

## In The Cattle Markets

Darrell R. Mark, Ph.D., Assoc. Professor

Department of Agricultural Economics, University of Nebraska–Lincoln

### Distillers Grains Market Offers Buying Opportunity

Prices for ethanol coproducts typically find their yearly low price in August or September, when cattle on feed numbers are seasonally smallest (consequently lowering demand for feed coproducts). Last year, the seasonal drop in coproducts didn't materialize as cattle were pulled from drought-stressed pastures early and ethanol plants processed less product as corn reach \$7/bu. This year, however, it appears the seasonal trend is back, and now may be a good time to consider purchasing or contracting distillers grains.

Figure 1 shows the daily prices for dried distillers grains plus solubles (DDGS), wet distillers grains plus solubles (WDGS), and modified wet distillers grains plus solubles (MWDGS). These three products all result from dry-mill ethanol production and differ primarily in their moisture content (from a pricing perspective). DDGS is 10% water, MWDGS is typically 50-55% water, and WDGS generally is 65-70% water. The as-is (moisture included) prices in Figure 1 show coproduct prices at or below the lowest prices seen over the last three years (the length of the current data series). DDGS prices dropped from early-summer highs of \$153/ton to less than \$80/ton as corn prices dropped from \$4.42/bu to \$3.00/bu. Similarly, WDGS prices declined by \$15-20/ton and MWDGS dropped more than \$30/ton.

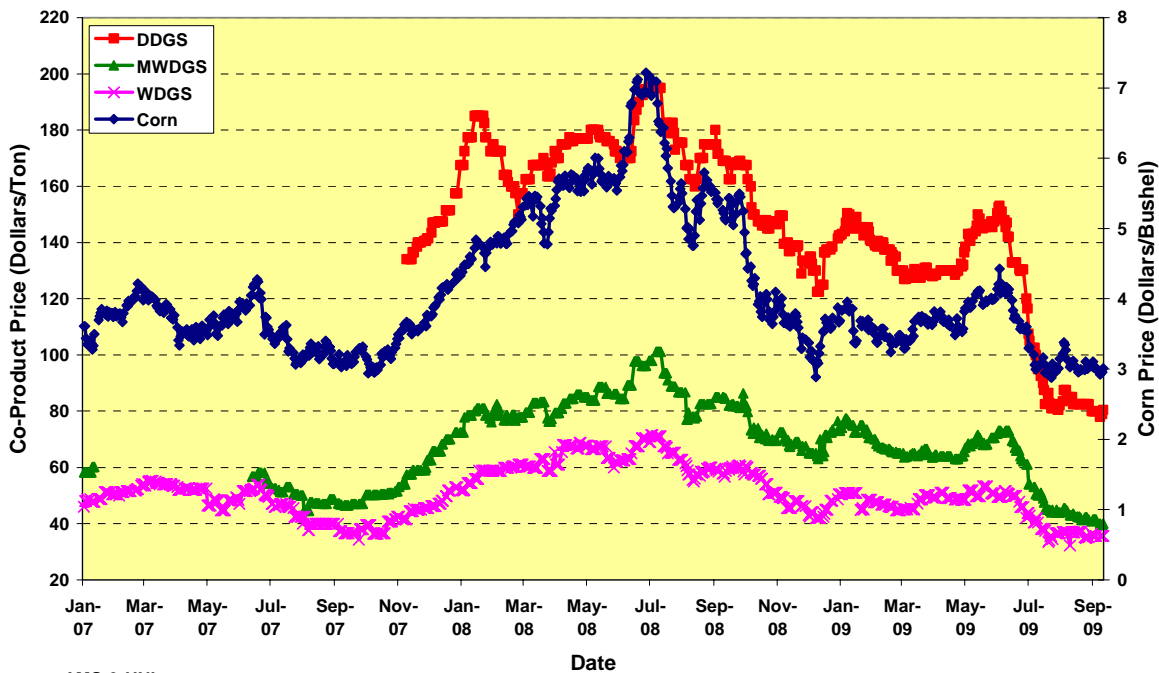
While the prices in Figure 1 all show relatively low prices, and correspond to the lows seasonally observed at this time of year (except in 2008), comparing DDGS, WDGS, and MWDGS prices on an as-is basis isn't appropriate given the large differences in dry matter content. Often, it is easiest to express the prices on a dry matter basis relative to the dry matter price of corn. Figure 2 shows the coproduct prices as a percentage of the corn price, all on a dry matter basis. Interestingly, MWDGS is currently the least expensive on a DM basis, at about 63% of the current corn price. DDGS price is about 70% of the corn price and WDGS is about 80% of the corn price. The current relationship between DDGS and WDGS prices (on a dry matter basis) is interesting. Typically, DDGS will be higher priced because it is more storable, easier to handle, and cheaper to transport (on a dry matter basis). For the last month, DDGS has been priced less than WDGS. While many factors could be affecting this, a couple reasons for this include: 1) more ethanol plants dried distillers grains this summer, so the supply of DDGS is larger than previous years, 2) stockers have been slower to come off summer grass pasture than in years past, which particularly decreases demand for DDGS because this product may be easier for stock operators to use as a supplement, and 3) Nebraska feedyards located near ethanol plants may have a growing preference towards feeding WDGS due to better expected cattle performance.

The relationship between corn prices and coproduct prices is not one-to-one, but the prices do tend to increase and decrease with each other. As fall harvest approaches, corn prices could decline if the crop size continues to increase, and coproduct prices would be likely to follow

suit. However, current coproduct prices are relatively attractive, and cattle feeders should consider locking in some of their winter needs relatively soon. One alternative to doing this is to contract directly with an ethanol plant (or feed broker) for delivery in future months. Another might be to purchase the coproduct on the spot market and store it through the winter. While DDGS has a relatively stable shelf-life, the high moisture content of MWDGS and WDGS require some additional steps for long-term storage. However, it can be feasible. The University of Nebraska–Lincoln has educational resources available for those considering storage of wet coproducts, including storage calculators and videos. Go to <http://beef.unl.edu/byproducts.shtml> for more information.

