

September 15, 2000

Ames, Iowa

Econ. Info. 1797

RECORD CORN AND SOYBEAN CROPS STILL INDICATED

To the surprise of many analysts, USDA's September U.S. corn yield estimate was only 0.1 bushel per acre below last month's forecast, and the U.S. soybean yield was down only 1.2 bushels per acre from August. ***This news is likely to put downward pressure on the corn basis in the next few weeks, and perhaps slight additional pressure on November and December futures.*** Soybean futures and the soybean basis (price differential from nearby futures) also are likely to lose some of the gains of the last month. ***Combined U.S. corn and soybean supplies for this fall are indicated to be eight percent above last year, and will likely put pressure on storage capacity. Areas with the greatest storage space shortages are likely to be in the eastern Corn Belt, although some shortages appear likely in north central, central, and east central Iowa as well as Minnesota.***

In the world picture, slight reductions in feed grain crop prospects in Canada, the European Union, and the Ukraine will offset a small amount of the larger-than-expected U.S. crop estimates. Current projections for the Southern Hemisphere crops to be harvested this winter and next spring are highly tentative, but show some increases for Argentina, Brazil, and Australia. The South African corn crop is projected to be down from last spring's excellent harvest.

Soybean Production

As expected, USDA's crop forecasts showed sharply lower soybean production in Nebraska, Kansas, Missouri, Arkansas, Louisiana, Mississippi, Texas, and Tennessee than indicated last month, along with modest reductions in Iowa and Illinois. Crop estimates for almost the entire Southeast were increased from last month. Table 2 below summarizes percentage changes in indicated total production from last month and last year by states. Last year, the eastern Corn Belt, South, and Atlantic coast states suffered severe drought, while yields were quite good in the extreme western Corn Belt. This year, weather patterns have been opposite, with 100 degree or higher temperatures from Texas and Louisiana northward to parts of Missouri and Nebraska in August. However, because of irrigation and early plantings of corn, yield losses are believed to have been less for corn in this area than for soybeans. At the national level, soybean production is forecast to be up ten percent from last year and up six percent from the 1998 record. While the indicated soybean yield is below the 1994 record, the 12 million extra acres planted to soybeans now vs. six years ago are causing the record production. The indicated 2000 crop is about six percent or 170 million bushels more than was utilized in the marketing year just ended.

USDA will issue three more crop estimates for this marketing year: October 12, November 9, and mid-January. The grain trade is likely to view the current soybean forecast as subject to possible further downward revision, partly because of hot dry weather so far in September for most of the previously drier part of the Soy Belt. While seed counts were a factor in this week's report, seed size still remains somewhat uncertain and can significantly affect yields.

Table 1. Percent changes in USDA's September 12 corn production forecasts for major states.

	% Chg. from Aug. 2000	% Chg. From 1999 Crop
Kentucky	+10	+34
N. Carolina	+10	+42
South Dakota	+8	+16
Ohio	+2	+19
Michigan	+2	+1
Wisconsin	+2	-6
Pennsylvania	+2	+120
Minnesota	+1	+4
Iowa	0.00	+6
Illinois	0.00	+17
Indiana	0.00	+15
Colorado	0.00	+4
Georgia	0.00	+10
Kansas	-7	+3
Nebraska	-6	-11
Arkansas	-4	+71
Texas	-2	+7
U.S.	-0.06	+10

Table 2. Percent changes in USDA's September 12 soybean production forecasts for major states

	% Chg. From Aug. 2000	% Chg. From 1999 Crop
Kansas	-25	-13
Nebraska	-10	-2
Arkansas	-7	-6
Louisiana	-12	-23
Tenn.	-13	+41
Miss.	-15	-15
Iowa	-4	+4
Illinois	-2	+9
Wisconsin	-2	+6
Minnesota	0	+5
Indiana	0	+20
N. Carolina	0	+33
Texas	0	+16
Ohio	+5	+17
Michigan	+3	+16
S. Carolina	+5	+15
Virginia	+3	+32
Georgia	+12	+5
Kentucky	+6	+61
South Dakota	+6	+2
Pennsylvania	+2	+63
U.S.	-3	+10

