

November 25, 2008

In The Cattle Markets

Dillon Feuz, Ph.D.

Professor, Department of Economics, Utah State University

Cattle on Feed

The USDA released the latest Cattle on Feed report this last Friday. I don't think the market in the near term cared much about what this report showed or didn't show. Right now, most of the commodity markets seem to be tied closely to Wall Street not fundamental data. However, I think as Wall Street settles down (poor choice of words there) and the extreme volatility in the market is reduced, then commodity markets will return to trading more on their own fundamentals. If that is the case, then the fundamentals for cattle and beef actually look good for a market rally.

The trade was expecting the November on Feed total to be down from the prior year and it was. There are 10.972 million head of cattle on feed and that is down 7% from last year and even a little smaller total than had been expected. Placements into the feedlots were the 3rd smallest since this data series has been kept and at 2.438 million head was down 11% from last year. Placement of calves weighing less than 700 pounds was down 18% from the prior year, while placements of yearlings over 800 pounds was actually up about 4%. This type of placement pattern is becoming the norm rather than the exception. The number of cattle marketed in October was only down 3% from the prior year, which was near the top of trade expectations, and is a good marketing number for the size of the feedlot inventory.

Given the placement pattern of the last few months, and the inventory of cattle on feed, it would appear that 2009 Live Cattle futures for Feb – Jun are over sold. I believe that supply fundamentals will be tight enough late winter and early spring to force fed cattle prices higher than the board is suggesting. The economy may be sluggish at that point in time, but I don't think the drop off in beef demand will be as great as the apparent reduction in supply that will occur.

The Markets

The fed cattle market was lower this past week with general economy concerns ruling the day. Trade took place mid week in both the south and the north with adequate volume to clear most show lists. Prices were mostly \$87 in the south and were \$139-140 in the north. Choice boxed beef prices were up \$2 this week. The Choice-Select spread increased slightly and remains near the historical level. Feeder cattle prices were lower in Kansas and Nebraska compared to the previous week. Prices for 7-weight steers were about \$7 lower in Kansas and about \$4 lower in Nebraska. Prices for 5-weight steers were down a little more than \$5 in Kansas and in Nebraska compared to last week. Corn prices were a few cents per bushel lower and are near the bottom of a few week trading range. Dried Distillers Grains were \$2.50 per ton lower for the week.

Cattle or Meat Category	Week of 11/21/08	Week of 11/14/08	Week of 11/23/07
Kansas Fed Steer Price, live weight	\$87.13	\$92.84	\$95.33
Nebraska Fed Steer Price, dressed weight	\$139.37	\$143.27	\$149.93
700-800 lb. Feeder Steer Price, KS 3 market average	\$94.05	\$100.95	--
500-600 lb. Feeder Steer Price, KS 3 market average	\$104.98	\$110.39	--
700-800 lb. Feeder Steer Price, NE 7 market average	\$98.86	\$102.62	\$115.34
500-600 lb. Feeder Steer Price, NE 7 market average	\$104.15	\$109.79	\$125.26
Choice Boxed Beef Price, 600-900 lb. carcass	\$157.40	\$155.68	\$147.63
Choice-Select Spread, 600-900 lb. carcass	\$10.70	\$10.38	\$13.31
Corn Price, Omaha, NE, \$/bu (Thursday quote)	\$3.65	\$3.71	\$3.77
DDG Wholesale Price, Iowa, \$/ton	\$120.00	\$122.50	\$140.50