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In The Cattle Markets

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Profit Prospects for Future Placements On Feed Improving

After plummeting for three weeks in a row, cattle prices showed some signs of stabilizing or, in the case of calves and feeders, actually recovering. The charts below tell the story.

Slaughter cattle prices in Kansas traded between \$98 and \$100 per cwt. for eight weeks in a row beginning in early August. But from the beginning of October until the third week of the month, prices collapsed, reaching a low of less than \$90. Last week prices recovered modestly, averaging just over \$90.

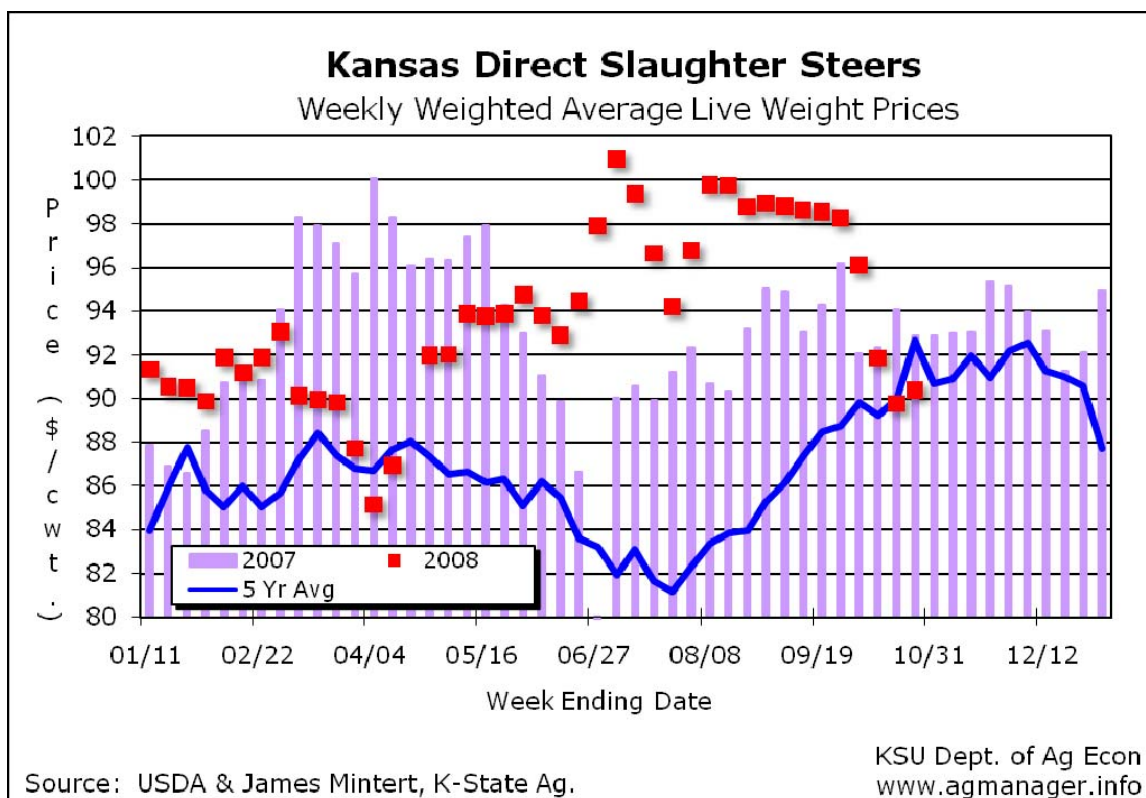
At about the same time that slaughter cattle prices were collapsing, feeder cattle values and feeding costs were also declining. Prices for 700-800 lb. steers in Kansas traded between approximately \$114 and \$117 per cwt. from mid-July through mid-September, but then declined to an average of about \$96 in mid-October before recovering to near \$100 last week. And as feeder values declined, feeding costs also plummeted. After averaging over \$5.40 per bushel from mid-July through mid-September, cash corn prices at Omaha averaged near \$3.80 per bushel the last two weeks, a decline of 30%. The combination of lower feeder and corn prices has pushed cattle feeders' breakevens down sharply in recent weeks.

