

Cattle Market Highlights								
29-Nov-08	Alta Steers	Ont Steers	Texas Steers US\$	Alta-Tex Spread C\$	Alta 8-9 wt	Alta 8-9 Basis	US Slaughter	Cdn Slaughter
This week	94.97	98.53	89.58	-15.23	94.50	-18.31	572,000	na
Last week	93.64	98.53	87.08	-19.00	95.89	-19.75	636,000	65,848
Four week avg	95.66	96.28	91.47	-16.63	97.69	-19.58	628,500	64,533
Last year	85.57	77.29	95.10	-9.26	90.81	-16.59	668,000	64,244

US pricing firmed sharply this week even though the cutout dropped, also sharply. No other evidence is needed to show that supplies have finally tightened. At the same time, however, packer margins continue to be very strong in the US. This week's lower cutout is matched against last week's lower cattle costs to result in very good net margins. Even if the weaker cutout was matched against this week's cattle costs, margins would still have been positive, although much tighter. That suggests that packers are going to want to keep the chain speed slow next week in order to tighten already tight beef supplies after this Thanksgiving week.

The good news in Alberta is that the spread and basis narrowed this week. In addition, Canfax notes that the showlists were cleaned up. Separately, Anne Dunford noted in her Weekly Wrap Up that "considering this week last year was less than -\$10 all evidence keeps pointing towards a \$5/cwt impact from COOL so far on fed cattle prices (or \$60-70/head)." With regard to feeder cattle she asserts that "early indications are that feeder basis could also be wider until US feedlots get a better understanding of where they can send Label B cattle." The basic message is that COOL is taking away much of the pricing increase that cattle feeders could have enjoyed with the weaker dollar. It is already costing the industry about \$10 million or more per week.

2009 US Production

There is a good correlation between various different US inventory numbers and slaughter levels. This inventory-slaughter relationship is helpful in making forecasts for

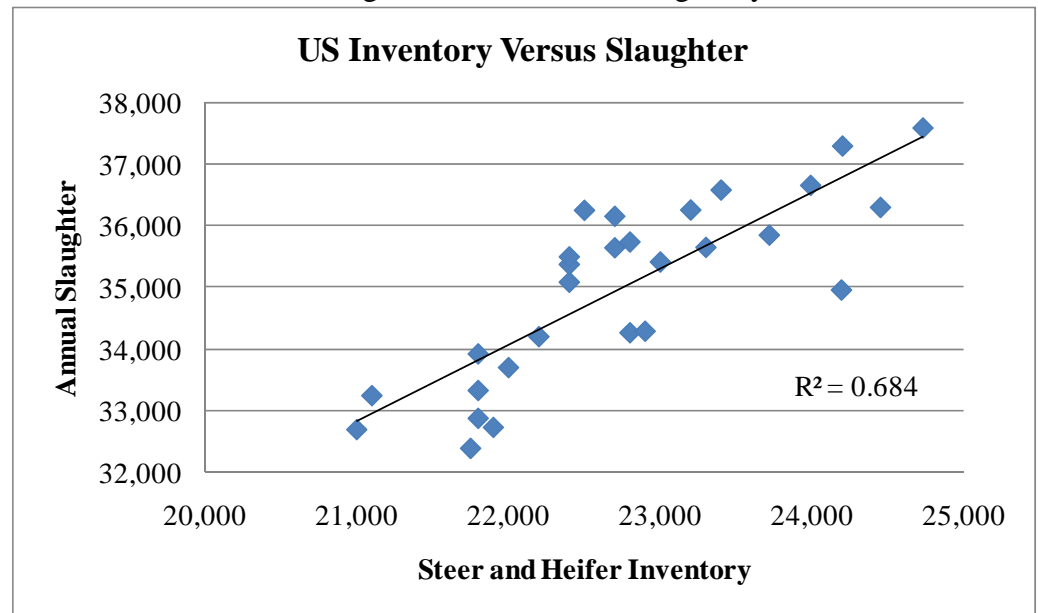


Figure 1 Source: USDA NASS and George Morris Centre.

slaughter in future quarters. Often January and July inventory levels can be correlated against slaughter in various specific quarters for stronger predictive relationships. The graph above provides an example of that relationship.

