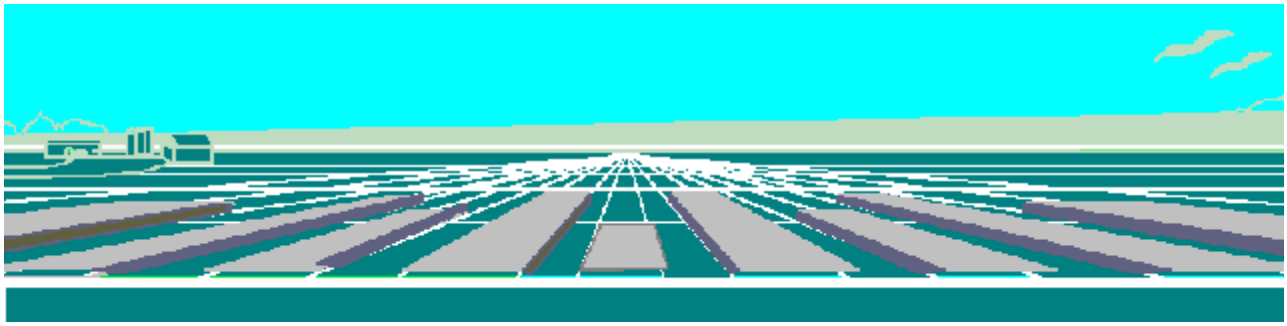

July 15, 1998 Ames, Iowa Econ. Info. 1746

SLOW NEW-CROP EXPORT SALES OUTWEIGH WEATHER CONCERNS

Corn and soybean prices continued their downward path in July after a brief, but strong rally into late June. Pressure on prices is coming from (1) extremely slow new-crop export sales, (2) trade expectations that warm weather, sunshine, and early pollination will still produce respectable corn yields, (3) the approximately 150 million bushel increase from last month in the U.S. winter wheat crop estimate, (4) more Asian economic problems, (5) a 100 million bushel increase in USDA's domestic wheat feeding for this summer, and (6) increases in Argentine production estimates. Longer-term weather forecasts calling for hot/dry weather in late summer and fall failed to offset these negative developments. Wheat prices drifted lower, with cash prices from Kansas and the eastern Corn Belt southward providing considerable incentive for wheat feeding. In some areas, farmers are using the marketing loan features to sell wheat under maturing CCC loans at less than the loan rate. The marketing loan provides a loan deficiency payment at prices below the loan rate

While demand prospects look somewhat negative, most of the bad news appears to be discounted into the market. Some pickup in new-crop export sales appears likely in the next three months. Also, weather remains highly erratic, and a shift to extreme heat and dryness in the Corn Belt would almost certainly reverse the downtrend in prices. Without adverse weather, soybean prices appear to have more downside risk than corn between now and harvest time.

Crop Conditions

Based on current ratings, the chance for a record U.S. corn yield looks quite low. At this point in 1994, (the year of the last record yield), 85% of the corn in major states was rated good-to-excellent, compared with only 68% this year. Comparable ratings for soybeans in 1994 were 79% vs. 61% this year. Percentages of the corn and soybean crops in good to excellent condition have changed by +2 and -1 percentage points since June 21, 1998. Corn is rated highest in South Dakota, Wisconsin, Nebraska, Minnesota, and Iowa, and

has the lowest rating in the South. Soybean crops are in the best condition in Nebraska and Kansas, but are worst in the South. Current corn and soybean good/excellent ratings are 17 and 15 percentage points higher than at this time in 1993.

Export Shipments, Sales

Old-crop corn export shipments accelerated slightly in the last two months, due partly to an abnormally late Argentine corn harvest. At the same time, weekly soybean exports have diminished somewhat in the face of record Brazilian competition. A larger than usual amount of Argentine corn is likely to be exported during the August-December period because of Argentina's record large crop and its late harvest**.** Partly because of this and a continued sluggish Asian economy, new-crop U.S. corn export sales through July 2 were down 43% from the same time a year ago. New-crop soybean export sales at the same time were down 84% from last year. Old-crop marketing year total U.S. corn exports are down 20% from last year, and soybeans are down 3%. Bean exports were well above a year earlier until late spring.

