

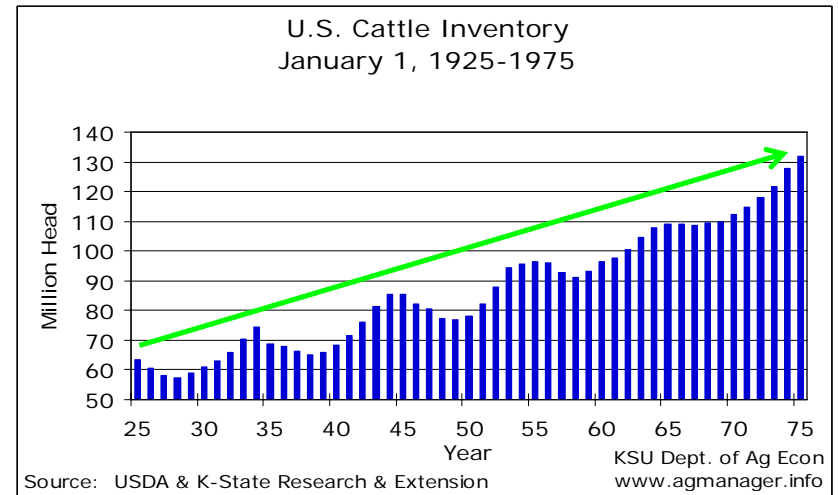
Cattle Outlook

James Mintert, Ph.D.
 Professor & Extension State Leader
 Department of Agricultural Economics
 Kansas State University

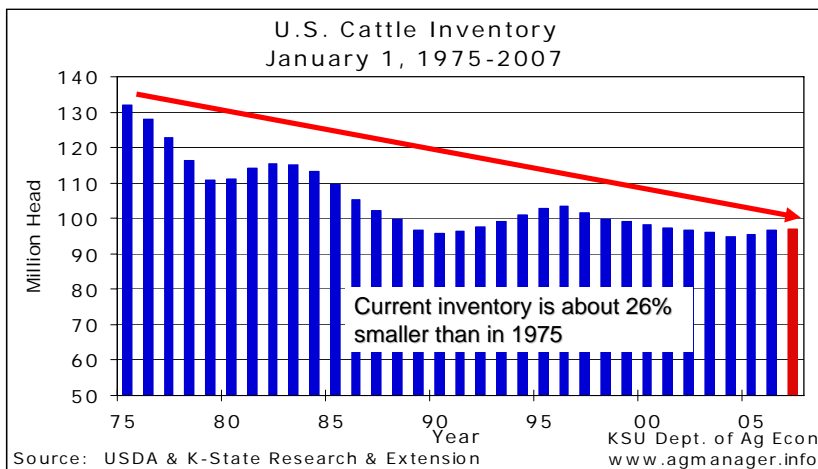
K-State Risk & Profit Conference
 Manhattan, KS
 August 17, 2007

www.agmanager.info/livestock/marketing
jmintert@ksu.edu

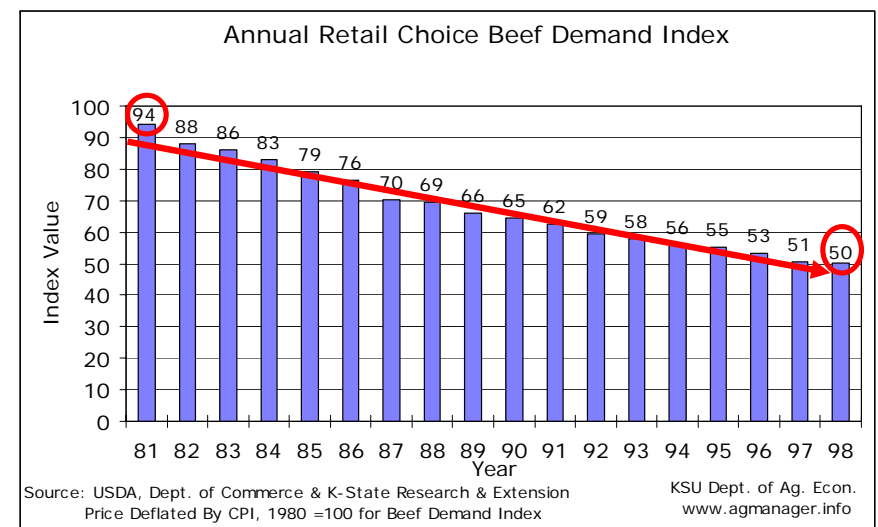
A Picture of A Healthy Industry



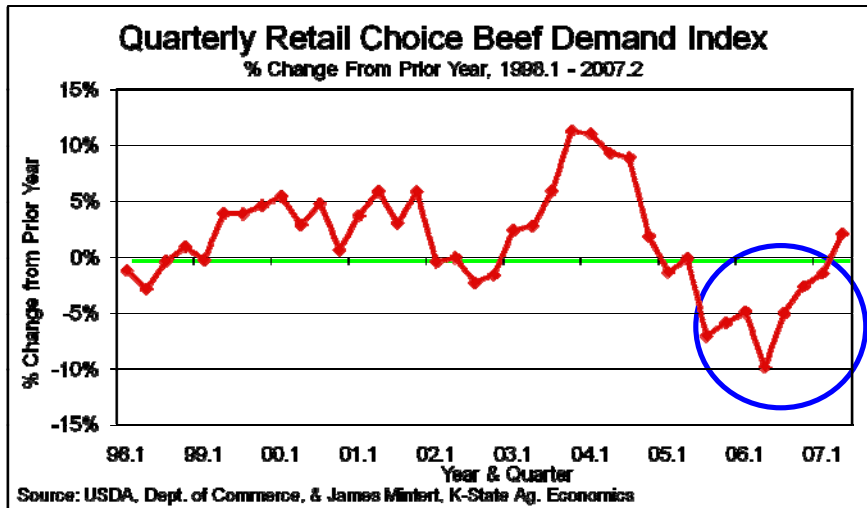
A Shrinking Industry Responding to a Lack of Profitability



But Weaker Demand Was Key Beef Demand 1980-1998



Downturn Got Underway in mid-2005



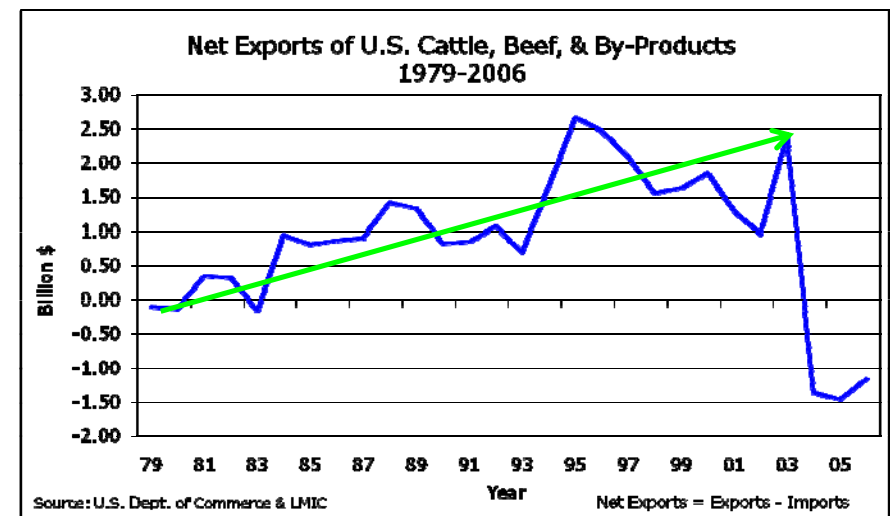
Beef Demand Shifters What's been taking place recently?

