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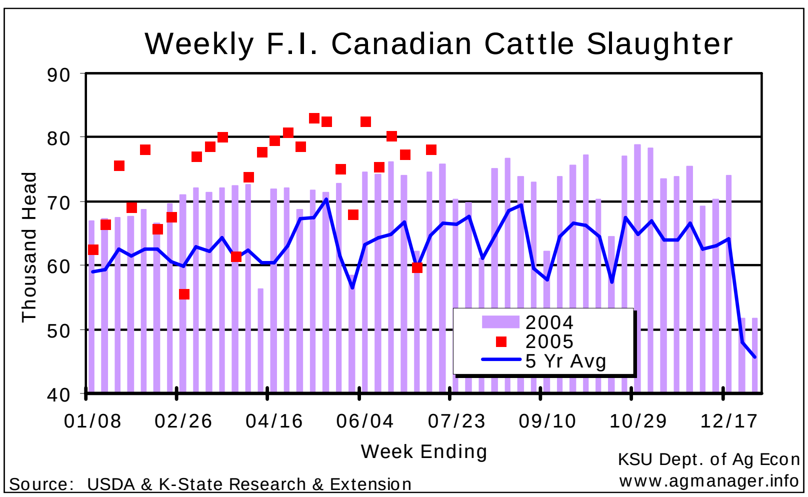
Cattle Outlook

How Will Border Opening Affect U.S. Cattle Supplies?

Total imports from Canada into the U.S. will rise now that the ban on live cattle imports has been lifted, but the response could be more muted than expected in some quarters. This is because, in response to the ban on beef imports into the U.S., Canada ramped up cattle slaughter and beef exports. During 2004 Canadian cattle slaughter was up about 12 percent compared to 2002 (the last full year prior to BSE). Through the first half of 2005, Canadian slaughter was up nearly 6 percent, compared to 2004.



Since Canada was eligible to export beef from cattle under 30 months of age to the U.S., the increase in slaughter volume turned into larger boxed beef exports to the U.S. When converted to a live animal equivalent, total imports from Canada during 2004 were equal to about 80 percent of total imports (beef and live cattle) in 2002. This trend continued during 2005. USDA indicates that during the first five months of 2005, boxed beef imports from Canada were up about 17 percent compared to last year.

Now that the border is open, what will happen? Live cattle shipments

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SUMMARY

Domestic beef production moved above last year during July, which put added pressure on beef and cattle prices. Key to future beef production levels will be not only slaughter levels, but also weights. Heavy weights have troubled the industry throughout 2005 and are expected to be problematic the rest of the year. Domestic beef demand is expected to be near a year ago, but beef export demand will remain weak as prospects for shipping economically significant quantities of beef this year to either Japan or S. Korea wane. Reopening the U.S.-Canada border to live cattle trade will increase U.S. beef supplies later this year and during 2006, but the short-run impact will likely be modest.

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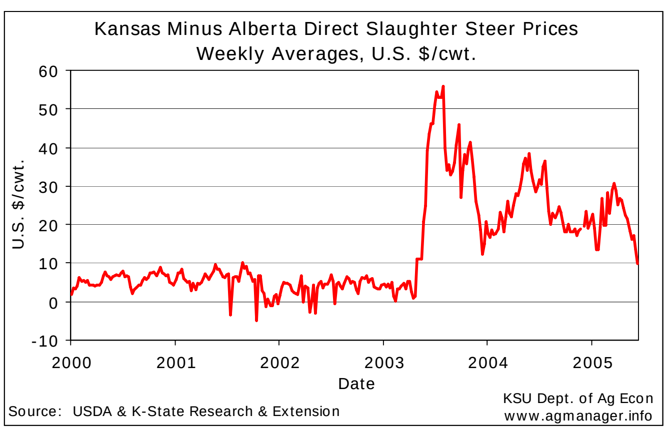
to the U.S. will pick up, but it's not likely to result in a vast influx of cattle. As of July 1, the Canadian on feed inventory was about 18 percent larger than last year's reduced level, but was still 4.5 percent smaller than on July 1, 2002 (the year prior to the BSE event). Given the increase in Canadian slaughter capacity, the bulk of the year-to-year increase in the on feed inventory will probably be processed in Canada and exported as boxed beef. Analysis by the Livestock Marketing Information Center of possible slaughter cattle imports from Canada during the rest of this year indicates they could wind up in the ballpark of 400 to 500 thousand head, but the majority of these cattle are likely to be imported during the fourth quarter.

Longer term, look for placements on feed in Canada to increase, which will also lead to larger exports of live cattle to the U.S. So, in the short-term (next 2-3 months), increases in U.S. slaughter cattle imports will likely be partially offset by reductions in beef imports. One caveat to this relates to the possibility of a strike at Tyson's Canadian plant. If workers at the Tyson plant go on strike, the volume of cattle coming in from Canada would increase accordingly.

