

December 12, 2008

## **In The Cattle Markets**

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### **USDA Reduces Corn Demand Estimates**

USDA released updated supply/demand tables for major crops on December 11<sup>th</sup>. The trade expected USDA to revise downward its corn usage projections, but the revisions were somewhat larger than expected by most observers. The biggest changes were to projected corn used to produce ethanol and exports.

Prior to this week's report, USDA projected that 4 billion bushels of corn would be used for ethanol production. USDA revised its corn for ethanol estimate down by 7.5% to 3.7 billion bushels, which is still 22% larger than during the 2007/2008 crop year. The reduction in corn used for ethanol reflects the fact that ethanol margins have deteriorated sharply compared to earlier this year and ethanol prices are now significantly higher than unleaded gasoline prices. As recently as September, ethanol prices averaged about \$0.26/gallon below unleaded gasoline prices. In November, ethanol averaged \$0.77/gallon higher than unleaded gasoline. The inversion in the spread is discouraging blending of ethanol into unleaded gasoline and, in turn, discouraging usage of corn to make ethanol.

USDA also reduced its estimate of exports during the 2008/2009 marketing year. Prior to this week's update supply/demand estimates, USDA was anticipating that corn exports during the 2008/2009 marketing year would total 1.9 billion bushels. This week's report reduced that estimate to 1.8 billion bushels, reflecting weakening economic conditions in importing countries and a strengthening U.S. dollar which has hampered corn exports. USDA's current projection for exports during 2008/2009 is 26% smaller than in 2007.

Finally, USDA did increase its estimate of corn to be used for feed modestly from a month earlier, reflecting reduced availability of by-product feeds. Although the feed consumption forecast is larger than a month ago, it is still the smallest estimate of feed usage since the 1996/1997 marketing year.

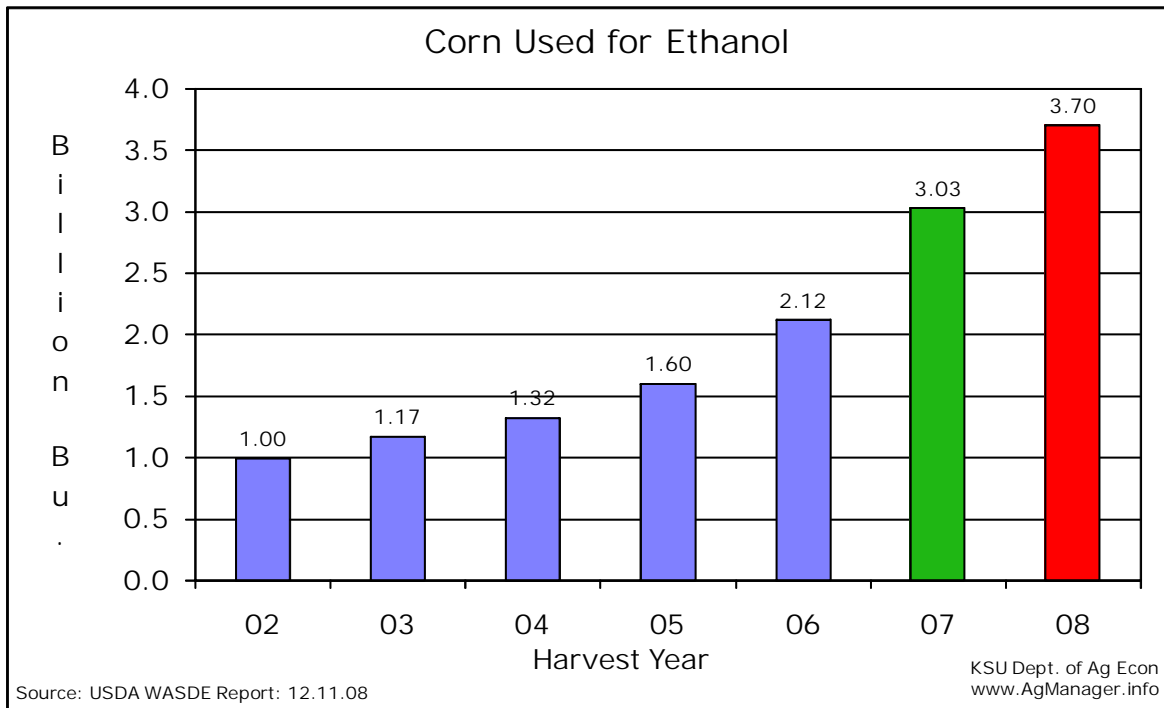
As a result of the expected changes in corn used for ethanol, exports, and feed, total corn usage is expected to decline from 12.8 to 12.2 billion bushels, a decline of nearly 5%. And the projected corn carryover (1.5 billion bushels) will likely be equal to about 12% of total corn usage during the 2008/2009 marketing year.

