Canadian Cattle Market Report

KevinGrier
Market Analysis and Consulting Inc.
Make Informed Decisions

July 2, 2024

Cattle Market Highlights							
29-Jun-24	Alta Steers Rail	Ont Steers Rail	Nebraska Steers US$	Alta-Neb Spread C$	Alta 8-9 wt	US Slaughter	Cdn Slaughter
This week	430	strike	198	-13	333	609,000	48,750
Last week	435	strike	197	-9	332	620,000	52,814
Prior four week avg	438		194	0	333	613,470	49,753
Last year	408	405	183	3	291	650,573	57,184

Last Week in Review

U.S. prices averaged just under $196 last week with Nebraska at $198 and $314 dressed. Showlists were smaller last week in the United States, but packers were buying for a holiday shortened week. Asking prices were well over $200 in the north. Packers started the week offering steady money but were refused. Given the circumstances there was almost no trade at all from Monday through Thursday. Friday's trade was a dollar higher than the prior week, but total volumes for the week were light.

Alberta cattle feeders are current and availability is tight. With that noted, JBS has been very quiet the last two weeks. For its part, Cargill has been managing to slowly get more comfortable. JBS has not been pushing Cargill. As a result, pricing has been notably backing up compared to the U.S. The first sale that was noted last week was Cargill at $430. They were more widely seen, however, on Wednesday and Thursday at $428. JBS was not heard from at all. Cargill was putting cattle into the last week of July and the first of August. Cargill did not work Friday. Each of the packers was off Monday for the holiday. It looks like 2-3,000 head per week are moving from Ontario to Alberta given the strike in Guelph.

The Cargill strike in Guelph enters its sixth week with discussions taking place for the first time on Tuesday. Not only are 2-3,000 head going west from Ontario, it appears that much larger than normal volumes are heading south to JBS Souderton.

Canadian Market Developments

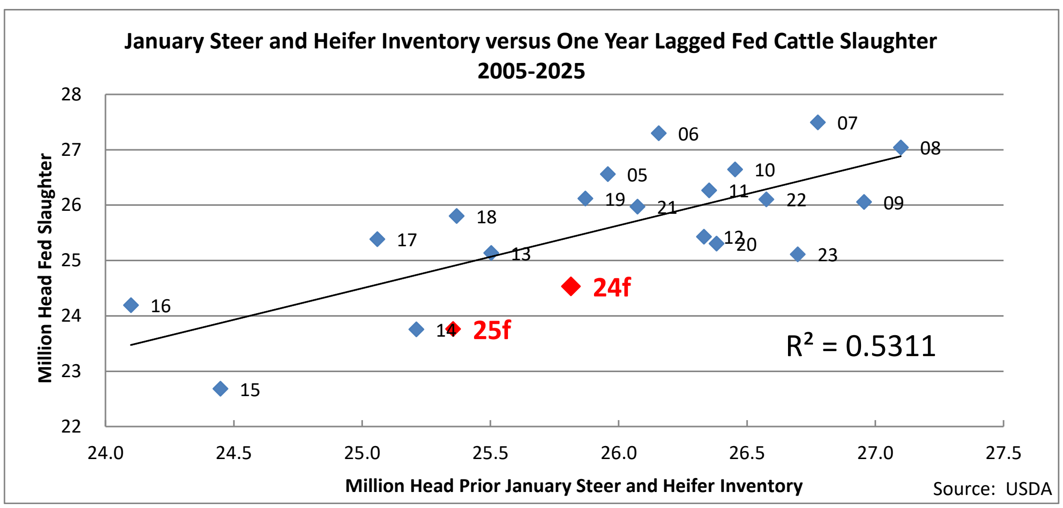
Weekly Canadian A Grade Mix Percent and Steer Wts				
	Prime	AAA	AA	Steer Carcass Wt.
Latest week	4%	67%	28%	888
Latest 4 week avg	5%	69%	26%	889
52 Wk Avg	5%	71%	23%	941
Last Year 4 week avg	4%	65%	30%	870
Canadian Slaughter				
	Steer	Heifer	Cow	Total
Latest week	26,759	19,680	5,980	52,814
Latest 4 week avg	25,047	18,309	6,055	49,753
52 Wk Avg	31,063	18,570	9,152	59,154
Last Year 4 week avg	31,621	16,455	8,493	57,021

Latest week ending June 22, 2024. Source: CBGA

Potential Basis Bids Compared to Actual 2023 and 2017-2022 Avg Basis and Nebraska Spreads

C$/cwt	Potential Basis Bid	2023 Basis	2023 Spread	2017-2022 Basis	2017-2022 Spread
September	$0.00	-$17.01	-$16.48	-$0.84	-$1.24
October	$0.00	-$18.57	-$20.72	-$5.21	-$5.18
November	$0.00	-$10.93	-$16.53	-$10.60	-$10.27
December	$0.00	-$4.41	-$7.18	-$7.75	-$8.73
January '25	$0.00	-$23.55	-$20.53	-$0.08	$0.58
February	$0.00	-$23.33	-$20.95	-$5.74	-$5.08
March	$0.00	-$17.39	-$19.44	-$2.46	-$4.76
Basis is Alberta less Live Cattle Futures. Spread is Alberta less Nebraska Live Cash					

Plant Closures in 2025



I forecast 2025 U.S. commercial steer and heifer slaughter will amount to about 24.2 million head. That forecast is based on steer and heifer inventories this year as well as last year's calf crop (see relationship on graph above). The fed cattle slaughter forecast for 2025 is down about 5% from 2023 and down 3%

from the estimated 2024 fed slaughter. Rob Murphy of J.S. Ferraro estimates 2025 commercial fed slaughter at 23.6 million head.

I estimate 2025 commercial cow slaughter to be 5.8 million head compared to 6.7 million in 2023 and the estimated 2024 total of 6 million. Murphy sees 2025 cow slaughter notably higher than I do at 6.2 million head. Cow slaughter forecasts involve many more highly variable assumptions than fed cattle forecasts. That is especially the case at this point in the cattle cycle when the industry is between liquidation and expansion.

My 2025 total commercial cattle slaughter forecast is 30.5 million. That is down 7% from the 2023 actual and down 3% from this year's estimate. Murphy's total 2025 slaughter estimate is 29.8 million head. The Livestock Marketing Information Center has 2025 total slaughter at 29 million head (LMIC). For some reason the USDA does not publish slaughter estimates, just beef production forecasts. Based on their beef production forecast and some rough arithmetic, I figure the USDA is around 30 million head or more.

Slaughter Reductions of 4-5 Million Head

The bottom line is that even using my higher end slaughter estimate, the total 2025 kill would be the lowest since 2015 which was 28.7 million. The peak slaughter from 2015-2023 was 2022 at 34.3 million

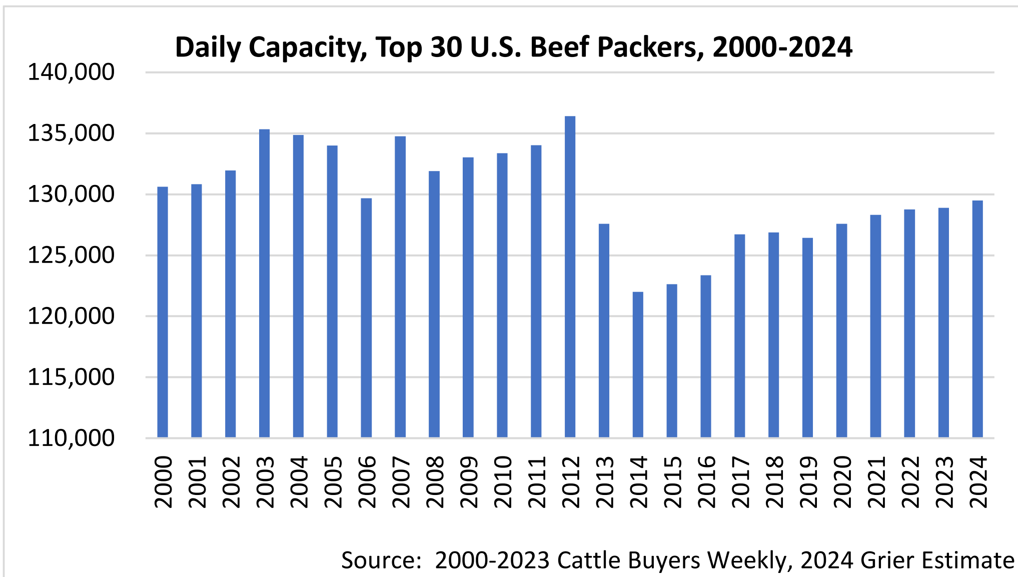
If I am right about 2025 slaughter, it will decline by 3.8 million head between 2022 and 2025. If LMIC is right about 2025 slaughter, the decline will be 5.3 million head.

