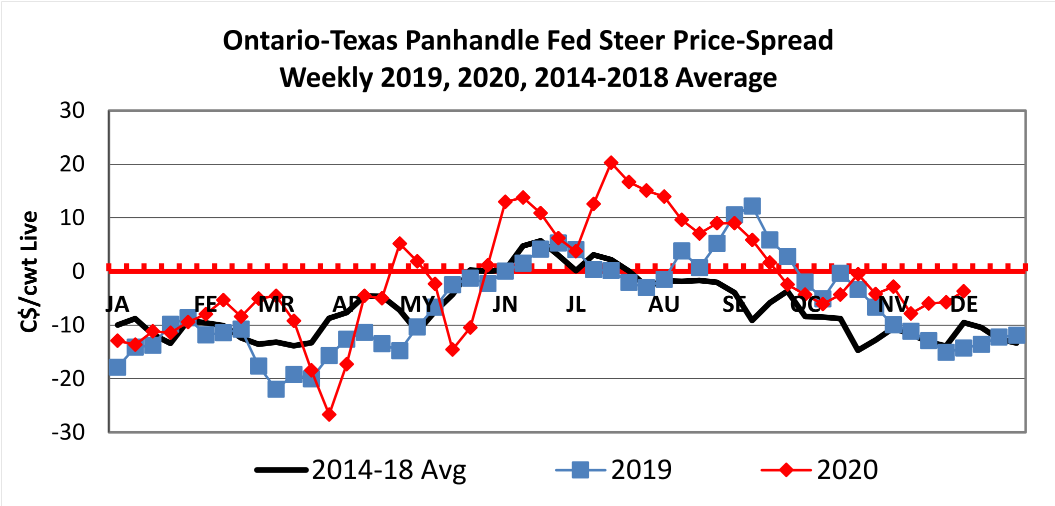
The High Plains cattle feeder desires to stay current as larger volumes of market ready cattle are coming, which is no surprise given the placement patterns. Also, the prospects of generally poorer beef demand after the first of the year has cattle feeders generally willing to sell. Loses are not staggering and the urge to stay current is the prominent feeling of the day. Basis is relatively historic and all points say sell. Nevertheless, with a positive $3.50 carry in the board to February, feeders will not act erratically selling everything. They will just stay current as most feeders have bigger numbers to sell after the first of the year anyhow. Cattle are also performing well pulling cattle forward and keeping

carcasses heavy and beef production big. COVID-19 worries are also present with the thought of not wanting to have too much inventory if processing capacity goes offline.



