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Cash Corn Price Rally Doesn't Help Feeder Breakevens

Cash corn at Omaha, NE bottomed at \$1.48/bu at the end of last October. Since then, it has risen \$0.40/bu. Most of this advance has been improvement in local basis rather than increases in price level. Still, it is important for cattle feeders to monitor the impacts of corn price increases on feeding budgets, particularly since yearling weight feeder cattle prices remained mostly steady and feeder calf prices have risen during this time period.

Using an average commercial cattle feeding budget with current corn and feedstuff prices, and other market rates for interest, yardage, and processing, the feeding cost of gain and breakevens for 550 lb. and 750 lb. feeder steers can be compared. Assuming the steers placed at 550 lb. are purchased for last week's average Nebraska price of \$143.75/cwt and gain 3 lbs/day over 200 days, their feeding cost of gain is projected at \$46.52/cwt and the breakeven sale price is estimated at \$95.85/cwt. This implies a finished date of September 1, 2006. Based on October futures at \$86.50/cwt and a -\$2.81/cwt basis for September fed cattle in Nebraska, a sale price of \$83.69 could be hedged. If cattle feeding performance occurs as expected, this would result in a loss of over \$12/cwt. Paying \$115.28/cwt for 750 lb. steers and placing them on feed for 138 days, gaining 3.25 lbs/day, results in a finished date of July 1, 2006. While this corresponds to expected seasonal lows in the fed cattle market, August futures could be sold for \$83.15/cwt. Again adjusted for Nebraska fed cattle basis for July, a sale price of \$81.41/cwt could be hedged. Based on these projections, this implies nearly a \$10/cwt loss.

While neither of these scenarios results in a positive return with current feeder cattle prices and feeding costs, the heavier yearling-weight placements seem to be the "better buy" at today's market. For an extra \$74 per head, the 750 lb. steer can be purchased instead of the 550 lb. steer. This implies a cost of \$0.37 per pound for the incremental 200 lb. weight differential. With feeding cost of gain projected between \$45-50/cwt, buying the first 200 lbs. on the steer at market prices might be more cost effective than putting it on the 550 lb. steer in the feedlot.

The Markets

Cattle and beef prices were mostly lower last week. Nebraska dressed steer prices averaged \$143.40, about \$1 lower than the previous week. Live weight slaughter steer prices in Kansas were down about \$1.50. Choice boxed beef prices dropped \$5.33/cwt from the previous week and the Choice-Select spread narrowed nearly \$2 to \$10.31/cwt. Feeder cattle prices were mostly steady in Nebraska last week. Yearling feeder steers were also steady in Kansas last week, while 500-600 lb. steer calf prices averaged over \$6/cwt higher than the previous week.

	Last Week	Previous Week	Last Year
Kansas Fed Steer Price, live weight	\$90.45	\$91.96	\$89.71
Neb. Fed Steer Price, dressed weight	\$143.40	\$144.59	\$141.76
700-800 lb. Feeder Steer Price, Kansas 4 market average	\$110.21	\$110.67	\$103.68
500-600 lb. Feeder Steer Price, Kansas 4 market average	\$143.02	\$136.79	\$122.34
700-800 lb. Feeder Steer Price, Neb. 7 market average	\$115.28	\$114.76	\$108.15
500-600 lb. Feeder Steer Price, Neb. 7 market average	\$143.75	\$144.71	\$133.75
Choice Boxed Beef Price, 600-900 lb. carcass	\$145.92	\$151.25	\$146.60
Choice-Select Spread, 600-900 lb. carcass	\$10.31	\$12.25	\$3.52