**Cattle Market Review – February 20, 2009** **Matthew Diersen***

Cattle prices were mixed during January as stocker and feeder cattle traded higher while fed cattle and cull cows traded lower (figure 1). The futures prices for live and feeder cattle are sharply lower compared to last month as general economic uncertainty has carried over into the commodity markets. The *Cattle* report showed a revision in 2008 inventory levels and general contraction. The primary change was to feeder cattle supplies outside feedlots. The level is much less than earlier inventory and slaughter reports indicated. As a result feeder cattle futures briefly rallied and would have strong fundamental support for the second half of 2009. Additional comments can be found in the document *Cattle Cycle and Prices*. Stocker cattle prices rose sharply early in 2009 and have been trading in a narrow range (figure 2). The smaller expected calf crop would suggest a price range for fall stockers to exceed previous expectations.

The cattle inventory is down in the U.S. and Canada (figure 3). The contraction is concentrated in the beef sector as cow and replacement inventories are lower. The 2008 calf crop was down compared to 2007 and fewer cows suggest a smaller 2009 calf crop. Canada's inventory is down sharply and further contraction is expected. Lower dairy product prices will likely encourage some herd reduction with negative price impacts for the beef sector. In South Dakota the inventory of beef cows is down slightly and the feeders outside feedlots are up slightly. Technically, there would be heifers at the state level that could enter the replacement stream depending on the profitability outlook.

The USDA baseline projections suggest a steady decline in cattle inventory levels through 2013 (figure 4). Cash returns in 2008 were very low, close to $11 per cow. Profits high enough to encourage expansion are not likely to return until 2011 or 2012. Fixed costs are projected to steadily increase, meaning a higher calf price is necessary to encourage any expansion. In South Dakota the grazing fee rate stabilized slightly in 2008, with only the animal unit price up slightly compared to 2007. Steadily increasing grazing fees have been limiting profits for several years.

The February *Cattle on Feed* report is the comprehensive summary of the prior year with several special tabulations. The on feed total of 11.3 million head is up slightly from last month following higher placements in Texas and Colorado. Placements of heavier weight cattle continue. Total feedlot capacity (of large lots) is down slightly to 16.7 million head. There is no longer a breakdown of inventories for small lots.

The latest WASDE report revised the first quarter price projection range for fed cattle sharply lower (figure 5). Weaker demand was cited as exceeding the positive supply revisions. The futures prices sit at the low end of the projection range for 2009, suggesting some upside potential still exists. In contrast the ERS price projections for feeder cattle show a strong upward trend as likely. The futures prices remain much lower than the bottom of the projection range throughout 2009 (figure 6). Thus, substantial upside remains for feeders and the disparity widens throughout the year. Higher volatility is limiting the attractiveness of Livestock Risk Protection and options strategies that would otherwise be appropriate for this market.

