

## **USDA REPORTS, BRAZILIAN DEVALUATION IMPACT GRAIN MARKETS**

After a brief uptrend, grain prices weakened substantially in mid-January in response to upward revised carryover projections for September 1, an eight percent devaluation of Brazil's currency, a major bank failure in China, and forecasts for rain in Argentina. USDA's upward revised carryover projections reflected lower domestic utilization than previously indicated, partly based on the latest grain stocks numbers as well as expectations for reduced U.S. livestock feeding later in the year.

Table 1 shows the latest USDA corn balance sheet. The final 1998 U.S. corn crop estimate for the marketing year was lowered 75 million bushels or 0.8% from the November estimate due to a 0.7% reduction in the harvested acreage. This reduction was more than offset by an unexpected decline of 150 million bushels in projected total corn feeding for the marketing year and a 10 million bushel reduction in corn processing from levels indicated last month. The net result was a 5% increase from last month in projected August 31, 1999 U.S. corn carryover stocks. The carryover now is projected at a 10.1-week supply, a relatively modest carryover by historical standards. All of the carryover will have to be stored and financed by farmers and the grain industry, since government grain storage programs have been eliminated. That prospect has pressured prices

Some analysts had expected USDA to increase its corn export projection for the marketing year since exports to date and outstanding unshipped sales are 21% above a year earlier. However, exports were left unchanged from last month. Despite lower projections than a month ago, all three categories of corn use are modestly above those of last year, and total corn use is projected at a record level. USDA lowered its projected U.S. marketing year average corn price a nickel to \$1.95 (Iowa equivalent would be \$1.85 per bushel).

### **World Feed Grain Production**

The 1998-99 world total grain production estimate was reduced slightly from last month, and is now 0.2% above last year's figure. The projected world carryover is 4% below that of last year due to lower stocks of wheat and rice, partially offset by a 4% rise in global feed grain stocks. Russia accounts for much of the decline in world grain production, but lacks the purchasing power to buy offsetting supplies on world markets. Its 1998 feed grain crop is estimated to be 49% below the previous year's good harvest, along with a 39% decline in its wheat crop. Delays in working out details on the Russian package reduce the chances of substantial additional U.S. corn and soybean shipments to Russia this marketing year. The ideal shipping period would have been before winter.

Estimates of Chinese, Argentine, and South African feed grain production remained unchanged from last month. China's feed grain crop is estimated to be 18% above that of last year, reinforcing trade expectations that it will continue to export corn into the

summer. Argentine feed grain production is projected to decline 29% from a year earlier this spring due to a reported 12% cut in corn acreage and expected lower yields due to possible drought. If realized, that should help boost U.S. corn exports modestly from late spring through late December of 1999.

### World Oilseeds

World oilseed production was increased 0.5% from last month, along with a 2.6% increase in world carryover stocks. The latest production estimate is 3.4% above last year, and carryover stocks are projected to be up 17%. The increase reflects an expected increase from last month in South America's spring-harvested soybean crop, a 3% larger U.S. soybean crop than in 1997, and increased rapeseed and sunflowerseed production in several countries. These projections are cautions that price prospects into the spring and summer are more risky for soybeans than for corn.

USDA's latest projections of spring 1999 soybean production in South America are below those of last year, despite the increases from last month. Argentina's harvest is projected to be 6 percent below that of 1998, despite a reported 6% rise in planted acreage. Brazil's crop is placed at 5% less than last spring, with intended acreage down about 3%. Both estimates could change in either direction depending on weather in the next two months. If realized, the estimates will set the stage for modest improvement in U.S. soybean and meal exports from the current depressed level.

