

## **In The Cattle Markets**

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### **3 Pieces of Good News Last Week!**

After several languishing weeks of higher corn prices, ample cattle supplies, and uncertain domestic and international demand creating an ominous cloud over the cattle market, there was finally three solid pieces of positive information this past week that helped fed cattle prices rally by \$2-3/cwt on a live weight basis. Although a substantial decrease in corn prices was likely on the top of cattle producers' wish list, that didn't happen last week as corn prices were around a dime higher. However, the events below are still worthy of review. Plus, corn prices could see a decline this next week if weather and field conditions and planting progress begins in earnest. Prices early on Monday reflected this, with losses of more than \$0.20/bu.

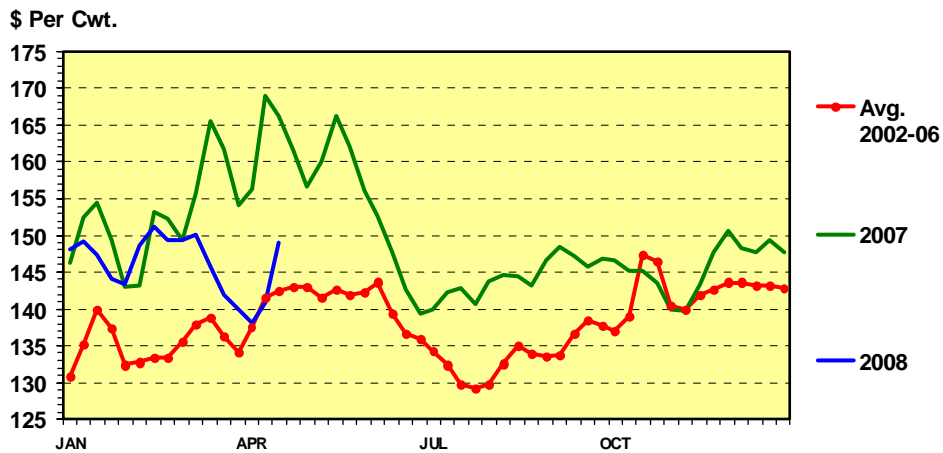
*Box Beef Rally.* Since late February, Choice boxed beef declined more than \$13/cwt, bottoming at the beginning of April around \$138. As shown in the figure below, this drop was counter to the typical seasonal trend. In the past three weeks, Choice boxed beef has fully recovered from that drop and closed last Friday above \$151. Increased demand for middle meats (loins and ribs) have led the advance in recent weeks, suggesting that buyers are preparing for the spring and summer grilling season.

*South Korean Trade Agreement.* On Friday, the United States and South Korea announced an agreement to resume beef trade between the countries that was consistent with OIE guidelines. Trade resumption will occur in two phases. The first includes both boneless and bone-in beef and variety meats from cattle less than thirty months old. This trade could start within the next couple of months. The second phase, imports of beef products from cattle more than thirty months old, will occur sometime after the U.S. Food and Drug Administration publishes its final rule on specified risk materials. The restoration of both boneless and bone-in product from under thirty month cattle, and eventually all cattle, is particularly positive because much of the beef trade with South Korea prior to 2003 was bone-in product (especially short ribs). Further, South Korea was historically the U.S.'s second largest beef customer, accounting for about 23% of U.S. exports in 2003. Although Japan was historically the largest U.S. beef importer, that country's restriction to boneless beef from cattle less than 20 months old has restricted trade volume and Mexico and Canada have since become the largest markets for U.S. beef. However, with this trade agreement, South Korea could quickly become one of the largest, if not the largest, beef import customer for the U.S. In 2003, before the BSE trade disruptions, South Korea imported about 586 million pounds of beef. Based on the 2003 level, the resumption of trade from this agreement could mean an increase of \$1-3/cwt for fed cattle prices over the next year.