Supply-Demand Balance

Tables 3 and 4 (<http://www.econ.iastate.edu/faculty/wisner/Wisner/balancesheets.pdf>) show my current corn and soybean balance sheets with the September crop forecasts (Column B), and modestly lower and higher yields (A & C). My domestic soybean crush and corn feeding projections are slightly lower than those of the USDA, but export projections are higher. ***Outstanding new-crop soybean meal and oil export sales as of August 31 were 16 and 62 percent below a year earlier, respectively, while new-crop bean export sales were up 25 percent.*** U.S. soybean meal export demand continues to be restrained by near total loss of the EU market in the last three years and strong international competition. ***U.S. soybean meal exports to the EU were as follows for the last three years: 1997-98: 1.76, 1998-99: 0.40, and 1999-00: 0.17 million metric tons.*** The EU, until the last two years, has for decades been one of the largest and often the largest export market for U.S. soybeans. ***The decline in its purchases of U.S. soybean meal since 1997-98 is the meal equivalent of 73 million bushels of soybeans. This decline has been a restraining influence (as has sluggish oil export demand) on domestic crushing. So far, EU has not purchased U.S. soybean meal for export during the 2000-01 marketing year, and there is little reason to expect a large recovery in that part of the soybean meal export demand.***

My corn export projections, more optimistic than those of USDA, are based on expectations of a slightly larger decline in Chinese corn exports in the coming year than shown in the USDA World Supply-Demand Report. New-crop corn export sales still lag six percent behind last year, but should pick up when foreign buyers believe the harvest low in prices has arrived. The increase in soybean exports reflects a shift from oilseeds to grain in Canada and Europe, thus modestly reducing competition from rapeseed exports. Soybean competition from April onward will depend heavily on South America's plantings from mid-November through early January. Indicators so far point to a five to ten percent increase in Brazil's plantings, along with some increase in Argentina and Bolivia. Planting decisions there will be

guided more by July futures prices than by the depressed U.S. harvest basis and cash prices. July futures currently are \$0.33 higher than November.

Marketing Considerations

First priority in marketing grain this fall will be to check on availability of storage space. Storage returns for grain held into the spring appear likely to more than cover storage costs. Also note that the futures market is offering large returns for storing corn and soybeans until next spring, especially if it is stored on the farm and sold on July futures contracts for delivery next May or early June. July corn currently is 30 cents higher than the November contract, and as noted earlier, the November-July soybean spread is 33 cents. An additional source of return through basis improvement of 10 to 20 cents from harvest-time into the spring fieldwork season also appears likely. These potential storage hedging returns are relatively low risk, but are by no means assured if grain is stored unpriced into the spring.

A storage hedge (storing grain and selling on July futures) takes risk out of storing grain after the LDP has been taken, but prevents gains from rising futures prices, if the market should strengthen substantially after harvest. Upward market potential can be retained by buying call options. Futures sales involve margin deposits and possible margin calls, so those who use futures should be sure financing is available for these needs. Some elevators may have forward contracts that provide benefits similar to those from storage hedges. The odds are high that LDPs will decline from harvest into the spring planting season, but the greatest risk from storing grain after the LDP is received is from June onward.

