

Cash prices in June showed a little contrast across classes (figure 1). Prices moved slightly higher for stocker cattle (on thin trading volume), while moving slightly lower for fed cattle. Feeder cattle and cull cow prices were steady. On the futures side, prices increased sharply during the past two weeks. Live cattle were higher compared to June while feeder cattle are sharply higher. There continues to be very thin trading volume on stockers in South Dakota.

The feed situation has been dominated by more corn acres, lower corn prices, and a continued tight hay supply. The June *Acreage* report showed that producers in South Dakota expect to harvest only 3.6 million acres of hay, the lowest June level ever recorded. Hay supply for 2007 will be relatively low and prices relatively high (figure 2). Using a trend yield of 1.8 tons per acre, production is estimated at 6.5 million tons. Any production problems from now will support prices for the coming year, especially given the very low ending stocks position.

The July *Cattle* report confirmed some trade expectations regarding expansion or the lack thereof. Total cattle inventory of 104.8 million head is down from a year ago, reflecting a set-back in expansion because of continued pasture condition problems and a changing feed situation across the U.S.(figure 3). Cow slaughter increased in three first half of 2007 with a corresponding lower calf crop figure. The 2007 calf crop is estimated at 37.4 million head following three years of steady calf crops. The smaller calf crop should translate into higher calf prices this fall and some support for prices into 2008.

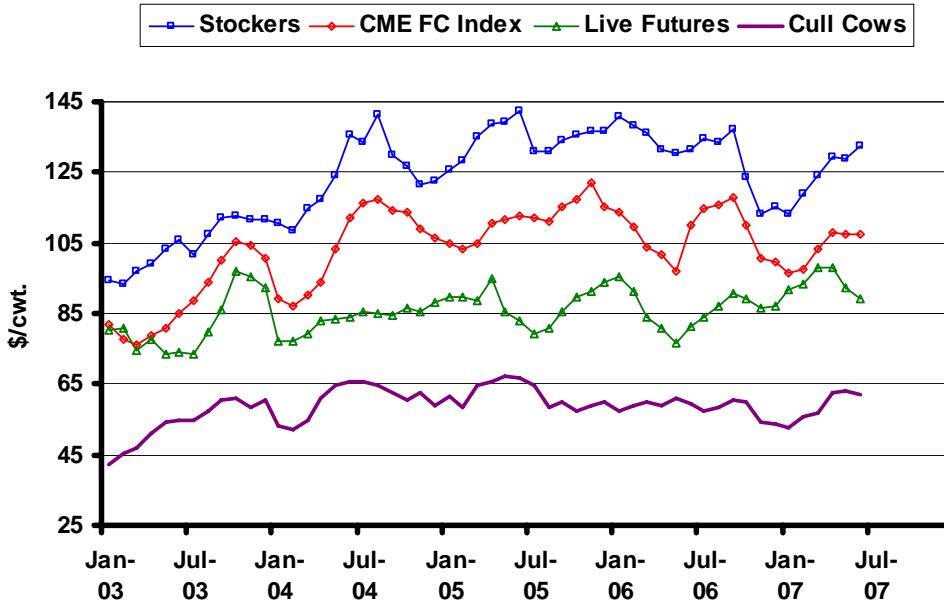
Looking at some of the other *Cattle* figures shows that producers curtailed expansion plans. There were a fair number of heifers as of January 1 that were not in feedlots and that were not inventoried as replacements. As of July 1 the number of replacements totaled 4.7 million head, down sharply from the previous two years when expansion slowly occurred (figure 4). The heifer mix on feed has been growing even though the slaughter mix had not been showing any major shift. The other heifer category is still up slightly from last year, which explains some of the increase in the supply of feeder cattle outside of feedlots. Typically, the supply outside feedlots would weigh on prices, but cash prices for feeders are not reflecting any such impact.