Demand index does not indicate why shifts occur

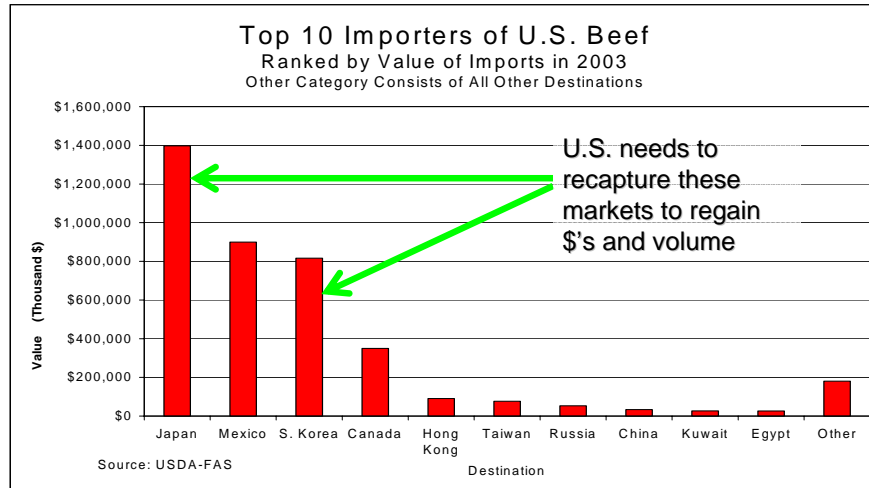
- Possible reasons for recent downturn
 - Low carb diet effect has worn off
 - Consumer's disposable income growth slowing
- Domestic demand could remain soft
- How do we turn this around?

International Trade Outlook

U.S. Was A Net Exporter From 1981-2003



Top 5 Importers Accounted for 91% of U.S. Exports



Where Are We Headed?

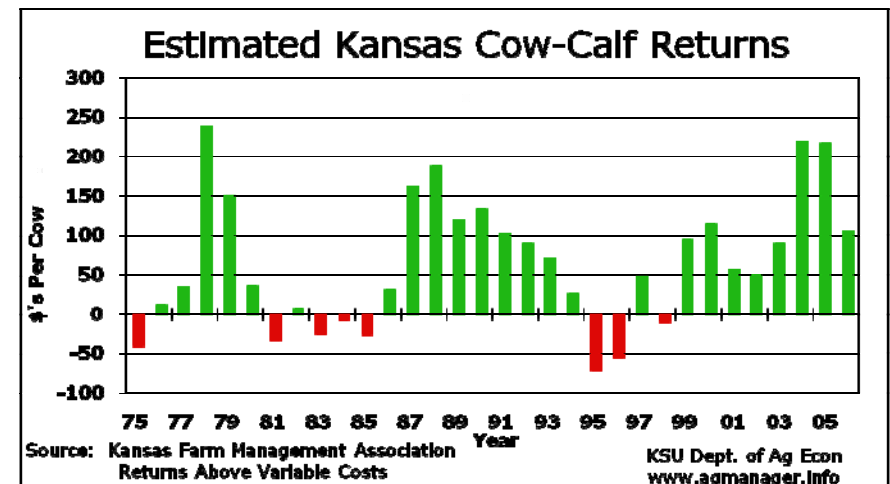
Trade

- U.S. strength is in high quality beef products
 - Will higher corn prices erode this advantage?
- Regaining market share will take several years
 - Market access is key
 - Korean shipments are picking up
- Consumer incomes in importing countries are key to long-run growth in beef exports
- Other countries may have comparative advantage in cow-calf production

Supply Side in the U.S.

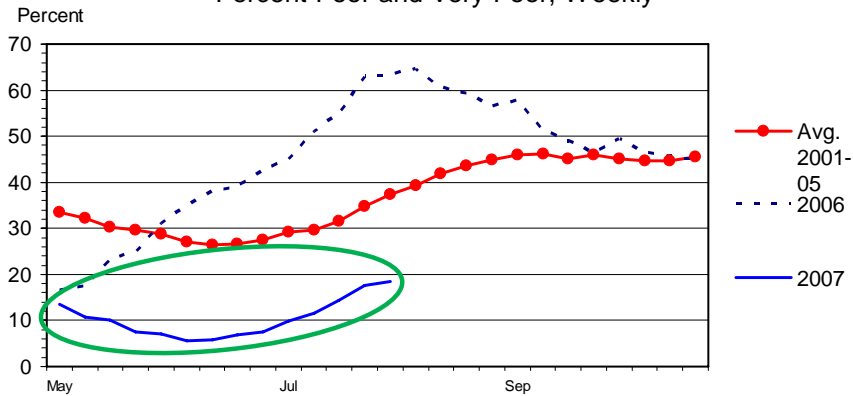
Strong Profitability Encouraging Expansion, But...

Drought Conditions Discouraged Expansion in '06



Plains Pastures Are Much Better Than In '06

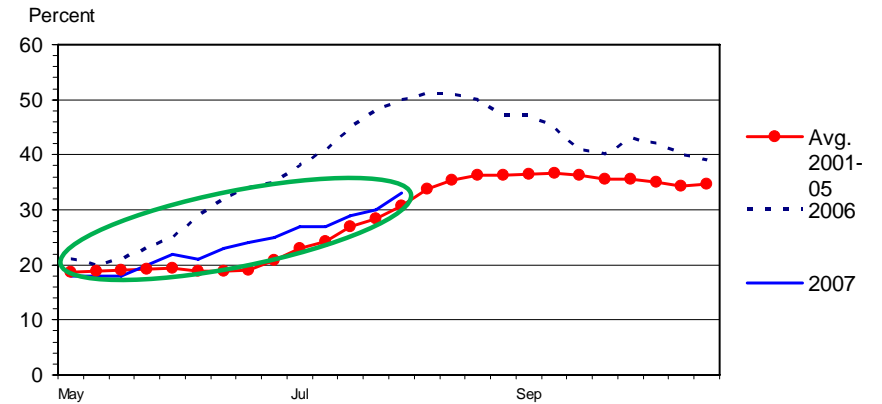
**GREAT PLAINS REGION
RANGE AND PASTURE CONDITION**
Percent Poor and Very Poor, Weekly



