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In The Cattle Markets

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Feed Prices

Maybe I'm getting gun-shy about finding the harvest-time low corn price after the last two consecutive years when the low uncharacteristically came directly *before* harvest. While it is hard to know if this is truly a new seasonal event or just two happenstance years with the right supply and demand conditions to cause a corn price rally during and immediately after harvest, it would seem like the fundamentals suggest this could happen again this year. Consider USDA's September WASDE report where national average corn yield was dropped from 155 bu/acre to 152.3 bu/acre. With just over 12 billion bushels of production and 12.65 billion bushels of total projected use, ending stocks-to-use ratio for this corn market year is at 8.05%. That's the lowest since 1995/96 (4.98%), implying a tight supply/demand situation and high prices for the marketing year that lies ahead. And, with other crops experiencing similar conditions (e.g., the soybean stocks-to-use ratio is projected at 4%), increasing corn acreage for 2009 will be difficult.

The competition for acreage seems to begin earlier every year. While some believe the 2009 battle for acreage has been going for a couple of months now, it is likely to begin in earnest when harvest reports on the 2008 crop start rolling in over the next few weeks. If we see moderate or low corn yield reports, corn prices will rally significantly to induce more acres to be planted in 2009. Keep in mind that with quickly escalating costs of production for corn (e.g., fertilizer, seed, fuel), growers will need a large incentive to plant more corn acres next year, so it may require a large price increase to see acreage shift away from soybeans into corn (particularly with a tight soybean stocks-to-use ratio). Only if we have reports of large record yields this fall may we avoid a volatile increase in prices. Although only anecdotal reports are available so far, the fact that many of us are hearing very little of early-harvested yields suggests corn growers have little to "brag" about in terms of yields so far.

What does this mean for cattle feeders and other livestock producers? They need to be prepared to lock in feed prices quickly when it appears a bottom is in this fall. Although it is uncertain when that will occur exactly, it will likely be a quick bottom with a rapid price increase (similar to the precipitous decrease since July 1). In addition to cash contracting corn or futures and options hedges, feeders should also think about managing distillers grain prices. The seasonal low in distillers grain prices seen for the last two years in August didn't materialize to the same extent this year. As the graph below shows, the seasonal low in wet distillers grains plus solubles (WDGS) is not only developing later (in September), but at much higher levels than in 2007 despite being priced cheaper this year relative to corn. Further, the decline this year has been only a 27% retracement from the summer high, compared to 35% last year.

For some WDGS buyers, hedging alternatives might be more limited than for corn. While futures and option contracts for distillers grains aren't available, some buyers use existing corn or soybean meal futures contracts to cross-hedge their distillers grains. Cash contracting, however, has been a more common alternative the past two years. In 2006 and 2007, cattle feeders could typically flat price contract WDGS in Nebraska for a 12-month period. After seeing corn (and therefore WDGS prices) rally subsequent to writing those contracts, ethanol producers are no longer willing to offer contracts that far out. Typically, only 3 month contracts are available now.

Another alternative for producers to consider is purchasing distillers grains on the spot market for immediate delivery and storing it. Storage methods can include packing in silage bunkers (cement or one made of large round hay bales) or silage-type storage bags. Because storing some of these wet products require mixing with other feedstuffs, refer to *Storage of Wet Corn Co-Products* available at http://beef.unl.edu/byprodfeeds/manual_04_00.shtml for more information.

