

GRAIN MARKET SITUATION AND STORAGE RETURNS

Recent Developments

After a short rally following the October crop report, cash and futures soybean prices have drifted lower. Downward pressure reflects scattered rains in dry areas of the South American Soybean Belt, potential large deliveries on the soon-to-expire November futures contract, and badly lagging exports and sales of bean products. A recovery in palm oil production in Malaysia and Indonesia has kept pressure on soybean oil prices, pushing meal prices well above spring and summer levels. Technical traders may be looking at gaps on the November futures contract at \$4.545 and \$4.39 as possible downside objectives before it expires. Historically, gaps in price charts very often are filled sometime during the life of the contract. Key price indicators in the weeks ahead will include the USDA November 10 crop report, weekly export sales reports on Thursdays, and rainfall in Brazil and Argentina. The basis of Iowa cash prices under nearby futures prices remains extremely depressed and the November-July price spread in the futures market is an extremely wide \$0.33/bu. Both of these indicators provide substantial incentives for holding the crop off the market, especially for soybeans stored on the farm. Soybean LDPs at this writing are \$1.03/bu. in most Iowa counties, and have been as high as \$1.08. In contrast to soybeans, corn prices have risen 10 to 12¢/bu. from levels during the peak harvest period, and the basis has strengthened modestly. Supporting factors include tight holding by farmers, and strong export and processor demand.

Heavy Use of LDP a Caution Sign

Extensive farmer use of the LDP program this fall, especially for soybeans, is an important caution that may negatively impact price prospects in coming months. It is not known how many farmers have sold their crops (either in the cash market or for later delivery) at the time they took the LDPs. However, many likely are holding their grain unpriced. For those who have done so, private financing must be used to carry the inventory, reducing farmers' ability to hold the grain off the market as compared with past years. Limited holding ability and cash-flow pressures may slow the potential strength in cash and futures prices in the months ahead and may weaken prices in late winter. Holding ability will be partially but not completely offset by newly announced supplemental government AMTA payments that are to be mailed out immediately. For corn, the additional payments are expected to be \$0.33/FSA bu. For many farmers, these payments likely will amount to between \$0.22 and \$0.26¢/bu. of actual production. Emergency farm legislation also provides \$475 million for supplemental payments for oilseed crops, including soybeans, sunflowers, canola, and other minor oilseeds. If these payments were entirely for soybeans, payments per bushel would be about \$0.18. With part of the total going to other oilseed crops, the soybean payments may be around \$0.15/bu. of actual production. Unofficial volumes of U.S. crops that have received LDPs through October 27 were as follows: corn: 1,295 million bushels or 14 % of 1999 production; soybeans: 593 million bushels or 22 % of production, based on USDA reports. Volumes outstanding under loan were: Corn, 102 million bushels; soybeans, 57 million bushels. Some sources indicate these numbers understate actual amounts of LDPs taken because of reporting lags.

Protecting Against Risk

Suppose a central Iowa farmer takes the soybean LDP when local prices are \$4.20/bu., but continues to hold soybeans unpriced, receiving \$1.08 for the LDP. The total value of his/her soybeans valued when the LDP is taken is \$5.28/bu. Also, consider the possibility that as much as half of the U.S. crop is marketed the same way, and that financial pressures force farmers to aggressively sell much of their bean inventory in late February to meet spring cash needs. If prices would drop to \$3.90 and the LDP protection is no longer available, the net value received for the soybeans falls to \$4.98. If the cash bean market would drop to \$3.70 with prospects for a good South American crop, the total value would fall to \$4.78. What are the chances of cash bean prices dropping below \$4.00? With current farm policy, such prices cannot be ruled out. Ways to avoid this risk exposure include: (1) sell the soybeans in the cash market at the time the LDP is taken, (2) sell the beans on contract for winter/spring delivery at the same time the LDP is cashed out, (3) hedge sales for winter/spring delivery, or (4) purchase harvest cash equivalent put options for late summer delivery. Where good, well-managed farm storage is available, sales on July futures contracts for May-early June delivery offer opportunities to add considerably to fall cash corn and soybean prices, while protecting against downside price risk. The examples below show recent central Iowa hedging opportunities for farm-stored crops held into late spring. Some basis risk is present in hedge sales. For crops stored at the elevator, farmers may want to check forward contracts for winter delivery.

