

Cash prices were slightly higher for fed cattle and feeder cattle during September (figure 1). The prices for stocker cattle and cull cows were steady. On the futures side, the nearby live cattle and feeder cattle contracts traded at sharply lower levels. The deferred contracts trade was mixed compared to a month ago. The weekly stocker price continues to decline following seasonal pressure (figure 2). The stocker basis during September was a relatively narrow \$10.94 per cwt compared to feeder cattle. The .pdf version of these comments contains price and basis tables.

On the feed side, the October *Crop Production* report confirmed expectations of a large corn crop. Lower corn prices should ease pressures on the cost of gain and the stocker basis. The other crop of interest was hay. U.S. production of 148 million tons is projected to be higher when compared to the August forecast. The higher level should be adequate to maintain stocks (which are tight) and hold prices steady. In addition, hay supply should be large enough to allow beef expansion plans to resume. In South Dakota the alfalfa yield was increased from 2.2 tons per acre in August to 2.8 tons per acre in October. If realized, the yield would match the record level set in 1999. The higher yield on alfalfa boosts total production to 8.13 million tons, a level last reached in 2001, and total supply to 9.28 million tons, a level last reached in 2005.

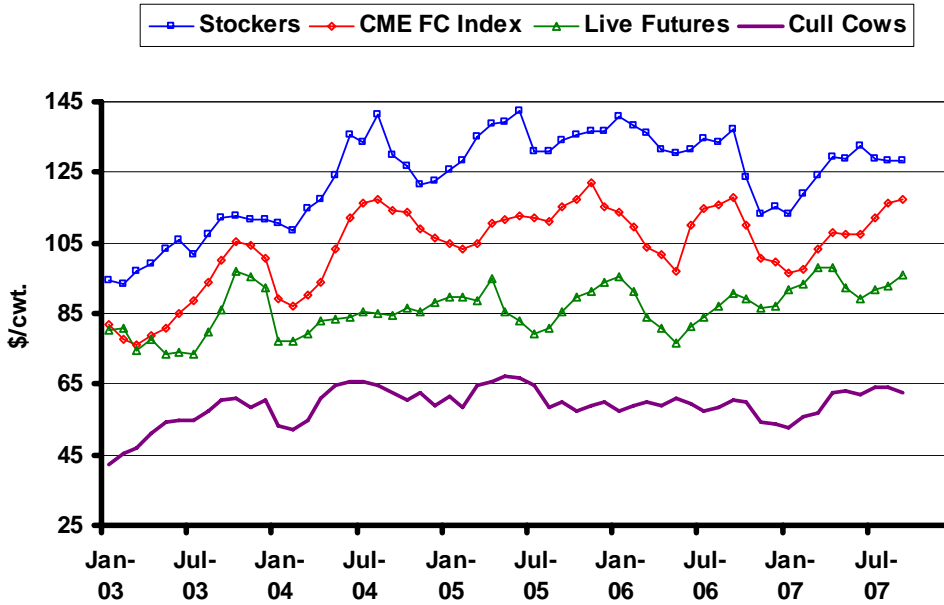
The Risk Management Agency recently announced that several remaining counties in western South Dakota are now eligible for Pasture, Rangeland, Forage insurance or PRF (figure3). For the 2007 production year, producers in South Dakota insured over 3 million acres under PRF or about 19 percent of total eligible acres. The conditions during the year resulted in a small number of indemnity payments concentrated in Shannon County. Unfortunately, only 2 percent of rangeland was covered in that county. The sales closing date for PRF is November 30.

As backgrounding gets underway producers are encouraged to assess the market risk of feeder cattle prices. During September the nearby through January feeder cattle contracts traded sharply lower, while the March and other deferred contracts traded at steady levels. March would be a commonly used contract month for backgrounders to consider when hedging. The track record for price changes of the March futures contract shows similar odds of the price increasing or decreasing between November, when hedges are likely placed, and at expiration in March (figure 4). Such volatility can be managed by purchasing LRP or put options.

