

## **In The Cattle Markets**

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### *Bearish Numbers in Cattle on Feed Report*

Last Friday, USDA released inventory, marketings, and placement numbers in its monthly Cattle on Feed Report that the trade will view mostly negative. Marketings in May, at 2.085 million head, were 3.5% lower than last year and down 1.5% from the previous 5-year average. Prior to the release of the report, traders and analysts were on average expecting about a 2% decline in shipments. Not only did fewer cattle leave feedyards than expected, but also about 2% more cattle were placed on feed than expected. Net placements during May were 2.06 million head. While that represents a 15.2% increase over May 2006, it is still down 2.7% from the 5-year average. As a result of the lower marketings and higher placements last month, the June 1 on feed inventory was 11.272 million head, 0.8% higher than last year and higher than average trade expectations.

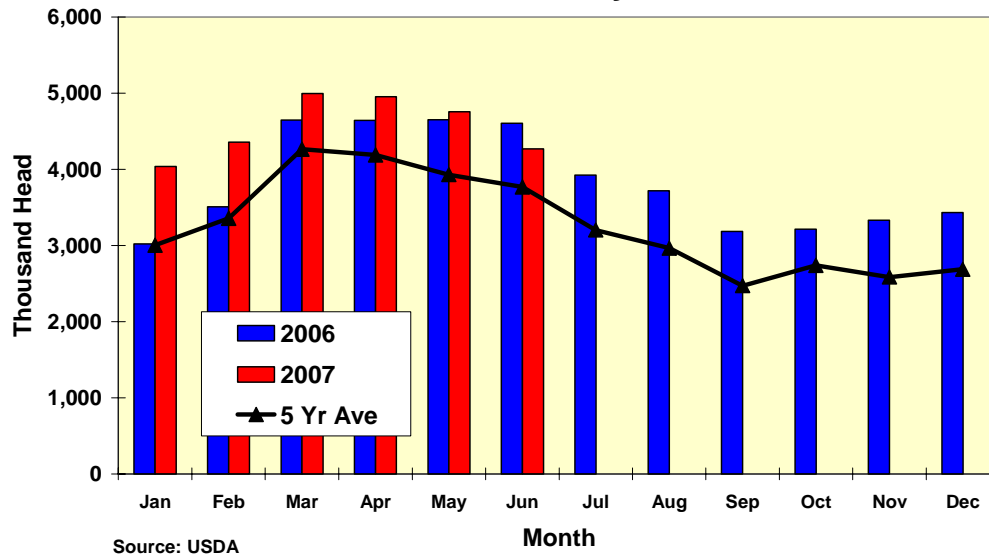
Most of the downward pressure on prices will likely be observed in the deferred months with the higher than expected placements. Additionally, the calculated number of cattle on feed for more than 120 days dropped to 4.266 million head as of June 1, putting it 7.4% lower than last year. With May commercial cattle slaughter over 3 million head and relatively high fed cattle prices encouraging feeders to keep inventories current, the front-end supply of cattle dropped more in the past month than it historically does (see Figure 1).

The impact of higher feed prices was clearly evident in the cattle on feed data again this month. Placements were heavily weighted towards 700-799 lb. and 800+ lb. feeders (up 28.2% and 20.0%, respectively). Feeder cattle placements were down 4.5% and up 1.1% for the less than 600 lb. and 600-699 lb. weight categories. Faced with feeding costs of gain around \$80/cwt and negative breakevens on cattle purchased last month, feeders placed more heavier weight cattle that would eat less corn. And, that's been possible this year as grass conditions have generally improved and more lighter weight calves could go to pasture for the summer.

Examining the cattle on feed inventories by state in the June report continues to support the idea of a competitive advantage in feeding cost of gain in the northern plains relative to the southern plains. For example, June 1 on feed inventory was up 10.6%, 10.3%, and 8.0% in Iowa, South Dakota, and Nebraska, respectively, compared to last year. Conversely, June 1 inventories were 4.6%, 3.0% and 1.4% lower in Kansas, Texas, and Oklahoma, respectively. Not only does proximity to available corn when transportation costs are high provide incentive to feed in the northern plains, but the availability of ethanol co-products is greater in these areas as well. Wet and dry distillers grains can significantly improve feeding cost of gain by not only being less expensive than corn (on a dry matter basis) but also through sizeable improvements in average daily gain and feed conversion.

**Figure 1**

**Cattle on Feed More Than 120 Days, All States,  
1000+ Head Feedyards**



***The Markets***

Dressed slaughter cattle trade occurred last Wednesday in Nebraska at prices ranging from \$136-138, averaging \$3.64 lower than the previous week. Live cattle trade in Kansas last week was mostly \$3 lower. The decline in the fed cattle market last week was driven in part by a drop of nearly \$5/cwt in the Choice boxed beef last week. Not only did Choice boxed beef seasonally decline, but the spread between Choice and Select boxed beef also seasonally decreased \$0.64/cwt to \$6.15. Feeder cattle receipts were light last week, but a stronger undertone was apparent as a result of the large drop in corn prices. Basis Omaha, NE, cash corn dropped \$0.28/bu from June 14 to June 21 (see table below) and were another \$0.16 lower last Friday. Dried distillers grain price in Iowa remained constant with prices from the previous week.

	<b>Last Week</b>	<b>Previous Week</b>	<b>Last Year</b>
Kansas Fed Steer Price, live weight	\$86.64	\$89.87	\$83.30
Neb. Fed Steer Price, dressed weight	\$136.82	\$140.46	\$129.66
700-800 lb. Feeder Steer Price, Kansas 4 market average	\$110.23	\$107.18	\$112.81
500-600 lb. Feeder Steer Price, Kansas 4 market average	--	--	\$128.00
700-800 lb. Feeder Steer Price, Neb. 7 market average	--	\$109.15	\$119.88
500-600 lb. Feeder Steer Price, Neb. 7 market average	--	\$125.38	\$142.31
Choice Boxed Beef Price, 600-900 lb. carcass	\$142.70	\$147.63	\$152.28
Choice-Select Spread, 600-900 lb. carcass	\$6.15	\$6.79	\$22.68
Corn Price, Omaha Nebraska, \$/bu (Thursday quote)	\$3.80	\$4.08	\$1.99
DDG Wholesale Price, Iowa, \$/ton	\$97.50	\$97.50	\$76.50