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In The Cattle Markets

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USDA Increases Corn Yield & Carryover Estimates

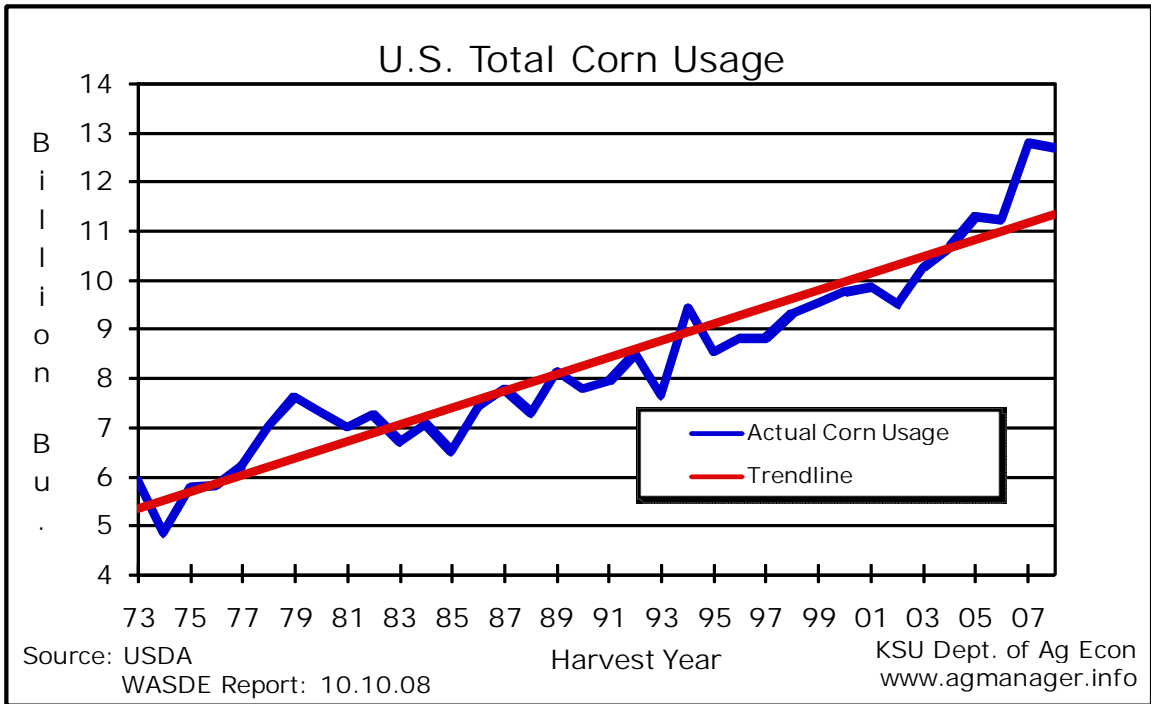
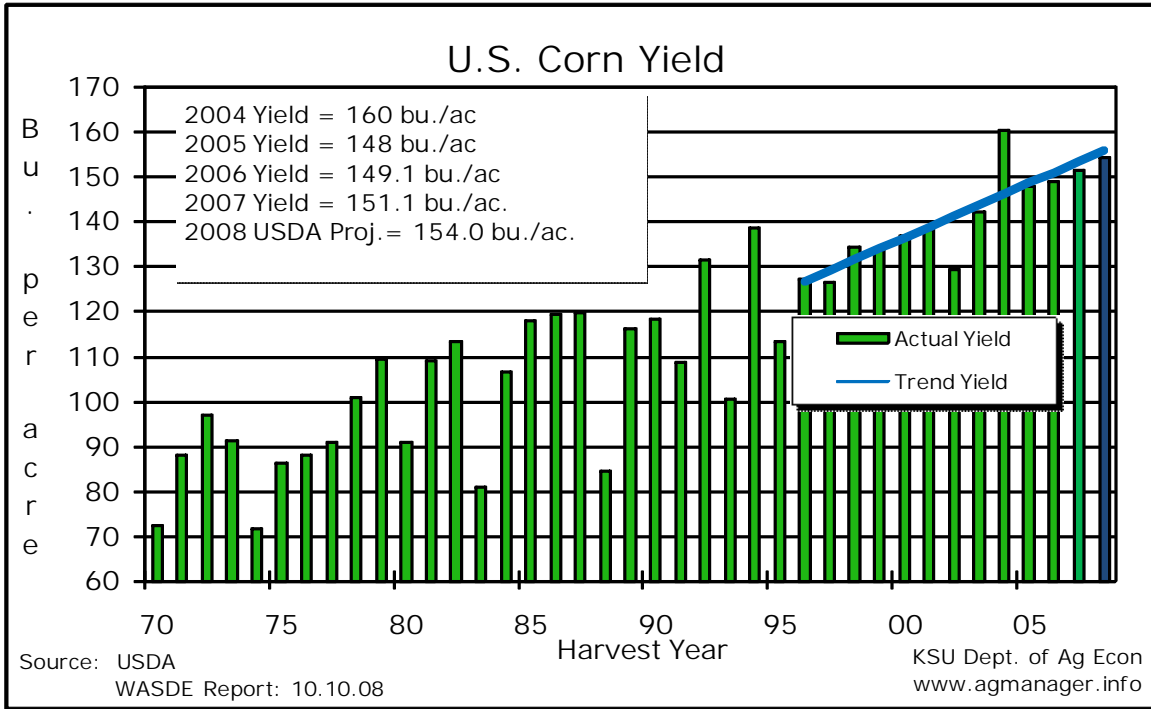
USDA increased its estimate of the 2008 corn crop in a report released on Friday, October 10th. USDA revised its 2008 yield estimate up to 154 bushels per acre, an increase of about 1.1% compared to the estimate USDA published a month ago. If realized, the 2008 corn yield would be the second highest on record, lagging only the 160 bushels per acre harvested in 2004.

