

## **Cattle Market Adjustments and Opportunities**

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Markets are wonderful self-correcting mechanisms that do a remarkable job of inducing multitudes of consumers and producers to make adjustments to constantly changing market conditions. Most of the time they do this so subtly that the process goes unnoticed. However, in times of large shocks or major changes in markets, the process is more obvious. In these situations two things become more apparent; big adjustments are often painful and they are often frustratingly slow.

And so it is with cattle markets. Most of the past three years (or six if you start with BSE) have been a rollercoaster of shocks and changes, some short run in nature and some likely more permanent. Arguably the biggest of these and one that is likely more permanent is the change in feed prices. Although the massive initial shock waves of high corn prices have subsided a bit, the beef industry is still making adjustments to reestablish profitability in the industry, especially in the feedlot sector. The industry has made significant adjustments by changing the manner and timing of cattle feeding and has been helped by three consecutive large corn crops that are giving us currently the lowest corn prices that can reasonably be expected. Still feedlot profits remain elusive. Although feed costs have moderated in recent months, the global recession has produced weak beef and fed cattle prices resulting in continued feedlot losses. The pain is very real and the long term reality of reducing excess capacity (feedlots closing) is underway at this time. Nevertheless, there is some potential light at the end of tunnel.

The near certainty of a 13 billion bushel corn crop this fall suggests that corn prices will remain in the \$3/bushel range and keep feedlots cost of gain in check. Projected feedlot budgets, relative to live cattle futures, are almost at the point of showing a breakeven for cattle feeding. It will take months of profitability to stop the structural adjustments to feedlot capacity that are underway but it would only take a bit more help in terms of lower feeding costs or higher fed cattle prices to begin the process. There may begin to be some opportunities to lock in profitable margins in cattle feeding and that may offer more opportunities for cow-calf and stocker producers to have retained ownership as a viable alternative. Macroeconomic recovery that translates into stronger beef demand is possible in the next few months and will certainly help the process.

Markets do not sit still and inevitably markets will continue to adjust and move towards relative input and output prices that allow profitability and more stability (in the absence of additional shocks!). Opportunities will appear and disappear along the way and producers should look for chances to take advantage of those opportunities. History is less of a guide in dynamic times and rules of thumb based on history are downright dangerous. Nevertheless, there are opportunities.

The article on the previous page may speak mainly about cattle feeding, but the structural changes mentioned will open up opportunities for producers in Louisiana. Potential opportunities have been highlighted in the past several weeks, but are not an exhaustive list, nor will work for every producer. The important thing is to look for those opportunities and be ready to take advantage of them, if they will work for your operation.

On Wednesday afternoon, the U.S. Department of Justice announced that it was ceasing its investigation of the proposed merger between JBS and Pilgrim's Pride. The federal bankruptcy court still has to approve the plan with that ruling expected prior to the end of the year.

	1,000 head	% of 2008	Pre-Report Estimates	
			Avg.	Range
Placed in September	2,338	104.7	105.5	102.6 – 109.4
Marketed in September	1,746	96.4%	97.8	96.0 – 99.3
On Feed October 1	10,474	100.6%	100.3	99.0 – 101.2

Today's *Cattle on Feed* report holds no strong surprises. The slowdown in marketings could become worrisome if the trend continues. Sluggish demand (boxed beef prices for the week were \$135 for choice and \$131 for select) are contributing to the supply available for future months as feedlots try to force the price up.

Cattle futures had a mixed week that ended on an upward trend. Concerns over a freeze and its impact on the corn crop in the northern Corn Belt drove grain prices higher earlier in the week, but this rally ended in the latter part of the week as all appearances continue to point toward one of the largest corn crops on record. This type of volatility may occur until more solid harvest data is known. The rally in the corn market helped keep pressure on cattle prices which closed the week higher. Good news on Wall Street provided some good news to the cattle markets as well, but slow, steady signs of progress will help market psychology in the near term.

Friday was the only day of live trade for fed cattle with week to week increases being seen. There were few reports of discounts for heavy weight cattle in the Northern Plains as with the previous few weeks. Animals in Texas, Kansas, and Colorado sold on a live basis at \$80-\$84, an increase of as much as \$3 for these regions from last week. Nebraska dressed sales were \$127-\$128 (\$2 higher) compared to Kansas dressed sales of \$131 (\$2-\$3 higher).

