

Cash cattle prices were lower during March across all classes of cattle (figure 1). Basis levels for live cattle and stockers were both higher than in recent months. The futures prices showed a slight divergence as the nearby live cattle contracts traded lower while the deferred contracts traded higher than a month earlier. The feeder cattle contracts were sharply lower for the nearby months, while the deferred months traded steady. The weekly stocker continue to be under some seasonal price pressure and under pressure from corn price volatility (figure 2). Seasonally, prices are expected to trend higher into mid-summer.

As of April 25, there were some LRP coverage choices available with a late-September ending date. In addition to having some coverage choices listed, a reason to begin looking at LRP is the tendency for corn price volatility to increase between now and the middle of summer. Historically in corn futures prices there is a strong seasonal pattern compared to wheat (figure 3). As the volatility increases, the cost of corn put options also increases. Because corn and feeder cattle are closely (and inversely related), any increase in corn risk becomes higher feeder cattle price risk. Currently corn price volatility is very high and this carries over to the feeder cattle market – making put option coverage expensive.

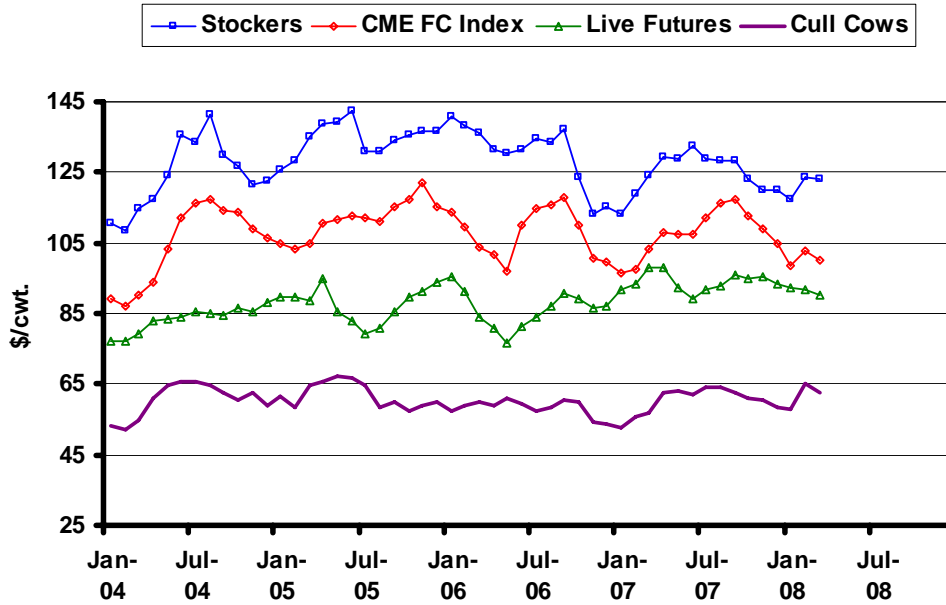
In South Dakota input price uncertainty will likely continue. The March *Prospective Plantings* report showed South Dakota producers intend to harvest only 3.5 million acres of hay in 2008, the lowest level on record. Ending stocks have been pressured by strong demand from outside South Dakota. Thus, even with reasonable yields hay prices will be supported by relatively tight supplies. Because producers intend to harvest 4.65 million acres of corn in South Dakota in 2008, there will likely be ample supplies of corn-related feedstuffs. The drawback is the additional management costs associated with aftermath grazing, feeding corn stalks and feeding distillers' co-products.

Aggregate profitability has been affected for cattle producers from a couple of fronts in recent years. Cattle prices were up slightly in 2007 compared to 2006, but overall production and sales were down slightly at the state level. Cash receipts from cattle sales in South Dakota in 2007 were down slightly from 2006 to \$1.8 billion (figure 4). The value of production was also down slightly to \$1.5 billion. The value of production accounts for cattle brought into and sold out of South Dakota at different weight levels. Very large feedlot states, for example, have large receipt levels relative to their value of production. The cost increases from grazing fees, corn and hay further affect cattle profits as the revenue side remains constant.