Robert Wisner

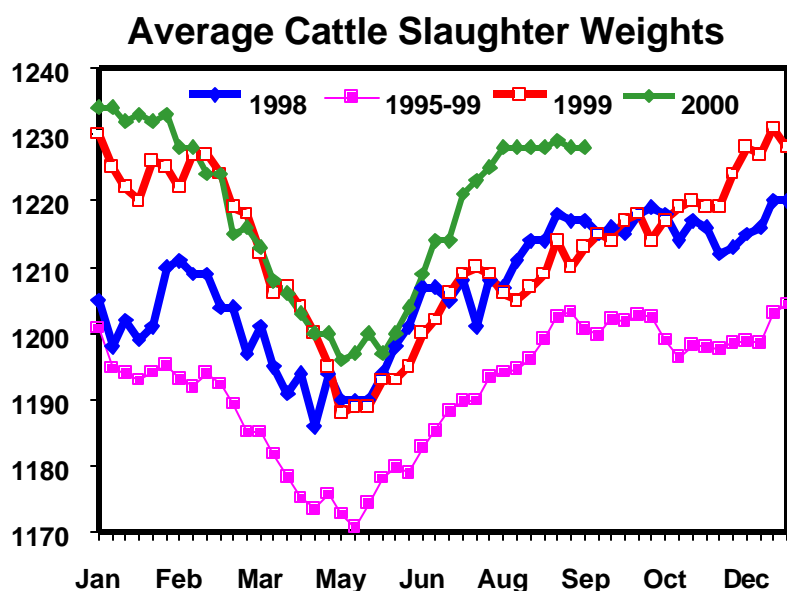
RECORD MEAT PRODUCTION

Beef

Slaughter weights for both cattle and hogs continue to run at record levels for 2000. Inexpensive feedstuffs are one of the primary drivers to these heavier weights. A record or near-record crop this fall will continue to keep corn and supplement prices low.

Average cattle slaughter weights were 1228 pounds for the week ending September 9th, an increase of 1.2 percent or 15 pounds over 1999. Figure 1 shows the weekly Federally Inspected cattle slaughter weights for 1998, 1999, 2000, and the 1995-1999 five-year average.

Figure 1.

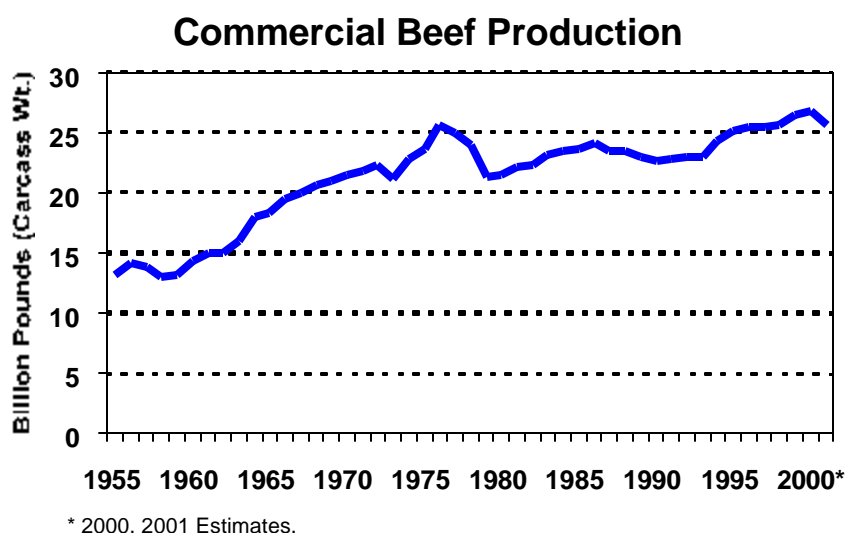


Cattle weights started the year out high and then followed year earlier levels from mid-February through early May. During the January-May period, Iowa-Southern Minnesota live cattle prices averaged just over \$70 per cwt, compared with less than \$63 per cwt during the same period in 1999. Since June 1st, cattle prices have fallen below

\$70 and feedlots have begun to hold back marketings, which has led to heavier slaughter weights. Despite record on feed numbers, cattle marketings during June and July were only 100 and 98 percent, respectively, of year earlier levels. Prices have fallen to only \$63.25 for the week ending September 8th and weights have climbed to record levels for this time of year.

Record weights and continued large on feed numbers will lead to record beef production for 2000. Year-to-date Federally Inspected cattle slaughter numbers are up 0.2 percent and beef production is up 1.3 percent. 1999 commercial beef production totaled 26.386 billion pounds, breaking the previous record of 25.667 million pounds set in 1976. The most recent USDA projection shows another record year for beef production. The August Livestock, Dairy and Poultry Situation and Outlook report projects 2000 beef production at 26.775 billion pounds, an increase of 1.5 percent. Estimates for 2001 show beef production declining 4.5 percent to 25.575 billion pounds as cattle on feed numbers are expected to drop considerably after the first of the year. Figure 2 shows annual commercial beef production from 1955 through 2001.

Figure 2.



Pork

Hog slaughter weights are also at record levels for this time of year. Iowa-Southern Minnesota slaughter weights averaged 255.7 pounds for the week ending September 9th. This is an increase of 2.5 pounds or nearly 1 percent over year-earlier levels. Throughout the year 2000, slaughter weights have been from 5 to over 8 pounds above the five-year average. Figure 3 shows the Iowa-Southern Minnesota weekly average weights.

