

MONTHLY MARKET PROFILE: DECEMBER, 2009
NEVIL C. SPEER, PHD, MBA (nevil.speer@wku.edu)
WESTERN KENTUCKY UNIVERSITY

Don't get caught looking back. That statement was part of last month's Monthly Market Profile title. Indeed, the market is especially unforgiving right now - there's not much time to savor the victories. There are no gimmes! Sellers have to ensure they squeeze all they can out of each week's negotiations because every dollar matters in this unfriendly environment. For some perspective let's back up about 45 days: October was friendly to the fed market with sales posting six-month highs at the end of the month (\$87-8); there occurred a two-week run at the end of October and the first week of November with fed sales better than \$86.

However, I noted in October and repeated again last month, "Just about the time it appears there might be some promise of better prices, or at least the establishment of firmer footing, the market gets trampled back to lower levels." Unfortunately, that's exactly what happened as November progressed. That's not completely unexpected as last month's MMP also noted that there'd be some tough weeks ahead given ongoing broader economic concerns and the recent downturn in packer margins. Fed sales, over the course of the past four weeks, have drifted nearly \$5; December's opening week saw cattle trade at mostly \$82.

Perhaps more important is action at the CME. The December live cattle contract has plunged from its near-term high of \$87+ (established October 23) to new contract lows under \$81 (December 3). As such, failing to take advantage of the October rally and hedge pending closeouts has proven especially costly. Meanwhile, the outlook based on the February live cattle contract doesn't appear much brighter. February's contract has also established a new life-time low slipping under \$83; any corrective rally will likely be bound by near-term resistance at \$85-6.

The outcome being that upside potential is somewhat limited for the remainder of the year and into the early months of 2010. Cattle feeders need to remain diligent. And until that changes, playing defense is a sound strategy. At the risk of sounding like a broken record, there are several over-riding themes for the beef complex that continue to prevail within the beef complex which underscores that approach. For most of 2009 I've provided some focus on several very important data illustrations; I believe them to be very reflective of the overall state of the industry.

The first illustration below depicts weekly Choice cutout values. Wholesale values remain locked in a narrow trading range between \$135 and \$140 (with an abbreviated run at \$145 earlier in the year). That's an especially important and relatively current indicator (about as close to real-time as we can get) of overall sentiment about beef and/or beef sales within the broader economy. Consumer spending, or lack thereof, get translated fairly quickly back to the wholesale level. More spending equals better boxed beef prices; less spending means weaker wholesale sales. Throughout 2009 the benchmark Choice cutout has tried to rally only to hit a stumbling block.

The result of that reality translates immediately back into the fed market. Better boxed beef sales means stronger fed cattle bids; softer wholesale action means less aggressive prices. As long as wholesale values remain chop along at current levels there'll be no upside potential for the fed market. And as I've emphasized repeatedly throughout the year, beef demand is the ultimate long-term determinant of potentially better prices. Consumer demand has to pick up before boxed beef sales get some traction and subsequently lift the fed market.

What's real effect of all that within the production sector? The second illustration is the ultimate outcome of implications of the first: it depicts monthly revenue generated at the feedyard level. Total available funds have been drastically reduced in 2009 compared to the previous five years – by my estimates nearly \$2.35 billion. That rough measure is indicative of the total dollars available upstream to producers. Operating funds have to come from somewhere. Less