World Crop Conditions

World crop conditions in mid-July suggest competition in international grain and oilseed markets will be relatively strong again in 1998-99. Prospects in much of Europe appear to be average or better. The main exception is parts of southern Europe, including Italy and Greece, where weather has been dry. Much of Europe's production is barley and wheat, which are being or soon will be harvested. Conditions are variable in the former Soviet Union (FSU), with dry weather hurting prospects in some areas. FSU production appears very likely to be down from last year, when very favorable weather allowed the republics as a group to be small exporters of grain. After a slightly delayed start, India's monsoons appear to be reasonably good, creating favorable crop prospects. Private and U.S. government reports indicate China's crop prospects are better than last year at this time, although limited water for irrigation and erratic weather still make its 1998 crop prospects uncertain. Official estimates place China's 1997 corn harvest well below the average of recent years. Australia has recently received rain, improving prospects for winter wheat and barley crops to be harvested from November through January.

Tables 1 and 2 show our current supply-demand projections for 1998-99 and comparisons with recent years. Computer models based on this year's early planting and earlier than normal silking along with the weekly condition ratings suggest the U.S. average corn yield could be around 127 bushels per acre, provided weather is nearly normal the rest of the season. That would be below USDA's earlier trend projection of approximately 130 bushels per acre. The top end of the yield potential in our balance sheet (column C) is below the 1994 record, reflecting this year's problems in Iowa, portions of Nebraska, Missouri, Illinois, Indiana, and pockets elsewhere, as well as severe drought in the South. Column A reflects effects if weather is adverse the rest of the growing and harvesting season. Its yield is a little above 1993-94, reflecting much better crop conditions than at the same time that year. We have also lowered the harvested area by about one-third to one-fourth million acres from USDA's June 30 report. While some private services

talked of one million fewer harvested acres than USDA, that appears to be on the high side at this time. Keep in mind that in years such as 1993, the 0-92 program provided a strong incentive not to harvest lower yielding acres, and that incentive will not be present this year.

With the column B yields (+/- a couple bushels on corn), the stage would be set for some shortages of storage space in the Corn Belt, which is a factor in the low harvest-time price projection. Also, a sizable number of 9-month CCC loans will be maturing at or just before harvest, potentially adding to price pressure. These pressures would be intensified if yields should come out near column C, although the probability of that looks low at this time. The low-yield column A would tighten supplies substantially for the coming year for corn and soybeans. However, much less rationing of U.S. domestic demand would be needed than in 1995-96, because of sluggish exports.

Table 1. Corn Bal. Sheet (Mil.Bu.) 7/14/98

			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	73.7	73.4	74.0	74.3
Bu./A.	138.6	113.5	127.1	127.0	105.0	127.0	134.0
Production	10,103	7,374	9,293	9,366	7,706	9,404	9,959
Carryover	850	1,558	426	883	1,344	1,344	1,344
Total (incl. imports)	10,962	8,948	9,732	10,259	9,061	10,758	11,307
UTILIZATION:							
Feed & resid.	5,535	4,711	5,362	5,560	5,200	5,850	5,900
Food, ind. & seed	1,693	1,583	1,692	1,825	1,750	1,875	1,910
Exports	2,177	2,228	1,795	1,530	1,530	1,675	1,710
Total	9,404	8,522	8,849	8,915	8,480	9,400	9,520
CARRYOVER:	1,558	426	883	1,344	581	1,358	1,787
U.S. Farm Price	$2.26	$3.95	$2.70	$2.45	$3.10	$2.35	$2.25
IOWA Avg. Price	$2.20	$3.85	$2.60	$2.35	$3.00	$2.25	$2.15
N. C. Ia. harv. price	$1.80	$2.90	$2.38	$2.40	$2.90	$2.10	$1.90
Dec. Futures @ Harv	$2.20	$3.35	$2.68	$2.80	$3.15	$2.45	$2.20

