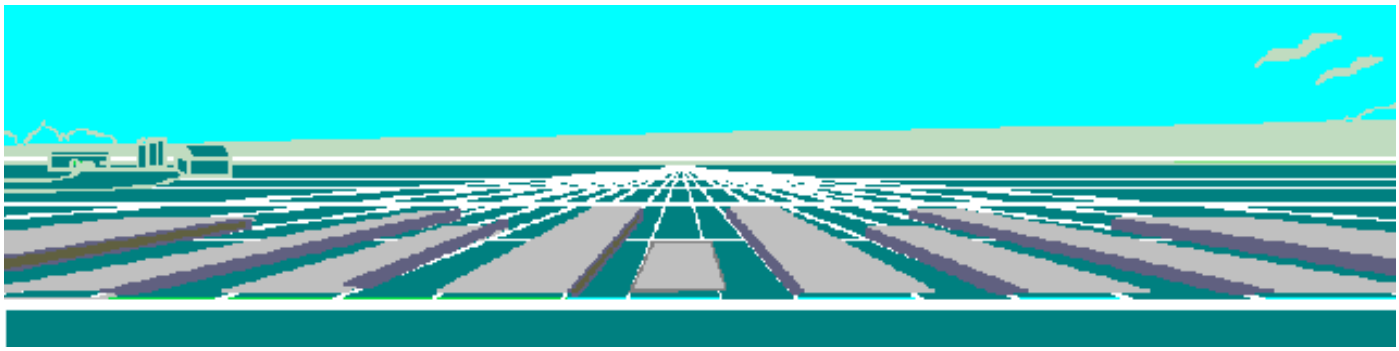

September 1, 2000 **Ames, Iowa** **Econ. Info. 1796**

FED CATTLE MARKET

August is drawing to a close with fed cattle trading near $64 in spite of record feedlot inventories and slaughter weights. Weekly slaughter declined and prices stabilized during the month, but it now appears that the strength was tied to preparation for the Labor Day features. Prices have again weakened and could well go lower. The next 30-60 days will largely determine how soon we reach $70 and if we have to pass through $60 first.

The August Cattle on Feed report estimated there were 8.8 million cattle in feedlots over 1000 head capacity in the 7 major cattle feeding states, up 12% from August 1999. This is the 18th consecutive month of year-over-year increases in inventories.

Placements

Placements continue to baffle analysts and feedlots alike. July placements were up 7 percent in the 7-states following a 7 percent decrease in June. Much of the increase is due to dry conditions moving cattle ahead of schedule. The number of placements under 600 pounds was up 91,000 head or 27 percent. The number of cattle placed in the 700-799 and 800+ pound classes was up 3% and 6%, respectively. Only the 600-699 pound class had smaller placements (-9%). It is growing apparent that USDA will revise their estimate of the 1999 calf crop upward. It is also obvious that it will take a long time to "place" our way through the large supplies.

While feeder cattle imports from Mexico are running ahead of a year ago, they cannot fully explain the additional cattle on feed. Year to date through August 26, a total of 677,391 head of feeder cattle from Mexico were imported to the US. This figure is 44 percent ahead of the 1999 level or about 207,000 additional head. Mexican imports accounted for 4.7% of cattle placements through July. Through June, feeder cattle imports from Canada totaled 16,259 head, 1,000 head more than the same period the year before.

Marketings

We appear to be in a full-blown marketing backlog. July marketings were down 2 percent from the previous year, and June numbers were equal to those of the year befor, indicating that inventories are growing and growing heavy. For the week ending August 12, steer carcass weights were 11 pounds heavier than the year before, 2 pounds off an all time record, and increasing seasonally. The Choice-Select spread plummeted from $14.30 to $3.16 in 9 weeks from June 9 to August 11. The change in the spread reflects the increasing supply of Choice and decreasing supply of Select relative to the demand for each as the Choice price dropped $13.27 and the Select price fell only $2.13.

Did several weeks of slaughter below 700,000 indicate that we were running out of cattle? More likely, packers were only harvesting the amount of beef that they could move through the system without destroying wholesale prices and margins. It did pick up to 724,000 two weeks before Labor Day. The low slaughter number is more of a reflection of demand than supply. Unless movement improves dramatically, prices and margins may need to decline to stimulate retail featuring to pull product through the pipeline.

Prices

Demand has carried the market since last summer, but we are about to lap it. Compared with the same quarter the year before, we have seen larger supplies *and* higher prices. The market cannot continue to defy economic gravity. If demand even returns to "average" we could see lower prices on steady to smaller supplies compared with the previous year simply because the year before has been phenomenal. Prices in the fall of 1999 were: September $64.80, October $67.50, November $68.80, and December $69.50. Given that supplies are not expected to decline until after the first of the year, prices will be under pressure.

