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U.S. Corn Crop Grows Larger

On Wednesday morning, USDA released its updated forecasts for corn supply and use. Much as the trade expected, USDA increased its corn yield projection from the September estimate of 143.2 bu/acre to 146.1 bu/acre. Based on 74.3 million harvested acres, U.S. total production is forecasted to be 10.857 billion bushels, a 218 million bushel increase from last month. If realized, 2005 will be the second largest corn crop in history, following the record production of 2004. With two successive large crops, ending stocks have surged to over 2 billion bushels for the 2004/05 and 2005/06 marketing years. In its October report, USDA projected a 50 million bushel increase in feed use and 15 million bushel increase in food, seed and industrial use. These increases in use, however, were not enough to offset the production increases, leading to a 141 million bushel increase in ending stocks. With the growing stocks-to-use ratio, USDA lowered its national average farm price another \$0.05/bu since the September report to \$1.65-2.05 for the 2005/06 marketing year.

The large corn harvest this fall, combined with large carryover from last year and high transportation costs, have led to wider than normal basis levels in many areas. For example, corn basis in Omaha, NE is currently wider than -\$0.50/bu, twice as wide as the 5-year average harvest-time basis. Large national corn supply and weak basis levels in many areas present an opportunity for livestock feeders to contract feed needs. Cash forward contracts could be used now to lock in both the low price level seasonally occurring at harvest time and the abnormally wide basis. Livestock feeders could also use basis contracts to protect from basis narrowing after harvest time, although this would not provide protection from a price level rally.

The Markets

The fed cattle market continued its month-long rally, with live weight prices advancing \$1-2/cwt and dressed prices up \$1-3/cwt. The majority of last week's trade occurred late on Friday afternoon. Average live weight prices in Kansas last week were \$89.04, up nearly \$2/cwt from the previous week. Nebraska dressed steer prices averaged \$137.47, up about \$1.50/cwt. Choice boxed beef prices increased \$4.11/cwt last week to \$141.68, a level not seen since early June. The Choice-Select narrowed \$0.53 to \$11.95/cwt. Weekly average feeder cattle prices in Kansas were mostly steady last week, while Nebraska yearling steer prices were about \$1/cwt higher and steer calf prices were down about \$2/cwt.

	Last Week	Previous Week	Last Year
Kansas Fed Steer Price, live weight	\$89.04	\$87.08	\$84.51
Neb. Fed Steer Price, dressed weight	\$137.47	\$136.00	\$130.31
700-800 lb. Feeder Steer Price, Kansas 4 market average	\$118.52	\$118.57	\$116.34
500-600 lb. Feeder Steer Price, Kansas 4 market average	\$131.83	\$131.51	\$123.50
700-800 lb. Feeder Steer Price, Neb. 7 market average	\$123.19	\$122.06	\$115.21
500-600 lb. Feeder Steer Price, Neb. 7 market average	\$136.53	\$138.67	\$126.67
Choice Boxed Beef Price, 600-900 lb. carcass	\$141.68	\$137.56	\$130.92
Choice-Select Spread, 600-900 lb. carcass	\$11.95	\$12.47	\$3.53