

In The Cattle Markets

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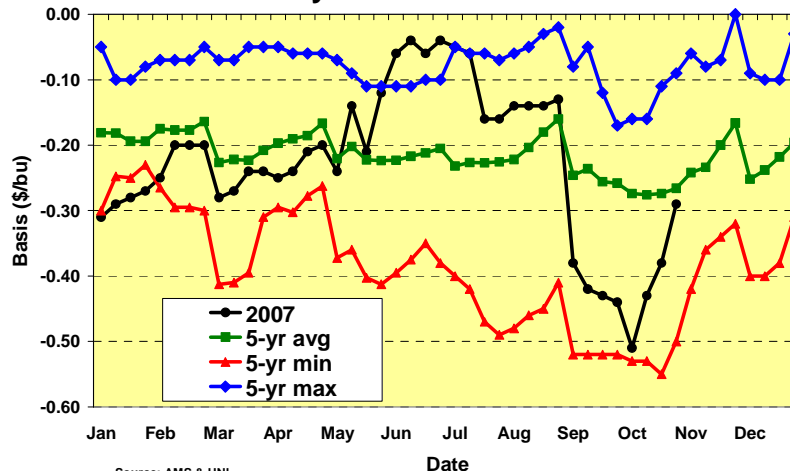
Managing Corn Basis

Cattle feeders know first-hand the volatility in the corn market over the past year. That volatility though isn't just due to changes in overall price levels, but also basis. Basis is the difference between the local cash price of corn and the Chicago futures price. In addition to transportation cost to futures market delivery points (like the Mississippi River), basis reflects the relative supply and demand for corn in a local area. With highly variable yields in areas of the western Corn Belt this year, along with the largest national corn production in history stretching storage space to a maximum, basis has also been more erratic than normal.

The graph below shows the corn basis for Omaha, Nebraska so far in 2007 (see black line), along with the weekly maximum, minimum, and average over the last five years. In the past five months, corn basis has seen more than a \$0.50/bu range, from nearly zero in mid June to a low of -\$0.51/bu during the first week of October. Since then, basis has rallied more than 20 cents. Apparently, some of the supply "glut" experienced at harvest was abated by a week of rainy weather slowing harvest, allowing time for bushels to find a home.

This volatility in basis becomes an increasingly important aspect of input price risk for cattle feeders and other corn buyers to manage. Traditional futures hedges, while being a good tool for managing price level risk, do not provide protection against adverse basis moves. In order to protect against increasing basis, cash buyers of corn need to use basis contracts or cash forward contracts or other contracts that lock in basis. Seasonally, basis improves from its yearly low at harvest time through the remainder of the corn marketing year. Thus, locking in basis at harvest time is often a good strategy for cattle feeders. In areas that haven't experienced the rapid basis improvement in the last couple of weeks, this might still be a good alternative to consider.

**Omaha, NE #2 Yellow Corn Basis
Nearby CBOT Corn Futures**



The Markets

The fed cattle market was about \$1-2 lower last week. Dressed prices in Nebraska averaged \$142.67, down \$1.64/cwt from the previous week. Kansas prices were more than \$1/cwt lower as well on a live weight basis. The weakness in the fed cattle market came as boxed beef prices decreased. For the week, Choice boxed beef averaged \$143.66, down \$1.39 from the previous week. The spread between Choice and Select beef widened nearly \$1. Corn price increased \$0.08/bu last week, resulting in a decline in feeder cattle prices. Steer calf prices were about steady in Kansas and as much as \$2/cwt lower in Nebraska. Yearling prices dropped about \$1 in Nebraska and Kansas.

	Week of 10/26/07	Week of 10/19/07	Week of 10/27/06
Kansas Fed Steer Price, live weight	\$92.87	\$94.06	\$90.00
Nebraska Fed Steer Price, dressed weight	\$142.67	\$144.31	\$139.98
700-800 lb. Feeder Steer Price, KS 3 market average	\$113.11	\$114.17	\$108.26
500-600 lb. Feeder Steer Price, KS 3 market average	\$119.01	\$119.14	\$123.32
700-800 lb. Feeder Steer Price, NE 7 market average	\$115.27	\$116.12	\$108.90
500-600 lb. Feeder Steer Price, NE 7 market average	\$119.83	\$122.03	\$119.07
Choice Boxed Beef Price, 600-900 lb. carcass	\$143.66	\$145.05	\$147.66
Choice-Select Spread, 600-900 lb. carcass	\$12.56	\$11.65	\$10.57
Corn Price, Omaha, NE, \$/bu (Thursday quote)	\$3.37	\$3.29	\$3.01
DDG Wholesale Price, Iowa, \$/ton	\$120.00	\$117.50	\$83.50