

In The Cattle Markets

Darrell R. Mark, Ph.D.

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

Weather Roulette

Planting delays and acreage uncertainty have recently resulted in significant price changes in the corn market—both positive and negative. As a result, cattle producers are also playing a game of weather roulette, wondering if recent heavy rains will reduce planted acreage and drive feed prices up or if the soil moisture recharge will create a “rain makes grain” scenario later this year. Last week, new-crop December corn futures staged a \$0.23/bu rally in anticipation widespread rains were slowing corn planting and would ultimately reduce acreage. Despite heavy rain and flooding in many areas of the Western Corn Belt over the weekend, new-crop futures dropped more than \$0.07/bu on Monday and were down another \$0.13/bu Tuesday morning as planting progress in the Eastern Corn Belt was not significantly hampered by the weekend weather and traders expected a fast improvement in corn planting progress.

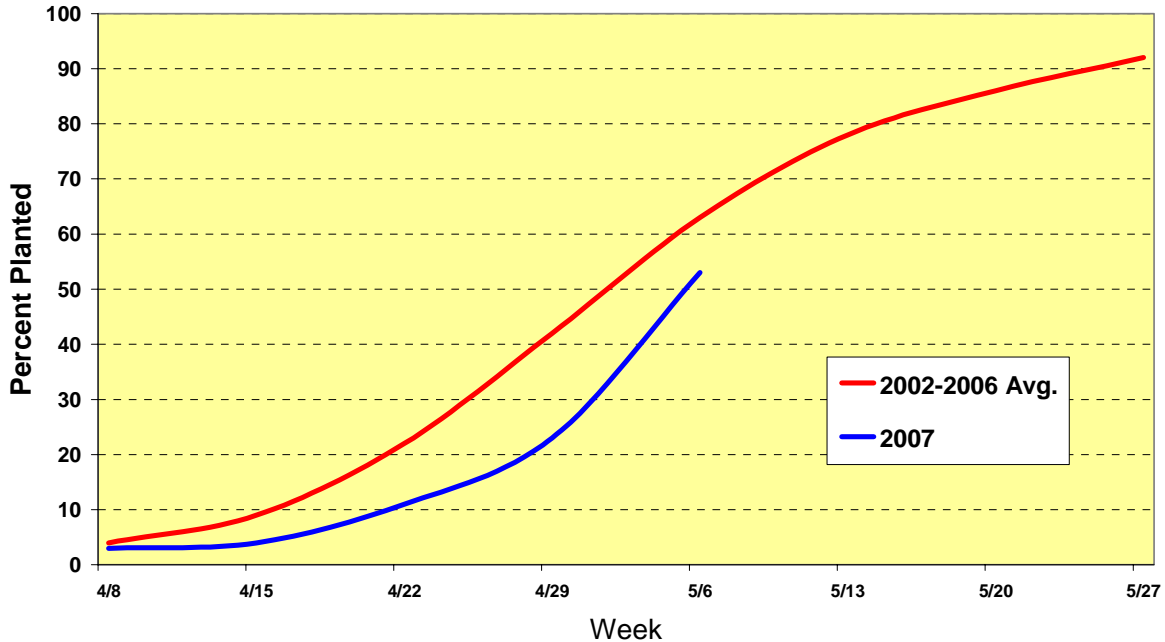
On Monday, NASS reported that 53% of the corn crop was planted as of Sunday, an increase from 23% a week ago. While 53% planted as of May 6 is 10 percentage points lower than the previous five-year average, significant planting progress was made in the Eastern Corn Belt (e.g., Illinois planting progress increased from 36% a week ago to 72% on May 6 to put it on-track with the historical average planting progress rate). The rate of planting progress increased substantially this past week (see Figure 1). And, it is important to remember that progress rates can increase faster each year as machinery size grows. This all suggests planting progress is proceeding well, and with recent rains, will result in larger yields. Certainly, that’s the sentiment being traded in the corn market early this week. It is also important to remember, though, that the 53% planting rate implies that about 42 million acres of corn are yet to be planted of the 90.45 million acres producers intended to plant. If producers were to actually plant that many acres of corn this year, a lot of those acres would have to be planted in the Western Corn Belt, in states like Nebraska and Iowa where corn planting is significantly below average. With widespread rain and localized heavy amounts this past weekend, planting in many such areas will be delayed for several days yet. And, as mid-May approaches, the chances that producers will shift corn acres into soybeans increases.

So, where does this leave cattle feeders? The direction for corn prices this year will be largely determined by what happens with planting in the next two weeks. If the “extra” acres get planted this year as have been anticipated, production should be large enough to limit substantial price increases. Remember, today’s corn hybrids are so drought and disease tolerant that a sustained summer weather rally (on drought or other production problems) is less likely every year. As a result, much of the long-term price risk will likely result from weather conditions and planting progress over the next week or two. Feeders may want to use this week’s weakness in the corn market to cover a portion of their feed needs. While futures hedges and forward contracts are possibilities to consider, buying call options would provide

protection against an upward move in the corn market and still allow downside protection. For example, a July corn call two strike prices out-of-the-money could be bought for around 12-14 cents. While not cheap, it would at least hedge against a bad outcome of this game of weather roulette.

Figure 1

Corn Planted, U.S., By Percent



Source: NASS & UNL

The Markets

Last week's fed cattle market was steady to \$0.50/cwt lower than the previous week, with prices averaging \$154.38 on a dressed basis in Nebraska and \$96.28 on a live basis in Kansas. Choice boxed beef dropped more than \$5/cwt last week while the spread between Choice and Select cuts narrowed \$1.66. The first pasture and range condition ratings for the year were released on Monday afternoon. Across the U.S., pasture and range conditions were slightly better than last year at this time. Figure 2 below shows that the overall condition rating index was 336, compared to 330 last year during the first week of May. Recent rains and good growing conditions in drought-stricken areas have resulted in some of the best grazing conditions in years in some localized areas. This should lend support to the feeder cattle market over the next few weeks as demand for lightweight calves for grass improves. Last week, however, feeder cattle prices in Kansas were \$1.50-2.00 lower, but Nebraska prices were stronger, with steer calf prices steady and yearling steer prices advancing more than \$4. This increase comes despite a \$0.20/bu rally in the corn market from the previous week. Interestingly, the price of dry distillers grain in Iowa averaged \$2.50/ton lower last week even as corn increased. Expressed as a percentage of corn price on a dry matter basis, this is the cheapest DDG price relative to corn so far in 2007.

	Last Week	Previous Week	Last Year
Kansas Fed Steer Price, live weight	\$96.28	\$96.34	\$78.03
Neb. Fed Steer Price, dressed weight	\$154.38	\$154.71	\$125.84
700-800 lb. Feeder Steer Price, Kansas 4 market average	\$109.89	\$111.33	\$103.32
500-600 lb. Feeder Steer Price, Kansas 4 market average	\$125.04	\$126.94	\$125.56
700-800 lb. Feeder Steer Price, Neb. 7 market average	\$113.44	\$109.32	\$107.48
500-600 lb. Feeder Steer Price, Neb. 7 market average	\$130.59	\$130.34	\$137.00
Choice Boxed Beef Price, 600-900 lb. carcass	\$156.48	\$161.54	\$148.62
Choice-Select Spread, 600-900 lb. carcass	\$11.35	\$13.01	\$18.19
Corn Price, Omaha Nebraska, \$/bu (Thursday quote)	\$3.65	\$3.45	\$2.01
DDG Wholesale Price, Iowa, \$/ton	\$105.00	\$107.50	\$83.50

Figure 2

U.S. Pasture and Range Condition