Fed cattle prices are forecast to remain steady to weaker through September and possibly beyond, and weeks near $60 are not out of the question. Furthermore, if weights remain high, the fall rally in the Choice-Select spread we have seen in recent years will be muted. An "either-or" market may develop. *Either* we clean up marketings, probably at lower prices, *or* we prolong the current prices until smaller supplies resulting from lower placements push prices higher. Best-case scenario has $70 prices by Christmas. Worse case doesn't have $70 until February or March.

Optimism for a 2001 recovery, the cheapest corn since the mid 1980s, and reduced heifers for feedlot placement will try to push feeder prices higher. However, prolonged feedlot losses will pressure prices from the top. The current rally in the corn market will also pressure feeder prices. Look for more conservative bidding for calves this fall, much like we saw in 1998 following several months of losses in the feedlot.

New Reports

Two new economic studies for cattle producers are on the Iowa Beef Center web site: http://www.iowabeefcenter.org .One is an analysis of futures and options strategies for feedlots. The second is an evaluation of alternative heifer retention strategies to profit from the cattle cycle.

John Lawrence

GRAIN MARKETS REACT TO LATE SUMMER WEATHER

Corn and soybean futures prices for harvest 2000 delivery have increased about 11 cents and 35 cents per bushel, respectively, in the last two weeks as the market reacted to hotter and drier weather in parts of the Midwest. November futures charts show a gap at $5.27 per bushel that was traced out on June 9. This gap may be an upside objective. The 9-day relative strength indicator currently is in the low 80s for soybeans and upper 80s for soybean meal. That's an indication that the market may be overbought and has some downside risk. However, in an emerging weather market, RSIs can be overshadowed by perceived crop deterioration. The November soybean futures contract has a gap and possible upside objective at $5.27, up $0.22 from the August 31 close. Closing the gap would represent a 55% retracement of the downward movement from mid-May to mid-August. Another gap exists at $4.85. Historically, there has been a high frequency of gaps being closed before the futures contract goes off the board.

Hottest areas have been in the southern and western parts of the Corn Belt, especially Missouri, Kansas and southern Nebraska, where temperatures have been over 100 degrees F. Temperatures also moved into the low to mid-90s in much of Iowa and the western half of Illinois in the last couple of days. Additionally, the mid-South and Texas experienced exceptionally hot weather. While the Texas corn crop was reported 92 percent dented and 62 percent mature, hot, dry weather stressed crops not yet mature, reducing kernel size. The mid-South is an almost insignificant producer of corn, but normally produces about seven percent of the U.S. soybean crop. The southeast typically accounts for about two percent of U.S. soybean production. Tables 1 and 2 show crop maturity indicators, as well as the bushels and percentages of U.S. production forecast to come from various states, based on the August 1, 2000 USDA crop report. For soybeans, the crop is considered nearly mature when leaves start turning yellow, but USDA's NASS does not report this information by major states.

Potential Impacts on U.S. Supply-Demand Balance

Impacts are expected to be greatest on soybeans, since the corn crop is more advanced than normal in almost all areas. However, corn yields across the hot and drier areas can be influenced somewhat by the kernel size and kernel

filling in the next two weeks. The percentage of the corn crop rated good-to-excellent in the major states (which usually produce about 92 percent of the nation's crop***) dropped from 72 percent on August 6 to 67 percent on August 27***. The good-to-excellent rating is closely correlated with actual yields**. A year ago this week, corn in major producing states was rated 57 percent good-to-excellent.*** Last year, the USDA, NASS corn yield forecast dropped from 134.7 Bu./A. in August to 132.2 Bu./A. in September. ***For soybeans, the good-to-excellent percentages on the same dates this month were 66 and 58, respectively. A year earlier, soybeans in major producing states were rated 47 percent good-to-excellent.***

Last year, the USDA, NASS soybean yield forecast dropped from 39.2 Bu./A. in August to 37.9 Bu./A. in September as the good-to-excellent rating dropped by 10 percentage points from August 8 to August 30. The corn yield forecast dropped by 2.5 Bu./A. as the corn good-to-excellent rating fell by six percentage points. Percentages of the corn crop dented and mature, and comparisons with a year earlier are shown in the table below. Some decline in the September 10 USDA corn and soybean yield forecasts from last month seems likely. A yield decline similar to that of last year for soybeans would still leave the crop 10% or 260 million bushels larger than in 1999. ***That, in turn, would be a large enough supply to increase total utilization by seven percent or 192 million bushels without reducing carryover stocks.*** One combination giving that amount of increase in utilization would be a 16 percent increase in exports and a 4 percent increase in the domestic crush. Both would be well above the long-term trend rate of increase in utilization, and would exceed the increases of the marketing year just ended.

Table 1. Corn Maturity Indicators, August 27, 2000 and a Year Earlier.

