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CHINA CORN EXPORT PROJECTION RAISED

News from USDA's November U.S. and world crop estimates produced a sharp decline in corn and soybean prices. Although U.S. corn and soybean crop estimates were raised slightly from a month earlier, market-moving news was largely in the world estimates.

USDA's World Agricultural Outlook Board raised its projected Chinese corn exports for the current marketing year by 1.5 million tons (60 million bushels) from a month earlier. While the quantity is not large when compared to a 10.1 billion bushel total U.S. supply, it produced negative psychological and price reactions. The revised projections suggest China will not buy U.S. corn before spring at the earliest. The revisions reflect continued aggressive Chinese corn export sales through late October, typically at prices as much as 20 to 25 cents per bushel below U.S. prices at the same destinations. China's willingness to sell at such a large discount suggests old-crop stocks must be moved to make room for the current harvest. Additionally, some of the recent sales are believed to be as much as two years old and may be difficult to store for extended periods because of deteriorating quality.

Corn Export Sales Lag

Along with reduced prospects for U.S. corn export sales to China, sales to several other important Pacific Rim markets are lagging well below those of 1996. Table 1 shows U.S. corn export shipments from September 1 through November 6, plus outstanding unshipped export sales, and comparisons with a year earlier. The total for all destinations is one-third less than in 1996, which was not a very good export year. Work by Dr. William Tierney at Kansas State University indicates U.S. corn export sales so far this fall are the lowest since 1990. That year was the lowest on record since the sales reporting system was put in place in 1973. Lagging sales to the Pacific Rim reflect (1) availability of Chinese corn, (2) weakening exchange rates against the U.S. dollar, which for several countries are down 25 - 30% from earlier this year, (3) signs that stock market problems in the region may slow economic growth, and (4) slightly larger feed wheat supplies than a year ago.

The lagging export sales and revised Chinese export projections caused USDA to lower its projected U.S. corn exports for the current marketing year by 100 million bushels from October indications, and to increase its projected August 31, 1998 U.S. corn carryover stocks by 147 million bushels from a month earlier. The projected carryover is 5.2 weeks supply at the annual average rate of use. An absolute minimum carryover is about 2.5 weeks supply. Thus, the carryover is still quite small and reflects a reserve of only 2.7 weeks supply to draw on in case of serious 1998 weather problems.

Table 1. Outstanding Sales and Exports, September 1 through November 6, 1997 (mil. Bu.).

	Corn		
Destination	**1997**	**Yr Ago**	**% Chng**
European Union	**0.00**	**5.56**	**NA**
Other W. Europe	**4.51**	**3.01**	**+50**
Eastern Europe	**0.79**	**7.79**	**-90**
Former Soviet Union	**0.49**	**2.20**	**-78**
Japan	**246.95**	**277.71**	**-11**
Taiwan	**59.53**	**85.55**	**-30**

Korea Rep.	**37.86**	**121.57**	**-69**
Other Asia & Oceania.	**26.31**	**52.35**	**-50**
Africa	**44.90**	**53.60**	**-16**
W. Hemisphere	**96.43**	**158.30**	**-39**
Total Known	**517.78**	**767.65**	**-33**
Total Unknown	**50.77**	**54.67**	**-7**
Total	**568.75**	**822.32**	**-31**

A Two-year Supply-Demand Picture

Table 2 shows my projected 1997-98 corn carryover, which is slightly smaller than that of USDA because of slightly higher projected feed use and exports. As the three alternative yield scenarios for 98-99 indicate, corn prices are almost certain to be very weather sensitive from next spring into at least mid-summer. A 1998 U.S. average corn yield 5 bushels per acre above that of the 1993 flood year would be expected to produce a tighter supply-demand balance than in 1995-96, with season average prices similar to those of that year. The peak in corn prices would depend heavily on North American wheat crop prospects and hog prices. Major problems in the U.S. winter wheat crop in the spring of 1996 and $60 hog prices raised the upside potential on spring and early summer corn prices some that year. Current winter wheat crop prospects look much better than they were two years earlier, hinting that extensive wheat feeding would be possible with serious corn crop problems. Three-fourths of the U.S. winter wheat crop has been rated in good-to-excellent condition in recent weeks. The strong expansion underway in hog production suggests 1998 hog prices may be well below 1996 prices, although the feed demand base will be larger.