The March WASDE report had few revisions to the price projections, which remain well below the futures prices during the fourth quarter of 2008 (figure 5). The ERS feeder cattle projections were also adjusted slightly. Feeder cattle futures are trading well-above the high end of the projection range for the second half of 2008 (figure 6). There are feeder cattle call options trading into January and there are eligible contracts through April of 2009. There are some relatively high price levels available, but the cost is currently very high. For those looking to hedge feeder-weight cattle for fall, synthetic puts currently may be an attractive alternative.

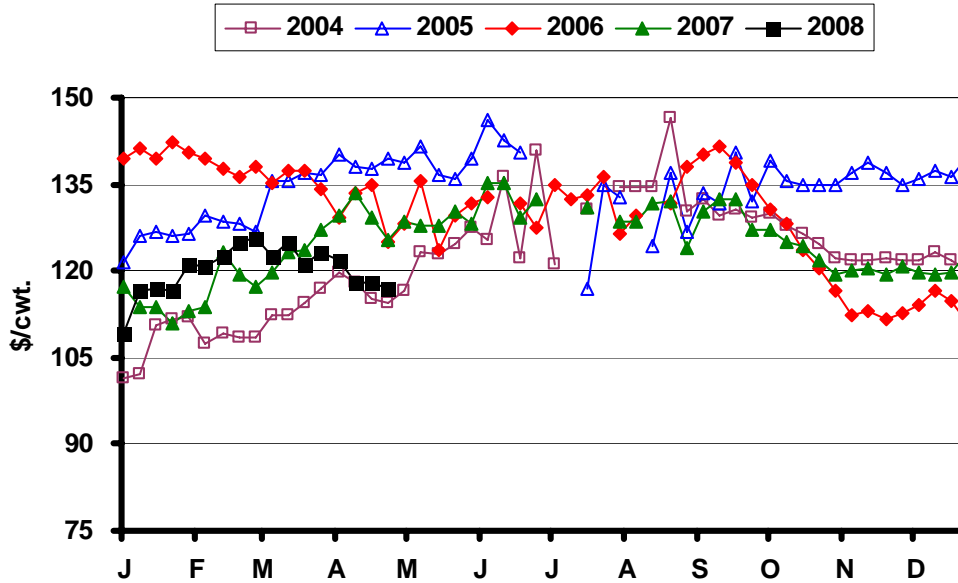
* Diersen is an associate professor in the Department of Economics at South Dakota State University. Contact him at 605-688-4864 or matthew.diersen@sdstate.edu with questions or comments.