Long-term probabilities					20%	65%	15%

Table 2. Soybean Bal. Sheet (Mil.Bu.) 7/13/98

			Prelim.	Proj.	Proj. 1998-99		
SUPPLIES:	1994-95	1995-96	1996-97	1997-98	A	B	C
Harv.A.(mil.)	60.9	61.6	63.4	69.9	71.3	71.5	71.7
Bu./A.	41.4	35.3	37.6	39.0	34.5	38.8	40.5
Production	2,517	2,177	2,383	2,727	2,460	2,774	2,904
Carryover	209	335	183	131	223	223	223
Total (incl. imports)	2,731	2,516	2,576	2,863	2,688	3,003	3,132
UTILIZATION:							
Crush	1,405	1,370	1,436	1,580	1,540	1,600	1,620
Exports	838	851	882	880	875	920	945
Other Domestic	153	111	126	180	140	150	150
Total	2,396	2,333	2,444	2,640	2,555	2,670	2,715
CARRYOVER	335	183	131	223	133	333	417
U.S. Avg. Price	$5.48	$6.77	$7.35	$6.45	$6.90	$5.65	$5.40
IA. Avg. Price	$5.38	$6.67	$7.25	$6.35	$6.80	$5.55	$5.30
N.C. Ia. Price	$4.90	$6.75	$6.50	$6.05	$6.95	$5.25	$5.00
Meal Price, Decatur	$163	$198	$271	$186	$194	$165	$152
Nov. Futures @ Harv	$5.28	$7.15	$6.85	$6.50	$7.45	$5.70	$5.45
Long-term probabilities					20%	65%	25%

Potential Government Actions

Congress is working on legislation to allow extensions of maturing CCC loans and to increase loan rates if the Ag secretary so desires. Passage of legislation depends heavily on the House vote. With federal budget procedures, additional costs must be offset by

reduced spending elsewhere. Congress also is considering exemption of agricultural export sales financed with GSM credit guarantees from economic sanctions against foreign countries. This action could affect U.S. wheat and vegetable oil exports to India and Pakistan.

Asian Developments

Feed sector reports from Asia show sharp cuts in livestock and poultry production in a number of countries. Also, there is increasing concern that Japan's economy will take considerable time to recover from current problems, as reflected by the resignation of its Prime Minister this week. Thus, Japan is not expected to lead Asia out of its recession in the near future. Problems with the Hong Kong economy should be watched closely, for possible effects on China. While China continues to indicate its currency will not be devalued, traders have not eliminated that as a possible way for China to adjust to steep declines in exchange rates of neighboring currencies. A Chinese devaluation would raise the cost of importing U.S. farm products, and would make its corn more competitive in world markets.

…Robert Wisner

KOREAN PORK INDUSTRY

I recently spent two weeks studying the Korean pork industry as a guest of the U.S. Feed Grain Council. It was an interesting trip that helped me better understand global pork production and what a competitive position the US industry holds.

Korea has a land mass about two-thirds that of Iowa, but 74% of its land is mountainous. Its population was 46 million in 1997—a 10% increase in 10 years. Seoul has a population of more than 11 million. "Crowded" is the one word I would used to describe Korea.

The other word I would use to describe Korea is "industrious." The per capita GNP has increased 196% since 1987. The tillable land in river bottoms and mountain valleys is intensively farmed to produce rice and horticultural crops. They import nearly 100% of their feed grains for a growing livestock sector (Table 1). The growth in consumption is a result of the rising incomes. A growing population and consumption drive the growth in production.

Table 1. Korean Animal Protein Production and Consumption, 1997 and Change from 1987.

Source	Production	% Chg	Consumptio	% Chg

	Million	1987	n	1987
			Per Capita	
Beef (lb)	521.4	59	17.38	119
Pork (lb)	1480.6	79	33.66	72
Chicken (lb)	638	106	14.08	93
Eggs (eggs)	8,872	35	192	23
Milk (lb)	4380.2	49	116.38	54

Korea is a manufacturing country. In addition to importing feed grains, it imports many of the raw products for manufacturing. It has a $20 billion annual trade surplus and Koreans believe strongly in importing raw inputs, exporting finished products, and buying products produced in their country. Korea has five car manufacturers and you rarely saw a car from another country. Their meat imports are much the same way. While they do import US beef and pork, it is identified as US, typically sells at a discount, and is often in a separate meat counter.

In 1997, Korea imported 10.4 million metric tons of feed grains, up from less than 7 MMT in 1987 and 1.4 MMT in 1977. Corn made up 79% of the total in 1997 and the US was the biggest supplier. In 1997, the US supplied 40% of the total feed grain imports. China supplied 33%. In 1995 and 1996, the US supplied 83 and 71%, respectively, and China supplied less than 1% each year. These last three years should not be read as a trend because China has supplied as much as 57% of the Korean feed grain needs and the US as much as 98%. Korean grain buyers are very price conscious and will play one supplier against the other.