The latest WASDE report had modest changes to projections for fed cattle. The initial projection range was given for the second quarter of 2008. The range of \$85 to \$92 per cwt is wide and not much higher than that for the first quarter of 2008. Futures prices are much higher than the fundamentals regardless of the marketing horizon (figure 5), suggesting pricing or protection strategies are warranted.

Feeder cattle prices have a similar situation. The ERS projections were little changed from last month while the initial projection range for the second quarter of 2008 is slightly higher than for the first quarter. The futures prices remain well above the projections, again suggesting pricing or protection strategies would be warranted (figure 6). The number of cattle on feed, at 12.3 million head, is down from last year. The heifer mix is sharply higher compared to last quarter and compared to a year ago, confirming expansion is on hold.

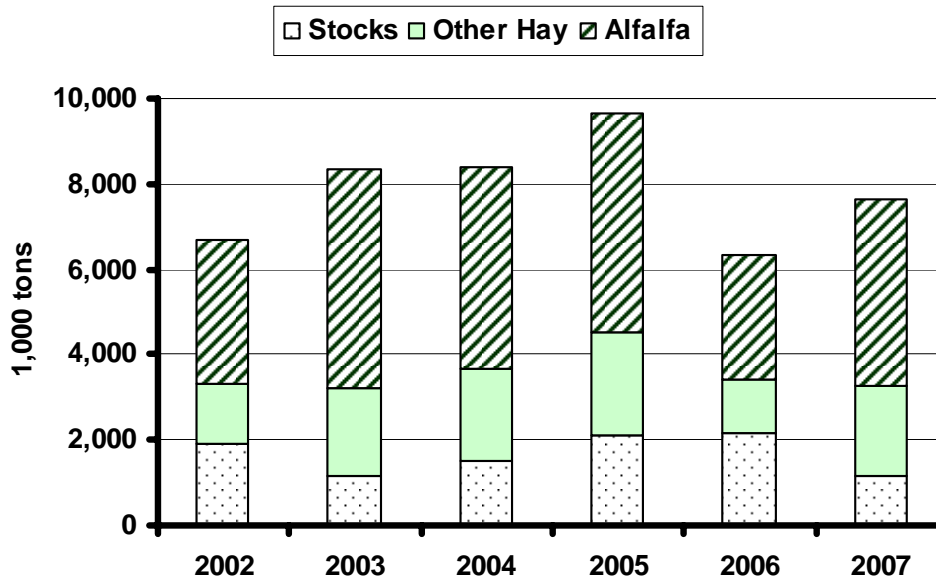
* Diersen is an associate professor in the Department of Economics at South Dakota State University. Contact him at 605-688-4864 or matthew.diersen@sdstate.edu with questions or comments.

