

MONTHLY MARKET PROFILE: JULY, 2009
NEVIL C. SPEER, PHD, MBA (nevil.speer@wku.edu)
WESTERN KENTUCKY UNIVERSITY

Cattle feeders fully celebrated this year's Fourth of July. The month began on a sweet note and was good to cattle feeders; the week transitioning from June to July brought about several victories to relish. Any semblance of triumph has been tough to come by in recent months; recall that I opened June's Monthly Market Profile with the following statement, "...cattle feeders just can't seem to catch a lasting break." The ability for those triumphs to endure remains to be seen, but for now they'll take all they can get.

Let's begin, though, by backing up and reviewing the events of June. The month opened sharply lower immediately following Memorial Day: boxed beef prices took an unfriendly turn and fed trade subsequently moved lower to the \$81-2 level. However, from there the market proved to be relatively uneventful. Fed cattle held together at those levels throughout the month; that's \$3-4 off from May sales which were mostly \$85. (And compares to \$95 in 2008 – remember the stimulus effect?) Albeit softer versus the previous month the stability was largely driven by steady prices at the wholesale level: Choice cutout values chopped around \$140 during the month. As such, neither buyers nor sellers held the cards to influence the market's direction one way or the other.

Despite any major developments, July opened solidly to the upside with sales beginning the second half of 2009 in positive territory: trade in the south was \$1-to-\$1.50 better with sales at \$83-\$83.50; northern trade was reportedly \$1.50-\$2.00 higher valuing cattle at \$82-3. But higher fed trade was just icing on the cake.

The biggest news within the markets came in the form of USDA's June 30 corn acreage estimate (see graph below); the report indicated an additional acres two-million acres committed to corn versus March's Prospective Plantings estimate (85-million acres). Reaction to the report is dictated by the respective source. Some response voices a theme to the effect of, "June's report makes sense: the March report was incorrect and had to be adjusted upwards to be more in line with last year's acreage - USDA has finally gotten it right." Meanwhile, others have countered the report by stating something like, "Wow! Where did USDA find all of those acres? What about delayed planting concerns and potential shift to soybean acres?" Regardless of where you come down in that argument, the market's opinion is the only one that really matters – it responded with the latter perspective. Corn got pummeled. December corn closed Friday, June 26 at \$4.04; three out of the next four days of business were losers, including limit down on June 30 following the report, and ultimately closed the week 47-cents lower at \$3.57. And a three-day weekend didn't negate downward pressure with another 12-cents knocked out from the contract.

That action, coupled with solid gains at the CME for both front-end and deferred live cattle contracts, helped to boost the feeder cattle market. CME's August, September, October and November feeder cattle contracts all worked higher and finished the week at better than \$102. That scenario should provide a nice boost for sellers consigning cattle to Superior's "Week in the Rockies" video sales (July 6-10) – an event which provides some feel for buyer sentiment in the coming months and helps to serve as an important benchmark for fall sales.

All that said, from my perspective the most important news to the beef complex was June's cattle-on-feed report. It was largely interpreted as being supportive for the market in coming months. Bullishness stems primarily from the larger-than-expected decline in placements: down 14% versus last year's mark and a whopping 22% versus the previous 5-year average (total placements through May are off by nearly 430,000 head versus the five-month '04-'08 average). That should provide sellers some leverage going forward with continued reduction in the fed cattle supply. That's the view from the ground.

However, in my opinion, getting some perspective from the air provides a very different take about what's occurring within the beef industry. May placements are simply culmination of

an ongoing trend. The graph below represents the 12-month moving average of feedyard inventory. The moving average is utilized to remove the noise of seasonal differences. As noted on the graph, the moving average peaked in January, 2007 at 11.56 million head. Meanwhile, June's moving average inventory stands at 10.75 million head – the difference representing a decline in excess of 750,000 head on feed at any one time. Interestingly enough, the decline began in early 2007 – that coincides with roughly one turn of cattle following commencement of the corn market's advance in August, 2006. Since the peak in January '07 the moving average has declined month-over-month 23 out of the past 29 months.

