September 1, 1999 Ames, Iowa Econ. Info. 1772

SHORT-TERM CATTLE AND HOG MARKETS

Fed cattle prices have been stronger than expected by most analysts for most of the summer. Weekly average prices have traded in the $64-65 range in recent weeks in spite of weekly slaughter over 720,000 in the second half of August. Weaker prices are expected as slaughter weights increase seasonally, the barbecue season winds down after Labor Day, pork supplies increase, and most importantly, beef supplies remain large.

While fed cattle prices may reach the upper $60s by the end of the year, there are significant supplies to work through first. In the 7-States, feeder cattle placements during the first quarter of 1999 were 800,000 head greater than first quarter 1998 and second quarter placements were 230,000 head greater.

Marketings in April-July were up only 129,000 head in the 7-State feedlots. At a minimum, we will have large weekly marketings ahead of us. Worse case scenario, we will postpone marketings, cause a backlog of heavy cattle, and push prices even lower. While weights have been near year earlier levels since the end of May, keep in mind that last year's weights were record high. Also, the number of cattle on feed 120 days or more has been climbing since May and on August 1 was equal to that of the previous year.

If we aggressively market fed cattle, weights remain in check and the larger numbers push prices into the low $60 until late 1999. If we slow marketings, we delay the lower prices, push weights higher and, ultimately, prices will go lower and the recovery will be postponed until after the end of the year.

Hog slaughter was 3.2 percent above the same period in 1998 from June 1 to July 17. From July 17 to August 28, slaughter has been 2.2 percent below the year before. These figures are fairly close to what the June report predicted. Slaughter should continue 2-4 percent below the year earlier through the end of the year. Weights are 2-3 pounds heavier than the year earlier and should begin increasing seasonally as temperatures decline.

Historically, prices trend downward in the fall. The week ending August 28 is the 36th week of the year. Since 1989 barrow and gilts prices went down nine out of ten years from the 35th to the 37th week of the year**.** However, in 5 of the last ten years prices went up from the 37th to the 39th week, and on average the increase was greater than the decline. If a post-Labor Day rally materializes, it will depend on product movement and retailers featuring for "October Pork Month."

Prices that traded at $40s in mid-August are expected to work lower during September and could average in the low $30s in October. The next Hogs and Pigs report is due out September 24.

North American Cattle Inventory

The USDA and Ag Canada have joined forces to publish a new report that includes the inventories of the United States and Canada. On July 1, 1999, there were an estimated 121.3 million head of cattle in the U.S. and Canada. This figure is one percent smaller than the same period the year before. There were approximately 49 million cows and heifers that calved, also down one percent, and the 1998 calf crop stood at 43.9 million head. The U.S. accounts for approximately 88 percent of all the cattle categories.

The bulk of Canada's cattle are in the central and western provinces. Alberta holds 40 percent of the Canadian total inventory with 5.76 million head. It also has the largest beef cow inventory (1.9 million head) and inventory of steers and heifers over 1 year of age.

North American Cattle Inventory, July 1, 1999.

Class	1999 (Mil. hd)	Percent of 1998	Percent U.S.
Cattle and Calves:	121.3	99	88.0
Cows and Heifers Calved	49.0	99	88.2
Beef Cows	38.6	99	88.2
Milk Cows	10.3	99	88.4
All Other Cattle	72.3	99	87.9
1998 Calf Crop	43.9	99	87.3

Through the first six months of the year, Canada exported 529,177 head of live cattle to the U.S. and approximately 591,232 head as carcass beef (assuming 750 pound carcass). The U.S. has exported both cattle and beef to Canada reducing these imports to a net of approximately 897,000 head for January through June, 1999. To put this into perspective, this figure is equivalent to approximately 17 percent of the 1998 Canadian calf crop, but only 2.3 percent of the US calf crop in 1998.

Canadian Cattle and Calves: Number by Class - Provinces, July 1, 1999.