Finally, reports from Canada indicate that summer grass conditions are good, which means that feeder cattle imports from Canada are not likely to pick up immediately. Still, feeder imports from Canada this fall will be larger than typical, helping boost the U.S. on feed inventory this fall. The Livestock Marketing Information Center's analysis suggests that feeder imports from Canada the rest of this year could be near 250 thousand head.



Border Opening Should Narrow U.S.-Canada Price Gap

U.S. slaughter cattle prices have been trading at an extraordinary premium to Canadian prices since Canada's first BSE case was announced in May 2003. From June 1999 through May 2003, Kansas slaughter steer prices averaged $4.94/cwt. above Alberta slaughter steer prices. In contrast, since May 2003, the premium for Kansas steers over Canadian steers has averaged $26.94/cwt. In expectation of the border opening the gap narrowed. By mid-July the gap was approximately $10/cwt. Opening the border should cause the premium of U.S. over Alberta slaughter cattle prices to rapidly approach the historical average. The real question is how many cattle will have to move across the border to bring the average in line with historical norms?

Cattle Slaughter Moves Above Last Year

After averaging about 3 percent smaller than 2004 during January-June, cattle slaughter moved above the prior year during early July. The shift from below to above a year ago slaughter levels, combined with heavier weights, pushed beef production well above a year ago during July. During the first half of July beef production was 4.4 percent larger than last year, in contrast to the April-June quarter when production was 1 percent smaller than in 2004. Look for beef production to remain larger than a year ago throughout the last half of 2005.

Cattle Weights Up Compared To Last Year

Cattle weights have been heavier than a year ago throughout 2005. During the first half of 2005 steer carcass weights averaged 1.5 percent heavier than last year. Look for this trend to continue during the last half of the year. As a result, weights this fall are expected to set a new record.

Beef Demand About Even With A Year Ago During Spring Quarter

Domestic beef was stronger than a year ago during the April-June quarter, but just barely. Preliminary estimates of per capita retail beef supplies indicate U.S. consumers consumed about 16.9 pounds per capita during April-June 2005, unchanged compared to last year. Despite the fact that supplies facing consumers were virtually the same as last year, inflation adjusted

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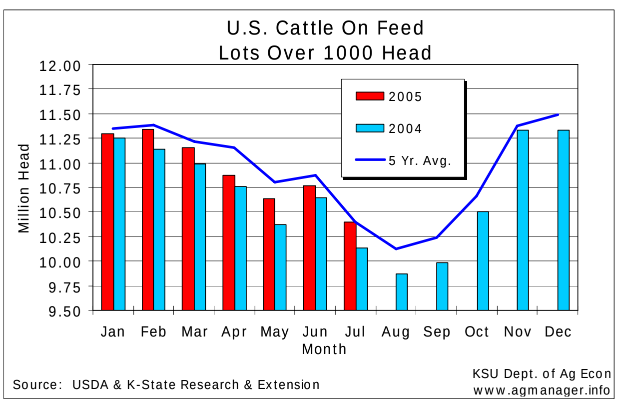
retail Choice beef prices increased to about $3.92 from $3.90 per pound. As a result, beef demand index calculations indicate beef demand during the April-June quarter increased less than 1 percent compared to a year ago. Overall, beef demand during the first half of 2005 changed little compared to 2004. The latest beef demand index calculations provide additional evidence that rapid growth in beef demand during 2003 and 2004 was fueled in part by consumers following low carbohydrate diets. Waning interest in low carbohydrate diets suggests that beef demand the rest of this year will likely be near the prior year.

USDA Confirms Cattle Herd Growing

USDA's estimate of the July 1 all cattle and calves inventory totaled 104.5 million head, an increase of 900 thousand head (0.9%) compared to last year. The beef cow inventory was 250 thousand head larger than last year, an increase of 0.7%. The July inventory report also provided USDA's initial estimate of the 2005 calf crop, which was 37.8 million head, 0.5 percent larger than 2004's calf crop. If USDA confirms this calf crop estimate on next January's inventory report, it will mark the first year-to-year increase in the calf crop since 1995.



