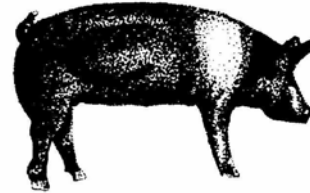


Livestock Market Update



Prepared by:

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Cattle Update

Cattle on Feed – U.S.

USDA *Cattle on Feed* report issued Friday, October 20 was consistent with pre-report trade estimates. The October 1 Cattle on Feed reported the number on feed for feedlots with capacity of 1,000 or more head was up 8.6% from October 2005, and the inventory was the highest October inventory since the data series began in 1996. Heifers and heifer calves on-feed saw an increase of 16% from 2005. Smaller year-to-year increases were reported for steers and steer calves on-feed, which was up 4.7%. Those numbers indicated that heifer slaughter should pick-up relative to steer slaughter and that breeding herd growth has not seen the growth predicted at the beginning of the year.

Placements on feed during September were at 2.23 million, down 5% from 2005. Net placements were 2.16 million head. Placements of cattle and calves weighing less than 600 pounds saw a 22% increase from 2005, but all other weights saw a decrease with the 600-699 pounds placed on feed weight group down 22%, the 700-799 pound weight group down 22% and the 800 pound plus group down 14%. With these lighter placement weights, cattle will need to be fed longer to reach slaughter weights, implying marketings may not be up as much as numbers on feed.

During September, marketings of fed cattle from feedyards with over 1,000 head capacity totaled 1.77 million, down 3% from 2005 and 2% from 2004. September 2006 had one less slaughter day than September 2005.

Cattle Slaughter

Commercial red meat production for the U.S. totaled 3.93 billion pounds in September, up slightly from 2005. January-September 2006 commercial red meat production was 35.2 billion pounds, up 4% from 2005.

Beef production, at 2.16 billion pounds, was up slightly from 2005. Cattle slaughter totaled 2.77 million head, down slightly from September 2005. Accumulated

beef production was up 6% from last year. In Wisconsin, beef production increased by 4% relative to September 2005 and cattle slaughter increased by 7%.

Compared to the January-September 2005 period, federally inspected steer slaughter for the United States was up 5.2%, while heifer slaughter was down by less than 1%. Cow slaughter also continues to run above 2005, with a January-September increase of 10%. Dairy cow slaughter is also up (3.6%) from January-September 2005 and beef cow slaughter was up 17%. Although cow slaughter numbers typically increase in the fourth quarter, the significantly larger cow slaughter is mostly due to dry weather in the southwest and western states and the lack of forage supply. Regarding the cattle cycle discussed so often this year, this report indicates that the herd size is currently holding steady. Until the cattle inventory report is released in January, we will not know whether the herd size is slightly increasing or decreasing. The direction will depend on the cattle slaughter in the next 2 ½ months.

The average U.S. live weight was up 7 pounds from 2005, at 1,282 pounds. The average live weight for Wisconsin is 1,336 pounds.

Cold Storage

The monthly Cold Storage report indicated ending stocks as of September 30th for red meat were 11% higher than 2005. Frozen pork supplies were up 8% from 2005, while frozen beef was up 13% from 2005. Frozen stocks of poultry, on the other hand were actually below a year ago mainly due to cutbacks in chicken production along with below year ago supplies of frozen turkeys. On a monthly basis, frozen stocks of red meat were 11% larger than at the end of August.

Frozen stocks of beef at the end of September totaled 497.5 million pounds, the largest September stock number reported since 2002 and the fourth largest monthly stock number reported since the series began in 1973. Compared to the prior five-year average, frozen beef supplies were 17% larger.

Beef Demand

For the January-August time period, domestic beef demand was down 3.3% as compared to 2005. Relatively lower retail prices for competing meats are making beef less attractive for featuring and are exerting pressure on retail beef prices.

Beef exports for January-August were up 76% from 12 months earlier. However, they were only 43.2% of January-August beef exports in 2003, before exports were interrupted by BSE. Net beef imports as a percent of U.S. production amounted to 12.97% in January-August of 2005, but were down 8.05% for the same months of 2006. This is a major factor in the growth in demand for live cattle in 2006 compared to these same months of 2005.

Beef Prices

It would appear that the packers' reduction in kill schedules have helped to support boxed beef values. Boxed beef values for Monday, October 23, 2006 were up from the previous day, with choice beef at \$148.08 and select at \$137.45. These are the highest boxed beef prices since September 12. The Choice-Select spread is at \$10.63, widening from the previous week's spread of \$9.86.

According to HedgerEdge.com, the average beef plant margin for Monday was estimated at a negative \$1.60/head, up \$7.45/head from a negative \$9.05/head last Friday, and up from a negative \$41.25/head last week. Much of this increase is due to the increased boxed beef price, and hence the reduced kill schedules.

Feed and Forage

US Corn production for 2006 was forecast at 10.9 billion bushels in the October *Crop Production* report. This forecast was down from the September forecast of 11.1 billion bushels. Corn futures on the Chicago Board of Trade (CBOT) were up \$0.035 to \$0.0625 last week. Corn futures were supported by bullish fund and local buying of December 2007 corn call options. Call buyers pay a premium for the right to buy futures at an underlying strike price so they hope the price of a commodity goes up. This activity indicates that the market thinks more corn acres need to be planted next year to meet demand. Many traders and analysts think feed grain stocks will fall to 30-year lows near the end of next year.

Hay production was forecast at 147 million tons this year, down 2.4% from last year. May hay stocks were down 23% from 2005 and dry conditions forced hay feeding in many areas this last summer. Consequently, hay supplies are likely to be tight and expensive for the winter.

