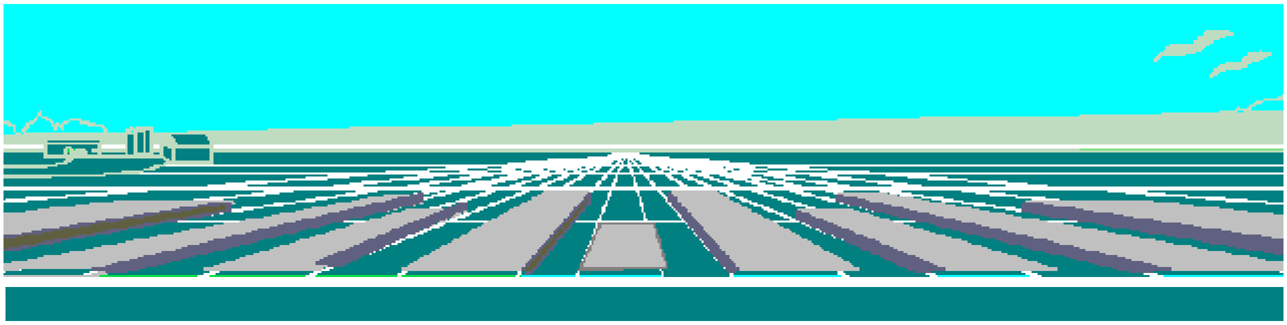

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HAS ASIAN DEMAND FOR GRAIN WEAKENED?

Grain markets have focused on Asian economic problems for the last two months; some analysts say demand for food products will be largely unaffected, although shipments to date suggest otherwise. Table 1 shows cumulative corn and soybean exports to various Pacific Rim destinations since September 1 plus outstanding unshipped sales on January 15, and comparisons with a year earlier. The corn shipments and sales are down sharply from last year, which was a disappointing export year.

Table 1. Cumulative corn and soybean exports, January 15, 1998 vs. year earlier.

	Corn (Mil. Bu.)			Soybeans (Mil. Bu.)		
	1996-97	1997-98	% chg.	1996-97	1997-98	% chg.
Japan	348.6	330.4	-5.2	81.02	80.29	-.09
Korea	158.7	58.8	-62.9	26.14	21.53	-17.6
Taiwan	116.6	101.3	-27.1	50.57	50.37	-0.4
Malaysia	28.9	6.4	-72.9	17.1	8.1	-53
Indonesia	0	0	N.A.	19.0	19.3	+1.2
Philippines	6.5	0	-100	2.86	3.08	+7.6
China	0	0	N.A.	50.26	58.2	+15.8
Total Asia-Oceania	711.03	516.58	-27.3	268.92	263.56	-2.0

Recent trade reports indicate premature slaughter of livestock has begun in Korea. That is one way its livestock industry is beginning to adjust to sharply increased feed costs stemming from the approximately 50% drop in the value of its currency against the U.S. dollar, as well as a weak general economy. No data are available on the amount of premature slaughter, but it likely is small at this time. In contrast to corn, U.S. shipments and outstanding sales of soybeans to Asian markets in total are down only very slightly from last year, which was a very strong export year for beans. Part of the difference between corn and soybeans is that South America is a very limited competitor this winter. U.S. soybean exports to the region may decline in late spring and summer, provided the rest of the South American growing season is favorable. At this writing, the northern part of the Brazilian Soybean Belt is somewhat dry. Other areas have had reasonably good rainfall.

The Asian economic crisis has at least three dimensions of impact on demand for U.S. farm products: (1) exchange rates, (2) stock market linkages to economic growth, and (3) availability of credit to buy U.S. products. The stock markets are one of several vehicles for financing economic growth, and weakness throughout the region will likely slow economic growth temporarily. Harder-hit countries likely will experience negative growth in 1998, which may slightly further weaken the demand for corn, soybeans, and soybean products, as well as livestock products in some countries. Whether this will cause further weakness from current already depressed total feed grain demand in the region depends heavily on China. If last year's Chinese corn crop estimate is correct, China may import some U.S. corn in late spring and summer. Currently, trade sources indicate China has bought a small amount of U.S. corn for shipment from Portland, Oregon, an area China traditionally has avoided because of TKE wheat smut. Credit availability has been a serious problem in Korea and Indonesia. A recently announced GSM package will h help provide credit to these two countries through U.S. government guarantees for short-term credit. However, the credit guarantees are not expected to cover the total volumes normally purchased by these nations.

