



Make Informed Decisions

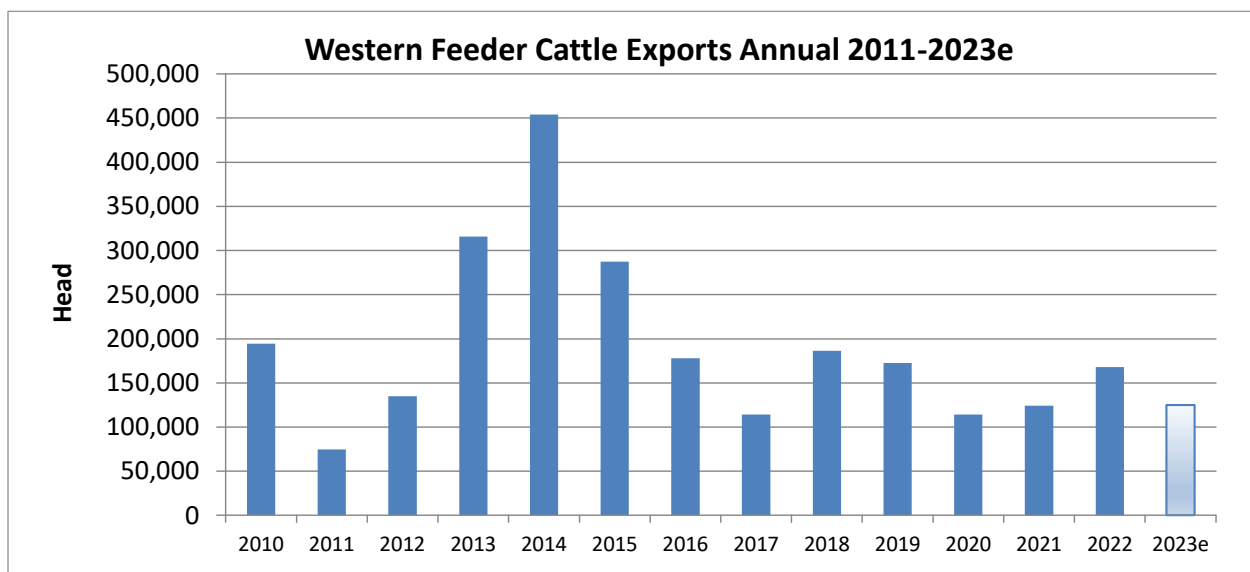
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Looking at the 2024 Feeder Trade

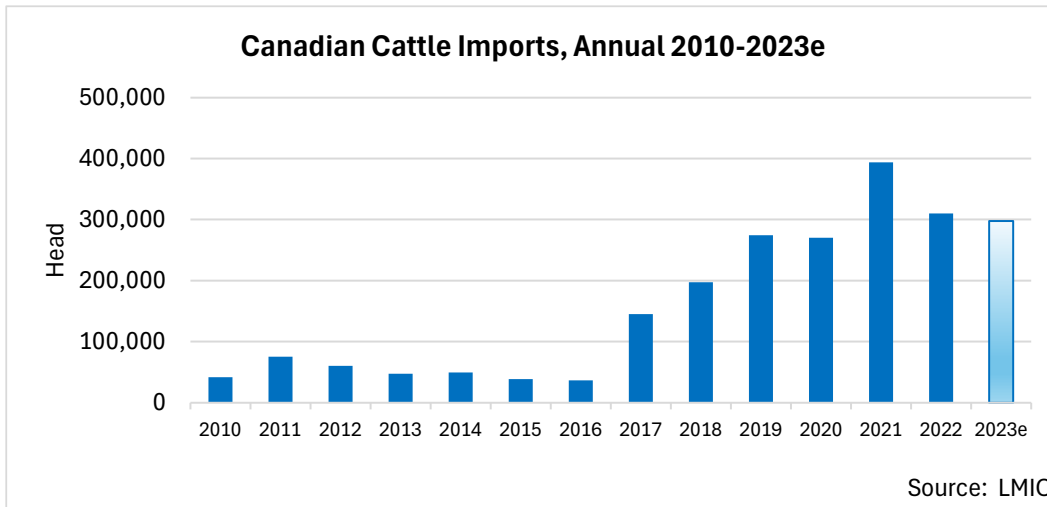
With the release of the November trade data, a good picture of 2023 western feeder cattle imports and exports emerges. Based on the first eleven months of the year, it is likely that about 125,000 feeder cattle were exported from the west into the U.S. during 2023. That is down from 2022 but more than 2021 and 2020. The 2018-2022 five-year average was 153,000.



