

Make Informed Decisions

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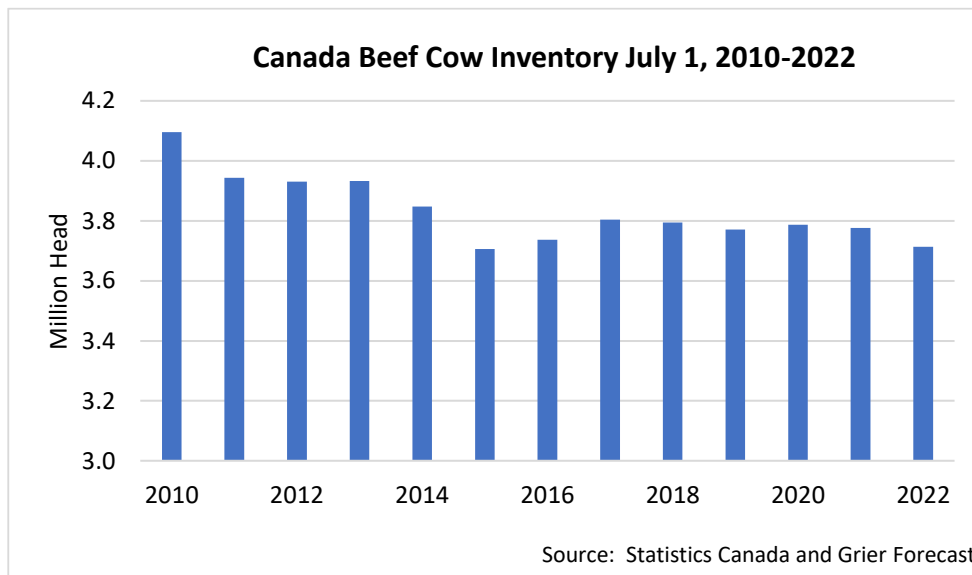
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Fall Feeder Factors

Statistics Canada released the July 1 Canadian cattle inventory survey results last week. The Canadian beef cow herd was down by 2% versus last July.

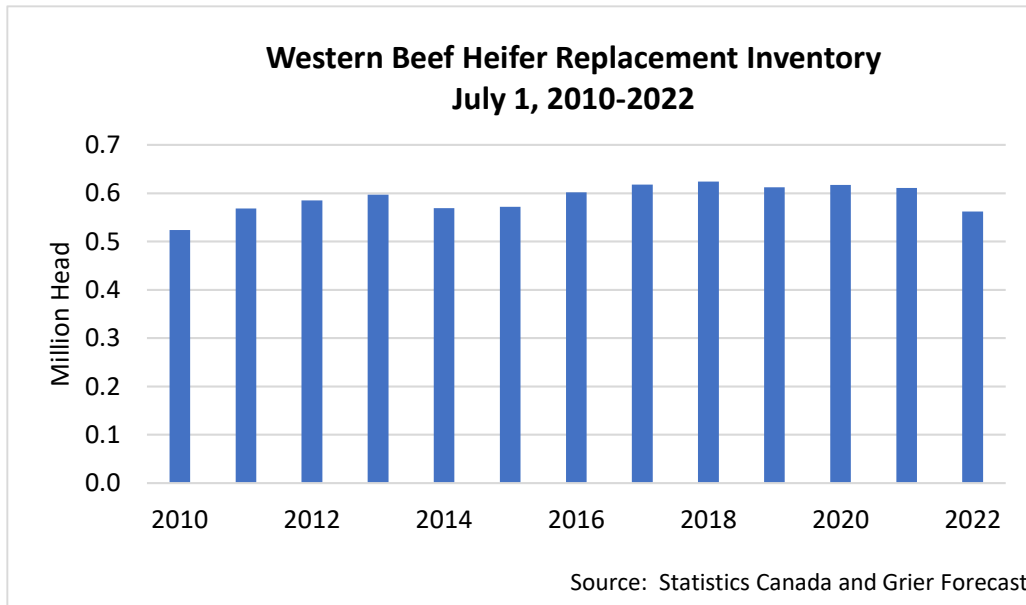


The eastern beef cow herd increased by 1% but the west fell 2%. Given the drought that plagued much of the west last year and through early spring, the 2% decline is not as large as expected.

