

Cash cattle prices were steady to lower during August (figure 1). The AMS has started reporting weekly and monthly summary prices for the Sioux Falls Regional Livestock location. The cull cow price looks quite volatile in recent months, but that is mainly due to changes in quality grades reflected in available prices. The live and feeder cattle futures prices are sharply lower compared to this time last month. The live cattle futures prices and basis tables have been corrected. I apologize for the error that had been overstating the basis. The basis for Worthing was better than the recent August average from Sioux Falls. The weekly stocker price has followed the nearby feeder cattle futures prices lower, although volume continues to be sporadic and on the low side (figure 2).

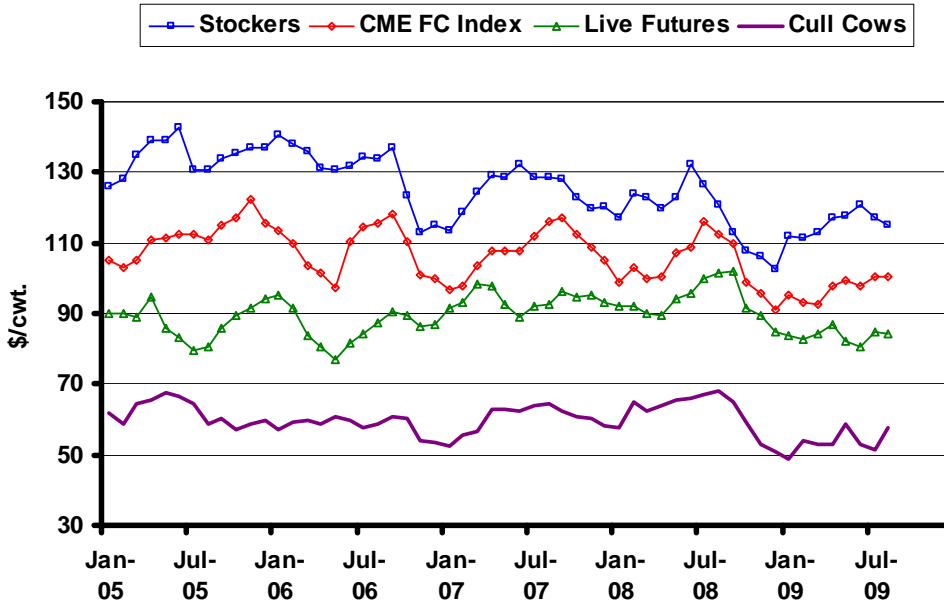
There have been some inquiries as to the profit prospects for backgrounding calves this fall and to the price prospects for calves in 2010. The relatively low cash prices this fall for stockers has some people considering feeding calves, especially when coupled with low corn prices. Backgrounding margins look similar to a year ago and a small profit is available depending on labor costs and overhead that needs to be covered. The abundant supply of corn and improved pasture prospects will likely encourage more retained ownership. This combination should help support calf prices through the end of 2009. As for calf prices in 2010, the fundamentals suggest fewer calves will be available. The slower growth of costs during 2009 has been offset by the continued low prices received so far. Demand for fat cattle will be the issue and competing meats (mainly pork) continue to be abundant. The *Quarterly Hogs and Pigs* report to be released next week needs to show some significant and sustained reduction in hog supplies for the fat cattle market to respond positively.

The implied volatility has moved lower in tandem with futures prices for feeder cattle. This is good news for hedgers and it means options and insurance products are less expensive than they have been in recent months. For those considering backgrounding, March 2010 feeder cattle futures are trading around \$99 per cwt. The at-the-money put option is trading at \$3.56 per cwt. The option price reflects a volatility of only 14%! The volatility is even less at the higher strike prices (figure 3). Last December (see the archived Cattle Market Review) the contract had a volatility of 25%. That high volatility would translate into an option cost today of \$6.61 per cwt. If you have to hedge you may get an addition break in the cost by covering sales using the out-of-the-money call options.

