

In The Cattle Markets

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Keep An Eye On Feedstuff Prices

The high prices and volatility for corn and other feed ingredients this year has certainly garnered the attention of most livestock producers. When faced with high prices that squeeze margins even tighter, it is also important to routinely monitor relative price relationships and basis levels in local markets. By doing so, opportunities to hedge or substitute other feedstuffs can be identified.

Midwest corn basis has appreciated significantly throughout 2007, particularly during the last month. Feeders that had basis locked in through either cash forward contracts or basis contracts should benefit from having hedged a lower basis level. Figure 1 shows the weekly cash corn basis at Omaha, Nebraska calculated relative to the nearby CBOT futures contract price. Note that at the beginning of 2007 (the black line on the graph), Omaha corn basis was trading near its 5-year lows. It quickly rallied to trade near the 5-year average from February through April. In the past month, though, basis appears (despite some volatility) to be approaching the highest levels seen on a weekly level over the past 5 years. Although crop progress and condition ratings currently point to a healthy crop with good yield potential, demand from ethanol producers and weather-induced supply risks have the potential to increase corn prices in localized markets, if not nationally. If that is the case, corn basis could rally further and livestock feeders would benefit from locking in basis now. While the rally in Omaha corn basis shown in Figure 1 suggests it may be too late for that already, the opportunity may exist in some local markets. Further, it might exist in more deferred or new-crop months. For example, in central Nebraska the current basis bid for new-crop corn is still \$0.10/bu weaker than the average for early June.

While the corn basis has not been moving in favor of the livestock feeder the past couple of months, the price of ethanol byproducts relative to corn has improved substantially. Figure 2 shows the price of DDG, modified WDG, and WDG in northwest Iowa and the WDG price in Nebraska expressed as a percentage of the corn price on a dry matter basis. As this percentage decreases, the byproduct feed is cheaper relative to corn. In other words, the relative decrease in these byproduct prices over the past two months provides more incentive to replace corn in feeding rations with these prices. For example, with corn priced at \$3.81/bu (last Thursday's average price basis Omaha, NE), the difference in feeding profit from having WDG priced at 100% of the corn price (as it was in April 2007, see Figure 2) versus its current level at 87% is just over \$10/head. This assumes that WDG are replacing 30% of the ration on a dry matter basis. Further, it accounts for extra transportation and handling costs associated with feeding wet product, etc. Maybe this trend in byproduct prices has been supporting feeder cattle prices recently despite higher corn prices!

