

Cash cattle prices during November changed little from a month earlier (figure 1). The cash price for feeder cattle was down slightly. The major changes were on the futures side. The nearby live cattle contracts traded sharply lower, while the deferred contracts traded higher. The feeder cattle contracts all traded sharply lower. The weekly stocker price has remained steady since late in October (figure 2).

I had the privilege to visit with producers in Bison and Gettysburg this past week. In addition to some lore about Hugh Glass, the producers shared their interest in retaining ownership. June tends to be a relatively high volume month for marketing cattle by South Dakota feedlots. To show the price risk of retaining ownership, examine how the June Live Cattle futures price has behaved during the past ten years. In 1998, for example, the contract was trading for \$68.29 per cwt in January and averaged \$64.38 per cwt in June (figure 3). The drop of \$3.91 per cwt would represent the loss if cattle were retained without pricing or protection. Last year the price dropped by \$0.36 per cwt during the same period. The price changes were typically rather small, but with occasional very large changes. Such price risk can be managed by using futures contracts, options contracts or Livestock Risk Protection (LRP).

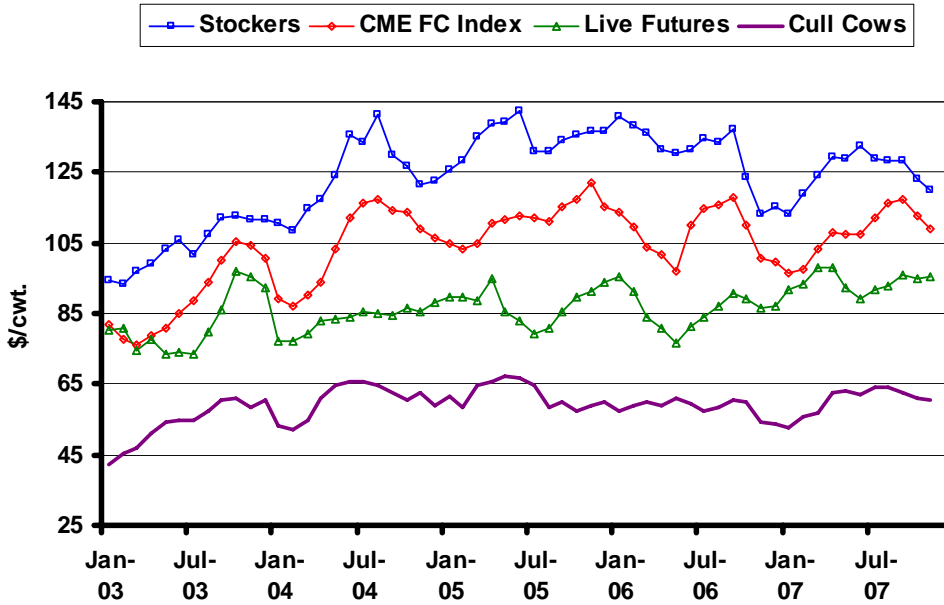
LRP on fed cattle has not been used much by South Dakota producers this year. Nationally there have been a modest 1,871 head covered by LRP and only 115 head covered in South Dakota. The lack of use is somewhat surprising because LRP can be used to cover a small number of head as opposed to the fixed contract size of live cattle futures and options. Another feature of LRP that is attractive is the way it settles to cash prices. Basis risk on futures can be substantial on live cattle, especially during non-contract months of the year. For example, there is not a January live cattle contract. Thus any hedge placed to guard a January cash sale would be against the February contract. The difference between the cash price and the futures price can be large. LRP settles to the 5-area average steer price. Thus basis risk may be reduced by using LRP.

The last three non-contract months support this observation. The differences between the cash price for fed cattle in Sioux Falls and the nearby futures price during July, September, and November (or nearby basis) were between \$4 and \$5 per cwt (figure 4). The five year average basis for those months is less than \$2. In contrast, the differences between the Sioux Falls price and the 5-area price were between \$2 and \$3 per cwt. LRP would have matched up better to manage price risk during those months compared to using options.

The latest WASDE report had small changes in the price projections for fed cattle because of recent tight supplies of market-ready cattle (figure 5). Futures prices are above the projection range through the third quarter of 2008, suggesting pricing strategies are warranted. The ERS did not change the price projections for feeder cattle (figure 6). The futures prices for feeders traded lower for the month are well below the projection range through the first quarter of 2007. Thus, protection strategies would be warranted as there is fundamental upside potential until that time.

