

In The Cattle Markets

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Is It Time To Lock in DDG Prices?

Seasonally, cattle on feed numbers generally bottom in September, and through increased placements during the fall, increase by 12% to the seasonal high in December. As cattle feeders place fall calves over the upcoming months, they typically consider locking in feed costs. Seasonally, corn prices are at their lowest during fall harvest and feeders can take advantage of those prices by purchasing corn, forward contracting, and basis contracting. As feed rations continue to replace an increasing amount of corn with wet and dry distillers grains, cattle feeders need to focus more on managing distillers grain prices.

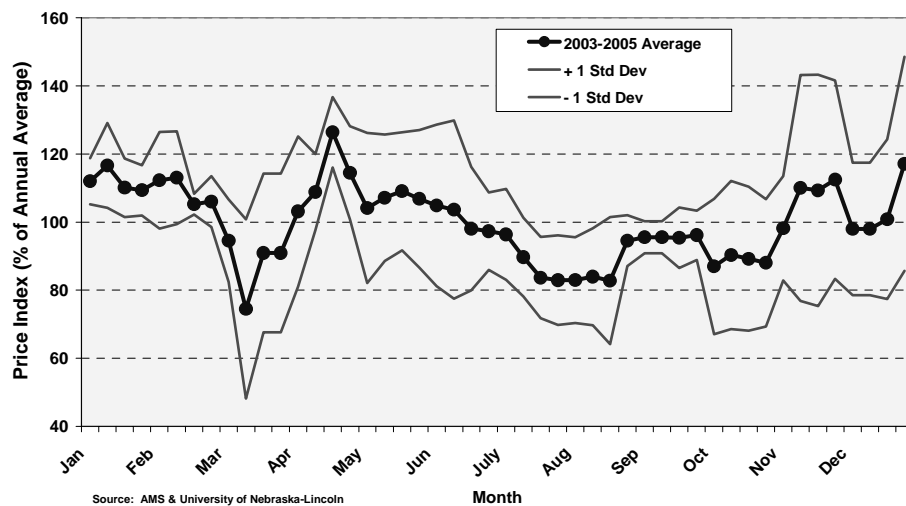
Long series of price data on wet and dry distillers grains to analyze are limited, and prices that are available may be thinly traded or not necessarily representative of actual trades made between ethanol plants and cattle feeders or feed buyers. Still, it is useful to consider trends in these feed products. A seasonal price index of dried distillers grains (DDG) using USDA-AMS weekly reported prices for Nebraska from 2003-2005 is shown in the figure. The seasonal trend is for DDG prices to peak in mid-April

and decline throughout the summer. Seasonal lows typically occur in August at about 80% of the annual average. DDG prices then increase through the fall and early winter months to peak in December and January close to 20% higher than their annual average. Supposing that seasonal trend occurs this year, cattle feeders may wish to forward contracting

or lock in DDG prices soon for the upcoming months. Spot market purchase volumes may be limited due to storage considerations (particularly for wetter products), but buyers could talk with their suppliers about locking in prices for the future for routine deliveries. Additionally, new research is exploring ways to store distillers grains that may make stockpiling supplies more feasible.

As ethanol production continues to rapidly increase, the availability of DDGs and wet distillers grains will increase. Thus, co-product feed prices may not see as large a seasonal increase in the third and fourth quarter of upcoming years as suggested on the figure. In fact, the DDG price increase was much smaller for 2004 and 2005 than for 2003. So, in this ever-changing co-product market, prices may not increase in late 2006 as much as the historical trend suggests. But, this will likely differ greatly across localized markets depending upon the relative supply and demand for the distillers grain products.

Seasonal Index of Dried Distillers Grains, Nebraska, 2003-2005



The Markets

For the second consecutive week, fed cattle prices surged higher. Averaging \$92.14/cwt last week in Kansas, fed cattle prices were \$4 higher than the previous week. Dressed prices in Nebraska were also \$4/cwt higher, with prices averaging \$141.23 for the week. The strength in the fed cattle market came in spite of a \$1.75/cwt drop in the Choice boxed beef market. Yearling feeder steer prices were \$1-4 lower in Kansas and Nebraska last week, while steer calf prices were steady to nearly \$4 higher.

	Last Week	Previous Week	Last Year
Kansas Fed Steer Price, live weight	\$92.14	\$88.16	\$81.13
Neb. Fed Steer Price, dressed weight	\$141.23	\$137.18	\$127.19
700-800 lb. Feeder Steer Price, Kansas 4 market average	\$119.31	\$120.22	\$114.59
500-600 lb. Feeder Steer Price, Kansas 4 market average	\$135.03	\$131.20	\$131.31
700-800 lb. Feeder Steer Price, Neb. 7 market average	\$122.48	\$126.12	\$119.45
500-600 lb. Feeder Steer Price, Neb. 7 market average	\$136.37	\$136.86	\$135.79
Choice Boxed Beef Price, 600-900 lb. carcass	\$145.57	\$147.32	\$134.80
Choice-Select Spread, 600-900 lb. carcass	\$9.87	\$10.62	\$10.26