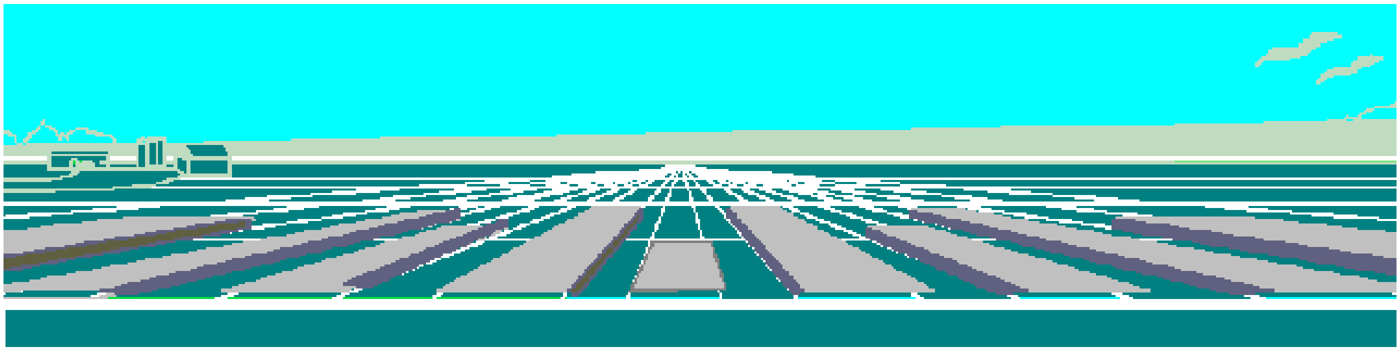

September 4, 2001 Ames, Iowa Econ. Info. 1821

GRAIN PRICES: FOCUS ON CROP SIZE; DEMAND ALSO IMPORTANT

For several months, the grain markets have been preoccupied with weather and potential production. These factors will remain important until harvesting is completed, but demand indicators should become more significant as production uncertainty diminishes. Both domestic and export demand prospects look positive for the year ahead. Corn and soybean prices in the next several weeks will take direction from: (1) timing of the first frosts in the northwestern Corn Belt; (2) weekly export sales and inspections; (3) details on China's forthcoming GMO labeling program; and (4) USDA's September 10 crop forecasts. ***Areas where early frosts would bring significant loss of yields include Minnesota, Wisconsin, southern and northeastern Iowa, and the Dakotas. Minnesota is potentially the most significant of these areas since its crops were planted considerably later, relative to normal, than most of the Corn Belt. Minnesota is the fourth largest producer of corn and the third largest soybean producing state. It normally produces about 10% of the nation's corn and soybean crops. Thus, a frost, reducing its state average yield by 10%, would be expected to cut 1% off the national crop.*** Currently, a few private forecasters have been calling for a chance of frost in part of this region over Labor Day weekend. A Labor Day frost in northern Iowa and Minnesota in 1974 significantly reduced corn and soybean production.

Slow Start to Corn Exports; New Crop Bean Export Sales Strong

New-crop corn export sales are off to a slow start, down 26% from a year ago. Sharply lower sales are being reported to nearly all destinations except for China. China so far has purchased 165,000 metric tons (6.5 mil. bushels), a minor amount in comparison with U.S. exports of just less than 2 billion bushels. ***Soybean export sales, on the other hand, are up 14% from this time a year ago, in part due to EU's ban on use of animal products in livestock and poultry feeds and pet foods which went into effect last January.*** Meal export sales are down 18%, while soybean oil sales are about even with the very low level of a year ago. Old-crop corn exports finished strong, after months of slow sales and shipments relating in part to foreign concerns about StarLink-contaminated corn. While some StarLink corn is still in the marketing system, the percentage is considerably lower than several months ago. Also, Japan plans to allow a 1% tolerance for unapproved varieties used for feed. That should encourage improved demand for U.S. corn in Japan, although food processors there still have a strong preference for non-GMO corn and soybeans. See our balance sheets at the web site below for updated indications of the 2000-01 marketing year supplies and demand, and projections for the year ahead. http://www.econ.iastate.edu/faculty/wisner/GrainBalance/BALSheet2001.pdf

Corn Supply-Demand Prospects for the Year Ahead

Our Column B corn projections for 2001-02 in the balance sheet are based on a U.S. average corn yield of 132 bushels per acre, nearly two bushels less than in the August crop report, 1.8 bushels less than in 1999 and 5.1 bushels less than last year. USDA crop condition reports, as well as over 1,500 miles of personal travel in the Midwest, indicate conditions deteriorated after the August report in a number of significant producing regions. However, the August crop forecast may have been a slightly conservative indicator of yield potential. ***The Weekly Weather & Crop Bulletin***

reported 55% of the nation's corn crop to be in good to excellent condition at the end of August, compared with 64% at the end of July. Last year over the same time period, the corn crop declined from 74% good to excellent to 67%.