Fig. 1. Monthly South Dakota Cattle Prices



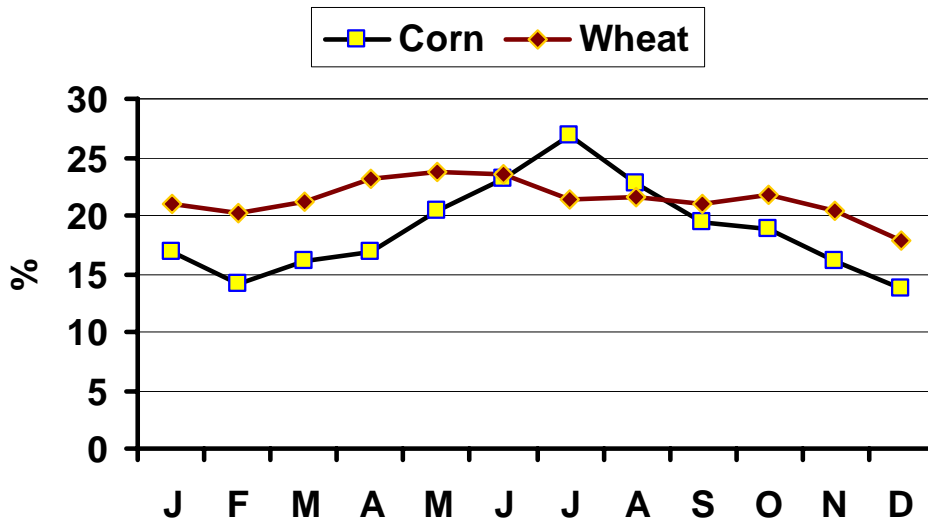
Sources: CME, USDA-AMS, & SDSU

Fig. 2. Weekly South Dakota Stocker Cattle Prices



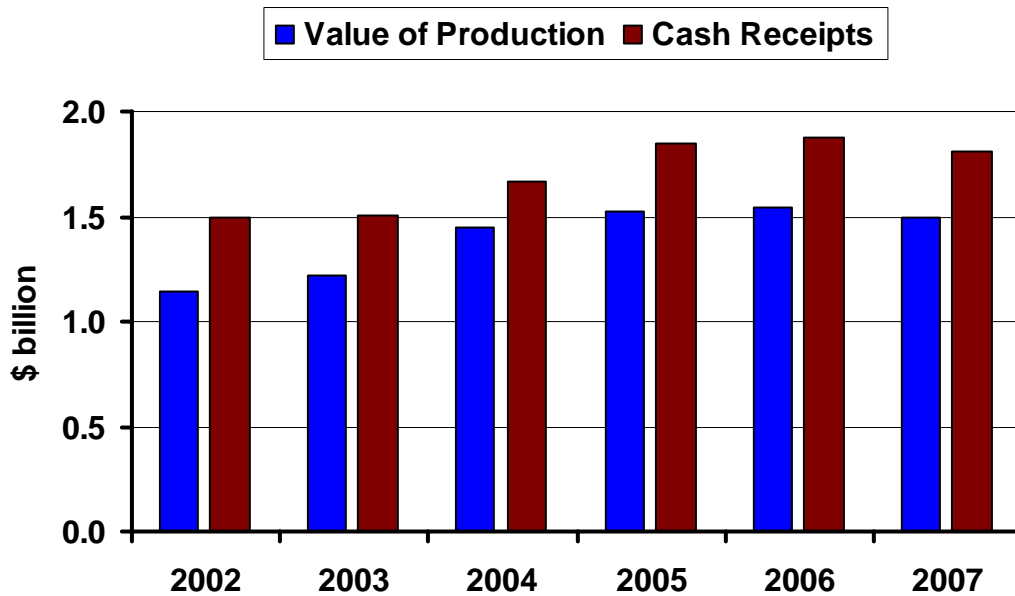
Sources: USDA-AMS & SDSU

Fig. 3. Historical Average Volatility of Futures Prices



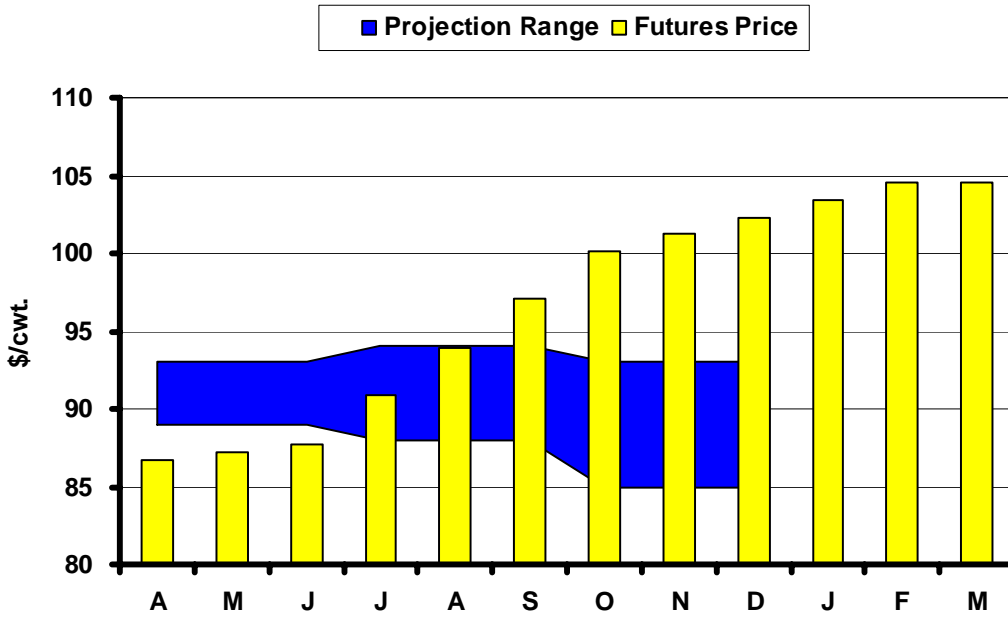
Source: CBOT

Fig. 4. South Dakota Cattle and Calves



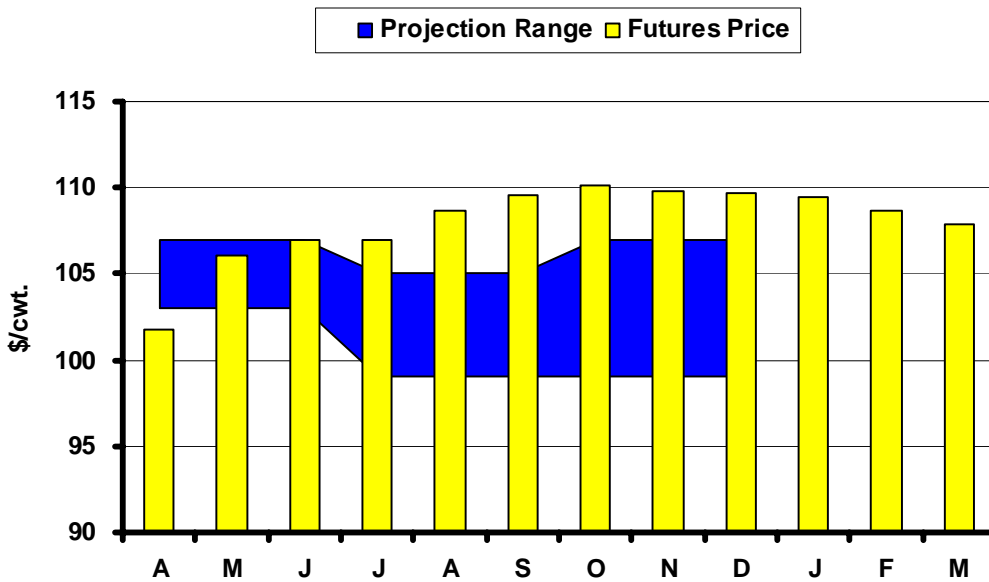
Source: USDA-NASS

Fig. 5. Live Cattle Futures and Projections



Sources: CME & USDA-WASDE, April 9, 2008

Fig. 6. Feeder Cattle Futures and Projections



Sources: CME & USDA-ERS, April 17, 2008

In the Chute

May 9: Live Cattle Projections (WASDE)

May 16: *Cattle on Feed* (NASS)**Live Cattle Futures, Monthly Average of Nearby Contract (\$/cwt.)**

	<i>Jan</i>	<i>Feb</i>	<i>Mar</i>	<i>Apr</i>	<i>May</i>	<i>Jun</i>	<i>Jul</i>	<i>Aug</i>	<i>Sep</i>	<i>Oct</i>	<i>Nov</i>	<i>Dec</i>
2003	80.56	80.61	74.68	77.60	73.71	73.80	73.37	79.80	86.14	97.25	95.47	92.09
2004	77.18	77.20	79.39	83.14	83.52	83.88	85.44	84.92	84.50	86.71	85.68	88.32
2005	89.88	89.92	88.89	94.79	85.62	83.00	79.37	80.78	85.70	89.49	91.46	94.07
2006	95.43	91.34	83.85	80.65	76.87	81.56	84.08	87.14	90.72	89.40	86.60	86.88
2007	91.55	93.34	98.30	98.07	92.35	89.06	91.93	92.65	96.21	94.92	95.39	93.28
2008	92.09	92.00	90.04									

Source: CME. Note: The data reflect the average of the daily closes.

