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Ames, Iowa

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GROWTH IN MEAT TRADE

Estimates from the USDA for the first quarter of 2000 show sizeable increases in trade for both beef and pork. Both imports and exports have posted significant gains over year earlier levels.

Pork exports for the January–March period are up nearly 65 percent from 1999. Exports to Russia were up from 2.4 million pounds to 118.6 million pounds, a 4,859 percent increase. There is some concern that the food aid package to Russia occurred last year and is being reported for 2000. Excluding Russia, pork exports are still up 21 percent. Exports to Japan, our largest customer, are up nearly 16 percent. Other countries with increased exports include Canada (+19 percent), Mexico (+116 percent), and Korea (+20 percent). Only Hong Kong and the Caribbean showed a drop in exports. Table 1 shows the US pork trade for the first quarter of 1999 and 2000.

Pork imports have also shown considerable growth for 2000. Imports of pork into the US are up 22.3 percent for 2000 driven primarily by Canadian imports that were 27 percent higher. The result of this trade is that net exports of pork for the US are up nearly 200 percent from 65.7 million pounds in 1999 to 192.7 million pound in 2000. The bottom of Table 1 also shows the net impact of our trade with Canada. Net imports of pork from Canada are up nearly 30 percent as a result of the increase in Canadian slaughtering capacity. They are shipping fewer slaughter animals and more pork into the US.

Table 1. Pork Exports, Carcass Weights (Thousand Pounds)

	Jan - Mar 1999	Jan - Mar 2000	Change	% Change
Japan	128,367	148,676	20,309	15.8
Canada	27,887	33,224	5,337	19.1
Mexico	32,336	69,844	37,508	116.0
Russia	2,391	118,564	116,173	4858.8
Korea	10,441	12,540	2,099	20.1
Hong Kong	14,562	9,501	(5,061)	-34.8
Caribbean	5,856	4,712	(1,144)	-19.5
Other	44,670	41,098	(3,572)	-8.0
Total	266,511	438,158	171,647	64.4
w/o Russia	264,120	319,594	55,474	21.0

Pork Imports, Carcass Weights (Thousand Pounds)

	Jan - Mar 1999	Jan - Mar 2000	Change	% Change
Canada	144,442	183,487	39,045	27.0
Denmark	37,593	40,158	2,565	6.8
Poland	4,496	5,316	820	18.2
Hungary	2,128	2,361	233	10.9
Netherlands	2,568	2,805	237	9.2
Other	9,545	11,338	1,793	18.8
Total	200,773	245,465	44,692	22.3

Net Pork Exports, Carcass Weights (Thousand Pounds)

	Jan - Mar 1999	Jan - Mar 2000	Change	% Change
Exports	266,511	438,158	171,647	64.4
Imports	200,773	245,465	44,692	22.3
Net Exports	65,738	192,693	126,955	193.1
Canadian Net Imports	116,555	150,263	33,708	28.9

Beef exports have also shown sizeable growth for 2000. First quarter beef exports are up over 30 percent. Similar to pork, exports to Russia are up over 4000 percent. Excluding the Russian numbers, beef exports are still up 10 percent. Countries showing an increase in beef exports include: Japan (+3 percent), Canada (+10 percent), Mexico (+30 percent), and Korea (+25 percent). The only decrease in exports was to the Caribbean. Table 2 shows US beef exports for 1999 and 2000.

Beef imports are up 17 percent in the first quarter. All countries reported showed increased imports into the US except for Argentina (-2 percent). New Zealand leads the group with a 48 percent increase. Including the Russian numbers, US net imports of beef were negative for the January–March period. Historically the US has been a net importer of beef. Assuming the Russian imports die down, the US will probably continue to be a beef importer. Table 2 also shows the US beef imports.	Table 2. Beef Exports, Carcass Weights (Thousand Pounds)				
		Jan - Mar 1999	Jan - Mar 2000	Change	% Change
	Japan	271,358	279,539	8,181	3.0
	Canada	60,042	66,251	6,209	10.3
	Mexico	101,710	131,705	29,995	29.5
	Caribbean	9,636	5,769	(3,867)	-40.1
	Korea	72,274	90,397	18,123	25.1
	Russia	2,733	119,080	116,347	4257.1
	Other	45,903	42,446	(3,457)	-7.5
	Total	563,655	735,188	171,533	30.4
	w/o Russia	560,922	616,108	55,186	9.8
	Beef Imports, Carcass Weights (Thousand Pounds)				
Poultry exports are also higher for 2000. Broiler exports are up from 1,036.8 million RTC pounds in 1999 to 1,479.3 million pounds in 2000, a 42.7 percent increase. Turkey exports are up over 50 percent increasing from 79.9 million RTC pounds in 1999 to 120.2 million RTC pounds during the first quarter of 2000.		Jan - Mar 1999	Jan - Mar 2000	Change	% Change
	Australia	168,091	182,214	14,123	8.4
	New Zealand	138,124	204,920	66,796	48.4
	Canada	208,048	221,175	13,127	6.3
	Brazil	40,488	46,265	5,777	14.3
	Argentina	40,951	40,019	(932)	-2.3
	Central America	13,431	17,026	3,595	26.8
	Uruguay	15,945	19,023	3,078	19.3
	Mexico	2,332	2,848	516	22.1
	Other	309	188	(121)	-39.2
	Total	627,719	733,678	105,959	16.9
	Net Beef Exports, Carcass Weights (Thousand Pounds)				
		Jan - Mar 1999	Jan - Mar 2000	Change	% Change
	Exports	563,655	735,188	171,533	30.4
	Imports	627,719	733,678	105,959	16.9
	Net Imports	64,064	(1,510)	(65,574)	-102.4

