

The pace of decline has slowed for cattle prices on a monthly basis (figure 1). Less seasonal pressure on price is expected for stockers and feeders. Fed cattle are a major source of uncertainty, but prices seem to have stabilized somewhat. Cull cows prices will likely be under pressure from liquidation on the dairy side as poor performing cows no longer look profitable from a returns standpoint. On the futures side the monthly change in prices was positive for the first time in while. The deferred live cattle futures are higher, which carried over to all of the feeder cattle contracts. The weekly stocker price has been steady (figure 2). Winter weather continues to delay sales in numerous locations.

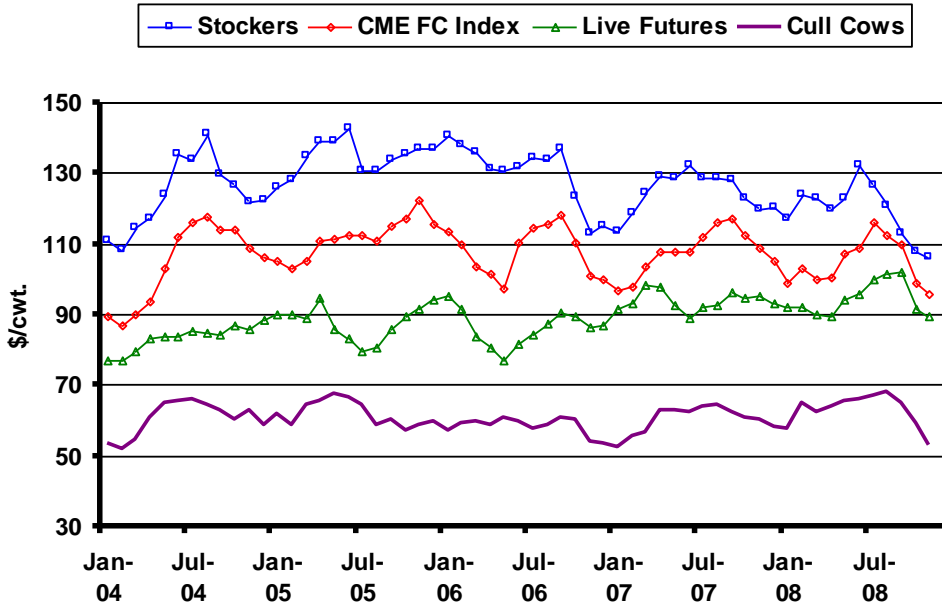
With corn price lower and basis wider than in 2006 and 2007 cattle feeders are watching the marketing window for fed cattle closely. The backlog of cattle that can still be placed on feed is up from last year. The cheaper corn means that feeders will likely use more corn (feed longer) and/or feed cattle on a ration higher in corn. Both affect the amount and timing of fed cattle being marketed. The consensus seems to be that there will be no shortage of live cattle available any time soon. Keep in mind the consensus view has been wrong in most markets (up and down) during the past year. Despite the quickly changing markets, packers and feedlots have forward priced relatively few cattle for delivery in 2009. At this time last year there were record levels of cattle already contracted for delivery in 2008 (figure 3). Packers were concerned about having enough volume to profitably slaughter. This year the volume contracted is much lower than in recent years. The observed basis levels are reasonable, but volume is low. If the packers are guessing wrong, they may have to increase bids for March through May. If the packers are correct, there will be a large volume of cattle slaughtered early in 2009, which is supportive of fed cattle for the second half of 2009.

A funny observation reflects something else happening in these markets. The consensus is that cattle prices have more downside than upside potential. For the past couple of weeks out-of-the-money calls have been cheaper than out-of-the-money puts. March feeder cattle options reflect this phenomenon well. On December 18 the futures closed at \$91.78 per cwt. An \$86 strike put settled at \$2.97 per cwt, while a \$98 strike call settled at \$1.97 per cwt. The volatility has a “smirk” at this time (figure 4). This means the expected price distribution is skewed with downside moves more likely than upside moves. If a hedger still needs to establish a floor price, a synthetic put would give more protection per dollar spent.

