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ESTIMATES STILL SHOW DECLINING CORN, INCREASED SOYBEAN CARRYOVERS

USDA's November 9 crop estimates followed the pattern of the other 13 years since 1965 when crop forecasts increased from August to October, as noted in the October 15 issue of *Iowa Farm Outlook*. The corn estimate increased by 1.2% or 116 million bushels from last month's forecast. The soybean estimate rose by a very slight 0.6% or 16 million bushels from the October report. Corn production is now indicated to be 4% below the 2000 harvest because of a reduction in plantings. U.S. soybean production is estimated to be at a record high, exceeding last year's record crop by 6%. The U.S. average corn yield is placed at 138 bushels per acre, 0.7% above that of 2000. ***Iowa had the largest increase from last month in corn yield estimate of any state, at 6 bushels per acre.*** Increases of 1 to 4 bushels per acre from last month were also made in estimates for Minnesota, Nebraska, Wisconsin, Ohio, Illinois, and Michigan. The South Dakota yield estimate was lowered 2 bushels per acre, along with yield reductions in some southern states.

The nation's soybean yield is estimated at 39.4 bushels per acre, up 3.4% from last year. Soybean yield estimates for Iowa and Wisconsin were raised 1 bushel per acre from last month, along with increases of 2 bushels for Kansas and Missouri. Yields were lowered slightly in Ohio, North Dakota, and Minnesota. The record U.S. average corn and soybean yields were 138.6 and 41.4 bushels per acre respectively, set in 1994. Our latest corn and soybean supply-demand projections, along with USDA wheat supply-demand projections are at: <http://www.econ.iastate.edu/faculty/wisner/>

The November USDA crop estimate plus modest increases that appear likely in exports and domestic use point to a decline in U.S. corn carryover stocks to slightly less than 1.5 billion bushels next August 31. ***Stocks at that level would not be critically tight, but would provide a reserve beyond comfortable working stocks equal to about 8% of likely 2002-03 utilization.*** If the U.S. average corn yield for 2002 were to drop below 125 - 127 bushels per acre, we would anticipate a need for serious rationing of demand through higher prices. ***As a result, the expected decline in carryover stocks is likely to make spring and summer 2002 corn prices somewhat more weather sensitive than in the last few years.*** Also, with over 20 new ethanol plants scheduled to come into production, many of them late next summer, there will be indications of a need to expand 2002 corn plantings. That should support moderately higher cash corn prices into the spring fieldwork season, and may contribute to somewhat higher December 2002 corn futures prices this winter.

History Points to Still Higher Corn Yield

Since 1965, there have been 11 years when corn crop estimates increased each month from August to November. Nine of those years (82%) had another increase to the final crop estimate for the growing season, which is now released in January. The average increase in estimates from November to January in those years was 1.25%. ***An increase of that size in this year's corn crop estimate would push the U.S. average yield up to a new record of 139.6 bushels per acre.*** If the January estimate is near this level, the projected carryover for August 31, 2002 would be about 1.6 billion bushels (down from 1.9 billion on August 31, 2001), and would slightly temper price prospects into the spring.

For soybeans, in years when the crop estimates increased from August to November, the estimates on average increased another 0.2% from November to the final estimate for the growing season. Of the 21 years since 1965 that have had higher yield estimates in November than in August, 52% have shown further increases in the season-final estimate. ***If that pattern holds this season, it would push the U.S. average soybean yield up very slightly, to 39.5 bushels per acre, and would raise production by only another 2 million bushels, assuming there are no further changes in estimated harvested acreage.*** That would have no noticeable effect on price prospects. Note also that most of the larger increases in soybean crop estimates from November to the season final were in the earlier part of the 1965-00 period. That may indicate that analytical processes for the November crop estimates have less tendency toward upward bias than in the past.

Lag in Corn Exports a Concern

While U.S. soybean and product exports and outstanding unshipped sales are sharply above those of last year, corn exports still lag moderately behind a year ago. Total shipments of U.S. corn since September 1 and outstanding unshipped sales on November 1 were 7% below a year earlier. Shipments and sales to South Korea were down 52%, along with a 10% decline from last year for Japan. Shipments and sales to Egypt, Morocco, and Iran also were down, although sales to Algeria, Syria, Saudi Arabia, and Indonesia were above those of a year earlier. Shipments and sales to Mexico, now our second largest corn export market, were down a very slight 0.4%. Lingering concerns in Japan and South Korea about Starlink® in U.S. corn, and shifts of processors in these countries to non-GMO corn may be contributing factors. Also, in Japan, reduced consumer demand for meat because of BSE may be causing feed mills to go slow in forward booking of grain. Competition from exports of Eastern Europe and the former Soviet Union (FSU) also will be tempering influences on our corn exports. FSU is estimated to have nearly 600 million bushels of grain available for export this marketing year.