Results From Yield Forecasting Model

A forecasting model we have used for several years shows a U.S. corn yield potential of 128.9 bushels per acre this year. The model may not have fully captured the positive impact of recent rains, although the additional moisture cannot reverse earlier loss of corn yield potential. At the end of July, the model showed a potential yield of 133.99 bushels per acre, almost identical to USDA's predicted 133.9 bushel yield. The model forecasts yields, based on the percentage of the crop planted in late May, current crop condition ratings, a trend factor, and a weather variable. Using last year's late August data, it forecast a 136.6 bushel per acre yield. That compares with the semi-final USDA January estimate of 137.8 bushels per acre and the USDA September forecast last year of 141.8 bushels per acre. While a yield 3 bushels lower than in Column B (as indicated by the model) is possible, we hesitate to use it as the most likely yield at this time. To get an idea of the price impact from such a yield, we suggest you take the mid-point of the range from Columns A and B.

Carryover and Price Implications

If the crop comes in near the average yield indicated in column B, a sharp decline in August 31, 2002 U.S. corn carryover stocks is almost guaranteed. Our projections show the carryover dropping by 63%. That, in turn, should lead to modestly higher prices. Our balance sheet has an expected $0.35 or 19% increase in the U.S. average farm price vs. the year just ending. Higher prices will limit the opportunity to collect corn LDPs. ***The implication is that farmers may need to act quickly during the harvest season in order to lock in any LDPs that may be available. The 60-day lock-in provision may be helpful in managing LDP risk.*** With prices potentially moving 25 to 30 cents or more above the local loan rates next spring, higher prices may at least slightly more than compensate for the loss of LDPs. Spring and early summer prices in 2002 will be increasingly sensitive to next spring's planting progress, as well as to any indication of major foreign crop problems. Even with a final U.S. yield near last year's level, we would expect a sizeable decline in carryover stocks and higher prices than in the marketing year just ended.

Export Demand Prospects

Our export projections take into account: (1) China's recent aggressive corn sales into world markets; (2) crop problems in parts of Canada and EU; (3) sharply increased production in Eastern Europe and the former Soviet Union; and (4) only slight growth in the world economy. Unconfirmed trade reports indicate China has sold up to 5 to 6 million tons (200 to 240 million bushels) of corn for export through March. If correct, these volumes would be similar to or possibly a little larger than China's exports during the same period a year earlier. Sales reportedly were made from several Chinese provinces. Weather data and satellite vegetative index maps continue to suggest Chinese crops are in better condition than last year, when a severe drought reduced production in the North China Plain.

Brazilian and Argentine corn production to be harvested next spring will be other important influences on U.S. exports. Brazilian production increased sharply this past spring, due to increased plantings and good yields. Brazil's exportable supply appears to be moving primarily to non-GMO markets in EU and the Far East. Its corn exports come mainly from southern Brazil, an area near the ports where high transportation costs do not restrict exports. Low world soybean prices relative to corn, due in part to the U.S. LDP system, may have encouraged Brazilian farmers in that region to shift some land from soybeans to corn. Due to the unexpected and unusual volume of corn exports, Brazil's corn basis was severely depressed at harvest because of port congestion. That may influence planting decisions and/or encourage Brazilian farmers to find more storage space. Starting this spring, Argentina, after about a decade of maintaining a one-to-one ratio of its currency to the U.S. dollar, has allowed a two-tier exchange rate with a weaker rate for agricultural exports. That may strengthen corn prices in Argentine currency, possibly encouraging a larger Argentine harvest next spring.

Ethanol Uncertainties

Demand prospects look positive for ethanol fuels for the year ahead and for the longer term. Bright prospects are because its competitor, MTBE, is a potential source of cancer from seepage of leaking fuel tanks into the ground water, and California is planning to discontinue its use as an oxygen-enhancing agent. Cities in other parts of the country also are moving to phase out MTBE. Demand prospects, however, are a bit uncertain because Brazil would like to export large volumes of ethanol to California, and the state of California has taken EPA to court for its mandated use of an oxygen enhancing agent to meet clean air standards. California and the petroleum industry reportedly believe these standards can be met through further refining of gasoline.

Robert Wisner

MANEUVERING MANDATORY PRICE REPORTING

Mandatory Price Reporting was passed by Congress in October 1999 in response to producer demands for more transparency in the livestock and meat market place. Following passage, the language to implement this law was written by USDA Agricultural Marketing Service with input from producer and processor organizations. The initial change to MPR was scheduled for late January 2001, but it was delayed due to technical difficulties until April 2, 2001.