Table 2. Corn Bal. Sheet (Mil.Bu.) 11/12/97

			Prelim.	**Proj.**	**ISU Projected 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	126.4	105.0	130.0	138.0
Production	10,103	7,374	9,293	9,358	7,701	9,597	10,306
Imports	10	16	13	10	12	10	4
Carryover	850	1,558	426	884	832	832	832
Total (incl. imports)	10,962	8,948	9,732	10,252	8,545	10,439	11,142
UTILIZATION:							
Feed & resid.	5,535	4,711	5,398	5,700	4,385	5,750	5,875
Food, ind. & seed	1,693	1,583	1,660	1,770	1,680	1,785	1,790
Exports	2,177	2,228	1,790	1,950	2,060	2,075	2,100
Total	9,404	8,522	8,848	9,420	8,125	9,610	9,765
CARRYOVER:	1,558	426	884	832	420	829	1,377
U.S. Farm Price	$2.26	$3.95	$2.70	$2.70	$3.75	$2.65	$2.20
IOWA Avg. Price	$2.20	$3.85	$2.60	$2.60	$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

November Crop Estimates

Changes in the USDA November crop estimates versus those of a month earlier and from 1996 and 1995 for major feed grain and oilseed crops are shown below (million bu.)

		Oct. 97	1996	1995
U.S.				
	Corn	+47	+66	+1,985
	Soybeans	+14	+353	+559
	Sorghum	-6	-144	+199
World				
	Corn	-54	-829	+2,110
	Coarse grains	+154	-866	+3,189
	Soybeans	+71	+662	+890
	Oilseeds	+124	+773	+773

Over the past 16 years, USDA's world coarse grain (feed grain plus rye) production estimates have increased 69 percent of the time from November to the final estimates for the year. Wheat estimates have increased 63 percent of the time, rice 94 percent, and soybeans have increased in 50 percent of those years. Thus, history says that a few months from now, world feed grain and wheat supplies may look slightly more adequate than currently.

Price Direction

With lagging export sales and upward revisions of China's corn export projections, there is risk that corn prices may work a little lower in the next few weeks before strengthening slightly into mid-winter. Moderate strength in cash corn prices appear probable from late April into late June or early July. At least brief periods of Iowa cash prices 20 to 25 cents above mid-November levels appears quite likely at that time. Widespread weather problems or serious weather threats could push prices much higher. Risks from storing in well-managed farm facilities appear to be low, although temporary weakness in corn prices is possible in late February and early March.

Export demand for U.S. soybeans and products will continue to be very strong this winter because of Chinese purchases and very limited South American supplies. These factors plus recent planting delays in Brazil and uneasiness about weather in the December-early March South American growing season point to substantial soybean price volatility through at least mid-winter, with periods of temporary price strength quite possible.

However, farmers should note strong caution signs in soybean price prospects from late February onward, and especially from early June onward. This fall's unusual rally of approximately $1 in soybean prices has caused South American farmers to sharply boost soybean planting intentions. Brazilian farmers indicate they intend to plant 10 to 13 percent more soybeans than last year, along with intended increases of 5 to 8 percent in Argentina. With good weather, that would produce a very large increase in potential South American exports from late spring through mid-fall, with a corresponding drop in U.S. exports. The bulk of South America's soybeans are planted from mid-November to mid-December, with some double-cropped beans planted into early January.

…Robert Wisner

NOVEMBER CATTLE ON FEED SUMMARY

The USDA estimated that the November U.S. feedlot inventory was nine percent higher than the same time a year earlier. The 7-state feedlot inventory was up 10 percent for the same period. October placements in the 7-states were down four percent and marketings were seven percent higher than October 1996. The inventory and placement figures were near trade expectations. However, marketings were lower than expected and were considered bearish for cash prices and December futures.

Weather Impact

The lower placement figure was expected, given the large inventory already in feedlots. In addition, the snow storm that hit major feeding regions the last week of October also postponed feedlot placements.

Marketings may have also been delayed by the October blizzard, but there is a general concern about the large number of cattle to be marketed in the next 30-60 days. Any delay in marketings will compound the pending supply problems. In addition to large near-term expected marketing numbers, slaughter weights continue to be well ahead of a year ago.

The snow storm was also reflected in the "other disappearance" category, the category which accounts for death loss and movement of cattle out of a feedlot for reasons other than slaughter. This figure was 35 percent or 20,000 head higher than the same period a year ago. Early reports were for considerably higher death loss (40,000 -50,000 head) due to the snow. The report showed 77,000 disappearance in October 1997 compared to 57,000 in October 1996.

Placements and Marketings

Cattle weighing 800+ pounds was the only class of cattle with larger placements than a year ago. These heavy cattle were 34 percent of the placements in September, but only 21 percent in October. Calves less than 600 pounds made up the largest share of placements at 28 percent.

The concern for late fall and winter marketings is reflected in earlier placements. The number of cattle placed at different weights and dates, but with the same expected marketing window (November-December), was 32 percent (432,000 head) higher than in the same period last year.