Based on these various relationships as well as the near term expectations based on the USDA Cattle on Feed Report, slaughter levels for each quarter of 2009 can be estimated. As a starting point in that regard, based on placements through the summer months as noted in the US Cattle on Feed report, it is noted that 2008 fourth quarter marketings of fed cattle are going to be below year levels. Moving into 2009, however, marketings should rise above those of the first quarter of 2008, at least early. That is due to the fact that even though late summer placements and fall placements were below year ago levels, the placement weights were much heavier. That means that the cattle will be finished sooner. Last week's Cattle on Feed report, however showed that October placements were well below year ago levels. That means that after a brief period of higher marketings in the first two months of 2009, marketings will decline below year ago levels going into the second quarter. The following graph shows fed cattle marketings for the 2003-2007 five year average as well as 2008 actual and forecasted and first quarter 2009 marketings.

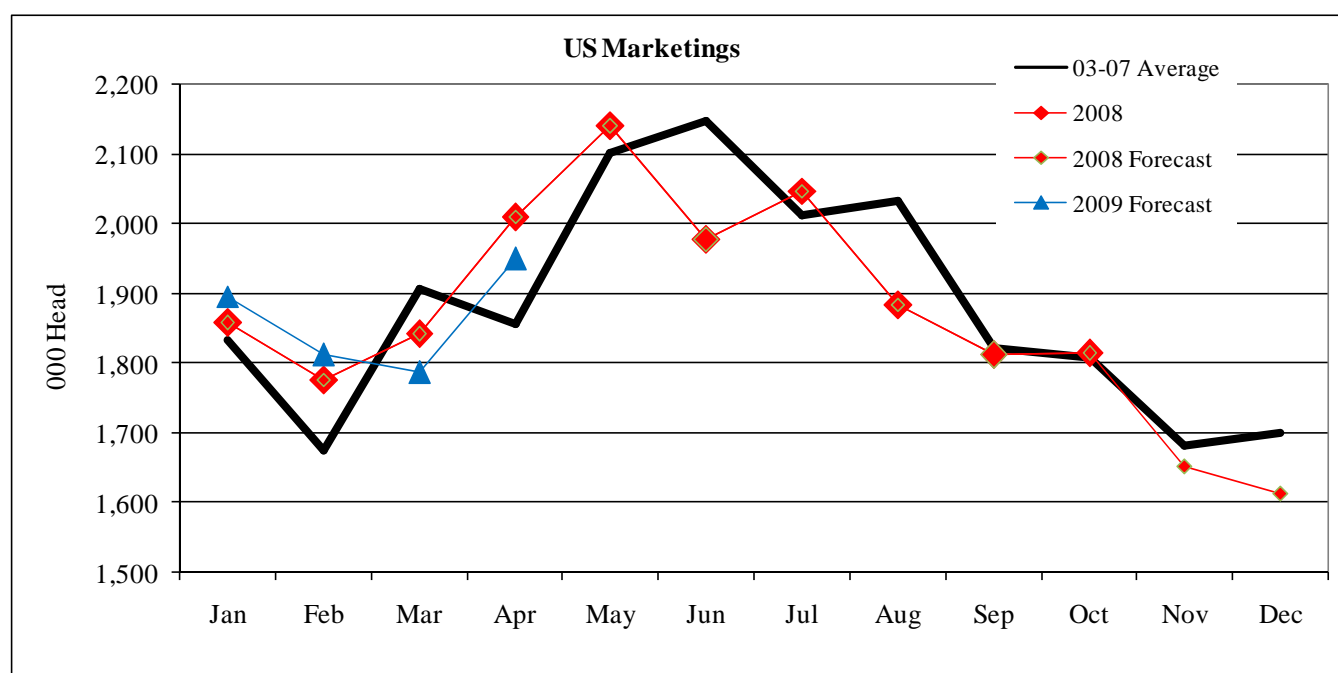


Figure 2 Source: USDA NASS and George Morris Centre

In addition to first quarter fed marketings, cow slaughter and imports of live cattle need to be estimated in order to make slaughter forecasts. Cow slaughter can be estimated based on correlations with cow inventories, as noted earlier. Imports can be estimated based on historic levels and inventory levels in both Canada and Mexico.

With regard to Mexico, shipments to the US have declined dramatically in 2008 due to similarly dramatic decreases in the Mexican cow herd. This decline in the herd has been primarily due to drought. Mexican imports of feeder cattle are expected to continue to be lower by at least 10% on a year over year basis. Of course, another factor affecting imports of cattle from both Canada and Mexico is the US Country of Origin Labeling law (COOL). In addition to COOL, Canadian shipments to the US will be impacted by the fact that the Canadian herd has been in liquidation mode for the past two years. As such, both Canadian and Mexican shipments of live cattle should be lower in 2009 by about 10% in total.

Based on expected import levels for live cattle, in combination with cow and steer and heifer inventories, the following are the quarterly forecasts for US cattle slaughter for 2009 in comparison to 2008 and 2007.

US Cattle Slaughter					
000 Head	Q1	Q2	Q3	Q4	Annual
2007	8,153	8,829	8,700	8,579	34,261
2008	8,270	9,055	8,712	8,290	34,326
