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SUPPLIES GIVETH; SUPPLIES TAKETH AWAY

We have talked for nearly two years about the strong beef demand driving fed cattle prices higher, but is that the case today? Although moving seasonally lower, cattle prices are still higher than at this time last year. However, supplies have been much lower than a year ago also. We are headed into a period of very large supplies and, unless demand is very strong, prices could fall below \$70 for a summer low.

Beginning with the first quarter 1999 and running through the third quarter of 2000, beef supply showed a year-over-year increase *and* prices for fed cattle also increased. This increase in both supply and prices resulted from an increase in consumer demand for beef. For the three years, 1996-98, the quarterly average relationship between the percentage average change in price for each one percent change in commercial beef production was -3.61 . For a one percent change in the supply of beef, prices moved 3.6 percent in the opposite direction. A long-run figure often used is -2.0 , suggesting that during this period prices were more inelastic than normal. However, for seven quarters starting in the first quarter of 1999 the relationship was 2.93, meaning that prices *increased* 2.93 percent with each one percent *increase* in supply—clearly not a sustainable trend.

The fourth quarter of 2000 had higher prices (3.7 percent) than the year before, but it also had lower supply (-0.2 percent). First quarter 2001 saw prices 13.5 percent higher than the year before, but largely because supplies were 6.7 percent lower. This -2.0 relationship is about what we would expect for normal beef demand.

Now we are beginning the seasonal increase in cattle slaughter. The second full week of May had slaughter of 724,000 head and was the first week of the year with slaughter over 700,000 head a week. Carcass weights that had been lower throughout 2001 were within a pound of last year's figure. Slaughter weights are expected to be reduced because of harsh winter feeding conditions, but given that marketings have been 5.3 percent lower January through mid-May, it now appears that marketings were delayed and will come to town at near normal weights.

Prices are expected to continue a downward trend into late summer or early fall, and Choice steer prices below \$70/cwt are possible before Labor Day, with most of the decline likely in the next 60 days. The Choice-Select spread which was over \$11/cwt in the second week of May will likely widen into early June, before narrowing back to the \$7-10 range in late summer. It has been as high as \$14/cwt in June of recent years.

Hog Outlook

Unlike cattle, this time of the year brings reduced hog slaughter and higher cash prices. Most of the rally is expected to come in May, certainly before the first of July. This year should be no exception. Based on monthly pig crop data, pork supplies are expected to post larger year-over-year increases in the third quarter.

Year-to-date hog slaughter has been 0.4 percent less than in the same period in 2000. Due to heavier weights, commercial pork tonnage has been 0.8 percent higher than the year before. Weights should continue to run 1-2 pounds heavier than the year before, and hog slaughter will increase relative to the previous year as we go through the summer. Iowa-Southern Minnesota barrow and gilt prices this summer are forecast to reach the mid \$50s for a summer high before trending lower.

Pork demand in the first quarter appears to be near a normal relationship. Commercial supplies were 0.5 percent lower than the year before and prices were 2.6 percent higher. This -4.4 relationship is near the -3.0 figure that most analysis relies upon.

Mandatory Price Reporting

The USDA implemented mandatory price reporting April 2, 2001 and is still in the process of working the bugs out of the system. The new system provides information that was not available before, yet has disappointed many people because the basic market direction information has not been as timely as before.

One of the major concerns is that many times when a report is released, there is no information that can be released due to confidentiality reasons. Specifically, there is what is known as the 3-60 rule that says, in order for a price to be reported there must be at least 3 packers reporting trades in a particular market (commodity, region, and time frame), and that no one of them can have more than 60 percent of the volume reported. For example, Thursday morning fed cattle in Kansas may only have 2 active buyers and thus no report would be issued for that market. During the same period, Texas may have a report or, at the end of the day, Kansas may have enough trades to report. In some cases the lack of reports may have been due to computer difficulties that will be corrected over time.

