

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

Turning the calendar proved a good omen for cattle feeders. The fed market has been relatively uneventful during the past five weeks with cash sales being range bound between \$81 and \$83. However, April finally brought about some semblance of seasonality and a stab at moving the market higher. The month opened with live sales jumping \$2 to \$85. The bigger question now becomes about further upside potential and possible assertion of further gains: is there some gas left in the tank for spring highs over the course of the next four to six weeks?

Regardless of where we go from here, \$85 sends a solid signal that February's sub-\$80 trade represents the benchmark low. The last time the market priced the low at the front end of the year (versus a normally-expected summer low) occurred in 2004 on the heels of BSE in December, 2003: the lows occurred in January at \$74-5; the eventual high for the year was established in May at \$90-1. Obviously, 2009 is not a perfect parallel but there's reason to believe this year could follow a similar pattern. That logic goes as follows: the worst of consumer slowdown converged in late-2008/early-2009 and has already been realized in the beef complex – the market begins to dig out from here because conditions will normalize as the year progresses.

However, once we make the assumption that 2009's lows are in, perhaps more important will be the extent of the upside going into spring. Action in the major equity markets may support the logic above. Remember, though, stock markets are leading indicators of future economic activity and not representative of current consumer behavior – beef complex action is inherently more real-time due to the nature of the business (it's a perishable product). Recovery remains tenuous and distant so hopes for any major move needs to be somewhat muted. Nonetheless, higher prices will hinge on wholesale trade as explained in last month's Monthly Market Profile:

...less consumer spending mean[s] weaker wholesale activity. Consumers at all income levels are tightening their belts, shoring up their balance sheets and being increasingly judicious about all types of expenditures including food. That's forced an unfriendly-to-beef rotation from restaurant to retail while trading down to pork and poultry. The outcome is less beef being purchased at lower prices[...] A slowdown in consumer spending for the beef sector creates weakness in boxed beef prices. That translates to a softer fed market which serves as the gateway for money entering the production sector.

As mentioned, 2009 is uncharted territory in terms of broader economic conditions and lots of unknowns remain with respect to the economy. Even if recovery is occurring it won't be a smooth reversal to the upside – it will occur in spurts with setbacks along the way. Neither will the market likely experience a \$16 turnaround as it did in 2004 - upside potential will be far more tempered in 2009 due to broader uncertainty associated with current economic conditions.

