

Late May 2003 Beef Cattle Price Comments

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BSE in Canada

Last week on Tuesday 20 May 2003, an announcement that a cow had tested positive for BSE in Canada was made. The futures market for almost all live cattle and feeder cattle contracts dropped the limit that day. Wednesday, the futures markets opened below the close on Tuesday and then regained a good part of loss that occurred on Tuesday and have returned to the prior existing trend lines for Thursday and Friday.

As of this morning (Tuesday, May 27, 2003) no new cases have been announced and the live cattle and feeder cattle futures have opened up for the nearby contracts.

There are several websites that have BSE information. They are as follows:

US Department of Agriculture homepage

<http://www.usda.gov/index.html>

This website provides information about USDA's responses to the announcement of a cow diagnosed with BSE in Canada, background information on BSE and the prevention activities underway.

National Cattleman's Beef Association Government Affairs website:

<http://hill.beef.org/news/>

This website provides NCBA's daily update on BSE.

National Cattleman's Beef Association BSE, CJD, nvCJD Information Resource website

<http://www.bseinfo.org/>

This website provides very good technical information on these diseases.

The national feeder cattle market for last week has seemed to have absorbed the BSE announcement and went on about its business. Compared to the week ending May 16th, national feeder steer and heifer prices ended steady to \$1.00 higher. There was weakness for weights over 800 pounds because of the large numbers of winter grazing cattle coming to market. The runs of winter grazed yearling cattle should be just about over.

Last week, calf numbers were tight in the Plains states and the bulk of the lightweight animals were sold east of Missouri and Arkansas with relatively steady prices. Most auctions later in the week were as active as they had been on Monday, although direct feeder cattle trading was slow.

The Weekly Summary for 13 Louisiana auctions (week ending 23 May) indicates a \$1.00-\$3.00 decline for feeder steers and a \$1.00-\$4.00 decline for feeder heifers compared to the week ending 16 May. Slaughter cow prices improved slightly. For the week ending 16 May, feeder steers and heifers had been \$1.00-\$5.00 higher than the

week before. Currently, there does not appear to have been much, if any, negative effect to prices for Louisiana cattle due to the reported case of BSE in Canada.

Slaughter cattle prices started the week at \$80.00 for premature showlists and dressed beef values were at record levels. Most feedlots have refused to lower bids and only moderate trade was reported for Friday at \$79.00 for live cattle and \$125 for carcass beef. Most fat cattle are sold in a relatively short time period during the week and moderate trade at the end of the week is not abnormal.

If no additional bad news comes forth, the US beef market may temporarily benefit from this event. The US borders are closed to beef imports from Canada and that will support meat, fat cattle and feeder cattle prices. Also, Canadian meat exports to other markets have been severely reduced making US beef for export more desirable which will support US prices. Because Canada cannot export, Canadian supplies will increase. Once, the situation is stabilized and Canadians begin to export again, a temporary increase in available Canadian supply should be expected with the attendant temporary reduction in prices. Because of the short US supply and high demand fundamentals, these episodes should be over relatively quickly.

But, as economists say, on the other hand:

If additional animals test positive for BSE in Canada and their meat is found to have entered the beef supply, public concerns will be aroused and beef (whatever the origin) may suffer a reduction in demand and hence price.

If an animal (or animals) tests positive for BSE in the US and their meat has entered the food supply, public confidence will be shaken with at least a temporary significant reduction in beef demand. Export demand will drop and domestic demand will at least be reduced significantly until public confidence can be restored.

Those producers that have cattle on feed or grass should look at their risk management options and consider taking some price protection based upon their ability to withstand a price reduction in case additional BSE cases are diagnosed.

Supply and Demand Fundamentals

The 12 May 2003 World Agriculture Supply and Demand Estimates presented USDA's initial assessment for 2003/04 crop prospects and 2004 livestock prospects. Projections are based economics analysis, normal weather, trends and judgment.

The 1st Quarter, 2004 beef production is estimated at 6,000 million pounds down from the 1st Quarter of 2003. Annual beef production for 2004 is projected at 25,650 million pounds, down from 26,233 million pounds for 2003 and 27,090 million pounds for 2002. The projected annual price range for choice steers for 2004 is \$77-\$84 as compared to 2003 annual projected price range of \$75-\$78 and a 2002 annual price of \$67.04.

Total Red Meat and Poultry production for 2004 is projected at 84,365 million pounds, down from 84,538 million pounds in 2003 and 85,669 million pounds in 2002.

The projected declines in beef production and Total Red Meat and Poultry production for 2004 are supportive of calf prices this Fall from the supply side. If demand continues as strong as currently seems to be the case, Fall calf and cull animal prices should be very good.

However, a fall off in domestic demand due to economic concerns or health issues could reduce prices. The price reduction would be limited somewhat by the projected reduced supplies. A reduction in export demand due to world economic conditions or concerns about the safety of US beef would result in a reduced US price, but would be limited by reduced supplies.

The first projections of the 2003/04 US corn crop indicates a projected average farm price range of \$1.90 - \$2.30 per bushel as compared to an estimated price range of \$2.25-\$2.35 for the 2002/03 crop year and a \$1.97 price for 2001/02.

Soybean meal projected prices for the 2003/04 crop year are in the \$150.00-\$180.00 per ton range compared to \$175.00 per ton for the 2002/03 crop year and \$167.73 for the 2001/02 crop year.

These feed ingredient prices are supportive of higher calf prices this Fall and into early next year.

The prospects for Fall calf and cull animal prices seems to be very good, but is subject to rapid changes in the event of BSE scare. The depth and length of a price decline due to a health scare are uncertain.

Management Suggestions:

Cow-calf producers may want to explore contracting calves for Fall delivery to reduce their price and market access risk. Early contracting may reduce the opportunity to take advantage of a price rise later in the year, however.

Cow-calf producers should also continue to develop and implement their quality assurance program to ensure market access. The current BSE scare underscores the need for a feed quality assurance component in their BQA program.

Country of Origin Labeling

Just a reminder that a COOL listening session will be held:

June 19 -- Baton Rouge, La.

Southern University Agr. Research and Ext. Center

B.A. Little Drive
Baton Rouge, La. 70813

Please see the COOL website

<http://www.ams.usda.gov/cool/>

for additional information on COOL. The transcripts of listening sessions already completed are posted at the website as are examples of records that may be useful for COOL verification purposes. In addition, testimony before Congress concerning COOL is listed.