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Ames, Iowa

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LAGGING EXPORTS SLIGHTLY NEGATIVE TO CORN PRICES

While current utilization projections show record corn use for the year ahead, the slow start for corn export shipments and sales is a concern. Corn exports and outstanding sales to major Pacific Rim and some North African markets have been sharply below those of last year so far this season. Unless sales pick up quickly, this development is likely to temper, but not completely prevent the expected winter and spring rise in cash corn prices. Outstanding unshipped sales and shipments since September 1, 2001 were down 8% from a year earlier as of mid-October. Export shipments were down 18% while unshipped sales were up 2%. Normally, the heaviest period of export sales for both corn and soybeans is September through December, so sales and shipments during the next two months will be very important for both corn and soybean prices. From January through June last year, corn exports were slow while soybean exports were strong. Last season's corn exports were slowed by concerns about Starlink® varieties, especially in Japan and South Korea. Table 1 shows percentage changes in combined shipments & outstanding export sales of corn so far this year versus a year earlier.

Table 1. Changes in U.S. corn exports and outstanding unshipped sales, Sept. 1-Oct. 18, 2001 (%), and shares of total U.S. exports by destination.

Destination	% change vs. year earlier	Share of total 2000- 01 U.S. corn exports
Japan	-15	30
Taiwan	-1	11
S. Korea	-51	07
Mexico	+7	12
Saudi Arabia	+148	02
Egypt	-26	09
Canada	+20	03
Morocco	-33	01
Tunisia	+61	01
Algeria	-10	03
Syria	-17	01
Other W. Hemisphere	+8	14
Others	+5	06
Total	-08	100

Source: USDA, FAS, Export Sales Report, October 25, 2001

In contrast to corn, soybean exports and outstanding sales were up 13% from a year ago. However, in spite of strong export sales, export shipments of soybeans so far this season have lagged well behind a year earlier. Table 2 shows soybean export shipments (but excluding outstanding sales, which are included in the corn table) by destination from September 1-October 18, 2001 as percentage changes from a year earlier.

Table 2. Changes in U.S. soybean export shipments, Sept. 1-Oct.18, 2001 (%), and shares of total U.S. exports by destination.

Destination	% change vs. a year earlier	Share of total 2000-01 U.S. soybean exports
European Union	-58	25%
Japan	-30	13
Taiwan	+1	8
China	-69	21
S. Korea	+2	4
Egypt	+77	1
Mexico	-18	14
Others	-11	14
Total	-34	100

Very serious soybean export shipment lags have occurred for the major U.S. overseas markets. The EU, Japan, China, and Mexico together accounted for about ¾ of the total U.S. export market for soybeans last year. Lagging shipments to China center around stockpiling of soybeans by its processors last summer in anticipation of problems as its new GMO food-labeling program is implemented, and at least two months of uncertainty surrounding the labeling program. Currently, there were indications that the uncertainty about labeling procedures was being cleared up and that shipments of U.S. soybeans to China will be large for the next several weeks. Shipping schedules for soybeans sold to Japan, EU, and Mexico were less certain; these three destinations normally account for slightly over half of all U.S. soybean exports.

Harvest Progress, the Soybean Basis, and Prices

Soybean harvesting is in the final stages in most areas except the southeastern U.S., which represents only a small percentage of production. Harvest pressure on soybean prices is diminishing, and the basis under nearby futures is unusually strong. A strong basis reflects nearby demand by processors and exporters, as well as limited farmer marketings at the lowest prices since 1972. Further strength in the basis is possible into mid-December as elevators on the Upper Mississippi attempt to move out as many soybeans as possible before winter, and as soybean shipments to China are resumed. A slight strengthening of cash prices would be likely to reduce LDPs. Chart gaps exist on the March 2002 futures in the \$4.54-\$4.71 range. Historically, chart gaps have had a high percentage probability of being filled before the contract expires. Prospects for large crops to be harvested again in South America next spring may make filling these gaps much more difficult than usual, unless planting and growing conditions deteriorate substantially in Brazil and Argentina.

