

Darrell R. Mark, Ph.D.**Asst. Professor, Department of Agricultural Economics, University of Nebraska****Market Impacts of Inconclusive BSE Tests**

On Friday, June 25 and Tuesday, June 29, USDA Animal and Plant Health Inspection Service (APHIS) announced that rapid screening tests for two separate BSE tests were “inconclusive,” meaning that it did not confirm a negative result for BSE. Using immunohistochemistry as the confirmatory testing procedure, USDA-APHIS announced both samples were negative for BSE. These results came five days later for the June 25 sample and three days later for the June 29 sample. The inconclusive tests were reported as part of USDA-APHIS’s new BSE surveillance program wherein more than 200,000 samples would be tested for BSE over the course of 12-18 months. Given the procedures of the new testing program, which were announced this past spring, and the highly sensitive nature of the rapid screening tests, the inconclusive tests should not have come as much surprise, except perhaps that the first two occurred within four days of each other. However, markets did react to the news throughout the week, with increasing volatility in the futures market and little cash cattle trade last week.

The table below shows the daily changes in the nearby and deferred Live and Feeder Cattle futures contracts during the inconclusive BSE reports. June 28 was the first trading session after the first inconclusive test and futures price dropped about \$3.00/cwt in the nearby contracts (the daily trading limit), less in the deferred contracts. The market recovered during Tuesday’s session, with no additional news of BSE testing and a refocus on positive supply and demand fundamentals. Nearby futures dropped more than \$2.00/cwt on Wednesday following the news of a second inconclusive test on Tuesday night. The news of the first test confirmed as negative did not strengthen prices on Thursday and Friday as the market awaited the results of the second test amidst considerable rumors regarding the animal being tested.

Based on the price changes in the table below, it appears these inconclusive reports indeed negatively impact the market. However, these will likely be short-run impacts, as evidenced by Tuesday’s price rally. Further, additional reports of inconclusive BSE tests will likely have less market impact now that two have been reported and confirmed negative. Even on June 30 following the second inconclusive test, the price decline was less than on June 28 following the first inconclusive test (this could have been muted by the negative confirmation of the first test).

Throughout the week, USDA-APHIS drew both support and criticism for reporting the inconclusive tests and the resulting market impact. Some argue that this level of transparency is good for the market and helps in preventing asymmetric information in the marketplace. Additionally, price responses following future inconclusive tests are likely to be smaller. Further, it is a demonstration that the BSE surveillance program is working as planned, and may be beneficial in restoring export markets in the long run. Interestingly, the price decline last week (expected to be short-term) offered hedgers and speculators the opportunity to offset short positions at more favorable prices. On the negative side, however, the inconclusive test reporting led to increased volatility that was best managed by many producers by staying out of the market last week. Further, there was little the industry could do from an animal health or financial risk management standpoint with the information of inconclusive tests. Of most concern is that the inconclusive BSE test reporting could draw unfavorable reactions from domestic consumers and negatively impact beef demand.

So, should USDA-APHIS report inconclusive BSE test results? Although the benefits from inconclusive reporting are relatively small, the potential disadvantages to suspending reporting of inconclusive tests could be substantial. If USDA-APHIS changed its procedures at this point to not report inconclusive tests, consumer reaction could be negative. In today's age and society, people want information immediately, regardless of their use (or nonuse) of the information. To not provide information seems often to be interpreted as an effort to hide unfavorable information. Further, not providing this level of transparency in BSE surveillance would likely undermine efforts to regain the confidence of foreign consumers and international governments and could detract from efforts to regain export business. Essentially, once the decision has been made to report inconclusive testing and a couple of inconclusive tests have been reported and confirmed negative, it is too late to change the reporting system. To do so would make the overall surveillance program appear inadequate or uncoordinated to consumers.

Date	BSE News	Cattle Futures Contract Change (\$/cwt)			
		August Live	December Live	August Feeder	January Feeder
Fri, June 25	1 st inconclusive test after market close				
Mon, June 28		-2.93	-2.37	-3.00	-0.90
Tues, June 29	2 nd inconclusive test after market close	+1.45	+1.25	+0.87	+0.05
Wed, June 30	1 st test confirmed negative after market close	-2.12	-1.10	-2.62	-0.10
Thurs, July 1		-0.48	-0.03	-1.00	-0.28
Fri, July 2	2 nd test confirmed negative after market close	+0.05	-0.27	unch	-0.04
Tues, July 6		+2.33*	+2.05*	+3.00*	+2.65*

*Prices before settlement.

The Markets

Slaughter cattle prices were lower last week, with a small volume of cattle traded as a result of the uncertainty from BSE reports. Prices in Kansas were \$2-3 lower on a live weight basis, while Nebraska dressed prices were \$1-4. lower. Choice boxed beef were down \$0.75 last week and the Choice-Select spread narrowed another \$2.54 to \$3.52. Few feeder calves and yearlings sold last week in Kansas and Nebraska.

	Last Week	Previous Week	Last Year
Kansas Fed Steer Price, live weight (35-65% Choice)	\$87.66	\$89.88	\$74.86
Neb. Fed Steer Price, dressed weight (35-65% Choice)	\$136.85	\$139.92	\$119.52
700-800 lb. Feeder Steer Price, Kansas 4 market average	no test	\$117.26	\$88.91
500-600 lb. Feeder Steer Price, Kansas 4 market average	\$131.47*	\$124.07	--
700-800 lb. Feeder Steer Price, Neb. 7 market average	--	\$123.75	--
500-600 lb. Feeder Steer Price, Neb. 7 market average	--	\$140.48	--
Choice Boxed Beef Price, 600-750 lb. carcass	\$144.11	\$144.86	\$129.49
Choice-Select Spread, 600-750 lb. carcass	\$3.52	\$6.06	\$7.24

* Small volume