Figure 1

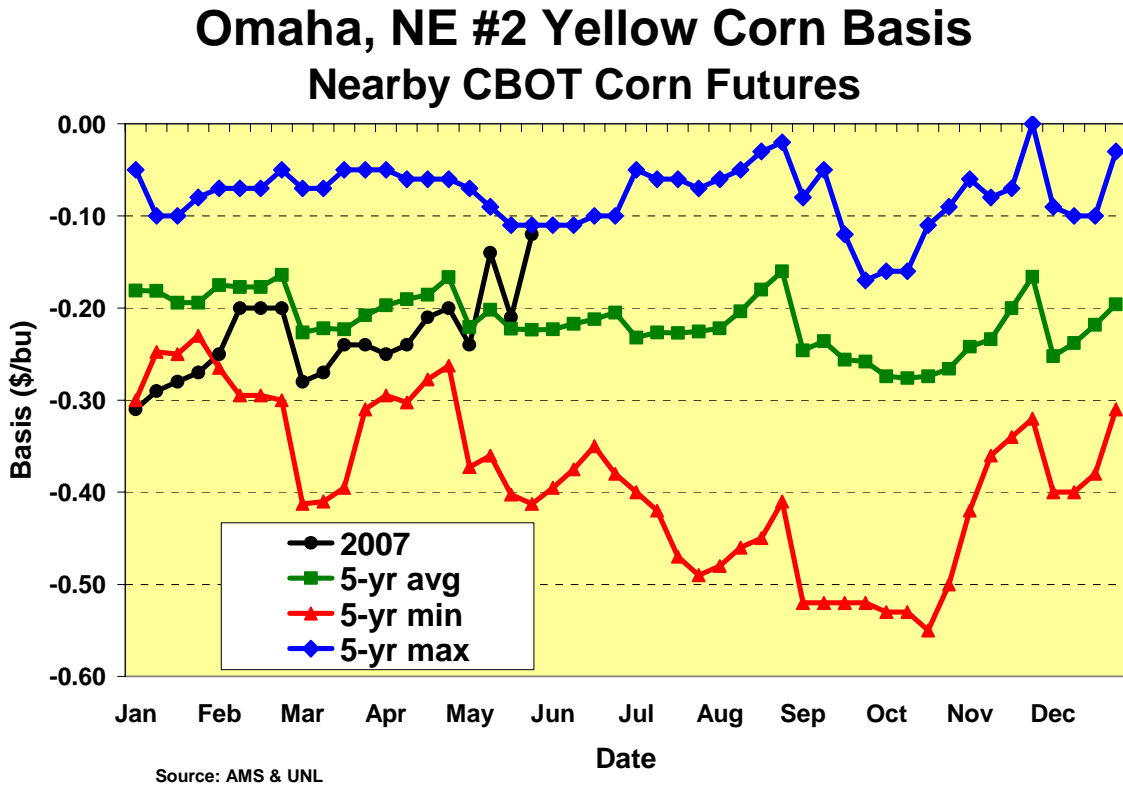
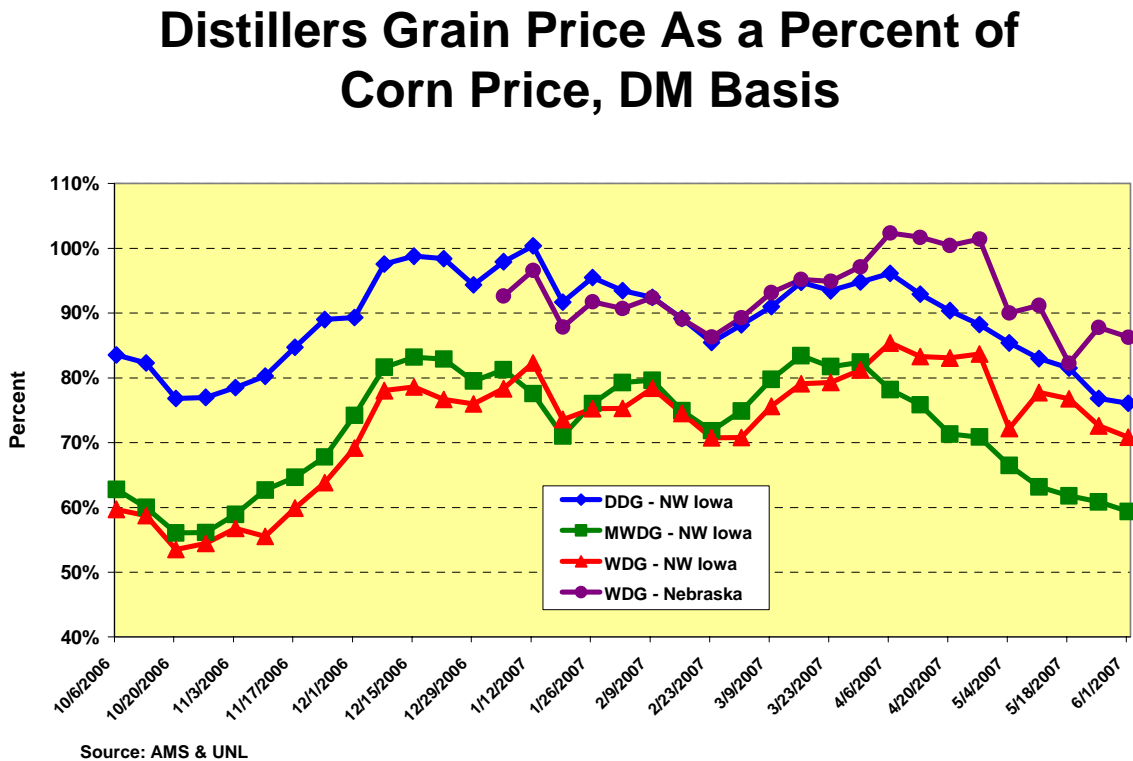


Figure 2



The Markets

Dressed slaughter cattle trade occurred last Wednesday in Nebraska at prices \$3-4 lower than the previous week. Trade didn't occur until Friday in Kansas last week, where prices were \$1-2 lower on a live weight basis. The decline in the fed cattle market last week was driven in part by a drop of more than \$6/cwt in the Choice boxed beef last week. For the week, Choice boxed beef prices averaged \$156.07, 4% lower than the previous week, but 3% higher than a year ago. The Choice-Select spread narrowed \$2.70/cwt last week to average \$9.28. Feeder cattle prices were almost \$1/cwt higher in Kansas last week. Few feeder cattle sales receipts were reported in Nebraska last week due to the holiday shortened week and seasonal decrease in volume. Corn prices, basis Omaha, were \$0.18/bu higher last week while dried distillers grains price basis Iowa was steady with week-ago levels.

	Last Week	Previous Week	Last Year
Kansas Fed Steer Price, live weight	\$92.98	\$94.26	\$83.04
Neb. Fed Steer Price, dressed weight	\$147.36	\$150.78	\$128.52
700-800 lb. Feeder Steer Price, Kansas 4 market average	\$111.79	\$110.81	\$110.02
500-600 lb. Feeder Steer Price, Kansas 4 market average	\$122.50	\$121.79	\$125.00
700-800 lb. Feeder Steer Price, Neb. 7 market average	\$106.87	\$112.58	\$114.50
500-600 lb. Feeder Steer Price, Neb. 7 market average	--	\$130.57	--
Choice Boxed Beef Price, 600-900 lb. carcass	\$156.07	\$162.09	\$150.99
Choice-Select Spread, 600-900 lb. carcass	\$9.28	\$11.98	\$20.70
Corn Price, Omaha Nebraska, \$/bu (Thursday quote)	\$3.81	\$3.64	\$2.16
DDG Wholesale Price, Iowa, \$/ton	\$100.50	\$100.50	\$81.00