Changes in exchange rates of Asian currencies to the dollar on January 2, 1998, and comparisons with a year earlier are shown below. The hardest hit areas are Korea, Taiwan, Thailand, Indonesia, Malaysia the Philippines, and Singapore.

South American Update

Concerns over dryness in northern Brazil helped push soybean prices higher in late January. Trade sources in South America indicate essentially all of Argentina's corn and soybean production is in good-to-excellent condition. One widely respected Brazilian source on January 27 was quoted as saying that some yield loss may be occurring currently in northern Brazil, and that serious yield losses could occur if general rains are not received within two weeks. That source currently projects Brazil's soybean crop to be up 15% from last year, along with a 30% increase in Argentina. While some early beans in the northern area usually are harvested in February, the peak South American soybean harvest typically is from mid-March to mid-April. Since Brazil removed its tax on soybean exports last year, its beans may move into world markets a little sooner than in the past. The tax encouraged retaining the beans for local processing, with the products then being exported.

Table 2. Currencies vs. the U.S. $, January 2, 1998 compared with 1997.

	% Change		% Change
Japan	-9.0	Philippines	-38.0
Korea	-50.0	Hong Kong	-0.1
Taiwan	-19.0	Singapore	-19.0
Thailand	-52.0	India	-6.0
Indonesia	-78.0	Pakistan	-9.0
Malaysia	-43.0	China	-0.3

Indicators to Watch

Key indicators for corn and soybean prices from now through late March will be: (1) South American weather, (2) weekly export (on Mondays) and export sales reports (on Thursdays), (3) any firm evidence of Chinese purchases, and (4) weather in winter wheat areas of the U.S. and former Soviet Union. Currently, mild temperatures and lack of snow cover make both areas vulnerable to sudden severe cold snaps. Reports out of the southern plains indicate cattle pasturing on wheat is greater than usual for this time of the year. That and the mild winter may temper corn feed demand slightly as compared with a year earlier. A shift to extreme cold, or weather developments that would push cattle off wheat pastures would be positive to corn prices.

…Robert Wisner

CATTLE HERD LIQUIDATION CONTINUES

The USDA January 1998 Cattle report estimated that the U.S. cattle inventory was 99.5 million head-two percent lower than a year earlier. This is the second year in a row of liquidation following a peak in 1996 at 103.5 million head. The inventory of all cows and heifers and replacement heifers was also lower than the year before as was the 1997 calf crop. While near-term supplies are expected to remain relatively large based on the Cattle on Feed report, cattle slaughter and beef production are expected to begin declining by late spring.

The number of beef cows and heifers that have calved was 2 percent lower than a year ago, and beef replacement heifers were down 5 percent. This is consistent with the January Cattle on Feed report released earlier which indicated a 5 percent increase in the number of heifers in feedlots. As in previous cattle cycles, one year of higher calf prices is not enough to trigger an expansion. The 1997 calf crop was 3 percent lower than the 1996 number which was 1 percent below the 1995 calf crop. The smaller calf crop will lead to a tighter feeder cattle supply and lower fed cattle slaughter in 1998 and early 1999.

Table 1. Summary of USDA Cattle Inventory Report, January 1998.

	US	US	Iowa	Iowa
	Million	% Chg	Million	% Chg
All cattle	99.5	-1.9	3.750	-3.8
All cows & hfrs	42.9	-1.6	1.200	-6.3
Beef cows	33.7	-1.7	0.960	-7.0
Milk cows	9.2	-1.3	0.240	-3.2
Heifers over 500#	19.7	-2.8	0.905	0.6
Beef replacements	5.7	-5.1	0.150	-6.3
Milk Replacements	4.0	-1.8	0.095	-5.0
Other heifers	10.0	-1.8	0.660	3.1
Steers over 500#	17.2	-0.7	0.960	0.0
Bulls over 500#	2.3	-3.1	0.065	0.0
Calves under 500#	17.4	-2.7	0.620	-10.1
Calf crop	38.7	-2.7	1.110	-7.5
Total Cattle on Feed All Feedlots				
Cattle on Feed	13.6	2.9	1.000	0.0
% Steers	61%	6.2		
% Heifers	38%	5.7		

The inventory of dairy cows and heifers also declined. The number of cows and heifers that have calved was 1 percent lower and dairy replacements were 2 percent lower. There were 43.3 heifers per 100 cows, very close to the 43.5 of the two previous years, suggesting that total dairy herd inventory is not likely to change significantly. The trend of 1% fewer dairy cows each year is likely to continue.