The latest *Cattle on Feed* report continues to show the number on feed below that seen in recent years (figure 4). The result is continued fundamental support for cattle prices, especially into 2010. The latest WASDE report continues to reflect prices for the second quarter of 2010 at the high end of the futures price for that time (figure 5). No clear strategy stands out until the quarter, when upside potential is evident suggesting put options as a tool. The ERS projections were tightened, but little changed from last month. The decline in futures prices now has them below the low end of the projection range (figure 6). Upside potential exists based on fundamentals through the first half of 2010. Livestock Risk Protection (LRP) is available as an alternative tool, but with large deductible levels in recent weeks.

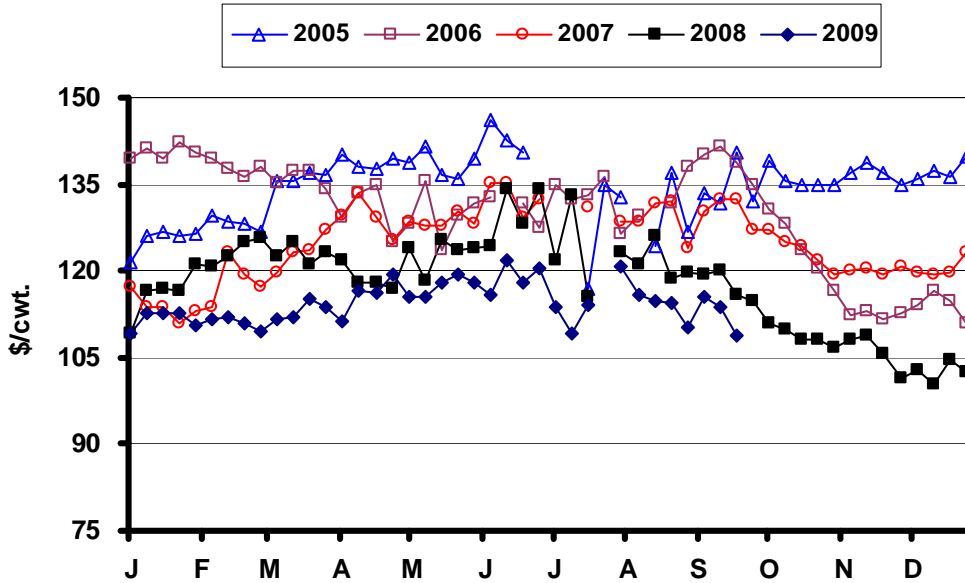
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Fig. 1. Monthly South Dakota Cattle Prices



