Cattle Market Review – October 21, 2009 **Matthew Diersen***

Cash cattle prices were sharply lower during September (figure 1). The only prices that finished higher were some of the live cattle futures prices. The feeder cattle futures prices were sharply lower. The weekly stocker cattle prices are under seasonal price pressure and what seems to be a good (ample) supply of heavier-weight feeder cattle at South Dakota sale locations (figure 2). The corn price rally and general uncertainty are weighing heavily on stocker prices as well. The volume traded has increased in the past few weeks. For September the location basis (cash stockers minus the CME Feeder Index) was relatively narrow.

The October *Crop Production* report showed that hay production estimates were unchanged from August. If realized the production and supply (adding in old stocks) levels would be the highest in South Dakota since 2001. This is also the third year in a row of above-average yields. Quality has been a concern all year, but production is generally the main concern from a beef perspective. Prices have been pressured by continued low milk prices. In South Dakota the alfalfa price in September was $75 per ton and the other hay price was $60 per ton (figure 3). Thus, prices are back at levels last observed in 2006. Typical fall disappearance would result in stocks on December 1 slightly above last year's level.

Late in September there were some mixed signals from the *Quarterly Hogs and Pigs* report. Sow farrowings were exceptionally high during 2007 (figure 4). Furthermore, the farrowing levels exceeded expectations for several quarters in a row. The result was more pigs (and pork) than pork producers and beef producers expected. The increased pork production also happened at the same time corn demand was under pressure from ethanol production. Sow farrowings have been tapering off since the peak, but are still not down to the levels from earlier this decade. The farrowings seemed sustainable when they hovered below 2.9 million head per quarter. The latest intentions are 2.935 million head farrowing from September through November and 2.93 million head farrowing from December through February. Thus, based on farrowings alone there will be ample pork production for the next year. Productivity has also increased as the latest report showed a sharply higher 9.70 pigs per litter. Back when farrowings were last below 2.9 million head, productivity was closer to 9.00 pigs per litter. Note that these figures do not account for changes in the Canadian inventories.

The latest WASDE report did show a slight reduction in the price expectations for the fourth quarter of 2009. However, the early projections for the third quarter of 2010 show a huge disparity compared to the futures prices (figure 5). The substantial upside after the first quarter of 2010 suggests that the upside be left open by using put options, LRP, or similar protection strategy. The ERS price projections for feeder cattle have fundamental support for higher prices (both now and into 2010. The projection range is almost completely above futures prices through the next year (figure 6). Thus, there remains substantial upside potential for prices based on fundamentals (i.e., there are no guarantees of the upside occurring). The message, however, is consistent with tightening supplies of cattle in 2010 and an improved economy. The same protection strategies apply: LRP, put options, and their equivalents would leave the upside open. The lower volatility in recent months makes these tools relatively affordable.