New Capacity

Meanwhile, plant capacity is being added in the United States. Sustainable Beef, in North Platt, Nebraska should open in late 2025. Sustainable Beef, with Walmart as a minority owner, expects to process 1,500 head per day and up to 400,000 head per year when fully operational. American Foods Group (AFG) is scheduled to open a plant in Warren County, Missouri in mid to late 2025. AFG projects that the plant will process more than 2,400 head per day. Cattle will likely be mostly beef and dairy cows. Producer-Owned Beef plans to open a plant in 2026 or later. Producer-Owned is planned at 3,000 per day according to Cattle Buyers Weekly.

Plant Closures

Even without the added capacity of 2025, total U.S. capacity is at its largest level since 2012. Cattle Buyers Weekly does an annual tabulation of the capacity of the top 30 beef packers in the United States. The top 30 companies represent the vast majority of kill. Note that starting in 2013 when Cargill closed its Plainview, Texas plant, there was a major reduction in U.S. capacity. Other closures were National Beef, Brawley, 2014 and Tyson, Denison 2015. Cargill closed another plant in 2014 as did AFG and others. The net result is that from 2012 to 2016 there was the loss of about 13,000 head per day.



Annual capacity of the top 30 beef packers in the United States, is now about 34.9 million head (making several assumptions). That capacity estimate is 4.5 million head more than my 2025 slaughter estimate and 6 million more than the LMIC estimate.

Excess Capacity

From 2016 through 2019, plant capacity utilization ranged around 95% (see table below). In 2022 plants were bursting at a 99% rate. Based on current capacity and expected kills, the 2025 rate would be 87%. Again, that does not even count the Sustainable Beef or AFG new plant. Ignoring those new plants, to get the industry to a healthy 95% utilization rate, would mean reduction in capacity of about three million head or more if LMIC is right about kill prospect. The bottom line is that there is going to be extra capacity of about 3-4 million head in 2025. This volume of cattle represents the capacity of anywhere from 3-6 plants, depending on plant sizes.

There are several realistic factors that could be put forward to argue that there will be plant closures in 2025 and 2026. The first of those factors is the pending or likely excess capacity. As I noted in the last edition of this report, David Hales said in his June 17 newsletter, "it appears to us the race to close some slaughter plant or plants is just about to start…"

U.S. Slaughter and Capacity, Annual 2015-2025

	Slaughter Capacity	Slaughter	Slaughter /Capacity
2015	33,234,085	28,740,000	86%
2016	33,433,270	30,578,200	91%
2017	34,213,050	32,189,400	94%
2018	34,381,093	33,004,700	96%
2019	34,262,530	33,555,300	98%
2020	34,703,120	32,785,700	94%
2021	34,516,735	33,850,400	98%
2022	34,766,550	34,325,300	99%
2023	34,670,065	32,843,700	95%
2024	34,960,950	31,472,702	90%
2025f	34,960,950	30,498,982	87%

Source: Cattle Buyers Weekly, USDA and Grier estimations

Price Forecasts

Market Makers and Other Analysts' Opinions

- "The Barchart Trading Guide is a Buy Signal with an Average Signal Strength," for the August futures (Barchart.com, July 2).
- Bruce Ginn asserts that after this holiday beef demand tends to soften and this year will be no exception. Ginn's Weekly Livestock and Meat Comments, June 28, says that last week's beef market gain again didn't offset higher cattle costs, so packing margins deteriorated and are estimated red.
- CattleReport.AgCenter.com, June 29, asserts that feedlot placements move first to the larger more efficient feeding operations. The lost feeding capacities are always found at the margins where inefficiencies are most prevalent. Those include grow yards and feeding operations with antiquated feed mills or pens. In the north, feeding facilities are smaller and more disbursed geographically. Farmers in the north might choose to feed cattle one year and to pass on buying cattle the next. In the south some large corporate yards run fully hedged operations and during periods of margin stress, some of those yards will struggle. So long as the pool of replacement cattle is smaller, some feeding capacity necessarily will be lost.
- CattleRange.com shows a typical closeout for un-hedged 800 weight steers placed 180-days ago and sold last week at around a US$226/head profit.
  - The projected closeout for steers placed on feed last week with a projected sale date of December 25, is a US$213/head loss.

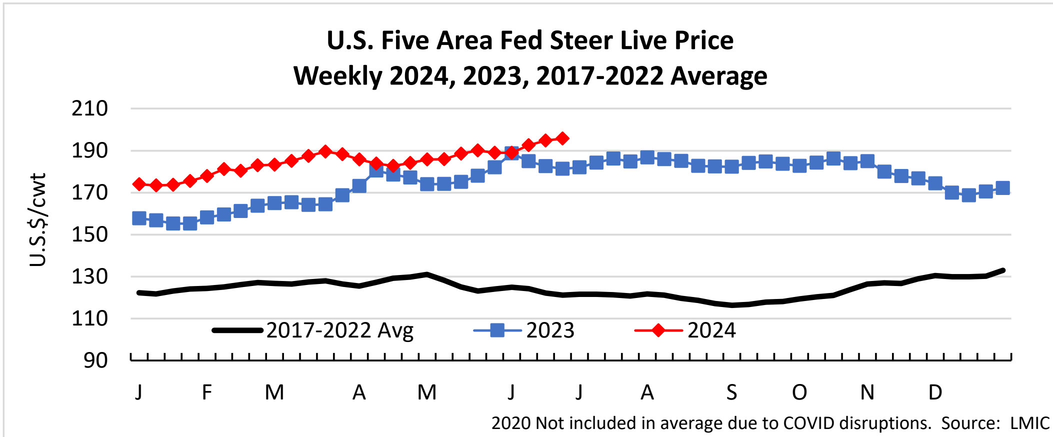
- David Hales notes the increasing risk of drought again this summer in Hales Cattle Letter, July 1, "We don't expect to see wholesale cow liquidation, but beef cow slaughter could begin increasing from current levels sooner than many anticipate. We expect enough increase in cow slaughter to stop the price advance in 90% lean cow beef." says Hales.
- J.S. Ferraro released The Beef Wrap, June 28 in which Rob Murphy asserts that the number of cattle reaching market weight should increase in the northern feeding region over the next few weeks, thus helping to keep a cap on cattle prices. He is skeptical that the national average price can continue to advance. "I'd look for a slow easing in the cash cattle market over the next few weeks, but not a big drop," says Murphy.
- Cassie Fish says that there is little the packer can do but cut slaughter. Many packers are already running 36-hour weeks, and few are running Saturday. Next week one of the six major holidays observed by the packing industry will cut production to a 32-hour week, depending on Saturday's schedule, so unless packers want to reduce hours even further, there is not much else to be done. And with the hamburger market and its components record strong, overall wholesale beef values are being supported, says Fish.

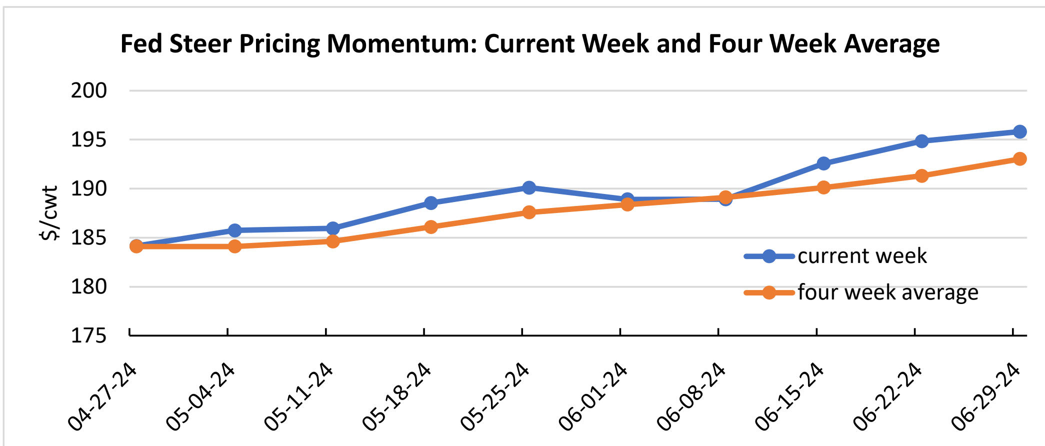
  She also noted that the June 1 COF report had 4 percent more placements than a year ago when the average guess was for a decline of 1-2 percent. "It's halfway through 2024 and the drop off in placements and corresponding short supply of fed cattle is nowhere to be seen, at least on paper. But there is always next month. Zero urgency to sell cattle, extra days on feed and record carcass weights have been the prevailing news of Q2," says Fish. (TheBeefRead.com, June 26 and June 24).
- Andrew Gottschalk, HedgersEdge.com says that unless fed cattle prices can stage another advance, feeder cattle and calf prices will continue to stall or even trend modestly lower. It is readily apparent that these prices are at or near cyclical tops relative to fed cattle prices. Unless fed cattle prices can continue to advance from current levels, feeder cattle and calves are likely fully priced for the current period. On a positive note, the feeder cattle and calf supply will continue to shrink, limiting any price decline as well as shortening the duration of any decline, says Gottschalk. (Cattle Buyers Weekly, June 28)
- Dennis Smith says that some seasoned cattle analysts are so confused that they've decided to call for a major top in cattle prices. He says, "I'm not in that camp, by the way. In fact, in my opinion these experts are about to miss a huge rally in cash, futures and cutout values. Not to worry, they'll quickly say 'just kidding'." Smith says that the sharp decline in cow slaughter this year in combination with rain in the great plains and lower trending feed input costs will trigger heifer retention late this summer and into fall. This will tighten up on-feed inventory and drive prices sharply higher. I expect retail margins to narrow during this timeframe, allowing for sharply higher wholesale prices with retail prices only edging higher.

