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## WORLD CORN, SOYBEAN SUPPLIES TIGHTEN

The world corn and soybean supply balance for the 1997/98 marketing year, as measured by projected ending carryover stocks, tightened slightly from last month. That's one of the major implications from USDA's October 10 world crop report. The indicated tightening of world supplies occurred despite a small increase from last month in USDA's forecast for 1997 U.S. corn production. U.S. corn production is now forecast at 9.31 billion bushels, a very slight increase of 44 million bushels or 0.5% from the September forecast and a 0.2% increase from last year. The nation's soybean harvest is forecast at a record 7.72 billion bushels, up 14% from 1996. However, that is a decline of 24 million bushels or 0.9% from last month's forecast.

Tightening world supplies reflect decreases in production in China, and a few other areas, combined with slightly higher projections of total utilization than indicated a month ago. The ending world corn carryover stocks for the current marketing year are now projected to be 2.51 billion bushels, 3.8% lower than stocks at the end of the 1995/96 marketing year which pushed Iowa cash corn prices over \$5 per bushel. U.S. corn stocks, however, are projected to remain well above the 1995/96 low point. In contrast to corn, projected world wheat stocks were raised 4% from last month and now are 21% above ending 1995/96 stocks.

### Cautions in Corn Prices

While corn prices have risen sharply in the last two weeks, there are three caution signs from the world crop report. First, USDA raised China's projected 1997/98 corn exports by one million tons, to a total of 2.5 million tons (approximately 100 million bushels) despite a 200 million bushel (5 mil. T.) drop in its projected production. The projected exports line up with recent aggressive Chinese corn export sales, and reports that its storage facilities are nearly full of oldcrop corn. A second caution is the much larger world wheat stocks than two years ago, which indicate a sharp rise in corn prices may bring increased world wheat feeding. The third caution is that Australia's wheat crop estimate was increased again, despite earlier fears that El Niño would reduce its production. A fourth caution comes from corn export sales that continue to lag well behind those of last year.

While technical indicators in corn and soybean markets have turned quite positive, these caution signs suggest some tempering of optimism about further shortterm increases in corn prices is warranted. Continued harvesting delays, high winds and resulting ear droppage, and snow or heavy rains could potentially push prices higher. Clearing weather and rapid harvest progress might temporarily weaken prices a few cents. For the next few weeks, soybean prices appear likely to follow the lead of the corn market. From midNovember onward, the large soybean and soybean product sales already on the books and declining South American competition should be strong supporting influences on cash prices.

**Table 1. Corn Bal. Sheet ( Mil.Bu.) 10/10/97**

SUPPLIES:	1994-95	1995-96	Prelim.	ISU Proj. 1997-98		
			1996-97	A	B	C
Harv.A.(mil.)	72.9	65.0	73.1	73.8	74.0	74.4
Bu./A.	138.6	113.5	127.1	123.0	125.8	127.0
Production	10,103	7,374	9,293	9,077	9,312	9,449
Carryover	850	1,558	426	884	884	884
Total (incl. imports)	10,962	8,948	9,732	9,974	10,206	10,337
UTILIZATION:						
Feed & resid.	5,535	4,711	5,398	5,620	5,730	5,750
Food, ind. & seed	1,693	1,583	1,660	1,730	1,740	1,745
Exports	2,177	2,228	1,790	2,020	2,035	2,055
Total	9,404	8,522	8,848	9,370	9,505	9,550
CARRYOVER:	1,558	426	884	604	701	787
Free Carryover	1,318	396	884	604	701	787
U.S. Farm Price	\$2.26	\$3.95	\$2.70	\$2.85	\$2.75	\$2.55
IOWA Avg. Price	\$2.20	\$3.85	\$2.60	\$2.75	\$2.65	\$2.45
N. C. Ia. harv. price	\$1.80	\$2.90	\$2.38	\$2.60	\$2.35	\$2.20
Dec. Futures @ Harv	\$2.20	\$3.35	\$2.68	\$2.96	\$2.67	\$2.50
Probability				20%	65%	15%

**Table 2. Soybean Bal. Sheet ( Mil.Bu.) 10/10/97**

SUPPLIES:	1994-95	1995-96	Prelim.	ISU Proj. 1997-98		
			1996-97	A	B	C
Harv.A.(mil.)	60.9	61.6	63.4	69.6	69.7	70.0
Bu./A.	41.4	35.3	55.0	38.0	39.1	40.0
Production	2,517	2,177	2,383	2,645	2,722	2,800
Carryover	209	335	183	132	132	132
Total (incl. imports)	2,731	2,516	2,576	2,789	2,859	2,934
UTILIZATION:						
Crush	1,405	1,370	1,436	1,480	1,485	1,495
Exports	838	851	882	950	955	965
Other Domestic	153	111	126	135	135	140
Total	2,396	2,333	2,444	2,565	2,575	2,600
CARRYOVER	335	183	132	224	284	334
U.S. Avg. Price	\$5.48	\$6.77	\$7.38	\$6.40	\$6.10	\$5.85
IA. Avg. Price	\$5.38	\$6.67	\$7.28	\$6.30	\$6.00	\$5.75
N.C. Ia. Price	\$4.90	\$6.75	\$6.50	\$5.85	\$5.85	\$5.85
Meal Price, Decatur	\$163	\$198	\$259	\$211	\$204	\$195
Nov. Futures @ Harv	\$5.28	\$7.15	\$6.85	\$6.30	\$6.30	\$6.30
Probabilities				20%	60%	20%

