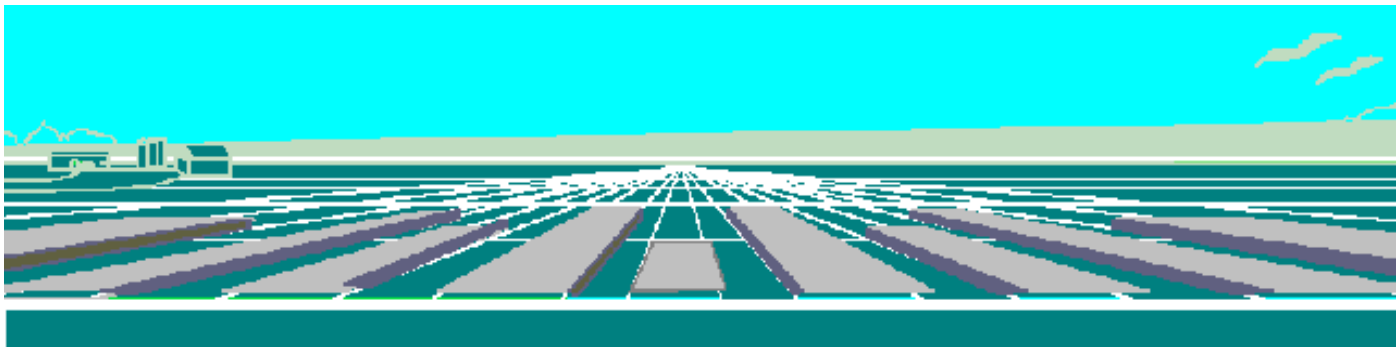

August 1, 2000 Ames, Iowa Econ. Info. 1794

EXPORT PROSPECTS IMPROVE, CROP CONDITIONS PRESSURE PRICES

New-crop corn and soybean prices have fallen about 60 cents and $1.30 per bushel respectively since May, despite signs that point to some improvement in corn and soybean exports for the coming year. Reduced uncertainty about U.S. production prospects has been the major source of downward pressure on prices, due to widespread rains and unusually early plantings of corn and soybeans in most areas. Crop prospects will remain the dominant influence on prices for both crops from now into harvest, along with old-crop farmer marketings in late August and September. Slight additional pressure on prices is quite possible at that time, with more risk on cash prices than on futures as the basis weakens to create new-crop storage incentives. However, some minor short-term upward volatility in prices for both crops is possible in the first half of August. Late summer weather is a key influence on soybean yields, and can have some effect on corn. Subsoil moisture is quite low in some pockets of west central and northwest Iowa and neighboring states. If early August yield potential holds, total U.S. corn and soybean supplies for this fall would be about a billion bushels or seven percent above a year earlier. That would be likely to create serious shortages of storage space even though some new storage is being put up.

Crop Prospects

The percent of 2000 corn and soybean crops rated good-to-excellent on July 23, 2000, and percent of corn silking can be found under at the following web site: http://usda.mannlib.cornell.edu/reports/nassr/field/pcr-bb/2000/. In past years, the percent of corn and soybean crops in good-to-excellent condition has been a very good indicator of potential U.S. average yields. Note that corn silking was unusually advanced by July 24. Agronomic research indicates that, with other variables constant, early plantings increase the yield potential. This year's dry spring led to unusually early plantings in almost all areas except for some pockets in northern Ohio and Michigan. That is reflected in the corn silking percentages, which also indicate the most weather-sensitive period for corn is about over. Corn yields can still be reduced by hot, dry weather in August, but the threat of incomplete pollination and low kernel counts on ears now appears to be minimal for most areas.

Of major producing states, Nebraska is the main one with a low percent of the crop in good-to-excellent condition. That is due to hot, dry weather that missed most of the Corn Belt. Nebraska is the No. 3 corn producing state, and in a good year will produce 1.0 to 1.1 billion bushels of corn. Its corn yield usually varies much less than in other western Corn Belt states because of extensive irrigation. In bushels (not acres), nearly 90 percent of Nebraska's corn crop comes from irrigated production. Thus, Nebraska's corn crop is likely to be far from a disaster, although those close to the situation believe the average yield may have been reduced about 10 percent by excessive heat and losses on non-irrigated land. Nebraska is much less important in soybeans than corn, but recent rains likely have helped the state's soybean yield potential some.

These conditions suggest the USDA's August 11 crop report may show a corn yield forecast of around 138 bushels per acre. That may be a bushel or two less than the trade expects, but August forecasts typically are somewhat conservative. For soybeans, a U.S. average yield forecast of around 39.5 bushels per acre appears to be a realistic expectation. Corn yields two bushels below or three to four bushels above this number would almost certainly cause

several days of market reaction. For soybeans, a comparable yield range is 1.5 bushels either side of 39.5 bushels per acre. The August report is the first official field-based forecast of corn and soybean production. Earlier numbers for 2000 production were projections based largely on historical trends and assumed normal weather.

China Crop/Weather Developments

The major locations of corn production in China, from a USDA World Agricultural Outlook Board/National Weather Service publication are located at: http://www.usda.gov/oce/waob/jawf/profiles/graphs/chi/chicrn.gif. The three or four extreme northeast China provinces are a major producing area, and a region that was quite dry until late June. Dry weather impacts on yields must be tempered somewhat by the fact that sixty percent of China's cropland is irrigated. In this region, irrigation percentages vary considerably with some sections having considerably more and other regions having considerably less than 60 percent irrigated. The dry region accounts for about 20 percent of China's corn and soybean production.