Fed Cattle Market

The Wisconsin fed cattle trade for the week of October 16-21 was very light and traded down an average of almost \$4 per cwt from the previous week. The Wisconsin weekly weighted average price for Choice Slaughter Steers on a live weight basis weighing 1200 – 1299 pounds was \$83.50, 1300 – 1399 was \$83.52, and for 1500 lb. + was \$82.45. The weekly weighted average price for Choice Slaughter Holstein Steers on a live weight basis was slightly down to \$80.30.

The weighted average price for live cattle in the negotiated trade for the five-market-area through Thursday October 19 was \$85.63 per cwt, down \$2.15 per cwt from a week earlier. The weighted average carcass prices for the five-market-area through Thursday was down \$1.85 per cwt at \$135.15 per cwt.

Live Cattle futures in Chicago (CME) closed higher on Monday in reaction to Monday's lower CBOT corn with the OCT'06LC at \$89.350/cwt, up \$1.675/cwt and the DEC'06LC up \$1.625/cwt at \$88.700/cwt.

Fed cattle prices are not expected to move above the recent price range for the balance of 2006, which would be about 3.5% below 2005's fourth quarter. For the year, fed cattle prices are expected to average about \$86.00 per cwt., down 2% from 2005's.

Feeder Cattle Market

According to Glen Grimes and Ron Plain from the University of Missouri-Columbia, feeder steer and heifer prices were lightly tested at Oklahoma City last week, but a few sales were \$2-3 per cwt lower than a week earlier. Steer and heifer calf prices were \$1-3 per cwt lower than last week. The prices for medium and large frame number one steers at Oklahoma City by weight groups this week were: 400-500 pounds \$119.00-143.50 per cwt, 500-600 pounds \$110.75-122.25 per cwt, 600-700 pound calves \$102.50-112.00 per cwt, 700-750 pound calves \$99.85-108.25 per cwt, 600-700 pound yearlings

\$108-113 per cwt, 700-800 pounds \$106.25-110.75 per cwt and 800-1,000 pounds \$95.50-103.50 per cwt.

Feeder cattle at the CME closed up on Monday with OCT'06FC futures at \$106.575/cwt, up \$0.250/cwt. The NOV'06FC contract finished at \$105.000/cwt, up \$0.25/cwt. Feeders rose early in reaction to lower CBOT corn futures, the rally in live cattle futures, and a somewhat oversold condition. I would expect though that any increases in corn price will likely be bid into lower prices for feeder cattle.

Hog Update

Hog Inventory

According to the September Hogs and Pigs report, the total number of hogs and pigs on U.S. farms September 1 was up 1.4% from 2005. The breeding herd was up 1.8% and the market herd was up 1.3% from 12 months earlier.

The June-August farrowings were up 0.2% but the pig crop was up 1.1% due to the record high litter size of 9.14 pigs per litter.

Hog Imports

Live hog imports from Canada in August were up 6.2% from 2005. Feeder pig imports were up 17.5% and slaughter hog imports were down 14.3% from 12 months earlier. For January-August live hog imports were up 8.9% from the same months of 2005. Feeder pig imports were up 13.6% and slaughter hog imports were down 1% for the first eight months of this year compared to 2005.

Cold Storage

According to the *Livestock Slaughter* report issued October 20, 2006, pork production in September totaled 1.74 billion pounds, up slightly from 2005. Hog kill totaled 8.83 million head, slightly below September 2005. The average live weight was 1 pound above the previous year, at 266 pounds.

Pork Demand

Domestic pork demand was down 5.8% for the January-August time period, likely due to the decreased poultry prices.

Pork exports for August 2006 were up 8.8% from 2005. For January-August pork exports were up 12% from 12 months earlier. Pork exports for January-August amounted to 14.4% of U.S. pork production. In the first eight months of 2006, the U.S. net pork exports amounted to 9.56% of production, up 1.39% of production from the same months of 2005.

Pork Prices

Retail pork prices in September were up 1.1% from August, but down 2% from September of 2005. Retail pork prices for January-September were down 1.2% from the same months last year.

Hog marketing margins were up 1.6% for January-September with the processor-retailer margin up 1% and the packer's margin up 4.1% from 12 months earlier.

Hog Market

Live hog prices for September were up 0.6% from a year earlier. However, live hog prices for January-September were down 7.5% from a year earlier. Consumers, rather than packers, benefited from the lower live hog prices.

Live hog prices for select markets on Tuesday October 24 were: Peoria \$40.50, Greenville \$41.00, Red Oak \$42.50, St. Paul \$41.00, Sioux Falls \$43.00 and interior Missouri \$42.75 per cwt. The weighted average negotiated carcass prices for Tuesday morning by market area were: western Cornbelt \$59.90 per cwt, eastern Cornbelt \$59.88 per cwt, Iowa-Minnesota \$59.94 per cwt and nation \$59.89 per cwt.

Lean Hogs on the CME closed up on Monday with the DEC'06LH finishing the day at \$60.025/cwt, up \$0.675/cwt.

According to John Lawrence and Steve Meyer, the average hog producer has experienced 32 consecutive months of profit including September. It is their belief that if hog slaughter is close to expectations based on the September market inventories and the strong live hog demand holds through the remainder of the year producers may set a new record for consecutive number of months with a profit. The record now is 33 months. I would like to add on caveat to this story though and that is corn prices. If corn price increases much, this run of profitable months may be broken. Remember for each \$0.50 change in corn price per bushel it increases or decreases the cost of producing hogs about \$2.50 per cwt.

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