Meanwhile, Canada imported about 300,000 head of cattle from the United States in 2023. The data does not sort out the west or east destination, nor the type of cattle. Nevertheless, it is reasonable to assert that the vast majority of these are feeder cattle, destined for western Canada. Imports since 2010 peaked in 2021 at just under 400,000. The 2023 tally looks, however, to be very close to the 2018-2022 average of 289,000 head.

Beef Breed Imports Supplant Dairy

As an aside, the surge in imports starting in 2017 was largely the dairy or dairy beef crosses. Alberta feedlots saw the advantage of those cattle before their counterparts in the United States. That has changed in a short time, however. There is now strong demand for dairy crosses in the U.S. There is no longer a material price differential that will drive those cattle north. Now the feeder trade coming north has far more high-quality beef breeds from Montana and other northwest states. As a further aside, it is obvious that the volumes coming north are unusually large relative to 2010-2016. The volumes, however, look very similar to the 1999-2002 flow, prior to BSE.



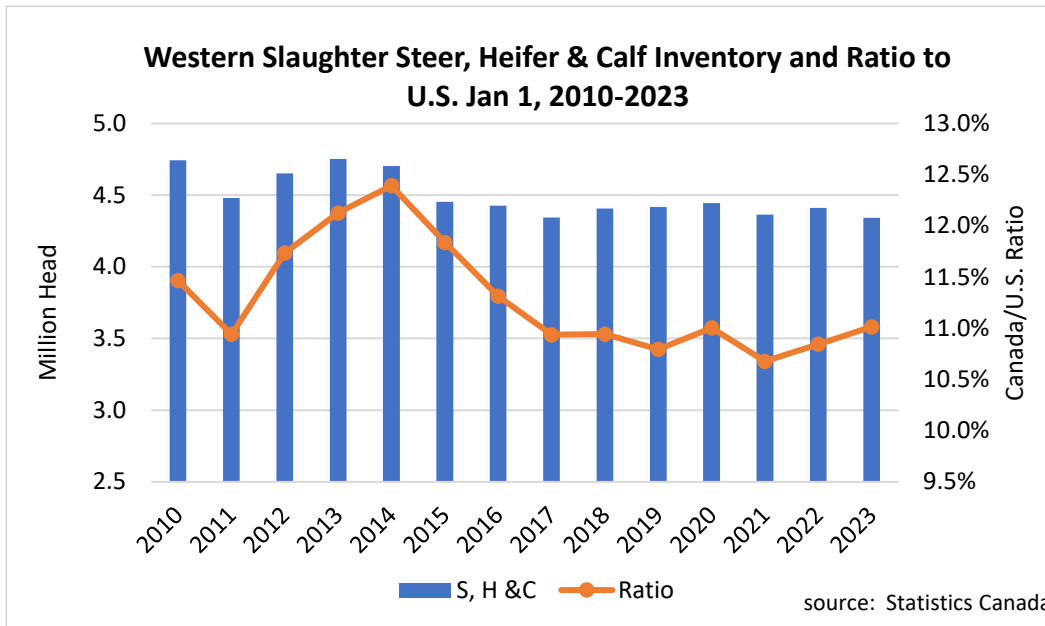
The summary point is that the 2023 exports of feeder cattle were on the short side, but not unusually low. Imports of feeders in 2023 were also close to recent averages. In other words, the 2023 feeder trade was normal.

Supply Factors Neutral

The question then becomes what will the flow be in 2024? On the supply side, the imminent January 1, 2024, inventory of steers, heifers and calves will no doubt show volumes down by at least 2% in western Canada. When StatsCan published the inventory report, it can be expected to show that drought and ongoing culling continued to take their toll. The U.S. herd will also be lower, however, but perhaps not as much of a decline as in western Canada.

