GRAIN PRICE OUTLOOK: SEASONALITY, ACREAGE, CHINA ON GMO, ETHANOL

Seasonal Tendencies in Grain Prices

Historically, corn and soybean prices have tended to decline in the last half of February, as previous issues of Iowa Farm Outlook have indicated. From February 13 to 26, March corn futures declined about a dime and March soybeans were down about 3 cents. North central Iowa cash prices during the same period declined 9 cents for corn and 4 cents for soybeans, leaving 2/26/02 prices at $1.72 and $4.07, respectively, for corn and soybeans. Declining prices, in part, reflected seasonally large cash needs of grain farmers and increased farmer marketings of grain. Weakening prices also reflected earlier than normal harvesting of soybeans in parts of Brazil, shifting of foreign soybean purchases to South America, and uncertainty about impacts from China’s March 20 implementation of its zero-tolerance GMO labeling program. Although 19 other countries have GMO labeling programs, China is the only one with a zero-tolerance standard. There is concern that its tight tolerance standard may restrict exports of both U.S. soybeans and corn to China. Currently, China has just cancelled 20 million of its 36 million bushels of unshipped U.S. corn purchases. The corn was bought last fall, generating widespread expectations that China’s WTO entrance would convert its position from being a large net exporter of corn to a that of significant net importer. But market psychology has now shifted in the other direction, with concern that Chinese corn exports may continue and that GMO labeling may reduce its soybean imports.

Over the past 27 years, old and new-crop corn and soybean prices have had a strong tendency to strengthen into the spring planting season as farmers shift their attention from grain marketing to fieldwork, and as the upper Mississippi opens for spring navigation. For soybeans, this seasonal tendency will be limited by an accelerating soybean harvest in South America. However, negative impacts from South America will be tempered by indications that Brazilian soybean yields may be a bit lower than those of last year, and by uncertainties from Argentina’s severe currency devaluation that may slow corn and soybean sales. In recent years, seasonal strength in soybean prices has tended to peak out a bit sooner than corn. Prices for both crops have had a strong tendency to decline after May, except in years of adverse weather across a large part of the Midwest.

Also, indications still point to a large drop in South American corn production, with exports from this spring’s crop expected to decline by around 200 million bushels from last year. Its main corn-exporting season is from June through November, and the decline should provide a one-year boost in U.S. exports. Brazilian corn prices are unusually strong this winter, with prices in the $2.16 to $2.33 per bushel range in some parts of southern Brazil. The strong corn market there is encouraging farmers to sharply increase plantings for the “summer crop” in areas where the growing season will allow it. The summer crop is planted after the soybean harvest. In Mato Grosso, the summer corn crop is in the dry season and yields are normally quite low, around one-third of a normal Iowa yield. Corn produced in that areas will be largely used for local livestock and poultry production because extremely high transportation costs tend to make exporting unfeasible. Corn exports from Brazil come mainly from the spring harvest in the southern producing areas (where the growing season is shorter), since these areas are closer to ports.

Prospective 2002 Corn and Soybean Plantings

Prospective U.S. corn and soybean plantings will be major influences on both corn and soybean prices this spring. USDA is now making its annual survey of farmer crop planting intentions, and will report the results on March 29, along with the March 1 grain stocks report. Last year, U.S. corn plantings declined about 3.8 million acres from the previous year—due to concern about high costs of nitrogen fertilizer, fear of inadequate supplies, and because of high costs of fuel for irrigation in the plains states. Although new-crop corn prices are about 20 cents per bushel lower than a year ago, there are indications that a substantial part of last year’s decline in corn acres will come back into production this year. Fuel and
fertilizer prices are much lower, and also last year’s shift to soybeans left many farmers’ crop rotations out of balance. U.S. soybean plantings declined slightly last year due to an extremely wet and delayed planting season in parts of Iowa, Minnesota, and neighboring states. Crop insurance benefits strongly favored leaving soybean acreage unplanted, resulting in over 2 million “prevented planting” acres that will likely return to production this year.

A well-known agricultural forecasting firm (Sparks) this week reportedly predicted that U.S. corn plantings will be up by 2.9 million acres this year. That is slightly less than the 3.2 million acre increase in our balance sheet, http://www.econ.iastate.edu/faculty/wisner/, but would be 0.9 million acres less than planted in 2000. The Sparks corn production projection is 10.06 billion bushels, exactly the same as our most likely projection, and up 5.8% from last year. However, expected total supplies would be up less than 200 million bushels or 1.8% because of reduced carryover stocks. Because of prospects for less South American competition and a large expansion in ethanol production, an increase of that size should not be considered as negative to corn prices.

USDA Baseline Projections

USDA’s 10-year baseline projections released last week at the national outlook conference included 77.5 million planted corn acres and 75.5 million planted soybean acres. The USDA numbers would be up 1.7 million and 1.4 million acres, respectively, from the latest official estimates of last year’s planted acreage. Note, however, that USDA’s baseline projections were made back in November, before the January 2002 upward revision in last year’s planted corn acres and the downward revision of planted soybean acres by 1.1 million acres. These projections also were made before there was strong evidence of a sharp decline in South American corn production, and before the full decline in feedstock prices for nitrogen fertilizer had occurred. Thus, caution is in order when using the USDA projections.

Farm Bill to Impact 2002 Acreage?

The House/Senate Conference Committee’s ability to work out a compromise version of the farm bill in time for spring planting also will affect spring plantings, but probably only marginally. At this writing, there is serious doubt that the bill will take effect for the 2002 crops.

