WEAKER CATTLE PRICES AHEAD

Although the beef industry has turned the corner on the cattle cycle, it still faces a challenge this fall of large near term supplies. The number of cattle on feed for the marketing period of mid-November to the end of the year is approximately 400,000 head larger than the same period a year ago. In addition cattle weights are heavier than they were last year or for the five year average.

The early winter storm of October 25-26 disrupted marketings and stressed cattle, likely reducing weights- at least temporarily. Feedlots were able to push cattle prices higher the week following the storm, but face larger supplies of market-ready cattle by mid-November. If a backlog develops due to the heavier weights and larger marketings, prices will likely retreat to the mid-$60s and possibly lower by the end of the month. Aggressive marketing, coupled with reduced cow slaughter, could keep fed cattle prices in the mid to upper $60s for the remainder of the fall.

January through September cattle slaughter showed a 13 percent decrease in beef cow slaughter and an 8 percent increase in heifer slaughter. Last year's September heifer number was 3.5 percent higher than the same period in 1995. Heifers were placed in feedlots last fall and winter before feeder cattle prices rebounded. Cow slaughter slowed in 1997, but is still 11 percent ahead of the 1995 pace.

Futures Price Trends

Much like cattle prices, Live Cattle futures prices also follow trends and cycles. Although anticipatory and considered efficient, the futures market is not always a perfect forecast of prices. While it may not pay to try to outguess the futures market, it can provide some insight into which risk management tool to consider.

The table on the following page shows the percent of weeks that the futures price was higher than its expiration price during the last year of the contract. For example, in the February 1980 Live Cattle contract, 70.6 percent of the weeks had a Thursday price higher than the Thursday price at expiration of that contract. In the February 1981 contract, all of the weeks were higher than expiration indicating that it went off the board at its low. Similarly, the April 1982 contract went off the board at its highest price of the previous year.

Now, note that there is a trend in the numbers when put in chronological order. From February 1980 to February 1982, with the exception of one contract (August 1980), the contracts expired at the lower 60 percent of their one-year trading range. However, once the trend switched, beginning in April 1982, the numbers were relatively small until April 1985, with the exception of one to three contracts; then the trend switches again.

This pattern is repeated over time. Most recently, futures prices were over-estimating the expiration price from October 1993 until April 1996, and then switched to under-estimating expiration prices. *If this pattern continues into the future, we would expect futures contracts to expire in the upper end of their trading range **and** to have a surprise in which a contract expires near its low.*

This simple trend analysis in not perfect. August and October contracts expired near their contact highs, but rose at expiration for convergence. Speculators who offset their position a few days before expiration may not have captured the full rise in prices. Also note that, given the large supply of market-ready cattle and rising weights, December may be the contract that does not expire in the upper end of its range. The December contract has traded between $66.15 and $72.92 during the last year. The current bid near $67.25 is in the lower end of the range.

Cattle feeders should not use this information to speculate on cattle, but rather to choose the risk management strategy that is appropriate for the period of the current cattle cycle. Long term, supplies are decreasing and prices are expected to increase, but there will be bumps in the road as this fall may prove. A risk management strategy that leaves the top side open, like a put option, may make more sense than a straight hedge that limits higher prices if they occur. It also makes more sense now than it did during the October 1993 - April 1996 period when prices were declining more than was anticipated.

Table 1. Percentage of weeks in which weekly live cattle futures price exceeded expiration price. Expressed as a percentage of 51 weeks.

	February	April	June	August	October	December
1980	70.6	92.2	76.5	3.9	60.8	72.5
1981	100.0	88.2	60.8	68.6	86.3	100.0
1982	70.6	0.0	11.8	2.0	33.3	78.4
1983	7.8	2.0	11.8	35.3	27.5	0.0
1984	5.9	9.8	52.9	25.5	58.8	7.8
1985	25.5	100.0	98.0	94.1	66.7	41.2
1986	94.1	94.1	84.3	3.9	0.0	17.6
1987	0.0	0.0	0.0	0.0	0.0	21.6
1988	0.0	3.9	23.5	0.0	0.0	15.7
1989	5.9	13.7	84.3	2.0	13.7	0.0
1990	7.8	13.7	78.4	2.0	13.7	0.0
1991	0.0	13.7	33.3	98.0	45.1	98.0
1992	0.0	9.8	33.3	2.0	0.0	0.0
1993	0.0	3.9	9.8	9.8	74.5	56.9
1994	72.5	96.1	98.0	82.4	96.1	94.1
1995	13.7	100.0	80.4	72.6	0.0	84.4
1996	100.0	100.0	37.3	0.0	3.9	23.5
1997	0.0	3.9	27.5	3.9	3.9	