Feeder Cattle Supply

The inventory of 500+ pound steers and heifers not kept for replacements was down 1 and 3 percent, respectively. After accounting for cattle already in feedlots, the supply of feeder cattle outside feedlots is 5 percent lower than a year ago. (Table 2). The tighter supply of feeder cattle should be supportive of feeder prices and ultimately lead to lower beef supplies and higher fed prices.

Table 2. Cattle Outside Feedlots Available for Placement,

January 1998.

	Change from Jan. 1997	
	Percent	1000 Head
Heifers over 500#	-5.0	-339
Steers over 500#	-4.3	-516
Total over 500#	-4.6	-855
Calves under 500#	-2.7	-491

Cattle on Feed

The total number of cattle on feed in all feedlots was nearly 3 percent higher than a year ago and the number on feed in feedlots with 1000+ head capacity was up 8 percent. Placements in December were 8 percent lower than the same month a year ago, making the third month in a row with lower placements than the year before. Placement patterns last summer and fall resulted in a large number of cattle targeted for the same marketing window producing a backlog of heavy cattle. Once the current large supply of market-ready cattle has cleared the market, supplies could tighten very quickly.

The 1000+ capacity feedlots accounted for 82 percent of the U.S. total, reflecting the continued consolidation of the feeding sector. These lots had 597,000 more cattle on feed this year than last, while the lots with less than 1000 head had 195,000 head fewer cattle on feed. In Iowa, the larger sized feedlots held 35 percent of the state's total on feed inventory.

Price Forecast

First quarter beef supplies are expected to remain greater than in the same period in 1997 on large, front-end loaded feedlot inventories and heavier slaughter weights. In spite of stressful winter weather in the High Plains feedlot region, carcass weights are ahead of year-earlier levels. It may take a while longer to get through the current backlog. The hope of better prices around the corner encourages feedlots to hold cattle. In addition, the number of cattle placed weighing over 800 pounds has exceeded the number for the same month in 1997 for the past six months or more; however, once the larger numbers run out, supplies could tighten quickly.

Slaughter in the second quarter and beyond is forecast to be smaller than the same period in 1997. Cow slaughter will continue below year-earlier levels as well. The resulting smaller supplies will be supportive of prices.

Retail beef prices remain a value to consumers. Last fall, the retail beef-to-pork spread hit its narrowest point since the late 1980s. Although retail pork prices are declining, retail beef prices will increase at a slower pace than farm-level prices, helping with product movement. Beef exports for 1998 have been revised down from earlier estimates due to the Asian financial crisis. The increasing strength of the dollar relative to the Japanese and Korean currency will slow beef sales in these important importing countries; particularly, the instability of the Korean economy has impacted the hide market. Korea is a very large importer of U.S. beef hides, but is essentially out of the market because banks there are not issuing letters of credit for companies to buy imported products.

Fed cattle prices are forecast to strengthen later in the spring and may put in a spring high near $70 in late April or May. Second quarter prices are expected to average in the upper $60s to low $70s. Third quarter prices may weaken but are not expected to return to January levels. A mid- to upper $60 average is expected. Fourth quarter prices are expected to average in the low $70s.

Feeder cattle prices will be driven by potential feeding profits. Fed cattle futures and corn prices will be determining factors. Feedlots will have to recover from recent red ink before they allow the optimism of last summer to return and they bid up feeder prices betting on stronger-than-expected prices. Near term, limited space due to the large on-feed inventory and sloppy lot conditions will slow placements.

Iowa's Beef Industry

Iowa had a cattle inventory of 3.75 million head including one million head of cattle in feedlots, 960,000 beef cows, and 240,000 dairy cows. The change in these numbers was comparable to changes in the national inventories.

There were 43,000 Iowa farms with cattle in 1998 (Table 3), 1,000 fewer than the year before. Approximately 28,000 of these farms had beef cows. Nationally, 1.17 million farms had cattle and 882,600 had beef cows. Over 700,000 beef cow herds in the U.S. had less than 50 cows (average inventory of 15 cows) and accounted for 30 percent of the inventory (Figure 1). This dispersion of cows across many herds complicates efforts to improve product quality, safety, and consistency.

Table 3. Number of operations with cattle by type, Iowa and US, 1997.

	U.S.	Iowa
	1000	1000
Cattle and calves	1167.9	43
Beef Cows	882.6	28
Milk Cows	116.7	1.1