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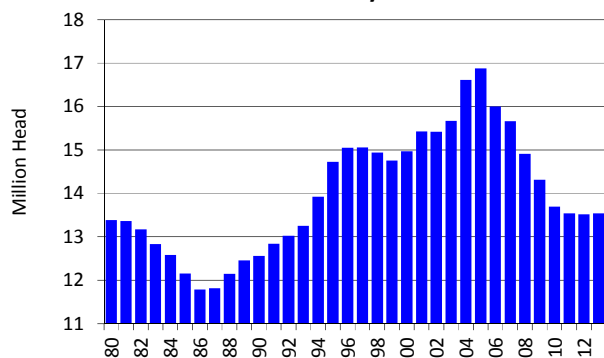
September 2013

Quarterly Report

INVENTORY

The July 1st inventory report marks the first year-over-year increase in total cattle inventory since 2005. At 13.54 million head, total cattle inventories were up marginally (0.1%) from 2012, but remain 19.8% below the 2005 peak. Total inventories were up 0.8% in the west, but down 2.0% in the east. Alberta (+2.2%) and BC (+0.8%) are the only provinces with larger cattle inventories while other provinces were down 0.5-2.9%.

Canadian Total Cattle & Calves
July 1



Source: Statistics Canada

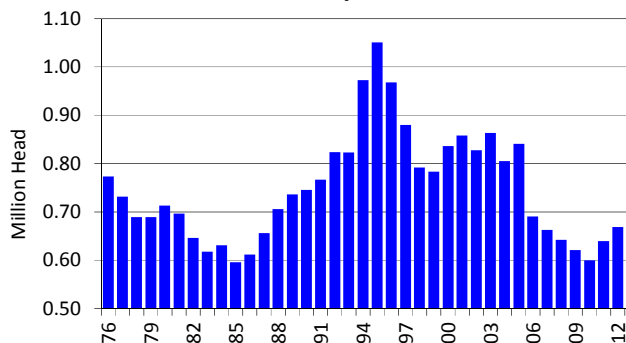
Beef cow numbers were down a modest 0.3% or 11,900 head to 3.94 million head after seeing a 0.2% increase last year. Beef cow numbers were down in all provinces with the exception of Alberta (+2.8%). The most significant decline was reported for Manitoba (-5.3%) followed by Atlantic Provinces (-3.6%) and Ontario (-3.1%).

Beef heifers for breeding increased for the third year in a row to 673,900 head with a significantly lower growth rate of 0.7% or 4,900 head compared to 4.5% and 6.6% in 2012 and 2011. The combination of disappointing feeder cattle prices last fall and high feed costs in the first half of the year, has dampened the interest in retaining heifers. In addition, cattle on feed recorded a higher percentage of heifer placements than steers in July for the first time since May 2008. Some heifers retained for breeding may have been

preg-checked early and opens placed into feedlots; taking advantage of the solid feeder cattle prices moving into the third quarter.

Overall, the national breeding herd (cows & heifers) is holding steady at 4.61 million head, down a marginal 0.2% or 7,000 from last year. This suggests the cattle cycle is firmly on the consolidation phase. However, with cow marketings projected to be up 6% in 2013 and heifer retention trending slower, inventories could potentially be lower on January 1, 2014. The consolidation phase of this cycle is expected to be longer than the 2-3 year period previously seen, with expansion not expected until 2015/16.

Canadian Beef Heifers (Breeding)
July 1



Source: Statistics Canada

The 2013 calf crop is down 1.3% at 4.38 million head after seeing a steady calf crop in 2012. As a result of the continued decline of the eastern cow herd, the calf crop was down 6.1% to 867,400 head in the east; while the western numbers were steady at 3.52 million head. Overall, the decline in calf crop coupled with the smaller beef breeding herd will continue to tighten cattle supplies and support prices in 2014.

Smaller domestic slaughter combined with steady fed cattle exports in the first half of 2013 helped push inventories higher. As of July 1st, the number of steers and slaughter heifers were up 4.3% and 1.1% respectively. Even with the 0.2% higher July 1st on feed

inventories, total feeder supply outside of feedlot is 0.5% higher than a year ago at 6.77 million head.

