Cattle Market Review – August 22, 2008 **Matthew Diersen***

Cash prices diverged somewhat during July as stockers were slightly lower and other classes were slightly higher compared to the prior month (figure 1). Lower corn was the primary factor giving strength to the feeder cattle prices. On the futures side both the live and feeder cattle futures had higher nearby contract prices and much lower deferred contract prices compared to a month ago. The cash feeder trade has been dominated by heavier weight cattle coming off of grass. The price spread between standard feeder weight and stocker weight cattle continues to be very narrow or small. Although corn has fallen in price compared to recent months, the absolute level is still historically high.

A similar pattern has emerged in the price of hay in South Dakota. Harvest pressure has weighed on the price, but outside price pressure continues to keep the absolute level higher than would otherwise be expected. In the *Crop Production* report the alfalfa yield for South Dakota was 2.4 tons per acre, the highest since 1999. As a result, alfalfa production and substantial old stocks give a hay supply level just below that observed in 2005 – when alfalfa price was in the low $60s per ton (figure 2). Harvest pressure will likely continue, but sellers can also look to other states for buyers. The high prices for both corn and hay will likely keep expansion in check.

Last month the focus was on the U.S. inventory level. Recently, NASS released similar inventory figures for Canada. The July 1 contraction in Canada started a year before contraction in the U.S. (figure 3). The total inventory in Canada is down 4 percent from a year ago, while the U.S. inventory is down less than 1 percent. In Canada beef cow, non-replacement heifer, and steer inventories are down sharply. The reduction is most evident in Alberta which reverses a slight buildup that occurred there a year earlier.

Sales at South Dakota auction sites were fairly typical during the first two quarters of 2008 (figure 4). The volume the next two quarters is of interest. Given the tight spread between stocker and feeder prices there is an incentive to hold on to calves for a longer time compared to other years. In 2006, for example, dry conditions and affordable corn resulted in a relatively high volume in the third quarter. The volume in 2008 will likely be relatively low for the third quarter and volume in the fourth quarter could make up the difference by being higher or some cattle may even be pulled into 2009.

The latest WASDE report had slight upward revisions to the price projections while the futures prices have remained steady. Slower marketings are given as the primary factor behind the increase in the projections. As a result, there continues to be limited upside when comparing the sets of prices (figure 5). The ERS suggests a trend toward higher calf slaughter volume is giving some price support for feeders. They also point out that the delay in placements may lead to more price uncertainty as cattle are placed (and eventually marketed) in larger groups than has been seen in recent years. The ERS feeder cattle projections span the futures prices through the third quarter of 2009 (figure 6). Thus, no obvious pricing or protection strategy dominates at this time. Finally, in the *Cattle on Feed* report there was an increase in placements of mid-weight cattle. The overall number on feed continues to run below year-ago levels.