The latest WASDE report revised the price projection range for fed cattle slightly lower on concerns for weak demand heading into 2009 (figure 5). The projection range remains much higher than futures prices for the first three quarters of 2009. The pattern suggests that strategies that leave the upside open would be preferred to locking in prices, and suggests that low forward contracted volume would be expected. The ERS price projections for feeder cattle were again revised lower. The futures prices remain much lower than the bottom of the projection range of the first three quarters of 2009 (figure 6). Here too there is upside potential for 2009.

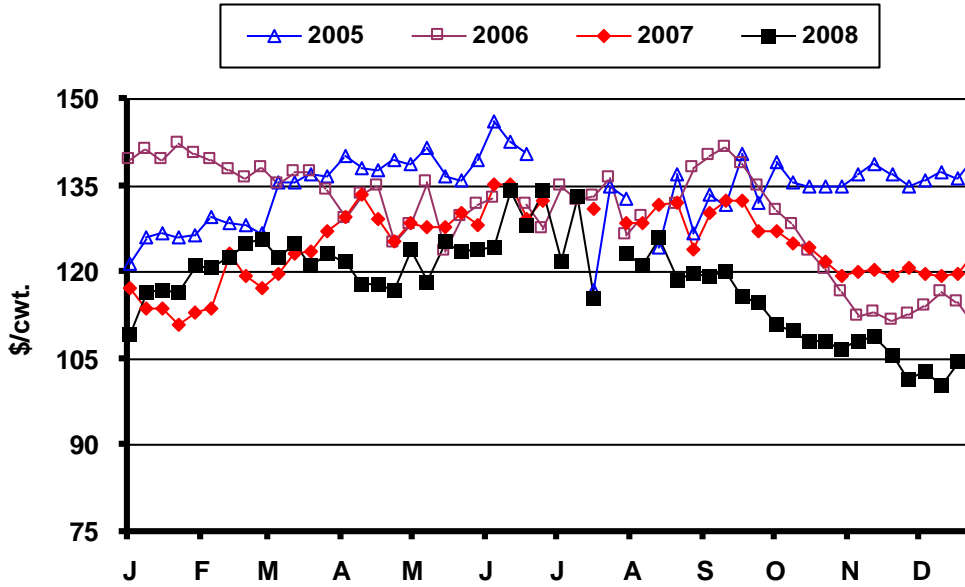
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Fig. 1. Monthly South Dakota Cattle Prices