Tables 1 and 2 on Page 1 show our projections of U.S. corn and soybean supplies and marketing year average prices if January crop estimates are near the October forecasts (middle column, 1997/98) or vary from slightly below to slightly above current estimates. Recent futures price action suggests the grain trade anticipates a further decline in crop estimates.

**Corn: Forecasted yield and production, and percent change from 1996 by state and U.S., October 1, 1997.**

	Yield		Production	
	bu/ac 1997	% Change from 1996	mil. Bu. 1997	% Change from 1996
IL	129.0	-5.1	1,419	-3.4
IN	120.0	-2.4	702	4.7
IA	140.0	1.4	1,673	-2.6
KS	135.0	-11.2	365	2.0
MN	130.0	4.0	839	-3.5
MO	120.0	-10.4	342	-3.7
NE	132.0	-7.7	1,162	-2.1
OH	130.0	17.1	449	46.9
SD	100.0	0.0	335	-9.5
WI	124.0	11.7	384	15.4
Other	125.6	-1.0	1,643	-1.0
US	125.8	-1.0	9,312	0.2

**Soybeans: Forecasted yield and production, and percent change from 1996 by state and U.S., October 1, 1997.**

	Yield		Production	
	bu/ac 1997	% Change from 1996	mil. Bu. 1997	% Change from 1996
AR	32.0	0.0	114	1.4
IL	43.0	6.2	428	7.3
IN	42.0	10.5	225	10.3
IA	48.0	9.1	499	20.1
KS	35.0	-5.4	81	8.8
MN	40.0	5.3	268	19.5
MO	37.0	0.0	179	19.8
NE	41.0	-8.9	141	4.4
OH	43.0	22.9	193	22.9
SD	34.0	0.0	117	29.2
Other	38.5	3.6	477	13.4

US 39.0 3.7 2,722 14.2

...Robert Wisner

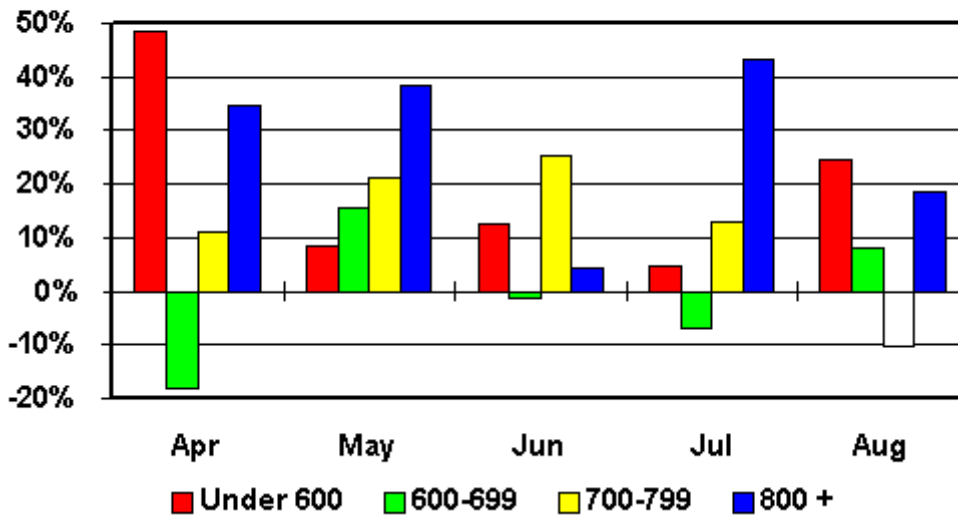
## FED CATTLE PRICES FORECAST TO WEAKEN

Prices for fed cattle are expected to weaken in the weeks ahead on growing supplies. Choice steer prices in Iowa traded at \$65-66 the week ending October 10 and could mover lower before higher prices are realized. Large cattle on feed inventories and increasing slaughter weights add supplies to a seasonally weak demand situation. Retail features in late October and November will shift to turkey and holiday ham, reducing the demand for beef in the near term.

### Growing Beef Supplies

The August Cattle on Feed report indicated a 19 percent increase in the 7-state feedlot inventories, and a 16 percent larger national total. More interesting is the placement pattern and what it may spell for marketings. Figure 1 shows the percentage change in monthly placements by weight class. The exact weight and actual growth rate of the cattle are not known; nor is the exact slaughter weight. Cattle placed at heavier weights are expected to gain faster and be slaughter weight than lighter placed cattle. However, a good figure to use is that feedlot cattle will gain approximately 100 pounds a month.

