

**MONTHLY MARKET PROFILE: JUNE, 2009**  
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Pop quiz time - multiple-choice question: cattle feeders: A) have skin like iron; B) are always optimistic about the next turn of cattle; C) love the business of trading and can't imagine doing anything else; D) always believe they can beat the market; E) all of the above. You answered with...? Those are probably all essential qualities to remain resilient and keep motivated right now because cattle feeders just can't seem to catch a lasting break.

June opened on a very sour note. Following four weeks of steady trade at mostly \$84-5 the market found itself under pressure from sliding wholesale prices once Memorial Day was over. Sellers retreated relatively quickly with some deals brokered as early as Tuesday following the extended weekend. Business began the month of June with cattle trading in the North at \$82.50-\$83 but prices eroded from there as the week progressed; the Southern-tier followed up with cattle being priced largely at \$82 including some reports of sales dipping all the way down to \$81. An \$82 market compares to \$85-6 a month ago and \$95 in 2008 (more on that later).

However, the spot market is really only part of the story. Perhaps more damaging was the action at the CME. The June contract broke through \$80 (June 2) – a significant psychological support level and established a new life-time low for the contract. Meanwhile, the August contract also marked a new low (the previous intra-day low occurred back in February) and settled below \$81; the contract has given up over \$4 during the course of the past six weeks. On one hand, it could be argued that the futures market is oversold and due for some recovery (indeed, those contracts reversed direction later in the week). On the other hand, cattle contracts are facing a double-whammy being weighted down by action in the hog pits: June Lean Hogs are now sub-\$60 due to concerns about sliding wholesale prices and slowing pork movement. Net result, barring any kind of unforeseen dramatic reversal, negative sentiment at the CME will pressure cash trade in coming weeks and leaves prospects for cash trade range bound for the remainder of the summer.

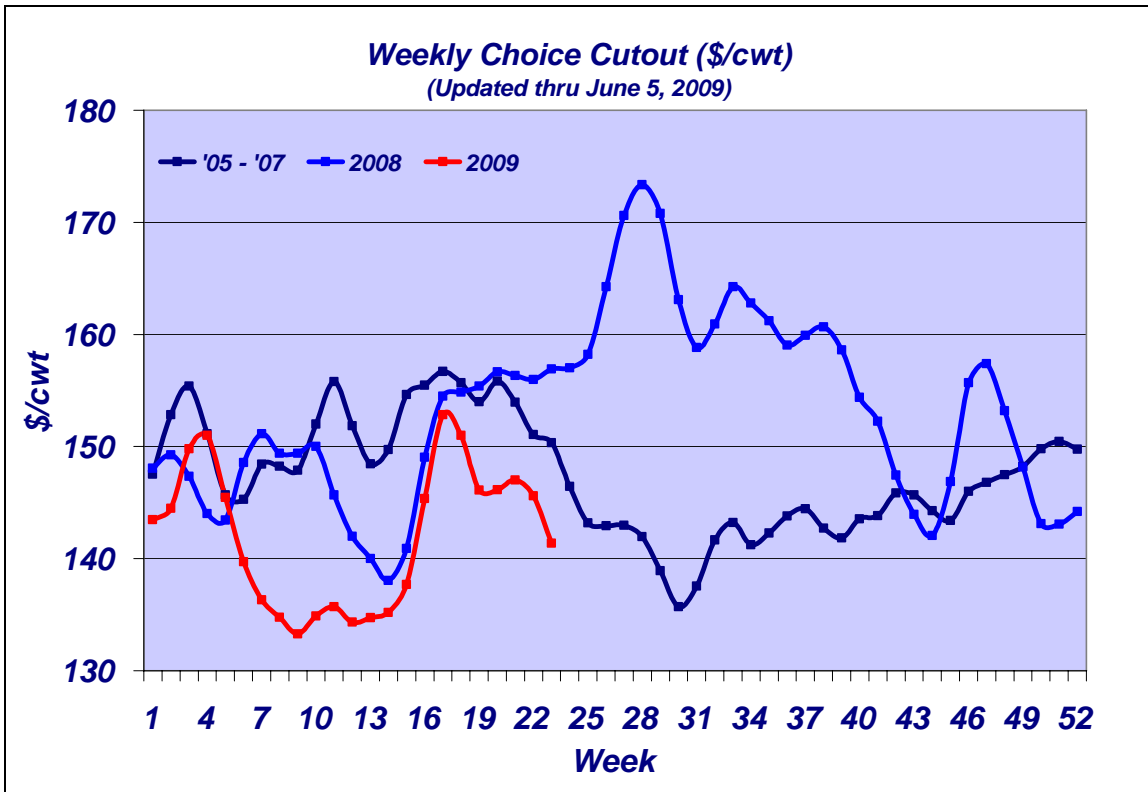
More importantly, that's also true from a fundamental perspective – the wholesale beef market. The first graph below depicts weekly Choice cutout values. It's important to note that 2008 represents an anomaly: the contra-seasonal surge in the middle of the summer was the direct result of stimulus checks. Therefore, the '05-'07 average represents a much more accurate benchmark in terms of seasonal expectations. The cutout staged a great recovery during April but has since run out of gas...so much for "green shoots" within the economy, at least as it pertains to the beef sector. The question now becomes about severity of downside risk to the market - will the cutout test \$130? The subsequent outcome of that question revolves around fed trade – will it retest the sub-\$80 low established back in February?

