

MONTHLY MARKET PROFILE: FEBRUARY, 2009
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The beef complex will never receive mainstream media attention compared to the likes of the financial, auto, or airline industries. Absence of attention doesn't dampen, though, the critical condition within beef's current operating environment. January was particularly tough with little indication of major reprieve in the coming months. That's especially true for the cattle feeder. The market began the year at \$86; January finished by putting a "7" in front of some fed trade (the first time since July, 2006) – the market ended the month at \$79-81.

Consider that it's been only seven months since the fed market peaked at \$101 in July. That \$20-22/cwt difference represents roughly \$250-300/head. Stated another way, cattle feeders have watched their inventory decline in value in excess of \$1/head on a daily basis; the decline largely equates to current closeout losses. It gets even worse when considering potential hedging opportunities. Yearlings closed out in January could have been hedged at \$107-8 in August when they went on feed; thus January cash-to-cash closeouts represent an opportunity cost of approximately \$350/head when NOT implementing risk management. Regardless, cumulative, industry-wide equity losses during the past six months, from a cash-only perspective, approach \$2-3 billion.

Will it get better? That depends on several factors. The economy has been an enduring theme during the past twelve months for the beef complex. Bottom-line: the market will struggle to facilitate any type of significant rally until there's a kick-start for beef demand – both domestically and internationally.

Several graphs below represent some of the basic struggles within the complex. The first, as general background, depicts monthly cutout averages during the past three years. January cutout values represent a relatively flat trend. On one hand, that's potentially encouraging given the propensity of bad economic news during the past 12 months; the market has seemingly found solid and well-tested support at the \$140-5 level. On the other hand, it reflects an absence of revenue growth and the current trend is in the wrong direction. The second graph, though, is more troubling: it represents declining contribution of middle meats (rib and loin) to the overall cutout. That's largely indicative of shrinking consumer action on the travel and dining fronts. Meanwhile, the fed market has also been pressed on the global front with economic concerns and strengthening U.S. currency has negatively impacted value of the drop.

Aside from beef demand, the financial crisis has *seemingly* had a secondary effect upon the fed market. Most notably, cattle feeders have yielded leverage back to the packer. The third illustration below represents the difference between the actual fed market and market value at which packers generate \$145/head gross profit – a rough, industry-wide operating breakeven. Note that the exact figures may vary depending upon one's assumptions. What's important is interpretation of the overall trends. Data points above the zero-line indicate a fed market that favors cattle feeders; data points below zero favor processors.

Note the peak in late '07; cattle feeders were the benefactors of favorable action in the market while packers were enduring an extended period of negative margins. The momentum began to shift, though, as the financial crisis began to unravel with a streak of 33 weeks where leverage rotated back to buyers. Seller leverage bottomed-out in July and allowed the packer to clear some substantial margin during the previously-mentioned spike in cutout values. Cattle feeders clawed their way back and managed to gain some leverage this past fall. That advantage, though, seemingly collapsed in one week in late-November as the fed market declined \$6.

