

## CORN CROP ESTIMATE STEADY, SOYBEAN PRODUCTION UP SLIGHTLY

USDA's September 12 Crop Report showed only a very slight 8 million bushel decline in U.S. corn production from last month, with total production now indicated at 9.27 billion bushels. *The world coarse grain (feed grain) crop estimate was increased about 150 million bushels from August projections.* The nation's soybean crop was forecast at 2.75 billion bushels, only a very small one million bushel increase from the August report. Compared to trade expectations, the corn forecast was about 90 million bushels less than generally expected while soybeans were almost identical to average expectations. *These estimates indicate U.S. soybean supplies should be much more adequate than in the last 12 months, and should be fully adequate to meet expected strong September through February domestic and export demand.*

Sharply lower cash soybean prices (down \$.50 to \$1) are almost a certainty in the next 10 days to 2.5 weeks as the soybean complex shifts from extremely tight old-crop supplies to an ample new-crop situation. It would not be surprising to see modest additional weakness also in new-crop bean prices during the peak of the Midwest harvest.

Technical indicators suggest slight additional weakness in new-crop corn prices is possible in the next few weeks as the market responds to lagging export sales and continued aggressive Chinese corn exports. An above-normal recovery seems likely in cash soybean prices from the harvest low to the winter high. Cash corn prices may strengthen modestly into mid-winter, with more significant strength likely from May through early July.

In the world crop estimates, China remains the dominant area of attention. USDA's World Ag Outlook Board held its September estimate of China's 1997 coarse grain 18 million tons (about 700 million bushels corn equivalent) below last year's numbers. A smaller Chinese crop represents 85 percent of the decline in this year's global feed grain production. Crop estimates were raised slightly from last month for the European Union (EU), Eastern Europe, and the Former Soviet Union. Some former Soviet republics including Russia, the Ukraine, and Kazhkastan may be modest exporters of grain in the year ahead. In contrast, the usual major foreign grain exporters are projected to harvest 8.5 million tons (330 million bushels) fewer feed grains than last season. That prospect and China's severe 1997 drought should lead to significantly higher U.S. corn exports in the March-July period than a year earlier.

### World Grain Stocks/Use Ratios vs. 1996-97...

A closely watched indicator of grain price prospects is the carryover stocks/use ratio. When the ratio for a specific crop is at historically low levels as it was for corn in the summer of 1996, grain prices tend to be relatively high and unusually sensitive to weather. In the past, the grain trade has focused primarily on U.S. stocks/use ratios. *However, new U.S. farm policies along with GATT and NAFTA make world stocks/use a more valid indicator of price prospects.* Projected 1997-98 world stocks/use ratios for corn, coarse grains, wheat and soybeans are shown below, along with comparisons for the past two years.

Table 1. World Ending Stocks/Use Ratios.

	1995-96	1996-97	Proj. 1997-98
Coarse Grains	.1138	.1391	.1176
Corn	.1217	.1511	.1203
Wheat	.1914	.1861	.2105
Soybeans	.1271	.0911	.1325

World corn and feed grain stocks/use ratios are projected to decline to levels approaching those of the summer of 1996 (about a 6.3 weeks supply). However, global wheat stocks/use is projected to increase from the past two years, reaching almost 11 weeks' supply. This prospect suggests more wheat may be fed in 1997-98 than in the past year, somewhat tempering the upward potential for next summer's corn price. World wheat projections remain tentative due to severe drought in Australia and uncertain weather prospects in South America. A sizable part of China's winter Wheat Belt has just received moderate rains, which should help get its 1998 crop off to a good start.

### China: Major Uncertainty in Corn Markets...

The positive outlook for winter and spring corn prices depends heavily on an anticipated sharp decline in China's corn exports in the year ahead. If the USDA estimates of 1997 Chinese feed grain production are close indicators of its actual crop size, China will likely export only about one-third as much corn as last season, and may even import significant quantities of U.S. corn in 1998. Recent aggressive corn exports from northern China are puzzling in view of weather data showing severe drought persisting until early August. Chinese carryover stocks are believed to be sizable; some analysts believe the exports may reflect localized shortages of storage space that can be handled more easily by exporting the excess than by transporting it domestically. History also indicates the Chinese are shrewd traders who realize there are market advantages in not showing their full hand. Given the uncertainties, the best information available from USDA and the International Grains Commission suggests that China will need to import at least a small amount of corn in the year ahead.

### Other U.S. Feed Grain Production Down From 1996...

Table 2. Production of major U.S. grains and oilseeds, and comparisons with last year and 1995.