2009	8,356	8,863	8,688	8,239	34,146
2009/2008	1%	-2%	0%	-1%	-0.5%

Table 1 Source: USDA NASS and George Morris Centre

The final calculation for US beef production rests on the assessment of carcass weights. There are three main factors in assessing the prospects for carcass weights:

1. Trends
2. Costs of Gain
3. Margin potential

Each of these factors listed above point to steady or higher carcass weights in 2009. As is well known, the trend in carcass weights is steadily higher. Costs of gain have moderated significantly but are still high by historic standards. This has resulted in heavier placement weights and this tends to result in heavier finishing weights. Finally given the tighter supply of feeder cattle and the likelihood of higher feeder costs, cattle feeders will be inclined to try and push tonnage in order to generate higher returns.

Based on the slaughter levels shown in table one and based on the prospects for carcass weights to continue in the 770-775 range, the following table shows US quarterly production for 2007-2009 in metric tonnes. Essentially the expectation is that US beef production in 2009 will be down modestly from 2008.

Tonnes	US Beef Production				
2007	2,828,288	3,015,758	3,085,339	3,053,724	11,983,108
2008	2,889,977	3,128,612	3,134,781	2,951,824	12,105,193
2009	2,933,016	3,078,807	3,095,732	2,925,449	12,033,004
2009/2008	1%	-2%	-1%	-1%	-1%

Table 2 Source: USDA NASS and George Morris Centre

Consumption and Demand in 2009

Looking forward into 2009, it is worth recalling the factors that influence demand. Changes in factors such as prices of competing meats (e.g., pork or poultry), demographics (e.g., income, age distribution, etc.), or health or food safety concerns cause the beef demand curve to shift. When beef demand increases (i.e., shifts up), say as a result of an increase in the price of poultry that causes consumers to substitute beef for poultry, the result is higher beef prices at any level of beef consumption than prior to the demand shift. Conversely, when beef demand decreases (i.e., shifts down) beef prices are lower at any beef consumption level than prior to the demand shift. Research by Kansas State professor Ted Schroeder from 2000 showed that beef demand was very sensitive to income and overall consumer expenditures. As such, in 2009 the biggest factor that is likely to impact consumption and overall demand is the performance of the US economy. The US Federal Reserve is forecasting that the US economy will contract through 2009. This in turn should have a continued negative impact on beef demand.