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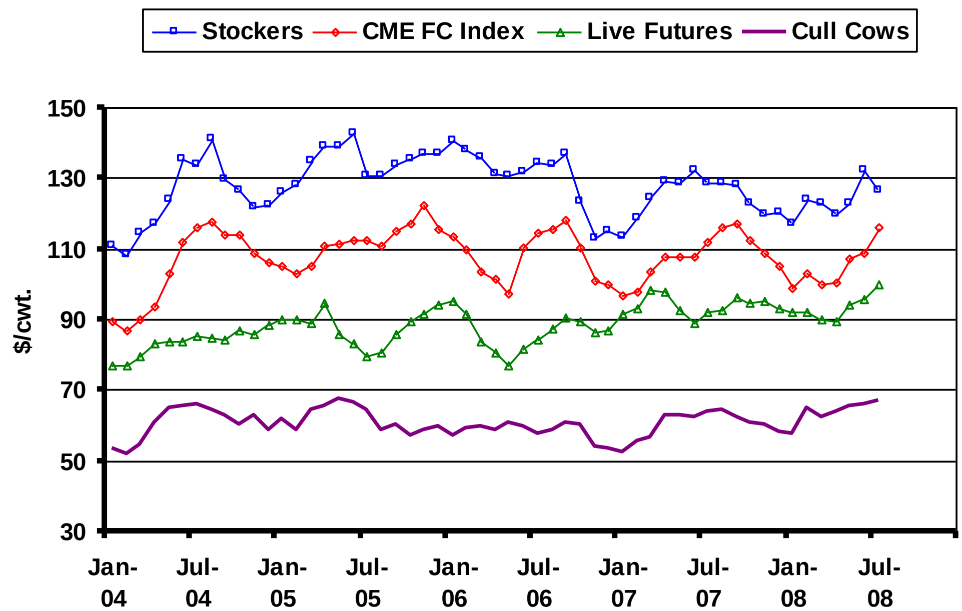
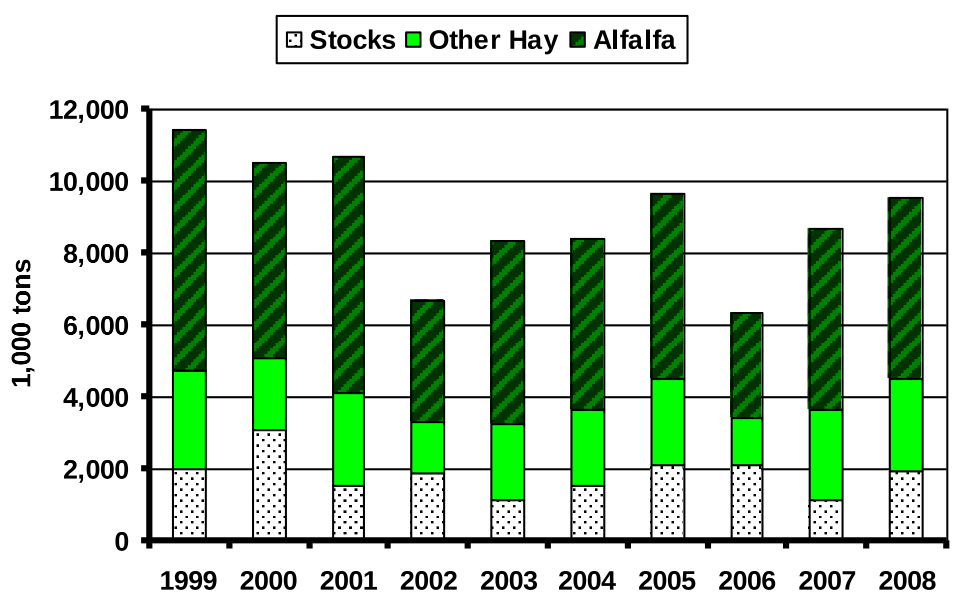
Fig. 1. Monthly South Dakota Cattle Prices