	Mil. Bu.	Percent Chg. Vs.	
		1995	1996
Corn	9,268	+26.0	-0.3
Sorghum	653	+42.0	-18.7
Oats	187	+15.4	+20.7
Barley	379	+5.4	-4.5
All Feed Grains	263	+25.7	-1.7
Wheat	2,507	+14.8	+9.9
Soybeans	2,746	+26.1	+15.3
Cottonseed	7,053	+3.0	-1.3

Table 1. Corn Balance Sheet (Mil. B.) 8/12/97

	'94-95	'95-96	Prelim '96-97	Proj. USDA
Supplies: Pl. A. (mil)	79.2	71.2	79.5	80.2
Harv. A. (mil)	72.9	65.0	73.1	74.0
Bu./A.	138.6	113.5	127.1	125.2
Production	10,103	7374	9293	9268
Carryover	850	1558	426	941
Total	10,962	8948	9729	10,219
Util: Feed, Resid.	5535	4711	5300	5550

Other Domestic	1693	1583	1690	1780
Exports	2177	2228	1800	2025
Total	9404	8522	8790	9355
Carryover	1558	426	941	864
U.S. Farm Price	\$2.26	\$3.95	\$2.70	\$2.65
Iowa Avg. Price	\$2.20	\$3.85	\$2.60	\$2.55

**Table 2. Soybean Balance Sheet (Mil. B.) 8/12/97**

			Prelim	Proj.
	'94-95	'95-96	'96-97	USDA
Supplies: Pl. A. (mil)	61.7	62.6	64.2	70.9
Harv. A. (mil)	60.9	61.6	63.4	69.8
Bu./A.	41.4	35.3	37.6	39.3
Carryover	209	335	183	115
Production	2517	2177	2382	2746
Total	2731	2516	2576	2866
Util: Crush	1405	1370	1435	1495
Other Domestic	153	111	146	135
Exports	838	851	880	950
Total	2396	2333	2461	2580
Carryover	335	183	115	285
U.S. Avg. Price	\$5.48	\$6.77	\$7.38	\$6.15
Ia. Avg. Price	\$5.38	\$6.67	\$7.28	\$6.05

...Robert Wisner

## FEEDER CATTLE PRICE OUTLOOK

Feeder cattle prices are determined by both supply and demand. The supply of calves and yearlings is expected to be smaller this fall compared with a year ago. Demand will depend on potential feeding profits in the feedlot, which in turn depend upon the expected price of fed cattle and feeding cost. Both supply and demand factors point to higher feeder cattle prices in the coming year compared to the same period the year before.

### Smaller Supplies...

The 1997 calf crop is estimated to be 1-2% smaller than the 1996 calf crop. The supply of steer calves will be reduced by a similar amount. In addition the change in heifer retention plans will impact supplies. Heifer retention was low in 1996. The number of heifers in the feedlot January 1, 1997 was 12% higher than the previous year. Likewise, heifer slaughter year to date has been 7-8% ahead of a year ago. This fall, cow herd owners will likely keep back more heifers for breeding purposes, thus reducing the number available for feedlot placement. The supply of yearlings is also expected to be smaller given the large number of cattle on feed and the continued high placement rates.

### Larger Demand...

The demand for feeder cattle is expected to be larger this fall. Unlike the fall of 1996, feedlots have experienced an extended period of favorable feeding returns. Thus, feedlots are looking to reinvest positive

returns. The outlook for fed cattle is also improved from a year ago. April Live Cattle futures are trading near \$75 and June futures are over \$70/cwt. Although corn prices continue to be a wild card, the outlook is for central Iowa prices to average in the \$2.60-2.70/cwt range for the coming year.

The following tables reflect the demand for feeder cattle by expressing the break-even feeder cattle price in terms of fed cattle and corn price. Given the assumptions regarding weights, performance, and miscellaneous cost stated in the table, a feedlot could pay up to the number in the table and still break even. For example, at a \$74 selling price and \$2.60 corn price, the feedlot could pay up to \$93.19/cwt and still break even feeding 550 pound steer calves. Under the same price scenario, the yearling feeder would pay up to \$84.41/cwt.

For each \$10/head increase in profit desired by the feedlot, it must buy the calf at \$1.77/cwt less. To make a \$50/head profit, the feedlot would reduce its bid \$8.85/cwt for a 550 pound calf to a price of \$84.34.

Although feedlots have different expectations about fed cattle selling prices and levels of desired profits, this exercise suggests that 500-600 pound steer calves will average in the upper \$80s this fall. Yearlings at 700-800 pounds will likely average in the low \$80s.

### Feeder Cattle Break-even Purchase Price for a Steer Calf

		Corn			Fed Cattle Selling Price		
		Price	\$68.00	\$70.00	\$72.00	\$74.00	\$76.00
In weight	550	\$1.80	90.21	94.18	98.15	102.12	106.09
Out weight	1150	\$2.00	87.98	91.95	95.92	99.89	103.86
Target ADG	2.85	\$2.20	85.74	89.71	93.68	97.65	101.62
Death loss	1.50%	\$2.40	83.51	87.48	91.45	95.42	99.39
Corn (bu)	63	\$2.60	81.28	85.25	89.22	93.19	97.16
Hay (ton)	0.5	\$2.80	79.04	83.01	86.98	90.95	94.92
Hay Price (\$/t)	\$60.00	\$3.00	76.81	80.78	84.75	88.72	92.69
Supplement (\$/hd)	\$23.00	\$3.20	74.58	78.55	82.52	86.49	90.46
Interest	9.25%	\$3.40	72.35	76.32	80.29	84.26	88.23
Yardage	\$0.25	\$3.60	70.11	74.08	78.05	82.02	85.99
Vet-Med	\$14.00	\$3.80	67.88	71.85	75.82	79.79	83.76
Trucking	\$9.00	\$4.00	65.65	69.62	73.59	77.56	81.53
Other	\$5.00	\$4.20	63.41	67.38	71.35	75.32	79.29
Target Return	\$0.00	\$4.40	61.18	65.15	69.12	73.09	77.06

