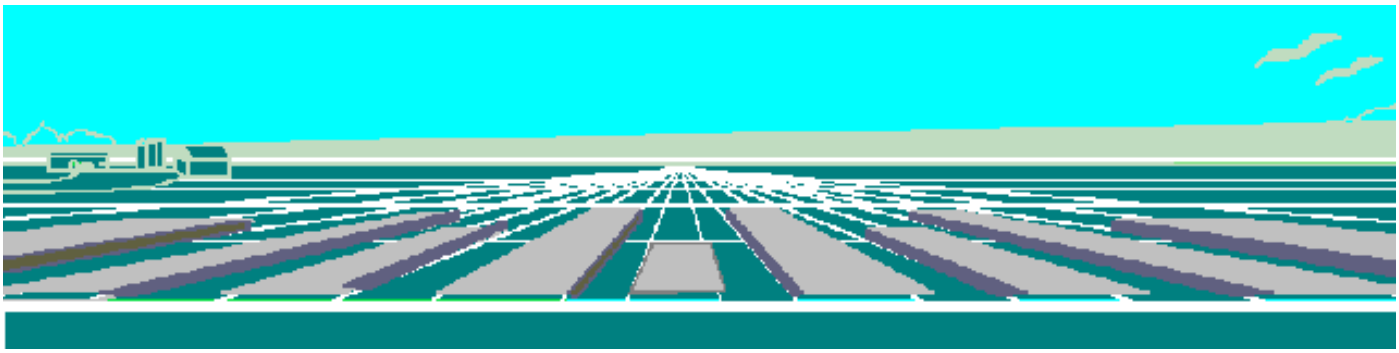

December 20, 2000 **Ames, Iowa** **Econ. Info. 1803**

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

STRENGTHENING CATTLE MARKET

The fed cattle market has improved dramatically since early fall. While prices typically work higher into the spring, the December Cattle on Feed report indicated that inventories are still larger than the year before and weights remain near record levels. Good beef demand and harsh winter weather in the major cattle feeding states pushed the Choice steer price to the mid-$70 in mid-December. The cattle market continues to shrug off bearish news and move to higher than expected prices.

The trade has discussed a shortage of market ready cattle in recent weeks. However, record weights and a Choice – Select spread well below that of last year at this time and lower than a few weeks ago suggest that cattle are carrying more finish than many expected. There are 2 percent more cattle grading Choice or better this year compared to last year at the same time. This year's winter weather will have a negative impact on cattle performance and final weight. Average weights are expected to decline if this harsh weather of mid-December continues. A cold wet winter of 1992-93 in the High Plains reduced weights and total beef supplies and pushed cash prices to record highs in the spring.

Starting mid-year 1999 the beef industry has ***increased beef supplies and live cattle prices*** at the same time–a clear measure of stronger demand. This demand has carried the market through a long period of large supplies and hopefully will continue until the smaller supplies begin in early 2001. One caution is research that shows a strong correlation between consumer spending and beef demand. A slowing economy, weaker and more eradicate stock market, and higher heating bills may reduce consumer spending and pop the demand bubble.

Cattle on Feed

The December Cattle on Feed report estimated 2 percent more cattle in U.S. and 7-state feedlots than there was in December 1999 (Figure 1). This is the 34th consecutive month of year-over-year increases in 7-state feedlot inventories, dating back to March 1998. November placements were 8 percent below those of 1999 and marketings were 2 percent higher. The amount of increase over the previous year is declining and feedlot inventories are expected to decline relative to the prior year in early 2001.

Placements were 8 percent lower in November and are 3.2 percent lower for the July-November period this year compared with last year. What is more interesting is the distribution of weights in the second half of 2000 (Table 1). The number of cattle placed weighing over 800 pounds is 13 percent lower than the year before and the number of cattle weighing less than 600 pounds is up 10.6 percent. Placement of 600 to 800 pound feeder cattle is also lower this year.

