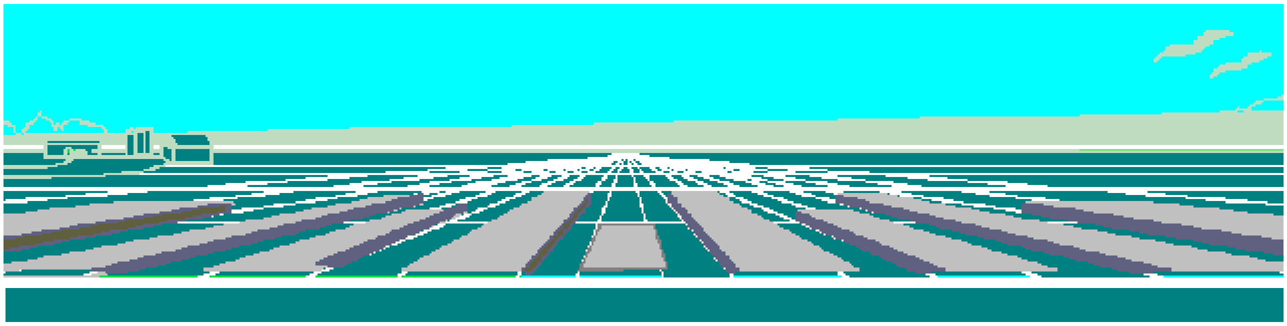

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UPDATE ON GRAIN EXPORTS

Strong export demand was one of several factors propelling corn and wheat prices to new record highs last year and pushing soybean prices to the highest levels in several years. A look at export performance so far this season will help give a perspective on the old-crop supply-demand balances for corn and soybeans. Through late January, U.S. corn, wheat, barley and sorghum exports were lagging well behind those of last year. In contrast, exports of soybeans and bean products are well above year-ago levels. ***The change in feed grain and food grain exports reflects modestly larger foreign supplies than in 1995-96, and foreign government policies aimed at moving supplies into market rather than building large stocks.*** Increased soybean and soybean product exports reflect a major shift in plantings from oilseeds to grains in the Northern Hemisphere last spring, as well as growing world demand.

USDA Export Projections Need to be Revised?...

Cumulative U.S. corn exports so far this marketing year (Sept. 1 through January 30) total 818 million bushelsC***22% less than in the same period last season.*** To reach current USDA projections, weekly corn export shipments from now through August 31 will need to average about 10% less than a year earlier. That would put average shipments at 38.7 million bushels per week- down 7% from the pace so far this marketing year.

Another indicator of the season total exports comes from USDA's weekly export sales report. ***Outstanding unshipped U.S. corn export sales through January 23 were half the level of a year earlier, suggesting that very aggressive new corn export sales will be needed in the next several months to reach USDA marketing year projections.*** New export sales from now through late summer will need to average about 26 million bushels per week to meet projectionsC66% more than in the same period last year. Cumulative exports to date and outstanding unshipped corn export sales through late January were 33% less than last year. The decline in corn exports has been broad-based as shown in Table 1.

Will U.S. exports recover between now and summer? That will depend on several developments, including the size of Southern Hemisphere crops harvested this spring, wheat supplies from that region, how aggressively Northern Hemisphere exporters price their products, and Chinese exports and/or imports. Weather has been a little less favorable for corn in South Africa than last year which may slightly reduce that country's exports. Argentina has considerably larger corn and sorghum crop potential than in 1996. Brazil this week was reported to be a small seller of corn (normally, it is an importer). Australia's barley and sorghum crops (which compete with corn) appear likely to be slightly below those of last year. ***In total, it looks like Southern Hemisphere feed grain competition from late spring through early fall may be modestly above that of a year earlier.*** Large wheat crops are being harvested in Australia and Argentina, possibly limiting upward potential in world wheat prices or bringing additional weakness in old-crop wheat markets and intensifying feed-wheat competition in international markets. This could be partially offset if the European Union and Canada decide to move grain less aggressively in world markets. Canada is believed to have moderate supplies of feed wheat that it would like to move before the late summer and early fall harvest.

Chinese Corn Situation...

Last year, China was a sizeable net importer of U.S. corn and accounted for about four percent of total U.S. exports. Two years before that, it was the world's second largest corn exporter. That shift opened up large additional demand for U.S. corn in the Pacific Rim. ***In the last six weeks, China has resumed exports of corn.*** By late January, its export sales appeared to total about 12 to 15 million bushels and were still continuing. USDA has projected that China would export about 20 million bushels of corn this marketing year, and would import an equal amount. So far, there have been no reports of Chinese imports of 1996-crop corn. Its exports to date are very modest and have probably had more psychological than real impact on the market. Psychological impacts will be strengthened if Chinese exports exceed USDA's projected 20 million bushels. ***The psychological impact comes from a view of many analysts last season that China would never again be a net exporter of corn.***

Table 1. Cumulative U.S. corn & soybean exports & outstanding sales by destination (Mil. Bu.).