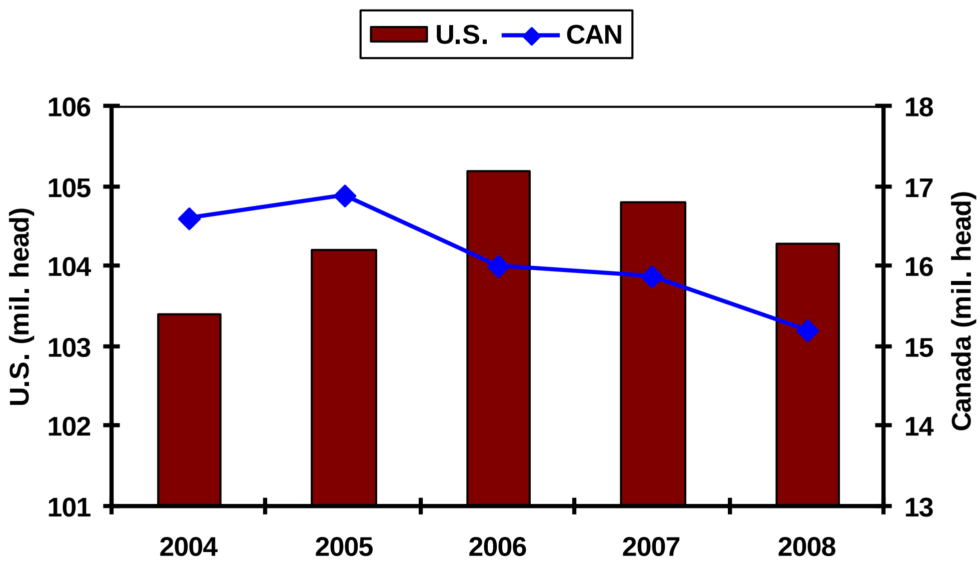
Sources: CME, USDA-AMS, & SDSU

Fig. 2. South Dakota Hay Supply



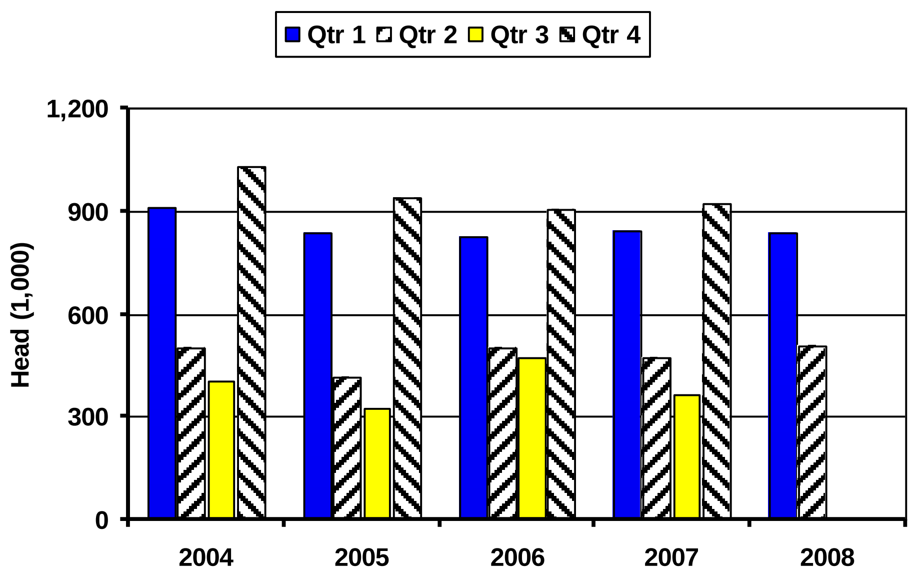
Source: USDA-NASS

Fig. 3. July 1 Cattle Inventory



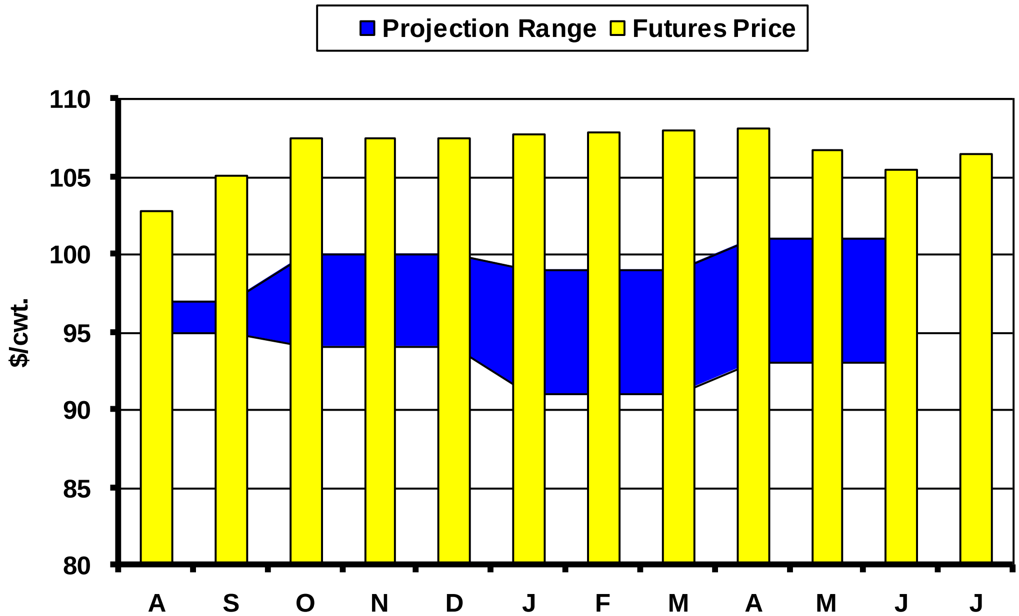
Source: USDA-NASS

Fig. 4. South Dakota Cattle Auction Volume



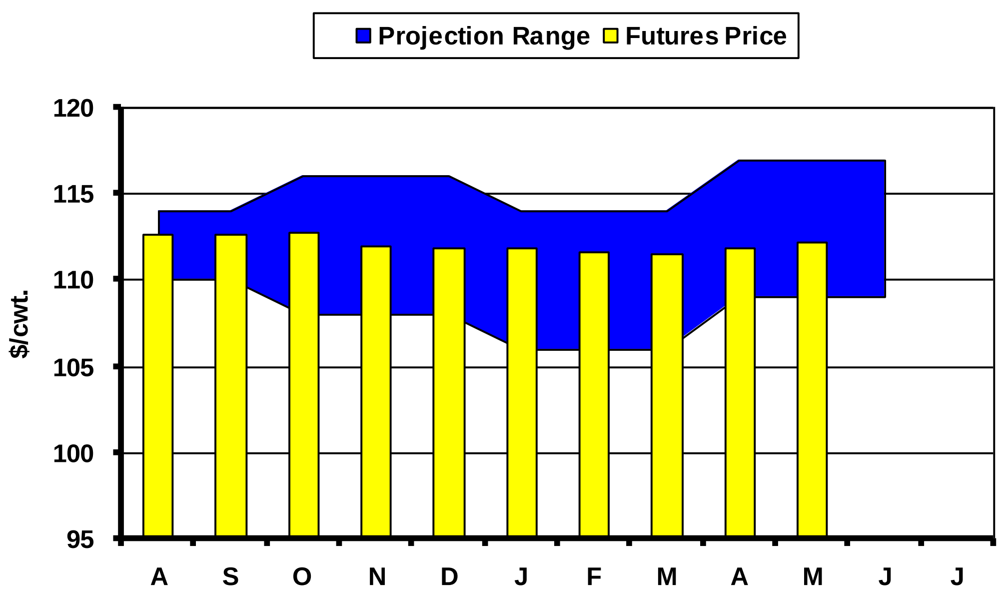
Source: Auction Agency Reports

Fig. 5. Live Cattle Futures and Projections



Sources: CME & USDA-WASDE, August 12, 2008

Fig. 6. Feeder Cattle Futures and Projections



Sources: CME & USDA-ERS, August 19, 2008

In the Chute

August 29: *Agricultural Prices* (NASS)
September 12: Live Cattle Projections (WASDE)
September 19: *Cattle on Feed* (NASS)

Live Cattle Futures, Monthly Average of Nearby Contract ($/cwt.)

	Jan	*Feb*	*Mar*	*Apr*	*May*	*Jun*	*Jul*	*Aug*	*Sep*	*Oct*	*Nov*	*Dec*
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	89.58	94.13	95.99	99.79					

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

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

	Jan	*Feb*	*Mar*	*Apr*	*May*	*Jun*	*Jul*	*Aug*	*Sep*	*Oct*	*Nov*	*Dec*
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	87.80	91.06	91.00	95.35					

Source: USDA-AMS.

Sioux Falls Live Cattle Basis ($/cwt.)

	Jan	*Feb*	*Mar*	*Apr*	*May*	*Jun*	*Jul*	*Aug*	*Sep*	*Oct*	*Nov*	*Dec*
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	-1.78	-3.07	-4.99	-4.44					

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.)