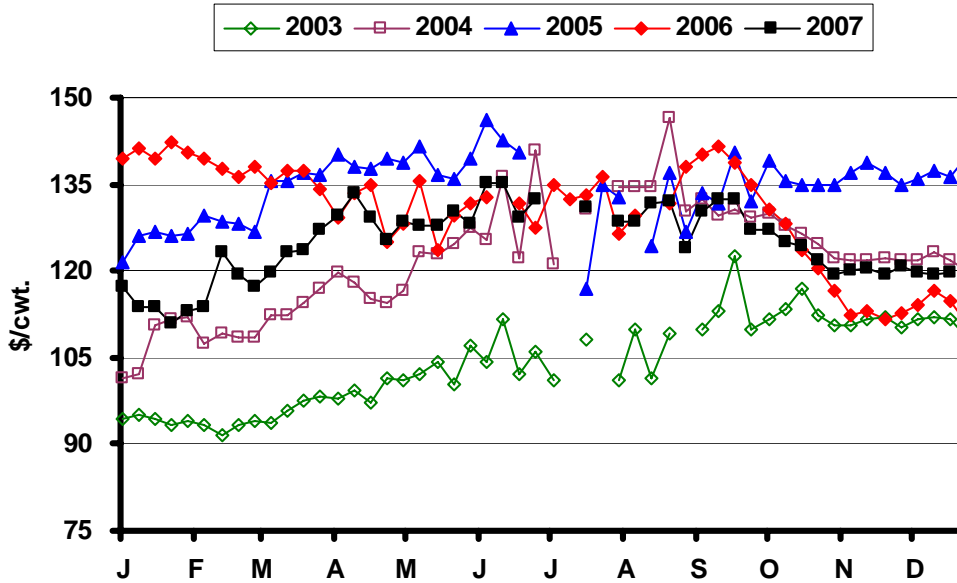
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Fig. 1. Monthly South Dakota Cattle Prices