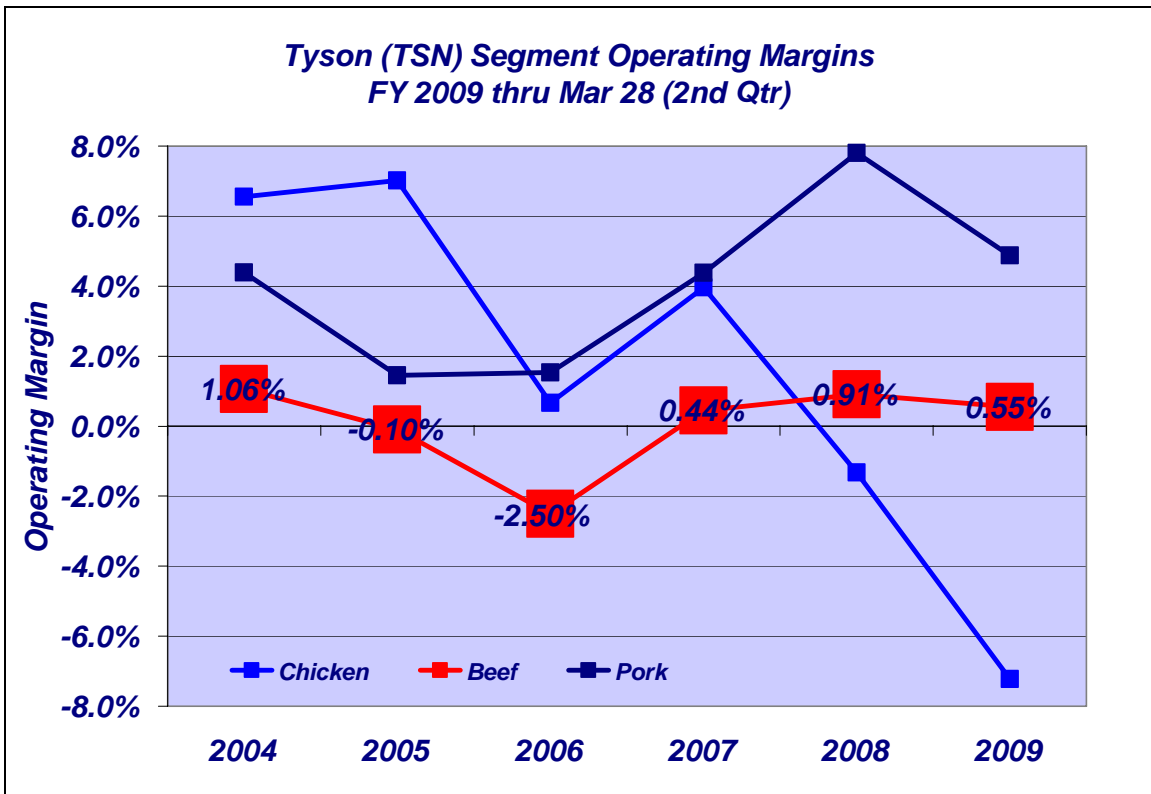
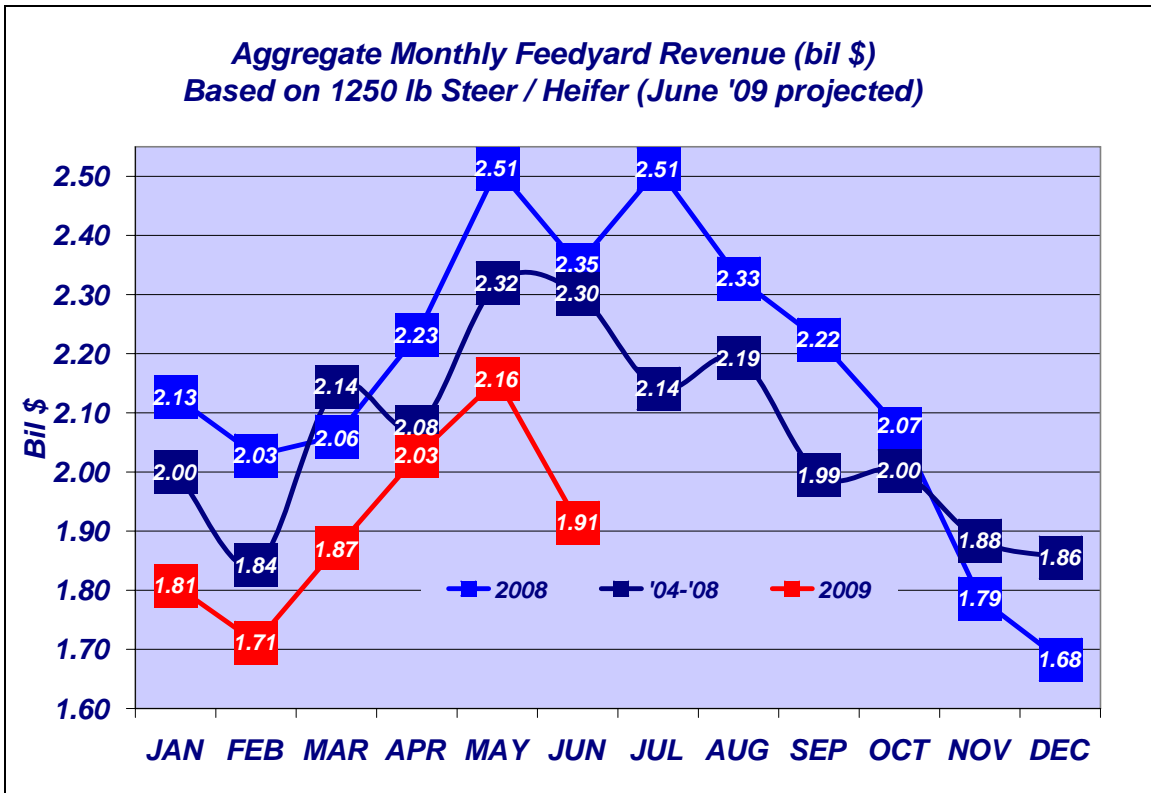
Regardless of where the market ends up, the most important aspect to the beef complex right now relates back to the cattle feeding sector. The second graph portrays estimated aggregate feedyard revenue (an updated version from previous Monthly Market Profile discussions). The trend continues in the wrong direction: beginning last fall the sector has experienced lower prices and slower throughput. By my estimates, the cattle feeding sector, through June, will be some \$1.8 billion behind last year's pace and approximately \$1.2 billion behind the 5-year average. Regardless of the actual number, the trend depicts a shrinking revenue base to work from and represents a sector that eventually will have to contract.