July soybean futures	\$5.04
Less expected basis	.34
Less Costs	.01

Expected Hedge Price	4.69
Current new-crop bid	4.18
Gross Storage Return	.51
Farm storage costs	.20
Potential net storage profit	.31
LDP	1.04
Net Gain over harv. price	1.35
Effective net price	5.53
Expected Mkt. Access Pmt.	.15

July corn futures	\$2. 23
Less expected basis	.31
Less Costs	.01
Expected Hedge Price	1.91
Current new-crop bid	1.56
Gross Storage Return	.35
Farm storage costs	.15
Potential net storage profit	.20
LDP	.24
Net Gain over harv.price	.44
Effective net price	2.00
Expected AMTA Pmt	.48

South American Weather

The peak corn-planting season in Argentina and Brazil is at hand, while soybean planting typically extends into mid-December with some double-cropped soybeans being planted into early January. After several months of dry weather, Brazil and Argentina's Corn-Soybean Belt has received light to modest rains recently. Most areas will need more rain to get the crops off to a good start. Since South America is a major supplier of soybeans and bean products to world markets, the soybean market will be potentially quite responsive to Brazilian and Argentine weather in the next several weeks. Early reports hint that delays in corn planting in Brazil may push a little corn acreage into soybeans, although the critical deadline for corn in many areas has not yet been reached.

Export Update

Corn export sales remain strong, driven by the Southern Hemisphere's sharp drop in feed grain production last spring. Soybean export sales have improved in recent weeks, but bean product exports remain weak, with competition from South America, as well as canola, rapeseed, sunflowerseed, cottonseed, field peas, palm oil, and GMO concerns in our largest export market, the European Union. Combined exports since the start of the 1999-00 marketing year and outstanding unshipped export sales were as follows, based on USDA's October 28 report, in percent change from a year earlier. Corn: +13; soybeans, -1; soybean meal, -25; soybean oil, -61.

Non-GMO Soybean Contracts

Last week, the Tokyo Grain Exchange and two other exchanges indicated they would offer non-GMO as well as GMO soybean futures contracts, beginning in April of 2000. The new contracts are being developed to meet demand for non-GMO soybeans that is emerging in anticipation of consumer response to Japan's food labeling program. Food labeling by genetic origin of ingredients is scheduled to begin in April of 2001, although some processors are making the shift to non-GMO ingredients earlier. The EU already has implemented food labeling by genetic origin, and is giving some consideration to similar labeling of feed ingredients.

November 10 Crop Report

USDA's next crop report may boost corn yields slightly, based on past history and widespread reports of better-than-expected yields from across the Corn Belt. In contrast, these same indicators suggest soybean yield estimates may be reduced slightly.

Robert Wisner

LIVESTOCK FEEDING OPPORTUNITIES

Feeder Cattle and Pig Budget Worksheet (Central Iowa)