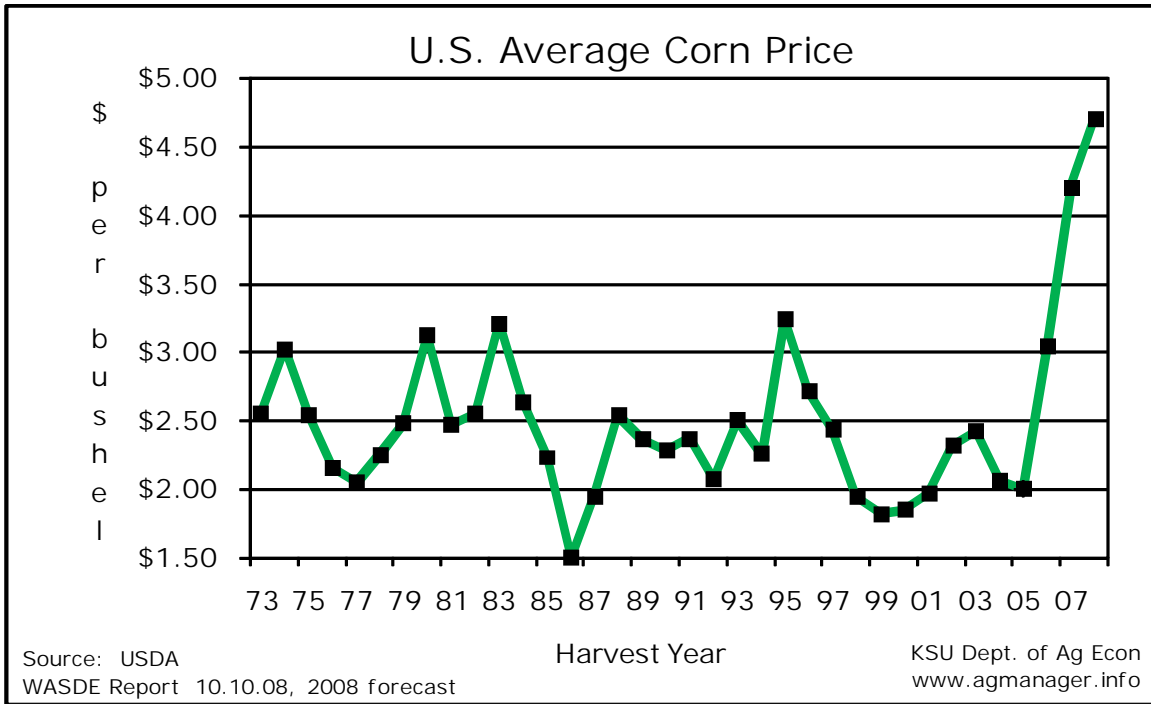
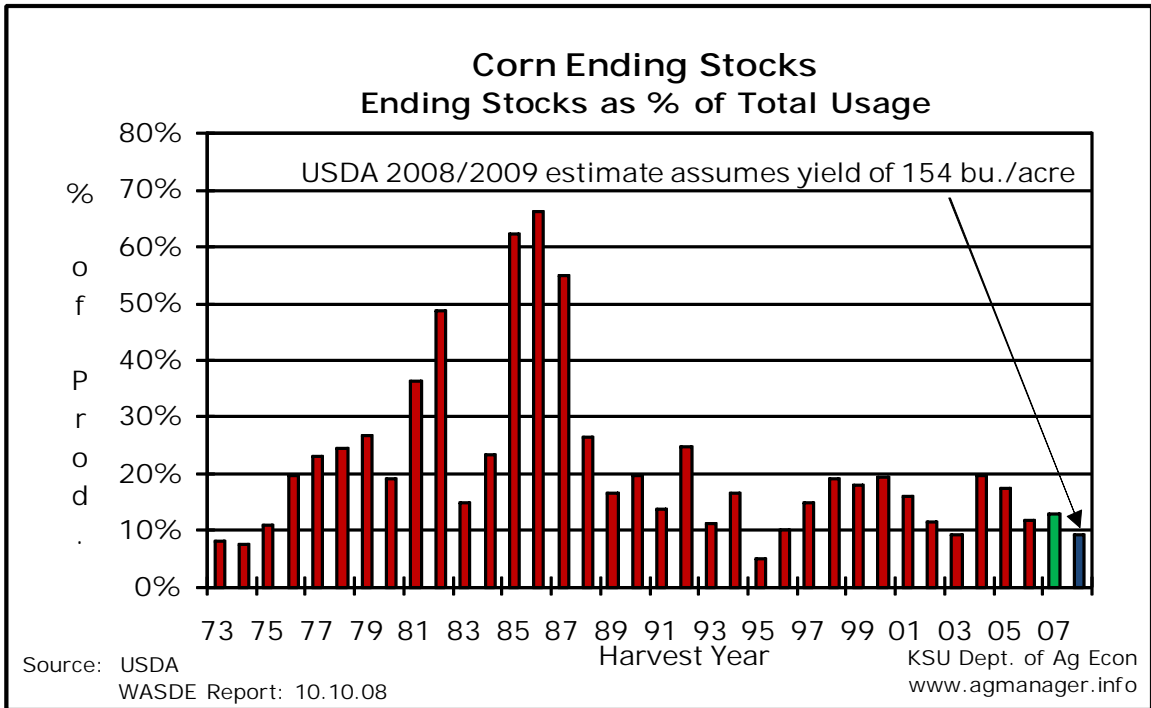
The increase in the yield estimate helped push USDA's estimated production estimate up to 12.2 billion bushels, an increase of 128 million bushels compared to USDA's September report. USDA also increased the estimated carryover from the 2007 crop by 48 million bushels. The combination of higher yield and larger carryout from 2007 resulted in USDA's total corn supply estimate rising to 13.839 billion bushels, up 1.3% compared to a month earlier.

