

February 13, 2004

What a difference a few weeks makes in the cattle and beef business. Fed cattle sold for \$90-92 before December 23. After the BSE announcement, prices plummeted to \$74 and trade was extremely slow for two weeks. Prices then rallied as high as \$87 by the third week in January then fell back to \$75 by the first week of February. I'm afraid this kind of volatility will be the norm until the borders of Japan, Mexico, and South Korea are reopened to U.S. beef exports.

The timing of the opening of the export markets will have a huge impact on prices. The Japanese have an election in July. They are not likely to take any U.S. beef until after their election to make it look like they are protecting their domestic beef industry. We have an election here in November. There will be pressure on our government to get the export markets open before the election.

Beef exports from the U.S. account for year 10% of the total beef produced in this country. The question the market faces is to what level do beef prices need to drop to absorb the extra 10% of beef in the domestic market? It appears Mexico will be the first country to reopen its borders, but it may be several weeks before it happens. It will likely be several months before the Asian markets reopen.

According to Cattle-Fax, fed cattle prices are expected to average in the upper \$70's, 750-800 lb yearlings will average in the upper \$80's, and 500 lb steer calves will average \$104-107 during 2004. All of these prices would be higher without the BSE incident. It will likely be sometime in 2005 before the industry gets back to normal supply and demand.

Near term, the market is concerned with a fed cattle supply that is larger than domestic demand can consume unless prices go lower. Front-end supplies and carryover are likely to increase over the next 90-120 days. The tendency will be to feed cattle longer, which will result in increased carcass weights. Grain prices continue higher, which seems possible given the tight world supplies of grain.

The BSE incident has caused the beef and cattle industries to really unite and rally around solving the export ban. The level of cooperation between the state and national cattle associations, American Meat Institute (Packers), Food Marketing Institute (Retailers), and the government has been phenomenal. Domestic beef demand was hardly affected by the BSE event.

The events of the past several months clearly show us that the beef and cattle industry is truly a global market. Events in Asia, South America, and Europe will affect how we do business from now on. It behooves all of us to stay informed!

The government is proposing several changes to provide more assurance to beef consumers and to stop the potential spread of the BSE. The proposals that will most affect all of us are the banning of the slaughter of all down or non-ambulatory cattle, and the faster implementation of mandatory identification. Food processors are also going to expect cattle and beef products to be source verified in the not too distant future. I just heard an ad on television last night by Cargill Foods that they are source verifying all products they sell for use in baby food.

Our feedyard at Pratt will be cooperating with the K-State Animal Science Department in testing some different types of software to be used to record and track cattle to comply with the mandatory ID program. Mandatory ID has been debated for some time, but it is a technique whose time has arrived. It will help facilitate tracking the movement of cattle as well as the transfer of performance data. It appears most suppliers of ID technology will cooperate to insure ID readers will be compatible with the various tags and implants etc. that are on the market.

We have pens available at all of our feedyards to custom feed cattle. We are willing to joint venture by purchasing a portion of a group of cattle. We are also in the market to purchase high-quality cattle that will perform well on the U.S. Premium Beef Grid. We have USPB shares for lease at all times. Good luck in your cattle endeavors.

Sincerely,

Jerry Bohn
General Manager