Korean pork producers are similar in many ways to Iowa producers. Twenty-six percent of their inventory is on farms with 500-999 head of hogs. Another 37% of their inventory is on farms with 1,000-4,999 hogs. Only 12% of the inventory is on larger farms. Their attitudes also reminded me of Iowa producers. I presented a seminar on networking, but they assured me that Korean farmers were too independent to work together.

The government supported pork production as a way to increase farmer income. There has been significant investment in facilities since 1993 with the help of government loans to producers. These are single site confinement operations and are often clustered in close proximity to other hog producers. They are using partially slatted finishers and crated gestation. Many of the farmers I talked to had 100-150 sow farrow-to-finish operations. For the most part, these are single site operations that have continuous flow farrowing, nursery, and finishing.

There is a very active cooperative system in the Korean pork industry as a competitive response to the private sector. Each region of the country had a cooperative that had a feedmill and packing plant. The cooperatives also facilitated the government loans to producers through their loan officers or cooperatively owned banks. The cooperatives also received government loans to construct feedmills and packing plants. Several of the cooperatives were developing their own branded pork products and owned retail meat markets and restaurants.

I visited three cooperatives that have built packing plants since 1995. These plants are small compared to those of the US, and are running at less than capacity. They were in the 400-450 head/hour speed compared with the 1,000-1,300 head/hour US plants. The smaller plants are not surprising, given that the geography does not favor easy access from any corner of the country and the largest trucks only haul 50 hogs at a time. However, these plants were also only processing 60-65% of capacity on one shift, suggesting that there is an over-capacity problem. One innovative strategy was that 3 processors went together with the provincial government to build one slaughter facility operated by the provincial government. The three processors pay to have the hogs killed and chilled, but then take them into their own portion of the plant for further processing, allowing all of them to reduce cost by building and operating a larger plant.

I visited a feedmill that made 1100 metric tons of complete feed a day. It was rated at 700 MT/ 8 hour shift and was running about a shift and a half. Sixty percent of this feed was delivered in 25 kg (55 lb.) bags and the remaining 40% delivered in bulk. The mill was less than 2 years old and mixed approximately 120 different diets in a year's time for all species. The grain was hauled 4 hours from the port by truck and the mill had a 10% market share in its 40-mile trade territory. Nationwide coops had a 30% share in the feed business.

Environmental constraints will limit Korea’s pork industry growth. Because it imports nearly 100% of its feed grains, it also imports a large amount of nutrients that are left in the manure. The primary crop, rice, can utilize some of the nutrients, but because of the small field size and because paddies are trenched and terraced, it is costly to apply the manure. Since 1993, the government had required manure-processing equipment to be built when the facilities were built. Reports indicated that this equipment was costly to operate, ineffective, and was often abandoned.

Korea is both a customer and competitor in the pork export market. Korean pork exports have increased sharply in the last 6-8 months due largely to the devaluation of their currency. Their weaker currency makes their pork lower-priced to export customers than it was before. They export both fresh and frozen product to Japan.

Koreans place a relatively higher value on the shoulder and belly than they do the loin, tenderloin, and ham. As a result, they export the loin, tenderloin, and fresh hams to Japan and increase the value of the carcass for processors and farmers. They also import shoulders and bellies from the US and other countries to offer consumers preferred cuts at lower prices.

The higher value cuts do compete against the US exports in Japan. Korea has lower transportation cost because of its proximity, but its pork is competitive only at a weaker currency. Analysis by the Korean Meat Trade Office showed that at 1600 won/US$ Korean pork was cheaper than US pork in Japan. At 1400 won/US$, about its current level, the prices in Japan were similar. At 1000 won/US$, about its value last November, Korean pork is more expensive than US pork in Japan. Prior to 1997, the won had averaged in the 800-900 won/US$ range.

Korean pork producers, however, are in "Catch-22." My best estimate of the average cost of production in Korea is approximately $65-70/cwt. At high won/US$ levels, they can export pork competitively, but the weak currency increases the cost of imported grain, pushing their cost of production to unprofitable levels. At low won/US$ levels, the grain prices and production costs decrease, but they cannot export competitively against the US and other leading pork producing countries. Thus, their industry is limited primarily to domestic consumption, and they face increasing pressure from US imports as trade barriers come down.

…John Lawrence