	Jan	*Feb*	*Mar*	*Apr*	*May*	*Jun*	*Jul*	*Aug*	*Sep*	*Oct*	*Nov*	*Dec*
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	64.17	65.44	65.94	67.00					

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

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

	Jan	*Feb*	*Mar*	*Apr*	*May*	*Jun*	*Jul*	*Aug*	*Sep*	*Oct*	*Nov*	*Dec*
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	119.80	122.79	132.34	126.33					

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.)

	Jan	*Feb*	*Mar*	*Apr*	*May*	*Jun*	*Jul*	*Aug*	*Sep*	*Oct*	*Nov*	*Dec*
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	100.48	107.15	108.90	116.00					

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.)

	Jan	*Feb*	*Mar*	*Apr*	*May*	*Jun*	*Jul*	*Aug*	*Sep*	*Oct*	*Nov*	*Dec*
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	19.32	15.64	23.43	10.33					

Futures Markets

Live	8/22/2008	7/25/2008	Change	Feeder	8/22/2008	7/25/2008	Change
AUG 08	101.85	97.83	4.02	AUG 08	112.85	111.75	1.10
OCT 08	105.78	105.10	0.68	SEP 08	112.95	111.93	1.03
DEC 08	106.90	107.30	-0.40	OCT 08	112.50	113.28	-0.78
FEB 09	107.18	108.53	-1.35	NOV 08	112.30	114.23	-1.93
APR 09	108.45	110.33	-1.88	JAN 09	112.20	114.28	-2.08
JUN 09	105.93	108.65	-2.73	MAR 09	112.00	113.90	-1.90
AUG 09	107.93	109.95	-2.03	APR 09	112.10	113.90	-1.80
OCT 09	110.25	112.45	-2.20	MAY 09	112.38	113.80	-1.43
DEC 09	109.75	111.00	-1.25				

Source: CME.