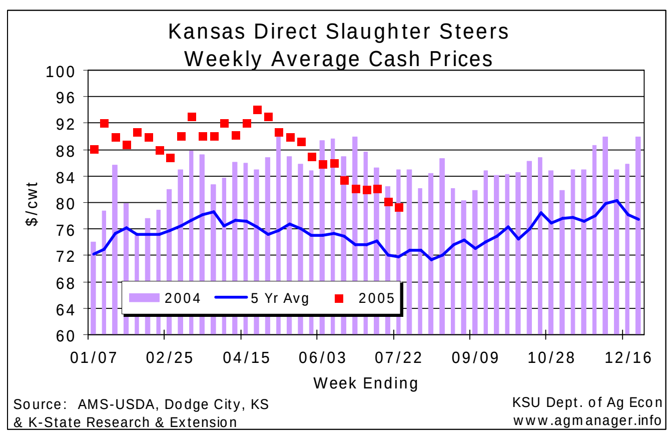
Cattle On Feed Larger Than Expected

USDA's estimate of the U.S. cattle on feed inventory totaled 10.4 million head, 2.7 percent larger than last year, and somewhat larger than the trade was expecting. Net placements (placements minus other disappearance) of cattle on feed during June were 8.2 percent larger than a year, also larger than expected by the trade. Placements were heavily skewed towards heavy weight cattle as placements of cattle weighing over 800 pounds rose 155,000 head (41.3 percent) compared to last year. Surprisingly large placements of heavy weight cattle could place additional downward pressure on the late fall market.

Outlook

Cash slaughter cattle prices are expected to remain under pressure the rest of the summer. Kansas slaughter cattle prices in mid-July traded near $80 and were poised to drop below $80. Cattle slaughter this summer is expected to exceed last year's level by 1 to 2 percent. The corresponding increase in beef production will be even larger because of heavy dressed cattle weights. As a result, look for slaughter cattle prices to remain in the doldrums the rest of the summer.

Fall quarter beef production will be driven by larger slaughter and heavier weights. Domestic beef production this fall could exceed last year's by 3 percent or more. Still it looks like Kansas slaughter cattle prices could recover to the mid-$80's this fall, although large placements of cattle on feed in late spring will keep prices under some pressure this fall. Looking ahead to the first quarter of 2006, the winter quarter price average could be similar to this fall's, in the mid-$80's. However, by that time there is a chance that economically significant quantities of beef exports to the Pacific Rim market could resume, which would help boost prices.



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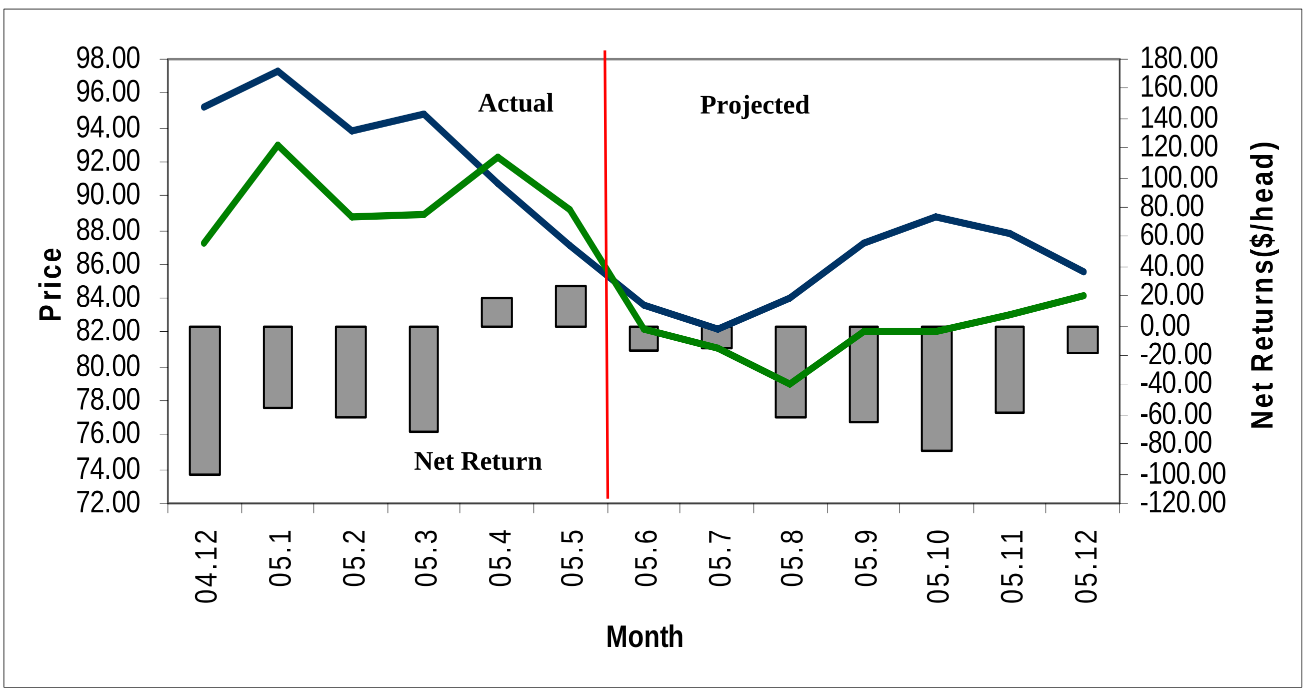
Livestock Farm Management Update