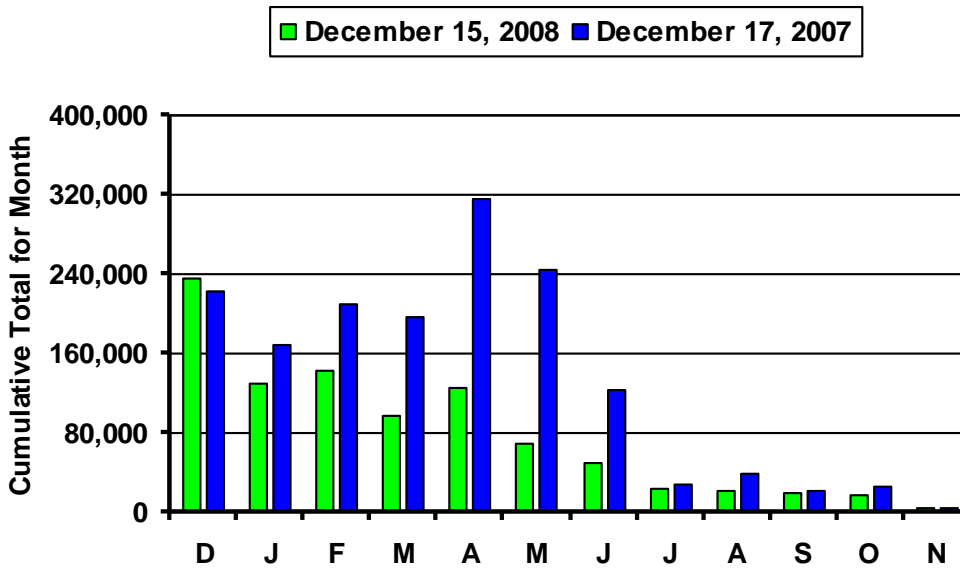
Sources: CME, USDA-AMS, & SDSU

Fig. 2. Weekly South Dakota Stocker Cattle Prices



Sources: USDA-AMS & SDSU

Fig. 3. Forward Contract Purchased Cattle



Source: AMS, LM_CT153

Fig. 4. Feeder Cattle Volatility Smirk

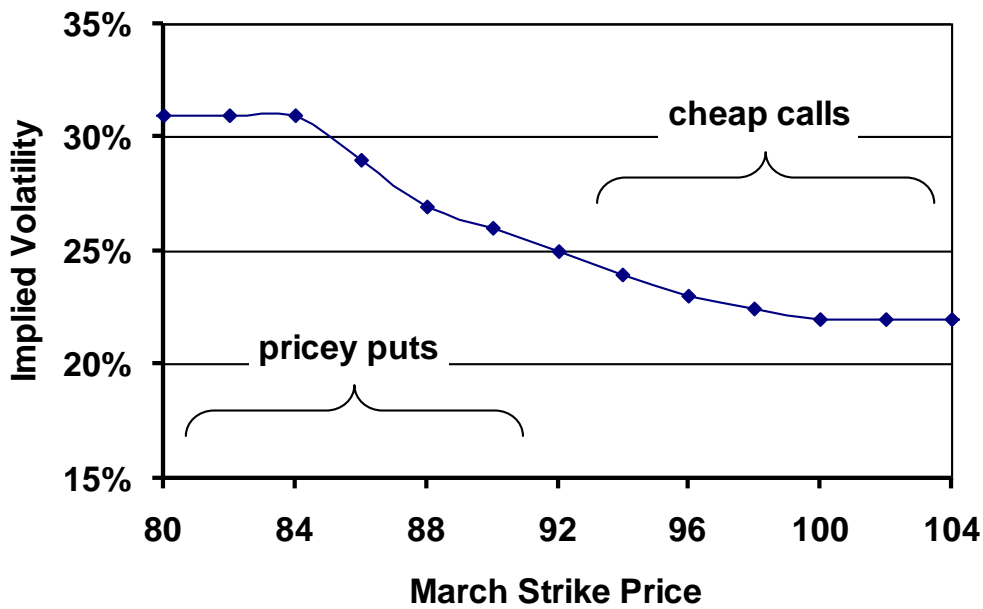
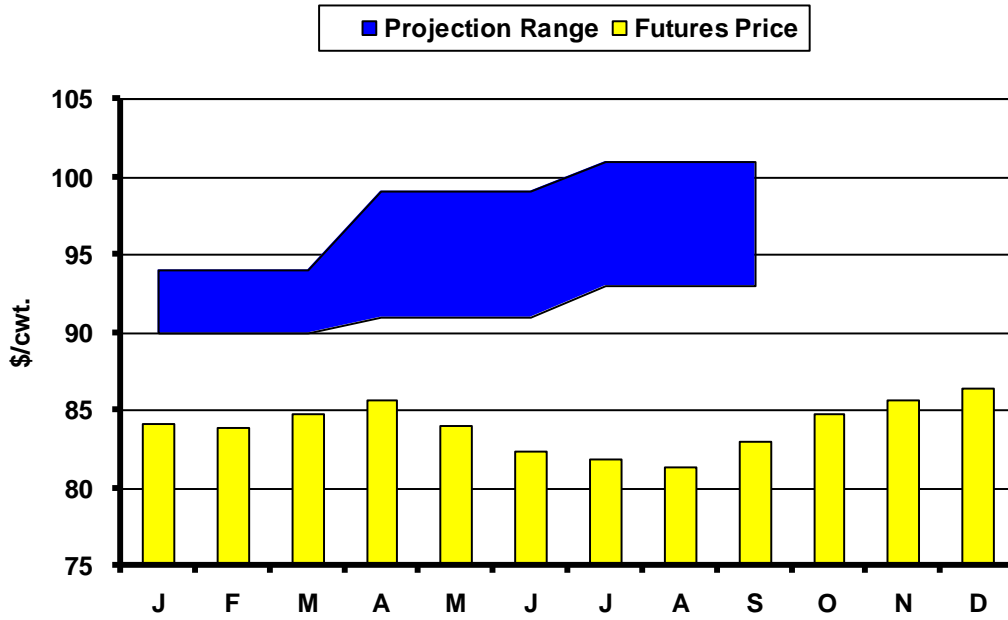
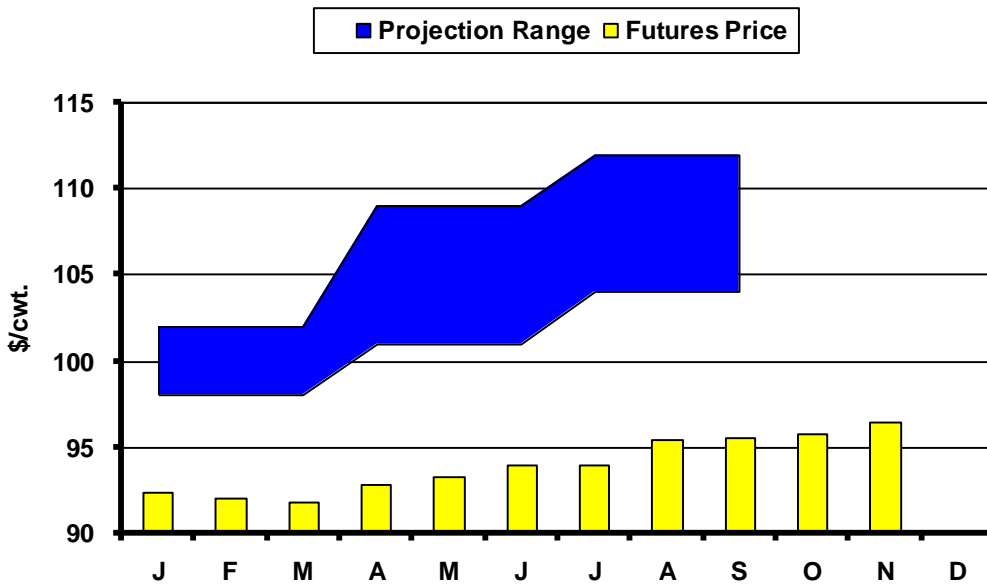