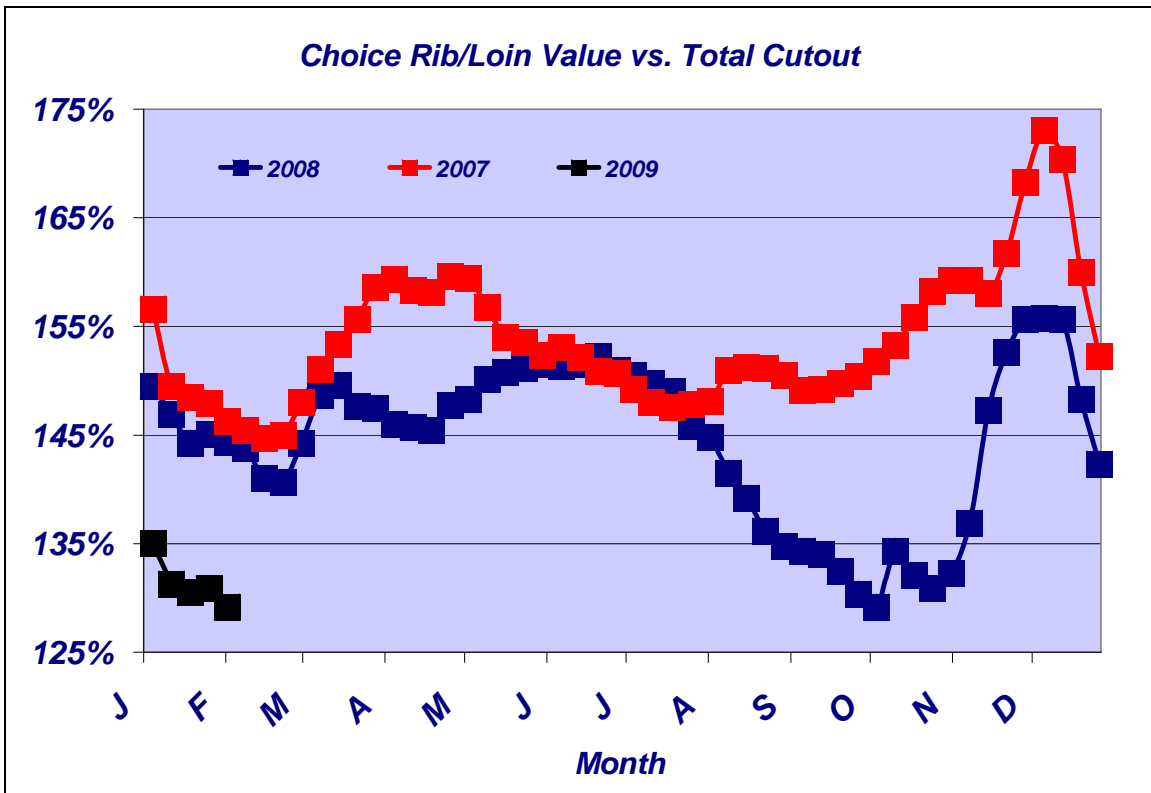
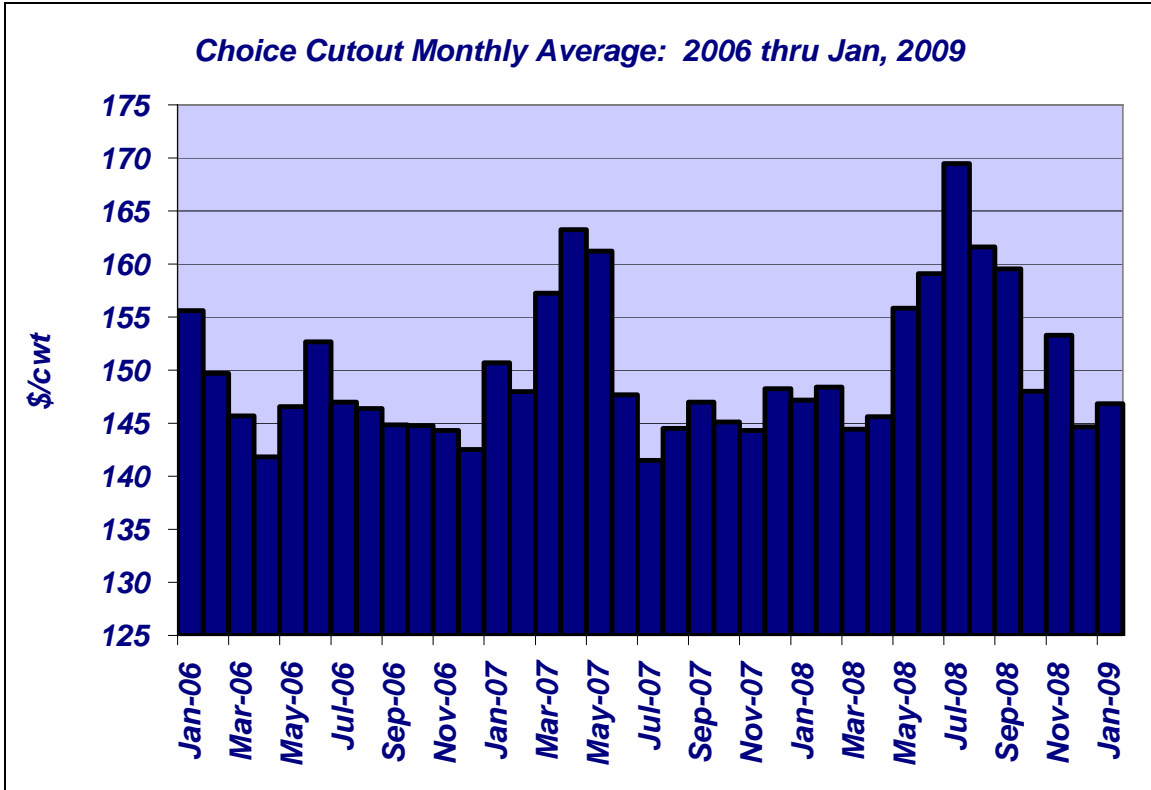
Making sense of individual decision making, or painting a complex, fragmented industry with a broad brush is a shaky venture. However, given the trends of late it's possible to surmise that the action is at least partially attributable to the financial crisis; the influence was likely beginning to creep into the market in late '07. Further pressure to maintain cash flow and meet