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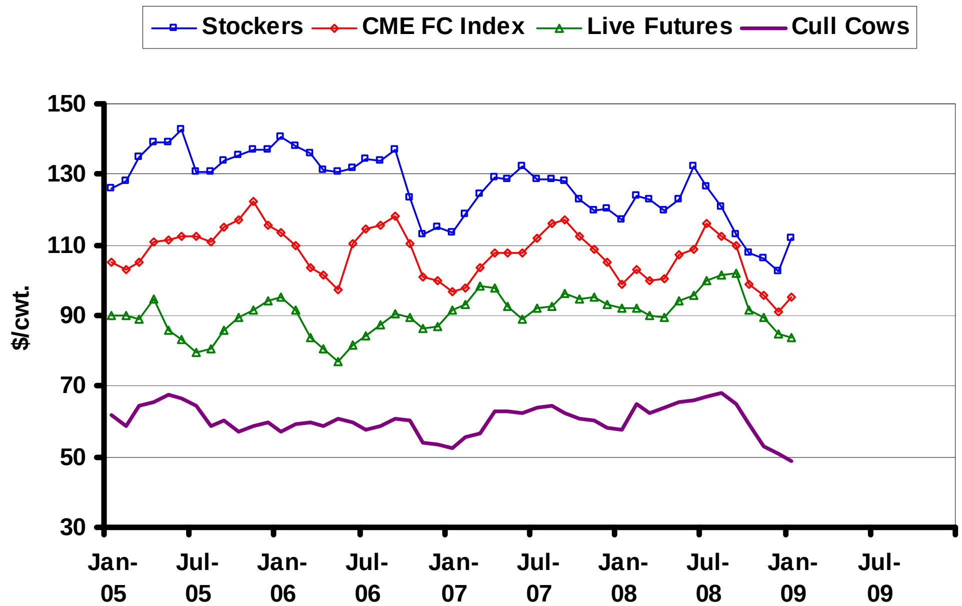
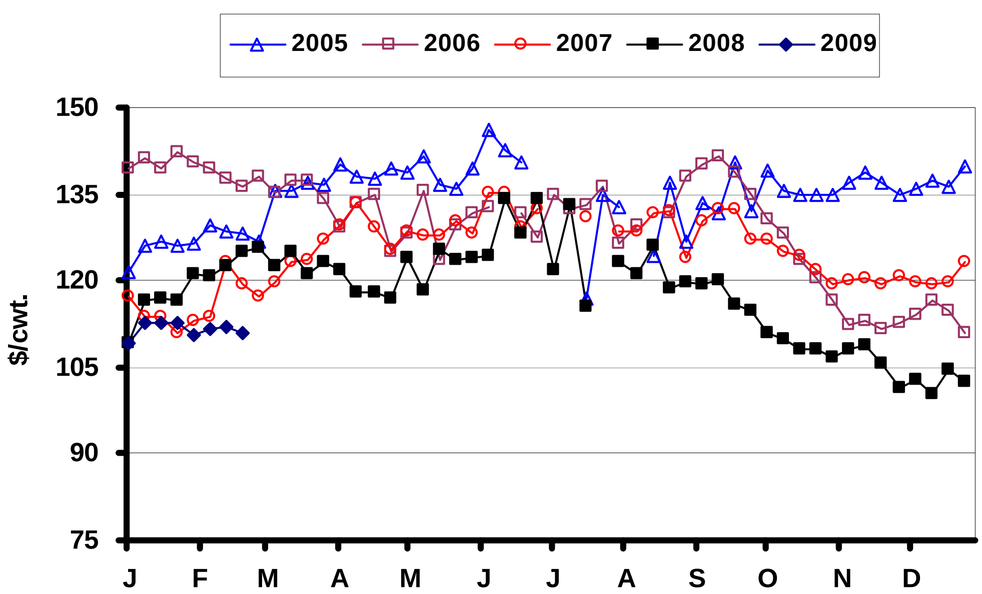
* Diersen is an associate professor in the Department of Economics at South Dakota State University. Contact him at 605-688-4864 or matthew.diersen@sdstate.edu with questions or comments.