Table 1. Change in Feedlot Placements by Weight Class, July–November 2000 v. 1999.

Weight Class	<600#	600-699#	700-799#	800#+	Total
Change	10.6%	-3.0%	-8.6%	-13.0%	-3.2%

The increased placement of lighter weight cattle is due in part to dry pasture conditions and a lack of wheat pasture forcing the calves into the feedlot ahead of schedule. These cattle will likely be marketed ahead of schedule as well. However, the average slaughter weight should decline, as the lighter placed calves will also finish at a lower weight.

Projected marketings based on placement weight suggest that fed cattle marketings will be lower in January, February, and March than the same months in 2000 (Figure 2). However, rather than declining throughout the first quarter, marketings are expected to increase in February. Winter weather may extend the marketing date of some of these cattle. Due to earlier placement the calves that were marketed in May in 2000 could shift more to April this year.

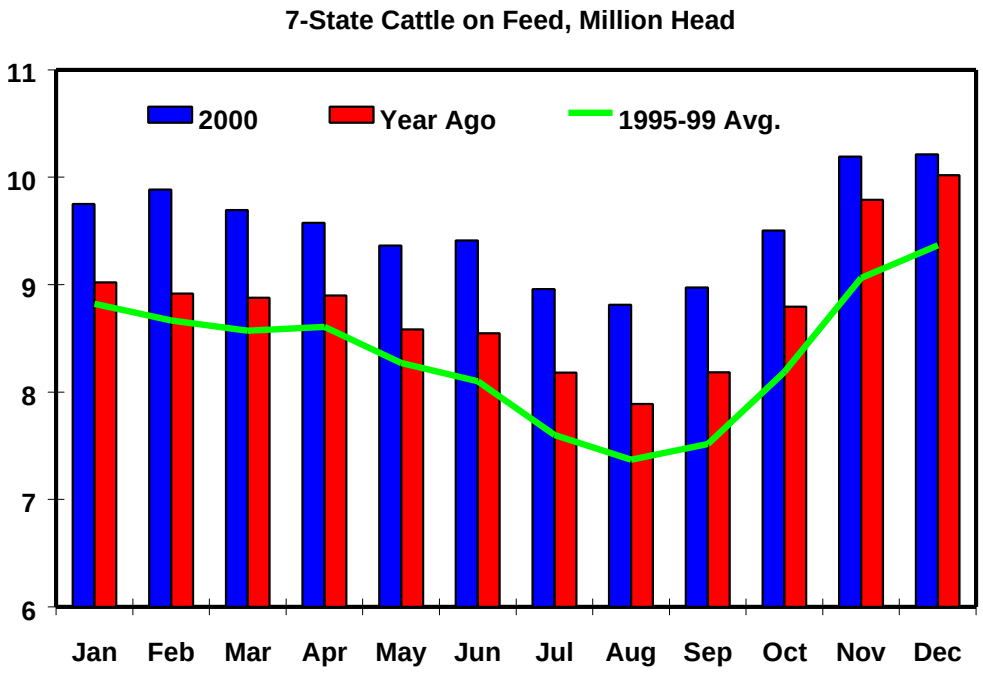

Figure 1

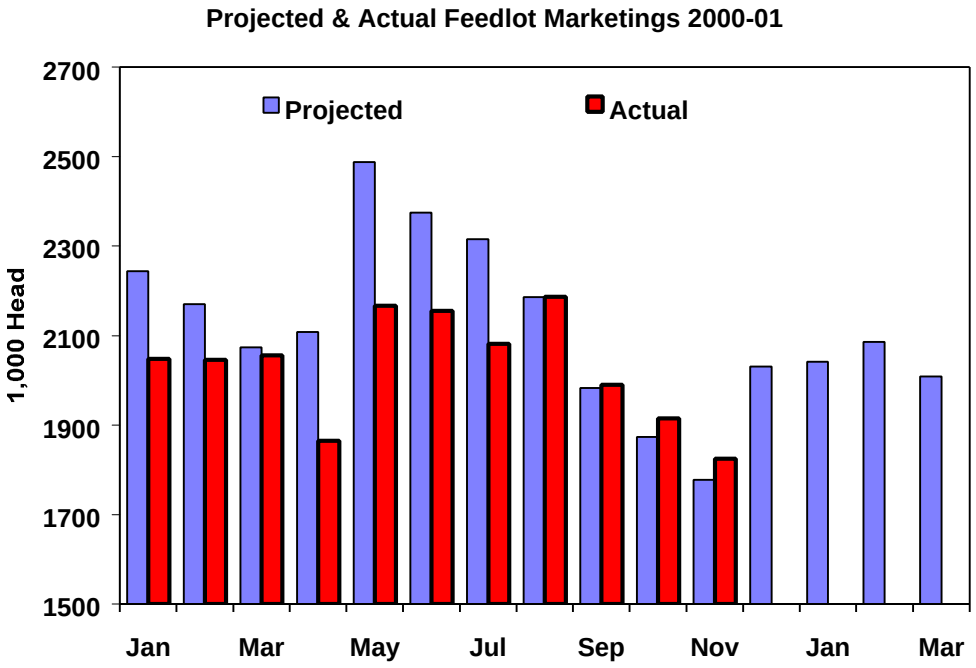

Figure 2

Forecast

Fed cattle prices are expected to remain steady to possibly higher after the first of the year. Typically the spring high in fed cattle prices occurs between February and mid-May and most often in March or April. Earlier forecasts predicted spring 2001 prices could reach the mid $70s, but given that the market hit that point in December spring highs could go higher.

Wild cards this year are weather and its impact on cattle performance and final weight. Weather may also result in temporary market rallies, as packers have to bid up cattle ahead of a winter storm. Significantly lighter weights and a market disruption due to weather could push prices sharply higher. A negative wild card is the economy, which is growing at a slower pace than before, and may enter a recession. A slower economy or higher fuel costs could send consumers looking for a cheaper substitute for beef. If that scenario occurs fed cattle prices would be relatively flat through the spring.

John Lawrence

RECENT GRAIN DEVELOPMENTS