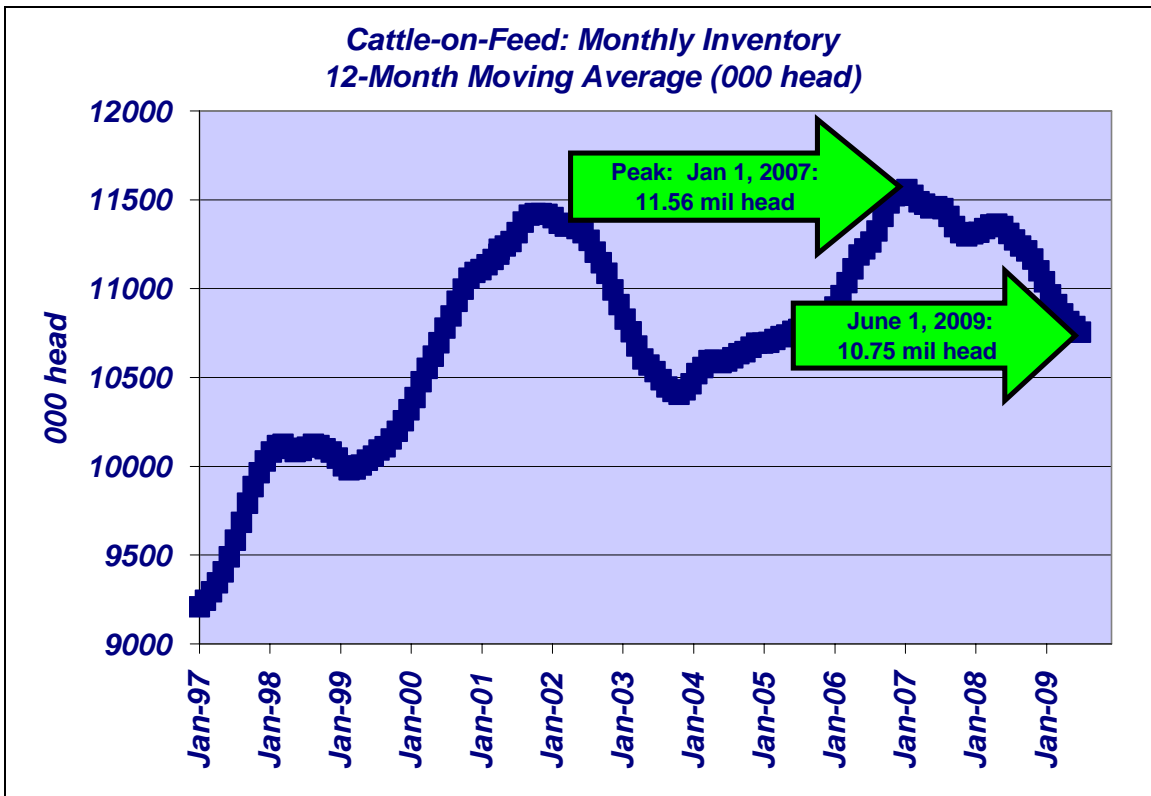
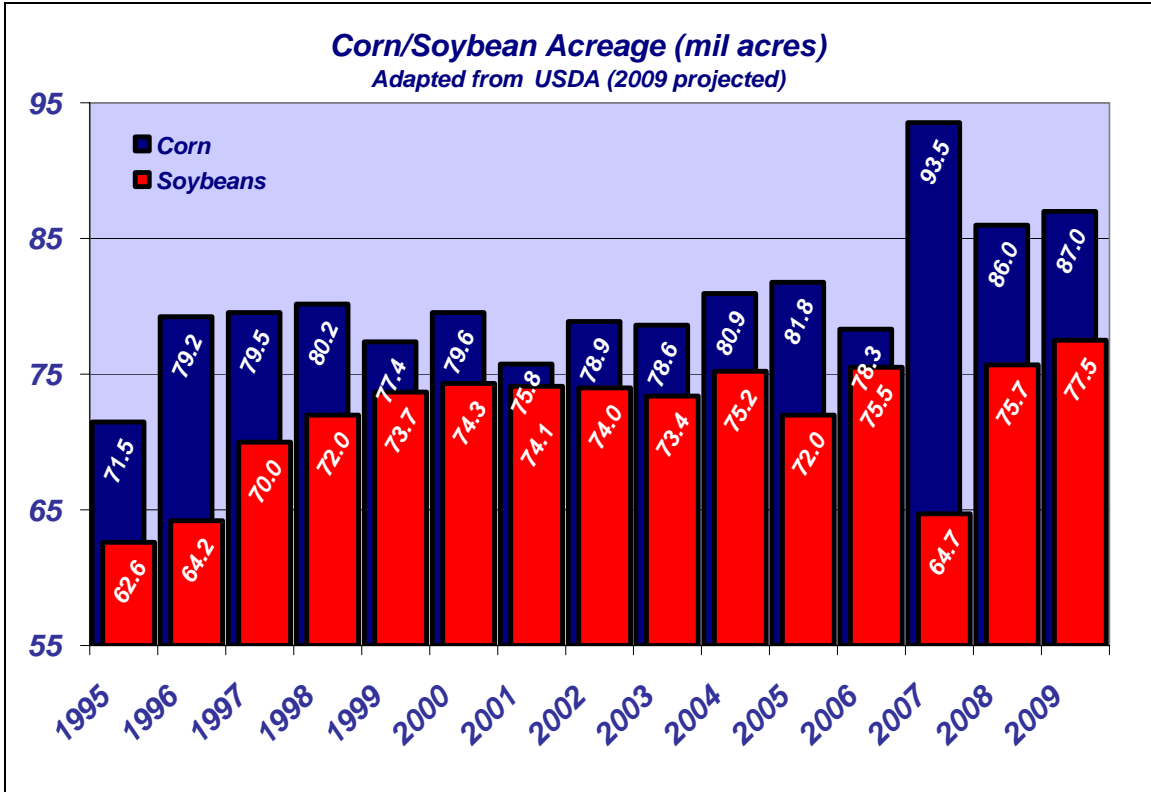
None of that's news – most readers are well aware of such trends. More critically, from the alternative vantage point, the data provide some very sobering commentary about the struggles and current status of the feedyard sector. Cattle feeders are proving reticent about their respective opportunities and have reversed course in terms of inventory management. Granted, that's partly due to a dwindling feeder cattle supply – simply stated, there's fewer cattle out there to feed. But most concerning, the trend since January, 2007 potentially begins to establish a negative feedback loop within the industry:

- fewer cattle to feed hampers capacity utilization,
- declining utilization pressures profitability,
- reduced profitability dampens appetite for replacements,
- less appetite ultimately gets translated to lower feeder cattle prices,
- softer feeder markets encourages cow liquidation,
- fewer cows means fewer cattle to feed.

The primary question becomes: will we reach, or have we reached, the point in which the industry finds itself within this adverse cycle? Let's hope not. If we end up there it's a very discouraging commentary about the competitiveness of the beef industry going forward. The importance of declining revenue has been a key item of emphasis within the Monthly Market Profile for much of 2009. Per that development, in my estimation the industry is at a very critical juncture!

Amidst that reality certain camps within the beef sector continue to orchestrate an adversarial theme and promote antagonistic agendas: seemingly, the goal is to step back in time and hamper the industry with backward, restrictive and protectionist ideology. An objective to constrain rewarding market opportunities is beyond comprehension; it's perplexing why anyone ever wants to limit innovation and impede free enterprise. But most importantly, the timing couldn't be worse for that type of ideology. It should be refuted else the efforts of such thinking will result in regressive legislation and potentially yield a decisive blow to the entire industry.

As a reminder, be sure to also catch this month's AgSight!



PRICE SUMMARY**WEEK ENDING:**

	3-Jul	26-Jun	19-Jun	12-Jun	5-Jun
Slaughter Steers (\$/cwt)	82.81	81.54	81.73	81.88	81.96
Choice Cutout (\$/cwt)	138.76	139.71	140.00	139.78	141.39
Select Cutout (\$/cwt)	132.79	132.45	132.98	132.83	135.68
Hide and Offall (\$/cwt)	7.20	7.23	7.36	7.39	7.22
USDA Slaughter Weights (lb)	1270	1268	1267	1266	1266
USDA Steer Carcass Weights (lb)	832	832	828	825	826
CME Feeder Cattle Index (\$/cwt)	98.87	98.23	96.52	96.19	98.74
Cow Cutout (\$/cwt)	112.02	109.51	107.47	107.21	109.77
Corn (basis Omaha: \$/BU)	3.20	3.62	3.75	3.99	4.26
Cattle Harvest (000 head)	628	673	675	662	670
Beef Production (million lb)	482.2	516.2	517.7	507.8	513.4