**Table 1. USDA Corn Bal. Sheet (Mil.Bu.) 1/13/99**

			Proj.
SUPPLIES:	1996-97	1997-98	1998-99
Harv.A.(mil.)	72.6	72.7	72.6
Bu./A.	127.1	126.7	134.4
Production	9,233	9,207	9,761
Total (incl. imports)	9,672	10,099	11,079
UTILIZATION:			
Feed & resid.	5,302	5,505	5,700
Food, ind. & seed	1,692	1,782	1,870
Exports	1,795	1,504	1,720

Total	8,789	8,791	9,270
CARRYOVER:	883	1,308	1,809
U.S. Farm Price	\$2.71	\$2.43	\$1.95

**Table 2. USDA Soybean Bal. Sheet (Mil.Bu.)  
1/12/99**

			Proj.
SUPPLIES:	1996-97	1997-98	1998-99
Harv.A.(mil.)	63.3	69.1	70.8
Bu./A.	37.6	38.9	38.9
Production	2,380	2,689	2,757
Total (incl. imports)	2,573	2,826	2,963
UTILIZATION:			
Crush	1,436	1,597	1,595
Exports	882	870	830
Other Domestic	123	158	148
Total	2,441	2,626	2,573
CARRYOVER	132	200	390
U.S. Avg. Price	\$7.35	\$6.47	\$5.25

### U.S. Soybean Supply-Demand

Table 2 shows the latest USDA soybean balance sheet. A nearly insignificant five million bushel decline in production from the November estimate was more than offset by declines of 10 million bushels each in the crush and export projections. Ending carryover stocks for next August 31 were raised 15 million bushels or 4% from last month and are nearly double last summer's level. For the marketing year, USDA projects soybean exports to be 4.6% below a year earlier, reflecting some decline in South American exports in the months ahead. However, this number may have to be revised further, since season-to-date soybean exports and outstanding unshipped sales are running about 24% less than a year earlier.

### Price Implications

The larger corn and soybean carryover stocks, and Brazil's just announced currency devaluation of 8% will temper but not completely eliminate weather-related grain price rallies this winter. U.S. and world stocks still represent a very modest reserve, and supplies could tighten significantly with a major deterioration in South American or U.S. spring-summer weather. Prices for both corn and soybeans will be influenced into mid-March by South American weather, with U.S. weather influences taking over starting about planting time.

Caution signs are out for both corn and soybean prices for late February and early March. Because of low prices and grain with LDPs taken earlier, farmers are likely to market more grain than usual during this period to cover spring expenses. That may add temporary downward pressure to prices, barring serious deterioration in South America's crops. So far, both Brazil and Argentina's crops appear to be in fairly good condition, although subsoil moisture is limited.

**Robert Wisner**

## **LIVESTOCK PRICES REBOUND**

Hog and cattle prices have rebounded strongly in the last month and are expected to work higher throughout the spring. While fed cattle prices are expected to return to breakeven in the near future, hog returns are expected to remain in the red until June or later.

### **Hogs**

Hog prices have shown the greatest recovery. Iowa-Southern Minnesota cash prices averaged \$10.50 for the week ending December 18, but averaged \$28.20 the week ending Jan 15. Prices topped \$30 toward the end of the week. These prices were the highest seen since the third week of October when prices averaged \$28.80.

Part of the price strength can be attributed to a modest decline in slaughter numbers. At its peak, weekly slaughter was 2.25 million head, and the first two weeks of January slaughter totaled 2.094, and 2.125 million, respectively. While these may seem like small changes, they have a big impact on price when packers are at full capacity. As was noted in an earlier Iowa Farm Outlook, after Labor Day, prices decreased \$9/cwt for each 100,000 head increase in weekly slaughter over 2 million head. Prices have increased \$17.70 on approximately 100,000 fewer hogs.

Part of the farm level price strength may also be due to a stronger wholesale price. The weekly average wholesale price for a vacuum packed 51-52% lean 185-pound pork carcass was \$53.90 for the week ending January 15. This compares with \$34.98 for the week ending December 18 when live hogs were \$10.50.

The cold weather may have slowed the movement of hogs in the first week of January, but the weather was less of a problem in the second week. In addition, weights have declined. Iowa barrows and gilts averaged 258# the week of January 15 compared with

261# the month before and 260# a year ago. It is possible that the industry has worked through its backlog of hogs and is in a position for more orderly marketings in the weeks ahead.