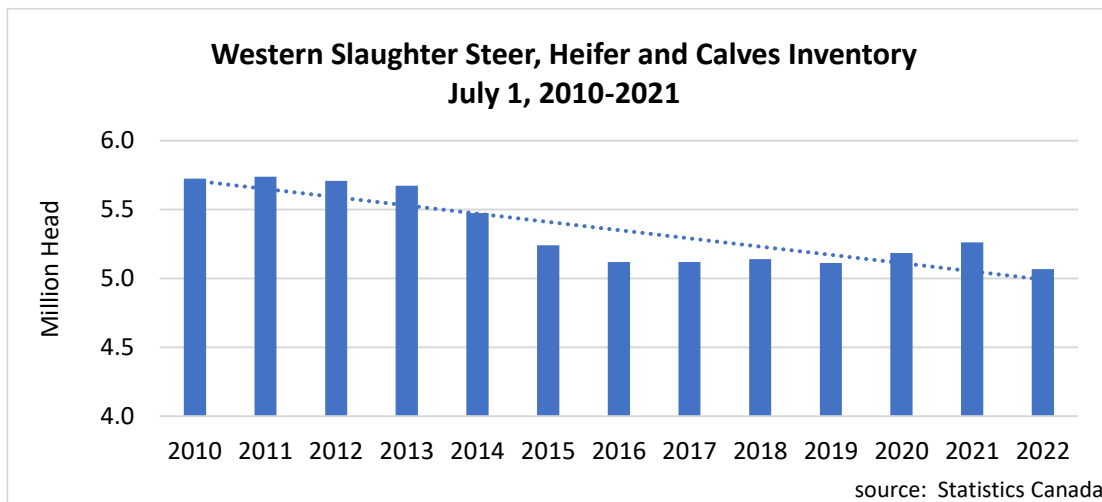
Hard Culling Heifers

With that noted, however, the drought impact might be more reflected in the replacement heifer numbers. Western beef heifer replacement numbers were down 8% year over year on July 1. Ranchers decided to cull hard on heifers given feed availability and cost prospects.

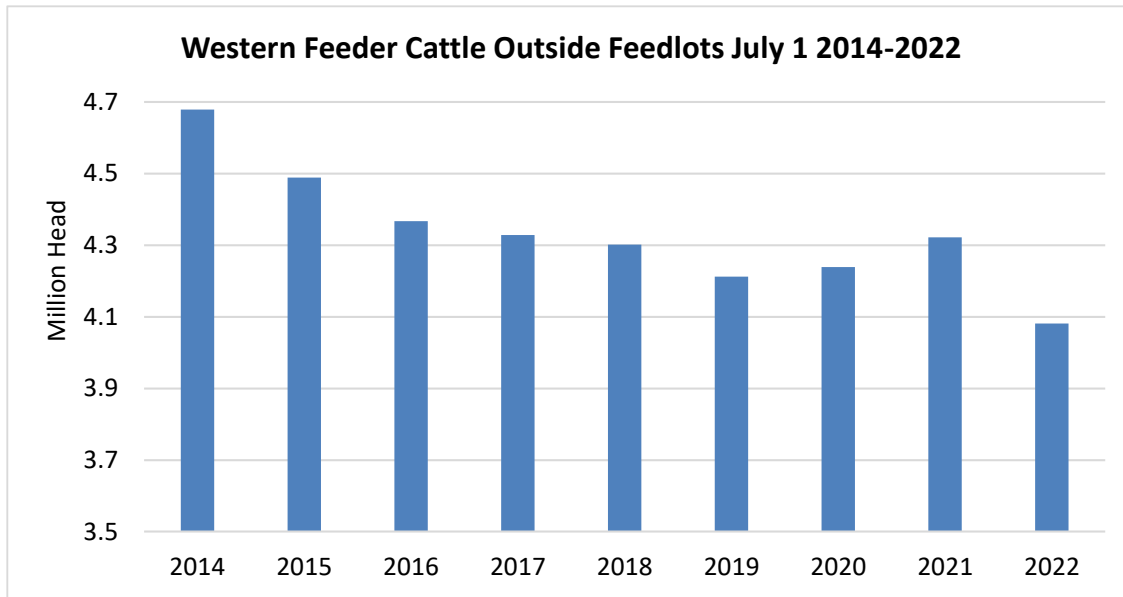




The net result of rancher decisions the last few years is that the number of slaughter steers and heifers plus calves in the west is down about 4% or 190,000 head this July versus last. That decline was due to the hard culling of those heifers plus the drought-driven need to place cattle on feed as opposed to pasture or background. That means that availability of these cattle has declined for the first time in several years.