MPR got off to a rocky start. First, there was the technical problem of getting electronic files safely and securely passed from the packer's computers to the USDA computers. Second was the human learning curve of how to use the new software—and in some cases, how to use computers—to report transaction level data to the USDA. Third was the logistics of accepting, compiling, and reporting literally thousands of lines of data three times a day. Keep in mind, there wasn't a beta test. Reporting packers and the USDA went from a standing start to full speed on April 2nd.

In spite of this overnight transition to mandatory reporting after decades of voluntary reporting, there were arguably only two significant glitches with MPR. One was a calculation error that occurred in the reporting of boxed-beef prices from April 2 until mid-May. The error was discovered, corrections were made to the formula, and revised prices have been posted. Disputes remain as to the possible size of the error and whether the USDA should pay restitution for harm to the producers selling cattle during this time.

The second, and more frustrating problem with MPR was what was referred to as the "3/60" rule intended to protect the confidentiality of the reporting parties. It is a guideline used in other government reporting, and in general terms, states that the government cannot release information if there are fewer than 3 reporting firms and any one of them has more than 60 percent of the volume. At the request of the Office of Management and Budget, this guideline was implemented on a report-by-report, line-by-line basis under MPR, and thus, often prevented the release of information. According to USDA, "Nearly one-third of scheduled daily cattle and swine reports were withheld from publication between April 2 and June 14, 2001, for reasons of confidentiality, and many other reports were released with missing line items or sections."

After a review of MPR in June, the USDA adopted a "3/70/20" guideline beginning August 20 that looks more broadly at markets and will allow much more information to be published. While it still considers the line-by-line report, it evaluates competition over a 60-day period. It is anticipated that approximately 98 percent of the reports generated will be available for release under the new guideline.

The new guideline is:

- At least **three** entities must provide data at least 50 percent of the time over the most recent 60-day time period;

- No one entity may provide more than **70 percent** of the data for a report over the most recent 60-day time period -- to ensure that no single entity is providing such a large proportion of the data that its identity might be revealed; and

- No one entity may provide data more than **20 percent** of the time, as the only entity, over the most recent 60-day time period -- to protect the identity of an entity when it is the only plant providing data.

New reports

There are now 91 reports with an almost overwhelming amount of information. In general they are divided by time, region, commodity, and type of purchase. A complete listing and link to the reports is at http://www.ams.usda.gov/lsg/mncs/index.htm.

Hogs, 15 reports

Time: Prior day purchases, Prior day slaughter, Current day purchases morning and afternoon
Region: National, Eastern Corn Belt, Western Corn Belt, Iowa / Minnesota
Type of purchase listed within the reports: Negotiated, Other market formula, Swine or pork market formula, Other purchase agreement, and Packer sold

Cattle, 43 reports

Time: Morning, Afternoon, and Summary, and Weekly
Region: 5-Area, National, Texas/Oklahoma, Kansas, Nebraska, Colorado, Iowa/Minnesota
Type of purchase: Negotiated, Formulated or forward contract domestic and import, and Packer owned

Lamb, 8 reports

Time: Daily and Weekly
Region: National and Western
Type of purchase: Committed and delivered, Negotiated and formula

Boxed–Beef and Lamb, 25 reports

Time: Morning, Afternoon and Weekly
Region: National
Type: Negotiated, formulated, and forward, Trimmings, Boxed cuts, Branded, Export, Prime

What do they tell us???

It is still too early to know for sure what information the reports will reveal. Because of the 3/60 guideline, many of the reports were blank or contained blank lines. Since adoption of 3/70/20 most of the lines are filled in.

Hog reports

Figure 1 is an excerpt from the NATIONAL DAILY DIRECT HOG PRIOR DAY - PURCHASED SWINE report. This is a report of the hogs *purchased* the day before. Notice that about 14 percent of the hogs purchased on the prior day were negotiated and their base price was lower than the "Swine or Pork Market Formula" but greater than the other categories and the weighted average price. Most contracts have additional requirements that negotiated hogs may not have to meet, such as advanced scheduling, delivery times, and packer oversight on production practices. This report also summarizes the price range for the base market hog and the "average" hog. The Average hog during this week was leaner and had more muscle than the base hog and received a higher price.

There is also a comparable report for Iowa/Minnesota and you can compare prices in Iowa verses the nation. On August 27, the IA/MN Negotiated base price was $64.92, 18 cents less than the national negotiated base price. However, the IA/MN Swine or Pork Market Formula base price was $66.12, 31 cents higher than the comparable national base price.