Cattle Finishing Returns

The following graph summarizes the returns to steer finishing in Kansas over the past several months, and provides the most current projections for the near future. The average March steer closeout returned a net loss of about $72.16 per head, however average fed cattle selling prices rebounded somewhat into April, resulting in average net profits of about $19.19 per head for that month. Modest profits continued into May, with our calculations suggesting average positive returns of about $26.36 per head. It appears that the worst of the winter performance problems were worked through by May, with the actual feeding cost-of-gain results coming in much closer to expectations than previous months. Preliminary calculations suggest that negative profits returned for cattle finished in June, with average break-even selling prices around $83.50 per cwt., and average selling prices for the month around $82.20. Calculated returns from that scenario likely averaged around $-17.00 per head, with similar results projected for July closeouts. Breakevens will increase for August through November closeouts, as higher valued feeder cattle are finished. Current projections suggest $60.00 to $85.00 per head losses over the fall time period. Actual selling prices will need to improve relative to current futures based price forecasts in order for these "optimistically" valued feeder cattle to turn a profit.



Source: KSU Cattle Return Series. **Breakeven** **Sale Price**

July Placements Breakeven in mid-$80's

The following budgets provide detailed projections for July placements. The ration charge projection is still fairly low from an historical perspective, however there appears to be significant feed ingredient price risk over the next several months. Feeder cattle prices remain high and are currently volatile from week to week and market to market. Sensitivity tables are included to reveal the sensitivity of the projected breakeven to feeder prices and feed costs. Expected feed conversions and average daily gains for summer placed cattle are significantly better than for fall and winter placed cattle, and there is much less performance risk for summer placements. Both feed conversions and average daily gains for July placed steers are expected to be about 4% to 7% better than the annual average. The net result is a break-even projection that averages is conservatively in the $85.50 to $86.00 range for December finished cattle, and could be $3.00 to $4.00 per cwt higher than that for feeder cattle purchased at the upper end of recently reported price ranges.

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Commercial Feedlot Cattle Finishing Budget
July 2005 Placements (750 lb. steers, 650 lb. hfrs)

Cost Budgets	Steers	Heifers
Feeder		
1. Cost of feeder:	$802.50 (@$107.00 / cwt.)	$695.50 (@107.00 / cwt.)
2. Interest on feeder:	$22.63	$19.55
Feed		
3. Total feed cost:[1]	$219.31	$203.58
4. Interest on feed:	$3.09	$2.86
Break-even selling price:[2]	$85.54	$85.74
Total cost of gain / cwt:	$53.34	$55.03
Feeding cost of gain / cwt:[3]	$48.81	$50.68

[1] Based on a ration charge of $110.21 per ton, which is base on a use-weighted feed ingredient price over the feeding period, and accounting for seasonal performance expectations for this placement time period.

[2] Includes the listed specific costs, plus a yardage charge and an expected processing and veterinary charge per head.

[3] Excludes interest on feeder animal.

Commercial Feedlot
Sensitivity Analysis of Break-even Prices for 750 lb. Steers

	Feeder Purchase Price				
	$106.00	$108.00	$110.00	$112.00	$114.00
Feeding Cost Of Gain ($ /cwt.)	-----Break-even Price----- ($ / cwt.)				
$44.00	82.99	84.23	85.46	86.70	87.93
$45.00	83.39	84.63	85.86	87.10	88.33
$46.00	83.79	85.03	86.26	87.50	88.73
$47.00	84.19	85.43	86.66	87.90	89.13
$48.00	84.59	85.83	87.06	88.30	89.53
$49.00	84.99	86.23	87.46	88.70	89.93
$50.00	85.39	86.63	87.86	89.10	90.33

Commercial Feedlot
Sensitivity Analysis of Break-even Prices for 650 lb. Heifers

	Feeder Purchase Price				
	$105.00	$107.00	$109.00	$111.00	$113.00
Feeding Cost Of Gain ($ /cwt.)	-----Break-even Price----- ($ / cwt.)				
$47.00	83.02	84.23	85.45	86.66	87.88
$48.00	83.43	84.64	85.86	87.07	88.29
$49.00	83.84	85.05	86.27	87.48	88.70
$50.00	84.24	85.46	86.67	87.89	89.10
$51.00	84.65	85.87	87.08	88.30	89.51
$52.00	84.06	86.28	87.49	88.71	89.92
$53.00	85.47	86.69	87.90	89.12	90.33

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