Likewise, part of the timeliness concern will likely be addressed as the system is refined and computer software challenges are corrected. However, the nature of collecting more detailed information on transactions will limit the speed of the reports in general.

While the transition may be frustrating, the changes in mandatory price reporting are appropriate for the changing market place. It is estimated that over 80 percent of the hogs are either owned by a packer or are under a contract that is often tied to the cash market. For these producers the accuracy of the price reported for use in their formula is more important than the timeliness of the report. Many of the formulas use a 3-day or weekly average price anyway.

Cattle producers selling on the grid also rely on weekly average prices for their formula base price. Most feedlots involved in price discovery negotiations are gathering their own up-to-the-minute price data or subscribe to a market information service such as Cattle-Fax. If timeliness of the USDA reports continues to be a concern, more producers will turn to private sector services for information.

John Lawrence

LATE PLANTINGS IN UPPER MIDWEST; REVISIONS OF CHINA GRAIN STOCKS

After major negative signals from USDA's May 10 World and U.S. Supply-Demand reports, the corn, soybean, and wheat markets shifted their focus back to U.S. weather conditions. Planting delays in Iowa, the Dakotas, and Minnesota, and unfavorable wheat yield prospects in the central and southern plains helped to temper bearish implications from a nearly 300% increase in projected Chinese wheat carryover stocks and a 193% (2 billion bushel) increase in its estimated corn carryover stocks. Just the increase in Chinese corn carryover stocks exceeded the estimated total 2002 U.S. corn carryover stocks. China's total corn carryover stocks are now indicated to be slightly over 4 billion bushels vs. U.S. corn carryover stocks this August 31 likely to be around 2 billion bushels. As we indicated in *Iowa Farm Outlook* earlier this spring, the United Nations Food and Agriculture Organization recently revised its Chinese grain stocks estimates sharply upward to reflect new Chinese government data. The increased stocks were consistent with findings from a team of ISU specialists (including myself) who spent most of last June in China. ***The implications of the revisions are that China has ample grain reserves, rather than the rather tight wheat supply and just comfortable corn reserve supply that had been indicated earlier. The data do not show a clear picture of how China came to acquire these much more adequate than expected stocks. They would have occurred through either greater production in previous years than had been indicated or less utilization. To reflect the new Chinese data, USDA now indicates China will remain a significant corn exporter in the coming year, and will import very little corn and wheat.***

South American Soybean Crop

In other world developments, the USDA raised its estimate of the newly harvested Brazilian soybean crop by one million tons (37 million bushels). The Brazilian crop estimate is now up 7% from last year due to improved weather and increased yields in the southern three provinces, and favorable weather in other major soybean growing areas. The Argentine crop is estimated to be up 23% from last year, with most of the increase due to increased acreage. Part of the increased plantings reflects a shift from sunflowers due to delayed plantings and low world vegetable oil prices. ***With a normal U.S. average soybean yield and the indicated increase in plantings, combined U.S. and South American soybean production this year would be up about 470 million bushels from last year. That is more than double the past 10-year average growth in world demand for soybeans.*** Positive developments on the demand side include: (1) the EU

ban on feeding of meat and bone meal (MBM) to any type of livestock, along with restrictions on feeding of animal fats, (2) continued strong Chinese demand for soybeans and a likely drop in China's soybean plantings this year, (3) talk of a possible ban on MBM feeding in the U.S., and (4) a 23% decline in Canada's intended plantings of canola this spring. European feed industry sources expect the EU ban to be continued indefinitely, although there is pressure in the EU to remove the ban on feeding MBM to non-ruminant animals. If the U.S. were to implement an MBM/animal fats feeding ban along with an extension of the current EU ban, world demand might increase enough to absorb much of this year's increase in production.