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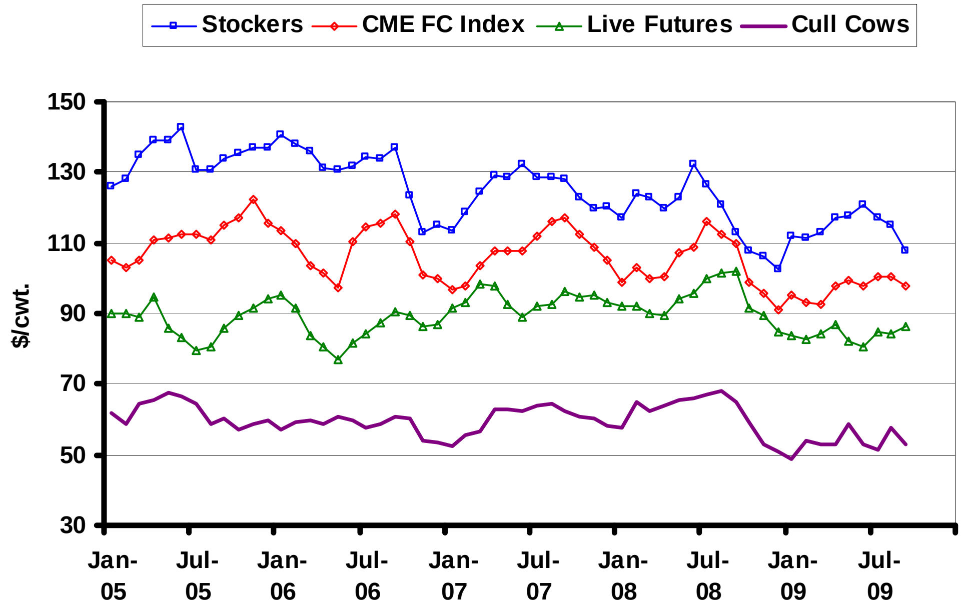
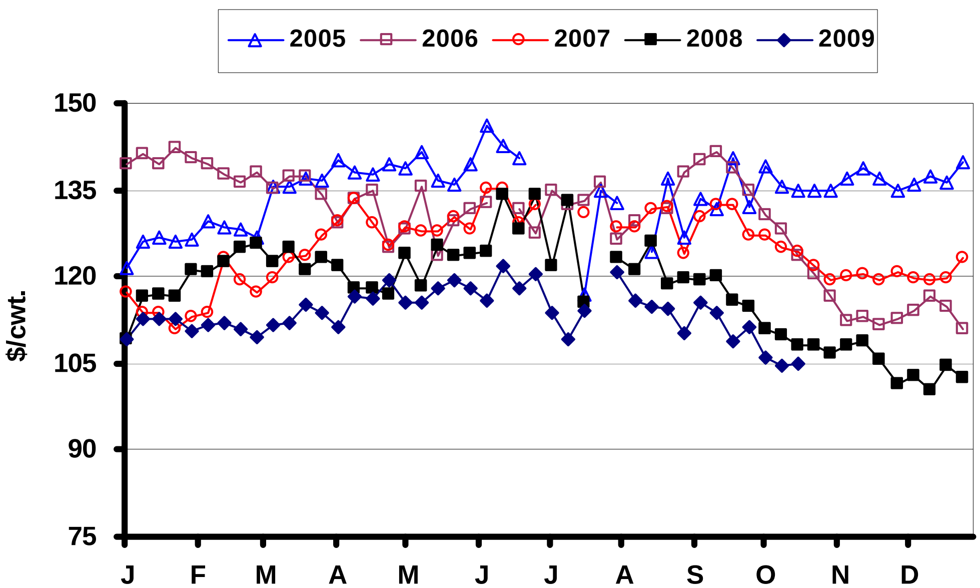
Fig. 1. Monthly South Dakota Cattle Prices



