

In The Cattle Markets

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Cattle Feeding Losses and Fall Calf Prices

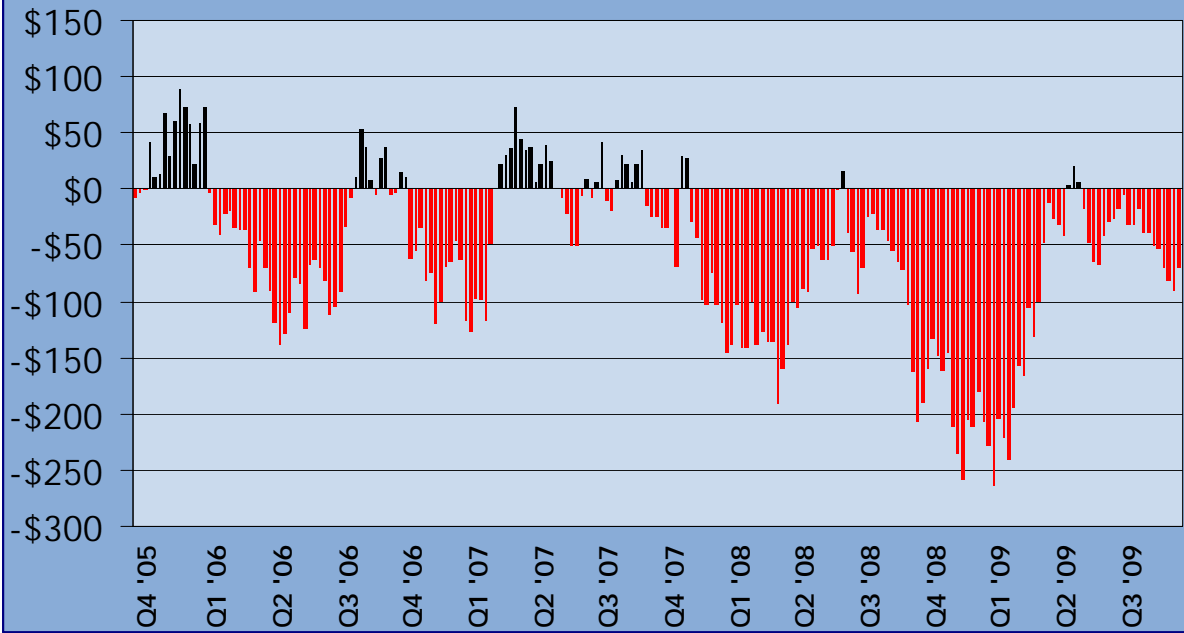
As I look at feeder cattle markets across the country and as I have opportunities to talk with cattle producers, it become very apparent that feeder cattle prices have dropped sharply and unexpectedly. In the last month, prices for 5 and 6 weight calves have dropped about \$10 per cwt, or \$50-60 per head. If you compare prices from July-August to now, the price decline has been about \$20 per cwt, over \$100 per head. That price decline is substantially more than is typical based on historic seasonal patterns. Because of the large fall calf runs, some price weakness is to be expected, but this is more than that. It is not only cow-calf producers who have been somewhat surprised by this market weakness, but many market analysts as well. I for one expected fall calf prices to be about \$8-10 stronger than current levels.

What is the source of this new weakness in calf prices? One culprit is the weather. We had a record corn crop growing all year, but everyone has known it was late and at risk for an early freeze. That early freeze did occur in the northern corn belt and wet weather has delayed harvest progress. The result has been that corn price has increased about \$0.50 per bushel. That certainly has pressured feeder cattle prices lower. The other on-going and worsening situation is there continues to be no money in feeding cattle. While it appeared back in the spring that feedlots were poised to finally start making a little money feeding cattle, that hope disappeared through the summer and early fall. The accompanying chart shows the estimated returns to feeding cattle in Nebraska based on buying and selling cattle on the average cash market. In other words, no price protection is assumed. As can be seen, with the exception of 4 weeks in the last two years, close-outs have been negative. I really thought, and I am sure feedlots thought, that they had bought feeder cattle cheap enough to be making money at this point in time. But the price of fed cattle has also declined from expectations. Rather than selling fed cattle in the upper \$80's this fall, as was expected last spring, we have struggled in the low \$80's per cwt. That difference in expected versus actual price would be enough to have most feedlots making money rather than losing money on close-outs.

These feedlot losses are not trivial and have taken a toll on the industry. Dr. Mark wrote a couple of weeks ago, of feedlots in some areas being out of business. Certainly, those who remain in business have limited ability to bid up feeder cattle prices. While cow-calf producers never want to sell their calves too cheap to feedlots, they may actually want to this year, or there may be no feedlots left to buy their calves next year.

Estimated Nebraska Feedlot Returns (\$/head)

This wk: -\$71.34, Average last 13 wks: -\$45.85, Average last 4 yrs: -\$57.52



The Markets

The fed cattle market was a little higher this past week. Most trade took place on Thursday and Friday this week on a better volume than the prior week. Prices were \$82-83 on a live weight basis and were mostly \$126-127 on a dressed basis. Choice boxed beef prices were about \$1 higher this week. The Choice-Select spread decreased and in narrower than the typical level. Feeder cattle prices were mixed this past week compared to the previous week. Montana prices were \$2 lower, Nebraska prices were steady and Oklahoma prices were a little stronger for 7-weight steers. Prices for 5-weight steers in were \$2 higher in Oklahoma, firmer in Montana, and were down \$3 in Nebraska compared to last week. Corn prices were \$.12 per bushel higher than last week. Dried Distillers Grain prices were \$11 per ton higher and wet distillers were about \$1 higher per ton in Nebraska for the week.

<i>Data Source: USDA-AMS Market News</i>		Week of	Week of	Week of
		10/16/09	10/09/09	10/17/08
5-Area Fed Steer	all grades, live weight, \$/cwt	\$82.66	\$80.88	\$89.26
	all grades, dressed weight, \$/cwt	\$126.10	\$125.01	\$136.69
Boxed Beef	Choice Price, 600-900 lb., \$/cwt	\$135.29	\$134.46	\$147.45
	Choice-Select Spread, \$/cwt	\$4.28	\$5.12	\$8.26
700-800 lb. Feeder Steer Price	Montana 3-market average, \$/cwt	\$90.21	\$92.58	\$87.50
	Nebraska 7-market average, \$/cwt	\$97.32	\$97.70	\$103.66
	Oklahoma 8-market average, \$/cwt	\$94.43	\$93.88	\$96.16
500-600 lb. Feeder Steer Price	Montana 3-market average, \$/cwt	\$98.08	\$97.70	\$94.91
	Nebraska 7-market average, \$/cwt	\$101.73	\$104.72	\$110.38
	Oklahoma 8-market average, \$/cwt	\$103.56	\$101.63	\$100.91
Feed Grains	Corn, Omaha, NE, \$/bu (Thursday)	\$3.53	\$3.41	\$3.76
	DDGS Price, Nebraska, \$/ton	\$106.50	\$95.70	\$147.30
	WDGS Price, Nebraska, \$/ton	\$37.38	\$36.28	\$56.60