The latest WASDE report again increased price projections for fed cattle. Futures prices remain higher than the projection range through the third quarter of 2008 (figure 5). The third quarter projections are the initial ones and they reflect seasonal pressure. The ERS price projections for feeder cattle were revised higher and the range encompasses the futures prices until the third quarter of 2008 (figure 6). The slight upside potential also suggests using LRP or put options on feeder cattle through the backgrounding season. On the positive side for prices, the October *Cattle on Feed* report showed the number on feed is down from last year. On the negative side, placements of heavy feeders were up compared to last year. The heifer mix is higher than last year, while the absolute number on feed is lower. Thus, there are mixed signals regarding herd expansion.

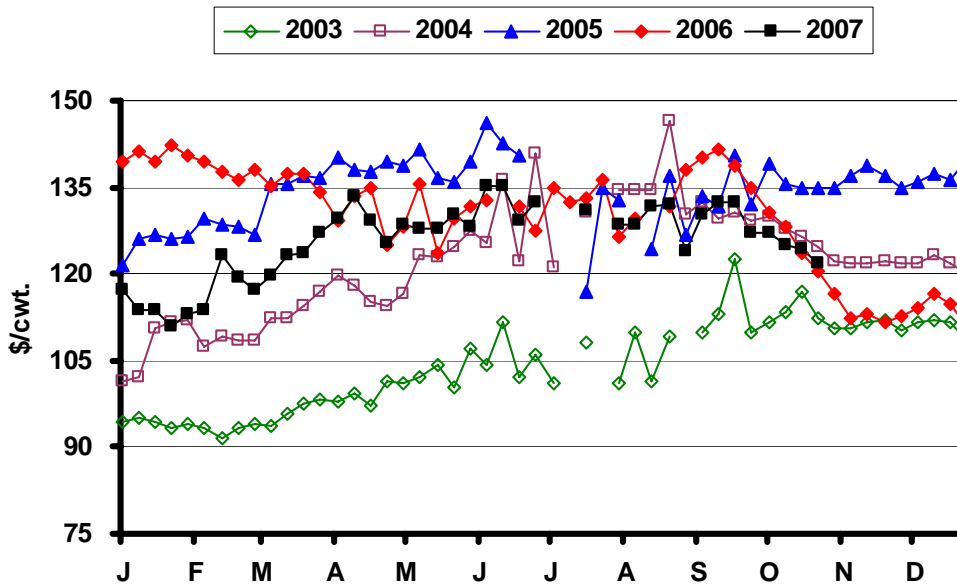
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Fig. 1. Monthly South Dakota Cattle Prices