Global Weather Service's web site at: http://news.bridge.com/gws/wpages/china/chinarainmtd.htm shows cumulative rainfall from July 1 through July 27. (At this site, you can convert the rainfall from millimeters to inches.) Note that the region has received good rains in July, and also in late June, which is not included in the map. Also, note that the rest of China's Corn/Soybean belt has had generous July rains. These data suggest that recent talk of severely reduced Chinese corn and soybean yields may be a bit exaggerated. Expected low Chinese yields have been one of several factors generating optimism about 2000-2001 corn and soybean export prospects. One development causing reason for cautious optimism about soybean export prospects is reduced oilseed acreage in Canada and Europe, as these areas shifted some land into grain. Also, by rules agreed to in the last trade negotiations, it appears that the European Community will have to reduce the volume of its subsidized grain exports by around 200 million bushels from last year. This is expected to largely impact wheat, and it is not certain whether EU will find other ways to move this grain into world markets, or will feed it at home. This may be a bit positive for U.S. corn exports in the year ahead, through its impact on world feed wheat prices.

Chinese Acreage Trends

In preparing to implement its trade agreement with the U.S., China has essentially removed its corn price supports. Its soybean prices have been about the same as world prices for some years. This has allowed its domestic corn prices to fall, encouraging an estimated three percent drop in China's 2000 corn plantings and an eight to ten percent increase in its soybean plantings, along with some increase in other oilseeds. China has been the second largest corn exporter in the world, but a large importer of soybeans in recent years. The acreage shift suggests we should expect a bit less competition from Chinese corn in the year ahead, and perhaps some slowing of Chinese demand for soy products.

Robert Wisner

USDA CATTLE INVENTORY REPORTS

The USDA released its estimates of the nation's total cattle inventory and the number of cattle on feed July 1, 2000. All cattle and calves totaled 106.4 million head, approximately 1 percent below last July (Table 1). The number of cows and the total calf crop was unchanged from a year ago. The number of beef cows was lower while the milk cow inventory increased. Overall the cattle inventory appears to be stabilizing, but not yet building.

The declining number of beef replacement heifers suggests that growth in the beef cow herd will be slow. The number of heifers on feed was up 9 percent, or 344,000 head, over the same time last year more. Heifer slaughter through the first half of 2000 was 167,000 head or 3 percent higher than the same period in 1999.

The number of cattle outside feedlots available for placement is approximately 900,000 head less than a year ago. This is nearly a 3 percent reduction. This smaller supply, coupled with lower corn prices, will support feeder cattle

prices at profitable levels for the cow herd. Feedlots that have been running in the red since mid May may begin to back away from the higher price feeder cattle if losses get large enough.

Table 1. USDA Cattle Inventory, July 2000.

	Million Head	% of 1999
All Cattle and Calves	106.4	99.4
Cows, Heifers Calved	43.2	99.8
Calved Beef Cows	33.95	99.4
Calved Milk Cows	9.25	101.1
Heifers 500+ Lbs	16.5	99.4
Beef Replacement	4.7	97.9
Milk Replacement	3.7	100.0
Other hfrs	8.1	100.0
Steers 500+	14.3	99.3
Bulls 500+	2.1	95.5
Calves <500	30.3	99.3
Feeder cattle	52.7	99.4
Cattle on feed	12.3	107.0
Steers on feed	6.2	108.6
Heifers on feed	4.1	109.1
Cattle outside feedlots	40.4	97.3

Cattle on Feed

Nationally, the total number of cattle on feed was 7 percent higher than last July. In lots with 1,000 head or larger capacity the figure was 9 percent higher, and in the 7 major feeding states the inventory was nearly 10 percent higher (Table 2).

Table 2. USDA 7-State Cattle on Feed, July 2000.

	1,000 Head	% of 1999
On feed	8959	109.6
Placed	1413	93.9
Marketed	1828	100.7
Other Disap.	37	102.3

Placements were down 6 percent and near trade expectations. June was the first month since March and only the second time since last July that placements were below the year before. During the first six months of 2000, we placed 468,000 more cattle than the same period in 1999. Of those, 324,000 additional placements were from cattle placed weighing over 800 pounds.

Marketings were the disappointing part of the report. June marketings were even with a year ago, but the trade expected a 2 percent increase. The lower than expected sales, coupled with record high slaughter weights for this time of the year, indicated that feedlots have a challenge ahead of them. The higher feeder prices and low corn prices are also encouraging some feedlots to hold cattle longer than necessary. The industry needs several weeks of slaughter over 700,000 head to catch up.

Prices

Fed cattle slaughter will remain high into the fall. Seasonally, weights are expected to increase until November or beyond adding to the supply. Fed cattle prices are expected to work lower than current levels until at least Labor Day and possibly into early October before establishing a low. Iowa Choice steer and heifer prices in the low $60s are a good possibility.

By December, fed prices may rebound in to the low $70s if supplies are cleaned up and demand remains strong. The reduced number of feeder cattle suggests that supplies in early 2001 will be below those of this year. Remember that exceptional demand pushed prices higher than expected for the last 12 months. If this demand returns to a normal supply-price relationship, prices could be weaker on smaller supplies when compared to the previous year. However, it is still likely that fed cattle prices will be in the low $70s or better in early 2001.

In recent years the Choice-Select spread has widened in the fall and could do so again this year. This, together with the low corn price and higher feeder prices will encourage additional days on feed, extra tonnage and will pressure base prices. Feedlots must carefully balance these trade-offs.

Feeder cattle prices should remain strong, but may not maintain the recent levels reported at local auctions and the large national satellite auction. While there remains optimism about fed cattle prices late in the year and in 2001, feedlot losses will dampen this enthusiasm. Forward pricing calves may do better than sales later in the fall. For feedlots that can be patient, there may be an opportunity for more affordable calf prices during harvest. By then feedlot losses and stable-to-higher corn prices and the fall run of calves may bring feeder cattle prices closer to a hedgeable breakeven.

John Lawrence