Canadian Beef Trade

On December 27, 2004 the USDA announced its new rule for the importation of Canadian cattle and beef. This rule, 500 pages worth, will go into effect on March 7, 2005. Currently, under a September 2003 rule, only beef from animals 30 months of age or younger is permitted for import from Canada. The new rule will allow live animals of less than 30 months to age for slaughter to be imported as well as beef from animals born after the 1997 feed ban. There are currently two lawsuits and a congressional bill that may postpone the effective date of the new rule. Recently two new cases of BSE have been confirmed in Canada. The first case was in a cow born before the feed ban, so it was of very little concern under the new rule. The second case however was in a cow born after the feed ban. It likely contracted the disease from held over feed. Because the cow was born after the feed ban, concern has arisen about how affectively Canada enforced its feed ban and about the safety of the new importation rule.

If the rule goes into effect on schedule, beef supplies should see a prompt increase. Livestock Market Information Center forecasts that Canada will export 400,000 head of feeder cattle and 1.1 million head slaughter cattle to the United States through the remainder of 2005. These imports are equal to 2% of cattle placed on feed and 5.4% of cattle slaughtered during the same period (Mar.-Dec.) in 2004.

Currently the beef packing industry is experiencing a shortage of live cattle. Most packing facilities have been running below capacity as cattle slaughter for the six weeks starting with Thanksgiving and running through New Years as been 8.4% below the previous 5 year average. Tyson Foods, the nationn’s largest beef processor, closed four cattle plants and reduced operations at a fifth for three-five weeks and sited tight supplies of fed cattle as the reason for the temporary closing.

When live cattle are permitted to cross into the United States there will likely be a shift in Canadian slaughter from young animals to older animals. Canada currently has a backlog of cull or aged cows. Under the new rule Canadian packers will likely slaughter more cows and send beef from these older (30+ months) animals to the United States as trimmed meat, while market ready young fed animals maybe sent directly to US packers. It is expected that it may take one to two quarters for this slaughter imbalance to work through. January through November beef imports from Canada are at about 3% below of their levels in 2002, the year before the first BSE case was diagnosed.

Slaughter cattle less than 30 months of age may be imported directly to recognized plants in sealed containers. These cattle must have health papers attesting to their age, origin, destination, and responsible parties. In addition to slaughter cattle imported directly to slaughter, feeder cattle may also be imported to the US under this rule. These cattle will be branded with the “CAN” symbol, must have individual ear tags traceable to the farm of origin, and have health papers attesting to age and contact information. Feeder cattle can only move to one feedlot and then to slaughter at less than 30 months of age.
Market Implications
USDA estimated imports would be 2 million head in the first year, but most analysts believe it will be less. Table 1 shows the imports of cattle from Canada for the three years prior to finding BSE in North America. Feeder cattle imports in 2002 were large in part to a drought in western Canada and high grain prices. The “Other” category is cull cows and breeding stock that are not allowed under the announced rule. Total cattle imports averaged 1.27 million head over the three years. Removing the Other category puts the average at less than one million head a year, and approximately 1.2 million head in the largest year. Two million head of imports seems unlikely since it hasn’t happened before and the value of the US dollar has declined and fuel prices increased since 2002 making Canadian cattle less attractive.

<table>
<thead>
<tr>
<th></th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2000-02</th>
<th>Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Feeder Cattle</td>
<td>84,420</td>
<td>157,837</td>
<td>457,685</td>
<td>233,314</td>
<td>18%</td>
</tr>
<tr>
<td>Steers &amp; Heifers</td>
<td>645,485</td>
<td>832,744</td>
<td>754,108</td>
<td>744,112</td>
<td>58%</td>
</tr>
<tr>
<td>Other</td>
<td>206,399</td>
<td>279,604</td>
<td>398,439</td>
<td>294,814</td>
<td>23%</td>
</tr>
<tr>
<td>Total</td>
<td>936,304</td>
<td>1,270,185</td>
<td>1,610,232</td>
<td>1,272,240</td>
<td></td>
</tr>
</tbody>
</table>

The added beef from older animals will push the Canadian beef import number higher and likely impact the US cull cow price. This trimming meat will also compete with imported beef from Australia, New Zealand, and Uruguay. US packers will bid on and buy Canadian fed cattle if the Canadian price is advantageous after adjusting for exchange rate, transportation, and paperwork costs. Likewise, US feedlots are expected to bid on Canadian feeder cattle once the market is open.

