

Daily Livestock Report

Vol. 8, No. 144, July 27, 2010

Steve Meyer writes today's edition — for anyone wondering why I point that out, it is simply because Len Steiner and Altin Kalo may not want to be in any way associated with this edition and I want to make sure you readers don't blame them for anything presented here!! But I digress.

Yesterday's mention of beef cow slaughter brought to mind a conundrum with which I have grappled for the past few weeks — Why are we slaughtering so many beef cows? While feed prices are indeed higher than they once were, beef cow slaughter 15% to as much as 30% higher than one year earlier on a weekly basis and 12% higher year-to-date usually occurs in the face of an absolute economic disaster. Specifically, it usually happens when cattle prices have fallen off the face of the earth or when rains have been few and far between, leaving pastures in major cow-calf areas looking like parched pool tables. But neither are the case this year.

The top chart at right shows that range and pasture conditions are remarkably good for this time of year. Only 11% of pastures nationwide were rated poor or very poor last week. And the same excellent conditions prevail in the major cow-calf regions of the Southern Plains, Great Plains and West. Roughly 20% of Southeast pastures are rated poor or very poor but even that is below the '04-'08 average of 23%. Bottom line: There is PLENTY OF GRASS so marginal costs are very low.

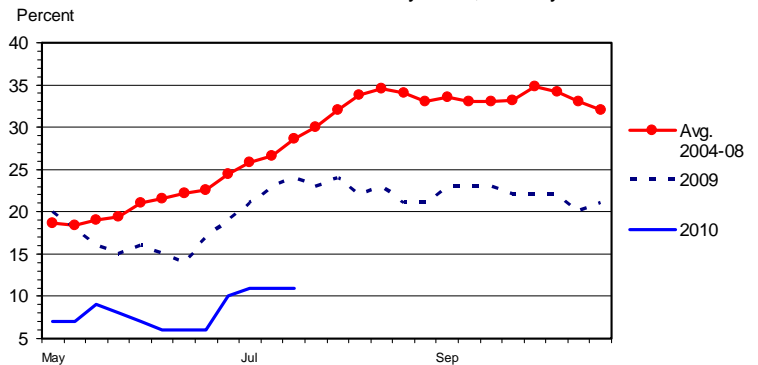
Chart #2 indicates that prices of 400-500 lb. calves in the Southern Plains have been very near their long-term average and have rallied in recent weeks to near \$135/cwt. Prices for feeder steers (cattle weighing 700-800 lbs.) which some producers sell were above their '04-'08 average through May but have been right on the long-term average price each week since then and reached \$115 last week. Both prices are FAR HIGHER than one year ago.

Cow prices have indeed encouraged cow sales with Southern Plains prices running roughly \$10/cwt. higher than last year and \$5/cwt. higher than the '04-'08 average. That means that a 1000-lb cow would fetch near \$600 at present, a full \$100 more than one year ago. But does one sell a productive asset just because the value has gone up — especially when it appears that many other are doing the same and cattle and beef supplies will fall over the next two years? Why not keep her and raise another calf?

Dr. Ron Plain of the University of Missouri provided a very plausible explanation — which had escaped me thus far. It centers on the structure of the beef cow-calf sector — see the charts on page 2. This business is still heavily influenced by 600,000 small herds, generally owned by part-time farmer/ranchers, that still control nearly 30% of all cows. Many of these herds are, no doubt, only marginally profitable. Some probably require subsidization from off-farm income. With money tight due to the recession, "Sell the cows" may be the best way to generate some cash and/or stop the subsidies. High cow prices would trump low costs and plentiful grass and there are enough cows in small herds (roughly 10 million!) to push slaughter higher for a good while. It may be wrong, but Dr. Plain's idea is better than anything I have come up with! Thanks, Ron!