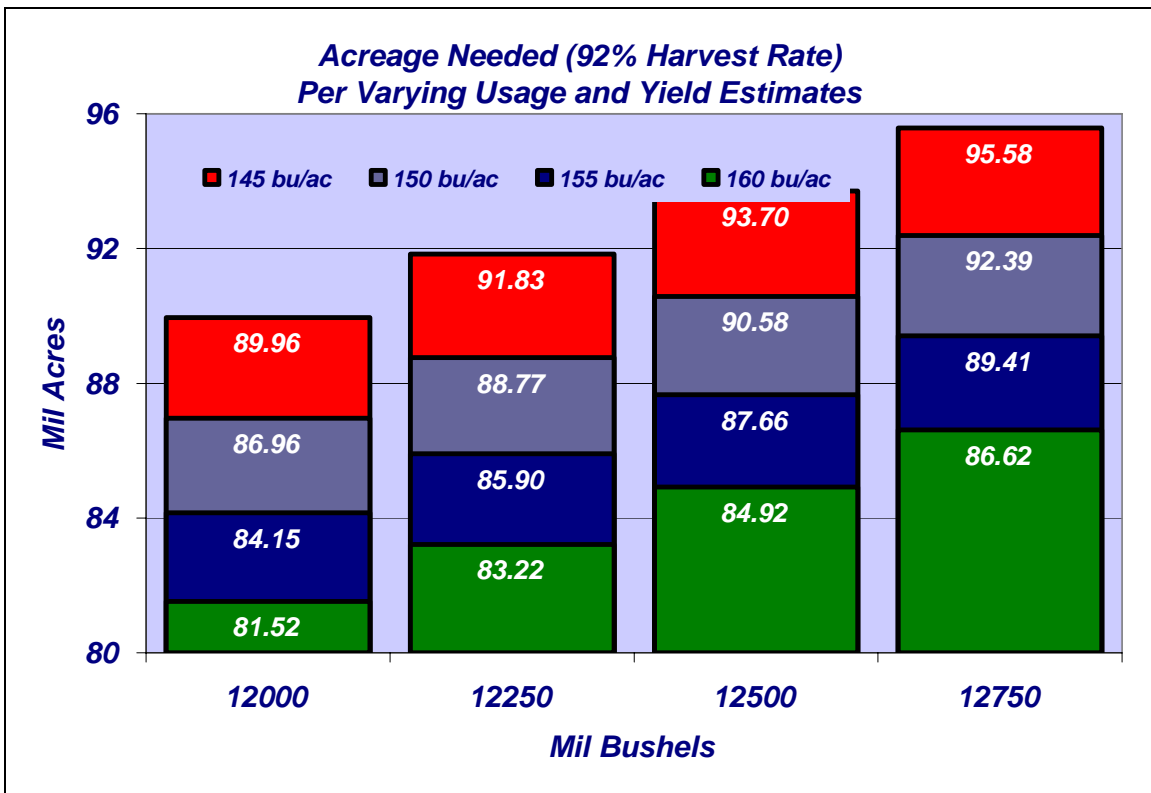
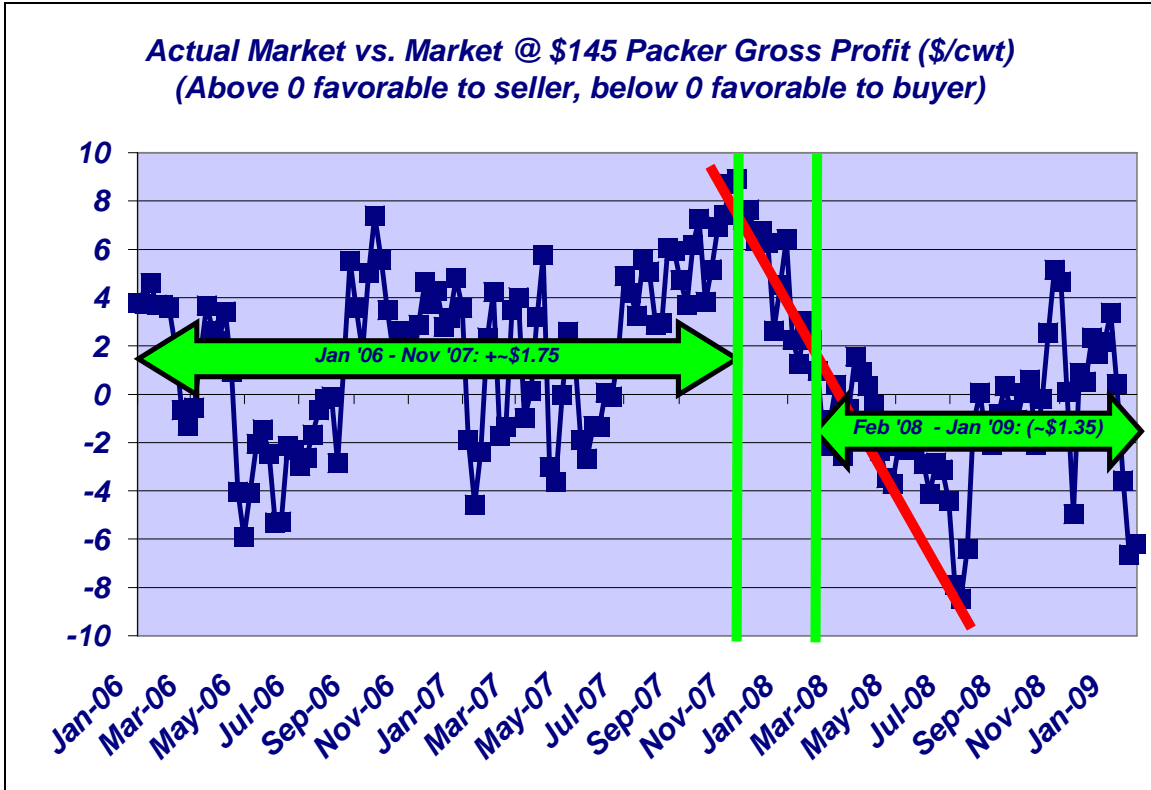
lending obligations has been fully manifested in late '08 for many businesses; the feedyard sector is not immune to that influence. That has potentially eroded weekly leverage when selling cattle. Simultaneously, the packer has also been effective in taking out capacity and subsequently been able to procure supply more judiciously.