Class	Eastern	Que	Ont	Man	Sask	Alta	BC
				1,000 Head			
Cattle and Calves	317	1,350	2,110	1,400	2,777	5,760	793
1999 as % of 1998	98	97	97	97	99	99	101
Cows and Heifers Calved	135	657	800	604	1,199	2,003	355
Beef Cows	68	200	400	554	1,162	1,900	272
Milk Cows	67	457	400	50	37	103	83
Heifers, Over 1 year	55	239	409	161	286	972	110
Beef Cow Replacement	12	30	68	81	186	318	55
Milk Cow Replacement	26	197	192	18	16	45	30
Other Heifers	17	12	149	62	84	609	25
Steers Over 1 year	36	55	285	89	131	851	40
Bulls Over 1 Year	5	19	26	26	56	108	18
Calves Under 1 Year	86	380	590	520	1,105	1,826	270

Eastern = Newfoundland, Prince Edward Island, Nova Scotia, and New Brunswick

John Lawrence

MAJOR MARKET INFLUENCES: SOUTHERN WEATHER, SEPT. 10 CROP REPORT

While the Midwest growing season is well along and the corn crop is maturing ahead of normal in many areas, double-crop soybean yields in the South can still be affected by weather into early to mid-October. In the Midwest, the daylight sensitivity of soybean plants means that beans over a large area will be rapidly maturing by mid-September. By August 29, 17% of the soybeans in Ohio and 11% in Indiana were already dropping leaves, compared with normals of 2 and 4%, respectively. For the major states, 62% of the corn crop was dented at the end of August, compared with a normal 44%. Thus, much of the yield potential for corn, as well as a substantial part of the nation's soybean potential will have been determined when the USDA releases its September 10 crop report.

Crop Condition Update

Crop condition indicators suggest that yield potential at the national level has declined modestly since the August crop survey was taken at the end of July and the first few days of August. The percentage of the major-states corn crop rated good-to-excellent has declined by five percentage points since that time, along with a 13 percentage point decline for soybeans. Heat and drought have taken a moderate toll on soybean yields in the Corn Belt east of the Mississippi (except for Michigan and Wisconsin), as well as Missouri, parts of southeastern Iowa, the Southeast, and the south central states. Although some local pockets of problems exist, most of the western Corn Belt other than Missouri has come through August in reasonably good condition. For the major states as a whole on August 29, the U.S. corn crop was reported to be 58% good-to-excellent. Soybeans were reported to be 44% good-to-excellent. Early indicators suggest that U.S. corn carryover stocks on August 31, 2000, may be 7 to 10% below a year earlier. While prospects for August 31, 2000 soybean carryover stocks are more uncertain, some increase from this year is generally expected.

Corn crop maturity is well ahead of normal across the Midwest, although yields would be moderately vulnerable in South Dakota and parts of Nebraska and Minnesota in case of unusually early frosts such as in early September of 1994. With normal first frost dates, yields should not be affected significantly in most areas.

Impact of Southern Drought on Soybeans?

The southeastern U.S. (also including Maryland and New Jersey) was forecast to produce only 3% of the nation's soybean crop last month. If that production was cut by half, it would take 1.5% or 43 million bushels off U.S. production. That alone would not be enough to shift 2000 carryover stocks into a decline. A more modest 20% drop in those yields from August, in which some yield reductions were already built in, would trim only 17 million bushels off U.S. production. The south central states (including Ky., Tenn., Ok., Ark., La., Miss., and Tx.) accounted for an expected 9.4% of U.S. production. A 20% drop there in yields from the August 1 forecast would cut 54 million bushels or 1.9% off U.S. production. Illinois, Indiana, and Ohio in August were forecast to produce 31% of the U.S. soybean crop. A 10% drop in yield potential there since August 1 would trim 89 million bushels off U.S. production. These areas were the regions of greatest weather stress on soybeans in August, although a little deterioration has occurred in some other areas and a few places have experienced improved yield prospects in the last month. August 1 conditions pointed to a potential 165 million bushel rise in soybean carryover stocks from this year's already price-depressing level. Yield reductions of 20% in the South and 10% in the three largest eastern Corn Belt producing states would still leave an expected increase of 30 million bushels or more in the expected 8/31/00 U.S. soybean carryover stocks, from 8/31/99 expected level. August 1 yield forecasts historically have tended to be conservative, and already reflected some yield loss from adverse weather.

