

December 1, 2000

Ames, Iowa

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Season's Greetings from the Iowa Farm Outlook newsletter staff, with best wishes for a happy and prosperous New Year!

NEW HOG AND CATTLE REPORTS FROM USDA

USDA National Agricultural Statistics Service (NASS) has developed and will begin using new reports of inventories of hogs and cattle. The Livestock Market Information Center has summarized these changes. The USDA Agricultural Marketing Service has also published final rules on mandatory price reporting.

Monthly Hog Report

USDA NASS will report data from the new Monthly Hog Report as part of the December 1 Quarterly Hogs and Pigs Report (to be released on Thursday December 28). The December report will contain the monthly data for October 1, November 1 and December 1. In January, USDA will begin releasing the Hog Report each month. Quarterly Hogs and Pigs reports will continue as required in the legislation (Mandatory Price Reporting) that established the new monthly report. Down the road, expect the quarterly report to be reduced in scope.

The Monthly Hog Report is much shorter than the quarterly report and should be an important component to help estimate slaughter levels.

There are four basic questions in this monthly report: 1) sows and gilts owned for breeding; 2) how many of these sows and gilts for breeding were bred during the previous month (e.g. for the November 1 report in October); 3) how many sows and gilts farrowed during the previous month; 4) how many pigs from these litters are still owned and how many were sold.

Cattle Report

The USDA's annual January 1 cattle inventory report from NASS (Cattle Report) has a few new survey questions. USDA will request some new data on replacement heifers and about cattle on small grain pasture.

For the first time, producers will be asked how many of their beef cow replacement heifers are expected to calve during the current year. The same question will be asked about milk cow replacement heifers.

Also for the first time, USDA will ask about the number of cattle that "were grazing on winter wheat, oats, barley or rye on January 1." Not all states will be included in this question. This will be the first attempt to account for "stocker" cattle that often are calculated by subtracting the breeding herd and cattle on feed from the total cattle supply. This additional information will help track the available supply of feeder cattle.

Mandatory Price Reporting

USDA is beginning to implement rules to meet the mandatory price reporting legislation passed earlier. New regulations issued in late November will require large meatpacking firms to report daily purchase prices for cattle, swine, lamb and selected meat products. The new rules are expected to take effect near the first of February.

These packers are required to report to the Agricultural Marketing Service the details of all transactions involving purchases of livestock, and the details of all transactions involving domestic and export sales of boxed beef cuts including applicable branded product, sales of boxed lamb cuts including applicable branded product, and sales of lamb carcasses.

Importers are required to report the sales of all imported boxed lamb cuts. This program is intended to provide information on pricing, contracting for purchase, and supply and demand conditions for livestock, livestock production, and livestock products, that can be readily understood by producers, packers, and other market participants.

USDA anticipates that mandatory reporting will provide new information that will provide the basis for newly published market news reports, including reports covering the prior day swine market; forward contract and formula marketing arrangement cattle purchases; packer-owned cattle and sheep information; sales of imported boxed lamb cuts; and live lamb premiums and discounts.

In some instances, information already being collected under the current voluntary market news-reporting program will now be required to be reported under the mandatory program. This information includes negotiated, or cash, livestock purchases, sales of boxed beef and lamb cuts, and sales of lamb carcasses.

Many voluntary-based market news reports will not be affected by mandatory reporting, including reports covering livestock auction sales and packer sales of pork cuts and by-products, feeder cattle sales, and feeder pig sales.

John Lawrence

GRAIN PRICE INFLUENCES: FRENCH MEAT MEAL BAN & STARLINK

Soybean prices have risen about 30 cents per bushel in the last two weeks, largely in response to France's announced ban on feeding of meat and bone meal. The European Union announced on December 4 that the ban would be extended to other countries starting on January 1, 2001 for six months. The ban came in the wake of discovery of BSE ("Mad Cow Disease") in a French herd, and was implemented to prevent spread of the disease. Trade estimates indicate the French ban, if offset entirely by soybean meal, would create new soybean demand of about 60 million bushels or about 2% of the 2000 U.S. soybean crop. With an EU-wide ban, estimates of additional soybean demand are in the 140 to 160 million-bushel range, 5.0 to 5.8% of U.S. production. *Usual price forecasting methods indicate an EU-wide ban would have the potential to raise the U.S. season average farm price of soybeans by about 30 to 50 cents per bushel if (1) all of the additional demand is met by soybean meal and (2) South American producers do not expand plantings in anticipation of the added demand. That would push the season average price up to only slightly below the U.S. average loan rate, causing a sharp decline in LDPs as the season progresses. Part but probably not all of the positive price impact from this development already is discounted into current cash and futures prices.*

The additional demand will be on the meal side, adding to current excess vegetable oil supplies as more beans are crushed in Europe, and tending to pressure soy oil prices, which are already at low levels. Lower oil prices, in turn, will slightly moderate the positive impact on soybean prices. Since this news occurred at planting time for Brazilian and Argentine farmers, producers in these two countries may decide to plant slightly more soybeans than originally intended. Further developments related to the ban and South American weather developments will be key influences on soybean prices in the next two months. Cash soybean prices appear likely to strengthen modestly into January, with modest additional strength likely again in early spring. However, February is a time when soybean prices often weaken in response to increased farmer selling for cash-flow reasons, and in anticipation of the South American harvest. Farmers who need cash to pay bills in late February and early March may want to watch for selling opportunities (in cash markets or with forward contracts) before cash-flow deadlines occur.