Slaughter weights have been below 255 pounds for only 3 weeks during 2000, compared with 12 weeks in 1999 and 42 weeks for the five-year average. U.S. weekly slaughter weights have followed a similar pattern to the Iowa-Southern Minnesota market. Federally Inspected slaughter weights averaged 258 pounds for the week ending September 9th, up 4 pounds from year earlier levels.

While year to date hog slaughter numbers are down 4.0 percent, pork production is only down 2.5 percent due to the heavier weights. Slaughter weights will probably increase to record levels this fall/early winter with the projected large and inexpensive corn crop. The most recent estimates project pork production for 2000 at 18.869 billion pounds, down 2.1 percent from 1999's record-large pork production of 19.278 billion pounds. After pork production increased 10.1 percent in 1998 and 1.6 percent in 1999, production in 2000 will decrease to just below 1998 levels. Current forecasts for 2001 put pork production up 1 percent at just over 19 billion pounds. Next week's USDA Hogs and Pigs report will offer additional information on production estimates for 2000 and 2001. Figure 4 shows commercial pork production from 1955 to 2001.

Figure 3

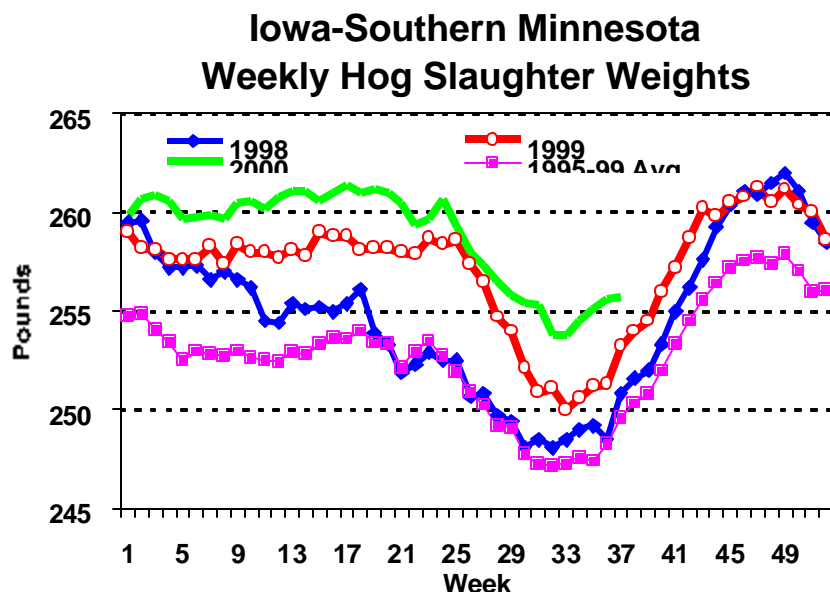
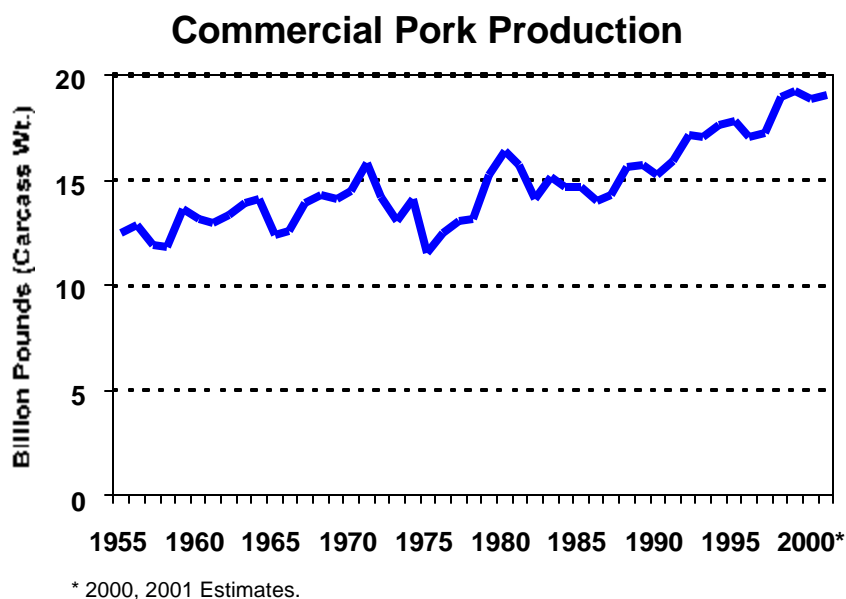


Figure 4.