Fig. 5. Live Cattle Futures and Projections



Sources: CME & USDA-WASDE, December 11, 2008

Fig. 6. Feeder Cattle Futures and Projections



Sources: CME & USDA-ERS, December 18, 2008

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January 12: Live Cattle Projections (WASDE)

January 13: Livestock Outlook – Burke, SD (Diersen)

January 23: *Cattle on Feed* (NASS)

January 29: Livestock Outlook – Sioux Falls, SD (Diersen)

January 30: *Cattle* (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	101.56	102.03	91.77	89.50	

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	96.63	94.31	85.40	85.50	

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	-4.93	-7.72	-6.37	-4.00	

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	67.83	64.75	59.13	52.75	

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	119.80	122.79	132.34	126.33	120.95	113.17	107.98	105.94	

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	100.48	107.15	108.90	116.00	112.54	109.61	98.84	95.62	

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	19.32	15.64	23.43	10.33	8.41	3.56	9.14	10.32	

Futures Markets

Live	12/19/2008	11/21/2008	Change	Feeder	12/19/2008	11/21/2008	Change
DEC 08	86.10	84.90	1.20	JAN 09	93.50	89.40	4.10
FEB 09	86.78	85.50	1.28	MAR 09	93.23	90.15	3.07
APR 09	89.20	86.82	2.38	APR 09	94.25	90.45	3.80
JUN 09	85.58	82.67	2.91	MAY 09	95.10	90.95	4.15
AUG 09	85.38	82.90	2.47	AUG 09	96.13	93.00	3.13
OCT 09	88.40	86.10	2.30	SEP 09	96.50	93.50	3.00
DEC 09	89.75	87.10	2.65	OCT 09	96.80	93.50	3.30
FEB 10	90.90	88.10	2.80	NOV 09	96.85		
APR 10	87.50	91.50	-4.00				

Source: CME.