Sources: CME, USDA-AMS, & SDSU

Fig. 2. Weekly South Dakota Stocker Cattle Prices



Sources: USDA-AMS & SDSU

Fig. 3. Pasture, Rangeland, and Forage Pilot Program

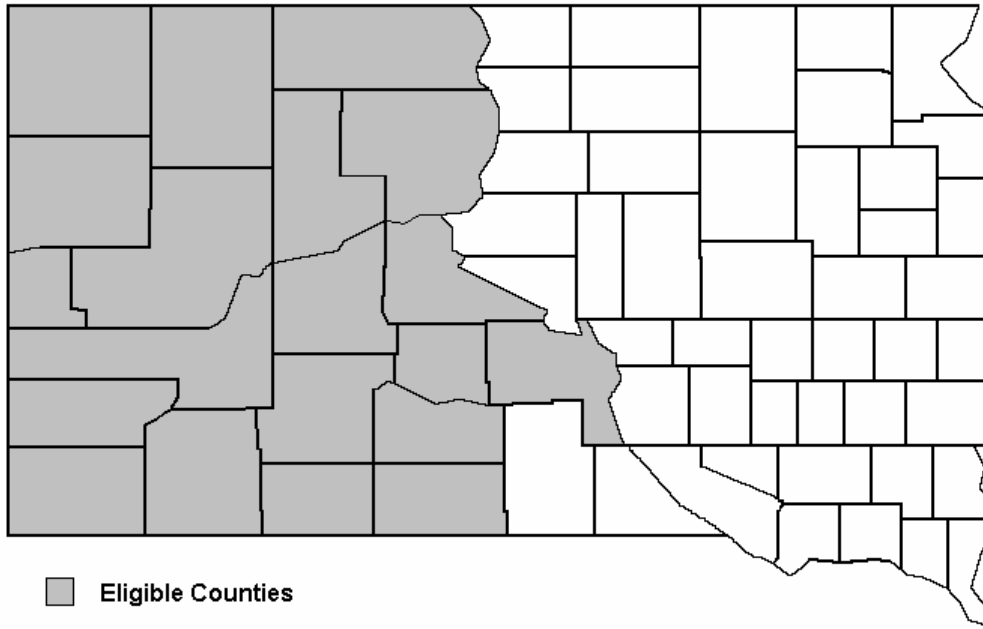
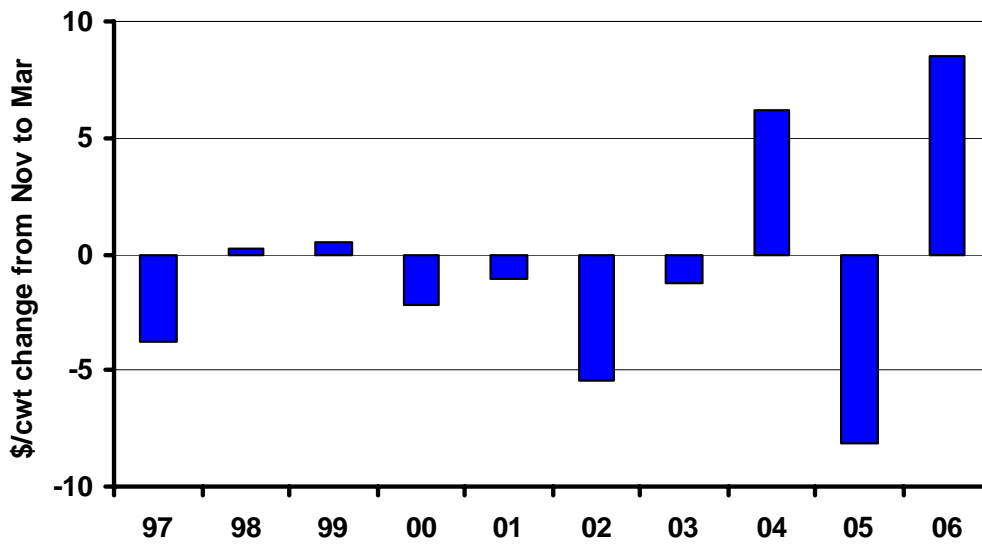
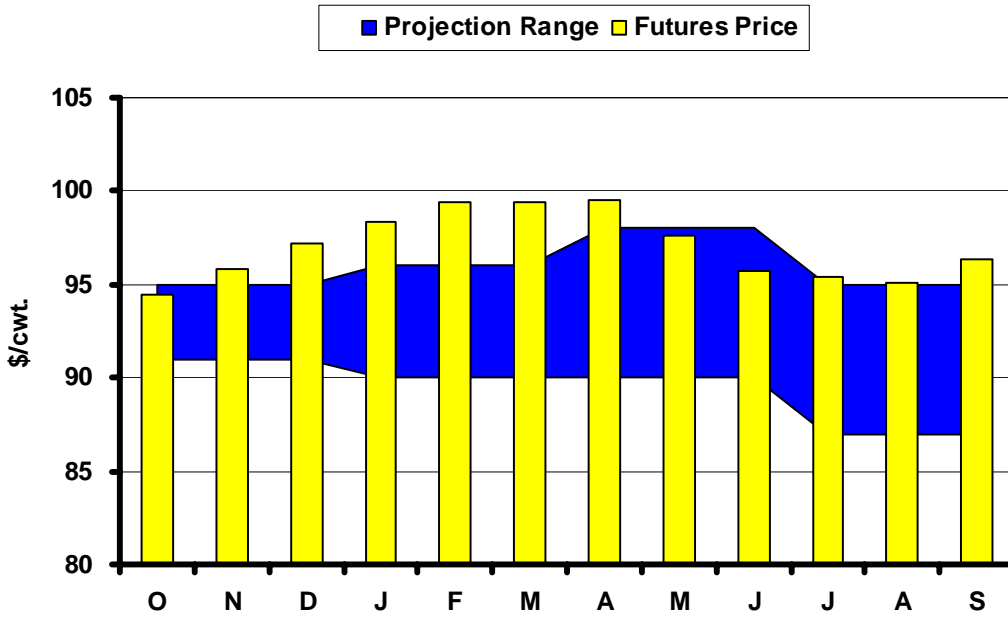