	Mil. Bu. Aug. 1 Forecast, 2000	**% Share of U.S. Production**	% Dented 8/27/00	% Dented Normally	**%Mature 8/27/00**	%Mature Normally
Iowa	1,860	**17.9**	64	33	**9**	3
Illinois	1,746	**16.8**	68	45	**10**	6
Nebraska	1,095	**10.6**	64	34	**12**	1
Minnesota	1,016	**9.8**	34	31	**1**	0
Indiana	860	**8.3**	68	39	**9**	4
Ohio	469	**4.5**	41	28	**5**	2
Kansas	465	**4.5**	77	56	**35**	12
Missouri	396	**3.8**	90	68	**43**	26
S. Dakota	395	**3.8**	42	27	**9**	4
Wisconsin	377	**3.6**	13	24	**0**	1
Mich.	250	**2.4**	7	22	**0**	1
Texas	250	**2.4**	92	87	**62**	63
Colorado	166	**1.6**	49	17	**0**	0
Penn.	133	**1.3**	26	28	**3**	3
N. Dakota	109	**1.1**	63	40	**3**	2
Others	782	**7.5**	NA	NA.	**NA**	NA
U.S/Maj. States	10,369	**100.0**	57	39	**13**	7

N.A. = Not available

For corn, a decrease in yield equal to last year's August to September decline would allow a three percent increase in domestic corn use and a 34 percent increase in exports from the marketing year just ending, while holding carryover stocks constant at this year's level. That would push total utilization nearly 900 million bushels above a year earlier, with about 260 million of the increase being in domestic use and 620 million in increased exports. While domestic and export demand are expected to increase in the year ahead, increases of this size appear unlikely, especially in export demand. ***In short, it would take much larger declines than last year in August to September yield forecasts to create a major change in corn and soybean price prospects.***

Change, August to Final USDA Estimates

Last year, the USDA national average corn yield number declined from an August 1 forecast of 134.7 bushels per acre to a January 2000 estimate of 133.8 bushels per acre, largely in response to an unusually dry August and early September. For soybeans, the changes were from 39.2 bushels per acre in August to 36.5 bushels per acre in January. Last year, soil moisture shortages covered a somewhat larger part of the Soybean Belt than this year, although high temperatures were not as extreme and were less widespread.

Over the last 20 years, the August forecast has been below the final estimate 50% of the time, while soybeans have been below it only 40% of the time. Over the last 50 years, however, the corn estimate has been below the final yearly estimate 66 percent of the time, and soybeans have been below it 61 percent of the time (Based on analysis by Dr. William Tierney, Extension Economist, Kansas State University). ***The average change from August to the end-of-year estimate for all years for corn was +1.4%, and 0.8% for soybeans.*** In analyzing crop reports, the grain trade has used a long-standing rule that a large crop gets larger. The long-term track record of USDA crop forecasts bears this out. For corn, for the 65% of the years since 1950 when crop estimates increased after August 1, the average increase to the annual final estimate was 5.2%. For the 61% of the years that had increases in soybean production estimates, the average increase was 4.7% from August to the December or January estimate.

Table 2. Soybeans dropping leaves, August 27, 2000 and a Year Earlier.

	Mil. Bu. Aug. 1 Forecast, 2000	**% Share of U.S. Production**	% dropping leaves 8/27/00	% dropping leaves Normally
Iowa	517	**17.3**	2	0
Illinois	492	**16.5**	0	0
Minnesota	298	**10.0**	1	1
Indiana	260	**8.7**	10	4
Missouri*	209	**7.0**	2	0
Nebraska*	195	**6.5**	15	0
Ohio	180	**6.0**	5	4
S. Dakota	140	**4.7**	12	8
Kansas*	91	**3.0**	35	6
Mich.	88	**2.9**	0	1
N. Dakota	70	**2.3**	4	5
Wisconsin	65	**2.2**	1	0
Kentucky	37	**1.2**	3	3
Arkansas*	95	**3.2**	8	3
Miss.*	45	**1.5**	37	23
N. Carolina*	40	**1.3**	4	0
Tenn.*	35	**1.2**	5	3
Louisiana*	23	**0.8**	40	15
S. Carolina*	10	**0.3**	NA	NA
Georgia*	3	**0.1**	NA	NA
Others	168	**5.7**	NA	NA
U.S/Maj. States	2,989	**100.0**	7	3

N.A. = Not Available * = Areas of most intense heat

China Rainfall and Crops

China continues to be a major area of uncertainty in potential export demand for U.S. corn and soybeans. Currently, it looks almost certain that China's corn exports will be down considerably from last year's record, thus boosting demand for U.S. corn in the Pacific Rim. Rainfall for August in China and late August soil moisture from the Global Weather Service are available at these web sites. These maps indicate almost all of China's corn/soybean area

including the dry northeast plain received over 3.6 inches of rain (over 90m.m.) in August, slightly more than was received in July and with a more uniform pattern. (Click on “monthly rainfall at the following site: http://news.bridge.com/gws/wpages/china/chinaframe.htm)

Robert Wisner