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USDA SUPPLY-DEMAND REPORT: CORN EXPORT PROJECTION LOWERED; SOYBEANS UNCHANGED

Overview

Corn and soybean prices moved into a slightly accelerated downtrend following USDA's December 11 U.S. and World Supply-Demand Reports. From November 14 to December 15, closing March corn and soybean futures dropped by $.0975 and $.35 cents per bushel, respectively. These declines reflect concern over Pacific Rim economic problems, as well as technical factors and rain in newly planted South American soybean fields. Key indicators to watch this winter will include (1) weekly exports and export sales, (2) Asian economic indicators, (3) South American weather, and (4) grain exports from eastern Europe and the Former Soviet Union.

Supply-Demand Reports

USDA's December 11 Supply-Demand report showed a 50 million bushel decline from last month in the projected U.S. corn exports for the current marketing year. Exports are now projected at 1,875 million bushels --up 4.8 percent from the 1996-97 marketing year total. However, shipments from September 1 through December 4 plus outstanding unshipped corn export sales were down 25 percent from the same period a year ago, and hint that another decline in export projections is possible. The decline from last month was widely anticipated in the grain trade, and should have little or no effect on corn prices. Partially offsetting the decline, the U.S. corn feeding projection was raised 25 million bushels from last month. Indicated August 31, 1998 U.S. corn carryover stocks are now projected at 953 million bushels, a 5.3 weeks supply. USDA projects the U.S. average marketing year price for corn at $2.60 per bushel for the mid-point of its range. The equivalent Iowa price would be about $2.50.

Asian Economic Developments

Market weakness in the last several days reflects increased concern over Asian economic problems, as well as reductions in long positions of large fund traders that bought last fall on expectations China would import U.S. corn later this year. Fund purchases in early fall also were motivated by El Niño weather concerns.

Asian economic worries stemmed from reports of five to seven additional bank failures in South Korea, declines in currencies of major corn and soybean buyers in the region relative to the dollar, and expectations that economic growth in the region will slow dramatically for a year or two. Economic problems have prompted South Korean grain and soybean buyers to request USDA GSM credits. Under that program, the U.S. government guarantees most of the loan value for purchase of American farm products, with two to three year repayment terms. A decision on whether to extend the requested $1.5 billion in GSM credits is expected before the end of the year. Approval of large GSM credits would help increase corn export sales some.

Despite help from possible GSM credits, the Asian economic problems affect grain and soybean meal demand negatively in at least three other ways: (1) exchange rates for many countries in the area have declined 25 to 45 percent against the U.S. dollar in the last four or five months, (2) an expected slowing (in some cases, reversal) of economic growth in many countries will temporarily slow or halt the rise in meat consumption, and (3) negative effects on the Chinese economy also appear likely to slow its growth in demand for feed grains and soybean meal. So far, China has not been greatly affected by conditions in neighboring countries. However, the dramatic drop in exchange rates of its neighbors will make their industrial products more competitive against Chinese goods, thus slowing its economy. A slower economy potentially increases China's vulnerability to weaknesses in its financial system, described in the last issue of Iowa Farm Outlook. While a major collapse of Chinese demand for protein meal is not anticipated, a slowing economy may weaken its demand slightly from earlier expectations and may also reduce China's need for corn imports next spring and summer. Demand for meat, and hence for feeds in China and neighboring countries is highly income elastic**.** A sizable part of increased consumer incomes is spent on food, especially meat.

Weakening exchange rates in the region translate directly into similar increases in costs of imported products. Livestock and poultry producers, as in the U.S., are unable to pass cost increases of 25 to 45 percent on to consumers. That causes a severe negative impact on profits. Short-term adjustments can come through reduced hog marketing weights, use of lower-cost feed wheat and feed grains from eastern Europe, and reductions in poultry numbers. Adjustments in hog numbers are likely to take at least 8 to 12 months, while poultry numbers can be reduced in about three months.

World Grain Supply-Demand

USDA's World Agricultural Outlook Board modestly increased foreign coarse grain and wheat crop projections for the 1997-98 marketing year, with increases in eastern and Western Europe, Australia, and Canada. Indicated production now is about 200 million bushels larger than last month. Although not a large change, the new numbers indicate slightly more foreign grains will be available to compete with U.S. corn than previously indicated. That too hints that USDA may have to reduce its U.S. corn export projection a bit further.

