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November 17, 2009

In The Cattle Markets

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A Corn Crop for the History Books

The historically slow pace of harvest for the 2009 corn crop is well documented, and the situation is creating risk and uncertainty for livestock producers as Dr. Feuz commented on last week. As of November 15, USDA estimated that 54% of the corn crop was harvested, compared to the previous 5-year average of 89%. Relatively good harvesting conditions last week and this week are dramatically advancing harvest progress, but many key corn growing states are lagging even farther behind than the national averages imply. Illinois is 43 percentage points below its average pace, Nebraska is 38 points below, South Dakota is 55 points below, and North Dakota is an astounding 66 percentage points below its average harvest pace for this time of year.

While wet weather and resulting wet ground conditions in October and November are most responsible for the slow harvest pace, several other factors are tending to slow harvest. This year's corn crop has not dried down very well due to this fall's weather conditions and late planting last spring. The corn isn't just a few points above the 15% level (considered dry) either. Numerous anecdotal reports will find corn moisture levels between 19-25% across the entire corn belt. Until just the last week, it was still possible to harvest high moisture corn (25-35%) to ensile for cattle feed in areas of Nebraska. As a result, both on-farm and commercial drying capacity is strained to its maximum. Long lines at elevators evidence that many farmers are only able to harvest a few thousand bushels per day. The wet conditions have made it difficult to do much more than that anyway: in many cases, wagons, trucks, and grain carts can't be brought into the fields for fear of getting them stuck in mud. This inconvenience further slows harvest. As if these problems aren't enough, many areas are finding corn with molds, mycotoxins, or other disease problems that could result in rejection or substantial quality discounts (particularly if it is above thresholds safe for livestock consumption).

So, where does all this leave livestock feeders? With a lot of uncertainty, as Dr. Fuez pointed out last week. The recent rally in corn prices associated with the late harvest have been largely unexpected for livestock feeders. While it does seem less likely with each passing day, I think there is still a reasonable probability to see a modest drop in corn prices and basis levels yet during this harvest season. December 2009 corn futures posted a low on September 21 at $3.16/bu. By October 23, it had rallied over $4.00/bu and continues to test that level this week. While the "harvest low" was likely that brief drop in the third week of September, some pull back on prices is likely as harvest supplies pressure prices. USDA last week projected the national yield at 162.9 bu/acre, which, if realized, would be the highest yield on record. And, with 86.4 million acres, expected production at 12.921 billion bushels would be the second highest on record. With final yield estimates not available until January, there is still time for total corn production to "grow." More probable than a price drop, though, is

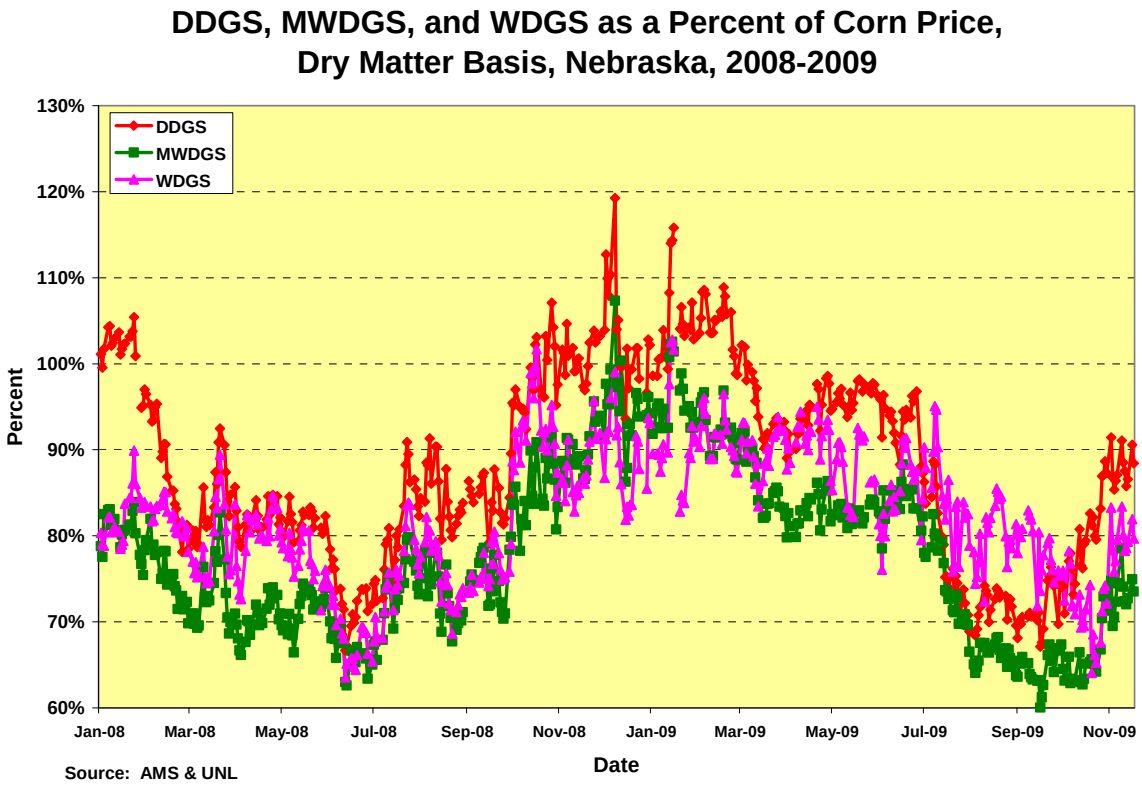
pressure on basis. The large, high moisture crop is already causing bottlenecks with drying capacity, and ground piles of corn are starting to emerge across the Western Corn Belt. As those things occur, basis typically weakens, which is beneficial to cattle feeders and other corn buyers. Omaha, NE corn basis has already dropped from around -$0.15/bu in mid-October to -$0.32/bu this week.