For the longer term, the EU oilseed industry is taking the view that the Blair House agreement that expires in 2002 will not be renewed. That agreement sets a limit on the amount of the EC's oilseed acreage. If the agreement is not renewed, oilseed acreage in EU likely will be increased in couple years to meet part of the additional demand, if the ban continues beyond six months.

Starlink Developments

While world conditions, especially weather problems in several important foreign producing areas, point to very strong export demand for U.S. corn, Starlink problems so far have held demand in check. Starlink continues to be a serious problem for Japanese buyers, since its food regulatory agency bans its use for both feed and food. Japan has severe penalties for using Starlink, including jail sentences. South Korean buyers also are concerned about this type of corn. USDA is working to develop a program of testing and certification that corn is Starlink-free as it leaves U.S. ports, to assist foreign buyers in obtaining needed supplies. Meanwhile, U.S. corn exports and outstanding unshipped export sales are well below last year. However, sales appear likely to increase later in the year, due to tight foreign feed grain supplies. Adverse weather reduced production and exportable supplies in China, Eastern Europe, the Ukraine, and several other

areas. These weather problems make it unlikely that foreign buyers will be able to use foreign feed grains to meet a majority of their needs, although some substitution is currently occurring.

While cash corn prices have risen moderately since harvest-time, at least 15 to 20 cents additional strength in cash prices appears likely into spring. Futures prices already reflect about 28 cents price strength into late May and June. However, that should not be taken as a price forecast, but as a pricing opportunity for corn currently in storage. Weakness in corn prices is possible in February due to increased farmer marketings.

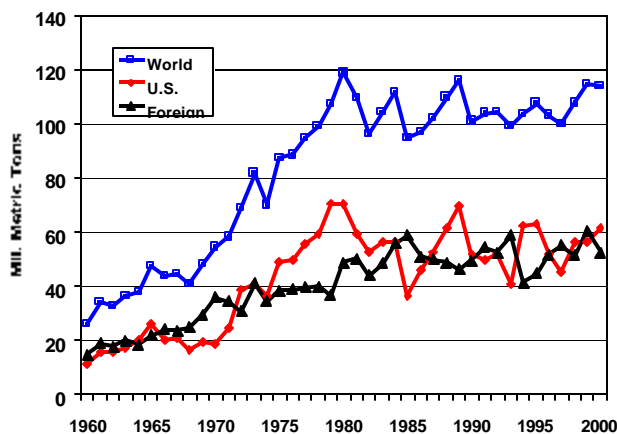
Export Sales Update

USDA's November 30 export sales report shows the following percentage changes from last year in cumulative exports since the start of the marketing year and outstanding unshipped export sales:

| | | | |
|----------|------|--------------|-----|
| Corn | -16 | Soybean meal | -18 |
| Soybeans | +0.2 | Soybean oil | -36 |

USDA's World Agricultural Outlook Board projects the U.S. will have 78% of world corn exports this marketing year, up from 68% last year. Total world feed grain exports are projected to be down slightly from 1999-00, so an anticipated surge in U.S. corn exports later in the marketing year should not be interpreted as rapid growth in world demand. Rather, it should be viewed as a temporary surge in demand brought about largely by adverse foreign weather. Areas of serious foreign weather problems include China, Eastern Europe, the Ukraine, Australia, North Africa, and the Middle East. Figure 1 shows world, U.S. and foreign feed grain exports since 1960 along with current projections for the current marketing year. Figure 2 shows world feed grain production, consumption, and the stocks-to-use ratio over the same period.

11/10/00 **Fig. 1. World Feed Grain Exports, 1960-00**



11/10/00 **Fig. 2. WORLD COARSE GRAIN PRODUCTION USE AND STOCKS/USE**

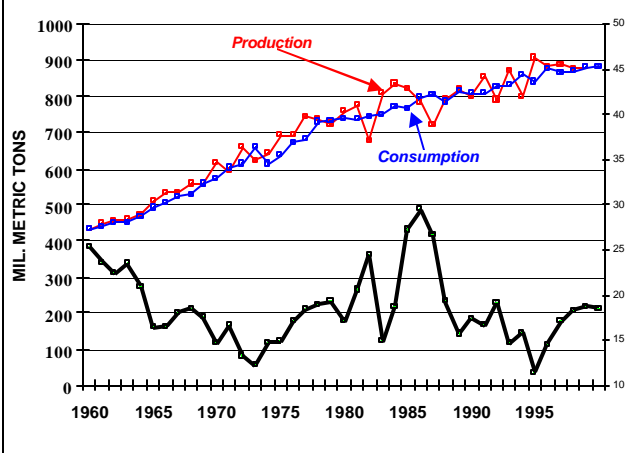


Table 1 shows recent estimates of major alternative sources of grain for feeding, from foreign exporters as well as from U.S. barley and grain sorghum. Without the Starlink problem, most of these supplies would be absorbed by other markets. Thus, they are not readily available to displace U.S. corn exports.