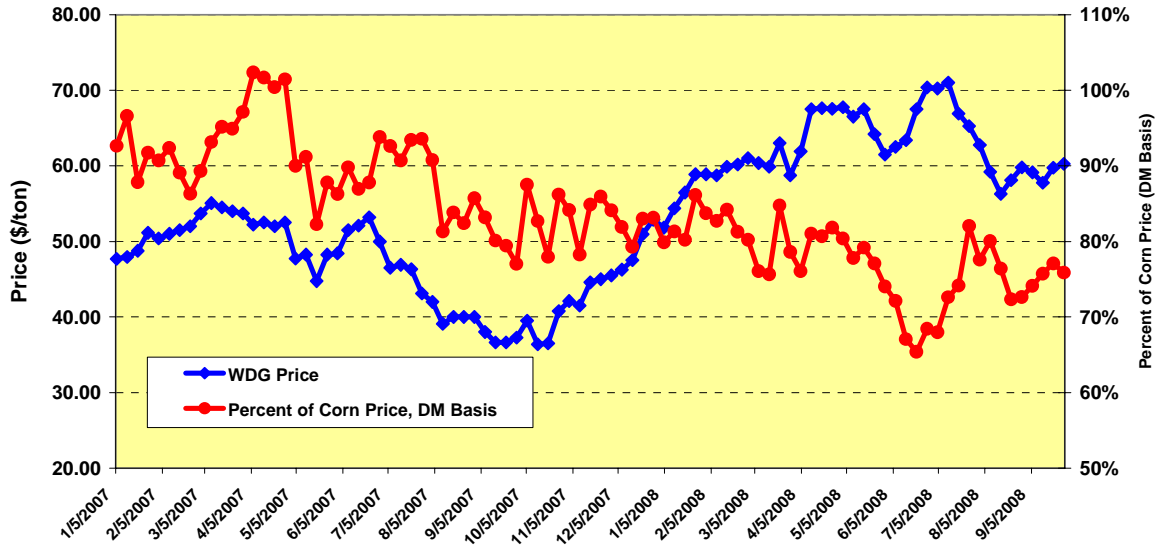
Physical storage of distillers grains offer some potential advantages. First, by owning the commodity, the cattle feeder is insulated from future price increases. Second, by having physical possession of the commodity, feeders are protected against the risk of future availability. While not normally a big concern to livestock feeders, the ability to obtain cash commodities, even distillers grains, in some markets may be less certain than in the past. And, that is more of a concern with rations containing distillers grains because removing distillers grains from a ration when cattle are accustomed to it can cause them to go off feed, etc. Competition for these corn co-products has been increasing in the past year, with other livestock producers (swine, poultry, and other cattle feeders using larger quantities) and export markets being the primary new growth sources of demand.

There are important costs to consider, however, when storing distillers grains. In addition to buying the product, typically other commodities like hay must be purchased to mix with the distillers grain to make it storable. Plus, there are mixing and packing costs, labor and fuel, and interest and shrink expenses to consider. To help account for all of these costs, producers can download Co-Product STORE (Storage To Optimize Ration Expenses) at <http://beef.unl.edu/byproducts.shtml>. While these costs are different for every producer, an example can be illustrative. Assume a feeder can purchase WDGS on the spot market for \$60/ton and store from October 1, 2008 to March 1, 2009. After accounting for other costs and creating a WDGS/hay mixture, the total storage cost may be about \$76/ton before shrink or \$89/ton after assuming a 15% shrink. While current corn prices for March don't suggest WDGS prices that high right now, a rally in the corn market could move WDGS prices well beyond those stored costs.

A Couple of Notes This Week

1. Information on distillers grain prices in the Western Corn Belt is available on my website at http://agecon.unl.edu/mark/ethanol_byproducts.html.
2. Mandatory Country-of-Origin Labeling begins on Tuesday, September 30, 2008. For information on COOL and what livestock producers need to do to comply, visit the COOL website at UNL: <http://cool.unl.edu/>. This page contains links to several good resources from university economists and others across the country.

Wet Distillers Grain Price, Nebraska 30-35% DM, 2007-08



Source: AMS & UNL

The Markets

Fed cattle traded last Wednesday and Thursday at steady to slightly higher prices. Nebraska dressed prices averaged \$0.87/cwt higher, while Kansas live weight prices were \$0.31/cwt lower for the week. Choice boxed beef averaged \$158.60 last week, down about \$2 from the previous week but almost \$12 higher than last year. The spread between Choice and Select widened by \$0.43/cwt. Feeder cattle prices in Kansas were mostly steady last week, but were lower in Nebraska by about \$3.50/cwt for yearlings and more than \$6/cwt for steer calves. The corn market gained \$0.27/bu through Thursday of last week while dried distillers grains prices were \$5/ton higher.

	Week of 9/26/08	Week of 09/19/08	Week of 09/28/07
Kansas Fed Steer Price, live weight	\$98.27	\$98.58	\$96.16
Nebraska Fed Steer Price, dressed weight	\$151.30	\$150.43	\$149.83
700-800 lb. Feeder Steer Price, KS 3 market average	\$110.54	\$108.91	\$118.69
500-600 lb. Feeder Steer Price, KS 3 market average	\$116.59	\$117.09	\$125.03
700-800 lb. Feeder Steer Price, NE 7 market average	\$109.39	\$112.93	\$122.69
500-600 lb. Feeder Steer Price, NE 7 market average	\$114.99	\$121.06	\$126.38
Choice Boxed Beef Price, 600-900 lb. carcass	\$158.60	\$160.67	\$146.68
Choice-Select Spread, 600-900 lb. carcass	\$7.26	\$6.83	\$9.21
Corn Price, Omaha, NE, \$/bu (Thursday quote)	\$5.39	\$5.12	\$3.43
DDG Wholesale Price, Iowa, \$/ton	\$140.00	\$135.00	\$102.50