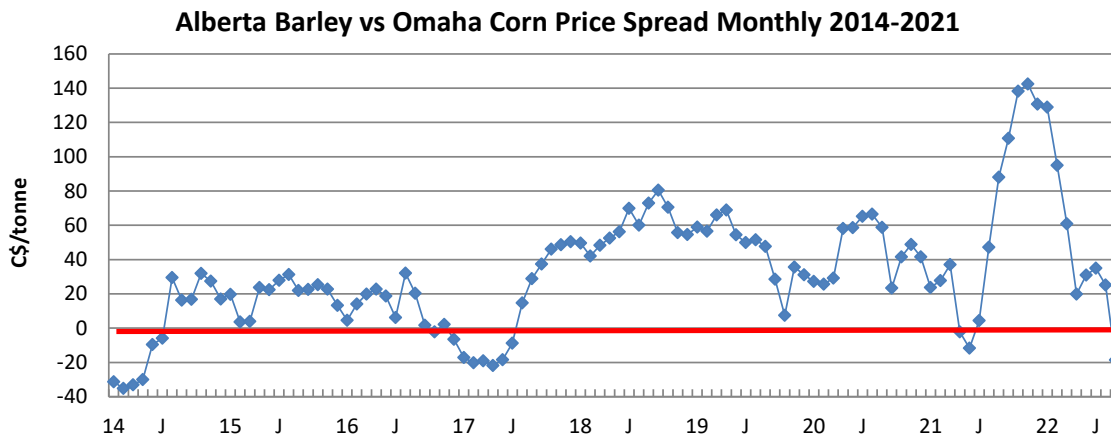


That has significant implications going into the fall calf run. In addition, while the inventory of slaughter feeders and calves is down 4%, the number that are outside feedlots is down nearly 6% or 240,000 head. Furthermore, just because they are outside feedlots, does not mean they are available this fall. Each year more and more are likely to go into the fall already traded and committed. The bottom line is that feeder cattle and calf supplies this fall will be very tight due to both drought and ongoing liquidation. That has major upward ramifications for feeder and calf pricing now and into the remainder of the year.



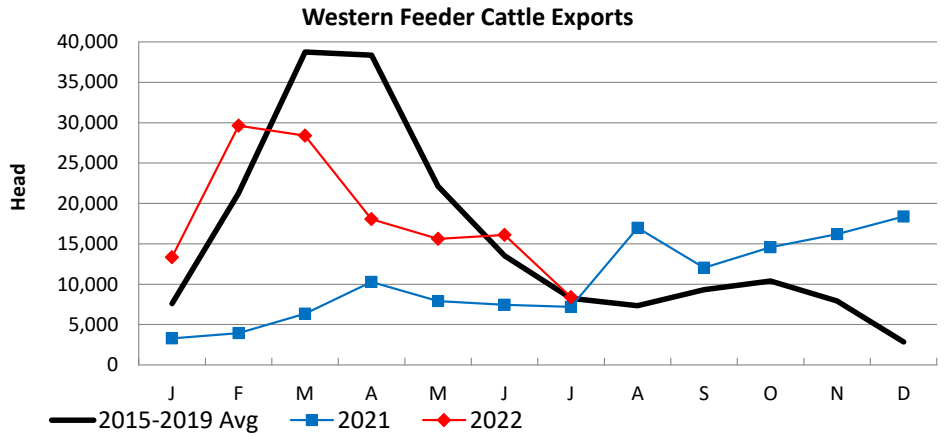
Stark Change in Relative Grain Prices

The other factor that is driving feeder and calf pricing higher is the dramatic change in grain pricing; or more accurately, relative grain pricing. Over the course of 2022, the Alberta grain price differential compared to the U.S. has gone from an extraordinary disadvantage to an advantage.



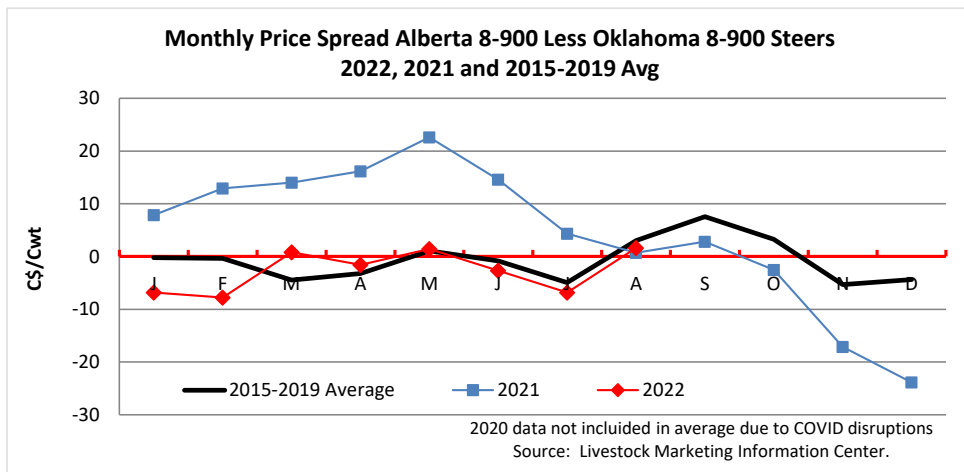
Clearly the prairie grain buyers and sellers are now of the opinion that the western crop is going to be abundant. That is notwithstanding the harsh temperatures of August and serious talk that the crop is not as good as it looks. That remains to be seen.