Data Source: USDA/NASS, LMIC

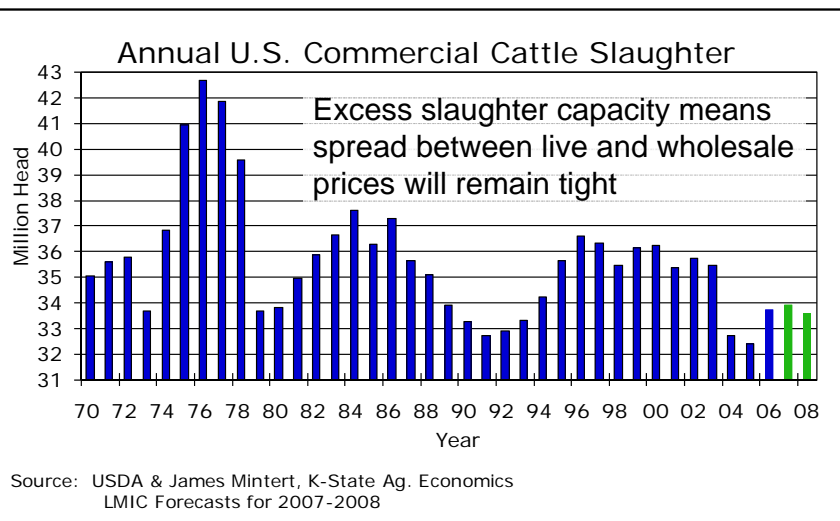
But U.S. Conditions Still Worse Than Average

US RANGE AND PASTURE CONDITION
Percent Poor and Very Poor, Weekly

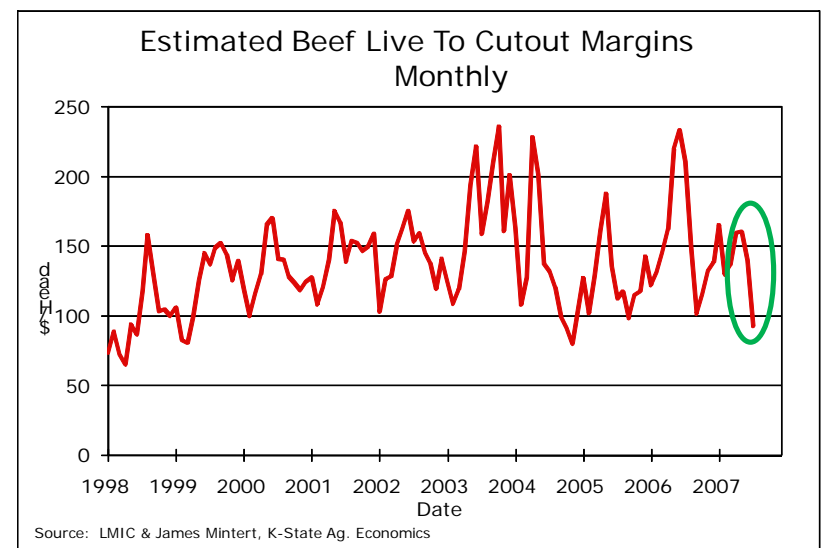


Source: USDA/NASS & LMIC

Slaughter Is Expected To Rise Modestly In '07 But Could Decline in '08



Narrow Processor Margins Are Supporting Slaughter Cattle Prices



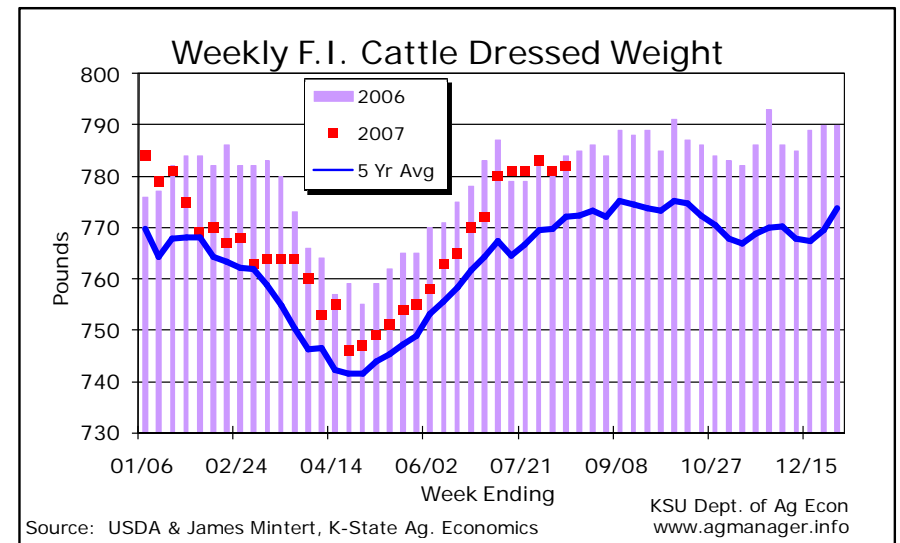
Changing Composition of Placements On Feed

U.S. Placements of Cattle On Feed, By Weight

March 2007 - June 2007 vs. March 2006 - June 2006

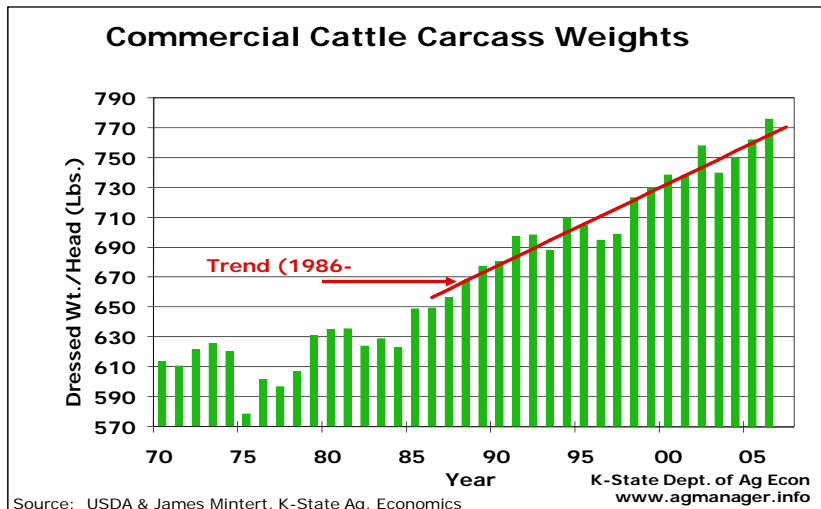
Weight Group	% Change	# Head Change
	From Prior Year	From Prior Year
Less Than 600 Lbs.	-12.7%	(225,000)
600-699 Lbs.	-5.0%	(70,000)
700-800 Lbs.	10.6%	209,000
800-900 Lbs.	6.0%	130,000
Less Than 700 Lbs.	-9.3%	(295,000)
Over 700 Lbs.	8.2%	339,000
Total	0.6%	44,000

