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Ames, Iowa

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## GRAIN MARKETS REACT TO U.S. & S. AMERICAN WEATHER, FARMER SELLING

May corn futures dropped about 12 cents per bushel during February, along with an approximate 30 cent decline in May soybean futures and similar declines in harvest-delivery futures for both crops. Prices were pressured by a shift in weather and drought-related market psychology as the parts of the Midwest and South American Grain Belts received moisture. In the last few days, much of the South American Grain Belt received moderate additional rains, and South Africa's corn crop is reported to be considerably better than that of last year. However, timely rains will be needed in parts of Brazil, Argentina, Paraguay, and Uruguay in the next 3 to 4 weeks to maintain current yield potential. Also, weakness in the nearby basis in many areas hints that U.S. farmer selling has increased to meet heavy late winter cash-flow demands. Iowa steady to slightly lower corn prices are possible into mid-March. From mid-March through mid-May, steady to modestly higher old and new-crop corn and soybean prices appear likely, with the greatest potential strength being in corn.

LDPs have fluctuated the last few weeks from a few cents per bushel to zero (or negative), while soybean LDPs have been in the 40 to 50 cent range. *Of last year's corn and soybean crops, 75% and 84%, respectively, have had the LDP cashed out and no longer have access to price support loans for storage into summer.*

### China Developments...

While there is optimism that China may buy more

bring China into the WTO, which has triggered longer-term optimism about prospects for grain and oilseed sales to China. These developments may significantly slow the WTO process.

The extent and duration of price strength over the next four months will depend heavily on Midwest weather. National Weather forecasts for the next 30 and 90 days show prospects for warmer and drier than normal weather for most of Missouri, the central and southern Great Plains, and the southwestern one-third of Iowa. USDA's March 31 planting intentions and grain stocks reports also will be significant price indicators. Grain stocks will provide an updated reading on domestic corn feeding, the largest source of demand for U.S. corn. Heavy movement of cattle into feedlots in the Plains, partly because of lack of wheat pastures, should be a positive influence on corn feed demand, although an extremely mild winter may be partially offsetting. The grain trade appears to be expecting December-February corn feeding to be above that of a year earlier, following a 1.7% increase during the fall quarter.

### Soybean Acreage Expected to Rise in 2000...

Recent private and USDA projections show U.S. soybean plantings in 2000 to be up 1.5 to 2.5 million acres from last year, along with a marginal decline in corn plantings. While the projected increase in soybean plantings is possible, our projections have shown a more modest 0.5 million-acre increase, reflecting a slowing

plantings up near these projections. That would be negative news for new-crop soybean prices. *Balance sheets for both corn and soybeans indicate major price strength for each crop would have to depend heavily on adverse weather over a sizable part of the Corn Belt for the 2000 planting and/or growing season.*

### New-Crop Pricing Considerations...

A major and not widely understood change in the grain markets resulting from “Freedom to Farm” is in how the carryover stocks are being financed. Previous government programs financed nearly all of the carryover except for minimum working stocks needed to keep operations going at the end of the marketing year. Excess stocks above this pipeline level were financed by the Farmer Owned Reserve or by outright CCC storage. If cash prices in late summer were less than the CCC loan rate plus interest, the grain automatically moved into one or both of these programs. Under current policy, the stocks must be financed and stored privately. *The grain industry will carry the inventory, provided two conditions are met: (1) the “carry” (discount of December to next July or September futures prices) is large and (2) the late summer-fall basis (discount of cash prices to futures) is depressed.* These conditions typically are accompanied by low cash prices. This year, about 1.1 billion bushels of corn will need to be financed privately and stored another year (barring major weather problems). *Agricultural lenders likely will be reluctant to replace former CCC financing with private loans for storage of old-crop grain another 12 months. This process has major implications for old and new-crop grain prices. For old-crop, it signals considerable downside price risk in late summer and early fall, provided crop prospects are average or better. For new crop, it signals downside price and basis risk, and also tells farmers to watch for opportunities to price new-crop grain for delivery in the spring of 2001—if they have access to on-farm storage.*

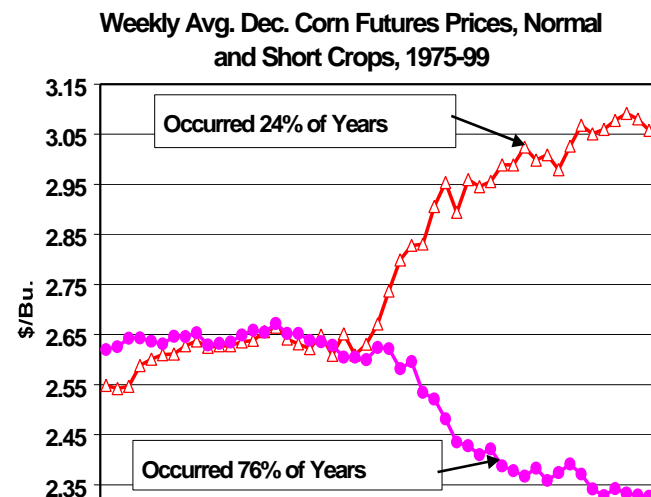
July 2001 corn futures as of February 28 were offering Central Iowa corn farmers a local cash price of

Iowa producers about \$5.05 locally (plus or minus basis variation) for May-early June 2001, before deducting storage costs. Typical on-farm storage costs for new-crop beans stored to May-June 2001 would be around \$0.35, excluding bin charges but including interest. That boosts potential net returns for sales on July 2001 futures to around 15 to 20 cents higher than for harvest-delivery hedge sales (plus or minus basis variation).

