

Cattle prices have started to settle down after two months of steady and large price declines. In September live cattle prices were steady while prices for other classes fell (figure 1). October brought the largest declines on stockers, feeder futures and live futures. Futures prices are sharply lower across the board, ignoring historically prominent seasonal patterns. The deferred contracts in particular seem to be ignoring potential impacts of 2009 corn price volatility. Weekly stocker prices seem to have stabilized as of late (figure 2). Supply pressure is usually evident this time of year as calves are brought to markets.

On the input side, the cash price for corn has fallen substantially in recent weeks. Corn will likely be attractive to cattle feeders again as they can quickly ramp up usage by increasing the percent of corn in the ration or substitute back to corn from other feedstuffs. Hay is likely one input that will see some different views as far as usage. In South Dakota the October Crop Production report had the alfalfa yield again higher. The latest figure means that the hay supply in South Dakota is the highest since 2001 (figure 3). Hay prices had been falling during the summer as harvest pressure and farmer-feeders realized they would have ample supplies. September prices turned back up slightly.

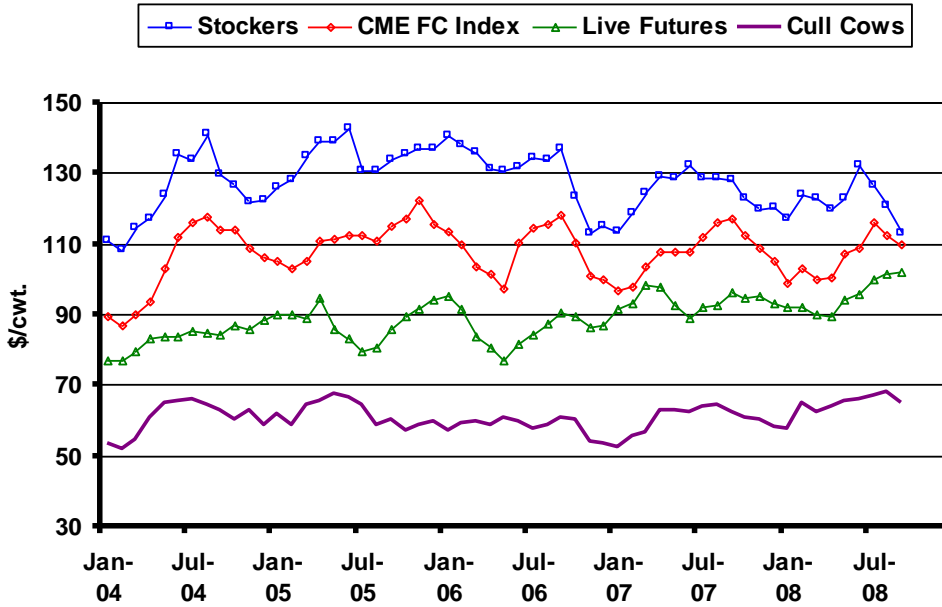
Low calf prices, abundant hay supplies locally, and lower corn prices are all factors that would encourage backgrounding calves in the region. The backgrounding margin continues to be positive; there is a positive expected return to feeding calves into 2009. The catch is the ever-increasing level of price risk for those choosing to background without protection. In five of the past six years the feeder price between November and March has moved by more than \$5 per cwt, which translates into more than \$35 per head for a 700 pound feeder (figure 4). In 2007 the March futures price dropped \$7.83 from November to March. The cost for price protection is also very high right now as at-the-money put options are trading around \$5 per cwt. Backgrounders may have to take a hard look at the break-even and decide just how much risk they may be willing to take on.