Corn Harvesting Progress

The nation's corn crop was estimated to be 64% harvested by October 28, behind the normal 73% harvested at this time. The greatest lag in progress is in Wisconsin, Michigan, and Ohio, where roughly 1/3 of the crop was estimated to be harvested as of October 28. Observations while traveling through central and northern Iowa, and southern and central Minnesota suggest crop reporters may have underestimated last weekend's progress and that the western Corn Belt harvest is nearing the final stage in many areas. Accordingly, harvest pressure on the corn basis and prices may be near its maximum. As harvesting activity decreases, it is likely that the corn basis will strengthen into December. That in turn appears likely to strengthen cash prices modestly and reduce corn LDPs. The March corn chart has a gap at \$2.2525, which some traders will view as an upside price target. That's \$0.065 above the March close on October 30.

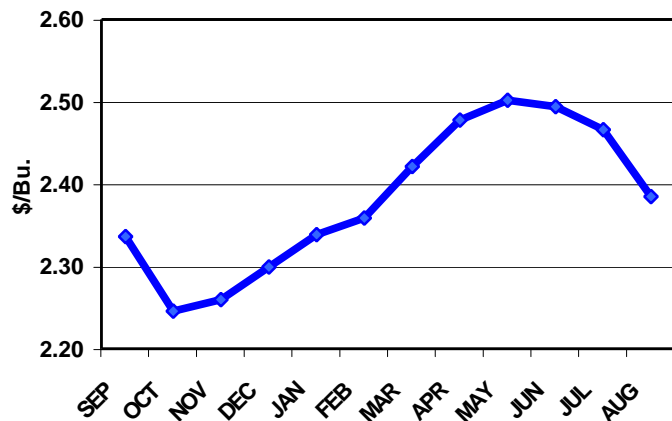
Quarterly Planning Prices

My projections of quarterly Iowa grain and feed prices for the next year, along with average expected government payments are available on my web site, <http://www.econ.iastate.edu/faculty/wisner/>. LDPs that individual farmers receive will depend heavily on the time at which they decide to take the payments. Recent LDPs have been well above the projected averages shown in the table.

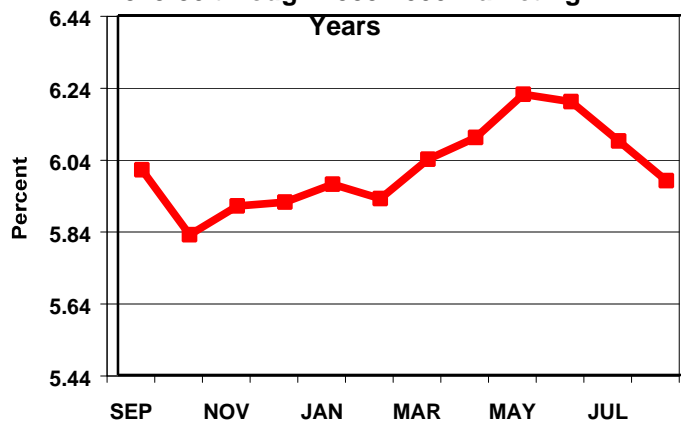
Normal Iowa Seasonal Price Patterns for Corn and Soybeans

Figures 1 - 6 show the long-term patterns of Iowa monthly average corn and soybean prices. On average, corn and soybean prices reach their low in October and their high in May, with a 25-cent gain for corn and a 39-cent gain for soybeans.

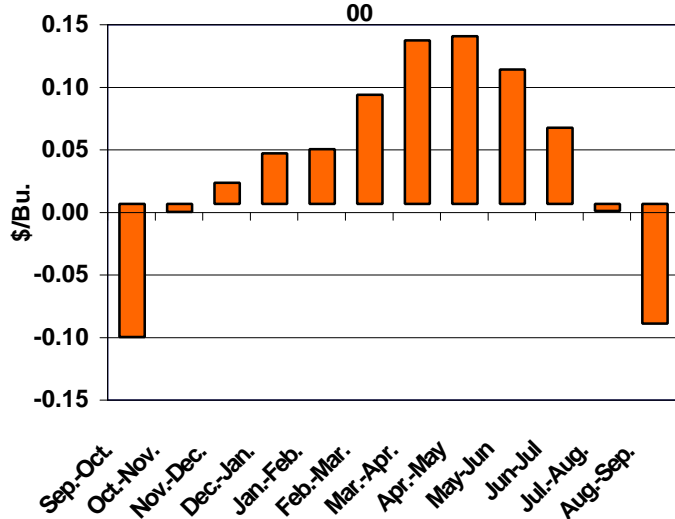
Monthly Average Iowa Corn Prices, 1979-80
Through 1999-00 Marketing Years



