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BSE Confirmed In Alberta

Canadian officials today confirmed that an 8 year-old cow in Alberta tested positive for BSE (mad cow). The USDA has responded by shutting off all imports of Canadian cattle and beef. At this point in time, there are a lot more questions than there are answers. Futures went limit down with the options synthetics indicating another limit tomorrow. What follows is a somewhat random series of thoughts for your consideration as we evaluate this matter. The statistics are not guaranteed to be exactly accurate, but are close enough to help put things in perspective.

IMPACT ON U.S. SUPPLIES: Canada exports roughly 1 billion pounds of beef to the U.S. each year, or under 4% of the U.S. total production. In return, the U.S. exports about 250 million pounds of beef back into Canada. Right now there is no barrier to those U.S. exports, but it could reasonably be expected that the northern flow could be disrupted as southern flow is banned. The U.S. exports live feeder cattle into Canada, normally in the fall of the year. The best bet right now is that this flow will be insignificant in the near future. Last year Canada exported about 1.7 million head of live cattle into the U.S. Around 800,000 were slaughter steers and heifers with another 250,000 being slaughter cows. There was a huge movement of feeder cattle and calves into the U.S. from Canada last year due to the drought in western Canada. About 500,000 calves came south, which is 3 to 4 times the normal yearly total. Most of those feeder calves are still alive and in feedyards in the U.S. at the current time.

IMPACT ON CANADA SUPPLIES: While the Canadian movement of beef into the U.S. represents less than 4% of U.S. supplies, it represents close to a third of total Canadian beef production. In total, around 40% of Canadian beef is exported, and it would be a reasonable expectation that other countries may follow the lead of the U.S. and also close their borders to Canadian beef in the short run.

IMPACT ON DEMAND: This is the biggest unknown in both Canada and the U.S., but the outlook is pessimistic. If this event had occurred on the first day of the Iraq invasion it would have been lost in the news. However, the news cycle is slow right now and all afternoon I have been listening to the increased terror alert and mad cow stories on the news channels — that is about all there is to report today. *By dinner time tonight every consumer in North America will know that mad cow is not just something that happened in Europe.* How the media plays all this out over the coming weeks will be critical to what happens to beef demand — but it is difficult to see how it will help demand in any



way. Canada has an individual animal identification system and if the investigation reveals that any of the calves that are on feed in the U.S. are linked to this cow it could really broaden the potential impact on demand. Pork and poultry could benefit from any consumer concerns about beef.

Some Implications (in no particular order of importance and definitely not all-inclusive):

1. Canada has a system in place to monitor and test for BSE to make sure it does not enter the food stream. As I understand the matter, the animal in question was condemned at the time of slaughter. The system worked. This is positive. The U.S. system is just as rigorous. The food supply is not contaminated. Hopefully the media will get this message out to consumers.
2. The Canadian cattle market is a derived market from U.S. prices and adjusted by the exchange rate. Canadian prices have been very strong relative to the U.S. even with a 15% increase in the value to the Canadian dollar since the first of the year. This has been the reflection of the tight drought-reduced supplies in Canada relative to the U.S. The Canadian cattle price was due for an adjustment of around \$5 lower relative to the U.S. as the relative supplies began to reach a more normal relationship and the currency effect was more fully reflected in the market. This event will magnify that relative price relationship change dramatically more. Thus, it will be very hard for the Canadian cattle producers to hedge against all the expected price drop in Canadian fed cattle prices.
3. The proponents of mandatory country of origin labeling (COOL) will latch on to this event and use it to the maximum extent possible to gain support for COOL. This is not good for the cattle industry due to the much-discussed cost issues inherent in mandatory COOL and the fact that anything that arouses the consumers' concern about the safety of beef in general can result in reduced demand.
4. The effectiveness of the individual animal identification system already in place in Canada will become more obvious as this investigation unfolds. This will increase the pressure to put such a system in place in the U.S. Interestingly, many of the most vocal supporters trying to sell mandatory COOL as a health issue are adamantly opposed to mandatory animal ID in the U.S.

Look for another limit down opening tomorrow. Whether the market trades higher after the opening remains to be seen. Cash prices are now expected to be lower this week after some early indications that we could maybe trade steady. The beef pipeline has been replenished and we are heading into a weaker demand period and larger fed cattle supplies. Prices were heading lower — now probably faster and sooner. As more information becomes available I will try to get it out as timely as possible.

Bob Price



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