

In The Cattle Markets

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Record September 1 Cattle on Feed Inventory

USDA reported the September 1, 2006 cattle on feed inventory at 10.986 million head, a record for this time of year. This inventory estimate was 9.9% higher than last year and about 1% higher than the average pre-release estimate. The on feed inventory grew to this record level despite a 2.2% increase in August marketings due to aggressive placements of light weight feeders last month. During August, feeders placed 680,000 head of cattle weighing less than 600 lbs, an increase of 62.7% from the 418,000 head placed in August 2005. Placements of 600-699 lb. feeder cattle were up 13% as well. Placements of feeder cattle weighing over 700 lbs. were actually 5,000 less than last year. Even with the slight decrease in heavy-weight placements, overall net placements were up 15.5% in August compared to last year, more than the highest pre-release trade estimate.

The surge in light-weight placements, particularly those less than 600 lbs, likely resulted from drought-induced early weaning, which is likely to continue into September. Given the potential for earlier placement of calves this fall, supplies may be more limited in the fourth quarter of 2006 and beginning of 2007. This should help keep feeder calf prices around \$135/cwt (550 lb. steer, basis Nebraska) through the remainder of the year. Additionally, continued strength in the fed cattle market is a positive for the feeder market.

Despite the bearishness of a record cattle on feed inventory at the beginning of the month, nearby live cattle futures contracts were trading higher by Monday's mid-session. The large inventory was generally expected, plus last week's steady cash price lent support. Plus, while the front-end supply of cattle are higher than last year (cattle on feed for more than 120 days was up 21%), those numbers have decreased since last month and marketings as a percentage of the on feed inventory increased from July to August. Thus, much of the negative news in the report is from the increase in light-weight placements and will affect deferred live cattle futures prices the most.

The Markets

Fed cattle prices were steady last week, with Kansas live weight prices averaging \$89.26 and Nebraska dressed prices were \$138.33. The strength in the fed cattle market came in spite of more than a \$5/cwt drop in the Choice boxed beef market. Feeder steer prices were \$2.00-2.50 lower in Nebraska and Kansas last week.

	Last Week	Previous Week	Last Year
Kansas Fed Steer Price, live weight	\$89.26	\$88.94	\$86.39
Neb. Fed Steer Price, dressed weight	\$138.33	\$138.55	\$133.69
700-800 lb. Feeder Steer Price, Kansas 4 market average	\$116.47	\$118.95	\$117.31
500-600 lb. Feeder Steer Price, Kansas 4 market average	\$129.39	\$131.56	\$129.48
700-800 lb. Feeder Steer Price, Neb. 7 market average	\$121.06	\$123.22	\$121.97
500-600 lb. Feeder Steer Price, Neb. 7 market average	\$135.36	\$137.90	\$137.10
Choice Boxed Beef Price, 600-900 lb. carcass	\$142.09	\$147.26	\$140.34
Choice-Select Spread, 600-900 lb. carcass	\$9.16	\$9.62	\$11.62