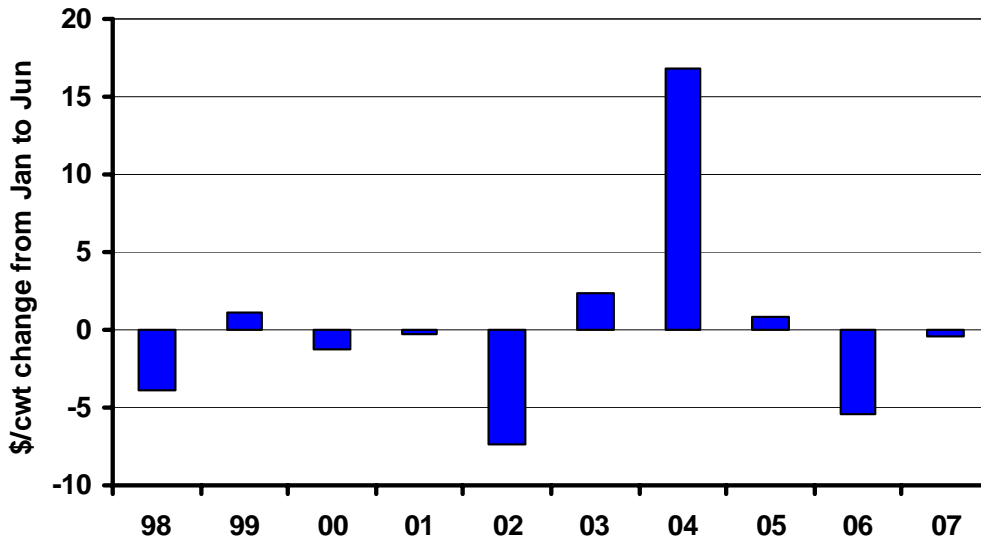
Sources: CME, USDA-AMS, & SDSU

Fig. 2. Weekly South Dakota Stocker Cattle Prices



Sources: USDA-AMS & SDSU

Fig. 3. June Live Cattle Futures Changes



Source: LMIC

Fig. 4. Sioux Falls Fed Cattle Basis

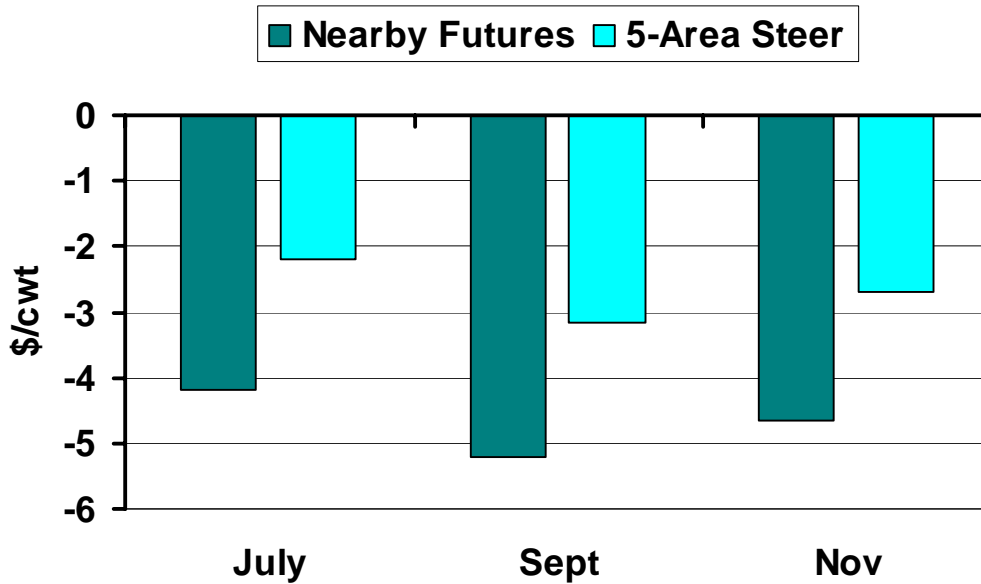
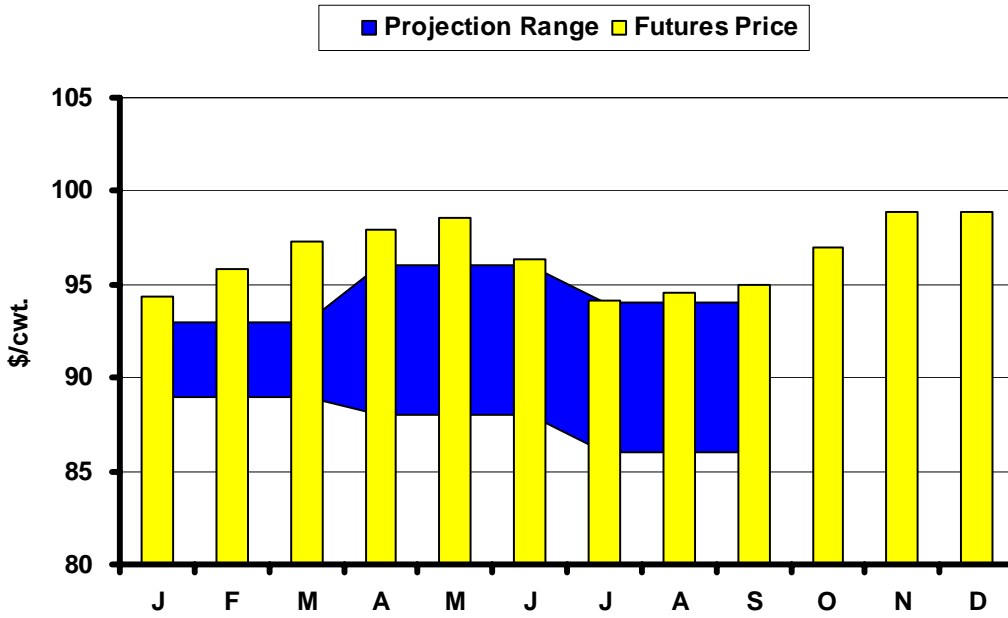
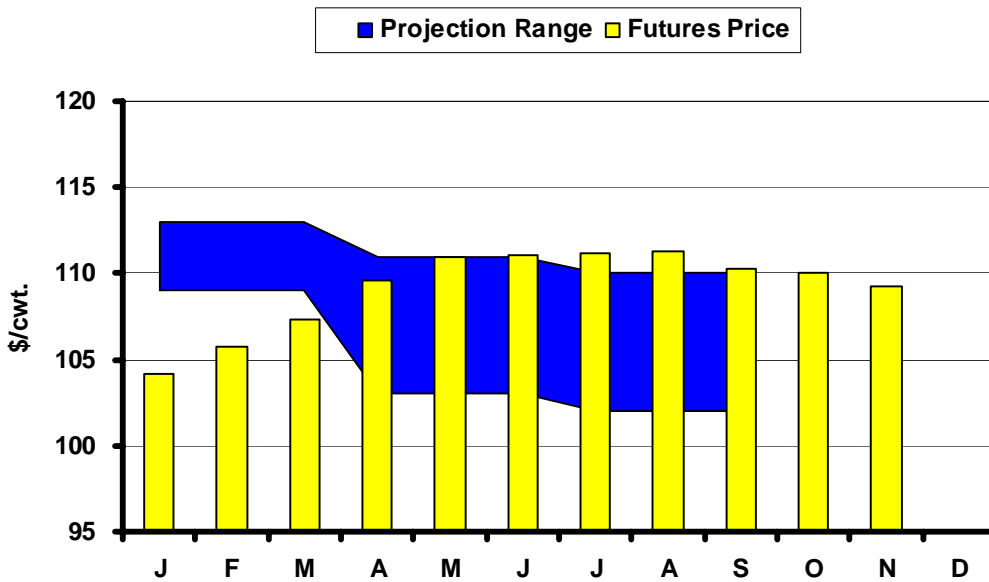