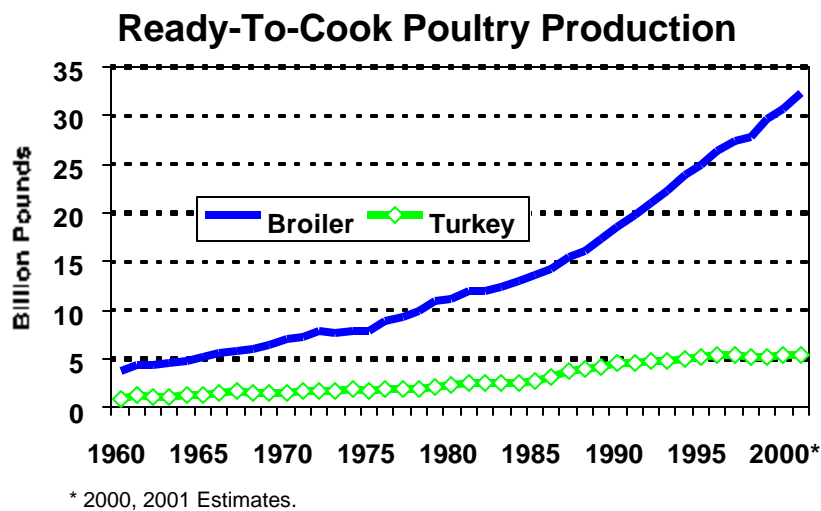


Poultry

Poultry production continues to grow at a rapid pace in the U.S. Broiler production during the 1990s has grown as much as 7.5 percent in an individual year, with an average annual growth rate of 5.6 percent. For 2000, broiler production is forecast to be up 3.1 percent, followed by a 5.4 percent increase in 2001. After rapid growth in the 1980s, turkey production has slowed to an annual growth rate of 2.5 percent in the 1990s. Turkey production is forecast to be 2.9 percent higher in 2000 and remain at that level for 2001. Per capita turkey consumption in recent years has been

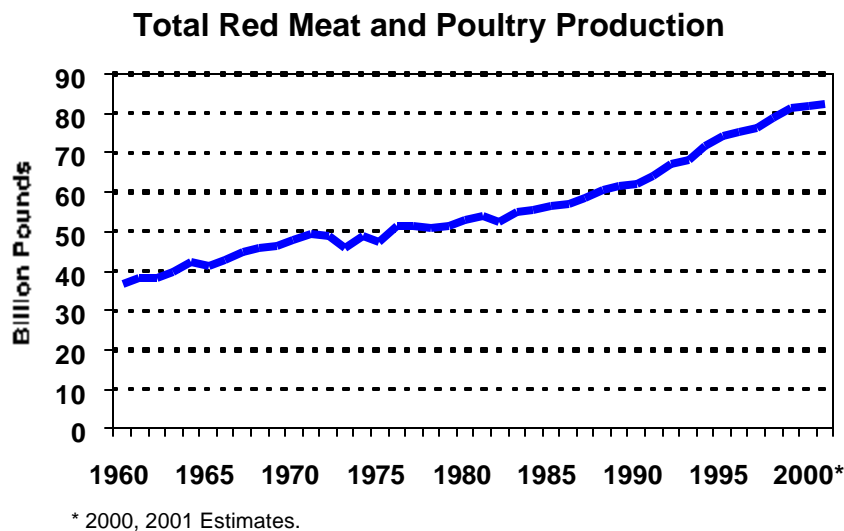
relatively flat while broiler consumption continues to increase. Figure 5 shows the annual broiler and turkey production from 1955 to 2001.

Figure 5.



Total red meat and poultry supplies are shown in figure 6. Total supplies will increase slightly to record levels for 2000, with another slight increase projected for 2001. Competition between differing meats for the consumer's food dollar will increase in the future as meat supplies continue to grow.

Figure 6.



Alan Vontalge