Fig. 1. Monthly South Dakota Cattle Prices



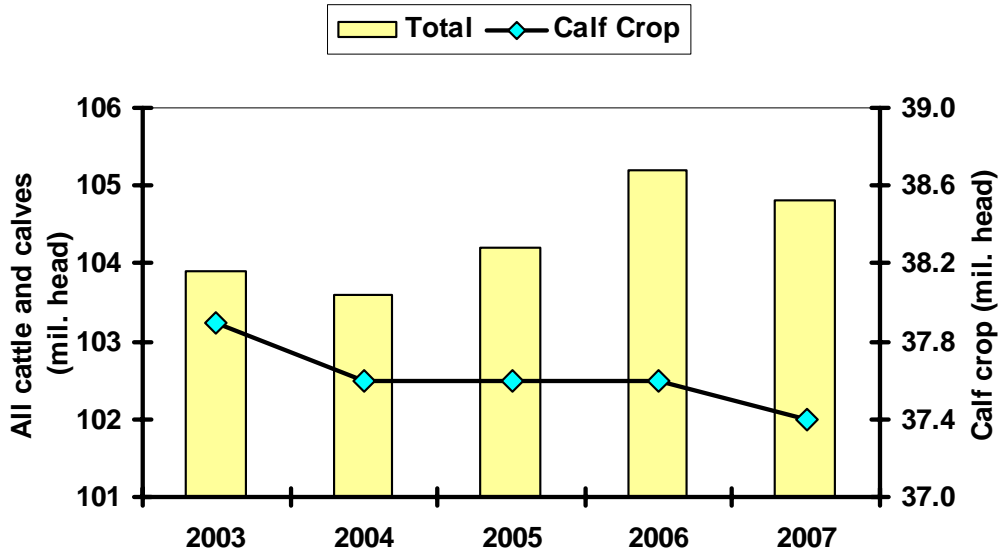
Sources: CME, USDA-AMS, & SDSU

Fig. 2. South Dakota Hay Production



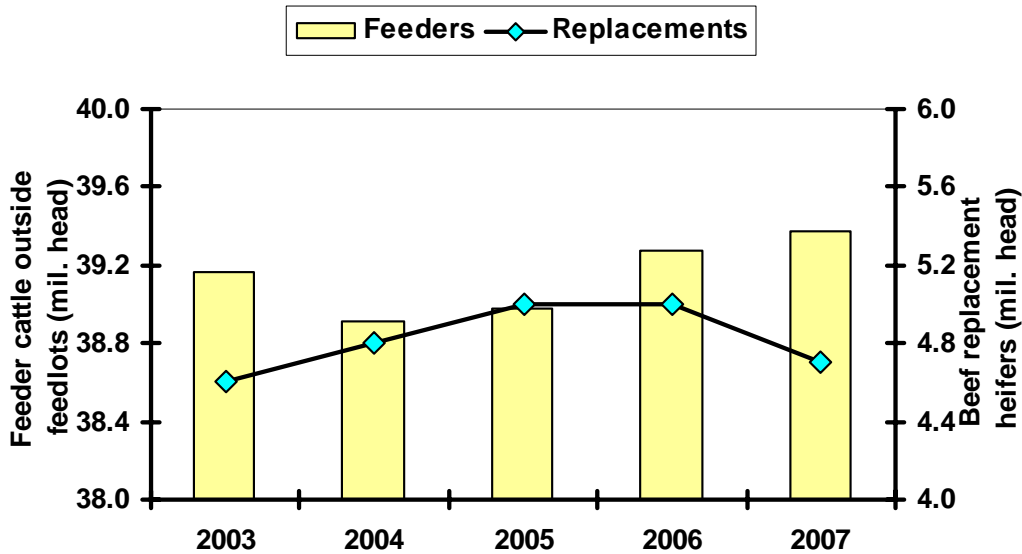
Source: USDA-NASS Note: 2007 production is based on June Acreage figures and 10-year average yield.