Fig. 4. March Feeder Cattle Futures Changes



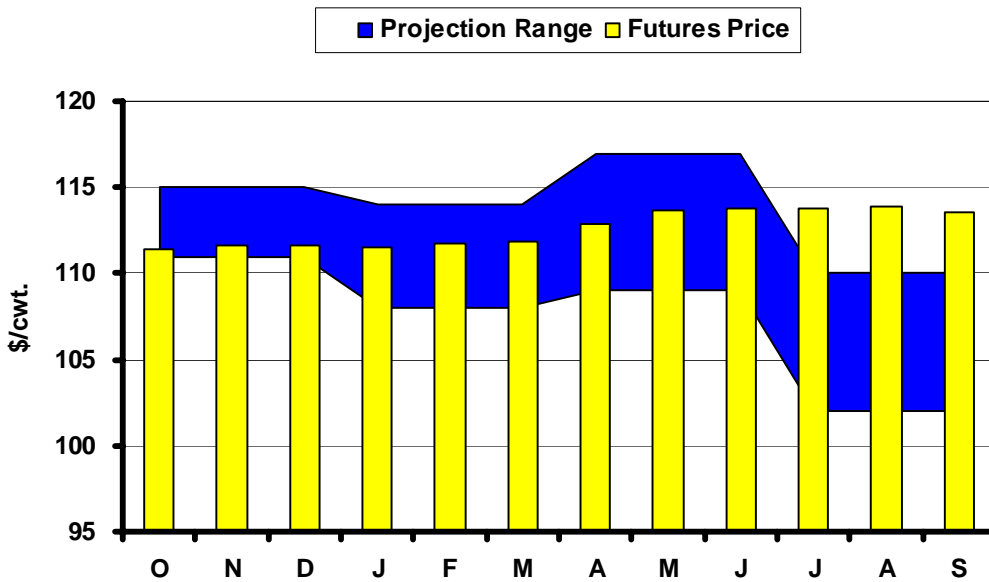
Source: LMIC

Fig. 5. Live Cattle Futures and Projections



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

Fig. 6. Feeder Cattle Futures and Projections



Sources: CME & USDA-ERS, October 22, 2007

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November 9: Live Cattle Projections (WASDE)

November 16: *Cattle on Feed* (NASS)

November 19: Cattle Outlook – Madison, SD (Diersen)

November 24: Cattle & Corn Outlook – Platte, SD (Diersen)

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			

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			

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			

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			

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			

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			

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			

Futures Markets

Live	10/19/2007	9/20/2007	Change	Feeder	10/19/2007	9/20/2007	Change
OCT 07	95.30	96.70	-1.40	OCT 07	111.50	116.20	-4.70
DEC 07	97.30	100.18	-2.88	NOV 07	111.30	116.38	-5.08
FEB 08	98.97	101.58	-2.61	JAN 08	111.15	114.20	-3.05
APR 08	98.67	101.25	-2.58	MAR 08	111.65	112.00	-0.35
JUN 08	95.10	97.08	-1.98	APR 08	112.50	113.00	-0.50
AUG 08	95.02	95.30	-0.28	MAY 08	113.30	113.05	0.25
OCT 08	97.70	97.95	-0.25	AUG 08	113.40	112.80	0.60
DEC 08	98.60	98.80	-0.20	SEP 08	113.50		
FEB 09	99.60	99.30	0.30				

Source: CME.