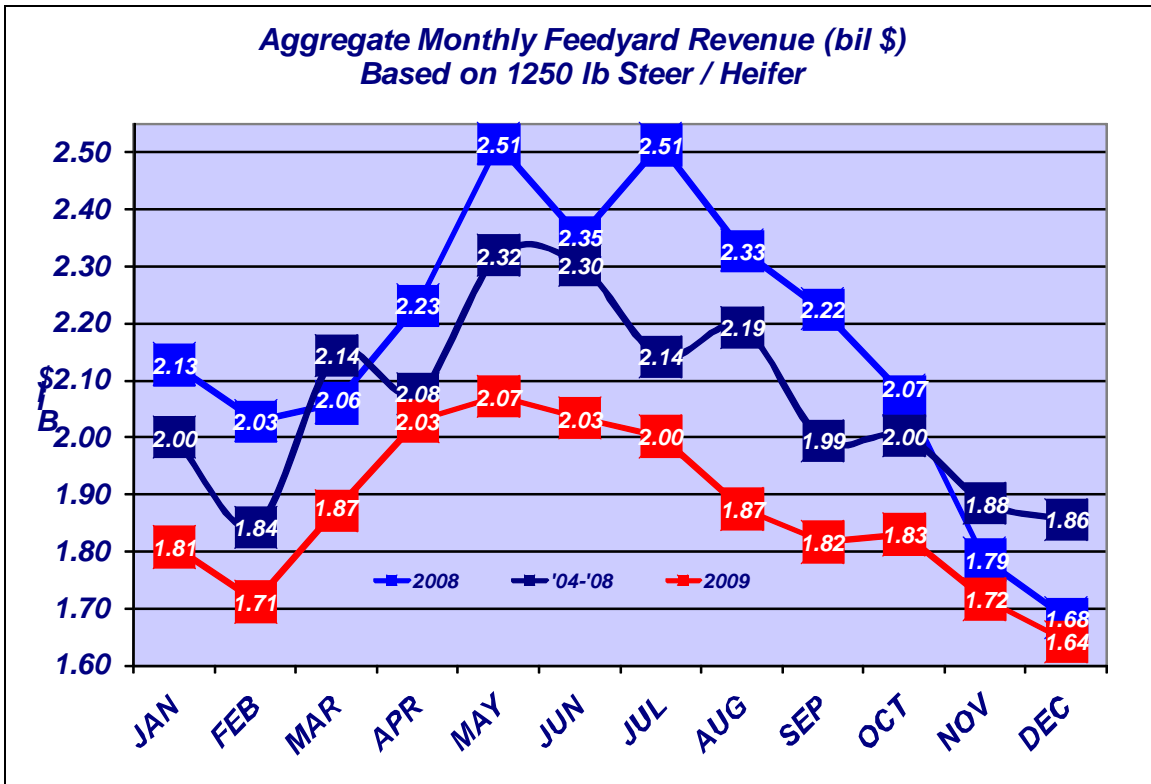
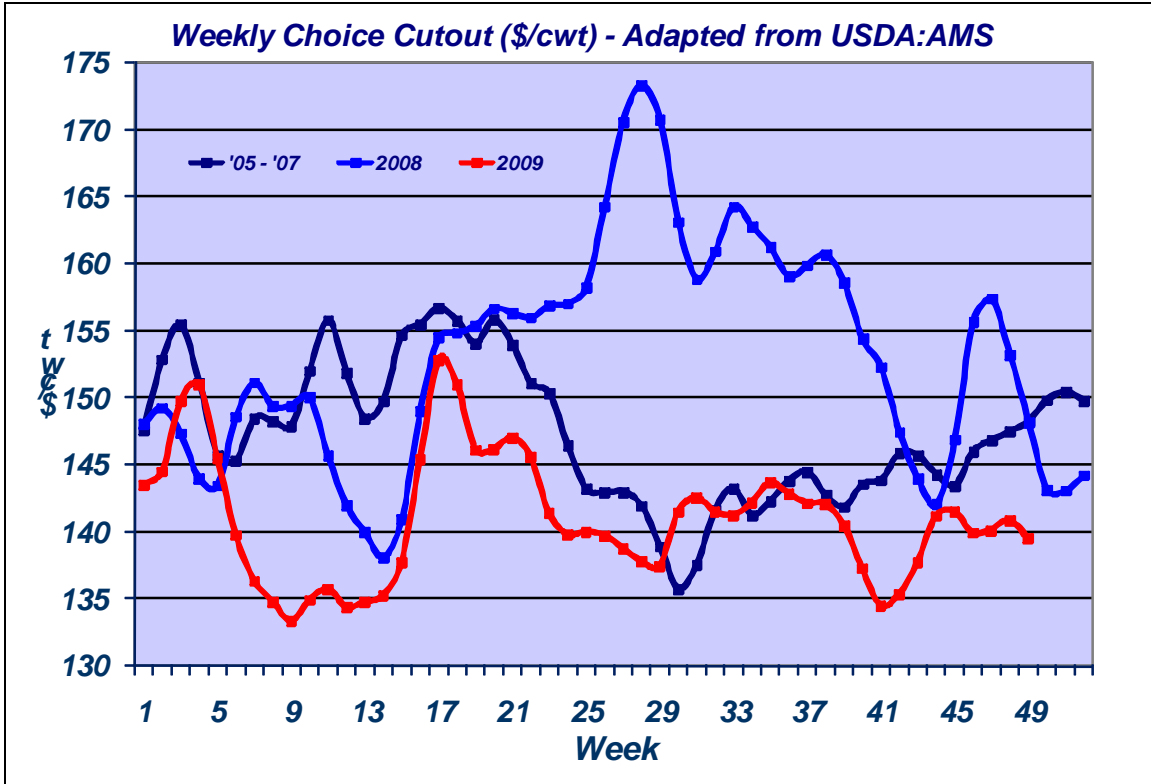
revenue, derived from fewer cattle sold at lower prices, translates to reduced cash flow available for all aspects of business operations – including feeder cattle purchases.