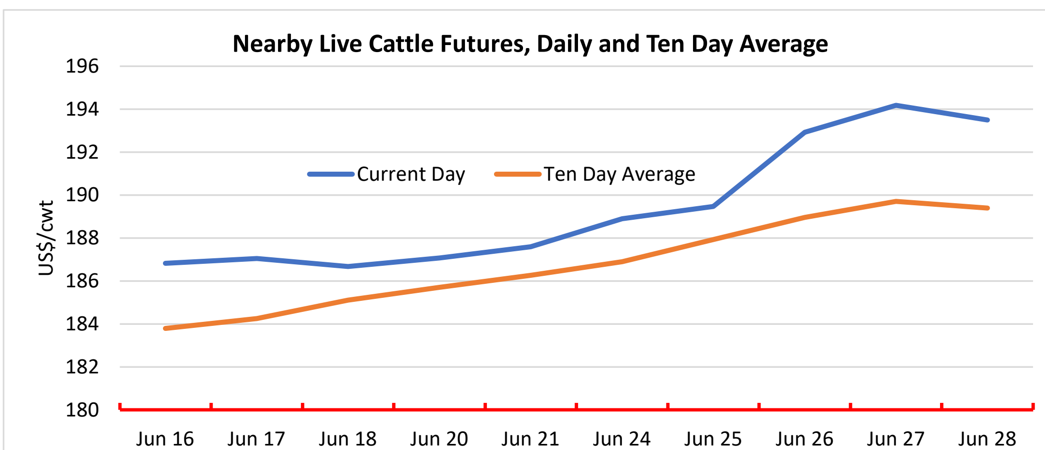
  By the spring of 2025 cash steer prices should be at levels most never dreamed possible. Those calling for a major top in cattle prices in the summer of 2024 will have to scrub hard to get the egg off their faces, says Smith. (BeefMagazine.com, June 25).

My Opinions and Analysis

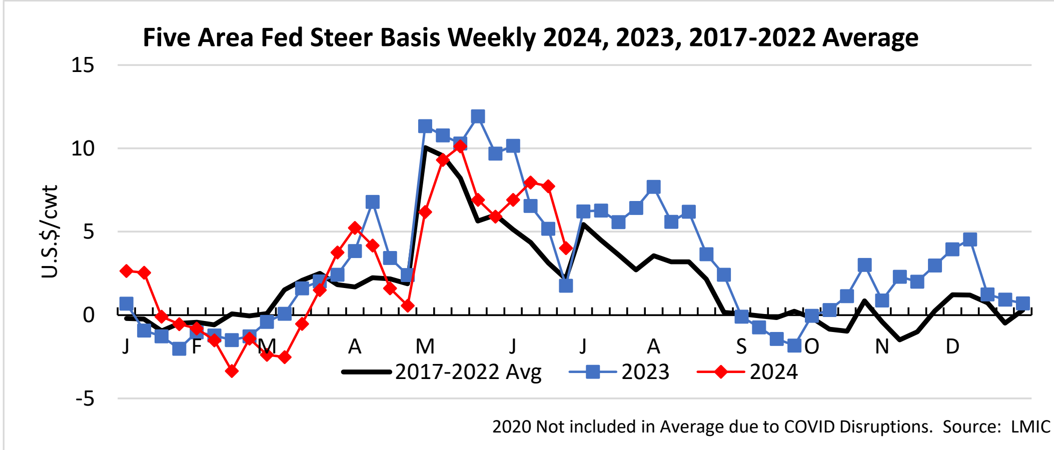
U.S. Market

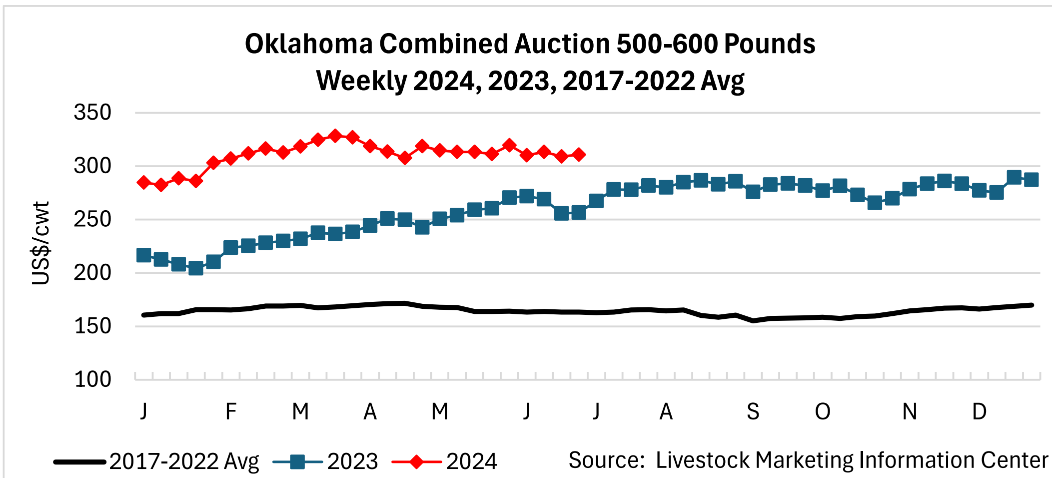


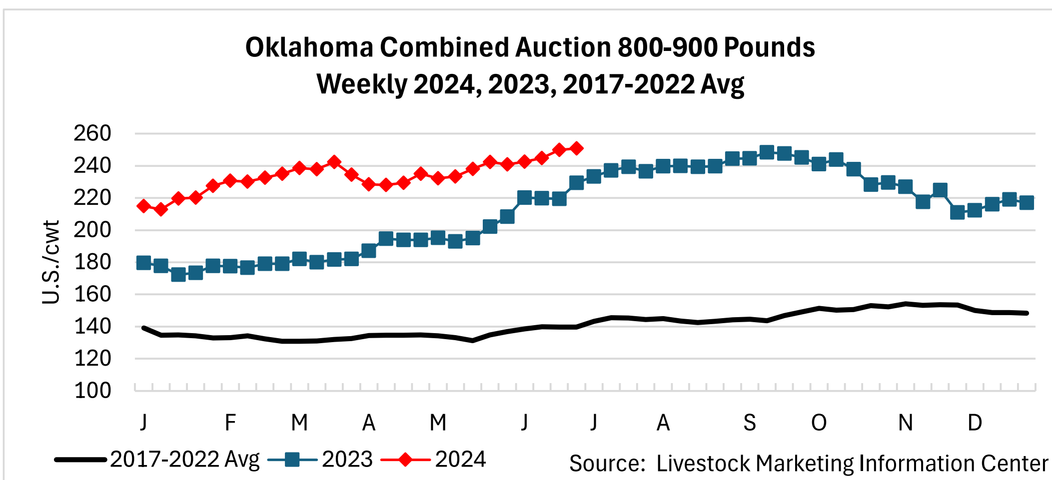




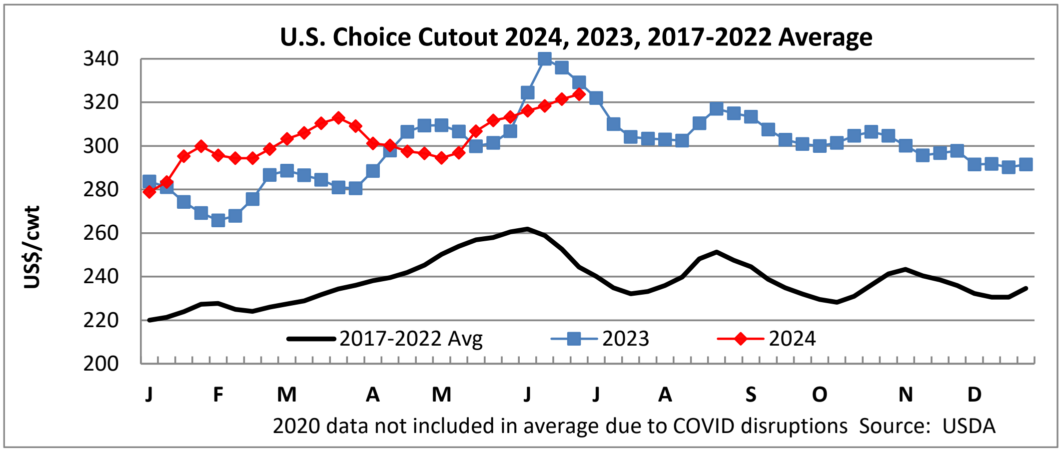
- The fed cattle basis is stronger than last year and the 2017-2022 average. With that noted, the basis is not out of line with norms for this time of year.