Dairy cows at 952,900 head were up 0.1% from a year ago. The majority of the Canadian dairy cows are located in the east with Quebec and Ontario accounting for 70% of the national total. Dairy heifer retention was also up 0.1%. The increase was driven by Manitoba (+6.9%), Saskatchewan (+4.8) and British Columbia (+9.5%) while declines were reported for all other provinces.

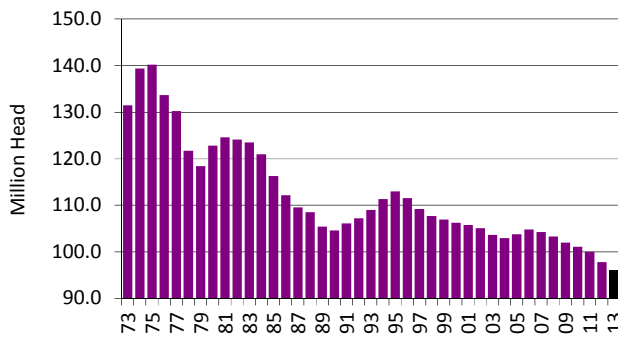
(Provincial data are available on page 6)

US Cattle Inventories

USDA has cancelled the July 1st inventory report. While there will be no survey-based statistics for July 1st US cattle inventories, estimates have been compiled by the Livestock Marketing Information Center (LMIC).

While the Canadian cattle herd is holding steady, the US cattle herd continues to contract. The total US inventory as of July 1st is estimated to be down 1.8% to 96.1 million, marking the seventh consecutive year of a declining cattle herd. Dairy is the only category posting year-over-year increases with dairy cow numbers up 0.5% to 9.3 million head and dairy replacement heifers up 1.2% to 4.2 million head.

**U.S. Total Cattle and Calves Inventory
July 1**



Source: USDA, Cattlefax

Beef cow numbers are estimated to be down 2.1% or 650,000 head to reach a new low of 29.9 million head mostly due to the lingering drought impacts on pasture conditions, tight hay supplies as well as a long cold winter. Beef replacement heifers were estimated to be steady with last year at 4.2 million head, indicating no significant heifer retention has occurred. Overall, the US beef breeding herd is estimated to be down 1.9% from last year to 34.1 million head.

The calf crop in 2013 was estimated to be down 2.1% following a 2.4% decline in 2012. At 33.5 million head,

the 2013 calf crop would be the smallest since 1949. As the US breeding herd continues to shrink, smaller calf crops coming forward over the next couple years will continue to pressure US cattle supplies and increase demand for cattle imports.

Other highlights of the LMIC estimates showed feeder cattle and calves were all down from a year ago with steers, slaughter heifers, and calves under 500 lbs down 2.1% and 3.4% and 2.3% respectively.

US Cattle Inventories			
July 1, 2013 (1,000 head)			
	2013 (LMIC)	2012 (USDA)	% Δ
Total Cattle	96,050	97,800	-1.8%
All Cows	39,100	39,700	-1.5%
Beef Cows	29,850	30,500	-2.1%
Dairy Cows	9,250	9,200	0.5%
Heifers >500 lbs	15,500	15,700	-1.3%
Beef rep. heifers	4,200	4,200	0.0%
Dairy rep. heifers	4,150	4,100	1.2%
Other heifers	7,150	7,400	-3.4%
Steers >500 lbs	13,700	14,000	-2.1%
Bulls >500 lbs	1,850	1,900	-2.6%
Calves <500 lbs	25,900	26,500	-2.3%
Calf crop	33,550	34,500	-2.1%
Cattle on Feed	--	12,300	--

Source: USDA, LMIC

While the above mid-year estimates suggest continued liquidation of the US cattle herd, improved moisture conditions and better producer margins may help to slow the downtrend. With pasture conditions improving and the expectation of lower feed costs, US beef cow slaughter has drifted below year ago levels since mid-June despite larger Canadian cow imports. Producers may also start to consider retaining heifers with the expectation of lower corn prices this fall and stronger feeder cattle prices. Focus will be placed on maintaining the herd size, before expansion. Given the breeding season is over, increased heifer retention would not show up in a larger herd or calf crop until 2015 at the earliest, and not impact beef production until 2016.

