

In The Cattle Markets

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Watch Corn Market For Hedging Opportunity

On Thursday morning, USDA released its monthly World Agricultural Supply and Demand Estimates (WASDE) report. While the December report doesn't contain updated production figures (final yields are reported in January), exports were lowered 50 million bushels from the previous month. Ending stocks were 1.675 billion bushels, up from 1.625 billion bushels reported last month and 25 million bushels higher than the trade expected. World carryover was mostly unchanged. Overall, the WASDE report is viewed somewhat bearish for corn prices, but better-than-expected export reports will provide support for corn.

The March 2010 CME Group corn futures contract is currently trading at \$3.84/bu. March 2010 futures reached a low of \$3.20/bu on September 4, 2009, but rallied to approximately \$4.20/bu four times in October and November. Thus, the recent drop in price is a 40% retracement of the rally observed over the last three months. While the current low may not be in place yet, these are the types of price breaks that cattle feeders and other corn buyers need to watch for to lock in purchases. A lot of uncertainty still exists as to 2009 corn production because of the late harvest, and with close to 10 million acres of corn to harvest yet, that uncertainty isn't going to end soon. While the total crop is near record large, the 12% remaining to harvest leaves open the opportunity for a rally if the wide-spread snow storm this week causes significant yield losses. In the longer run, the talk of an expansion of the blend limit from E10 to E15, despite EPA's recent announcement to delay its decision on the expansion, continues to paint a bullish picture for corn prices.

It is difficult to judge when the low will come in the corn market, so corn buyers should be watching carefully for opportunities to lock in prices over the next month or so. And, even if corn prices retreat further, current levels do allow for a positive margin on feeding cattle. In a recent UNL study, we looked at routinely hedging corn prices for a typical calf-fed program (placing 640 lb steers on feed in November and finishing them by May). The strict hedge program evaluated from 1996-2007 included purchasing one-third of the needed corn in the cash market on the day the cattle were placed, hedging one-third of the corn in March futures on the day the cattle were placed and initiating cash purchases in January (subsequently offsetting the March hedge in January), and hedging the remaining one-third of the corn in May futures when the cattle were placed and purchasing the remaining third of the corn in mid-March (and offsetting the May futures contracts). Doing this each year from 1996 to 2007 actually lowered corn procurement price from \$2.43/bu to \$2.36/bu and improved feeding profits by about \$3/head. It's important to remember that in some years, this routine hedging strategy resulted in higher corn prices too. These are average results over a decade of doing the same thing. Additionally, past performance is not indicative of future results. More information about this study is available in a 2010 UNL Nebraska Beef Report article, available at <http://beef.unl.edu/beefreports/201022.shtml>.

The Markets

Across the 5-Area market, fed cattle prices traded \$1.48/cwt lower last week on a live basis and \$0.79/cwt on a dressed basis, averaging \$81.73/cwt and \$130.03/cwt, respectively. That lower trend continued into this current week, with moderate trade volume developing on Wednesday at \$127-129 in the north and \$79-80 in the south. Lower fed cattle trade this week and last week continues due to weak demand. Last week, Choice boxed beef dropped \$1.37/cwt to average the week at \$139.48/cwt. The Choice-Select spread narrowed \$1.05 to \$6.73/cwt. Corn prices began its retracement last week, with prices in Omaha \$0.04/bu lower through last Thursday. Distillers grain prices were about steady last week. The weaker corn market supported calf prices \$1-2 higher in Nebraska and Montana last week. However, yearling steer prices were off by \$2.50-3.50/cwt.

Cattle or Meat Category		Week of	Week of	Week of
<i>Data Source: USDA-AMS Market News</i>		12/4/09	11/27/09	12/05/08
5-Area Fed Steer	all grades, live weight, \$/cwt	\$81.73	\$83.21	\$86.30
	all grades, dressed weight, \$/cwt	\$130.03	\$130.82	\$136.60
Boxed Beef	Choice Price, 600-900 lb., \$/cwt	\$139.48	\$140.85	\$148.18
	Choice-Select Spread, \$/cwt	\$6.73	\$7.79	\$9.53
700-800 lb. Feeder Steer Price	Montana 3-market average, \$/cwt	\$88.92	\$92.43	\$84.69
	Nebraska 7-market average, \$/cwt	\$96.55	\$98.96	\$93.20
	Oklahoma 8-market average, \$/cwt	\$94.67	--	\$90.84
500-600 lb. Feeder Steer Price	Montana 3-market average, \$/cwt	\$104.42	\$103.32	\$93.81
	Nebraska 7-market average, \$/cwt	\$111.46	\$109.21	\$105.13
	Oklahoma 8-market average, \$/cwt	\$106.79	--	\$99.42
Feed Grains	Corn, Omaha, NE, \$/bu (Thursday)	\$3.55	\$3.59	\$3.23
	DDGS Price, Nebraska, \$/ton	\$126.50	\$126.67	\$110.20
	WDGS Price, Nebraska, \$/ton	\$37.00	\$37.00	\$34.90