

In The Cattle Markets

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U.S. vs. Canadian Slaughter Cattle Prices

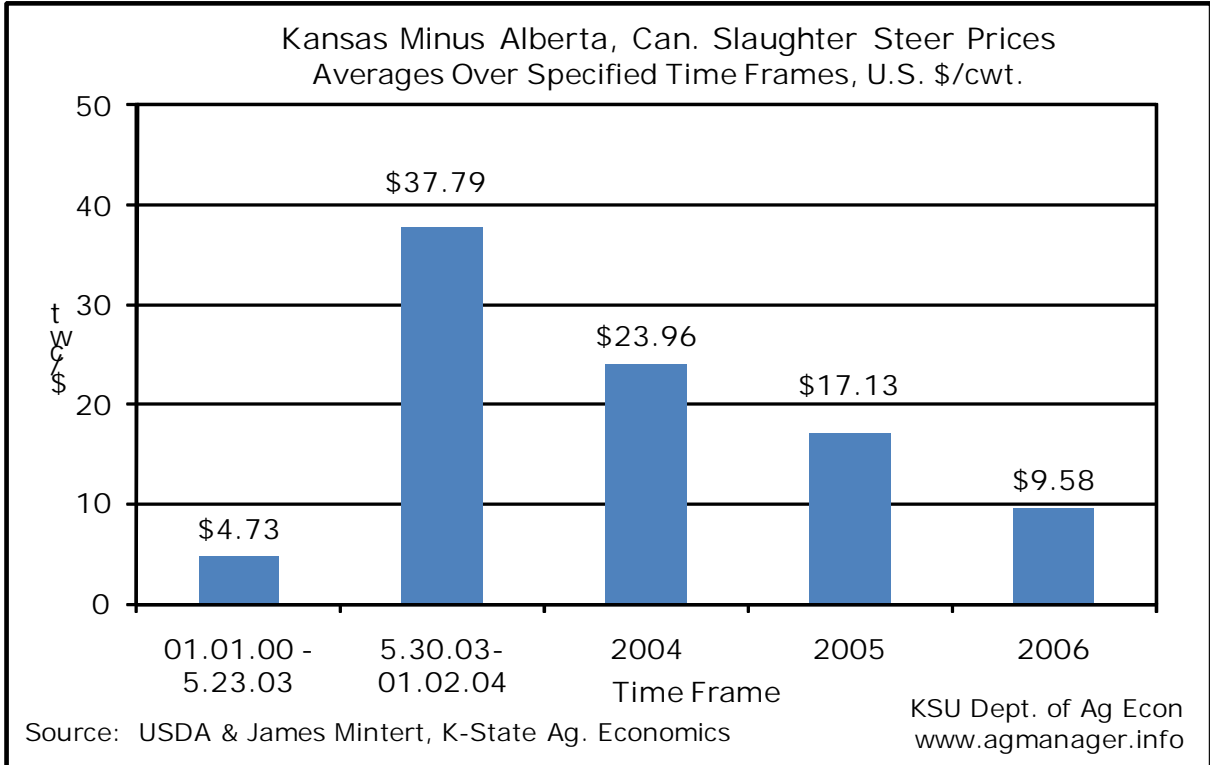
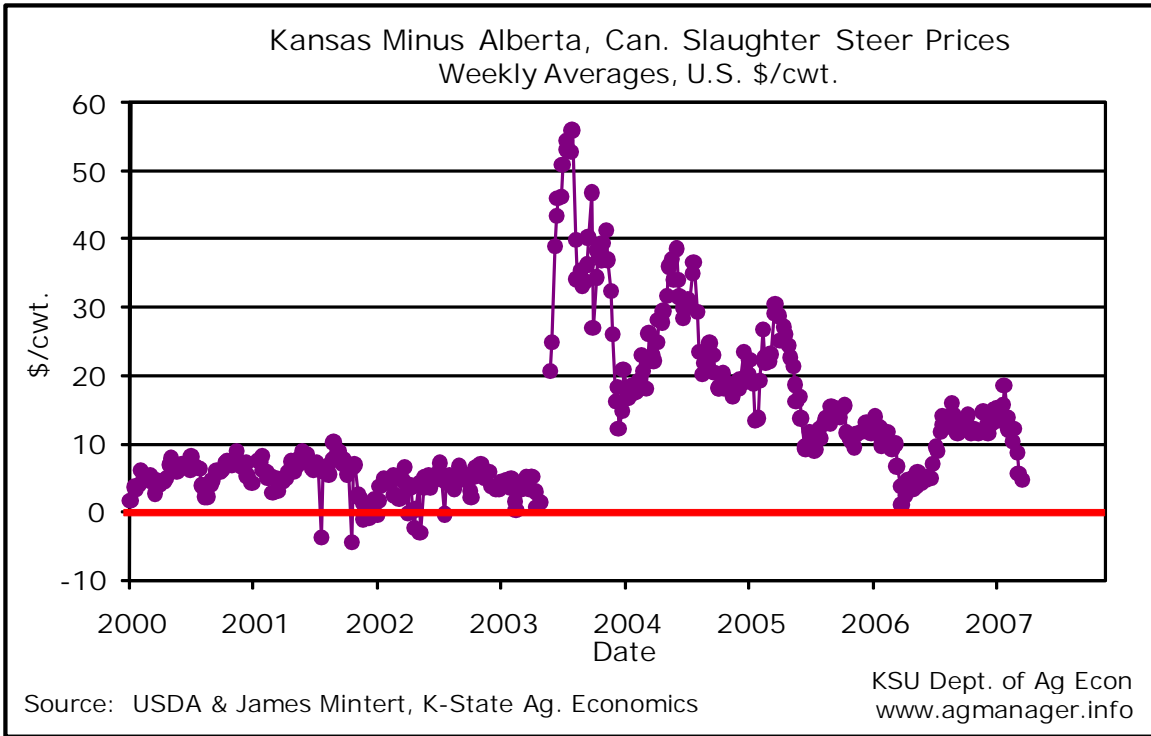
The premium of Kansas over Canadian slaughter steers has narrowed appreciably over time. And just last week the premium of Kansas slaughter steers over Alberta slaughter steers dipped to US\$4.76/cwt., about equal to the average spread from January 2000 to May 2003.