The July 1st US inventory statistics are based on estimations. Official numbers are not available until January 2014.

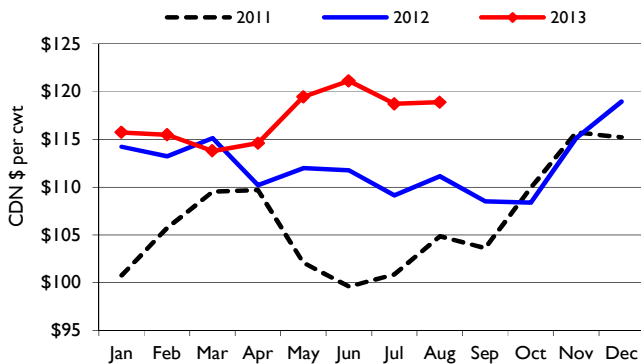
PRICES

FED CATTLE

Following the strong rally in the second quarter with monthly prices peaking at \$121/cwt in June, the Alberta fed steer prices dropped \$2.40 in July to \$119/cwt and held steady at the same level in August. Fed cattle sales were disrupted the end of June as the High River plant was temporarily closed while they dealt with water issues following the flood.

While fed cattle prices traditionally trend lower during the hot summer months with larger fed cattle supplies and soft beef demand, this year prices have been unseasonably strong over the summer. Tight supply is the main reasons for this trend with July and August marketings down 7% and 11% from 2012, and down 20% and 15% from the five year average. However, the impacts of the larger placement during March through May are expected to show up in September and October. Therefore, prices could ease lower moving into the fourth quarter.

Alberta Fed Steer Price

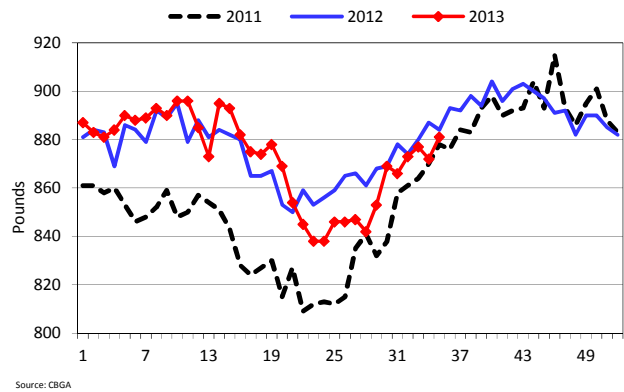


Source: Canfax, Bank of Canada

In Ontario, fed cattle prices also peaked in June at \$125/cwt then held steady at \$124/cwt through July to August. The spread between Ontario and Alberta fed cattle prices widened from \$3.91/cwt in June to \$5.60/cwt in August, with tight supplies in eastern Canada as cattle inventories continue to decline there.

Fed cattle prices have been running significantly higher than year ago in the past three months with Alberta up \$7-10/cwt and Ontario up \$6-14/cwt. Despite the prospect of larger local supplies moving into fall, prices are expected to stay above year ago levels through September to October as last year's prices were pressured following the *E.coli* recall.