For example, using current feeding costs, a 750 lb. steer placed on feed in Kansas at \$100/cwt. would likely be ready for sale in late March or early April with a breakeven ranging from \$93 to about \$94 per cwt., assuming average weather conditions prevail. If the sale of these steers is hedged at today's futures prices, the expected sale price (futures price plus three-year average basis) is between \$92 and \$93 per cwt. Although this implies that some custom feeders would incur a small loss per head, other cattle feeders will find these values attractive if they have somewhat lower than average costs. In particular, some feedyard operations will be attracted to placing cattle on feed at these prices since it provides an opportunity to earn a positive return for utilizing existing feeding facilities.

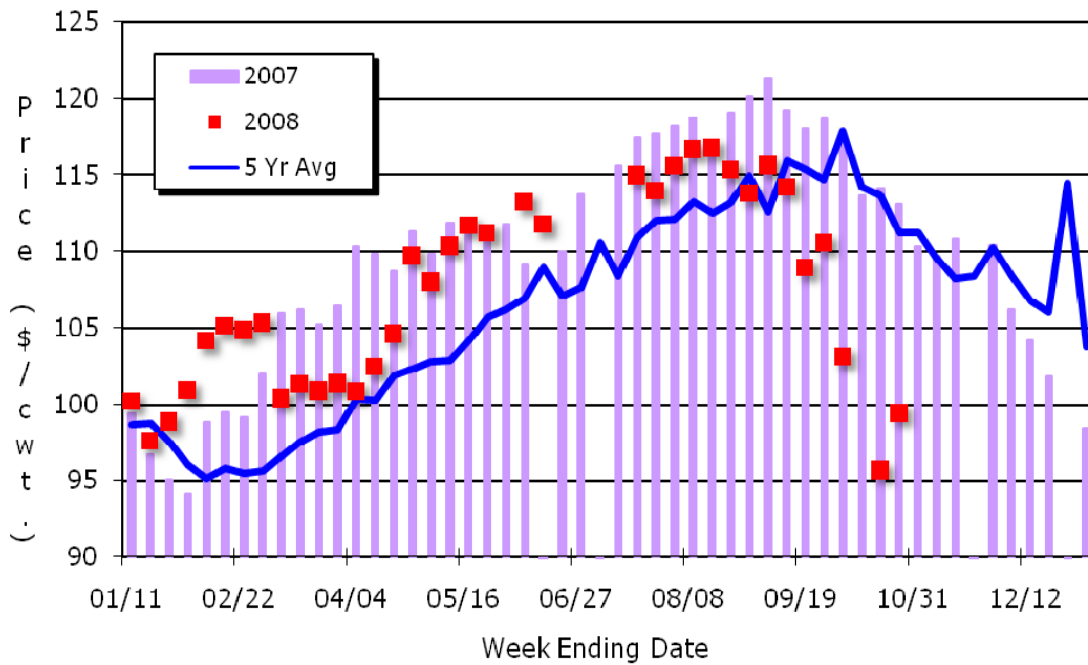
The Markets

Slaughter cattle in Kansas traded at just over \$90/cwt. (live weight) last week, compared to \$89.78 a week earlier while dressed weight trade took place in Nebraska at \$136.44, virtually unchanged from the prior week. In contrast to slaughter cattle prices, Choice boxed beef prices declined last week, averaging near \$144/cwt. compared to \$147 the prior week. The Choice-Select spread weakened to average \$7.03/cwt., down over \$1/cwt. compared to a week earlier. Feeder cattle trade strengthened last week as feeders demonstrated some willingness to buy feeders at higher prices than a week earlier. Prices for feeder steers averaged near \$99/cwt. in Kansas, about \$4/cwt. higher than the week ending 10.17.08 and steer calves changed hands at \$110/cwt., more than \$7 higher than a week earlier. Corn prices and distillers grains prices both strengthened modestly compared to the prior week.

