Cattle Market Update

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Market Analyst
January 2018

2017 REVIEW...

Extremes Dominate!

And Speaking of Extremes...

Steer weights -26 lbs from 2016

A 13 lb weight decline is significant

Source: USDA

Source: CanFax

Source: AAFC, CBGA

Source: AAFC

The 2017 weight decline had the impact of offsetting about 450,000 head of the increase in fed sltr.

A 10 lb increase this year would be like adding 300,000 head.

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A 10 lb increase this year would be like adding 300,000 head.
Excellent packer margins = moving more cattle & beef

Annual Est U.S. Packer Margin

Source: USDA & Cattlefax

Biggest slaughter since 2010 (+7% from YA)

Alberta Cattle Slaughter (Federally Inspected Packing Plants)

Source: Cattlefax and Ferry Foods, 2018

Good beef demand in 2017 from Q2 on, whsl prices 2% higher than ‘16

US Weekly Choice Cutout

Source: USDA

Leverage can be just as important as supply

BEEF SUPPLY UPDATE

3M head of beef cows will have been added from 2014 to 2018

U.S. Beef Cow Inventory January 1 - 1980 to 2018

Source: USDA, Cattlefax

Although U.S. expansion has slowed 2018 will be the 4th year of growth

U.S. Beef Replacement Heifers January 1 - 1978 to 2018

Source: USDA, Cattlefax
More Cattle Coming – It’s when they’re placed & how we get thru them that matters

US Steer & Heifer Slaughter

Source: USDA

U.S. Beef Production +4% (sltr +6%) in 2017, expecting record tonnage in ’18

U.S. Beef Production 1990 to 2018

Source: USDA

Canadian beef cows unchanged...again

Canadian Beef Cow Numbers January 1 - 1970 to 2018

Source: Statistics Canada

Compared to 2002 N.A. beef herd is 5% smaller (or 2M)

Change in Beef Cow Inventory Relative to 2002

Source: USDA & Stats Can

Larger heifer placements in feedlots still mean no expansion taking place

AB/SK Heifers as % of Total Placements

Source: Canfax

Retail Choice demand has been exceptional

DEMAND
2018F U.S. Pork production +3%, Cdn +1%

- Increasing slaughter capacity
- Profitable sectors
- Strong exports +4%
- Lower weights

U.S. Pork Production

Source: USDA, Cattl efax

Choice (and AAA) premium seasonally strong in May/June and Nov/Dec

US Choice/Select Spread

Source: USDA

Retail beef prices -3% from 2016

Monthly Canadian Retail Beef Price

Source: Stats Can

Beef demand -4% but still strong historically

Canadian Retail Beef Demand Index

Source: Statistics Canada, CanFax, US Beef Demand Study Group
2017 YTD exports +5% – growth in all key markets

Canadian Beef Exports

Source: Stats Can

2017 YTD imports -8% (Aussie & U.S. factors)

Canadian Beef Imports

Source: Stats Can

Impressive 2017 for US exports: beef +13%, pork +7%, broiler +3%

US Beef Trade

Source: USDA

Better than we thought but don’t get complacent

CATTLE PRICE OUTLOOK

U.S. Drought Monitor

Assuming 2018 U.S. fed avg of $113 range could be $95-130 (2017 = $121)

Weekly US Fed Steer Price

Source: Cattlefax
U.S. feedlots placed 1.9M head more (9%) to Nov (more than all of 2016)

US Monthly Placements

<table>
<thead>
<tr>
<th>Month</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jan</td>
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<td>210K</td>
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<td>220K</td>
<td>230K</td>
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<td>Mar</td>
<td>240K</td>
<td>250K</td>
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<td>May</td>
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<td>Jun</td>
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<td>Jul</td>
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<td>330K</td>
<td>340K</td>
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<tr>
<td>Aug</td>
<td>340K</td>
<td>350K</td>
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<td>Sep</td>
<td>360K</td>
<td>370K</td>
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<tr>
<td>Oct</td>
<td>380K</td>
<td>390K</td>
<td>400K</td>
</tr>
<tr>
<td>Nov</td>
<td>400K</td>
<td>410K</td>
<td>420K</td>
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Source: USDA