The expectation is for a continued reduction in disappearance and per capita consumption. Overall disappearance and per capita consumption should decline modestly in 2009. Overall price inflation on beef should moderate in 2009 as consumer preferences move slightly towards less expensive cuts or other proteins. This suggests continued erosion in US beef demand in 2009.

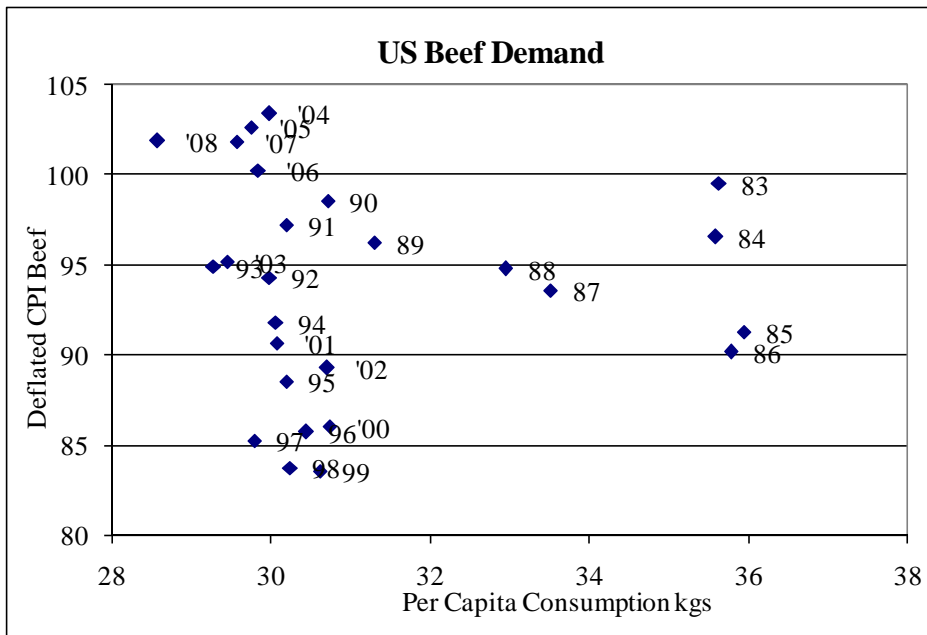


Figure 3 Source: US Bureau of Labor Statistics, USDA ERS and George Morris Centre

International

The key point for US beef exports during 2008 was the continued, slow opening of international borders that were closed due to the BSE case in late 2003. The following graph shows the five year trend in exports from 2003 to 2007, as well as the estimated total for 2008.

