

Dillon Feuz, Ph.D.
Professor, Department of Agricultural Economics, University of Nebraska

CME Feeder Cattle Contract Changes

The CME recently announced changes to the manner in which the CME Feeder Cattle Index would be calculated. The Feeder Cattle contract will continue to be settled against this index. There were two changes made to the index calculations: 1) Medium and Large Frame #1-2 steers will also be included with the existing category of Medium and Large Frame #1 steers; and 2) The weight range for cattle in both categories will be expanded from the current 700 to 849 pounds to 650 to 849 pounds. The changes affect newly listed contract months, beginning with the August and September, 2005 contracts.

So, what impact will these changes have on the index, the futures market and your basis? The impact will likely be minimal. First, let's consider the expanded weight range. Prices for 650-699 pound steers will be higher than for the other weight ranges. This varies by year with market conditions, but over the last 5 years in Nebraska, the price has been about \$6 higher than the average price for 700-849 pound steers. Inclusion of the 650-699 pound steers will likely increase the volume of steer sales included by about 25%. This would then increase the index value by \$1.50 (\$6 X .25). Inclusion of the Large Frame #1-2 steers will likely lower the index value. Prices for #1-2 steers compared to #1 steers are generally \$2-5 lower. However, there is a smaller number of steers in this category than in the #1 category. When these steers are included in the average, the average index value will likely be \$1-2 lower. The net affect of the two changes may be no change in the expected value of the index. Therefore, there is not likely to be any significant change in your basis either.

The Markets

Slaughter cattle prices ended the week about \$2 higher in the southern plains and in the northern markets. Trade occurred at mostly \$86 in the south and prices were \$131-134 in the north. Choice boxed beef prices were higher for the week. Choice prices were up just over \$4. The Choice-Select spread increased, but it is still narrower than is typical for this time of year. Feeder cattle prices were mixed in Kansas and Nebraska with yearlings lower in Kansas but higher in Nebraska. Calf prices appear to be holding fairly steady as some of the larger fall runs take place.

	Last Week	Previous Week	Last Year
Kansas Fed Steer Price, live weight (35-65% Choice)	\$86.18	\$84.51	\$106.01
Neb. Fed Steer Price, dressed weight (35-65% Choice)	\$132.31	\$130.31	\$177.20
700-800 lb. Feeder Steer Price, Kansas 4 market average	\$114.70	\$116.34	\$105.44
500-600 lb. Feeder Steer Price, Kansas 4 market average	\$126.68	--	\$109.00
700-800 lb. Feeder Steer Price, Neb. 7 market average	\$118.84	\$115.21	\$110.17
500-600 lb. Feeder Steer Price, Neb. 7 market average	\$126.37	\$126.67	\$113.13
Choice Boxed Beef Price, 600-750 lb. carcass	\$134.86	\$130.69	\$194.32
Choice-Select Spread, 600-750 lb. carcass	\$4.18	\$3.35	\$22.10