



TRENDS

A CATTLE-FAX PUBLICATION FOR COW CALF PRODUCERS

Mid-June 2013

Volume 7, Issue 6

This Issue of CattleFax Proudly Sponsored by



The Value of Verified Production Claims

By Leann Saunders, President, IMI Global

Demand for the verified food production claims is growing. Consumers are asking questions about the origin of food products and are pushing for additional transparency. This drives retailers and restaurants to offer additional information about the sourcing of their products, and pushes beef brands to verify production practices and credence attributes for consumer labeling. As a result, these trends can generate additional value for producers willing to participate in a variety of third-party verification programs.

Even with the change in the Japanese export requirements for beef, IMI Global continues to see demand for source verification in the marketplace. Source-and-age verification continues to be recognized in the industry as an indicator for cattle quality. Cattle buyers noticed many of the more progressive producers were engaged in verification programs. These buyers also knew they were buying cattle with some of the best management practices and genetic potential available. Many of these same principles apply in the marketplace today.

Producers also see the management advantages of verification programs. Operations that utilize animal identification see the additional benefits in data management. It is difficult to prove performance or management if it cannot be measured. Also, many international markets that compete with the U.S. cattle producers globally already have domestic traceability regulations in place. Longer term, this has the potential to be a trade barrier for U.S. beef, and staying engaged in these programs gives producers the ability to quickly access global markets should verification become a requirement.

Furthermore, the new Animal Disease Traceability ruling (ADT) requires the identification and traceability of certain cattle classes. Similarly, requirements associated with additional verification programs like Non-Hormone Treated Cattle (NHTC) for the European Union; USDA's NeverEver3 Guidelines; and the Global Animal Partnership (GAP) 5-Step Rating System (required to supply product to Whole Foods) all require animals to be individually identified, sourced and traceable back to the ranch of origin.

Many verification programs offer the ability to "bundle" programs, which saves producers time and money. Also, verifying multiple attributes and creating the ability for a calf to be eligible for multiple markets allows producers to optimize carcass values as parts and pieces can go to the most valuable market. For example, if a calf is verified for source, age, NHTC, NeverEver3 and GAP, then the liver might go to Japan, the round to the European Union, and the loin to Whole Foods.

Supply remains below demand for many of these programs. As a result, the value opportunity for producers continues to look positive heading into the 2013 marketing season. Historical source-and-age verification premiums in calf and feeder cattle markets are around \$20 per head with a cost between \$3 to \$6 per head. The added return on investment increases significantly for NHTC and GAP. Premiums have already been evident in some 2013 video sales, and all indications suggest this should continue to improve.

The consumer remains comfortably in the driver's seat in regards to product demands. Transparency, authenticity and the ability to tell an accurate story about how and why cattle producers raise beef the way they do is becoming increasingly important in the marketplace.

Editorial note: CattleFax members have been asking about the relevance of age-and-source verification as Japan increased the minimum age requirement for U.S. beef exports to 30-month cattle or younger. IMI Global provided this article on the current state of verification programs at the request of CattleFax, and our team appreciates Leann Saunderson's contribution to the June issue.

— WATCH LIST —

U.S. Pasture Conditions Improve

Drought is still a concern in the South Central and Northwest, but U.S. average pasture conditions continue to see improvement. Based on USDA reported pasture and range conditions, the CattleFax index – included in the Chart of the Month – has improved from seasonal lows around 57 to 65. Current conditions are still among the worst since 1995, but improvement was rare in the 2012 drought. Expect pasture conditions to peak seasonally over the next few weeks and worsen into early September. U.S. forage conditions have benefitted from favorable temperatures and moisture. Producers should watch pasture conditions and cow slaughter closely if early weaning or culling decisions need made. Timely marketing may allow for better market prices if no other options exist.

Diesel Values Near 12-Month Lows

U.S. retail diesel prices recently hit the lowest levels since June 2012 and October 2011 – roughly \$3.70 per gallon. Prices have been range bound since April 2011 from \$3.70 to \$4.15 per gallon. Prices still remain elevated relative to 2009 and 2010 in spite of rapidly rising U.S. crude oil production. Global demand, specifically China, has offset the large production increases. U.S. demand has continued to trend lower since 2007 at the expense of global demand. The good news for cattle producers is prices have not made new highs as China growth slows and diesel exports have stopped rising.

MARKET PRICES



(\$/cwt, U.S. avg)

	Current	Change vs Month Ago	Change vs Year Ago
550# Steers	152.26	(5.58)	(26.13)
750# Steers	133.78	(2.01)	(20.31)
Fed Steer	122.80	(6.23)	0.38
Ut/Comm Cows	72.39	(0.77)	(12.74)
Omaha Corn	7.32	0.15	1.04
USDA Hay Forage	154.00	(8.00)	6.00