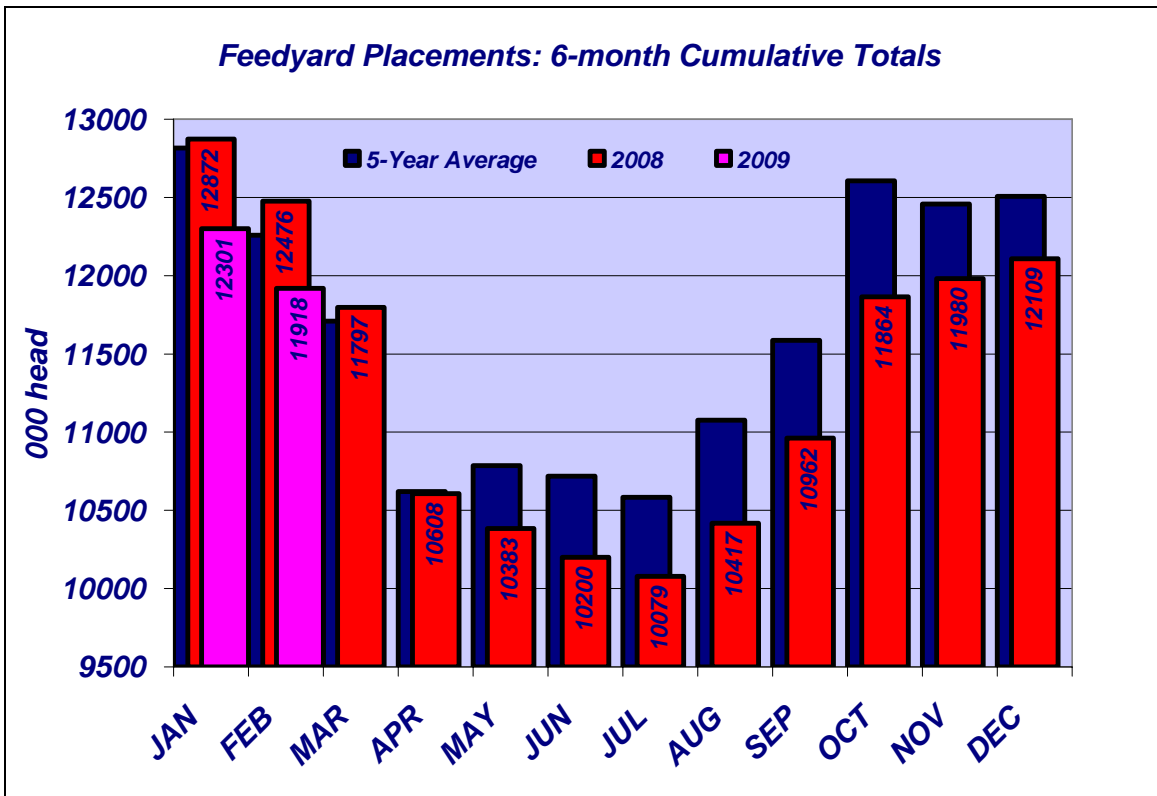
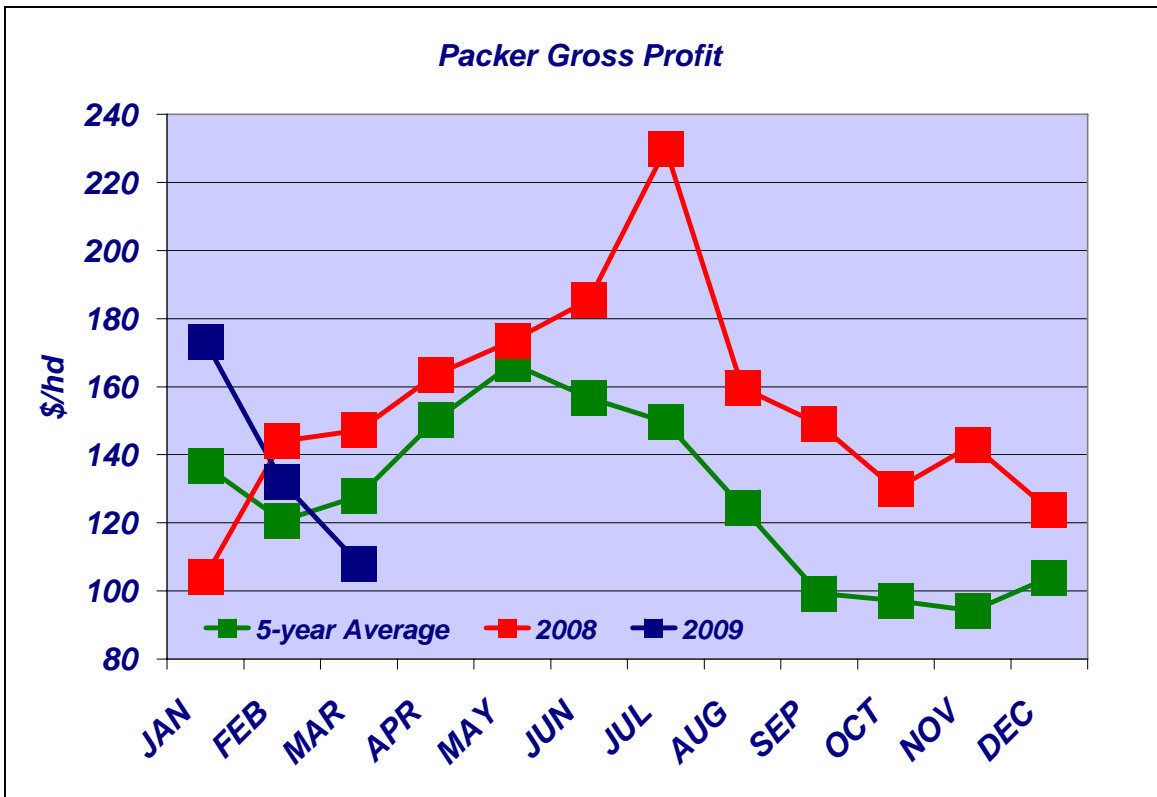
Most telling of the complex's challenges: the Choice/Select spread is currently sending unfavorable signals about overall beef activity. Closing-day spread values have been negative several times during the past month. More significantly, the spread's weekly average was inverted for the week ending April 3. That's the outcome of several factors but largely driven by consumer demand in response to the current economic slowdown (for more detailed discussion about consumers and the food industry see this month's Agsight).