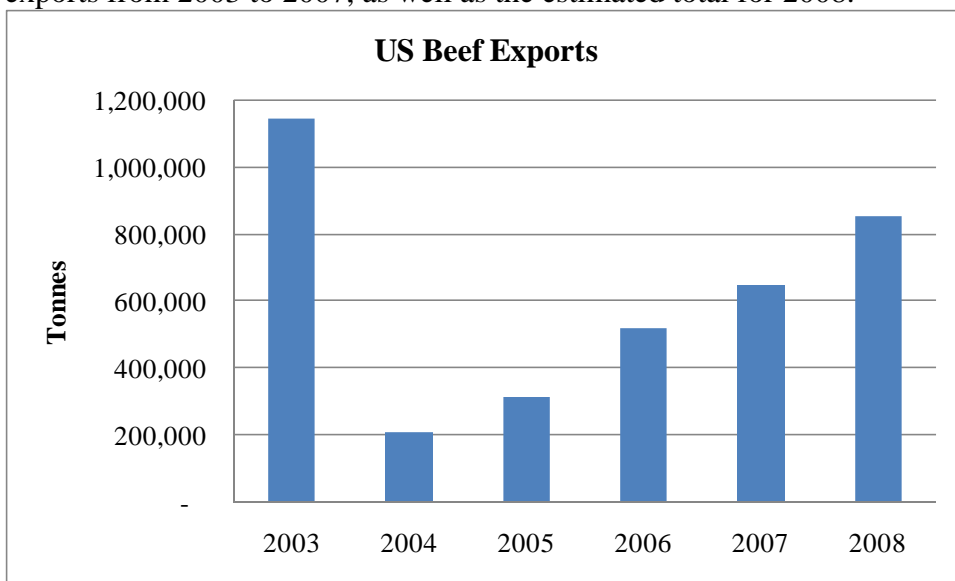


Figure 4 Source: USDA ERS

During the past three to five years, the importance of international markets and export demand has become increasingly clear. The US growth in global markets has coincided with two major drivers: global economic growth and a depreciated US currency. As lesser developed nations gain wealth and grow economically and as these nations urbanize, their diets change toward more protein based products

such as beef, pork and chicken. Thus until mid-2008 growing global economies were demanding meats that were increasingly supplied by the United States. That is, while beef may have lacked access, overall global demand helped beef pricing.

With regard to the US dollar, the following graph shows the US dollar index against a basket of global currencies. The depreciated US dollar generated greater profitability and helped US packers compete in world markets. The depreciated currency also resulted in higher domestic pricing in the United States throughout the supply chain.

The net result is that despite the fact that North America produced record supplies of meat and poultry, livestock prices in the United States were incredibly high. In other words, given record supply levels, export markets helped sustain higher pricing than would have been possible only five years ago.

Within that context, weakness in the global economy and appreciation of the US dollar take on increasing importance in terms of pricing and profit potential. In that regard, the obvious deduction is that there will be declines in export volumes, but more importantly, declines in pricing prospects in those export markets.