The ultimate outcome? Notably, bullish perspective based strictly on supply is misplaced. Those hopes would be well founded in an otherwise stable environment. But that's not where we are. Traders need to clearly watch beef demand and financial obligations on the selling side. The temptation to focus solely upon impending and friendly impact of limited supply in coming months, no matter how encouraging, may prove too simplistic and potentially establishes erroneous expectations.

February is especially significant month for the grain complex. USDA releases its initial expectations for the marketing year at the agency's annual Outlook Forum; such estimates serve as an industry benchmark to work from. The final graph below details needed acreage depending upon estimates of total usage and yield. Assuming that usage might be 12.75 billion bushels and trend-line yield at 155 bu/acre mandates necessary planted acreage of approximately 89-million acres (92% harvest rate) in order to maintain current carryover. Lots of unknowns remain surround the market this coming spring including Argentina, soybean export expectations, energy price recovery, etc... Nonetheless, assuming initial planting-intention reports hovering around 83 million acres represents significant shortfall – perhaps as much as one-billion bushels. Carryover will decline in the coming year – to what extent remains to be seen but the market will need to purchase acreage and/or ration usage to maintain current levels.

Lastly, there were no surprises in USDA's cattle inventory report: the cowherd continues to shrink. Total beef cow inventory was pegged at 31.7 million cows - down 2% from last year's mark. 2009 represents continuation of a long-term decline in the size of the nation's cowherd – over 3.5 million head since the recent peak in 1996. That possesses a number of important implications discussed in detail previously in the Monthly Market Profile and will be covered in months to come.





PRICE SUMMARY**WEEK ENDING:**

ITEM	30-Jan	23-Jan	16-Jan	9-Jan	2-Jan
Slaughter Steers (\$/cwt)	80.71	81.87	83.28	83.75	86.08
Choice Cutout (\$/cwt)	145.47	150.98	149.78	144.50	143.49
Select Cutout (\$/cwt)	141.11	144.49	142.41	136.53	135.55
Hide and Offal (\$/cwt)	6.88	6.97	6.87	6.34	6.35
USDA Slaughter Weights (lb)	1307	1306	1306	1304	1306
USDA Steer Carcass Weights (lb)	853	852	851	849	851
CME Feeder Cattle Index (\$/cwt)	93.35	95.14	96.23	96.48	92.92
Cow Cutout (\$/cwt)	111.40	111.68	110.71	110.67	108.10
Corn (basis Omaha: \$/BU)	3.65	3.75	3.76	3.94	4.00
Cattle Harvest (000 head)	631	638	608	601	511
Beef Production (million lb)	492.2	498.8	476.2	469.8	399.2