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In The Cattle Markets

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Corn Prices & Placements

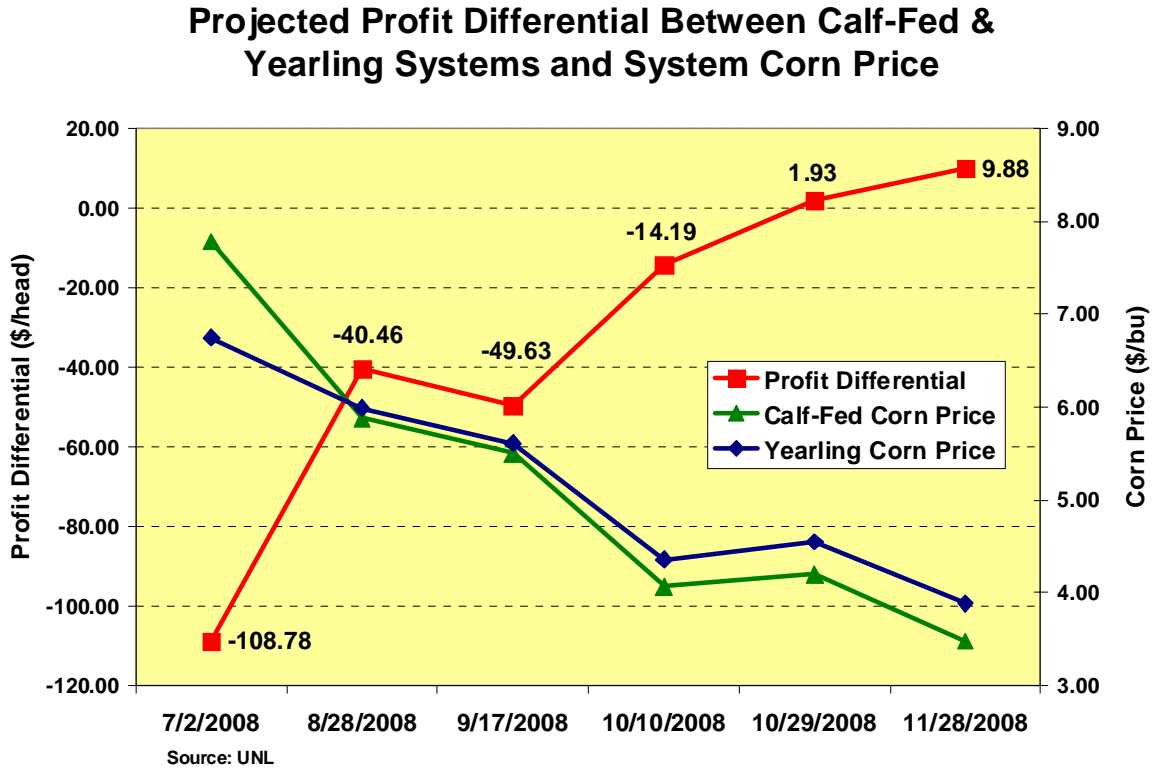
Since the first week of July, the price of corn has been nearly cut in half as a larger than once-expected corn crop is harvested and general economic conditions depress prices. This drop from \$7/bu corn to \$3.50/bu corn has created an opportunity to place cattle on feed with positive breakevens. For example, placing a 650 lb. steer calf on feed right now and finishing it to 1275 lbs. by late May can result in a projected profit of \$65/head. That's assuming a purchase price of \$102/cwt for the feeder steer, \$3.48/bu corn, \$62/ton wet corn gluten feed (included at 40% of the ration, DM basis), 21.4 lbs. dry matter intake, 5.7 lbs. feed per lb. of gain feed conversion (DM basis), and a fed cattle selling price of \$89.28/cwt (based on June futures and May fed cattle basis in Nebraska). Placing a 850 lb. steer on feed now and finishing out to 1375 lbs. in early April generates a projected profit of \$20/head, assuming the feeder steer is purchased for \$97.33/cwt, dry matter intake is 29 lbs., feed conversion is 6.77 (DM basis), and feed costs are the same as for calf-finishing. Using these assumptions, calf finishing appears \$45/cwt more profitable than yearlings in today's market.

It is also important to consider the entire profitability of the yearling system alternative that includes backgrounding lightweight calves through the winter and summer (say on corn stalks and grass pasture, respectively) before feeding next summer. Go back and read the September 8 issue of *In the Cattle Markets* where the historical profit differentials for calf finishing and yearling systems were compared (<http://www.lmic.info/memberspublic/InTheCattleMarket/Archives/2008/cattlemarkets0908.pdf>). At that time, we projected the yearling system's total profits to exceed calf finishing profits by \$67/head. Given the relative feeder and fed cattle price changes and drop in the corn market, we now project calf finishing profits to exceed yearling system profits by nearly \$10/head. As projected corn prices for these two systems have declined since July, projected profit differentials for the calf and yearling systems have changed dramatically. In July, calf finishing for this year's calf crop was projected to be \$108/head less profitable than the yearling system (both projected net losses though). In stark contrast, calf finishing is now projected to be \$10/head more profitable (but both project positive profits) as Figure 1 illustrates.

Interestingly, the November Cattle on Feed data continued to show that placements favored placing heavy yearlings on feed. Placements of feeders weighing more than 800 lbs were 27% higher in October, and are 7% higher year-to-date while 600-800 lb. placements are down 4% year-to-date and light placements (<600 lbs.) are down 12% so far in 2008. Clearly, in the past, the incentive has been to place heavy feeder cattle on feed and background light weight calves and finish them as yearlings. Given the projections above and

the rapid drop in corn prices, there may be more incentive now to place calves on feed as opposed to yearlings.

Figure 1



The Markets

Strength in the stock market and improved economic outlook during the week of Thanksgiving contributed stronger fed cattle prices. For the week, Nebraska dressed steer prices were \$2/cwt higher, averaging \$141.48. Live steer prices in Kansas averaged \$2.69/cwt higher for the week as well. This occurred despite a drop of more than \$4/cwt in Choice boxed beef prices and a narrowing of the Choice-Select spread by \$0.44/cwt. Yearling steer prices averaged about \$1/cwt lower last week in Nebraska, while steer calf prices gained nearly \$4/cwt. Corn prices, basis Omaha, NE, were 11 cents/bushel lower last week while dried distillers grains prices dropped \$4/ton.

	Week of 11/28/08	Week of 11/21/08	Week of 11/30/07
Kansas Fed Steer Price, live weight	\$89.82	\$87.13	\$95.11
Nebraska Fed Steer Price, dressed weight	\$141.48	\$139.37	\$149.86
700-800 lb. Feeder Steer Price, KS 3 market average	--	\$94.05	\$110.38
500-600 lb. Feeder Steer Price, KS 3 market average	--	\$104.98	\$119.43
700-800 lb. Feeder Steer Price, NE 7 market average	\$97.53	\$98.86	\$111.75
500-600 lb. Feeder Steer Price, NE 7 market average	\$107.95	\$104.15	\$121.12
Choice Boxed Beef Price, 600-900 lb. carcass	\$153.21	\$157.40	\$150.65
Choice-Select Spread, 600-900 lb. carcass	\$10.26	\$10.70	\$15.04
Corn Price, Omaha, NE, \$/bu (Thursday quote)	\$3.54	\$3.65	\$3.73
DDG Wholesale Price, Iowa, \$/ton	\$116.00	\$120.00	\$138.50