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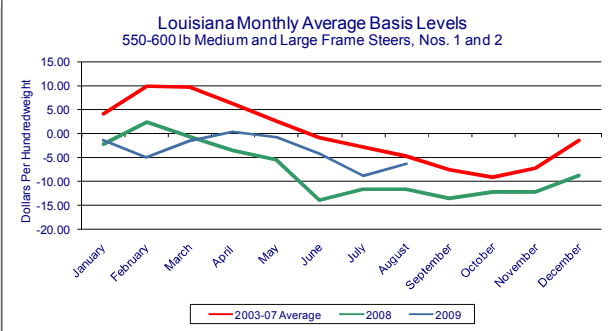
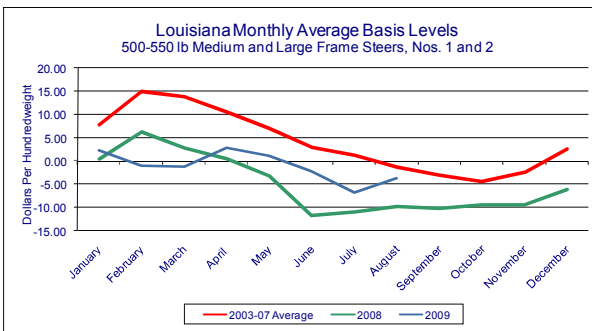
Louisiana State University AgCenter

**Narrowing of the Basis**

As calf prices typically weaken in the fall, so also the basis weakens with an increased supply of cattle that are on the market. The graphs below show that the basis for Louisiana calves follows a strong seasonal pattern. This seasonality is dampened, at least nationally, with heavier weight cattle. The basis largely reflects transportation costs from getting the commodity to a different market, e.g. from Delhi to Oklahoma City. An additional difference is due to the fact that most Louisiana calves marketed at Louisiana auction barns are not the 650-850 Medium & Large #1 and Medium & Large #1-2 steers that are needed to fill a Chicago Mercantile Exchange feeder cattle contract.

As transportation costs increased starting in late 2007, the basis in Louisiana also became more negative (local cash price minus the nearby futures market price). Since April of this year, the basis (denoted by the blue line) has become more positive and closer to the 2005-07 average. With fuel costs likely to never return to price levels seen earlier this decade, the pattern that has started to emerge this year is likely to remain barring a return to \$4 per gallon diesel or even higher.

The basis can be useful in generating an estimated cash price (basis + futures market price) as well as its use as a risk management tool due to the ability to lock in prices based on the basis. Even if producers aren't using the basis in marketing and management strategies, buyers are formulating bids based on the basis. Local supply and demand determinants will affect the cash price, so using the basis to calculate expected prices is not without some risk. The graphs below are for cattle marketed at Louisiana auctions and not through internet/video auctions as that data for Louisiana cattle is not available.



Source: USDA AMS & LMIC

The Senate introduction of the climate change bill has been pushed back to later in September by Sen. Barbara Boxer, chair of the Senate Committee on Environment and Public Works. This may be a signal of the lack of 60 votes to pass the measure. The bill may advance in a piecemeal fashion with energy sections addressed first and greenhouse gas emissions later. However, there is some belief in Washington that EPA may begin issuing rules with regards to greenhouse gases due to a Supreme Court ruling last year that ruled greenhouse gases were detrimental to human health.

Recent elections in Japan look to hamper efforts to open up Japanese markets to U.S. beef. The Japanese market was the largest customer of U.S. beef prior to the BSE incident in December 2003. Currently the Japanese only accept beef from animals that are 20 months or younger when most countries that have re-opened their markets to U.S. beef accept beef from animals 30 months of younger.

The futures market had strong losses on Tuesday taking their lead from the equity markets. Wednesday saw some recovery in the fed and feeder cattle markets as grain losses continued for some contract months on Wednesday and Thursday. There continues to be concerns over an early frost in the Corn Belt as below average temperatures persist throughout the region and maturation of crop is behind normal. Optimism over one of the largest corn crops on record continues to help keep downward pressure on grain prices.

Asking prices for fed cattle were in the \$86-87 range in the southern feeding areas compared to \$136 in northern feeding areas on Thursday with bids at \$82 and \$130-\$131 range in the South and North, respectively. When cash trade did develop on Thursday in Nebraska it was at \$84 and \$129-\$130. Friday's trade saw the same live prices in Nebraska, but live cattle in Texas and Kansas went for \$85.

Louisiana cull cows sold \$2 to \$5 lower this week with the slaughter bull market not well tested. Feeder steers were \$2 to \$5 lower with heifers down \$2 to \$4.

Table 1. Louisiana Auction Prices for the Week Ending September 4, 2009.