Corn prices will be heavily influenced by the degree of success with USDA's Starlink-free export certification program. A successful program would likely increase exports, bringing modestly higher cash corn prices into mid-February, with some additional price strength in the spring planting season. LDPs appear likely to remain at or near zero, except possibly for a short time in late winter. USDA has tested corn for food processing at ports, and will soon begin to do so for corn exported to Japan for feed. This certification program is intended to give Far East buyers confidence that they can buy Starlink-free U.S. corn. However, on December 18, USDA's newly implemented Starlink-free food-corn certification program hit a snag. Japanese and South Korean equivalents of the U.S. Food and Drug Agency tested corn destined for processing into food products, and found Starlink in some shipments that USDA certified to be Starlink-free at U.S. ports. The two dominant influences on soybean prices for the next few months will be South American crop prospects and impacts from a European Community 6-month ban on feeding of meat meal, which will boost soybean meal demand. At least modestly higher cash prices for both crops appear likely in the next six weeks, with additional price strength likely in April and early May.

Starlink Alternatives for Foreign Buyers

While South Korea often shops for feed supplies based on price, Japan has a stable livestock and poultry industry, and typically buys a relatively stable volume of U.S. corn from year to year. Short-term alternatives for the two countries include (1) using as much feed wheat, sorghum, and barley as possible, (2) reducing livestock and poultry numbers slightly, (3) substituting sugar for fructose and using other processed foods as alternatives to corn where possible, (4) establishing a low Starlink tolerance level for feed and food use, such as one or two percent, (5) temporarily approving Starlink for feed use in Japan, and (6) sourcing corn primarily from regions of the U.S that had low levels of Starlink plantings (Ohio, Indiana, and Michigan). Obtaining corn from the latter area of the U.S. may reduce the risk of Starlink contamination, but some risk remains through possible contamination of seed and co-mingling of small amounts of Starlink in the marketing system. Longer-term impacts on Far East demand for U.S. corn are difficult to predict. Will the Starlink problem cause some foreign customers to develop alternative sources of supply such as South America, China, and Manchuria? Time will tell.