USDA estimated in their 500 page report that the price impact for fed cattle would be -3.2% or about $2.70/cwt and feeder cattle would decline 1.3% or less than $2.00/cwt. The Livestock Market Information Center has estimated the impact in the $2.50-4.25 range on fed cattle. Feedlots receiving $35-50/head less for fed cattle will likely try to buy feeder cattle that much cheaper as well, thus the feeder price impact may be more in the $4-6/cwt range. All of these estimate are the changes in annual prices after the two markets are fully adjusted. Short term price changes may be different.

Market prices will also be volatile as it interprets new information and rumors. The current situation is that the rule goes into affect March 7. However, news about movement in the law suits that may delay the opening are bullish for the market. News that the rule is on track will be neutral to bearish for the market.

Other Trade Markets
There is one thing that the industry will unanimously agree would improve profits: the creation of more demand by resumed exportation to Asia countries, particularly Japan. However, in recent trading moves the Japanese market has gained some barraging leverage by importing more beef from mainland China. Resumption of beef trade with Japan is inevitable, it is a question of when and at what ‘cost’.

Market prices will also be sensitive to announcements, positive or negative, regarding the Japanese agreement. The USDA researchers were in Japan before Christmas to discuss age verification using physiological maturity based on the research conducted as part of the agreement announced with Japan in October. The results of the research or discussions with Japanese officials have not been released.

Shane Ellis
January 12 USDA Reports Will Temper Corn Price Strength

Cash corn prices probably will be steady to only slightly higher this winter because of large supplies and disappointing export sales. Modest strength in cash prices and the basis is likely in April and May, with a seasonal decline in farmer marketings and opening of the Upper Mississippi for spring navigation. However, spring price strength may be tempered some by farmers shifting soybean acreage to corn to reduce exposure to Asian rust. News from the three major January 12 USDA production, stocks, and world supply-demand reports also is likely to temper upside price potential in April and May, and will increase the risk of declining corn prices in late summer.

Highlights from the USDA reports

- U.S. corn production: 11.807 billion bushels, up 66 million bushels from the last estimate
- U.S. corn export projection: down 50 million bushels from last month
- U.S. projected corn carryover for 8/31/05: 1.96 billion bushels, up 105% from a year earlier and up 116 million bushels from last month
- Indicated September-November U.S. corn feeding: up about 2.3% from a year earlier, well below the USDA projected 4.8% increase for the marketing year
- World grain production up 375 million bushels (corn equivalent) from last month
- Argentine corn production projected for spring 2005: up 60 million bushels from last month.
- U.S. marketing year average farm price for corn: $1.95 per bushel, up from $1.90 last month. This price would still give a maximum Counter-Cyclical Payment, $0.40 per bushel on 85% of program bushels.
- Winter wheat planted acreage was about 2 million acres less than expected and 1.8 million acres less than in 2003, with sharp percentage declines in soft red wheat plantings because of a wet fall. About 1.5 million acres of unplanted soft wheat likely will go to corn and/or soybeans in the spring. About 0.2 to 0.4 million acres of unplanted hard red wheat acreage could go into sorghum and/or soybeans.
- U.S. soybean production: a record 3.14 billion bushels, down 9 million bushels from the November estimate
- No changes in South American soybean crop projections: Brazil-Argentina production projected up 20% from last year and 21% larger than the record U.S. 2004 crop
- U.S. soybean crush projection: up 15 million bushels from last month
- U.S. soybean carryover projection: down 25 million bushels from last month
- U.S. average soybean price up $0.15 from last month