Fig. 5. Live Cattle Futures and Projections



Sources: CME & USDA-WASDE, December 11, 2007

Fig. 6. Feeder Cattle Futures and Projections



Sources: CME & USDA-ERS, December 19, 2007

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November 27: Cattle, Corn, & Energy – Rapid City, SD (Diersen)

January 11: Live Cattle Projections (WASDE)

January 11: *Crop Production* (NASS)

January 24: Cattle Outlook – Sioux Falls, SD (Diersen)

January 25: *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>
2002	71.40	73.03	72.82	67.18	62.17	62.87	68.07	65.07	68.78	68.40	73.46	74.44
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	

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

Sioux Falls Price - Slaughter Steers, Choice 2-4, 1100-1300# (\$/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>
2002	66.85	69.75	70.75	68.56	65.85	63.63	61.44	62.20	63.81	64.60	67.33	70.58
2003	75.30	76.44	75.88	79.05	78.13	75.75	75.63	79.94	88.81	100.35	105.00	92.38
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	

Source: USDA-AMS. Note: Prices from 2004 onward are for Choice 2-3, 1300-1500#.

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>
2002	-4.55	-3.28	-2.07	1.38	3.68	0.76	-6.63	-2.87	-4.97	-3.80	-6.13	-3.86
2003	-5.26	-4.17	1.20	1.45	4.42	1.95	2.26	0.14	2.67	3.10	9.53	0.29
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	

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>
2002	42.90	45.38	49.13	48.75	47.60	48.38	45.13	43.20	44.25	43.30	40.50	39.67
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	

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>
2002	100.45	101.77	100.97	95.98	94.91	92.76	87.93	91.66	93.04	87.77	88.94	94.80
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	

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>
2002	83.36	82.57	80.40	76.23	75.45	75.96	76.98	78.57	80.56	81.20	82.89	85.02
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	

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>
2002	14.66	16.95	19.04	19.45	19.07	22.67	17.71	15.47	9.64	10.05	10.14	15.23
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	

Futures Markets

	12/21/2007	11/19/2007	Change	Feeder	12/21/2007	11/19/2007	Change
	92.10	95.17	-3.07	JAN 08	103.83	108.82	-4.99
	95.53	97.40	-1.88	MAR 08	106.28	109.55	-3.27
	97.75	97.95	-0.20	APR 08	108.80	110.92	-2.12
	94.38	93.70	0.67	MAY 08	110.00	112.00	-2.00
	95.73	93.97	1.76	AUG 08	110.70	112.67	-1.97
	99.63	98.25	1.38	SEP 08	109.80	112.00	-2.20
	99.63	98.00	1.63	OCT 08	109.15	111.50	-2.35
	100.50	98.70	1.80	NOV 08	108.40		
	100.00	98.70	1.30				

Source: CME.