Sources: CME, USDA-AMS, & SDSU

Fig. 2. Weekly South Dakota Stocker Cattle Prices



Sources: USDA-AMS & SDSU

Fig. 3. Feeder Cattle Volatility Smirk

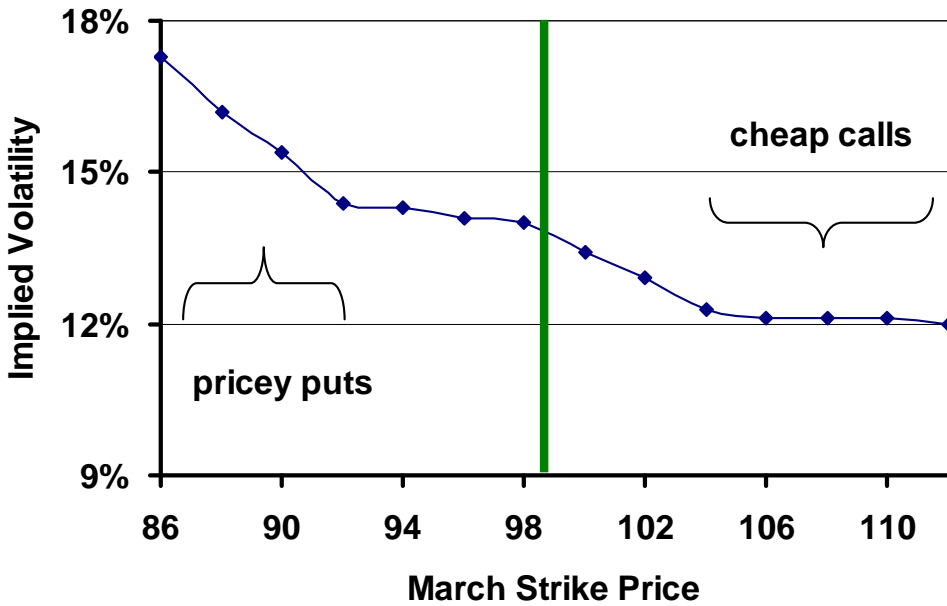
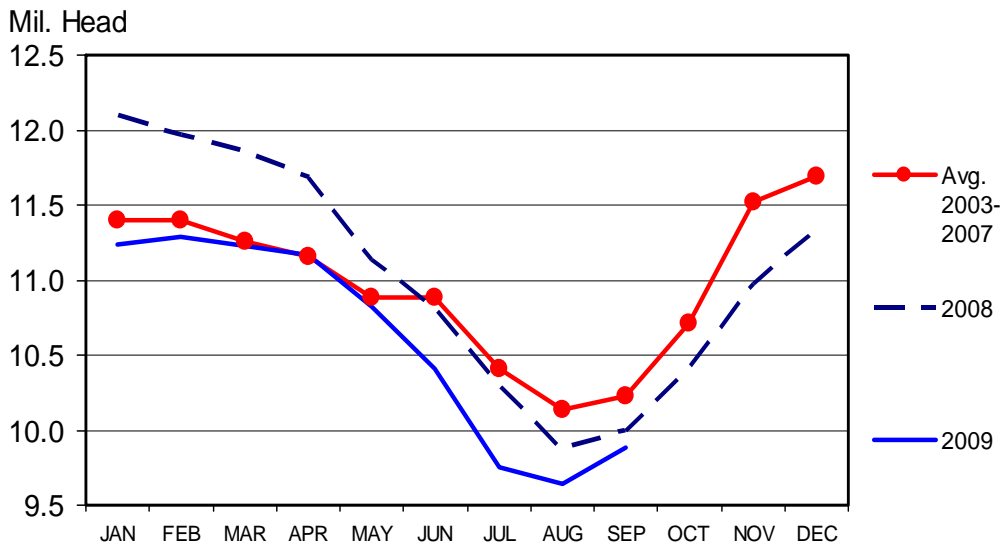