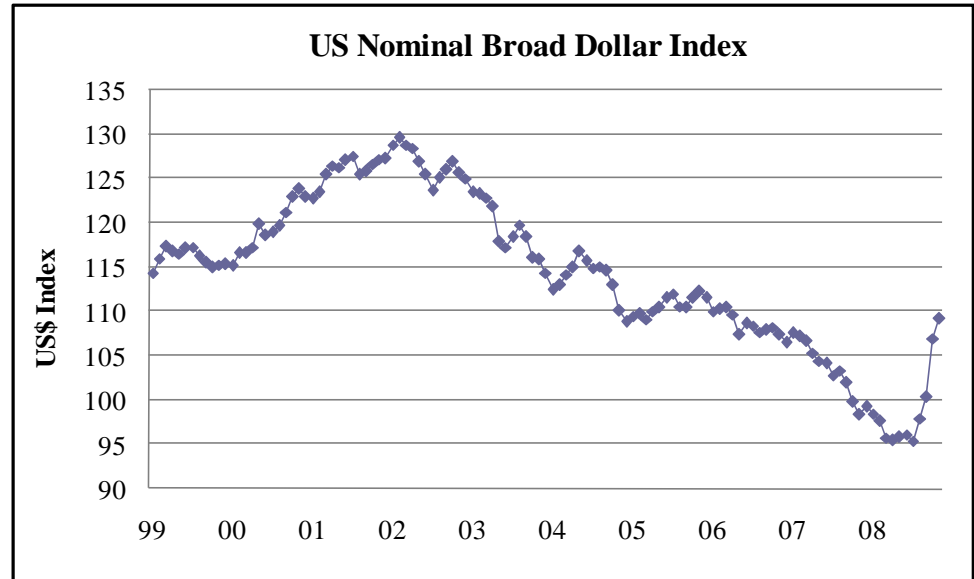


Figure 5 US Federal Reserve

Pricing Forecasts

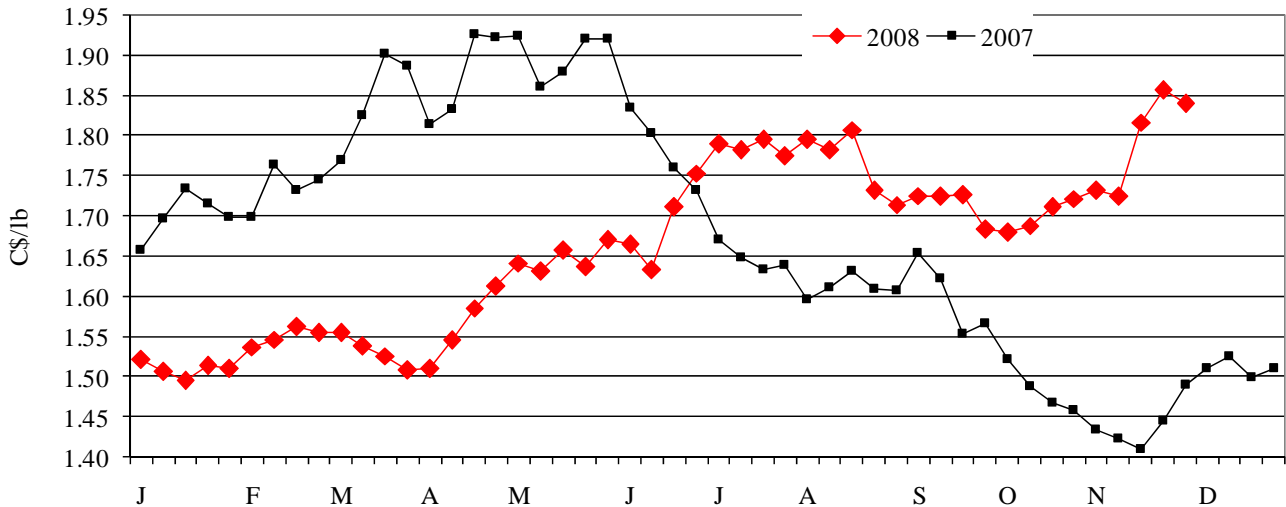
During the past three to five years, my pricing forecasts have tended to be on the low side of actual. This has been largely the result of the depreciated US dollar and generally stronger domestic and global protein demand. Going into 2009, those factors that were pulling pricing higher are likely to work in the reverse.

The following are my live cattle forecasts based on a .81 C\$. As can be seen, I have very little to quibble about with regard to futures for Q2 to Q4. I think that in the near term, however, that futures are going to have to increase to meet the cash market.

	Forecast High Plains Live	Cattle Futures	C\$ Futures	Alta-US Spread	Alta Steers
Next Two Weeks	92	87.37	0.8061	-16	97.58
January	90	--	--	-16	95.11
February	90	87.65	--	-14	97.11
Q2 2009	88	88.00	0.8100	-14	94.64
Q3 2009	85	85.00	0.8100	-9	95.94
Q4 2009	89	88.00	0.8100	-13	96.88