Category	Week Ending 10.24.08	Previous Week 10.17.08	Year Ago 10.26.07
Kansas Fed Steer Price, live weight	\$90.40	\$89.78	\$92.87
Nebraska Fed Steer Price, dressed weight	\$136.44	\$136.46	\$142.67
700-800 lb. Feeder Steer Price, KS 3 market average	\$99.43	\$95.68	\$113.11
500-600 lb. Feeder Steer Price, KS 3 market average	\$110.36	\$102.88	\$119.01
700-800 lb. Feeder Steer Price, NE 7 market average	\$99.49	\$103.66	\$115.27
500-600 lb. Feeder Steer Price, NE 7 market average	\$109.47	\$110.38	\$119.83
Choice Boxed Beef Price, 600-900 lb. carcass	\$143.96	\$147.45	\$143.66
Choice-Select Spread, 600-900 lb. carcass	\$7.03	\$8.26	\$12.56
Corn Price, Omaha, NE, \$/bu. (Thursday quote)	\$3.81	\$3.76	\$3.37
DDG Average Price, Iowa, \$/ton (Tuesday quote)	\$127.50	\$125.00	\$120.00



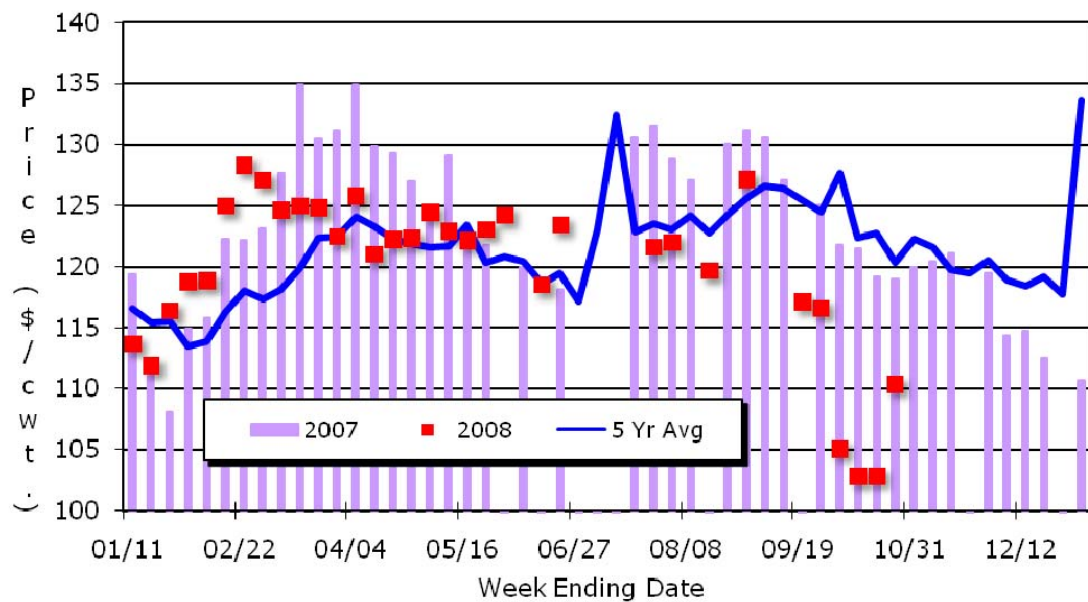
Kansas Combined Auction (Dodge City, Pratt, Salina)
 Weekly Weighted Average 700-800 Lb. Steer Prices



Source: USDA & James Mintert, K-State Ag. Economics

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Kansas Combined Auction (Dodge City, Pratt, & Salina)
 Weekly Weighted Average 500-600 Lb. Steer Prices



Source: USDA & James Mintert, K-State Ag. Economics

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