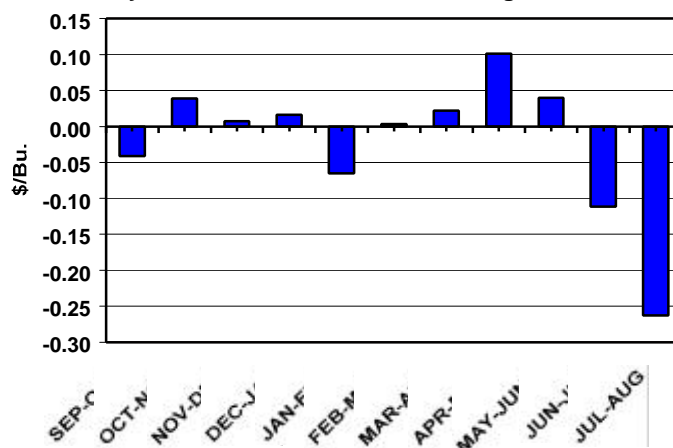
Iowa Monthly Average Soybean Prices,
1979-80 through 1999-2000 Marketing



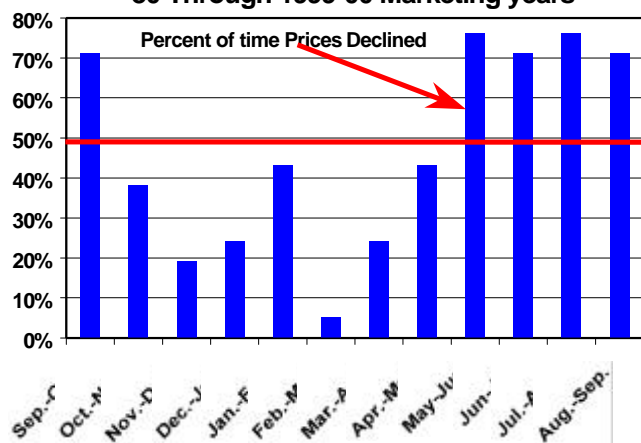
Average Iowa net return over interest cost for
on-farm storage of corn, 1979-80 through 1999-
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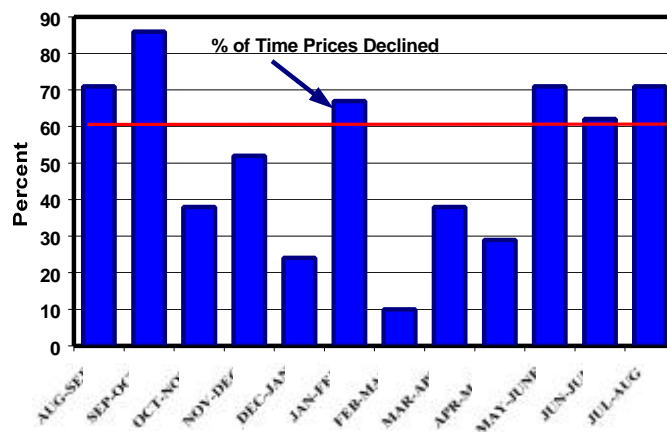
Average Iowa return over interest cost for storing
soybeans on the farm, 1979-80 through 1999-00



Monthly Iowa Corn Price Declines, 1979-
80 Through 1999-00 Marketing years



Declines in Iowa Monthly Average Soybean
Prices, 1978-79 - 1999-2000 Marketing Years



Prices and Government Payments

Total U.S. market prices and government payments per bushel for corn growers from 1996 through 2001 are shown in the table below. The LDP is the average for the entire U.S. crop, with forecasts for the average price and LDP for the 2001 crop. PFC and MLA payments are paid at the rate of 85% of historical production, but are adjusted in the total column to approximate payments per bushel of actual production. Actual payments per bushel of production will vary from farm to farm, depending on the size of the corn base and FSA historical yield vs. the farm's actual corn acreage and yield. Payments since 1998 have ranged from about 20 to 29% of the total gross receipts for the corn crop. Note that, except for the LDPs, corn payments do not require farmers to use the historical base acres for corn. Consequently, the MLA (Market Loss Adjustment) and PFC (Production Flexibility Contract) payments do not influence decisions about what crop to plant on the land.