In contrast to corn, total export shipments of U.S. soybeans from September 1 through November 1 and outstanding unshipped sales were up 19% above a year earlier. The totals for soybean meal and oil were up 73% and 274% respectively. ***To support significantly higher corn prices this winter, strong export sales will be needed between now and mid-January.***

Technical Indicators

The relative strength index (see “commodity charts” link on my web site) indicates corn and soybean futures are no longer in an oversold position. A gap exists at \$2.2525 on March corn futures, 6.5 cents above the November 14 close. This, and a similar gap on January soybeans may be short-term price objectives. For soybeans, the gap on January futures would be closed if the contract trades up to \$4.54 per bushel, 6.75 cents above the November 14 close. Both technical indicators and seasonal factors suggest that LDPs for corn and soybeans are likely to decline in the weeks ahead.

China & Taiwan Join WTO

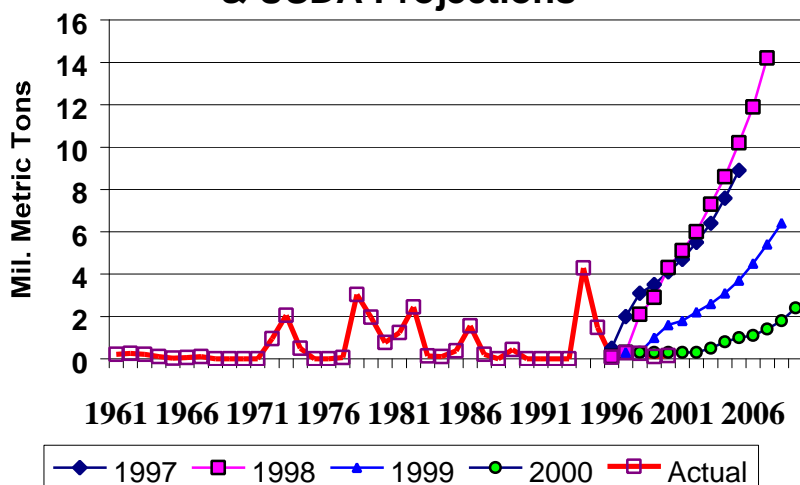
Last week, China officially entered WTO, along with Taiwan one day later. A number of analysts in the grain industry and USDA expect this to convert China from being a major corn exporter to a net importer. Whether that will happen remains uncertain. Impacts on U.S. trade with both China and Taiwan are expected to be positive, but China has much greater potential impact because of its huge population.

China has been a net exporter of corn for all but two years since the early 1980s. The two exceptional years were 1994-95 and 1995-96. Its crop problems and those of the U.S. in 1995 contributed to all-time record highs in corn and wheat prices in 1996. If intra-EC corn exports are excluded, China typically has been the third largest and occasionally the second largest corn exporter in the world in recent years. WTO requires it to shift to a Tariff-Rate Quota (TRQ) system, with the import tariff set at 1% for the first approximately 5 million tons of corn exports. Chinese and U.S. officials in Beijing last year indicated the tariff has been 3%. ***TRQs do not require China to import this volume of corn, but indicate what the tariff will be on any imports, up to the quota level.*** If its imports exceed that level, a much higher tariff is allowed. TRQs will gradually increase over the next few years. A similar system is in place for wheat. Soybean and meal tariffs remain as in recent years, but a significant decrease is required in China's tariff for soybean oil.

China also is required to phase out its corn export subsidy. Whether that prevents China from exporting corn will depend in part on its domestic agricultural policies. The U.S. in past years had a substantial export subsidy for some grains, known as the Export Enhancement Program or EEP. To meet WTO obligations, this subsidy was shifted to direct payments to farmers, as were the deficiency payments. China also will be allowed to restructure its agricultural subsidies in a similar way. The variable cost of producing corn in China is quite low, and for much of its Corn Belt, alternative uses of the land are limited. Economic theory indicates corn will be produced as long as prices at least cover the variable cost of production. Variable costs are expenses that would not exist if no corn were planted. Also note that (1) China's agricultural technology is seriously out of date and (2) WTO will accelerate technology transfer to the country. In a good year, China's average corn yield is only a little more than half as large as the U.S. average yield due to problems with weed control, fertilizer supplies and management, available varieties, and a number of other factors.

Figure 1 illustrates the difficulty in projecting future Chinese grain imports. For several years, the USDA, in its long-term base line projections, has projected that China will soon become a large corn importer. However, so far the projections have failed to materialize.