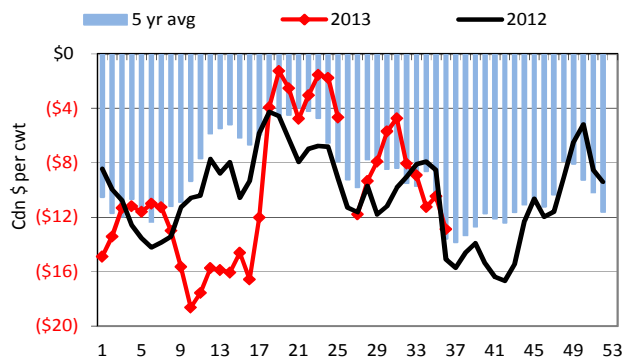
Canadian Weekly Steer Carcass Weights



Source: CBGA

Following a typical seasonal trend, steer carcass weights bottomed in June at around 840 lb then rebounded in the third quarter to reached 875 lbs in August. Steers carcass weights were steady with last year in the first half of 2013, but have been lower since June as cattle were pulled forward. Year to date steer carcass weights are 2 lbs lower than 2012 at 871 lbs. The temporary suspension of Zilmax (a feed additive used in the final days of finishing cattle to increase carcass weight and lean muscle gain) in August may also affect carcass weight for the rest of the year, but the impact is expected to be minor as it can be somewhat offset by switching to alternative products or feeding cattle for a longer period, particularly with cheaper grain prices this fall. Overall, carcass weights are anticipated to be slightly lower than last year throughout the fourth quarter as feedlots stay current.

Alberta Fed Steer Basis (Cash to Futures)



Source: CanFax

After seeing a big swing from -\$17 in April to -\$3 in June, the Alberta to Nebraska cash to futures basis averaged -\$8/cwt in July and -\$10/cwt in August. Despite the month to month change, basis was stronger than year ago levels from May through July, before weakening in August with stronger US cattle futures and a weaker Canadian dollar. On average, the

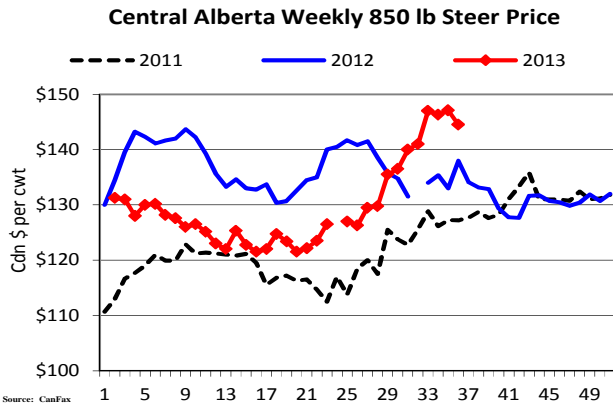
Alberta to Nebraska cash to future basis was \$3 stronger than 2012 in July and \$1 weaker in August.

Fed cattle exports started to trend lower than a year ago in the third quarter with July exports down 32% and August down 34%, bringing YTD volumes down 2% from 2012. Fed cattle exports in the fourth quarter is expected to be smaller than last year as the larger exports last fall were supported by the temporary plant closure.

FEEDER CATTLE

Supported by softer feed prices, tight feeder supplies, and strong fed cattle prices, the feeder cattle market took off in July after seeing a disappointing first half of the year.

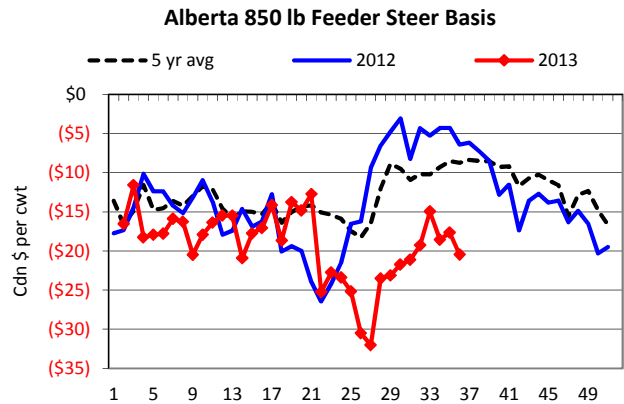
Alberta 850 lb steer climbed sharply higher throughout the course of July and August from \$130/cwt to a new historic high of \$147/cwt which is \$3 higher than the last peak established in spring 2012. After being significantly lower (-\$11/cwt on average) than year ago in the first half of 2013, prices have been \$2-13 higher than last year since late July. Ontario has been following a similar upward trend with a new high of \$149/cwt was established at the end of August.