Fig. 3. July 1 U.S. Cattle Inventory



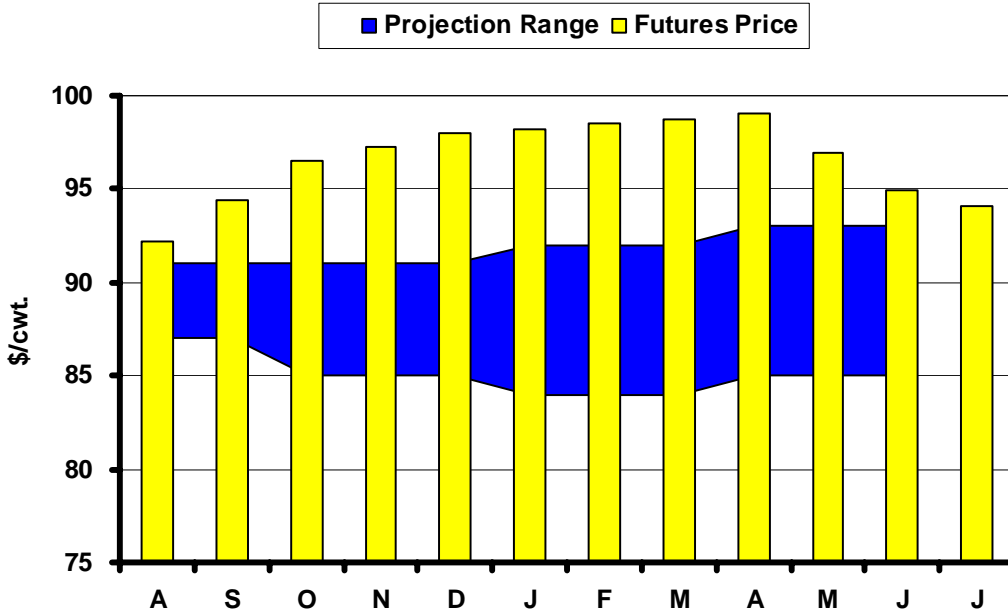
Source: USDA-NASS

Fig. 4. July 1 U.S. Cattle Inventory



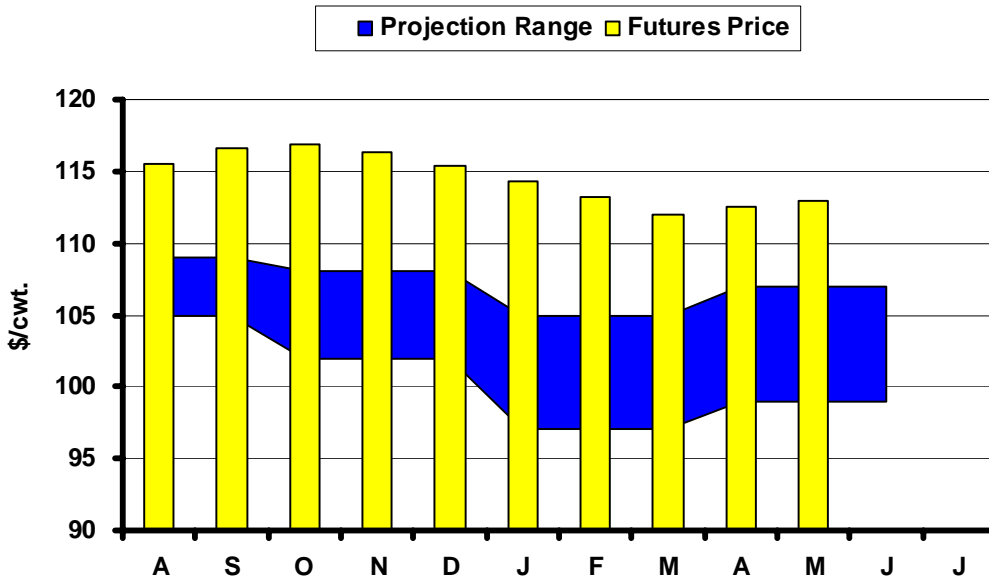
Source: USDA-NASS

Fig. 5. Live Cattle Futures and Projections



Sources: CME & USDA-WASDE, July 12, 2007

Fig. 6. Feeder Cattle Futures and Projections



Sources: CME & USDA-ERS, July 20, 2007

In the Chute

July 31: *Agricultural Prices* (NASS)

August 10: Live Cattle Projections (WASDE)

August 17: *Cattle on Feed* (NASS)

August 21-23: Dakotafest

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						

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						

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						

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						

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						

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						

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						

Futures Markets

Live	7/20/2007	6/22/2007	Change	Feeder	7/20/2007	6/22/2007	Change
AUG 07	90.82	89.58	1.24	AUG 07	115.50	108.35	7.15
OCT 07	96.60	93.43	3.18	SEP 07	116.67	108.55	8.12
DEC 07	98.67	95.10	3.57	OCT 07	116.92	108.60	8.32
FEB 08	98.90	96.50	2.40	NOV 07	116.40	108.35	8.05
APR 08	98.90	97.15	1.75	JAN 08	114.30	106.25	8.05
JUN 08	94.72	94.00	0.72	MAR 08	112.00	105.70	6.30
AUG 08	93.07	92.70	0.37	APR 08	112.47	105.70	6.77
				MAY 08	113.00		

Source: CME.