The latest WASDE report revised the nearby quarter's price projection range lower as production is expected to increase. The futures prices (already on October 10) are all much lower than the bottom end of the projection range through the third quarter of 2009 (figure 5). Thus, there is substantial fundamental upside potential in live cattle. Aggressive pricing strategies would be unwarranted except in the very short run to cover or guard against additional corn market moves. Put options or synthetic put options strategies would allow for some price protection and upside potential. The disparate pattern is even more pronounced in the feeder cattle projections. The ERS price projections show a huge range for the nearby quarter, with a substantially increasing range for 2009. The projection range is above the futures prices (from October 17) suggesting upside potential based on fundamental factors here also (figure 6). For those backgrounding there is thus fundamental support for prices to move higher, but the shorter time frame suggests that is by no means guaranteed to happen. Finally, the October *Cattle on Feed* report continues to show heavy feeders being placed on feed. The heifer mix was below year-ago levels, suggesting that some producers are replacing cows instead of adding to herd size.

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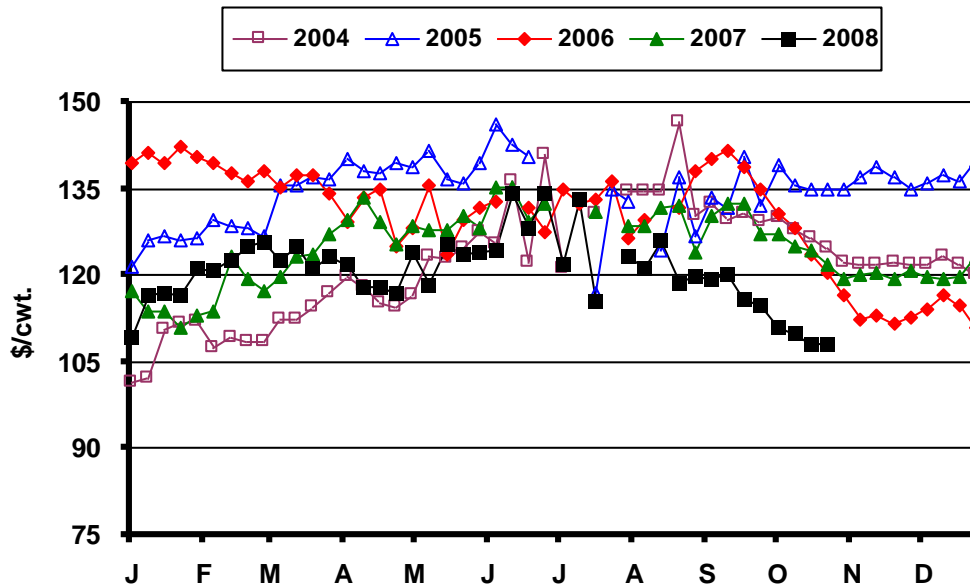
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**Fig. 1. Monthly South Dakota Cattle Prices**