Louisiana slaughter cows and bulls were called mostly steady to firm this week. Feeder steers and heifers were mixed, with sales in the early part of this week noted as steady to weak and mid-week sales steady to \$3 higher.

Table 1. Louisiana Auction Prices for the Week Ending October 16, 2009

Weight	Steers	Heifers	Slaughter Classes	
200-250	N/A	N/A	Breakers	\$41-46.50
250-300	\$115-120	N/A	Boners	\$37-47
300-350	\$96-118	\$89-103	Lean (850-1200)	\$31-44
350-400	\$95-115	\$83-98	Lean (750-850)	\$25-38
400-450	\$90-110	\$79-96		
450-500	\$86-107	\$78-95	Bulls, YG 1-2, <1,500 lbs	\$48-53
500-550	\$82-100	\$78-94	Bulls, YG 1-2, >1,500 lbs	\$53-57
550-600	\$77-97	\$78-91		
600-650	\$74-88	\$76-85		
650-700	\$73-85	\$73-81		

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 October 9, 2009

Weight	Steers	Heifers	Slaughter Classes	
200-250	\$125-140	N/A	Breaking	\$38-43
250-300	\$100-115	\$107-112	Boners	\$34-48.50
300-350	\$96-116	\$82-100	Lean (850 -1200)	\$31-42.50
350-400	\$92-107	N/A		
400-450	\$90-104	\$76-95	Bulls, YG 1-2, <1,500 lbs	\$45-54
450-500	\$86-101	\$72-85	Bulls, YG 1-2, >1,500 lbs	\$46-56
500-550	\$82-94	\$74-83		
550-600	\$80-90	\$69-82		
600-650	\$80-85.50	\$70-78		
650-700	\$80-85	\$72-77		

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 3. Futures Prices

Month	Live Cattle	Change*	Feeder Cattle	Change*	Corn	Change*
Oct	\$ 84.10	1.47	\$ 94.55	0.38		
Nov			\$ 95.13	0.65		
Dec	\$ 85.80	0.85			372	9 3/4
Jan			\$ 95.95	0.92		
Feb	\$ 86.40	0.47				
Mar			\$ 97.05	0.67	383 3/4	9 1/4
Apr	\$ 88.43	0.24	\$ 97.95	0.50		
May			\$ 98.90	0.38	392 1/2	9 1/2
Jun	\$ 85.53	0.38				
Jul					400 1/2	10
Aug	\$ 85.95	-0.13	\$ 99.80	0.77		
Sept			\$ 98.98	-0.01	406	8

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	\$ 81.21	\$ 80.85	\$ 89.35
Dressed	\$ 125.19	\$ 125.01	\$ 136.69
<b>Oklahoma City Feeder Cattle Prices</b>			
5-5.5 cwt Med and Large #1	\$ 110.26	\$ 106.16	\$ 104.07
7.5-8 cwt Med and Large #1	\$ 93.85	\$ 92.42	\$ 96.17
<b>Boxed Beef Cutout Values (weekly average)</b>			
600-900 lb Choice cutout	\$ 135.29	\$ 134.46	\$ 147.45
600-900 lb Select cutout	\$ 131.01	\$ 129.33	\$ 139.18
Georgia Dock Broilers	\$ 82.72	\$ 83.15	\$ 87.13
Georgia B/S Breasts	\$ 123.50	\$ 123.50	\$ 120.50
Georgia Leg Quarters	\$ 37.00	\$ 37.50	\$ 54.00
<b>Meat production (million lbs)</b>			
Beef	502.0	505.8	499
Pork	463.8	462.8	470
<b>Slaughter (1,000 head)</b>			
Cattle	629	634	632
Hogs	2,295	2,291	2,358
Broilers/Fryers	165,043	164,679	164,205
<b>Average Dressed Weight</b>			
Cattle	801	801	792
Hogs	202	202	199
	<b>10/10/2009</b>	<b>10/3/2009</b>	<b>10/12/2008</b>
<b>Poultry Placements (in thousands)<sup>1</sup></b>			
LA Broiler Egg Sets	3,304	2,751	3,470
US Broiler Egg Sets	189,656	184,273	194,566
LA Broiler Chick Placements	2,953	2,982	3,204
US Broiler Chick Placements	156,166	159,945	160,080

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.