



## Weekly Outlook: Cattle Can Eat Corn Too

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Cattle feeders are going to use more corn than previously expected according to USDA's latest Cattle on Feed report that showed five percent more cattle in the nation's feedlots. The real surprise was the higher number of placements in September that has resulted in over one-half million more cattle being fed than a year ago. Feed grains used by cattle in feedlots from the 2011 crop will now likely be more than five percent higher than was fed from the 2010 crop.

While calves can eat corn, they can also add weight with forages. The surprisingly high rate of placements in September is an indication that corn had gotten "cheap" relative to forages. December corn futures fell by \$1.75 per bushel during September, which was enough to shift the feedlot outlook from bleak to rosy. Managers responded by buying light weight animals as placements of calves under 700 pounds were up a remarkable 14 percent. The implication of placing such a large number of young calves is that they will be on-feed a long time and eat a lot of feed grains. The broader implication for the corn market is that most end users of corn saw a similar shift in their industry's outlooks as corn prices fell.

Also contributing to the interest in putting young calves in the feedlot has been a bullish finished cattle market. April 2012 live cattle futures moved \$2 per hundredweight higher in September, and have since added another \$2 in October. On October 21st, April 2012 futures approached \$130.

Three factors are driving the bullish cattle market: the anticipation of very limited 2012 domestic beef supplies; foreign buyers of U.S. beef who are willing to pay the high prices; and a more optimistic tone for the world economy. Per capita availability of beef in 2012 will be down to just 54.3 pounds according to USDA estimates. That is a startling 17 percent reduction since 2007 when high corn prices (and drought more recently) set the beef industry into a liquidation tail-spin.

Foreign markets are buying a record amount of beef at record high prices. USDA now expects a record 2.7 billion pounds of beef to be exported this year, representing a record ten percent of domestic production. A new record is expected to be set next year with 11 percent of production moving to foreign consumers. In sharp contrast, in 2007 only 5 percent of production was exported when the U.S. was still in the grips of lost exports due to BSE discoveries beginning in late 2003.

U.S. equity markets were concerned about the European debt crisis and slow global economic recovery in August and September. There was even some talk of a potential repeat of the global financial crisis

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that had occurred in the fall of 2008. While the European concerns have not been solved, markets have reduced the odds of the doomsday outlook and the S&P 500 has rallied 14 percent since the first trading day of October.

Finished cattle prices are expected to trade in the low-\$120's for the rest of this year and increase modestly in the winter. The 2012 spring price rally is expected to increase prices to the higher-120's for March, April and May, with summer prices cooling to the mid-\$120s. Record annual prices are expected for 2012, averaging in the low-to-mid-\$120s compared to the previous record which will be set this year near \$115.

The high level of September calf placements was a demonstration that corn futures prices below \$6.00 per bushel was too low and created opportunities for end users such as cattle finishers to lock in favorable financial returns. It is the first indication from the animal sector that there is a rebuilding of corn use now due to "low" corn prices.

The optimism of the cattle industry probably suggests that corn prices will have continued upward mobility to equate costs with potential livestock returns. The same can be said for the pork industry and again brings into question the low level of corn feeding that USDA continues to use in their supply and demand estimates. They have feed and residual use down two percent while animal numbers and use appear to be closer to up two percent. If so, this represents an added 150 to 200 million more bushels for feed use. In addition, slightly smaller corn use for ethanol reduces distiller's availability. Added to the accumulating corn demands of the animals industries are very strong margins for the ethanol industry and their ability to pay much more for corn than current prices.