2001 Seed Corn Considerations

The Starlink experience is a caution to farmers as they plan 2001 seed purchases***. Two major processors have run radio spots cautioning farmers to plant only varieties that are approved worldwide for all uses. Some varieties of GMO corn are not approved by the European Union, including herbicide-resistant corn and stacked varieties (bred for herbicide and insect resistant). Processor concern about these varieties stems from a desire to protect the EU market for corn gluten feed and meal***. EU buys a major part of the production of these two products. Almost no U.S. corn has been exported to the once-large EU market in the last three years, because of GMO concerns. Some seed firms have reported plans to target sales of EU-unapproved varieties of corn into the western Corn Belt, where extensive livestock feeding exists. ***That's a strategy not unlike the one used for Starlink last spring, with risks of co-mingling problems that could adversely affect the 2001-02 processor market.***

USDA's Monthly World Agricultural Outlook Report

Weather problems and sharply reduced production in several foreign grain producing areas have pointed to a potentially strong export situation for U.S. corn this marketing year. However, export trends through mid-December were in the opposite direction. Cumulative U.S. corn exports since the start of the marketing year (Sept. 1) and outstanding unshipped sales were down 15 percent from a year earlier (http://ffas.usda.gov/export-sales/esrd1.html). Usually the fall quarter is the seasonal peak for U.S. corn exports and export sales. Concern about getting processing plants, elevators, and feed mills contaminated with Starlink corn has caused foreign buyers to shift to feed wheat, barley, and corn from China and the Southern Hemisphere. The biggest problem markets are Japan and South Korea, normally the top two export markets for U.S. corn. Shipments of U.S. corn since September 1 and outstanding unshipped corn export sales through early December for these two markets were 20 and 50 percent respectively below a year earlier. A decline of this magnitude is highly unusual for Japan, which has a stable livestock and poultry industry and normally relies heavily on U.S. feed grains for feed. A substantial recovery in Japanese purchases is likely in the next few months if USDA's Starlink-free certification works well. Korea tends to shift more readily to alternative supplies when they are available. China is its main alternative source, and USDA estimates continue to show a sharp reduction in China's 2000 feed grain crop. However, Chinese crop estimates are much less reliable than those in the U.S. Recent trade reports indicate China has offered or is in the process of offering corn for export for the first six months of the year. However, such offers/sales have not been confirmed. If correct, they would hint that its crop might have been underestimated.

Soybeans and EU Meat Meal Ban

The European Union's planned ban on meat meal feeding for the first six months of 2001 will be a major influence on soybean and soybean product prices. The ban should bring modestly higher cash soybean and soybean meal prices into mid-February, with further strength in late March and April. European feed industry sources indicate the ban likely will boost demand by the meal equivalent of 120 to 140 million bushels of soybeans, if all the demand is met by soybeans. Supplies of alternative protein feeds are limited, so most of the demand will need to be met by soybean meal and increased feeding of feed wheat, which has more protein than corn. U.S. exports should benefit until South American harvesting is well underway in March.

Tables 1 and 2 (http://www.econ.iastate.edu/faculty/wisner/GrainBalance/BALSheet2000.pdf) show our most recent projections of 2000-01 U.S. corn and soybean supplies, utilization, and prices, along with tentative projections for 2001-02 with varying yields. Corn acreage is projected to decline modestly in 2001 as farmers shift some continuous corn to soybeans in response to sharply increased fertilizer and chemical prices. Soybean acreage projections may be slightly conservative, depending on the condition of the winter wheat crop this spring. Soybeans and sorghum are likely candidates for replanting of failed winter wheat in the central and southern Great Plains.

Robert Wisner