Weather's Impact On Performance Held Weights Down

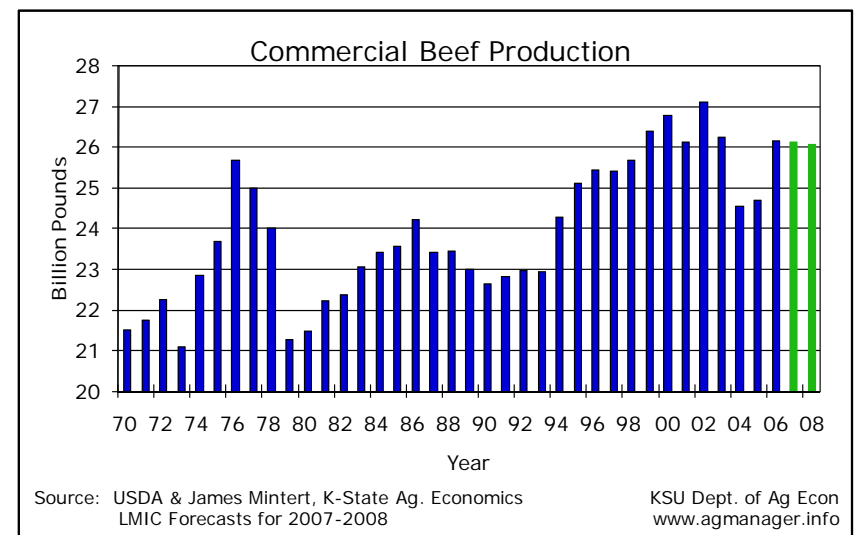


But Long Term Trend Is Still Toward Higher Weights

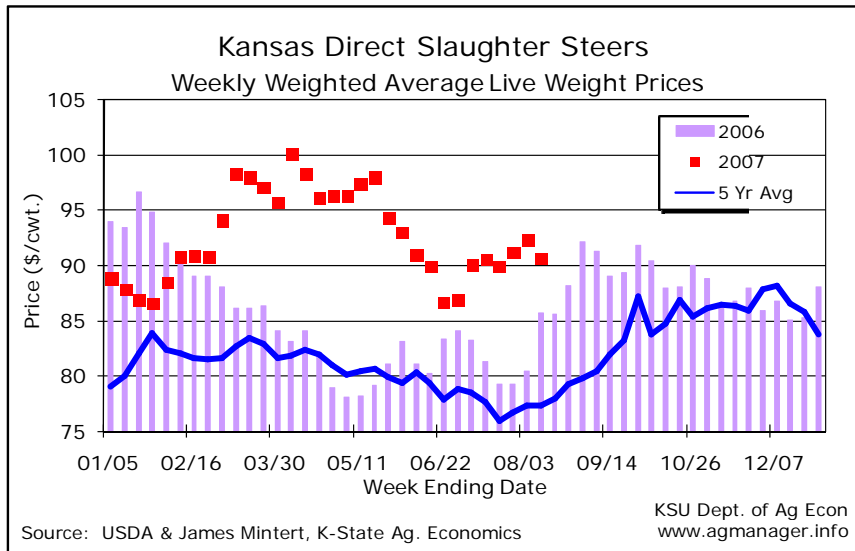
Weights Could Start To Rebound in '07's 2nd Half



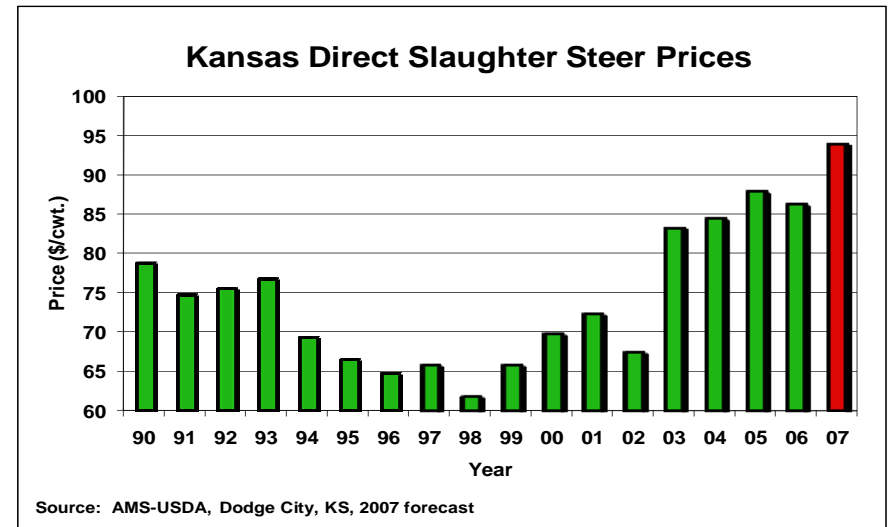
Little Change in Beef Production Expected



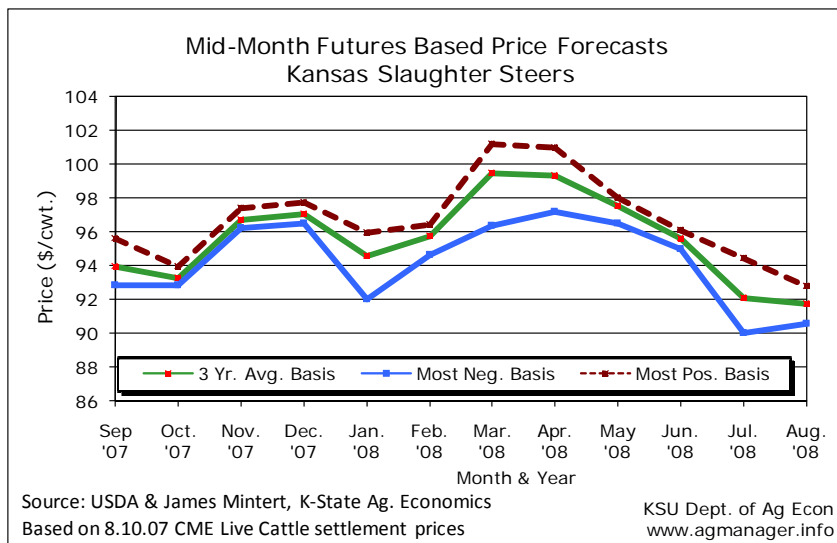
Prices Have Recovered ...



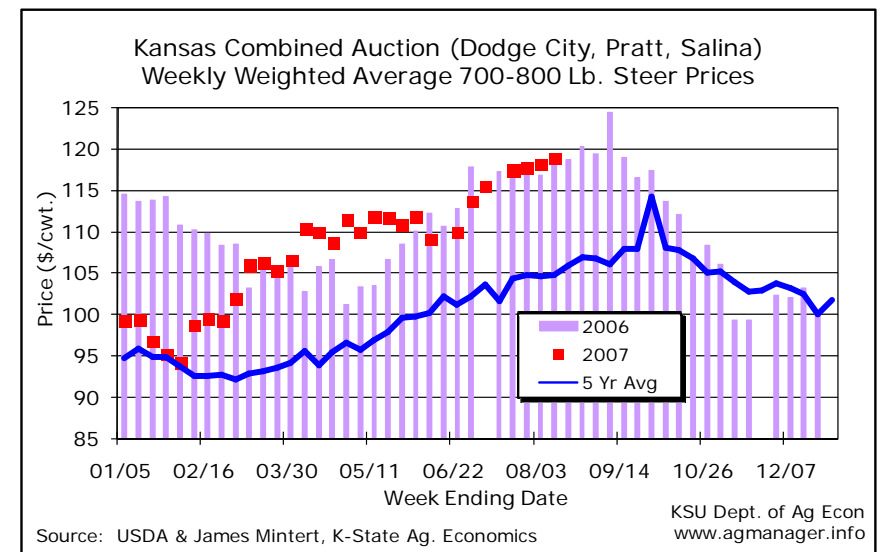
Record High Prices in '07



Futures Forecast Prices Above \$100 in Late Winter & Early Spring

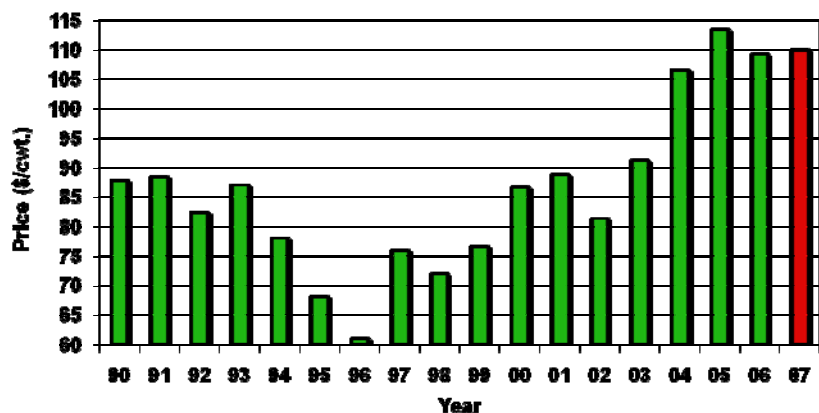


Feeders Climbing Back Near \$120



Strong Fed Cattle Prices Supporting Feeder Values Feed Grain Price Weakness This Summer Has Also Helped