On the Canadian Market

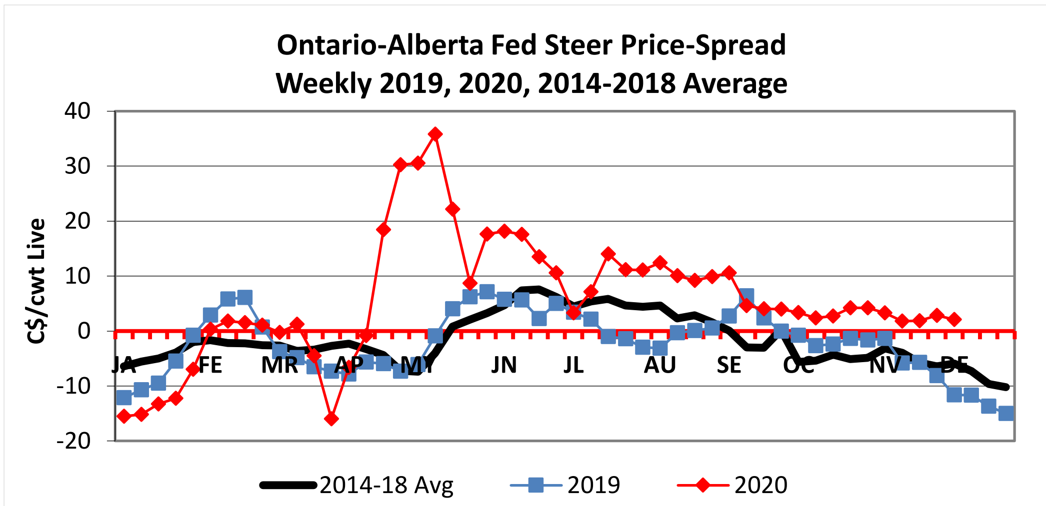




- **Cargill** in Guelph had a bad week for a few reasons. Numbers were not what they wanted last week. The plant worked on Saturday to try and make up some production.
- **Cargill** in High River has been harvesting about 4,700 per day and they did work on Saturday and they will probably work this Saturday as well.
- **JBS**, Brooks has been slaughtering between 4,400 and 4,500 per day. They did not work on Saturday.
- **Harmony** continues to get its numbers up after its COVID challenges. Slaughter numbers probably about 500/day.
- Cow prices continue to run about $70/cwt for D1D2 for the last 5-6 weeks. That is $10/cwt lower than year ago levels. **Cargill** was buying steady the last two weeks. For its part, **JBS** appeared to be buying some feeding or put-away cows for the holiday and early January period. **Long Prairie** was showing interest in the south, but the two Canadian packers were able to keep the offerings. Overall numbers have been shy of anticipations. In the north that is likely due to the lower price and the fact that there is feed available for waiting it out. In the south feed is not available to the same extent, if at all, in some cases. That, plus the early winter and early feeding, meant that numbers were showing more in the south, but still not up to expectations.
- Ontario cattle feeders are current generally, but they need to keep cattle moving. With that overall context noted, there are still some very big cattle that need to move.
- Fed kills in Ontario have been running about 500-1,000 head per week less this year than last. Weekly cow slaughter has been up year over year by anywhere from 100-600 head per week. Slaughter rates in Alberta are running the opposite of Ontario. Fed kills are running well above year ago levels by about 3-8,000 per week. Cow kills are down by 3-6,000 per week.
- As noted in the last edition of this report, market-ready cattle numbers in Alberta are abundant. Grades are good at very big weights. Cattle feeders are trying to get set-aside cattle booked in January, at times with difficulty.
- Packers should be in control for the next two months, at least. I expect that they will buy minimal needs in the next few weeks as they anticipate lower pricing each week or at least no difficulty in procurement.

Alberta Cattle Feeder

Alberta is experiencing some significant losses on open cattle; one has to remember that the vast majority cattle are now sold on a formula with various pricing mechanisms and pricing timeframes. Many cattle feeders could have currency positions and live cattle positions which equate to losses less significant than the cash price suggests. Having said that, there is still pain being felt from losses starting to pile up. As well, the need of the set aside program to pull almost 20% of packing capacity off the market every week to sustain an average cash to cash basis with the Texas Panhandle is adding to poor psychology on behalf of the cattle feeder. The difficult part is a mystery as to why the feeder market so strong while losses from sales are piling up. The significant negative margin projected on purchases leads one to believe that there are cattle feeders out there that have not felt much pain yet. Perhaps the need for tax cattle is trumping discipline on the buy side. Feeders do not have a lot of choices but to sell cattle with pick up times almost 30 days out or put cattle on set aside. There just are not a lot of options given the heavy weights and big volumes of market ready cattle as far as the eye can see.



Previous Two-Week Forecast

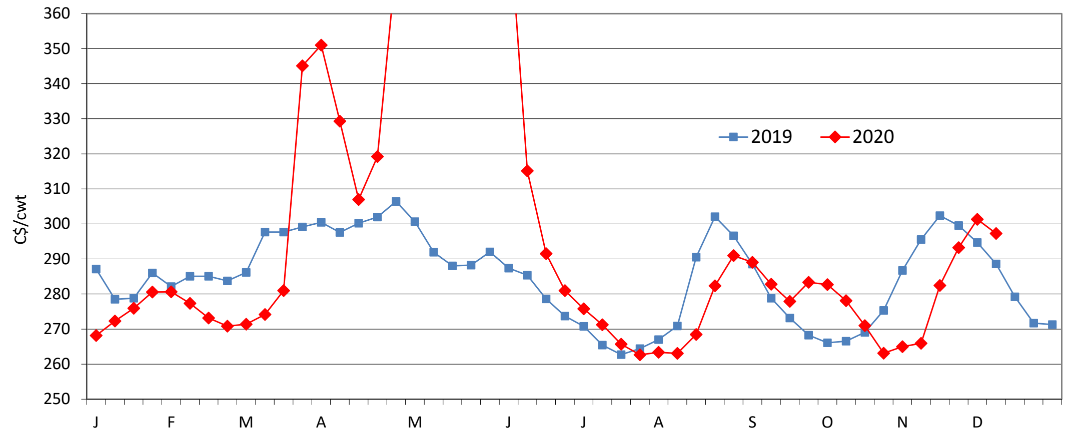
"Packers purchased a large draft of negotiated cattle last week and even more the prior week. Packers are likely well bought especially for this holiday shortened week. With that noted, demand has been great, and margins are even greater. Furthermore, supplies are tight, at least for another 4-6 weeks. Look for the market to gain another $2. GRADE ON THE CALL: "B." I was half right. Prices went up by $1. As noted above, that hole in the marketings that I saw is getting filled up in a hurry.