Following the discovery of BSE in the Canadian herd in May 2003, prices for Canadian cattle plummeted. When Canadian slaughter cattle trade resumed in June 2003, Kansas slaughter steers traded at a premium of over US\$50/cwt. (live weight) compared to Alberta slaughter steers for several weeks. But the premium for U.S. slaughter cattle vs. Canadian cattle has declined dramatically since then.

To put the relationship between U.S. and Canadian slaughter cattle prices in perspective, it's useful to examine how the price spread has changed over time. From January 2000 through May 2003, Kansas slaughter steers traded at an average premium of US\$4.73/cwt. compared to Alberta slaughter steers. Following the Canadian BSE announcement, the price spread increased dramatically. From late May through December 2003 the average premium for U.S. over Canadian slaughter steers skyrocketed to an average of nearly US\$38/cwt. Since peaking in the summer of 2003, the difference in prices between the U.S. and Canadian markets has declined markedly. During 2004 the price spread averaged about US\$24/cwt., down 37% compared to the last half of 2003. The gap in prices between the two markets continued to narrow the next two years, averaging about US\$17/cwt. and US\$9.58/cwt. in 2005 and 2006, respectively.

So far in 2007, the price spread has actually averaged a bit wider than at the same time in 2006. Through the end of April the premium of Kansas over Alberta steers in 2007 averaged US\$12.36 vs. US\$10.68/cwt. a year ago, a 16% increase. Where will this spread trade in the future?

In the absence of trade barriers, the spread in prices between the two markets is expected to reflect the cost of moving slaughter steers from the surplus market (Canada) to the importing market (U.S.). Since May 2003 two changes have occurred that altered the cost of moving cattle from Canada to the U.S. First, under current trade rules, only cattle under 30 months of age can be imported into the U.S. Second, fuel costs have increased significantly, pushing transportation costs higher. So, higher transportation costs and the increased costs associated with implementing the cattle trade rule have effectively made the import process significantly more expensive than it was prior to May 2003. As a result, the future long-term average price spread is likely to be closer to US\$10/cwt. than US\$5/cwt., unless trade rules between the U.S. and Canada are relaxed and transportation costs come back down.



The Markets

Slaughter cattle prices last week in Kansas were virtually unchanged from the prior week, but were 22% higher than a year ago. Choice boxed beef prices averaged \$161.54 last week, which was down 3% compared to the prior week, although it was about 13% higher than last year at this time. The Choice-Select spread increased to an average of \$13/cwt, a 13% increase compared to a week earlier, but was still about 20% lower than in 2006. Prices for light weight steers in Kansas declined seasonally last week as most grass cattle buyers have already made their spring purchases. Heavy weight feeder prices strengthened modestly in Kansas last week, but declined slightly in Nebraska. Corn price weakness continues to support feeder cattle prices. Omaha corn prices last week were \$0.05/bushel lower than a week earlier and DDG's in Iowa declined about \$4/ton, according to USDA.

	Last Week	Previous Week	Last Year
Kansas Fed Steer Price, live weight	\$96.34	\$96.11	\$78.91
Neb. Fed Steer Price, dressed weight	\$154.71	\$154.81	\$127.90
700-800 lb. Feeder Steer Price, Kansas 4 market average	\$111.33	\$108.69	\$101.07
500-600 lb. Feeder Steer Price, Kansas 4 market average	\$126.94	\$129.32	\$126.34
700-800 lb. Feeder Steer Price, Neb. 7 market average	\$109.32	\$111.66	\$105.12
500-600 lb. Feeder Steer Price, Neb. 7 market average	\$130.34	\$132.16	\$134.53
Choice Boxed Beef Price, 600-900 lb. carcass	\$161.54	\$166.29	\$146.33
Choice-Select Spread, 600-900 lb. carcass	\$13.01	\$11.50	\$16.19
Corn Price, Omaha Nebraska, \$/bu (Thursday quote)	\$3.45	\$3.50	\$2.04
DDG Wholesale Price, Iowa, \$/ton	\$107.50	\$111.50	\$83.50