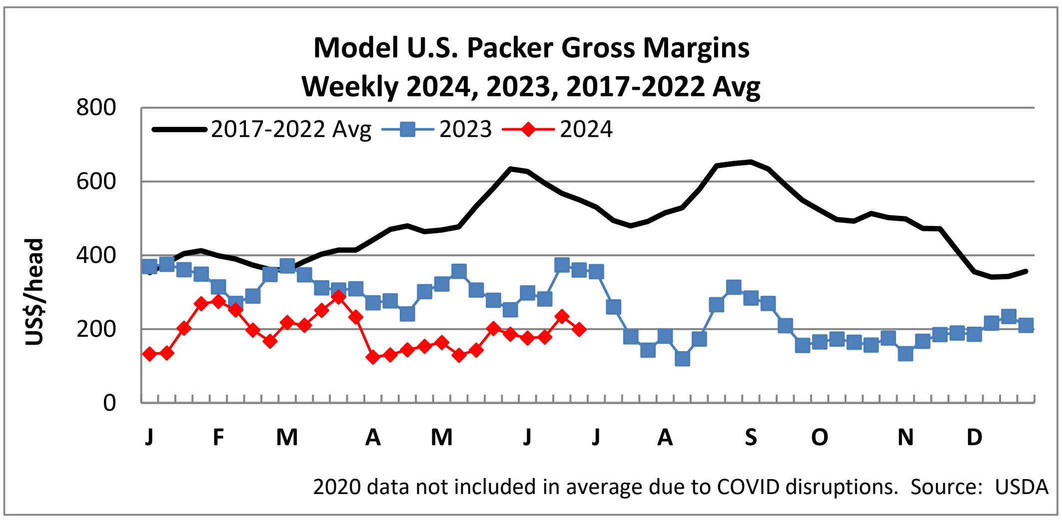




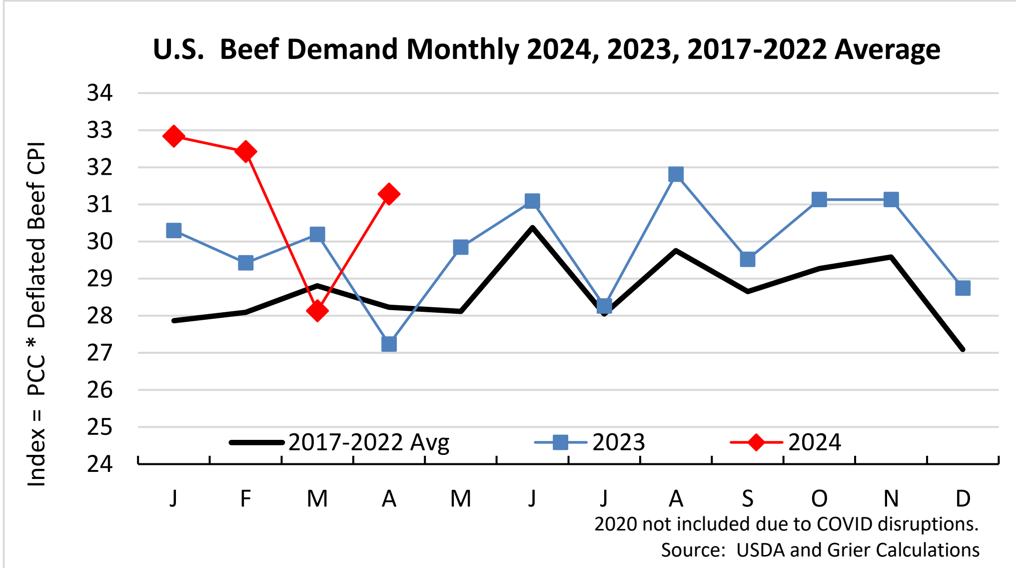
- The choice cutout continued its advance last week. The increase is running two or weeks past the time when it normally starts to slide. The middles were mostly steady to higher, which is an accomplishment given how high they are. The real interesting factor, however, is that the rise in the cutout is being carried by the ends. That is because of the strong demand for hamburger which is driving lean trimmings prices record high. The ends can and do serve as lean grinding meat. The increase in the ends is driven by the need for lean grinding meat.



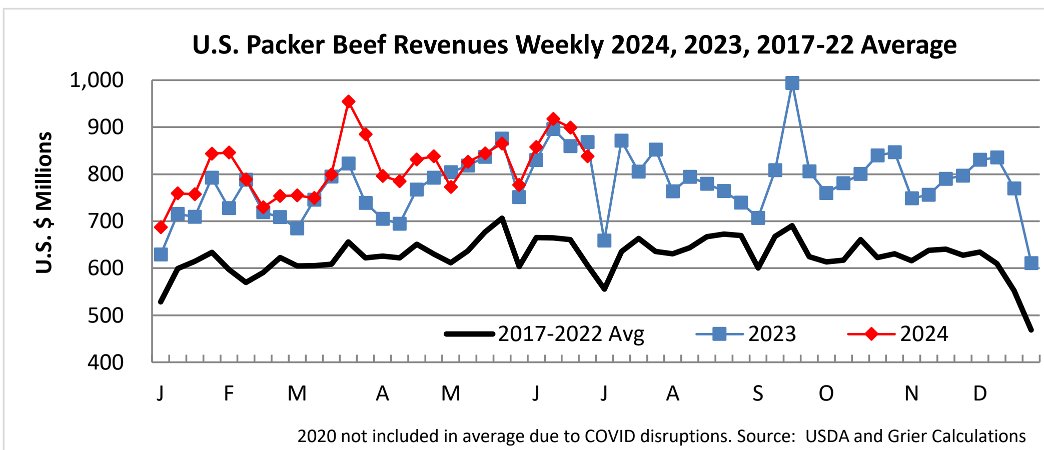
- Model U.S. packer gross margins before operating costs continue to meander along at an anemic pace below $200/head. According to HedgersEdge.com, net margins would have been in the black last week by about $12/head. The prior week's margins were estimated positive by $33/head. Meanwhile, Rob Murphy of J.S. Ferraro, puts packer margins underwater to the tune of about $75/head. For my part, I think Murphy's estimate is closer to reality.



- U.S. consumer demand can be assessed monthly. The consumption component of demand can be computed once monthly production and trade data are reported. From that point USDA and the Bureau of Labor Statistics data on retail beef prices can be applied to the consumption measure. That combination of price and consumption results in an estimate for demand.
  - April (latest), daily beef per capita consumption: +11% vs 2023.
  - April beef prices (CPI): +4% vs 2023.
  - April demand (consumption x deflated price): +15% versus 2023.
  - Rolling three-month demand: +6% year-over-year.

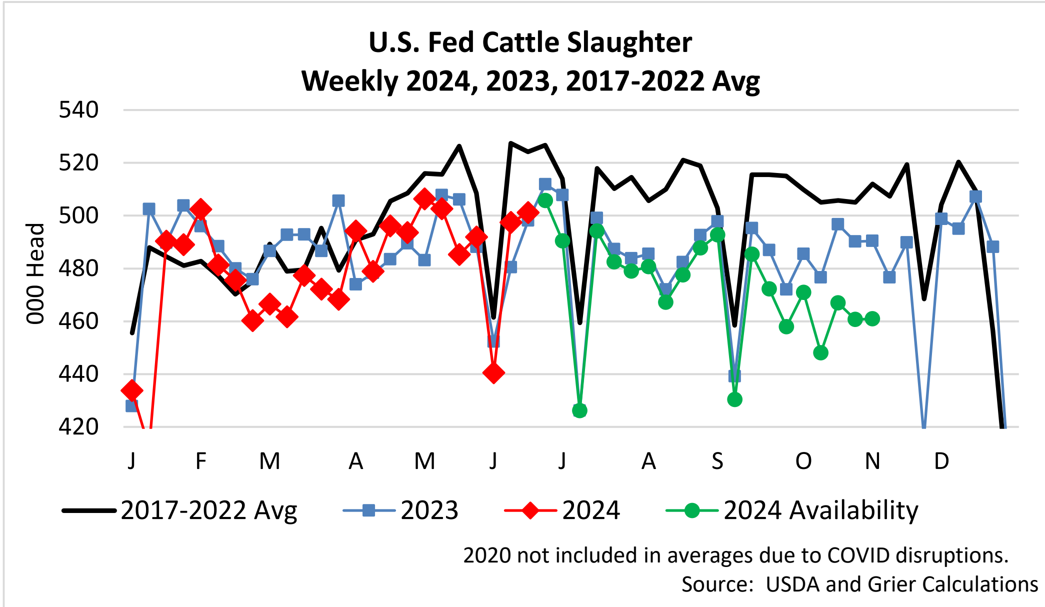


- U.S. beef demand at the packer-wholesale level can be assessed based on boxes sold multiplied by cutout values. Boxes sold and cutout is another way of saying price and quantity. When price and quantity are combined it is an indication of demand at the packer level. It also gives an indication of the current level of consumer demand strength. This measure is also a good, but rough estimate of total U.S. packer revenues from beef sales.
  - Beef sales rolling four-week average w/e June 29: +2% vs 2023.