The Next Two Weeks

The hole looks to have been filled. While that is positive for January, it means that there are more numbers when needed least. I see it a dollar lower at best for cattle sellers.

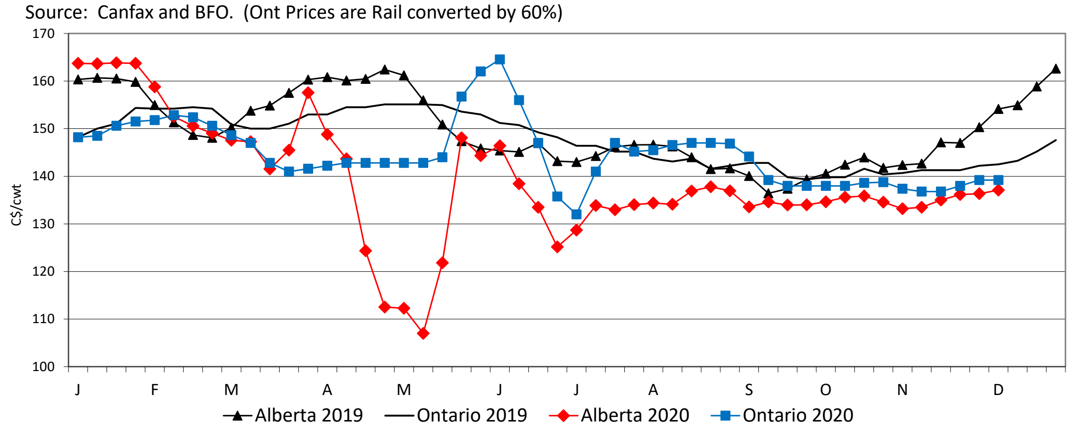
Texas, Alberta and Ontario Fed Steer Forecasts						
C$ @0.78	Grier Texas Live Forecast	Live Cattle Futures	Alta-US Live Spread	Ont-US Live Spread	Grier Alberta Rail	Grier Ont Rail
Next Two Weeks	110	108	-6	-6	225	225
January	110	--	-8	-8	222	222
February	108	112	-8	-8	217	217
Q2 2021	113	112	-4	-4	235	235
Q3 2021	108	110	-4	-2	224	227
Q4 2021	112	115	-8	-10	226	223

USDA Choice/Select Cutout in C$ Weekly 2019, 2020



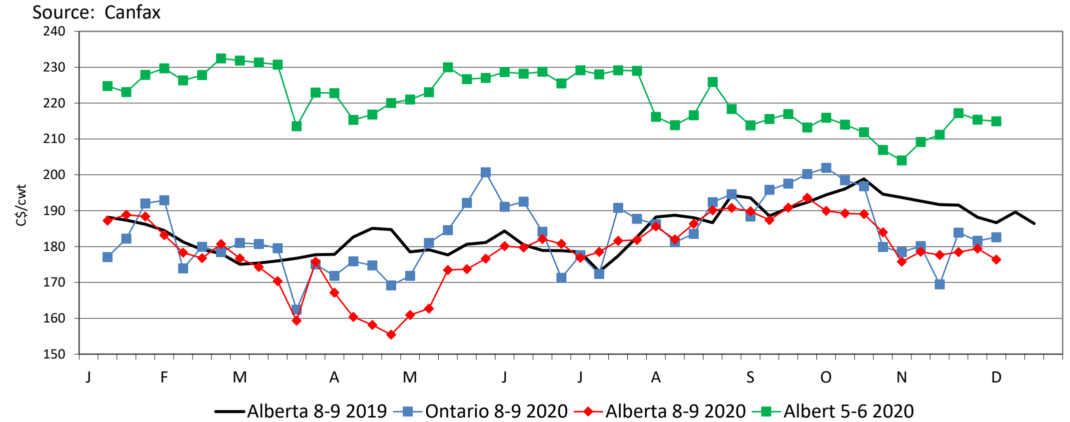
Alberta and Ontario - Live Fed Steer Prices, Weekly 2019, 2020

Source: Canfax and BFO. (Ont Prices are Rail converted by 60%)



Alberta and Ontario - Feeder Steer Prices, Weekly 2019, 2020

Source: Canfax



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