**Figure 1. China Gross Corn Imports
& USDA Projections**



Brazil Currency Strengthens

After dropping about 29% in value against the U.S. dollar from last January 1 through mid-October, the Brazilian Real has gained about 10% in the last month. Although strength in its currency makes its soybeans less competitive in world markets and weakens domestic currency prices, the currency remains significantly weaker than at planting time last year.

Argentine Rains Delay Corn Planting & Wheat Harvest

Heavy rain in two Argentine provinces has delayed corn plantings, creating expectations that its farmers will plant less corn and more soybeans than last year. Brazilian soybean plantings at the national level appear to be slightly ahead of a year earlier, although there are some delays in parts of southern Brazil. Rainfall for these countries can be monitored by going to Global Weather, then Agriculture on my web site: <http://www.econ.iastate.edu/faculty/wisner/>.

Robert Wisner

NOVEMBER CATTLE ON FEED REPORT

The November 1 Cattle on Feed inventory was unchanged from a year ago, consistent with pre-report expectations. October marketings were slightly lower and placements were slightly higher than pre-report expectations, suggesting a somewhat bearish report. The 4.8% decline in October placements represents the third consecutive month of year-to-year decline, totaling 12% fewer placements from August through October compared with last year.

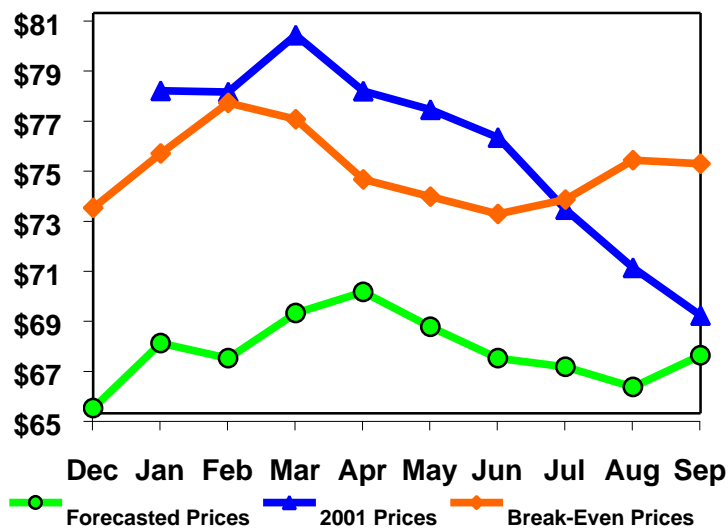
	2000	2001	% Change
-----1000 Head-----			
On Feed Oct 1	11,016	11,125	1.0
Placed on feed during October	2,829	2,692	-4.8
Fed cattle marketing during October	1,915	1,886	-1.5
Other disappearance during October	66	68	2.9
On Feed November 1	11,864	11,863	0.0

Despite fewer placements, indicators suggest a backlog of heavyweights continues to build. Last month, analysts cautioned that several weeks of 700+ thousand head weekly slaughter was needed to remain current. Slaughter for the last 5 weeks averaged 673 thousand head, and never exceeded 685 thousand head. The year-to-year increase in cattle on feed longer than 120 days, which was 21% in October, was 41% in November.

Fed cattle prices are unseasonably low, trading in the \$60 to \$62 range by week ending November 16, 11.6% lower than the same week last year. Over the past four years, fed cattle prices increased an average 5% between mid-September and mid-November. This year however, fed cattle prices are 12% lower than mid September levels. Carcass prices averaged \$102.16 for the week ending November 16, down \$2 from two months ago.

Futures-based Price Forecast

Figure 1 compares the futures-based price forecast to 2001 prices and projected break-even prices. Futures-based price forecasts for the Iowa/Southern Minnesota market project fed cattle prices reaching \$65 by the beginning of 2002, climbing to a seasonal peak next April near \$70, and declining to the \$66-\$67 range by late summer. Projected 2002 fed cattle prices are \$5 to \$15 lower than 2001 prices and \$5 to \$10 lower than projected break-even prices. Cattle feeders are unlikely to place cattle at projected losses for an extended period of time, suggesting feeder cattle may be overpriced in the futures market. Projected break-even prices are based on a 750-pound beginning weight on feed for 156 days. Break-even projections before April are based on feeder cattle and corn prices at the beginning of the feeding period. Break-even projections after April are calculated from futures-based price forecasts for corn and feeder cattle.



Hogs

The weekly weighted average hog price was \$42.22 in the Iowa Minnesota market, down \$4 from last week and \$6 from last year. Weekly slaughter was slightly over 2 million head, down slightly from last year. Weights are steadily increasing, with live weights averaging 267 pounds for the week ending November 16, up 1.5% from the same week last year.

Gary May