

September 17, 2007

In The Cattle Markets

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2007 Corn Crop Grows

Cattle feeders who have been worrying about having to become grain originators received some good news in USDA's Crop Production report last week. USDA increased its national yield projection by 3 bushels per acre to 155.8 bu/acre, which would be the second highest in history. That, combined with the 19% increase in acreage this year, results in expected production of a record-setting 13.308 billion bushels. Even with feed and export use projected higher, ending stocks are estimated to grow to 1.675 billion bushels for the 2007/08 marketing year. As a result, the ending stocks to use ratio increased to 13.1%, three percentage points higher than last year. Although USDA did not lower its marketing-year price estimate from last month, the report provides some assurance to livestock producers that bushels should be available this year for feeding purposes. That, along with a decline in corn prices to near \$3/bu from close to \$4/bu, enables cattle feeders to make plans for filling some of their empty pens as calves are weaned this fall.

Recent feeder cattle prices seem to suggest that cattle feeders are anxious to take advantage of the decline in corn prices over the past month and compete for a historically small calf crop. Video auction sale results the past couple weeks show 550 lb. steers in the north central states bringing about \$130/cwt for October delivery. While those prices are \$5 to as much as \$10/cwt lower than last year, corn is more than \$1/bu higher. Assuming that 550 lb. steer calf placed on feed in mid October gains approximately 2.50 lbs/day over 333 day feeding period, a 1,250 lb. fed steer could be sold in September 2008. Valuing corn at \$3.04/bu, hay at \$85/ton, and typical charges for yardage, interest, processing, and other costs, the 700 lbs. of gain would cost approximately \$73/cwt. Therefore, the breakeven selling price for the finished steer next September would be about \$98/cwt. Given October 2008 futures at \$96.30, adjusted for historical September basis of -\$2.81, current price prospects are \$4-5/cwt lower than expected costs.

Based on these average budget projections, it appears that cattle feeders would lose money on these calf-fed steers. However, some feeders likely have reduced feeding costs of gain below the \$73/cwt used here by feeding ethanol byproducts that generate improvements in feed efficiency and average daily gain. Additionally, others are likely expecting significant weakening in the corn basis during harvest and planning to lock in lower corn prices through purchases this fall during harvest gluts in some localized areas. Still, the margin between fed cattle prices, feeder cattle prices, and corn prices remains much tighter this year than last, so feeders should examine any available opportunity to lock in feed prices and other inputs, as well as fed cattle selling prices, as they are buying and feeding cattle this fall.

The Markets

Last week's fed cattle market was about \$2/cwt lower. In Nebraska, dressed prices averaged \$145.40/cwt, down \$2.60/cwt from the previous week. Live prices in Kansas averaged \$1.88/cwt lower at \$93. Some of the weakness in fed cattle prices resulted from lower boxed beef prices. For the week, Choice boxed beef prices averaged \$1.40/cwt lower, while the Choice-Select spread widened by \$0.70/cwt. Both corn and DDG prices were slightly higher last week. This resulted in yearling feeder steer prices dropping \$0.75-1.50/cwt last week and steer calf prices were \$1.00-3.50/cwt lower. While yearling prices are close to year-ago levels, prices for lighter weight calves are 3-6% lower than last year.

	Last Week	Previous Week	Last Year
Kansas Fed Steer Price, live weight	\$93.03	\$94.91	\$88.94
Neb. Fed Steer Price, dressed weight	\$145.40	\$148.00	\$138.55
700-800 lb. Feeder Steer Price, Kansas 4 market average	\$119.24	\$120.71	\$118.95
500-600 lb. Feeder Steer Price, Kansas 4 market average	\$127.06	\$130.58	\$131.56
700-800 lb. Feeder Steer Price, Neb. 7 market average	\$122.57	\$123.31	\$123.22
500-600 lb. Feeder Steer Price, Neb. 7 market average	\$129.01	\$129.87	\$137.90
Choice Boxed Beef Price, 600-900 lb. carcass	\$147.07	\$148.47	\$147.26
Choice-Select Spread, 600-900 lb. carcass	\$7.20	\$6.50	\$9.62
Corn Price, Omaha Nebraska, \$/bu (Thursday quote)	\$3.05	\$3.01	\$1.94
DDG Wholesale Price, Iowa, \$/ton	\$97.50	\$95.00	\$69.00