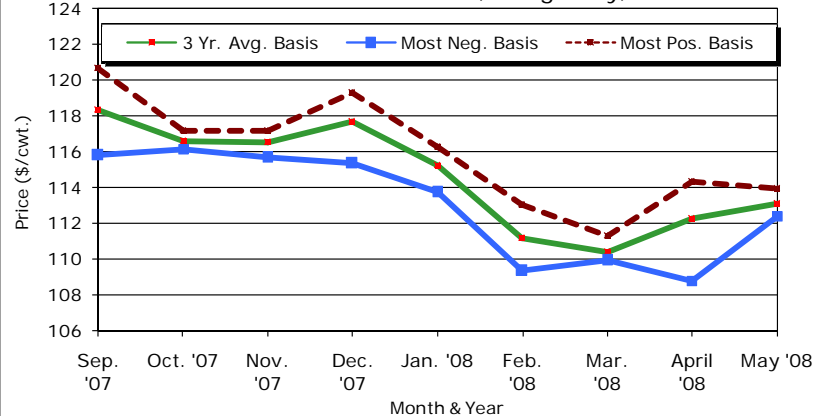
Dodge City, KS 700-800 Lb. Steer Prices



Source: AMS-USDA, Dodge City, KS & KSU, 2007 forecast

But Feeder Futures Forecast Weaker Prices This Winter

Mid-Month Futures Based Price Forecasts
700-800 Lb. Feeder Steers, Dodge City, KS

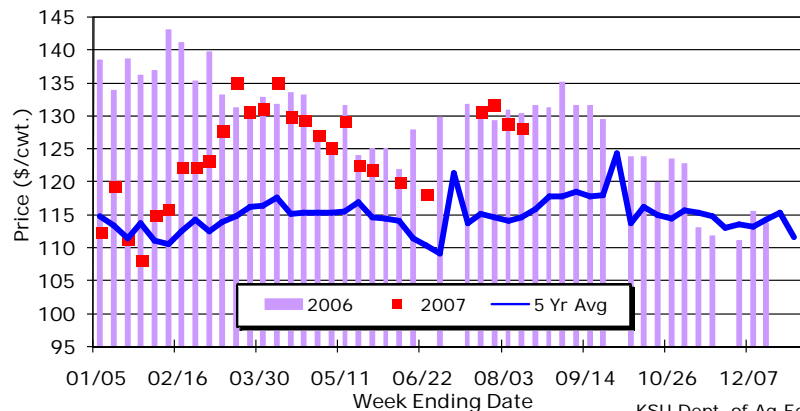


Source: CME & K-State Research & Extension
Forecasts = 8/10/07 Futures Price + Basis Estimates

KSU Dept. of Ag Econ
www.agmanager.info

Feed Costs Have Had More Impact On Calf Prices

Kansas Combined Auction (Dodge City, Pratt, & Salina)
Weekly Weighted Average 500-600 Lb. Steer Prices

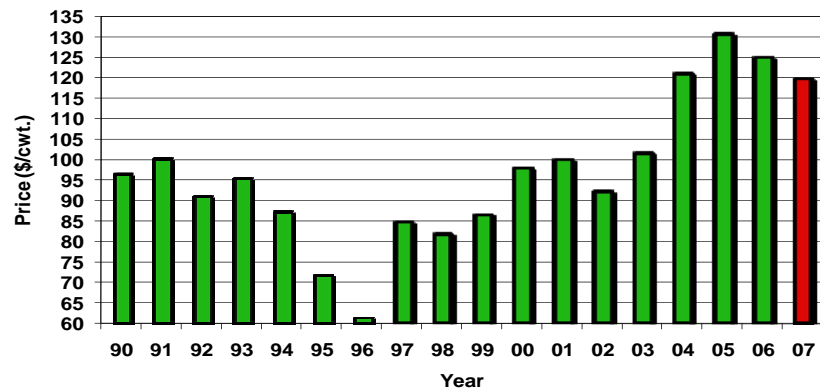


Source: USDA & James Mintert, K-State Ag. Economics

KSU Dept. of Ag Econ
www.agmanager.info

And Feed Costs Will Be A Big Factor in Calf Price Outlook Cycle Peak was in '05

Dodge City, KS 500-600 Lb. Steer Prices



Source: AMS-USDA, Dodge City, KS & KSU, 2007 Forecast

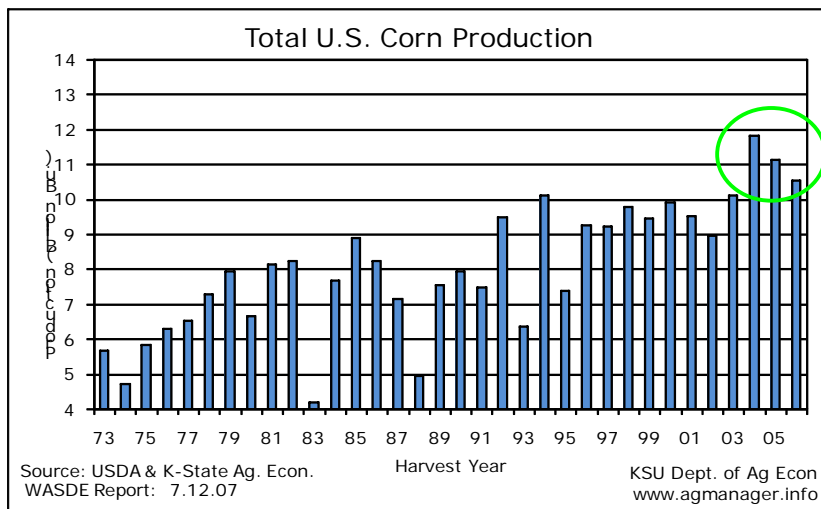
Ethanol, Corn Prices, & Cattle

Some Wake-Up Calls Are Worse Than Others!