**Fig. 1. Monthly South Dakota Cattle Prices**



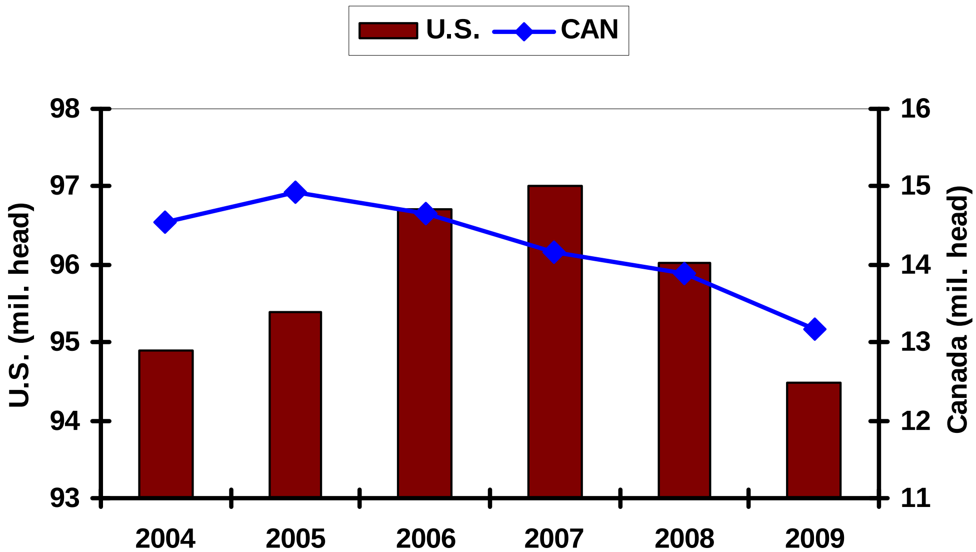

Sources: CME, USDA-AMS, & SDSU

**Fig. 2. Weekly South Dakota Stocker Cattle Prices**



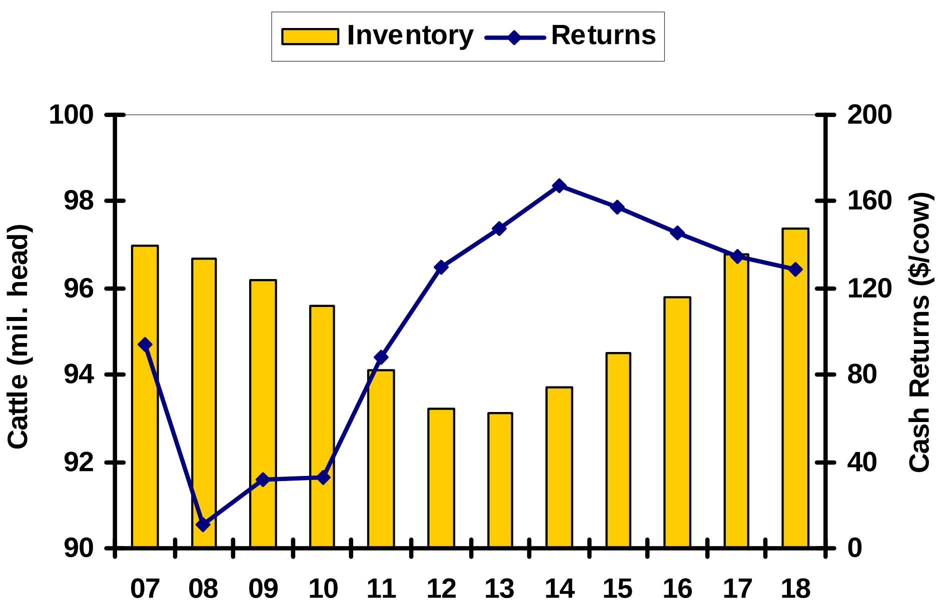

Sources: USDA-AMS & SDSU

## Fig. 3. January 1 Cattle Inventory



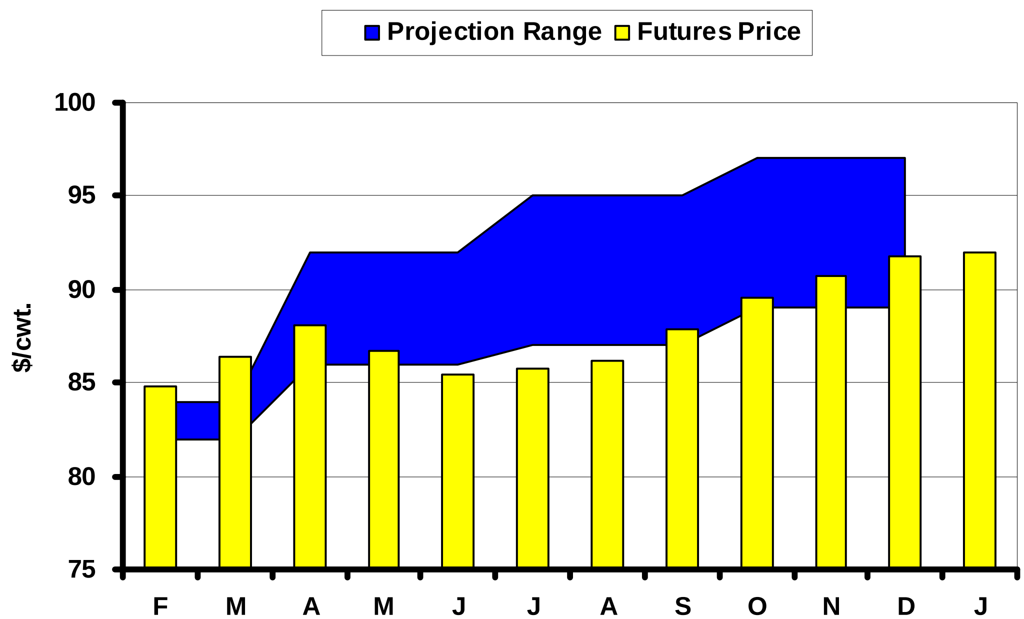

Source: USDA-NASS

## Fig. 4. USDA Projections, 2006-2017



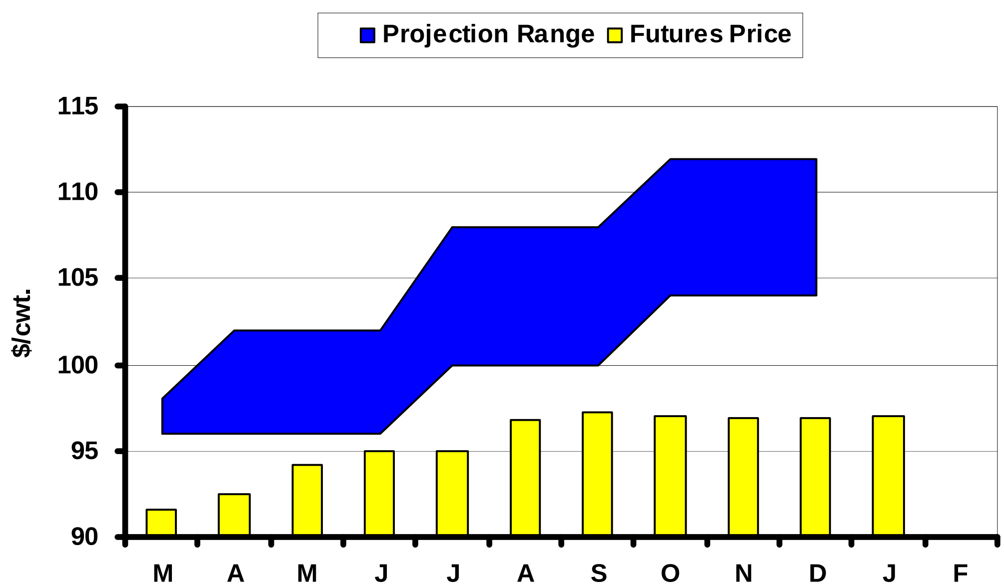

Source: OCE-2009-1, February 2009

## Fig. 5. Live Cattle Futures and Projections




Sources: CME & USDA-WASDE, February 10, 2009

## Fig. 6. Feeder Cattle Futures and Projections




Sources: CME & USDA-ERS, February 17, 2009

**In the Chute**
March 5: Livestock Outlook – SE Research Farm, SD (Diersen)
March 11: Live Cattle Projections (WASDE)
March 20: *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* |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 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 | 84.77 |
| 2009 | 83.61 | | | | | | | | | | | |

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* |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 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 | 82.00 |
| 2009 | 81.63 | | | | | | | | | | | |

Source: USDA-AMS.

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

| | *Jan* | *Feb* | *Mar* | *Apr* | *May* | *Jun* | *Jul* | *Aug* | *Sep* | *Oct* | *Nov* | *Dec* |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 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 | -2.77 |
| 2009 | -1.98 | | | | | | | | | | | |

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* |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 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 | 50.75 |