Sioux Falls Price - Slaughter Steers, Choice 2-3, 1300-1500# (\$/cwt.)

	<i>Jan</i>	<i>Feb</i>	<i>Mar</i>	<i>Apr</i>	<i>May</i>	<i>Jun</i>	<i>Jul</i>	<i>Aug</i>	<i>Sep</i>	<i>Oct</i>	<i>Nov</i>	<i>Dec</i>
2003	75.60	76.13	76.44	79.75	79.38	76.44	76.25	81.13	90.69	101.85	105.00	91.94
2004	82.38	77.88	86.70	88.44	89.75	88.00	83.69	83.50	81.70	82.44	81.75	85.95
2005	88.50	86.25	90.65	92.31	88.88	84.00	79.44	78.30	84.65	86.44	89.58	91.25
2006	93.81	89.31	85.85	81.31	81.33	81.75	80.89	84.00	87.00	85.88	83.81	84.13
2007	86.42	89.44	95.31	95.75	95.10	86.25	87.75	89.30	91.00	89.08	90.75	89.50
2008	88.50	88.75	87.13									

Source: USDA-AMS.

Sioux Falls Live Cattle Basis (\$/cwt.)

	<i>Jan</i>	<i>Feb</i>	<i>Mar</i>	<i>Apr</i>	<i>May</i>	<i>Jun</i>	<i>Jul</i>	<i>Aug</i>	<i>Sep</i>	<i>Oct</i>	<i>Nov</i>	<i>Dec</i>
2003	-4.96	-4.48	1.76	2.15	5.67	2.64	2.88	1.33	4.55	4.60	9.53	-0.15
2004	5.20	0.68	7.31	5.30	6.23	4.12	-1.75	-1.42	-2.80	-4.27	-3.93	-2.37
2005	-1.38	-3.67	1.76	-2.48	3.26	1.00	0.07	-2.48	-1.05	-3.05	-1.88	-2.82
2006	-1.62	-2.03	2.00	0.66	4.46	0.19	-3.19	-3.14	-3.72	-3.52	-2.79	-2.75
2007	-5.13	-3.90	-2.99	-2.32	2.75	-2.81	-4.18	-3.35	-5.21	-5.84	-4.64	-3.78
2008	-3.59	-3.25	-2.91									

Note: The data reflect the difference between the monthly Sioux Falls' slaughter cattle price and the monthly average of the nearby live cattle futures prices.

Sioux Falls Price - Slaughter Cows, Commercial 2-4 (\$/cwt.)

	<i>Jan</i>	<i>Feb</i>	<i>Mar</i>	<i>Apr</i>	<i>May</i>	<i>Jun</i>	<i>Jul</i>	<i>Aug</i>	<i>Sep</i>	<i>Oct</i>	<i>Nov</i>	<i>Dec</i>
2003	42.20	45.50	46.75	51.00	54.17	54.50	54.90	57.50	60.44	60.75	58.33	60.50
2004	53.25	52.13	54.60	60.75	64.88	65.60	65.81	64.63	62.80	60.50	62.75	58.75
2005	61.67	58.47	64.40	65.50	67.38	66.75	64.56	58.50	60.17	57.38	58.95	59.88
2006	57.13	59.13	59.94	58.75	60.75	59.63	57.50	58.56	60.67	60.19	54.13	53.70
2007	52.50	55.58	56.83	62.75	62.88	62.25	64.00	64.30	62.50	60.83	60.50	58.25
2008	57.83	65.08	62.33									

Source: USDA-AMS. Note: December 2006 was estimated using the average spread over heavy breakers.

South Dakota Stocker Cattle Prices, Monthly Averages (\$/cwt.)