The exceptional grain price disadvantage over the second half of 2021 through the first half of this year had predictable impacts on the feeder trade with the U.S. While the volumes going south in the first half of this year may not have been up to the average of 2015-2019, the flow was far greater than 2021. U.S. buyers had greater buying power due to their grain price advantage.

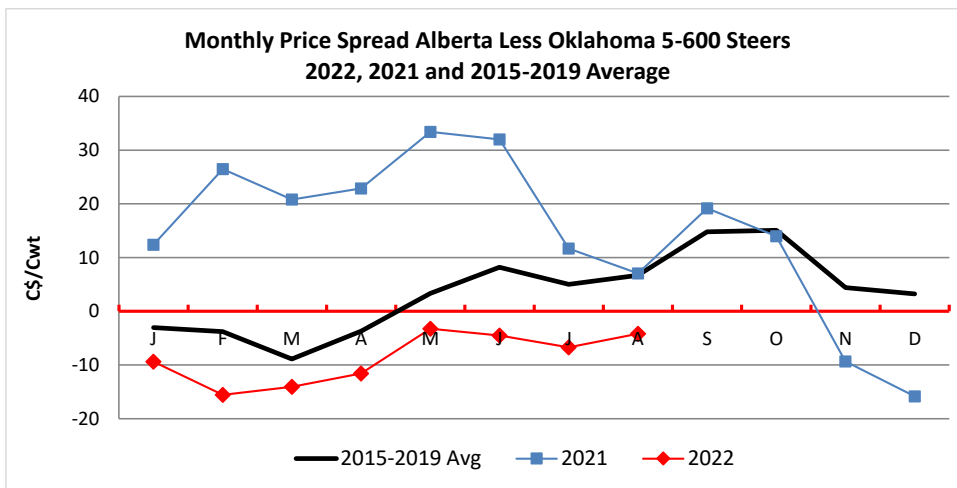


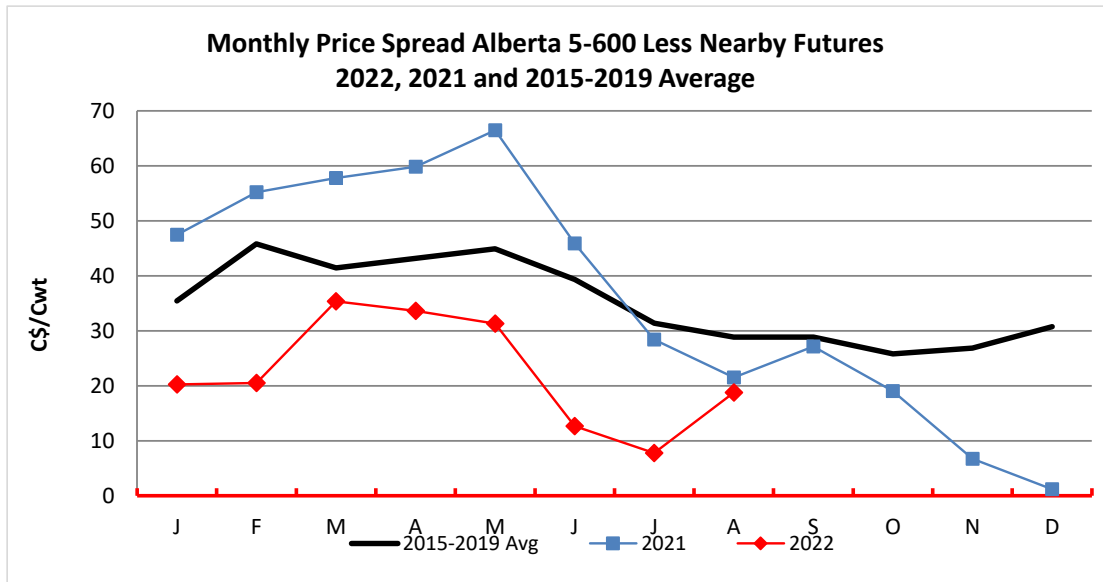
2020 Not included in average due to COVID disruptions. Source AAFC

Alberta calf and feeder prices have been soaring during late July and August. That is at least in part due to the supply and grain factors noted above. It is interesting, however, to see that so far, this increase in cattle prices has also been matched, or driven, by prices in the United States. The relative feeder and calf price differentials with Oklahoma are close to normal levels. In fact, calf prices are lower than normal.



2020 data not included in average due to COVID disruptions
Source: Livestock Marketing Information Center.





The bottom line is that U.S. buyers are unlikely to pull large volumes of prairie feeder cattle south this fall. With that said, however, unlike other recent years, the U.S. can be expected to provide a solid price floor this fall.

Kevin Grier, August 2022



A version of this note first appeared in the August 29 edition of Canadian Cattle Market Report. If you would like a free two-month trial, please email me at kevin@kevingrier.com.