…John Lawrence

GRAIN MARKETS AND THE ASIAN STOCK MARKET-CURRENCY SITUATION

The sharp decline in stock markets across the globe (beginning in Asia) slightly tempers export prospects for corn, soybeans, and soybean products. Stock market weakness may slow economic growth of Asian economies that are leading markets for U.S. grains. Also, declining stock markets have been accompanied by weakening Asian currency values, particularly in South Korea and Taiwan, the No. 2 and 3 markets for U.S. corn. Weakening exchange rates of local currencies against the U.S. dollar means foreign buyers pay more of their currency per bushel than previously, unless the dollar price of grain declines by an offsetting amount. Despite exchange rate and stock market problems, the November-February demand for U.S. soybeans and soybean products is expected to be well above last year. Even with these changes and a

possible slower economic growth rate in Asia than previously anticipated, export demand for U.S. corn from March through August should be moderately above a year earlier.

Strong soybean and soybean product export prospects for this winter reflect the fact that South America exported aggressively from late spring through early fall. Supplies in that area will be very limited until its 1998 soybeans are harvested next spring. Also, USDA estimates indicate China's oilseed crop declined again for the second consecutive year, while its livestock numbers continued to expand. Thus, China appears almost certain to be a larger market for U.S. soybeans and soybean products this winter than a year earlier. From spring onward, it likely will shift purchases to South America. The expected improvement in corn exports next spring and summer reflects smaller crops in foreign feed grain exporting nations than a year earlier and sharply lower 1997 Chinese production. China has large carryover stocks that may cover much of its production shortfall until next spring.

Export Sales Update

Table 1 shows export sales of corn and soybeans from September 1 of this year through late October plus outstanding unshipped export sales, and comparisons with a year earlier. Soybean export sales and shipments are well ahead of last year, which was a good export year. Totals for meal and oil also are up sharply. In contrast, corn totals areabout one-third less than those of a year earlier, which was not a very good export year. The 30 cent rise in corn futures prices during the first three weeks of October was not driven by strong export sales. Instead, it appears to have been related much more strongly to widespread publicity about El Niño and weather concerns for the 1998 crop. We expect a gradual improvement in corn export sales, with maximum potential probably not being reached until late spring or early summer. Soybean and bean products sales appear likely to remain strong through late January or early February, but are vulnerable to weakness relative to last year in the spring and summer.

Table 1. Outstanding Sales and Exports as of October 23, 1997 (mil. Bu.)

	Corn			Soybeans		
Destination	**1997**	**Yr Ago**	**% Chng**	**1997**	**Yr Ago**	**% Chng**
European Union	**0.00**	**5.56**	**NA**	**129.62**	**94.15**	**+38**
Other W. Europe	**3.99**	**1.59**	**+151**	**1.57**	**1.32**	**+19**
Eastern Europe	**0.79**	**5.97**	**-87**	**1.40**	**0.89**	**+58**
Former Soviet Union	**0.49**	**1.55**	**-69**			
Japan	**218.19**	**266.56**	**-18**	**40.39**	**56.22**	**-28**
China				**32.05**	**18.11**	**+77**
Tiawan	**49.92**	**70.36**	**-29**	**33.66**	**41.91**	**-20**
Korea Rep.	**33.50**	**112.28**	**-70**	**26.43**	**27.76**	**-05**
Other Asia & Oceania.	**21.76**	**37.81**	**-42**	**10.44**	**14.37**	**-27**
Africa	**42.42**	**47.26**	**-10**	**0.81**	**1.51**	**-47**
W. Hemisphere	**84.74**	**144.26**	**-41**	**52.41**	**47.57**	**+10**
Total Known	**455.78**	**693.20**	**-34**	**328.77**	**303.83**	**+08**
Total Unknown	**44.92**	**63.44**	**-29**	**143.68**	**75.94**	**+89**
Total	**500.00**	**756.64**	**-34**	**472.45**	**379.76**	**+24**