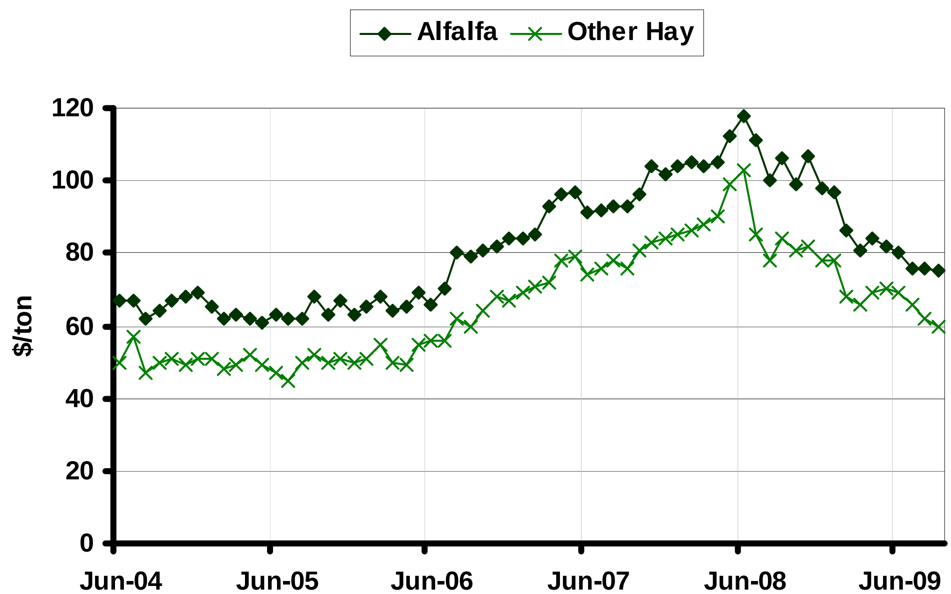
Sources: CME, USDA-AMS, & SDSU

Fig. 2. Weekly South Dakota Stocker Cattle Prices



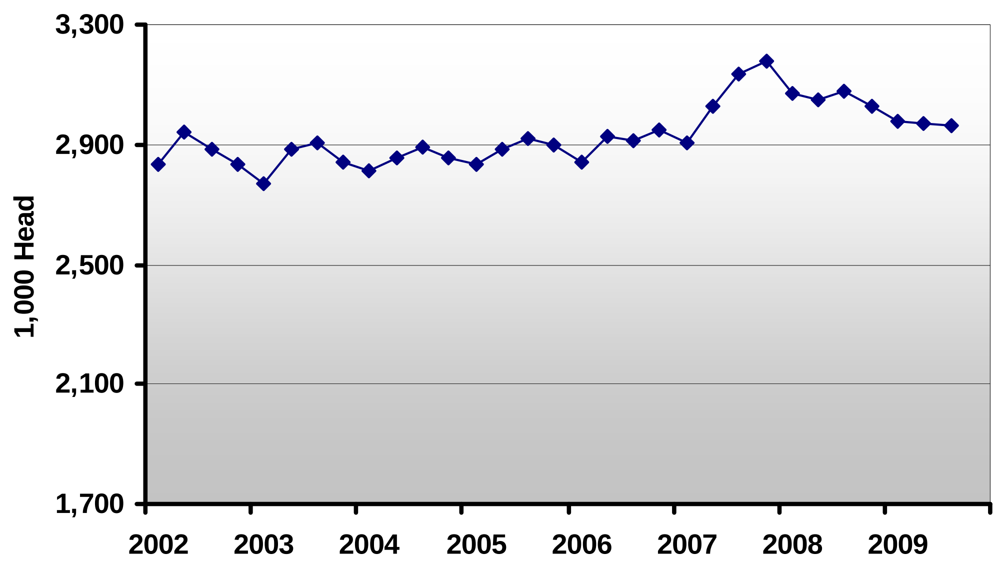
Sources: USDA-AMS & SDSU

Fig. 3. Monthly South Dakota Hay Prices



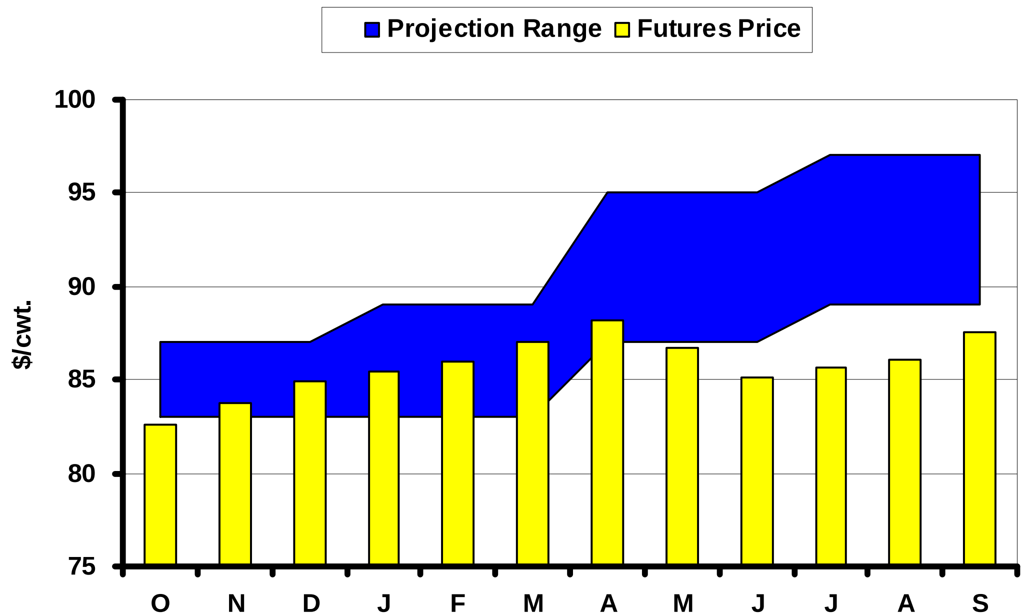
Source: USDA-NASS

Fig. 4. US Quarterly Sow Farrowings



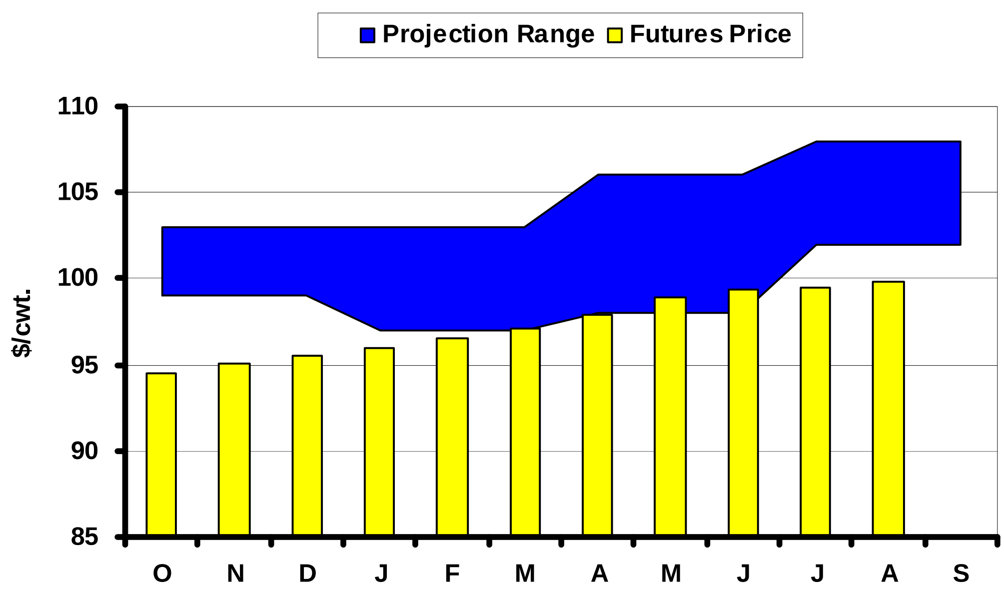
Source: USDA-NASS

Fig. 5. Live Cattle Futures and Projections



Sources: CME & USDA-WASDE, October 9, 2009

Fig. 6. Feeder Cattle Futures and Projections



Sources: CME & USDA-ERS, October 16, 2009

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November 10: Live Cattle Projections (WASDE)
November 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	82.84	84.09	86.82	82.34	80.79	84.84	84.35	86.39			

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	78.69	79.00	84.90	85.17	81.00	81.51	82.50	80.45			

Source: USDA-AMS. Prices as of July 2009 reflect Sioux Falls Regional Livestock sales.

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	-4.15	-5.09	-1.92	2.83	0.22	-3.33	-1.85	-5.94			

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. Prices as of July 2009 reflect Sioux Falls Regional Livestock sales.