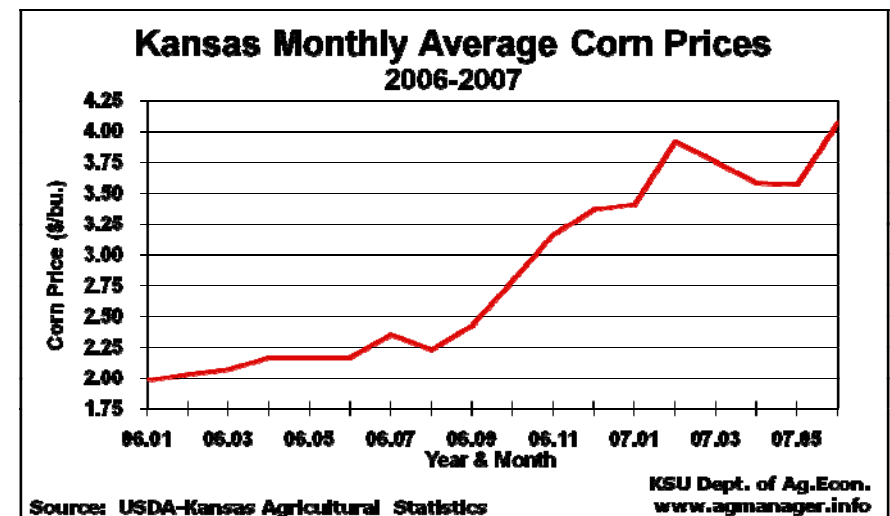


Livestock Industry Waking Up To Impact of Ethanol

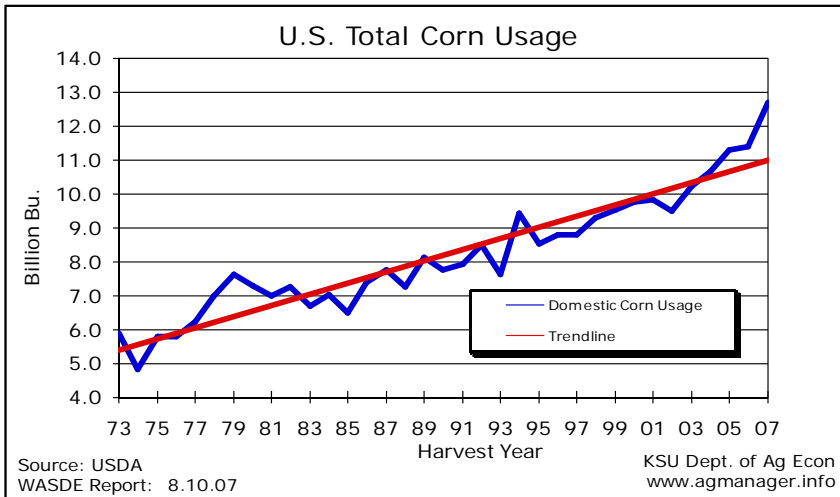
3 Largest Corn Crops On Record



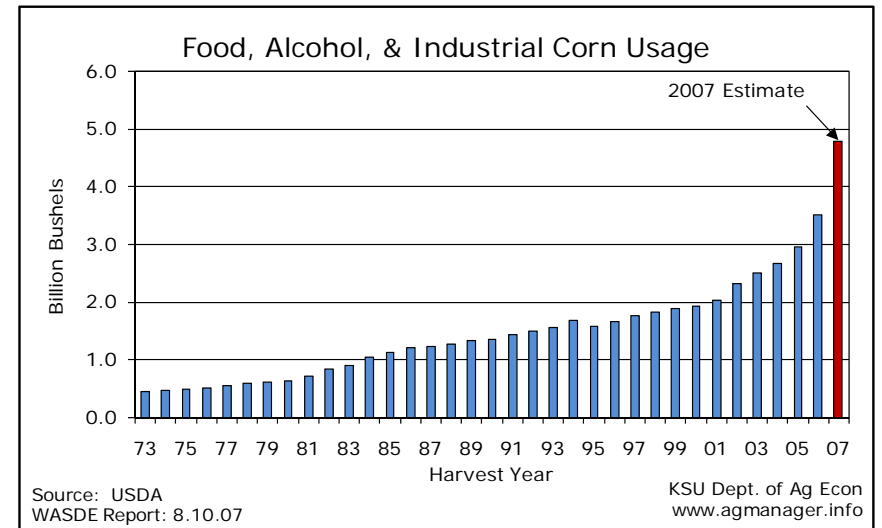
But Corn Prices Have Risen Sharply



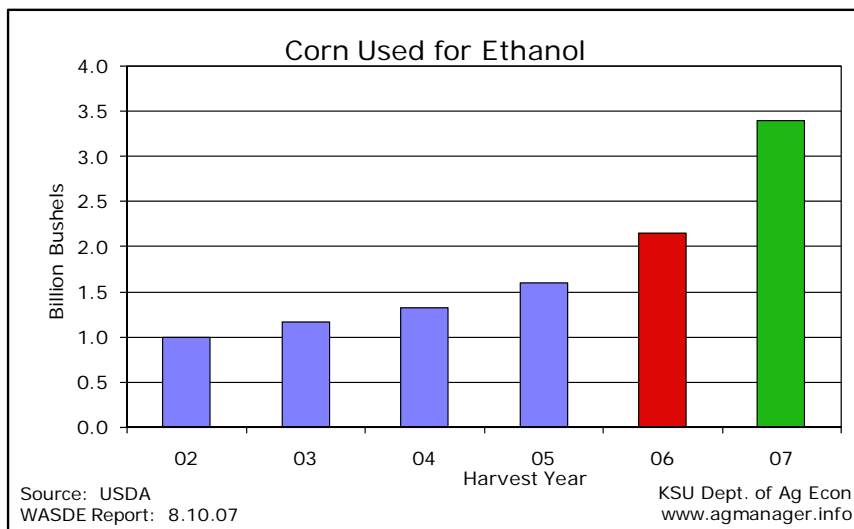
But Corn Usage Has Been Growing Rapidly



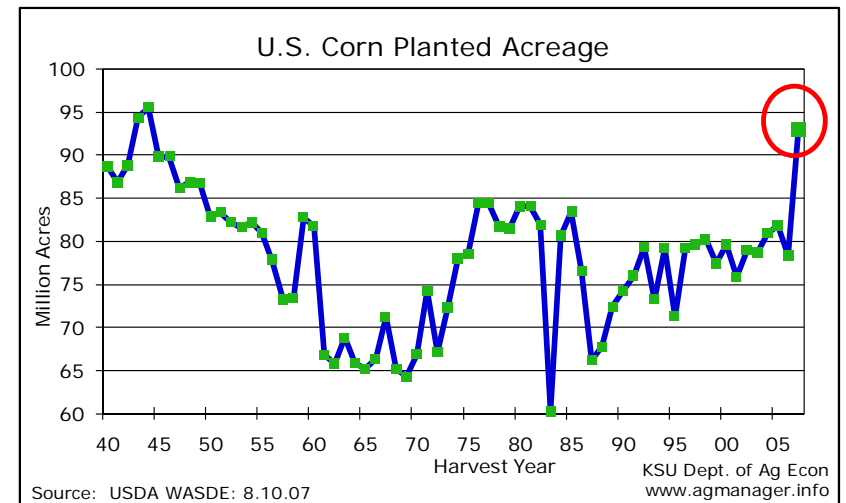
Alcohol & Industrial Usage Growing Rapidly