Corn

The 2004 U.S. average corn yield is projected at 160.4 bushels per acre, up from last year’s record yield of 142.2 bushels per acre. Our latest supply-demand projections for this season and 2005-06 are shown on our web site (http://www.econ.iastate.edu/faculty/wisner/). Click on “Balance Sheets” in the upper part of the right hand column. August 31, 2005 U.S. corn carryover stocks appear likely to be about a 10-week supply, up from less than 5 weeks on August 31, 2004. A 2 to 2.5 million acre increase in plantings and a trend yield would produce a crop about equal to likely 2005-06 utilization, setting the stage for continued large 2006 corn carryover stocks. That also would set the stage for lack of storage space for the 2005 crop, with pressure on harvest-time prices and basis.

In the next several weeks, corn prices will take direction from farmer marketings and weekly export sales. Lagging export sales hint that official export projections may still be too high. To support current official projections, weekly export sales need to move into the 1.1 million ton range or higher for several weeks. Sharply increased foreign grain production has reduced U.S. corn export sales this season. Crops were up substantially from the previous year in eastern and western Europe, and former Soviet republics. Argentine corn production is projected to increase sharply this spring. With the increased competition, cumulative U.S. corn export sales from September 1 through January 6 (the first 1/3 of the marketing year) were down 10% from a year earlier. Continuation of exports at 10% below a year earlier for the rest of the marketing year
would push projected carryover stocks about 190 million bushels higher than shown in our balance sheet. That would boost carryover stocks to over an 11 weeks’ supply. The last time stocks as a percent of use were almost that high was 14 years ago. At that time, nearly all of the excess above normal pipeline needs (one-month’s supply) was stored in CCC-owned stocks and the farmer-owned grain reserve. This fall, the excess will have to be financed by agricultural lenders and stored mostly by farmers. *Storing that much excess grain in the private sector has the potential to put substantial pressure on late summer and fall corn prices, provided 2005 crop prospects are about normal.*

Farmers will face substantial expenses in late February. Corn marketings may increase some at that time, but good income this past year, marketing loans, and increased government payments will help meet some of the cash needs.

**Soybeans**
Soybean prices likely will trade in a considerably wider range than corn over the next 5 or 6 months, due to uncertainty about Asian Soybean Rust in South America in the next few weeks and in the U.S. later on. Through mid-January, South American soybeans were in generally good condition. A few dry areas were being reported, but there was no widespread concern, and Asian rust apparently is being controlled effectively. Argentine conditions also looked quite good, according to trade reports. Large U.S. supplies and prospects for even larger South American supplies this spring have pressured soybean prices. World soybean production this season is projected to be up by an extremely large 21% from last year. But as the spring planting season approaches, look for increased volatility in prices due to Asian rust concerns, with brief periods of strength likely. *If Asian rust were not a factor, Iowa cash soybean prices likely would be in the low $4 range.* Iowa soybean prices have a strong tendency to decline in late February as the world oilseed trade shifts purchases to South America, and U.S. farmers increase marketings to cover spring expenses. This year, uncertainty about Asian rust may cause farmers to sell soybeans a little less aggressively than in the past. But the buyer shift to South America will still be present. Brazil and Argentina’s combined soybean and soybean meal exports are projected to be 127% larger than those of the U.S., since its domestic use is much smaller than ours. That puts their combined bean and meal exports (soybean equivalent) at 2.89 billion bushels, compared with 1.27 billion combined bean and meal exports from the U.S. This huge volume of South American exports, much of it moved during the April-November period, typically causes a sharp decline in spring and summer U.S. soybean exports.

**Corn vs. Soybeans for 2005**
In the last two weeks, new-crop soybean prices have dropped more sharply than corn. That has shifted the economics more in favor of some soybean land moving to corn. However, it is too early to read much into the changes. Price relationships from late February through early April will be a more significant influence on potential plantings.

*Robert Wisner*