

Cattle Market Showing Some Signs of Life After Significant Weakness Since January

Jose G. Peña, Professor and Extension Economist-Management

Cash and futures prices for fed cattle rebounded slightly this past week after showing significant

weakness since January '06. After reaching a high of about \$96.80/cwt during January '06, by early April, price bids for fed steers had gradually weakened to the low 80's, but appeared to be rebounding this past week. (See Figure 1). Price bids for feeders were reflecting similar weakness in spite of shortages of feeders.

The futures market for live and feeder cattle followed the same trend. Price bids for most futures contracts weakened significantly since January '06, but

appeared to be showing some strength recently.

Price bids for live cattle futures contracts for October '06 delivery in the Chicago Mercantile Exchange (CME), for example, dropped to life of contract lows of about \$77.50/cwt in early April and appear to be rebounding. October delivery contracts closed at \$81.20/cwt on April 19, 2006, when this report was prepared. (See Figure 2). Price bids for most live and feeder cattle futures contracts are showing a similar improvement.

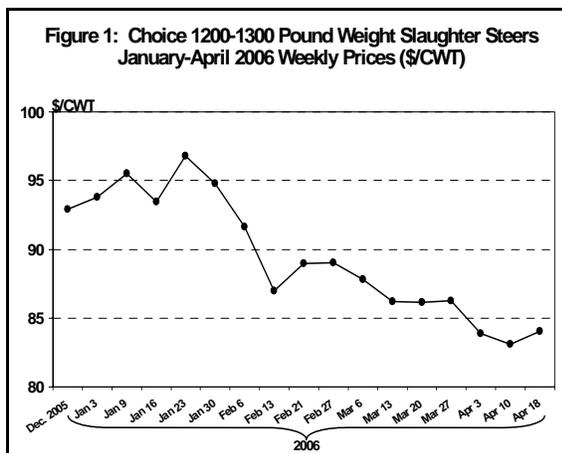


Figure 2: Live Cattle (LC, CME) October 2006



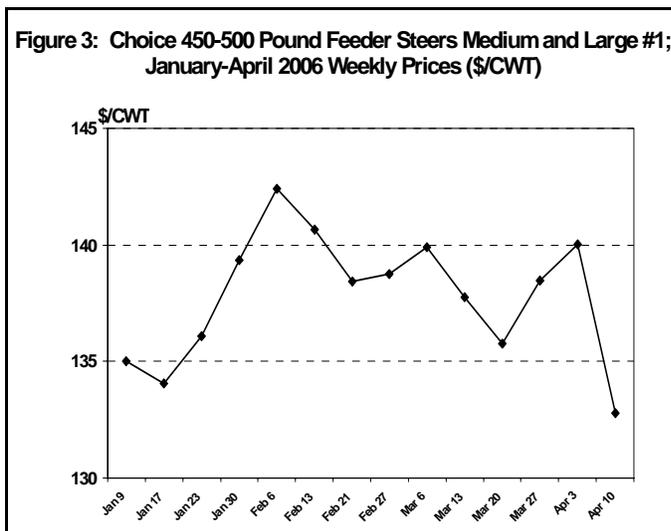
Source: Commodity Charts & Quotes at <http://www.futures.tradingcharts.com/>

Cattle feeders are expressing serious concern for the slaughter market weakness. The weakness could translate down to the price of calves. The soft market was particularly bothersome since markets were weakening as warm weather sets in, normally signaling the start of the grilling season when prices usually reach annual seasonal highs. It appeared that the market had lost its faith in beef consumption at this past winter/spring's high prices. Packers claimed that they were losing money because of high fed cattle prices and were unable to pass the extra cost to consumers. Feedlots claimed they were losing money due to the increasing price of corn, expectations of higher corn/energy prices for the rest of the year and for the profit potential of high priced feeders placed during fall/winter of 2005.

Calf Prices

So far, heavier feeder steers have taken the largest price declines, while lighter weight calves

remained strong, compared to last year.



(See Figure 3). Prices for calves may

weaken due to higher corn prices and lower feeder and fed cattle prices. While a slightly increasing number of calves should be felt in the market later in the year and into 2007, as the expansion of the cattle herd continues, probably the biggest influence on lower calve prices, in the short term, is the continuing devastating drought. While feedlots are current, an above average number of calves

are being placed early due to severe shortages of forage.

The brief recent improvement in the live and feeder cattle market is far from a recovery to January's highs, but, at least, it may indicate that the market weakness may have bottomed and the market may continue to improve.

Sluggish export markets may have contributed to the recent weakness. Japan, in December '05, eased a two-year-old ban on U.S. beef to allow imports from cows aged 20 months or younger which did not contain specified risk materials. The trade was again halted after a U.S. veal shipment was found to

contain prohibited bones. Negotiations are underway with Japan to re-open its borders to U.S. beef imports. An early April '06 suspicion that a 20-month-old steer in Japan initially suspected of having BSE disease later tested negative, but the incident may have delayed negotiations.

While beef demand increased for 6-7 years through early 2005, it appears that demand has weakened as we entered 2006. The relative prices of most cuts of beef versus abundant, and growing, supplies of poultry may have had a huge impact on the recent weakness. For example, while some would argue that concern about consuming poultry due to the bird flu epidemic may increase demand for beef, the effects may be quite opposite. If concerns for the bird flu reduce consumption of poultry, it will drive poultry prices down. Cheaper prices for poultry will probably drive beef and pork prices down. The U.S. is the world's largest producer of broilers and the second largest exporter of broiler meat. The rate of poultry exports is down, apparently due to reduced poultry consumption overseas. Domestic wholesale prices for chicken breast and leg quarters are down 30-40 percent as compared to last fall, providing fierce competition for beef and pork.

While price bids for most classes of cattle are down \$10-\$15/cwt from a year ago, it appears that prices for calves, feeders and slaughter cattle will continue relatively high for at least a couple of years. It appears, however, that we may have had the high in prices for both feeder and slaughter cattle for this production cycle.