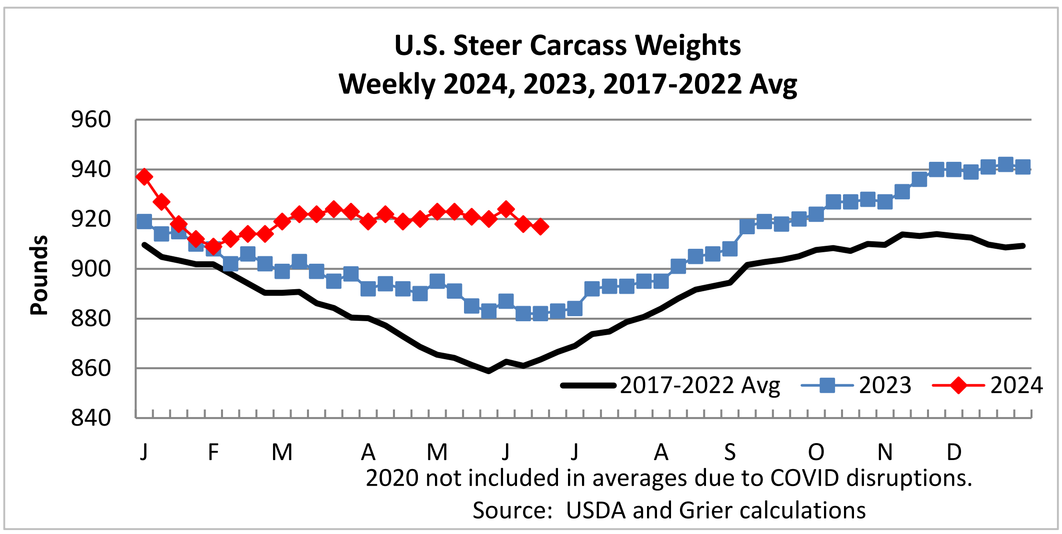


- U.S. cattle slaughter amounted to 609,000 last week and 620,000 the prior week; two-week average was down 5% compared with last year.
  - Four-week average fed cattle kill week ending June 15 (latest): +1%.
  - Four-week average non-fed kill week ending June 15 (latest): -17%.
- The graph below shows actual fed slaughter through the week June 15 (latest). The green line is forecasted availability of fed cattle for slaughter through September 2024. The following are the estimated fed cattle availability based on the Cattle on Feed report placement tallies of the past several months.
  - July: -1 to -2%.
  - August: -1%.

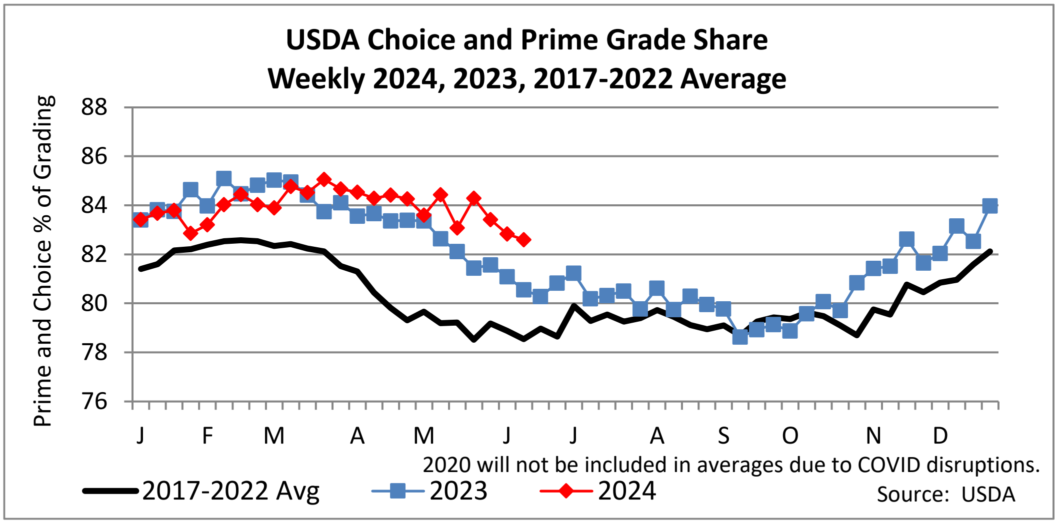
- September/October: -3 to -4%



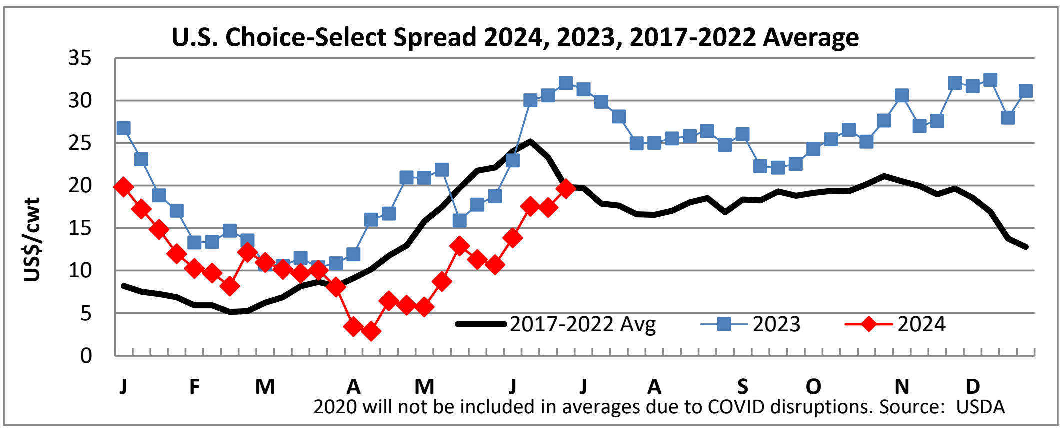
- Steer carcass weights posted by the USDA through June 15 (latest) were up 36 pounds compared last year on a rolling four-week average.



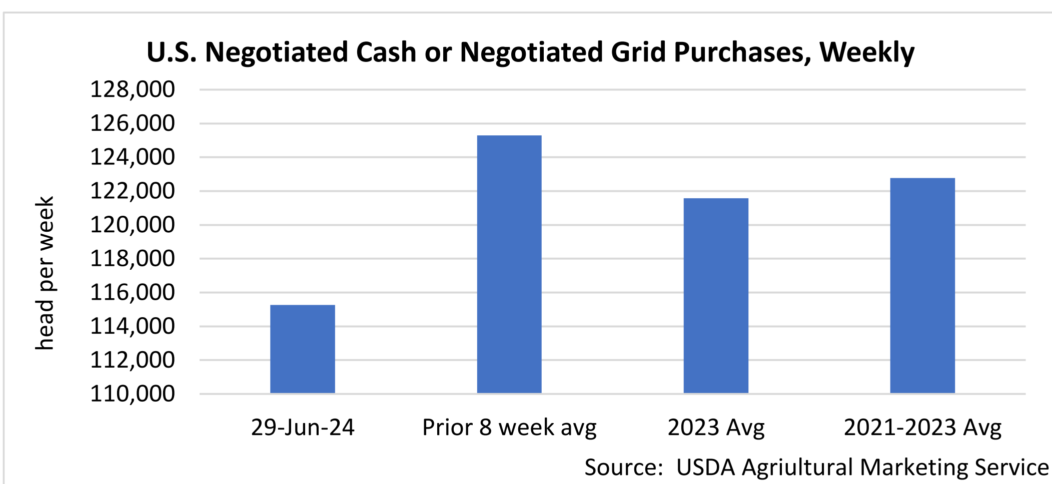
- The Choice plus Prime grading share of total grades is finally easing, but remains far higher than last year.