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	54.00	53.00	52.88	58.75	53.00	51.53	57.88	53.00			

Notes: December 2006 was estimated using the average spread over heavy breakers. The April 2009 price is for heavy breakers.
Source: USDA-AMS. Prices as of July 2009 reflect Sioux Falls Regional Livestock sales for 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	111.29	113.06	117.17	117.44	120.79	117.06	114.88	107.84			

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	93.34	92.47	98.00	99.58	97.73	100.59	100.40	97.77			

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	17.95	20.59	19.17	17.86	23.07	16.47	14.49	10.07			

Futures Markets

Live	10/20/2009	9/21/2009	Change	Feeder	10/20/2009	9/21/2009	Change
OCT 09	84.90	84.97	-0.07	OCT 09	94.25	96.72	-2.47
DEC 09	86.15	84.52	1.63	NOV 09	95.20	96.70	-1.50
FEB 10	86.50	85.32	1.18	JAN 10	95.65	97.82	-2.17
APR 10	88.57	87.82	0.75	MAR 10	96.30	98.70	-2.40
JUN 10	85.57	84.77	0.80	APR 10	97.40	100.30	-2.90
AUG 10	85.95	85.47	0.48	MAY 10	98.20	100.80	-2.60
OCT 10	88.90	88.70	0.20	AUG 10	99.25	101.20	-1.95
DEC 10	89.35	89.40	-0.05	SEP 10	99.25		
FEB 11	90.00						

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.