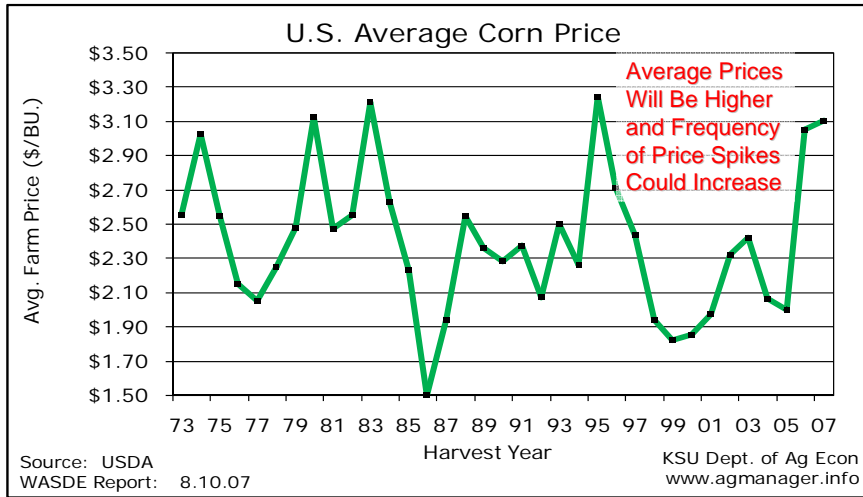
Ethanol Production Ramping Up



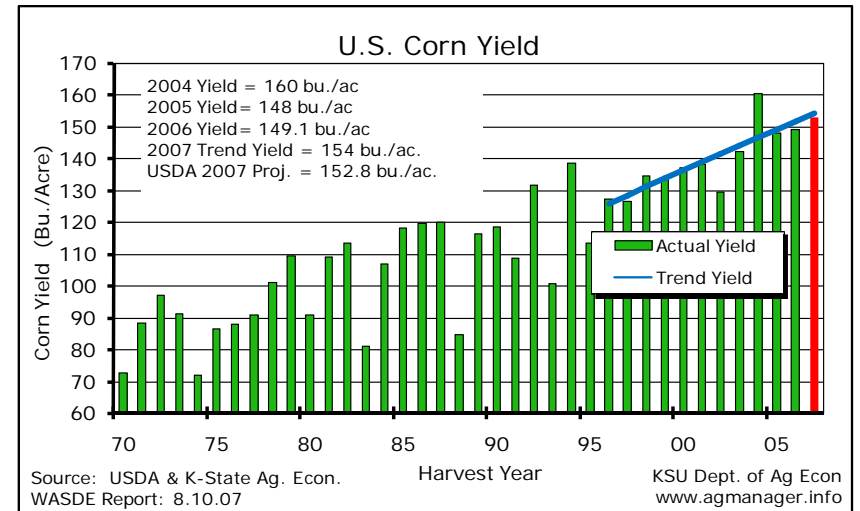
U.S. Will Continue To Need Big Corn Acreage How Do We Get It?



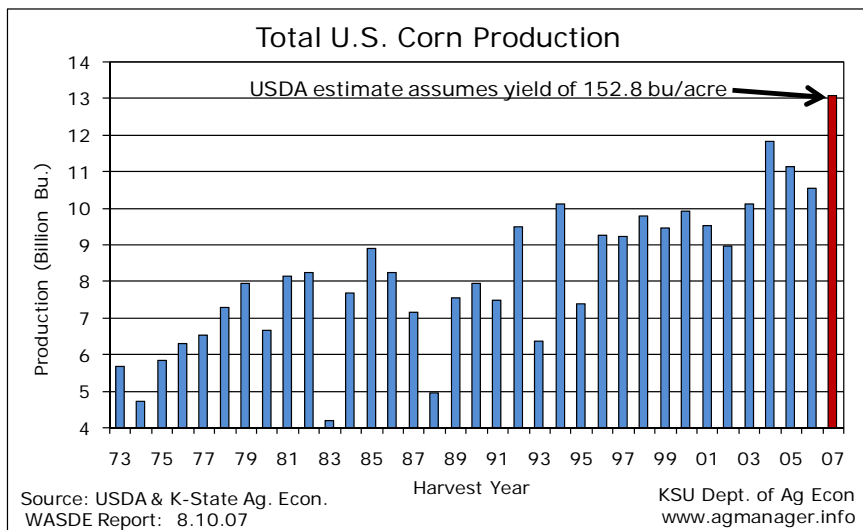
Higher Prices Are Pushing Acreage Higher



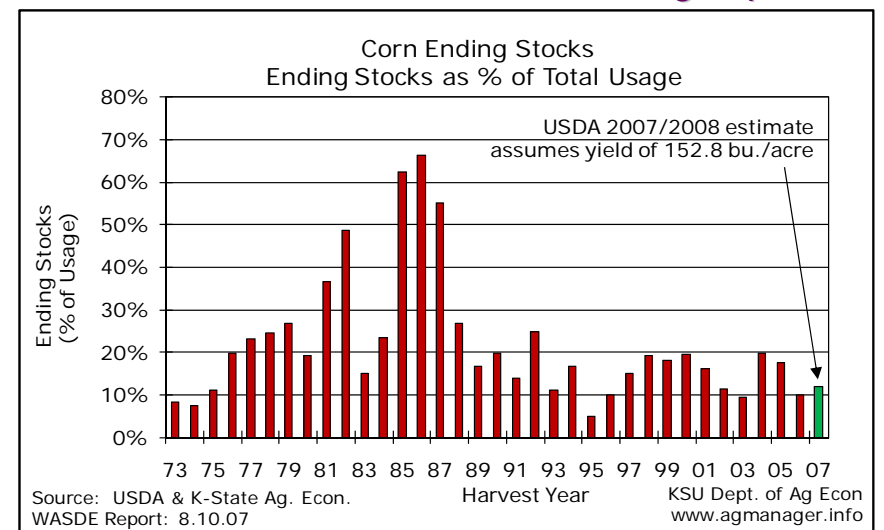
Technology Is Pushing Yields Up



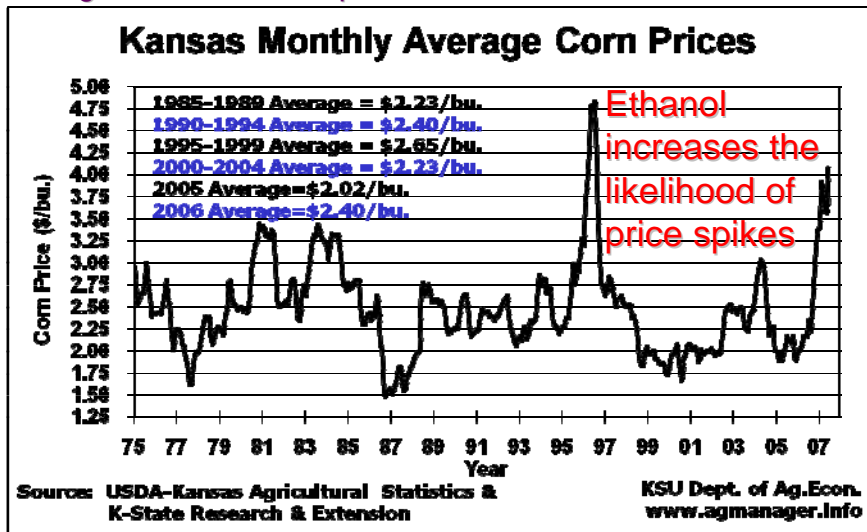
Production Expected To Increase Even More Than Acreage Increases



Actual Yields in '07 Will Have A Big Impact



Where Are Corn Prices Headed? Higher Corn Prices Spell Trouble for Livestock Producers



Key Points

- Strong slaughter cattle prices ahead in '07 & '08
 - Herd expansion in U.S. cut short
 - Slow export market recovery
- High feed grain prices are the “new reality”
 - High corn price volatility is also the new reality
- Feeder & calf prices supported by high fed cattle prices
 - would be even higher with lower feed costs
- Upper Midwest DGS concentration will encourage feeding expansion in the North

Decision Support for America's Beef Producers

Home Forecasting Tools Market Data Contact About BeefBasis

Welcome to BeefBasis

BeefBasis.Com - Decision Support for America's Beef Producers

The Cattle Basis Risk Analysis Tool (CBRAT) at BeefBasis.com provides producers with information and analytics to improve marketing decisions influenced by cattle basis risk.