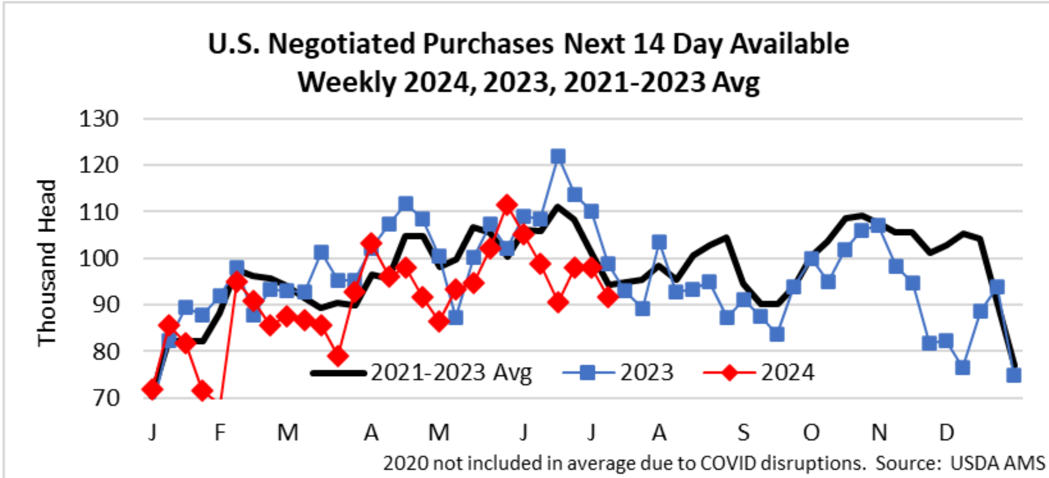
- The Choice-Select remains well below last year, but has finally managed to increase to average levels for this time of year.



- USDA reports the following cattle sales on a negotiated live or dressed basis:
  - Last week, 115,000 head.
  - Prior eight-week average, 125,000 head.
  - 2023 weekly average, 122,000.
  - 2021-2023 weekly average, 123,000.



- Based on USDA negotiated purchase data, it appears packer inventory levels are less than last year and less than average.



- USDA AMS reports that contract signings for July and August are more than last year, but last year's contract deliveries for July and August were very low compared to normal for those months. Packers are not well covered in contracts compared to normal.
- AMS data shows that over the past four weeks, formula procured harvest share has been average for this time of year.

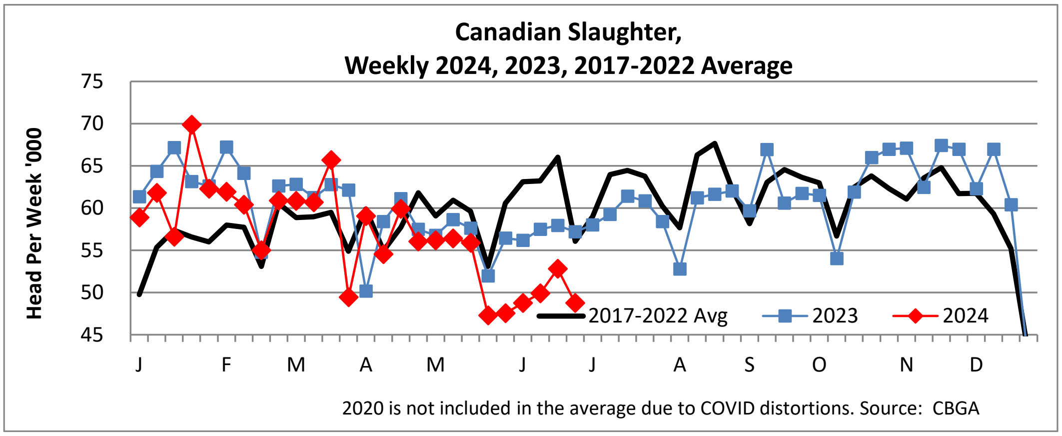
U.S. Summary Points

- Live cattle nearby futures and cash markets have shown underlying strength. Cash cattle prices indicate that cattle feeders have leverage.
- U.S. calf prices continue to trend sideways while yearlings are on a steady, easy uptrend.
- The U.S. basis is in positive territory, but at normal or average levels. It is neither an encouragement nor discouragement to marketing decisions.
- The cutout continued to surge higher, past the normal peak weeks. Demand has been good, particularly for grinding meats. As a result, the end meats, which can be ground, have led the cutout higher.
- Packer margins remain very poor.
- Consumer demand in April (latest) was excellent.
- Current weekly demand signals at the packer level are very good.
- Fed slaughter has been running 1% more than year ago over the prior four weeks ending June 15. Fed cattle availability is likely to dip 1 or 2% in July.
- Non-fed slaughter is running on average 17% lower than last year.
- The steer carcass weights are huge; they did not seasonally decline this year.
- Choice+Prime grading share of total grading is abundant, reflecting large carcass weights.
- The choice-select spread still lags last year, but has returned to normal levels. There is ample supply of choice meat and tighter supply of select. That made the spread between choice and select narrower than usual this spring/summer.

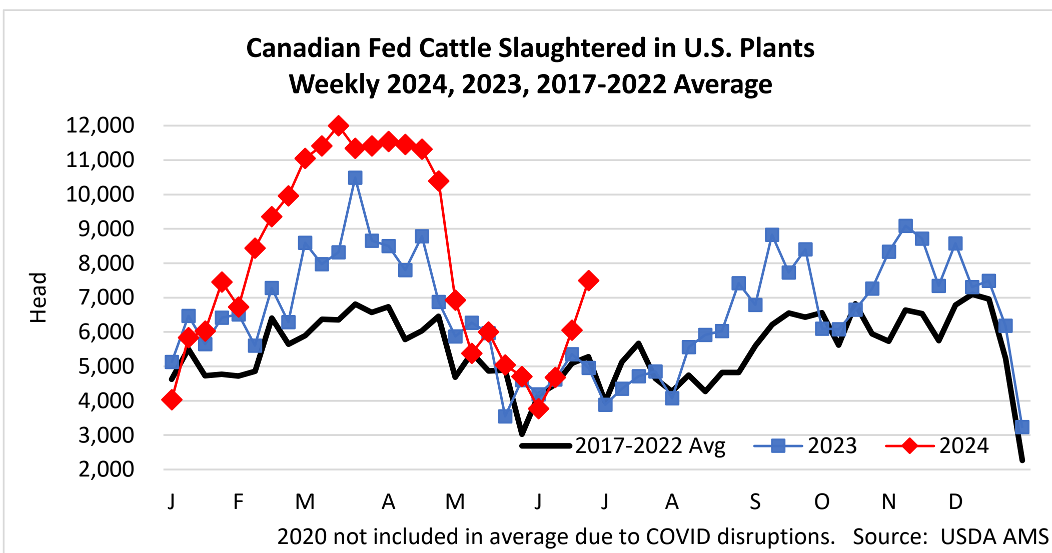
- Based on purchase data from USDA, packers spot market purchases were very light last week. Inventory position on negotiated purchases is light for this week and next.
- Packers do not look to be well covered with contracts for July.

On the Canadian Market

- **Cargill** in Guelph finished five weeks on strike and have now entered week six. Talks are planned for Tuesday. It is possible, if not probable, that talks could be successful, and a vote held this week.
- **Cargill,** High River was up to about 4,700/day Monday through Thursday. They are taking the holiday on Monday.
- **JBS** in Brooks was about 4,400/day for five days with a holiday on Monday.



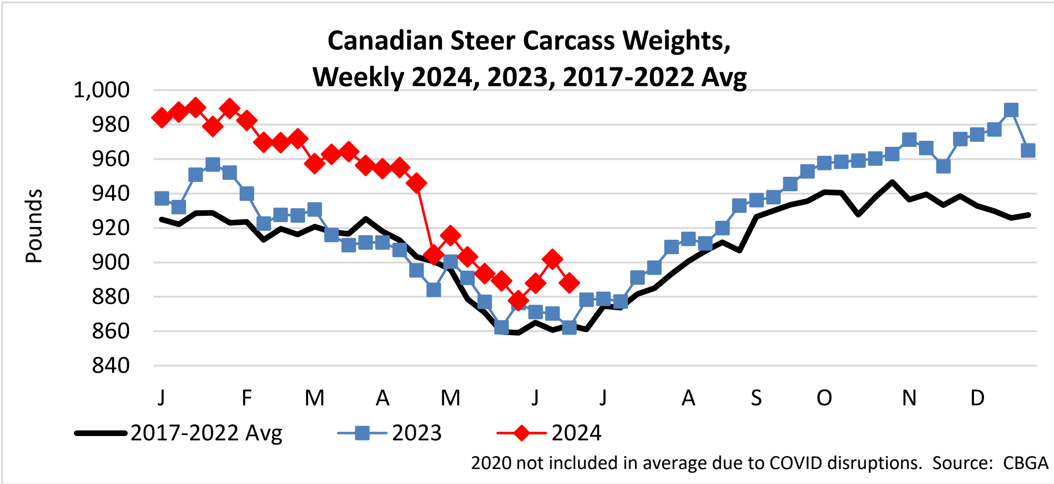
- There were about 7,500 Canadian fed cattle slaughtered in U.S. plants last week. That is a sharp increase compared to last year and compared to average. It likely is probably due to larger volumes going to the Souderton plant from Ontario due to the strike.