Meanwhile, there are still numerous analysts who continue to emphasize the supply side of the price equation. That is, better days are coming for the market because of a relatively limited fed cattle supply and the need to aggressively pull cattle forward. Some forecasters are touting prices north of \$90+ for fed cattle later in the year. That said, it's important to provide some historical perspective. During the past five years ('04-'08) when cattle traded \$90 or better (108 out of 260 weeks) the following conditions existed: average fed price = \$93.65; Choice

cutout: = \$153; Select Cutout = \$144; drop = \$9.88. Moreover, packer margins during those \$90+ weeks hovered around \$125. And there certainly hasn't been much slack of late (but that's always the case) for the beef processor in terms of margins that would help boost the market (see third graph below). Therefore, any hopes for \$90+ cattle, given current drop values, would require the Choice wholesale market to climb into the upper-\$150s.

The point being, positive talk and good intentions aside, history provides some objective insight for various price targets. That's true for all participants, including cow/calf producers who need to begin focusing on fall marketing plans – especially in light of recent action at both the CME and CBoT. To conclude, this is a critical juncture for the market. There's lots of uncertainty out there: there's no room to take anything for granted and managing one's business requires constant attention. (For more on this see June's Agsight!)





**PRICE SUMMARY**

	5-Jun	29-May	22-May	15-May	8-May
Slaughter Steers (\$/cwt)	81.96	84.33	85.08	85.16	84.03
Choice Cutout (\$/cwt)	141.39	145.60	147.03	146.14	146.10
Select Cutout (\$/cwt)	135.68	139.41	141.91	142.93	143.51
Hide and Offal (\$/cwt)	7.22	6.81	6.71	6.36	5.87
USDA Slaughter Weights (lb)	1266	1265	1267	1272	1279
USDA Steer Carcass Weights (lb)	826	820	822	820	824
CME Feeder Cattle Index (\$/cwt)	98.75	100.26	99.89	99.15	99.51
Cow Cutout (\$/cwt)	109.77	115.51	117.24	115.61	115.42
Corn (basis Omaha: \$/BU)	4.26	4.12	4.07	4.12	3.98
Cattle Harvest (000 head)	670	625	678	672	652
Beef Production (million lb)	513.4	478.6	519.3	516	502.8