Table 1. USDA Corn Bal. Sheet (Mil.Bu.) 10/17/97

			Prelim.	Proj.	Proj. 1998-99		
SUPPLIES:	**1994-95**	**1995-96**	**1996-97**	**1997-98**	**A**	**B**	**C**
Harv.A.(mil.)	**72.9**	**65.0**	**73.1**	**74.0**	**73.3**	**73.8**	**74.7**
Bu./A.	**138.6**	**113.5**	**127.1**	**125.8**	**105.0**	**130.0**	**138.0**
Production	**10,103**	**7,374**	**9,293**	**9,312**	**7,701**	**9,596**	**10,306**
Carryover	**850**	**1,558**	**426**	**884**	**716**	**716**	**716**
Total (incl. imports)	**10,962**	**8,948**	**9,732**	**10,206**	**8,429**	**10,322**	**11,026**
UTILIZATION:							
Feed & resid.	**5,535**	**4,711**	**5,3 98**	**5,700**	**4,350**	**5,700**	**5,800**
Food, ind. & seed	**1,693**	**1,583**	**1,660**	**1,740**	**1,680**	**1,750**	**1,760**
Exports	**2,177**	**2,228**	**1,790**	**2,050**	**2,040**	**2,075**	**2,100**
Total	**9,404**	**8,522**	**8,848**	**9,490**	**8,070**	**9,525**	**9,660**
CARRYOVER:	**1,558**	**426**	**884**	**716**	**359**	**797**	**1,366**
U.S. Farm Price	**$2.26**	**$3.95**	**$2.70**	**$2.75**	**$3.75**	**$2.65**	**$2.20**
IOWA Avg. Price	**$2.20**	**$3.85**	**$2.60**	**$2.65**	**$3.65**	**$2.55**	**$2.10**
N. C. Ia. harv. price	**$1.80**	**#2.90**	**$2.38**	**$2.40**	**$3.50**	**$2.35**	**$1.95**
Dec. Futures @ Harv	**$2.20**	**$3.35**	**$2.68**	**$2.80**	**$3.90**	**$2.70**	**$2.28**

Snow May Boost Harvest Losses

Much of Iowa, Nebraska, and southern Iowa received heavy, wet snow the weekend of October 25. Approximately 700 million bushels of corn remained to be harvested in these areas, and large portions of the region had from four to twenty inches of snow. In the west, the leading edge of the storm was accompanied by high winds. With weakened stalks, that may have increased field losses. It is not certain that the full extent of any field losses will be reflected in USDA's November 10 crop report. Extra field losses of 10 percent (70 million bushels) would be expected to boost the season average price by 3 to 5 cents per bushel. Reports from the affected area suggest actual losses for the region as a whole may be less than this if the rest of the crop can be harvested soon. Approximately 35 million bushels of soybeans (out of a 2.73 billion bushel U.S. crop) appear to have been unharvested in the area. Field losses at 10 percent would be expected to boost the season average soybean price about 5 to 8 cents per bushel above previous expectations.

South American Update

The 80 cent rise in soybean futures prices in October boosted already strong South American enthusiasm for planting more soybeans in 1997-98. It is early in the planting season there, and recent assessments of producer intentions suggest Brazilian acreage could be 10 to 13 percent above that of a year earlier. Argentine trade sources are expecting five to eight percent more soybean acres there. Northern areas of Brazil have been a bit dry (believed related to El Niño), while southern areas have had moderate rains recently. So far, the rains have not threatened to seriously delay plantings. Parts of Argentina have welcomed recent rains, while some northern areas are still a bit dry at this writing. The key soybean planting season there is the last half of November and first half of December, with some beans often planted into early January.

…Robert Wisner

Table 3. Percent of Corn and Soybeans Harvested by Selected States.	
Corn	**Soybeans**

St.	Nov. 2	Last	Year	'92-96	St.	Nov. 2	Last	Year	'92-96
	1997	Week	Ago	Avg		1997	Week	Ago	Avg
CO	77	66	83	66	AL	58	46	55	48
GA	98	98	98	98	AR	65	53	57	62
IL	89	79	66	75	GA	25	19	35	26
IN	59	49	45	60	IL	98	97	85	94
IA	84	76	58	63	IN	96	93	78	91
KS	93	91	91	88	IA	99	98	95	98
KY	85	77	89	88	KS	85	82	81	85
MI	15	9	32	36	KY	60	51	41	59
MN	90	78	74	60	LA	96	95	90	83
MO	87	82	78	75	MI	87	80	76	80
NE	66	63	67	62	MN	99	99	99	96
NC	95	91	95	96	MS	85	76	77	72
OH	41	27	33	50	MO	82	75	69	78
PA	46	30	40	44	NE	92	91	100	98
SD	80	58	56	50	NC	16	13	20	18
TX	99	98	98	99	OH	95	91	71	90
WI	41	28	34	45	SC	11	9	18	14
					SD	98	94	98	93
17 Sts:	75	66	62	64	TN	51	39	32	46
These 17 States produced 90% of the 1996 corn crop.					19 Sts	89	85	80	85
					These 19 States produced 94% of the 1996 soybean crop.				