Crop Conditions Update

As of May 13, U.S. corn planting progress was almost identical with the long-term average progress, while soybean planting progress was ahead of normal. Plantings were extremely early in Illinois and Indiana, and were ahead of normal in most other states except Iowa, the Dakotas, Wisconsin, and Minnesota. In Iowa, about two-thirds of the corn crop was planted at about the normal time or slightly earlier. In the northern 20 to 25% of the state, however, plantings were delayed by wet weather. In southeastern Iowa, heavy rains the weekend of May 12 caused some flooding and need for replanting of corn. In many parts of the state, soybean plantings were running later than normal. In wheat areas from Nebraska southward, some failed winter wheat fields will be planted to grain sorghum and soybeans. Estimates from Kansas indicate 12 to 15% of its 9.9 million acres of winter wheat will be abandoned, and a sizable part will be replanted to another crop. In the Dakotas, and in parts of northern Iowa and Minnesota, corn planting delays beyond late May would likely bring some shift of acres from corn to soybeans. In the eastern Corn Belt, ideal planting conditions may have caused farmers to shift a few intended soybean acres into corn. Overall, it would not be surprising to see actual U.S. corn plantings this year decline by 0.2 to 0.4 million acres from March intentions. In contrast, U.S. soybean acres may be 0.5 to 0.9 million acres above the intentions.

Dryness in the Eastern Corn Belt

While conditions have been wet in the northwestern part of the Corn Belt that includes Iowa, dry conditions have made farmers uneasy in the southern half of Illinois and much of Indiana and Ohio. Southern Missouri and neighboring areas of Kentucky and Tennessee also have been abnormally dry. It will be important to watch weather developments closely in those areas this spring and summer for signs of possible drought stress on crops.

Balance Sheets and Exports

U.S. corn exports for this marketing year are almost certain to drop below those of last year, despite apparently much smaller 2000-01 grain crops in eastern Europe, China, and South Africa than in the previous year. Soybean exports, in contrast, have been moderately above those of a year earlier since January. The increase reflects continued strong Chinese demand and the meat and bone meal (MBM) feeding ban in the European Union. The MBM ban has increased demand for soybean meal as a replacement protein source. ***Through early May, combined U.S. soybean exports since September 1 and outstanding unshipped sales were 8% above a year earlier, along with increases of 6% for meal and a 5% decline for soybean oil.*** Exports and unshipped sales to the EU continued the decline of the last three years, and were down 5% or 13 million bushels from the same period last year, probably at least in part because of GMO concerns. Meal exports and sales to EU recovered some from the severe downtrend of the last three years, and were above year earlier figures by the soybean equivalent of about 16 million bushels. Increased meal exports to EU likely are related to EU's ban on feeding of MBM. Our revised corn and soybean balance sheets are available at: <http://www.econ.iastate.edu/faculty/wisner/>.

Corn exports and outstanding unshipped sales through early May were 9% below a year earlier, with declines of 15, 14, and 11 percent for Japan, South Korea, and Taiwan, respectively. Sales to South Korea have improved somewhat in recent weeks, while sales to the other two markets have weakened. Normally these three markets have accounted for slightly over half of all U.S. corn exports. A team of industry personnel from Japan who visited ISU last week indicated StarLink continues to be a major concern in Japan. The team also indicated that most Japanese grain processors are shifting or have shifted to non-GMO corn and soybeans as the country has begun its food labeling by genetic type. At a large western Iowa cooperative, the team was told that one elevator has been designated totally non-GMO for fall grain delivery and storage, and that its nearly half-million bushel capacity has been committed and sold out. Farmers have been offered an approximate 20-cent per bushel premium to produce non-GMO soybeans for the facility. Officials at the firm also told Japanese visitors that all incoming grain this fall would be tested for GMOs.

Planting Progress by States

Corn and soybean planting progress in major states and comparisons with normal are shown below. Failure to make good corn-planting progress in the western Corn Belt in the next week will likely increase the sensitivity of old and new-crop corn prices to any indication of continued dry weather east of the Mississippi River. Corn and soybean planting progress can be found at: <http://usda.mannlib.cornell.edu/reports/nassr/field/pcr-bb/2001/2001/summary/weth2001.pdf>

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