While the additional cattle may be marketed over a wider time frame than expected, there still remains more cattle to market in the weeks ahead than there were last year. The cattle will be slaughtered at heavier weights and at a time of larger pork supplies. Orderly marketings could maintain fed cattle prices in the mid- $60s through the end of the year. However, it is not difficult to see how a backlog could occur, and lower prices resulting from increased beef supplies is a good possibility.

Seasonal Low Hog Prices

November is typically the time of the year for the lowest hog prices, and 1997 should be no exception. The week ending November 15 was week 46 of the year. Figure 1 shows that in only 4 of the last 10 years were prices higher in week 47 than week 45. However, 7 of the last 10 years saw higher prices in weeks 49 and 51 compared to two week prior.

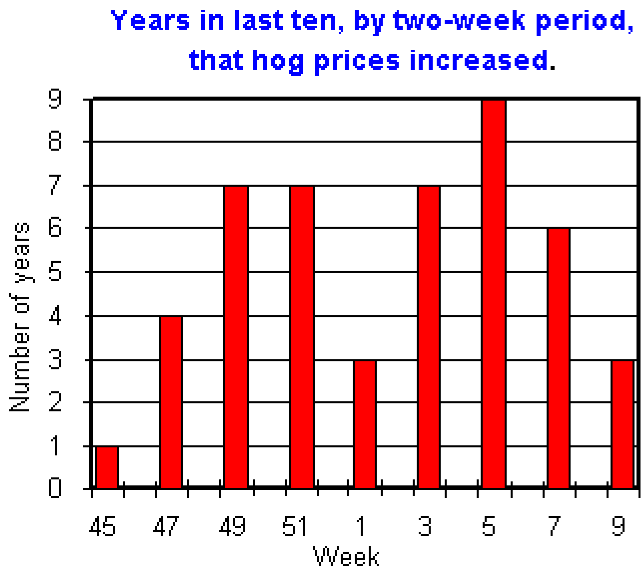

Figure 1

What may be different is that the seasonal low prices and following rebound may occur earlier than in other years. Although we cannot be certain that prices won't work lower near Thanksgiving, the early harvest progress may have prevented a more typical harvest backlog of sales. At a minimum, hog marketings that were postponed until after harvest will have come to town sooner than in other years.

Live weights of slaughter hogs are typically heaviest in the fall when newly harvested corn is cheaper to feed and of better quality than the year-old corn previously fed. Weights this year have been running 3-4 pounds heavier than the same time a year ago, adding more pork to the increased number of hogs slaughtered (Figure 2).

Pork Trade

Export information for meat products in slow to be released. The most recent pork trade data shows that Jan-Aug exports and imports are running dead even with the same period in 1996. Pork exports to Japan have been stable since April at approximately 45 million pounds of carcass weight per month. While April and May exports are considerably lower than the previous year when Japan had removed its safeguard tariff, the June, July, and August exports are higher this year than last. Their tariff was off in April-June in 1996, but was removed July 1 this year. However, Japan was a reluctant buyer during the seasonal high prices in the U.S. Although the data are not available yet for when our prices were lower since August, the early interest suggests that sales to Japan will continues ahead of last year's pace.

…John Lawrence

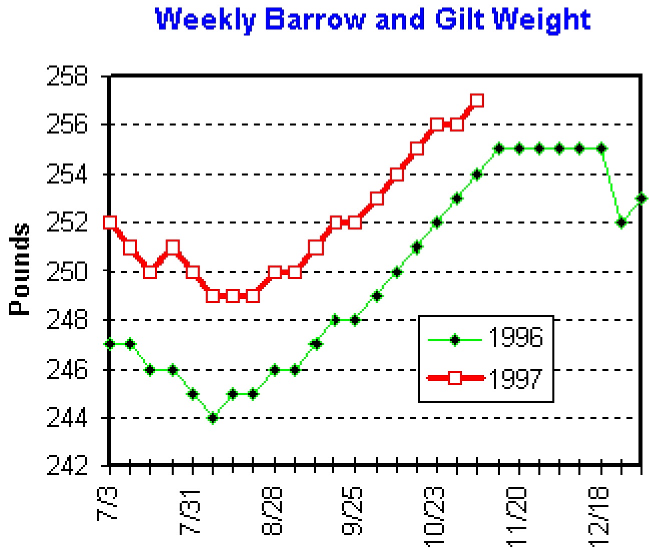
Weekly Barrow and Gilt Weight
258
256
254
252
250
248
246
244
242
Pounds
7/3
7/31
8/28
9/25
10/23
11/20
12/18
1996
1997

Figure 2