Total U.S. market prices and government payments/bu. for corn growers, 1996 - 2001.

Year	Avg. market price	LDP	PFC payment	MLA payment	Total price and payments / bu. of current production*	Govt. payments as % of total receipts
1996	4.18	\$0.00	\$0.251	\$0.00	\$4.370	4.3
1997	2.43	0.00	0.486	0.00	2.795	13.1
1998	1.94	0.176	0.376	0.187	2.494	22.2
1999	1.82	0.274	0.363	0.363	2.570	29.2
2000	1.85	0.254	0.334	0.361	2.562	27.8
2001	(proj)2.10	0.100	0.269	0.307	2.632	20.2
2002	NA	NA	0.261	NA		

*Payments were made on 85% of historical yields and area. To estimate payment rates for current production, payment rate was reduced to 75% of rate per historical bushels.

Total U.S. market prices and government payments per bushel of actual soybean production from 1996 through 2001 are as shown. The LDP is the average for the entire U.S. crop, with forecasts for the average price and LDP for the 2001 crop. MLA payments are made on actual bushels of production. Actual LDPs will vary from farm to farm, depending on the time the farmer elected to receive them. Payments since 1998 have ranged from 8 to 22 percent of the total gross receipts for the soybean crop.

Total U.S. market prices and government payments/bu. soybean production, 1996 - 2001.

Year	U.S. avg. market price	U.S. average LDP	MLA payment	Total price and payments	Govt. payments as % of total receipts
1996	7.35	\$0.000	\$0.00	\$7.350	0.0
1997	6.47	0.000	0.00	6.470	0.0
1998	4.93	0.414	0.00	5.344	07.7
1999	4.63	0.909	0.158	5.697	18.7
2000	4.55	0.934	0.322	5.806	21.6
2001	(proj)4.35	1.05	0.14	5.540	21.5
2002	NA	NA	NA		

Robert Wisner

SUPPLIES, WEAK ECONOMY PRESENT PROBLEMS FOR CATTLE MARKETS

The Cattle on Feed report released October 19 showed 11.1 million head on feed October 1, representing a 1% increase over the same time last year and an all time record. Combined with record dressed weights, supply conditions suggest a relatively bearish outlook for the remainder of the year. Placement and marketing data suggests feedlots may be building a backlog. Figure 1 shows a monthly comparison of projected and actual marketings. Projected marketings, based on placement month and weight, are an approximation of the number of marketings necessary to remain current. Fed cattle marketings totaled 1.8 million head in September, 7% fewer than 2000 but slightly higher than projected. Marketing surpluses in August and September were not enough to overcome the deficits from June and July. In addition, yield grades appear to be creeping higher, further evidence of a backlog. The proportion of yield grade 1 and 2 cattle slaughtered