Despite prices remaining higher than expected, other unique things about this year's corn crop do give cattle feeders an advantage over other corn buyers (including pork and poultry producers). High moisture levels in corn have given many cattle feeders an opportunity to source more high-moisture corn to ensile than in recent years. In many instances earlier in the corn harvest, cattle feeders were the best market (likely the only market) available for high moisture corn. Hog and poultry growers and ethanol producers would not have been able to handle large volumes of high moisture corn like Northern Plains cattle feeders can. The possible presence of mold or mycotoxins in this year's corn crop, while never a good thing, could put cattle feeders ahead of other livestock feeders for some infected corn because safe feeding tolerance levels are higher for cattle than other species (producers should consult their nutritionist and veterinarian before feeding grain with any mycotoxins or mold). A final aspect of this year's crop that may help the cattle feeder is a larger than normal movement of cash corn next March. This fall, a lot of corn is going into on-farm storage without being fully dried down to 15% moisture. Aeration systems will use natural air drying to preserve corn during the cold winter months, but warming temperatures next spring will likely lead to mold problems and corn going out of conditions in grain bins, thus spurring farmer selling of corn.

These dynamics in the corn market have interesting implications for the distillers grains market as well. The delayed corn harvest created a lack of supply for livestock producers, and with higher corn prices, pork and poultry producers increased their dried distillers grains plus solubles (DDGS) dietary inclusion levels because they are less able to utilize high moisture corn or wet distillers grains. That, along with higher export demand, has resulted in DDGS prices increasing from 70% of the price of corn (on a dry matter basis) to over 90% of the corn price (dry matter basis); see Figure 1). Wet distillers grains plus solubles (WDGS) and modified wet distillers grains plus solubles (MWDGS) are more likely to be fed locally to cattle, and thus haven't seen as large of a price increase relative to corn. WDGS has increased to 80% of corn price and MWDGS is about 75% of corn price, both on a dry matter basis (see Figure 1). Demand for WDGS and MWDGS could be pressured throughout this winter by cattle feeders who stored extra high moisture corn this fall or if more wet grain begins to move next spring. Further, all livestock feeders will have to take care that any possible molds or mycotoxins in distillers grains don't exceed allowable tolerance levels (and this could be an important consideration because these contaminants would be concentrated three-fold in distillers grains relative to corn).

So, this year's corn harvest is really a tale of two crops. One crop is getting dried down and will store well for a long period and be exportable. The other crop is going to be stored in less than ideal conditions: high moisture, large ground piles, and possibly with some quality issues. It will be hard for cattle feeders to compete for the former, but they are in a competitive position for the latter.

Figure 1


DDGS, MWDGS, and WDGS as a Percent of Corn Price,
Dry Matter Basis, Nebraska, 2008-2009
DDGS
MWDGS
WDGS
130%
120%
110%
100%
90%
80%
70%
60%
Percent
Jan-08
Mar-08
May-08
Jul-08
Sep-08
Nov-08
Jan-09
Mar-09
May-09
Jul-09
Sep-09
Nov-09
Date
Source: AMS & UNL

The Markets

Across the 5-Area market, fed cattle prices traded $2.78/cwt lower last week on a live basis and $3.08/cwt on a dressed basis. Active trade in Nebraska developed relatively early on Wednesday at $131-132/cwt (dressed), or $83/cwt (live). Kansas sales for the week ranged from $83-84 while Texas trade was mostly at $85. Disappointing fed cattle trade resulted from weak demand prospects and featuring of pork and poultry for the upcoming holidays. This contributed to Choice boxed beef dropping $1.55/cwt to average the week at $139.94/cwt. The Choice-Select spread widened $0.42 to $6.05/cwt. Lower fed cattle prices and higher corn prices lead to lower feeder cattle prices. Nebraska saw both yearling and calf prices both drop about $2/cwt as Nebraska feedyards have filled up this fall. Prices in Oklahoma, however, were off less than $1/cwt as wheat grazing opportunities have improved in the past couple of weeks. The historically slow harvest progress resulted in corn prices last Thursday in Omaha $0.07/bu higher than the previous week. Distillers grain prices were mostly steady for the week.

Cattle or Meat Category *Data Source: USDA-AMS Market News*		**Week of 11/13/09**	**Week of 11/06/09**	**Week of 11/14/08**
5-Area Fed Steer	all grades, live weight, $/cwt	$83.68	$86.46	$92.46
	all grades, dressed weight, $/cwt	$131.17	$134.25	$143.34
Boxed Beef	Choice Price, 600-900 lb., $/cwt	$139.94	$141.49	$155.68
	Choice-Select Spread, $/cwt	$6.05	$5.63	$10.38
700-800 lb. Feeder Steer Price	Montana 3-market average, $/cwt	--	$88.09	$94.89
	Nebraska 7-market average, $/cwt	$94.50	$96.70	$102.62
	Oklahoma 8-market average, $/cwt	$95.31	$95.55	$99.69
500-600 lb. Feeder Steer Price	Montana 3-market average, $/cwt	--	$101.53	$104.37
	Nebraska 7-market average, $/cwt	$105.15	$107.07	$109.79
	Oklahoma 8-market average, $/cwt	$102.41	$103.39	$107.26
Feed Grains	Corn, Omaha, NE, $/bu (Thursday)	$3.61	$3.54	$3.71
	DDGS Price, Nebraska, $/ton	$125.50	$125.10	$123.90
	WDGS Price, Nebraska, $/ton	$34.50	$35.10	$37.00