

THE MIDWEST

As one source said, *"Everyone likes to see the market start steady and stay steady; this year, it has started bad and is only going to get worse."* Weights are on the rise this week, with packers shouting that cattle are coming in too big. Carcass weights are currently exceeding 1,050 pounds though we'd like to see carcasses stay under 1,000 pounds - a sign that folks are hanging onto their cattle in hopes of finding a hotter market in an upcoming sale and a reflection of the fact that the cost of grain is falling below the cost of production. Producers fear that they no longer have leverage in transactions, as evidenced by the percent of each dollar sold at retail coming back to the producer's pocket. After the October futures collapsed, we are setting new yearly record lows this week. The collapse stems from either the fear of the contract date or the market adjusting downward due to pressure on October futures. Cattle producers are feeling the competition from the pork and chicken industries. One market last week sold only butcher cows at considerably lower prices than normal. On a positive note, cattle quality has definitely seen improvement. Selective breeding has proven that growth and performance work to produce more and higher quality meat on the animal.

NUMBERS: We saw fats trading this week at \$0.97-\$0.99 per pound in Midwestern sale barns; far below the break-even point of \$1.15. Across the board, heifers were 10-12 cents back from last week.

TRENDS: Farmers in the East have feed and pens ready, giving a jump-start to the fall calf run. Bigger calves, with upper-6 weights, sold \$4-5 higher than others. Nearly 80% of calves sold were preconditioned. In Iowa and surrounding regions, ranchers pre-wean and background their calves so they will look to sell most of their calves in January. Next week will be a big week for calf sales, with one source preparing for 5,000-6,000 calves to come through his market.

THE WEST

Demand was better this week; though the demand may not stick due to an excess supply of crops that bankers are urging producers to sell rather than feed. Six weight calves sold well, with 485-510# calves selling for lower.

HISTORY LESSON: The current market cycle appears to be quite similar to what we saw in the 1980s when small farmers and feeders consolidated to become large feedlots. In the 80s, if you didn't have a good relationship with the packers, you were unable to sell your cattle. One might ask if we have once again reached that same point as we face a virtual market monopoly, with the packers continuing to make historic profit margins. The only way the system will change is if the packers decide to play nice, or if the government tells them that they have to.

UNDERSTANDING THE FORMULA:

- 1) Black steer comes in.
- 2) Take off hide, guts, feet, etc.
- 3) Find hot carcass weight (*live weight minus hide, guts, feet*).
- 4) Determine yield grade.
- 5) Determine price. *This is where things start to get sticky... how do you determine this price?*
- 6) The yield grade price is determined on a 5 state average: Iowa, Nebraska, Colorado, Texas and Kansas.
- 7) They then say, "I'm the packer, and I'll give you the weighted average."
 - o *The formula does not allow for competitive trading because at this point, you just took a price that was the average, or lower on average, when your cattle are better than the cattle that set the average.*

THE WEST *(continued)*

FUTURES: Cattle owners have lost nearly 60% of their equity this year. We no longer have a cash market because there is no live market. It used to be that the cattle would trade, and then the board would move. Now, the board trades and then the cattle move. According to one source, "We have to change how we market our cattle and we cannot tie our profits to another board. Trading on the board is the riskiest move a producer can make in today's market. Yet, Chicago won't change because they link their profits to these risky moves."