### Historical New-crop Price Patterns...

*Analysis of price patterns since the mid-1970s indicates the most likely time for opportunities to add value to the corn and soybean crops and/or lock in a workable price through forward pricing is during the first half of the year, when weather uncertainties are greatest.* Since 1975, spring corn and soybean prices for harvest-delivery futures have exceeded fall prices 76% of the time. The average weekly futures price pattern for normal and short U.S. crop years is shown in Figure 1 for corn. The short U.S. crop pattern has occurred about 24% of the years. These were weather-induced short U.S. crops (not necessarily short Iowa or local crops), when production fell below the previous year’s utilization and prices typically rose during the summer.

Figure 1



rose sharply during the summer and early fall, options pricing generated much higher prices than forward contracts or hedge sales, although the net price was lower than the cash market by the cost of the options premiums and a small brokerage expense. ***For farmers who forward price with contracts or new-crop hedge sales, an important companion tool to consider is CRC crop revenue insurance, or RA insurance with the fall price alternative.*** Either of these products allows producers to maintain a “long” physical inventory of new-crop corn to match a “short” forward contract or hedge sale up to the insured percentage of the crop times the historical farm yield. These two products replace lost bushels, up to the insured level, at the harvest price and not a lower price that was set earlier for the crop insurance. ***How much risk exists in new-crop corn prices?*** Currently, new-crop hedge prices for harvest delivery in Central Iowa reflect bids of about \$2.00/bu., \$0.24 above local CCC loan rates. ***Last year, harvest bids dropped to about \$0.35 under the loan, and with average or better yields, similar prices could occur this fall.*** New-crop bean futures prices are offering a local hedge price of around \$4.75, (about \$0.40 below the loan rate) using last fall’s basis. ***Cash prices last fall and***

***early winter fell to as low as \$4.20/bu., about \$0.95 below the loan rate. With increased soybean plantings widely anticipated, similar or even greater pressure on prices would be quite likely with trend-line or better U.S. soybean yields.***

New-crop corn marketing is less complex than that of soybeans, since new-crop bids are above the loan rate. With hedge sales and prices declining into fall, the price is protected by the hedge and LDPs could again become significant, adding to gross returns. If the corn market went up sharply, the producer would still have a price of about \$2.00 (plus the AMTA payment, which last year was about \$0.48 per bushel of actual production). A hedged position and soybean prices declining to last fall’s levels would produce a combined LDP+ market price of about \$5.95 to \$6.00/bu. But major drought and sharply higher prices with a hedge or forward contract would lock the producer in at a price of approximately \$4.75—\$0.40 below the loan rate, ***with no LDP. These comparisons suggest that soybean growers need to be quite cautious in pre-harvest pricing of beans, and may want to consider using call options to retain ownership for a limited time after new-crop sales, until weather prospects become clearer.***

...Robert Wisner

## 1999 TRADE DATA

Table 1. Beef Exports, Carcass Weight, Million Pounds				
Country	1998	1999	Change	% Change
Japan	1,118	1101	-17	-1.5
Canada	261	249	-12	-4.5
Mexico	419	466	47	11.3
Caribbean	21	30	9	43.4
Korea	154	308	154	100.2
Russia *	43	9	-34	-79.9
Other	154	165	10	6.7
Total	2,171	2,328	158	7.3
Total w/o Russia	2,128	2,320	192	9.0

Table 2. Pork Exports, Carcass Weight, Million Pounds				
Country	1998	1999	Change	% Change
Japan	496	542	46	9.2
Canada	126	127	1	0.6
Mexico	145	167	22	15.1
Russia *	142	12	-131	-91.8
Korea *	27	55	29	108.2
Hong Kong *	51	47	-4	-7.7
Caribbean	22	21	-1	-3.2
Other	220	195	-25	-11.5
Total	1,230	1,167	-63	-5.2
Total w/o Russia	1,087	1,155	67	6.2

## Beef

Final trade estimates from the USDA for 1999 have been released. Beef exports for 1999 totaled 2.33 billion pounds carcass weight, up 7.3% from 1998. Exports to Japan, our largest export customer, were down 1.5%. Exports to Russia were down nearly 80% in 1999 due to less aid money available than in 1998. Excluding Russia, exports were up 9%. Beef imports were also up over 8% to 2.87 billion pounds. Beef imports from Canada had the largest tonnage increase, 124 million pounds. The US continues to be a net importer of beef. For 1999 net imports were up 15.5% to 545 million pounds. Table 1 shows beef imports and exports for 1998 and 1999.

## Pork

1999 pork exports were down 5.2% to 1.17 billion lbs. Exports to Russia were down over 90%. Excluding Russia, pork exports exceeded 6%. Our 2 largest customers, Japan and Mexico, increased US imports significantly. Pork imports into the US grew over 17% in 1999. Nearly 75% of pork imported to the US comes from Canada; imports from Canada increased 25.8% in 1999. For 1999 we imported more pork from Canada than we exported to Japan. As a result of the slight decrease in pork exports and the large increase in imports, US net pork exports fell 35.3% to 340 million lbs in 1999. 1995 was the first year the US was a net exporter of pork. Table 2 shows pork imports and exports for 1998 and 1999.

...Alan Vontalge

We regret to inform our subscribers that the *print version* of the Iowa Farm Outlook newsletter is being discontinued. The final *print* edition of the IFO will be April 1, 2000. The number of paid subscribers has dropped dramatically, and thus, it has become evident that the cost of printing and distributing/mailling the newsletter is not justified or economically feasible.

The Iowa Farm Outlook will still be available on the web at [www.econ.iastate.edu/outreach/agriculture/periodicals/ifo/](http://www.econ.iastate.edu/outreach/agriculture/periodicals/ifo/) and on "Local Pages" of DTN and "Iowa News" on FarmDayta, as John Lawrence and Robert Wisner continue to deliver their twice monthly livestock and grain market outlooks.

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