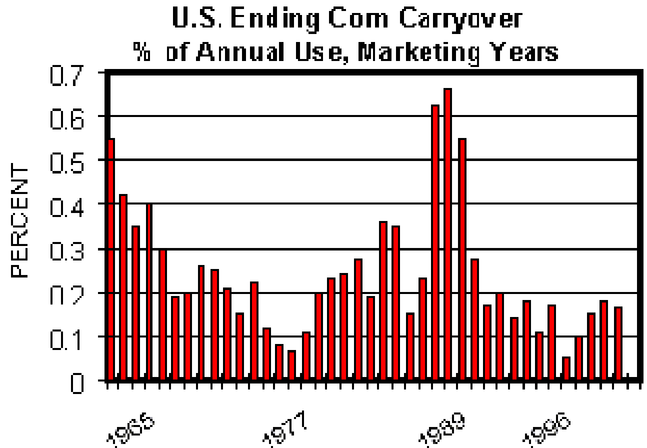
International Developments

China has aggressively exported corn in the last several weeks, but has been a significant buyer of soybeans and bean products. This pattern may be a reflection of how the Chinese assess their 1999 feed grain and oilseed crops. Limited areas of China's Corn-Soybean Belt have had severe drought this summer. Mexico's purchases of U.S. new-crop corn and soybeans are well above last year, offsetting slow sales to some other destinations. While it is too early for a forecast, indicators so far suggest South American soybean acreage for the spring 2000 harvest may be down only slightly from a year earlier. Rainfall in much of Brazil's crop area was well below normal in August, although two to three months remain before active corn and soybean planting will occur. In Japan, steps are being taken to develop labeling of CMO crops by early 2001. If current efforts materialize, GMO food products will not be prohibited, but will need to be identified on labels to help consumers make purchasing decisions.

In response to expected labeling requirements, a Japanese brewer just announced it ***would not buy*** GMO corn. This week, Fuji oil, Japan's largest manufacturer of soy protein foods, announced that starting in October, it ***would buy only non-GMO*** soybeans. Gerber also indicated it will not use GMO ingredients in its food products. ADM and Consolidated Grain, both important grain buyers in the eastern Corn Belt, announced they would require farmers to segregate all GMO and non-GMO corn and soybeans. In Europe, several large supermarket chains earlier this summer announced they ***would not sell*** GMO foods in a number of EU countries.

These developments are a major challenge to U.S. agriculture with harvest only a few weeks away and with a high percentage of 1999 crops being GMO. Key issues facing farmers and the industry include:

- Legal liability for farmers, elevators, seed industry, exporters, processors, and legal documents that elevators likely will require farmers to sign as they deliver grain.
- How much of non-GMO field edges to harvest as GMO grain because of cross-pollination?
- How to manage elevator space to allow segregation?
- How to insure that no GMO grain remains in conveyors, machinery, etc. to contaminate non-GMO grain (on-farm and at elevators)?
- Discount and premium issues.
- Sampling and testing procedures.
- How to adjust to the added stress on storage and receiving capacity?
- Elevators with multiple locations plan to designate some locations for non-GMO grain. How do producers cover added transportation cost, harvest waiting time, inability to get trucks to haul grain an extra 10 to 40 miles?
- Will crop insurance, LDP, and govt. disaster payments cover GMO discounts?
- With large GMO plantings, what does this do to farm finances if discounts of 15 to 20 cents per bushel appear?
- Will foreign buyers restrict imports of livestock products produced with GMO feed?
- Will foreign moves be followed in the U.S.? Consumers Report and World Watch Institute have articles on the issues.



Stocks for 8/31/00 are based on Aug. 1 indications.
Figure 1

Redemption of Old-Crop CCC Loans

Redemptions of 1998-crop corn and soybeans were heavy in August, with the quantities remaining under loan on September 1 now equal to less than half of August 1 totals. At this writing, 486 million bushels of last year's corn are reported to still be outstanding under loan, along with 58 million bushels of soybeans. Fifty six percent of the corn total is located in Iowa, Minnesota, and Nebraska, along with 50% of the soybeans.

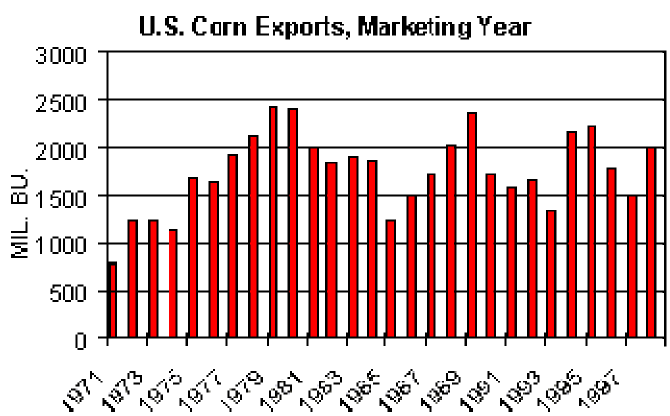


Figure 2

Robert Wisner