**Market Comments**

The Livestock Marketing Information Center maintains a database of the feedlot cost and performance data, calculated and published in the Kansas State publication “Kansas Feedlot Performance and Feed Cost Summary.” While costs of gain may vary from feedlot to feedlot and be even more different from one region to the other, what is important is the trend and we used the LMIC data to get a sense as to how the cost of gain has changed in recent months. The attached chart shows a 6-month moving average of the y/y change in the cost of gain, as calculated in the K-State feedlot report, and compares it to the change in feedlot placements. One would expect an inverse relationship between the cost of gain and feedlot placements and the attached chart seems to show that quite clearly. The only divergence from trend in the last 5 years was in 2003. At that time, cost of gain moved higher but so did placements, a distortion brought about by the discovery of BSE in Canada and the resulting impact it had on both domestic and export markets. Overall, however, it would be reasonable to expect a reduction in overall placements as costs of gain advance.

The reason we bring all this up is that the July cost of gain calculation in the K-State feedlot report showed a 5.1% increase compared to a year ago. The six month moving average is still lower than a year ago but this was the second consecutive month that the cost of gain has increased compared to a year ago. Corn costs will likely not increase as much as many feared but they are sure to increase considerably compared to the very depressed levels of a year ago. Furthermore, out-front corn futures continue to trade at a significant premium to the current market. July 2007 corn futures closed tonight at $2.8150 while the December 2007 contract was just shy of $3 per bushel. The bias in the corn market remains bullish and is a factor that will have an impact on feedlot performance and beef supplies next year.