	<i>Jan</i>	<i>Feb</i>	<i>Mar</i>	<i>Apr</i>	<i>May</i>	<i>Jun</i>	<i>Jul</i>	<i>Aug</i>	<i>Sep</i>	<i>Oct</i>	<i>Nov</i>	<i>Dec</i>
2003	94.20	93.36	96.84	99.02	103.41	105.61	101.47	107.21	112.13	112.71	111.38	111.63
2004	110.80	108.25	114.59	117.22	123.88	135.57	133.68	141.20	129.81	126.50	121.59	122.32
2005	125.77	128.34	135.10	138.99	139.13	142.62	130.68	130.80	134.00	135.36	136.85	136.84
2006	140.59	138.06	136.10	131.46	130.54	131.67	134.42	133.57	137.13	123.49	113.16	115.15
2007	113.22	118.92	124.38	129.14	128.80	132.43	128.78	128.55	128.16	122.93	120.00	120.19
2008	117.32	123.80	122.93									

Source: USDA-AMS. Note: The data reflect a weighted average of 5-600# No. 1 medium and medium and large steers.

CME Feeder Cattle Index (\$/cwt.)

	<i>Jan</i>	<i>Feb</i>	<i>Mar</i>	<i>Apr</i>	<i>May</i>	<i>Jun</i>	<i>Jul</i>	<i>Aug</i>	<i>Sep</i>	<i>Oct</i>	<i>Nov</i>	<i>Dec</i>
2003	81.90	77.80	76.27	78.73	80.62	85.01	88.70	94.10	100.21	105.25	104.13	100.82
2004	89.40	86.96	90.10	93.70	103.21	112.00	116.15	117.54	114.15	113.82	108.89	106.22
2005	104.89	103.19	104.97	110.70	111.47	112.61	112.37	111.09	115.04	117.27	122.10	115.38
2006	113.60	109.60	103.69	101.67	97.13	110.16	114.62	115.70	117.94	110.26	100.71	99.85
2007	96.67	97.57	103.39	107.91	107.68	107.59	112.03	116.31	117.22	112.58	108.78	105.00
2008	98.79	102.79	100.14									

Source: CME. Note: The data reflect the average of the daily CME Feeder Cattle Index.

South Dakota Stocker Cattle Basis Relative to the CME Feeder Cattle Index (\$/cwt.)

	<i>Jan</i>	<i>Feb</i>	<i>Mar</i>	<i>Apr</i>	<i>May</i>	<i>Jun</i>	<i>Jul</i>	<i>Aug</i>	<i>Sep</i>	<i>Oct</i>	<i>Nov</i>	<i>Dec</i>
2003	12.30	15.56	20.57	20.29	22.79	20.60	12.77	13.11	11.92	7.46	7.25	10.81
2004	21.40	21.29	24.49	23.52	20.67	23.57	17.53	23.66	15.66	12.68	12.70	16.10
2005	20.88	25.15	30.13	28.29	27.66	30.01	18.31	19.71	18.96	18.09	14.75	21.46
2006	26.99	28.46	32.41	29.79	33.41	21.51	19.80	17.87	19.19	13.23	12.45	15.30
2007	16.55	21.35	20.99	21.23	21.12	24.84	16.75	12.24	10.94	10.35	11.22	15.19
2008	18.53	21.01	22.79									

Futures Markets

Live	4/25/2008	3/21/2008	Change	Feeder	4/25/2008	3/21/2008	Change
APR 08	92.27	93.98	-1.71	APR 08	101.87	107.30	-5.43
JUN 08	93.37	94.40	-1.03	MAY 08	107.75	110.65	-2.90
AUG 08	99.07	96.90	2.17	AUG 08	110.65	112.00	-1.35
OCT 08	103.90	102.03	1.88	SEP 08	111.80	112.13	-0.33
DEC 08	103.92	103.00	0.92	OCT 08	112.50	112.25	0.25
FEB 09	105.85	104.40	1.45	NOV 08	112.00	112.10	-0.10
APR 09	105.85	103.75	2.10	JAN 09	110.85	110.00	0.85
JUN 09	103.00	101.45	1.55	MAR 09	109.50		

Source: CME.