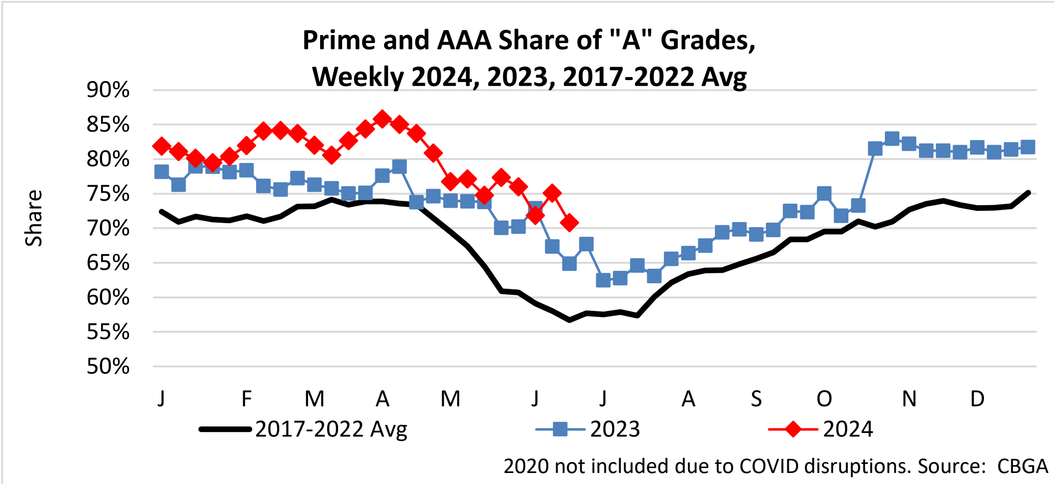
- About 23% of the Canadian cattle harvested in the U.S. over the last four weeks were contracted. The 2018-2023 contract share was 78%. The formula share going south was 29% compared to 10% over 2018-2023.

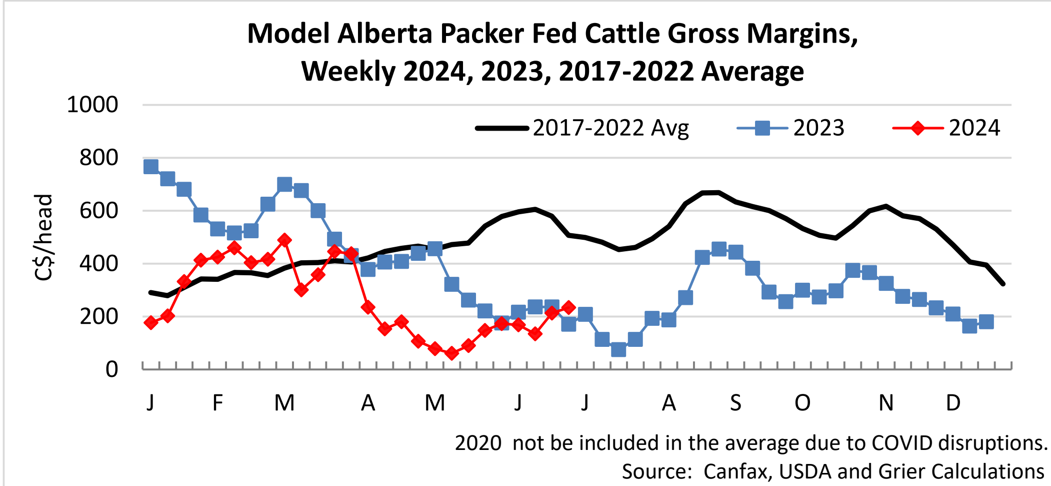
Negotiated grid numbers were 45% of the exports over the last four weeks compared to a more typical 7%.

- Canadian steer carcass weights continue to find a bottom before beginning a seasonal increase later in the summer.

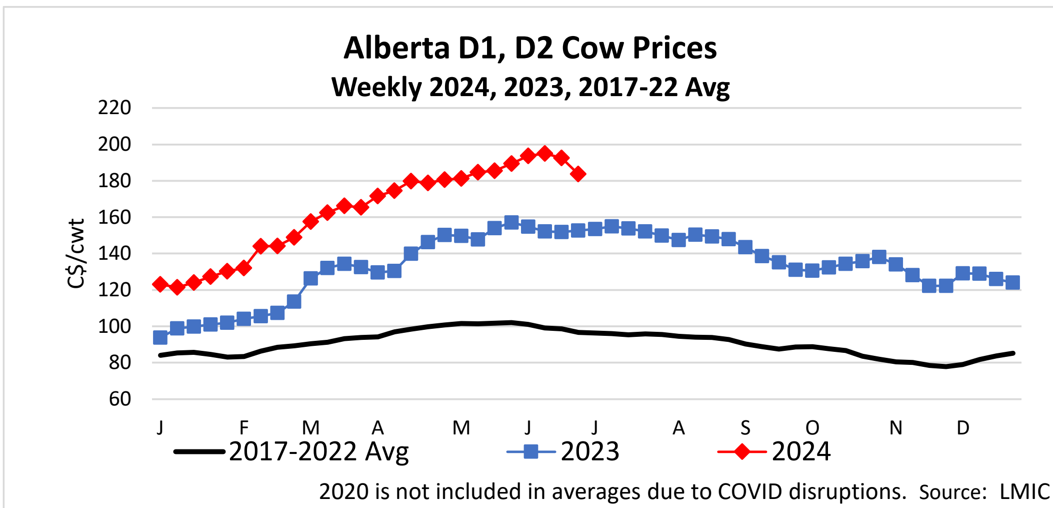


- Grading continued to seasonally decline as more calves enter the mix.
- Alberta packer model gross margin estimates, before operating costs, and using cash cattle as the raw material cost, continue to be terrible. Last year at this time, the model margins were about $200, which is poor, but not as poor as this year. Last week's Alberta cash model gross margin amounts to about US$190 and compares to U.S. model gross margins of about US$200.

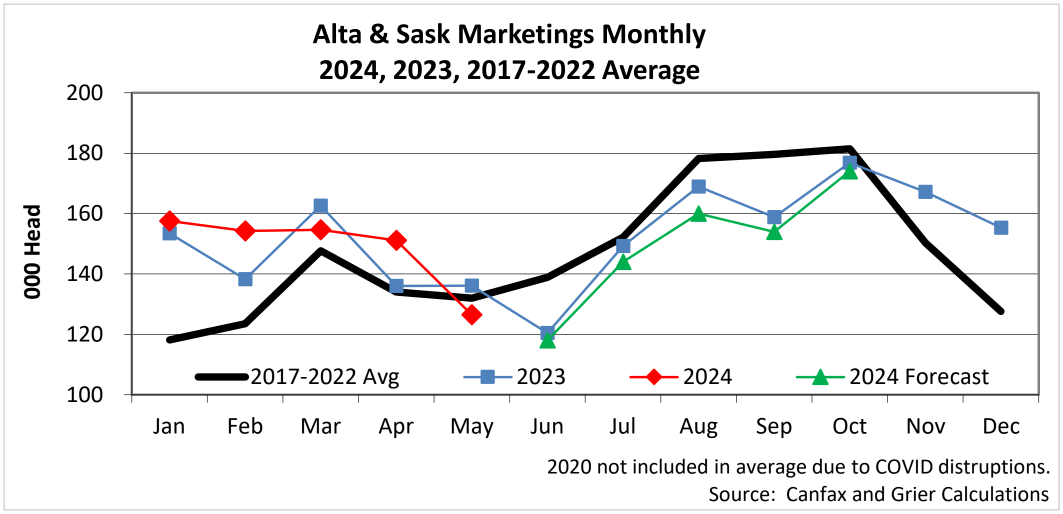


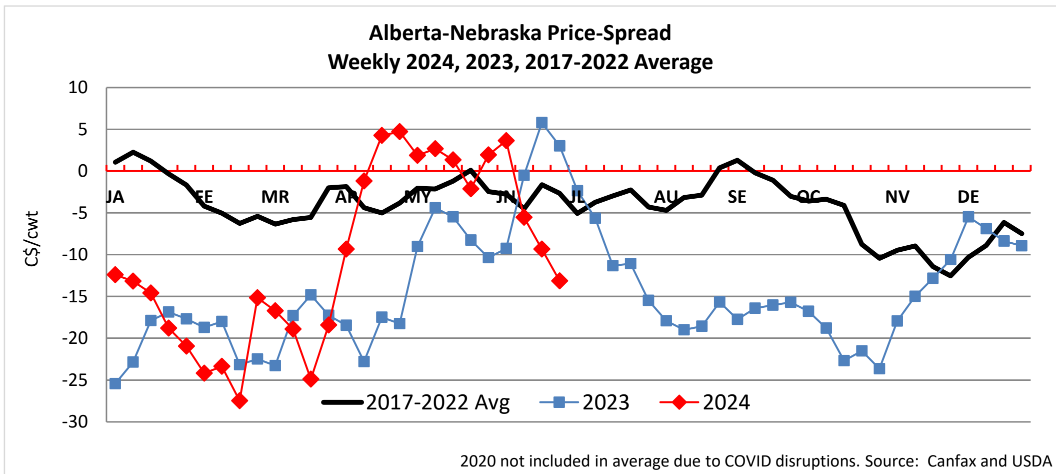


- Alberta packer margins on cows have improved modestly, but remain extraordinarily poor. Off-the-charts lean trimmings and cow cutout values are not enough to offset the cost of the cow.