In the US, feeder prices have also been on the rise. Monthly 850 lb steers prices were up from Cdn\$128/cwt in May to Cdn\$154/cwt in August. While the Alberta 850 lb steer prices typically trade at a discount to the US, the spread at -\$10 to -\$12 in July to August is wider than the last couple years when it was +\$0.5 to -\$5 in 2011 and +\$3 to +\$4 in 2012. The Alberta 850 lb feeder steer basis struggled between -\$30 to -\$15 in the past three months is basically telling a similar story as it is \$6-20 weaker than last year and \$8-12 weaker than the five year average.

Boosted by the combination of tight cattle supplies and solid demand fueled by lower corn prices - US feeder

cattle prices in the third quarter outpaced Canada. This attracted US buyer interest in Canadian cattle. Feeder cattle exports to the US were more than double in July and triple in August, putting YTD volumes 72% or 74,651 head larger than 2012. This will reduce fourth quarter fed marketings.



Source: CanFax

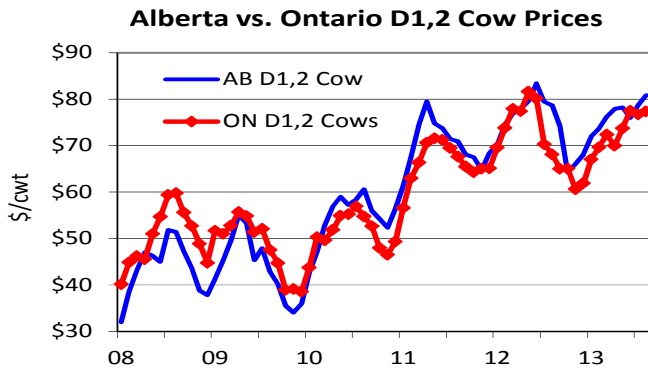
Looking forward, the typical seasonal trend would suggest both 550 lb and 850 lb steer prices trend lower moving into the fourth quarter. However, tight cattle supplies coupled with the optimistic feed grain outlook are likely to support prices. As for exports, feed grain production in the US and Canada will be the key driver. If relative cost of gain ends up being lower in the US, the cost due to the COOL amendment could be partially offset and more feeder cattle move south. Feeder exports moving forward will impact 2014 marketings.

Alberta 550 lb steer prices trended unseasonably flat in the first half of the year without posting a spring high, but prices have been slowly picking up from \$148/cwt in the end of June to \$160/cwt in August. In Ontario, the rally of 550 lb steer prices starting in late-June appeared to be more significant with prices up from \$134/cwt to \$167/cwt before easing lower in late August. Calf prices could strengthen as we move into the fall run and more quality calves come to town.

COW PRICES

Cow prices have been strong in 2013 with the support of high trim prices and tight global supplies. Year to date prices are 30% or \$17/cwt above the five year average. Following a typical seasonal pattern, monthly western Canadian D1,2 cow prices trended steadily higher from \$72 in January to \$78/cwt in May and eased \$2 lower in June before rebounding to make an annual peak of \$81 in August. With larger cull cow supplies heading into the fall run and softening ground

beef demand, cow prices are expected to drift to a fall low in November. Based on the three year average (2010-2012), the drop from a summer high to the fall low is about 20%. This will translate to a \$65/cwt fall low this November. However, this seasonal drop may be smaller if US demand remains strong with lower cow slaughter there.