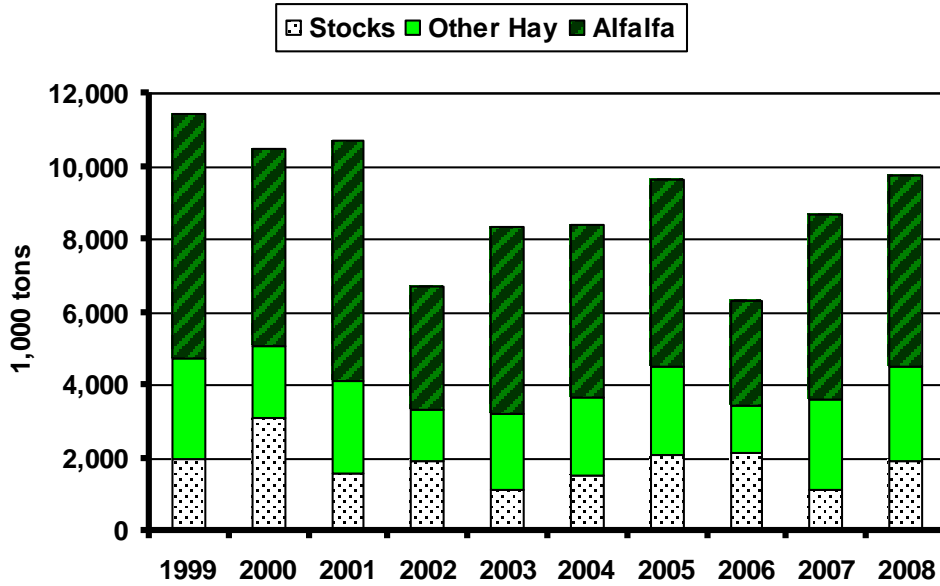
Sources: CME, USDA-AMS, & SDSU

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



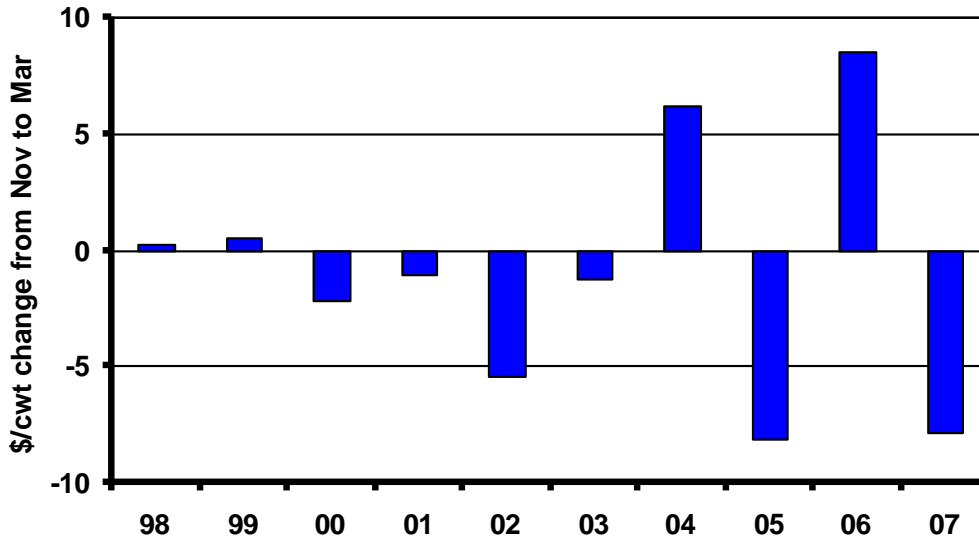
Sources: USDA-AMS & SDSU

**Fig. 3. South Dakota Hay Supply**



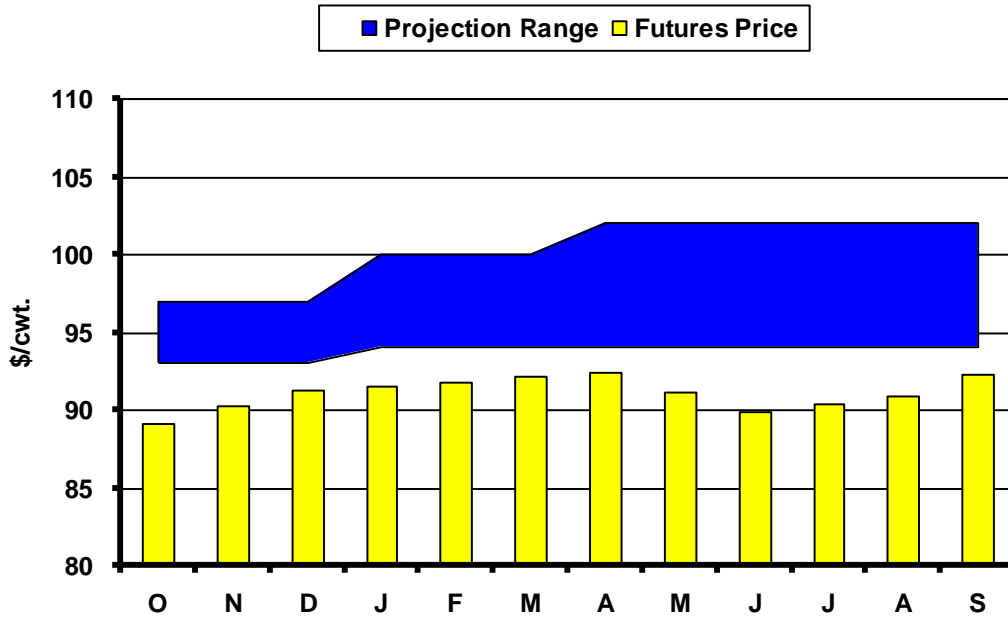
Source: USDA-NASS

**Fig. 4. March Feeder Cattle Futures Changes**



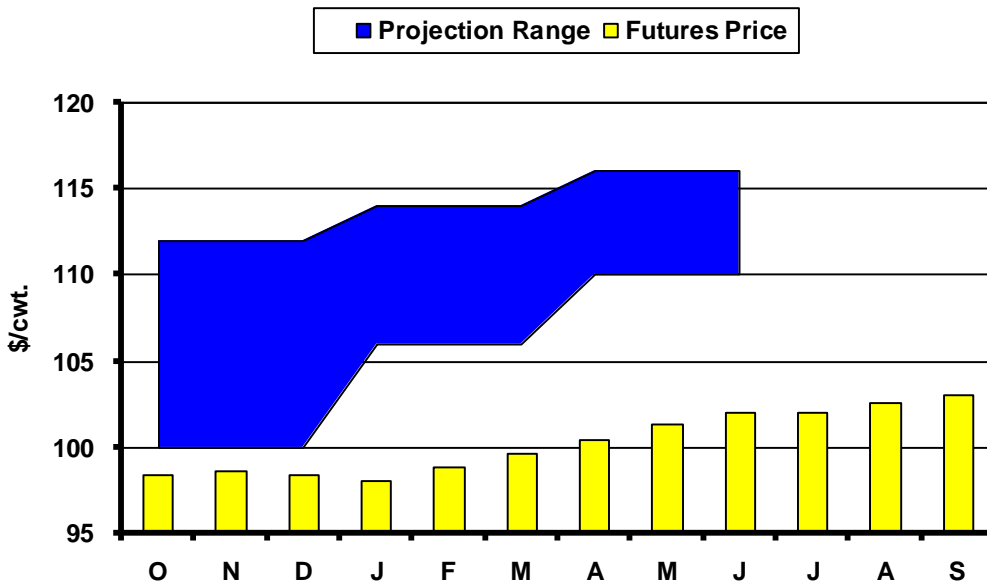
Data Source: LMIC

**Fig. 5. Live Cattle Futures and Projections**



Sources: CME & USDA-WASDE, October 10, 2008

**Fig. 6. Feeder Cattle Futures and Projections**



Sources: CME & USDA-ERS, October 17, 2008

## In the Chute

November 10: Live Cattle Projections (WASDE)

November 21: *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
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			

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			

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			

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			

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			

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			

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			

**Futures Markets**

Live	9/22/2008	9/22/2008	Change	Feeder	9/22/2008	9/22/2008	Change
OCT 08	89.75	102.45	-12.70	OCT 08	97.78	106.00	-8.22
DEC 08	89.88	103.90	-14.03	NOV 08	96.78	105.65	-8.88
FEB 09	90.95	104.15	-13.20	JAN 09	96.08	105.50	-9.43
APR 09	91.43	104.73	-13.30	MAR 09	97.15	106.50	-9.35
JUN 09	88.00	100.75	-12.75	APR 09	97.60	107.20	-9.60
AUG 09	88.23	102.70	-14.48	MAY 09	98.70	107.80	-9.10
OCT 09	91.50	105.60	-14.10	AUG 09	100.90	109.00	-8.10
DEC 09	93.30	106.40	-13.10	SEP 09	103.10		
FEB 10	94.60						

Source: CME.