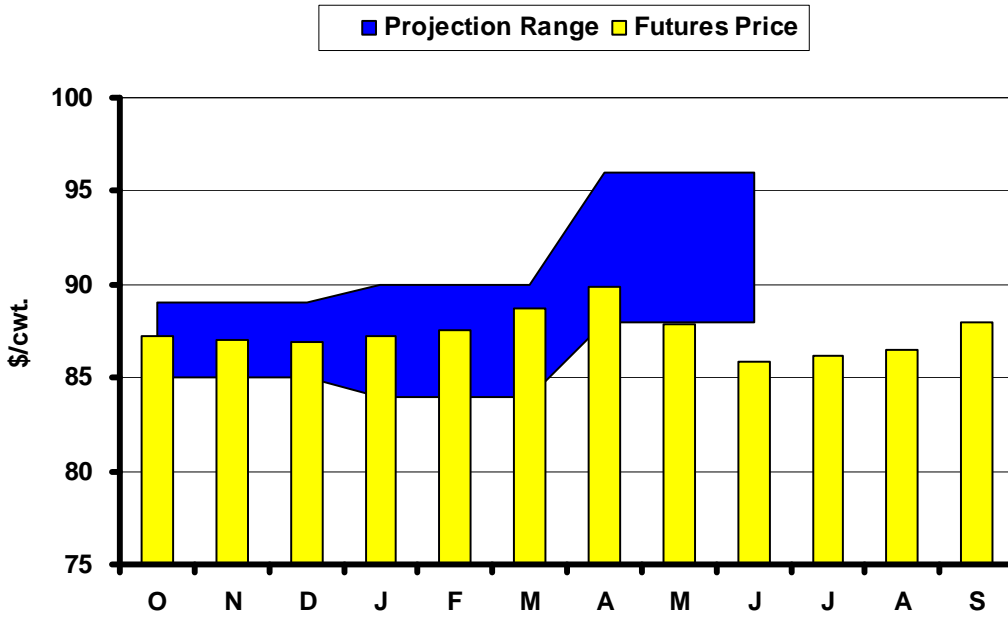
Fig. 4. U.S. Monthly Cattle on Feed



Livestock Marketing Information Center
Data Source: USDA/NASS

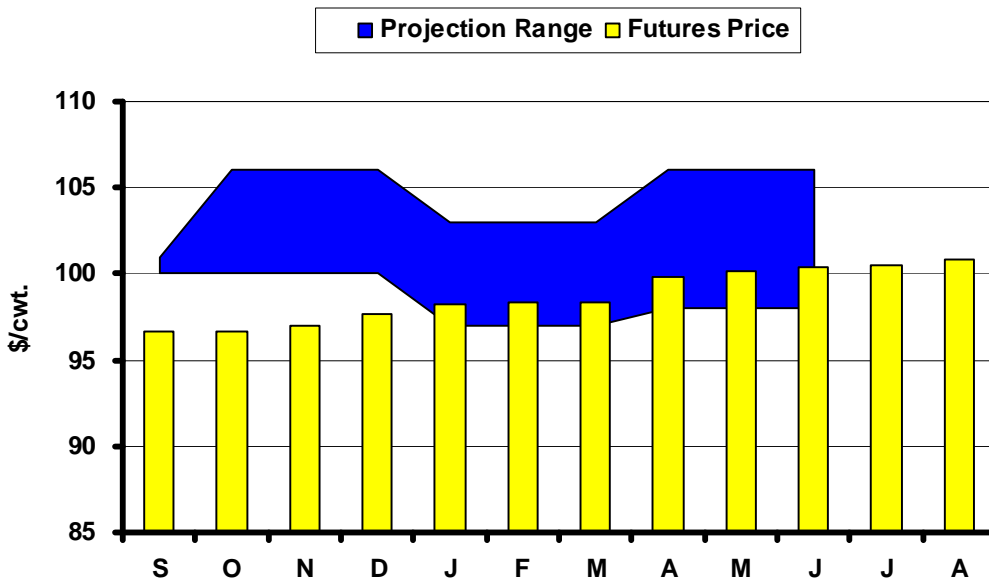
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Fig. 5. Live Cattle Futures and Projections



Sources: CME & USDA-WASDE, September 11, 2009

Fig. 6. Feeder Cattle Futures and Projections



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

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September 25: *Quarterly Hogs and Pigs* (NASS)

October 9: Live Cattle Projections (WASDE)

October 13-16: Extension Annual Conference, Brookings, SD

October 16: *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				

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				

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				

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				

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				

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				

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				

Futures Markets

Live	9/21/2009	8/21/2009	Change	Feeder	9/21/2009	8/21/2009	Change
OCT 09	84.97	88.60	-3.63	SEP 09	97.15	100.70	-3.55
DEC 09	84.52	88.15	-3.63	OCT 09	96.72	100.63	-3.91
FEB 10	85.32	88.08	-2.76	NOV 09	96.70	100.78	-4.08
APR 10	87.82	89.95	-2.13	JAN 10	97.82	101.58	-3.76
JUN 10	84.77	86.85	-2.08	MAR 10	98.70	101.60	-2.90
AUG 10	85.47	87.40	-1.93	APR 10	100.30	102.05	-1.75
OCT 10	88.70	90.70	-2.00	MAY 10	100.80	102.70	-1.90
DEC 10	89.40	90.60	-1.20	AUG 10	101.20		

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.