Weight	Steers	Heifers	Slaughter Classes	
200-250	\$103-122	\$103-118	Boners	\$37-45.50
250-300	\$104-130	\$92-102	Lean	\$30-43
300-350	\$100-117	\$801-101		
350-400	\$92-113	\$82-96	Bulls, YG 1-2, <1,500 lbs(light test)	\$46-52
400-450	\$90-111	\$74-91	Bulls, YG 1-2, >1,500 lbs	\$53-58.50
450-500	\$89-103	\$72-101		
500-550	\$86-102	\$72-100		
550-600	\$86-99	\$70-96		
600-650	\$84-95	\$75-88		
650-700	\$84-90	\$80-86		

Note: All prices are in \$/cwt, steers and heifers are Medium and Large 1-2  
 Price ranges may reflect higher prices received in northern areas of the state in the middle of the week  
 Source: USDA AMS

Table 2. Louisiana Auction Prices for the Week Ending August 28, 2009.

Weight	Steers	Heifers	Slaughter Classes	
200-250	\$127-137	N/A	Boners	\$37-52.50
250-300	\$106-125	\$89-110	Lean	\$31-48
300-350	\$102-120	\$85-111		
350-400	\$94-117	\$84-109	Bulls, YG 1-2, 1000-2000 lbs	\$50-60
400-450	\$94-116	\$74-104		
450-500	\$91-107	\$74-102		
500-550	\$88-105	\$71-101		
550-600	\$86-104	\$71-100		
600-650	\$84-98	\$80-92 <sup>1</sup>		
650-700	\$88-95	\$80-92 <sup>1</sup>		

Note: All prices are in \$/cwt, steers and heifers are Medium and Large 1-2

Price ranges may reflect higher prices received in northern areas of the state in the middle of the week

<sup>1</sup> Represents the price was reported in hundred pound increments as opposed to fifty pound increment.

Source: USDA AMS

Table 3. Futures Prices

Month	Live Cattle	Change*	Feeder Cattle	Change*	Corn	Change*
Sept			\$ 98.950	0.800	300 1/2	-20 1/2
Oct	\$ 86.650	-0.050	\$ 98.550	0.500		
Nov			\$ 99.275	0.725		
Dec	\$ 86.675	-0.425			306 1/4	-22 3/4
Jan			\$ 100.525	1.050		
Feb	\$ 87.575	0.000				
Mar			\$ 100.500	1.100	319 3/4	-23
Apr	\$ 89.425	-0.275	\$ 101.500	0.975		
May			\$ 102.000	0.250	329 1/4	-22 1/4
Jun	\$ 85.525	-0.525				
Jul					337 3/4	-22 1/4
Aug	86.15	-0.650	\$ 102.300	0.800		

Source: DTN

\* Change is from the previous Friday's close

Table 4. State and National Market Information

Commodity	This Week	Last Week	Last Year
<b>5 – Area Fed Steer Price</b>			
Live	\$ 82.64	\$ 84.41	\$ 96.94
Dressed	\$ 129.73	\$ 131.67	\$ 154.27
<b>Oklahoma City Feeder Cattle Prices</b>			
5-5.5 cwt Med and Large #1	\$ 103.47	\$ 112.71	N/A
7.5-8 cwt Med and Large #1	\$ 97.87	\$ 100.45	N/A
<b>Boxed Beef Cutout Values (weekly average)</b>			
600-900 lb Choice cutout	\$ 142.83	\$ 143.67	\$ 158.30
600-900 lb Select cutout	\$ 135.20	\$ 136.42	\$ 152.05
Georgia Dock Broilers	\$ 85.07	\$ 85.69	\$ 87.82
Georgia B/S Breasts	\$ 139.50	\$ 140.00	\$ 141.00
Georgia Leg Quarters	\$ 42.50	\$ 42.50	\$ 54.50
<b>Meat production (million lbs)</b>			
Beef	515.8	514.2	463.8
Pork	452	440.1	398.8
<b>Slaughter (1,000 head)</b>			
Cattle	655	654	593
Hogs	2,256	2,196	2,048
Broilers/Fryers	169.915	169.47	151.687
<b>Average Dressed Weight</b>			
Cattle	790	788	783
Hogs	201	201	195
	8/29/2009	8/22/2009	8/31/2008
<b>Poultry Placements (in thousands)<sup>1</sup></b>			
LA Broiler Egg Sets	3,424	3,455	3,501
US Broiler Egg Sets	199,653	199,497	204,988
LA Broiler Chick Placements	3,020	3,003	3,521
US Broiler Chick Placements	165,746	166,347	170,083

Source: USDA Agricultural Marketing Service, USDA National Agricultural Statistics Service and Livestock Marketing Information Center

<sup>1</sup>Note the placements numbers are lagged by one week prior to publishing.