Both bills lower the ratio of the soybean loan rate to those of corn and wheat, and thus may slightly encourage shifting from beans to corn. It looks doubtful that the soybean/wheat loan rate change will halt the movement of soybeans into the central and northern Great Plains, but it may slightly slow the soybean expansion. Several aspects of the farm bill will take time to resolve, including payment limits, loan rates, whether the spending should be greater in earlier years than in the last part of the 10 years covered, and issues related to packer ownership of livestock. USDA should probably have at least a month after passage to work out regulations and train field staff. If the bill is effective for this year’s crops, farmers will have to make quick decisions about whether to update their payment acreage base, and possibly their payment yields.

Ethanol Developments

Currently, the Renewable Fuels Association reports that 15 new ethanol plants are under construction. See: http://www.ethanolrfa.org/eth_prod_fac.html. All but one of the new plants will use corn as the feedstock. The one exception is a plant that will use cheese whey. Currently, 16 out of 59 existing plants use some or all non-commercial-corn feedstock. Other feedstocks include seed corn, whey, waste beer, beverage waste, wheat, barley, milo, potato waste, sugars & starches, and wheat milling by-products. The new plants have total capacities that will use about 155 million bushels of corn. In recent years, capacities of existing plants also have been steadily expanded and the trend is expected to continue in the year ahead.

Our balance sheet projects U.S. corn processing to increase by 165 million bushels, slightly more than the capacity of the new plants. That includes significant expansion at existing plants, and allows for the likelihood that some new plants will not be in operation for the entire marketing year. The rapid expansion in ethanol capacity reflects strong government incentives to build new farmer-owned plants to meet greatly increased demand for ETBE, a product of ethanol. California is scheduled to eliminate the use of MTBE in its gasoline next year, and several other cities are making similar plans. Clean air regulations for California require either MTBE or ETBE to be used in gasoline, and the phasing out of MTBE will leave ETBE as the only alternative. Recent research has found traces of MTBE, a carcinogenic substance, in some California water supplies. Uncertainty about the availability and cost of ethanol is causing some talk in California of delaying the elimination of MTBE, and California also is attempting to take legal action to request that EPA allow it to use further refined gasoline as an alternative to gasoline/ETBE blends. It is concerned about possible impacts of ETBE on summer ozone levels. Thus, while the future of ethanol looks quite encouraging, there are still some uncertainties in its demand prospects.

Figure 1 shows the trend in U.S. corn feeding, processing, and exports since 1975-76, and our most likely projections for the year ahead. Feed use is projected to level off, with increased use of by-product feeds as a replacement for corn and
Other factors behind the 2002-03 feed projections include increased hog and poultry production, a decline in numbers of cattle on feed, continued heavy marketing weights for cattle and hogs, and a possible slight reduction in wheat feeding. Corn feeding in the current marketing year is expected to be modestly below that of last year for the winter quarter because of an extremely mild winter. Otherwise, our projected 2002-03 corn feeding would drop below that of a year earlier with competition from increased supplies of byproduct feeds. Processing use is projected to exceed exports for the first time this season. U.S. corn exports have been in a 23-year downward trend, while both categories of domestic demand have trended upward. Previous years of declines in corn feeding were years of short U.S. crops, with relatively high prices.

Robert Wisner

PORK AND BEEF TRADE IN REVIEW

The U.S. pork and beef trade data for 2001 is now available and shows, among other things, the effect of animal disease on international trade. The U.S. continues to export more pork than it imports (Figure 1), and this trend was bolstered in the second quarter of 2001. The FMD outbreak in England and concern that it might spread to Denmark resulted in a halt of pork imports from Denmark in April and an increase in U.S. exports to other countries that also banned Danish exports. Exports peaked in May sending U.S. hog prices higher than expected and sooner than expected.
for the summer price pattern. This year’s prices are not likely to move as high because exports are not expected to be fueled by disease problems or our competitors.

The annual pork trade picture also brightened with the sharp increase of exports and the slight decline in imports (Figure 2). Pork exports have posted an eightfold increase since 1986 while imports have declined.

![US Pork Trade, (Million pounds carcass)](image)

Beef trade was also impacted by disease problems, but less by FMD and more by BSE. Europe is not a major exporter of beef and thus FMD did not significantly impact U.S. imports or exports of beef. However, the discovery of BSE in Japan September 10 had a dramatic impact on beef imports to Japan in November and December. U.S. exports to Japan in November and December were down 32 and 35 percent respectively from the same months in 2000. However, other buyers stepped up purchases to offset the Japanese decline. Korea increased fourth quarter purchases of U.S. beef by 59 percent making it the third largest customer of U.S. beef behind Mexico. Mexico increased its fourth quarter purchases by 6 percent and actually bought more U.S. beef in December than did Japan, making it the first time since at least 1988 that Japan was not out largest customer.

Beef imports dropped sharply in December, but likely due to leading importers hitting the tariff quota that restricts further imports. Australia in particular expected to hit the limit in November.

![US Beef Trade 2001 (Million pounds Carcass)](image)

Annual beef trade continues an impressive trend, but was stalled, at least temporarily in 2001. Exports weakened in late 2001 and imports increased. The long-term trend is to more exports and imports as well.
Pork trade in 2002 is not expected to exceed the FMD impacted quantities, but may see an increase for the year. Pork imports should return to the pre FMD levels. Beef exports could improve based on lower prices than a year ago, but the Japanese will be difficult and slow to rebuild.

John Lawrence