| 2009 | 49.00 | | | | | | | | | | | |

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* |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 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 | 102.55 |
| 2009 | 112.10 | | | | | | | | | | | |

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* |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 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 | 90.81 |
| 2009 | 95.47 | | | | | | | | | | | |

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* |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 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 | 11.74 |
| 2009 | 16.63 | | | | | | | | | | | |

## Futures Markets

| Live | 2/20/2009 | 1/23/2009 | Change | Feeder | 2/20/2009 | 1/23/2009 | Change |
|---|---|---|---|---|---|---|---|
| FEB 09 | 80.68 | 82.68 | -2.00 | MAR 09 | 88.38 | 92.75 | -4.38 |
| APR 09 | 83.43 | 85.80 | -2.38 | APR 09 | 89.83 | 93.53 | -3.70 |
| JUN 09 | 81.55 | 84.18 | -2.63 | MAY 09 | 91.65 | 95.65 | -4.00 |
| AUG 09 | 81.78 | 84.88 | -3.10 | AUG 09 | 95.00 | 97.40 | -2.40 |
| OCT 09 | 85.55 | 88.80 | -3.25 | SEP 09 | 95.30 | 97.40 | -2.10 |
| DEC 09 | 87.55 | 90.40 | -2.85 | OCT 09 | 95.30 | 97.30 | -2.00 |
| FEB 10 | 88.53 | 91.70 | -3.18 | NOV 09 | 95.50 | 97.40 | -1.90 |
| APR 10 | 89.00 | 92.00 | -3.00 | JAN 10 | 95.00 | | |
| JUN 10 | 88.70 | 90.00 | -1.30 | | | | |

Source: CME.

For more market information, go to the Department of Economics website at http://econ.sdstate.edu/. Under the Extension tab are links to *Current Market Analysis* and the *Cattle Market Review* page. These comments are updated monthly. The first link on the *Cattle Market Review* page will take you to .pdf versions of this and archived reviews.