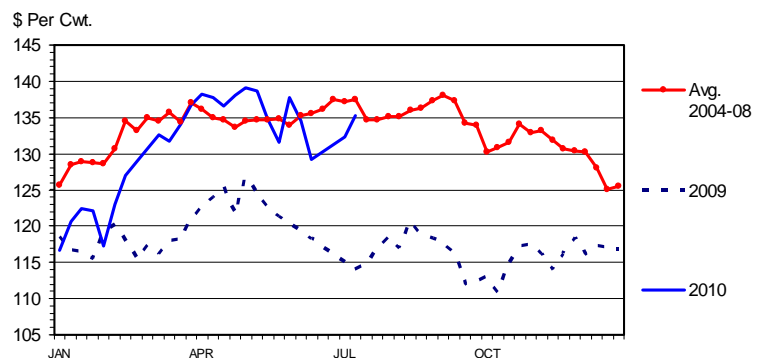
US RANGE AND PASTURE CONDITION

Percent Poor and Very Poor, Weekly



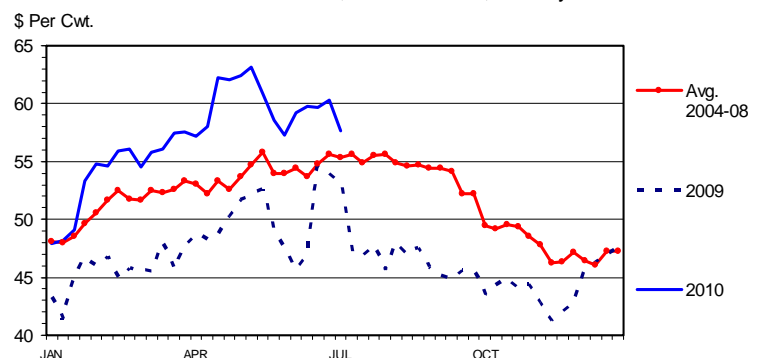
MED. & LRG. #1 STEER CALF PRICES

400-500 Pounds, Southern Plains, Weekly



SLAUGHTER COW PRICES

Southern Plains, 85-90% Lean, Weekly



DRIVING FORCES BEHIND THE AG CREDIT MARKET

MISS THE WEBINAR? VIEW OUR ARCHIVE

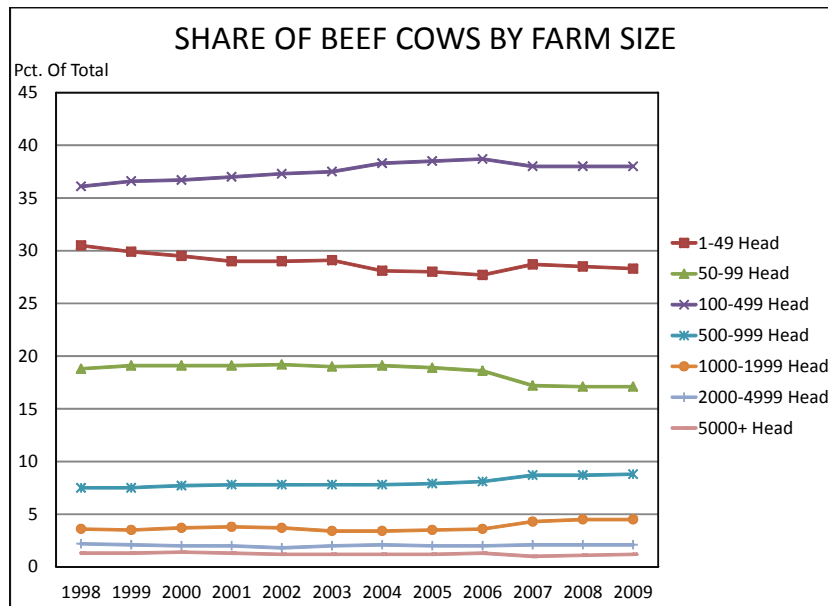
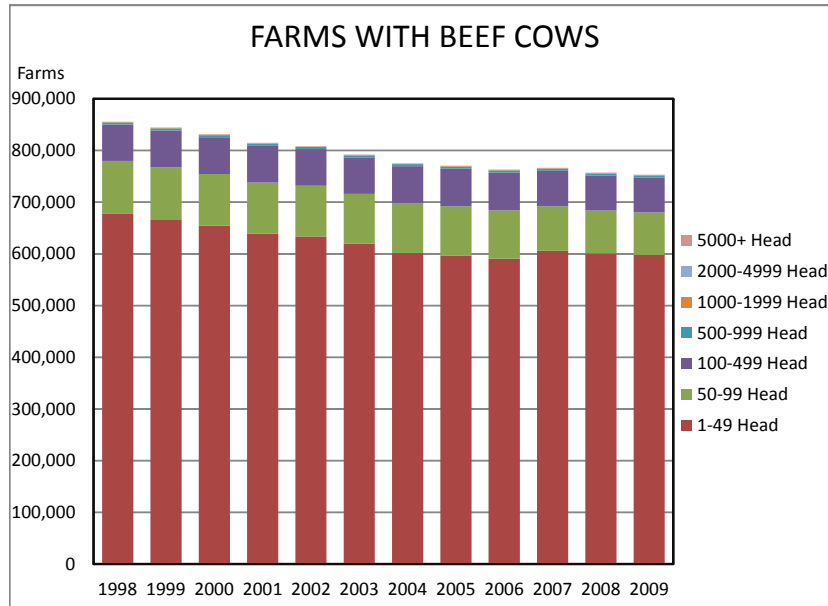
The Daily Livestock Report is published by Steve Meyer and Len Steiner. Please forward to others that may benefit from this information. To subscribe/unsubscribe visit www.dailylivestockreport.com.

