

## In The Cattle Markets

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### *Prospective Planting Report Provide Corn Hedging Opportunity*

90.454 million acres of corn!! That's what USDA reported in its annual Prospective Plantings report that producers were intending to plant in 2007 as of the beginning of March. This large 15.5% acreage increase since last year would result in the largest corn acreage since 1944. Much of the 12.127 million acre increase in corn plantings comes from an intended reduction of 8.382 million acres of soybeans. USDA reported producer soybean planting intentions of 67.14 million acres, down 11.1% from last year. The remainder of the corn acreage increase resulted from reductions in cotton acres (down 3.127 million acres) and spring wheat (down 1.091 million acres).

Clearly, corn producers have plans to respond to the high corn prices available since harvest and that could be locked in for the 2007 crop and beyond. By revealing this large intended acreage increase, corn producers have provided some assurance to livestock and ethanol producers that corn supply will be higher. And, with that higher supply, the *potential* for lower prices. Initial reaction last Friday to the report was decidedly bearish, with reported intentions 2.39 million acres above the average pre-release trade estimate. Corn futures dropped the twenty cent daily trading limit and remained locked limit lower throughout Friday's trading session. Prices on Monday were mostly limit lower as well.

Livestock producers have a decision to make at this point. One option is to buy corn hand-to-mouth through the summer and fall in anticipation of a record large crop, hoping that ethanol and feed demand for corn doesn't grow. The second option is to use the price correction after the Prospective Plantings report to hedge corn needs through this summer.

Cash corn prices (basis Omaha, NE) dropped exactly 50 cents per bushel from March 1 to March 30. More than half of this occurred in the last week, and additional weakness is likely this week. This \$0.50/bu drop in corn price can reduce breakeven selling prices for yearling placements by \$2/cwt or more. The drop in corn prices has been substantial and is beneficial for livestock feeders; however, hedging corn prices at these levels is still difficult to do based on historical levels available.

Consider, for example, the size of the corn crop at 90.5 million acres and trendline yields (154 bu/acre). Assuming that 90% of planted acres are harvested, this translates into a 12.5 billion bushel corn crop. This is 1 billion bushels more than last year's crop. If total feed, export, and ethanol use increases by more than this amount, stocks-to-use ratios will grow increasingly tight and corn prices would increase. With planned increases in ethanol production and with potential growth in both the cattle and swine herds, this could be possible, or at least make users very dependent on the 2008 crop.

But, what if we don't have this many acres or a trendline U.S. average yield? If corn prices drop very much, Corn Belt growers could switch some acres back out of corn and into soybeans. And, there is some incentive for them to do so from a production standpoint: availability of the best seed is limited in many areas, fertilizer prices remain high, and the soybean/corn price spread has widened in the last month and increased the relative profitability of soybeans. Further, the Prospective Plantings report, along with other current media reports, suggest that significant acreage increases will come from the southeast U.S. Will this, along with planting corn into marginal acres in the Corn Belt and other areas, pull average yields down? What if widespread drought occurs? If some combination of these scenarios resulted in, say, a 147 bu/acre national average yield, production would fall to just under 12 billion bushels, only 200 million bushels more than our previous record production in 2004.

A lot of "what-ifs." But, it is relatively easy to envision a scenario of tight corn stocks-to-use even at 90.5 million acres. Perhaps more importantly, the market will be very sensitive to this throughout the summer, which is likely to result in continued price volatility. Locking in corn prices and being isolated from this volatility is something producers may want to consider on the price weakness following last week's reports.

### The Markets

The fed cattle trade was lower last week in a trade that started to develop on Tuesday and continued into Wednesday and Thursday. For the week, dressed prices in Nebraska averaged \$2.13 lower. Live prices in Kansas were \$1.41 lower on average. Choice boxed beef fell \$7.60/cwt for the week, and the Choice-Select spread narrowed about \$1. The corn market dropped 16 cents from Thursday to Thursday, and then another 20 cents on Friday following the report. By the close of the week, corn was \$0.35/bu lower than the previous week. This provided some support to feeder cattle prices. For the week, yearling feeder steers in Kansas averaged \$1.22 higher, while prices in Nebraska advanced \$3.48. Calf prices were slightly higher in Kansas and increased over \$3 in Nebraska.

	<b>Last Week</b>	<b>Previous Week</b>	<b>Last Year</b>
Kansas Fed Steer Price, live weight	\$95.69	\$97.10	\$84.07
Neb. Fed Steer Price, dressed weight	\$155.49	\$157.62	\$133.73
700-800 lb. Feeder Steer Price, Kansas 4 market average	\$106.46	\$105.24	\$106.67
500-600 lb. Feeder Steer Price, Kansas 4 market average	\$131.13	\$130.48	\$132.78
700-800 lb. Feeder Steer Price, Neb. 7 market average	\$111.29	\$107.81	\$108.41
500-600 lb. Feeder Steer Price, Neb. 7 market average	\$132.03	\$128.90	\$134.62
Choice Boxed Beef Price, 600-900 lb. carcass	\$154.06	\$161.66	\$140.19
Choice-Select Spread, 600-900 lb. carcass	\$9.14	\$10.08	\$10.75
Corn Price, Omaha Nebraska, \$/bu (Thursday quote)	\$3.69	\$3.85	\$2.00
	\$3.49 (Fri)		
DDG Wholesale Price, Iowa, \$/ton	\$125.00	\$130.00	\$84.50