

In The Cattle Markets*

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Cattle Feeding Losses Continue

Cattle feeders have endured 16 months of consecutive losses, with returns to recent closeouts averaging about -\$75/head. Average monthly losses to feeding cattle in western Kansas during the past year have ranged from \$57/head to \$171/head. Despite the erosion in equity cattle feeders have been experiencing, feeder cattle prices have remained resilient.

Based on typical cattle feeding performance and a purchase price of \$79/cwt, 750-pound steers placed on feed in September will have a breakeven selling price of \$72.76/cwt in mid-February 2003. This assumes a ration charge of \$121.59/ton, based on current grain and protein prices. The total cost of gain would be \$63.41/cwt (including interest on feed and the feeder steer). The futures-based price forecast, adjusted for basis, for cash fed cattle prices in February in western Kansas is \$70.34/cwt, \$2.42/cwt below the breakeven selling price. This implies that hedging placements of 750-pound steers at current futures prices would lock in a loss of approximately \$33/head. Based on projected fed and feeder cattle prices and feeding expenses, similar losses could be expected for 750-pound steers placed through the fourth quarter.

Retaining ownership or backgrounding also is not profitable at current prices. For example, losses up to \$40/head are projected at current prices for backgrounding 550-pound steers in October and selling them as 750-pound feeders in late January.

Potential increases in corn and other feed ingredient prices this fall and winter would further reduce expected returns to cattle placed during the fourth quarter. Although corn prices initially declined from their highs following the August crop production report, they have increased to new highs in the past week as the Corn Belt has returned to hot, dry weather conditions. Early harvest results suggest corn yields will be highly variable this fall, even within localized areas, making it difficult to anticipate corn prices this fall and winter. However, if USDA significantly lowers its corn production estimate in the September 12 crop production report, cattle feeders can expect further increases in corn prices. Drought conditions that persist throughout the major cattle feeding states point to continued high hay and roughage prices. Cattle feeders concerned with potentially higher feed prices may wish to consider locking in feed ingredient prices through cash forward contracting or hedging in the futures or options market.

The Markets

Live cattle prices were mostly steady last week, with the bulk of the trade occurring on Friday at \$64. Dressed weight prices were about \$1 lower at \$99-100. Nebraska slaughter steers (35-65% Choice) averaged \$99.71, dressed weight, down \$0.88 from last week. USDA's weekly weighted average price for Kansas slaughter steers (35-65% Choice) was \$63.72, \$0.41 higher than the previous week. USDA's estimate of the light Choice boxed beef cutout was \$109.44, down \$3.37 from the previous week and down \$8.27 compared to last year. The light Choice-Select spread averaged \$8.91, compared to \$9.37 the prior week and \$7.39 a year ago. Average feeder cattle prices across seven markets in Nebraska last week were steady to slightly lower, with 700-800 pound steers averaging \$83.94 and 500-600 pound steers averaging \$93.42.

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