- JBS backed away from the slaughter cow market. That makes sense given the margins and that is likely the reason for the price drop the prior two weeks. They were just interested in feeding cows and heiferettes.
- It is likely that neither Cargill or JBS is well bought with contracts in August. Meanwhile sellers are very interested in moving cattle for late July and early August at current price levels.
- Based on the Canfax Cattle on Feed Report, fed cattle availability July through September is likely to average about 3 to 5% less than last year.





Quarterly or Monthly Forecast Review and Grade

The June 5, 2023 edition of this report was the first to have a forecast for the second quarter 2024. At that time, the forecast was for a second quarter average of $182. The actual average for the quarter was $188. Prices outperformed what I forecast even though slaughter was notably more than what I was forecasting. Strong demand fueled the cattle this quarter. Grade on the call: “C.”

Two-Week Forecast Review and Grade

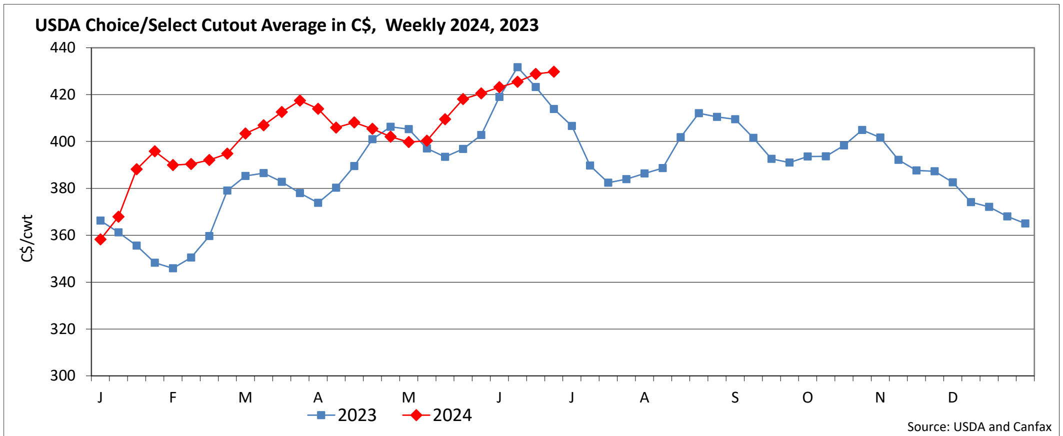
“Futures are easing off last week’s late shot higher. The cutout is showing signs of weakness. The higher basis is causing cattle owners to increase the showlist this week. Packers will be killing last week’s expensive cattle which will put them back in the red. Those are bearish arguments. On the bullish side, packers purchased an above average volume of cash cattle last week, but their inventories are still light. In addition, the fact that cash cattle traded four dollars higher on Friday says that packers need cattle. Early week sales in the south were two dollars higher this week. **U.S. call: steady to lower; two week average $190/cwt.** The actual two-week average was $195. I ignored all of the bullish argument. Grade on the call “F.”

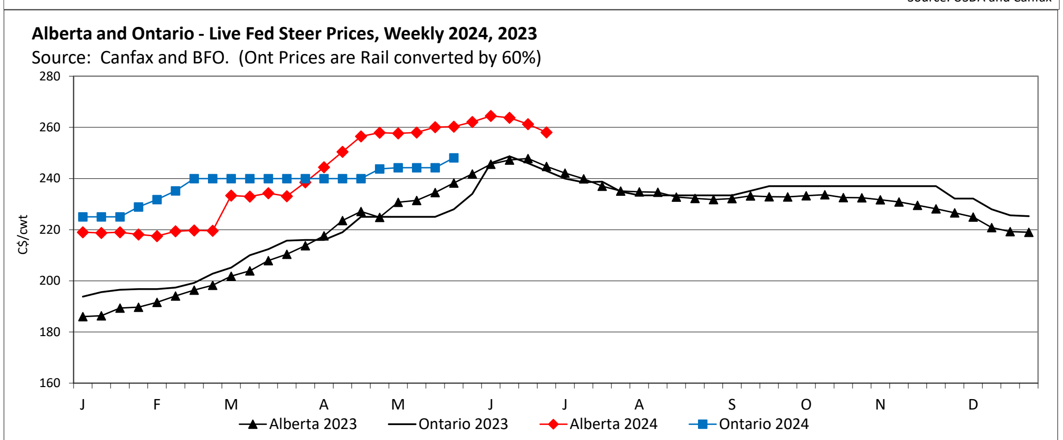
The Next Two Weeks

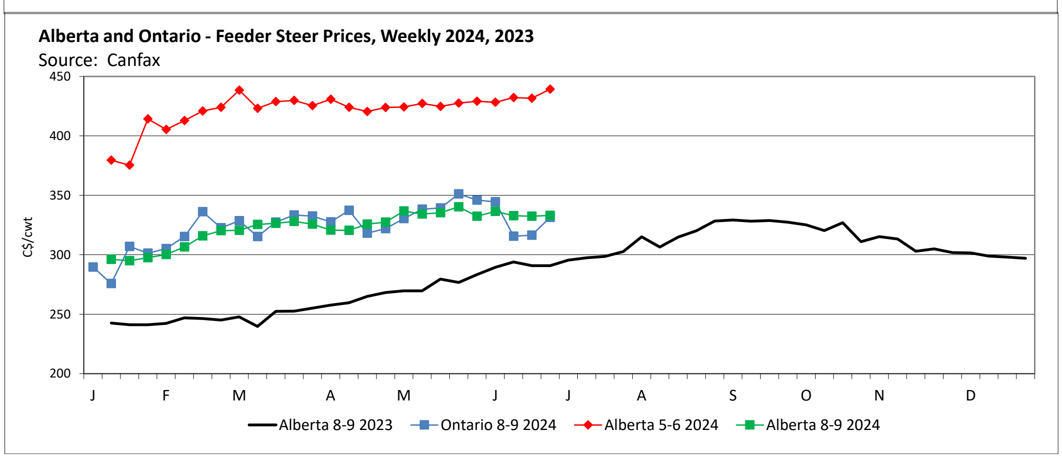
This is a toppy time of year for the cutout. The way the 90% lean trim is performing, however, it could keep pulling end meats higher and keep the cutout strong. This week's kill will be lower which will also help the cutout. In addition, packer inventories must be very tight. With all of that noted, it is hard to make an argument for further price advances. Packer margins are still poor and the peak demand time of year is past. Available fed supplies should be near seasonal peaks. I look for steady to lower the next two weeks. **U.S. call: $194.**

U.S., Alberta and Ontario Fed Steer and U.S. Slaughter Forecasts							
C$ @0.73	U.S. TOTAL Slaughter % YOY	Grier Five-Area Forecast	Live Cattle Futures	Alta-US Live Spread	Ont-US Live Spread	Grier Alta Rail	Grier Ont Rail
Next Two Weeks	-3	194	--	-9	strike	428	strike
Aug	-3	188	185	-4	-8	422	416
Sep	-3	187	--	-4	-4	420	420
Q4 2024	-5	191	187	-4	-6	429	426
Q1 2025	-4	194	189	-4	-6	435	432
Q2 2025	-4	194	188	-4	-4	436	436

If you have any questions, comments, ideas for improvement on content, suggested topics, or if you want discuss the market, please contact me at, 519-823-9868.







Kevin Grier Market Analysis and Consulting Inc.

79 Pheasant Drive, Guelph, Ontario Canada

T: 519 823 9868 C: 519 240 8779 kevin@kevingrier.com www.kevingrier.com