	Corn			Soybeans		
Country	1995-96	1996-97	% chg.	1995-96	1996-97	% chg.
Euro. Union	70.3	11.5	-84	242.2	245.1	+1
Other W. Eur.	11.9	9.3	-22	3.6	6.7	+86
Japan	541.0	365.6	-32	71.3	81.3	+14
For. Sov. Union	0.4	5.0	+1150	0	0	0
Europe	5.3	16.3	+208	2.1	3.4	+60
Korea	236.3	160.9	-32	27.4	26.1	-5
Taiwan	138.6	135.3	-2	51.2	54.2	+6
Oth. Asia & Ocen.	142.2	90.5	-36	54.4	89.4	+64
Africa	120.8	95.7	-21	3.9	5.3	+36
Mexico	106.9	65.6	-39	62.0	67.8	+9
China	88.7	0	NA	6.8	50.3	+640
Oth. W. Hemis.	116.3	147.3	+27	11.0	22.3	+103
Unknown	146.4	45.4	-69	35.2	48.0	+36
Total	1,725	1,149	-33	610.1	667.8	+9.5

Future trends in Chinese corn trade are very difficult to predict. Officials in charge of imports and exports are shrewd traders. The error level on Chinese agricultural data is unknown, but undoubtedly is much higher than in the U.S. Corn price trends will be influenced somewhat by week-to-week Chinese activity in the corn market and later this spring, by Chinese crop prospects.

Soybean & Soybean Product Exports...

In contrast to other major U.S. crops, exports of soybeans from last September 1 through January 30 were up 20% from a year earlier. Exports at the current pace, if maintained through early summer, might exceed the old record set in 1980-81. The increase in U.S. soybean exports has been broad-based, with large gains in many markets. To meet current USDA projections, weekly exports from now through August 31 will need to average about 15.2 million bushels per weekC6% below that of a year earlier.

Soybean export sales point to a slower, but still relatively strong pace of shipments this spring and summer. Cumulative shipments from September through January, and outstanding unshipped sales January 23 were 11% above those of a year earlier. With continued favorable crop conditions in South America, sales can be expected to slow in the months ahead.

In comparison with last year, sales of soybean products have been even stronger than soybeans. Cumulative meal exports and outstanding unshipped sales in late January were 66% above those of a year earlier. Comparable numbers for soybean oil were up 104%. Strong soy product export sales helped support record levels of domestic crushings.

The trend in soybean and bean product exports through summer will depend heavily on South American weather in the next six weeks. A few areas of Brazil are beginning to harvest early soybeans, with generally good yields reported. However, the main harvest will be in March and April. Brazil's crop is reported to be in generally good condition. It was planted early, has had nearly ideal conditions, and total plantings likely are 7 to 10% above those of last year. Argentina's acreage is believed to be only very slightly above that of 1995-96 because of large acreages planted to corn and wheat. Its crop was also reported to be in generally good condition through late January, although some areas were beginning to get a bit dry. Argentina's soils have more moisture-holding capacity than Brazil's. USDA projects production in the two countries together at 38 million tons (approximately 1.4 billion bushels). That would be an increase of about 109 million bushels from last spring. Much of the increase is expected to be moved into world markets in late spring and summer.

Brazil has removed its long-standing tax on soybean exports, which traditionally encouraged processing before exporting. That may allow part of its crop to be moved into world markets two to three weeks earlier than normal. If weather would turn unfavorable in the South American Soybean Belt and reduce production to last year's level, much of the short-fall would be transferred to U.S. export demand. With September 1 U.S. carryover stocks already projected at a 3.3 weeks' supply, prices almost certainly would move sharply higher to ration demand. With continued favorable crop prospects there, it would not be surprising to see late February and early March weakness in cash and old-crop soybean futures, followed by modest strength into the spring planting season. Prices during the summer will be directed by U.S. weather conditions. Considerable downside risk would be possible in bean prices by late summer and fall with good U.S. yields.

...Robert Wisner

CATTLE HERD LIQUIDATION UNDERWAY

The USDA released two reports in late January that confirmed that beef producers are beginning to reduce their herds. The inventory of cattle on feed was 2% higher than the year before, due primarily to the increased number of heifers in feedlots. The January inventory of all cattle and calves, cows, and replacement heifers was 2% lower than a year ago for each, indicating that herd liquidation is in full swing. Fed and non-fed slaughter are expected to continue at relatively high levels through midyear before declining. Supplies are expected to decline later in 1997.

Beef supplies are expected to show year-to-year decreases in 1998 and beyond until the beef cycle turns again. The 1996 calf crop was down 1.6% from 1995. Calves under 500 pounds was 4.3% lower suggesting that the liquidation accelerated during the year. The supply of feeder cattle outside feedlots is 3.6% smaller than the same time last year suggesting that feedlot placements and inventories, and later marketings, will decline later in the year. Feeder cattle prices are expected to trade well above year earlier levels due to lower corn prices and tighter supplies. Fed cattle prices will remain under pressure until the current larger supplies are marketed before turning stronger.