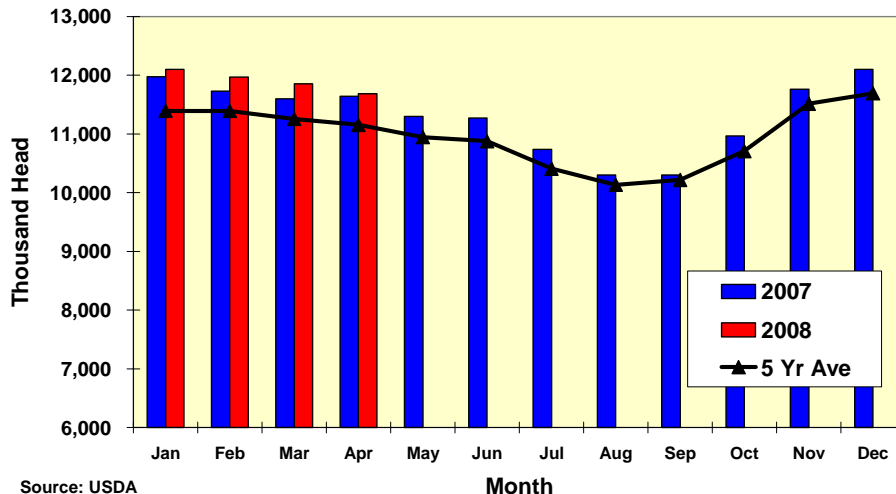
*Cattle on Feed Report.* Prior to the release of the April Cattle on Feed report last Friday, traders and analysts were expecting, on average, an 8.1% decrease in placements and a 2% decline in marketings during March. USDA's survey, however, showed an 11.4% drop in net

placements (gross placements less other disappearance) and nearly steady marketings relative to year-ago numbers. As a result, the cattle on feed inventory on April 1, 2008 was up only 0.3% from last year, at the low end of the pre-release trade estimates. Thus, the placements, marketings, and on feed inventory numbers in the USDA report were all relatively positive relative to trade expectations. Marketings especially could be viewed bullishly as March 2008 had one less marketing day than March 2007, so average daily marketings last month were actually up about 4.7%. Still, the number of cattle on feed for more than 120 days has grown appreciably since the beginning of the year, and with live cattle and dressed carcass weights running 3-4% higher than last year, it appears that cattle feeders need to remain focused on making timely fed cattle sales and staying as current as possible. And, some strength in the fed cattle market over the next couple of weeks just might help do that.

### BOXED BEEF CUTOUT VALUE Choice 600-900 Lbs. Carcass, Weekly



### Cattle on Feed, All States, 1000+ Head Feedyards



Source: USDA

## The Markets

The positive events discussed above contributed to higher fed cattle prices last week. Dressed cattle prices in Nebraska were almost \$5/cwt higher last week, averaging \$146.52 for the week. Kansas live cattle prices averaged \$2.85 higher for the week as well. For the week, Choice boxed beef averaged \$149.03, more than \$8/cwt higher than the previous week. The spread between Choice and Select widened by \$1.58 last week and is expected to further widen during May and June as more select cattle enter the slaughter mix. The spread still remains more than \$9/cwt lower than last year. Feeder cattle prices were generally \$1-2 higher last week in Kansas and steady to \$1 higher in Nebraska. The strength in feeder cattle prices came in spite of slightly higher cash corn prices last week. On Thursday, prices in Omaha, NE were \$0.11/bu higher than the previous week. Dried distillers grain prices (basis Iowa) were steady last week.

	<b>Week of 4/18/08</b>	<b>Week of 04/11/08</b>	<b>Week of 04/20/07</b>
Kansas Fed Steer Price, live weight	\$89.80	\$86.95	\$96.11
Nebraska Fed Steer Price, dressed weight	\$146.52	\$141.53	\$154.81
700-800 lb. Feeder Steer Price, KS 3 market average	\$104.61	\$102.43	\$108.69
500-600 lb. Feeder Steer Price, KS 3 market average	\$122.23	\$121.01	\$129.32
700-800 lb. Feeder Steer Price, NE 7 market average	\$104.33	\$103.03	\$111.66
500-600 lb. Feeder Steer Price, NE 7 market average	\$120.86	\$120.96	\$132.16
Choice Boxed Beef Price, 600-900 lb. carcass	\$149.03	\$140.91	\$166.29
Choice-Select Spread, 600-900 lb. carcass	\$2.26	\$0.68	\$11.50
Corn Price, Omaha, NE, \$/bu (Thursday quote)	\$5.72	\$5.61	\$3.50
DDG Wholesale Price, Iowa, \$/ton	\$168.50	\$168.50	\$111.50