Cattle on Feed Numbers Remain High

The May USDA Cattle on Feed Report estimated all cattle and calves on feed in the US in 1,000+ head capacity feedlots at 10.909 million head on May 1st, up 8.7 percent from 1999 and 12.2 percent above May 1, 1998 inventory levels. Cattle on feed in 1,000+ head capacity feedlots in the historic 7 states totaled 9.361 million head, up 9.1 percent from 1999 and 12.9 percent higher than 1998. Table 3 summarizes the report. Cattle placed on feed in the 7 states totaled 1.45 million head, nearly equal to 1999. Marketings during April were down 5.4 percent from 1999 on 2 fewer marketing days during the month.

The recent profitability for feedlots continues to encourage larger-than-expected placements. The Iowa State University Estimated Returns for finishing yearling steers showed a return of \$77.51 per head marketed during April. Cattle placed on feed during April were slightly above year earlier levels despite the pre-report expectations of being 4 to 5 percent lower. Placements by weight groups show that feedlots are continuing to place heavier cattle. Compared with 1999, placements in April 2000 for over 800 pound cattle were up 17.2 percent. Placements for

under 800 pound cattle were down 6.2 percent with the following weight breakdowns: under 600 pounds (+2.0 percent), 600-699 pounds (-20.7 percent), and 700-799 pounds (-0.7 percent). Placements during previous months have shown a similar pattern. This ongoing placement of heavier weight cattle has increased the number on feed over 120 days from 2.2 million in 1999 to 2.7 million in 2000, a 23 percent increase. Figure 1 shows the number of cattle on feed over 120 days. The gray bars represent 2000, the solid blue bars 1999, and the red bars are year-earlier levels.

The increased number of cattle on feed and those on feed over 120 days suggest that marketings during the summer months will be large. Feedlots will need to be persistent sellers in order to keep lots current. Fed cattle prices are currently near \$70/cwt, down about \$4 from the peak in late April. Expected large marketing in the coming months will pressure prices lower into the mid-\$60s. Using the monthly placements by weight groups and estimating the time to market weight gives a good indication as to the number of cattle coming to market in the summer months. Figure 2 shows the projected and actual marketings using this method from January 1999–April 2000 and the projected marketings for May–August.

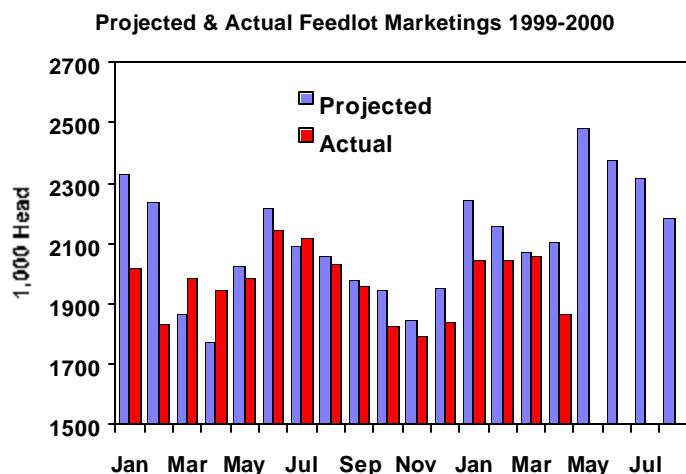


Figure 2

Table 3. Cattle on Feed Summary, 1,000+ Capacity Feedlots, 7 States, May. 1, 2000, 1,000 head.