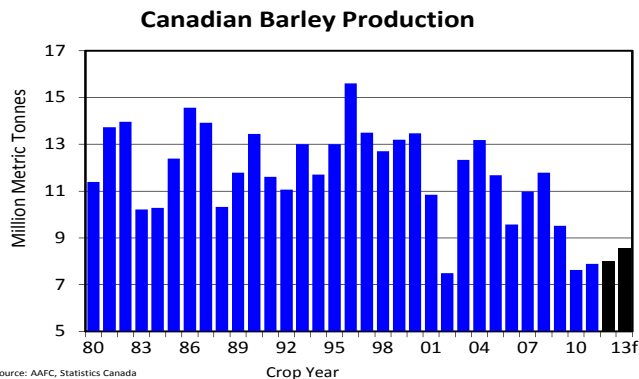


Source: CanFax

While cow exports were over double a year ago in the first five months of 2013, the year-over-year change has moderated with volumes only up 44% in June, 19% in July and 43% in August. As of August 31st cow exports at 189,342 head is 88% higher than 2012.

FEED GRAINS

Last year the market went from anticipating a record high US corn crop in June to one of the worst droughts in recent history in July and August. This year record high acreage was offset by a cautious yield estimate which was moderated down 2 bushels in August as heat hit, then increased 1 bushel in September. There are reports of very good yields in areas where harvest has started.

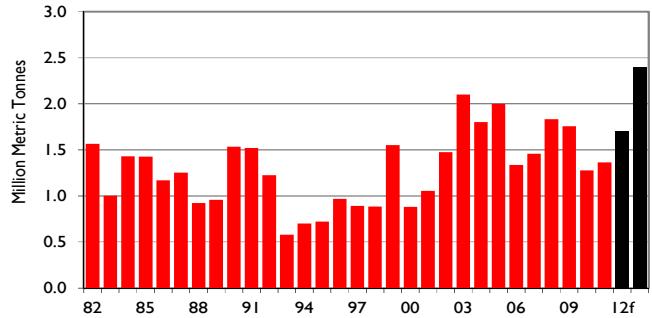


Source: AAFC, Statistics Canada

Canadian barley production is projected to be up 6.7% at 8.55 million tonnes but still 25% below the long term average. This is the fourth consecutive year of relatively low barley production. Ending stocks were a record low on July 31, 2013 at 750,000 tonnes. They are expected to increase marginally to 950,000 tonnes

with slightly smaller exports as global coarse grain supplies are replenished. With little to no change in ending stocks, feed grains in western Canada are entirely reliant on a larger US corn crop to bring prices down.

Canadian Corn Ending Stocks



Source: AAFC

Eastern Canada is a different story with corn production projected to be up 1% to a record large 13.15 million tonnes. But more importantly reduced exports to the US will result in record large ending stocks at 2.4 million tonnes up 41% from the 12/13 crop year and 80% larger than the long term average.

In the US, planting got off to a late start in May with snow storm giving some much needed moisture. While corn acres were down in the Corn Belt, the decline was more than offset by larger acres in the mid-west. Improved moisture conditions going into July gave the industry optimism about yields. Heat hit in August and many areas in the mid-west that had received moisture earlier in the year started to show signs of stress on the drought monitor.

Overall, corn production is projected to be 13.84 billion bushels up 28% from last year's low level and will be a record high surpassing 2009 production. Average farm prices are forecast by the USDA to decline by 30% to range between US\$4.40-5.20/bushel. The December contract is currently at US\$4.69/bu, up from the low made mid-August of US\$4.47/bu, and could move lower on news of better yields as harvest progresses. It appears that feedlots have probably already priced in the best cost of gain scenarios they could possibly get moving into the fall and winter.

Barley prices have fallen like a rock since the end of June from \$299/tonne to \$200/tonne, down 33%. Barley prices appear to have stabilized at \$200/tonne and will need more positive news either from domestic yields or the US crop to fall further.

BEEF PRODUCTION

In 2013, beef production is projected to be down 2.6% at 2.8 billion lbs (1.3 million tonnes) with domestic beef production down 5.2% and live slaughter exports up 8.8%.

After seeing a dramatic increase last year, carcass weights are expected to be 6 lbs lower. Tight fed cattle supplies are expected to keep feedlots current in the second half of the year.

