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In The Cattle Markets

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Bio Fuels and Ag Commodity Prices

What does the future hold for ethanol production, grain prices and cattle prices? In 2007, the ethanol industry will produce over 6 billion gallons and use about 2.25 billion bushels of corn in the process. There probably is no question that the industry can hit the government mandate of 7.5 billion gallons well ahead of schedule. However the concern among cowboys is the present political climate where it seems that one congressman after another and even the President of the U.S. seem to be playing a game of "I can beat that" when it comes to how high the next renewable fuels government mandate should be. It now seems almost inevitable that the new mandate will be at least 15 billion gallons from grain. Then there is talk of another 21 billion gallons from cellulose.

Fifteen billion gallons of ethanol will require about 5 billion bushels of corn. That will be more than 1/3 of present production and nearly equal the present use of corn in the feeding industry. Does anyone really know what that will do to grain and livestock prices? A look at past and present Dec. corn, Nov. soybean and Jul. wheat futures tell an interesting story. Corn futures prices for Dec 2005 and Dec 2006 averaged about \$1.95 and \$3.60 in Dec. Current Dec futures are at \$3.80 for 2007 and \$4.28 for 2008. For Nov soybeans prices have gone from \$5.80 to \$6.50 in 2005 and 2006 to \$10.50 for 2007 and Nov 2008 is priced at \$10.10 per bushel. Alfalfa hay prices are also at record high levels. I recognize that there are other factors in the world that are influencing these prices, but certainly when we devote crop land acres to energy production we raise grain and forage prices.

I recently saw a presentation by a representative of the Food and Agricultural Policy Research Institute (FAPRI) at a conference. They showed their March 2007 projections and then their revised August 2007 projections for the next several years. Their March and August projections differed substantially. Their March projections for this year were not close in many instances. This is not a criticism of their model or of their intelligence. I am simply pointing out our (agricultural economists, industry representatives, and policy makers) collective inability to foresee all of the market reactions to government mandates.

I am as red blooded American as the next guy, and would rather see U.S. grain farmers making money than foreign oil producers. However, I think the government needs to be careful about what they mandate and the unintended consequences that may follow. I honestly don't think there really is anyone out there smart enough to tell you all the ramifications for grain prices and for livestock profitability if we mandate 15 billion gallons of ethanol from grain. Corn prices will be higher than present levels. All other grain, oil seeds, and hay prices will also be higher. The feedlot industry will adjust to higher grain prices, and feeding of distillers grains will help. However, calf prices will be lower. Just don't ask me for a number and don't believe anyone who gives you a number.

The Markets

Slaughter cattle prices were steady in the south with most trade late on Friday and prices were higher in the north. Prices were \$93 in the south and mostly \$143 in the north but a few trades were up to \$145. Choice boxed beef prices were a little softer this week compared to last week. The Choice-Select spread decreased slightly last week and is at the historical level. Feeder cattle prices were generally steady in Kansas and in Nebraska this past week. Corn prices were up for the week at Omaha and the Dried Distillers Grains were \$4 per ton higher for the week.

	Week of 11/9/07	Week of 11/02/07	Week of 11/10/06
Kansas Fed Steer Price, live weight	\$92.99	\$92.84	\$86.04
Nebraska Fed Steer Price, dressed weight	\$143.13	\$141.03	\$134.17
700-800 lb. Feeder Steer Price, KS 3 market average	\$109.67	\$110.35	\$99.29
500-600 lb. Feeder Steer Price, KS 3 market average	\$120.38	\$119.91	\$113.02
700-800 lb. Feeder Steer Price, NE 7 market average	\$111.39	\$111.82	\$102.78
500-600 lb. Feeder Steer Price, NE 7 market average	\$120.85	\$120.03	\$111.46
Choice Boxed Beef Price, 600-900 lb. carcass	\$139.78	\$140.03	\$144.90
Choice-Select Spread, 600-900 lb. carcass	\$11.29	\$11.61	\$12.67
Corn Price, Omaha, NE, \$/bu (Thursday quote)	\$3.69	\$3.44	\$3.22
DDG Wholesale Price, Iowa, \$/ton	\$130.00	\$126.00	\$97.50