PERSPECTIVES

Market Advisor

by **Tim Petry,** livestock marketing economist, and **George Flaskerud,** crops economist, both of North Dakota State University

Corn and feeder calf prices

Corn and feeder cattle markets have been volatile in the last several months as market fundamentals for both have been changing. Fall 2006 feeder calf prices will be affected by changing corn prices, because after the cost of the calf, feed prices are the second-greatest input cost in cattle feeding.

A rule of thumb

A rule of thumb for cow-calf producers to watch this summer is that a 10¢-per-bushel (bu.) change in corn prices can cause a $1-per-hundredweight (cwt.) change in the opposite direction in fall feeder calf prices. This assumes other fundamental factors will hold constant, which likely won't happen. Changing interest rates, energy costs and fed-steer prices also will be important drivers of calf prices.

But let's focus just on corn prices for this article.

Last summer, from July to October, corn prices declined about 60¢ per bu. and prices for 550- to 600-pound (lb.) feeder steers in the Northern Plains increased contra-seasonally (they usually decline during this time period) by $6 per cwt. So, the rule of thumb was a good one to follow last summer.


PHOTO COURTESY OF HYTEST SEEDS

Corn production levels, price

In 2006, corn prices generally have been increasing, and feeder calf prices have been declining. What is happening in the corn market?

Corn prices have been historically low the last two years because of a record 11.8-billion-bu. crop in 2004 and the second-largest corn crop ever in 2005 at 11.1 billion bu.

The U.S. Department of Agriculture (USDA) National Agricultural Statistics Service (NASS) Prospective Plantings report released March 31 indicated producers plan to reduce planted corn acres by 3.8 million acres. Rising prices since that report and favorable planting conditions may cause producers to plant more acres than earlier indicated. However, high fuel and fertilizer prices likely will cause fewer planted corn acres than in the last several years.

The USDA monthly World Agricultural Supply and Demand Estimates (WASDE) report released May 12 predicted the 2006 corn crop at 10.55 billion bu., which is 5% less than in 2005. Corn usage during 2006 and 2007 is projected to be up about 6%, due largely to increased ethanol usage. Projected ending stocks of corn at 1.1 billion bu. would be about half of this year's 2.2-billion-bu. level.

The USDA is predicting the average 2006-2007 marketing year price of corn at $2.25 to $2.65 per bu., which is 30¢ to 60¢ per bu. higher than this year.

December 2006 corn futures prices that had been trading around $2.70 per bu. increased to more than $2.80 per bu. after the release of the WASDE report. Corn prices likely will continue to be volatile as news about the potential size and utilization of the crop materializes.

Effect on feeder calves

Feeder calf prices will be affected by higher corn prices and cyclically increasing numbers. Fall prices likely will ratchet down to 2004 levels if beef trade resumes with major Pacific Rim countries.

If the corn crop encounters weather problems and prices move higher, calf prices likely will move even lower. AJ