

In The Cattle Markets

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Bullish Corn Report Not So Friendly For Cattle Feeders

On Tuesday, USDA published its first projections for corn supply and demand for the 2009/10 crop year, which begins September 1, in addition to updating its estimates for the 2008/09 crop year. Generally, the report was bullish – for corn growers. Cattle feeders and other corn buyers found the reports' numbers less friendly for their operations.

For the old crop year (2008/09), USDA lowered ending stocks to 1.6 billion bushels from 1.7 billion bushels estimated last month. The trade was expecting ending stocks to be about 100 million bushels larger. Thus, the 2008/09 ending stocks to use ratio dropped from 14% to 13%. While a little smaller than expected, these ending stocks are still reasonably adequate to provide livestock feeders and other corn buyers corn through fall harvest without the risk of huge price increases. However, there is growing risk of production shortfalls for the 2009/10 crop year that will pressure the old crop year to increase ending stocks (and thus prices) to provide for a larger carryin to the new crop year.

USDA's projection for the 2009/10 production was 12.09 billion bushels. This was based on the 85 million acre figure from the March Prospective Plantings report and a national yield of 155.4 bushels per acre. Both of these numbers hold a great deal of uncertainty yet. Since the Prospective Plantings report, corn prices rallied enough that some growers might have planned for more corn acres. However, very wet planting conditions in the Eastern Corn Belt could lower corn acres this year. At the end of last week, Illinois had only 10% of its corn crop planted, Indiana had planted 11%, and Ohio planted 22% of its crop (normal for these states would be 70-85% planted). Thus, only 48% of the national corn crop was planted at the end of last week, trailing the 5-year average by 23 percentage points. Not only might acres be affected by this, but yields could diminish as well. At its February outlook conference, USDA projected a trendline yield of 156.9 bu/a. Their current forecast at 155.4 bu/a is based on a model that includes both trendline yield and the current slow pace of plantings. On the demand side, USDA forecasts 5.25 billion bushels for livestock feed use and 4.1 billion bushels for ethanol production (up from 3.75 billion bushels in the 2008/09 marketing year). Exports forecasted at 1.9 billion bushels was 150 million bushels higher than the old crop year. So, total demand for the 2009/10 marketing year at 12.56 billion bushels is 420 million bushels higher than last year. Ending stocks at 1.145 billion bushels was lower than the 1.385 billion bushel average trade pre-release estimate. Thus, ending stocks to use ratio at 9% is significantly tighter than the current old crop marketing year has been for some time.

While these estimates for the new crop year aren't as favorable for livestock producers as many of us might have hoped for, there is still potential for a large crop this year. Remembering back to the March Prospective Plantings report having 7-8 million fewer acres in production as last year, there remains potential for more than 85 million corn acres planted

if weather patterns quickly become drier in the Eastern Corn Belt. Further, there remains tremendous yield potential, even with shorter maturity hybrids, because of the seed technology used, but this is contingent on weather being favorable this summer. Recall last year's flooding problems that eventually resulted in the second largest corn crop in history? At this time last year, only 48% of the corn had been planted, the same as we currently are this year.

So, the recent rally in the corn market based on poor planting conditions and fueled by Tuesday's WASDE report hopefully will represent a short period of time for cattle feeders to buy corn hand-to-mouth. If or when the forecasts improve for planting in the Eastern Corn Belt and planting could quickly occur, prices could quickly correct. Still, if the weather problems become prolonged and continue well into growing season, corn price will continue to advance. Risk averse corn buyers may want to consider some out-of-the-money call options or other "price ceiling" type of risk management strategies.

The Markets

Last week's fed cattle trade was about \$2 lower on a live weight basis and \$3-4 lower on a dressed basis amid falling boxed beef demand. For the week, Nebraska dressed steer prices averaged \$134.09 while live prices in Kansas averaged \$83.95. Choice boxed beef prices averaged \$146.10/cwt last week, almost \$5/cwt lower than the previous week and more than \$9/cwt lower than last year. Last week, the feeder cattle market was about \$1 higher in Kansas, but was sharply lower in Nebraska reflecting lower fed cattle prices and a steady to stronger corn market. Omaha corn prices were a nickel higher for the week ending last Thursday, approaching the \$4/bu mark. Dried distillers grain prices were steady last week in Iowa.

	Week of 5/8/09	Week of 05/01/09	Week of 05/09/08
Kansas Fed Steer Price, live weight	\$83.95	\$85.77	\$93.89
Nebraska Fed Steer Price, dressed weight	\$134.09	\$137.76	\$148.04
700-800 lb. Feeder Steer Price, KS 3 market average	\$102.84	\$101.76	\$110.37
500-600 lb. Feeder Steer Price, KS 3 market average	\$117.59	\$116.37	\$122.89
700-800 lb. Feeder Steer Price, NE 7 market average	\$99.77	\$103.47	\$111.07
500-600 lb. Feeder Steer Price, NE 7 market average	\$115.23	\$121.91	\$124.67
Choice Boxed Beef Price, 600-900 lb. carcass	\$146.10	\$151.00	\$155.33
Choice-Select Spread, 600-900 lb. carcass	\$2.59	\$2.96	\$3.06
Corn Price, Omaha, NE, \$/bu (Thursday quote)	\$3.98	\$3.93	\$5.92
DDG Wholesale Price, Iowa, \$/ton	\$119.00	\$119.00	\$172.50