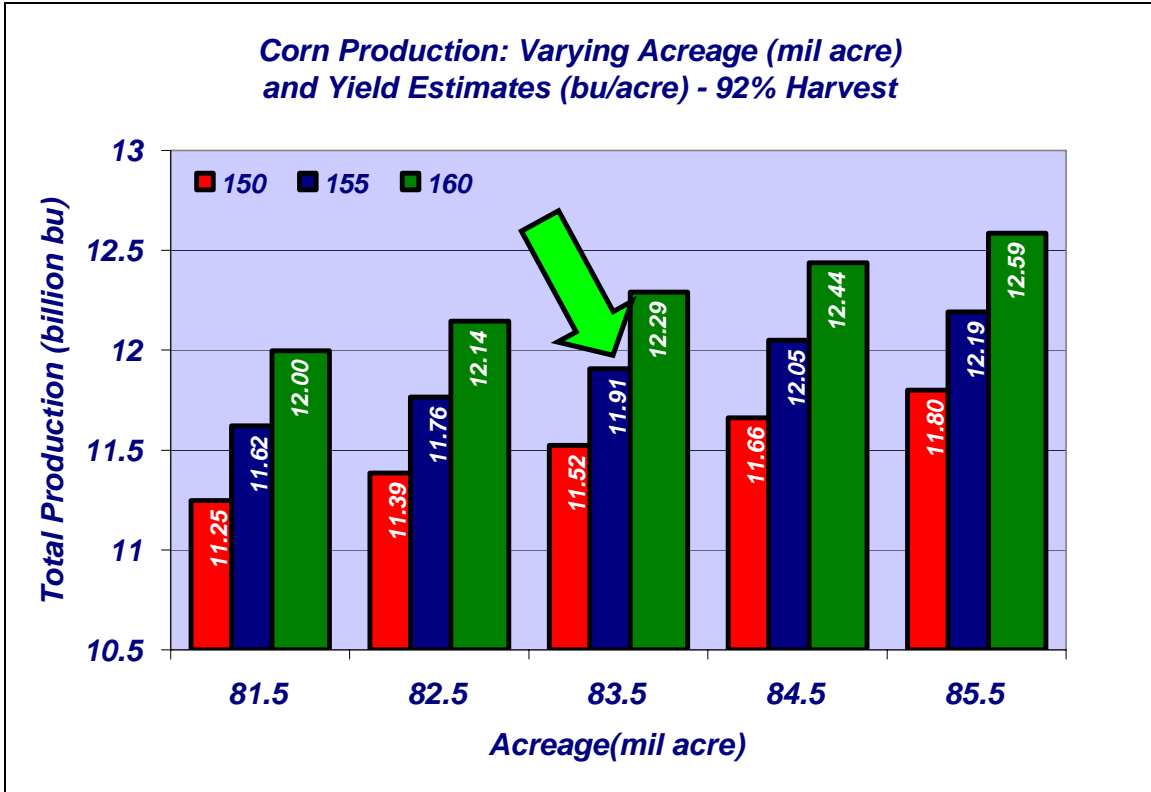
Regardless of what occurs, the most significant event of the past several months is the apparent reversal of leverage in weekly negotiations. Momentum has seemingly turned in favor of the cattle feeder. Per that premise packers are getting squeezed. Beef processors have worked hard to maintain margins in recent months against the backdrop of sliding wholesale values – but even steady live prices in that environment prove detrimental to margins. The fed market's jump

