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In The Cattle Markets

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The Corn Crystal Ball

Corn prices are some 35% lower than last year at this time, which should be some relief to cattle feeders (although positive margins are still hard to come by). With large changes in corn price levels and corn input costs, all eyes in both the grain and livestock industry focus on planting acreage and production in 2009. The first survey-based estimate on corn planted acreage won't be available from National Agricultural Statistics service until March 31 and the World Agricultural Outlook Board doesn't begin its supply and demand balance sheet for the 2009-10 marketing year in its monthly World Agricultural Supply and Demand Estimates (WASDE) report until May 12. These will be key reports to watch in upcoming months. But, USDA's Outlook Forum at the end of February provided some early indication of what USDA analysts are expecting for this next year. Currently, USDA expects 86 million acres of corn to be planted this spring, the same as last year, and a national yield of 156.9 bu/acre, 3 bu/acre higher than last year. With the nearly 1.8 billion bushel carry-in from this current marketing year, that provides a total corn supply of nearly 14.2 billion bushels. On the demand side of the balance sheet, USDA currently forecasts a 100 million bushel drop in feed use based on lower livestock numbers compared to this current year. But, USDA also projects ethanol demand for corn to grow to 4.1 billion bushels in the 2009-10 marketing year in order to meet the renewable fuels standard (RFS) (this is an increase from 3.6 billion bushels in the current year's use). This 14% increase in use, combined with a 100 million bushel increase in expected export demand, raises total use by 0.5 billion bushels. Thus, USDA projects the ending stocks for 2009-10 at 1.7 billion bushels, close to the ending stocks projected for the current 2008-09 marketing year. Such a stocks-to-use ratio at 13.8% is just a little tighter than that currently estimated for the 2008-09 marketing year.

Livestock feeders should be able to find some solace in these numbers. With such adequate ending stocks for the current marketing year (at 1.74 billion bushels and 1.72 billion bushels for 2008-09 and 2009-10, respectively), dramatic corn price spikes like those in 2008 are rather unlikely. That doesn't, however, mean that cattle producers shouldn't be prepared for some moderate price increases at times. Given the high input costs and tighter expected corn margins this year, it is possible to have planted acres decline 2-3 million acres from last year's acreage and for yields to fall below trendline in 2009. While those things may not happen, just the fear of them occurring could cause the corn market to rally in April and June, respectively. Uncertainty about ethanol fuel demand for corn also abounds, but the 4.1 billion bushel figure USDA is currently using likely represents a highest possible figure (based on the RFS). If the RFS is not enforced or is met through credits or imported ethanol (any of which could happen depending upon crude oil prices), corn use may not reach this level. If that happens, corn prices may move even more favorably for livestock producers.

A note of caution is always warranted. Current forecasts of supply and use for corn don't suggest any major run-ups in corn prices for livestock feeders to deal with. However, corn prices will likely be higher than levels in the early and mid 2000s as well. Plus, with the general economy seeming to drive the commodity markets recently, things can change quickly. For example, USDA's March WASDE report, released yesterday (March 11), reported generally bullish numbers on the domestic supply and demand balance sheet, yet the futures market could not sustain a rally through the day's trading session as the stock market declined for the day. It's possible that the opposite types of events could occur in the next year: the economy could begin to grow and commodity prices could recover quickly too. But, even if that resulted in higher corn prices for cattle feeders, improved beef demand would likely offset those higher input costs.

The Markets

Last week, slaughter cattle prices in Nebraska and Kansas were mostly steady with the previous week, averaging almost \$82/cwt or \$130/cwt on a dressed basis. Significant cash trade had not yet developed this week (as of early Thursday morning), but a few early trades in Nebraska at \$80 point to a lower market this week. For the week ending 3/6/09, Choice boxed beef prices averaged \$134.87, about 1% higher than the previous week. The spread between Choice and Select boxed beef widened by \$0.27/cwt to average \$1.57/cwt for the week. Last week, the Nebraska feeder cattle market saw steer calf prices remain about steady with the week before, while yearling steer prices averaged about \$3/cwt higher. Just the opposite was observed in the Kansas feeder market last week when calf prices improved by more than \$3/cwt and yearling steer priced declined about \$1/cwt. Corn prices through Thursday last week had lost another \$0.07/bu, basis Omaha, NE, and DDG prices, basis northwest Iowa were steady with the previous week.

	Week of 3/6/09	Week of 02/27/09	Week of 03/07/08
Kansas Fed Steer Price, live weight	\$81.79	\$81.46	\$90.13
Nebraska Fed Steer Price, dressed weight	\$129.94	\$129.71	\$144.98
700-800 lb. Feeder Steer Price, KS 3 market average	\$92.32	\$93.50	\$100.39
500-600 lb. Feeder Steer Price, KS 3 market average	\$111.34	\$107.64	\$124.64
700-800 lb. Feeder Steer Price, NE 7 market average	\$96.61	\$93.50	\$102.92
500-600 lb. Feeder Steer Price, NE 7 market average	\$113.83	\$114.17	\$126.49
Choice Boxed Beef Price, 600-900 lb. carcass	\$134.87	\$133.30	\$150.04
Choice-Select Spread, 600-900 lb. carcass	\$1.57	\$1.29	\$3.00
Corn Price, Omaha, NE, \$/bu (Thursday quote)	\$3.48	\$3.55	\$5.35
DDG Wholesale Price, Iowa, \$/ton	\$122.50	\$122.50	\$160.00