### **The Markets**

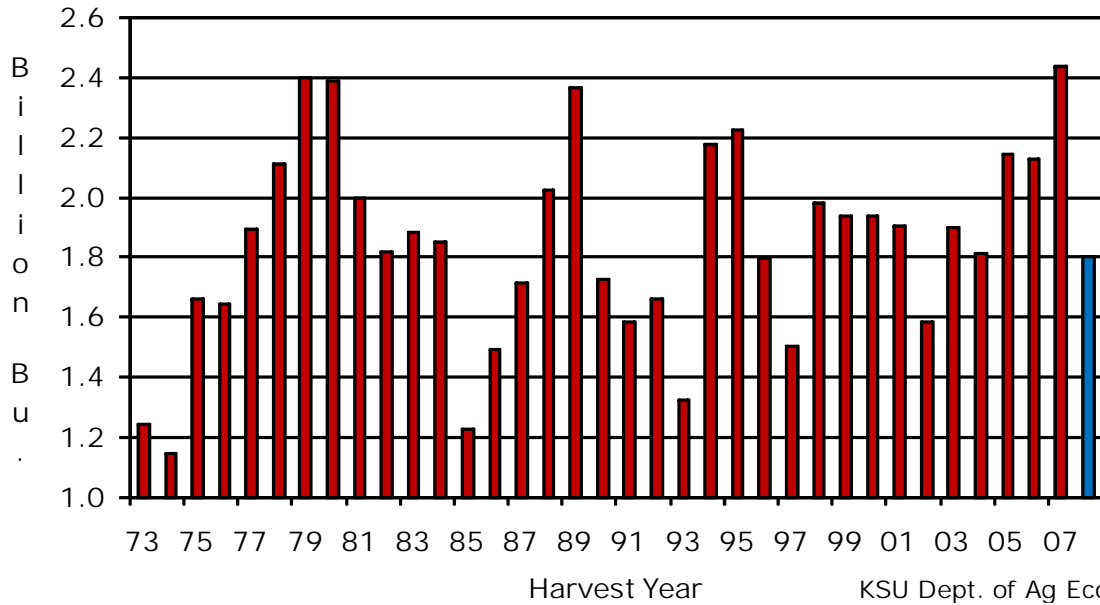
Slaughter cattle in Kansas traded \$4 lower last week and, at mid-day on Friday the 12<sup>th</sup>, limited trade was taking place at even lower prices. Early reports on Friday indicated some dressed weight trade was taking place at \$130-\$133/cwt. in Nebraska with no significant trade to report yet in the Southern Plains. Weakness in boxed beef trade motivated the weaker cattle trade. Daily choice boxed beef cutout values dropped to about \$140 on December 12<sup>th</sup>, approximately \$3 lower than a week earlier. Feeder cattle prices declined both last week and this week. Prices for 700-800 pound steers in Kansas changed hands at \$90 to \$91/cwt. the

week ending December 12th, which is about \$10 lower than just a month ago. After declining last week, corn prices rebounded this week even though USDA reduced their estimates of corn demand and increased their expected corn carryover at the end of this marketing year.

	<b>Week of 12/5/08</b>	<b>Week of 11/28/08</b>	<b>Week of 12/07/07</b>
Kansas Fed Steer Price, live weight	\$85.95	\$89.82	\$93.93
Nebraska Fed Steer Price, dressed weight	\$136.66	\$141.48	\$145.96
700-800 lb. Feeder Steer Price, KS 3 market average	\$90.87	--	\$106.23
500-600 lb. Feeder Steer Price, KS 3 market average	\$103.23	--	\$114.34
700-800 lb. Feeder Steer Price, NE 7 market average	\$93.20	\$97.53	\$111.46
500-600 lb. Feeder Steer Price, NE 7 market average	\$105.13	\$107.95	\$123.52
Choice Boxed Beef Price, 600-900 lb. carcass	\$148.18	\$153.21	\$148.33
Choice-Select Spread, 600-900 lb. carcass	\$9.53	\$10.26	\$16.03
Corn Price, Omaha, NE, \$/bu (Thursday quote)	\$3.23	\$3.58	\$3.87
DDG Wholesale Price, Iowa, \$/ton	\$116.00	\$116.00	\$140.00



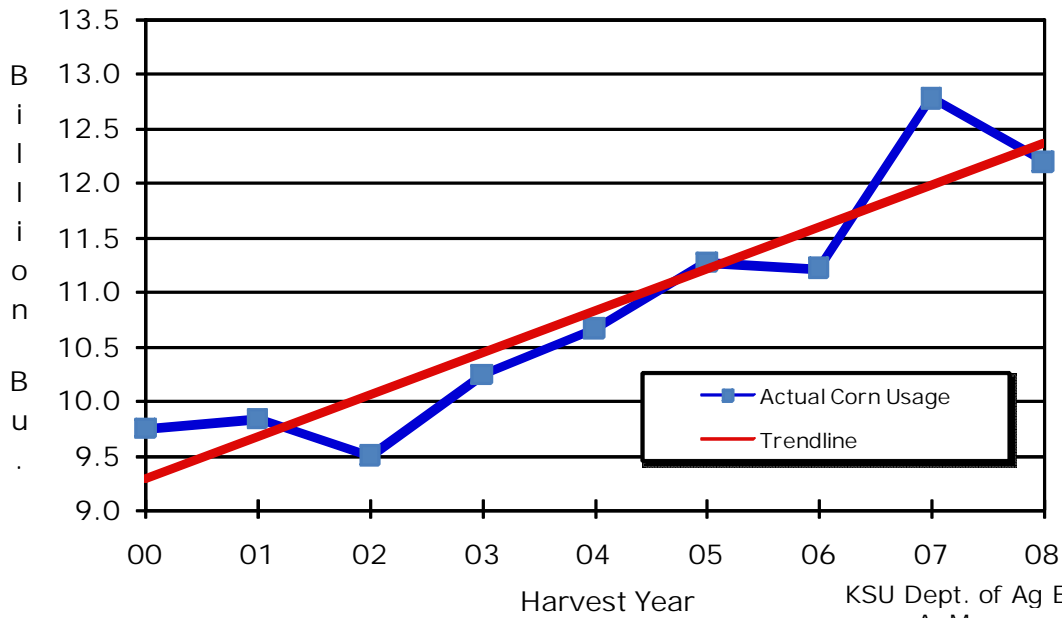
### U.S. Corn Exports



Source: USDA WASDE Report: 12.11.08

KSU Dept. of Ag Econ  
www.AgManager.info

### U.S. Total Corn Usage



Source: USDA WASDE Report: 12.11.08

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