

Darrell R. Mark, Ph.D.**Asst. Professor, Department of Agricultural Economics, University of Nebraska****Cattle On Feed Up, Marketings Down**

In its October Cattle on Feed report released last Friday, USDA indicated that the cattle on feed inventory was 10.5 million head, up 2.7% from October 1, 2003, but down 1.2% from the 5-year average. Fed cattle marketings during September were 1.8 million head, down more than 11% from last year. This puts marketings as a percentage of the on-feed inventory at 18%, lower than last year's 20%. Also suggesting less currentness in the inventory is the growth in the number of cattle on feed for more than 120 days, up 45% from last year and 17% from the 5-year average. Net placements of cattle on feed in September were 2.3 million head, 4.1% lower than September 2003. The largest reductions in placements occurred for the lighter weight placement categories (11% and 13%, respectively for less than 600 lbs. and 600-699 lb. feeder cattle), while placements of the heavier feeder cattle (>800 lbs.) were up 16%. This increase in the heavier placement category suggests additional price pressure on fed cattle marketings late in the fourth quarter and the first quarter of 2005. Further, the relatively slower marketings pace and the growing number of cattle on feed are likely to limit substantial gains in the remainder of the fourth quarter.

Japanese Trade Agreement

Although the Cattle on Feed report was viewed mostly bearish, other weekend news that the U.S. and Japan established a framework agreement for the resumption of beef trade should add support to fed cattle prices. This agreement would enable the U.S. to export beef to Japan provided that it be from cattle verified to be 20 months or younger at slaughter. Although the details of this verification system are not yet known, it appears that this will include a system of production (birth) records and physiological grading by USDA (including a 45-day study examining the correlation between physiological and chronological age). The U.S. also agreed to remove additional specified risk materials from all animals, regardless of age. Although this agreement provides a framework for resumption of trade, each country will have to establish or modify rules to export or import beef from the other country, a process that could take some time. Therefore, it will likely be several weeks or months before significant trade volume occurs.

What impact would the resumption of trade have on cattle prices? Based on 2003 beef exports to Japan of 918 million pounds (before the export ban was established) and domestic beef production of 25.5 billion pounds, 3.7% of production had historically been exported to Japan. By regaining that level of exports (and consequently reducing the domestic supply), prices could be expected to increase roughly 1.6% for each one percent reduction in supply, or nearly 6%. Based on last week's market price of \$86/cwt, this would translate to approximately \$5/cwt. However, the resumption of trade will not quickly regain the 2003 levels, due in part to the rule-making process each country will undergo and the age verification issue. Although roughly 70% of the steer and heifer slaughter are 20 months or younger at slaughter according to USDA, likely less than 25% can be age verified by production records. Therefore, the positive impact from the interim trade agreement will likely be relatively small.

The Markets

Kansas slaughter cattle prices were stronger last week, trading at \$85-87. Dressed sales in Nebraska at \$133.84 were \$1-2 higher than the previous week. Choice boxed beef was up nearly \$7/cwt last week and the Choice-Select spread widened to \$5.88. Feeder steer prices in Kansas and Nebraska were \$2 lower last week. Prices for 500-600 lb. feeder steers last week were mostly steady with the previous week.

	Last Week	Previous Week	Last Year
Kansas Fed Steer Price, live weight (35-65% Choice)	\$86.88	\$86.18	\$97.91
Neb. Fed Steer Price, dressed weight (35-65% Choice)	\$133.84	\$132.31	\$160.23
700-800 lb. Feeder Steer Price, Kansas 4 market average	\$112.62	\$114.70	\$105.11
500-600 lb. Feeder Steer Price, Kansas 4 market average	\$127.07	\$126.68	\$110.74
700-800 lb. Feeder Steer Price, Neb. 7 market average	\$116.88	\$118.84	\$110.41
500-600 lb. Feeder Steer Price, Neb. 7 market average	\$125.89	\$126.37	\$111.78
Choice Boxed Beef Price, 600-750 lb. carcass	\$141.80	\$134.86	\$190.50
Choice-Select Spread, 600-750 lb. carcass	\$5.88	\$4.18	\$23.35