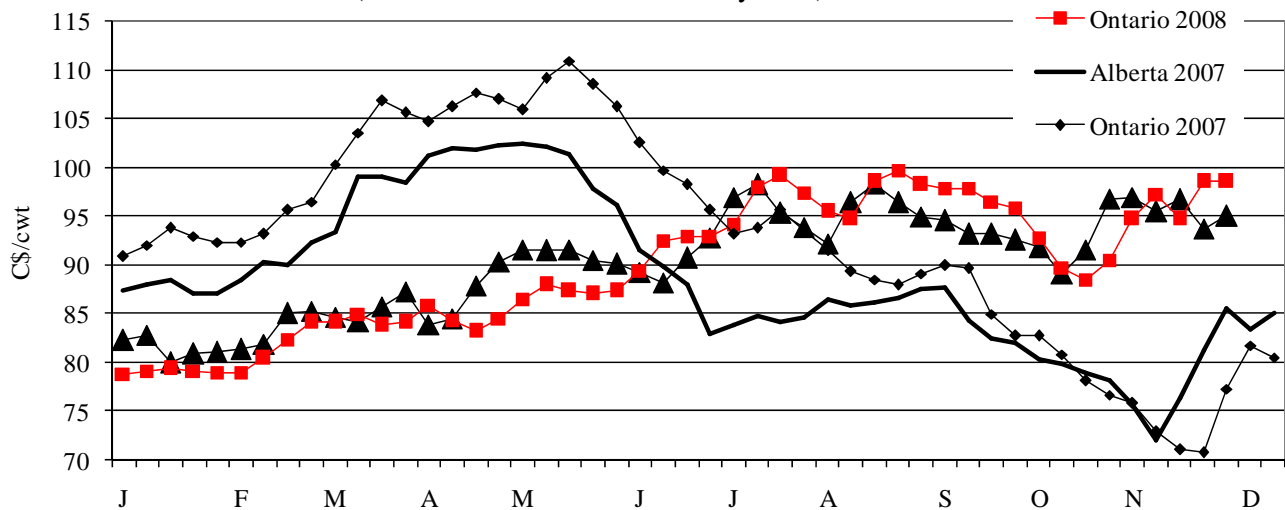
Canadian AAA Boxed Beef Cutout Values

Source: Canfax FOB Plant



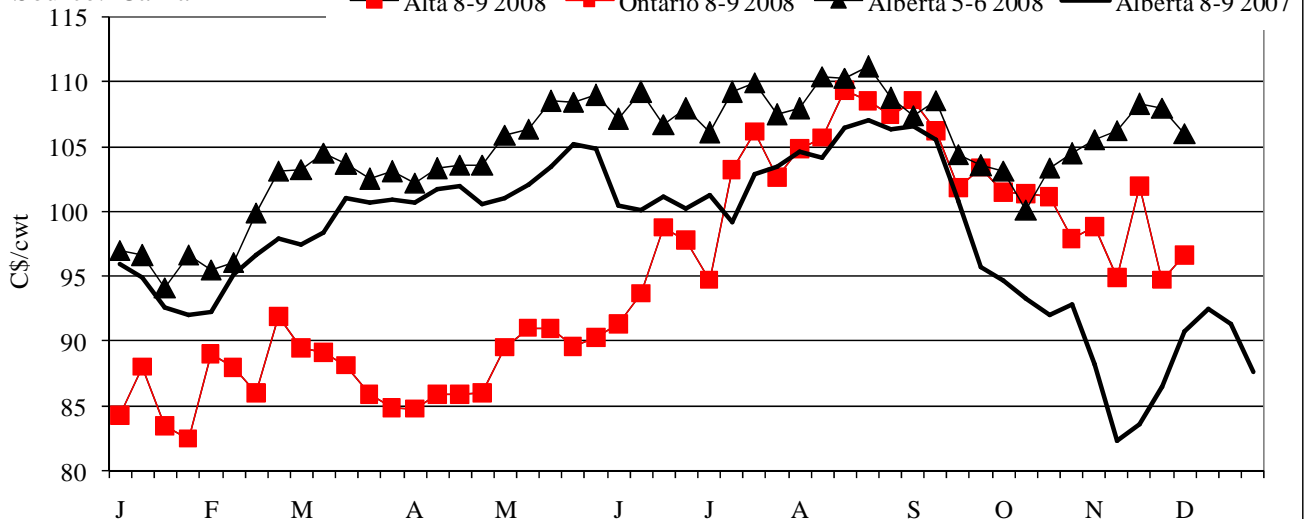
Alberta and Ontario - Live Fed Steer Prices

Source: Canfax and OCA. (Ont Prices are Rail converted by 59%)



Alberta and Ontario - Feeder Steer Prices

Source: Canfax



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