

June 15, 2001

Ames, Iowa

Econ. Info. 1816

## USDA WORLD CROP ESTIMATES SHOW UNCERTAIN CHINA OUTLOOK

USDA's June 12 U.S. and World Supply-Demand estimates pointed toward a modestly less burdensome soybean supply-demand balance than indicated a month ago, but signaled the opposite trend for old-crop corn. For the 2001-02 marketing year, however, USDA's World Agricultural Outlook Board saw some brightening of U.S. corn export prospects. The projected 8.1% or 150 million bushel increase in U.S. corn exports for 2001-02 largely reflects a sharp deterioration from last month in China's corn crop prospects. The June 12 report increased Brazil's estimated spring 2001 harvest of soybeans, with the current estimate up 10% from last month. However, increased Brazilian production was offset by increased demand stemming from the European Union's ban on animal protein and animal fat feeding, which has generated added demand for soybean meal. Also, China's demand for soybeans remains very strong and is anticipated to create additional export demand for U.S. soybeans next year. The new USDA information may make both corn and soybean prices a little more sensitive to weather and crop developments in the weeks ahead than previously expected. However, the major price influences will be USDA's June 29 planted acreage and stocks reports, and weekly crop condition reports.

### Foreign Crop Estimates

Brazil's soybean crop now is estimated at 1,380 million bushels, up 121 million bushels from last year. Argentina's soybean crop estimate was left unchanged from the May estimate. It now stands at 957 million bushels, up 23% from the spring 2000 harvest. Production in the two countries together is expected to be about 80% of a normal U.S. crop. Production also is expected to be up modestly this spring in Bolivia, Paraguay, and Uruguay, although these three countries are relatively small producers of soybeans. ***Despite widespread publicity about expanded soybean production in Brazil, Argentina's soybean production is estimated to be up 132% from five years earlier, while Brazil's is up only 42%. Expanded production in Argentina reflects shifts from pasture, forage, sunflowers and other crops to soybeans, and expanded production into some marginal areas through use of RoundUp Ready varieties and no-till planting to conserve soil moisture.*** Argentina's growth in soybean production is likely to slow considerably within a few years, while Brazil's long-term potential growth is much greater than Argentina's.

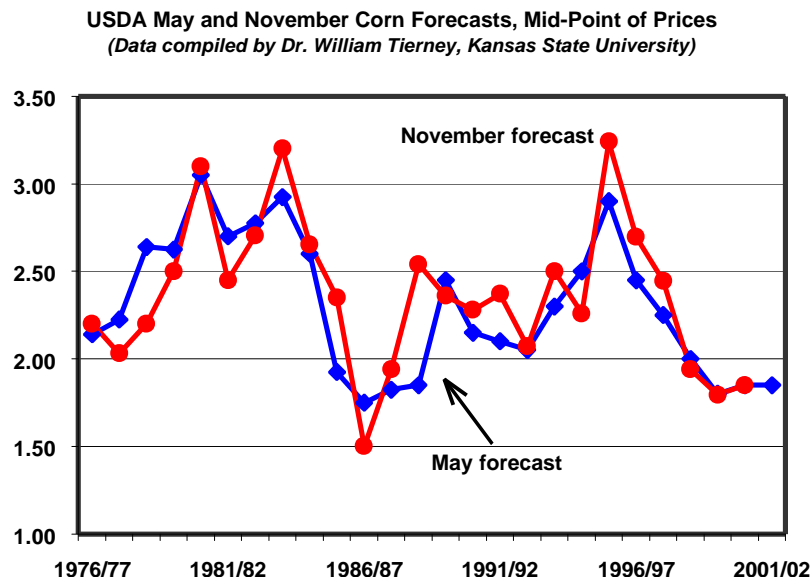
Increased U.S. and South American soybean production is being partially offset by increased demand for soybean meal stemming from the European Union's 6-month total ban on feeding of animal protein to livestock and pets. The ban is expected to continue for another six months beyond June 30, and could be made permanent. However, some in the EU would prefer to see a U.S.-style ban, where animal protein is prohibited only in ruminant rations.

China's 2001 corn production projection was lowered 13.09 million metric tons or 516 million bushels from last month, based on well below normal rainfall in recent weeks and continuing drought in China's northern plains. China's recent weather and infrared satellite photos of its crop conditions are shown at this Bridge News/Global Weather Service web site: <http://news.bridge.com/gws/wpages/china/chinaframe.htm>.

China's northern plains account for roughly two-fifths of its corn crop and nearly half of its soybean production. Last year, this region suffered severe drought and sharply reduced corn and soybean production. With last month's sharp upward revision in China's estimated corn and wheat carryover stocks, it should have enough reserve supply to avoid huge imports if weather does not improve. But at the same time, China's corn exports could decline considerably.

## Accuracy of USDA Early Price Forecasts

USDA's latest U.S. and world grain and soybean supply-demand and price projections are available at: <http://usda.mannlib.cornell.edu/>. Click on the WAOB button, go to World Agricultural Supply Demand Estimates, and click on the latest date. A comparison of USDA's May season average corn price and its November price forecasts is shown in the chart below.



Our latest balance sheets are a little different and are at: <http://www.econ.iastate.edu/faculty/wisner/>. Neither USDA's nor our balance sheets contains estimates of the amount of unplanted corn acres or acres shifted from other crops to soybeans. Since the growing season is still in its early stage, we have not yet adjusted projected yields to reflect late plantings and slow crop development in some areas. For the major corn producing states as a whole, 62 percent of the corn crop was in good-to-excellent condition on June 10. That's down from 69 percent a year earlier. Corn was in the best condition in the Dakotas, Nebraska, and Kansas. Detailed condition ratings by state are shown at: <http://usda.mannlib.cornell.edu/>.