Soybeans

USDA made no changes from last month in its U.S. soybean supply-demand projections, except to increase the season average price by $.20 per bushel. The U.S. 1997-98 marketing year average price is now projected at $6.60 per bushel. An Iowa equivalent price would be about $6.50 per bushel, slightly below current cash prices. USDA analysts expect lower soybean prices in the spring and summer. That prospect looks realistic, given the good start to the South American growing season, overall plantings that are slightly ahead of normal, and an expected 8 to 11 percent increase in planted acreage.

Recent foreign estimates show slightly larger oilseed production in Europe than previously expected and Malaysian palm oil production that is still slightly above that of last year. End-of-November Malaysian palm oil stocks set a record high. Earlier this fall, the soybean oil market was supported by expectations that El Niño would reduce Malaysian palm oil production. Malaysia is the leading source of palm oil, which is by far the leading source of vegetable oil in the world. Palm oil exports are several times larger than those of U.S. soybean oil. This news plus a sharp decline in Malaysian currency values may stabilize or slightly weaken soybean oil prices for the next few weeks. Oil prices this winter and spring will remain sensitive to Malaysian weather.

Soybean Exports

Cumulative U.S. soybean exports and outstanding unshipped sales through December 4 were 10 percent above those of a year earlier. The increase over last year has gradually declined for several weeks. In October, it was over 30 percent above last year. Meal and oil were up 53 and 26 percent, respectively, through December 4. South America is almost certain to make a dramatic shift from being a small customer for U.S. beans this winter, to that of a major competitor from late May onward. That is almost certain to dramatically slow U.S. exports of beans and bean products in the spring, summer, and early fall. USDA projects that marketing year total exports of soybeans, meal and oil will be up 11, 7, and 17 percent, respectively, from last year. Recent export sales suggest USDA's bean export projections could be slightly high while its meal projections may be a bit low.

Managing Risks and Profits

The ISU Economics Department is cooperating with other universities, DTN and FARMDAYTA electronic news services to provide a 16-week educational series on Managing Risks and Profits (MRP). MRP is for farmers and ag professionals working in grain marketing and financial and production risk management. The series costs $39.95 plus a $10 hook-up charge. It is also on the DTN web site. To sign up, call 1-800-485-4000, ask for the Optional Services Department, and then request to be enrolled in MRP. The series, offered last summer, is starting again. If you miss the first week or two, we can send printed copies of those materials when you enroll. MRP has a toll free number for your questions about information contained in the weekly units. Profit-management software to apply concepts presented in the series will be available at nominal cost to participants. The world coarse grain stocks/use ratio is projected at .118 versus .113 in 1995-96. The projected global wheat stocks/use ratio is .221, up from .188 in 1995-96. In the past 16 years, world wheat and coarse grain production numbers have increased 56 and 62 percent of the time from the December to the final estimates

…Robert Wisner

CATTLE SLAUGHTER SLOWS DOWN

Large supplies of poultry and pork during the fourth quarter and increased featuring of holiday turkeys and ham traditionally pressure retail beef prices. This pressure is limiting earnings in the beef chain. IBP announced last week that it was reducing hours at its beef processing plants due to unprofitable conditions. It is hoped that the reduced flow of beef to wholesalers and retailers will result in higher boxed beef prices and thus, processor margins. Given the large supply of cattle on feed, the slow down may also trigger a backlog of cattle that will further pressure cattle prices.

Federally Inspected cattle slaughter the week ending December 12 was 612,000 head, down 6 percent from the week before and 10 percent below the same week a year ago. Although the December Cattle on Feed Report is not due until the 19th, the November 7-state feedlot inventory was up 10 percent. Last summer and fall, placements targeted at winter marketings were quite high, requiring increased slaughter, not less.

Table 1 shows that total cattle slaughter through October is only slightly less than that of the previous year. Note that heifer slaughter is the only class of cattle with higher slaughter totals. Although beef cow slaughter is lower than for the same period 1996, it is still larger than the Jan-Oct total in 1995. This cow slaughter pace and increased heifer slaughter suggest that the breeding herd liquidation continues.