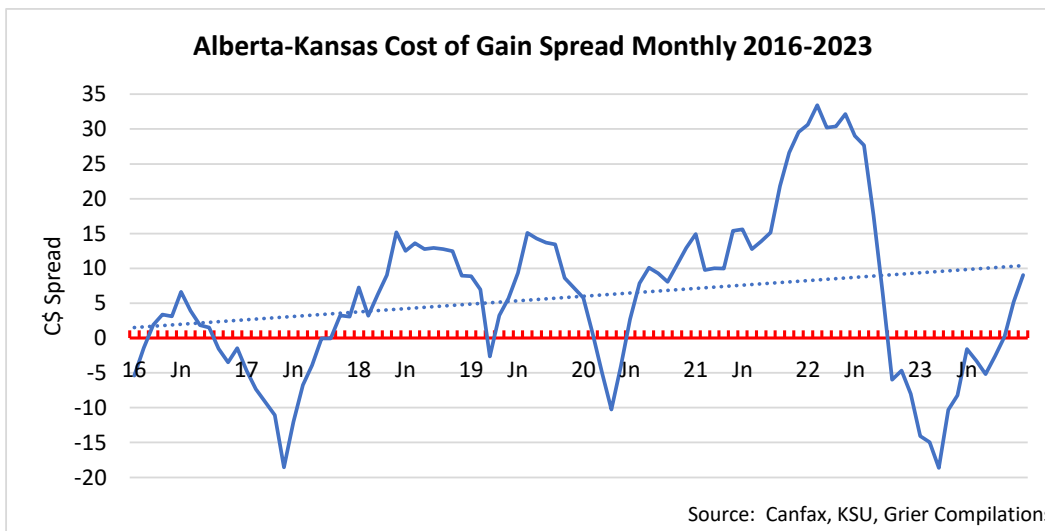
The ratio of Canadian wester feeder supplies to U.S. supplies has been running around 11% in recent years. That compares to 2013-2015 when the western supply was much larger than the U.S. supply. Not surprisingly those were also the years in which Canadian feeder exports were exceptionally robust; the U.S. was short. In 2024, the ratio will be lower than the recent average, which should work be a factor in keeping cattle north. Overall, however, there is nothing statistically robust on the supply side that is going to be a driver of trade one way or the other in 2024.





Cost of Gain

There are several factors on the demand side that can facilitate or impede trade. One demand side factor is costs of gain. Relative feed costs can determine the level of demand for feedlots in Alberta compared to those in the U.S. Feed costs determine comparative buying power and thus relative feedlot demand between regions. Cost of gain is logically a key feeder trade dynamic.



The costs of gain between Alberta and Kansas can be compared to examine this factor. The graph above shows the Canfax cost of gain in comparison to the Kansas COG, as compiled by Kansas State University. It is best not to make direct comparisons due to differences in methodologies. Nevertheless, there is merit in comparing the trends over time.

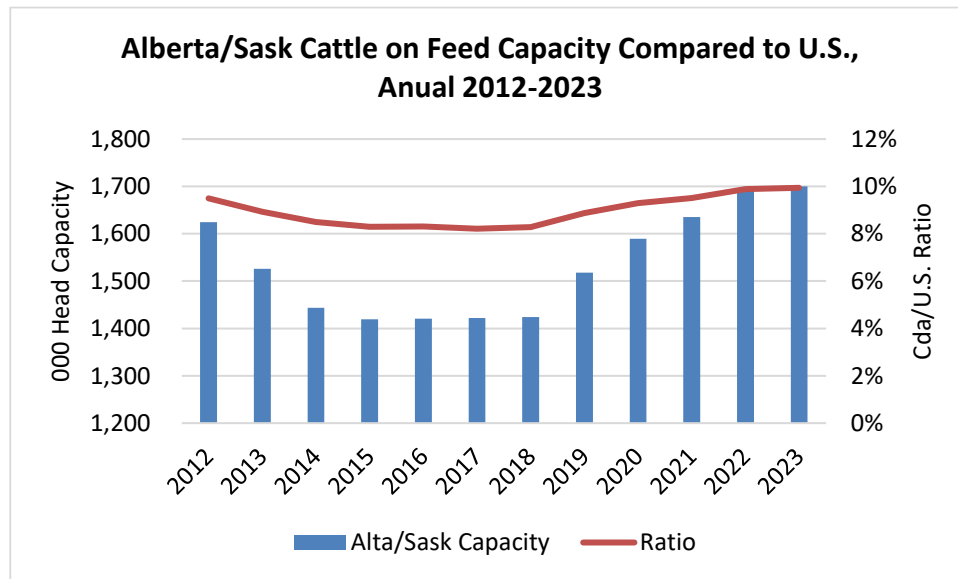
Regarding those comparisons over time, Alberta had a distinct disadvantage in 2021 and particularly 2022. Despite the 2021 disadvantage, imports, counter to reason and logic, surged

that year. By 2022, when the disadvantage was even greater than 2021, imports finally eased. Also, in 2022 exports picked up. At least the trade movement in 2022 made sense. In 2023, Alberta had a feed cost advantage relative to the U.S. Not surprisingly, exports decreased while imports stayed big.