The cash price has recovered about two weeks earlier than expected. It is doubtful that prices will continue to climb as fast as they have, but they should strengthen further into mid February before leveling off through March and early April. The futures market also rallied strongly following the Hogs and Pigs report. It was offering hedging opportunities for Iowa live hog prices above \$40 for July – October, and in the upper \$30s in November and December. Summer prices above \$40 are possible, but fall prices near \$40 may be more difficult. Based on the March-May farrowing intentions, fourth quarter 1999 may have some weeks with slaughter over 2.0 million head and prices could return to the mid- \$30s or lower.

## Cattle

Cattle prices have also increased in recent weeks. Fed cattle averaged \$60.94 for the second week of January and some Iowa bids topped \$63. These prices compared with \$57.40 a month earlier. Yearlings finished in December had an average loss of \$45/head and calf-fed steers finished in December lost \$125/head. Much like pork producers, cattle feeders have lost money since November 1997, but feedlots are expected to get back into black ink in February or sooner.

The cattle market still suffers from the same problems that plagued it throughout 1998— heavy weight cattle and large near-term supplies. The number of cattle slaughtered in 1998 was 2.2 percent below that of 1997, but the pounds of beef produced was identical. In addition to the stable supply, the heavier cattle reduced the negotiating power of feedlots relative to packers, and prices averaged lower for the year.

Slaughter weights set record levels in the fourth quarter of 1998 and remain very high. January 1998 weights were 30-40 pounds heavier than the same period in 1997, and 1999 has started off 20 pounds heavier than 1998. Seasonally, weights work lower through the spring and typically bottom out near Memorial Day. A stronger market may result in feedlots pulling cattle ahead after this long period of losses, and selling at lighter weights. Extreme weather in the major feeding areas will also reduce weights and strengthen the price.

The next news for the cattle market will be the Cattle on Feed and the Cattle reports released in the second half of January. Both reports will offer insight on the longer term price projections. The January Cattle on Feed will provide the number of heifers in feedlots as an indication of the rate of heifer retention. Likewise, the Cattle report will provide the number of cows and heifers that have calved, the number of heifers kept for replacement, the estimate of the 1998 calf crop, and the total number of cattle on feed in all states and all feedlots.

Given the recent trends, it is expected that the liquidation is still occurring. The beef cow inventory is forecast to be lower than a year ago as is the inventory of beef heifers for replacements. Dairy replacements may well be higher because of the recent profitability of the dairy industry. The supply of available feeder cattle is expected to be lower than a year ago due to a smaller calf crop in 1998 and relatively large cattle on feed inventories. Watch the next Iowa Farm Outlook for a complete summary of these two reports.

Near-term fed cattle prices may work higher on the stronger hog market and stronger boxed beef prices that have increased over \$6 in a month. Feeder cattle prices have been strong after the first of the year. Steer calves weighing 500-600# are \$9.50/cwt higher than a month ago and within \$2/cwt of last year's price. Yearling prices have not increased as much. They are up \$3.50 in a month, but are \$7.25 below last year's prices.

### John Lawrence

### ProAg on ICN

Have you ever wondered how much full-time farm employees earn? Are you concerned about the outward migration of retail trade from small towns? Iowa State University Extension Economics will deliver a two-hour **ProAg on ICN** presentation on Monday, February 15th, from 7 to 9 p.m. which addresses these *issues of importance to all Iowans*. Following a brief outlook for commodity markets in 1999 by John Lawrence and Robert Wisner, William Edwards will present results of a new Iowa State University study of how farm employees are compensated. Guidelines for cash wages, benefits, bonuses and wages-in-kind for different types and sizes of farming operations will be discussed.

Next, Kenneth Stone will discuss changes in retailing in Iowa over the last several years. The emergence of regional trade centers and the subsequent outmigration of retail trade from smaller towns will be analyzed. Trends for several types of businesses will be detailed, including which types of business have the highest probability of success in smaller towns. The importance of shopping locally will also be discussed.

If you are interested in attending the ProAg on ICN meetings, contact your county extension education director. He or she will be able to direct you to the participating site nearest you.