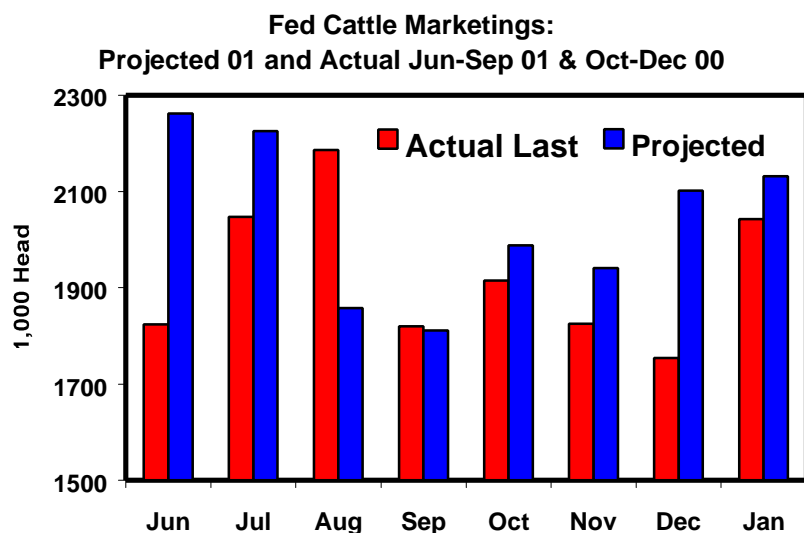


Figure 1. Projected and actual cattle marketings

during the four weeks ending October 13 declined by 15 and 4% over the corresponding four weeks in 2000 while yield grade 3 and 4 cattle increased by 4% and 40%, respectively.

The supply outlook appears to be improving for the first and second quarter of 2002. August and September placements were down 10 and 21% from 1 year ago. These values were consistent with pre-report expectations suggesting more a favorable price outlook next spring. The weakening US economy is compounding the short-term supply problem. The government reported a 0.4% decline in GDP during third quarter 2001, the first such decline since first quarter 1991. Unemployment climbed from 4.9 to 5.4% during October, the largest 1 month jump since 1980. The dismal economic outlook is certain to reduce consumer spending, subsequently reducing beef demand.

Hogs

The weekly weighted average hog price for the week ending October 26 was \$49.38, dipping below the 2000 price for the first time since early May and below the 10-year average price for the first time since early February. The cash price decline observed during October was consistent with seasonal patterns based on 10-year average prices. The December lean hogs futures contract, however, lost \$10 between the first and third weeks of October. A possible explanation for the decline in futures prices may be reaction to higher October slaughter than previously expected, based on USDA pig crop reports from last spring. April 2001 pig crop estimates were down 3.0% from 2000, yet October 2001 slaughter was 1.7% higher from last year, casting some doubt on the accuracy of the relatively bullish spring pig crop reports.

The 2002 price outlook for the hog industry appears favorable relative to the beef sector. Figure 2 shows the 2002 futures based price forecast for the Iowa-Southern Minnesota Market. Although expected 2002 prices are lower than those received in 2001, these forecasts are above expected break-even prices throughout third quarter 2002.

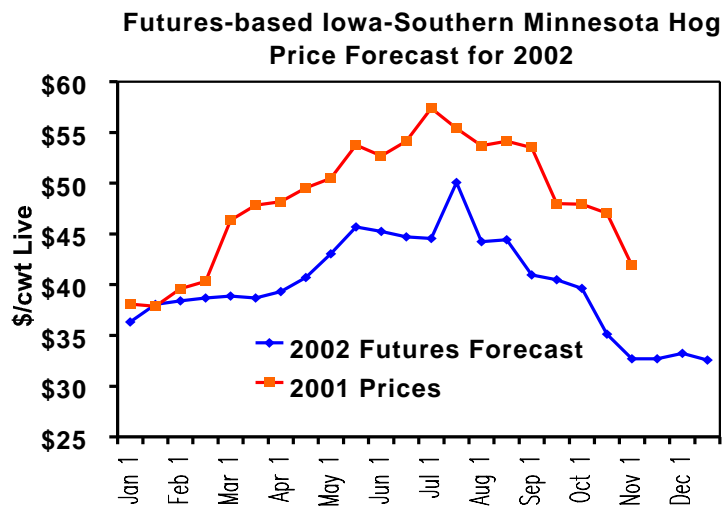


Figure 2.

Table 1 presents a summary of the latest monthly Hogs and Pigs report released October 26. The October 1 breeding herd inventory is down 1.4% from one year ago. This is the first monthly comparison as USDA began tracking monthly inventory in September 2000. The September pig crop and farrowings were nearly identical to last year. The number of sows bred during September was up 1%, a pace estimated in the September quarterly Hogs and Pigs report for the September through November period.

Table 1. Summary of the monthly Hogs and Pigs report released October 26.

	2000	2001	Change
	(1000 head)		(%)
Oct 1 Sow and gilt inventory	6,072	5,990	-1.4
Sows farrowing during September	970	964	-0.6
September pig crop	8,578	8,564	-0.2
Sows & gilts bred during September	1,159	1,171	1.0

Gary May