USDA also made adjustments to several projected 2008/2009 corn usage categories. In particular, the projected usage of corn for ethanol production was revised downward by 100 million bushels to 4 billion bushels. The downward revision in USDA's ethanol category reflects the slowdown in new plant construction that's been apparent for some time, but still leaves USDA's projection for corn going into ethanol production somewhat above estimates by many private sector analysts. USDA also revamped its projected use of corn for feed to 5.35 billion bushels vs. 5.2 billion bushels last month. Implicit in USDA's forecast is the expectation that lower corn prices will slow the rate of livestock herd liquidation, thereby supporting feed usage. USDA left its corn export forecast of 2 billion bushels unchanged from last month, despite some expectations that economic weakness around the world would discourage exports in the year ahead.

The end result of USDA's larger supply estimate and modest expected increase in corn usage is that estimated carryover stocks in late summer 2009, before the 2009 harvest begins, are 136 million bushels larger than projected a month ago. As a result of the expected carryover increase, and recent price weakness, USDA lowered its estimated 2008/2009 average farm price range to \$4.20 to \$5.20 per bushel compared to an estimated range of \$5.00 to \$6.00 on the September report.

Although corn futures prices traded limit down following the report's release, it's not clear how much of the decline was actually stimulated by expectations of larger corn supplies vs. ongoing concerns about weakening global economic conditions. Focusing just on USDA's supply and demand estimates, two key points should not be overlooked. First, USDA still projects that corn usage this year will exceed production by nearly 500 million bushels. Second, if usage winds up near USDA's estimates, the corn carryover from the 2008 to the 2009 marketing year will be just 9% of estimated corn usage, signaling that corn supplies are expected to remain very tight by historical standards.





The Markets

Weakening economic conditions in the U.S. and around the world weighed heavily on all markets the week ending October 10th. Slaughter cattle in Kansas traded near \$92/cwt. (live weight) compared to \$96 a week earlier while dressed weight trade in Nebraska averaged about \$140/cwt., down from \$147 the previous week. Choice boxed beef prices also weakened, averaging near \$152/cwt. compared to \$154 the prior week. Feeder cattle trade

was very limited at most markets, partly because of uncertainty. In the limited trade that did take place, cattle changed hands at lower prices. Prices for 500-600 pound steers in Kansas averaged near \$103/cwt. compared to \$105 a week earlier. Weighted average feeder cattle prices from Nebraska were not yet available when this report was written.

Category	Week Ending 10.10.08	Previous Week 10.03.08	Year Ago Week 10.12.07
Kansas Fed Steer Price, live weight	\$91.89	\$96.12	\$92.32
Nebraska Fed Steer Price, dressed weight	\$139.70	\$147.17	\$140.71
700-800 lb. Feeder Steer Price, KS 3 market average	--	\$103.10	\$113.68
500-600 lb. Feeder Steer Price, KS 3 market average	\$102.81	\$105.07	\$121.44
700-800 lb. Feeder Steer Price, NE 7 market average	--	\$106.88	\$119.35
500-600 lb. Feeder Steer Price, NE 7 market average	--	\$110.00	\$123.24
Choice Boxed Beef Price, 600-900 lb. carcass	\$152.34	\$154.40	\$145.08
Choice-Select Spread, 600-900 lb. carcass	\$7.19	\$6.50	\$10.10
Corn Price, Omaha, NE, \$/bu. (Thursday quote)	\$4.27	\$4.39	\$3.02
DDG Average Price, Iowa, \$/ton (Tuesday quote)	\$135.00	\$142.50	\$110.00