For 2024, the relative feed cost picture is far from clear. The drought on the prairies is the biggest threat to the relative feed cost competitiveness picture. As of now, however, there is nothing definitive to say that relative feed costs will be a key driver of trade.

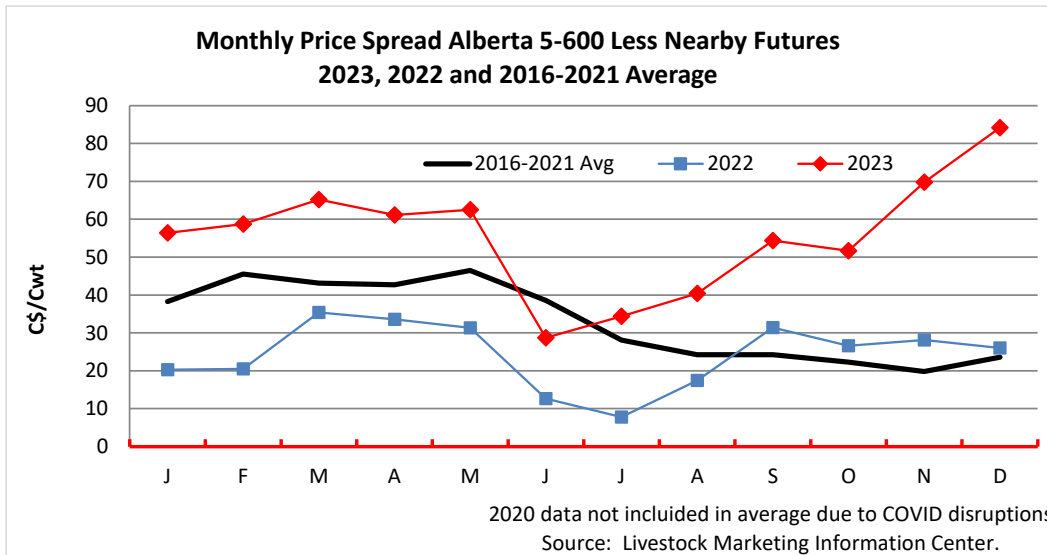
Feedlot Capacity Grows in Alberta

Another demand side driver is feedlot capacity. U.S. feedlot capacity has been steady at about 17.1 million head for about 10 years according to the USDA. Meanwhile, Canfax’s capacity estimates for Alberta and Saskatchewan has grown by about 300,000 head between 2015 and the start of 2023. It likely grew modestly again in 2023. As with every other factor, the absolute number matters less than the comparison to the U.S. Therefore, the point of note is that the ratio of western capacity to U.S. capacity has risen in recent years. That means that there should be more western demand for feeder cattle and calves. That should drive up imports and restrain exports. That has certainly been the case when looking at the big picture of imports and exports from 2018-2023 in total. With that factor acknowledged, the year over year differential is not likely to be dramatic enough to result in serious change in 2024.



Feeder Spread

Ultimately all the above factors determine the relative price level between the west and the U.S. Over the 2016-2021 period, not counting 2020, the Alberta calf price compared to the U.S. feeder index tended to range around C\$+40/cwt in the first half of the year about C\$+20-30 in the second half. In 2022 the spread was much weaker than average. The 2023 spread was stronger. Those calf price spreads tend to coincide with what could be expected given the relative costs of gain. A more competitive cost of gain drives the calf price spread higher and vice versa. The spread starts 2024 very strong.



The summary point for 2024 feeder exports is that of the many market factors, a majority are pointing to moderately lower volumes moving south. The key will be dryness and its impact on western cost of gain.

Regarding imports, the reality is that perhaps 95% of all cattle feeders in the west do not participate in that trade. Nevertheless the 5% that do import are very large. Their decisions make a huge difference on overall volumes. The Alberta importers will continue to enjoy a serious freight advantage on northwest calves and feeders compared to their Midwest competitors. Imports should stay on par with recent years, but down nominally due to overall supplies.



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