**Figure 1**

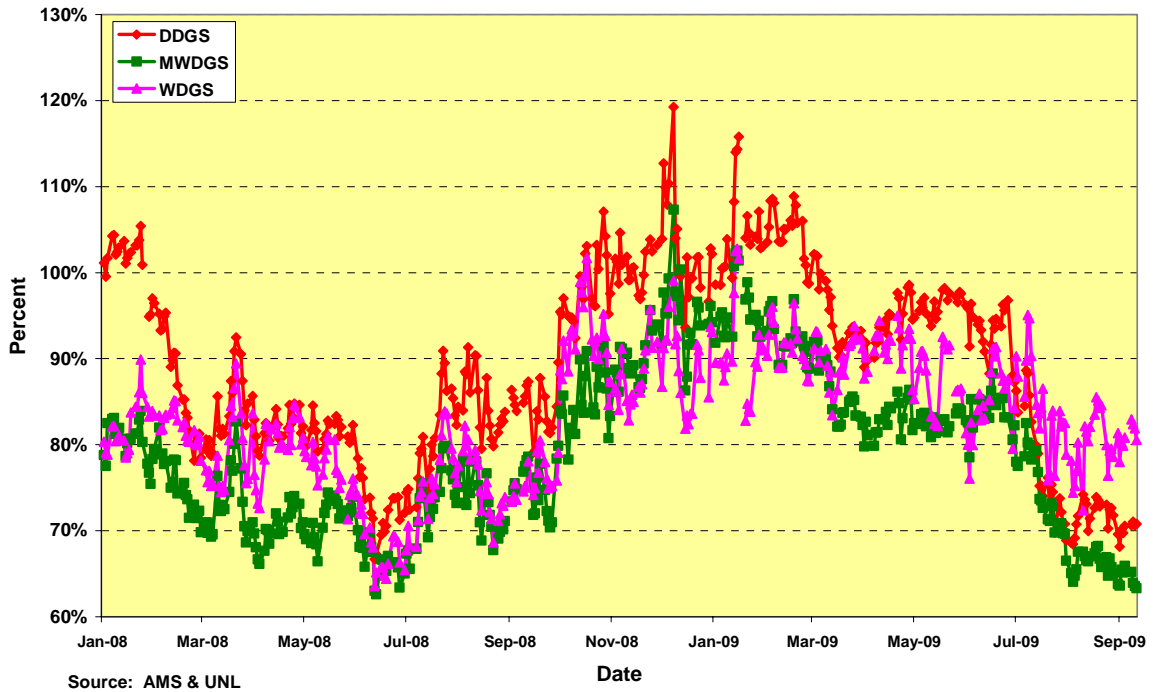
**Daily Corn, DDGS, MWDGS, and WDGS Prices, As-is, Nebraska, 2007-2009**



Source: AMS & UNL

Figure 2

DDGS, MWDGS, and WDGS as a Percent of Corn Price,  
Dry Matter Basis, Nebraska, 2008-2009



## The Markets

The fed cattle trade that developed last Thursday and Friday was steady to slightly stronger than the previous week, with live prices averaging \$84 and dressed prices averaging \$130 in the 5-area market. Choice boxed beef values were down about 1% last week, but the Choice-Select spread widened about \$0.34/cwt. Yearling steer prices were generally \$0.50-1.00 lower across Montana and Oklahoma last week and most steady in Nebraska. Calf prices, however, dropped about \$6/cwt in Nebraska last week as Montana steer calf prices advanced \$7.48/cwt and Oklahoma prices improved more than \$1. Last Thursday, corn prices in Omaha averaged \$3.12/bu, about steady with the previous week and almost \$2/bu lower than last year. DDGS prices averaged about \$0.75/ton higher in Nebraska and WDGS were steady at \$27/ton.

<b>Cattle or Meat Category</b>		<b>Week of</b>	<b>Week of</b>	<b>Week of</b>
<i>Data Source: USDA-AMS Market News</i>		<b>9/11/09</b>	<b>09/04/09</b>	<b>09/12/08</b>
<b>5-Area Fed Steer</b>	all grades, live weight, \$/cwt	\$84.01	\$83.74	\$98.21
	all grades, dressed weight, \$/cwt	\$130.33	\$129.91	\$152.33
<b>Boxed Beef</b>	Choice Price, 600-900 lb., \$/cwt	\$142.12	\$142.83	\$159.90
	Choice-Select Spread, \$/cwt	\$7.98	\$7.63	\$6.73
<b>700-800 lb. Feeder Steer Price</b>	Montana 3-market average, \$/cwt	\$97.43	\$98.51	\$109.75
	Nebraska 7-market average, \$/cwt	\$102.81	\$102.90	\$114.13
	Oklahoma 8-market average, \$/cwt	\$100.04	\$100.50	\$112.28
<b>500-600 lb. Feeder Steer Price</b>	Montana 3-market average, \$/cwt	\$109.50	\$102.02	\$113.50
	Nebraska 7-market average, \$/cwt	\$107.64	\$113.76	\$119.63
	Oklahoma 8-market average, \$/cwt	\$108.34	\$107.22	\$115.77
<b>Feed Grains</b>	Corn, Omaha, NE, \$/bu (Thursday)	\$3.12	\$3.13	\$5.08
	DDGS Price, Nebraska, \$/ton	\$93.25	\$92.50	\$140.60
	WDGS Price, Nebraska, \$/ton	\$27.00	\$27.00	\$50.50