to \$85 confounds that reality even further. The illustration below reflects estimated gross profit trends; as always, the actual estimates don't matter – what does matter is the trend. Note the 2009 month-over-month differences: the line is in the wrong direction (contra-seasonal). March's values put the processor about \$50/head behind breakeven. As such, the packer, too, will be looking ahead to spring – grilling season typically means better beef demand: opportunity for increased throughput, larger supply and ultimately improving operating margins.

Be sure to note, though, that April's \$85 achievement doesn't necessarily mean profitability for the cattle feeder: it remains a margin business and managing margin is more important than the absolute levels of the buy or sell. Closeouts remain challenging from a cash-to-cash perspective. The outcome of that enduring trend in the feeding sector is best indicated by March's cattle-on-feed report. Placements continue to be slow (which will further confound the packer in terms of supply and need for competitive bids in coming months). The second graph below depicts six-month cumulative totals – roughly one turn of cattle. The total number of feeder cattle placements is nearly 500,000 head behind last year's pace – or one-million head on an annual basis! Again, as referenced last month, the outcome of reluctance and/or inability within the sector to place cattle is indicative of enduring cash flow challenges and ultimately equates to a slower and softer feeder cattle market. Regardless, both the packer and the feeder are carefully managing inventory in these challenging times.

Lastly, USDA's highly anticipated planting intentions pegged corn acres at 85.0 million acres. That compares to 81.5, 82.5 and 85.5 million acre pre-report estimates (Informa, Farm Futures and Allendale, respectively). Nonetheless, USDA's 85-value will largely serve as the target for traders to work from here. Meanwhile, attention will turn to monitoring planting and market conditions for potential deviations as we head into planting season; after all, the report's key word is “intention” making actual decision making a week-to-week analysis. Thus, there'll be some volatility along the way. The third illustration below depicts total production based on varying acreage and yield outcomes. Bottom-line: production estimates for a median value of 83.5-million planted acres (and 92% harvest rate) at rough trend-line yield of 155 bu/acre equates to production of approximately twelve-billion bushels. That output is in line with outlook for minimum total usage for the '09/'10 crop year. Therefore, at best, the industry maintains current carryover in the coming crop year; conversely fewer acres, less yield, or higher usage dictates next year's carryover to decline which means higher prices to ration usage or purchase additional acres. Stay tuned.





PRICE SUMMARY

	3-Apr	27-Mar	20-Mar	13-Mar	6-Mar
Slaughter Steers (\$/cwt)	84.71	83.29	81.99	80.66	81.47
Choice Cutout (\$/cwt)	135.20	134.73	134.35	135.70	134.87
Select Cutout (\$/cwt)	135.33	134.33	133.93	134.86	133.30
Hide and Offfall (\$/cwt)	5.85	5.75	5.70	5.93	6.29
USDA Slaughter Weights (lb)	1311	1313	1315	1314	1314
USDA Steer Carcass Weights (lb)	848	851	851	851	854
CME Feeder Cattle Index (\$/cwt)	94.99	94.09	93.45	91.04	91.77
Cow Cutout (\$/cwt)	112.34	110.16	107.88	107.62	104.59
Corn (basis Omaha: \$/BU)	3.93	3.78	3.85	3.77	3.48
Cattle Harvest (000 head)	606	581	615	623	603
Beef Production (million lb)	478.6	459.2	486.1	491.5	475.0