Table 1. Year to Date Cattle Slaughter, by Class.

	1996	1997	Change
Steers	14,884	14,628	-1.7%
Heifers	8,828	9,590	8.6%
All Cows	5,801	5,258	-9.4%
Dairy Cows	2,503	2,407	-3.8%
Other Cows	3,298	2,851	-13.6%
Bulls & Stags	608	582	-4.3%
Total	30,120	30,058	-0.2%

Also adding to the beef supplies is higher slaughter weights (Table 2). Year-to-date carcass weights are even with those of last year, but have been heavier in recent weeks. Average cattle live weights continue to run approximately 30 or more pounds heavier than a year ago in November and early December. A portion of the increased weight can be attributed to reduced cow slaughter from last year. Fed cattle have a heavier carcass than cows and are making up a larger portion of total slaughter this year.

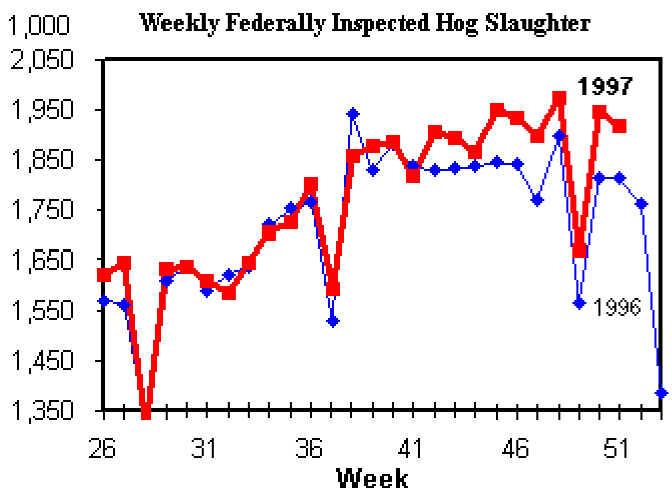
Table 2. Average Cattle Carcass Weights, by Class.					
				Jan - Oct	
	Oct-96	Sep-97	Oct-97	1996	1997
Cattle	699	723	721	705	705
Steers	776	784	787	767	761
Heifers	712	718	723	707	701
All Cows	516	544	544	526	538
Bulls & Stags	835	849	832	845	855

Cattle Forecast

If a fed cattle marketing backlog does develop, Iowa Choice steer prices could drop into the low $60s until the supply is overcome. February futures at this writing are trading near $65.60, which indicates a basis adjusted cash forecast for January and February near $64. April futures are near $69 for a basis adjusted bid near $68. We should be able to move through the large marketing numbers by April, but growing pork supplies will limit the upside potential. A spring high over $70 is possible with aggressive marketing.

Pork Demand Weak

Pork supplies have increased seasonally in recent weeks to a weekly Federally Inspected slaughter peak ahead of Thanksgiving of 1.972 million head. Weights continue to run ahead of those of a year ago. For the week ending December 6, average barrow and gilt weight in Iowa was 3 pounds heavier than a year ago and two pounds heavier than the week before.



Unfortunately these larger supplies are coming at a time of weak demand. Domestically, there are moderate to large beef supplies and competition from holiday turkey features. Export demand is weaker than many expected. Japan is buying pork hand-to-mouth and has little interest in aggressive forward purchases. Given the outlook for pork supplies in 1998, they see little need to buy ahead.

Problems in the Asian financial markets may be impacting pork exports. A weaker yen and Korean won make U.S. pork products more costly. If the current financial problems escalate into a recession in major export customer countries, pork exports could be impacted further and for a longer period of time. The December Hogs & Pigs report will be released December 29 and is expected to show the continued expansion of the breeding herd and market hog inventories. The futures market has these large increases in supplies factored into the current prices. It is possible that a less-pessimistic-than-expected report could rally the market. However, given the weak demand, hedging opportunities will likely be limited until there is increased export activity.

…John Lawrence

from the staff who bring you the Iowa Farm Outlook Newsletter. We extend to each of you our best wishes for health and prosperity in the New Year.

Bob, John, and Marci