Click on NASS, then click on Weekly Weather and Crop Bulletin for additional state data on crop progress and condition. This week's report indicated roughly one-fifth of the soybean crop remained to be planted in Iowa, Wisconsin, and Michigan, along with 10 percent in Minnesota.

**Robert Wisner**

## LIVESTOCK INDUSTRY NEWS

### New CME Contract

Chicago Mercantile Exchange Inc. added a May contract to its hogs futures in early June. The additional contract gives producers and packers "more precise risk management coverage" between April and June, the exchange said, and lets market participants capture seasonal price movements that typically occur during this period. The CME now has contracts in Feb, Apr, May, Jun, Jul, Aug, Oct, and Dec. May typically has a strong seasonal price rally as prices move from April to summer highs in June. As a result, May often has a wide basis to the June contract. Fall hedging opportunities could be improved with a September contract as prices move from August to fall lows. However, the basis is typically in the producer's favor as September cash prices are higher than October prices.

### Pork Plant Closing

Excel Corp., a division of Cargill Inc, announced that it will terminate hog slaughtering at its plant in Marshall, Mo. July 25, 2001. The company plans to invest \$15 million to convert the plant to a case-ready pork- and beef-processing unit. The plant currently slaughters 7,000 hogs per day in one shift. This lost capacity will be absorbed by the company's

Ottumwa, Iowa and Beardstown, Illinois plants. Excel's Ottumwa, Iowa hog plant has expanded from 9,500 hogs per day in 1996 to approximately 11,000 head per day on two shifts. It will be increased this year to 16,000 head per day. Excel's Beardstown, Ill., plant slaughters 16,000 head per day on two shifts.

This will be the first major reduction of U.S. slaughter capacity since Smithfield Foods Inc. closed an 8,000-head per day Dubuque, Iowa plant in June last year. Acquired from Farmland Foods, the aging Iowa plant shifted to specialized pork processing. Total capacity won't decline much initially because some packers have improved efficiencies. However, other packers are considering cutbacks. For example, Hormel Foods' Rochelle, Ill. hog plant is pondering elimination of the second shift, resulting in reduction in daily slaughter from 7,000 to 4,500 head. Company officials said no decision has been made. In Crete, Neb., plans to boost the Farmland Foods plant from one 9,400-head shift to two shifts and 15,000 head are pending. Another "unknown" involves renewal of union contracts at two Minnesota pork plants. Negotiations between officials of the ConAgra Inc. hog plant at Worthington, Minn. and the United Food & Commercial Workers (UFCW) intensified last week. The contract expires June 25. Negotiations on a new contract also are proceeding in Austin, Minn. between UFCW and officials of Quality Pork Processors Inc., a hog slaughtering facility. The contract expires June 20.

Slaughter capacity reductions could influence markets next year if the U.S. swine herd continues to expand. As was seen in 1998, when the slaughter supplies approach plant capacity, small changes in supply can have big impacts on prices. This is particularly true if demand for pork is weak at the time. It is expected that capacity will be sufficient for the fall of 2001, but if current expansion continues and plant capacity is slow to materialize, the fall of 2002 could be problematic.

It is also important to notice the trend in the industry to further processing rather than packing. Strong retail demand for case-ready pork, coupled with the Missouri plant's access to Interstate 70 and metropolitan markets, prompted the decision. The facility will process whole muscle cuts, including branded items. While the Missouri facility will be the company's first operational case-ready pork and beef plant in the Midwest, a multi-customer facility is being built in Hazelton, Pa. The company operates case-ready pork and beef plants in Newnan, Ga., and Toronto, Ont. that serve single customers.

Earlier plants that have undergone a similar transformation include the IBP pork plant in Council Bluffs and the Farmland pork plant at Dubuque. During the 1970s, 1980s and early 1990s, packers were in a consolidation mode and quickly reinvested profits in enlarging plants or building new plants. Since 1998 packers have invested more in further processing and value-added and less in additional slaughter capacity. (Some information drawn from a *Feedstuffs* article.)

## Short Term Outlook

The fed cattle market received a reprieve from the seasonal downturn in prices when an error in boxed-beef prices reporting was corrected. The price trend, however, is still down as market ready supplies build through the summer months. Carcass weights were 11 pounds lighter the last week of May than they were the year before, helping to keep supplies in check. If weights remain 1-2 percent below 2000 levels and the expected larger marketings are orderly, it is likely that fed prices will remain above year earlier levels for the summer. June, July, and August 2000 prices averaged \$70, \$67, and \$64, respectively. While May 2001 prices were \$4-5/cwt higher than May 2000, the gap between 2001 and 2000 prices is expected to narrow.

Hog prices are likely near their high for 2001 or it may have been posted in mid-May. Based on monthly pig crop reports, slaughter is expected to show a larger year over year increase in July than it did in June. In addition, Excel announced it would close its Marshall, MO packing plant July 25th reducing the daily capacity and demand for hogs. Prices in 2000 peaked in late June at just over \$50 before trending lower. Prices have been higher this year than last, but will be tested as supplies increase. Summer prices are forecast to remain in the upper \$40s through mid-July with daily prices above \$50 likely.

## John Lawrence