Basis, defined simply as the difference between the local cash markets and futures contract prices, can be complex and can vary dramatically between weight classes and market locations from year to year. Understanding the risk related to basis uncertainty, or “basis risk,” is essential to making effective use of price risk management tools such as Chicago Mercantile Exchange (CME) futures and options and forward contracts.

The BeefBasis website was developed by Custom Ag Solutions, Inc. (CAS) and Kansas State University (K-State) in partnership with the USDA's Risk Management Agency (RMA).

BeefBasis gives you relevant information and analytics you need to evaluate marketing decisions and manage your price risk.

Announcements

Events

We are working to schedule training sessions in the following states in 2007:

- Alabama
- Arkansas
- Florida
- Iowa
- Kansas 11/30/06
- Kentucky
- Missouri
- Montana
- North Dakota
- Nebraska
- Oklahoma
- South Dakota
- Tennessee
- Texas Aug/Sep (TBD)
- Wyoming 5/31/07

Improved Feeder Cattle Basis Forecasts

Decision Support for America's Beef Producers

Home Forecasting Tools Market Data Contact About BeefBasis

Feeder Cattle Basis Forecast

Hedge Analysis

State: Oklahoma Location: Oklahoma National Stockyards
Frame: Med-Lrg Class: 1 Sex: Steer
Weight: 750 lbs/head Head: 65
Feeder Cattle Futures Price: 115.30 \$/cwt (Nov 2007)
Live Cattle Futures Price: 98.73 \$/cwt (Dec 2007)
Corn Futures Price: 3.52 \$/bu (Dec 2007)

Expected Sale Date: 10/31/2007

October 2007											
Day	Mon	Tue	Wed	Thu	Fri	Sat	Day	Mon	Tue	Wed	Thu
20	1	2	3	4	5	6					
7	8	9	10	11	12	13					
14	15	16	17	18	19	20					
21	22	23	24	25	26	27					
28	29	30	31								
1	2	3	4	5	6	7					

RUN

Forecasts From Two Different Models Provided

750 Lb. Steer Basis Forecasts, Oklahoma City
Forecasts For: 10.31.2007

Model-estimated feeder cattle basis values ¹	Feeder Cattle - Based Model ²	Live Cattle & Corn - Based Model ³
Model-estimated feeder cattle basis, \$/cwt	-3.50	-0.93
Confidence interval for basis, \$/cwt ⁴	-6.66 to -0.35	-4.30 to 2.45
Expected cash price, \$/cwt	111.80	114.37
Confidence interval for expected cash price, \$/cwt ⁴	108.64 to 114.95	111.00 to 117.75
Optimal hedge ratio ⁵	0.8842	0.7909
Number of calves hedged per contract ⁶	75	67

Need A Forecast For A Different Weight?

Go Back To The Input Screen & Change It

State: Oklahoma	Location: Oklahoma National Stockyards	Expected Sale Date: 10/31/2007																																																								
Frame: Med-Low	Class: 1	Sex: Steer																																																								
Weight: 550 lbs/head	Head: 50																																																									
Feeder Cattle Futures Price: 115.30 \$/cwt (Nov 2007)	Live Cattle Futures Price: 98.33 \$/cwt (Feb 2008)	Corn Futures Price: 3.52 \$/bu (Dec 2007)																																																								
<table border="1"> <thead> <tr> <th colspan="7">October 2007</th> </tr> <tr> <th>Sun</th> <th>Mon</th> <th>Tue</th> <th>Wed</th> <th>Thu</th> <th>Fri</th> <th>Sat</th> </tr> </thead> <tbody> <tr> <td>29</td> <td>1</td> <td>2</td> <td>3</td> <td>4</td> <td>5</td> <td>6</td> </tr> <tr> <td>7</td> <td>8</td> <td>9</td> <td>10</td> <td>11</td> <td>12</td> <td>13</td> </tr> <tr> <td>14</td> <td>15</td> <td>16</td> <td>17</td> <td>18</td> <td>19</td> <td>20</td> </tr> <tr> <td>21</td> <td>22</td> <td>23</td> <td>24</td> <td>25</td> <td>26</td> <td>27</td> </tr> <tr> <td>28</td> <td>29</td> <td>30</td> <td>31</td> <td>1</td> <td>2</td> <td>3</td> </tr> <tr> <td>4</td> <td>5</td> <td>6</td> <td>7</td> <td>8</td> <td>9</td> <td>10</td> </tr> </tbody> </table>			October 2007							Sun	Mon	Tue	Wed	Thu	Fri	Sat	29	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	1	2	3	4	5	6	7	8	9	10
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550 Lb. Steer Basis

Forecasts for Oklahoma City, 10.31.2007

Model-estimated feeder cattle basis values ¹	Feeder Cattle - Based Model ²	Live Cattle & Corn - Based Model ³
Model-estimated feeder cattle basis, \$/cwt	8.76	5.45
Confidence interval for basis, \$/cwt ⁴	3.83 to 13.70	0.41 to 10.50
Expected cash price, \$/cwt	124.06	120.75
Confidence interval for expected cash price, \$/cwt ⁴	119.13 to 129.00	115.71 to 125.80
Optimal hedge ratio ⁵	1.0339	0.9409
Number of calves hedged per contract ⁶	88	77

550 Lb. Steer Basis

Forecasts for Oklahoma City, 10.31.2007

		Feeder Cattle Model									
C O R N		2.80	11.66	11.25	10.83	10.41	9.92	9.58	9.16	8.74	8.32
		3.00	11.34	10.92	10.51	10.09	9.60	9.25	8.84	8.42	8.00
		3.20	11.02	10.60	10.18	9.77	9.28	8.93	8.51	8.10	7.68
		3.40	10.70	10.28	9.86	9.44	8.96	8.61	8.19	7.77	7.36
		3.52	10.50	10.09	9.67	9.25	8.76	8.42	8.00	7.58	7.16
		3.80	10.05	9.64	9.22	8.80	8.31	7.97	7.55	7.13	6.71
		4.00	9.73	9.31	8.90	8.48	7.99	7.64	7.23	6.81	6.39
\$/Bu		4.20	9.41	8.99	8.57	8.16	7.67	7.32	6.90	6.49	6.07
		4.40	9.09	8.67	8.25	7.83	7.35	7.00	6.58	6.16	5.75
		90.00	92.00	94.00	96.00	98.33	100.00	102.00	104.00	106.00	
		Live Cattle \$/Cwt									