As follow-up to last month's discussion about beef demand and restaurant activity, November's Technomic / American Express Restaurant Market Brief contained several corresponding and interesting observations important to the beef complex. Most notably: [Full-service restaurants] all saw declines, with steakhouses dragging down the average...down by a weighted average of -6.2%...five upscale steakhouses saw declines way into double digits, from Morton's (-16.8%) to Ruth's Chris (-24.0%).” On a brighter note, the market brief also included interesting discussion about a new trend among restaurants which, “...are finding one virtually foolproof way to please their regular customers and attract new ones: burgers, both traditional and innovative.” The analysis continues:

Americans eat more than 11 billion burgers every year and eight out of 10 U.S. foodservice establishments serve hamburgers....The conclusion is inescapable: Any restaurant that purveys burgers, at any price point, had better pay attention to trends and consumer preferences to boost the bottom line....American consumers take their burgers seriously, and burgers are one menu where they are less willing to cut back despite the current tough economic environment....Meat is the meat of the matter. Three-quarters of consumers rank quality of meat as the first or second most important attribute they look for in choosing a burger. When asked what makes a burger “premium,” more than seven out of 10 specified a high-quality breed of beef (such as Angus) and/or a high-quality cut (such as sirloin). Nearly half of consumers say restaurants should offer a variety of burgers sizes, from dainty mini-burgers to half-pound behemoths”

That's a positive note for the beef industry – if nothing else, consumers feel strongly about hamburgers! More next month on beef demand.

Merry Christmas!!!!



PRICE SUMMARY**WEEK ENDING:**

	4-Dec	27-Nov	20-Nov	13-Nov	6-Nov
Slaughter Steers (\$/cwt)	81.63	83.42	82.77	83.92	86.27
Choice Cutout (\$/cwt)	139.48	140.85	140.10	139.94	141.49
Select Cutout (\$/cwt)	132.75	133.06	132.26	133.89	135.86
Hide and Offall (\$/cwt)	9.69	9.59	9.32	9.05	8.61
USDA Slaughter Weights (lb)	1300	1300	1306	1314	1318
USDA Steer Carcass Weights (lb)	853	849	847	851	862
CME Feeder Cattle Index (\$/cwt)	93.91	93.69	92.91	93.48	93.63
Cow Cutout (\$/cwt)	102.74	101.01	99.16	101.32	102.65
Corn (basis Omaha: \$/BU)	3.42	3.64	3.57	3.61	3.54
Cattle Harvest (000 head)	638	530	631	625	629
Beef Production (million lb)	494.5	411.0	492.8	492.9	499.5