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In The Cattle Markets

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Can We Stand Any More Good News?

Last Friday, USDA provided its monthly estimate of the number of cattle on feed in feedyards with more than 1,000 head capacities. As of January 1 there were 12.097 million head on feed, up 1% from last year and the highest ever January 1 on feed estimate. Much of this increase in cattle on feed numbers is due to the surge in fourth quarter placements as a result of fewer feeder cattle going on wheat pasture late last year. Although placements were up only 1% in December 2007, fourth quarter 2007 placements were up 10% compared to the previous year. Marketings of cattle during December 2007 were up 1.2% compared to the previous year.

Overall, the Cattle on Feed report should be viewed relatively friendly by the market. Placements were lower than expected, marketings were higher than expected, and the cattle on feed number was just slightly lower than the average pre-release estimate. The market, however, did not respond all that bullishly during Monday's futures trade. Instead, bear spreading was a key feature of the day, with the three nearby months down \$0.40-0.60/cwt and the deferred months up.

The fact that what should have been positive news for the market today had a mixed reaction at best is somewhat emblematic of the market's sentiment right now. In fact, the level of concern about cattle prices and profits and particularly feed input prices has dramatically increased in the past two weeks. Updated USDA corn supply and demand estimates have renewed concerns about corn availability. Further, it is becoming increasingly clear that feeders have been consistently paying too much for feeder cattle and their losses will grow during the upcoming months.

At the end of this week, USDA will release its annual cattle inventory report. That report is expected to show a slight decline in total cattle numbers and in the beef cow herd. Typically, a smaller supply is positive to prices longer term. Unfortunately, this smaller calf supply for so many years has resulted in so much competition amongst cattle feeders for those calves that the profit has more than been bid out of those calves. Cattle feeders can't afford to do this any longer.

The Markets

The fed cattle market ended last week steady to higher. Dressed prices in Nebraska were \$2 higher last week and averaged \$144.71 for the week. Live cattle prices in Kansas were barely steady. Choice boxed beef averaged \$144 last week, more than \$3 lower than the previous week, and the spread between Choice and Select narrowed almost \$1. Corn prices, basis Omaha, NE, was \$0.13/bu lower last Thursday compared with the previous week, and DDG

prices were down \$5/ton as well. Feeder cattle receipts were generally higher in Kansas and Nebraska last week as a result of several near-limit down days in the corn market.

	Week of 1/25/08	Week of 01/18/08	Week of 01/26/07
Kansas Fed Steer Price, live weight	\$90.50	\$90.56	\$86.58
Nebraska Fed Steer Price, dressed weight	\$144.71	\$142.77	\$137.53
700-800 lb. Feeder Steer Price, KS 3 market average	\$98.83	\$97.60	\$95.13
500-600 lb. Feeder Steer Price, KS 3 market average	\$116.38	\$111.91	\$108.11
700-800 lb. Feeder Steer Price, NE 7 market average	\$99.93	\$95.20	\$96.58
500-600 lb. Feeder Steer Price, NE 7 market average	\$121.83	\$122.15	\$116.97
Choice Boxed Beef Price, 600-900 lb. carcass	\$144.00	\$147.34	\$149.37
Choice-Select Spread, 600-900 lb. carcass	\$6.70	\$7.66	\$11.10
Corn Price, Omaha, NE, \$/bu (Thursday quote)	\$4.61	\$4.74	\$3.78
DDG Wholesale Price, Iowa, \$/ton	\$180.00	\$185.00	\$135.00