

January 16, 2007

## **In The Cattle Markets**

**Darrell R. Mark, Ph.D.**

**Asst. Professor, Department of Agricultural Economics, University of Nebraska-Lincoln**

### **Corn Production Cut; Demand for Ethanol Steady**

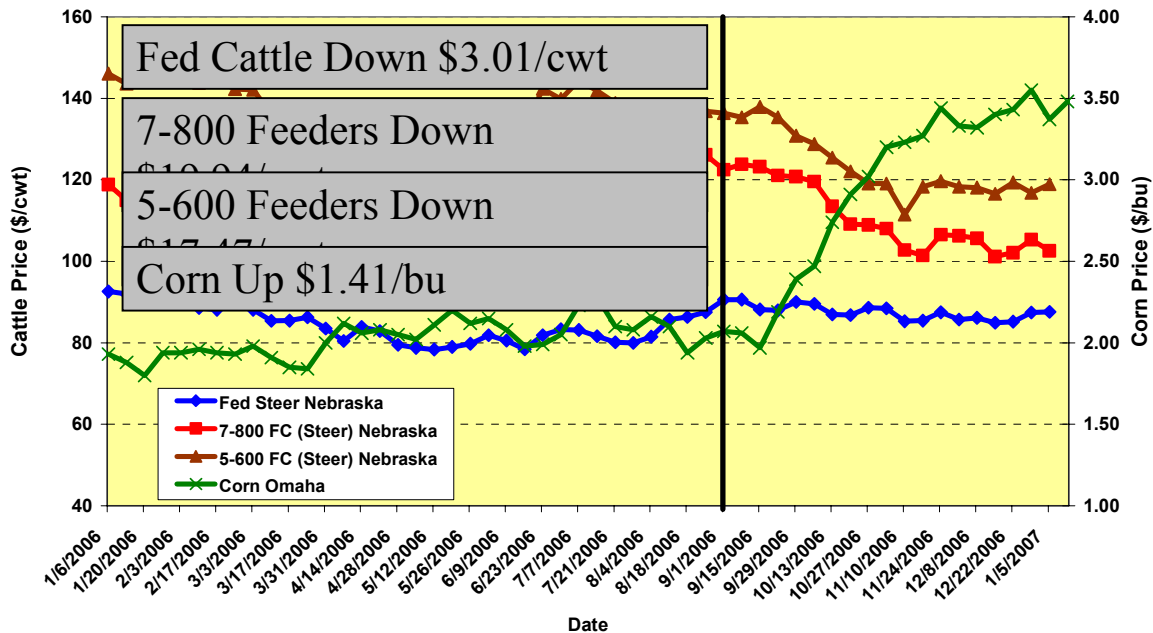
In its monthly crop production report released on Friday, USDA-NASS lowered 2006-07 corn yield 2.1 bu/acre from its December estimate. This resulted in total production of 10.535 billion bushels, 210 million bushels lower than previously thought, but still the third largest crop in history. USDA-NASS also increased exports for the marketing year by 50 million bushels and maintained its 2.15 billion bushel demand figure for ethanol production. Feed and residual use was lowered 75 million bushels in this month's report, suggesting additional feed rationing at higher prices. Ending stocks dropped 183 million bushels to 752 million bushels. As a result, the ending stocks-to-use ratio dropped to 6.39%, indicating the tightest supply/demand balance since the 1995-96 marketing year.

The numbers in Friday's report came as an unexpected pleasant surprise to corn producers and an unexpected unpleasant surprise to cattle feeders and cow-calf producers. The lowest pre-release production estimate was for 10.64 billion bushels, well above the actual production reported, and the lowest pre-release carryout estimate was 24 million bushels higher than that reported. As a result, corn futures were limit higher through trade on Friday, and started this week higher as well. Feeder cattle futures, however, fell their \$3/cwt daily trading limit on Friday, and cash feeder cattle prices were \$3-5/cwt lower at weekend sales.

The volatility in the corn market has cattle feeders continually re-calculating breakevens. For example, a 750 lb. feeder steer placed on feed in Nebraska in mid-January would have a breakeven selling price of \$90.07/cwt in late June, assuming average feeding performance. That's using \$3.75/bu for corn and \$85/ton for hay, plus other costs at market rates. This puts total cost of gain at \$74.37/cwt. An increase in the corn price to \$4.00/bu increases the cost of gain to \$76.93/cwt and the breakeven selling price to \$91.10/cwt. Thus, the \$0.25/bu corn price increase raises the breakeven selling price for this yearling steer placement by about \$1/cwt.

Much of the impact of higher corn prices will likely be passed back to cow-calf producers in the form of lower feeder cattle prices. While cattle feeders will likely place fewer lighter weight cattle on feed and finish cattle to lighter weights, the most effective way for them to maintain their margin is by paying lower feeder cattle prices. Since September 1, 2006, the prices of 5-600 lb. and 7-800 lb feeder cattle in Nebraska have decreased \$17.47/cwt and \$19.94/cwt, respectively, and Nebraska fed cattle prices have declined \$3/cwt. During this same time, Omaha, NE corn prices rallied \$1.41/bu. Should corn prices continue their surge higher, look for feeder cattle prices to continue their downtrend. Regardless, the uncertainty in the corn market could result in cattle feeders bidding a "risk premium" into the feeder cattle market (in the form of lower prices) to gain some additional protection or "cushion."

## Nebraska Fed Steer, Feeder Steer, & Omaha Corn Prices, 2006



### The Markets

Live and dressed fed cattle traded \$1/cwt lower last week as winter storms didn't materialize to the extent many were anticipating. Fed steers averaged \$87.86/cwt on a live basis in Kansas last week, while dressed prices in Nebraska averaged \$140.17/cwt. A \$6.24/cwt increase in Choice boxed beef last week helped provide support to the fed cattle market. However, the corn market continued higher, particularly on Friday, causing feeder cattle sales on Friday and through the long weekend to come under pressure. For the week, though, yearling steer prices were about steady in Kansas and \$2 lower in Nebraska. Steer calf prices were steady in Nebraska with the previous week, while growing interest in grass cattle provided enough support to cause the average price for 5-600 lb. feeder steers in Kansas to advance \$7/cwt.

	Last Week	Previous Week	Last Year
Kansas Fed Steer Price, live weight	\$87.86	\$88.87	\$93.38
Neb. Fed Steer Price, dressed weight	\$140.17	\$141.15	\$147.66
700-800 lb. Feeder Steer Price, Kansas 4 market average	\$99.37	\$99.17	\$113.58
500-600 lb. Feeder Steer Price, Kansas 4 market average	\$119.39	\$112.40	\$133.70
700-800 lb. Feeder Steer Price, Neb. 7 market average	\$100.54	\$102.55	\$114.96
500-600 lb. Feeder Steer Price, Neb. 7 market average	\$118.80	\$118.90	\$143.60
Choice Boxed Beef Price, 600-900 lb. carcass	\$152.50	\$146.26	\$154.06
Choice-Select Spread, 600-900 lb. carcass	\$14.15	\$14.80	\$13.39
Corn Price, Omaha Nebraska, \$/bu	\$3.46	\$3.36	\$1.88