Date: 01-Nov-99

		BackGround	Steer	Steer	Heifer	Feeder Pig
Purchase Weight		500#	550#	750#	700#	50#
Finished Weight		775#	1150#	1250#	1050#	250#
Days on Feed		125	210	156	136	128
Projected Marketing Date		05-Mar-00	29-May-00	05-Apr-00	16-Mar-00	08-Mar-00
COSTS						
Feeder Price/cwt		\$95.00	\$91.50	\$82.50	\$79.50	\$71.00
Feeder Cost per head		\$475.00	\$503.25	\$618.75	\$556.50	\$35.50
FEED COSTS:						
Corn Price and bushels	\$1.75	26.5	63.0	63.0	47.0	10.3
Corn Cost		\$46.38	\$110.25	\$110.25	\$82.25	\$18.03
Hay Price & tons	\$50.00	0.30	0.65	0.35	0.27	0.00
Hay Cost		\$15.00	\$32.50	\$17.50	\$13.50	\$0.00
Supplement Price/lb.		\$0.150	\$0.130	\$0.080	\$0.080	\$0.142
Supplement Used - in lbs.		125	191	120	117	127
Supplement Cost		\$18.75	\$24.83	\$9.60	\$9.36	\$18.03
TOTAL FEED COSTS:		\$80.13	\$167.58	\$137.35	\$105.11	\$36.06
OTHER COSTS:						
Vet medical & operating costs		\$10.00	\$18.70	\$13.80	\$12.75	\$6.75
Interest - Feeder	9.00%	\$14.64	\$26.06	\$23.80	\$18.66	\$1.12
- Feed/Operating	9.00%	\$1.39	\$4.82	\$2.91	\$1.98	\$0.68
Labor Cost per hour	\$10.00	\$9.00	\$30.00	\$20.00	\$15.00	\$7.50
Death Loss % of purchase price		1.50%	1.50%	0.75%	0.75%	4.00%
- Cost		\$7.13	\$7.55	\$4.64	\$4.17	\$1.42
Transportation/Marketing Cost		\$6.50	\$8.80	\$10.80	\$9.80	\$1.75
TOTAL OTHER COSTS		\$48.65	\$95.93	\$75.95	\$62.36	\$19.22
TOTAL VARIABLE COSTS (per hd)		\$603.78	\$766.76	\$832.05	\$723.97	\$90.77
TOTAL FIXED FACILITY COSTS		\$11.30	\$18.90	\$14.20	\$12.30	\$7.50
TOTAL COST TO FINISH ANIMAL		\$615.08	\$785.66	\$846.25	\$736.27	\$98.27
Necessary Selling Price/cwt:						
1.) To Cover Variable Costs		\$77.91	\$66.67	\$66.56	\$68.95	\$36.31
2.) To Cover Total Costs		\$79.37	\$68.32	\$67.70	\$70.12	\$39.31
Futures Price as of 10/29/99		\$81.95	\$68.10	\$70.43	\$70.43	\$51.45
Estimated Basis		\$0.43	\$0.48	(\$1.43)	(\$2.08)	(\$0.97)
Expected Price/cwt by Hedging		\$82.38	\$68.58	\$69.00	\$68.35	\$37.36
Est. Return over Var. Costs/head		\$34.67	\$21.91	\$30.45	(\$6.30)	\$2.61
Est. Return over Total Costs/head		\$23.37	\$3.01	\$16.25	(\$18.60)	(\$4.89)
Corn Value Through Livestock		\$2.63	\$1.80	\$2.01	\$1.35	\$1.28

Given the current low grain prices, farmers are looking for opportunities to add value to their corn through livestock feeding. The futures market offers producers the chance to lock in a profitable return on backgrounding and feeding steer calves and yearling steers. Feeding heifers and feeder pigs is less profitable at this time.

The futures are currently predicting spring fed cattle prices in the upper \$60s after adjusting for basis. While demand has been amazingly strong in recent weeks, it is not expected to maintain its current pace. However, the aggressive fed cattle marketing this fall and lighter placement weights should help bring slaughter weights down after the first of the year. Lighter weights and modest demand should be supportive of prices next spring. Optimistic producers hoping for higher prices but needing downside protection can purchase a put option to cover variable cost for \$2.30/cwt for both calves and yearlings.

Futures are currently predicting cash live hog prices in the mid- to upper \$30s in the spring. You can hedge to cover variable cost, but not total cost. Options do not offer a very good opportunity at this time. A floor to cover variable cost for April sales will cost \$6.15/cwt carcass.

John D. Lawrence