Table 2 shows countries where the current weakness in export markets for U.S. corn, soybeans, and soybean products is occurring. The numbers shown are cumulative exports since the start of the marketing year and outstanding unshipped export sales since the start of the marketing year. Major declines in the Far East are a serious concern, and reflect the Starlink problems.

Table 1. Alternative Feed Grain Supplies, 2000-01 Marketing Year

| | Feed Wheat | Mil. Bu. Corn Equivalent Corn | Barley | Sorghum | Total |
|---------------|-----------------------|--|---------------|----------------|--------------|
| EU | 440? | --- | 475 | ---- | 915 |
| Canada | 180 | --- | 90 | ---- | 270 |
| S. Hemisph. | ---- | 382 | 165 | 35 | 582 |
| E. Europe | ---- | 20 | ---- | ---- | 20 |
| U.S. | ? | | 35 | 200 | 235 |
| China | ---- | 160 | ---- | ---- | 160 |
| Ukraine | | | 60 | ---- | 60 |
| Thailand | ---- | --- | ---- | ---- | |
| Totals | 620 | 562 | 825 | 235 | 2,242 |

Note: Most of these supplies normally would fill other demands. Shipping to Japan/Korea opens other export markets for U.S. corn. Source of Data: USDA. FAS World Grain Circular. November 2000.

Table 2. Percent change from a year earlier in U.S. Exports since the start of the 2000-01 marketing year and outstanding unshipped sales by destination, 11/23/00

| Country | Corn | Soybeans | Soybean meal | Soybean oil |
|---------------------------|------------------|------------|------------------|------------------|
| Japan | -23 | -9 | -33 | N.A. |
| S. Korea | -51 | -21 | N.A. | N.A. |
| Taiwan | -8 | -5 | N.A. | N.A. |
| Mexico | 2 | 21 | -64 | -67 |
| Other West. Hemisphere | -7 | -5 | -39 | -30 |
| China | No sales in 2000 | +44 | No sales in 2000 | No sales in 2000 |
| Africa | 12 | 32 | 32 | No sales in 2000 |
| All Destinations | -16 | +0.2 | -18 | -36 |

Results from an EPA hearing last week indicated that Starlink is unlikely to receive governmental approval to be used in food products. Thus, the Starlink problem likely will continue for the balance of this marketing year.

What to Watch

Key developments to watch for in the next two months include (1) whether progress is made in providing Starlink-free corn for exporters, (2) planting progress and rainfall in South America, (3) weekly export sales reports released on Thursday mornings, and (4) USDA's January 11 crop estimates and stocks report. Progress in dealing with Starlink and corn export sales activity likely will be closely correlated.

Processors Caution Farmers on Seed Purchases

Two major processors have been running radio announcements cautioning farmers to buy only seed for 2001 plantings that is approved worldwide for all uses. Starlink seed will not be offered for sale for the 2001 crop. These announcements refer to herbicide-resistant corn as well as a few types of Bt corn not approved in all European Union countries. At stake for the processing industry is a large and important market for corn gluten feed and meal in the European Union.

International Crop Developments

Weather conditions have been nearly ideal for most of the South American Soybean Belt, and Brazilian soybean planting was estimated to be 85% finished by December 4. Argentine soybean plantings are expected to be up sharply from last year, according to South American grain trade sources, possibly by as much as 10 to 16%. The increase

reflects expected extensive double cropping after the wheat harvest. Brazil's plantings are expected to be up 2 to 4% from last year.

Drought in the west and heavy rains in the southeastern part of Australia are forecast to reduce the country's wheat crop by 22% from last year. That along with frost damage that reduced Brazil's wheat crop may slightly tighten world wheat supplies from earlier indications. A partially offsetting development is Statistics Canada's latest wheat crop estimate, which was increased by 4% from the last estimate and now is about equal to that of last year. Canada's canola crop estimate was increased 2.8% from the last estimate, released in October, but is 19% below the 1999 crop. Its barley crop estimate was raised 0.6% from October, and is up 2% from the 1999 harvest. Canada's corn crop is estimated to be 25% below last year, along with a 2% reduction in 2000 soybean production.

The world wheat stocks/use ratio is estimated to be the lowest on record, slightly lower than in 1995-96, when wheat and corn prices set new record highs. While not automatically bullish, that is an indication that wheat prices could react quite strongly to serious weather problems in one or more key world wheat producing areas. In the U.S., much but not all of the Wheat Belt from Nebraska southward has received substantial rain in the last month. However, extreme cold in the next several days may cause some risk of winterkill.

Robert Wisner