Disclaimer: The Daily Livestock Report is intended solely for information purposes and is not to be construed, under any circumstances, by implication or otherwise, as an offer to sell or a solicitation to buy or trade any commodities or securities whatsoever. Information is obtained from sources believed to be reliable, but is in no way guaranteed. No guarantee of any kind is implied or possible where projections of future conditions are attempted. Futures trading is not suitable for all investors, and involves the risk of loss. Past results are no indication of future performance. Futures are leveraged investment, and because only a percentage of a contract's value is required to trade, it is possible to lose more than the amount of money initially deposited for a futures position. Therefore, traders should only use funds that they can afford to lose without affecting their lifestyle. And only a portion of those funds should be devoted to any one trade because a trader cannot expect to profit on every trade.

CME Group is the trademark of CME Group, Inc. The Globe logo, Globex® and CME® are trademarks of Chicago Mercantile Exchange, Inc. CBOT® is the trademark of the Board of Trade of the City of Chicago. NYMEX, New York Mercantile Exchange, and ClearPort are trademarks of New York Mercantile Exchange, Inc. COMEX is a trademark of Commodity Exchange, Inc. Copyright © 2009 CME Group. All rights reserved.

Daily Livestock Report

Vol. 8, No. 143, July 26, 2010



DRIVING FORCES BEHIND THE AG CREDIT MARKET

MISS THE WEBINAR? VIEW OUR ARCHIVE ▶

The Daily Livestock Report is published by Steve Meyer and Len Steiner. Please forward to others that may benefit from this information. To subscribe/unsubscribe visit www.dailylivestockreport.com.

Disclaimer: The *Daily Livestock Report* is intended solely for information purposes and is not to be construed, under any circumstances, by implication or otherwise, as an offer to sell or a solicitation to buy or trade any commodities or securities whatsoever. Information is obtained from sources believed to be reliable, but is in no way guaranteed. No guarantee of any kind is implied or possible where projections of future conditions are attempted. Futures trading is not suitable for all investors, and involves the risk of loss. Past results are no indication of future performance. Futures are leveraged investment, and because only a percentage of a contract's value is required to trade, it is possible to lose more than the amount of money initially deposited for a futures position. Therefore, traders should only use funds that they can afford to lose without affecting their lifestyle. And only a portion of those funds should be devoted to any one trade because a trader cannot expect to profit on every trade.

CME Group is the trademark of CME Group, Inc. The Globe logo, Globex® and CME® are trademarks of Chicago Mercantile Exchange, Inc. CBOT® is the trademark of the Board of Trade of the City of Chicago. NYMEX, New York Mercantile Exchange, and ClearPort are trademarks of New York Mercantile Exchange, Inc. COMEX is a trademark of Commodity Exchange, Inc. Copyright © 2009 CME Group. All rights reserved.