	1999	2000	Percent Change
On Feed April 1	8,899	9,573	7.6%
Placed during April	1,443	1,450	0.5%
Marketed during April	1,681	1,591	-5.4%
Other Disappearance	78	71	-9.0%
On Feed May 1	8,583	9,361	9.1%

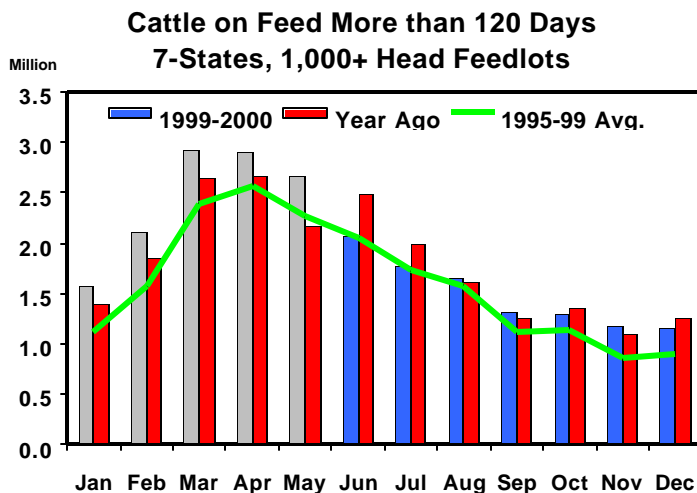


Figure 1

RAIN IN WESTERN CORN BELT PRESSURES PRICES

Currently, corn and soybean prices are sharply lower, pressured by widespread rains and market psychology reflecting expectations that the drought may be ending...whether it is ending or not is uncertain. Important market indicators for the weeks ahead will include the National Weather Service updated 30-day and 90-day forecasts issued at the beginning and middle of the month. The mid-May forecasts called for drought over much of the Corn Belt.

Price Risks: Large In Both Directions...

Corn and soybean crops generally look quite good across much of the Midwest and reflect record or near-record early plantings in many areas. With timely rains, there would be a potential for record or near-record U.S. average corn and soybean yields. A U.S. corn yield exceeding the 1994 record by 0.5% would produce a 10 billion bushel corn crop, nearly 600 million bushels above last year's production. If the U.S. average soybean yield would exceed the 1994 record by 0.5%, the U.S. soybean crop likely would be about 3.07 billion bushels, about 430 million bushels above 1999 production. Crops of these sizes would almost certainly push prices sharply below recent levels, and quite possibly below last fall's lows. At mid-day on May 30, December corn futures reflected a weather-premium of around \$0.50 to \$0.55 above last fall's lows. November soybean futures reflected a similar premium relative to last fall's prices.

The other side of the weather risk is uncertainty that the drought has ended. Hot, dry weather in July and August would reduce yields, adding some upside potential to prices beyond the late May levels. The U.S. and world feed grain carryover stocks-to-use ratios are quite modest when compared with stocks that were available in the drought years of the 1980s. Soybean and oilseed stocks are a bit larger relative to historical levels, but remain modest by absolute standards. Thus, a drought as severe as in 1988, when U.S. yields dropped approximately 25% below the long-term trend, would almost certainly bring sharply higher prices. With a 1998-type drought, potential price strength for corn and soybeans could easily exceed \$0.50 per bushel.

Marketing and Feed Purchasing Considerations...

Corn and soybean producers who have purchased Crop Revenue Coverage (CRC) insurance or Revenue Assurance (RA) with the fall price alternative have much greater flexibility to forward contract 2000 crops than those with other types of insurance or no crop insurance. These policies insure lost bushels at fall replacement prices. If you have a low yield and indemnity payments, the replacement value gives coverage to buy back possible over-sold forward contracts—up to the insured level of coverage on your APH yield. Other marketing alternatives include: (1) purchasing put options to protect against lower prices while retaining upward price flexibility, and (2) re-owning new or old-crop grain that has been sold, by purchasing call options. Purchased call options increase in value with sharply higher prices, although they do not necessarily increase one-for-one in value with price changes.

Livestock feeders may want to assess their ability to bear the risk of sharply higher feed costs that could occur with widespread drought, and to consider forward coverage of some corn and soybean meal needs. Purchasing call options is an alternative to forward contracting or hedging as a way of protecting against possible higher feed prices. At the same time, options purchases would retain the ability to benefit from lower feed prices if they should occur. Call options tend to be more affordable to buy on days when futures prices decline, while puts generally are more affordable for a given level of price protection when prices rise.

On May 23, 70% of the corn crop in major producing states was reported in good-to-excellent condition. The best areas were east of the Mississippi River, and poorest areas of the Corn Belt were in Iowa and Missouri. Iowa ratings are expected to increase moderately in the June 5 Weekly Crop and Weather Report from USDA.

International Developments...

Trade sources in Brazil believe its 2000 soybean crop probably is about 2 million tons or 70 million bushels larger than recent USDA projections. The Brazilian grain trade also believes that, with favorable weather, this spring's rally in soybean prices may boost next spring's production by around 10%. A smaller increase probably would be likely if late summer and fall prices drop back to year-ago levels.

Robert Wisner