W Can placements +17% YTD (250K) and 18% more Aug-Nov

Alberta and Saskatchewan Placements

<table>
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<tr>
<th>Month</th>
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<tbody>
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<tr>
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<td>70K</td>
<td>80K</td>
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<td>80K</td>
<td>90K</td>
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<tr>
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<tr>
<td>Sep</td>
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<td>140K</td>
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<tr>
<td>Oct</td>
<td>140K</td>
<td>150K</td>
<td>160K</td>
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<tr>
<td>Nov</td>
<td>150K</td>
<td>160K</td>
<td>170K</td>
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Source: CanFax

21% more calves placed this fall (81K)

Calf Placements into W Can Finishing Lots (Sep-Dec)

<table>
<thead>
<tr>
<th>Year</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
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<tbody>
<tr>
<td>2015</td>
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<td>2016</td>
<td>25K</td>
<td>30K</td>
<td>35K</td>
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<tr>
<td>2017</td>
<td>30K</td>
<td>35K</td>
<td>40K</td>
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</table>

Source: CanFax

Need to monitor cattle feeding margins

Break Even vs Market Price Yearling Steer - 2011 to current

Cdn $ rangebound 73-82 (mostly 75-80)

Weekly Canadian Dollar

<table>
<thead>
<tr>
<th>Week</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
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<td>60.80</td>
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<td>60.70</td>
<td>60.80</td>
<td>60.90</td>
<td>61.00</td>
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<tr>
<td>3</td>
<td>60.90</td>
<td>61.00</td>
<td>61.10</td>
<td>61.20</td>
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<tr>
<td>4</td>
<td>61.10</td>
<td>61.20</td>
<td>61.30</td>
<td>61.40</td>
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</table>

Source: Bank of Canada

Feeders avg $186 for 2017, $5 higher

Weekly 850 lb Steer Price W Can

<table>
<thead>
<tr>
<th>Week</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
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<td>1</td>
<td>110</td>
<td>115</td>
<td>120</td>
<td>125</td>
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<tr>
<td>2</td>
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<td>3</td>
<td>120</td>
<td>125</td>
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</tr>
<tr>
<td>4</td>
<td>125</td>
<td>130</td>
<td>135</td>
<td>140</td>
</tr>
</tbody>
</table>
Calves average $222 for 2017, $5 higher but during fall run avg $50/cwt higher

Cow avg $98 for 2017, same as 2016

Bred heifers average $200/hd higher

Strong Cdn Basis has significant impact

So What to Expect?

- U.S. 2018 fed price range $95-130 (avg $113)
- Local basis levels? Historic or strong (like TY)
  - Example: $113 / .80 = $141 CDN less $9 basis = $132 fed steer avg for 2018 (2017F $155)
  - OR $113 / .80 = $141 less $3 basis = $138
- A $6/cwt difference in fed basis = $85/head
- An ‘extra’ $100 on fed cattle means cattle feeder can spend $12/cwt more on feeders and $18/cwt more on calves

The world is demanding more meat – especially Asian consumers

World Beef Production
Losing TPP could mean losing this!

![Graph showing beef exports to Japan](image)

Source: StatsCan

What to watch in 2018

**2017**
- Larger beef production ✓
  - = lower prices ✗
- Demand – strong (economy) ✓
- Trade – larger ✓
- Exchange rate ✗
- Local basis ✓
- Weather ✗
- Competitive Meat supply ✗

**2018**
- Record beef production ✓
  - = lower prices
- Demand (economy/consumers) ✓
- Trade ?
- Exchange rate ?? (75-80)
- Local basis ✗
- Weather ??
- Competitive Meat Supply ✗

Lots of uncertainties in global markets

![Global beef & veal exporters chart](image)

Source: FAS/USDA

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