Cattle Inventories and Calf Crop...

The total inventory of cattle and calves was 2% below January 1996 and was the first year to year decline since 1991 (Table 1). Beef cow inventories were 3% (1.1 million head) lower than a year earlier and there was 1% fewer milk cows. Beef and milk replacement heifer inventories were each 2% lower. This is the second year of reduced beef heifer retention. Heifer slaughter was higher in 1996 and the number of heifers on feed was 12% higher in January.

Table 1. Summary of January 1997 USDA Cattle Inventory

	Mil. Hd.	% Chg
All Cattle and Calves	101.2	-2.2
Cows & Heifers	43.6	-2.4
Beef Cows	34.3	-2.7
Milk Cows	9.3	-1.4
Heifers 500+ Lbs	20.3	0.4
Beef Replacement	6.1	-2.1
Milk Replacement	4.0	-1.6
Other hfrs	10.2	2.7
Steers 500+	17.3	-2.4

Bulls 500+	2.3	-2.2
Calves <500	17.7	-4.3
Calf Crop 1996	39.6	-1.6
Total US Cattle on feed	13.2	1.9
Feeder cattle outside lots	32.0	-3.6

The 1996 calf crop was estimated at 39.6 million, 1.6% less than the 1995 crop and revised down from the estimate made last July. Feeder cattle imports were also lower in 1996 compared to 1995, particularly from Mexico. The smaller calf crop and imports coupled with increased feedlot inventories results in smaller supplies of feeder cattle outside feedlots.

Feeder cattle imports are expected to remain relatively small in 1997. Mexico is rebuilding its herd after several years of drought. Two Alberta packing plants have been remodeled and are expected to come up to speed this year reducing the flow of fed and feeder cattle from Canada.

Feedlot Inventory and Placements...

The inventory of cattle on feed in all US feedlots January 1 was estimated at 13.2 million head, 2% above the 1996 level (Table 2). Eighty percent of these cattle were in feedlots with 1000 head capacity or larger. January is the only state by state estimate of cattle on feed in smaller feedlots. USDA reported 11% more cattle on feed in Iowa, but 5% fewer in lots with 1000+ capacity. Approximately 35% of Iowa's feedlot inventory is in 1000+ capacity lots.

Table 2. January 1997 Cattle on Feed Summary

	Mil. Hd.	% Chg
US Cattle on Feed	13.2	+1.9
US 1000+ Head lots	10.6	+2.0
Steers	6.4	-3.6
Heifers	4.1	+12.2
7 State 1000+ Head lots		
Cattle on feed	8.9	+3.2
December placements	1.4	-1.6
December marketings	1.4	+0.2
Iowa		
All lots on feed	1.0	+11.1
1000+ lots on feed	.355	-5.3
December placements	.035	-22.2
December marketings	.034	-30.6

Approximately 60% of the cattle on feed are steers, but the inventory of steers was 4% below a year earlier and the number of heifers was up 12%. December marketings were up 1% in the US and unchanged in the 7 states.

December placements in 1000+ feedlots in both US and 7 major states were down 2% from 1995. Placement of 600-699 pound feeder cattle was down 12% in December, but placements of heavier and lower weights were modestly higher than the previous December.

Fed cattle supplies in the weeks ahead will be affected by placement patterns last fall, winter weather conditions, and slaughter weights. Although December is the first month we have year-to-year comparisons, large placements of 700-799 and 800+ pound cattle in September and October suggest that fed cattle supplies will remain large through February (Figure1).

These heavier placements resulted from feed prices last spring that were high enough to delay placements. Calf placements (under 600#) increased sharply in October. These cattle typically require 210 days on feed or more and likely won't reach market until the first of May.

Figure 1.

Price Forecast...

Fed cattle prices are forecast to average in the mid-$60s for 1997. First and second quarter prices are expected to average $64-67 each quarter with prices in the low $60s possible in February. A brief rally during March and April into the upper $60s is possible before the October placed calves begin hitting the market in May and beyond. May and June prices are forecast to trend back into the low to mid-$60s. Strong pork prices and exports should keep prices above $60, but continued larger cow slaughter will keep a lid on higher prices.

Third quarter fed cattle prices are also forecast to average in the mid-$60s which doesn't conform to the typical seasonal pattern of lower third quarter prices. I believe that we will see the effects of the declining beef cow herd. The smaller supply of available feeder cattle will limit feedlot placements and marketable supplies of fed cattle in the second half of 1997 and particularly in the fourth quarter.

Feeder cattle prices increased sharply in mid-January, likely related to harsh winter weather and limited movement of cattle from the Dakotas. While prices may drop back from these levels, they are expected to show strength this year. Breakeven purchase price for feeder steers based on $2.50 corn and fed cattle prices in the mid-$60s is in the mid-$60s for 700-800 weights and the low to mid-$70s for 500-600 weights.

...John Lawrence

... and justice for all

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