

In The Cattle Markets

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

Department of Agricultural Economics, University of Nebraska–Lincoln

The Northern Discount

Dr. Feuz discussed heavy steer carcass weights in last week's edition of *In the Cattle Markets*, which are especially prevalent in Northern Plains feedlots right now. One of the consequences of large (oversized) carcass weights are price discounts, and it's one of the contributing factors to prices in the Northern Plains trading at a larger-than-usual discount to the Southern Plains in recent weeks.

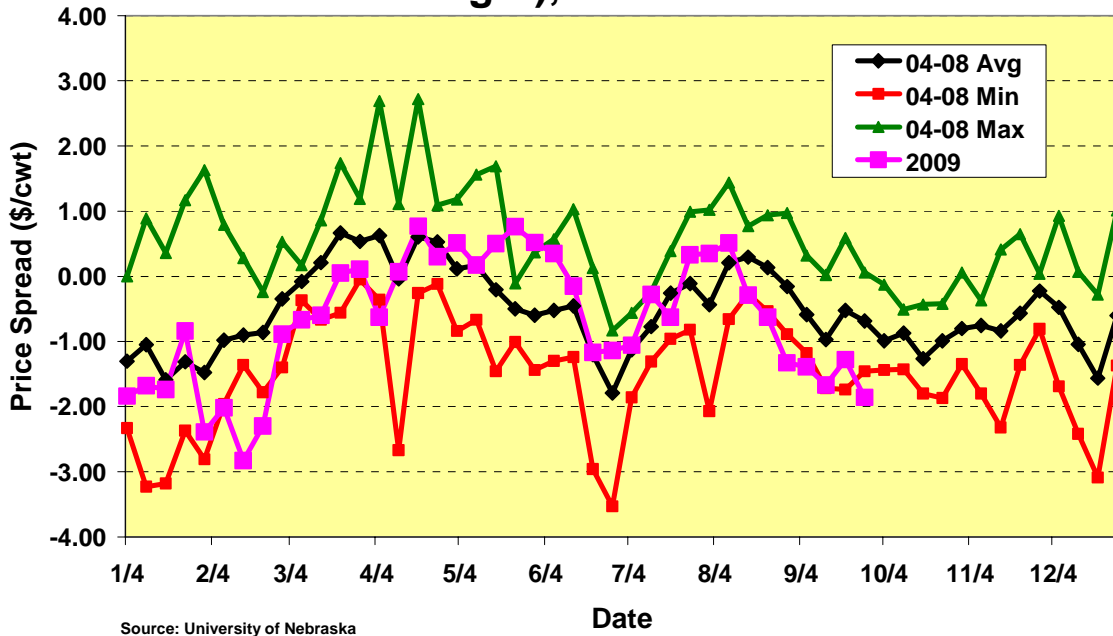
On average, Nebraska direct slaughter steer prices have been \$0.53/cwt lower than Texas/Oklahoma direct slaughter steer prices from 2002 to 2008, but there is a seasonal pattern to the NE-TX discount that varies, on average from Nebraska prices being \$1.50/cwt lower to \$0.58/cwt higher than Texas prices. As shown in the black line on Figure 1, Nebraska prices typically trade at a premium to Texas/Oklahoma prices during March and April and again in August. Seasonally, Nebraska prices are discounted to the south in the fall and winter months. And, as typically happens during August and September, Texas/Oklahoma prices have gained on Nebraska significantly in recent weeks. In fact, the spread has dropped from \$0.52/cwt (Nebraska minus Texas) during the second week of August to -\$1.86/cwt last week. This is about a \$1/cwt weaker spread than normal and below the minimum observed from 2004 to 2008 (see the pink line on Figure 1).

There are several factors contributing to the steeper than normal decline in the NE-TX spread this past month. First, cattle numbers appear to be running below year-ago levels in the Southern Plains, causing packers to have to bid more aggressively to keep plants running at optimal levels. Some of the reduction in cattle marketings is a function of closed feedyards in New Mexico, as suggested in the last USDA Cattle on Feed report. Secondly, weather for feeding cattle in Nebraska, Iowa, and South Dakota have been near ideal this summer, without significant stretches of hot, humid weather to limit gains. Thus, cattle performance has been above average and cattle have reached heavier weights more quickly than cattle feeders planned. This was likely exacerbated by feeders trying to delay marketing some cattle due to lower-than-expected market prices. A third reason for the wider spread is due to cheaper cost of gain in the Northern Plains versus the Southern Plains. Over the past couple of years as corn and feedstuff prices quickly escalated, feeding cost of gain often averaged about \$10/cwt less in the north, prompting feeders to place proportionately more cattle in the north than the south. Doing so is likely resulting in more cattle to be marketed in the Northern Plains now.

Will this trend continue? At least through corn harvest, with an historically large crop in the Western Corn Belt to weigh on prices and basis levels, cattle feeders will have an incentive to add weight to cattle in the north at less expensive prices. And, with weather conditions appearing excellent this fall, it's likely we'll see these prices nearer their historical lows for the next several months.

Figure 1

Difference Between Nebraska and Texas/Oklahoma Direct Steer Price (Live Weight), 2004-2009



Source: University of Nebraska

The Markets

The fed cattle trade that developed last Thursday at prices that were mostly steady with the previous week. Live prices averaged \$83.49 and dressed prices averaged \$129.54 in the 5-area market. Again last week, substantial discounts in the \$15-20/cwt range were applied to carcasses weighing more than 1,000 lbs, particularly in the north. Choice boxed beef values were down about \$1.50/cwt last week, and the Choice-Select spread narrowed about \$1/cwt. Yearling steer prices were generally \$0.50-1.50 lower in Nebraska and Oklahoma last week. Calf prices, however, were up about \$2/cwt in Nebraska and dropped about \$4 in Oklahoma. Last Thursday, corn prices in Omaha averaged \$3.24/bu, up about a dime from the previous week. Distillers grain prices seem to be rebounding from their seasonal low, with DDGS prices averaging \$100/ton in Nebraska (82% of the corn price on a dry matter basis) and WDGS were up \$2.50/ton at \$31/ton (65% of the corn price on a dry matter basis).

Cattle or Meat Category		Week of	Week of	Week of
<i>Data Source: USDA-AMS Market News</i>		9/25/09	09/18/09	09/26/08
5-Area Fed Steer	all grades, live weight, \$/cwt	\$83.49	\$83.57	\$97.81
	all grades, dressed weight, \$/cwt	\$129.54	\$129.68	\$151.54
Boxed Beef	Choice Price, 600-900 lb., \$/cwt	\$140.48	\$142.04	\$158.60
	Choice-Select Spread, \$/cwt	\$6.71	\$7.75	\$7.26
700-800 lb. Feeder Steer Price	Montana 3-market average, \$/cwt	--	\$95.22	\$106.67
	Nebraska 7-market average, \$/cwt	\$100.43	\$100.95	\$109.39
	Oklahoma 8-market average, \$/cwt	\$97.23	\$98.91	\$109.25
500-600 lb. Feeder Steer Price	Montana 3-market average, \$/cwt	--	\$100.51	\$106.83
	Nebraska 7-market average, \$/cwt	\$114.07	\$112.14	\$114.99
	Oklahoma 8-market average, \$/cwt	\$103.17	\$107.20	\$113.95
Feed Grains	Corn, Omaha, NE, \$/bu (Thursday)	\$3.24	\$3.13	\$5.39
	DDGS Price, Nebraska, \$/ton	\$100.00	\$95.30	\$134.40
	WDGS Price, Nebraska, \$/ton	\$31.00	\$28.50	\$48.00