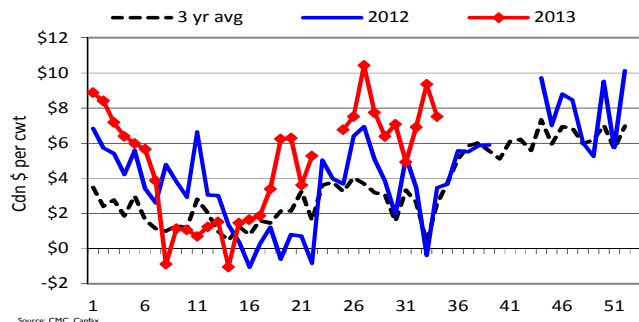
The entire decline in 2013 beef production will come from smaller fed cattle production, which is expected to be down 4% at 2.3 billion lbs (1.0 million tonnes). Domestic fed slaughter is down 9% YTD, but the gap is expected to narrow with larger slaughter in the fourth quarter versus last year when Lakeside was closed in October. September 1st cattle on feed inventories were up 7%; this will support marketings going into the fourth quarter.

Non-fed beef production is projected to increase 2.8% to 501 million lbs (0.2 million tonnes), with exports up 37%. However, domestic non-fed production is expected to be down 9% with reduced slaughter capacity in eastern Canada and significantly lower bull slaughter.

CUTOUT VALUES

The AAA cutout has averaged \$198/cwt from January to August 2013 up 3% from 2012. The AA cutout has averaged \$188.50/cwt up 2%. The AAA/AA spread at \$4.91/cwt is slightly wider than last year and has been wider from June through August at over \$7/cwt. The price spread typically rallies going into the fall, peaking in December. If that pattern holds true, we could be looking at a much wider spread in the fourth quarter than what has been seen historically.

Canadian Weekly AAA/AA Spread



AAA and Prime grading was a record 56.7% in 2012. Year to date AAA and prime grading has been relatively steady with year ago levels, maintaining that jump in quality production.

PROVINCIAL CATTLE INVENTORY - JULY 1, 2013 (1,000 HEAD)										
	Year	Bulls	Beef Cows	Dairy Cows	Dairy Heifers	Beef Hfr Br.	Beef Hfr Sltr.	Steers > 1 Yr	Calves < 1 yr	Total
Atlantic Provinces	2012	3.0	44.8	61.1	28.6	5.9	13.6	17.9	61.4	236.3
	2013	2.8	43.2	62.5	28.2	5.4	12.3	15.8	59.6	229.8
Quebec	2012	11.9	180.4	354.8	156.2	16.4	40.9	80.2	384.2	1225.0
	2013	12.2	176.9	352.5	154.5	18.6	46.4	82.7	346.2	1190.0
Ontario	2012	20.2	285.1	314.5	172.5	43.8	172.1	297.1	478.4	1783.7
	2013	19.6	276.3	313.6	170.2	42.7	170.1	306.1	461.6	1760.2
Manitoba	2012	25.8	468.7	41.4	17.5	72.8	67.9	92.2	468.7	1255.0
	2013	25.7	443.7	42.9	18.7	65.3	70.0	98.3	465.4	1230.0
Saskatchewan	2012	62.8	1179.7	27.9	10.4	201.8	130.6	205.9	1085.9	2905.0
	2013	63.8	1164.1	28.0	10.9	200.3	131.1	216.6	1075.2	2890.0
Alberta	2012	91.7	1595.9	81.1	41.3	292.0	751.4	856.0	1755.6	5465.0
	2013	92.2	1640.0	82.8	41.1	305.0	758.6	899.5	1765.8	5585.0
British Columbia	2012	13.2	196.7	70.7	35.9	36.3	35.5	51.4	210.3	650.0
	2013	12.5	195.2	70.6	39.3	36.6	36.5	50.9	213.4	655.0
CANADA	2012	228.6	3951.3	951.5	462.4	669.0	1212.0	1600.7	4444.5	13520.0
	2013	228.8	3939.4	952.9	462.9	673.9	1225.0	1669.9	4387.2	13540.0
% change CANADA	12 to 13	0.1%	-0.3%	0.1%	0.1%	0.7%	1.1%	4.3%	-1.3%	0.1%

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