### Feeder Cattle Break Even Purchase Price for a Yearling Steer

		Corn			Fed Cattle Selling Price		
		Price	\$68.00	\$70.00	\$72.00	\$74.00	\$76.00
In weight	750	\$1.80	81.38	84.59	87.79	91.00	94.21
Out weight	1250	\$2.00	79.73	82.94	86.15	89.35	92.56
Target ADG	3.2	\$2.20	78.09	81.29	84.50	87.70	90.91
Death loss	0.75%	\$2.40	76.44	79.64	82.85	86.06	89.26

Corn (bu)	63.0	\$2.60	74.79	78.00	81.20	84.41	87.61
Hay (ton)	0.35	\$2.80	73.14	76.35	79.55	82.76	85.97
Hay Price (\$/t)	\$60.00	\$3.00	71.49	74.70	77.91	81.11	84.32
Supplement (\$/hd)	\$10.00	\$3.20	69.85	73.05	76.26	79.46	82.67
Interest	9.25%	\$3.40	68.20	71.40	74.61	77.82	81.02
Yardage	\$0.25	\$3.60	66.55	69.76	72.96	76.17	79.37
Vet-Med	\$8.00	\$3.80	64.90	68.11	71.31	74.52	77.73
Trucking	\$11.00	\$4.00	63.25	66.46	69.67	72.87	76.08
Other	\$5.00	\$4.20	61.61	64.81	68.02	71.22	74.43
Target Return	\$0.00	\$4.40	59.96	63.16	66.37	69.58	72.78

### Change in Feeder Cattle Bid Price for a Given Change in Selected Variables

		<b>Calf</b>	<b>Yearling</b>
Profit	\$10	\$1.77	\$1.31
Average Daily Gain	10%	\$1.38	\$0.81
Feed Efficiency @ \$2.60 corn	10%	\$3.43	\$2.42
Death Loss	10%	\$0.10	\$0.05

...John Lawrence

### 1997 Pro-Ag Meetings Scheduled

Dates and locations have been set for the 1997 Iowa State University Extension Pro-Ag meetings. Planning price forecasts, alternative marketing strategies, and factors impacting Iowa agriculture will be presented by John Lawrence, Robert Wisner, and other agricultural specialists. Contact your area farm management field specialist or county extension office for additional information.

<u>Date</u>	<u>Place and Time</u>	<u>Registration fee</u>
Oct. 14	Sheldon - Iron Horse Restaurant, 1111 S. Hwy 60; registration at 10:30 a.m.	\$20.00
Oct. 14	Spencer - Stub's Ranch Kitchen, Hwy 71 South; registration at 4:30 p.m.	\$20.00
Oct. 15	Lawton - Theo's Steak House, 1911 Hwy 20; registration at 11:00 a.m.	\$20.00
Oct. 15	Storm Lake - Ken-a-bob Buffet, 606 Flindt Drive; registration at 5:00 p.m.	\$20.00
Oct. 16	Carroll - Carrollton Inn, Hwy 71 N.; registration at 11:30 a.m. (pay for your own lunch, limited seating available)	\$ 2 .00
Oct. 16	Walnut - The Villager Inn, registration at 4:00 p.m.; (\$20.00 at the door)	\$15.00
Oct. 22	Ames - Starlite Village; registration at 3:30 p.m. (\$30.00 at the door)	\$25.00
Oct. 27	Ft. Dodge - Starlite Village; registration at 4:00 p.m.; program at 4:30 p.m.	\$20.00
Oct. 28	Shenandoah - The Depot Deli; registration at 4:00 p.m.	\$15.00

Oct. 29	Adair - Adair Community Bldg.; registration at 7:00 a.m. (sponsored by Exchange State Bank and the Adair County Extension Council)	none
Oct. 29	Dyersville - Country Junction Cafe; registration at 3:30 p.m. (\$25.00 at the door)	\$20.00
Oct. 30	Waterloo - Celebrations; registration at 9:30 a.m. (\$25.00 at the door)	\$20.00
Oct. 30	Amana - Little Amana Holiday Inn; registration at 3:30 p.m. (\$25.00 at the door)	\$20.00
Nov. 3	Creston - Berning's Motor Inn, 301 W. Adams St.; registration at 4 p.m. (\$25 at the door)	\$20.00
Nov. 4	Decorah - Peace Dining Room, Luther College; registration at 3:30 p.m.	\$20.00
Nov. 6	Ottumwa - Sirloin Stockade, US Hwy 63 N; registration at 3:30 p.m. (\$25 at the door)	\$20.00