**Placement by Weight and Month, '97 v. '96**



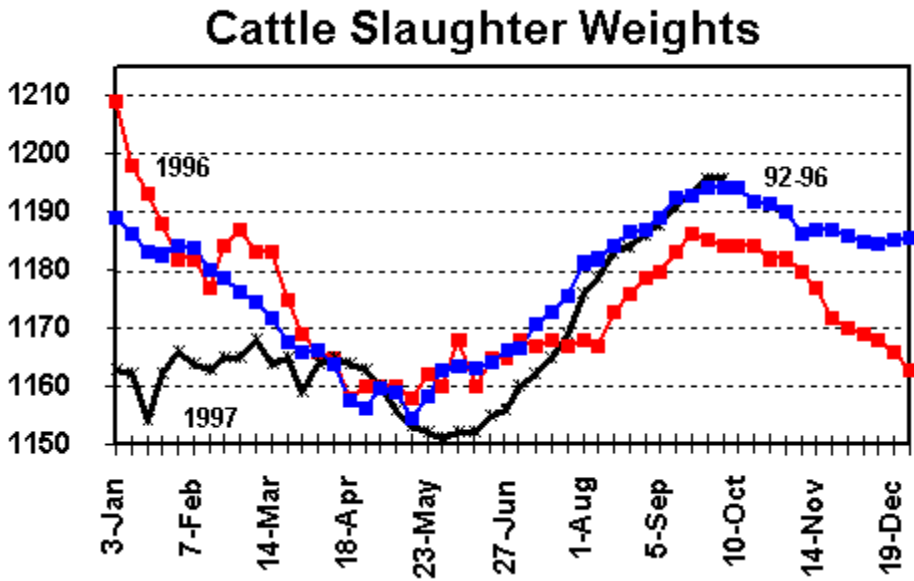
With that 100 pounds of gain a month figure in mind, note that cattle placed weighing over 800 pounds in July, 700-799 pounds in June, 600-699 pounds in May and under 600 pounds in April will all hit the slaughter market at approximately the same time. That approximate marketing time is likely to be between mid October and early December.

There were 32 percent (432,000 head) more cattle placed this year than 1996 in the weights and months listed above for the fall marketings. It may take a while to work through this slug of cattle because the next group for December marketings (over 800 August, 700-799 July, 600-699 June, under 600 May) is 12 percent (217,000 head) larger this year compared to last year.

Feedlots have the capability of adjusting slaughter date by pulling cattle ahead (selling with fewer days on feed) or postponing sales. Throughout most of this year, cattle have been marketed at lighter weights than a year ago, but that has changed and weights are expected to remain higher than 1996. Figure 2 shows the seasonal increase in slaughter weights and this year the rate of weight increase is faster than other years.

### Heavier Slaughter Weights

The heavier weights may be reflecting delayed marketings, and if so, it will take several weeks for feedlots to market their way through the problem. Slaughter the first of October was below that of a year ago in spite of the larger feedlot inventories, but other weeks have been higher



The higher weights also reflect the larger number of steers in the slaughter than a year ago. January through August cow slaughter is 9.1 percent below the same period in 1996, and is expected to run below year earlier levels as we move out of the liquidation phase of the cattle cycle. Heifer slaughter January - August was up 7.3 percent, while steer slaughter for the same period was down 3.7 percent. The 1996 calf crop was 1.6 percent lower than the previous year and steer slaughter should have been down 1.6 percent rather than the current 3.7 percent. As a result, we should expect more steers and fewer heifers in the slaughter mix in the coming weeks.

The beef herd will remain in a liquidation phase. The increased heifer slaughter (515,000 higher through August) more than offsets the reduced cow slaughter for the same period (total cow down 414,000 head, beef cows down 338,000) indicating that the January 1, 1998 cow inventory will be smaller as will the 1998 calf crop.

### Weaker Demand

The increased marketing numbers and weights are complicated by featuring of competing meats. October is Pork Month and retailers and restaurants will feature pork more than usual. In November the features will turn to turkeys and holiday hams. Furthermore, the media has been featuring stories of *e coli* contaminated beef that may also weigh on the consumer's purchasing decisions.

If a significant marketing backlog develops fed cattle prices could drop into the low \$60 in the next few weeks. On the other hand orderly marketings could hold prices in the mid \$60s. Breakevens on many cattle to be

marketed between now and the end of the year is in the \$65-70 range thus feedlots could be in the red much of the fall.

Although the feeder cattle market remains strong, it could begin to weaken as fall runs increase. Losses in the feedlot and stronger than expected corn prices will also pressure feeder prices. Feedlots needing feeder cattle should watch for opportunities to buy feeders if the fed market weakens.

*...John Lawrence*