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Cattle Feeders More Optimistic Than Futures Traders

Last week was the first week that most feeder cattle auctions were open since the BSE announcement. As a result, relatively few feeder cattle and calves have changed hands since the December 23 announcement that a single Holstein cow in Washington state tested positive for BSE. As expected, last week's trade revealed that values for heavy weight feeders were lower than prior to Christmas. But have feeder steer prices fallen far enough to compensate for expectations of lower slaughter cattle prices during 2004?

One way to address this problem is to calculate an expected breakeven for cattle placed on feed at last week's prices. A 750 lb. steer purchased at last week's Kansas weighted average price of \$89.18 and placed on feed in January will reach slaughter weight of about 1200 lbs in late May. Assuming the purchase price of the steer and all feeding inputs are financed, and based on current feed prices, interest rates, and seasonally adjusted animal feeding performance, the steer will breakeven at about \$77/cwt. in late May. Over the last three years, Kansas slaughter steer basis averaged about \$+3.40/cwt. in late May. June live cattle futures closed at \$70.95 on January 12th, which implies a hedger could reasonably expect \$74.35/cwt. for the cattle, net of any gain or loss in the futures market, if hedged at today's June live cattle settlement price. So, it looks like cattle feeders buying feeder cattle last week were significantly more optimistic about slaughter cattle prices during spring 2004 than live cattle futures traders.

The Markets

Cash slaughter cattle prices rose during the course of last week, but the price rise occurred after the bulk of the trade had already taken place. As a result, weekly weighted average live steer prices in Kansas were steady with the prior week and were only about \$1.40 (dressed) higher than the previous week in Nebraska. Limited slaughter steer trade took place in late week at \$76 (live-Kansas) and at \$78 (live-Nebraska). Weekly average light Choice boxed beef prices declined to \$131.38, a decline of over \$11 compared to the previous week. The light Choice-Select spread was flat with the prior week, averaging \$9.21. Feeder cattle buyers displayed some optimism last week, especially after USDA announced that DNA tests confirmed the Washington state cow that tested positive for BSE was of Canadian origin. Steer calf prices last week were near their mid-December levels, averaging \$108 in Kansas and \$117 in Nebraska. In contrast, feeder prices were weaker than prior to the BSE announcement, averaging \$89 in Kansas and \$92 in Nebraska, in both cases about 9% lower than in mid-December.

	Last Week	Previous Week	Last Year
Kansas Fed Steer Price, wtd. average, live weight	\$74.06	\$74.29	\$77.76
Nebraska Fed Steer Price, wtd. average, dressed weight	\$120.30	\$118.91	\$123.09
700-800 lb. Feeder Steer Price, Kansas 4 market avg.	\$89.18	NA	\$84.08
500-600 lb. Feeder Steer Price, Kansas 4 market avg.	\$108.19	NA	\$94.46
700-800 lb. Feeder Steer Price, Neb. 7 market avg.	\$92.00	NA	\$84.75
500-600 lb. Feeder Steer Price, Neb. 7 market avg.	\$117.06	NA	\$96.74
Choice Boxed Beef Price, 600-750 lb. carcass	\$131.38	\$142.92	\$125.10
Choice-Select Spread, 600-750 lb. carcass	\$9.21	\$9.21	\$5.11