Figure 1.
Des Moines, Iowa Thu Aug 30, 2001 USDA Market News
NATIONAL DAILY DIRECT HOG PRIOR DAY - PURCHASED SWINE
PURCHASED DATA FOR Wednesday, August 29, 2001

CURRENT VOLUME BY PURCHASE TYPE
LIVE AND CARCASS BASIS

	Actual Prior Day	Actual Week Ago	Actual Year Ago
Producer Sold:			
Negotiated	40,023		
Other Market Formula	31,732		
Swine or Pork Market Formula	36,616		
Other Purchase Arrangement	20,229		
Packer Sold (All Purchase Types):	5,550		

	NEGOTIATED	OTHER MARKET FORMULA	SWINE OR PORK MARKET FORMULA	OTHER PURCHASE ARRANGEMENT	TOTALS/ WTD AVG
Barrows & Gilts (Carcass Basis):					
Producer Sold:					
Head Count	26,288	29,928	112,875	20,229	189,320
Base Price	62.80	59.27	63.32	61.59	62.42

*Base Market Hog 185 lb Carcass Basis, Plant Delivered
(.9-1.1 inch back-fat, 6 square inch loin/2.0 depth)
Base Price Range $56.50-$67.50, weighted average $62.80

Measurements Based on Slaughter Data Submitted:
Prior Slaughter Week's Average Market Hog:189.00 lb carcass based, plant delivered
(0.79 inch back-fat, 6.60 square inch loin/2.20 inch loin depth) FFLI: 50.50%
Range $60.50-$71.55

There is also a NATIONAL DAILY DIRECT HOG PRIOR DAY - SLAUGHTERED SWINE report. It reports the data on hogs *slaughtered* on the previous day regardless of when they were purchased. It lists the head count, base price, net price, lowest and highest net lot price, live weight, carcass weight, sort loss, backfat, loin depth, loineye area, and percent lean for each category of purchases. For Monday August 27, there were 75, 210 negotiated hogs out of 360, 341 slaughtered or 21 percent. The Negotiated hogs are compared to the Swine or Pork Market Formula hogs as an example of the data available (Table 1). The Prior Day Slaughter report also reports the statistics on packer owned and packer sold hogs and lists hogs scheduled for delivery to packing plants for 14 days in advance.

Table 1. Negotiated and Swine/Pork Market Formula Hogs Slaughtered August 27, 2001

	Head	Base Price	Net Price	Carcass wt	Percent lean
Negotiated	75,210	66.77	68.52	187.53	53.02
Formula	146,210	66.95	69.65	192.27	54.01

Cattle reports

Figure 2 is an excerpt from the Iowa/Minnesota cattle report for Monday August 27. It shows the number of confirmed sales and reports them by live or carcass basis, steer or heifer, and percent Choice. It also reports the number, weight range and price range.

St Joseph, MO Monday Aug 27, 2001 USDA Market News						
IOWA/MINNESOTA DAILY WEIGHTED AVERAGE CATTLE REPORT - NEGOTIATED PURCHASES Monday, 8/27/01						
Confirmed:	2,429	Week Ago	997	Last Year		
Week to Date:	2,429	Week Ago	997	Last Year		
Live Basis Sales						
Slaughter Steers(Beef Breeds)						
	Head	Weight		Price	Avg	Avg
	Count	Range		Range	Weight	Price
Over 80% Choice	81	1,025 - 1,550		69.00 - 72.00	1,305	70.93
65 - 80% Choice	698	950 - 1,475		70.00 - 70.25	1,254	70.10
35 - 65% Choice	110	1,044 - 1,431		70.00 - 70.00	1,275	70.00
1 - 35% Choice						
Slaughter Heifers(Beef Breeds)						
	Head	Weight		Price	Avg	Avg
	Count	Range		Range	Weight	Price
Over 80% Choice	257	900 - 1,375		69.50 - 72.00	1,181	70.55
65 - 80% Choice	653	865 - 1,400		70.00 - 71.25	1,115	70.70
35 - 65% Choice						
1 - 35% Choice						

Repeat categories and columns for Dressed Basis.

While some cattle sold each day of the last week of August, the dressed trade occurred primarily on Thursday and Friday (Table 2). Also note that the weekly total does not match the sum of the daily's indicating that there were some sales not reported on the day of purchase but they were included in the weekly total.

Table 2. Iowa/Minnesota Cattle Purchases Summarized for the Week of August 27, 2001

	Mon.	Tues.	Wed.	Thur.	Fri.	Total
Steers Live	889	355	902	3510	877	6539
Steers Dressed	0	0	0	1400	3129	4649
Heifers Live	910	0	41	1461	705	3132
Heifers Dressed	254	0	0	449	453	1157

In addition to volume and price information there is also information on packer owned cattle and formula and forward contract cattle. For example there is a report of forward contract cattle purchased each week by delivery month (found in the NATIONAL WEEKLY DIRECT SLAUGHTER CATTLE – PACKER OWNED report). It also reports the minimum and maximum basis level for each month.

John Lawrence